Moves made to streamline the Senior Managers & Certification Regime

The Treasury has launched a consultation paper seeking views on changing the legal framework underpinning the Senior Managers & Certification Regime (the SM&CR) to reduce the burden on financial services firms. At the same time, the Financial Conduct Authority and Prudential Regulation Authority have launched consultations setting out proposals to improve the functioning of the SM&CR in practice.

A reminder of the key components of the SM&CR

The SM&CR came into force in 2016 in the wake of the global financial crisis and the LIBOR scandal, with the aim of improving individual conduct and standards in banking. The regime has three components:

- *The Senior Managers Regime:* this requires firms to seek regulatory approval to appoint individuals to senior manager roles (i.e. roles where they are performing a "Senior Management Function" (**SMF**)). This approval is based on an assessment of whether the individual in question is fit and proper. A "Statement of Responsibilities" (**SoR**) is required for each role and such individuals are subject to enhanced conduct standards.

- *The Certification Regime:* this requires firms to assess that individuals in roles which involve, or could involve, a risk of significant harm to the firm or its customers (known as "Certification Functions") are fit and proper. This must be done before commencing employment and reconfirmed on an annual basis. As of June 2025, the Government says there are currently c262,000 such functions held by c139,000 individuals.

- *The Conduct Rules:* these rules set the basic standards of conduct required from individuals working in financial services firms covered by the SM&CR.

What changes are proposed by the Government?

On 15 July 2025, the Treasury launched a Consultation on reforming the legislative framework underpinning the SM&CR to reduce the burden it places on firms. The Government recognises that the SM&CR has delivered significant benefits by driving up standards in the sector, reflected in the fact that many other jurisdictions have sought to implement similar regimes. However, it is noted that the SM&CR is more extensive than the equivalent regimes implemented in most other jurisdictions, and both firms and regulators consider there are elements of the SM&CR which are more burdensome than necessary.

Accordingly, the consultation seeks views on proposals on how the legislation can be changed to ease the regulatory burden on firms and address issues around its practical operation. The proposals reflect the feedback received in response to an earlier Call for Evidence issued by the Treasury in 2023 under the Conservative Government. It is said that this package of proposals will enable regulators to *"radically streamline"* the SM&CR, while also maintaining high standards. The core proposals are discussed below.

The Senior Managers Regime

Views are sought on revising the legislation to reduce the friction and administrative cost caused by the large number of senior manager roles for which regulatory pre-approval is required before an appointment is made. Specifically, regulators would be granted flexibility in how they define "Senior Management Functions", allowing them to be more focused. The intention is that this would facilitate an overall reduction of the number of senior manager roles.

Further, regulatory pre-approval for some senior manager roles would be removed, leaving the regulator to focus on certain roles only. Where regulatory pre-approval was removed for a role, firms would be required to ensure the individual was fit and proper and would also be required to notify the regulator of such appointments (so that the regulator retained oversight). Regulators would be able to introduce systems and controls to vary the process as needed and to monitor firms' processes and compliance. The intention is that this change would allow firms to appoint senior managers more efficiently while also maintaining standards and accountability.

The Certification Regime

Views are sought on removing the Certification Regime from legislation entirely and, instead, allowing the regulators to use their rulemaking powers to develop *"a more flexible and proportionate regime"*. This would, amongst other things, remove the following obligations from legislation:

- the duty for firms to take reasonable care that no employee performs a Certification Function unless certified by the firm as "fit and proper" to do so;
- the requirement for firms, when considering whether to issue a certificate, to have regard to the regulators' rules as to when an employee is "fit and proper" to perform a role;
- the requirement for firms to issue certificates annually and to keep a record of every employee who has a valid certificate; and
- where a firm decides not to issue a certificate to an individual, the requirement for the firm to give that person notice of the steps it proposes to take in relation to them and the reasons for it.

Although similar requirements may well feature in any replacement regime operated by the regulators, the

Government's view is that a rule-based (rather than law-based) regime will afford greater flexibility to adapt the regime to better reflect risks posed by different roles and firms, and to adapt to changes within the sector.

Additional proposals

Views are also sought on a number of other points including:

- making changes to the requirements to submit updated SoRs to allow a more flexible approach;
- removing some of the prescriptive requirements of the Conduct Rules (e.g. regarding training) where they create a disproportionate burden;
- making changes to other prescriptive aspects of the legislation such as the need for the SoR to be included in the application for a pre-approval of a senior manager; and
- whether specific additional measures are needed to support the movement of international talent to senior manager roles in the UK.

What changes are proposed by the FCA?

In tandem with the Treasury's Consultation, the FCA launched its own Consultation on proposed reforms to the SM&CR rules, to be implemented in two phases. These proposals reflect the feedback received in response to a Discussion Paper issued by the FCA in 2023 (and you can read BDBF's response to that Discussion Paper here). The Government says these proposals are a *"welcome further step in improving the SM&CR"* but notes that they are limited by the need to operate within the legal framework.

The "phase one" proposals are to:

- improve the efficiency of the 12-week rule, which allows someone to cover for a Senior Manager without being approved, under certain conditions;
- streamline the SMF approval process, including planning potential changes to processes and communications;
- increase the validity period of criminal record checks for SMF applications;
- allow more time to report updates to SoRs;
- remove overlap in certification roles and provide guidance on annual certification to help firms streamline the process;
- allow more time for firms to update specified Directory information;

- guidance in areas such as: the applicability of key SMF roles; allocation of Prescribed Responsibilities (**PRs**); and application of Conduct Rules and related reporting requirements

- change guidance about the period in which firms should provide regulatory references about individuals upon request from a hiring firm; and

- raise the thresholds for becoming an Enhanced SM&CR firm.

The introduction of the "phase two" proposals will turn on the outcome to the Government's Consultation discussed above. These proposals are to:

- reduce the number of SMF approvals, by removing SMF roles or reducing pre-approvals;

- provide more flexibility to appoint interim SMFs before seeking approval by expanding the use of the 12-week rule;

- further streamline the SMF assessment process (e.g. the documents that are requested and the relevant systems);

- reduce the frequency of submission of SoRs, review the list of PRs, and simplify the Management

Responsibilities Maps;

- design a streamlined regime to replace certification in a way that minimises burden and complexity while ensuring fitness and propriety of individuals;

- remove the Directory and explore with industry alternative ways to ensure consumers have other sources of information they require; and

- streamline Conduct Rule breach reporting.

Separately, the PRA has also launched its own parallel Consultation.

All three Consultations close on 7 October 2025.

Comment

Whilst there can be no doubt that the SM&CR has raised standards of individual conduct since its inception in March 2016, some aspects of the regime such as the requirement for annual certification of individuals' fitness and propriety can prove burdensome for financial institutions. If reform of the SM&CR maintains its original goal of raising individual conduct standards for the benefit of the stability of the UK financial system, whilst also addressing some of the more onerous aspects for employers, then that would be welcomed.

BDBF is a leading employment law firm based at Bank in the City of London. If you would like to discuss any issues relating to the content of this article, please contact Nick Wilcox (NickWilcox@bdbf.co.uk), Amanda Steadman (AmandaSteadman@bdbf.co.uk) or your usual BDBF contact.