EXPLANATORY MEMORANDUM TO

THE FINANCIAL SERVICES AND MARKETS ACT 2000 (REGULATED ACTIVITIES ETC.) (AMENDMENT) (NO. 2) ORDER 2025

2025 No. 1154

1. Introduction

1.1 This Explanatory Memorandum has been prepared by HM Treasury and is laid before Parliament by Command of His Majesty.

2. Declaration

2.1 Lucy Rigby KC MP, Economic Secretary to the Treasury, at HM Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Daniel Rusbridge, Deputy Director for Personal Finances and Funds, at HM Treasury confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Philip Atkins at HM Treasury can be contacted by email at the following address with any queries regarding the instrument: Philip.Atkins@hmtreasury.gov.uk. Alternatively, the department can be contacted by telephone: 020 7270 5000.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The instrument will exempt domestic premises suppliers from credit broking regulation when they offer newly regulated interest-free Buy-Now, Pay-Later (BNPL) products to their customers. To achieve this, the instrument amends the Financial Services and Markets Act 2000 (Regulated Activities etc) (Amendment) Order 2025 ('the 2025 Order'). Article 2(2) of this instrument amends article 36FB of the Regulated Activities Order ('the RAO') inserted by the 2025 Order. The effect of this amendment is that domestic premises suppliers are excluded from credit broking requirements when carrying on activities in relation to BNPL products.

4.2 Domestic premises suppliers, as defined in Schedule 6, paragraph 2G(3A)(3B) of the Financial Services and Markets Act 2000, are businesses that sell, offer to sell, or agree to sell goods, or offer to supply or contract to supply services in people's homes.[1] Examples of such businesses include plumbers, double glazing companies, and mobile hairdressers.

4.3 This amendment brings domestic premises suppliers in line with the treatment of other merchants who offer newly regulated BNPL products as a payment option when the regulation of these products comes into effect in July 2026.

4.4 The instrument also makes amendments relating to the transition to the new regulatory regime. The effect of these amendments is to clarify that firms with existing Part 4A permission who already have the relevant regulatory approval to undertake consumer credit lending under article 60B (regulated credit agreements), prior to the

[1] https://www.legislation.gov.uk/ukpga/2000/8/schedule/6/paragraph/2G.

introduction of the new regulatory regime in July 2026, will be treated as having permission to lend newly regulated BNPL products, on or after the regulatory commencement date.

Where does the legislation extend to, and apply?

4.5 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the whole of the United Kingdom.

4.6 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the whole of the United Kingdom.

5. Policy Context

What is being done and why?

5.1 The 2025 Order was made law on 14 July 2025.[2] This legislation brings interest-free BNPL products — legally defined as 'regulated deferred payment credit agreements' under section 189 of the Consumer Credit Act 1974 — within the regulatory perimeter of the Financial Conduct Authority (FCA).[3] The new regulatory regime for BNPL products will take effect from 15 July 2026.

5.2 Under article 3(2) of the 2025 Order, nearly all merchants brokering BNPL products are exempt from the regulatory requirements concerning credit broking by virtue of a new provision (article 36FB) in the RAO. Generally, merchants who introduce customers to regulated credit products are undertaking the regulated activity of credit broking under article 36A of the RAO and must have regulatory approval, unless an exemption applies.

5.3 As a result of the new exemption, most merchants offering BNPL products as payment options for their customers — such as at online checkout — will not be required to obtain regulatory approval for credit broking. The exemption is intended to maintain the BNPL market's established structure, avoiding the need for tens of thousands of businesses to seek regulatory approval for credit broking to continue offering BNPL products to their customers.

5.4 The only merchant type excluded from this new regulatory exemption is domestic premises suppliers. This exclusion was introduced due to historical concerns about pressure selling by domestic premises suppliers, given that their trade is conducted in people's homes, though such concerns have typically been in relation to high-value, long-term credit agreements.

5.5 Under the current provisions of the 2025 Order, once the new regulatory regime goes live on 15 July 2026, domestic premises suppliers would need to secure regulatory approval to offer BNPL products as payment options to their customers. For those already offering these products now, but without the soon-to-be necessary regulatory approval for credit broking, the transitional regime established by Part 4 (transitional provisions) of the 2025 Order would allow them to temporarily operate as though authorised from 15 July 2026 while the FCA reviews their application.

5.6 The Government's intention to exclude domestic premises suppliers from the merchant credit broking exemption was consistently highlighted throughout the journey to regulate BNPL products. It first appeared in the previous Government's June 2022 consultation response to its October 2021 consultation on an approach to

[2] https://www.legislation.gov.uk/uksi/2025/859/made.
[3] https://www.legislation.gov.uk/ukpga/1974/39/section/189.

regulating BNPL products;[4] then in its February 2023 consultation on draft BNPL legislation;[5] and lastly in the current Government's October 2024 consultation on revised draft legislation.[6] Stakeholders provided limited feedback on the treatment of domestic premises suppliers in their responses to the 2023 and 2024 consultations.[7]

5.7 However, in late March 2025, representatives from the BNPL sector raised urgent concerns with the FCA, later passed onto HM Treasury, about the proposed regulatory requirements for domestic premises suppliers. They pointed out that BNPL products are increasingly available for domestic premises suppliers to offer as payment options to their customers. This has been facilitated by recent partnerships over the past year between BNPL firms and accounting platforms for small and micro enterprises (SMEs).

5.8 These representatives warned that the new regulatory requirements could discourage domestic premises suppliers from offering BNPL products for financing small-value essential and emergency transactions, such as plumbing repairs. They also argued that many domestic premises suppliers would likely withdraw BNPL products altogether to avoid the compliance costs associated with being FCA-regulated firms.

5.9 The timing of these concerns — coming after the drafting for the 2025 Order had been finalised and ready for laying before Parliament — meant it was not feasible to reconsider the regulatory treatment of domestic premises suppliers without delaying the legislation. Such a delay would have run counter to the Government's commitment to regulate BNPL products swiftly and ensure users benefit from vital consumer protections without further wait. In addition, HM Treasury was given insufficient supporting evidence at the time by the FCA and BNPL firms to both validate the concerns raised and facilitate a full assessment of a potential change in policy.

5.10 Therefore, on 19 May, the Government laid the legislation as consulted on in October 2024 (notwithstanding some necessary technical revisions to achieve desired policy outcomes), while committing to further work with industry and the FCA to review the treatment of domestic premises suppliers under the BNPL regulatory regime. The 2025 Order was subsequently made law on 14 July.

5.11 Through further engagement with the FCA and the BNPL sector, as well as an assessment of complaints against domestic premises suppliers heard by the Financial Ombudsman Service (FOS), it became clear that the domestic premises suppliers most likely to be affected by the new regulatory requirements for BNPL products have a significantly lower risk profile compared to traditional domestic premises suppliers. It was also established that the current provisions could also disproportionately affect SMEs, which domestic premises suppliers are generally categorised as, undermining the Government's growth agenda.

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[4] https://assets.publishing.service.gov.uk/media/62ab50d58fa8f535763df206/BNPL_consultation_response__Formatted_.pdf (p. 18).

[5] https://assets.publishing.service.gov.uk/media/63ea41a9e90e077bbb30a4fc/BNPL_consultation_on_draft_legislation.pdf (p. 21)

[6] https://assets.publishing.service.gov.uk/media/6710efdb8a62ffa8df77b28c/Regulation_of_BNPL_consultation_2024_-_final_17.10.pdf (p. 27).

[7] Government response to the 2023 consultation: https://assets.publishing.service.gov.uk/media/6710efdb8a62ffa8df77b28c/Regulation_of_BNPL_consultation_2024_-_final_17.10.pdf (pp. 40-41); Government response to the 2024 consultation: https://assets.publishing.service.gov.uk/media/6827536302662c6f8ec243c4/250516_-_BNPL_consultation_response_.pdf (p. 17).

5.12 Moreover, both FCA and BNPL sector feedback indicated that many domestic premises suppliers would choose not to offer BNPL products rather than undergo the process and expense of obtaining regulatory approval for credit broking. This could result in fewer options for consumers and drive them towards costlier, interest-bearing credit cards for completing their purchases.

5.13 After reviewing the evidence, the Government concluded that domestic premises suppliers offering BNPL products pose a low risk to consumers and that imposing regulatory requirements on them around credit broking would unduly burden an estimated 620 SMEs.

5.14 As a result, the Government concluded that such requirements would be disproportionate. Therefore, on 16 June, the Government announced its intention to lay a further statutory instrument, amending the 2025 Order, to remove this requirement.[8]

5.15 The instrument also makes technical amendments relating to the transitional provisions in Part 4 of the 2025 Order. The amendments are to clarify the status of authorised firms with existing Part 4A permission to carry on an activity specified by article 60B (regulated credit agreements) of the RAO, prior to the regulatory commencement date (15 July 2026). The effect of these amendments is to make it clear that when BNPL products become regulated on 15 July 2026, firms with existing Part 4A permission to carry on an activity specified by article 60B (regulated credit agreements) will be treated as having permission to lend newly regulated BNPL products on or after that date. This is in line with the policy intent and these amendments are designed to remove any potential ambiguities.

What was the previous policy, how is this different?

5.16 Without this instrument, domestic premises suppliers wishing to offer BNPL products to their customers after the regulatory regime for BNPL products goes live on 15 July 2026 would have had to obtain regulatory approval from the FCA for undertaking credit broking.

This instrument exempts domestic premises suppliers from credit broking regulation when they offer BNPL products to their customers, meaning that these merchants do not have to obtain regulatory approval for credit broking from the FCA in order to offer BNPL products to their customers.

6. Legislative and Legal Context

How has the law changed?

6.1 This instrument amends article 36FB of the RAO, which was inserted by the 2025 Order, so that domestic premises suppliers are no longer excluded from the merchant exemption for brokering BNPL products in that article.

6.2 The instrument also amends Part 4 of the BNPL Order to delete references to temporary regulatory approval for activities under article 36A of the RAO, since these are no longer required with domestic premises suppliers having an exemption from credit broking regulation.

6.3 The instrument amends Part 4 (transitional provisions) of the 2025 Order by adding a new article (6A) to specify that firms with existing Part 4A permission for consumer

[8] https://www.gov.uk/government/publications/update-domestic-premises-suppliers-and-buy-now-pay-later-bnpl/update-domestic-premises-suppliers-and-buy-now-pay-later-bnpl.

credit lending under articles 60B and 64A of the RAO will be treated as having Part 4A permission to lend newly regulated BNPL products on or after the regulatory commencement date of 15 July 2026.

Why was this approach taken to change the law?

6.4 For the amendment relating to domestic premises suppliers and credit broking, changing the law is the only possible approach to make the necessary changes. Without a change to the 2025 Order, there would be no avoiding domestic premises suppliers needing to seek regulatory approval for credit broking in order to offer BNPL products to their customers.

6.5 The technical amendments within Part 4 (transitional provisions) of the 2025 Order provide explicit clarity — which could not be achieved without changing the law — regarding the regulatory position of FCA authorised firms with existing Part 4A permission. The provision also ensures consistency between the instrument and the Government's general approach to amending regulated activities under the RAO.

7. Consultation

Summary of consultation outcome and methodology

7.1 HM Treasury undertook three public consultations on BNPL regulation in the round. After this new issue was brought to light, the Government undertook further engagement with the BNPL sector, relevant trade associations, the FCA, and the FOS to understand both the emerging market of domestic premises suppliers offering BNPL products and the general risks associated with such businesses.

7.2 In the course of this engagement, the Government sought data from the UK's three main BNPL firms, specifically regarding the market size and any complaints related to purchases from domestic premises suppliers made using BNPL products.

7.3 Based on the information provided, the Government estimated there are around 620 domestic premises suppliers offering BNPL products to their customers. Of these, complaints were reported in respect of only five suppliers, representing just 0.8% of the total.

7.4 Alongside this, the Government reviewed a sample of complaints made to the FOS concerning domestic premises suppliers. These complaints related exclusively to high-value (thousands of pounds), long-term credit agreements spanning several years.[9] These types of agreements differ significantly from the BNPL products offered by domestic premises suppliers, which data shows have a £200 average transaction value.

8. Applicable Guidance

8.1 The Government is not providing any guidance in relation to this instrument.

[9] Examples include a four-year, £6,000+ loan to finance online tutoring, where it was determined that the tutoring agency's representative had provided misleading information on cancellation rights (https://www.financial-ombudsman.org.uk/decision/DRN-3398174.pdf), and a 10-year, £10,000+ loan to finance solar panels, where it was determined that the solar panel company had misled a customer on the financial benefits of a solar panel system (https://www.financial-ombudsman.org.uk/decision/DRN-4999586.pdf).

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because the net impact on businesses will be less than £10 million a year. This is the qualifying figure for a full Impact Assessment under the Better Regulation Framework.

9.2 Notwithstanding this, HM Treasury has prepared a short, 'de minimis' Impact Assessment, which has been published alongside this instrument.

Impact on businesses, charities and voluntary bodies

9.3 The impact on businesses, charities, and voluntary bodies is moderate. In total, the estimated 620 domestic premises supplier businesses currently offering BNPL products to their customers will save £694,400 in one-off costs. This saving arises from the removal of the requirement to seek regulatory approval for credit broking, involving FCA authorisation, which would have cost each business £1,120 (2025/26 figures).

9.4 Additionally, these businesses will collectively save £990,183.40 annually in ongoing FCA fees and levies, equivalent to £1,597.07 per business each year (2025/26 figures). There will also be savings from not having to pay an as yet undetermined fee for entering the transitional regime for BNPL regulation.

9.5 The legislation does impact small or micro businesses. Because the instrument is a deregulatory measure, it inherently minimises the impact of legislation on small or micro businesses — in this instance, the requirements for businesses under the new regulatory regime for BNPL products.

9.6 This measure also alleviates the impact on the FCA. Specifically, the FCA will not have to process an estimated 620 applications from domestic premises suppliers seeking authorisation and regulatory approval for credit broking. Each application would have taken the FCA between six to twelve months to assess.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is that it will be monitored as part of the monitoring for the 2025 Order.

10.2 The instrument does not include a statutory review clause since it will be reviewed as part of the statutory review required under article 13 of the 2025 Order.[10]

[10] https://www.legislation.gov.uk/uksi/2025/859/article/13/made.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").