NORTON ROSE FULBRIGHT

(Self)regulation in an age of geopolitical tension

Practical steps for firms



Introduction

Geopolitical considerations are increasingly occupying a central place on the agendas of financial services regulators. For firms operating across borders, regulatory expectations are shifting almost as quickly as the underlying economic and political dynamics. The challenge is no longer simply complying with rules but reimagining what regulatory preparedness looks like in a fluid landscape.

This article outlines six practical steps that firms should be taking now to strengthen their regulatory and operational resilience amid ongoing geopolitical uncertainty.

Many supervisors have begun to acknowledge the growing significance of geopolitical risks. For instance, in the United Kingdom, the Financial Conduct Authority has warned that the financial system is "not prepared, tactically or strategically," for the transmission of geopolitical shocks through markets, balance sheets and operational infrastructure. Across the European Union, the European Securities and Markets Authority has repeatedly identified geopolitical tensions as a key driver of volatility and operational fragility, cautioning that unexpected developments could trigger sudden market corrections and liquidity strains.

Regulatory change may already be in motion, but it is not the primary disruptor. Major regulatory shifts tend to follow periods of turmoil, not precede them. The more pressing question is whether firms can rely on self-discipline, and, to an extent, self-regulation, to meet evolving expectations while also insulating themselves against the shockwaves that arrive before new rules do.

Naturally, the exact playbook will differ by firm, shaped by authorisation status, business model and global footprint. Even so, the following practical steps should be at the top of every firm's agenda.

Step 1	**Re-examine exposures and dependencies**
Step 2	**Stress-test for non-linear shocks**
Step 3	**Interrogate organisational "health"**
Step 4	**Develop rapid-response playbooks and scenario plans**
Step 5	**Embed horizon scanning as a cultural capability**
Step 6	**Elevate board perspective and entity strategy**

Step 1: Re-examine exposures and dependencies

The first priority is to develop a clear view of what is genuinely at stake and the minimum market position a firm must protect. That means mapping exposures with granularity: how products, markets, counterparties, regulatory permissions and operational dependencies interact and where this architecture is vulnerable to disruption.

This requires more than a basic checklist. Firms need to pinpoint which revenue lines, client relationships, and operations are most exposed to cross-border disruption. Measures like tariffs, export controls, investment screening, and sanctions are now directly affecting how firms sell products, onboard clients, deploy capital, and maintain orderly markets. For firms with exposure to physical markets, this mapping exercise takes on additional dimensions. Physical commodities, whether energy, metals or agricultural products, carry distinct vulnerabilities tied to supply chain geography, storage and transportation infrastructure, and the regulatory frameworks governing cross-border movement. Davos panels also warned that third-country and trade-finance routes can enable circumvention, stressing the need for stronger checks and escalation processes.

Many firms will recognise echoes of their Brexit-era assessments, but today's scope is broader, more dynamic and significantly more exposed to geopolitical volatility. Brexit involved a relatively contained set of regulatory divergence risks, while the current landscape requires constant monitoring across multiple jurisdictions, each evolving in its own political and economic direction. Even so, the 2019 scenario planning work still offers a helpful starting point.

Step 2: Stress-test for non-linear shocks

Stress-testing is not new, but the nature of the shocks being tested has changed. Restrictions on market access, sudden sanctions or tariff shifts, liquidity pressures, and disruptions to clearing or settlement infrastructures do not always strike in isolation, they can compound and accelerate each other.

The challenge is to understand how such non-linear dynamics could collide in practice, and to ensure that the impact of compound shocks is properly captured, not modelled as isolated, sequential risks. Traditional stress tests assume shocks unfold one after another, but geopolitical crises often do not. Firms should adjust their models to reflect this and ensure any insights feed into their regulatory risk and compliance frameworks.

Stress-testing should also extend to physical market exposures where relevant. This includes modelling the impact of supply disruptions, forced divestments, or the sudden unavailability of key commodities or counterparties.

Step 3: Interrogate organisational "health"

This is ultimately a test of internal resilience. Firms need to scrutinise the strength of their capital and liquidity frameworks, their governance and escalation mechanisms, the robustness of sanctions and compliance frameworks, as well as their operational resilience and critical reliance on third parties.

Reviewing internal capital and liquidity frameworks
Geopolitical shocks can place sudden and severe pressure on capital and liquidity buffers. Margin calls may spike, counterparties may fail, and access to funding markets may become constrained precisely when firms need liquidity most. Firms should therefore review their internal capital and liquidity frameworks through a geopolitical lens, testing whether existing buffers are calibrated for the speed and severity of potential disruptions. They must also challenge their assumptions, including where relevant, the viability of intragroup support or cross-border liquidity transfers.

Governance and accountability
Beyond formal governance, a candid assessment of institutional culture is also key, including effectiveness of escalation channels and cross-team collaboration. Clear lines of accountability are essential. Boards and senior management must understand where geopolitical risk sits within the organisation, who is responsible for monitoring and escalating it, and how decisions will be taken when events move quickly. Firms should ensure that governance frameworks are not merely documented but actively tested, with regular reporting to the board on geopolitical exposures and the effectiveness of mitigating actions.

Operational resilience and cyber protection
Operational resilience has become a regulatory priority in its own right, and geopolitical tension amplifies the risks that resilience frameworks are designed to address. Cyber threats in particular have intensified, targeting critical infrastructure, financial systems and sensitive data. Firms should ensure that their operational resilience frameworks explicitly account for potential eventualities in this context to ensure critical operations continue to function while containing the threat. Third-party risk is equally important. Critical vendors and outsourced providers may face their own geopolitical disruptions. Firms should therefore map supply chains, identify single points of failure and put workable contingency plans in place.

Contingency planning and wind-down
Contingency planning should extend to more severe scenarios, including the possibility of a managed exit from certain markets, products or client relationships. Regulatory expectations increasingly require firms to demonstrate that they can be wound down in an orderly manner without causing wider systemic harm. In a geopolitical context, this means considering how a forced exit from a jurisdiction, the loss of a critical licence, or the imposition of asset freezes would be managed. Firms should identify which activities could be scaled back or transferred, what contractual obligations would be triggered, and how clients and counterparties would be treated. Wind-down planning is not a sign of weakness but a mark of responsible governance, and regulators will expect firms to have thought through these scenarios in advance.

Step 4: Develop rapid-response playbooks and scenario plans

This is about ensuring the right response is available when time is at a premium. The value lies in concise, principle-based frameworks that eliminate ambiguity by clearly allocating responsibility, defining communication flows and setting out the immediate actions that can be taken when geopolitical or market shocks break.

Quick decision-support tools need to be available to name key decision-makers and backups, set clear escalation thresholds, and outline immediate actions. Leadership should also be encouraged to think beyond the immediate crisis response and assess what prolonged geopolitical tension means for their strategy. Frameworks such as the Davos Global Risks agenda, covering cyber insecurity, mis/disinformation and geo-economic tension, can support resilience testing and third-party concentration reviews.

Step 5: Embed horizon scanning as a cultural capability

Finally, geopolitical preparedness depends on the ability to see around corners. Monitoring political, regulatory and macroeconomic developments is no longer a peripheral function but a strategic one. The emphasis is shifting from passive updates to active horizon scanning, detecting early signals, interpreting them meaningfully and ensuring they reach decision-makers quickly enough to shape action.

Effective horizon scanning requires also clear pathways from detection to decision, and an urgency among senior leaders to engage with uncertainty and adjust course when the evidence demands it.

Step 6: Elevate board perspective and entity strategy

Geopolitical risk is not merely an operational or compliance matter; it is a strategic issue that demands board-level attention. Boards should be actively engaged in understanding the firm's geopolitical exposures, the adequacy of mitigating actions, and the implications for long-term strategy. This includes considering whether the firm's geographic footprint, client base and product mix remain appropriate in a more fragmented world, and whether adjustments to entity structure or market presence may be warranted.

Entity strategy is particularly important for groups operating across multiple jurisdictions. The legal and regulatory perimeter of each entity, its capitalisation, its access to infrastructure and its ability to operate independently may all be tested by geopolitical developments. Boards should ensure that entity structures are robust, that intragroup dependencies are understood and manageable, and that each regulated entity can demonstrate to its local supervisor that it is capable of meeting its obligations without undue reliance on group support that may not be available in a crisis.

Conclusion

The six steps outlined above share a common thread: the recognition that reactive regulatory compliance alone is no longer sufficient. In a landscape where geopolitical shifts can outpace formal rulemaking, firms must take ownership of their own preparedness. This means embedding resilience into governance, operations and strategic planning as a matter of course.

The challenge is not simply technical. It demands a shift in institutional mindset, from treating geopolitical risk as an external variable to recognising it as a core dependency for business continuity and regulatory exposure. Firms that invest now in mapping their vulnerabilities, stress-testing for compound disruptions, strengthening internal governance and building the capacity to respond swiftly will be better positioned to weather the shocks that lie ahead and withstand regulatory scrutiny.

Ultimately, the question regulators will ask is whether firms acted with appropriate foresight. In a period of evolving geopolitical challenges, the most effective form of self-regulation is the discipline to prepare before events force the issue.

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