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UK Regulatory Developments: 2026 Overview

16 January 2026

This is an in-depth overview of UK regulatory developments that are relevant to private equity sponsors and their portfolio companies.

These developments illustrate the FCA's post-Brexit regulatory direction, a move away from rigid EU-derived frameworks towards a more proportionate and flexible regime. In parallel, the FCA intends to facilitate a stronger retail investment culture in the UK.

While many of the reforms are not directed exclusively at private equity, they have implications for fund-raising strategies, investor classification, portfolio company oversight, transaction structuring and sponsor-level risk management.

Consumer Composite Investments (CCI): Replacement to the PRIIPs Regime

On 8 December 2025, the FCA published a policy statement (PS25/20) setting out final rules for its new retail disclosure framework for CCI. A CCI is an investment where the returns are dependent on the performance of, or changes in, the value of underlying or reference assets. All products within scope of the current PRIIPs and UCITS regime are in scope, including closed and open-ended funds. The CCI disclosure regime replaces the UK PRIIPs Regulation and UCITS disclosure requirements, and relates to one aspect of the FCA's Consumer Duty, which is to give clear and concise information to consumers.

With its replacement regime, the FCA asserts that it has replaced excessive templating and prescriptive documents with freedom for firms to innovate with products and deliver "engaging communications" to consumers. At the same time, the FCA has retained detailed disclosure requirements, where necessary to ensure that key metrics remain standardised and comparable across products within scope.

In the CCI regime, product manufacturers making available CCIs to retail investors in the UK must produce a consumer-friendly product summary, with comparable key information about costs, risk and return and past performance. Distributors will make the product summary available to investors and highlight key information to help consumers make effective and informed investment decisions. Manufacturers will have freedom over design of the product summary and distributors will have flexibility to provide information to investors in ways that support consumer understanding.

In the policy statement, the FCA agreed with concerns raised by respondents to its earlier consultation paper, about including one-off costs in a figure indicating costs over a 12-month period. The FCA has amended its policy so that the ongoing costs figure must be presented as the headline figure, and that explicit transaction costs and one-off costs do not need to be aggregated with ongoing costs, but are disclosed separately.

The optional transition period for the CCI regime will begin when the legislation commences on 6 April 2026. From this date, manufacturers will be able to choose between producing a product summary or following the disclosure requirements that currently apply to them. The full regime and rules come into force on 8 June 2027.

Client Classification

On 8 December 2025, the FCA published its consultation paper (CP25/36) on proposed changes to the UK client classification rules, to make the regime more proportionate and outcomes-based. The CP closes on 2 February.

The FCA is proposing the following changes to the current elective professional client categorisation rules:

- **Wealth-only assessment:** introduce an alternative classification route under which clients with investable assets of £10 million may, subject to their giving informed consent, elect to opt out of retail investor protections.

- **Remove the current quantitative test in COBS 3.5.3R(2):**[1] as a mandatory element for all clients, except local authorities. These changes are likely to be welcomed by investors into private funds, for whom the current quantitative test can be difficult to satisfy.

[1] Two of the following criteria have to be satisfied under this criteria:
(a) the client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters;
(b) the size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds EUR 500,000;
(c) the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged.

- **Enhance the qualitative assessment:** other than where the "wealth-only" assessment is available, the FCA will retain the qualitative assessment of the client's expertise, experience and knowledge to be categorised as an elective professional client, with the FCA specifying a set of relevant factors firms must consider as part of a holistic assessment, including professional experience, trading history, risk understanding, financial resilience, objectives, and any adverse information.

- **Improved safeguards**: Clients must actively request professional status and provide informed (rather than basic) consent after being given clear information about the protections they will lose. Firms are prohibited from incentivising or pressuring clients to opt up. A firm's approach to client categorisation should be compatible with the firm's existing obligations under the Consumer Duty and the 'client's best interest' rule.

- **Communications**: Firms may proactively initiate discussions with a client about opting up, but only if they reasonably believe the client meets the elective professional threshold. Firms must not promote specific professional-only products until re-categorisation is complete.

Conflicts of Interest

In 2025, the FCA launched a wide-ranging review into conflicts of interest and the fair treatment of customers in private markets, requiring selected firms to complete a detailed questionnaire by 2 January 2026. Topics of interest to the FCA include the interaction between different strategies within private fund groups and individual remuneration incentives. The FCA will then publish on good practice and areas of concern later in 2026.

This follows the FCA's work on valuations last year, where it identified that many firms had not fully identified all relevant valuation-related conflicts in their business models. The FCA is concerned about the impact poorly managed conflicts of interest may have on asset valuations, particularly as it expands access to private markets to retail investors.

In the consultation paper on changes to the UK client classification rules, the FCA also announced a plan to rationalize the conflicts of interest rules in its Handbook, to remove unnecessary distinctions between similar sets of rules in different sections of the Handbook.

The FCA states that its proposed changes to the conflicts of interest rules are not intended to change obligations on firms, nor to require changes to systems and processes.

FCA Discussion Paper on Expanding Consumer Access to Investments

On 8 December 2025, the FCA published a discussion paper (**DP25/3**) on expanding consumer access to investments, starting that "the amount of investible assets held in cash remains high and we see a persistent mismatch, at both ends of the risk spectrum, between consumers' stated risk appetite and what they actually invest in." The FCA also points out that there is a wider range of wholesale products open to retail consumers, and consumers now take on more responsibility for their investment decisions through "non-advised" platforms, including trading apps.

The FCA wants to explore how it can:

- Support continued innovation by firms in the retail investment market.
- Ensure that for similar products, consumers have similar rights and protections.
- Shape access to high-risk investments that require professional expertise and ensure retail consumers cannot easily access inappropriate investment opportunities.
- Regulate how firms communicate and promote to consumers to enable them to make informed decisions, including ensuring they can compare similar investments against each other.
- Introduce positive frictions to enable more considered decision making, such as by using its financial promotion rules and appropriateness testing.

The discussion paper highlights a key area of FCA focus on expanding retail access to private funds, including by supporting greater use of Long-Term Asset Funds (LTAFs) as a route to make private market investments more readily available to retail investors.

The FCA has asked for feedback by 6 March 2026.

Provisional Licence Regime

On 4 December 2025, HM Treasury (HMT) published a policy paper setting out the government's aim to create a provisional licences authorisation regime for early-stage financial services firms seeking FCA authorisation.

The government hopes this will reduce the barriers firms face when seeking authorisation, by enabling the FCA to grant them time-limited permissions so that they can get 'up and running' in a controlled environment with strong regulatory oversight, whilst working towards full authorisation.

The regime is expected to be appropriate for early-stage firms, particularly those with an innovative business model, that would otherwise struggle to meet the usual requirements to obtain authorisation in a reasonable timeframe, in particular the FCA's threshold conditions on matters such as financial and staff resources. It can support the firm to provide "proof of concept". The provisional licence regime will allow firms to conduct regulated business under supervision for a limited period, up to 18 months, with the aim that by the end of that period, the firm will meet the threshold conditions and be granted full authorization. The obligation on firms to provide detailed information on their resources, financing and compliance arrangements will be deferred.

The regime will not be suitable for firms offerings products or services over a long or deferred timeframe, such as pensions.

Firms that want to use this regime must demonstrate appropriate financial and non-financial resources for the period of the provisional licence only, and show they can wind down in an orderly manner if necessary, including where the firm has not achieved full authorization by the end of the period. Firms will comply with relevant rules during the provisional licence period and the FCA will have its full supervisory and enforcement powers in relation to those firms.

In terms of timing, introducing a provisional licences regime will require primary legislation, which the Government will bring forward "when Parliamentary time allows".

Non-Financial Misconduct (NFM) Rules

On 2 July 2025, the FCA published a policy statement and consultation paper (CP25/18) confirming it will expand the scope of its Code of Conduct (**COCON**) sourcebook to more closely align the rules on NFM between banks and non-bank firms. Examples of non-financial misconduct are bullying, harassment and violence.

This means incidents of work-related NFM in non-banks will be within scope of COCON if either the individual responsible or the subject of the misconduct works in the financial services part of the business.

In its Policy Statement PS25/23, published on 12 December 2025, the FCA has made a small number of targeted changes, including new examples to illustrate the scope of COCON, and provided further guidance to support application of the new rules. This includes a suite of flow diagrams illustrating how COCON applies.

The guidance is intended to support firms in assessing (i) when work-related NFM, such as bullying or harassment, will breach COCON and (ii) how NFM outside of work might be relevant to an assessment of fitness and propriety.

COCON Guidance

The FCA has revised the guidance to provide an example demonstrating that the purpose of conduct is as important as its effect. The FCA confirms that it uses 'bullying' and 'harassment' as shorthand terms to describe unwanted conduct that violates a colleague's dignity or creates an intimidating, hostile, degrading, humiliating or offensive environment.

The FCA also clarifies that its guidance seeks to articulate scenarios in which conduct outside the workplace may be sufficiently closely connected to work that COCON is engaged, such as misconduct at training events, award ceremonies or workshops organised by clients.

FIT Guidance

The FCA makes clear serious and substantiated cases of poor personal behaviour will have to be shared in regulatory references from September 2026.

Firms are not expected to investigate trivial or implausible allegations about an individual's private life. Conduct in private life is relevant to fitness and propriety if it presents a material risk that the individual will breach regulatory standards, a ‘material’ risk is one that is more than simply remote or speculative.

The new guidance comes into force on 1 September 2026 and does not have retrospective effect.

UK AIFMD

The FCA is proposing changes to the UK's AIFMD rules, which have been assimilated into UK law since Brexit. The proposals will allow for a more proportionate approach to regulation, while balancing the need to protect investors and the market, and are outlined in a HM Treasury consultation paper and FCA call for input. Both papers were published on 7 April 2025 and were open for comment until 9 June 2025.

The most significant proposal is to categorise AIFMs into three tiers based on the net asset value (NAV) of the funds they manage. Under this approach, large AIFMs are those with NAV exceeding £5 billion, mid-sized AIFMs have NAV between £100 million and £5 billion, and small AIFMs manage funds with NAV of up to £100 million. The FCA prefers NAV as the relevant threshold measure because it is more widely used across the industry and is easier for firms to understand and apply than leveraged assets under management, which currently determines whether an AIFM is considered "full-scope" under the UK AIFMD regime. The new categories will replace the existing distinction between "full-scope" and "sub-threshold" AIFMs. Instead, the FCA will adopt a tailored approach, determining which rules apply to which AIFMs based primarily on their size and also on their investment activities, investor base and the specific risks they present. The FCA envisages that mid-sized and small firms will not need to follow detailed "Level 2" rules, and that firms will follow rules in areas such as risk management in a more tailored and proportionate manner, depending on their strategy – noting that many Level 2 rules are directed at firms that hold liquid investments.

Other key proposals include:

- **Marketing Notifications**: Full-scope UK AIFMs of UK or Gibraltar AIFs will no longer be required to notify the FCA of their intention to market in the UK to professional investors, removing the 20 working days approval period.

- **AIFMD Post-deal Notifications**: Currently, full-scope UK AIFMs and non-UK AIFMs above the threshold must submit information to the FCA regarding any AIFs they manage that acquire control of non-listed companies or issuers. HMT is considering whether to remove the requirement, or if this information should be reported elsewhere, noting that the FCA has limited powers to act in this area.

The FCA also flags rules on remuneration and regulatory capital as open for review. The FCA does not expect to change the requirement for firms to appoint a depositary. HMT is also considering changes to the rules on appointment of external valuers, specifically to remove the existing liability regime for valuers.

Consumer Duty

On 8 December 2025, the FCA published a short statement on Consumer Duty expectations for firms that work together to manufacture products or services.

The statement does not set new requirements or standards, but sets out the FCA's expectations under the current rules. In particular, the FCA makes clear that regulated firms in the distribution chain can rely on each other, where reasonable, to comply with the relevant rules. The FCA expects firms to have a written agreement setting out an allocation of responsibilities and does not expect firms to duplicate or oversee each other's activities.

The FCA also addresses area there has been some misconceptions:

- **Decision-making:** The FCA's rules should not be interpreted to mean firms working together to manufacture a product or service must have a say in each other's decisions, as it may be appropriate for their responsibilities and decision-making to remain separate, though they should still be clearly agreed and a record kept of the position.

- **Allocation of responsibility:** One firm can be responsible for ensuring compliance with most of the requirements where this reflects the reality of its role and of the arrangements with the other firms involved.

- **Liability:** A firm is generally only liable for remedial action in respect of harm it has caused. However, in some cases, regulatory requirements or contracts might mean a firm is responsible or liable for harm caused by another firm in the distribution chain.

- **Outsourcing:** An exception to the general position above is where one firm outsources an activity or service to another party. Under the SYSC rules, the outsourcing firm remains responsible and accountable for compliance with regulatory responsibilities applying to the relevant outsourced activity or service.

The FCA intends to carry out further work on the Consumer Duty in 2026.

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Please do not hesitate to contact us with any questions.

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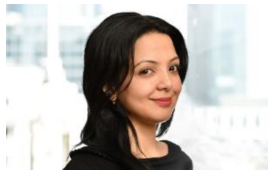

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