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BRIEFING

Streamlining the SMCR: FCA and PRA consult on Phase 2 reforms

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The Financial Conduct Authority ("**FCA**") and Prudential Regulation Authority ("**PRA**") have launched the second phase of their review of the Senior Managers and Certification Regime ("**SMCR**"), proposing a series of reforms designed to reduce the burden on firms while leaving the FCA's enforcement toolkit untouched.

Key proposals

1. Reducing the number of SMF applications
2. Streamlining the SMF application process
3. Greater flexibility to appoint interim senior managers
4. Raising the thresholds for the Enhanced regime
5. Removing routine submission of Statements of Responsibilities and Management Responsibilities Maps
6. Streamlining the Prescribed Responsibilities
7. Removing the Certification Regime
8. Retiring the Directory of certified and assessed persons
9. Simplifying Conduct Rule training and raising breach reporting thresholds

On 22 October 2026, the FCA and PRA published consultation papers setting out their 'Phase 2' proposals for reforming the SMCR. The proposals sit alongside HM Treasury's ("**HMT**") wider review of the regime and the Financial Services and Markets Bill currently making its way through Parliament, which proposes the removal of the Certification Regime from primary legislation. Together, HMT, the FCA and the PRA

have committed to halving the regulatory burden of the SMCR and cutting the number of Senior Manager pre-approvals by 40 per cent as part of the Government's 10-year Financial Services Growth and Competitiveness Strategy. The Phase 2 proposals set out how the regulators intend to deliver that commitment.

In practical terms, the proposals are aimed at simplifying the day-to-day operation of the SMCR. Key changes include reducing the number of Senior Manager approval applications firms must make, giving firms greater flexibility to appoint interim Senior Managers, simplifying the assessment process for Senior Management Functions ("**SMFs**"), and reducing the frequency with which firms must update and submit Statements of Responsibilities ("**SoRs**") and Management Responsibilities Maps ("**MRMs**"). The FCA is also considering how to replicate the Certification Regime in a simpler way within its Handbook, removing the Directory for certified and assessed persons, and streamlining Conduct Rule breach reporting.

Phase 1 reforms: a recap

The regulators have already embarked on significant structural reforms to the way in which the SMCR operates. The 'Phase 1' reforms, introduced in April this year, have given firms greater flexibility and reduced certain administrative burdens – for example, by extending the validity period for criminal record checks, clarifying expectations around regulatory references and removing overlapping Certification Functions. For more details, please see our previous blog post.

Phase 2 proposals: what firms need to know

The Phase 2 consultation papers set out a package of proposals that, taken together, seek to significantly reduce the administrative burden of the SMCR. The proposals place greater reliance on firms' own assessments and controls, and shift more responsibility for the day-to-day operation of the regime away from the regulators to firms. Key proposals are:

1. Reducing the number of SMF applications

The regulators propose to reduce the number of SMF approval applications by removing certain SMFs from the regime altogether and converting others into functions that would be notified to the relevant regulator rather than pre-approved.

A significant number of SMF roles would move from pre-approval to notification, including SMF5 (Head of Internal Audit), SMF10, SMF11, SMF12 (Chairs of the Risk, Audit and Remuneration Committees, respectively) and SMF14 (Senior Independent Director) under both regimes. The FCA has proposed removing the SMF18 (Overall Responsibility) and SMF22 (Local Responsibility) functions for which it is responsible, noting that they have been used extensively in respect of individuals who were not intended to be SMFs. Both regulators also propose changes to the SMF7 (Group Entity Senior Manager) function. For

solo-regulated firms, the FCA proposes to narrow its scope by restricting it to specified senior group roles exercising significant influence over the firm's activities. For PRA regulated firms, the PRA proposes to divide the existing SMF7 population between approved SMF7 function (for certain specified senior group roles) and a new notified SMF7a function (for individuals not in such roles). Notified SMFs would remain subject to the same standards as approved SMFs, including the Duty of Responsibility, the obligation to take reasonable steps and the Senior Manager Conduct Rules.

Firms will welcome the reduction in regulatory burden associated with the application process for these roles. While the regulators often have better information about a prospective candidate than the firm can source, firms still have to independently assess the fitness and propriety of prospective senior managers. Arguably, though, the change will place greater responsibility on firms to robustly assess candidates before appointment where regulators no longer do so. Firms would therefore need robust vetting processes covering fitness and propriety, and all firms may find that the role and integrity of regulatory references are placed more in the spotlight. The regulators are also likely to scrutinise firms' governance and appointment processes more closely, and could require pre-approval exceptionally where, for example, there are serious concerns about a firm's ability or willingness to assess fitness and propriety.

2. Streamlining the SMF application process

Alongside reducing the number of applications, the regulators propose to streamline the process for SMFs that remain subject to pre-approval, as well as for the new notification route. This includes removing certain supporting document requirements considered immaterial to the assessment of fitness and propriety, decommissioning duplicative forms, and moving the Approved Persons forms out of the Handbook and onto the FCA's website so that they can be updated more quickly.

The FCA is also targeting faster turnaround times, including a reduced two-month statutory determination deadline, down from three months, and completion of at least half of applications within 35 days. For firms, this should reduce the lead time and administrative cost of recruiting into senior roles, although much of the former 'clunky' process has been fixed with the changes to the 12-week rule.

However, a more streamlined process does not mean a lower fitness and propriety threshold. For roles moving to notification, firms will still be expected to carry out the same substantive vetting and assessment. Front-loaded due diligence will therefore remain important, particularly as lighter-touch regulatory gatekeeping shifts more responsibility onto firms for identifying unsuitable appointments.

3. Greater flexibility to appoint interim senior managers

The FCA proposes to extend the "12-week rule", which allows firms to appoint temporary cover without approval, to 18 weeks where the absence is "reasonably unforeseen". This builds on the recent changes that mean that the 12-week time limit is now linked to when a Form A is submitted, rather than when approval is received. It also suggests replacing the

"reasonably unforeseen" test for when responsibilities may be allocated to individuals on a temporary basis, with one based on the "reasonable use" of temporary arrangements. This would give firms longer to manage senior management gaps before a formal application or notification is required, and would respond to some of the practical difficulties firms commonly encounter when managing gaps in senior leadership coverage. Greater flexibility should assist with succession and crisis management. However, the FCA acknowledges that a longer interim period could allow an unsuitable individual to remain in an SMF role for longer, and firms should ensure that interim arrangements are properly governed and documented. The FCA has made clear its expectation that the amended arrangements are intended only for situations where temporary cover is necessary, and for a limited period of time. In other words, the additional flexibility should be used deliberately rather than by default. The longer an interim arrangement continues, the more important clear oversight and record-keeping will be, particularly if the FCA later reviews the appointment.

4. Raising the thresholds for the Enhanced regime

Introduced when the SMCR was extended to almost all solo-regulated firms in 2019, the Enhanced regime imposed additional requirements on firms whose size, complexity or potential impact is considered to justify greater individual accountability requirements. As part of Phase 1 of the SMCR reforms, the FCA increased several financial thresholds to reflect inflation and introduced a mechanism for periodic indexation. Phase 2 would further increase the relevant thresholds from £130 million to £200 million revenue for consumer credit lenders, from £65 billion to £100 billion AUM for asset managers, and from £45 million to £75 million revenue for intermediaries. For wholesale markets firms, the current "significant SYSC" test would be replaced by a £750 million balance sheet asset threshold.

Firms moving from Enhanced to Core status would no longer need to designate the additional SMFs applicable to Enhanced firms, such as the Chief Finance, Chief Risk and Chief Operations functions. Certain other functions only applicable to Enhanced firms, such as committee chair functions, would in any event cease to require approval under other aspects of the proposed reforms (see above). They would also no longer be required to prepare handover summaries or maintain MRMs, although they would remain subject to the Core SMCR.

Firms would still be able to opt up voluntarily to the Enhanced regime, and the FCA would retain the ability to require this where it considers that a firm's size, complexity or market impact warrants it. This may be particularly relevant to wholesale markets firms, where the FCA acknowledges that a single financial threshold may not adequately capture potential market impact. It has indicated that further guidance may follow in this area.

5. Removing routine submission of Statements of Responsibilities and Management Responsibilities Maps

The FCA proposes materially reducing the reporting associated with SoRs and MRMs. The Phase 1 reforms already allowed firms up to six months to notify changes to SoRs. Phase 2 would go further by abolishing the routine reporting of changes. Firms would instead maintain current SoRs internally, retain superseded versions (generally for six years), and produce current or historic versions to the regulators on request. SoRs would still accompany SMF applications or notifications, subject to a new exemption for firms where a single individual performs all SMF roles, expected to benefit around 18,800 firms.

A similar approach is proposed for MRMs, which apply to dual-regulated and Enhanced solo-regulated firms. Routine submission of updated maps would cease, but firms would remain required to maintain them and retain historic versions.

In supervisory and enforcement contexts, SoRs and MRMs provide the regulators with a roadmap for establishing how responsibility was allocated within a firm at a particular time, including when deciding which steps to take in respect of suspected breaches of regulatory requirements. Removing the obligation to routinely submit these documents will increase the onus on firms to ensure that they remain accurate and available to be produced promptly when requested.

6. Streamlining the Prescribed Responsibilities

The FCA proposes substantially to reduce the number of Prescribed Responsibilities ("**PRs**"), retaining only those covering the Senior Managers Regime, financial crime and CASS for Core and Enhanced firms, and oversight of outsourced internal audit for Enhanced firms. The proposal to retain the financial crime responsibility in particular is consistent with the FCA's enforcement priorities. The FCA frequently reiterates that reducing and preventing financial crime remains a strategic priority, and this is borne out by its enforcement caseload – for example, it reported that more than 75 per cent of its enforcement work in 2025/26 was focused on financial crime.

Importantly, removing a PR would not remove the underlying regulatory requirement; it would remove only the requirement separately to allocate that PR to a particular Senior Manager.

The FCA has indicated that it does not generally expect firms to reproduce responsibilities covered by discontinued PRs as overall, local or other responsibilities in SoRs, unless responsibility would not otherwise be clear from the nature of the relevant SMF role. This should limit the need for firms simply to recreate the existing PR framework elsewhere in their responsibility documentation, consistent with the wider objective of reducing the administrative burden of the SMCR.

7. Removing the Certification Regime

One of the more eye-catching aspects of the Phase 2 proposals, albeit one that had been clearly signalled in advance, is the regulators' proposals to abolish the Certification Regime altogether. The Certification Regime was

introduced to address perceived weaknesses in the previous Approved Persons Regime, by making firms responsible for assessing and certifying as fit and proper individuals performing roles capable of causing significant harm, even where those individuals did not require regulatory pre-approval. It formed one of the three pillars of the new individual accountability framework first introduced for banks in 2016. It is now regarded by the regulators as somewhat anachronistic and as imposing substantial administrative burdens which are incompatible with growth related objectives.

From a supervisory and enforcement perspective, this would represent a significant change in how standards are evidenced, rather than their wholesale removal. Firms would remain responsible under existing SYSC requirements for ensuring relevant employees are competent and suitable, while individuals currently within certification would remain subject to the Conduct Rules. Existing qualification and Training and Competence requirements would also continue to apply, including those relevant to retail investment and mortgage advisers. The FCA would therefore rely more heavily on these existing requirements and firms' own assessment processes rather than prescribed annual certification. Regulatory references would likewise cease to be required for formerly certified persons, but would remain mandatory for approved or notified SMFs.

For firms, abolition would therefore require a reassessment rather than simply the dismantling of existing certification processes. Firms will need to identify which elements of their current fitness and propriety framework remain necessary to demonstrate compliance with the continuing SYSC competence and suitability requirements, the Conduct Rules and applicable qualification and Training and Competence requirements. They should also consider what records should continue to be maintained to evidence those assessments if subsequently scrutinised by the FCA. The removal of mandatory annual certification may permit a more risk-based approach, but firms will need to be satisfied that any streamlined process continues to provide effective assurance as to the suitability of individuals performing higher-risk roles.

8. Retiring the Directory of certified and assessed persons

The FCA proposes to retire its Directory of certified and assessed persons, removing firms' obligations to maintain information on these individuals and attest annually to its accuracy. Introduced to improve market transparency, the Directory contains information supplied to, but neither verified nor approved by, the FCA (or PRA), creating potential for users to misunderstand its regulatory significance. The FCA has indicated that it considers its Firm Checker to be a more effective consumer tool.

9. Simplifying Conduct Rule training and raising breach reporting thresholds

The FCA proposes to leave the Conduct Rules themselves unchanged, but to simplify how they are communicated and how breaches are reported. The existing statutory training requirement would be replaced by an obligation to notify relevant staff of the rules that apply to them and the

consequences of breach, giving firms greater discretion over how this is achieved.

Under the FCA's proposals, for most non-SMF staff the reporting threshold would rise so that breaches would be reportable only where disciplinary action results in a **final written warning or dismissal**. The PRA proposes a broader range of reportable disciplinary sanctions for staff in certain key roles, so dual-regulated firms would also need to consider the applicable PRA requirements. The FCA estimates that this would reduce the burden of breach determination and reporting by around 30 per cent. Firms would generally have up to 14 months to report the final outcome of such cases. The FCA also proposes that firms should not have to determine whether lower-level misconduct amounts to a Conduct Rule breach where the disciplinary outcome would fall below the new reporting threshold, avoiding a separate regulatory assessment of misconduct which could not in any event trigger a Conduct Rule report. It is possible that an unintended consequence of this could be that it becomes more difficult to identify repeated regulatory misconduct, particularly where the misconduct consists of a repeated failure to meet regulatory standards and/or where treating it as a Conduct Rule breach could itself affect the disciplinary sanction imposed.

The position for senior staff would remain more stringent. Existing reporting requirements would continue to apply to SMFs, while breaches involving other staff subject to the Senior Manager Conduct Rules (including non-SMF board directors and individuals temporarily performing an SMF) would be reportable within seven business days. Importantly, existing requirements to notify the FCA promptly of matters of regulatory significance would remain unchanged.

What will happen next?

The FCA's Phase 2 consultation and the PRA's parallel consultation close on **22 January 2027**. The FCA expects to publish final rules in the **first half of 2027**, with implementation expected approximately **six months later, in the second half of 2027**.

That timetable is, however, contingent on the necessary legislative changes being made. Many of the more far-reaching Phase 2 reforms cannot be implemented within the existing statutory framework. The Financial Services and Markets Bill would remove a number of prescriptive SMCR requirements from primary legislation and give the regulators greater discretion to determine the regime through their own rules, including the flexibility necessary for proposals such as replacing regulatory approval with notification for certain SMFs and removing the statutory basis for the Certification Regime. The FCA is consulting while the Bill progresses through Parliament so that it can finalise its rules as soon as possible following Royal Assent.

Firms therefore have some time before implementation, but the proposed changes warrant early consideration. In particular, firms should assess the implications for their allocation of Senior Manager responsibilities, SoRs and MRMs, certification and fitness and propriety processes, Conduct Rule

arrangements and regulatory reporting. The direction of travel is towards a less prescriptive regime, but one that places correspondingly greater reliance on firms maintaining effective internal governance and being able to demonstrate clearly how individual accountability operates in practice.



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