

The Rt Hon Rachel Reeves MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

29 September 2025

Dear Rachel,

Re: Mansion House commitment on the Consumer Duty's application to wholesale firms

I am writing to you to report back on the FCA's plans to address concerns about the application of the Consumer Duty for firms primarily engaged in wholesale activity.

In light of the Financial Services Act 2021, we designed the Duty to set high and consistent standards of consumer protection across financial services, with a groundbreaking outcomes-based approach.

By taking this approach, we have been able to remove some existing rules and guidance, for example on mortgages, and will continue to streamline our rulebook at pace. The Duty also means we are introducing fewer new rules as markets evolve rapidly. Fewer rules can reduce the burden for firms and enable innovation, including by supporting rapid adoption of new technologies such as AI.

Since the Duty's introduction, we have seen a positive impact on firm conduct and consumer confidence. The FCA Board is clear that we want to maintain these positive impacts, while supporting the action plan to address concerns below.

The Duty and Wholesale Firms

We agree that we should distinguish between different types of activities, and protections should be proportionate to the client's sophistication and risk appetite.

The Duty focuses on activities which have a material impact on retail customer outcomes, and wholesale market activity is largely outside its scope. To ensure frictions were limited in capital markets, we exempted some activities, such as offers of simple bonds and listed equities (as issuers provide regular disclosure) and sales of investment products with a high minimum value.

We are squarely behind our collective objective to bolster retail investment. To do this, consumers need to feel confident about products they invest in. This is key to our 5-year strategy, including the priority to support growth. It is right that the Duty

applies to some wholesale firms' activities in support of this – for example where they create products and services that are intended for sale to retail consumers.

Firms' concerns

Since your request in July, we have undertaken extensive engagement to better understand the concerns some firms have raised and how to effectively address them.

Firms have raised examples of business-to-business activities where they are unclear about the role of the Duty, even if many fall outside our intended scope. Some firms highlighted challenges where services reach customers outside the UK, incurring costs and complexity, particularly when they are also subject to regulatory regimes overseas. Some have challenged the premise that the Duty applies when they have no direct relationship with retail customers.

We have also heard calls for more certainty on how the Duty applies across different roles in the distribution chain, including how firms share information, work together to manufacture products, and how the extent of firms' influence on end consumer outcomes affects their obligations.

Some firms emphasised the lengths they feel required to go to prove their activities have no material impact on retail customers. Others have challenged that their compliance costs are disproportionate to their role in serving retail customers, particularly the information they must produce to evidence compliance.

We know that some firms have taken steps to comply with the Duty which were driven by uncertainty about our expectations and concern about the consequences of getting it wrong. Some firms, driven by their compliance and legal advisers, appear to have taken an unduly prescriptive or administrative approach. While many firms have struck an appropriate balance, these factors have led some to go further than we wanted, increasing their compliance costs unnecessarily. This conservatism has led some to sense a retail approach to regulation expanding into firms that only intend to provide wholesale services. We want to correct this.

Action plan

We have listened carefully to the feedback and will make changes. We plan to amend the Duty's rules to remove disproportionate burdens from wholesale firms and give them confidence to act proportionately.

Below I set out a four-point action plan as well as steps the Treasury may wish to consider. This year, we will:

1. Provide more clarity on our supervisory approach and expectations under the Duty when firms work together to manufacture products for retail customers. We will look to reduce the potential for misunderstanding leading to excessive compliance costs, duplication of effort between firms and adverse impacts on

business models where firms work together. This will help give comfort to firms and their senior managers, and a better understanding of how our standards apply.

2. Consult on plans to update the client categorisation framework. There is a subset of investors who have the knowledge, experience, sophistication or resources that mean they do not need retail protections. We want to set clearer, up-to-date standards for firms to identify individuals capable of being treated as professional clients. We are considering complementing this with a new test at a high threshold of assets, to draw a brighter line for firms. This would give firms more confidence to identify these clients and, with their consent, take them out of the scope of the Duty and other retail protections. This will expand the opportunities available to support the real economy, while reducing costs for firms. You may also wish to consider modernising the legislative exemptions in the Financial Promotion Order and the Promotion of Collective Investment Schemes Order, to dovetail with this work, assisting in our aim to bring more clarity to industry and reduce inconsistencies.

In the first half of 2026, we will:

3. Consult on changes to rules on the application and requirements of the Duty, including through distribution chains. We want to make it clearer for firms where the Duty applies and how we can draw a clearer line when it doesn't. We will assess how our existing exemptions are working and consider whether they go far enough, including whether to draw a clearer line on business-to-business activities which should not be captured. We will also consider if there is a case for further exemptions from elements of the Duty where firms are subject to other regulatory obligations. We will consider changes to make clear when and how firms can rely on each other when they work together in distribution chains, such as when designing and selling structured products.
4. Propose to remove business with non-UK customers from the scope of the Duty. We know firms can struggle where they have to reconcile obligations from different jurisdictions. We have heard this creates complexity and cost, and that this can have a substantial impact on firms with an export focus. We want to ensure they can feel confident locating their business in the UK. We will however carefully consider the potential impact on consumers, including UK expatriates, before making these proposals.

We will continue to ensure that the needs of retail customers are appropriately considered where firms impact the outcomes they receive. This reflects a longstanding expectation under our 'product governance' rules that manufacturer firms are responsible for their work to design and operate retail products.

In the past, there have been cases of significant consumer harm where firms higher in a distribution chain did not adequately consider the interests of end consumers. For

example, in a [review of the retail structured products market](#), we found weaknesses in the way some firms approached the design, value, information and monitoring of their products, which undermined trust. We do expect clear accountability where firms, including product manufacturers, play a role in significant harm caused to consumers.

Next steps

Supporting a competitive UK financial services sector remains a priority for the FCA. London is the second biggest financial services centre in the world, and the Global Financial Centres Index published last week showed London further closing the gap on New York. We are committed to ensuring the UK maintains its position as one of the most competitive and compelling places in the world to start, grow and operate a financial services firm. This includes getting the Duty right for wholesale firms, whilst ensuring appropriate protections for consumers.

We are rebalancing risk as part of our strategy and will proactively do so in taking forward this work too. We do think a shared risk appetite, across Government, Parliament and ourselves could help. We are keen to progress how metrics could be developed articulating the Government's degree of tolerance for consumer harm and potential incidents of significant consumer detriment. This would assist in providing enduring foundations for this rebalancing of risk in the system to align with the UK's growth imperative. We hope such an articulation of risk metrics could, following scrutiny and debate, also command a degree of consensus in Parliament.

It would also help us maximise the benefits of the Duty and the unique flexibility it provides. We want firms to support good outcomes for retail customers, while being able to take calculated risks with confidence, innovate in ways that drive growth, help consumers pursue their financial objectives, and support the long-term development of our markets and the wider economy.

Yours sincerely,

Nikhil Rathi
Chief Executive