UK Finance

afme/ Finance for Europe

A response by **AFME** & **UK Finance** to the

HM Treasury (HMT) on:

Review of the Senior Managers and Certification Regime (SMCR)

7 October | 2025

1. Introduction

1.1. AFME[1] and UK Finance[2] are pleased to respond to the HMT consultation paper on Reforming the SMCR ("the CP" or proposals)

1.2. This response should be read in conjunction with our responses to the FCA's CP25/21, and PRA's CP18/25 on SMCR. AFME and UK Finance members who are regulated by the FCA and/or PRA, and comply with the SMCR, have contributed to this response.

1.3. We[3] have been supported by Kroll[4] in our response.

1.4. We have split our response into three sections:

1.4.1. **Section 2** - Key Messages and Recommendations – In this section we outline several thematic messages. These include areas which cut across multiple areas, as well as observations which are not addressed by any specific questions in the CP.

1.4.2. **Section 3** – Response to CP Questions by Section – In this section we have structured our response along the same format as the CP, providing feedback against each of the 18 questions contained in the CP.

1.4.3. **Section 4** – Additional Recommendations and Observations – In this section we have included our views on any additional proposals we think would assist with alleviating unnecessary burden.

1.5. More broadly we note that the proposed changes in HMT's paper will require changes to primary parliamentary legislation, which by its nature introduces the risk of potential changes, and delays in implementation timelines.

1.6. Many of our messages and recommendations will also impact the PRA's and FCA's consultations, and likewise our feedback to those consultations may impact HMT's consultation. We therefore encourage you to read our response to all three CPs.

2. Key Messages and Recommendations

2.1. We support the government's proposal to reform the SMCR regime as outlined in the three CPs, whose collective aim is to reduce the burden of the current regime by 50% without compromising the substance of the legislation with the objective to ensure high standards of conduct and accountability in the UK financial services sector.

2.2. We believe that achieving this objective will require fundamental change to the design and operation of the regime as follows:

2.2.1. Phase 1 – while welcome, the current package will only bring limited savings (5%) in the regulatory burden. We therefore urge the government and regulators to go as far as possible in making changes in this phase.

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[1] AFME: represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

[2] UK Finance is the collective voice for the banking and finance industry. Representing 300 firms, we are a centre of trust, expertise and collaboration at the heart of financial services, championing a thriving sector and building a better society

[3] 'We' refers to the joint AFME and UK Finance working group comprised of over 150 members across over 80 different firms across the banking and finance industry.

[4] Kroll helps clients detect, manage and mitigate enterprise risk and make strategic and informed financial decisions to achieve an enduring competitive advantage.

2.2.2. Phase 2 – while the proposed changes are potentially more far reaching, these will need to be at the extensive end of the spectrum to achieve meaningful if the savings, for example the removal of the need for pre-approval of almost all SMF roles and the rationalisation of the certified roles.

2.2.3. Interim State (Post Phase 1) - any interim state must be sustainable over the long-term given the two-phased approach and dependency on the successful passing of parliamentary legislation for the Phase 2 and consequent risks of delay. Where possible firms should be given the flexibility to retain existing arrangements during an interim period.

2.2.4. Complexity and alignment –the regime is complex with a wide range of regulatory rules and obligations in both the FCA and PRA frameworks. There are several areas of marginal differences in requirements and processes between the regulators. We therefore highlight that these differences should be minimised or ideally eliminated, with particular focus on groups with a combination of solo and dual regulated entities.

2.2.5. Process and technology enablement – the efficacy of the current processes is poor. For example the Connect system data upload and extraction does not lend itself to easy reconciliation or bulk processing, and in several instances the input screens do not match the format of the paper reports. This results in unnecessary administrative overheads. Overhauling the systems and processes is a key enabler in achieving the savings sought.

2.2.6. Benefits – in addition to lower direct costs associated with the administration of the regime, we believe the primary benefit to be the reduction in business and operational risks by allowing firms to more easily and rapidly change individuals in key roles without compromising the effectiveness of business decision making.

2.3. At this stage, we do not foresee any major implementation challenges, provided that the changes are well managed and communicated. This includes sufficient investment in the Connect system to accommodate the changes. We would welcome clear transitional guidance and final rules being made available well in advance of any compliance deadline to enable firms, especially foreign branches, to prepare accordingly.

2.4. Finally, our members would welcome the opportunity to provide further input into the work with HMT, FCA and PRA in developing the details of any new arrangements, be it through working groups, reviewing of draft documentation or user input into new process and systems. UK Finance and AFME would be more than happy to help facilitate this engagement.

3. Response to CP questions by section

3.1 Chapter 2: Removal of the Certification Regime (Page 15 of the CP)

3.1.1. Q1. Do you agree that the Certification Regime should be removed from FSMA 2000?

3.1.1.1. We broadly support of the proposal to remove the primary legislation underpinning the Certification Regime through the repeal Sections 63E and 63F of the FSMA 2000 and instead allow the regulators to use their rule making powers under the Act (sections 137A and 137G for the FCA and PRA respectively) to set up a replacement regime in their respective rule books.

3.1.1.2. We believe this approach will provide regulators with greater flexibility to develop a more proportional, tailored regime, which the flexibility for this to evolve over time, as the industry continues to develop over time.

3.1.1.3. Some members hold the view that the Certification Regime has benefited the industry in reducing the risk of significant harm to firms and customers and should therefore be replaced by a suitable alternative. Other members feel that the Certification Regime did not add value to their underlying standards and processes.

3.1.2. Q2. Do you agree that the Regulators should consider developing a more proportionate approach, that would replace the existing Certification Regime?

3.1.2.1. We agree that should the existing Certification Regime be repealed from legislation, it should be replaced by a more proportionate approach. As a principle, we believe the requirements of a new regime should be risk-based, taking into consideration the role of the individual, the nature, scale and complexity of the organisation for which they work, as well as any duplication with other regulatory or legal requirements. The new regime should include consideration of:

3.1.2.2. Reducing the scope of the roles caught by the regime to exclude the Manager of a Certified Person (CP), re-defining the Client Dealing Function to focus on higher risk roles, as well as considering of the overlap between the Significant Management CP and the Material Risk Taker (MRT) function, particularly in non-client facing management roles, such as Technology, Risk and Finance. We acknowledge that in a number of these areas' improvements are included in the FCA and PRA phase 1 proposals.

3.1.2.3. Reducing the frequency of the certification process from annually to a longer period, or potentially indefinitely by adding a risk-based assessment where there is a change in circumstances, for example changes in roles, disciplinary records etc. We would support an on-going obligation for firms to ensure individuals are fit and proper, without a specific regulatory timeframe for reassessment.

3.1.2.4. Permitting the automated sign-off of agreed relevant inputs, for example training records, compliance requirements, appraisal results, relevant qualifications and nil returns on Annual Questionnaires. The efficacy of these processes should be subject to formal sign off from management, HR, legal and / or compliance as appropriate.

3.1.2.5. Removing the need for the issuance of formal certificates, instead requiring firms to maintain records of who has been certified.

3.1.3. Q3. Do you believe there are risks or unintended consequences if the Certification Regime is removed from FSMA 2000, and replaced with regulator rules?

3.1.3.1. While we support the removal of the Certification Regime from the FSMA and its replacement with regulator rules-based regime, we acknowledge that there are several risks if not designed appropriately. These include:

a. That moving to a more rules regime could create greater complexity and ambiguity, in particular where rules are designed to address a wide range of different business models, leading to greater scope for error and higher cost.

b. Inconsistency of approach and application across like organisations, in particular for dual regulated firms who may be subject to two regimes. Clear, dynamic alignment across the FCA and PRA regimes will be essential.

3.1.4. Q4. Are there alternative approaches that will still deliver the desired benefits, but may not involve removing the regime from legislation entirely?

3.1.4.1. An alternative approach to fully removing the regime from statutory legislation would be to simplify the statutory regime, for example to reduce the scope of individuals to whom it is applied, to reduce the frequency of certification and to remove the formal issuance of certificates.

3.1.4.2. Should it be decided to not remove the regime completely from legislation, any changes should take account of the principles we have outlined in our answer to Question 2.

3.1.5. Q5. What are the critical elements for any replacement regime to achieve the government objectives of a lower cost, more proportionate and competitive regime?

3.1.5.1. We question the value of a public Directory for Certified Individuals and therefore consider it beneficial that a review of its usage by consumers is conducted to confirm whether it has met its stated objectives. Feedback from members indicates that they see limited value for their own organisation beyond providing input into their employee due diligence processes, which can be undertaken through other means. We have not sought feedback from

consumers in formulating our response and would therefore urge the regulators to do so prior to reaching a position but note that anecdotal evidence suggests that retail customers will in many cases not be familiar with the Directory nor what comfort can be drawn from its contents beyond wider representations at a firm level.

3.1.6. Q6. Do the regulators currently have the necessary powers and tools to deliver a replacement regime or are further powers required?

3.1.6.1. We believe regulators currently have the necessary powers to deliver a replacement regime.

3.1.6.2. Feedback from our members indicates that the industry is keen to participate in the design and development of a replacement regime.

3.1.7. Q7. Do you have any comments on the likely costs and benefits of removing the Certification Regime from legislation and replacing it with a more proportionate regime, at this stage?

3.1.7.1. The costs associated with any replacement regime will be dependent on the design and nature of the new regime. We therefore urge the regulators to conduct a formal cost-based analysis of any replacement.

3.2 Chapter 3: Reforming Regulator Pre-Approval under the Senior Managers Regime (Page 18)

3.2.1. Q8. Do you agree with the proposal to give the regulators more flexibility to reduce the overall number of senior manager roles?

3.2.1.1. We support giving regulators the flexibility to reduce the number of senior manager roles and individuals caught by the regime and note that there is scope to do some of this without changes to primary legislation. However, given the “no gaps” principle, it is important that any flexibility continues to ensure responsibilities are allocated to the most appropriate person.

3.2.1.2. We believe there is scope to narrow roles covered and to simplify the administrative aspects of the regime, including frequency of updates.

3.2.1.3. A few firms have questioned the value of the SMF3 (Executive Director) role particularly for dual-regulated firms and enhanced firms as individuals assigned this role are often subject to another SMF function, for example SMF1 (CEO), SMF2 (CFO), SMF4 (CRO), SMF24 (COO) or are MRTs. In any event, they are subject to Director's responsibilities under the Companies Act.

3.2.2. Q9. In addition, do you agree with the proposal to give the regulators flexibility to reduce the number of roles within the regime for which pre-approval is required?

3.2.2.1. We support giving regulators the flexibility to determine which roles and individuals should be subject to pre-approval.

3.2.2.2. We would encourage the regulators to further consult prior to finalising the rules outlining the specific roles and instances where an individual should be subject to pre-approval but propose that as a principle pre-approval should be limited to SMF1 (CEO) and SMF9 (Chair) only. In addition, under certain circumstances where an individual is already an existing SMF in a group company, group regulatory supervisors should be able to grant the flexibility to waive the requirement for formal pre-approval in instances where, for example an individual’s responsibilities are extended to include additional entities.

3.2.2.3. The assignment of other SMF roles should be on a notification basis. In addition, we believe consideration should be given to how much information is required to be provided as part of a notification process, given the level of information required for notifications of Non-SMF Directors through the Form M is equivalent to the Form A application.

3.2.3. Q10. Do you have any comments on the likely costs and benefits of making such changes to the Senior Manager Regime?

3.2.3.1. While the reduction in the number of roles requiring pre-approval and simplification of these processes will yield benefits in reduced administrative costs, the more significant benefit will be the enablement of quicker, more agile changes to business responsibilities and management appointments, benefiting business performance, and reducing management risk resulting from interim management arrangements.

3.2.4. Q11. Are there any alternative approaches that government should consider to reform the approach to regulator pre-approval, which would still deliver the desired benefits?

3.2.4.1. In addition to our observations under previous questions, we note the pre-approval process is burdensome and time consuming, at times taking up to 6 months from initial announcement to the formal approval of an individual which is a significant period in particular for market sensitive key appointments, such as CEO. We believe there is significant scope to reduce this period, for example by running background checks concurrently with regulatory approval, as well as through greater use of automation and simplification of documentation, for example Long and Short Forms A. We believe this process would benefit from an end-to end review with the objective of significantly shortening it.

3.2.5. Q12. Do you have any other comments or suggestions regarding these proposed changes?

3.2.5.1. None in addition to the above.

3.3 Chapter 4: Further Proposals to Ease the Burden of SM&CR (Page 20)

3.3.1. Q13: Do you agree with the proposal to remove prescriptive legislative requirements relating to provision, maintenance and updating of Statement of Responsibilities, with the aim of allowing regulators to adopt a more proportionate approach?

3.3.1.1. We welcome the current consultation to extend the deadline for updating the Statement of Responsibilities (SoR) to six months and the government's proposal to provide regulators with further flexibility in this area. Weview the SoR as being an integral part of any SMF application and this must therefore be included in any submission.

3.3.2. Q14. What are the types of change for which an update to the Statement of Responsibilities is currently required, that you consider to be disproportionate?

3.3.2.1. Regulators sometimes expect the SoR to provide a high level of detail on individual responsibilities, resulting in SoRs needing to be updated when small, relatively immaterial changes to individual responsibilities are made, resulting in significant administrative work. This often happens in cases where responsibilities are shared across more than one SMF.

3.3.2.2. We would welcome a more proportionate approach whereby small changes to SoRs below a certain threshold do not require immediate regulatory notification and instead are incorporated into consolidated refreshment process, performed annually or when a significant set of changes are made.

3.3.3. Q15. Are there requirements in the legislation for the Conduct Rules which you consider create a disproportionate burden? What are these elements?

3.3.3.1. We believe the annual reporting of regulatory breaches is disproportionate. It is not clear why this is necessary and how this data is used. If the annual reporting is continued, we would suggest moving the reporting period to calendar year (rather than 1st September to 31st August) to align with other governance cycles.

3.3.4. Q16. Are there any further elements of the SM&CR legislation that create unnecessary regulatory burdens on firms, the removal of which would not impact on the primary objectives of the regime?

3.3.4.1. No areas not already mentioned

3.3.5. Q17. Do you face, or have you faced, any specific obstacles in trying to recruit internationally for senior manager roles?

3.3.5.1. The UK remuneration deferral rules are not aligned with other major financial centres. The current deferral periods, and the prohibition of vesting in the first three years for SMFs, has meant that the deferral periods for senior staff in the UK have become a significant international outlier, drive the perception of the remuneration rules in the UK banking sector being uncompetitive and discourage globally mobile staff from working in the UK and/or taking roles in which they hold Senior Manager Functions. More detail on AFME's position on the UK remuneration rules, including as pertains to UK Senior Managers, can be found in our response to the PRA and FCA's CP16/24[5] [6].

3.3.6. Q18. If so, which are the key obstacles that would not be addressed by the reforms proposed in either this consultation or by the consultations the regulators have published in parallel?

3.3.6.1. While not explicitly part of the reforms, we wish to highlight that the operational aspects of the current process including the useability of the Connect system and its associated processes and forms is poor and would therefore benefit from a review. We have commented on this in more detail in our responses to the FCA and PRA CPs.

4. Additional recommendations and observations

4.1. While not raised within the consultation paper, we wish to ask an additional question in regard to remuneration. Our members would welcome a conversation with the PRA regarding individuals based overseas, for whom only a proportion of their role (and therefore their remuneration) pertains to the UK It would be disproportionate to apply the UK remuneration rules in particular if local regulations are equally effective. Some guidance from the regulator on practical expectations would be welcome.

5. Engagement

5.1. We appreciated the opportunity to share our draft key messages at an industry roundtable on 30th September and would be pleased to facilitate further discussion with members.

5.2. UK Finance and AFME are content with the PRA publishing this consultation response on its website.

Responsible Executives

✉ nala.worsfold@ukfinance.org.uk jack.hughes@ukfinance.org.uk
☎ +44 (0) 7384 212633

✉ fiona.willis@afme.eu louise.rodger@afme.eu shalini.cautick@afme.eu
☎ +44 (0)20 3828 2739 0203 828 2742 +44 20 3828 2734

[5] https://www.afme.eu/media/rwufcsmr/afmeresponsetocp1624final.pdf
[6] UK Finance response to PRA & FCA consultation on reform of the UK's remuneration regime.pdf