NAVIGATING 2026

PRIVATE EQUITY'S NEW DUE DILIGENCE RULES

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FOR UK PRIVATE EQUITY PROFESSIONALS, DUE DILIGENCE IN 2026 IS DEFINED BY A DYNAMIC AND TIGHTENING REGULATORY ENVIRONMENT. THIS GUIDE OUTLINES THE NEW RULES YOU MUST NAVIGATE, PROVIDING SPECIFIC TIMELINES AND QUANTITATIVE DATA TO INFORM YOUR INVESTMENT PROCESSES.

THE NEW REGULATORY FRAMEWORK FOR INVESTMENTS

Several major regulatory initiatives are reshaping the fundamental rules for client engagement and fund management.

Updated Client Categorisation Rules (FCA Consultation CP25/36):
To reduce complexity and better serve professional clients, the FCA has proposed significant changes.

- **Removal of the Quantitative Test:** The current financial thresholds for classifying an **"elective professional client"** will be replaced by a robust enhanced qualitative assessment of expertise, experience, and knowledge.
- **New 'Wealth-Only' Exception:** Individuals with investable assets of at least **£10 million** can be categorised as professional clients without the qualitative test, subject to strict safeguards and informed consent.
- **Timeline:** The consultation closes on **2 February 2026,** with final rules expected later in the year.

Fund Liquidity & Regulatory Reviews:
The FCA is actively consulting on enhancing liquidity risk management for funds, with rules for Alternative Investment Fund Managers (AIFMs) expected in **H2 2026.** Concurrently, a full review to replace the EU-derived AIFMD with a UK-tailored framework is underway, with draft legislation expected in **early 2026.**

Source:

- UK/EU Investment Management Update (January 2026) | Insights | Sidley Austin LLP

ESG FROM DISCLOSURE TO SCRUTINY

ESG due diligence is moving beyond voluntary assessment into a mandatory, structured regime centered on the UK's Sustainability Disclosure Requirements (SDR).

UK SUSTAINABILITY DISCLOSURE REQUIREMENTS (SDR) AT A GLANCE

Requirement	Applies To	Key Detail & Threshold	Current Status
Anti-Greenwashing Rule	All FCA-authorised firms	All sustainability claims must be clear, fair, not misleading, and substantiated.	In force since 31 May 2024
Sustainable Investment Labels	UK asset managers (voluntary opt-in)	Four labels (e.g., Sustainability Focus, Improvers) for products where **≥70%** of assets meet the label's goal.	In force since 31 July 2024
Entity-Level Disclosures	Asset managers with **>£5bn AUM**	Disclosures on sustainability risks, opportunities, and impact.	Phased from 2 Dec 2025 (**>£50bn AUM**)
Distributor Duties	All distributors to UK retail investors	Must provide correct sustainability information to investors.	In force for labelled products since 31 July 2024

FCA Oversight of ESG Ratings: The government has moved to bring ESG ratings providers under FCA supervision. New rules proposed in 2025 aim to ensure ratings are transparent, reliable, and comparable, addressing concerns that **55%** of users are worried about how ratings are built. This regime is projected to deliver **£500 million** in net benefits over a decade and is expected to take effect from June 2028.

Source:

- Quick Guide: Key Sustainability Disclosure Regimes: UK SDR and anti-greenwashing rule
- FCA sets out proposals to make ESG ratings transparent, reliable and comparable

CYBER & OPERATIONAL DUE DILIGENCE

Cyber resilience is a critical operational risk. The UK threat landscape requires rigorous due diligence.

KEY UK CYBER SECURITY STATISTICS FOR BUSINESSES (2025 DATA)

Metric	Figure	Implication for Due Diligence
Businesses identifying a breach/attack	**43%** (equiv. to **612,000** companies)	Cyber checks must be standard for all targets.
Most targeted sector (by prevalence)	Education (**91%** of universities)	Sector analysis is crucial; higher-risk sectors exist.
Most common attack vector	Phishing (involved in **93%** of breaches)	Assess employee training and email security controls.
Mean direct cost of a breach	**£1,970**	Model for potential direct financial impact.
Large businesses identifying a breach	**74%**	Scale often correlates with frequency of attacks.

Non-Financial Misconduct (NFM): New FCA rules holding senior managers accountable for fostering healthy workplace cultures come into force **from 1 September 2026.** Due diligence must now assess policies on bullying, harassment, and discrimination.

Source:

- UK Cybersecurity Statistics for 2026

SOCIAL GOVERNANCE & SUPPLY CHAIN SCRUTINY

The **"Social"** pillar of ESG demands concrete verification, particularly concerning modern slavery risks in line with the Modern Slavery Act 2015.

Deepened Supply Chain Diligence:
Best practice, as demonstrated by public bodies like Homes England, involves moving beyond reliance on supplier statements. Effective due diligence now includes:

- **Geographic Hot-Spot Analysis:** Concentrating resources on supply chain tiers in regions where modern slavery is most prevalent.
- **SME-Focused Scrutiny:** Recognising that Small and Medium-sized Enterprises (SMEs) may have higher-risk, less transparent supply chains, especially for specific components.
- **Contractual Enforcement:** Ensuring contracts have clear compliance clauses and termination rights related to modern slavery violations.

A Rising Market Context:
This increased diligence occurs in a busier deal environment. Data indicates UK private equity deal volume was up **23% year-on-year in Q1 2025,** intensifying competition and the pressure to execute thorough yet efficient checks.

Source:

- Homes England Modern Slavery Act Policy and Statement 2025 to 2026 (HTML) - GOV.UK
- UK PE deal volume up 23% in Q1 2025: Cedar PE's interim leaders | Cedar posted on the topic | LinkedIn

CONTACT US

For further information, clarification and discussion concerning the contents, please contact:

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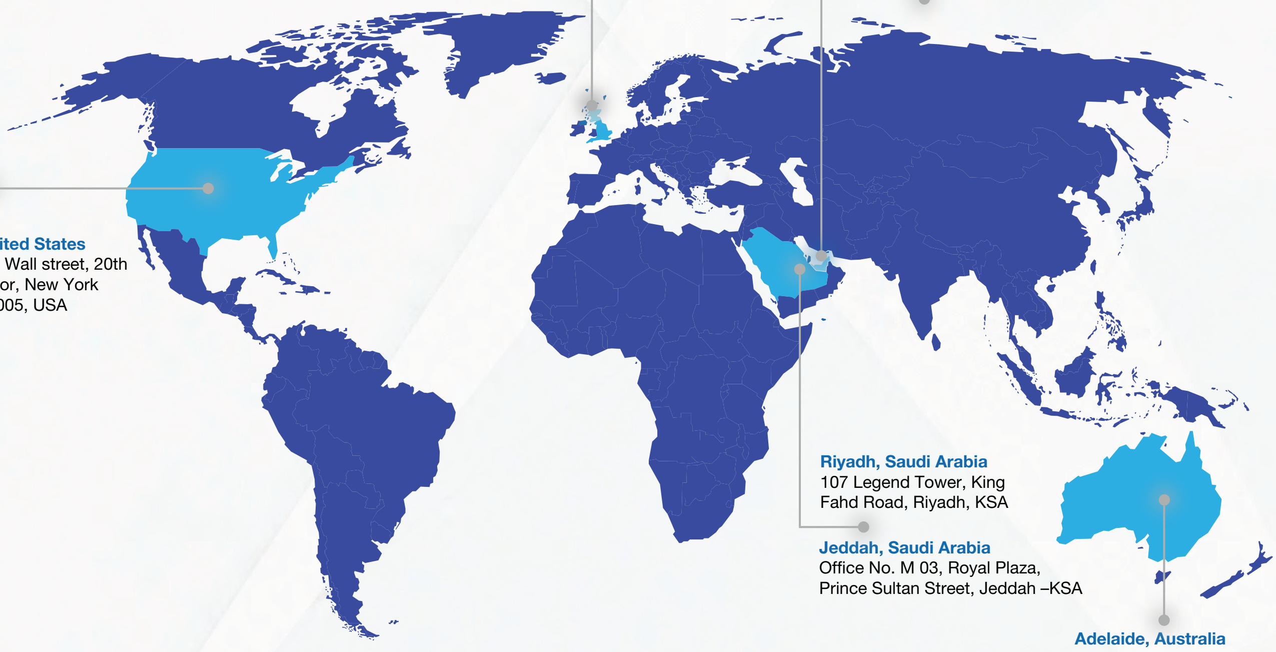

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