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UK Financial Regulators Drop Diversity and Inclusion Rules but Keep Culture in Focus

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On 11 March 2025, the UK's financial regulators confirmed they have decided not to move forward with proposed diversity and inclusion (**D&I**) rules for financial firms. This decision in a letter by the Financial Conduct Authority (**FCA**) and a letter by the Prudential Regulation Authority (**PRA**) marks the end of a long-running debate that has been ongoing since 2023. However, while formal D&I improvement measures are off the table, culture remains firmly in the regulators' sights, with new rules on non-financial misconduct expected by June 2025.

No New Rules to Improve D&I

The decision not to introduce new D&I regulations follows industry pushback, set against the global landscape where D&I has become a polarized topic in some jurisdictions, including the U.S.. Regulators initially aimed to mandate D&I policies, setting out that diversity was crucial to improving governance, decision-making, and reducing groupthink risks. However, firms raised concerns about the administrative burden and costs associated with mandatory requirements, arguing that existing legislation already addresses many aspects of workplace equality and inclusion.

Culture Still on the FCA’s Agenda

Despite the abandonment of new D&I rules, culture within financial firms remains a key focus for the FCA. It has made it clear that it intends to publish new rules on non-financial misconduct by the end of June 2025. This commitment highlights the FCA’s ongoing effort to tackle cultural issues within the sector, including misconduct that falls outside traditional financial violations.

Non-financial misconduct covers a wide range of issues, including harassment and other inappropriate behaviour within the workplace. By maintaining pressure on firms to address these cultural challenges, the FCA is signalling that it will not tolerate harmful practices within UK's financial services industry.

Firms should take note that non-financial misconduct will soon be in the regulator's enforcement remit, and proactive steps to build positive, respectful workplace environments are still important.

For further information please reach out to ukreg@proskauer.com

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Related Professionals

- **John Verwey**
  Partner
- **Rachel E. Lowe**
  Partner
- **Sulaiman I. Malik**
  Associate
- **Michael Singh**
  Associate