

CAPCO

REGULATORY HORIZON

2025 Edition 12



Contents

Geos
Keys:



UK



US/Canada



EU/
Switzerland



APAC



Global

Foreword

Overviews

- 1. UK Regulatory Summary5
- 2. US Regulatory Summary10
- 3. Canada Regulatory Summary 15
- 4. EU Regulatory Summary 18
- 5. APAC Regulatory Summary 23
- 6. Regulatory Heatmap 29

Non-Financial Risk

- 7. Raising the Bar: PRA CP10/25 Sets New Expectations for Climate Risk Management..... 33
- 8. EU Carbon Border Adjustment Mechanism: Leveling the Playing Field on Carbon Costs..... 38
- 9. The EU’s Sustainability Reporting Standards Draft Revisions
(and Leveraging Data Beyond Regulation)..... 43
- 10. FCA Moves to Streamline UK Sustainability Reporting:
What CP 25/24 and the TCFD Review Mean for Firms 48
- 11. Updates to OSFI B-15 to align with Canadian Sustainability Standards Board..... 51
- 12. Tackling Non-Financial Misconduct in Financial Services (CP25/18) -
where firms stand today and what’s next..... 58
- 13. Cryptoasset Regulation: From Registration to Real Accountability..... 62
- 14. Senior Managers and Certification Regime (SMCR) Review 68
- 15. Rising Challenges in Complying with EU REMIT Regulations..... 72
- 16. Heat Networks Regulation: From Informal Supply to Formal Accountability 76
- 17. AI Summary Across APAC 83

Operational Resilience & Cyber

- 18. EIDAS 2.0 - A New Era for Digital Identity in the EU 86
- 19. Consultation Paper on EBA Draft Guidelines on the Sound Management
of Third-Party Risk 90
- 20. Operational Resilience Supervisory Priorities and what it means for firms in 2026..... 93

Click on the article name to go to the relevant pages. Click on the “back to contents” link on any page in the article to return to the start of the Contents list.

Contents

Geos
Keys:



UK



US/Canada



EU/
Switzerland



APAC



Global

Financial Crime

- 21. Strengthening the EU's Defenses Against Financial Crime99
- 22. The Evolution of UBO Registries in Switzerland:
Advancing Transparency and Accountability in Financial Regulation..... 105
- 23. FCA FG25/3: Guidance on the Treatment of Politically Exposed Persons (PEPs).....109
- 24. UK Money Laundering Regulations – Proposed Amendments113
- 25. UK: FATF Spotlight on Shell Company Transparency117

Trade & Transaction Reporting & Controls

- 26. EU Capital Markets Transformation – The MiFID II / MiFIR 2026 Outlook.....122
- 27. T+1 in Europe – how it is going and what it tells us about the model
for pan-European market initiatives.....126
- 28. From Ambiguity to Action: The US Digital Asset Framework Takes Shape..... 130
- 29. Implications of Total Cost Reporting (TCR) on the Canadian Investment Industry..... 134
- 30. UK EMIR Transaction Reporting – Divergence and the Drive for Data Precision.....137

Financial Risk

- 31. US Treasury Central Clearing: Turning Regulatory Compliance
into Competitive Advantage 143
- 32. Overview of Capital Requirements Directive (CRD) VI147
- 33. CP19/24 – The PRA sets Liquidity Reporting Expectations for Large Insurance Firms153
- 34. The PRA's Thematic Feedback on Accounting for IFRS 9 Expected Credit Losses (ECL)157
- 35. Singapore – Liquidity Risk Management.....162

Click on the article name to go to the relevant pages. Click on the “back to contents” link on any page in the article to return to the start of the Contents list.

Welcome to the latest edition of Regulatory Horizon.

In my foreword to our previous edition, I focused on the convergence of the regulatory agenda and that sense of shared imperatives is still evident six months later. Sustainability, AI, digital assets and financial crime appear regularly as priorities when assessing the pan-global regulatory agenda. However, as we close out 2025, the general tenor of regulatory oversight across markets and regions is less consistent.

In the UK we see the continued shift to more outcome-driven regulatory oversight. While accountability, resilience and effective controls will need to be clearly demonstrated, there is also a commitment to minimizing friction in the name of greater competitiveness. Meanwhile, geopolitical risks, climate-related and environmental threats, and the need for enhanced data and risk data capabilities are key factors shaping the regulatory program in Continental Europe.

Across the Atlantic, a potent brew of fragmented regulatory guidance and a procession of Executive Orders has given rise to ambiguities and uncertainty. And as institutions look to clarify their compliance requirements, the rapid evolution and emergence of technologies has disrupted traditional risk and control frameworks and left regulatory oversight lagging.

The ongoing tensions around US tariffs and the election of a new minority Liberal government means a sense of uncertainty has also permeated Canadian rulemaking. Nonetheless, regulators remain focused on prioritizing financial stability, innovation and/or risk mitigation across areas including AI, AML, retail payments and real estate, in some instances with a view to better aligning with their American neighbors.

Alignment – in this instance with global standards – also informs the Asia-Pacific regulatory narrative. A more structured and demanding compliance environment looks to be on the cards as a result, via a slate of initiatives spanning ESG disclosure, AI governance, operational resilience, financial crime prevention, market transparency and financial risk management.

As we look ahead to the coming year, what does seem certain is that regulators around the world will all be focusing ever more intently on the seemingly inexorable proliferation of fast-evolving AI technologies, and their impact. The good news is that AI is already demonstrating real-world benefits in the area of regulatory compliance and controls, and as such promises to help enhance firms' efficiency optimization and risk mitigation efforts.

At Capco, we remain committed to ensuring our clients across the financial services and energy industries are optimally positioned to successfully navigate their risk management and compliance challenges. We trust the insights and guidance within the articles in this edition of Regulatory Horizon will prove valuable as you plan for growth, security and success in 2026 and beyond.

**Jamilia Parry**

Partner,

Global Head of Financial Crime, Risk, Regulation & Finance



1. UK Regulatory Summary

▼
[back to contents](#)

The UK's regulatory agenda is shifting from prescriptive rule-setting to proportionate, outcome-driven oversight. Supervisors are demanding that firms demonstrate accountability, resilience and effective controls in practice, while also signaling a commitment to smarter regulation that reduces unnecessary friction and supports competitiveness. This reflects a broader shift away from compliance as formality and toward oversight that tests effectiveness and judgment.

This recalibration comes against a backdrop of subdued growth, persistent inflationary pressures, and heightened geopolitical uncertainty. Regulators are not treating financial crime, prudential reporting, resilience, or sustainability as siloed issues, but as interconnected levers for stability, consumer protection, and market confidence. The emphasis on proportionate but robust standards also speaks to the UK's positioning in a post-Brexit landscape: aiming to attract capital and foster innovation while ensuring systemic trust. In practice, firms face a regime that both tightens enforcement where risks to integrity are high and creates space for flexibility in areas such as digital assets and AI. The FCA's mandate to regulate for growth¹ adds both momentum and tension. As the economy has stagnated, the spotlight on the FCA's new mandate has only intensified. The regulator faces a defining test: proving that growth and good regulation can truly coexist.² The direction of travel, however, remains clear – regulation is now an economic instrument, shaping resilience, competitiveness, and trust.

Financial crime

Financial crime priorities are being reshuffled. The FCA's updated guidance on PEPs (FG25/3) signals a welcome shift to a more balanced, proportionate approach – removing friction where risk is low while keeping safeguards watertight³. But elsewhere, the pressure is anything but wavering. Shell companies (AKA the corporate “getaway cars” of financial crime) now find themselves in the regulatory fast lane for scrutiny. Upcoming changes to the money laundering regulations,⁴ together with FATF's push for transparency, make it clear that ownership opacity is no longer an option – forcing firms to tighten due diligence and oversight.⁵ Failure to deliver is closely followed by enforcement action, with the list of

FCA fines for 2025 demonstrating where the most substantial fines are landing: firms whose AML/financial-crime controls were ineffective or out-paced by growth.⁶ Those firms that direct energy into prevention and control will be the ones enjoying the benefits of their efforts when the next enforcement wave hits. This tightening net does not stop at money laundering – from September 2025,⁷ the failure to prevent fraud offence under the Economic Crime and Corporate Transparency Act 2023 came into force, making firms criminally liable if they cannot demonstrate reasonable procedures to stop fraud, regardless of senior management intent.⁸

Trade and Transaction Reporting

UK transaction reporting continues to be a key area of supervision. With the implementation of EMIR Refit, the emphasis is on data quality, which includes discipline around Unique Transaction Identifiers (UTIs) and Unique Product Identifiers (UPIs), as well as submissions aligned with ISO 20022. There is also a focus on ensuring robust pairing, matching, and reconciliations, along with timely remediation of errors and omissions. Meanwhile, MiFIR transaction and post-trade transparency obligations are currently stable but are being monitored more closely. Boards are expected to demonstrate strong governance and effective oversight in this area.

Operational Resilience and Cybersecurity

The UK Operational Resilience policy came into force in March 2025, so firms should already be proving that they can continue to operate each important business service within its impact tolerance in the face of severe disruption. The UK authorities continue to prioritize operational resilience, including the recent publication of observed effective practices for cyber response and recovery capabilities. Towards the end of 2025, two further regulatory initiatives are expected: the policy statement on Incident, Outsourcing and Third-Party Reporting, and consultation on new policy for the management of Information and Communication Technology (ICT) and cyber risks, which are expected to drive closer alignment with EU DORA and other international regulation.

1. <https://www.fca.org.uk/news/speeches/regulating-growth-future-now>
2. <https://www.fca.org.uk/publication/research-notes/growth-gap-research-note.pdf>
3. <https://www.fca.org.uk/publication/finalised-guidance/fg25-3.pdf>
4. <https://www.gov.uk/government/publications/proposed-amendments-to-the-money-laundering-regulations-draft-si-and-policy-note/the-draft-money-laundering-and-terrorist-financing-amendment-and-miscellaneous-provision-regulations-2025-policy-note>
5. <https://www.fatf-gafi.org/en/topics/beneficial-ownership.html>
6. For example, Barclays Bank plc fined £39m for breaching Principle 2, and Monzo Bank Limited fined £21m for breaching PRIN 3 and s55L of FSMA – <https://www.fca.org.uk/news/news-stories/2025-fines>
7. <https://www.ftadviser.com/corporate-law/2025/9/23/corporate-crime-act-should-not-be-seen-as-a-regulatory-burden/>
8. <https://www.gov.uk/government/publications/economic-crime-and-corporate-transparency-act-2023-factsheets/economic-crime-and-corporate-transparency-act-failure-to-prevent-fraud-offence>



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Regulators are not treating financial crime, prudential reporting, resilience, or sustainability as siloed issues, but as interconnected levers for stability, consumer protection, and market confidence.

Jamila Parry

Global Head of Financial Crime,
Risk, Regulation & Finance

Sustainability and Climate Risk

While sustainability and climate risk appear to have taken a back seat in the US (where the SEC's climate disclosure rule remains stalled and prudential guidance has yet to move beyond broad principles⁹) the same cannot be said for the UK. Supervisors are turning sustainability from aspiration into accountability. In April 2025, the PRA published CP10/25, proposing updates to SS3/19 that would expect banks and insurers to integrate climate risk into their governance, strategy, and scenario analysis,¹⁰ not relegate it to a side issue. Meanwhile, the FCA and UK government are laying the groundwork to shift from TCFD-aligned reporting toward the new UK Sustainability Reporting

Standards (UK SRS), aiming to simplify disclosures while strengthening their link to real-world outcomes. Beyond finance, the government is applying the same outcomes-based approach to the energy transition by developing rules for heat networks, including regulatory technical standards and an assurance scheme (HNTAS),¹¹ alongside forthcoming Ofgem heat network regulation on fair pricing protection. The regulatory trajectory for climate and sustainability is towards frameworks that move beyond narrative statements to require decision-useful, auditable data for supervisors and investors, and enforceable protections for consumers in areas like heat and energy.

Culture, Conduct and Accountability

Regulators are widening the lens of accountability. The FCA's CP25/18 makes clear that misconduct is not limited to balance sheets. Linking back to the FCA's Code of Conduct, the consultation tackles how non-financial forms of misconduct such as bullying, harassment, and discrimination will feed directly into fitness and propriety decisions, forcing firms to evidence how they manage behavior, making it more measurable and enforceable.¹² Alongside this, the SMCR review (CP25/21) proposes simpler approval processes¹³ but keeps the focus on personal accountability: senior managers will remain responsible for how culture and controls work in practice.¹⁴ Beyond internal culture, the FCA is widening its conduct focus into retail markets, with PS25/11¹⁵ and FG25/4 reinforcing expectations that firms exercise fairness and sound judgment in mortgage lending – particularly around affordability assessments and the fair treatment of customers.¹⁶



9. <https://www.sec.gov/newsroom/press-releases/2025-58>

10. <https://www.bankofengland.co.uk/prudential-regulation/publication/2025/april/enhancing-banks-and-insurers-approaches-to-managing-climate-related-risks-consultation-paper>

11. <https://www.gov.uk/government/publications/heat-networks-regulation-technical-standards/heat-network-technical-assurance-scheme-hntas>

12. <https://www.fca.org.uk/publications/consultation-papers/cp25-18-tackling-non-financial-misconduct-financial-services>

13. <https://www.fca.org.uk/publications/consultation-papers/cp25-21-senior-managers-certification-regime-review>

14. <https://www.fca.org.uk/firms/senior-managers-certification-regime>

15. <https://www.fca.org.uk/publications/policy-statements/ps25-11-mortgage-rule-review-first-steps-simplify-rules-increase-flexibility?>

16. <https://www.fca.org.uk/publications/finalised-guidance/fg25-4-amendments-pra-rulebook-fca-guidance-de-minimis-threshold-loan-income?>

Markets and Innovation

Non-traditional technologies, like crypto and AI,¹⁷ are being brought into the regulatory fold, with regulation positioned as an enabler rather than a barrier. For example, in CP25/5, the FCA proposes applying the existing Handbook to crypto-asset activities, extending rules on governance, systems and controls, and consumer protection into this market.¹⁸ The aim for increased regulation is to set guardrails and create a level playing field – empowering firms with clarity to innovate with confidence while protecting customers. This approach reflects the FCA’s five-year strategy to support growth, foster competitiveness, and take a tech-positive stance.¹⁹

17. <https://ico.org.uk/for-organisations/uk-gdpr-guidance-and-resources/artificial-intelligence/guidance-on-ai-and-data-protection/>

18. <https://www.fca.org.uk/publication/consultation/cp25-25.pdf>

19. <https://www.fca.org.uk/news/press-releases/fca-set-launch-live-ai-testing-service>



Conclusion

As regulation across the UK’s financial and energy markets **becomes more outcome-driven**, firms are **judged on resilience, culture, and transparency**. This demands a **proportionate response, smarter controls**, and firms should focus on the following key priorities:

- embedding robust fraud prevention frameworks and evidencing “reasonable procedures”
- strengthening data governance to ensure accuracy in prudential and trade reporting
- demonstrating operational continuity through robust testing of resilience and cyber controls
- integrating climate risk into governance, strategy, and capital planning
- hard-wiring conduct and culture into accountability frameworks
- establishing effective control frameworks to keep pace with innovation in crypto and AI.



2. US Regulatory Summary

▼
[back to contents](#)

In today's compliance landscape, risk is no longer driven solely by regulatory complexity. From fragmented regulatory guidance and paused rulemakings to new technologies outpacing oversight, the ambiguous environment is causing institutions to struggle in defining priorities. Deregulation efforts and executive-order-driven shifts have introduced operational gray zones, leaving institutions unsure of compliance requirements. At the same time, technology is disrupting traditional risk frameworks faster than regulators can respond. And amidst these shifts, the country faced a government shut down. This synopsis of the current US regulatory climate synthesizes expert insights to map the latent and evolving risks reshaping compliance and risk functions today - and offers strategic priorities to build resilience amid uncertainty.

The Overall Landscape: (De)regulatory Uncertainty and New Technologies

The current regulatory environment has left financial institutions grappling with a fundamental challenge: not knowing how – or even what – to comply with. Executive orders (EOs) have become a new favorite regulatory vector, but without the stability or clarity of formal rulemaking. EOs directing agencies to reduce regulatory burden, such as EO 14192



Institutions are forced to prepare as if these rules could go live at any time, consuming resources for compliance programs that may ultimately never be required in their current form.

Leah Robinson
Senior Consultant

“Unleashing Prosperity Through Deregulation”²⁰ and the Presidential Memorandum “Directing the Repeal of Unlawful Regulations”²¹ come with simultaneous directives to increase oversight in certain areas, such as politicized debanking.

The executive order titled “Guaranteeing Fair Banking for All Americans”, signed on August 7, 2025, by President Donald J. Trump, introduced changes concerning access to banking services and financial

regulators’ oversight of institutions’ banking access denials. The EO prohibits financial institutions from denying or restricting services based on customers’ political or religious beliefs or lawful business activities, and requires institutions to identify and notify individuals who were denied services and offer them the opportunity to re-engage. Regulatory agencies were directed to remove concepts like “reputation risk” from their guidance that could lead to politicized debanking and review institutions’ past or current policies that encourage politicized debanking.

Meanwhile, major regulatory initiatives such as Section 1071 small business data collection and CRA modernization remain in limbo, as they have been formally postponed, yet still appear in semiannual regulatory agendas.²² Institutions are forced to prepare as if these rules could go live at any time, consuming resources for compliance programs that may ultimately never be required in their current form.

Other areas of concern amidst deregulatory uncertainty include technologies that are advancing at paces regulators struggle to keep up with. With federal regulators lagging in areas such as artificial intelligence (AI) guidance, states have begun passing legislation and enacting regulations, leading to potentially fragmented requirements. Despite efforts at the federal level to quash states’ ability to enact independent AI regulation, no such prohibition has been passed, and states continue to seize the opportunity to stay ahead of the curve.

The California AI Transparency Act,²³ effective January 1, 2026, mandates disclosures about generative AI systems, which could significantly influence how AI is used in financial services,

20. <https://www.govinfo.gov/app/details/DCPD-202500205>

21. <https://www.whitehouse.gov/presidential-actions/2025/04/directing-the-repeal-of-unlawful-regulations/>

22. https://www.reginfo.gov/public/do/eAgendaMain?operation=OPERATION_GET_AGENCY_RULE_LIST¤tPub=true&agencyCode=&showStage=active&agencyCd=3170&csrf_token=627ED65C9B8EA797B226ABF4B14B3F41FCF2025A15E57B5A5D0450C4052074336F99FA3EC49FFF837551CA2E7C37B3DFE4BD

23. https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB942

particularly in advisory capacities where AI-generated decisions must be disclosed to clients. The Texas Responsible AI Governance Act (TRAIGA),²⁴ also effective January 1, 2026, regulates high-risk AI systems that contribute to or make decisions with material legal effects on consumers. It imposes obligations on developers and deployers of such systems to disclose their use and protect consumers against algorithmic discrimination, directly impacting financial institutions that utilize AI in decision-making processes. While states focus on “algorithmic discrimination,” the U.S. Equal Employment Opportunity Commission (EEOC) reportedly recently suspended “disparate impact” complaint investigation²⁵, leaving institutions to grapple with the difference between the two in AI. Institutions operating across multiple states may face challenges in ensuring compliance with varying state laws, in addition to managing the risk associated with AI’s

dual-use by fraudsters, which introduces new risk that traditional controls can’t easily manage.

Additionally, while crypto and digital assets’ status remains in limbo, there’s movement toward greater regulatory oversight with the enactment of the Guiding and Establishing National Innovation for US Stablecoins (GENIUS) Act²⁶ in July, establishing a comprehensive regulatory framework for stablecoins; and SEC and CFTC’s announcement of the launch of “Project Crypto”²⁷ in August of this year, as influenced by the Financial Innovation and Technology for the 21st Century Act (FIT21).²⁸ While implementation of direct policy shifts remains in future-state, institutions face risk through indirect exposure (e.g., crypto adoption by clients, exposure to wallets/accounts used in fraud, cross-border payment rails), not just direct crypto engagement.

Impact of Government Shutdown

Amid an already complex regulatory landscape marked by ongoing debates over deregulation and the integration of emerging technologies, the US government shutdown introduced an additional layer of uncertainty and operational risk for financial institutions. This disruption not only hampered routine oversight and enforcement activities but also threatened to exacerbate existing vulnerabilities within the sector. Financial institutions faced key challenges during shutdown, such as disruption to government-backed programs, credit risk and financial stress among affected borrowers, regulatory operations delays, and market and interest rate uncertainty — and downstream risks if the shutdown persists or recurs.

If shutdowns become more frequent, prolonged, or systemic, we can see from past shutdowns that certain risks deepen:

- **Loan processing and mortgage closure delays:** With SBA, HUD and USDA loans affected, community banks and small business lenders may be particularly impacted, especially in rural and low-income areas.
- **Consumer credit stress from missed federal paychecks:** With estimations of a much higher number of federal workers affected by the most recent shutdown than previous ones, spikes in skipped or late payments and increased forbearance demands are likely. Regulatory agencies encouraged lenders to adopt prudent arrangements.²⁹
- **Erosion of credit standards and higher loss provisioning:** Prolonged stress might lead banks to tighten underwriting, raise loan-loss reserves, and/or reduce credit availability more broadly.

24. <https://capitol.texas.gov/tlodocs/89R/analysis/html/HB00149S.htm>

25. <https://apnews.com/article/trump-discrimination-ai-eoec-disparate-impact-a2e8aba1f3d3f095df95d488c6b3c40>

26. <https://www.congress.gov/bill/119th-congress/senate-bill/1582>

27. <https://www.sec.gov/newsroom/speeches-statements/sec-cftc-project-crypto-090225>

28. <https://www.congress.gov/bill/118th-congress/house-bill/4763>

29. <https://www.consumerfinance.gov/about-us/newsroom/regulators-encourage-institutions-work-borrowers-affected-government-shutdown/>



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Despite efforts at the federal level to quash states' ability to enact independent AI regulation, no such prohibition has been passed, and states continue to seize the opportunity to stay ahead of the curve.

Leah Robinson
Senior Consultant

Credit deterioration in sectors heavily exposed to government contracting or subsidies might cascade through loan portfolios.

- **Chronic liquidity and funding constraints:** Repeated or longer shutdowns could force financial institutions to rely more heavily on volatile wholesale funding, increasing structural funding risk. Smaller or regional banks may be more vulnerable if depositors shift toward safer, larger institutions.
- **Fragmentation of private versus public risk markets:** If federal guarantee programs (e.g., SBA, NFIP) become unreliable, private alternatives may step in, but at higher costs or with more restrictive terms. This could widen the gap in access to capital, particularly in underserved or high-risk regions.
- **Capital markets and investment pipeline disruption:** Delays in SEC reviews, IPOs, bond offerings, and M&A approvals reduce deal flow, which may erode market liquidity, raise capital costs, and slow growth opportunities.
- **Data discontinuities and model breakdowns:** Gaps in historical series (e.g., missing months of macro data) degrade the performance of risk and forecasting models. Over time, the “blind” periods may reduce confidence in quantitative approaches.
- **Increased systemic risk and contagion potential:** If multiple institutions simultaneously face increased credit losses, funding stress, or reputational hits, there’s a risk of contagion, especially in interconnected markets or regions heavily tied to government business.
- **Policy uncertainty, regulatory catch-up, and capital costs:** The unpredictability of federal funding and policy may embed a higher “political risk premium” in capital costs, particularly for financial institutions with exposure to government-dependent sectors.
- **Behavioral changes by clients and counterparties:** Businesses may reduce dependence on federal contracts, borrow less aggressively, or hoard liquidity. Some clients might avoid engaging in

projects that require federal permits or funding if funding is perceived as unstable, reducing the addressable demand for banking services in affected sectors.

The implication of these myriad uncertainties is serious: risk of non-compliance is no longer primarily a function of complexity, but of opacity. As regulatory signals grow (a) more fragmented across federal and state lines, (b) more frequently communicated through nontraditional methods such as EOs,



Strategic investment in change tracking, scenario planning, and agile compliance infrastructure is essential for financial institutions to not just remain compliant, but also remain credible in the eyes of examiners, investors, and customers.

Leah Robinson
Senior Consultant

(c) more outpaced by newer technologies, and/or (d) suspended due to government shutdown, the need for real-time regulatory intelligence and regulatory interpretation has never been higher.

Strategic investment in change tracking, focus on prudential risk management and financial risk stress testing, scenario planning, and agile compliance infrastructure is essential for financial institutions to not just remain compliant, but also remain credible in the eyes of examiners, investors, and customers.



3. Canada Regulatory Summary

▼
[back to contents](#)

The Canadian regulatory landscape for 2025 and 2026 remains in flux. The April 2025 federal election returned the Liberals with a minority government under Prime Minister Mark Carney, and policy priorities continue to be shaped by uncertainty surrounding US trade and regulatory cooperation. That focus, combined with the difficult path for a minority government to pass new laws, has meant legislative productivity has been limited. However, this period has seen high levels of consultation, public engagement, and international cooperation, with a particular focus on financial stability, innovation, and risk mitigation.

OSFI: Final CAR 2026, Model Risk, and Climate Scenario Exercise

Final Capital Adequacy Requirements Guideline.

OSFI's finalized CAR updates take effect for most banks on November 1, 2025, to align with the sector's fiscal year, or on January 1, 2026, for calendar year-end institutions. Key changes include:

- Guidance on how residential real estate exposures are identified as income-producing properties where repayment is materially dependent on cash flows generated by the property, for example rental or leasing income, or from the sale of the property.
- Alignment of the treatment of specified US Government-Sponsored Entities to better align Canadian treatment with US regulatory frameworks.
- Changes to the consideration of combined loan products, where multiple lending products are secured against the same underlying property. Banks have been given 18 months to implement the required model changes.

- Improved market risk capital rules to align the capital treatment of sovereign exposures with credit risk treatment.

Guideline E-23 Model Risk Management.

OSFI released its final principles-based guideline, expanded to cover AI and ML models. The guideline will be in full effect on May 1, 2027, after an 18-month transition. Regulated financial institutions will need to close gaps in AI model inventories, set clearly defined standards and governance for models including validation, and define and implement board-level guardrails for model use.

Standardized Climate Scenario Exercise Report.

OSFI and the AMF published the SCSE. The report concludes the financial sector appears resilient to modeled climate event scenarios in the short run. It also highlights regional vulnerabilities, particularly flood and wildfire exposures, as well as consistent gaps in integrating climate scenarios into underwriting and enterprise risk management processes.

Retail Payment Activities Act (RPAA)

The transition period wrapped up, and the Bank of Canada announced that requirements of the Retail Payment Activities Act would come into full force on September 8, 2025. To support this final action, the Bank of Canada has begun publishing a public registry of registered in-scope Payment Service Providers. The registry lists PSPs that are in scope of the Act, have satisfied legal requirements, and have cleared national security screening. Note that while requirements came into force on September 8, some registration reviews continued past that date.

The Act defines five criteria that would bring an entity into scope:

- Holding funds on behalf of an end user until withdrawal or transfer
- Initiating an electronic funds transfer at the request of an end user
- Authorizing, transmitting, receiving, or facilitating an instruction for an electronic funds transfer
- Providing clearing or settlement services.

Features of the Act that have come into full force include:

Registration

Registration with the Bank of Canada, publication of a public registry by the Bank, supervision by the Bank, and collection of fees tied to the cost of supervision.

Operational risk management

To ensure the integrity of the payments system, PSPs must develop, implement, and maintain an enterprise risk management framework covering service availability, resiliency, data confidentiality, and information management. These plans must also include incident management, resilience, and continuity plans.

Safeguarding of user funds

Funds held on behalf of users must be segregated and secured to safeguard them in the event of an insolvency. Safeguard arrangements must be routinely documented and reported.

Reporting and supervision

PSPs must adhere to ongoing reporting requirements to the Bank. In turn, the Bank is empowered to supervise, enforce compliance, and ensure system confidence.

Bill C-12

“An Act respecting certain measures relating to the security of the border between Canada and the United States and respecting other related security measures” (Strong Borders package)

In response to broad concerns about Canada’s border security, Canada as a source of illicit drugs into the United States, and an upcoming audit of the Canadian financial system and its anti-money laundering and anti-terrorism financing regime by FATF, the government initially introduced Bill C-2, commonly called the Strong Borders Act. Due to its breadth and complexity, Bill C-2 has been debated and remains at second reading. To fast-track high-priority features of the package, Bill C-12 has been introduced and referred to committee. This package includes amendments to Canada’s PCMLTFA.

Proposed PCMLTFA changes include:

- **New violation types:** introduces compliance orders and prescribed violations, tightening enforcement categories.
- **Mandatory compliance agreements:** firms that receive AMPs must enter binding compliance agreements with FINTRAC; failure to comply triggers a compliance order and a new offense.
- **Higher penalties:** maximum fines have been expanded by 40x and are now up to \$20 million or 3% of global revenue for very serious violations. Additionally cumulative minor breaches may count as serious violations.
- **Risk-based AML programs:** compliance programs must be reasonably designed, risk-based, and effective, elevating today’s standard. Effectively formalizing in law FINTRAC’s expectations under its supervision
- **Anonymous accounts banned:** explicit prohibition on opening or maintaining anonymous or obviously fictitious-name accounts; institutions will need robust KYC policies and procedures to ensure adherence.
- **Broader enrollment:** all reporting entities, including fintechs and PSPs, must enroll with FINTRAC.
- **FINTRAC-OSFI coordination:** the Director of FINTRAC joins OSFI’s Financial Institutions Supervisory Committee and may exchange supervisory information with FISC members.





4. EU Regulatory Summary

▼
[back to contents](#)

The EU geographical summary focuses on rising geopolitical risks as well as climate-related, environmental and nature risks and the need for data and risk data capabilities, especially under consideration of the digitalization initiatives by the EU, ECB and ESMA.

Rising Risks, Resilience, and Data Capabilities

Financial institutions are still affected by rising risks and increasingly from geopolitical risks³⁰ and climate-related, environmental and nature risks. These risks are highly prioritized by ECB and the revised SREP guidelines.³¹ These risks are cross-cutting risk drivers with impact on financial institutions' traditional risk categories. Financial and operational resilience is key to be well prepared to manage the impact of these risk drivers. Therefore, these risks increase other risks as well, especially AML and operational risks, and needs to be considered in AMLD 6 (see EU 2024/1640) implementation or in ensuring DORA compliance. Geopolitical risks were also a key component of the 2025 EU-wide stress test and have an impact on cyber risks, including AI-driven attacks and identity fraud and AI-assisted phishing.

These rising risks from geopolitical risks as well as climate-related, environmental and nature risks are

required to be considered in the institutions' stress testing and its impact on multiple risk categories to derive the right measures for governance, compliance, and risk-mitigation measures and increase the robustness. Thus, it is key to define the right institution-specific scenarios with a forward-looking approach, to quantify the impact, and to identify the risk drivers. To be able to do this, financial institutions need to increase their efforts to remediate long-standing shortcomings in their risk data aggregation and risk reporting (RDARR) capabilities and to design and execute a robust implementation from governance, compliance, data, and IT points of view (see also ECB GL on RDARR³²). In a broader context, the EU supervisory authorities follow different targets to foster digitalization and data capabilities by financial institutions as dealt with in the following section.

Digital Transformation



Automation of regulatory reporting and internal controls will become an essential strategic priority.

Christoph Ruth
Executive Director

The European financial landscape is undergoing a profound digital transformation driven by a series of ambitious regulatory initiatives and the EU Data Act. Frameworks such as the Financial Data Access (FiDA) regulation, the Integrated Reporting Framework (iReF) with BIRD (Banks' Integrated Reporting Dictionary), the European Single Access Point (ESAP), and the eIDAS (electronic IDentification, Authentication and trust Services) regulation on digital identity collectively aim to enhance transparency, data standardization, and secure data exchange across the financial ecosystem.

While these initiatives promise to create a more harmonized and efficient reporting environment, they also place significant new demands on financial

30. See addressing the impact of geopolitical risks by the ECB <https://www.bankingsupervision.europa.eu/framework/priorities/html/geopolitical-risk.en.html> (accessed Nov. 7, 2025)

31. See ECB priorities for 2025-27 and revised SREP GL (consultation) https://www.bankingsupervision.europa.eu/framework/priorities/html/ssm.supervisory_priorities202412-6f69ad032f.en.html; <https://www.eba.europa.eu/publications-and-media/press-releases/eba-consults-revised-guidelines-supervisory-review-and-evaluation-process-and-supervisory-stress> (accessed Nov. 7, 2025)

32. See https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.supervisory_guides240503_riskreporting.en.pdf (accessed on Nov. 7th 2025)

institutions. Reporting obligations are growing not only in volume but also in complexity especially for short-term access, requiring institutions to ensure data quality, consistency, and timeliness are upheld across multiple frameworks and jurisdictions. Manual processes are no longer sufficient to handle these requirements.

Automation of regulatory reporting and internal controls has therefore become an essential strategic priority. Through end-to-end automation, organizations can achieve and retain compliance more efficiently, ensure data integrity, and reduce operational risk, while enabling their teams to focus on analysis and decision making rather than administrative burden (see also ECB GL on RDARR³³).

Integrating data management and regulatory intelligence with technological innovation

Despite the clear benefits of digitalization initiatives driven by the EU, ECB and ESMA, financial institutions face several challenges when implementing it across FiDA, iReF/BIRD, ESAP, and eIDAS compliance domains, as well as across the existing regulatory reporting and disclosure requirements (e.g., FinRep, CoRep, CSRD, EBA Pillar 3). Many institutions still rely on siloed systems where transactional, risk, and financial data are stored separately. This fragmentation makes it difficult to consolidate and reconcile data in line with the granular reporting and data access requirements.

Each regulatory initiative introduces specific data models, taxonomies, and reporting formats. iReF and BIRD aim to standardize banking reporting, ESAP focuses on public financial and sustainability disclosures, FiDA facilitates data sharing across the financial sector, and eIDAS governs digital identity and trust services. Keeping up with these evolving standards and ensuring alignment among them towards existing reporting and disclosure requirements needs dynamic and adaptable systems.

With regulators emphasizing data integrity and traceability, institutions must implement rigorous consistency, consolidation, and harmonization checks across their datasets to keep the consistency between finance, accounting and risk data, as well as to have an integrated view between nominal and economic perspectives. Manual reconciliations are slow and error-prone, increasing the risk of non-compliance. Automation should not only produce accurate reports but also embed automated internal

controls that track data lineage, enforce validation rules, and provide a transparent audit trail. Ensuring these controls are robust and compliant with internal and external audit requirements remains a technical and organizational challenge. Replacing legacy reporting tools and manual workflows with automated systems requires investment, stakeholder buy-in, and process redesign. Institutions must carefully balance innovation with regulatory continuity and operational stability.



33. See https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.supervisory_guides240503_riskreporting.en.pdf



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Automation should not only produce accurate reports but also embed automated internal controls that track data lineage, enforce validation rules, and provide a transparent audit trail.

Mahir Alman
Managing Principal

The foundation of effective automation is a centralized, harmonized data model that consolidates input across business lines and systems. Modern data platforms allow institutions to ensure traceability from initial source data to reported figures. Based on this, strengthening data lineage and quality controls across reporting entities is essential, with clear reporting ownership per regulation to ensure governance and validation of reported or disclosed data with continuously updated policies and internal procedures for reporting or publication frequency, access rights, and corrections.

Modern data management needs a data intelligence and data governance platform that helps to automate data quality management, creates data catalogues, and enforces policies to make data usage trustworthy and transparent, including metadata management, business glossary definition, and data lineage monitoring. Institutions can integrate

automated control layers that validate data accuracy, completeness, and consistency throughout the reporting lifecycle. Examples include automated reconciliation checks, variance analysis, and rule-based alerts for anomalies. These controls not only ensure compliance but also strengthen internal governance by providing real-time visibility into data quality and process performance. Automation should extend beyond data processing to include workflow orchestration, ensuring that reporting cycles – from data extraction to validation, submission, and archiving – follow standardized and auditable procedures. Intelligent workflow engines can assign tasks, track approvals, and generate auditable control evidence automatically. Finally, automated systems should include self-testing and monitoring capabilities that detect deviations from expected results. Embedding these checks ensures continuous assurance of compliance, even as data sources or regulatory definitions evolve.

Conclusion

Financial institutions face mounting risks driven by geopolitical tensions and climate-related, environmental, and nature factors, which are central priorities for ECB, supported also by the revised SREP guidelines. These cross-cutting risks amplify traditional categories and should be fully integrated into AMLD 6 and DORA compliance frameworks. They were also embedded in the 2025 EU-wide stress tests, highlighting their impact on cyber resilience and emerging threats such as AI-enabled attacks and identity fraud. Strengthening financial and operational resilience requires addressing long-standing weaknesses in risk data aggregation and reporting (RDARR) and improving governance, compliance, data, and IT integration.

EU supervisory authorities are simultaneously driving digitalization initiatives (FiDA, iReF/BIRD, ESAP, eIDAS) that redefine regulatory reporting and disclosure expectations. By embracing automation and robust data frameworks, financial institutions can transform compliance into a strategic capability, enhancing transparency, trust, and adaptability in an increasingly data-driven regulatory landscape.





5. APAC Regulatory Summary

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[back to contents](#)

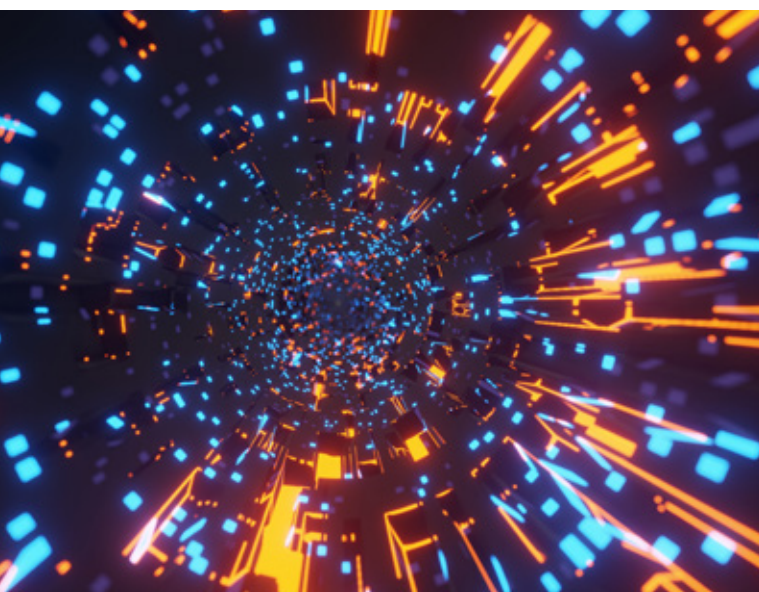
Across the Asia-Pacific region, 2026 marks a key phase in regulatory oversight. Governments are rolling out wide-ranging measures spanning ESG disclosure, AI governance, operational resilience, financial crime prevention, market transparency, and financial risk management. These initiatives reflect a convergence toward global standards while retaining national distinctions, signaling a more structured and demanding compliance environment for firms.

ESG

Across APAC, forthcoming ESG regulations are converging on mandatory disclosure, climate risk management, and assurance requirements. A number of countries have already introduced mandatory sustainability reporting in line with ISSB standards (such as Japan's Financial Instruments Act and Malaysia's National Sustainability Reporting Framework). For the 2026 financial year, large Australian entities must begin mandatory climate disclosures in their annual sustainability reports, in line with the Australian Accounting Standards Board (AASB) S2 standards. Key requirements include reporting material climate risks and opportunities, greenhouse gas emissions (Scope 1, 2, and phased-in Scope 3), and related governance. In South Korea, the Korean (KSSB) Sustainability Disclosure Standards (which align with ISSB standards, particularly IFRS1 and IFRS2) are expected to be released in early 2026, along with a detailed roadmap for phased implementation.

In China, the Securities Regulatory Commission (CSRC) will require large, listed companies to issue their first full ESG reports by April 2026, for the 2025 financial year, following new national guidelines that align with ISSB and CSRD. Key disclosure topics include mandatory Scope 1 and 2 greenhouse gas emissions, with Scope 3 reporting encouraged.

AI Regulation



By 2026, the Asia-Pacific region will also see significant AI regulatory milestones, reflecting diverse national approaches to balancing innovation with accountability.

Japan's AI Promotion Act, which came into full effect in late 2025, will be operational throughout 2026, establishing an "innovation-first" model that promotes research and development while relying on voluntary cooperation rather than strict enforcement. In 2026, China's approach to AI regulation will be a comprehensive, state-led system that balances strict state oversight, security, and content control

with a strategy to promote technological innovation and achieve global AI leadership. A key aspect of its approach includes an amended Cybersecurity Law, from January 2026, which explicitly mandates state support for AI research and data infrastructure, while also strengthening ethical oversight and risk monitoring.

South Korea's AI Framework Act (passed in 2025) will take effect in January 2026, mandating obligations for high-impact AI systems and labeling requirements for generative AI. The act aims to promote the development of AI while ensuring its safety, trust, and accountability, and it also applies to companies outside of Korea that impact the domestic market or its users.

Malaysia is set to table its first comprehensive AI bill by mid-to-late 2026, under the National AI Office, to provide clear rules and safeguards for responsible AI use. Meanwhile, Australia recently unveiled the Guidance for AI Adoption, a new national framework that is designed to guide the adoption of AI. It has not announced any new binding AI laws as yet but has signaled an openness to aligning with global standards if necessary.

Together, these developments signal APAC's transition into a more structured, yet regionally diverse AI governance landscape.



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With digital assets under sharper scrutiny and regtech adoption accelerating, banking professionals in APAC face a pivotal moment: compliance is no longer a back-office function, but a driver of operational resilience and competitive advantage.

Jamalia Parry

Global Head of Financial Crime,
Risk, Regulation & Finance

Operational Resilience & Cyber

In 2026, APAC will see a significant tightening of operational resilience and cybersecurity regulation, with measures across multiple jurisdictions.

Australia's Prudential Standard CPS 230 – Operational Risk Management will be fully enforced from July 2026 (including for non-SFIs), requiring banks, insurers, and superannuation funds to demonstrate resilience in critical operations, manage third-party risks, and maintain robust continuity plans.

The timetable for implementation of India's Digital Personal Data Protection Act (DPDPA), was confirmed through the recent notification of the DPDP rules (November 2025). The rules establish a phased approach, with different provisions becoming effective at staggered dates over the next 18 months. Companies will be in a critical transition period to prepare for full compliance with core

provisions, which are fully operational by May 2027. These include implementing breach detection and notification capabilities, establishing data retention and automated deletion systems, and implementing children's data protection measures. By November 2026, rules and conditions for the registration and operation of Consent Managers will become effective. The Data Protection Board of India (DPBI) will be fully operational for oversight of these managers.

Malaysia is also in the process of drafting a new Cyber Crime Bill, which is intended to complement the recent Cyber Security Act from 2024 (and replace the outdated Computer Crimes Act of 1997) and give law enforcement the legal strength to respond to digital crime more effectively. The Malaysian government's 2026 budget includes an allocation of RM32 million to support the initiatives and measures outlined.

Financial Crime

In 2026, several APAC countries will tighten their anti-money laundering (AML) regimes in line with FATF recommendations, reflecting a regional push for stronger financial integrity.

Australia's enhanced AML/CTF reforms, effective from 2026, will expand obligations to new sectors (gatekeeper firms) and tighten compliance for financial services, aligning with FATF recommendations to strengthen transparency, reporting, and risk management. While there is Tranche 2 expansion to new industries (such as lawyers and accountants), there are also enhanced obligations for financial services such as stricter customer due diligence and expanded suspicious matter reporting (SMR).

China will continue embedding AML rules into its broader financial stability agenda, expanding oversight of cross border transactions and customer due diligence. South Korea is introducing tougher customer due diligence obligations for non-bank credit providers and crypto exchanges, closing gaps highlighted in FATF evaluations. Singapore will also strengthen its AML framework through enhanced suspicious transaction reporting and tighter controls on corporate service providers, following recent high-profile laundering cases.





Market Regulations

In 2026, finance and energy companies across APAC will face new market regulations designed to enhance transparency, competition, and resilience. Australia will introduce a Mandatory Merger Control Regime, which will require businesses to obtain clearance from the Australian Competition and Consumer Commission (ACCC) for certain acquisitions that meet specific thresholds before they can be completed. This new system will replace the previous voluntary system, and includes key changes such as mandatory notification, standstill obligations, and a new filing process.

The new chairman of the Securities and Exchange Board of India (SEBI) has recently announced plans for market reform,³⁴ which includes quicker entry processes for foreign investors, reviewing short-selling rules, and margins for cash trading. SEBI is also reviewing a range of regulations, including ways to make India's cash equity markets more liquid, and will review margins needed for this type of trading.

In 2026, South Korea's Financial Services Commission (FSC) plans to implement stricter market stability measures. Key plans and initiatives

include rule changes in Q1 2026 concerning how banks calculate risk weights for mortgage loans, securities holdings, and fund investments (intended to improve capital adequacy), expanded corporate disclosure requirements (the scope of mandatory English disclosure for KOSPI-listed companies will be expanded, beginning in Q2 2026), and a focus on systemic risk management (identification of institutions that are crucial to the stability of the financial system).

Meanwhile, the Hong Kong Monetary Authority's (HKMA) transaction reporting re-write, which went live in September 2025, will require companies in 2026 to comply with a significantly enhanced derivatives reporting framework that aligns Hong Kong with global G20 standards. Compliance obligations include the use of Unique Transaction Identifiers (UTIs) for new trades, stricter timelines for reporting, and more robust data quality controls to ensure accuracy and completeness.

Collectively, these measures highlight APAC's shift toward regulation that balances innovation with systemic stability.

34. [Exclusive: India markets regulator plans wide-ranging reforms to woo foreign investors, chief says | Reuters](#)

Financial Risk

Singapore's Monetary Authority (MAS) issued a Consultation Paper in August 2025 on updated Guidelines for Liquidity Risk Management, which will take effect in 2026 and replace the 2013 framework for banks, merchant banks, and finance companies. The proposed guidelines aim to provide clearer supervisory expectations in light of lessons from the 2023 banking turmoil, emphasizing the need for stronger governance oversight, enhanced stress testing, and robust contingency planning. Key changes include stricter requirements for board and senior management accountability, more detailed scenario analysis, and improved monitoring of intraday liquidity positions. Once finalized, the guidelines will become mandatory six months after publication, meaning that by 2026 all banks

operating in Singapore, including foreign branches, must comply with the enhanced standards, thereby strengthening resilience against liquidity shocks and aligning Singapore more closely with evolving global practices.

Japan's 2024 amendments to the Financial Instruments and Exchange Act (FIEA), which take effect in May 2026, are designed to modernize Japan's capital markets and enhance transparency and investor confidence.³⁵ The amendments introduce significant changes to the rules governing mandatory tender offers, and changes to the large shareholder reporting regime (the 5% rule), with reporting now explicitly including cash-settled equity derivatives, and an updated reporting format.

35. <https://funds-axis.com/japans-2024-fiea-amendments-key-shareholder-disclosure-reforms-coming-in-2026/>



Conclusion

To stay ahead, firms should prioritize building integrated compliance strategies that address both immediate obligations and long-term resilience. Key priorities include strengthening their ESG reporting systems, embedding robust AI and cyber-risk frameworks, enhancing AML controls, and preparing for stricter market and liquidity requirements. Proactive investment in governance, data quality, and regulatory engagement will be essential to navigate APAC's evolving landscape and maintain competitiveness.

Regulatory Heatmap

Upcoming key requirements for financial institutions and energy firms

YEAR/ QUARTER	Q3 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027	
Non-Financial Risk										
The Value for Money Framework [B, W, I]	FCA to consult further with DWP & TPR. Implementation timings will be considered with DWP, the Treasury & TPR									
Pure Protection Market Study (MS24/1) [B, W, I]	Market Study - FCA expect to publish findings by end of 2025									
Pensions Dashboards [W, I]	Staged timetable for connection: large schemes & providers by November 2025, medium schemes & providers by 31 October 2026									
Advice Boundary Guidance Review [B, W, I]	<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>! Consultation closed</p> <p>FCA finalising framework</p> </div> <div style="width: 40%;"> <p>! Expected policy statement on targeted support</p> <p>! Expected consultation paper on simplified advice</p> </div> </div>									
Sustainability Disclosure Requirements (SDR) and anti-greenwashing rules [B, W, I, C]	<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>SDR paused for portfolio management</p> </div> <div style="width: 40%;"> <p>! Disclosure rules (firms > £50bn AUM)</p> </div> <div style="width: 30%;"> <p>! Disclosure rules (firms > £5bn AUM)</p> </div> </div>									
FS25/2: Immediate areas for action and further plans for reviewing FCA requirements following introduction of the Consumer Duty [B,W,I]	<div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <p>Consultation on mortgage rule changes, mortgage disclosure requirements, insurance sector changes, asset manager value assessments</p> </div> <div style="width: 50%;"> <p>Continued engagement & phased implementation of longer-term reforms</p> </div> </div>									
Code of Conduct (COCON) & CP25/18 [B, W, I, C]	<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>Consultation ends</p> </div> <div style="width: 40%;"> <p>! New rule amending scope for non-banks</p> </div> </div>									
Senior Managers & Certification Regime (SMCR) Consultation [B, W, I, C]	<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>Consultation ends</p> </div> <div style="width: 40%;"> <p>FCA review & development of regulatory requirements</p> </div> </div>									
Personal Financial Data Rights (Sec.1033) [B, W, C]	! New compliance dates TBD by Consumer Financial Protection Bureau - original April 2026 deadline no longer in force									
Omnibus packages on sustainability to amend CSDDD, CSRD and EU Taxonomy [B, W, I, C]	<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>Omnibus 2 package in legal approval process</p> </div> <div style="width: 40%;"> <p>! Expected adoption by EU Parliament</p> </div> <div style="width: 30%;"> <p>Staggered implementation for 2027-2029 reporting</p> </div> </div>									
Australia Climate Disclosure Standards [B, W, I, C, E]	<div style="display: flex; justify-content: space-between;"> <div style="width: 40%;"> <p>! Group 2 entities to begin reporting</p> </div> <div style="width: 20%;"></div> <div style="width: 40%;"> <p>! Group 3 entities to begin reporting</p> </div> </div>									
EU Carbon Border Adjustment Mechanism [E, B]	<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>! EU Commission announces agreement to simplify and strengthen CBAM ahead of 2026 enforcement</p> </div> <div style="width: 40%;"> <p>Definitive regime begins</p> </div> <div style="width: 30%;"> <p>Certificate purchase obligation begins</p> </div> </div>									
EU Deforestation regulation [E]	<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>! Deadline for large companies</p> </div> <div style="width: 40%;"> <p>! Deadline for small businesses</p> </div> </div>									
EBA Guidelines on ESG Scenario Analysis [B]	<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>! Deadline for large companies</p> </div> <div style="width: 40%;"> <p>! Deadline for SNCIs</p> </div> </div>									
Emissions Trading System (ETS) [B, W, I, C, E]	<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>Beginning of monitoring in 2025</p> </div> <div style="width: 40%;"> <p>ETS2 verification begins</p> </div> <div style="width: 30%;"> <p>ETS2 trading & surrender obligations begin in 2028 for emissions reported in 2027</p> </div> </div>									
SS3/19 - PRA's Supervisory Statement on Climate-Related Financial Risks [B, W, I, C, E]	<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>Final version expected</p> </div> <div style="width: 40%;"> <p>! Expected transition period</p> </div> </div>									
OSFI-B15 Guidance [B,I]	<div style="display: flex; justify-content: space-between;"> <div style="width: 40%;"> <p>Comparative disclosures starting in 2026</p> </div> <div style="width: 20%;"></div> <div style="width: 40%;"> <p>Scope 3 GHG emissions deferred to fiscal year 2028</p> </div> </div>									
CP25/25 - FCA Consumer Duty applied to Crypto [B, W, I, C]	<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>Consultation period</p> </div> <div style="width: 40%;"> <p>Final rules anticipated</p> </div> </div>									
Modernising the Redress System - CP25/22 [B, W, I, C]	<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>! Announcement date</p> <p>Consultation period</p> </div> <div style="width: 40%;"> <p>Final rules anticipated</p> </div> </div>									
PRA CP10/25 Enhancing Banks & Insurers' approaches to managing climate-related risks [B, W, I, C]	<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>Consultation period</p> </div> <div style="width: 40%;"> <p>PRA supervisory statement expected</p> </div> <div style="width: 30%;"> <p>Expected implementation window</p> </div> </div>									
CP 25/24 - Streamlining UK Sustainability reporting [B, W, I, C, E]	<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>Consultation closed in mid October</p> </div> <div style="width: 40%;"> <p>Final policy statement anticipated</p> </div> </div>									
EU REMIT Regulations [E]	<div style="display: flex; justify-content: space-between;"> <div style="width: 40%;"> <p>Revised REMIT Implementing Regulation on data reporting expected to be published</p> </div> <div style="width: 60%;"> <p>Staged compliance deadlines for new reporting obligations</p> </div> </div>									
UK AI regulation [B, W, I, C, E]	<div style="display: flex; justify-content: space-between;"> <div style="width: 40%;"> <p>! Bill expected to be delayed until King's speech</p> </div> </div>									
US AI regulation (no federal AI Act yet) [B, W, I, C, E]	<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>! California adopts Transparency in Frontier AI Act</p> </div> <div style="width: 30%;"> <p>! Colorado's AI Act due to take effect</p> </div> <div style="width: 40%;"> <p>! Connecticut's Public Act No.25-113 due to take effect</p> </div> </div>									
EU AI Act [B, W, I, C, E]	<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>GPAI Code of Practice begins</p> </div> <div style="width: 40%;"> <p>! Application for remaining provisions on high-risk systems</p> </div> <div style="width: 30%;"> <p>! Act fully effective</p> </div> </div>									
APAC AI regulation [B, W, I, C, E]	<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>! Thailand: second consultation</p> <p>! Japan: AI Promotion Act active</p> </div> <div style="width: 40%;"> <p>Malaysia: plans for comprehensive legal framework</p> <p>! South Korea: AI Framework Act active</p> <p>! China: AI in Cybersecurity law amendment</p> </div> <div style="width: 30%;"> <p>! Australia: Guidance for AI adoption</p> <p>Australia: legislation expected in coming years</p> </div> </div>									
Heat Networks Regulation [E]	<div style="display: flex; justify-content: space-between;"> <div style="width: 30%;"> <p>! Launch of regulations</p> </div> <div style="width: 40%;"> <p>Operators with deemed authorisation must register by Jan 27</p> </div> </div>									

Regulatory Heatmap

Upcoming key requirements for financial institutions and energy firms

YEAR/ QUARTER	Q3 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027	
Operational Resilience & Cyber										
Prudential Standard CPS 230 - Operational Risk Management (ASIC/Australia) [B, I]	! Energy firms covered by NIS2 Directive for TPRM ! CPS230 formally takes effect for all APRA-regulated entities					! Compliance deadline for non-SFIs & pre-existing contracts				
Third Party Risk Management (TPRM) guidelines for non-ICT services [B, W, I, C, E]	Consultation		Guidelines and feedback to be published (date to be confirmed)							
ESA's first annual report on major ICT related incidents and threat landscape [B, W, I, C, E]			First Annual Report expected							
Electronic identification, authentication, and trust services (eIDAS and eIDAS 2.0) [B, W, I, C]						! Mandatory deployment for EU member states		Mandatory acceptance (large private sector & public services) - Nov 27 !		
Data Protection - DPDPA [B, W, I, C, E]		! Notification of rules		Implementation to be phased over 18 months to May 2027						
Financial Data Access Regulation (FIDA) [B, W, I, C]	Expected to become law						Phased requirements take effect 18m, 24m, 36m & 48m after entry into force			
EU Data Act [B, W, I, C, E]	! Most provisions became applicable				! Provisions related to design & manufacture of products		! Ban on switching charges			
Integrated Reporting Framework (IReF) [B, C]	Detailed implementation plan expected							Reporting required from Q4 2029		
Federal Energy Regulatory Commission (FERC)/ North American Electric Reliability Corporation (NERC) regulations [E]	! Order 881 (Transmission Line Ratings) effective		State coordination & DER registry development (FERC)							
Information Security Act (ISA) for critical infrastructure operators in Switzerland [E]		! Enforcement of fines for non-compliance begins		Cybersecurity requirements effective !	! Operations Planning enforcement starts					
Financial Crime										
Authority for Anti-Money Laundering and Countering the Financing of Terrorism (AMLA) & AMLD VI [B, W, I, C]	AMLA in operation		AMLA refinement of approach based on feedback & pilot assessments					Selection process to commence ! AMLD VI transposition deadline ! 2028: full implementation !		
Verification of Payment scheme [B]		! Scheme in force for Eurozone PSPs						! Scheme in force for non-Eurozone PSPs		
Economic Crime & Corporate Transparency Act [B, W, I, C, E]	! Companies House reform		! Failure to Prevent Fraud (FtPF) offense comes into force		Phased implementation through 2026					
Payment Services Directive (PSD) 3/ Payment Services Regulation (PSR) [B]	Industry preparation phase		Final adoption by EU institutions expected		Transposition into national law 2026-2027					
Ultimate Beneficial Owner (UBO) Register Switzerland [B, W, I, C]	! House approves draft bill					! UBO register goes live, with phased compliance deadlines of 3-6 months for existing entities				
Draft Money Laundering and Terrorist Financing (Amendment and Miscellaneous Provision) Regulations 2025 [B, W, I, C]	Consultation		! Final Statutory instrument expected							
AML / CTF Rules (Australia) [B, W, I, C]	! New AML / CTF rules tabled				! Obligations start for current reporting entities		! Obligations start for tranche 2 entities			
Trade & Transaction Reporting & Controls										
Packaged Retail & Insurance-based Investment Products (PRIIPs) [B, W, I]	Follow-up consultation on new regime for CClIs (CP25/9)		! Expected policy statement & final rules							
Crypto - MiCAR (Markets in Crypto assets Regulation) / Digital Assets [B, W, C]					! Transition period for grandfathering ends					
T+1 Settlement Cycle [C]		! EU T+1 Industry Committee publishes high-level roadmap to T+1 transition		Firms expected to plan early, to deliver transition by October 2027						
Alternative Investment Fund Managers Directive (AIFMD) II [W]	Must be introduced by member states within 24 months of entry into force				! Application date		! Enhanced supervisory reporting obligations			
Mandatory Merger Control Regime (Australia) [B, W, I, C, E]	Voluntary from July 2025		! Mandatory implementation							
Depositor protection [B,W]	Consultation		! Expected publication of final rules							

Regulatory Heatmap

Upcoming key requirements for financial institutions and energy firms

YEAR/ QUARTER	Q3 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027
Trade & Transaction Reporting & Controls									
Transaction reporting - HKMA rewrite [B, W, I, C]		! Live date							
Transaction reporting - SEC 10C-1 [B, W, I, C]						! Final rule goes live			
MiFID / MiFIR Review [B, W, C]	! 29 Sep 2025 – MiFID2 transposition deadline for member states		! Expected timeframe for practical reporting updates		! MiFIR PFOF ban fully applies EU-wide				
EU Retail Investment Strategy (RIS) [W, C]	Trilogue negotiations; final text expected → Anticipated transposition into national law and application across member states								
UK European Market Infrastructure Regulation (EMIR) 3.0 [B, W, I, C, E]			! Validation rule changes take effect						
Market-wide Half Hourly Settlement [E]	! Migration begins							! Target go-live for full implementation	
Instant Payments Regulation (IPR) [B]		! PSPs in the Euro area must offer instant payments, including Verification of Payee					! 2027-2028 – PSPs in non-Euro area countries must comply with instant payments obligations		
GENIUS Act (Guiding and Establishing National Innovation for US Stablecoins) [B, C]	! Statutory framework						! Act becomes effective		
Total Cost Reporting enhancements for Investment & Segregated Funds [W, I]			! TCR enhancements take effect						
Financial Risk									
Application of IFRS S1 and IFRS S2 [B, W, I, C]	! FCA to consult on applying standards to listed companies	! UK: voluntary adoption	! Brazil: mandatory	! New standards expected to be effective (UK)	South Korea – expected release of Korean Sustainability Disclosure Standards				
	Singapore – gradual alignment with ISSB standards				Australia – phased approach				
FRTB (Fundamental Review of Trading Book) [B, W, I, C]	Conception, implementation & testing			Further delays under consideration			! EU has delayed to 01.01.27		
Design of Dynamic General Insurance Stress Test (DyGIST) [I]	PRA engagement with industry				! Live exercise	! PRA to publish sector-wide aggregate findings	Results feed into PRA's supervisory planning		
Basel III Revisions: Amendments to the Capital Rule for Large Banking Organizations [B, W, C]			! Re-proposal expected in early 2026	3-year transition period					
Review of Pillar 2 Requirements (P2R) methodology [B]	ECB expected to publish Pillar 2 guidance, based on 2025 stress test results						! P2R determined under the new methodology take effect		
Capital Requirements Directive (CRD) VI & Capital Requirements Regulation (CRR)3 [B, W, C]		! CRDVI: Member states must transpose into national law					! CRDVI: New rules apply		
Counterparty credit risk [B, C]	Additional technical standards will be submitted to EC for endorsement, before adoption						01 January 2028 – Full phase-in of Basel output floor, which also impacts CCR capital calculations		
CHAPS Payments Changes [B, W, I, C]	Consultation ends	! Mandatory use of structured address	! Phase 2 consultation						
Final policy statement (PS25/1) on reforming commodity derivatives regulatory framework [C]					! New rules come into force				
SEC Treasury market – central clearing for cash trades [C]							! Central clearing of eligible U.S. Treasury cash market transactions becomes mandatory	! Central clearing requirement extends to repurchase (repo) and reverse repo transactions.	
Wholesale Markets Review – bond and derivatives transparency changes [C]		! New FCA transparency rules for bonds & derivatives take effect.	Further staged implementation, including launch of the UK consolidated tape and additional FCA rule changes						
PS25/12: Changes to the safeguarding regime for payments and e-money firms [B]	! Announcement date			! Go-live date					
CP19/24: Closing liquidity reporting gaps and streamlining Standard Formula reporting [I]						! Rules go live			
PS20/24 – Solvent Exit Planning for Insurers, along with Supervisory Statement (SS 11/24) [I]					! Rulebook section and supervisory expectations come into force				
CP: Proposed Guidelines on Liquidity Risk Management for Banks, Merchant Banks and Finance Companies (Singapore) [B]	! Consultation closure		! Expected guidelines	Guidance expected to be effective 6 months from publication					
PRA's thematic feedback on accounting for IFRS9 expected credit losses [B]	! Feedback letter issued	Auditors to provide views on firms' progress in areas of focus (data & model management, recovery assumptions and climate risk considerations)							
Capital Adequacy Requirements (Canada) [B, I]	! Announcement date	Effective for institutions with fiscal year-ends 31 October				Effective for institutions with fiscal year-ends 31 December			



Non-Financial Risk

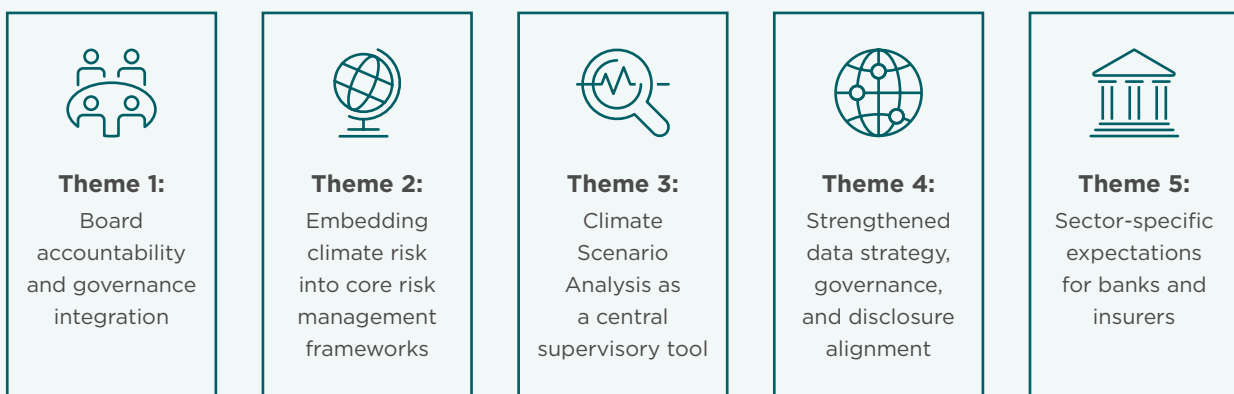
7. Raising the Bar: PRA CP10/25 Sets New Expectations for Climate Risk Management

The Prudential Regulation Authority (PRA) has published Consultation Paper CP10/25, proposing a new Supervisory Statement (SS) to replace SS3/19. The paper marks a significant evolution in the UK’s climate risk regulatory landscape, moving from broad, principle-based expectations toward a structured and measurable framework.

Scope: similarly to previous SS3/19, this will be applicable to all UK insurance and reinsurance firms, banks, building societies, and PRA-designated investment firms.

Covering seven thematic areas – governance, risk management, climate scenario analysis, data, disclosures, and sector-specific requirements for banks and insurers – CP10/25 seeks to embed climate risk management more deeply into the core of firms’ operations. If adopted, the new SS would apply immediately on publication, however the PRA would wait six months before asking firms to evidence their internal assessments and plans.

Figure 1: Key Themes of PRA Consultation Paper CP10/25



Governance and Accountability

CP10/25 places board-level accountability at the center of climate risk management. Boards are expected to oversee and periodically review the firm’s climate-related risk appetite and strategy, ensuring that management and the relevant Senior Management Function holder implement and maintain an effective framework. Firms must ensure that strategic planning, business decisions, and capital allocation are consistent with these risk appetites, and that any climate-related targets or commitments align coherently with overall business strategy.

This represents a shift from awareness to active oversight and creates stronger links with prudential risk management and capital planning. Senior management will be expected to demonstrate not only that climate considerations are integrated into existing governance frameworks, but also that roles and responsibilities are clearly defined under the Senior Managers and Certification Regime. Training for board members and executives on the use and interpretation of climate data and scenario outputs will be critical to building capability at the top of the organization.

In practice, firms should begin reviewing their governance structures to ensure they enable informed decision making on climate risk. This includes establishing regular reporting cycles to the board, ensuring that management information captures material exposures and progress against climate objectives, and embedding climate considerations into strategic reviews and performance discussions.

Risk Management and Scenario Analysis

The PRA's proposals significantly elevate expectations for climate risk management. Firms are required to identify and assess material climate-related risks within their existing frameworks and document them with the same rigor as other principal risks. This includes maintaining risk registers that capture climate drivers, exposures, and controls, supported by quantitative metrics and limits that allow for ongoing monitoring and escalation.

The PRA considers that Climate Scenario Analysis (CSA) has evolved significantly since the publication of SS3/19. CP10/25 proposes to enhance supervisory expectations around the use of CSA, providing a greater level of detail intended to offer firms clearer and more useful guidance. The PRA has observed that firms often find CSA complex to construct and implement, particularly in identifying suitable scenarios and using the outputs to assess overall exposures to climate-related risks. As a result, many firms still have limited understanding of the climate risks they face and limited evidence that these risks are appropriately reflected in decision-making and risk management.

The PRA therefore proposes that firms' CSA should seek to capture all material climate-related risks, be appropriately documented, and clearly demonstrate how results inform risk management and strategic decision making.

For firms, this means integrating CSA more deeply into decision making rather than treating it as a compliance exercise. Boards will need to understand the assumptions and limitations behind scenarios, challenge results, and use them to inform forward-looking capital and risk discussions. Establishing strong governance over scenario design, model calibration, and documentation will be essential to meet supervisory scrutiny. In practice, firms may need to review and enhance their risk management frameworks to ensure climate-related exposures





are comprehensively identified, measured, and monitored. CSA exercises should also evidence a firm's capacity to withstand and recover from severe but plausible climate scenarios, demonstrating how management actions would support resilience under stress.

Data, Disclosures and Sector-Specific Expectations

- Robust data is identified as a foundational enabler of effective climate risk management, yet firms continue to claim that data unavailability and poor quality still prevent them from setting their view of climate-related risks. CP10/25 proposes that firms with identified data gaps should develop clear strategies to manage and close these data gaps, adopt documented assumptions and methodologies where necessary, and establish robust governance around external data providers.
- On disclosures, the PRA keeps disclosure expectations broadly unchanged and notes that UK disclosure rules are moving from TCFD toward UK Sustainability Reporting Standards, which will be based on International Sustainability Standards Board (ISSB) standards (subject to FCA consultation and endorsement). This aligns the PRA's expectations with the UK's broader sustainability reporting framework, which aims to create a single, coherent disclosure regime.

- Sector-specific guidance adds further detail. Banks are expected to integrate climate risk into credit risk assessments, expected credit loss (ECL) modeling, and ICAAP documentation, ensuring that climate drivers are appropriately reflected in financial reporting and capital planning. This aligns with the PRA's recent thematic feedback on IFRS 9 Expected Credit Loss (ECL) practices, which highlighted that many firms are still at an early stage of incorporating climate risk drivers into credit modeling and provisioning. The report emphasized the need for robust governance, clear documentation of assumptions, and consistent treatment of climate factors across credit, capital, and disclosure frameworks. For insurers, the PRA highlights the need to incorporate climate risks into the Own Risk and Solvency Assessment (ORSA), Solvency Capital Requirement (SCR) calibrations, and Matching Adjustment attestations. These steps aim to ensure that prudential metrics fully capture both transition and physical risk exposures.

The implications for firms are clear: climate considerations must become embedded in the core of risk and finance functions. Institutions should take stock of their current data architecture, assess the reliability of climate inputs, and ensure that disclosures are not only compliant but strategically aligned with the evolving UK sustainability standards.

Looking Ahead

The publication of CP10/25 marks a step change in supervisory expectations. The PRA's approach signals a move toward greater standardization, with clearer evidence requirements and a shorter implementation window. While this raises the bar, it also provides an opportunity for firms to strengthen resilience and leadership oversight.

Firms that act early to close data gaps, enhance scenario analysis, and integrate climate governance into decision making will be better positioned for the transition to the final Supervisory Statement. As the PRA continues to refine its climate risk strategy, those with mature, transparent, and well-documented frameworks will find themselves at an advantage in demonstrating compliance and credibility to both regulators and stakeholders.



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As the PRA continues to refine its climate risk strategy, those with mature, transparent, and well-documented frameworks will find themselves at an advantage in demonstrating compliance and credibility to both regulators and stakeholders.

Anna Cline
Managing Principal



How can Capco help?

- **Regulatory alignment, maturity, and gap assessment:** We help firms assess their alignment with the PRA's expectations through structured maturity benchmarking and gap analysis, evaluating whether their frameworks are at market convention, falling behind, or market leading. This combined assessment enables firms to understand their current position, identify areas for improvement across governance, risk management, and data infrastructure, and prioritize actions to meet supervisory standards.
- **Governance and accountability frameworks:** Capco helps clients design effective board and management structures for climate oversight, define clear roles and responsibilities, and deliver tailored training to build decision-making capability at senior levels. We also support the development of robust, decision-useful board MI, enabling directors to monitor climate-related exposures, assess progress against strategy, and make informed, data-driven decisions.
- **Scenario analysis and capital planning:** We develop and validate climate scenario methodologies tailored to each firm's risk profile, integrating them into ICAAP or ORSA processes and ensuring that results – supported by automated scenario analysis and stress-testing capabilities – feed directly into strategic and capital planning decisions.
- **Data strategy and tooling:** Our data strategy specialists help firms design data strategies that close climate data gaps, strengthen governance over external data providers, and embed sustainability metrics into IT and aggregation systems.
- **Financial reporting and disclosure readiness:** Capco supports firms in developing robust reporting strategies, ensuring alignment across emerging sustainability frameworks and helping clients prepare for the transition to UK Sustainability Reporting Standards. We assist firms in enhancing the quality, consistency, and coherence of their climate and sustainability disclosures.
- **Implementation planning and program delivery:** We mobilize cross-functional programs that bring together risk, finance, and sustainability teams to deliver regulatory compliance and operational change efficiently and sustainably.

8. EU Carbon Border Adjustment Mechanism: Leveling the Playing Field on Carbon Costs

Introduction

The European Union’s **Carbon Border Adjustment Mechanism (CBAM)** is reshaping the intersection of global trade and climate policy. For energy-intensive industries and their financial backers, CBAM represents far more than a compliance task: it marks a permanent change in how carbon is **priced, managed, and governed** across borders.³⁶

CBAM is a cornerstone of the **European Green Deal** and the **Fit for 55** package, and is designed to prevent carbon **leakage** – the relocation of carbon-intensive production to jurisdictions with weaker environmental rules.

By applying an equivalent carbon cost to imported goods, CBAM ensures fair competition between EU producers and global exporters operating under different carbon regimes.

The **transitional phase** (October 2023 – December 2025) has focused on emissions reporting; **financial obligations** begin in 2026.

Regulatory Scope and Implementation

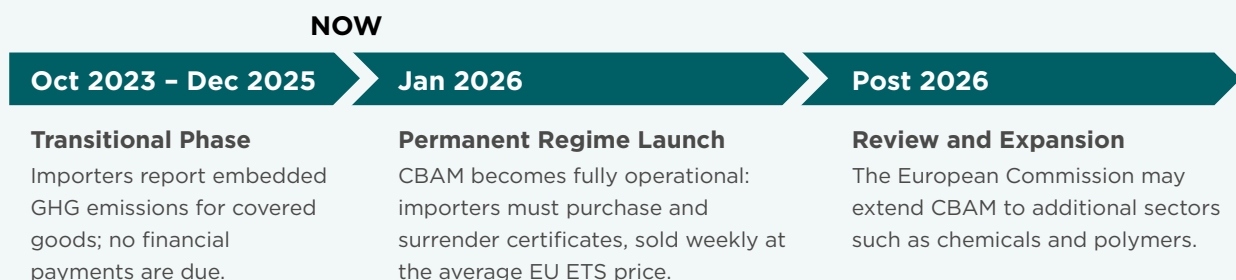
CBAM’s rollout balances ambition with practicality.

Since the start of the transitional period in October 2023, importers have been under an obligation to report embedded greenhouse-gas emissions for **iron and steel, aluminum, cement, fertilizers, electricity, and hydrogen**. From January 2026, importers will purchase and surrender **CBAM certificates**, each representing one ton of CO₂-equivalent, priced in line with the **EU ETS** weekly average.³⁷

The **European Commission** plans to extend coverage to **chemicals and polymers** as free allowances under the ETS are phased out.³⁸ Importers must register with national competent authorities and surrender certificates **quarterly** against verified emissions. Carbon costs already paid in exporting countries can be deducted to avoid double taxation.

Delegated Acts under **Article 27** add **anti-circumvention safeguards**, monitoring rerouting, misclassification, or data manipulation. These are designed to protect environmental integrity and prevent regulatory arbitrage. Firms should establish robust internal controls – combining supplier verification, transaction traceability, and digital anomaly detection – to ensure data integrity and demonstrate due diligence under CBAM.

Figure 1: Timeline



36. **Regulation (EU) 2023/956** – establishing CBAM (Official Journal / EUR-Lex): <https://eur-lex.europa.eu/eli/reg/2023/956/oj/eng>

37. **European Commission – Delegated Acts on Anti-Circumvention (2025):** https://taxation-customs.ec.europa.eu/news/cbam-new-commission-proposal-will-simplify-and-strengthen-2025-02-26_en

38. **Directive (EU) 2023/959** – amending Directive 2003/87/EC (Phase-out of Free Allowances): <https://eur-lex.europa.eu/eli/dir/2023/959/oj/eng>



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**CBAM readiness is now a
litmus test of corporate
governance, digital capability,
and carbon transparency.**

Ross Simson

Executive Director, Energy & Utilities

Navigating the Transition: Key Challenges

CBAM is transforming how firms **collect data**, **manage costs**, and **assess risk**. Four critical pressure points have emerged.

Data quality and operational readiness

From 2025, companies must use the EU's standardized methodology under Implementing Regulation (EU) 2023/1773.³⁹ Leading firms are already building **centralized carbon-data platforms** and **adopting lifecycle-assessment (LCA)** approaches aligned to ISO 14067 and EN 19694.⁴⁰ Training suppliers and engaging accredited verifiers are now vital for audit-ready data.



Accurate carbon data and robust governance are no longer compliance extras – they are business essentials.

Ross Simson

Executive Director, Energy & Utilities

Financial exposure

From 2026, certificate costs will mirror volatile EU ETS prices – typically €60 to €90 per tCO₂e. Firms are integrating carbon-cost forecasting and **hedging** models into financial planning to manage volatility. Although the Commission's **Omnibus I Simplification Package** introduced limited flexibilities, including a

50-ton de minimis threshold,⁴¹ exposure for energy-intensive importers remains material.

Supply-chain impact

CBAM is altering sourcing and contracting strategies. Companies are embedding **emission-performance clauses** in supplier contracts, reviewing carbon intensity, and in some cases **near-shoring production** to mitigate liability. As default emission factors tighten, accuracy across supply chains becomes paramount.⁴²

Governance and coordination

CBAM compliance now spans **sustainability, finance, procurement, and IT**. Many firms have formed cross-functional **CBAM taskforces** to unify data, verification, and risk oversight. For listed companies, investor scrutiny under **CSRD** and **ISSB** frameworks means CBAM readiness doubles as a governance benchmark.

Turning Compliance into Advantage

CBAM's demands on data, governance, and cost management are also catalysts for innovation. Firms that respond strategically are turning compliance into measurable advantage.

Enhanced data management is driving digital transformation. By building unified and verifiable carbon data frameworks, companies are gaining clearer insight into production efficiency and supply-chain emissions – improving both reporting quality and operational performance.

AI-driven analytics are helping detect data anomalies and forecast emission patterns, reducing manual effort and creating faster, audit-ready submissions. These tools are also enabling predictive monitoring and real-time validation, cutting compliance costs while improving accuracy.

39. **Commission Implementing Regulation (EU) 2023/1773** – on transitional reporting and methodologies (EUR-Lex): <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32023R1773>

40. **ISO 14067:2018** – Greenhouse gases – Carbon footprint of products – Requirements and guidelines (ISO): <https://www.iso.org/standard/71206.html>

41. **EU Parliament backs exempting 90% of companies from carbon border levy” – Reuters, 22 May 2025** <https://www.reuters.com/sustainability/climate-energy/eu-parliament-backs-exempting-90-companies-carbon-border-levy-2025-05-22>

42. **European Commission – CBAM default values and reporting method guidance (2023)**: https://taxation-customs.ec.europa.eu/news/commission-publishes-default-values-determining-embedded-emissions-during-cbam-transitional-period-2023-12-22_en?utm



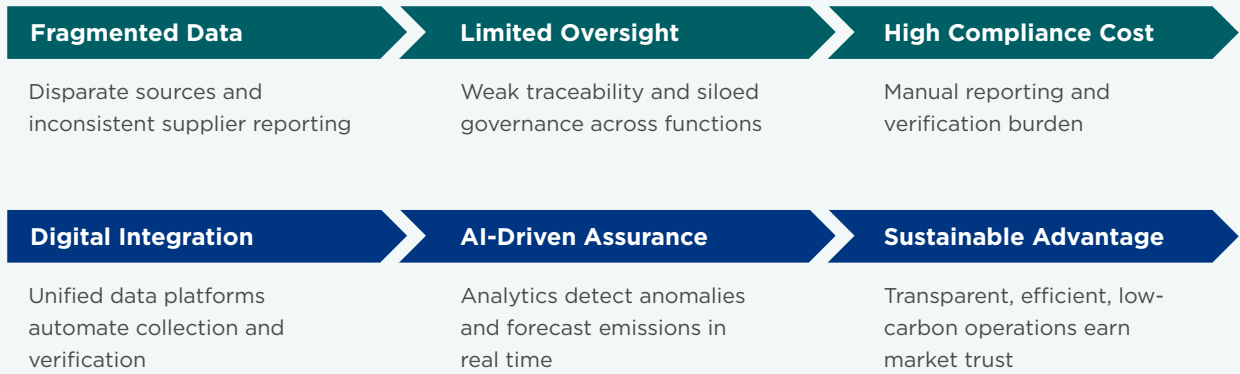
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Firms that treat CBAM as a digital transformation opportunity will lead the next phase of sustainable trade.

Ross Simson

Executive Director, Energy & Utilities

Figure 2: From Challenges to Advantages



Integrated governance models – linking sustainability, finance, and technology – are increasing agility and transparency. Firms with clear data ownership and decision pathways are better positioned to meet investor expectations and adapt as CBAM expands.

Finally, **proactive decarbonization strategies** are turning reduced emissions into market value, strengthening access to sustainable finance and low-carbon supply chains.

In this way, compliance becomes not just a regulatory obligation but also a route to operational efficiency, credibility, and long-term competitiveness.

How can Capco help?

Capco partners with organizations across the full **CBAM lifecycle**, from regulatory interpretation and readiness assessments to digital implementation and post-go-live assurance.

- **Regulatory readiness and impact assessment:** Capco’s Readiness Frameworks translate Regulation (EU) 2023/956 and its delegated acts into actionable business requirements. Gap analyses and roadmaps align sustainability, finance, and supply-chain functions to ensure readiness across both transitional and definitive phases.
- **Implementation and digital enablement:** Building on the readiness assessment, Capco helps clients turn regulatory intent into operational reality. This includes defining governance structures, control processes, and data-management models that embed CBAM obligations enterprise-wide. Capco deploys scalable reporting platforms that automate data collection, validation, and verification. AI-driven analytics enhance assurance by detecting anomalies and improving accuracy, making compliance both efficient and future-ready.
- **Post-implementation review and assurance:** Capco provides independent assurance on data integrity, verification readiness, and control effectiveness, supporting continuous improvement and preparedness for future regulatory expansions. Through this blend of regulatory expertise, data, and technology delivery, Capco enables organizations to turn CBAM compliance into a foundation for stronger governance, operational efficiency, and sustainable growth.

9. The EU's Sustainability Reporting Standards Draft Revisions (and Leveraging Data Beyond Regulation)

Following the adoption of the ESG Omnibus Directive in February 2025,⁴³ the EU enters the implementation phase of its sustainability reform on simplifying rules and investments. The European Commission has mandated the European Financial Reporting Advisory Group (EFRAG) to deliver revised European Sustainability Reporting Standards (ESRS) by October 31, 2025, aligning disclosure content with the principles of materiality, proportionality, and interoperability.⁴⁴ These refinements build on the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD), whose transposition and first application deadlines have been postponed under the EU's "Stop-the-Clock" sustainability adjustments to July 2027 and July 2028, respectively.⁴⁵

This emphasis on reliable ESG data also extends to the prudential domain, where supervisors now expect the same data discipline applied in financial reporting. In parallel, the European Banking Authority (EBA) has finalized its Guidelines on ESG risk management, effective January 2026, requiring institutions to integrate ESG factors into governance structures, credit underwriting, and capital planning (EBA/GL/2025/01).⁴⁶ These measures mark a clear shift from legislative design to operational integration across the financial sector.

Across the EU, institutions translate regulatory intent into daily routines. ESG risk metrics migrate into credit systems, data warehouses, and reporting



Europe's ESG regime is shifting from design to delivery. What matters now is not the ambition of disclosure frameworks, but the operational discipline to make sustainability data reliable, auditable and resilient.

Christoph Ruth
Executive Director

engines. Data quality, scenario modeling, and audit traceability dominate implementation roadmaps. The conversation moves from what to disclose to how to demonstrate reliability. The EU's approach is pragmatic: strengthening supervisory consistency, maintaining proportionality, and leveraging data beyond regulation to reinforce operational resilience and trust.

43. European Commission (2025): Omnibus I package – Simplifying EU sustainability rules and investments. Available at: https://finance.ec.europa.eu/publications/omnibus-i-package-commission-simplifies-rules-sustainability-and-eu-investments-delivering-over-eu6_en

44. European Commission (2025): Omnibus I package – Simplifying EU sustainability rules and investments. Available at: https://finance.ec.europa.eu/publications/omnibus-i-package-commission-simplifies-rules-sustainability-and-eu-investments-delivering-over-eu6_en

45. Council of the European Union (2025): Simplification – Council gives final green light on the Stop-the-Clock mechanism to boost EU competitiveness and provide legal certainty to businesses. Available at: <https://www.consilium.europa.eu/en/press/press-releases/2025/04/14/simplification-council-gives-final-green-light-on-the-stop-the-clock-mechanism-to-boost-eu-competitiveness-and-provide-legal-certainty-to-businesses>

46. EBA (2025): Guidelines on the Management of ESG Risks (EBA/GL/2025/01). Available at: <https://www.eba.europa.eu/activities/single-rulebook/regulatory-activities/sustainable-finance/guidelines-management-esg-risks>



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Supervisors no longer ask what firms plan to do on ESG. They want to see what the data proves and how clearly each figure can be traced back through the data lineage.

Daniel Dadun
Principal Consultant

Digitalization and the ESG Data Spine

Sustainability reporting is becoming inseparable from digital identity and trust frameworks. The new eIDAS 2.0 Regulation (EU 2024/1183) introduces the European Digital Identity Wallet, a trusted mechanism for authenticating corporate data flows among firms, auditors, and regulators.⁴⁷ For ESG reporting, the European Digital Identity Wallet enables verifiable corporate credentials, digitally signed sustainability statements, and machine-readable assurance chains, allowing auditors and regulators to trace the authenticity and origin of each ESG data point across systems. Organizations that standardize metadata and adopt interoperable taxonomies reduce reconciliation workload and enhance the credibility of disclosures.

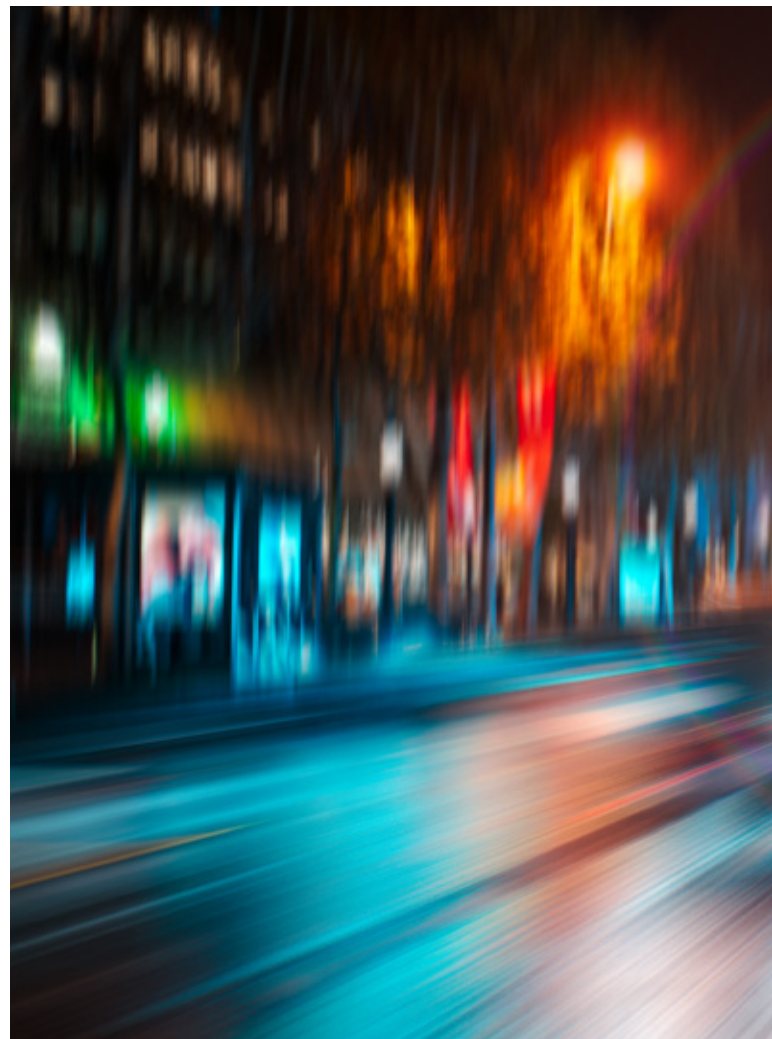
Digital signatures, time-stamped data, and cross-border validation convert compliance into a dynamic evidence stream. Supervisors now examine whether sustainability data link seamlessly to financial ledgers. Provenance of who produced, verified, or changed each record becomes a supervisory focus. A digitally authenticated ESG statement may soon carry evidential parity with a financial posting.

MiCAR and the ESG Frontier of Digital Assets

The Markets in Crypto-Assets Regulation (MiCAR) extends ESG reporting requirements into the digital-asset market. From December 2024, its sustainability provisions apply to all Crypto-Asset Service Providers (CASPs) authorized in the EU.⁴⁸ By December 2025, licensed providers must publish audited environmental data including annual energy consumption, greenhouse-gas emissions, and renewable-energy share.⁴⁹ MiCAR encompasses various categories of cryptoassets, including asset-referenced tokens (ARTs), e-money tokens (EMTs), and other cryptoassets that are not considered financial instruments. The European Securities and

Markets Authority (ESMA) structures disclosure into four categories:

- basic issuer and technology information
- mandatory annual energy consumption
- supplementary indicators such as CO₂ emissions and renewable-energy ratio
- optional targets and strategies.



47. Regulation (EU) 2024/1183 (2024): Regulation on electronic identification and trust services (eIDAS 2.0). Available at: <https://eur-lex.europa.eu/eli/reg/2024/1183/oj>

48. Regulation (EU) 2023/1114 (2023): Regulation on Markets in Crypto-Assets (MiCAR). Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32023R1114>
ESMA (2025): MiCAR Sustainability Disclosures – Technical Guidance under Articles 66–68. Available at: <https://www.esma.europa.eu/document/micar-sustainability-disclosures-technical-guidance>

49. ESMA (2025): MiCAR Sustainability Disclosures – Technical Guidance under Articles 66–68. Available at: <https://www.esma.europa.eu/document/micar-sustainability-disclosures-technical-guidance>



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Digital trust frameworks such as eIDAS and ESAP are turning oversight into system design. Compliance is evolving from a reporting duty into an embedded function of financial infrastructure.

Dr. Mahir Alman
Managing Principal

MiCAR transforms ESG from a static disclosure duty into an operational discipline requiring continuous monitoring and audit readiness. For private banks and wealth managers offering tokenized or crypto-linked products, this introduces a new due-diligence dimension: confirming that underlying assets provide compliant ESG data to avoid regulatory or reputational exposure.

Energy-intensive proof-of-work networks face scrutiny, while proof-of-stake and zero-knowledge systems gain legitimacy. Across the market, ESG transparency becomes a proxy for technological maturity.

Integration Through Operational Design

Across CSRD, ESRS, MiCAR, and eIDAS, a single logic emerges: the pursuit of credible data. Each framework raises expectations for validation, interoperability, and auditability.

Institutions respond by establishing ESG-data offices that bridge finance, compliance, risk, and IT. They build structured data models, automated attestations, and smart-tagging capabilities to generate consistent reporting across regulatory regimes. Automation is becoming essential, as firms must process large volumes of sustainability data across multiple dimensions and KPIs within short reporting cycles. Intelligent data pipelines and AI-assisted analytics are increasingly used to ensure speed, accuracy, and comparability. Advanced firms already embed ESG parameters into capital-allocation tools and collateral models, treating sustainability metrics as decision-grade variables.

Supervisors are expected to challenge how ESG sensitivities feed into ICAAP and stress-testing frameworks. The same scrutiny once applied to credit or liquidity data will now extend to sustainability metrics.

The EU's Strategic Posture

The EU's data-driven sustainability strategy is entering a new phase of integration and transparency. A cornerstone of this approach is the European Single Access Point (ESAP), established under Regulation (EU) 2023/2859. Operated by ESMA, ESAP will go live in July 2027 as a central platform that consolidates financial, sustainability,

and regulatory disclosures. Over time, it will integrate data from the CSRD, SFDR, and the EU Taxonomy, providing investors, supervisors, and the public with a single digital entry point for verified ESG information. By reducing information gaps and promoting comparable, machine-readable data, ESAP strengthens the EU's ambition to make sustainability both transparent and actionable.

Together with the ESRS revision, EBA guidelines, MiCAR implementation, and eIDAS-based digital trust framework, ESAP completes a coherent regulatory architecture that defines the EU's competitive edge: credibility through data. The challenge now lies in converting compliance artefacts into operational intelligence, transforming how institutions measure, validate, and report sustainability performance.

The EU's ESG agenda now shifts from regulatory design to practical implementation. For financial institutions, this means embedding data integrity, interoperability, and verifiability into their operating models. As the regulatory infrastructure matures, competitive advantage will depend less on regulatory interpretation and more on execution quality, how effectively firms turn sustainability commitments into measurable and auditable outcomes.

How can Capco help?

As the EU transitions from regulatory design to implementation, financial institutions face both challenge and opportunity. Firms that embed data integrity, interoperability, and verifiability into their ESG frameworks will gain resilience and investor trust. Capco supports clients across the financial sector in turning sustainability obligations into operational advantage, from regulatory alignment to digitalization and data-driven decision making. Our expertise helps bridge compliance and innovation, ensuring sustainability becomes an integrated component of performance, not just reporting.

10. FCA Moves to Streamline UK Sustainability Reporting: What CP 25/24 and the TCFD Review Mean for Firms



The Financial Conduct Authority (FCA) has confirmed that the UK's sustainability reporting landscape is entering a new phase of consolidation and simplification.

With the publication of Consultation Paper 25/24 and the August 2025 multi-firm review of TCFD-aligned climate disclosures, the regulator is signaling a shift from piecemeal compliance toward a coherent, streamlined disclosure regime.

Historically, firms have had to navigate overlapping obligations under the Sustainability Disclosure Requirements (SDR), Task Force on Climate-related Financial Disclosures (TCFD), and the forthcoming UK Sustainability Reporting Standards (UK SRS).

CP 25/24 proposes targeted amendments that bring these regimes closer together, offering flexibility on timing, reporting scope, and format to reduce duplication while maintaining transparency and comparability.

Why this matters: the rationale behind reform

The FCA's TCFD Review highlighted the benefits of climate-related disclosures – better risk management,



The FCA is signalling a clear shift from fragmented sustainability compliance to a more unified, decision-useful reporting regime.

Anna Cline
Managing Principal

more transparent governance, and stronger strategic focus – but also revealed persistent challenges:

- **Complexity and fragmentation:** Firms often publish separate SDR and TCFD reports on different cycles, increasing operational burden and investor confusion.



Streamlined reporting isn't just a compliance exercise – it's an opportunity for firms to improve transparency, data quality, and strategic decision-making.

Anna Cline
Managing Principal

- **Usability gaps:** Climate disclosures can be overly technical, limiting accessibility for retail investors.
- **Data gaps and inconsistency:** There are widespread data gaps for forward looking metrics on top of methodological differences, especially for Scope 3 emissions contributing to limited comparability.

These insights reinforced the need for a **more unified sustainability disclosure framework** that balances proportionality with credibility, ensuring disclosures remain decision-useful for end investors.

Key proposed changes:

CP 25/24 proposes several amendments that will help firms align sustainability and climate reporting from 2026 onward:

1. **Flexible reporting periods:** Firms may publish sustainability product reports covering less than 12 months or including pre-label periods, enabling alignment with other relevant product reports (e.g., TCFD or ISSB-style cycles). This is achieved via proposed ESG 5.4.3R(1A).
2. **Deletion of rigid requirement to select the most recent calculation date for which the up-to-date information is available from within 12 month reporting period (ESG 5.4.8R):** Removing this requirement gives firms latitude to synchronize calculation and reporting dates across regimes.
3. **Delayed “on-demand” reporting obligations:** Firms need not produce an on-demand product report until 16 months after first using a sustainability label or term, creating room to coordinate disclosures. This is reflected via amendments to ESG 5.5.15R.
4. **Clarifications for index and passive funds:** New guidance clarifies that an index-tracking product may comply by investing in assets meeting a robust evidence-based sustainability standard, rather than selecting individual assets.
5. **Encouragement of combined SDR and TCFD reporting:** While not a formal rule, FCA discussions with industry groups such as the Investment Association confirm that firms may consolidate disclosures into a single report if both regimes' requirements are fully met.

Together, these proposals mark a pragmatic shift toward streamlined, investor-friendly sustainability reporting.

Looking ahead – what firms should do next

With the CP 25/24 consultation now closed (October 15, 2025), firms should begin preparing to adapt frameworks and governance processes in anticipation of the FCA’s final policy statement. Key steps include:

- 1. Plan for convergence:** Map existing TCFD, SDR, and upcoming UK SRS data flows to identify where integration is possible.
- 2. Align internal calendars:** Aim for a single mid-year reporting cycle to simplify investor communications.
- 3. Enhance data governance:** Strengthen methodologies for Scope 3 and forward-looking metrics and ensure audit-ready traceability.
- 4. Improve accessibility:** Simplify consumer-facing disclosures (high-level KPIs and clear contextual explanations are acceptable and encouraged) and ensure product reports are easy to locate (explicit FCA findings).
- 5. Monitor next steps:** Track FCA updates post-consultation, including any broader streamlining across SDR, UK SRS and climate reporting – the FCA has indicated further expected engagement in H2 2025.

How can Capco help?

- **Regulatory advisory and assessing readiness:** We partner with financial institutions to assess their preparedness for the FCA’s evolving sustainability disclosure framework, including the proposed changes under CP 25/24. Our specialists help clients interpret the applicability and scope of the Sustainability Disclosure Requirements (SDR) and TCFD-aligned entity- and product-level obligations, mapping them against existing disclosure processes.
- **End-to-end sustainability reporting and disclosure support:** Capco provides comprehensive support across all aspects of sustainability reporting, from regulatory interpretation and disclosure design to execution and assurance readiness. We help clients:
 - integrate SDR and TCFD disclosures into a single, cohesive reporting framework
 - develop consistent product- and entity-level narratives that satisfy consumer-facing and institutional reporting expectations
 - build templates and disclosure controls that anticipate the upcoming UK Sustainability Reporting Standards (UK SRS)
 - Translate complex technical data (e.g., Scope 3, scenario analysis) into clear, accessible outputs aligned with FCA expectations for usability.
- **Strategic approach to ESG data and technology:** We help clients to develop a more strategic approach to ESG data sourcing, data management, and usage. We observe a common industry trend across our clients – to centralize the ESG data utility and to improve the way ESG data is used across functions. At Capco, we help clients to design their ESG data strategy, optimize data vendors, develop ESG data management platforms (either in-house or leveraging external providers), and build business intelligence data tools to improve business decision making as well as reporting.

11. Updates to OSFI B-15 to align with Canadian Sustainability Standards Board

OSFI’s B-15 climate risk management disclosures have been revised to better align with global best practices. With the latest update, B-15 now aligns with the Canadian Sustainability Standard Board CSDS 1 and 2 standards issued in December 2024.

These revisions include:⁵⁰

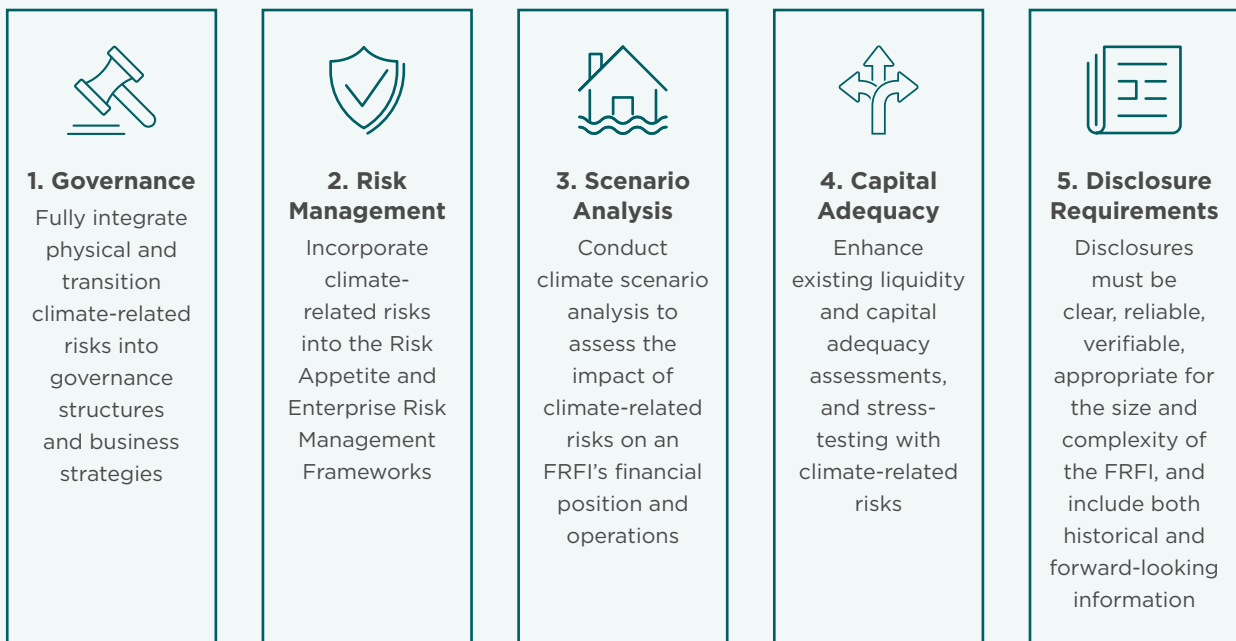
- Scope 3 GHG emissions disclosures deferred to fiscal year 2028
- Scope 3 GHG emissions from off-balance sheet assets under management deferred to fiscal year 2029
- Clarified distinctions between on- and off-balance sheet assets under management.

While this provides implementation relief, federally regulated financial institutions (FRFIs) are still expected to progress in data quality, risk integration, and governance as part of the overall B-15 mandate.

Core Expectations of OSFI B-15

B-15 guidelines can be categorized into the following themes that support risk integration and public disclosure:

Figure 1: Key Themes of OSFI B-15 Guidelines



50. [Letter to Industry – We are Updating Guideline B-15 for the Final CSSB Standards - Office of the Superintendent of Financial Institutions](#)



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To ensure B-15 readiness, delivery excellence must be at the forefront. The success of these guidelines depends on how effectively they are embedded into the existing operating model, architecture, and control frameworks.

Elil Ragunaseelan
Principal Consultant

The key takeaway is to enable robust governance and proactive risk and capital management, which is demonstrated through enhanced reporting and accountability.

Overview of the March 2025 Revisions

Figure 2 below summarizes key disclosure expectations under Annex 2-2 as part of the revisions effective March 2025. The requirements define the scope, methodology, and timing for Scope 3 GHG emissions, particularly for financed, insurance-associated, and AUM emissions.⁵¹

Figure 2: Key Scope 3 Disclosure Elements from Annex 2-2		
Disclosure Element	Expectation	Effective Year
Scope 3 Absolute Gross GHG Emissions	Consider entire value chain and all 15 GHG Protocol categories, and ensure inclusion of Category 15: Investments	2028
Separate Presentation of Categories	FRFIs should separately disclose financed emissions, insurance-associated emissions, and emissions from AUM	2028 - 2029
Financed Emissions	Disclose Scope 1, 2, and 3 GHG emissions separately by asset class and sector per the PCAF standard: include exposure amounts and coverage %	2028
Insurance-Associated Emissions	Disclose Scope 1, 2, and 3 GHG emissions separately by line of business and sector per the PCAF standard: include insurance revenue and coverage %	2028
AUM Emissions (On-Balance Sheet)	Disclose Scope 1, 2, and 3 GHG emissions separately by asset class and sector per the PCAF standard: include total AUM amount and coverage %	2028
AUM Emissions (Off-Balance Sheet)	Disclose Scope 1, 2, and 3 GHG emissions separately by asset class and sector per the PCAF standard: include total AUM amount and coverage %	2029
Cross-Industry Metrics and Targets	Disclose transition/physical risk exposures, climate opportunities, capital deployment, internal carbon pricing, and remuneration linkages	2025 - 2026
Industry-Based Metrics	Disclose industry-based metrics associated with disclosure topics described in the Industry-based Guidance on Implementing Climate-related Disclosures	2028

51. [Climate Risk Management - Office of the Superintendent of Financial Institutions](#)

Implications for FRFIs

1. Carefully plan out your reporting and risk management strategy and roadmap for the next three years.

The deferral of Scope 3 disclosures provides implementation relief due to the challenges of obtaining high-quality Scope 3 data. While this provides an extension, federally regulated financial institutions (FRFIs) should carefully plan out their implementation roadmap for the next three years as they will need to operationalize three aspects of implementation:

- a. Build an auditable emissions dataset
- b. Integrate into risk, finance, and compliance processes
- c. Prepare for external assurance.



Updates to B-15 and the implementation relief underscore the importance of doing this right.

Elil Ragunaseelan
Principal Consultant

Resources and funding will need to be allocated for data ingestion, modifying data models, making updates to the data architecture, and change management.

Changes to risk and regulatory functions in an enterprise are highly governed, and full integration will take time. FRFIs should plan for a dual-track delivery strategy that includes a tactical solution with interim models and architecture to validate proof of concept. This also ensures governance bottlenecks are avoided, which often arise when proposing target state strategic solutions.

Disclosure expectations need to be mapped to business functions; impacts should also be assessed and then mapped to downstream data and technology functions to ensure E2E traceability.

While public disclosure is expected in 2028 –2029, OSFI has signaled that they will be monitoring progress closely.

2. Map out the required integration points to accommodate off-balance sheet emissions.

While on-balance sheet data can be sourced through internal teams, off-balance sheet activities require new datasets which are managed through different arms of an FRFI or third parties. FRFIs need to understand the integration points to reconcile counterparty and portfolio identifiers across different data sources.

Understanding the data pipeline and model becomes important to avoid integration challenges in the future. Misunderstandings can lead to unexpected funding shocks and delays in meeting the regulatory timeline.

3. Climate data needs to be treated as regulated risk data.

Climate data needs to meet the same data quality standards as financial reporting data. Every number reported will need to have traceable data lineage and internal control frameworks need to be modified to avoid rework. Governance and operating models need to specify ownership of climate-risk data as well.

4. Consider upstream implications of comprehensive emissions disclosure.

Once Scope 3 emissions disclosures are fully auditable, these data points can influence credit assessments and counterparty ratings, risk-weighted assets, and pricing spreads.

B-15 guidelines mandate climate risk to be viewed holistically across the enterprise from business decision making to data and reporting to understand impacts across the full value chain.

Future-proofing Climate Risk Integration

The extended implementation date provides FRFIs with time to thoughtfully build an implementation strategy that intersects with:

- data
- calculation methodologies
- technology
- operating models.



“

It's becoming evident that regulators are treating climate risk with the same level of rigor as any other financial reporting disclosures.

Eliil Ragunaseelan
Principal Consultant

Intersecting with these four areas can ensure FRFIs are able to absorb amendments to regulatory expectations while minimizing subsequent disruptions to internal controls.

1. Data

While FRFIs currently rely on third-party static datasets, they will need to migrate to data that has metadata on source, quality score, and attribution logic. For scalability, FRFIs must consider integration with existing data lineage and ensure version control.

2. Leverage similar calculation methodologies across risk functions

Proposed IFRS S2 amendments to exclude derivatives and facilitated emissions⁵² highlight how regulatory scope continues to evolve.

FRFIs should keep this in mind and build flexible frameworks that can modify emissions calculations without significant uplift each time. For financed emissions calculations, OSFI references the Partnership of Carbon Accounting Financials (PCAF) that follows the same exposure-based logic as traditional risk models. FRFIs can reuse existing

model pipelines and control frameworks and only substitute climate risk variables. This will help avoid redundancy and ensure consistency across model validation frameworks.

Both calculations apply counterparty-specific factors proportionate to exposure, and aggregate results to the portfolio level.

3. Technology

Most FRFIs manage climate data in Excel-based repositories or solutions that are not well-integrated with finance architecture. **To ensure proper integration, the architecture framework needs to connect data collection all the way to reporting in a single governed pipeline.**

4. Operating model

An effective operating model aligns emissions considerations into business processes, roles and accountabilities are updated to align with ownership of data and reporting, clear risk LoD frameworks are defined, and resource upskilling is in place for existing risk and finance functions to analyze climate risk data.

Figure 3: Shared Features Between Financed Emissions and Credit Risk Calculations

Shared Feature	Financed Emissions (PCAF Framework)	Credit Risk (Capital Modeling Framework)
Exposure-Based Measurement	Dollar amount of financed assets (loans, investments, or underwriting portfolios)	Exposure at default (EAD) for each counterparty used for capital calculations
Counterparty-Specific Inputs	Company-level emissions data sourced from public reports, vendors, or estimation models	Use probability of default (PD) and loss given default (LGD) based on counterparty risk profiles
Attribution	An attribution factor is applied to represent an FRFI’s proportional share of the company’s emissions	Apply credit conversion factors (CCF) and exposure weightings
Portfolio Aggregation	Aggregate emissions across all financed counterparties to estimate total portfolio footprint	Aggregate risk-weighted assets calculated from EAD x risk weightings across all counterparties

52. [amendments-ghg-emissions-disclosures-ed-slide-deck.pdf](#)

**How can Capco help?**

By leveraging our deep banking, insurance, wealth management, capital markets, technology, and regulatory expertise, we can assist FRFIs with OSFI B-15 implementation and readiness with a comprehensive current-state assessment and gap analysis on data governance, architecture, and business operating models.

We have extensive experience facilitating complex business and technology transformations to satisfy audit remediations. Our ESG Academy is also an excellent source to support upskilling and training to meet the demands of these new guidelines.

With our global expertise in sustainability and experience implementing similar sustainability frameworks in Europe, we understand the importance of mapping regulatory requirements to existing risk management frameworks and controls to support the target-state solution.

12. Tackling Non-Financial Misconduct in Financial Services (CP25/18) – where firms stand today and what’s next

Non-financial misconduct (NFM) – bullying, harassment, discrimination, and related behaviors – has moved from an HR “soft issue” to a core conduct and culture priority for UK regulators. On July 2, 2025, the FCA published CP25/18: Tackling non-financial misconduct in financial services, combining (i) a Policy Statement that amends the Code of Conduct (COCON) to better capture NFM in non-banks, and (ii) a consultation on new Handbook guidance (including updates to FIT) to help firms apply the rules consistently.⁵³

What has changed?

Historically, the FCA’s approach to NFM was clearest for banks via the Conduct Rules and fitness and propriety (F&P) assessments under SM&CR. The new rule extends that clarity to non-banks, confirming that serious work-related NFM towards colleagues can breach COCON and be relevant to FIT across all FSMA-authorized firms. In short: NFM will now explicitly be a regulatory conduct issue, not just an employment one.⁵⁴

The FCA’s consultation phase focuses on draft guidance that explains how to judge borderline cases (e.g., the relevance of conduct outside work, social media, and proportionality), and how NFM feeds into F&P assessments, certification, investigations, and references. The consultation on that guidance ran until September 10, 2025; the FCA is yet to publish the output, but has said it will proceed only if there is clear support.

Timing: The market consensus from leading law firms is that the new COCON NFM rule will apply from September 1, 2026 (giving firms time to embed policy, training, and MI). While the rule text is now set, the guidance may be refined post-consultation. Firms would be prudent to act in aligning with FCA’s approach now.



How did we get here?

In 2023, the FCA and PRA consulted on a broader diversity and inclusion (D&I) package (FCA CP23/20, PRA CP18/23). In March 2025, both regulators dropped the D&I rule-making, citing burden and overlap with forthcoming employment legislation, but ring-fenced NFM as a live priority. CP25/18 is the tangible next step on that narrower but firmer path.⁵⁵

Alongside policy, the FCA has been building an evidence base. Its 2024 Culture and NFM Survey showed rising incident volumes and patchy use of remuneration levers, reinforcing the link between culture, market integrity, and consumer outcomes,

53. FCA, CP25/18: Tackling non-financial misconduct in financial services
<https://www.fca.org.uk/publications/consultation-papers/cp25-18-tackling-non-financial-misconduct-financial-services>

54. Reed Smith, “FCA publishes rule on non-financial misconduct for non-banks”
<https://www.reedsmith.com/en/perspectives/2025/07/fca-publishes-rule-on-non-financial-misconduct-for-non-banks>

55. Bank of England / PRA, CP18/23 – Diversity and inclusion in PRA-regulated firms
<https://www.bankofengland.co.uk/prudential-regulation/publication/2023/september/diversity-and-inclusion-in-pra-regulated-firms>



the core FSMA 2000 objectives the FCA must advance.⁵⁶

What counts as NFM for regulatory purposes?

CP25/18 and associated commentary highlight serious, work-related behaviors that:

- Violate dignity or create an intimidating, hostile, degrading, humiliating, or offensive environment, or
- Involve violence or intimidation;

and that occurs in connection with the firm's regulated business and among colleagues. These can breach COCON and weigh against F&P, with consequences for certification and regulatory references.

The draft guidance also addresses scenarios at the work/private life boundary (e.g., social events, social media) and stresses proportionality and fair process. It does not convert the FCA into a general arbiter of private morality; the nexus to work and regulated activities remains key.⁵⁷

Scope: banks, non-banks, wholesale, retail, and insurance

While the new rule specifically closes gaps for non-banks, the FCA reiterates that NFM can already be misconduct in any firm through COCON and FIT. That means capital markets, wholesale banking, asset/wealth management, brokers, insurers, and intermediaries should all align policies, investigations, and references with the regulatory lens, including s.59 FSMA approval considerations and Regulatory References rules (SYSC 22).

56. FCA, "Culture and non-financial misconduct survey - findings" (2024) <https://www.fca.org.uk/data/culture-non-financial-misconduct-survey-findings>

57. Sidley, "UK FCA Sharpens Focus on Culture: Expanding the Reach of Non-Financial Misconduct Regulation" <https://www.sidley.com/en/insights/newsupdates/2025/07/uk-fca-sharpens-focus-on-culture-expanding-the-reach-of-non-financial-misconduct-regulation>

PRA's position

The PRA has stepped back from prescriptive D&I rules but maintains a culture and safety-and-soundness interest. While CP25/18 is an FCA product, dual-regulated firms should ensure their frameworks satisfy both conduct (FCA) and prudential culture (PRA) expectations, especially where NFM signals governance or risk-management weaknesses.

What good looks like now (actions for boards and SMFs)**1. Governance and accountability**

Assign clear responsibility (e.g., SMF1/SMF3 for culture; SMF16/17 for HR/whistleblowing interfaces). Ensure MI on NFM flows to the board risk committee, with trend analysis and remediation tracking.

2. Policy harmonization

Update Conduct Rules policy, disciplinary and grievance procedures, speak-up frameworks, and regulatory references processes so they explicitly cover NFM. Cross-reference COCON, FIT and SYSC recordkeeping obligations.

3. Investigation standards

Adopt consistent, robust investigations (triaging materiality; guarding against victimization; documenting rationale for COCON/FIT outcomes). The consultation's draft guidance will help calibrate the work/private nexus and proportionality, but firms should monitor it and gap-analyze now.

4. Certification and fitness

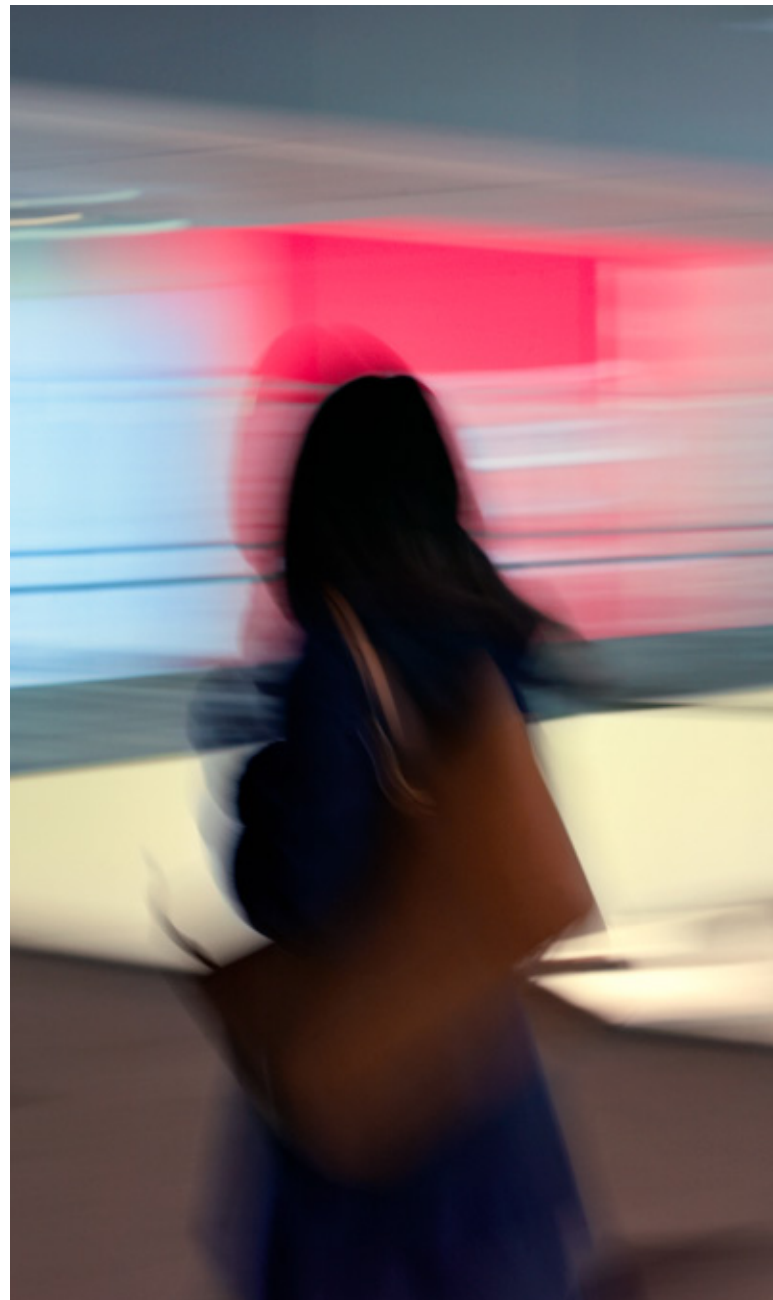
Integrate NFM into annual certification and FIT assessments. Consider remuneration consequences and deferrals. Survey evidence shows firms have under-used pay levers; expect more supervisory challenges here.

5. Training and comms

Deliver COCON-linked training that uses realistic case studies (including social settings, client entertainment, remote working). Reinforce speak-up safety and non-retaliation.

6. Data, MI, and assurance

Track allegations, time-to-triage, outcomes, repeat



hotspots, and reference outcomes. Internal audit should review end-to-end NFM handling (from report to outcome), testing consistency and fairness.

Enforcement and supervision outlook

Expect the FCA to test firms' application of the rules through supervision and, in serious cases, to pursue enforcement where COCON/FIT failings are evident. External commentators emphasize that the explicit rule change and pending guidance raise the bar for all authorized firms; non-banks can no longer argue uncertainty on the regulatory status of NFM.⁵⁸

58. K&L Gates, "The FCA's Developing Approach to Nonfinancial Misconduct by Individuals in the Financial Services Sector" <https://www.klgates.com/The-FCAs-Developing-Approach-to-Nonfinancial-Misconduct-by-Individuals-in-the-Financial-Services-Sector-7-15-2025>

What to watch out for between now and go-live

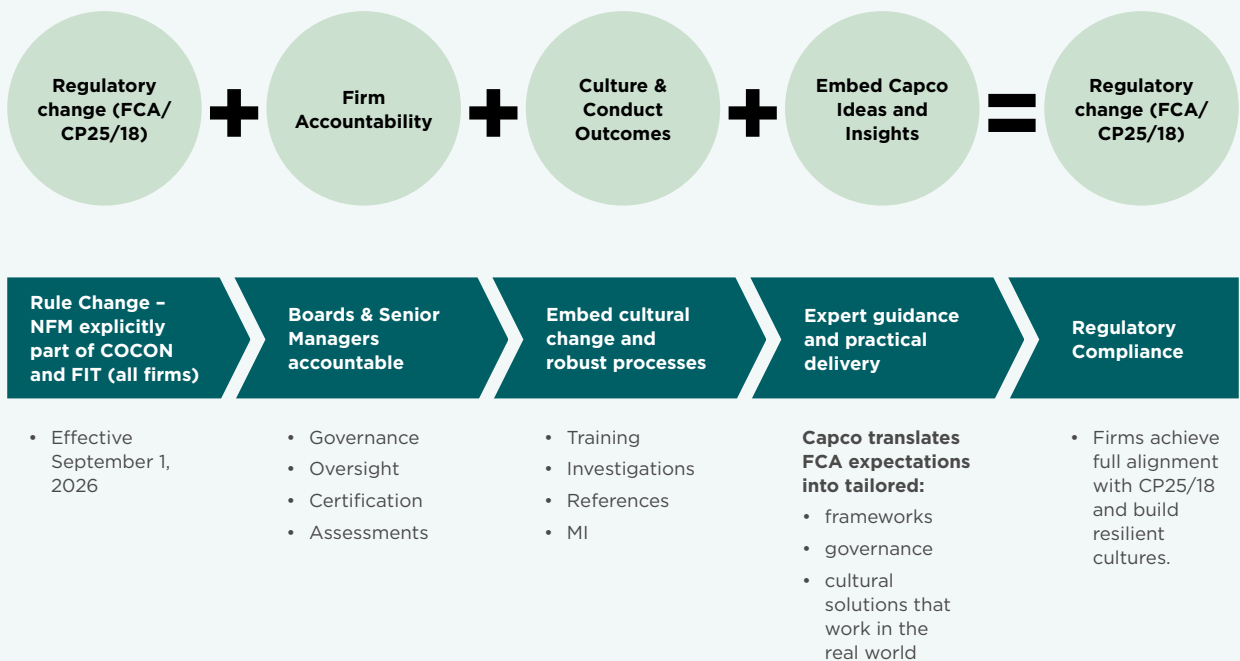
- Post consultation closing (guidance): As of September 10, 2025, the finalized guidance is closed and awaiting the FCA’s published policy statement following review of all comments. No timeline has yet been provided.
- Application date (rule): from September 1, 2026, time to implement “no-surprises” changes across policy, certification, references, and MI.
- Cultural scrutiny won’t abate: public data (e.g., FCA’s 2024 survey) and media focus on incident handling and remuneration responses will continue to shape expectations.⁵⁹



How can Capco help?

Capco helps financial services firms cut through complexity and embed lasting cultural change, giving boards absolute confidence that they are fully aligned with CP25/18 and prepared for future regulatory scrutiny.

Figure 1: Tackling Non-Financial Misconduct - Pillars of NFM Regulatory Compliance: Regulatory Journey to Firm Action



59. Freshfields / Risk & Compliance insight, “FCA policy statement and consultation on non-financial ...” <https://riskandcompliance.freshfields.com/post/102kqy8/fca-policy-statement-and-consultation-on-non-financial-misconduct-published>

13. Cryptoasset Regulation: From Registration to Real Accountability

The FCA's Consultation Paper, CP25/25: Application of FCA Handbook for Regulated Cryptoasset Activities marks a critical transition in how crypto firms will be regulated in the UK. It proposes extending the Financial Services and Markets Act 2000 (FSMA) regime, including the SYSC sourcebook, Senior Managers and Certification Regime (SM&CR), financial crime, and operational resilience, to all regulated cryptoasset activities.

For crypto firms – defined here as businesses carrying on regulated cryptoasset activities such as custody, issuance, trading, or intermediation – this is not a compliance upgrade. It is a regulatory stress test of governance, control, accountability, and resilience.



...this is not a compliance upgrade. It is a regulatory stress test of governance, accountability, and resilience.

Jamain Graveney
Principal Consultant

This consultation builds on earlier FCA work in CP25/14 (stablecoin issuance and cryptoasset custody) and CP25/15 (prudential regime for cryptoasset firms). Further CPs are expected to address crypto-trading venues, lending, and staking, reinforcing the FCA's roadmap for comprehensive market coverage.

From Permissionless to Standards-Led

Crypto markets have grown through speed, decentralization, and design freedom, but CP25/25 makes clear that those characteristics are no longer

sufficient. The FCA expects all firms conducting regulated crypto-asset activities to meet institutional standards of defensibility. That means provable systems and controls, clear ownership, and governance structures capable of withstanding regulatory scrutiny.

The shift is not just technical. Business models built around vertical integration, blurred roles, or off-chain opacity will need to evolve rapidly. Boards must be able to map critical services, evidence operational discipline, manage conflicts, and deliver MI that supports defensible decision making, not just reporting. This change is about ensuring that the firms entering the UK's regulatory perimeter can run safe, well-governed, and accountable operations.

Accountability Under SM&CR

CP25/25 also confirms that crypto firms will be subject to the full SM&CR. Senior managers will need FCA approval, hold statements of responsibilities, and ensure certified staff are demonstrably fit and proper. This introduces a new expectation for alignment between governance structures, HR oversight, and conduct frameworks. Enhanced classification will apply where firms meet scale or complexity thresholds, a signal that maturity, not size, defines regulatory expectations.

This regime also intersects with broader regulatory duties, including financial crime prevention, client safeguarding, and market integrity. Firms will need to demonstrate compliance with KYC/AML standards equivalent to traditional FSMA firms. Market abuse rules may also apply where cryptoassets qualify as regulated instruments, meaning custodians, brokers, and service providers interacting with these firms may themselves fall under FCA supervision.

This marks a cultural shift for many crypto firms. Under SM&CR, governance is not simply a structural requirement – it becomes a test of judgment and personal consequences. Firms must ensure clear accountability structures are in place, evidence that decisions are recorded, and embed conduct risk into daily operations.

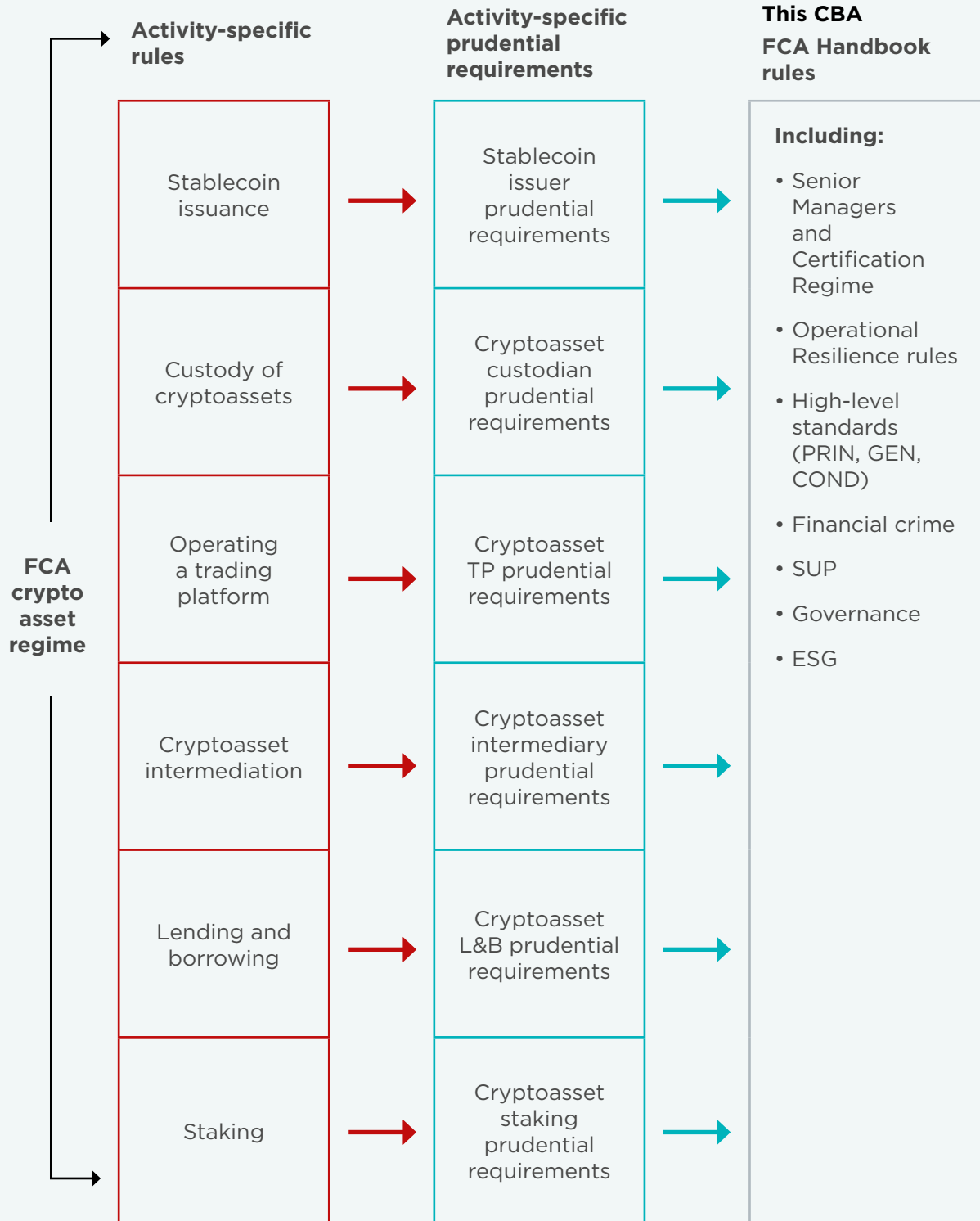


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Where firms rely on infrastructure they do not control, their responsibility increases, not decreases. Explainability under pressure is the new standard.

Jamain Graveney
Principal Consultant

Figure 1: Rules that firms authorized for regulated cryptoasset activity need to comply with



(Source: Consultation Paper, CP25/25: Application of FCA Handbook for Regulated Cryptoasset Activities, p. 84)



Firms must ensure that risk, compliance, and product decisions are joined up, not just procedurally, but culturally.

Jamain Graveney
Principal Consultant

For boards, this goes beyond compliance. It demands an integrated relationship between business teams, risk, HR, and compliance functions capable of evidencing how governance decisions are made, challenged, and actioned. In a sector where responsibilities are often blurred or founder-centric, this is a regime designed to force clarity and elevate risk from peripheral to personal.

Resilience is Non-Negotiable

The FCA has made it clear that operational resilience is a prerequisite for market access. Crypto firms must meet full SYSC 15A standards, including impact tolerance calibration, mapping of dependencies, and scenario testing tailored to crypto-native risks.

Where firms rely on infrastructure they do not control, their responsibility increases, not decreases. Explainability under pressure is the new standard.

Judgment, Not Templates

The future application of the Consumer Duty and access to the Financial Ombudsman Service remains under consultation. But the FCA's intent is already clear: crypto consumers must be protected through outcomes.

This signals a shift in maturity and mindset. Firms should not assume that decentralized models, international issuance, or product novelty reduce the need for oversight. Appropriateness testing must meaningfully assess consumer understanding. Disclosures must be clear and timely, and product governance must be demonstrable and effective. The underlying message is that accountability applies wherever consumer interaction occurs.

The FCA expects firms to define – and evidence – what a “good outcome” looks like, based on how real customers experience a firm's products, disclosures, and support. That responsibility does not shift based on product design or operating structure. Where the customer is in scope, accountability is in force.

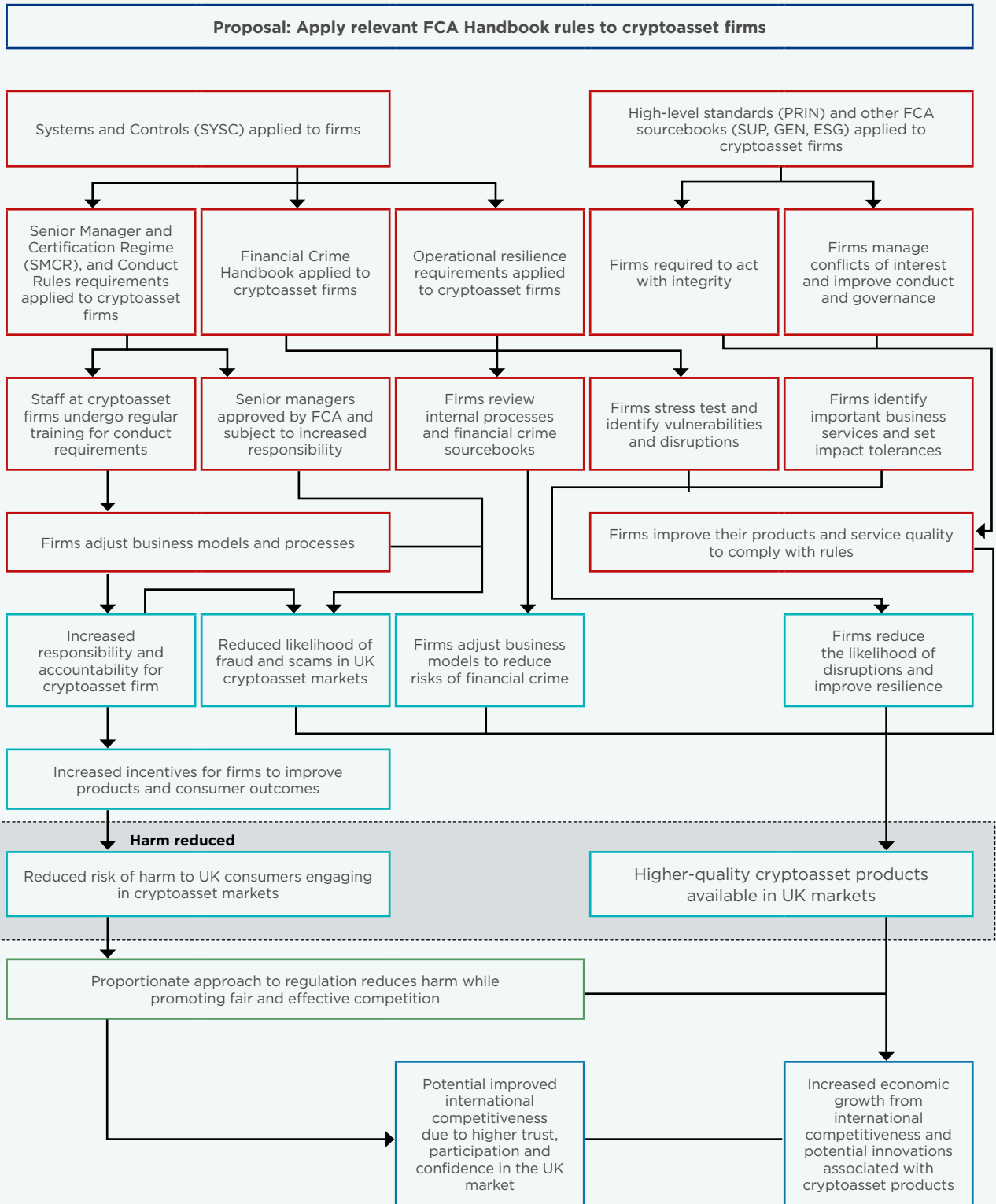
Governance First, Complexity Second

This consultation reframes what clarity means. For boards and ExcOs, the test is not whether controls exist, but whether ownership is clear, challenge is credible, and remediation is underway. Strategic MI must now enable defensibility, not just reporting.



Figure 2: How the FCA hopes its rule changes will reduce harm for consumers

Keys: Interventions Firm changes Outcomes Drivers of international growth and competitiveness Effect on international growth and competitiveness



(Source: Consultation Paper, CP25/25: Application of FCA Handbook for Regulated Cryptoasset Activities, p. 103)



How can Capco help?

Crypto firms preparing for FSMA authorization must now reframe compliance as an active governance exercise. Capco enables firms to embed clarity and defensibility into how they govern, respond, and control.

We support clients to:

- **embed SM&CR** into crypto-specific business models, ensuring ownership is clear across functions and products
- **elevate operational resilience** from policy to tested capability, with scenarios tailored to crypto-native risks
- **design credible MI**, focused on defensibility
- **strengthen controls and assurance**, helping leadership evidence risk decisions and absorb regulatory standards into firm-wide behaviors.

We also support clients with:

- **Financial crime risk management:** Advising on governance, ownership structures, and monitoring processes for digital asset exposures, while integrating risk-based

screening into existing financial crime frameworks.

- **Driving outcome maturity:** By building operating models that link decisions to measurable customer impact.
- **Facilitating executive challenge sessions** focused on governance readiness, cultural maturity, and risk ownership in decentralized or early-stage models.

Firms must ensure that risk, compliance, and product decisions are joined up, both procedurally and culturally. This is not about meeting the FCA's minimum standard. It is about making defensibility, clarity, and consequence a permanent part of how a firm operates.

Looking Ahead: Regulatory Vision and Strategic Consequence

This regime is not just a turning point for crypto regulation. It is a test of whether crypto markets can operate with the same maturity and defensibility expected in traditional finance. The firms that align early will not just be authorized; those that internalize these expectations early may help shape the next phase of regulatory trust.

14. Senior Managers and Certification Regime (SMCR) Review

The Senior Managers and Certification Regime (SMCR) is entering its most significant review since launch. Regulators want to simplify how accountability works in practice, without losing the discipline it introduced. This next phase challenges firms to show that governance, leadership and culture make accountability real, not procedural.

Introduced in 2016 after the global financial crisis, SMCR replaced the outdated **Approved Persons Regime (APR)** to fix one clear problem: weak personal accountability. It did so by 1) making senior managers directly responsible for defined areas, 2) requiring annual “fit and proper” certification, and 3) setting conduct standards for all staff across firms.

Almost ten years on, the FCA, PRA, and HM Treasury are reviewing whether SMCR still drives behavior or has become a compliance routine. Their two-phase review separates quick operational fixes (Phase 1) from longer structural change (Phase 2). Taken together, the reforms aim to move the regime from box-ticking to behavior – embedding accountability in how decisions are made and challenged.

What the consultations show

The FCA’s CP25/21⁶⁰ and the PRA’s CP18/25⁶¹ mirror consultations set out a steady, not sweeping path. Phase 1 deals with what can change now without the new law: approval timelines, certification overlaps, and reporting burden. Phase 2, dependent on Treasury legislation⁶² expected from 2026 onwards, could simplify certification requirements and responsibilities maps. While the timing of final rules is still unclear, the consultations outline a clear direction for firms to act today.

Both phases speak to the same underlying tension: how to balance **personal accountability** and **corporate responsibility**. Regulators still expect firms to own systemic resilience, but senior managers cannot hide behind collective decisions. This is what gives SMCR its edge, even as processes are simplified, accountability remains personal.

Phase 1: Small changes, real efficiency gains

From July 2025, firms can expect a series of practical adjustments:

Figure 1: Phase 1 Proposals



60. Financial Conduct Authority, Consultation Paper CP25/21: Review of the Senior Managers and Certification Regime (SM&CR), July 2025.

61. Prudential Regulation Authority, Consultation Paper CP18/25: Review of the Senior Managers and Certification Regime (SM&CR), July 2025.

62. HM Treasury, Reforming the Senior Managers and Certification Regime, July 2025.



Why it matters

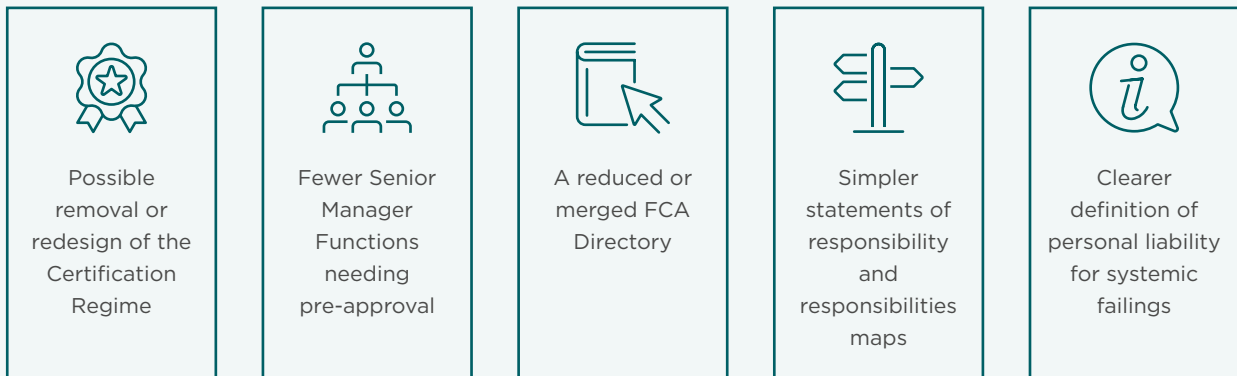
By freeing time and simplifying approval flows, Phase 1 creates space for firms to strengthen how they record decisions and oversight. It is a chance to replace paperwork with proof – the evidence of how decisions are made, challenged, and escalated.

Firms should treat Phase 1 as a rehearsal for Phase 2: simplify what you can now and build better evidence of how governance actually works. The firms that use this phase to tighten documentation and decision trails will find the next wave of change easier to absorb.

Phase 2: Simplification with sharper expectations

Looking beyond 2025, Phase 2 could reshape the regime once Treasury legislation allows. Proposals point to:

Figure 2: Phase 2 Proposals



What it means for leadership

For boards and executive committees, the real test is how they use simpler structure to strengthen oversight. Slimmer responsibility maps may lighten the load, but they also remove the excuse of complexity. Firms will need committees that challenge well, escalate promptly, and record why decisions were taken. Regulators are likely to judge leadership not by form but by behavior – how accountability and culture work in practice.

In short, Phase 2 may look lighter but will feel heavier. Regulators will move from checking process to testing culture – how well leaders own decisions and govern through challenge.

Now is the time for firms to review committee design, clarify decision remits, and embed transparent escalation.

Closing insight

SMCR was introduced to reinforce the need for personal accountability after the financial crisis. Nearly a decade later, its reform is about keeping that principle alive in a simpler form. Phase 1 ties the mechanics; Phase 2 will test whether firms can prove that culture and governance work in practice. Firms that use this moment to tighten decision making and oversight will not just comply, they will lead the next standard for accountability in financial services.



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Firms that use this moment to tighten decision making and oversight will not just comply, they will lead the next standard for accountability in financial services.

Sanjib Datta
Principal Consultant



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This is what gives SMCR its edge, even as processes are simplified, accountability remains personal.

Andre Coten
Consultant

How can Capco help?

We help clients turn SMCR from a compliance burden into a governance advantage by:

- aligning SMCR responsibility maps with wider governance and risk frameworks to show clear accountability chains
- reviewing committee structures to ensure they support individual accountability while maintaining collective decision quality
- embedding RACI models and escalation protocols that balance personal accountability with corporate responsibility
- integrating SMCR outputs with risk appetite statements and conducting reviews so accountability drives risk behavior.

Our cross-market experience helps firms prove accountability in action, reducing regulatory risk and strengthening leadership credibility.

15. Rising Challenges in Complying with EU REMIT Regulations

As the European energy market becomes increasingly complex, driven by the rise in cross-border trading, technology advances – including a rise in algorithmic trading and automated trading – together with the rise in renewables energy and geopolitical uncertainty, the task of complying with the EU Regulation on Wholesale Energy Market Integrity and Transparency (REMIT) has become more challenging than ever.⁶³

Designed to prevent market manipulation and insider trading, REMIT has become a cornerstone of the European Union's efforts to ensure fair and transparent energy markets. Since its introduction, REMIT has aimed to foster trust in energy markets by prohibiting abusive practices and ensuring that all market participants operate on a level playing field. The regulation requires companies to disclose inside information, report market transactions, and maintain robust compliance programs.

Challenges of REMIT Compliance

As noted, the market's growing complexity means complying with REMIT has become more challenging than ever. Since REMIT regulation was introduced in 2011, fines for breaches have totaled €250m.⁶⁴

However, after the European Union Agency for the Co-operation of Energy Regulators (ACER) and national regulatory authorities (NRAs) ramped up their scrutiny of energy trading activities in 2024, there have been a record number of REMIT breaches, with 19 enforcement cases against energy companies and total fines of €123m during that year. This figure represents 49% of all fines since REMIT's inception, with the Romanian Regulator (ANRE) alone levying substantial penalties totaling approximately €108m for “wash trading” activities.⁶⁵

The rise in fines can be attributed to an increase in sophistication of regulatory oversight, including

use of trade surveillance technologies, to improve detection rates. It is also evident that regulatory fines are getting larger as regulators make penalties severe enough to serve as a meaningful deterrent to future poor conduct.

In January 2025, Danske Commodities was fined €8m and Equinor fined €4m for REMIT breaches by the French Regulator (CRE) under REMIT Article 5 for actual or attempted market manipulation.

These fines underscore the significant challenges companies face in adhering to the stringent regulatory conditions set out by REMIT – and the need to have robust processes and control systems in place to ensure compliance.



63. While both REMIT (for energy markets) and MiFID II / MAR (for financial markets) aim to prevent market abuse, energy markets have unique risks tied to physical supply disruptions, volatility in renewable energy production, and market manipulation through cross-border arbitrage, which differ from the financial instruments traded under MiFID II

64. Refer to www.acer.europa.eu for the full list of enforcement decisions

65. The fines were distributed as follows: Tinmar Energy S.A.: €73M, Nova Power & Gas S.R.L.: €20M, EFT Furnizare S.R.L.: €10.15M, and Freepoint Commodities Europe LLP: €4.6M



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The task of complying with the EU Regulation on Wholesale Energy Market Integrity and Transparency (REMIT) has become more challenging than ever, driven by the rise in cross-border trading, technology advances, and geopolitical uncertainty.

Jonathan Lappage
Principal Consultant



In 2024, there were a record number of REMIT breaches, with 19 enforcement cases and total fines of €123m – 49% of all fines since REMIT’s inception.

Jonathan Lappage
Principal Consultant

Key Surveillance Challenges for Energy Trading Companies

Trade and communications surveillance plays a crucial role in ensuring REMIT compliance by systematically monitoring trading activities and internal communications. Advanced surveillance technologies can identify suspicious trading patterns, such as layering and spoofing, which manipulate market prices by placing orders that are never intended to be executed. These tools also help identify potential insider trading involving non-public information, like power plant outages or regulatory changes.

The increasing sophistication of trade surveillance solutions is also making it easier for regulators and firms’ compliance departments to spot outdated practices such as false reporting, manipulation through cross-border arbitrage, and exploiting non-public information about weather forecasts or supply-side disruptions.

Nonetheless, significant existing and new challenges persist – these include:

- **Data.** A primary challenge is the sheer volume and complexity of data that must be reported under REMIT. With millions of transactions occurring daily across European energy markets, ensuring accurate and timely reporting is a daunting task.

Many companies are struggling to integrate disparate data sources and implement the advanced analytics needed to detect potential market abuses.

The complexity of data integration under REMIT stems from the need to pull together disparate data sources across various platforms and systems, including transaction data, market prices, weather forecasts, and internal communications. Challenges include ensuring timely reporting and maintaining the accuracy of counterparty information, price data, and forecast data. Companies must also overcome siloed data systems to ensure that all relevant information is captured and analyzed to detect potential market abuses like spoofing, layering, and insider trading. As market complexity increases and trading volumes rise, the need for more advanced analytics and automated reporting systems becomes crucial to meet REMIT’s stringent requirements and ensure market transparency.

- **Definition of “inside information”.** As the energy transition accelerates, new types of data, such as forecasts for renewable energy generation or grid congestion, are becoming increasingly relevant. Determining what constitutes inside information and ensuring its timely disclosure requires a deep understanding of both regulatory requirements and market dynamics.
- **New trading technologies.** The rise of algorithmic trading and artificial intelligence in energy markets has introduced new risks. While these technologies can enhance efficiency, they also pose challenges in terms of transparency and accountability. Regulators are increasingly focused on ensuring that algorithms do not facilitate market manipulation, adding another layer of complexity to compliance efforts.

Looking Ahead

As the European energy market continues to evolve, REMIT compliance remains a critical priority for trading companies, particularly in light of growing challenges, such as the complexity of data integration and the potential for algorithmic trading abuses like spoofing and layering. These risks demand a proactive approach, where companies must not only adhere to compliance requirements but also continuously monitor and adjust their practices.



How can Capco help?

At Capco, we can support companies in developing solutions that ensure compliance, enhance transparency, and mitigate the risk of costly penalties – and ensure they retain their position in an increasingly competitive and complex energy market. Specifically, we can help by conducting comprehensive risk assessments to identify key areas of vulnerability, including data integration gaps, review of trade surveillance system alert indicators, and system calibration.

In addition, we offer a REMIT Compliance HealthCheck, a tailored review that evaluates a company's current compliance framework, identifies weaknesses, and provides recommendations to ensure adherence to REMIT regulations.



A primary challenge is the sheer volume and complexity of data that must be reported under REMIT. Many companies are struggling to integrate disparate data sources and implement the advanced analytics needed to detect potential market abuses.

Jonathan Lappage
Principal Consultant

16. Heat Networks Regulation: From Informal Supply to Formal Accountability

Introduction

There are currently around **14,000 heat networks operating across the UK**, supplying heat to **more than 500,000 consumers**.⁶⁶ For decades, heat networks, also known as district heating systems that supply heat from a central source to multiple buildings through insulated pipes, have existed within a regulatory gap in the UK energy landscape. Unlike electricity or gas, where Ofgem provides oversight and consumers have clear rights, most heat-network customers have lacked formal protections. The Competition and Markets Authority’s 2018 investigation identified systemic risks from this absence of oversight, including opaque pricing and limited accountability.⁶⁷

This lack of regulation has become increasingly untenable as the market expands at pace. Heat networks are expected to grow from around 3% of national heat demand today to nearly 20% by 2050, forming a central pillar of the UK’s decarbonization pathway.⁶⁸ The Energy Act 2023 and the Heat Networks (Market Framework) (Great Britain) Regulations 2025 now address these long-standing governance gaps by bringing the sector under

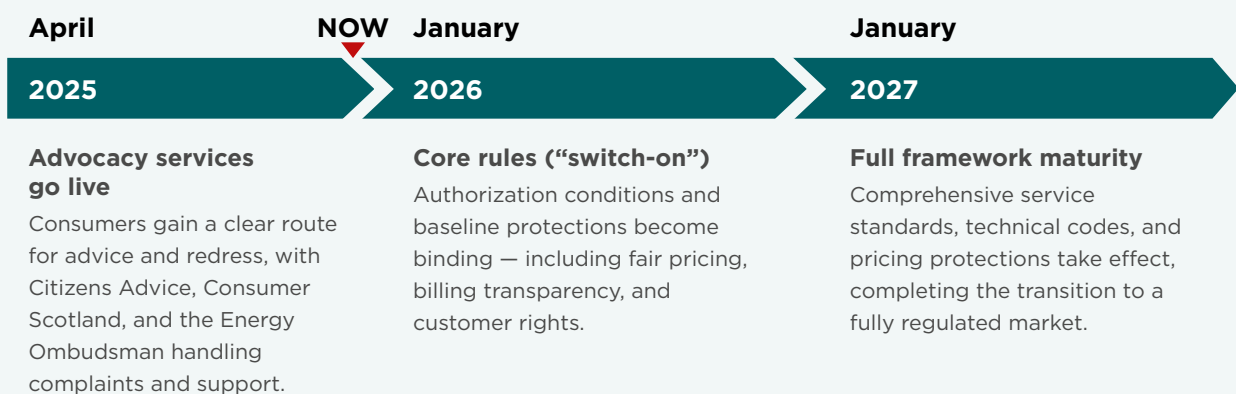
Ofgem’s remit and establishing a comprehensive consumer protection regime.

Regulatory Timeline

The framework is phased to balance urgency with practicality:

- **From April 2025:** Launching of consumer advice and advocacy services via Citizens Advice and Advice Direct Scotland, with the Energy Ombudsman as the new dispute-resolution route.
- **Currently April 2025 – January 2027:** Transitional period in which operators are deemed authorized but must register with Ofgem.
- **January 27, 2026:** The “switch-on” moment, when core authorization conditions and consumer protections become binding.
- **Spring 2026 – January 2027:** Formal registration window.
- **2027 onwards:** Enforcement of technical codes, service standards, and pricing protections.

Figure 1: Timeline



66. Ofgem – Heat Networks Regulation Timeline (2025) https://www.ofgem.gov.uk/energy-regulation/low-carbon/heat-networks/heat-networks-regulation-timeline?utm_source

67. Competition and Markets Authority – Heat Networks Market Study (Final Report, 2018) https://www.gov.uk/cma-cases/heat-networks-market-study?utm_source

68. Ofgem – Heat Networks Regulation Timeline (2025) https://www.ofgem.gov.uk/energy-regulation/low-carbon/heat-networks/heat-networks-regulation-timeline?utm_source



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For the first time, heat networks will be judged by outcomes – fair prices, reliable service, and clear data – not intentions.

Ross Simson

Executive Director, Energy & Utilities

This sequencing reflects lessons from earlier utility reforms: give firms time to prepare while steadily raising the bar for performance and transparency.⁶⁹



The transition from voluntary practice to regulation marks the moment when heat providers become accountable to the same standards of transparency and fairness as other utilities.

Ross Simson
Executive Director, Energy & Utilities

Operator Obligations

Becoming a regulated sector redefines expectations. Every operator must meet Ofgem's authorization conditions:⁷⁰

- **Transparent billing and metering:** Itemized, usage-based billing replaces estimated charges
- **Fair pricing:** Tariffs must satisfy Ofgem's fairness tests
- **Vulnerable-customer protection:** Operators must identify and support at-risk households
- **Service reliability:** Outage prevention and defined remedies



- **Data and governance:** Accurate records, performance reporting, and compliance evidence to Ofgem
- **Enforcement exposure:** Fines, directions, or potential loss of authorization for repeated breaches.⁷¹

For local-authority and housing-association schemes, compliance will demand upgrades to billing systems, new metering, and modern governance frameworks — a fundamental operational reset.

69. Ofgem / DESNZ - Heat Networks Regulation: Implementing Consumer Protections (Government Response, 2025) https://www.gov.uk/government/consultations/heat-networks-regulation-implementing-consumer-protections?utm_source

70. The Heat Networks (Market Framework) (Great Britain) Regulations 2025, SI 2025/269 <https://www.legislation.gov.uk/ukSI/2025/269/contents>

71. Ofgem - Heat Networks Regulation: Enforcement Guidelines and Penalty Policy (Consultation, 2025) <https://www.ofgem.gov.uk/consultation/heat-networks-regulation-enforcement-guidelines-and-penalty-policy>

Figure 2: Transition to Regulation: From Voluntary Practice to Full Ofgem Oversight

2025 Unregulated	2026 Baseline Protection	2027 Full Protection
<ul style="list-style-type: none"> • Operators act voluntarily, limited oversight or accountability. • Billing often estimated or unclear; no pricing standards. • Little support for vulnerable or multi-occupancy consumers. • Few penalties or reporting requirements. 	<ul style="list-style-type: none"> • All operators registered and authorized by Ofgem under core rules. • Transparent, metered billing and fair-pricing tests introduced. • Targeted protections and Ombudsman redress available. • Initial compliance submissions and fines for breaches. 	<ul style="list-style-type: none"> • Full regulatory regime in force with ongoing monitoring and enforcement. • Standardized billing, tariff reviews, and digital reporting obligations. • Comprehensive safeguards – “No consumer left behind.” • Continuous data reporting, audits, and potential suspension for non-compliance.

Consumer Impact

Starting from April 2025, customers gained formal complaint escalation through the Ombudsman. By January 2026, enforceable rights will include:

- clearer bills explaining charges and consumption
- fair redress for service failure or unfair pricing
- tailored protections for vulnerable consumers.

By 2027, the sector will align with Ofgem’s “no consumer left behind” principle, especially important for residents in multi-occupancy buildings who cannot switch suppliers.

UK versus EU Divergence

The UK’s regulatory trajectory is **consumer-centered and phased**, whereas the EU, through the **Renewable**

Energy Directive (RED III) and **Energy Efficiency Directive (EED)**, pursues a renewable-integration agenda.⁷²

Key differences:

- The EU mandates annual increases in renewable and waste-heat shares.
- From 2035, efficiency thresholds tighten, forcing operators to modernize or decarbonize.
- EU consumers gain rights to disconnect from inefficient networks.

For international operators, this divergence introduces operational complexity. Compliance systems must flex to meet **consumer-protection requirements in the UK** and **decarbonization targets in the EU**.

72. EUR-Lex – Renewable Energy Directive (RED III, Directive (EU) 2023/2413) & Energy Efficiency Directive (EED, Directive (EU) 2023/1791) <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32023L1791>

Figure 3: UK versus EU Divergence

Aspect	United Kingdom – Ofgem Heat Networks Framework	European Union – RED III + EED (Combined Framework)
Core Objective	Protect consumers and stabilize the market.	Decarbonize and modernize district heating systems.
Implementation Style	Phased rollout (2025–2027): Consumer advocacy, core rules, then full enforcement.	Binding renewable and efficiency targets from 2025 onward.
Main Obligations	Authorization, transparent billing, fair pricing, and vulnerable-customer protections.	Annual increase in renewable or waste-heat share (RED III) and stricter efficiency standards (EED).
Key Milestones	2025: Consumer advocacy • 2026: Core rules • 2027: Full enforcement.	2030: Higher renewable quotas • 2035: Tightened efficiency thresholds.
Consumer Rights	Access to Ombudsman redress and protection from unfair charges.	Right to disconnect from inefficient networks and choose sustainable options.
Regulatory Focus	Outcomes for affordability, reliability, and fairness.	Performance metrics for carbon reduction and energy efficiency.
Challenge for Operators	Building compliance and data systems to prove fairness and service quality.	Investing in modernization and low-carbon heat sources to meet technical benchmarks.

Industry Challenges and Early Responses

The move to Ofgem oversight reshapes every aspect of heat-network operations.

- **Data and infrastructure modernization.** Operators face high upfront costs for smart metering and digital billing.⁷³ Early adopters are piloting automated data-collection systems to ensure accuracy ahead of 2026 obligations.
- **Governance and accountability.** With regulation comes scrutiny. Firms are creating cross-functional compliance teams to manage performance reporting, vulnerability processes, and service-quality metrics.⁷⁴
- **Capability and adaptability.** Because final codes and enforcement guidance remain under consultation, operators must design

73. GOV.UK – Heat networks regulation: technical standards (HNTAS) https://www.gov.uk/government/publications/heat-networks-regulation-technical-standards?utm_source

74. Ofgem – Heat Networks Regulation: Enforcement Guidelines and Penalty Policy (Consultation, 2025) <https://www.ofgem.gov.uk/consultation/heat-networks-regulation-enforcement-guidelines-and-penalty-policy>



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**Accurate data and
accountable governance are
becoming as vital to heat
providers as reliable supply.**

Ross Simson

Executive Director, Energy & Utilities

flexible systems and invest in training. Many are already seeking advisory support for readiness assessments and roadmap development.

These actions signal a sector shifting from informal management to professionalized, auditable operations – a transition that defines competitive positioning over the next decade.

Strategic Advantages

Despite near-term challenges, formal regulation introduces clear long-term advantages for forward-looking firms:

- **Investor confidence.** Transparent governance reduces risk, improving access to funding for system upgrades and expansion.

- **Consumer trust.** Reliable billing and responsive service build credibility, an advantage for operators seeking local-authority partnerships or private investment.
- **Digital efficiency.** Smart meters, IoT monitoring, and cloud analytics enable predictive maintenance and accurate forecasting, lowering costs while strengthening compliance.
- **Policy alignment.** Government incentives such as **100% business-rates relief for eligible low-carbon heat networks until 2035** reward early decarbonization. Combining compliance with sustainability creates both cost and reputational benefits.



How can Capco help?

Capco partners with operators, investors, and policymakers to turn compliance into competitive advantage. Our support spans the full regulatory journey, from readiness to transformation:

- **Regulatory strategy and readiness:** Building clear actionable roadmaps for January 2026 and 2027 milestones

- **Consumer-centric service design:** Embedding transparent billing, effective complaint resolution, and tailored support for vulnerable households into operating models
- **Digital enablement:** We help clients deploy scalable, cloud-based platforms, delivering automation, real-time compliance monitoring, and enhanced customer engagement
- **Cross-border compliance:** For operators active in both the UK and EU, Capco provides frameworks to manage divergent obligations, combining consumer protection on one side with renewable integration on the other.

Our goal is not only to ensure compliance but to help clients **unlock new value** by professionalizing operations, strengthening resilience, and leading in the transition to net zero.

As heat networks mature under Ofgem's oversight, those who combine regulatory readiness with digital innovation will define the sector's next decade – and Capco stands ready to help them lead.

17. AI Summary Across APAC



Introduction

AI regulation in the Asia-Pacific (APAC) region is a fragmented landscape, with a mix of strict legal frameworks, voluntary guidelines, and emerging sector-specific rules. Common drivers across the region are responsible for AI use, data privacy, and human autonomy, but approaches vary from hard-law enforcement to soft-law self-regulation, requiring companies to develop flexible, risk-based compliance strategies.

APAC – AI overview from individual regions

Singapore

The Model AI Governance Framework promotes ethical AI, transparency, accountability, and aligns regulations with the Smart Nation initiative. The guidelines in the framework, sector-specific rules (e.g., for finance and healthcare), and tools like “AI Verify”, promote explainability, transparency, and accountability in AI deployment. The Personal Data Protection Commission (PDPC) provides guidance on

data use, and the Monetary Authority of Singapore (MAS) offers sector-specific tools and principles for fairness, ethics, and transparency in the financial services industry.

Japan

- The Act on the Promotion of Research and Development and the Utilization of AI-Related Technologies passed the House of Councilors on May 28, 2025, and was fully implemented in September.
- The bill makes clear the legislature wants to see AI thrive in the country, stating up front that “artificial intelligence-related technologies are fundamental technologies for the development of Japan’s economy and society” to promote AI innovation and safety, self-regulation, industry standards, and policy development for societal values integration. It calls its structure “basic” and relies on business cooperation and current laws to regulate the technology rather than inventing a new structure.



South Korea

South Korea is implementing comprehensive AI regulation with the AI Basic Act (Framework Act on Artificial Intelligence Development and Establishment of a Foundation for Trustworthiness), which takes effect in January 2026. This pioneering legislation creates a unified, risk-based framework that promotes the AI industry and protects users by mandating safety measures, transparency, impact assessments, and disclosure requirements, particularly for “high-impact” AI systems in critical sectors.

Australia

Australia’s AI regulation is an evolving landscape. Australia recently unveiled the Guidance for AI Adoption, a new national framework that is designed to guide the adoption of AI. It has not announced any new binding AI laws as yet, but has signaled an openness to aligning with global standards if necessary.

India

India is focused on fostering innovation with emerging policies rather than strict regulation. The nation has come up with draft policy on data privacy and AI ethics in development. India has a dual approach to AI that is promoting innovation and addressing risks, without comprehensive AI-specific

laws but leveraging existing regulations like the Information Technology Act 2000. A recent advisory mandated government permission for certain AI models and measures against deepfakes, though it faced criticism and was replaced with a modified version. Key initiatives include the India AI Mission for investment and development and the NITI Aayog’s Responsible AI Principles.

Emerging Trends in AI

There is significant focus on AI governance and ethics to build public trust, and the development of localized AI models to serve the region’s diverse languages and cultures. The AI shift is in full swing. In 2024, the global AI market was valued at \$184 billion. In 2030 it is expected to reach over \$800 billion. Businesses are racing to overhaul their digital infrastructures in readiness. The message is clear: The time to secure your future is now. The key callouts can be a message to adopt AI to stay in trend.

- Ethical AI and human-centric policies: Increasing emphasis on ethical use, bias mitigation, and human oversight
- Data governance: Stricter data privacy laws impacting AI development and deployment
- International collaboration: Countries engage in regional dialogues and adhere to international standards.

Challenges

Emerging AI challenges in the APAC region include fragmented and evolving regulations, high implementation costs, insufficient data infrastructure, and a widening digital skills gap. Other significant issues include the substantial energy and data demands of AI systems, the potential for AI to exacerbate socioeconomic inequalities by displacing workers in certain sectors, and growing concerns around the security and reliability of AI-driven applications. These challenges can be summarized into the following points:

- balancing innovation and regulation
- addressing cross-border data flows
- ensuring inclusive policies that prevent bias and discrimination.



Operational Resilience & Cyber

18. EIDAS 2.0 – A New Era for Digital Identity in the EU

Introduction: Building a Trusted Digital Europe

The European Union is entering a new era of digital identity with the introduction of **eIDAS 2.0**, a regulation designed to provide a secure, interoperable, and user-controlled digital identity framework across all EU Member States.

By 2030, the European Commission expects at least 80% of EU citizens to use a digital identity solution. eIDAS 2.0 lays the foundation for this transformation.

Building on the original eIDAS Regulation from 2014, eIDAS 2.0 introduces the **European Digital Identity Wallet (EUDI Wallet)**, enabling EU citizens, residents, and businesses to manage and share their verified credentials safely and efficiently.

A major innovation accompanying the wallet is the concept of **Qualified Electronic Attestations of Attributes (QEAA)**. These attestations enable trusted verification of individual attributes with the same legal standing as a national electronic ID. This granular approach supports both privacy-by-design and convenience, as users can share only the data required for a given transaction.



By reinforcing Europe’s digital sovereignty, eIDAS 2.0 allows financial institutions to reinvent how they identify, engage, and serve their customers while reducing the cost and complexity of compliance and electronic signatures.

Mehdi Rachidi
Executive Director

eIDAS 2.0 also **expands the scope of trust services**. Beyond electronic signatures and seals, the regulation now includes services such as **electronic archiving, electronic ledgers** (enabling blockchain and distributed ledger applications), and the **management of remote signatures and seals**. These additions provide a more comprehensive framework for securing digital transactions, data storage, and emerging digital asset ecosystems.

Importantly, the regulation introduces **mandatory recognition** obligations for the public sector and selected private entities such as banks, telecommunication operators, and large online platforms. These will be required to accept EUDI Wallets as valid identification, ensuring consistent user experience across borders and sectors.

Finally, eIDAS 2.0 places strong emphasis on **security, privacy, and user control**. The framework mandates compliance with GDPR principles and introduces safeguards to prevent data misuse. Users will decide which attributes are shared, with whom, and for how long, ensuring transparency and trust in every interaction.

In summary, eIDAS 2.0 transforms the European digital identity landscape from a fragmented system into a **pan-European ecosystem of trust**, built on interoperability, transparency, and individual empowerment.

Key changes and implications for the financial sector

The financial industry will be among the sectors most directly impacted by eIDAS 2.0. Since identity verification and authentication lie at the heart of banking, the European Digital Identity Wallet (EUDI Wallet) has the potential to transform core processes, from customer onboarding to cross-border service delivery.

A key impact will be on **Know Your Customer (KYC)** and **Customer Due Diligence** processes. Instead of relying on manual checks or fragmented national eIDs, banks will be able to verify customer identities through **trusted digital credentials** shared directly from the EUDI Wallet. This enables faster onboarding,



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eIDAS 2.0 is not just a regulatory update but the cornerstone of Europe's digital trust infrastructure changing how citizens, businesses, and public institutions interact.

Oliver Ulmann
Principal Consultant



lower compliance costs, and greater data accuracy, all while keeping customers in control of their information.

The EUDI Wallet also supports **Strong Customer Authentication (SCA)** under PSD2, offering a secure and standardized method for verifying users across the EU. With built-in capabilities for biometric verification and qualified electronic signatures, it enhances fraud prevention and reinforces customer trust.

The wallet paves the way for **cross-border banking** by harmonizing digital identity verification across Member States. Customers will be able to open accounts or access services in another EU country without repeating identity checks, helping banks expand their reach and improve customer experience.

The **legal recognition of electronic signatures and seals** under eIDAS 2.0 streamlines the handling of contracts and transactions, making digital banking more efficient and compliant.

Implementation Challenges and Strategic adjustments

While eIDAS 2.0 opens clear opportunities, adaptation will require banks and financial institutions to rethink parts of their digital and compliance infrastructure. Integrating the **EUDI Wallet** and related trust services by the end of 2027 is not simply a technical upgrade, it requires coordinated adjustments across technology, governance, and customer interaction models.

On the **technical side**, institutions must establish secure connections to national wallet ecosystems and standardized interfaces for verifying and exchanging digital credentials. This includes aligning with EU interoperability frameworks and ensuring systems can process **Qualified Electronic Attestations of Attributes (QEAs)** in real time.

Banks will need to design robust processes for data consent, storage, and revocation in line with both GDPR and eIDAS 2.0 requirements. Clear audit trails and liability frameworks must be defined for all interactions involving verified credentials and digital signatures.

Employees and customers will require education on how to use digital wallets safely and effectively, while customer support functions must adapt to handle identity-related issues in a digital-first environment.

Success will depend on **ecosystem collaboration**. Banks may need to partner with qualified trust service providers, identity brokers, and wallet issuers to integrate services securely and efficiently.

Capco View: Turning Regulation into Competitive Advantage

At Capco, we see eIDAS 2.0 as more than a compliance exercise – it is a strategic inflection point for the financial services industry.

Banks that act early can leverage the EUDI Wallet to reimagine customer journeys, simplify onboarding, and embed digital trust into every interaction. This

positions them not merely as service providers, but as trusted digital identity custodians.

By adopting interoperable identity frameworks and engaging with national wallet schemes, financial institutions can extend their role within digital ecosystems, from KYC utilities to open finance and beyond.

A phased approach is essential:

- **Short term:** Assess wallet readiness and interoperability requirements
- **Medium term:** Redesign authentication and consent frameworks and internal control framework to manage risks and ensure ongoing effectiveness of controls
- **Long term:** Embed identity verification as a service capability across platforms.

Institutions that align technology, governance, controls and customer journeys early will not only meet regulatory deadlines but lead the market in digital trust.

Conclusion

eIDAS 2.0 marks a pivotal step toward a unified, user-centric digital identity ecosystem in Europe. By introducing the European Digital Identity Wallet, it enhances trust, security, and interoperability while giving citizens greater control over their



The adopting of eIDAS 2.0 is a transformation of how banks manage identity and trust. Those that act early and collaborate across ecosystems will lead the way in secure, seamless digital banking.

Mahir Alman
Managing Principal

data. For the banking sector, it streamlines onboarding, strengthens compliance, and opens new opportunities for seamless cross-border services.

To realize these benefits, institutions must act early and prepare strategically, aligning technology, governance, controls and customer journeys. With the right expertise, banks can go beyond compliance to lead in digital trust, turning eIDAS 2.0 into a catalyst for innovation and competitive advantage in the European financial service market.

How can Capco help?

As Europe moves from regulatory design to implementation, financial institutions face both significant challenges and unique opportunities under **eIDAS 2.0**. Success will depend on the ability to integrate digital identity, interoperability, and data integrity into everyday operations while maintaining compliance and trust.

Capco supports clients across the financial sector in transforming **regulatory obligations into strategic advantage**. Our experts help institutions assess their readiness for eIDAS 2.0, design interoperable architectures, and implement wallet-enabled onboarding and authentication journeys. By combining deep regulatory knowledge with digital delivery expertise, Capco bridges **compliance and innovation**, ensuring that trusted digital identity becomes an enabler of efficiency, security, and customer experience – not just a regulatory requirement.

19. Consultation Paper on EBA Draft Guidelines on the Sound Management of Third-Party Risk

Financial entities are increasingly partnering with third-party service providers to access specialized expertise, reduce costs, and to improve scalability and efficiency. While this enables focus on core business activities, this growing reliance introduces significant risks to financial entities, their customers, and potentially the wider financial system.

In response, the European Banking Authority (EBA) opened a consultation on July 8, 2025 on the Draft Guidelines on the Sound Management of Third-Party Risk (the Guidelines), which closed on October 8, 2025. The Guidelines are designed to replace the 2019 EBA Outsourcing Guidelines and provide a single EU framework for non-Information and Communication Technology (non-ICT) third-party risk management, to be implemented on a “comply or explain” basis within two years after publication.

The Guidelines aim to promote consistent, efficient, and effective supervisory practices, while ensuring uniform application of EU law across the financial sector and complementing existing EU frameworks, including the Capital Requirements Directive (CRD) and the Bank Recovery and Resolution Directive (BRRD). Most importantly, these Guidelines are designed to align with the Digital Operational

Resilience Act (DORA), which focuses on ICT third-party risk, harmonizing terminology and practices for firms to manage third-party risk beyond ICT. They also reflect international standards from the Financial Stability Board (FSB) and Basel Committee on Banking Supervision (BCBS), ensuring global consistency.

The Guidelines broaden the scope of the 2019 EBA Outsourcing Guidelines, extending beyond credit institutions and investment firms to include payment and electronic money institutions, issuers of asset-reference tokens, and mortgage creditors. However, they exclude credit intermediaries and account information service providers registered only under PSD2 (Annex I, Service 8).

Implications for Firms

The Guidelines materially extend the scope of third-party oversight, requiring firms to expand existing registers of information to capture all third-party arrangements, including non-ICT services that may not previously have fallen within regulatory scrutiny. These enhanced registers should be consistent with the registers of information under DORA and must provide a clear, documented inventory of all non-ICT third-party arrangements, including a description of the service, criticality, risk exposure, and sub-contractor dependencies.

The assessment of proportionality operates alongside the identification of critical or important functions (CIFs), ensuring that the intensity of oversight reflects not only the importance of the service but also its complexity, substitutability, and potential market impact.

Firms will need to strengthen due diligence and onboarding processes with a broader range of risk assessments, incorporating not only operational, legal, and continuity factors but also additional risks including credit, market, ESG, and AML/CFT risks. Contractual arrangements with non-ICT third parties will require review and uplift to ensure appropriate clauses are in place to mitigate risk, differentiating arrangements that support CIFs and those that do not.



The EBA Guidelines have been designed to sit alongside DORA, which focused on ICT third-party risk, aligning terminology and practices for firms to manage third-party risk beyond ICT.

Marija Devic
Executive Director



On a risk-based approach, firms will need to remediate non-ICT contracts, collate broader data sets for their registers of information, conduct more comprehensive risk assessments and due diligence, assess and monitor concentration risk, and enhance their exit strategies.

Robert Woodhart
Principal Consultant



To meet the expectations set out in the Guidelines, firms will need to adopt a structured and harmonized approach to third-party risk, aligning across ICT and non-ICT domains.

Mahir Alman
Managing Principal

The Guidelines place specific emphasis on assessing and monitoring concentration risk, including reliance on a single provider or sub-contractor that is not easily substitutable, and multiple third-party arrangements with the same or closely connected providers/sub-contractors. Firms are expected to test exit and transition scenarios for material providers and ensure that contingency measures are credible and actionable.

Collectively, these expectations mark a shift toward a more holistic, principles-based, and risk-sensitive approach, embedding comprehensive third-party oversight within governance and resilience frameworks.

Beyond regulatory compliance, the proposed framework delivers strategic advantages for firms. It formalizes governance and risk management practices across outsourcing and third-party relationships, enabling firms to achieve greater control and transparency over critical functions, supporting a deeper understanding of the risks inherent in these arrangements. Enhanced contingency and scenario planning frameworks offer a clearer view of potential actions during operational disruptions, enabling more effective response and recovery. Together, the Guidelines foster a more resilient and transparent operating model, empowering firms to navigate third-party dependencies with increased assurance and agility.

How can Capco help

To meet the expectations set out in the Guidelines within the two-year transition window, firms will need to adopt a structured and harmonized approach to third-party risk. A key first step is to undertake a maturity assessment of the existing third-party risk framework and operating model against the Guidelines and industry best practice, identifying gaps and areas where governance and documentation can be aligned across ICT and non-ICT domains.

Capco supports firms in performing these reviews, ensuring consistent assessment and classification of third-party arrangements and transparent application of materiality, thereby delivering the basis for the internal register of third parties, including checklists and automatic data extraction from third-party documents (e.g., licenses) to also fulfill data and register requirements.

Remediation of existing non-ICT contracts will be essential to close gaps, ensuring contractual clauses are enhanced for compliance. Capco assists by supporting contract remediation to manage contract risk and by uplifting capabilities to strengthen oversight of sub-contracting, concentration risk, and exit strategies. Alongside this, Capco can help to enhance the effectiveness of control environments, integrating proportionality into onboarding, risk assessments, due diligence, and ongoing monitoring.

Leveraging technology and AI-enabled solutions, Capco can help clients mature and automate their third-party risk frameworks and workflows, enhancing efficiency, effectiveness, and auditability. Through these improvements, firms can achieve not only compliance readiness but also a forward-looking, resilient approach to third-party governance and control.

20. Operational Resilience Supervisory Priorities and what it means for firms in 2026

The three European Supervisory Authorities (ESAs), European Banking Authority (EBA),⁷⁵ European Securities and Markets Authority (ESMA),⁷⁶ and European Insurance and Occupational Pensions Authority (EIOPA),⁷⁷ have each recently published their forward-looking work programs and supervisory priorities for 2026, based on key risks and expected future trends. Unsurprisingly, the Digital Operational Resilience Act (DORA) features prominently, as cybersecurity risks continue to grow in relevance for the EU financial sector, heightened by existing geopolitical tensions, as well as an increased reliance on information and communication technology (ICT) third-party providers and AI. In the recent threat landscape report⁷⁸ from the European Union Agency for Cybersecurity (ENISA), the financial sector comes fourth in the top five targeted sectors across the EU. Hacktivist activity linked to ongoing geopolitical events continues to dominate the attacks on the financial sector, with distributed denial of service (DDoS) attacks making up 83.5% of the incidents reported by ENISA in 2025, followed by cybercrime (14.8%) and state-aligned (1.7%). The joint committee report on the risks and vulnerabilities in the EU financial system⁷⁹ advises the ESAs, national authorities, financial institutions, and market participants to take policy action to remain vigilant to the cyber risks associated with high levels of dependency on and concentration in the use of third-party ICT providers.

Common ESA activities in 2026

The ESAs will be implementing their joint oversight of ICT critical third-party providers (CTPPs). Following designation and initial engagement, direct oversight is planned on being fully operational from January 2026.⁸⁰ This will involve working with CTPPs to understand their business models, risks, and the



75. <https://www.eba.europa.eu/publications-and-media/press-releases/eba-publishes-its-2026-work-programme-and-takes-action-more-efficient-regulatory-and-supervisory>

76. <https://www.esma.europa.eu/press-news/esma-news/esma-2026-work-programme>

77. https://www.eiopa.europa.eu/publications/union-wide-strategic-supervisory-priorities-focus-areas-2026_en

78. <https://www.enisa.europa.eu/publications/enisa-threat-landscape-2025>

79. https://www.esma.europa.eu/sites/default/files/2025-09/JC_2025_48_JC_Autumn_2025_risk_report.pdf

80. <https://www.eba.europa.eu/publications-and-media/press-releases/esas-publish-guide-dora-oversight-activities>



Cybersecurity risks continue to grow in relevance for the EU financial sector, heightened by existing geopolitical tensions, as well as an increased reliance on information and communication technology (ICT) third-party providers and AI.”

Richard Higgins
Senior Consultant

ICT services they provide, reviewing contracts and service level agreements between CTPPs and EU financial entities, and carrying out in-depth reviews on specific high-risk areas. As a result of examination activities, recommendations can be issued to CTPPs, including the use of security processes, terms and conditions for services provided, and refraining from further subcontracting. If recommendations are not followed and insufficient explanation is provided, the authorities may issue warnings to financial entities using a CTPP about the risk and take supervisory actions. As a last resort, authorities may require entities to suspend, or even terminate, the use or deployment of a service provided by a CTPP.

In Q2 2026, the ESAs will jointly deliver the first annual report on major ICT-related incidents and threat landscape, based on incident reporting

received for 2025. This will contribute to the ongoing implementation of the pan-European systemic cyber incident communication and coordination framework (EU-SCICF) to facilitate a coordinated response to cross border ICT or cyber incidents having a systemic impact on the European Union’s financial sector. In addition, following a feasibility study⁸¹ earlier in 2025, the ESAs may look to further enhance the centralized cyber-incident reporting solution.

By design, DORA mandates oversight harmonization, and the ESAs will continue to develop common understanding and promote supervisory convergence for national authorities to apply consistent standards, risk methodologies and enforcement approaches.

Supervisory priorities and implications for firms in 2026

In their Union Strategic Supervisory Priorities, the ESAs have each identified cyber risk and digital resilience aligned to DORA as key focus areas. Digital operational risks are expected to be an integral part of the supervisory review process of the national authorities and included in their oversight activities, and some competent authorities have published checklists and documentation requirements (e.g., BaFin⁸²), or updated guidance (e.g., Central Bank of Ireland⁸³) for firms. The ESAs are expecting supervisors to be assessing and reviewing the following:

- The effectiveness and adequacy of digital resilience testing programs, ensuring that firms have realistic and credible plans in place to react to severe scenarios, including significant digital outages.
- The soundness of third-party risk management frameworks, including comprehensiveness of registers of information and effective monitoring of key ICT subcontractors. Supervisors should consider the outcomes from DORA CTPP oversight activities.

81. <https://www.eba.europa.eu/publications-and-media/press-releases/esas-publish-study-feasibility-further-centralisation-major-ict-related-incident-reporting-financial>

82. [BaFin - News & Measures - Documentation requirements under DORA - made easy \(or easier\)](#)

83. <https://www.centralbank.ie/docs/default-source/publications/consultation-papers/cp140/cross-industry-guidance-on-operational-resilience.pdf>



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The ESAs are expecting supervisors to be assessing and reviewing the effectiveness and adequacy of digital resilience testing programs, ensuring that firms have realistic and credible plans to react to severe scenarios including significant digital outages.

Richard Higgins
Senior Consultant

- The level of cyber risk awareness across firms and the degree of engagement by management with ICT-related risk management frameworks.
- Major ICT-related incidents, including the scale of costs and losses, to assess the effectiveness of firm’s risk assessment and associated preventative measures.

The EBA also includes a specific supervisory expectation around assessing whether firms’ AI integration is adequately supported by appropriate ICT systems and is aligned with the risk management and governance aspects of applicable regulatory frameworks. The EU AI Act requirements for the Resilience and Cybersecurity for high-risk AI systems come into force in August 2026 and could cover services including credit scoring, customer due-diligence or creditworthiness assessments, fraud detection, anti-money laundering, and transaction-monitoring systems.

The UK regulatory authorities are expected to publish two regulatory initiatives related to Operational Resilience by the end of 2025 that are expected to drive closer alignment with EU DORA and other international regulations:

- Consultation on new policy for the management of ICT and cyber risks, with the objective of further enhancing the financial sector’s operational resilience capabilities.
- The policy statement on incident, outsourcing and third-party reporting that follows the conclusion of



As indicated by the ESA priorities for 2026, there will be an increased supervisory focus on demonstrating that these capabilities have been embedded and are effective, and testing across a range of severe yet plausible resilience scenarios is key to achieving this.

Richard Higgins
Senior Consultant

the consultation earlier in 2025, providing clarity on the information firms should submit when operational incidents occur, and collecting data on firm’s outsourcing and third-party arrangements to manage risks, including resilience and concentration risks.



How can Capco help?

Financial institutions within the scope of DORA are expected to have already implemented frameworks to identify critical or important functions, manage third-party risk, perform resilience testing, and report incidents. Due to increased supervisory focus, firms will need to demonstrate that these capabilities have been embedded and are effective, and testing across a range of severe yet plausible resilience scenarios is key to achieving this.

Capco's Gen-AI enabled crisis simulation transforms traditional scenario testing exercises into immersive crisis preparedness experiences. It allows firms to generate realistic scenarios derived from risk assessments, historic incidents, and public datasets that mimic real-life evolution of crisis events, incorporating emotional human response and providing performance and behavioral insights.

Figure 1: ESA operational resilience priorities in 2026

Focus Area	Supervisory Authority Expectations
 <p>Testing of digital resilience capabilities</p>	<p>Assess testing programs and overall cybersecurity preparedness - including the effectiveness of testing, adequacy of ICT-related incident management, and the existence of realistic, credible and regularly validated response plans for severe disruption scenarios</p>
 <p>ICT risk management awareness and engagement</p>	<p>Assess whether ICT risk management frameworks are fit for purpose considering firms' business and ICT strategies, overall cyber-risk awareness, and the extent of management and board engagement in overseeing ICT risk and resilience</p>
 <p>Third-party ICT risk management frameworks</p>	<p>Assess soundness and effectiveness, including the completeness of information registers, compliance of contractual arrangements with DORA, monitoring of key ICT subcontractors, with consideration of insights from critical third-party providers' oversight</p>
 <p>Monitoring and analysis of major ICT incidents</p>	<p>Monitor and engage with firms on major ICT-related incidents, reviewing the scale of associated costs and losses to assess the effectiveness of ICT defence measures and the adequacy of risk assessments</p>
 <p>Artificial intelligence integration</p>	<p>Assess whether firms' AI integration is adequately supported by appropriate ICT systems and is aligned with applicable regulatory frameworks, focusing on risk management and governance aspects</p>

Financial Crime

21. Strengthening the EU's Defenses Against Financial Crime

Money laundering and related financial crime remain persistent challenges for the EU. Despite successive directives and national rules, fragmented approaches across Member States have created loopholes that criminals exploit. Complex ownership structures, large cash transactions, and vulnerabilities in non-financial sectors have all highlighted the need for stronger, more harmonized measures.

Regulation (EU) 2024/1624 (AMLR) was introduced alongside **Directive (EU) 2024/1640 (AMLD6)** as part of the EU's comprehensive anti-money laundering (AML) reform package. This dual approach addresses both preventive and legal aspects of financial crime. While **AMLD6 updates criminal law obligations**, such as defining offences and setting penalties, **AMLR establishes a directly applicable operational rulebook** across the EU.

Together, they aim to close national responses under previous frameworks.

Unlike earlier directives, the **AMLR applies directly across all Member States**, creating a single, uniform rulebook for AML/CFT obligations. It introduces stricter customer due diligence, new EU-wide cash transaction limits, an extended scope of entities, and harmonized beneficial ownership requirements. These changes aim to strengthen the EU's resilience against illicit finance and promote consistency across the single market.

This shift toward a single regulation reflects the **need for harmonization**. Earlier directives left room for interpretation and inconsistent implementation across jurisdictions. By setting uniform compliance standards, the **AMLR eliminates fragmentation**,





Unlike earlier directives, the AMLR applies directly across all EU Member States, creating a uniform rulebook for AML/CFT obligations. This marks a clear shift from discretionary, risk-based updates to a mandatory baseline of regular monitoring, strengthening the EU's resilience against financial crime.

Lexi Florescu
Senior Consultant



reduces regulatory arbitrage, and enhances the EU's ability to tackle financial crime effectively.

Stricter Customer Due Diligence (CDD)

The AMLR significantly raises expectations for CDD, requiring firms to collect more detailed information and update it on a mandatory schedule.

- For **natural persons**, firms must record additional identifiers such as national tax numbers, multiple nationalities, and enhanced address details.
- For **legal entities**, information must include incorporation details, beneficial ownership structures, and nominee arrangements, with named directors and their roles.
- **Mandatory review cycles** now apply: standard-risk customers must be reviewed at least every five years, while high-risk customers require **annual reviews**.
- **Enhanced due diligence (EDD)** is mandated in more cases, especially for politically exposed persons (PEPs), complex ownership chains, and connections to high-risk third countries.

This marks a clear shift from discretionary, risk-based updates to a **mandatory baseline of regular monitoring**, requiring firms to strengthen systems and ensure customer files remain up to date.

This harmonized approach reflects a broader trend in the AML package: while AMLD6 preserves national flexibility in areas such as criminal liability and data protection, **AMLR creates a single operational framework** that removes divergence in AML/CFT processes. This ensures national legal systems can tailor enforcement as needed, while firms follow consistent compliance obligations EU-wide.

EU-Wide Cap on Cash Payments

For the first time, the EU has introduced a **single cash limit across all Member States**. From **July 10, 2027**, cash transactions above **€10,000** will be prohibited, whether in one payment or through linked transactions.

For **cash payments between €3,000 and €10,000**, firms must apply CDD, verifying and identifying the customer, before processing the transaction.

This change targets sectors where cash remains common, such as real estate, luxury goods, and high-value art. While several Member States already imposed limits, the AMLR harmonizes thresholds across the EU to curb anonymous transactions used in money laundering, while preserving legitimate small-scale use.

Extension of Firms in Scope

The AMLR broadens the scope of firms to which this regulation will apply, recognizing that illicit finance extends beyond traditional banking channels. The following groups are now explicitly included:

- **Crypto-asset service providers (CASPs)**, including exchanges, custodians, and wallet providers
- **Crowdfunding platforms** and certain previously unregulated consumer credit providers
- **High-value goods traders**, dealers in precious metals, gems, watches, cars, yachts, and aircraft
- **Professional football clubs and agents**, due to opaque sponsorship and transfer flows
- **Investment migration scheme operators**, e.g., “golden visa” schemes
- **Non-financial professionals**, including accountants, auditors, and tax advisors.

By extending obligations across these sectors, the EU aims to close loopholes and ensure AML/CFT rules apply wherever money is laundered or disguised.

Beneficial Ownership Transparency

The AMLR harmonizes **beneficial ownership (BO)** rules across Member States, tightening transparency requirements:

- A beneficial owner is defined as holding **25% or more** of ownership or control.
- In certain high-risk situations, thresholds may be lowered to **15%**.
- Companies must collect and maintain detailed BO data, including birth dates, nationalities, and tax IDs.





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The AMLR broadens the scope of obliged entities, recognizing that illicit finance extends beyond traditional banking channels. To stay ahead, firms must take a strategic view, reassessing risk exposure across all business lines, embedding compliance into core governance, and ensuring AMLR readiness is championed at the executive level.

Pankaj Marwaha
Principal Consultant

- If no BO can be clearly identified, **senior management must be recorded as the “fictitious” owner**, ensuring accountability.

These reforms aim to close loopholes that let criminals hide behind shell companies or complex structures, while giving authorities clearer visibility into ownership.

Implementation Timeline

The AMLR entered into force in **July 2024**, with most obligations applying from **July 10, 2027**. Certain categories, such as professional football clubs and agents, will not fall under the regime until **July 10, 2029**.

This staggered implementation provides time for firms to adapt. However, regulators are clear: the window should not be seen as a grace period. Supervisors will expect firms to demonstrate **early and meaningful progress** toward compliance.

This staged rollout reflects how the AML package is designed to operate as a cohesive system. AMLD6 and AMLR are expected to coexist as complementary instruments. The Anti-Money Laundering Authority

(AMLA) will play a central role in overseeing this integrated framework, supervising high-risk entities directly and coordinating efforts across national authorities.

Key Considerations for Firms

1. **Updating CDD processes** to capture new data points and automate periodic reviews
2. **Reviewing cash exposure**, updating procedures and staff training to enforce the €3,000 and €10,000 thresholds
3. **Determining scope**, particularly for non-financial sectors newly brought in, such as luxury goods, crypto, and professional services
4. **Strengthening beneficial ownership controls**, including verification of complex structures and cross-border entities
5. **Investing in technology** to enable efficient KYC, monitoring, and BO verification
6. **Embedding governance**, ensuring boards treat AMLR readiness as a strategic priority.

How can Capco help?

We help organizations navigate AMLR by assessing readiness, identifying compliance gaps, and building proportionate, risk-based compliance solutions tailored to their operating model.

Our support spans the full regulatory lifecycle from diagnostic assessment through to roadmap design and implementation enabling both financial and non-financial institutions to go beyond compliance and demonstrate leadership in financial crime prevention. Through our market leading compliance capabilities, we help firms:

1. **Conduct targeted readiness assessments** across customer due diligence, beneficial ownership, and cash-handling processes
2. **Map and remediate control gaps**, ensuring new requirements including sectoral expansion and threshold enforcement are embedded effectively
3. **Design proportionate frameworks and governance structures** that align with evolving EU AML priorities and strengthen board-level accountability
4. **Automate due diligence**, ensuring efficiencies in high-volume operational processes such as onboarding, periodic reviews, screening and transaction monitoring.

22. The Evolution of UBO Registries in Switzerland: Advancing Transparency and Accountability in Financial Regulation



Introduction

Amid growing global efforts to combat financial crime, tax evasion, and money laundering, transparency in legal entity ownership has emerged as a critical regulatory focus. Central to these efforts is the implementation of Ultimate Beneficial Owner (UBO) registries. These registries serve as a cornerstone for increasing transparency in financial systems, enabling stakeholders, such as regulators, financial institutions, and policymakers, to better identify the individuals who ultimately own or control legal entities.

As Switzerland is preparing to establish its Transparency Register under the Federal Act on the Transparency of Legal Entities and the Identification of Beneficial Owners (LETA), this analysis provides actionable recommendations to guide firms

in adapting to these regulatory developments and enhancing transparency efforts without compromising privacy and data security.

Switzerland: Balancing Transparency and Data Protection

Switzerland, historically known for its discretion in financial services, has faced international pressure to adopt a UBO register that aligns with global anti-money laundering (AML) standards. In response, the Swiss Parliament enacted LETA in September 2025, establishing a centralized Transparency Register to close gaps in beneficial ownership reporting. The new system is set to go live in mid-2026 and will be managed by the Federal Office of Justice, with corresponding enforcement overseen by the Federal Department of Finance.



The implementation of UBO registries in Switzerland requires banks and financial institutions to reassess their compliance frameworks, upgrade KYC systems, and invest in technology solutions to meet new UBO requirements, all while addressing the complexities of cross-border compliance and privacy regulations.

Dr. Henning Gebert
Managing Principal

Key features:

1. Swiss UBO obligations will apply to most legal entities, including corporations, limited liability companies, cooperatives, investment companies, and trustees that manage trusts in Switzerland. Exemptions are granted to publicly-listed companies, pension funds, and entities owned by public authorities.
2. Under LETA, any individual holding or controlling at least 25% of a company's capital or voting rights, or exercising control through other means, qualifies as a UBO.
3. The Transparency Register is entirely closed to public or third-party access, including journalists or NGOs. Only qualified authorities and financial institutions can access UBO data for AML and supervisory activities. Privacy is prioritized in this approach.

4. Non-compliance with UBO reporting will result in fines of up to CHF 500,000, with potential legal penalties such as suspension of shareholder rights or dissolution of companies for severe breaches.

By limiting access to only competent authorities and regulated financial institutions, the Swiss model prioritizes data protection over open transparency. While effective for safeguarding proprietary and personal information, the restrictive approach challenges broader global objectives for public accountability and financial crime investigation.

Recommendations for UBO Registries in Switzerland

To achieve their goals of combating financial crime while protecting privacy and fostering cross-border cooperation, firms should consider the following forward-looking strategies:

- Establishing robust data management frameworks and automated mechanisms to ensure compliance with real-time UBO updates, especially as regulations such as LETA impose a 30-day reporting obligation.
- Cross-border cooperation remains central to strengthening the fight against financial crime. The UBO activities should further align with international frameworks like FATF, focusing on resolving gaps in cross-border financial crime investigations.

Conclusion

Switzerland's initiatives to modernize the UBO registries clearly underscore the increasing emphasis on fostering financial transparency and strengthening AML frameworks.

Implementing UBO regulations, however, presents challenges for stakeholders, including banks, insurance companies, and securities firms. Effective responses will require significant upgrades to compliance frameworks, internal governance processes, IT infrastructure, and KYC systems. Additionally, stakeholders should address the complexities of ensuring cross-border compliance while effectively navigating the balance between privacy and transparency.



Effective adoption of UBO disclosure rules is not only a regulatory necessity but an opportunity for financial institutions to enhance data governance, leverage innovative technologies like AI for automated verification, and establish robust cross-border compliance frameworks. Engaging expert partners is critical to achieving transparency standards while minimizing operational disruption.

Dr. Henning Gebert
Managing Principal

How can Capco help?

- 1. End-to-end compliance:** Capco can help institutions design and implement tailored governance frameworks and controls to meet UBO requirements while embedding seamless compliance within existing operations.
- 2. Advanced technology solutions:** By leveraging AI and machine learning, Capco can enhance transaction monitoring and customer verification processes, improving the accuracy of UBO verification and mitigating false positives.
- 3. FATF alignment and audit readiness:** Capco can assist financial institutions in preparing for Switzerland's upcoming 2027/28 FATF evaluation, including gap analysis, process design, and audit preparation, ensuring firms meet stringent AML expectations.
- 4. Cross-border alignment:** Capco specializes in harmonizing regulatory frameworks, ensuring that institutions can align with global and regional standards, such as those set by the FATF, EU, UK, and other governing bodies.
- 5. Privacy-transparency balance:** With expertise in privacy frameworks, Capco can develop strategies to safeguard data while enabling collaboration between private entities and regulators.

Capco's data-driven, technology-focused approach empowers financial institutions to ensure compliance with new UBO registry obligations while improving operational resilience.



23. FCA FG25/3: Guidance on the Treatment of Politically Exposed Persons (PEPs)



On July 7, 2025, the Financial Conduct Authority (FCA) published Finalised Guidance “FG25/3” setting out how regulated firms should treat Politically Exposed Persons (PEPs), their families, and close associates under the UK’s AML regime.

The guidance provides clarity on firms’ obligations under the Money Laundering Regulations (MLRs), particularly following legislative amendments in 2023 that aimed to distinguish between domestic and foreign PEPs more clearly.

This summary outlines the key elements of the guidance and what it means for firms in practice.

A More Proportionate Approach

The central theme of FG25/3 is proportionality. It reiterates that not all PEPs should be treated equally and that domestic PEPs are generally at lower risk than foreign counterparts. This builds on the 2023 MLR amendments that introduced a presumption of lower risk for domestic PEPs, such as UK-based MPs, senior civil servants, and local officials, unless specific risk factors are present.

While enhanced due diligence (EDD) remains mandatory for PEPs, FG25/3 confirms that firms should utilize risk-based decisioning to determine extent and nature of EDD. Firms are advised against applying a blanket approach, particularly to low-risk domestic PEPs, in order to avoid undue friction or reputational harm.

PEP Clarifications

The guidance refines the definition of a PEP by focusing on those holding prominent public functions. Notably, it excludes non-executive members of UK civil service departmental boards, a clarification made following feedback during the consultation phase of FG25/3.

Firms are encouraged to take due care when assessing whether a public role qualifies as a PEP function, using judgment and context rather than relying solely on screening tools. For example:

- A senior judge or ambassador would likely qualify
- A mid-level civil servant or non-executive board adviser likely would not.

In addition, the guidance confirms that legal entities should not automatically be classed as PEPs simply because a PEP is a beneficial owner, unless the individual exercises significant influence or control.

Risk-Based Differentiation

FG25/3 encourages firms to distinguish between low- and high-risk PEPs using clearly documented criteria.

Examples of higher-risk factors include:

- Links to high-risk third countries or sectors
- Unexplained or unusual sources of wealth
- Involvement in state procurement contracts
- Adverse media or legal proceedings.

Conversely, domestic PEPs with transparent sources of income and no foreign exposure should usually be treated as lower risk, with simplified EDD measures where appropriate.

Firms must be able to justify and document their approach, especially where they deviate from the presumption of low risk.

Senior Management Approval: More Flexibility

While Regulation 35 of the MLRs requires senior management sign-off for establishing PEP relationships, the guidance confirms that this process can be delegated, particularly for lower-risk PEPs.

This offers operational flexibility: firms can allow appropriately senior and trained individuals to approve onboarding, rather than requiring the MLRO or board to be involved in every case. However, the MLRO remains accountable for ensuring appropriate oversight, escalation paths, and recordkeeping are in place.

Declassification and Ongoing Review

Firms are expected to promptly declassify individuals once they no longer hold a PEP role, unless there is a compelling reason to maintain enhanced monitoring (e.g., continued political influence, media profile, or unresolved risk concerns).

FG25/3 recommends that the PEP status of former individuals should not persist indefinitely. The default period for continuing EDD after a person ceases to be a PEP is 12 months, but this can be shortened or extended based on risk.

This ensures that the AML framework remains dynamic and proportionate, rather than burdening individuals or firms with unnecessary controls.



FG25/3 marks a move toward a more balanced and risk-aware way of handling PEPs. It recognizes that while AML rules need to work effectively, they shouldn't place unnecessary pressure on people in public roles here in the UK.

Ashutosh Kale
Managing Principal

Communication and Consumer Duty

In line with Consumer Duty principles, the guidance reminds firms that all communications with PEP customers should be:

- Clear in language
- Fair in tone
- Proportionate in request and explanation.

Firms should avoid using alarming or overly formal language when requesting additional information from domestic PEPs. Customers must be treated with dignity and respect, particularly where there is no evidence of wrongdoing.

This reflects a wider regulatory expectation that AML measures be balanced against customer experience and fairness.

Key Considerations for Firms

To align with FCA Finalised Guidance FG25/3, firms should take a proportionate, risk-based approach to managing relationships with Politically Exposed Persons (PEPs). Key actions include:

A high-angle, blurred photograph of a crowd of people walking in a public space, possibly a transit station or a large office lobby. The floor is made of light-colored tiles with dark lines. The people are out of focus, creating a sense of movement and a busy environment. The overall color palette is dominated by cool blues and greys, with a prominent red overlay on the left side containing text.

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Firms now need to make sure their policies and processes reflect not just the rules, but the overall aim of the new guidance. That means taking a proportionate, risk-based approach to dealing with PEPs and making sure customers are treated fairly throughout.

Ashutosh Kale
Managing Principal

- 1. Policy and procedure updates:** Revise internal frameworks to reflect the refined PEP definitions, domestic versus foreign distinctions, and updated risk categorization guidance.
- 2. Screening logic enhancement:** Review and calibrate screening tools to differentiate between domestic and foreign PEPs and reduce false positives.



This update is a reminder that effective compliance isn't just about ticking boxes – it's about applying good risk judgment and ensuring the PEP customers are treated fairly.

Ashutosh Kale
Managing Principal

- 3. Risk documentation:** Establish clear processes for documenting rationale behind PEP risk ratings and decisions on enhanced due diligence (EDD) levels.
- 4. Declassification controls:** Implement a structured PEP declassification process with defined timelines, triggers, and governance oversight.
- 5. Training and awareness:** Deliver targeted training for onboarding, compliance, and customer-facing staff on proportional application of EDD and Consumer Duty alignment.
- 6. Communication review:** Audit client communication templates to ensure tone, transparency, and treatment are consistent with Consumer Duty expectations.

- 7. Risk differentiation:** Clearly distinguish between lower-risk PEPs and low-risk customers. All PEPs remain subject to EDD, but firms should apply proportionate measures for lower-risk PEPs (e.g., domestic officials with transparent income and no foreign exposure) while recognizing they still present greater risk than standard low-risk customers.

- 8. Ongoing monitoring and triggers:** Integrate adverse media screening and trigger-based reviews into ongoing monitoring processes. New information, such as negative media, changes in role, or emerging risk indicators, should prompt timely reassessment or declassification, ensuring PEP management remains current and proportionate.

How can Capco help?

We support firms in operationalizing FG25/3 through our deep regulatory expertise and compliance capabilities.

1. Policy and framework redesign:

Update AML/PEP frameworks, decision trees, and risk matrices to reflect FCA guidance, ensuring consistency and defensibility.

2. Technology and data enhancement:

Optimize PEP screening through our Knowledge Graph Accelerator, enabling network-based identification of high-risk relationships while distinguishing low-risk domestic PEPs.

3. Training and governance support:

Develop and deliver FG25/3-specific training modules and AI governance frameworks to ensure staff and systems apply proportionality in practice.

4. Capco tools:

We have developed proprietary solutions, such as our Compliance Assist Accelerator, which streamlines and accelerates policy review against regulations and testing of controls.

24. UK Money Laundering Regulations – Proposed Amendments

Overview and Context

In July 2025, HM Treasury published a draft statutory instrument, the Money Laundering and Terrorist Financing (Amendment and Miscellaneous Provision) Regulations 2025, for consultation, which closed on September 30, 2025.

These proposals update the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 (MLRs), reflecting the UK Government's aim to:

- Strengthen oversight of financial crime risks
- Align with international Financial Action Task Force (FATF) standards
- Address emerging threats in sectors such as cryptoassets, legal services, and professional advisory firms.

The reforms will have broad implications for regulated and newly in-scope firms, including financial institutions, law firms, real estate businesses, and crypto-asset service providers.

Key Areas of Amendments

The proposed amendments focus on tightening controls while improving proportionality and clarity across several domains:

A. Crypto-Asset Oversight

The proposed amendments significantly strengthen regulatory oversight of the crypto-asset sector, recognizing its growing role in global financial systems and associated financial crime risks.

The ownership threshold for non-Financial Services and Markets Act (FSMA) crypto-asset businesses triggering mandatory regulatory notification will be lowered from 25% to 10%, aligning with global efforts to increase transparency around beneficial ownership. This adjustment will enable regulators to better identify and monitor controlling interests in crypto firms, many of which operate through



complex or cross-border structures. Furthermore, the introduction of a new statutory definition of “crypto-asset business” within the MLRs provides much-needed clarity on the scope of regulated activity. This move will help standardize supervisory expectations, reduce ambiguity for firms on the perimeter, and ensure more consistent application of AML obligations across the sector.

B. Pooled Client Accounts (PCAs)

Law firms, accountants, and professional service providers will be particularly affected by the proposed tightening of controls around pooled client accounts (PCAs). The new requirements



The proposed amendments will significantly strengthen regulatory oversight of the crypto-asset sector.

Hassan Zaman
Senior Consultant

introduce enhanced due diligence (EDD) obligations on all PCAs, irrespective of the assessed risk level of the underlying clients. This represents a material shift from a purely risk-based approach toward a more prescriptive model intended to close known loopholes exploited for money laundering and layering activities. While the changes aim to strengthen transparency and accountability within professional sectors, they may also impose substantial operational and administrative burdens. Firms will need to invest in upgraded onboarding⁸⁴ procedures, improved client verification, and enhanced recordkeeping to meet these⁸⁵ new requirements.

C. Politically Exposed Persons (PEPs)

The reforms, along with FCA's Guidance on the Treatment of Politically Exposed Persons (PEPs) [FG25/3], reaffirm the UK's commitment to a proportionate and risk-based approach to managing relationships with politically exposed persons. There is a clear move towards case-by-case assessment for PEPs, with firms expected to tailor EDD measures based on the individual risk profile rather than defaulting to a one-size-fits-all policy. This encourages more efficient allocation of compliance resources and reduces unnecessary friction in lower-risk scenarios. The amendments to the MLRs are

designed to make the application of EDD more proportionate. The objective is to ensure that firms reserve the most intensive due diligence for genuinely higher-risk situations, aligning with the principles of effective and targeted financial crime controls. Compliance teams must review policies, calibrate screening tools, and train staff to ensure that PEP management reflects these principles in both process and practice.

D. High-Risk Countries and Correspondent Relationships

The UK continues to align its high-risk third-country framework with evolving international standards and FATF guidance. The latest draft legislation formalizes recent updates to the high-risk country list, ensuring that firms' risk assessments reflect current geopolitical and sanctions developments. In addition, the 2025 proposals introduce greater clarity on correspondent relationships, particularly for institutions engaging with crypto-asset businesses. Firms must undertake robust due diligence when establishing such relationships, ensuring that counterparties in higher-risk jurisdictions maintain equivalent AML and counter-terrorist financing controls. This heightened scrutiny underscores the FCA and HM Treasury's focus on preventing illicit financial flows through correspondent and digital asset channels, reinforcing the need for comprehensive due diligence, ongoing monitoring, and transparent⁸⁶ governance across all cross-border relationships.

Key Considerations for Firms

The draft regulations signal a more risk-based and proportionate approach, but they will require firms to reassess their AML frameworks and operational readiness.

Key priorities for firms include:

- 1. Updating policies and controls:** Reflect new definitions, thresholds, and due diligence obligations, particularly for cryptoassets and PCAs.

84. <https://financialregulation.linklaters.com/post/10212qm/uk-drafts-changes-to-money-laundering-regulations>

85. <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/VirtualAssets.html>

86. <https://www.legalfutures.co.uk/latest-news/aml-changes-will-heap-significant-compliance-burdens-on-firms>



Proposed 2025 amendments to the UK Money Laundering Regulations will have broad implications for regulated and newly in-scope firms, including financial institutions, law firms, real estate businesses, and crypto-service providers

Hassan Zaman
Senior Consultant

- 2. Enhancing data and technology:** Strengthen ownership verification, screening, and transaction monitoring capabilities.
- 3. Reassessing risk appetite⁸⁷:** Adjust risk appetite frameworks to reflect the lower-risk treatment of domestic PEPs and updated high-risk country criteria.
- 4. Training and awareness:** Enable compliance and front-line teams to apply proportionality and respond to new sectoral requirements.
- 5. Board-level governance:** Treat anti-money laundering regulation (AMLR) readiness as a strategic issue, with oversight of remediation plans and control enhancements.



Firms are expected to tailor EDD measures based on the individual risk profile rather than defaulting to a one-size-fits-all policy.

Hassan Zaman
Senior Consultant



How can Capco help?

With our award-winning data and analytics capabilities, we help organizations in regulatory readiness for financial crime detection and regulatory compliance. We help organizations navigate and operationalize regulatory change through a blend of financial crime expertise, data innovation, and regulatory change implementation experience. Our support for firms includes:

- 1. Regulatory readiness assessments:** We conduct regulatory readiness assessments by mapping existing AML controls against the new requirements to identify gaps and prioritize enhancements.
- 2. Framework and policy redesign:** Our SME team brings expertise in updating CDD, EDD,

and beneficial ownership procedures to reflect revised thresholds and definitions.

- 3. Crypto-asset risk management:** Advising on governance, ownership structures, and monitoring processes tailored to digital asset exposures.
- 4. Technology and data enablement:** Leveraging Gen AI solutions to streamline KYC, ownership verification, and transaction monitoring helps to enable rapid insight generation and streamlined regulatory process execution.
- 5. Implementation and training support:** Delivering operational playbooks, targeted training, and governance enhancements to ensure sustainable compliance.

87. <https://www.fca.org.uk/publications/finalised-guidance/fg25-3-treatment-politically-exposed-persons-under-uk-aml-regime>

25. UK: FATF Spotlight on Shell Company Transparency

In 2022, the Financial Action Task Force (FATF), a global anti-money laundering (AML) watchdog, updated its standards to mandate the member countries to establish beneficial ownership registers or equivalent frameworks to provide authorities with visibility into company ownership structures.

Since then, the UK and its overseas territories are under increasing FATF scrutiny regarding shell company transparency. In response, to tackle financial crimes associated with these entities and to bring greater transparency to shell company ownerships, the UK passed the Economic Crime and Corporate Transparency Act 2023.

In September 2025, the FATF President described⁸⁸ shell companies as the “getaway car” that enables criminals to move money around the world. It was indicated that, in the next round of assessments, FATF will be “heavily” focusing on the effectiveness of company registers.

Shell companies and their role in facilitation of financial crime

Shell companies are frequently used in schemes involving money laundering, tax evasion, and sanctions evasion, posing a threat to the global economy and national security. Shell company structures typically have a legal or incorporated company without any significant assets, independent operations, ongoing business activities, or employees.

The FATF has strongly recommended that entities structured via shell, nominee, or complex arrangements that obscure ownership or control should attract enhanced scrutiny as higher risk. The objective is to combat financial crime through enhanced jurisdictional frameworks with robust domestic rules and scrutiny to close any loopholes in using “anonymous” or “bare-shell” companies.

Progress in the UK

The Economic Crime (Transparency and Enforcement) Act 2022 established the Register of Overseas Entities (ROE) for UK property owners.



Its successor, the Economic Crime and Corporate Transparency Act 2023 (ECCTA), built on this foundation with broader reforms to UK corporate law, enhanced Companies House powers, the introduction of the “failure to prevent fraud” offence, and changes to corporate criminal liability.

The Companies House reform is phased, with full implementation in the UK expected by end of 2026.

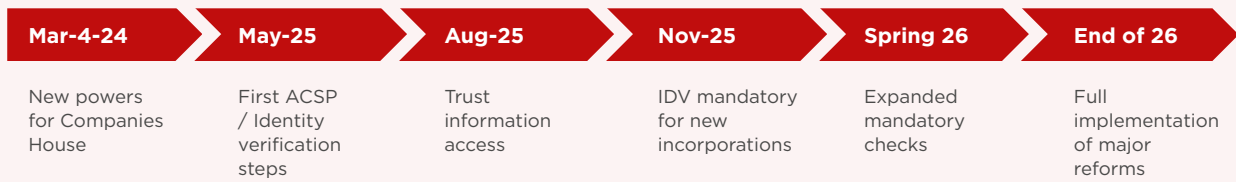
The implementation of the Economic Crime and Corporate Transparency Act (ECCTA) 2023 is also ongoing and phased, with key changes being driven by the Companies House reforms including the mandatory Identity Verification (IDV) requirement for new directors and People with Significant Control (PSCs) (Nov 2025), and a transitional period for existing directors and PSCs to be completed by 2026.

Progress in the UK’s offshore financial centers

Transparency International UK (TI-UK) has been collating information on suspect funds being invested

88. <https://www.reuters.com/business/finance/financial-crime-watchdog-calls-countries-come-clean-shell-companies-2025-09-03/>

Figure 1: Timeline for Companies House Reform



in UK property. One of the TI-UK reports⁸⁹ finds that £5.9 billion worth of suspicious funds has been used to purchase UK properties through shell companies registered in Britain’s Overseas Territories.

In September 2025, TI-UK published a set of comprehensive guidelines for implementing access to beneficial ownership registers in the UK’s offshore financial centers⁹⁰ to provide a detailed roadmap and set standards for fully public registers – Legitimate Interest Access Registers of Beneficial Ownership (LIARBOs).

How UK Organizations Should Prepare

With the increasing regulatory and societal scrutiny on shell companies and approaching regulatory timelines, it is important that organizations have a plan to meet the changing requirements.

A. Ongoing monitoring of changes to ownership or structures

Network analytics can form a vital component of an organization’s toolkit to gain greater understanding of UBOs by assisting in the verification of ownership and providing ongoing monitoring.

A knowledge graph visualizes complex relationships and represents information as a network of entities (people, organizations, events, and places) and maps the relationships. This visualization allows hidden connections to be uncovered and increases the likelihood of true owners being established. Circular ownership, shared addresses, or sudden director changes can be highlighted as patterns of behavior that could indicate a shell company.

Because a knowledge graph is a living, dynamic network that can continually ingest data, i.e., company filings, suspicious changes to ownership or structures can trigger notifications or alerts raised at scheduled reviews.

B. Cross-domain intelligence dataset fusion

The UK regulatory proposals are expanding the scope of cooperation and information sharing between regulators and organizations and this trend is likely to continue. It requires cross-domain intelligence fusion by bringing in datasets, such as corporate registries, leaked datasets (e.g., Panama Papers) and sanctions and PEP lists, to uncover the shell company structures.



The next round of FATF evaluations is going to focus on the effectiveness of implementation and verification of beneficial-ownership registers for increased transparency.

Ashutosh Kale
Managing Principal

89. <https://www.transparency.org.uk/news/new-analysis-reveals-role-overseas-territories-pumping-almost-ps6-billion-dirty-money-uk>

90. <https://www.transparency.org.uk/sites/default/files/2025-09/Unlocking%20Ownership%20Data.pdf>



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The UK has introduced multiple measures to enforce the transparency of beneficial ownership, and to increase enforcement as part of its objective to address the shell company related issues.

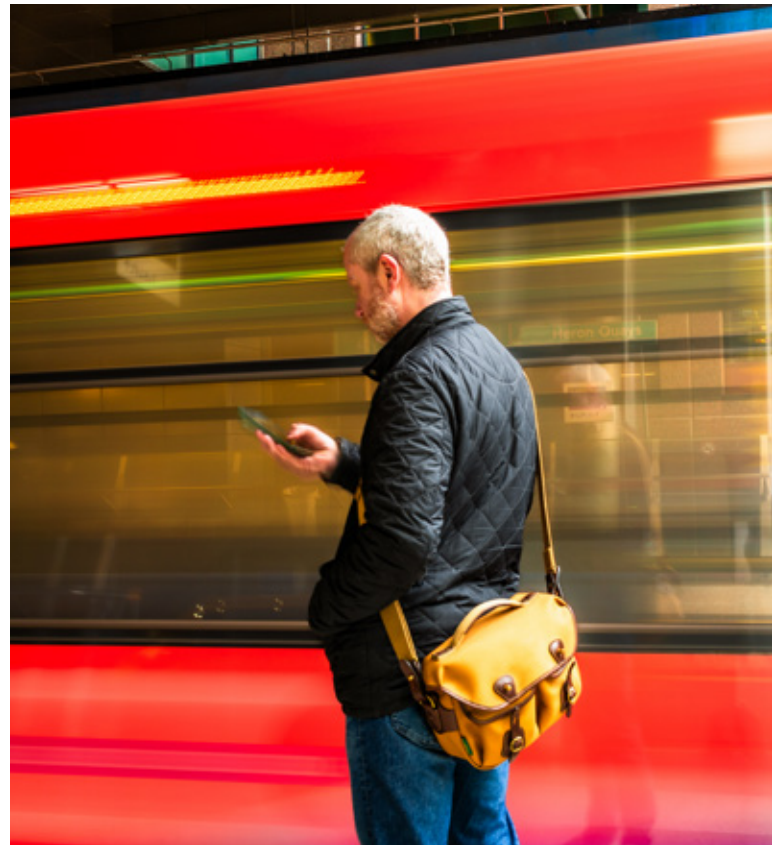
Andrew Cockburn
Senior Consultant

With increasing focus on making UBO information available to regulators and peer organizations, it's important that the organizations implement appropriate system enhancements to enable efficient transfer of data and allow access with appropriate controls built in.

C. Enhancements to governance frameworks

Many UK organizations have already started a journey on the adoption of artificial intelligence (AI) to enhance the scrutiny of shell, intermediary, shelf, or nominee vehicles for financial crime detection. While the use of shell companies is not inherently illegal, their misuse depends on the opacity.

When using AI in the scrutiny of shell companies, models must provide reason codes for why an entity or network is flagged (e.g., "shared nominee directors across five high-risk jurisdictions"). The implementation of AI in financial crime systems and processes must be designed to provide auditability and reproducibility – key requirements for regulatory defensibility.



How can Capco help?

We help organizations transform financial crime detection and regulatory compliance. We help organizations navigate and operationalize regulatory changes through a blend of financial crime expertise, data innovation, and implementation experience. Our support for firms includes:

1. Readiness assessments:

We conduct regulatory readiness assessments by mapping existing controls against the new requirements to identify gaps and prioritize enhancements.

2. Framework and policy redesign:

We establish governance frameworks that ensure transparency, fairness, and accountability across financial crime systems. Our SME team brings expertise in updating CDD, EDD, and beneficial ownership procedures to reflect revised thresholds and definitions, analysis of policy gaps, and impact assessment of upcoming regulatory changes to accelerate compliance with evolving requirements, such as ECCTA and FATF priorities.

3. Implementation and training support:

We deliver operational playbooks and governance enhancements to ensure sustainable compliance. We also deliver targeted training support and ECCTA awareness programs to help teams stay aligned with new regulatory expectations.



Trade & Transaction Reporting & Controls

26. EU Capital Markets Transformation - The MiFID II / MiFIR 2026 Outlook

2026 as a Pivotal Year for EU Market Structure

The year 2026 is set to be a transformative period for European capital markets, marking the critical implementation phase for foundational changes stemming from the MiFIR Review adopted in early 2024. These wide-ranging reforms are designed to bolster transparency, strengthen investor confidence, and enhance overall market efficiency across the EU. With the transposition deadline for the MiFID II amendments set for September 29, 2025, firms must accelerate preparations for the technical and operational shift. The transformation agenda is dominated by three interconnected themes: the prohibition of Payment for Order Flow (PFOF), the establishment of the Consolidated Tape (CT) for stocks, ETFs and derivatives, and the application of new investor protection standards under the Retail Investment Strategy (RIS).

The Ban on PFOF: Realigning Best Execution Duties

The MiFIR Review introduced a significant regulatory change aimed at strengthening market integrity through the explicit prohibition of Payment for Order Flow (PFOF) under Article 39a of MiFIR. This article stipulates that investment firms executing orders for retail or professional clients must not receive any fee,

commission, or non-monetary benefit from a third party for routing orders to a particular venue. The EU-wide prohibition takes effect on June 30, 2026.

The primary regulatory objective is to eliminate conflicts of interest linked to the best execution duty mandated by MiFID II Article 27. By removing PFOF as a revenue stream, the regulation challenges business models that relied heavily on “zero-commission” trading. PFOF can incentivize brokers to route orders based on compensation rather than optimal client outcome. Investment firms must now select trading venues or counterparties solely to achieve best execution, considering price, cost, speed, and likelihood of execution. This demands a complete overhaul of execution policies and requires firms to disclose all commissions, subscription fees, and spread mark-ups to evidence transparent, conflict-free execution practices. The prohibition compels firms to review or terminate third-party venue arrangements and reconfigure automated routing logic to ensure unbiased selection. Firms must manage this transition carefully, as some models suggest a PFOF ban could reduce welfare by limiting retail investors’ access to advantageous prices sometimes offered by market makers through internalization.



The CT for Stocks, ETFs and Derivatives: Unifying Market Transparency

The introduction of the CT across EU markets represents one of the most significant transparency reforms since MiFID II's inception. Its purpose is to overcome market fragmentation, reduce costs by existing data vendors, and provide a unified, real-time source of post-trade information. The CT is expected to take effect from 2026, with a phased rollout initiated with equities and ETFs, followed by bonds and other instruments, eventually extending to derivatives once technical frameworks are finalized.

For each asset class, ESMA will appoint a single Consolidated Tape Provider (CTP) through a competitive tender process. All trading venues and approved publication arrangements must submit price, volume, and timestamp data in real-time and free of charge to the CTP. The creation of the CT is inextricably linked to the PFOF ban. By providing a unified view of liquidity and execution activity, the CT empowers firms to monitor and verify best execution quality under MiFID II Article 27. It provides centralized data to benchmark execution performance across all venues, allowing market participants to validate execution quality and enhance regulatory oversight.

The implementation, however, presents substantial short-term costs and logistical challenges. ESMA's draft regulatory technical standards (RTS) are highly prescriptive, detailing minimum requirements for transmission protocols and data dissemination and stringent standards for clock synchronization, including UTC traceability and maximum divergence levels. Trading and analytics systems will require extensive upgrades to ingest, process, and reconcile the new standardized CT data. Governance frameworks must be updated to demonstrate how insights derived from the CT inform execution policies and venue selection.

Expanded Market Structure and Transparency Changes (2026 Milestones)

Beyond PFOF and the CT, the MiFIR Review introduces several critical adjustments to market structure and reporting requirements, many of which will take effect in the first half of 2026.

One notable change is modifying the Double Volume Cap (DVC) mechanism. The complex DVC (4% per

trading venue, 8% market-wide) will be replaced by a simpler single volume cap (7%) for trades executed under the reference price waiver or the negotiated trade waiver. In preparation for this shift, ESMA plans to discontinue the reporting of volume cap data (DVCAP) flows, with December 31, 2025 designated as the last reporting day. This simplification aims to reduce administrative burden while ensuring sufficient liquidity remains within transparent trading venues.



The PFOF ban will transform execution practices by enforcing transparency, eliminating conflicts of interest, and fostering a truly competitive marketplace driven by investors.

Balamuhunthan Balasubramaniam
Principal Consultant

The revised MiFIR transparency obligations (amendments to RTS 1 and RTS 2) should be adopted from March 2, 2026. This period also coincides with the end of the legacy quantitative data reporting flow via the Financial Instrument Transparency Reference Data System (FITRS), with March 31, 2026 being the last reporting day. Additionally, trading venues face a new requirement under amended MiFID Article 58 to publish a second weekly position report covering option positions, with an anticipated go-live date of April 1, 2026. Investment firms are no longer required to report positions in emission allowances.

Furthermore, the Systematic Internalizer (SI) regime is being refined by removing the non-equity SI obligation to publish firm or indicative quotes and revising equity SI quoting obligations to require public firm quotes based on a new, larger minimum quote size.



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The introduction of the CT across EU markets marks a pivotal moment in transparency reforms, offering a unified perspective on liquidity and execution that empowers firms to ensure best execution quality under MiFID II Article 27.

Balamuhunthan Balasubramaniam
Principal Consultant

Reform Area	Regulatory Source	Key Milestone/ Application Date	Impact and Action
MiFID II transposition	MiFID II/MiFIR Review	September 29, 2025	Deadline for member states to transpose MiFID II amendments into national law.
DVCAP reporting sunset	ESMA Public Statement	December 31, 2025 (last reporting day)	Retirement of reporting systems for the Double Volume Cap mechanism.
MiFIR Transparency Rules	ESMA Guidance (RTS 1/2)	March 2, 2026 (anticipated application)	Implementation of new pre- and post-trade transparency obligations and updated SI quoting requirements.
FITRS quantitative data sunset	ESMA Public Statement	March 31, 2026 (last reporting day)	Discontinuation of quantitative data reporting via FITRS; data migration project completion.
Venue position reporting	MiFID II Review (Amended Art 58)	April 1, 2026	Trading venues must begin publishing a second weekly report covering option positions.
PFOF prohibition	MiFIR Article 39a	June 30, 2026 (end of transition period)	Complete EU-wide ban on receiving fees for order flow; requires best execution policy overhaul.
Consolidated Tape (CT)	MiFIR Refit	Phased rollout begins in 2026	Integration of new market data feeds and systems architecture upgrade (equities/ETFs first).

Leveraging Reforms to Redefine Client Propositions

The EU's 2026 regulatory agenda requires investment firms to transform their business models far beyond compliance exercises. The interconnected nature of the PFOF ban and the CT rollout necessitates a coordinated response focused on data infrastructure and client transparency. Regulatory mandates, especially the sweeping MiFID/MiFIR reforms, present significant opportunities for strategic market differentiation.

Firms should view the CT not just as a cost driver, but as a mandatory influx of high-quality data that can be deployed for superior performance. By proactively integrating CT data into execution algorithms and liquidity management systems, firms can secure a competitive edge through enhanced price discovery and provable execution quality post-PFOF. Firms can differentiate themselves by moving beyond the minimum compliance threshold, adopting transparent, outcome-oriented advisory models, and utilizing technology to deliver simplified, standardized digital disclosures.



How can Capco help?

We assist clients in navigating these changes by ensuring system readiness for the CT, building data-driven and outcome-oriented advisory models, reviewing governance frameworks, and implementing digital solutions to meet the new disclosure standards. By embedding transparency and trust, early adopters of these reforms can position themselves firmly in a more efficient, data-driven, and resilient retail investment landscape.

27. T+1 in Europe – how it is going and what it tells us about the model for pan-European market initiatives



Progress and state of play so far

Momentum toward a one-day settlement cycle is gathering across Europe. The UK's Accelerated Settlement Taskforce (AST) published its final implementation plan in February 2025, setting October 11, 2027 as the first day of T+1 trading for UK cash securities. Switzerland has confirmed its intention to follow a similar timetable, while in the EU the Roadmap to T+1 Settlement, as well as ESMA's work on amending the RTS on Settlement Discipline positions the bloc for transition at the same time.

The UK's plan is detailed and industry-driven, defining 12 critical actions and 26 highly recommended ones for firms and infrastructures alike. It prescribes a phased journey: assessment and project planning through 2025, system build and behavioral change through 2026, testing in 2027, and go-live in October 2027. The government will legislate to make T+1 settlement mandatory, but the tone is one of collaboration rather than prescription.

Across the Channel, the EU's approach is regulatory first, but with strong industry alignment. ESMA's October 2025 final report proposes amendments to the RTS on Settlement Discipline to embed key enablers: electronic allocations and confirmations by 23:00 CET on trade date, machine-readable data formats, standardized communication protocols, and automated matching and partial settlement functionality. The measures are framed as a foundation for efficiency, not simply compliance.

Switzerland, meanwhile, has indicated its intent to align with both the EU and UK schedules, reflecting its integrated trading and post-trade relationships with both blocs. In effect, Europe's three major markets are converging on a single transition date – an important signal for investors who have long called for coherence to avoid fragmentation.

It is worth reflecting that at the start of this journey, as stakeholders across geographic Europe considered

how to respond to the US move to T+1, this alignment was by no means assured – the alignment and the collaborative tone is a significant achievement.

Key principles shared between all jurisdictions

Despite different legal frameworks, the UK, EU, and Switzerland have converged on several shared principles that define Europe's T+1 philosophy.

- **Industry-led execution:** All jurisdictions have adopted the model where authorities set the outcome and timing, but industry designs the pathway. The AST describes its role as providing the “blueprint of changes that market participants must collectively deliver” (AST Final Report,



Despite different legal frameworks, the UK, EU, and Switzerland have converged on several shared principles that define Europe's T+1 philosophy.

Rollo Burgess
Partner

February 2025), while ESMA emphasizes alignment with “ongoing industry efforts to improve settlement efficiency and facilitate the transition to T+1” (ESMA Final Report, October 2025).

- **Commitment to automation and standardization:** The shift from manual to electronic, machine-readable, and standardized data is central. ESMA's amendments make this a regulatory requirement; the UK's UK-T1 Code of Conduct frames it as an expected behavior. Both highlight the lessons from North America's experience that insufficient automation leads to higher costs and settlement risk.

- **Transparency and monitoring:** All three frameworks link T+1 readiness to improved settlement discipline, data, and transparency. The FCA's October 2025 blog reinforced this expectation, noting that the change “is designed to improve market efficiency, reduce risk and align the UK with global settlement standards.”
- **Phased implementation and testing:** Each jurisdiction recognizes that operational resilience depends on structured testing, governance, and feedback loops. The UK will establish an “Implementation Command Centre” during the transition weekend; the EU proposes staged application dates: December 2026 for pre-settlement processes, July 2027 for data reporting, and October 2027 for full implementation.
- **Shared accountability across the ecosystem:** Regulators, infrastructures, and market participants are jointly responsible. None can succeed without the others' readiness.

There will, of course, be divergence in form. The EU's changes are framed through CSDR and thus carry legal force across member states, whereas the UK model relies on coordinated self-regulation and adherence to the UK-T1 Code of Conduct. Switzerland's regime, as a non-EU jurisdiction, will adopt a pragmatic mix of market practice and domestic supervisory guidance.

Yet these differences in method mask a remarkable consistency in principle. Europe is demonstrating that coordination need not mean uniformity – a valuable precedent for future cross-border reforms.

Challenges ahead

The next phase will test the strength of Europe's collaborative governance. While the strategic destination is agreed, execution will depend on disciplined coordination among a wide network of actors – trading venues, CCPs, custodians, asset managers, and service vendors – each with their own technology timelines and budget cycles.

Testing will be a critical proving ground. The UK's plan calls for full industry testing in 2027, while ESMA's phased approach envisions a similar window. Achieving interoperability across systems and jurisdictions will require early bilateral and multi-



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In our view the European T+1 transition process has already shown the value of industry-led delivery with regulatory partnership.

Rollo Burgess
Partner

lateral test environments, with consideration for common data standards and cross-border test cases.

Liquidity and funding implications remain under scrutiny. Shorter cycles compress FX settlement timelines and securities lending recalls, potentially heightening intraday liquidity risk. The AST recommends automation of stock-lending recalls and alignment of fund settlement cycles to mitigate funding mismatches.

Governance, too, will be tested. Without disciplined cross-market governance, minor variances could translate into cross-border inefficiencies, which would be contrary to the intent of the move to T+1.

The messaging from the public authorities is consistent in encouraging the industry to step up and tackle these and other known challenges, including all types of market participants (see for example the FCA's October 2025 open letter to compliance officers of asset managers).

A model for future initiatives

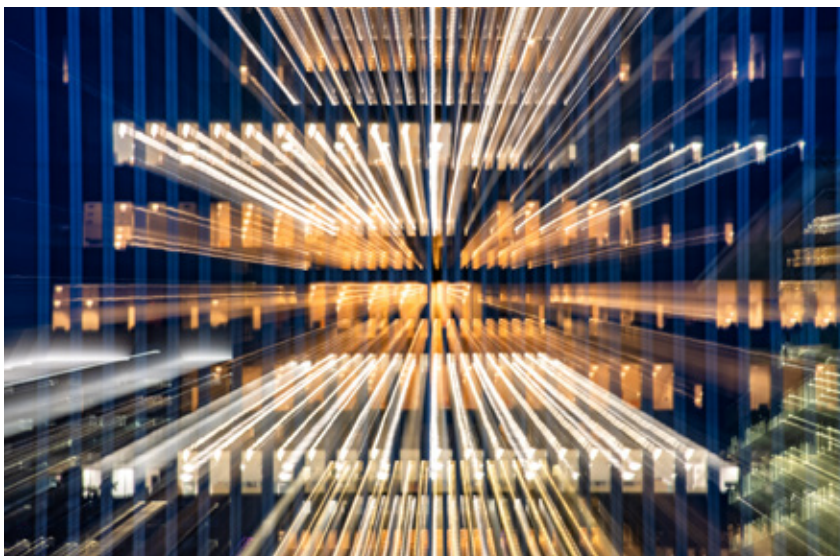
In our view, the European T+1 transition process has already shown the value of industry-led delivery with regulatory partnership. Authorities have defined the direction of travel, but the method is being co-created by the market. This is a model of shared accountability, one that blends regulatory clarity with operational pragmatism.



The shift from manual to electronic, machine-readable, and standardized data is central. ESMA's amendments make this a regulatory requirement; the UK's UK-T1 Code of Conduct frames it as an expected behavior.

Rollo Burgess
Partner

It suggests that Europe's next generation of market reforms, from digital securities to cross-border collateral mobility, may be most successful when pursued through the same structure: policy-anchored, industry-owned, and collaboratively governed.



How can Capco help?

At Capco, we are working across Europe with clients at every stage of the industry value chain, supporting them in mobilizing and driving their T+1 initiatives. Focus areas include managing and interrogating their data, engaging their clients, network and market structure, starting to think through test approaches, and more.

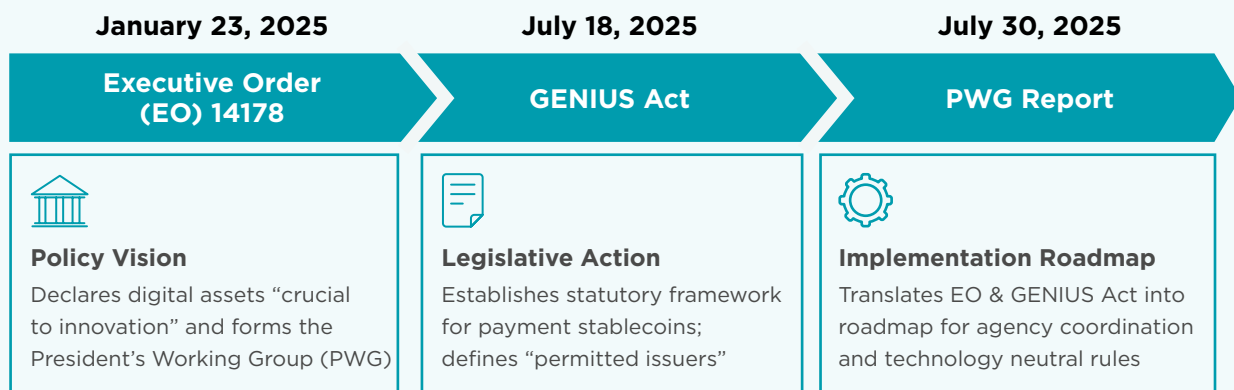
28. From Ambiguity to Action: The US Digital Asset Framework Takes Shape

After years of regulation by enforcement, the US is moving toward a coherent regulatory framework for digital assets. The shift began at the top: **Executive Order 14178**, signed in January 2025, declared digital assets and blockchain technology “crucial to America’s innovation and leadership” and established the **President’s Working Group on Digital Asset Markets (PWG)** to coordinate federal policy.

In the months that followed, **Congress enacted the GENIUS Act**, providing the first statutory framework for payment-stablecoin issuance and supervision. The PWG’s **Strengthening American Leadership in Digital Financial Technology** report⁹¹ then translated both the Executive Order’s policy vision and Congress’s legislative mandate into an operational roadmap for agencies, emphasizing technology-neutral regulation, inter-agency cooperation, and safeguards for market integrity.

Together, these actions mark a turning point. Digital assets are no longer treated solely as speculative instruments but as emerging components of U.S. monetary and payment-system infrastructure.

Figure 1: Movement towards a coherent regulatory framework



Market Structure and Regulatory Coordination

The PWG’s **Framework for the Responsible Development of Digital Assets** called for “technology-neutral clarity,” urging agencies to regulate assets based on their economic function rather than the technology used to issue or record them. That call has begun to reshape agency priorities.

At the **SEC**, Chair Paul Atkins launched **Project Crypto**, directing staff to develop tailored rules for token issuance, custody, and secondary trading through interpretive and exemptive authority. Comment letters⁹² from firms such as a16z, Clifford Chance, Davis Wright Tremaine, and CoinList, reflected similar priorities: safe-harbor treatment for partially functional tokens, recognition of blockchain-based recordkeeping and self-custody, and modernization of disclosure and accounting standards. Subsequent Commission actions include the **rescission of Staff Accounting Bulletin 121**, reconsideration of the crypto-custody proposal, and a joint **SEC-CFTC** statement clarifying that registered exchanges may list certain spot-asset products, signaling a more constructive and principles-based posture toward the industry.

91. [Strengthening American Leadership in Digital Financial Technology Report](#)

92. Comments on the SEC Crypto Task Force’s Questions Concerning the Security Status of Cryptoassets: [a16z](#), [Clifford Chance](#), [CoinList](#), [DWT](#)



The **CFTC**, through its Crypto Sprint and two Requests for Input, explored how existing authority under **CEA § 2(c)(2)(D)** could extend to leveraged retail spot markets. Commenters⁹³ such as a16z, Coinbase, ICE, Kraken, OKX, and Paradigm urged modernization of Designated Contract Market rules to support atomic settlement, integrated custody, and on-chain surveillance. DeFi-focused participants⁹⁴, including AvaLabs and Paradigm, advocated narrowly tailored **§ 4(c)** “innovation exemptions” consistent with the PWG’s emphasis on decentralization and transparency.

Collectively, these actions represent a functional re-architecture of US market structure. Agencies are operationalizing the PWG’s framework in real time, stretching existing statutes to accommodate tokenized assets rather than waiting for Congress to legislate anew. The approach is pragmatic: it allows innovation to advance within evolving guardrails.

The GENIUS Act and the New Payment Infrastructure

The **GENIUS Act**, enacted in July 2025, establishes the first comprehensive US rules for **payment-stablecoins** – digital tokens used for payments or settlement, redeemable at par and backed one-to-one by high-quality liquid assets. It restricts issuance to licensed “permitted payment-stablecoin issuers,” mandates transparent reserve composition, and

embeds AML, sanctions, and consumer-protection requirements. For banks and fintechs, it provides long-awaited legal clarity to integrate tokenized cash into financial operations.

Implementation is already underway. The **Treasury Department** and **FinCEN** launched parallel consultations in late summer 2025: a Request



Together, these actions mark a turning point. Digital assets are no longer treated solely as speculative instruments but as emerging components of US monetary and payment-system infrastructure.

Sofia Villacreses
Consultant

93. Comments for general CFTC request for input on listing spot crypto-asset contracts: [a16z](#), [Coinbase](#), [ICE](#), [OKX](#), [Kraken](#)

94. Comments for general CFTC request for input on listing spot crypto-asset contracts: [Paradigm](#), [Ava Labs](#)

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Agencies are operationalizing the PWG's framework in real time, stretching existing statutes to accommodate tokenized assets rather than waiting for Congress to legislate anew.

Sofia Villacreses
Consultant



Every bridge that reduces friction also broadens the surface area for systemic stress.

Sofia Villacreses
Consultant

for Comment on methods to detect illicit digital-asset activity and an Advance Notice of Proposed Rulemaking on operationalizing the GENIUS framework. Meanwhile, the **OCC** reaffirmed that national banks may continue digital-asset activities under existing interpretive letters (IL) – **IL 1170** (crypto custody), **IL 1172** (stablecoin reserve deposits), and **IL 1174** (DLT-enabled payments). Through **IL 1183**⁹⁵ (March 2025), the OCC rescinded the blanket “prior non-objection” requirement introduced by IL 1179, returning these activities to normal supervisory review under established risk-management standards.

Together, these measures transform the stablecoin from a compliance risk into a regulated instrument of US payment infrastructure. Banks can now issue, custody, or settle with tokenized dollars under defined supervisory expectations, moving closer to the token-native monetary plumbing envisioned by the PWG.

Implementation Risks and the Road Ahead

The next phase will test whether coordination can mature into durable rulemaking. While agencies’ reliance on interpretive and exemptive authority enables flexibility, overuse risks leaving parts of the market under-supervised. As traditional intermediaries and blockchain systems become more interconnected, shocks in one domain can quickly transmit to the other, as seen in recent market-

wide liquidations driven by leverage and automated liquidation mechanisms. Every bridge that reduces friction also broadens the surface area for systemic stress.

The challenge for regulators is to institutionalize cooperation and convert temporary exemptions, pilots, and joint statements into rules that balance innovation with market integrity. For Congress, the risk lies in assuming that administrative improvisation can replace legislative permanence. For issuers and financial institutions, the task is to operationalize the GENIUS framework without fragmenting the interoperability it seeks to promote.

Collectively, these developments turn digital-asset oversight from a patchwork of enforcement actions into a structured, though still experimental, policy regime. The US is building a two-tiered digital-asset system in which banks, issuers, and regulators share responsibility for a new layer of monetary infrastructure. Whether that system matures into a stable foundation or repeats a cycle of permissiveness and retrenchment will depend on how effectively the country balances ambition with discipline.

How can Capco help?

Capco helps financial institutions and fintechs turn new digital-asset frameworks into practical operating strategies. We support clients in interpreting evolving regulation, designing approaches for tokenization and stablecoin product launches (including evaluation of third-party vendor risks), and embedding controls that align innovation with supervisory expectations. By combining regulatory insight with delivery expertise, Capco enables organizations to integrate compliant, resilient digital-asset infrastructure – building the foundations of a modern, interoperable financial system.

95. OCC [IL 1183](#)

29. Implications of Total Cost Reporting (TCR) on the Canadian Investment Industry



TCR is the latest phase of the Client Relationship Model (CRM3) regulations⁹⁶ in Canada. TCR requires end investors to receive clear/personalized information regarding all costs of owning a fund. This includes upfront costs and embedded ongoing costs such as management expenses, trading costs, and other fund-level expenses.

After more than three years of active industry stakeholder discussions, working groups, and planning between investment fund managers, wealth managers/dealers, industry bodies, and regulators, the time has come for the Total Cost Reporting (TCR) to come into effect. As of January 1, 2026, investment fund managers (IFMs) will commence collecting cost

of fund ownership data. Fund expense ratio (FER) is effectively the sum of the management expense ratio (MER) and trading expense ratio (TER). This data will then be provided by IFMs to dealers to calculate and report the total cost of fund ownership to end investors as of December 31, 2026. The regulation has implications for IFMs and dealers from an operational, system, process, and data-sourcing perspective. The regulation also has direct implications on investment advisors who are the ones that will be tasked to convey the fees to their clients.

Initial TCR Industry Implications on Fund Manufacturers and Wealth Managers/Dealers

Initial industry considerations revolved around implementation requirements. Under TCR, starting on January 1, 2026, IFMs will be responsible for producing a calculated daily cost factor (DCF)⁹⁷. DCF represents the fund expenses for each fund in scope for TCR as outlined by the regulators as well as the underlying fund class/series for a particular fund for the day. Therefore, IFMs will be required to provide a DCF to dealers for all investment funds owned by their clients during the annual reporting period.

Dealers will then need to calculate the cost of fund ownership per client. This will need to be done across dealer service lines: full-service brokerages, discount brokerages, bank branches, and any proprietary channels. Dealers will be tasked to develop personalized cost information on investor statements for early 2027. These statements will now have the total amount of fund expenses (in dollars) for all investment funds held during the annual reporting period.

These requirements primarily impact compliance, operations, technology, and data. Requirements include the need for operations infrastructure for the purpose of data collection at the individual investor-holding level. Data availability and individual investor dollar cost calculations challenges present new system extracts considerations as well as new

96. Canadian Securities Administrators (CSA) and CIRO (Canadian Investment Regulatory Organization)

97. CIBC Mellon: Enhanced Transparency: Preparing for Total Cost Reporting Regulatory Requirements, May 2025



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Total Cost Reporting (TCR) is the latest phase of Client Relationship Model (CRM 3) regulations in Canada. TCR requires end investors to receive clear/personalized information regarding all costs of owning a fund and impacts compliance, operations, technology, and data processes.

Dejan Knezevic
Managing Principal

processes. Lastly, total cost calculations and how investor communications would be conducted need to be considered.

In addition to the above-mentioned considerations, TCR puts advisors in a peculiar position as advisors will have to justify their value and fees they are charging their clients with this additional layer of transparency of total cost of fund ownership.

TCR Implications on Investment Advisors (“Advisors”)

The cost of investment products and investment advisor value of advice have been scrutinized for years in developed markets, and Canada is no exception to that sentiment. A number of end investors have moved to a “do it by yourself model” in the form of discount brokerages, direct ETF investing, and other platforms that are available in abundance. What TCR does is provide the opportunity for advisors to differentiate themselves from the competition. Advisors now have an opportunity to shift the conversation from fees to value investors receive for the fees that they pay.

This approach allows advisors to focus on investment objectives/outcomes of funds advisors select for their clients. Incorporating a narrative that explains

how the client is getting closer to their objectives by transparently and openly discussing product returns, fees, and risks, advisors have an opportunity to embrace TCR and avoid the generally negative focus on fees. Advisors have an opportunity to take the trust to a higher level by being more transparent and having proactive and open conversations with their clients. However, this communication should be thoughtfully crafted to ensure that clients understand their objectives, risk/return profiles of the funds they are invested in as well as the fees they are paying and, most importantly, value they are getting.



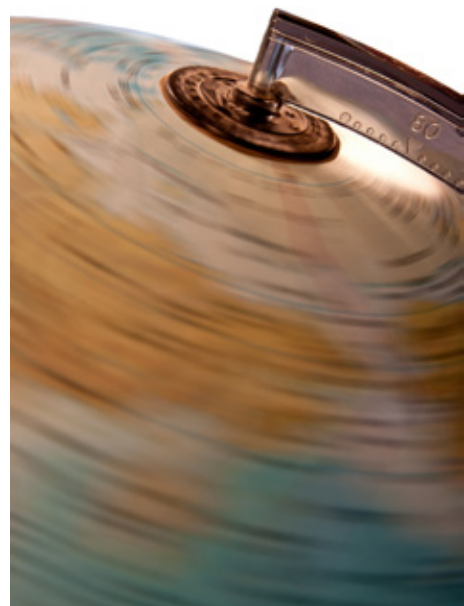
TCR provides the opportunity for advisors to differentiate themselves from the competition.

Dejan Knezevic
Managing Principal

How can Capco help?

Over several decades, Capco has developed a number of target operating models (TOMs) for global clients. Some of the TOMs we developed were a direct result of the evolving global regulatory landscape. Our proprietary accelerators and TOM frameworks enable us to swiftly review, assess, and recommend changes to key TOM pillars: people, processes, technology, data, controls, governance and service performance.

For the IFMs and wealth managers/dealers that have not addressed all TCR requirements, Capco can help them expedite that process while ensuring that they will be fully compliant with regulatory requirements. In addition, we can ensure that technology and processes required to extract the daily data to calculate the total cost of fund ownership are up to industry standards and if not, we have the blueprint to get them there.



30. UK EMIR Transaction Reporting - Divergence and the Drive for Data Precision



The Continuation of UK EMIR Refinement

The UK regulatory framework for derivatives reporting, governed jointly by the Financial Conduct Authority (FCA) and the Bank of England (BoE), continues to evolve post-Refit, emphasizing high-quality, standardized data necessary for effective systemic risk monitoring and financial stability oversight. While the initial implementation of the UK European Market Infrastructure Regulation (UK EMIR) Refit introduced broad changes, such as adopting the ISO 20022 XML standard, the current phase signals a deeper focus on technical precision and jurisdictional divergence from the European Union's framework.

The timing of these updates – addressing amendments and technical validation – indicates a regulatory intent toward iterative improvement rather than substantial rewrites. This constant refinement necessitates that financial firms build perpetual change management capabilities. Although the regulators seek a CPMI-IOSCO-aligned, globally

consistent dataset, the decision to refine validation rules and introduce UK market-specific definitions reinforces the technical split from the European Securities and Markets Authority (ESMA) framework. Firms operating across both jurisdictions must recognize that the gap between UK and EU technical standards is widening, increasing compliance complexity and requiring dedicated resources for maintaining parallel infrastructures.

The FCA's Focus on Clarification: Q&A Updates and New Definitions

The derivatives data reported under Article 9 of UK EMIR must be complete, accurate, consistent, and on time to support effective systemic risk and financial stability monitoring. To this end, the FCA published the latest draft additions to its EMIR reporting Questions and Answers (Q&A) on September 15, 2025, following the close of the consultation period on September 12, 2025. These provided welcome clarification in two critical areas.



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Firms must urgently enhance their reference data management for cross-border instruments. Establishing robust and auditable logic for managing identifiers is essential for compliance and maintaining data integrity in today's complex global market. Failure to act could result in regulatory issues and diminished operational efficiency.

Balamuhunthan Balasubramaniam
Principal Consultant



The temporary increase in submission rejection rates following January 26, 2026 is a small price to pay for the long-term benefits of improved consistency and accuracy in reported data, which will ultimately strengthen the quality of the derivatives dataset and support authoritative objectives.

Balamuhunthan Balasubramaniam
Principal Consultant

First, to address inconsistencies arising from cross-border trades and instruments lacking standard identification, firms are now required to report a “technical ISIN” in cases where an underlier lacks a valid ISIN. This technical ISIN construct enables consistent reporting of underlying instruments traded outside of jurisdictions that mandate ISIN issuance. This resolves a long-standing challenge because the ESMA Q&A does not include a comparable technical ISIN construct, highlighting a precise instance of the UK prioritizing data precision over EU alignment. Firms must now address existing weaknesses in their reference data management policies, particularly for cross-border instruments, necessitating the urgent establishment of robust, auditable logic for managing such identifiers.

Second, the FCA clarified FX swaps reporting, explicitly distinguishing between a single FX swap contract and a package of two forward contracts. This distinction effectively enhances regulatory visibility, allowing supervisors to differentiate contracts that were previously reported identically and to understand the economics of the derivative

exposure more precisely. For compliance teams, these clarifications mean that they must update reference data logic immediately to source the “technical ISIN” and enhance their reporting engines to handle the nuanced FX swap classification and capture the mandatory package identifiers.

Bank of England’s Policy Statement: Hardening Validation Rules (January 2026)

The BoE policy statement introduces substantial technical changes to the UK EMIR regime, confirming amendments to their respective Technical Standards Instruments. This includes 65 validation rule changes across 71 data fields, set to take effect on January 26, 2026. This implementation date was deferred from December 1, 2025 in response to industry feedback concerning time to deploy and test the revised schema. The authorities published the final validation rules and XML reporting schemas (incoming and outgoing messages to trade repositories) alongside the Policy Statement to support industry implementation.

A critical structural change is the “shift-left” approach in validation logic. This embeds 19 validation rules directly into the XML schema definition (XSD), removing them from the application layer of the Trade Repository (TR). This strategy prevents invalid submissions at the source by detecting structural and semantic data inconsistencies before transmission. However, firms must upgrade their internal pre-submission testing environments to mirror the regulator’s XSD precisely. Non-compliance with the new schema structure means that TRs will instantly reject the message, placing a greater burden on firms’ internal pre-submission validation tools. While submission rejection rates could temporarily increase immediately following January 26, 2026, the future benefit is that the consistency and accuracy of reported data will improve, supporting the authorities’ objective of deriving a high-quality derivatives dataset.

Operational Implications for Firms: Data Lineage and Dual Compliance

The Q&A updates and the validation rule amendments demand changes in data architecture and technology. Firms must integrate the new XML schemas, update reporting engines and align all internal validation processes with the newly enforced standards.

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True success lies in mastering the balance between compliance agility and a strong control framework, ensuring data integrity across all jurisdictions.

Balamuhunthan Balasubramaniam
Principal Consultant

Figure 1: Technical Amendments Applicable from January 26, 2026

Amendment Area	Regulatory Action/Source	Key Change/Source of Divergence	Operational Implementation Focus
Validation Rules	BoE Policy Statement/FCA Technical Standards	65 changes; “shift-left” validation logic (embedding rules in XML schema/XSD)	Rigorous internal pre-validation and alignment with final XML schemas (incoming/outgoing messages).
Derivative Identifiers	FCA Q&A update	Requirement to report a “technical ISIN” for underliers lacking a valid ISIN	Integrating new reference data logic and cross-jurisdictional consistency checks.
FX Swaps Classification	FCA Q&A update	Explicit differentiation between single FX swap contracts and a package of two forward contracts	We are enhancing reporting engines to capture and populate package identifiers correctly.
Implementation Date	BoE/FCA confirmation	Deferred from December 1, 2025 to January 26, 2026	Immediate final testing and regression cycles are given the compressed timeline.

For multinational institutions, complexity greatly increases with the growing requirement to maintain dual compliance capabilities. The 2024 EMIR Refit changes represent the first substantive divergence between the EU and UK EMIR reporting regimes with differing implementation dates. The UK’s sustained regulatory efforts now mean that firms must maintain two distinct reporting infrastructures. These firms must conduct impact assessments and gap analyses to review end-to-end data lineage and system dependencies. Given the compressed timeline, collaboration between front-office technology, operations, and reference data teams is essential to ensure that testing and regression cycles prevent under-reporting and disruption of existing logic. Success requires balancing compliance agility with a robust control framework to maintain data integrity across jurisdictions.

The technical amendments applicable from January 26, 2026 are summarized above, and underscore the granular implementation focus.

Transforming Compliance into Capability

The continued evolution of UK EMIR underscores a regulatory environment that values data accuracy, traceability, and jurisdictional autonomy. Successfully navigating the January 26, 2026 implementation date requires firms to implement robust data governance, adaptable technology solutions, and strong control

frameworks. Common failings identified by regulators include insufficient systems and controls, as well as inadequate data quality. For UK EMIR, this means ensuring clear data lineage from trade capture through transformation to the final XML submission, especially when handling unique fields like the technical ISIN under the new “shift-left” validation logic.

How can Capco help?

We support clients in managing this complexity by accessing data policy, quality, and completeness to ensure accurate, regulator-ready reporting outputs. We apply AI-powered solutions to map rule changes on a field-by-field basis, interpret cross-regime impacts, and accelerate change delivery, transforming compliance into a scalable capability. Furthermore, we conduct end-to-end system architecture reviews, tracing trade data from capture through to regulatory submission, assessing data lineage, control frameworks, and transformation logic at each stage. Success relies on strong data governance, adaptable technology, and cohesive change management across reporting architectures.



Financial Risk

31. US Treasury Central Clearing: Turning Regulatory Compliance into Competitive Advantage

At its core, US treasury central clearing replaces a web of bilateral credit exposures with a hub-and-spoke model in which the central clearing agent (CCA) becomes the buyer to every seller and the seller to every buyer. By interposing itself between counterparties, the CCA transforms bilateral counterparty risk into a shared exposure among its clearing participants, reduces contagion potential, and creates standardized processes for settlement and default management. Regulators concluded that requiring central clearing would improve visibility into market positions, reduce leverage-driven instability, and better equip the system to absorb shocks.

A Regulatory Requirement turned Strategic Opportunity

As we approach the final rule and compliance deadlines, banks certainly are considering their implementation costs but should be thinking

strategically about their access models. Although the repapering of existing counterparty relationships requires an upfront cost, it presents a strategic inflection point to strengthen competitive positioning. By leveraging FICC model offerings and new CCP cross-margining capabilities, institutions can unlock new efficiencies and capture incremental market share.

Recent Developments and Clarifications

Throughout 2025, the SEC has taken steps to facilitate implementation. A **dedicated Treasury Clearing webpage** now consolidates staff statements, FAQs, and updates, underscoring the Commission's intent to maintain a transparent and collaborative rollout.

Recent staff clarifications have addressed several gray areas:

- **Mixed-CUSIP triparty repos** – those in which collateral is allocated after trade execution – are **not** subject to the clearing mandate.
- Under amended **Rule 15c3-3a**, broker-dealers may **pre-fund segregated margin accounts** at a covered clearing agency with cash on behalf of clients, so long as the deposits are treated as customer assets and included in their customer reserve formula.
- **Agent clearing members** do not have to record client transactions on their balance sheets, resolving a key accounting uncertainty for firms adopting “sponsored” models.

Unresolved Policy Questions

Even with these clarifications, several topics remain under active review:

- **Inter-affiliate transactions:** Whether exemptions should extend beyond repos to include cash trades and broader affiliate definitions
- **Double margining:** A challenge for registered investment funds that may face duplicative margin requirements



- **Cross-margining:** How to recognize offsets between Treasury positions and Treasury futures
- **Failed trades and outages:** Establishing consistent protocols for defaults or system disruptions
- **Extraterritorial reach:** Determining how the rule applies to non-US entities or offshore transactions
- **Margin treatment:** Addressing gross versus net margin under 15c3-31 Exchange Act Rule for segregated accounts.



With the first set of deadlines fast approaching, financial institutions should have formalized their strategy to participate in the US Treasury market and align their respective access models.

Stephane Ritz
Managing Principal

These issues illustrate how far-reaching the rule's operational footprint will be. The Treasury market's participants, ranging from primary dealers to hedge funds, money market funds, and foreign central banks, will all be touched, directly or indirectly.

CCA Competition and Emerging Clearing Ecosystem

Two new entrants, **CME Securities Clearing, Inc.** and **ICE ClearCredit**, have filed applications to register as CCAs, potentially expanding competition and client choice beyond FICC. Despite nuanced terminology, market participants will have similar memberships via direct or indirect access to these CCAs. The buy-side

clients may have the opportunity for price discovery, better access models, and improved margin efficiency.

There will be different ways to access the CCA and varying membership criteria. It will be interesting to see how the CCAs further differentiate themselves, for example, CME website highlights that firms can “optimize margins between cash and futures Treasury positions.” As the CCA playbooks are finalized, firms should start thinking about their readiness to leverage their CCA options.

While competition has its benefits, some warn that having multiple clearing venues will lead to fragmented netting sets, complicated liquidity flows, and increased margin costs. However, FICC, CME and ICE are taking action to expand their cross-margin models. Banks that can integrate these cross-margining capabilities across the CCAs will manage liquidity more efficiently and have a strategic advantage for their customers.

Operational and Strategic Implications

From a business perspective, the Treasury Clearing Rule introduces both **compliance challenges** and **strategic opportunities**:

1. Front-to-back trade settlement :

Firms must re-engineer trade capture, booking, and settlement processes. Many will need to integrate clearing workflows into front, middle, and back-office systems that were designed for bilateral trading.

2. Margin and collateral management:

Central clearing increases transparency but also ties up liquidity in the form of initial margin and daily variation margin. Efficient **collateral optimization**, including reuse strategies and cross-product offsets, will become a differentiator.

3. Client clearing decisions:

Buy-side participants who cannot or choose not to become direct clearing members will rely on **sponsored clearing arrangements**. This will alter counterparty relationships and could reshape prime brokerage economics.

4. Liquidity migration:

As cleared volumes grow, liquidity may concentrate in standardized trade structures that lend themselves to



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The Central Clearing mandate for US Treasuries will impact all lines of business from front-, middle-, and back-office functions to control areas such as collateral management, margin calculations, treasury and funding, legal, and reporting.

Stephane Ritz
Managing Principal



As people, processes, and technology transformations are being completed, financial institutions should switch their focus to testing, especially industry testing.

Stephane Ritz
Managing Principal

clearing. Already, voluntary clearing through FICC has climbed sharply as daily volumes more than doubled since 2022, exceeding \$11 trillion by mid-2025.

5. Robust data infrastructure:

Compliance with the rule demands consistent identifiers, timestamps, and trade-reporting standards to enable real-time novation and risk monitoring. For many firms, this will mean modernizing legacy infrastructure and harmonizing data flows across asset classes.

Looking Ahead

Between now and 2027, the industry's success will hinge on three parallel tracks:

- 1. Regulatory clarity:** Final guidance on remaining outstanding issues
- 2. Operational readiness:** Testing results, margin modeling, and client onboarding
- 3. Technology enablement:** Seamless integration across trading, clearing, and collateral systems.

The SEC's next set of FAQs, expected later this year, will likely refine the treatment of inter-affiliate trades and cross-margining, while market participants continue to pilot clearing workflows ahead of the first compliance deadline.

How can Capco help?

For financial institutions, the Treasury Clearing Rule reform is a transformation initiative that cuts across compliance, legal, operational, and strategic dimensions.

As a seasoned consulting partner, Capco can help by:

- **Readiness assessment:** Mapping current-state trading, settlement, and collateral processes against future-state clearing requirements
- **Designing target operating models:** Defining roles, controls, and technology interfaces that align with clearinghouse obligations
- **Optimizing capital and collateral efficiency:** Modeling margin impacts, exploring cross-margining opportunities, and identifying liquidity levers
- **Supporting vendor and CCP selection:** Evaluating connectivity, cost, and sponsorship options among emerging clearing models
- **Driving implementation:** Coordinating front-to-back integration, data alignment, and testing across business lines
- **Legal documentation:** Updating repo master agreements, clearing addenda, tri-party arrangements, other client and counterparty agreements to recognize the CCA and align to the CCA rulebooks and participation agreements.

With a structured roadmap and informed change management, firms should not only comply with SEC's Treasury Clearing Rule but also position themselves to benefit from the efficiencies, transparency, and market access that central clearing ultimately brings.

32. Overview of Capital Requirements Directive (CRD) VI



Background and Introduction

Until recently, the regulation of third-country branches (TCBs) in the EU was left largely to national discretion, resulting in uneven supervisory standards and opportunities for global banks to provide cross-border services without fully authorized EU entities.

The issue became more pronounced after Brexit when UK banks, among the largest providers of cross-border banking into the EU, became third-country institutions overnight. This exposed the fragmented nature of Member State regimes and reinforced the EU's determination to establish a harmonized framework.

On July 9, 2024, the Capital Requirements Directive VI (CRD 6 - Directive (EU) 2024/1619) came into force, creating a single EU-wide regime for the authorization and supervision of TCBs. The Directive:

- Curtails the ability of non-EU banks to provide cross-border core banking services without a licensed establishment
- Sets out grandfathering provisions for continued permission to provide core banking services
- Imposes restrictions on TCB cross-border activities
- Defines conditions under which a TCB can be converted into a subsidiary
- Strengthens prudential and supervisory requirements for subsidiaries.

For banks, the key milestones are January 10, 2026, when Member States must transpose CRD 6 into national law, and January 11, 2027, when restrictions on TCB cross-border services come into force.

Summarized below are the key elements of the directive:

Key themes	Regulatory reference	Potential implications	Proposed approach
Licensing requirements for *core banking services	Institutions seeking to conduct core banking activities will now be required to obtain authorization from the relevant national competent authority (NCA) .	Non-EU banks that fail to secure authorization risk losing access to core EU markets and disrupting client services . Delayed compliance could also drive up capital and restructuring costs , while early movers will gain a competitive edge by ensuring continuity and reinforcing client confidence.	Banks should consider: <ul style="list-style-type: none"> • Assessing current state position against grandfathering provisions, new authorization requirements, supervisory reporting, and governance obligations to identify any gaps. • Evaluating systems readiness to ensure infrastructure and processes can accommodate forthcoming regulatory changes. • Reviewing and updating policies and frameworks to incorporate incremental regulatory obligations and align with supervisory expectations.
Licensing requirements - grandfathering provisions	Licensing requirements - grandfathering provisions Institutions already operating in the EU with TCB authorizations granted ≥ 12 months before January 10, 2026, may continue under grandfathering arrangements , provided that the branch meets the prescribed minimum requirements listed below and remains subject to ongoing supervisory review.		
NCA subsidiarization powers	NCA may now require a TCB to convert into a subsidiary if specific conditions are met. These include situations where the TCB: <ul style="list-style-type: none"> • conducts activities with clients or counterparties in other Member States outside the permitted exemptions, • has a risk profile or business model that poses significant financial stability concerns, • holds assets of at least €10 billion in a single Member State, or • forms part of a group whose EU TCBs collectively hold €40 billion or more in assets across the Union. <p>Once converted, subsidiaries may fall under the Single Resolution Mechanism Regulation (EU No 806/2014) and could be required to contribute to the Single Resolution Fund (SRF).</p>	Non-EU banks operating through TCBs may be compelled to subsidiarize, which could increase capital, governance, and operational requirements . Subsidiarization may also trigger inclusion under the Single Resolution Mechanism, leading to contributions to the SFR, potentially raising the overall cost of doing business in the EU, altering group structures, and impacting strategic flexibility .	As part of their strategic planning, banks should review their EU operating model given cross-border service restrictions, carefully weighing the associated costs, benefits, and long-term sustainability .

Key themes	Regulatory reference	Potential implications	Proposed approach
<p>Restriction on TCB cross-border services</p>	<p>From January 11, 2027, a TCB authorized in one EU Member State will no longer be permitted to provide cross-border core banking services to clients in other Member States, except in limited cases where exemptions apply. For instance, TCB establishment in a relevant EU Member state will not be required:</p> <ul style="list-style-type: none"> • if a client in a Member State independently initiates contact with a TCB in another EU Member State (reverse solicitation); • if contracts were entered into before July 11, 2026 (grandfathering), • for the performance of interbank or intra-group services; and • for the provision of investment services and related ancillary services falling within the scope of MiFID II. <p>Non-EU banking groups seeking to operate across multiple EU jurisdictions will, however, need to establish separate TCBs in each Member State or set up an EU-incorporated subsidiary that can leverage passporting rights.</p>	<p>Restrictions on TCB cross-border activity and costs should prompt non-EU banking groups to review their EU regional set up.</p>	<p>For some, this would necessitate strategic decisions, including whether to maintain current operations, wind-down branches, or establish new branches or subsidiaries.</p>
<p>Supervisory and prudential requirements</p>	<p>Supervisory and prudential requirements will now be applied on a proportionate basis, reflecting the size, complexity, and risk profile of institutions operating within the EU.</p> <p>To operationalize this framework, the European Banking Authority (EBA) has launched four consultations on TCB requirements, which closed in October 2025. These consultations address:</p> <ul style="list-style-type: none"> • Supervisory cooperation and information-sharing (EBA/CP/2025/15) • Booking arrangements (EBA/CP/2025/16) • Capital endowment requirements (EBA/CP/2025/17) • Supervisory reporting (EBA/CP/2025/28) 	<p>More stringent booking and supervisory reporting requirements are likely to drive investments in automation and data quality, and the update of risk management, controls, internal audit, and governance frameworks.</p>	<p>Affected banks should consider:</p> <p>Assessing current state position against the EBA's consultations to identify any potential gap(s).</p> <p>Investing in automation and data quality to meet more granular supervisory reporting requirements and reduce operational risk.</p> <p>Enhancing booking controls and risk management frameworks to align with regulatory expectations and withstand supervisory scrutiny.</p> <p>Strengthening governance, compliance and internal audit functions to ensure independent oversight and compliance assurance across EU operations.</p> <p>Integrating regulatory changes into strategic planning, balancing compliance costs with long-term decisions on structure, capital allocation, and footprint.</p>

*Deposit-taking, lending, factoring, financing commercial transactions, granting guarantees, and other commitments.



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Strong governance and forward planning will distinguish firms that adapt smoothly to CRD VI from those that react late.

Jamilia Parry

Global Head of Financial Crime,
Risk, Regulation & Finance



Banks that align structure, data, and supervision early will gain lasting advantage.

Viresh Tailor
Managing Principal

Next steps

Institutions should not only assess their authorization status, supervisory reporting, and governance obligations, but also evaluate the commercial viability of their EU operating model given cross-border service restrictions and potential cost increases. Developing detailed, phased implementation roadmaps ahead of January 2026 and 2027 will allow banks to anticipate capital, structural, and operational impacts.

Conclusion

Collectively, the changes are intended to place stronger discipline around third-country market access and create a more consistent framework for non-EU banks operating in the EU. Proactive engagement with NCAs will be essential to secure clarity on expectations and reduce regulatory friction.



CRD VI redefines EU market access; it's a strategic challenge, not just a compliance exercise.

Femi Adeoye
Principal Consultant



How CAPCO can help – Overview of CRD VI



 <p>Regulatory Compliance</p>	<ul style="list-style-type: none"> • Interpret regulatory requirements across multiple jurisdictions. • Conduct gap analysis against evolving regulatory requirements and assess the potential impact on business activities. • Develop roadmap for end-to-end implementation of regulatory requirements.
 <p>Data & Model Management</p>	<ul style="list-style-type: none"> • Strengthen data lineage, model governance, and internal model documentation. • Align risk data aggregation capabilities to supervisory reporting and internal needs. • Modernize data infrastructure and integrate analytics to enhance agility, transparency, and control across risk functions.
 <p>Governance & Framework</p>	<ul style="list-style-type: none"> • Review, enhance and implement clear oversight structures, accountability mechanisms, and decision-making processes. • Audit existing governance structure and define new target operating model in line with business objectives. • Review of risk processes and proposing optimizations.
 <p>Financial Risk Management & Transformation</p>	<ul style="list-style-type: none"> • Conduct quality assurance of regulatory reports. • Review capital management processes against regulatory requirements and integrate them into strategic planning, risk appetite, and capital allocation frameworks. • Redesign risk frameworks to align with regulatory expectations, business model and strategic objectives.

33. CP19/24 - the PRA sets Liquidity Reporting Expectations for Large Insurance Firms

Background and Introduction

The Prudential Regulation Authority (PRA) is intending to strengthen insurers' liquidity risk management and supervisory oversight through the introduction of four new liquidity reporting templates. These requirements will apply to large solo insurance firms with average assets exceeding £20 billion over the previous three quarterly reporting periods, excluding assets held for index-linked or unit-linked contracts.

Closing the gaps in liquidity risk monitoring

The PRA acknowledges that, while insurers have made progress in managing liquidity, current reporting offers limited visibility into near-term cash movements, collateral calls, and contingent outflows. During recent market shocks, notably the "dash for cash" and the "LDI episode," these blind spots constrained firms' ability to assess sector-wide resilience and respond effectively to emerging liquidity strains.

The proposals collectively seek to close these data gaps and enable enhanced supervisory insight that will:

- **Capture short-term cash flow mismatches**, including expected inflows, outflows, and derivative-related liquidity needs, to provide timely insight into firms' funding adequacy under stress.
- **Assess derivative and collateral exposures** to evaluate sensitivities to margin calls and collateral demands during periods of market volatility.
- **Standardize liquidity data and definitions**, enabling consistent comparison of liquidity positions and vulnerabilities across insurers.
- **Strengthen supervisory readiness and firm response**, ensuring timely access to reliable data that supports early intervention and reduces the risk of disorderly asset sales during stress periods.

Next steps

With the PRA extending the implementation date for all liquidity reporting requirements to 30 September



This is a shift toward truly dynamic liquidity management; one where data quality, modeling capability, and governance discipline come together to safeguard resilience across market cycles.

Jamalia Parry

Global Head of Financial Crime,
Risk, Regulation & Finance





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Closing liquidity reporting gaps isn't just a regulatory requirement; it's a governance imperative. Timely, reliable data gives firms the confidence to act decisively when markets turn volatile.

Viresh Tailor
Managing Principal



The new liquidity templates should be seen as an opportunity, not a burden. They enable insurers to move from reactive liquidity management to proactive, data-led decision making during normal and stress conditions.

Femi Adeoye
Principal Consultant

2026, firms should take the opportunity to proactively strengthen their liquidity data aggregation, forecasting, and governance capabilities. This will help ensure a robust and well-controlled framework is firmly in place ahead of the new deadline. Strengthening these foundations will support accurate, timely, and well-governed liquidity reporting in line with supervisory expectations.

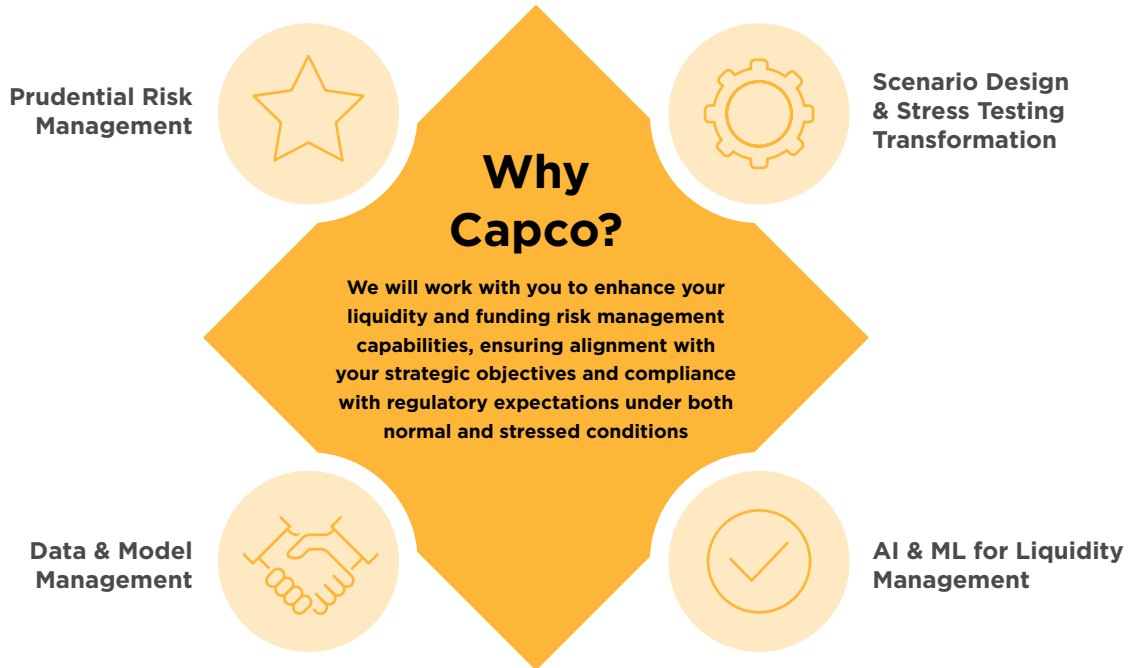
Conclusion

This development represents more than a mere reporting update. It reflects a broader shift toward data-driven liquidity and funding management under both normal and stress conditions. It also offers firms an opportunity to reassess the strength and operational readiness of their contingency funding plans.

Firms that invest early in improved data infrastructure, modeling, and governance will not only ensure compliance but also gain a strategic advantage through enhanced visibility, quicker decision making, and greater resilience to market volatility.

PRA proposals	Regulatory reference	Key objective	Potential implications for firms
Cash flow mismatch template	Firms to report on expected contractual cash inflows and outflows, unencumbered assets, and certain contingent liquidity demands in a “cash flow mismatch” template.	To improve regulatory ability to assess a firm’s liquidity adequacy and monitor potential cash flow mismatches that could arise over short time horizons.	Firms will need to adapt existing systems to capture liquidity movements and contingent outflows more accurately for the monthly reporting, with a T+1 remittance period.
Cash flow mismatch (short form) template	During periods of elevated risk, firms will submit a short-form version of the cash flow mismatch template at a higher frequency.	To measure liquidity risk and provide a consistent basis for firm comparisons in times of stress.	Firms must put measures in place to accelerate liquidity data collection, validation, and submission daily during market volatility.
Committed facilities template	Firms to report on all committed credit and liquidity facilities received from third parties with a total committed amount that is greater than £10 million or the foreign currency equivalent.	To provide additional information about any significant contingent sources of liquidity that may be available to a firm in stress.	The need to maintain detailed records of available liquidity lines, funding sources, and counterparties for funding diversification and contingency arrangements cannot be over emphasized.
Liquidity market risk sensitivities template	Firms to report sensitivities of their unencumbered assets to changes in key market variables such as interest rates, credit spreads, and exchange rates.	To enhance regulatory monitoring of changes in liquidity positions due to market sensitivities more effectively and responsively over the course of a year.	Senior management to strengthen data infrastructure and analytical modeling capabilities to assess and quantify the impact of interest rate, credit spread, and foreign exchange movements on the valuation of liquid assets arising from market risk sensitivities.

How Capco can help you navigate the PRA's expectations on liquidity reporting requirements:



 <p>Prudential Risk Management</p>	<ul style="list-style-type: none"> • Conduct an end-to-end review and documentation of the Liquidity, Funding, and Recovery Plan in line with regulatory requirements. • Perform quality assurance on liquidity reporting templates prior to regulatory submission. • Review and update the Liquidity Risk Management Framework operating model to strengthen governance and regulatory alignment.
 <p>Data & Model Management</p>	<ul style="list-style-type: none"> • Strengthen data lineage, model governance, and internal model documentation. • Align risk data aggregation capabilities to supervisory and internal needs from liquidity reporting perspective. • Integrate advanced analytics to improve internal and regulatory reporting transparency.
 <p>Scenario design and stress-testing transformation</p>	<ul style="list-style-type: none"> • Conduct gap assessment of stress- testing framework against PRA supervisory expectations and leading industry practices. • Design and implement enhanced stress-testing frameworks (integrating climate, geopolitical, and macroeconomic risk scenarios). • Test effectiveness of controls over scenario design and stress-testing processes.
 <p>AI & ML for Liquidity Management</p>	<ul style="list-style-type: none"> • Leverage AI to improve scenario design and early warning systems, as part of capital, liquidity, and recovery planning processes. • Utilize Capco's Liquidity IQ tool to support and streamline cashflow/ liquidity risk planning and forecasting during normal and stressed periods.

34. The PRA's Thematic Feedback on Accounting for IFRS 9 Expected Credit Losses (ECL)



Embedding climate considerations into ECL is a strategic imperative. It's how banks future-proof their credit models against the realities of a changing risk landscape.

Jamila Parry

Global Head of Financial Crime, Risk, Regulation & Finance

Background

On September 30, 2025, the Prudential Regulation Authority (PRA) released its thematic review on IFRS9 ECL, highlighting steady progress across the industry but also calling for further enhancements, particularly in embedding climate risk within credit risk measurement.

This aligns with the regulator's continued focus on strengthening climate risk management frameworks, as outlined in [CP10/25 – Enhancing banks and insurers approaches to managing climate-related risks](#).

The review underscored three key themes for improvement:

- **Model risk and responsiveness:** Model risk remains elevated amid ongoing macroeconomic and geopolitical uncertainty. Firms should test model responsiveness to changing credit conditions and ensure post-model adjustments (PMAS) remain complete and relevant.
- **Model development, recovery, and data quality:** Continued progress is needed in redeveloping or replacing legacy models, challenging recovery assumptions within LGD, and strengthening data quality, aggregation, and control processes to improve the accuracy of ECL estimates.
- **Climate risk integration:** While progress is evident, firms must continue enhancing how climate risk drivers are identified, assessed, and modeled within ECL processes in line with evolving supervisory expectations.

Looking ahead, firms are encouraged to assess their progress against the PRA's narrowed areas of focus and engage their auditors on the outcome of the exercise. These efforts will support more transparent, data-driven, and forward-looking credit risk management practices across the industry.

The table below summarizes the PRA's key focus areas and our suggested potential scope of review associated with each area.





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Strong model governance is as important as model design. ECL frameworks must be transparent, well-challenged, and responsive to evolving risks, not just technically sound.

Femi Adeoye
Principal Consultant

Theme	Key highlights of PRA's focus areas	Potential scope of review
<p>Model risk</p>	<p>Strengthen the ability of models and PMAs to respond to evolving risks while progressing strategic redevelopment plans that better capture underlying credit risk and reduce reliance on material adjustments.</p> <p>Enhance governance and control over source data, data flows, and aggregation to ensure accuracy and reliability of inputs critical to IFRS 9 ECL calculations.</p> <p>Embed more granular monitoring and validation processes including model boundaries and cohort-level tracking to align end-to-end model risk management with SS1/23 expectations.</p>	<p>Evaluate how model redevelopment initiatives, PMAs, and data governance frameworks strengthen responsiveness to evolving risks and improve the accuracy and reliability of IFRS 9 ECL inputs.</p> <p>Assess the effectiveness of granular monitoring, validation, and escalation processes including model boundaries and cohort-level tracking to ensure alignment with SS1/23 and robust end-to-end model risk management.</p>
<p>Recovery strategies</p>	<p>Strengthen early-warning indicators and governance to flag potential weaknesses in recovery strategies, while enhancing LGD models with more granular data and responsiveness to varied borrower recovery paths.</p> <p>Ensure robust frameworks and controls to capture the impact of securitization transactions on ECL calculations and maintain the accuracy of credit loss estimates.</p>	<p>Assess the effectiveness of early-warning indicators, governance, and oversight in identifying weaknesses in recovery strategies, and evaluate how LGD models incorporate granular, data-driven insights and responsiveness to different borrower recovery patterns.</p> <p>Review the robustness of frameworks, data controls, and governance processes ensuring securitization exposures are accurately reflected in ECL calculations and that credit loss estimates remain reliable and transparent.</p>
<p>Accounting for climate risks in ECL</p>	<ul style="list-style-type: none"> • Broaden the assessment of climate risk drivers across sectors and sub-portfolios, embedding climate considerations into stress testing and ECL modelling to capture interactions with wider economic headwinds. • Strengthen data capture at borrower and collateral levels to refine PD and LGD estimates, expand scenario capabilities, and integrate relevant climate variables into loan-level models for more responsive and accurate ECL outcomes. • Embed climate considerations into business-as-usual credit assessments and enhance second-line review and monitoring to ensure models, assumptions, and scenarios appropriately reflect evolving climate risks. 	<p>Assess how climate risk drivers are identified and embedded across sectors, stress testing frameworks, and ECL models including the incorporation of climate variables and scenarios that capture interactions with broader economic conditions.</p> <p>Evaluate the adequacy of collateral-level data, model assumptions, and second-line oversight processes to ensure PD, LGD, and scenario analyses accurately reflect evolving and material climate-related risks.</p>



Next steps

While banks have continued to enhance their credit risk management capabilities and governance oversight, the PRA is expected to place greater emphasis next year on the quality and integrity of Expected Credit Loss (ECL) processes. Additionally, supervisory focus will extend to data quality, aggregation governance, and the treatment of securitization transactions.

Conclusion

This review provides banks with a timely opportunity to strengthen internal models, data management, and governance oversight in line with evolving regulatory expectations. Beyond compliance, these enhancements can deliver tangible business benefits by improving the accuracy of credit loss forecasting and supporting more informed capital decisions, reinforcing stakeholder confidence in risk reporting. By adopting a comprehensive, forward-looking plan that addresses the PRA's focus areas, banks can build more resilient, transparent, and strategically aligned ECL frameworks.



High-quality data and realistic recovery assumptions are the backbone of credible credit risk management; they turn model outputs into insights that management can trust.

Viresh Tailor
Managing Principal

How CAPCO can help

Review of Credit Risk Framework



AI & Predictive Analytics



Why Capco?





We will partner with you to perform a comprehensive review of the key focus areas, aligned with the PRA's expectations.

Data & Model Management



Governance & Framework



 <p>Review of Credit Risk Framework</p>	<ul style="list-style-type: none"> • Conduct gap assessment against PRA's areas of focus. • Test effectiveness of IFRS9 ECL controls and practices, including climate risk and geopolitical considerations. • Identify opportunities for improvement and develop implementation roadmap.
 <p>Data & Model Management</p>	<ul style="list-style-type: none"> • Review current model risk management practices against SS1/23 requirements. • Strengthen data lineage, model governance, and internal model documentation. • Align risk data aggregation capabilities to supervisory reporting and internal needs.
 <p>AI & Predictive Analytics</p>	<ul style="list-style-type: none"> • Leverage AI to improve scenario design, early warning systems, and capital planning. • Develop machine learning capabilities to detect anomalies and streamline IFRS9 ECL monitoring processes.
 <p>Governance & Framework</p>	<ul style="list-style-type: none"> • Review, enhance, and implement clear oversight structures, accountability mechanisms, and decision-making processes from an IFRS9 ECL perspective. • Incorporate climate and geopolitical risk scenarios as part of governance reporting. • Test effectiveness of governance oversight of overarching IFRS9 ECL management practices including climate risk.

35. Singapore - Liquidity Risk Management

Introduction:

The Monetary Authority of Singapore (MAS) recently solicited feedback on proposed revisions to its Guidelines on Liquidity Risk Management, applicable to all banks, merchant banks, and finance companies in Singapore, including foreign bank branches.

The impetus for these updates is to clarify MAS's supervisory expectations, especially in light of the banking crises witnessed in 2023, highlighting the critical need for robust liquidity risk management.

The revised Guidelines extend upon the 2013 guidelines and the Basel Committee on Banking Supervision's 2008 principles, integrating detailed expectations for liquidity management as well as a list of MAS-endorsed good practices for banks to consider. It is crucial for banks to evaluate the potential impact of these changes and prepare for their implementation given the urgent timeline.

Key amendments encompass the following pillars:

1. Strengthened governance oversight

The new Guidelines enhance board responsibilities concerning liquidity risk management, requiring the board to regularly receive liquidity position reports and oversee senior management's execution of strategies. Although the board may delegate some responsibilities, it remains ultimately accountable for the institution's liquidity management.

Furthermore, senior management is tasked with several specific duties not specified in the 2013 guidelines, such as communicating the liquidity strategy, ensuring effective internal controls, supervising stress testing, and providing staff training on these processes. Banks must methodically address these responsibilities to demonstrate senior management's compliance.

2. Enhanced stress testing and scenario analysis requirements

While the 2013 guidelines mandated banks to conduct stress tests to inform liquidity management strategies, the proposed Guidelines specify more rigorous criteria. These stipulate regular stress tests and scenario analyses that must include a variety of



short-term and long-term institution-specific and market-wide stress scenarios, analyzed individually and in combination, covering all currencies.

The Guidelines outline a catalog of severe scenarios to test against and provide directives for setting assumptions for stress tests, differentiating between on-balance sheet and off-balance sheet assets. Notably, branches and subsidiaries in Singapore must localize any central stress testing assumptions to reflect local conditions, whereas locally incorporated banks are required to conduct tests at individual and group levels.

Additionally, while the Guidelines indicate that the scope and frequency of stress testing should align with a bank's size, complexity, and systemic significance, banks must navigate these detailed requirements to validate compliance.

3. Additional key changes

- The proposed Guidelines include more comprehensive requirements for liquidity strategies, detailing aspects like asset and liability composition, funding source diversity, and alignment with business targets, along with a necessity for a financially detailed funding plan.

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The revised Guidelines on Liquidity Risk Management underscore MAS's commitment to strengthening banks' resilience by providing clear supervisory expectations aligned with global best practices.

Jamalia Parry

Global Head of Financial Crime,
Risk, Regulation & Finance

- The Guidelines also enhance expectations for identifying liquidity risk, emphasizing regular reviews and integrating MAS-recommended good practices. Risk measurement frameworks are outlined with precise metrics for quantifying liquidity risks, involving cash-flow projections that account for various operational factors, such as correspondent and settlement activities.
- Particular attention is given to how banks should treat special purpose vehicles (SPVs), financial derivatives, guarantees, and commitments in their cash flow analyses to ensure robust risk measurement.
- Additional areas addressed in the Guidelines include maintenance of liquid assets, intraday liquidity risk management, diversification of market access, management of asset encumbrance and collateral, and development of contingency funding plans.

Building on the foundation laid in 2013, MAS's revised Guidelines incorporate lessons from past liquidity events to enhance the robustness of Singapore's banking sector.

Timeline:

The public consultation period ended in September 2025. MAS is expected to issue finalized guidelines in early 2026, and they will take effect six months after publication, meaning that banks should promptly begin enhancing their frameworks to comply with the outlined requirements.

How can Capco help?

Capco can support through a range of options:

- **Designing and modeling of credible stress scenarios:** Capco can collaborate with you to design plausible yet severe stress scenarios that capture idiosyncratic, market-wide and combined risk events (including reverse stress scenarios). By leveraging our accelerators and templates, we can help analyze and quantify the impact of adverse events on your capital and liquidity positions.
- **Gathering and analysis of historical data for calibration purposes:** The quality and consistency of underlying data are critical to the robustness of your stress-testing framework. Capco can help assess data integrity across systems, identify inconsistencies, and analyze historical data to inform forward-looking and hypothetical scenario assumptions for more accurate and credible model calibration.
- **Regulatory and industry benchmarking:** Regardless of whether your stress-testing framework is at a foundational or advanced stage, Capco can conduct a gap analysis against regulatory expectations and leading industry standards. We will work with you to achieve your desired maturity level.
- **Risk assessment and framework development:** Designing and implementing comprehensive risk management frameworks tailored to the institution's specific needs. We help in regulatory impact assessments to identify specific requirements and develop tailored compliance strategies.
- **Enabling technology to address governance and process challenges:** Drawing on our deep sector, risk, regulatory, and technology expertise, we can support firms to implement optimized governance, operating models, processes, controls, data, and technology.

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About Capco

Capco, a Wipro company, is a global management and technology consultancy specializing in driving transformation in the financial services and energy industries. Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its award-winning Be Yourself At Work culture and diverse talent.

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