UK Finance

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

Financial Conduct Authority (FCA) on: Review of the Senior Managers and Certification Regime (SCMR) CP 25/21

7 October | 2025

1. Introduction

1.1. AFME[1] and UK Finance[2] are pleased to respond to the FCA consultation paper **CP 25/21 'Review of the Senior Manager Certification Regime (SMCR)'** the CP or proposals).

1.2. This response should be read in conjunction with our responses to the PRA's CP 18/25, and HM Treasury's (HMT) consultation on Reforming the 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 Consultation Paper will require changes to primary parliamentary legislation, which by its nature introduces the risk of potential changes, and delays in implementation timelines, creating a dependency on taking forward any Phase 2 recommendations, potentially including further consultation.

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

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:

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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.

2.2.1. 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.

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 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 and significant delays. 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. Responses to proposals in the FCA consultation

3.1 Further changes the FCA wish to explore in Phase 2 of the Reform

3.1.1 Q1. To what extent do you support the further changes we are considering in phase 2 of the reform (summarised in paragraph 1.11). Are there any other changes you suggest? We would welcome views on the impact (positive or negative) of each potential change and on any suggested additional improvements?

We agree with all areas of potential improvement highlighted in paragraph 1.11 of the CP, specifically:

3.1.1.1. The proposal to reduce the number of SMF approvals by reducing the number of roles requiring pre-approval to focus on those which pose the highest risk, as well as potentially reducing the number of SMF roles.

3.1.1.2. We support the proposal to expand the use of the 12-week rule for interim SMFs, providing firms with a more appropriate period to identify, appoint and prepare SMF applications. This would be particularly beneficial for external hires, overseas transfers, as well as where the changes are unforeseen.

3.1.1.3. We welcome the proposed reduction in the frequency of SoR submission, the simplification of Management Responsibility maps, and a review of the list of PRs. In the case of the latter, we believe the current list is inconsistent in terms of level, and in some cases the scope is somewhat arbitrary. A process to periodically review and refresh the list on an on-going basis would be beneficial.

3.1.1.4. We are fully supportive of any efforts to further streamline the SMF assessment process and its on-going management which is currently burdensome. We believe there is significant scope to reduce the administrative burden without compromising the efficacy of the process.

3.1.1.5. We broadly support the proposal to remove the primary legislation underpinning the Certification Regime through the repeal of Sections 63E and 63F of the FSMA200 and instead allow regulators to use their rule making powers to set up a regime. 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 felt the Certification Regime did not add value to their underlying standards and processes.

3.1.1.6. We question the value of a public Directory for Certified Individuals and therefore consider it beneficial that a review of its usage by consumers should be carried out to verify whether it has met its stated objectives for example – purpose for which it is being used. We urge an agreed definition of appropriate and realistic threshold for such review. Feedback from members indicates that they see little value for their own organisation beyond providing input into their employee due diligence processes, which can be undertaken through other means. We have provided more detail in relation to all the areas above in this response, as well as our parallel responses to the HMT and PRA CPs respectively. In addition to the above, we would encourage HMT, FCA and PRA to consider the following principles as more details of the Phase 2 proposals are developed:

3.1.1.7. Simplicity – The current rules are complex and, in some cases, ambiguous. While by their nature the rules are designed to cover a very wide spectrum of business types, models and sizes, trying to legislate for every eventuality is not possible. We believe any future changes should focus on the mitigation of the major risks facing firms and the industry.

3.1.1.8. Alignment of regulation – while we fully recognise the close working relationship between the FCA and PRA for dual regulated firms, we also acknowledge that their purposes are different, sometimes resulting in different processes. To the extent possible, we believe any new regulation, for example a replacement Certification Regimes, should be consistent across both regulatory regimes.

3.1.2. Finally, we recognise there is a potential scenario where there is a delay in the legislative changes required for Phase 2, resulting an interim state being in place for firms for some time.

3.2 The Senior Management Function assessment process

3.2.1 Q2a. Please provide feedback on your experience of applying for SMF approval, particularly where you have experienced unnecessary friction or uncertainty in the process and how this compares to other overseas jurisdictions.

3.2.1.1. Our members' expereince is that while the SMF approval process works, the pre-approval process is onerous and time consuming both in absolute terms and in comparison, to overseas jurisdictions, for example EU markets. Approvals can at times take up to 6 months from initial announcement to the formal approval of an individual. This is a significant period for key appointments, such as CEO, where there is market sensitivity. We believe there is significant scope to reduce this period, for example by running background checks concurrently with regulatory approvals, as well as improving this process through greater use of automation and simplification of documentation, for example Long and Short Form A. We believe this process would benefit from an end-to-end review, supported by industry evidencing, with a view to extend simplification across practices.

3.2.2 Q2b. On which priority areas would firms welcome more information, guidance, or changes to forms, noting our intention to review and improve most application forms?

3.2.2.1. We welcome the FCA's proposals to improve the application and approvals processes, in particular improvements to Form A, both in terms of format, content and improved data validation and pre-population steps. We believe there is scope to make greater use of the Short rather than Long Form A, by extending the 6-month elapsed period in which an individual has not been a registered SMF to 12 months or longer, as well as consider the introduction of a fast-track process for existing or previously approved individuals. In addition, in the case of SMFs not requiring pre-approval, we believe the details provided in the MRMs could be less detailed in nature.

3.2.2.2. We note that there are instances of inconsistency in format and content between the paper forms on the regulator's website and the Connect system. For example, the field for the summary of the change is missing on the Connect version of the Form J. Another issue with the Form J is being unable to amend the sharing details for Prescribed Responsibilities, and the effective date of the change reverting to the submission date. Some information requested appears duplicative, for example requiring the MiFID Annex III to be submitted with the Form C.

3.2.2.3. We believe further clarity and guidance would be beneficial in the Fitness & Propriety Section 8 of Long Form A regarding the disclosures relating to criminal or civil investigations and / or proceedings where an individual has previously worked to eliminate potential confusion over what the individual's role is with respect to the events disclosed.

3.3 Criminal records checks and disclosure

3.3.1 Q3. Do you agree to our proposals for changes to criminal record checks and disclosures?

3.3.1.1. We support all these proposals. In the case of extending the validity of a criminal record check from 3 to 6 months, we wish to retain the same existing flexibility to provide an explanation where this is not possible. We also concur with the observation that for some jurisdictions criminal checks can be harder to source and support the view that these remain an important requirement.

3.3.1.2. We note there is an inconsistency in approach between the FCA and PRA, where the FCA is proposing to allow reliance on existing criminal checks performed for an individual in relation to another entity in the group, whereas the existing PRA

requirement is for the criminal requirement is for the criminal record check to have been in relation to the same entity.

3.4 12-week rule

3.4.1 Q4. Do you agree with our proposed changes to the 12-week rule?

3.4.1.1. We fully support amending the 12-week rule so that this is the period in which firms must submit their SMF application, rather than receive a decision, thereby eliminating the dependency regulatory turn around. This will provide much needed additional time to identify and appoint a suitable permanent replacement candidate without risking breaching the rule. However, we note that in number of cases firms are already submitting applications near or even over 12-week deadline as agreed with their respective supervisor. We acknowledge that under the proposed arrangements, the full approval process may take longer and would urge the regulators to ensure a formal confirmation decision is made as quickly as possible following the submission of an application.

3.4.1.2. We agree in principle that the person performing the SMF function under the 12-week rule should be subject to the Senior Manager Conduct Rules, but it must be recognised that given their interim appointment they may not have all the management levers available to a fully approved SMF and expectations of what they are able to do must be calibrated accordingly.

3.4.1.3. We welcome the FCA's proposal to provide guidance on when and how the rule should be used, including fitness and propriety, and the amount of detail required, including examples for the use of the rule in the case of long and short notice periods.

3.4.1.4. We note the proposal to not allow the allocation of PR's to an individual who is not an existing SMF who will is appointed under the 12-week rule, and propose that regulators have the flexibility to allow this in certain circumstances, so as to avoid a potential situation where a PR is assigned to an individual who is not suitably placed to oversee the responsibility.

3.4.1.5. Several of our members would like to see the 12-week period extended to 6 months, as this would better accommodate instances of external hires and international transfers.

3.5 Group Entity Senior Manager (SMF7)

3.5.1 *Q5. Do you agree with our proposals on SMF7?*

3.5.1.1. We believe the responsibility of designating SMF roles, including SMF7, should be the responsibility of firms, based on guidance provided regulators, rather than having these roles identified regulators who may not have the requisite understanding of the group's structure to make this judgement, in particular where changes are made to group wide arrangements over and above the UK regulatory perimeter.

3.5.1.2. We believe that the SMF7 role should be limited to those executives who have a direct involvement in the implementation of strategy for the regulated entity only and not bring in individuals whose remit is group-wide, for example CEO, COO, CFO or CRO at a parent level. We believe an individual who has group level responsibilities and is a Director of a UK regulated entity but has Board level responsibilities for the UK regulated entity akin to a NED, should not be deemed to be an SMF7.

3.5.1.3. Whilst we agree in principle to extend the scope to include a firm's controller as outlined in PRA CP, this should only be the case where their role meets the above criteria.

3.5.1.4. While not the intention, we believe that under the proposed guidance more individuals are likely to be appointed as SMF7, which would have an adverse impact on the attractiveness of the UK market.

3.6 Other Overall Responsibility Role (SMF18)

3.6.1 Q6. Do you agree with our proposals on SMF18?

3.6.1.1. In principle we support amending the Handbook to provide further guidance on the determination of SMF18 to ensure this is applicable to the most senior person undertaking the activity. However, we note there are instances where the most senior employee in a business area does not hold primary day-to-day responsibility for the management of the business in the UK regulated entity. An example would be where a global head of a business with primary responsibility for strategy is co-located with a regional business head who has responsibility for day-to-day team management, controls and compliance with laws and regulations. This type of scenario should be factored into the guidance.

3.6.1.2. We welcome the objective to reduce the number of SMF18 roles through updated guidance.

3.7 Prescribed Responsibilities

3.7.1 Q7. Do you agree with our proposals on Prescribed Responsibilities?

3.7.1.1. We believe changes to the Prescribed Responsibilities should be undertaken in Phase 1, rather than Phase 2, which is contingent on parliamentary legislation.

3.7.1.2. We agree with the proposal to amend the rule to remove the restriction on Prescribed Responsibilities (PRs) being allocated to SMF18 for solo-regulated firms.

3.7.1.3. We believe this flexibility should be extended to dual regulated firms as well and should be applicable to SMF 22. This would provide greater flexibility where these need to be reallocated due to an absent SMF (i.e. when a role is being covered temporarily under the 12-week rule).

3.7.1.4. We agree in principle that the current broad level at which PRs are defined is appropriate and acknowledge the benefits and drawbacks of either further aggregating or splitting these. However, there is inconsistency in the level of detail across the list of PRs and some of them appear somewhat arbitrary. The list would benefit from a comprehensive review and potentially a periodic refresh process on an on-going basis of five years. Periodic refreshes should also consider responsibilities that are identified in Policy Statements outside of SMCR but require firms to identify a SMF with a specific responsibility, so that the list of PRs expected by the regulators is continuously kept up to date.

3.7.1.5. We welcome additional Handbook guidance on the allocation of FCA designated PR's noting this will provide greater transparency on the regulator's expectations.

3.7.1.6. We urge greater clarity on the introduction of new expected responsibilities brought through via consultation. More specifically, on the necessary documenting, communication, and implementation of the responsibilities. This causes industry and entity inconsistencies and increases administrative burden and inefficiencies.

3.8 Enhanced Firms

3.8.1 Q8. Do you agree with our proposals on raising the thresholds for becoming an Enhanced SM&CR firm?

3.8.1.1. We welcome the proposal to increase the financial thresholds in line with inflation since the original thresholds came into force in 2019 but note that this is therefore not a real increase. Two of the three metric uplifts do not meet 30% and given the proposal to set

these thresholds for a further 5 years, we believe these thresholds should be further increased, for example by 50% to future-proof further inflation. While we have not done any further analysis, consideration should be given to a risk-based review of the threshold structure more widely given the changes in the profile of market participants. This will ensure the right firms are caught by the enhanced regime.

3.8.1.2. We support the on-going periodic review of the thresholds on a 5-year basis.

3.9 Statements of Responsibilities (SoRs) and Management Responsibilities Maps (MRMs)

3.9.1 Q9. Do you agree with our proposals on SoRs and MRMs?

3.9.1.1. We agree with the proposal to provide flexibility to allow firms six months to provide updates and that these could be provided on an aggregated basis for solo-regulated firms. We note however that the FCA's draft guidance indicates that firms may still need to notify the FCA of a significant change in the responsibilities of an FCA-approved SMF manager more quickly under Principle 11. As the Principle 11 requirement is very broad, we would welcome more guidance on when the FCA considers that this would be appropriate (given that the specific requirement to submit a SoR every time has been deliberately removed).

3.9.1.2. We note that the flexible 6-month submission should also be applied to dual regulated firms, and the PRA's proposal to include all historical changes during the reporting period rather than at a point in time as is the case for solo regulated firms.

3.10 Alignment on SoR Submissions

3.10.1 Q10. Do you agree with our proposal to align with the PRA on SoR submission requirements for dual regulated firms?

3.10.1.1. We believe it is imperative that there is full alignment in the reporting of SoR and MRMs to both regulators to avoid any unnecessary confusion. Consequently, the FCA and PRA should adopt an identical approach to reducing the frequency of resubmission of SoRs. Currently the FCA's proposals in SUP 10C.11.6A to 10C.11.6. C go further and show more flexibility than the PRA's proposal. For example, 10C.11.6C (8) states that (6) and (7) do not apply to PRA-authorised firms who would be required to submit all relevant versions (not just the latest version) of the SoR. Managing SMCR compliance in a dual-regulated firm has always been more burdensome than in solo-regulated firms who must follow two sets of similar but not identical regulations and at times it is not clear which rules prevail.

3.11 Certification

3.11.1 Q11. Do you agree with our proposals on certification?

3.11.1.1. We agree with the proposal to change the scope of the Certification Regime by removing individuals who are current certified functions, for example Manager of Certification Employee, Material Risk Takers, Significant Risk Takers, Key Function Holders, or Significant Management Function. As further changes in Phase 2 are anticipated, we believe any changes in this Phase to Certification Functions should be voluntary as firms may need to make changes to their approach twice within a relatively short time frame.

3.11.1.2. Notwithstanding the need for legislative changes, we believe the Certification Regime (or its replacement) could further enhanced by apply a more risk-based approach, such as potentially reducing the scope of roles caught by the regime, determining the triggers and / or frequency of certification and allowing the automation of some inputs, streamlining of client dealing functions, simplification of non-client dealing functions to remove overlap, review of temporary UK role/30-day rule to simplify territorial limits and in addition

determining the triggers. Members note that annual assessments do not identify Fitness and Propriety issues that have not already been identified through on-going internal processes and controls.

3.11.1.3. Our views on the replacement of the Certification are outlined in more detail in our response to the HMT CP.

3.12 Directory Submissions

3.12.1 Q12. Do you agree with our proposal to change the timescales for updating the Directory?

3.12.1.1. 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. We note through anecdotal evidence 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. There is no evidence that retail customers will use the Directory.

3.12.1.2. Notwithstanding the above, we support the proposal to extend the update period to 20 Days to update the directory for most updates. However, we note that the proposal to leave the leaver notification to 7 days for leavers will negate much of the benefit of this extension as firms will need to monitor and update within 7 days.

3.12.1.3. Additionally, we noted that several of our members highlighted instances where the Directory has been used by bad actors to misrepresent themselves as working for the firm to try to facilitate fraudulent activities.

3.13 Regulatory References

3.13.1 Q13. Do you agree with our proposals on regulatory references?

3.13.1.1. We agree with the principle that regulatory references should be provided as soon as is practically possible with guidance provided that this should be within a 4-week period, and welcome further guidance on what should be included, in particular when an employee leaves prior to the conclusion of an investigation into potential misconduct, as well as the proposed changes to SYSC 22.2. We note that the PRA CP does not specify a time period.

3.13.1.2. We have observed that in the case of collecting information from overseas, the availability of data and processes for collection varies significantly by jurisdiction. This should be factored into any further guidance.

3.13.1.3. Given the elapsed time required and dependencies on third parties where firms choose to submit applications pending the completion of regulatory references and criminal checks, we believe the application should be progressed as far as possible so that the approval process can be completed more rapidly.

3.14 Conduct Rules

3.14.1 Q14. Do you agree with the proposed guidance on the Conduct Rules?

3.14.1.1. We welcome the proposed additional guidance on how firms should apply the Conduct Rules and would welcome further guidance on the level of seriousness for a breach, for example, clarification on the threshold of severity for a Conduct Rule breach, as firms are

potentially taking different approaches. The concept of unreportable breaches where disciplinary action has not been taken (e.g. minor issues where the conduct has fallen below the level of seriousness for disciplinary action) appears contradictory to the NFM guidance around seriousness (which includes factors such as whether conduct is criminal or would justify dismissal). Some of our members have suggested that the unreportable Conduct Rule breach is discontinued. There is also the separate definition of serious in SYSC22 for regulatory references. Members would welcome clarification that the statement in para 4.2.32 G (para 2) does not impact legal privilege.

3.14.1.2. In the case of regulatory references, we welcome clarification that a breach does not need to be included in a regulatory reference if the firm did not take disciplinary action (as defined in FSMA) because it did not consider the conduct to be serious enough to warrant it, and if it believes that the breach is insufficiently severe or serious to impact an assessment of fitness and propriety.

3.14.1.3. We think further clarification would be helpful for cases where disciplinary action was taken, but the firm assessed it to not be sufficiently serious to breach the Conduct Rules. In such cases, some firms include this on the regulatory reference under question G as they consider disciplinary actions to be relevant to assessment of F&P. However, this is a potential area where firms' approaches differ, leading to lack of certainty from regulatory references about whether disciplinary action has been taken in the last 6 years.

4 Recommendations for Phase 2 of the SMCR reform

4.1. While not raised within the consultation paper, we wish to ask an additional question on remuneration. Our members would welcome a discussion 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.

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