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The Edinburgh Reforms: post-Brexit financial (de)regulation

December 23, 2022

Background

On 9 December 2022, the United Kingdom's Chancellor of the Exchequer announced an expansive set of reforms to the UK's financial regulatory regime – labelled the "**Edinburgh Reforms**".

Following the UK's exit from the European Union, much of the EU financial regulatory regime was transposed and "onshored" into the UK's statute books. In the UK Government's own words the Edinburgh Reforms "*set out plans to repeal, and replace, hundreds of pages of burdensome EU retained laws governing financial services*". The vision is for a more agile UK regulatory framework that drives growth and competitiveness.

Key Proposals

Some of the key proposals in the Edinburgh Reforms include:

- **Implementing the Financial Services and Markets Bill**

On 20 July 2022, the Financial Services and Markets Bill (the "**Bill**") was introduced to Parliament. Although this is still going through the legislative process, the Bill provides a broad mandate to the UK Government and regulators to shape the future of UK financial regulation, including reworking inherited EU rules. A policy statement (the "**Policy Statement**") published as part of the Edinburgh Reforms now sets out what this process will look like.

The process of reviewing / repealing retained EU law will occur in tranches. The "Tranche 1" is already underway and includes the Wholesale Markets Review, as well as reviews of the Prospectus Regulation, Securitisation Regulation and the Solvency II Directive. "Tranche 2" will include rules such as the Packaged Retail and Insurance-based Investment Products Regulation ("**PRIIPs Regulation**"), Short Selling Regulation, Taxonomy Regulation and Capital Requirements Regulation and Directive.

The Government expects to make "*significant progress*" on Tranches 1 and 2 by the end of 2023. The remaining rules (the full list is set out in the Policy Statement) will be prioritised as needed in Tranche 3. The Government has also published illustrative draft Statutory Instruments to give an indication of how the powers under the Bill will be used. These relate to the Prospectus Regulation, Securitisation Regulation, and Payment Services and E-Money Regulations.

- **FCA / PRA remit**

The Government has published new remit letters for the Financial Conduct Authority ("**FCA**) and Prudential Regulation Authority ("**PRA**") with clear, targeted recommendations on growth and international competitiveness.

- **A new UK retail disclosure framework**

The Government plans to repeal the PRIIPS Regulation in favour of a new UK retail disclosure framework. The Government has published a consultation paper, noting that the current regime is not fit for purpose due to the "*misleading information that it requires be provided to investors and the unnecessary burden that it places on firms*". This consultation paper closes on 3 March 2023.

- **A new UK short selling regime**

The Government plans to repeal the onshored Short Selling Regulation and has published a Call for Evidence as part of its review. The replacement regulation aims to be tailored to UK markets and bolster its competitiveness. This call for evidence closes on 5 March 2023.

- **SMCR review**

The Government has announced it will review the Senior Managers and Certification Regime ("**SMCR**") in Q1 2023, beginning with a call for evidence on the legislative framework. The FCA and PRA will also conduct their own reviews.

- **ESG developments**

The Government has confirmed that it will publish an updated Green Finance Strategy in early 2023 and will publish a consultation in Q1 2023 on bringing environmental, social, and governance ratings providers into the regulatory perimeter.

Other announcements include:

- reforms to the Ring-Fencing Regime, including taking banking groups without major investment banking operations out of the regime;
- consulting on the reform to the VAT treatment of fund management;
- overhauling the UK's regulation of prospectuses;
- reforming the Securitisation Regulation;
- intending to repeal EU legislation on the European Long-Term Investment Fund in favour of the new UK Long-Term Asset Fund;
- establishing an Accelerated Settlement Taskforce;
- committing to establish the independent Investment Research Review;
- publishing a response to the consultation on expanding the Investment Manager Exemption to include cryptoassets; and
- in the coming weeks, consulting on a UK retail central bank digital currency alongside the Bank of England.

Next Steps

Firms should pay close attention to the applicable deadlines. If any further questions arise, please get in touch with your usual Proskauer contact.

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