

A capital idea! UK and EU prudential reforms and UK remuneration changes



Updates to the UK IFPR, potential changes to EU IFD/IFR and positive noises on changes to UK pay regulation

20 October 2025

1 Introduction

In the hierarchy of topics that are liable to cause headaches for regulated firms, prudential requirements and remuneration typically feature somewhere near the top of the list. Both areas often cut to the core of firms' economic propositions and both require navigation of potentially complex and detailed regulatory frameworks. Recently, both subjects have also been rising up regulators' agendas again.

After a period of bedding in of their respective prudential frameworks for MiFID investment firms, both the UK and the EU are now looking to update their respective rulebooks, although in significantly different ways.

On 15 October 2025, the UK Financial Conduct Authority (FCA) published a [policy statement \(Regulatory Capital PS\)](#), setting out its final rule changes to the definition of capital used by UK MiFID investment firms under the MIFIDPRU rules. This responds to an earlier [consultation paper](#) published in April 2025, which aimed to simplify the existing MIFIDPRU framework.

On the same day, the European Securities and Markets Authority (ESMA) and the European Banking Authority (EBA) published [a report](#) setting out their technical advice to the European Commission on the operation of the EU Investment Firms Directive (IFD) and Investment Firms Regulation (IFR). This heralds the start of a journey towards potential substantive amendments to the EU framework, although there is still a long way to go before these suggestions would become binding law. Although it is primarily relevant to EU investment firms, some observations in the report will also be of interest to EU AIFMs, UCITS managers, article 3 exempt firms and cryptoasset firms.

To round off a day of prudential publications, the FCA and the UK Prudential Regulation Authority (PRA) also published a [joint policy statement \(Remuneration PS\)](#) confirming changes to the remuneration rules that apply to UK banks, building societies and PRA-designated investment firms (i.e. dual-regulated firms). Although these changes will not directly affect solo-regulated UK firms, the commentary in the policy statement also suggests that the FCA may be amenable to reforming the equivalent requirements for solo-regulated firms in the near future.

In this briefing, we summarise key points arising from each of these publications and consider what these recent changes might mean for the future direction of the UK and EU regulatory capital frameworks and the UK remuneration rules. In each section, we have included an "At a glance" summary box for ease of reference, followed by a more detailed discussion of the relevant issues. You can navigate to each section via the links below:

[Section 2 – Changes to the MIFIDPRU definition of regulatory capital](#)

[Section 3 – ESMA and EBA proposals to update the EU IFD and IFR framework](#)

[Section 4 – Changes to the UK remuneration rules for dual-regulated firms](#)

2 Changes to the MIFIDPRU definition of regulatory capital

AT A GLANCE SUMMARY

- The new rules will apply from **1 April 2026** and will be relevant to MIFIDPRU investment firms (i.e. solo-regulated UK MiFID firms).
- Existing **cross-references in MIFIDPRU to the UK CRR will be deleted** and relevant material will be simplified and incorporated directly into MIFIDPRU.
- As MIFIDPRU 3 is being substantially restructured, **firms may need to update rule references** in their existing materials (e.g. policies, procedures and ICARA documents).
- **Transitional provisions apply** so that any permissions or waivers granted by reference to existing MIFIDPRU rules will be deemed to refer to the relevant successor rule in the restructured rulebook.
- Firms will be able to **recognise interim profits as CET1 by notifying the FCA**, rather than needing FCA permission. However, an independent audit of the profits will still be required.
- There will be additional guidance clarifying some aspects of the **criteria for instruments to be recognised as CET1 instruments**, but this is unlikely to result in significant changes from the current position.
- To qualify as retained earnings that count as CET1 capital, any **retained profits of a partnership or LLP must be able to be retained by the firm on an unconditional basis** (i.e. subject to the full discretion of the management committee or other governing body). Retained profits can be allocated to partners to determine their tax liability, but can only count as CET1 retained earnings if the partners have no legal right to require the payment of the relevant profits.
- Existing rules for the deduction of a **firm's qualifying holdings in non-financial sector entities** have been clarified.
- The rules around when a consolidating UK parent undertaking can **recognise minority investors' interests in an entity included within the consolidation group** as contributing to the group's consolidated regulatory capital have also been clarified.
- The FCA has again emphasised its **longer-term intention to move towards a cross-cutting rulebook that contains a single set of core regulatory capital rules for all solo-regulated UK firms**. This is likely to take the form of the COREPRU sourcebook which the FCA is consulting on in connection with its prudential proposals for cryptoasset firms. In the future, this could result in onerous requirements being extended to other firms such as UK AIFMs, UCITS managers and MiFID-exempt firms.

Background

The Investment Firm Prudential Regime (**IFPR**) was introduced on 1 January 2022 and applies to all UK MiFID investment firms, unless they are regulated by the UK PRA. In the UK, these solo-regulated MiFID firms are known as "**MIFIDPRU firms**". The rules governing their regulatory capital requirements are set out in the FCA's Prudential Sourcebook for MiFID Investment Firms (**MIFIDPRU**).

When the IFPR was introduced, the FCA adopted the approach of cross-referring to various provisions of a "frozen in time" version of the UK Capital Requirements Regulation (**UK CRR**). This reduced the amount of legal drafting required and meant that the subset of MIFIDPRU firms which had previously already been subject to UK CRR (former IFPRU firms) could continue to refer to existing UK CRR provisions when determining the eligibility of their regulatory capital resources. However, this also resulted in a complex and sub-optimal user experience for firms seeking to navigate the rules, as they were required to consult multiple sources simultaneously to understand the relevant requirements. At the time, the FCA indicated that this was intended to be a short-term solution, pending the full integration of the UK CRR provisions into the MIFIDPRU rules.

As part of the FCA's ongoing drive to streamline regulatory requirements, the [Regulatory Capital PS](#) now contains the finalised incorporation of the UK CRR provisions into MIFIDPRU. This is not a verbatim copy out of the relevant UK CRR rules, as the FCA has taken the opportunity to modify some of the terminology and to delete elements which it considers

are irrelevant to MIFIDPRU firms. The FCA's website pitches this as "*slashing red tape by 70%*", but this is based on the reduction in the overall number of words used in the replacement MIFIDPRU provisions relative to the UK CRR text. In reality, there are very few changes to the substantive obligations that apply to firms and therefore the overall burden in terms of the size and composition of capital requirements will not be materially reduced.

Incorporation of UK CRR material into MIFIDPRU

The new rules will delete all existing cross-references in MIFIDPRU to the UK CRR. As part of this approach, most of MIFIDPRU 3 (which sets out the rules on how firms determine their regulatory capital resources) is being deleted and then restated to include additional rules covering the relevant UK CRR provisions.

One immediate practical impact of this is that each section of MIFIDPRU 3 (except its annexes) is being converted into a newly numbered section. For example, MIFIDPRU 3.1 will become a new MIFIDPRU 3.1A, MIFIDPRU 3.2 will become a new MIFIDPRU 3.2A and so on. There will also be consequential changes to rule references in the FCA's reporting forms (e.g. the MIF00x returns) and their associated guidance.

The FCA has included a transitional provision which deems any waiver or modification granted in relation to a deleted rule to be converted into an equivalent waiver or modification of the rule which replaces it.

Where firms have internal materials (for example, procedures or their ICARA documents) that reference the existing rules in MIFIDPRU 3, they will need to undertake an exercise in updating rule references with effect from 1 April 2026.

Removal of unnecessary UK CRR content and simplification of complex provisions

When IFPR was first implemented, the FCA largely adopted an "intelligent copy-out" approach, restating key parts of the UK CRR into annexes in MIFIDPRU. This included provisions such as the complex supplementary rules in UK CRR delegated legislation around the eligibility of items to count as regulatory capital.

The FCA has now taken the opportunity to simplify its approach by moving this supplementary content into the main body of MIFIDPRU 3 and deleting elements which it considers are unlikely to be relevant to MIFIDPRU firms (for example, provisions relating to mutual societies or covered bonds).

Certain other content has been retained but in a simplified form. For example, the original rules contained detailed technical requirements which were designed to prevent a firm from providing direct or indirect funding for its own regulatory capital instruments. The FCA has now deleted the detailed provisions and instead has included a general overarching requirement that a firm must not fund its own regulatory capital instruments directly or indirectly, unless the funding is provided in the ordinary course of the firm's business. This is accompanied by limited guidance providing examples of prohibited funding, such as the firm granting a loan or guarantee to an investor in connection with the investor's acquisition of the firm's capital instruments.

The move to the use of broader principles-based provisions has the advantage of reducing the length of the rulebook and may potentially provide additional interpretative flexibility in some cases. However, it could also lead to increased uncertainty about the correct approach in some contexts and there is also the risk that in practice, the FCA's supervisory approach may still be coloured by the previous detailed provisions.

Notification-based approach for recognising interim profits as regulatory capital

Currently, if a MIFIDPRU firm wishes to include interim profits in its regulatory capital resources, it must apply to the FCA for permission to do so. Under the new rules, a firm will be able to recognise interim profits as regulatory capital simply by notifying the FCA – i.e. the FCA will not need to grant permission. The profits can be included in the firm's regulatory capital from the point at which the notification is submitted.

However, when making the relevant notification, the firm will still need to have the interim profits verified by an independent auditor. In practice, this often represents the most significant barrier to recognition of interim profits, as an interim audit may be expensive and time-consuming. As a result, this change seems likely to have relatively limited impact.

Equal ranking CET1 and non-CET1 instruments

The MIFIDPRU rules (adopting the UK CRR approach) recognise Common Equity Tier 1 (**CET1**) instruments as providing the highest form of loss absorption and permanent financial resources for a firm. To qualify as CET1, an instrument must meet detailed conditions set out in the rules, including that the instrument must rank behind all other claims in the firm's insolvency.

In the past, there was uncertainty about whether an instrument could qualify as a CET1 instrument where it had the same ranking in insolvency as a non-CET1 instrument. This situation could arise, for example, where a firm has two classes of ordinary shares in issue, both of which rank behind all other creditors in a liquidation, but only one class meets all the CET1 criteria.

The updated rules confirm that an instrument can qualify as CET1 where it ranks equally in insolvency with another non-CET1 instrument, provided that both rank behind all other claims in the firm's liquidation. This may provide additional flexibility in the structuring of share classes, which could be helpful in connection with designing employee incentive arrangements or if a firm is seeking external investors who wish to participate in any potential equity upside.

However, the FCA has also amended the public disclosure rules in MIFIDPRU 8 so that where a firm has equal ranking CET1 and non-CET1 instruments in issue, it will need to disclose additional information about its capital structure and how loss absorption operates between the relevant instrument classes.

Clarification of CET1 eligibility criteria

The updated rules are designed to simplify and clarify the detailed criteria for an instrument to be classified as a CET1 instrument. Some of the clarifications provided by the FCA include:

- CET1 instruments must be fully paid up. New guidance clarifies that an instrument will not be treated as fully paid up where the holder of the instrument has given the firm an undertaking to pay in the future, even though such an undertaking would allow a company to treat the instrument as "fully paid" under the Companies Act 2006 for company law purposes.
- CET1 instruments must be perpetual – i.e. they cannot have a maturity date. A firm is prohibited from creating an expectation that it will return capital to the holder of a CET1 instrument through a capital reduction. New guidance clarifies that where the terms of an instrument or connected documentation acknowledge that a reduction in capital is possible, this will not by itself constitute "creating an expectation" of a return of capital. However, the firm must not include any language that suggests that a reduction in capital will occur at any particular point in time, even if this is qualified by reference to the need to obtain permission from the FCA for the reduction.
- CET1 instruments must absorb losses before any other regulatory capital instruments. New guidance clarifies that this requirement will still be treated as met notwithstanding that the value of Additional Tier 1 instruments or Tier 2 instruments issued by the firm may be permanently written down upon the occurrence of specified trigger events.

Treatment of partnership and LLP profits

In the Regulatory Capital PS (although not in the amended rules and guidance), the FCA also clarifies how the profits of partnerships or limited liability partnerships (**LLPs**) should be treated for regulatory capital purposes.

Partnerships and LLPs are tax transparent and therefore profits must normally be allocated to partners at the end of the firm's financial year to determine their tax liability. This raises the question of whether notionally allocated but undrawn profits can be treated as retained earnings (and therefore CET1 capital) of the partnership or LLP.

The FCA's view is that to qualify as CET1 capital, any undrawn profits would need to remain under the unconditional control of the partnership or LLP, so that the firm has an unconditional and indefinite right to refuse to pay the profits to partners. If the partnership agreement provides an enforceable right to the partners to demand payment of the relevant sum, it cannot be treated as retained earnings for the purposes of the CET1 rules, even though the profits may be left undrawn within the firm. Conversely, where the payment of any profits is subject to the discretion of the management committee or other governing body of the firm and there is no collateral arrangement which would otherwise require that discretion to be exercised in a certain way, the retained profits may be recognised as CET1 capital, even though they may have been allocated to partners for the purposes of calculating any tax due.

We understand that some LLPs have had such retained earnings classified by their auditors as "other reserves". Where LLPs rely upon such classification, they should check that their organisational documents meet the FCA's new requirements to ensure the ongoing treatment of such capital as CET1. This is because, in our view, the FCA is likely to apply the above "unconditional control" test to retained LLP profits, whether they are classified as retained earnings or other reserves for CET1 purposes, given that both retained earnings and other reserves must meet the condition that they are "*available to the firm for unrestricted and immediate use to cover risks or losses as soon as these occur*".

Deductions of qualifying holdings

Under the existing rules, MIFIDPRU firms are required to deduct certain "qualifying holdings" in non-financial entities from their regulatory capital where these exceed certain specified limits. A qualifying holding is, broadly speaking, a

holding of 10% or more in the capital or voting rights of an entity, or a holding which otherwise allows the firm to exercise significant influence over the management of the other entity.

The existing rules also specify certain exclusions from this deduction requirement, including shares which are not "fixed financial assets" as defined in the historical EU Bank Accounts Directive. The FCA had proposed to replace this with an exclusion for shares held within a firm's trading book (i.e. broadly, shares held with a view to short-term resale to benefit from market fluctuations). Respondents to the consultation raised concerns that this would unduly narrow the scope of the exclusion, meaning that more categories of holdings would have to be deducted from the firm's capital. In particular, they flagged units in money market funds held for liquidity purposes and seed capital investments in new funds as being categories of assets that could be excluded under the existing rules, but which would not fall within the proposed trading book exclusion.

In the final rules, the FCA has essentially retained the existing exclusion (although updated to refer to "non-financial fixed assets" by reference to equivalent UK legislation) and added the exclusion for shares held in the trading book. In its feedback, it also confirms that money market fund units held to meet liquidity requirements can fall within the "non-financial fixed assets" exclusion. It has not expressly offered a view on the correct treatment of seed investments in funds, beyond instructing firms that they should consider whether the assets in question are "genuinely intended for use on a continuing basis in the firm's activities" (thereby allowing them to fall within the non-financial fixed assets exclusion).

In response to an issue raised in consultation, the FCA has also clarified how the deduction calculation for qualifying holdings works in practice, given that there are two different limits. Where both limits in the calculation are exceeded, the deduction should be the higher of the two amounts to prevent double-counting.

Minority interests and consolidation

The FCA has updated the rules on including minority interests in an investment firm group's consolidated regulatory capital. Minority interests arise where an entity (**X**) which is included within the scope of the prudential consolidation group is not wholly owned by the group, but has one or more external investors. The question then arises as to the extent to which the capital contribution of the minority investors in X can be recognised in the group's consolidated regulatory capital for the purposes of meeting its consolidated requirements.

Broadly speaking, under the revised rules, the consolidating parent entity can recognise the minority interests of external investors as available regulatory capital, but subject to a limit which is calculated by reference to the contribution of X to the consolidated capital requirement and the proportion of X's capital held by the minority investors.

This calculation is designed to ensure that the consolidated group cannot recognise minority capital beyond the *requirements* attributable to X as an entity, as the minority investors would have no obligation to support the operations of any entities in the wider consolidation group.

In the revised rules, the FCA has also clarified that where X is included within the consolidated group by virtue of a participation (rather than being a subsidiary), no minority interests can be recognised for X. However, where certain eligibility conditions are met, a participation may only give rise to a proportional consolidation of the requirements arising from X's operations (thereby limiting the extent to which X will increase the group's consolidated requirement in the first place).

Future developments

The FCA is clear in the Regulatory Capital PS that in the long-term, it would like to have a single, overarching rulebook which defines key elements of the regulatory capital requirements consistently across all solo-regulated UK firms. In its [consultation paper](#) on the prudential regime for UK cryptoasset firms published in May 2025, the FCA proposed to introduce a new sourcebook, COREPRU. Although COREPRU would initially apply only to cryptoasset firms, the intention appears to be that in due course, it will apply to all firms that are prudentially regulated by the FCA. The FCA considers that this will provide a clearer and more navigable approach for firms when they are determining core regulatory capital requirements and will also provide consistency across firm types.



Our consolidated approach could serve as a template for our longer-term vision of an integrated prudential sourcebook (COREPRU). This would contain the core prudential standards applicable to all FCA

solo-regulated firms, while specific requirements for different firm types would continue to be set out in dedicated prudential sourcebooks.

UK FINANCIAL CONDUCT AUTHORITY

Nonetheless, for UK firms which currently sit outside the MIFIDPRU framework (which includes AIFMs and UCITS management companies without MiFID "top-up" permissions, article 3 MiFID exempt firms, personal investment firms and other entities which are not subject to the UK MiFID regime), levelling up to key components of the MIFIDPRU standards may involve a significant increase in the regulatory burden.

This is particularly the case given that (in its draft form, at least) COREPRU adopts a MIFIDPRU-like approach and contains not only the definitions of regulatory capital, but also onerous obligations such as the fixed overheads requirement and basic liquidity requirements. There is also the possibility that when finalised, COREPRU might contain additional detailed requirements for internal assessments of additional capital and liquidity requirements (based on the ICARA process for MIFIDPRU firms) and detailed rules on groups and prudential consolidation, both of which currently do not apply to many non-MiFID firms and which are likely to involve significant additional complexity and expense.

3 ESMA and EBA proposals to update the EU IFD and IFR framework

AT A GLANCE SUMMARY

- The ESMA and EBA joint report is **directly relevant to EU MiFID investment firms**. However, some of the proposals will also affect **EU cryptoasset service providers and issuers** and **EU article 3 MiFID exempt firms**, and some of the discussion may also be relevant to future proposals for **EU AIFMs and UCITS managers**.
- The ESMA and EBA joint report contains advice to the European Commission which will be **used to inform the content of the Commission's report on EU IFD and IFR**. The Commission's report may include a legislative proposal to amend EU IFD and IFR, but there is **no guarantee that ESMA and the EBA's proposals will be adopted**.
- There are **no immediate proposals to extend the EU IFR/IFD framework to EU AIFMs or UCITS managers**, but there is a suggestion that there could be **longer-term harmonisation in relation to their MiFID "top-up" activities** at some future point.
- The **criteria to be classified as a Class 3 firm under IFR/IFD may be updated** to increase the balance sheet total and average annual revenue thresholds.
- There are **no immediate proposals to increase the fixed overheads requirement**, although the ESAs note that many observed wind-down periods exceed the three-month timescale that it covers.
- The **client orders handled (K-COH) K-factor may be extended** to cover placing without a firm commitment activity.
- The **concept of "investment advice of an ongoing nature" may be clarified** for the purposes of calculating the assets under management (K-AUM) K-factor.
- **Ongoing investment advice provided by a MiFID investment firm to a portfolio manager** may be excluded from the calculation of K-AUM by the MiFID firm.
- The prudential treatment of **items held in firms' non-trading books** may be clarified.
- There could be **new restrictions on the ability of investment firms that do not deal on own account or carry out underwriting to hold certain types of financial instruments** on their balance sheets.
- There may be some **minor clarifications to the definition of high-quality liquid assets** that can be used to meet the liquidity requirements under the IFR.
- The **provisions relating to holding companies and entities included within the scope of a consolidation group may be updated**, which could result in additional entities being caught. This could require firms to conduct new consolidation analyses in due course.

- Certain existing **K-factors will be extended to include activities carried on by investment firms in relation to cryptoassets.**

Background

The IFR and IFD have applied since 26 June 2021 and are effectively the EU equivalent of the UK IFPR, setting prudential requirements for EU MiFID investment firms, except for the limited number which are subject to the EU CRR framework instead.

The IFR contains a clause requiring the Commission to consult with ESMA and the EBA (together, the "**ESAs**") and then to submit a report to the European Parliament and Council regarding various elements of the functioning of the prudential rules. If appropriate, the Commission may also propose a legislative proposal to amend aspects of the framework. This report was originally intended to be submitted by 26 June 2024 and the Commission submitted a call for advice to the ESAs back in February 2023. However, due to the need to collect systematic feedback, the ESAs have taken over two years to publish the relevant technical advice, which is now contained in this [latest joint report](#).

While it is not necessarily guaranteed that the Commission will act on all (or indeed any) aspects of the observations in the ESAs' report, the suggestions may nonetheless be highly influential in shaping any subsequent proposals. Any final amendments to the EU IFR and IFD framework would, however, also need to be agreed by the European Council and the Parliament and therefore would be subject to further political negotiations.

The report is a lengthy and complex document, running to over 150 pages. We have summarised some of the more significant proposals below, although this is not intended to be an exhaustive list of the ESAs' conclusions.

Interaction between IFR/IFD, AIFMD and the UCITS Directive

The good news for EU AIFMs and UCITS managers (for now, at least) is that the ESAs have not expressly recommended bringing them within the EU IFR/IFD framework to create a single harmonised prudential regime for asset managers.

However, the ESAs note in their report that AIFMs and UCITS managers can be authorised to provide a limited set of additional MiFID "top-up" activities and that when doing so, EU law does not expressly impose a requirement on national regulators to apply additional prudential requirements that are equivalent to those under the IFR/IFD. Some national regulators may nonetheless adopt this approach in their jurisdictions, but this is not consistent across the EU – for example, we understand that Luxembourg does not use this approach, but that Ireland does apply some supplementary requirements that are broadly based on IFR's risk-to-client framework. The ESAs also observe that their data gathering exercise indicates that AIFMs and UCITS managers which undertake additional MiFID services often do at considerable scale which may exceed the size of the collective investment funds they manage.



It should also be flagged that, in some jurisdictions with a higher concentration of investment firms, this unlevel playing field [between AIFMs and UCITS managers, and MiFID investment firms] has been considered significant enough to have already put in place national requirements that require such firms to hold capital based on the higher capital amount determined under either the funds framework or that of the IFR. It would, however, be in the spirit of harmonisation of practices and a level playing field to have a consistent approach to these cases across jurisdictions.

EUROPEAN SECURITIES AND MARKETS AUTHORITY AND EUROPEAN BANKING AUTHORITY

The ESAs conclude by noting that specific recommendations to amend either the AIFMD or the UCITS Directive in this regard fall outside the scope of their remit in relation to the Commission's call for advice on the IFR/IFD. However, they suggest that there is a case for harmonisation of EU practices in this area, which may leave the door open for this issue to be revisited in future reviews of either the EU prudential framework or the AIFMD and UCITS Directive.

Criteria for classification as a Class 3 investment firm

EU IFR/IFD contains a proportionality framework which separates investment firms into classes. The lowest class, Class 3 firms, are considered to be small and non-interconnected firms which pose limited risks to their clients or to the wider markets, and therefore are subject to a lighter set of rules. The ESAs were asked to consider whether the criteria for firms to qualify as Class 3 firms were appropriate.

The ESAs have recommended that no new criteria for qualification as a Class 3 firm should be added to the framework, but that two of the existing criteria should be amended. They suggest that the on- and off-balance sheet total threshold should be increased to EUR 200m (from EUR 100m today), and that the criterion relating to total annual gross revenue from investment services and activities (based on an average of the preceding two financial years) should be increased to EUR 50m (from EUR 30m today).

Although increasing these thresholds is likely to be welcomed, in practice, many alternative asset managers will typically fail to meet other Class 3 qualification criteria (e.g. the EUR 1.2bn limit on assets under management) or may still have annual income attributable to their investment activities that exceeds the higher EUR 50m threshold, meaning that this may not translate into a significant increase in the Class 3 population for the asset management sector.

Calculation of the fixed overheads requirement

The ESAs were asked to consider whether the existing rules relating to the calculation of the fixed overheads requirement (**FOR**) were adequate. The FOR is essentially calculated by reference to a quarter of the firm's fixed overheads in the preceding year, meaning that it amounts to three months' non-discretionary expenditure. It is broadly intended to act as a proxy for a minimum wind-down period, based on the assumption that a firm's business could be wound down or restructured within three months.

The ESAs have noted that in practice, the data they collected indicated that a three-month wind-down period was achieved in only 50% of cases and that in some cases, the wind-down took longer than a year, or even several years. Fortunately, the ESAs are not proposing to increase the FOR and have suggested retaining the existing calculation based on three months' expenditure. That will come as a welcome relief to many EU investment firms, as the FOR is often determinative of a firm's "Pillar 1" requirement and any increase in the number of months included in the calculation could materially have increased the amount of capital firms would need to hold.

Amendment to the calculation of the Client Orders Handled (COH) K-factor

The ESAs have noted that the MiFID service of placing without a firm commitment does not currently contribute to any of the K-factor metrics which are used to determine the firm's overall K-factor requirement arising from its activities. They suggest that placing should be calculated under the COH K-factor, unless the process is carried out via the firm's own book, in which case it should be captured within the Daily Trading Flow (DTF) K-factor instead.

If this proposal is adopted, it could potentially result in higher capital requirements for firms that undertake the placing activity, although this may depend upon whether the overall K-factor requirement (rather than the FOR) drives the firm's Pillar 1 requirement, and the volume of placing undertaken. One of the additional difficulties with placing under MiFID is that there has historically been a range of views as to when the activity is engaged, with some EU Member States considering fund marketing activity as constituting placing in certain circumstances. As such, this proposal is likely to be unwelcome and may raise issues around consistent application across the EU.

Clarification of the concept of ongoing advice under the Assets Under Management (AUM) K-factor

The ESAs considered whether the concept of "investment advice of an ongoing nature", which forms part of the definition of activities that should be included within the AUM K-factor, was sufficiently clear to ensure its consistent application across the EU. The ESAs were concerned that a narrow interpretation of this concept could increase risk to clients by allowing certain non-discretionary management arrangements to fall outside the K-AUM calculation entirely.

The ESAs have recommended that the concept of ongoing advice should therefore be defined further in the EU IFR as meaning "*the provision of investment advice on the basis of the continuous or periodic assessment and monitoring or review of a client portfolio of financial instruments resulting from a contractual arrangement*". However, they specifically state that there should be no further specification of the required frequency of any advice or assessment in this context.

In practice, if this proposal is adopted, it is possible that any contractual arrangement that requires the firm to monitor and review a client's portfolio of financial instruments on multiple occasions would be caught within K-AUM as "investment advice of an ongoing nature". However, many EU asset managers who have adopted a sub-advisory model

seem likely to have concluded that such arrangements fell within the original definition anyway, such that they would have been included within K-AUM (subject to any other available exclusions – see further below). As a result, this may not have a significant impact on existing approaches.

Exclusion from K-AUM of advice provided to an asset manager

The ESAs noted that the IFR contains an exclusion from K-AUM in respect of assets which have been formally delegated to the firm by another financial entity (although the delegating entity must continue to include such assets in its K-AUM if it is subject to the EU IFR/IFD framework). These delegation provisions, which are designed to prevent double-counting of assets, do not expressly refer to a situation where the arrangements are structured so that the investment firm provides non-discretionary investment advice to the other financial entity (rather than delegated portfolio management), even though this is a functionally similar arrangement.

The ESAs have therefore recommended that the IFR provisions should be amended so that K-AUM will expressly exclude any assets under advice where the advice is provided to a financial entity to support that entity's performance of a "portfolio management service". The proposed drafting is itself ambiguous as to whether the term "portfolio management service" covers both MiFID segregated portfolio management and collective portfolio management carried on by an AIFM or UCITS manager. However, from the narrative in the report, it is clear that the ESAs intended both situations to be eligible for the exclusion, so this may be something that can be clarified if this is included in any subsequent legislative proposal.

This is clearly a positive recommendation for the asset management industry and would put sub-advisory models on an equal footing with formal delegated portfolio management models in relation to the K-AUM calculation.

Treatment of non-trading book items (other than cryptoassets)

The ESAs have noted that items held in the non-trading book of a firm do not give rise to capital requirements under the Pillar 1 rules in IFR/IFD, except in relation to foreign exchange or commodity risk. This is because the K-factors that apply to a firm's balance sheet positions (e.g. K-NPR or K-CMG) apply only where those positions are held in the trading book. The ESAs have noted that this means that a range of items are not subject to any minimum specified capital requirement, including situations such as loans to customers, exposures to banks, long-term investments, and off-balance sheet commitments (e.g. guarantees). For some asset managers, this could also include securitisation retentions, to the extent that the firm holds these on its balance sheet.

However, the ESAs also noted that their data collection exercise suggested that most EU investment firms have negligible non-trading book exposures and that introducing a Pillar 1 regime to specify minimum requirements for such exposures would therefore be disproportionate. As a result, the ESAs have recommended continuing to rely on the Pillar 2 requirements (i.e. the firm's own assessment of its firm-specific risks) to capture any risks arising from non-trading book positions.

This proposal is likely to be welcomed by firms, retaining the existing flexibility to adopt a bespoke, firm-specific assessment of a firm's balance sheet items.

Non-trading book positions in cryptoassets

The ESAs specifically considered the position of cryptoassets held in the non-trading book, although they noted that none of the firms included in their data sample had reported any non-trading book exposure to such assets. Nonetheless, EU national regulators had apparently raised concerns about this issue.

The ESAs have proposed that cryptoassets held in the non-trading book by non-trading firms should be brought within the Pillar 1 calculation requirements by applying the same calculation methodology that applies to commodity risk under the current K-NPR rules. Where trading firms hold cryptoassets in the non-trading book, the ESAs propose that they will need to apply the trading book treatment of cryptoassets to their non-trading book exposures. The ESAs state that the boundary between cryptoassets held in the trading and non-trading book should be further defined in subordinate measures.

Currently, it may be the case that many EU investment firms do not hold cryptoassets in the non-trading book and therefore this proposal may have limited immediate impact. However, given the potential for the use of cryptoassets to increase in the near future, the ESAs' suggested approach may be unwelcome, limiting firms' ability to apply their own bespoke Pillar 2 approach to assess the risks arising from cryptoasset holdings. This would also result in a divergence of approach between cryptoasset non-trading book positions and other non-trading book items in relation to which the ESAs are apparently content to rely on the Pillar 2 approach (see above). It is unclear whether this distinction is justified in practice.

Non-trading book financial instruments

The ESAs have noted that IFR/IFD do not specify when firms that do not have permission to deal on own account or to carry out underwriting on a firm commitment basis will be considered to hold financial instruments in the trading book. They note that many EU investment firms may invest in financial instruments as part of everyday liquidity management and that it would be disproportionate to require non-trading firms to hold liquidity solely in cash.

As a result, they propose to include new provisions in the IFR which expressly permit firms that are not authorised to deal on own account or to carry out underwriting to invest in financial instruments up to an amount equal to their eligible regulatory capital. The relevant rules would allow such firms to invest in the following instruments:

- financial instruments that have a 0% risk weight under the Standardised Approach to credit risk under CRR3;
- minority holdings held "for industrial purposes";
- assets that are eligible to satisfy the IFR's liquidity requirements; and
- equity instruments that have a "large market capitalisation" as defined in the EU CRR technical standards on liquidity horizons for the Alternative Internal Model Approach, but only up to 10% of the firm's eligible regulatory capital.

The relevant instruments would have to be issued in the same currency as the investment firm's functional currency so that they do not give rise to foreign exchange risk. A 15% buffer tolerance would be permitted and any appreciation in the value of the instruments would not count towards the relevant limits.

Although this proposal seems designed to provide clarity on non-trading firms' ability to hold financial instruments in the non-trading book, in practice it may impose restrictions on firms' balance sheet holdings which do not exist today and impose new operational burdens.

It is presumed that these rules are not intended to affect the ability of EU investment firms to hold interests in other financial entities as part of the normal structuring of a corporate group, although this is not necessarily clear from the proposed technical drafting and may be something that can be clarified in any subsequent legislative proposal.

It is also unclear whether this requirement would apply only to an investment firm on a solo basis, or whether it would also apply on a consolidated basis where the group does not contain any investment firm that has permission to deal on own account or carry out underwriting. If the latter, this may cause wider disruption and could potentially interfere with asset management groups deploying seed capital for funds (since units in a fund would not be one of the eligible investments listed above).

High quality liquid assets definition

The ESAs consider that the list of eligible high quality liquid assets that can be used to meet the IFR's liquidity requirements should be clarified. They propose that:

- the existing reference to unencumbered short-term deposits held with a credit institution should be updated to define the concept of "short-term" as meaning that the full amount of the deposit would be available within one month; and
- the provision allowing firms to hold certain financial instruments traded on a trading venue for which there is a liquid market should be updated to clarify that the instruments must also be unencumbered.

In practice, these proposed changes may not have a huge impact on the existing position, although this may depend on the position the firm or its national regulator has adopted to date as regards access to bank deposits.

Investment holding company and financial institution definitions

The definition of an "investment holding company" in the IFR is one of the triggers for consolidation of an EU investment firm group. The ESAs note that the existing definition does not foresee a situation where a tied agent or ancillary services undertaking, rather than a financial institution, sits at the top of the group and acts as the holding company.

The feedback exercise the ESAs undertook apparently identified situations where this has occurred in practice and has prevented consolidation operating up to the level of the relevant tied agent or ancillary services undertaking. As a result, they recommend that the "investment holding company" definition should be amended to include tied agents and ancillary undertakings acting as the EU holding entity at the top of the group.

In addition, the ESAs also note that MiFID article 3 exempt firms are not currently included within either the "investment holding company" definition or the definition of the "consolidated situation", which determines which entities are caught

lower down within the investment firm group. They therefore propose to amend both definitions to include article 3 exempt firms that either act as the EU parent undertaking of the group or are otherwise included within it. The ESAs also recommend amending the definition of a "financial institution" under the IFR so that it expressly includes ancillary services undertakings.

The net effect of these changes, if adopted, would be that some EU investment firms may need to revisit their existing consolidation analyses. In addition to imposing a significant operational burden, this could also result in increased consolidated financial requirements if more entities are brought within the resulting investment firm group.

The group capital test and prudential consolidation

The group capital test is an alternative to prudential consolidation under the IFD/IFR, but can be applied only with the consent of the relevant national regulator. The ESAs noted that different EU national regulators have differing views on how to calculate the capital requirements resulting from the group capital test at each level of the group structure, which is resulting in divergent approaches.

The ESAs propose that the EBA should be given a mandate to draft regulatory technical standards that specify a detailed calculation methodology for the group capital test. This could include defining the treatment of goodwill at each level in the group structure, as well as defining how the notional capital requirement works for any non-EU entities included within the investment firm group. Depending on the approach adopted by a firm's relevant national regulator, this could result in material changes to capital requirements at different levels within groups that have adopted the group capital test approach.

In addition, the ESAs are proposing that where an EU investment firm group includes one or more non-EU subsidiaries and is subject to prudential consolidation, the group should be able to apply for a waiver to relieve the subsidiaries from the requirement to apply with the consolidated governance and remuneration requirements resulting from the IFD. Any relevant third country entities would remain subject to the other prudential requirements. This would be subject to national regulators confirming that the group is not using the waiver to arbitrage the IFD governance and remuneration rules (e.g. by offshoring employees to the third country subsidiary where they are substantively employed to carry out operations in the EU). As part of their assessment of whether to grant the waiver, EU national regulators would need to consider whether applying the governance and remuneration requirements to the non-EU subsidiary would prejudice the level playing field in which that subsidiary would otherwise operate.

This proposal is likely to be welcomed, potentially allowing some third country subsidiaries or sub-groups of EU investment firms to avoid the need to comply with EU-derived remuneration and governance requirements which would otherwise put them at a competitive disadvantage to other local firms in their jurisdiction.

Inclusion of cryptoasset service providers in the scope of consolidation

The ESAs consider that following the introduction of the EU Markets in Crypto-Assets Regulation (**MiCA**), the definition of the "consolidated situation" in the IFR should be updated so as to bring cryptoasset service providers and cryptoasset issuers within the scope of prudential consolidation of an investment firm group. They also propose that the existing mandate for the EBA to draft regulatory technical standards specifying how prudential consolidation operates under the IFR should be expanded to empower the EBA to draft specific rules for how these cryptoasset entities should be included within the consolidated calculations in practice.

This proposal will probably be unwelcome to the cryptoasset industry, although whether it has a significant impact will depend upon the extent to which cryptoasset firms may already be authorised as MiFID investment firms due to the other services they provide, and the extent to which they already form part of wider investment firm groups. If this suggestion is ultimately adopted, the industry will want to keep an eye on the precise way in which the EBA calibrates any specific consolidation requirements for cryptoasset firms in the detailed delegated legislation to ensure that this is workable and proportionate.

Application of K-factor requirements to cryptoasset activities

The ESAs note that EU investment firms can provide services relating to cryptoassets both with and without authorisation under MiCA (although if they are not authorised under MiCA, the activities they can carry out are limited). The data set collected by the ESAs indicates that at the end of 2023, very few investment firms were carrying on any cryptoasset activities, but they expect that this could change rapidly in the near future.

They are therefore recommending that the IFR should be amended so that various K-factors include services provided in relation to cryptoassets. This would include the assets under management (K-AUM), client orders handled (K-COH), client money held (K-CMH), assets safeguarded and administered (K-ASA) and net position risk (K-NPR) metrics. The ESAs also

recommend that the EBA should be given a mandate to draft regulatory technical standards providing further details on how the relevant K-factors apply to cryptoassets.

This proposal may be controversial, touching on ongoing arguments about whether cryptoassets should be viewed as analogous to traditional financial instruments and the correct prudential approach that should be applied to them.

Future developments

The ESAs' report is a lengthy and considered piece of work with a substantial section setting out data analyses that have informed the final proposals. It is likely to be taken seriously by the European Commission, although that does not necessarily mean that every proposal will ultimately be included in any proposed amending legislation that the Commission might bring forward.

Nonetheless, we are still at a very early stage in the legislative journey, and the European Council and Parliament would be likely to have strong views on a range of the proposals summarised above, particularly in light of the wider focus on competitiveness and burden reduction in the EU. Firms with EU operations that may be affected by these proposals (including not only EU MiFID investment firms, but also EU cryptoasset firms and potentially EU fund management entities in the longer term) should consider whether to engage with their industry associations to help shape any legislation as it progresses.

4 Changes to the UK remuneration rules for dual-regulated firms

AT A GLANCE SUMMARY

- The new rules have applied to dual-regulated UK firms since **16 October 2025**, but only in respect of **performance years starting on or after that date**. Any performance year that began before that date remains subject to the previous rules, subject to two key exceptions:
 1. The pre-16 October 2025 version of the rules stated that at least 50% of variable remuneration must be paid in shares or instruments, *and* that this minimum 50% requirement applied equally to both the up-front and deferred components. As explained below, while the overall requirement for at least 50% of variable remuneration to be paid in instruments has been retained, from 16 October 2025, this no longer has to be applied equally to both the up-front and deferred components. However, a firm may (but is not required to) also treat this previous "equal split" requirement **as if it did not apply to performance years that started before 16 October 2025**.
 2. From 16 October 2025, new versions of the rules on deferral and pro rata vesting have applied (as explained further below). A firm may (but is not required to) also treat those modified rules **as if they apply to remuneration awarded in respect of performance years that started before 16 October 2025**.
- There are **no equivalent rule changes for FCA solo-regulated firms at this stage**, but the regulators have confirmed that the FCA is reviewing its various remuneration rulebooks and will report back in early 2026 on potential changes.
- Rules around the **identification of material risk takers (MRTs)** have changed, potentially allowing firms to exclude some individuals who would previously have fallen within the MRT definition.
- The **proportionality carve-outs for certain pay-out process requirements (such as deferral or performance adjustment) have been updated** so that certain MRTs may no longer be subject to these requirements because their total and variable remuneration fall below the revised thresholds.
- The minimum deferral periods for MRTs holding senior management functions and certain other particularly high-earning MRTs have been shortened, so that **all MRTs will be subject to a minimum four-year deferral period** (unless they can rely on the proportionality carve out). Vesting must occur no faster than on a pro rata basis.

- For variable remuneration that exceeds £660,000, **new marginal deferral requirements will apply**. At least 40% of the first £660,000 and at least 60% of any amount exceeding £660,000 must be subject to the minimum four-year deferral and pro rata vesting requirements.
- The requirement for **at least 50% of variable remuneration to be paid in shares or other instruments will be retained, but it will no longer apply equally to both the up-front and deferred portions** of an MRT's remuneration. This means that firms will be able to pay more cash up-front and have a higher proportion of instruments in the deferred component.
- The **restriction on paying dividends or interest on deferred instruments** has been removed.
- Firms will **no longer need to notify the PRA of retention awards**, but will still need to include details of these in periodic reports.
- Firms are now subject to a specific requirement to consider whether it is reasonable to apply **an ex-ante or ex-post risk adjustment to the remuneration of a senior manager due to their responsibility for failings that occurred in their area of responsibility**. In effect, this will require firms to consider the extent to which managers in a chain of responsibility should be held accountable for a risk event in the business area(s) for which they are responsible.
- The **FCA's Dual-Regulated Remuneration Code (SYSC 19D) now cross-refers directly to the PRA remuneration rules and applies those as if they are FCA rules**. This means that the FCA no longer has separate rules which seek to replicate the effect of the PRA's rules in this area. However, there are still a limited number of FCA-specific remuneration rules and guidance provisions for dual-regulated firms which have been retained in the SYSC 19D rules.

Background

UK banks, building societies and certain very large investment firms are dual regulated by the FCA and PRA, and are subject to remuneration rules applied by each of those regulators. In November 2024, the FCA and PRA published a [joint consultation paper](#) that proposed to simplify the existing remuneration regime for UK banks and make it more proportionate, while ensuring that it continued to achieve appropriate accountability and risk alignment. This followed the much-heralded removal of the quantitative bankers' "bonus cap" in the UK in October 2023.

The [Remuneration PS](#) has now confirmed the further rule changes in this area for dual-regulated firms, as well as amendments to the PRA's guidance in its related [Supervisory Statement](#) (SS2/17), which we have summarised briefly below.

Identification of material risk takers

The remuneration rules for dual-regulated firms generally apply in relation to individuals who are identified as material risk takers (**MRTs**) within the firm. This includes members of the firm's management body and senior management, as well as managers of control functions and material business units in the firm and other employees whose professional activities are deemed to have a material impact on the firm's risk profile.

The rules previously also required employees whose remuneration met certain quantitative criteria (broadly, at least £440,000 in total remuneration and being equal to or greater than the average remuneration awarded to the firm's senior management) to be classified as MRTs. That quantitative trigger has now been deleted from the rules, although the PRA's Supervisory Statement states that the PRA also expects firms to consider whether any employee whose total remuneration is within the top 0.3% of the firm could be deemed to have a material impact on the firm's profile.

Previously, where an individual was caught within the MRT definition solely due to quantitative criteria, the firm was required to seek regulatory approval to exclude that individual from being an MRT. That requirement has now been deleted alongside the deletion of the relevant quantitative criteria.

The concept of a "higher paid material risk taker" (i.e. an MRT whose total remuneration exceeded £500,000 or whose annual variable remuneration exceeded 33% of their total remuneration) has now been deleted from the remuneration rules.

There will also be a new requirement for dual-regulated firms to ensure that the methodology they use to identify MRTs is regularly overseen by the firm's risk management function.

Enhanced proportionality for MRTs

Where an individual is classified as an MRT, certain "pay-out process" requirements that would otherwise apply in relation to that individual's remuneration (such as deferral or performance adjustment) may be disapplied where specified proportionality criteria are met. Previously, this was only the case where the individual's annual variable remuneration did not exceed £44,000 and did not represent more than one third of the individual's total pay.

The updated rules allow the relevant requirements to be disapplied where the individual's total remuneration does not exceed £660,000 and variable remuneration is no more than 33% of that total remuneration. In practice, this would potentially allow an individual to receive up to £220,000 in annual variable remuneration without triggering the pay-out process requirements.

The PRA has also reinstated guidance in its Supervisory Statement which, broadly speaking, confirms that where an individual has only been an MRT for three months or less during a performance year, the requirements that remuneration be paid in a minimum proportion of retained shares or instruments and that it must be paid over a minimum deferral period will not apply (unless the individual receives a guaranteed variable remuneration award).

Deferral and retention periods

Under the previous rules, where an MRT held a PRA senior management function, at least 40% of the individual's variable remuneration had to be deferred over a seven-year period, and vesting (no faster than on a pro rata basis) could not start until three years after the remuneration was awarded. Higher paid MRTs who did not hold a senior management function had a minimum deferral period of five years, while for other MRTs, the relevant deferral period was four years, in each case with vesting no faster than on a pro rata basis.

The deferral rules have now been overhauled so that for all MRTs, deferral must be over a minimum four-year period with vesting no faster than on a pro rata basis. This means that very senior or highly paid individuals in banks will be able to be paid variable remuneration more quickly than was previously the case.

Previously, where an individual was a director of a significant and complex firm or received variable remuneration of £500,000 or more, at least 60% of the variable remuneration had to be deferred. The updated rules now refer to variable remuneration of at least £660,000 and apply a marginal deferral approach – i.e. 40% of the first £660,000 of variable remuneration must be deferred for the new four-year deferral period, with at least 60% of any amount exceeding £660,000 deferred on the same basis.

Requirement for payment in instruments

The requirement for at least 50% of any variable remuneration to be paid in shares or other eligible instruments is being retained. However, previously, this applied equally to both the up-front proportion of any variable remuneration and any deferred component. This meant that in practice, an MRT could not be paid more than 50% of the upfront variable amount in cash.

This requirement has now been amended so that while firms will still be required to pay a minimum of 50% of variable remuneration in instruments, they may now pay a higher proportion of cash up-front, leaving the deferred component to consist of a higher proportion of instruments. Both the PRA and the FCA consider that deferral of a higher proportion of instruments is good practice because non-cash awards are more sensitive to the long-term performance of the firm, strengthening risk alignment.

For any instruments received by an MRT upfront, a minimum 1-year retention period will continue to apply, and firms will be expected to apply an appropriate retention policy designed to align employee incentives with the firm's long-term interests. The PRA's Supervisory Statement has been updated to confirm that the PRA does not expect firms to set a retention period for instruments which form part of the deferred component of an MRT's variable remuneration.

Payment of dividends and interest on deferred remuneration

The previous rules prohibited the payment of dividends on deferred shares or instruments (primarily due to concerns this could otherwise be used as a vehicle to circumvent the bankers' bonus cap, which as noted above, was removed in October 2023). The PRA has now updated its Supervisory Statement to confirm that dividends may be paid on deferred instruments and interest may accrue on deferred cash awards.

Retention awards

The PRA's Supervisory Statement has been amended to remove the previous expectation that retention awards (i.e. remuneration awards that are contingent on an individual remaining employed by the firm for a minimum specified period) should be notified to the regulator. However, the PRA states that it will continue to monitor the use of retention awards through its review of firms' remuneration policy statement reports and additional requests for information, where appropriate.

Risk adjustment and managerial accountability

New rules will require firms to set specific criteria for the application of ex-ante and ex-post risk adjustments to remuneration.

The revised rules require a firm to ensure that its criteria for applying risk adjustments to remuneration cover situations where, due to their seniority or role, it is reasonable for an MRT to be held responsible for the relevant risk or the failings that led to the risk event. In its feedback in the Remuneration PS, the PRA states that firms should judge what is "reasonable" in this context by reference to the concept of "reasonable steps" in its [Supervisory Statement on Strengthening Individual Accountability in Banking](#).

However, the PRA has declined to give any further details on how firms should approach determining whether the relevant responsibility threshold has been crossed up the management chain, such that an adjustment would be reasonable in the circumstances. It notes that there may be considerable variation between firms' business models, and that the Supervisory Statement on remuneration already contains general guidance on risk adjustments.

Changes to the FCA SYSC 19D remuneration rules for dual-regulated firms

The FCA's SYSC 19D remuneration rules apply to dual-regulated firms in parallel with the PRA's remuneration rules. This has resulted in firms needing to consult two separate rulebooks, albeit that the two are largely aligned.

The FCA has now amended its rules so that instead of seeking to replicate the effect of PRA rules in SYSC 19D, the SYSC 19D provisions now directly cross-refer to the PRA remuneration rules and confirm that the FCA will apply those rules as if they were FCA rules. This cross-reference will operate on an ambulatory basis – i.e. any future changes to the PRA rules will automatically flow through into the FCA rules when implemented by the PRA, without the FCA needing to reimplement them each time.

The FCA will still maintain a limited set of FCA-specific remuneration rules for dual-regulated firms which will apply in addition to the cross-applied PRA rules. These include some supplementary provisions relating to issues such as the requirement for a gender-neutral remuneration policy, requirements following exceptional government intervention, and additional glosses on the PRA's risk adjustment, performance assessment and deferral rules.

Note that where a dual-regulated firm wishes to obtain a waiver or modification of a PRA rule that is directly cross-applied by the FCA, it will still need to apply to both the PRA and the FCA, as the relevant PRA rule is effectively treated as an identical FCA rule.

Future developments

The changes to the remuneration rules for dual-regulated firms will not result in any immediate changes to the remuneration frameworks for UK solo-regulated firms, such as MIFIDPRU firms, AIFMs or UCITS managers. However, the industry has consistently argued that the streamlining of remuneration requirements applicable to UK banks would appear anomalous if remuneration requirements for solo-regulated firms are not also liberalised, given that the latter population are generally smaller and pose less systemic risk than their bank counterparts.



As noted in the FCA's recent Call for Input looking at future regulation of alternative fund managers, the FCA is reviewing the operation and effectiveness of its solo remuneration rules [...]

The FCA is actively engaging with industry and other stakeholders to understand the value and costs of these rules. It is considering the future shape of these remuneration rules, effectively balancing risks to investors and markets with the impact on firms while continuing to deliver the FCA's objectives including supporting growth and competitiveness.

UK PRUDENTIAL REGULATION AUTHORITY AND UK FINANCIAL CONDUCT AUTHORITY

In the Remuneration PS, the regulators acknowledge this industry feedback and confirm that the FCA is reviewing the existing remuneration frameworks for AIFMs, UCITS managers and MIFIDPRU firms. The FCA is expected to provide an update on this work in early 2026. In light of the prevailing political imperative to reduce regulatory burdens and to improve the competitiveness of the UK economy, coupled with the proportionate changes introduced for UK banks, it seems likely that some proposals for reform will be forthcoming. Firms may wish to continue to engage with their industry associations on this issue to help shape any future proposed rules changes in this area.

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