

Insights

UK FINANCIAL SERVICES REFORM 2026: FROM GROWTH AGENDA TO REGULATORY EXECUTION

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SUMMARY

The UK's financial services reform programme has reached a decisive inflection point, with the publication of the [Financial Services & Markets Bill 2026](#) and the [May 2026 Regulatory Initiatives Grid](#) marking a clear shift from policy development to implementation and execution. As a mid-year update to our [Emerging Themes in Financial Regulation & Disputes 2026 outlook](#), these developments confirm – and refine – the trajectory identified at the start of the year: a move towards a more flexible, growth-oriented and regulator-led framework, driven by the interplay of politics, people and technology.

This should not be understood as deregulation. Rather, the direction of travel is one of recalibration, with reduced legislative prescription offset by increased supervisory discretion, a broader regulatory perimeter and heightened expectations of accountability – particularly in relation to senior individuals, consumer outcomes and technology-driven risks. The latest reforms also signal a decisive transition from consultation to delivery, with clearer timelines, more proactive supervisory engagement and a growing emphasis on outcomes-based regulation.

For firms, the message is clear: 2026 is already shaping up to be a busy and consequential year. The pace of change is accelerating, and the regulatory environment is becoming more dynamic, judgement-based and interventionist, requiring a strategic approach to managing both regulatory risk and opportunity.

LEGISLATIVE DELIVERY: FINANCIAL SERVICES & MARKETS BILL 2026

In a compressed legislative timetable – just one week after the King's Speech – the policy direction has now been given legislative form through the [Financial Services & Markets Bill 2026 \(Bill\)](#), introduced in May 2026. The Bill represents a fundamental restructuring of the UK regulatory framework, repealing retained EU financial services law and transferring detailed rulemaking powers to the FCA and PRA.

In practice, this legislative change will move the system away from prescriptive statutory rules towards one based on regulator rulebooks, supervisory judgement and outcomes-based regulation. While this enables greater responsiveness – to political priorities, market developments and technological innovation – it also increases uncertainty and reinforces the importance of active engagement with regulators.

In line with our Emerging Themes 2026 forecast, the Bill gives concrete effect to a series of anticipated reforms across the regulatory landscape, including:

- restructuring the Financial Ombudsman Service (**FOS**) and redress framework;
- consolidating the Payment Systems Regulator (**PSR**) into the FCA, simplifying the institutional architecture;
- further to our [recent article](#), enabling further SM&CR reform, reducing legislative prescription while reinforcing accountability in practice;
- modernising the consumer credit regime to reflect evolving market models; and
- strengthening the UK's approach to cryptoassets, financial crime and cross-border regulatory recognition.

Collectively, these changes illustrate both the simplification and expansion of the regulatory framework – reducing formal requirements in some areas while broadening regulatory reach and capability in others.

INTERNATIONAL POSITIONING

It is important to view the UK's reform trajectory through a global lens, especially given its gradual divergence from the EU's more prescriptive, rules-based approach. While the EU continues to develop detailed regulatory frameworks in areas such as payments under the revised Payment Services Directive and Regulation, the UK is moving towards a more flexible and regulator-led model. This divergence is already visible across a number of areas, such as the UK's outcomes-based Consumer Duty, its recalibration of MiFID II requirements and its phased approach to crypto regulation when compared to the EU's more rigid frameworks. However, greater divergence from the EU could make it more challenging for firms to maintain regulatory equivalence and pose challenges with cross-border business models. As a result, firms operating internationally are likely to face a more complex compliance landscape.

REGULATORY EXECUTION: FROM CONSULTATION TO DELIVERY

Alongside the legislative framework, the [May 2026 Regulatory Initiatives Grid](#) provides a detailed roadmap for implementation, marking a transition from consultation to delivery and execution.

The Grid is significant not only for the volume of initiatives, but in the shift it signals – from policy development to operational delivery, with clearer sequencing, compressed timelines, and a more interventionist supervisory posture. It highlights:

- further SM&CR reforms, with Phase 2 consultations expected in the second half of 2026;
- continued development of the Consumer Duty, including its application across distribution chains;
- expansion of the regulatory perimeter, particularly in relation to cryptoassets and appointed representatives; and
- updates to the enforcement framework and financial crime guidance, reflecting a more proactive regulatory approach.

A defining feature of this phase is the move towards earlier, more intrusive, and supervisory-led intervention, with regulators focusing increasingly on ongoing engagement, monitoring, and risk mitigation, rather than relying solely on ex post enforcement.

Moving towards a more judgement-based and supervisory-led regime also has important implications for disputes and redress. With firms moving away from detailed and prescriptive rules, there will be a higher likelihood of interpretive differences between firms and regulators, particularly in the application of outcomes-based standards. At the same time, proposed reforms to the FOS and the wider redress framework may give rise to further questions around consistency and predictability of outcomes. Together, these changes point to a more complex and uncertain regulatory environment, with increased exposure to FOS complaints and supervisory challenge, and potentially litigation or judicial review.

REBALANCING RISK: POLITICS, PEOPLE, AND TECHNOLOGY

These developments reflect the broader structural forces shaping financial regulation:

- **Politics:** Regulation is increasingly used as a tool to support economic growth, competitiveness, and capital formation, while maintaining financial stability and consumer protection.
- **People:** There is a sustained emphasis on individual accountability, particularly through the evolution of SM&CR and continued focus on conduct and culture.
- **Technology:** Innovation – including digital assets, AI, and operational resilience – is both a source of opportunity and a driver of new regulatory risks, contributing to an expanding regulatory perimeter.

Taken together, these pressures are producing a regulatory environment in which simplification in form is accompanied by increased complexity in substance, reinforcing the concept of recalibration rather than deregulation.

A NEW REGULATORY MODEL: FLEXIBILITY WITH INTENSIFIED SUPERVISION

The combined effect of these reforms is the emergence of a new regulatory model characterised by:

- greater flexibility, through reduced reliance on primary legislation;
- increased regulatory discretion, with more decision-making delegated to the FCA and PRA;
- broader scope, including new areas such as cryptoassets and technology risk; and
- enhanced supervision and accountability, with earlier and more intrusive regulatory engagement.

This shift has immediate implications for how firms structure compliance, manage risk and engage with regulators. Firms will need to move beyond checklist compliance towards a more judgement-based, outcomes-focused approach, supported by strong governance and clear documentation.

KEY AREAS TO WATCH IN H2 2026

- SM&CR Reform Phase 2: We can expect further regulatory consultations on the recalibration of senior management responsibilities and accountability in practice, as well as further simplification of approval requirements.
- Impacts of institutional reform: The second half of 2026 is likely to bring the practical consequences of the FCA's absorption of the PSR and reforms to the FOS redress framework into focus, especially in terms of supervisory approach and consistency of outcomes.
- Consumer Duty: Supervisory focus is likely to intensify, with increased scrutiny of outcomes across distribution chains and a continued emphasis on firms' ability to evidence fair value and customer understanding.
- Expansion of the regulatory perimeter: Continued development of regimes for cryptoassets and increased oversight of appointed representatives will further extend the regulatory perimeter and bring more activities in scope.

PRACTICAL TAKEAWAYS AND NEXT STEPS

The coming months are likely to see a sustained flow of consultations and rulemaking, with practical implications for governance, accountability, and business models.

In the short term, firms will want to:

- maintain effective horizon scanning and change tracking, particularly across SM&CR, Consumer Duty, and regulatory perimeter developments;
- engage with FCA and PRA consultations where proposals are likely to affect key processes or structures; and
- ensure there is early alignment across legal, compliance and business teams on emerging themes and potential impacts.

Looking ahead, attention is likely to turn to how firms operationalise frameworks in practice, including:

- governance and accountability structures, particularly considering the anticipated SM&CR changes;
- decision-making and documentation processes, where outcomes-based expectations continue to develop; and
- areas of increasing focus such as Consumer Duty, redress, financial crime, and digital assets.

More broadly, firms are already seeing a shift towards more continuous regulatory change and earlier supervisory engagement, with a greater emphasis on interpretation and judgement in application.

We are actively supporting clients in navigating these developments and would be happy to discuss how these reforms may impact your organisation.

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