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SM TREASURY INSIGHTS

REFORMING UK FINANCIAL SERVICES - TAKEAWAYS FOR TREASURERS

The Government has provided the financial sector and its customers with an abundance of summer reading material. On 15 July, the Chancellor unveiled the "Leeds Reforms", in the form of the Government's Financial Services Growth and Competitiveness Strategy, accompanied by some 20 supplementary proposals, together comprising a ten-year sector plan for financial services. The proposals are strikingly broad, described by the Chancellor herself as "the most wide-ranging package of reforms to financial services regulation in more than a decade". Some are new, and some update or build on initiatives already in train.

This ambitious package aims to attract investment and boost growth in the financial services sector (one of the eight priority sectors identified in the Government's Modern Industrial Strategy). The stated policy objectives of "cutting red tape" and improving the efficiency and competitiveness of the UK financial services sector aim to make the UK the number one destination for financial services businesses by 2035.

The financial services sector has generally welcomed these developments and businesses directly impacted by the Leeds Reforms are busy digesting the detail of the package and likely next steps (there are a range of further consultations to come and more detail to follow on consultations already published). The Leeds Reforms have also been generally welcomed by the treasury community ("*from a corporate treasury perspective, it's important to have a strong financial services sector to meet the needs of business*", to quote the ACT's response), although it is clear that any positive impacts for end-users of financial services in terms of quality, costs and accessibility for example, will take time to emerge.

In this briefing, we highlight some key aspects of the Leeds Reforms that corporate treasurers may wish to take note of and monitor. We also note the FCA's contribution of the same date to the summer reading pile: its final rules under the new Public Offers and Admissions to Trading regime which include, amongst other things, changes designed to facilitate the issuance of low denomination bonds capable of retail participation.

FREEING UP BANK CAPITAL FOR INVESTMENT

The Government and regulators are focussed on freeing up capital for banks to invest in the UK and the Leeds Reforms flag a number of policy measures with this objective. Announced measures include:

- support for changes to the Bank of England's approach to setting minimum requirements for own funds and eligible liabilities (MREL), being the minimum amount of equity and eligible debt a firm must maintain to support an effective resolution, to ensure they are proportionate and do not inhibit expansion;
- postponing the implementation of a key component of the Basel 3.1 banking reforms (namely the internal model approach under the Fundamental Review of the Trading Book) by one year to 1 January 2028. This is to enable clarity to emerge about implementation in other major jurisdictions (the implementation date of the other Basel 3.1 reforms remains unchanged at 1 January 2027); and
- plans to "meaningfully" reform the bank "ring-fencing" regime, which requires banks to separate their retail and investment banking activities, to ensure the right balance is struck between growth and stability.

Alongside these measures, a broader exercise is underway to review whether changes are required to the overall levels of bank capital needed to support UK financial stability, with the Financial Policy Committee due to report back to the Government by the end of the year.

All these proposals are detailed and technical, but the overarching aim is simple - to free up capital to enable banks to do more lending and release more capital for investment, without compromising financial stability.

EMBRACING INNOVATION, FINTECH AND DIGITALISATION TO DRIVE GROWTH

The Modern Industrial Strategy presents the Government's vision and support for innovation across all areas of the UK economy. The Leeds Reforms build on that vision in the context of financial services, with measures aimed at encouraging innovation, and more specifically, to harness the power of fintech and digitalisation, to modernise and strengthen the processes and offerings of the UK financial markets ecosystem.

Treasurers at companies operating at the forefront of technological developments should look forward to easier access to increased funding. Start-ups and existing companies looking to scale-up in innovative products will be able to take advantage of an additional £4 billion in capital lending pledged by the Government to Industrial Strategy sectors via the British Business Bank. The Wholesale Financial Markets Digital Strategy outlines plans that include the eradication of paper, the pervasive integration of automation and the employment of AI technology to utilise smart data across wholesale financial markets, with a view to reducing costs and driving efficiencies for customers, alongside the development of related regulatory regimes.

This includes proposals to tokenise payments and financial instruments. Of particular note for corporate treasurers is the final report of the UK Digitisation Taskforce, also published in July, which sets out a framework and timetable for the complete digitisation of shares in UK listed companies. Step 1 in the framework involves eliminating all paper and establishing fully digitalised share registers by the end of 2027. Step 2 will focus on preparing for a fully intermediated system, which includes improving communication channels and developing a "baseline service" offering for all shareholders. The final step will be the transition of all shares into the intermediated securities chain. No firm timeline has been provided for these latter steps, but the recommendation is that the Government, FCA and industry start to move forward with plans as soon as possible. Remaining issues to be worked through will be considered by a newly established Technical Group, made up of representatives from government, regulators and industry stakeholders, but the overall target is the facilitation of easier trading in public shares and the encouragement of greater retail investment into UK listed companies.

MODERNISING THE PAYMENTS LANDSCAPE - THE NATIONAL PAYMENTS VISION

Modernisation proposals for the UK's payments system could have widespread impact across both retail and wholesale markets. The Leeds Reforms package includes an important update on the National Payments Vision published in November 2024. The July 15 announcements include a new model for the Payments Vision Delivery Committee and the Vision Engagement Group, responsible for implementing the National Payments Vision and comprised of standing representatives from HM Treasury, the Bank of England, the FCA and the Payment Systems Regulator to ensure regulatory coordination and rotating members from across the private sector.

Implementation is envisaged to be via a "sequenced plan of initiatives" in both retail and wholesale payments including:

- modernising and future-proofing the UK legislative framework for the regulation of payment services to provide for technological development, including in tokenised payment instruments;
- establishing a new innovative model to deliver a next generation payments infrastructure;
- developing a regulatory framework for stablecoins to help remove some of the uncertainty around their use;
- progressing work on tokenised settlement instruments;
- forging tighter cooperation with international partners to support cross-border activities; and
- consideration of the role of digital assets.

A final plan is expected by the end of the year.

> Modernising regulation, streamlining processes and future-proofing the payments infrastructure with the development and adoption of new technologies should create greater efficiencies, improve transparency, drive competition and ultimately result in savings for companies that can be more effectively distributed within their businesses. Corporate treasurers might want to keep a particular eye on the plans to upgrade to the latest messaging standards set out in ISO20022 that should offer greater interoperability between retail payment systems both domestically and internationally

NEW COMPETITIVE FRAMEWORK FOR CAPTIVE INSURANCE

The established strength and quality of the UK insurance and reinsurance market is already internationally recognised, so the Government's plan for this sector primarily focuses on streamlining regulatory burden, which is intended to allow market participants to face down competition from other jurisdictions and create an environment in which emerging complex and specialised risk insurance can be provided for. Central to this plan is the delivery of a new framework for captive insurance, making this an easier and more attractive option for UK companies.

The delivery of this new framework for captive insurance, a method of self-insurance and risk management, will provide companies with greater control over cost efficiencies, risk management and coverage for specific needs. UK companies that currently engage in this practice usually do so by establishing captives offshore - the new regime is aimed at onshoring this activity through ease of establishment. Industry specialists have also hailed the announcement of a further consultation on allowing captives to operate through protected cell companies (PCCs), as this has the potential to open up the captive market and the benefits it can hold to smaller UK companies who might not otherwise be in a position to access captive insurance arrangements. The PRA and FCA have published a joint statement confirming that they will launch consultations in summer 2026 on the rules and policies for the new regime. For more on this topic, see this Insight piece published by our Insurance Team.

More generally, de-regulation in a sensible and proportionate manner should reduce friction and costs for insurance providers, generating greater competitiveness in the market that can be passed on to corporate consumers in the form of reduced premiums and innovative products that can help to grow, diversify and protect businesses.

PENSIONS REFORM - RELEASING SURPLUS FROM DEFINED BENEFIT (DB) SCHEMES

The Government did not produce anything new in respect of pensions but pulled together and highlighted its ongoing commitment to continuing reforms proposed under the Pensions Investment Review, which are being implemented by the Pension Schemes Bill that was laid before the UK Parliament on 5 June this year. The overall aim of these pensions reforms is to enable greater productive investment and improved returns for savers. An aspect of the Bill that has generated particular attention is the proposed changes to the rules governing the utilisation of surplus in ongoing DB schemes.

Relaxing rules on employers accessing surplus in ongoing DB schemes has the potential to release funds to companies that they can reinvest back into their businesses as they deem fit. A balance of interests will still be maintained as, although the Government does not intend to mandate how extracted surplus must be used, trustees will continue to be subject to duties towards DB scheme beneficiaries and guidance is expected in relation to the factors they will need to take into account when deciding whether to refund surplus. Look out for more on these changes from our Pensions Team as details emerge.

For more detail on other key aspects of the Pension Schemes Bill, see this Insight piece published by our Pensions Team earlier this year.

RENEWED COMMITMENT TO SUSTAINABLE FINANCE AND THE TRANSITION TO NET ZERO

The Government has announced that it will not be proceeding with plans to develop a UK Green Taxonomy, a classification tool designed to provide users with a common framework to define which economic activities support climate and other sustainability objectives, choosing instead to focus on other higher priority policies aimed at accelerating investment into the transition to net zero and limiting greenwashing.

Most of these “higher priority” policies are already in train, with the Government having recently launched consultations on (i) the UK Sustainability Reporting Standards, (ii) how best to move forward with its commitment on the development and implementation of transition plans and (iii) oversight of third-party sustainability assurance providers. Work to regulate ESG ratings providers is also ongoing and the Government’s response to its consultation on how to harness the opportunity presented by voluntary carbon and nature markets is awaited.

In this way, the Leeds Reforms do not dramatically move the dial on existing sustainable finance policy in the UK. While there has been a suggestion that the decision not to proceed with a UK Green Taxonomy will push the UK green bond market towards Europe and alignment with the EU Taxonomy, that appears to be a calculated decision which should not be seen as the Government turning its back on the cause as a whole. It is better understood as the Government deciding to focus its efforts on what it sees as higher priority tools to accelerate investment in the transition to net zero and maintain the UK’s position as a global leader in sustainable finance, in order to most effectively capitalise on what the Chancellor described in her speech as the “£200 billion opportunity of the global transition to net zero”.

AND LAST BUT NOT LEAST - THE NEW UK PROSPECTUS RULES

The Leeds Reforms include a commitment to prioritise policy changes that support businesses to start, scale, list and stay in the UK, a key part of which is the FCA’s work on reforming the prospectus regime as well as the launch of the Private Intermittent Securities and Capital Exchange System (PISCES), a new stock exchange for private companies (for more on PISCES, see our Corporate Team’s briefing here).

The FCA published its final rules under the new Public Offers and Admissions to Trading regime alongside the Chancellor’s announcements on 15 July. The new regime will replace the current UK prospectus regime and will take effect on 19 January 2026. The overall aim of the new rules is to reduce the costs for issuers of admitting securities to trading on UK regulated markets, make capital raising easier for issuers and remove barriers to retail participation.

Most of the existing rules relating to prospectuses and admissions to trading will be carried across into the new regime broadly as they are, with some targeted changes for issuers of debt securities. Key highlights for debt capital markets are set out below (with some of the changes intended to facilitate the issuance of low denomination bonds capable of retail participation).

- The prospectus rules that currently differentiate disclosure requirements between "wholesale" and "retail" debt securities will be removed and a single wholesale-based prospectus disclosure standard will apply for all debt securities, regardless of denomination.
- There will be a new concept of "Plain Vanilla Listed Bonds" (broadly, senior unsecured, plain vanilla, listed bonds). UK listed corporate issuers who issue such bonds will be exempted from certain requirements under the FCA's Disclosure and Transparency Rules and such bonds will treated as "simple" financial instruments for the purposes of the UK product governance rules.
- There will be new prospectus disclosure requirements and guidance for green, social, sustainable and sustainability-linked bonds.
- MTN programme issuers will have the option to future incorporate by reference annual and interim financial information into their prospectuses, doing away with the need to supplement for this purpose.
- The threshold for triggering a prospectus for further issuances will be increased from 20 per cent. (of existing fungible securities) to 75 per cent. across all asset classes.

Further detail on these changes can be found in our dedicated briefing on the final rules here.

CONCLUDING REMARKS

The policy intent behind the Leeds Reforms, with their focus on growth, competitiveness and reducing the regulatory burden alongside financial stability, seems generally positive from the perspective of finance and treasury – after all, a strong and healthy financial services sector is essential to meet the needs of business. Measures such as the refinement of the prudential regulatory framework could have positive repercussions in terms of the availability and cost of capital. Proposals aimed at increasing efficiency, including the facilitation of cross-border financial services, have the potential to improve the speed and range of the sector's offering to corporate customers.

It will be some time before the impact of the reforms on economic growth becomes clear. For now, the focus turns to how the reforms are to be implemented and delivered. While the reforms cover a commendably wide range of areas, there are concerns about whether the substance of the changes will be sufficiently radical to achieve the desired levels of economic growth. And, of course, as to whether the Government can ensure that, once implemented, the latest reforms are not undermined by future policy announcements, including the contents of the Autumn Budget Statement.

If you would like to discuss any aspects of the Leeds Reforms, please contact one of the lawyers listed on the following page or your usual adviser at Slaughter and May.

FURTHER INFORMATION

For more information about the issues highlighted in this briefing, please contact any of the lawyers listed below or your usual adviser at Slaughter and May.

MATTHEW TOBIN
Head of Financing
Partner
T: +44 (0)20 7090 3445
E:matthew.tobin@slaughterandmay.com

EDWARD FIFE
Head of Banking
Partner
T: +44 (0)20 7090 3662
E: Edward.Fife@SlaughterandMay.com

CAROLINE PHILLIPS
Head of Debt Capital Markets
Partner
T: +44 (0)20 7090 3884
E: caroline.phillips@slaughterandmay.com

KATHRINE MELONI
Special Adviser and Head of Treasury Insight
T: +44 (0)20 7090 3491
E: Kathrine.Meloni@SlaughterandMay.com

MINOLEE SHAH
Knowledge Counsel
T: +44 (0)20 7090 5491
E: Minolee.Shah@SlaughterandMay.com

NATALIE BUTCHART
Knowledge Counsel
T: +44 (0)20 7090 5990
E: Natalie.Butchart@SlaughterandMay.com

LATIFAH MOHAMED
Senior Knowledge Lawyer
T: +44 (0)20 7090 5093
E: Latifah.Mohamed@SlaughterandMay.com