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FCA Consults on Client Categorisation and Conflicts of Interest Regimes

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Background

On 8 December 2025, the United Kingdom's Financial Conduct Authority ("**FCA**") published a consultation paper (CP25/36) on amending its rules on client categorisation and conflicts of interest (the "**Consultation Paper**").

The Consultation Paper is seeking to reset how firms distinguish between retail and professional clients, as the rules currently stem from the post-Brexit onshored version of the EU originated MIFID II (2014/65/EU) ("**MIFID II**"). The FCA is also seeking to reduce the length and complexity of its conflicts of interest rules.

The proposed changes are broadly considered positive developments for the market.

Key Proposed Changes – Client Categorisation

The key proposals relate to changes to the elective professional client categorisation rules, including:

- **£10 million wealth assessment:** Firms will be able to categorise individuals as elective professional clients where the client has investable assets of at least £10 million, subject to the client's informed consent.
- **Removing the current quantitative test:** Firms are currently required to apply a quantitative criteria set out in COBS 3.5.3R(2).The FCA considers that this test can lead to some consumers being inappropriately opted out of retail protections and, at the same time, other individuals with significant expertise / resources are sometimes unable to meet the criteria. On this basis, the FCA are proposing the removal of this test.
- **Enhanced qualitative assessment:** The FCA proposes to retain the requirement that firms undertake a robust qualitative assessment of a client's expertise, experience and knowledge. It proposes to identify a set of relevant factors that firms must consider to determine whether a client meets the threshold to be

categorised as an elective professional client.

- **Simplifying the "per se professional" client criteria.** The FCA proposes to remove the list of different types of entities in COBS 3.5.2R(1) (which is derived from MIFID II). This change is intended to make it clearer that any entity authorised or regulated in the UK, or a third country, to operate in the financial markets can be treated as a per se professional client, without firms needing to identify the specific sub-criteria met by the client.
- **Informed consent:** A client can only be categorised as an elective professional if they have actively requested this and given informed consent to opt out of all retail protections. A firm may share information about the option to opt-out with a client that they reasonably believe would meet the threshold of a professional client, to help the client decide whether requesting to opt out is right for them.
- **Client reassessments**: The FCA has stated that firms must reassess all existing elective professional clients within a year of the new rules coming into effect, ensuring compliance with the updated standards. Additionally, the FCA will simplify per se professional criteria and harmonise thresholds across MiFID and non-MiFID business, requiring some firms to review and potentially re-categorise affected clients.

Key Proposed Changes – Conflicts of Interest

The FCA are proposing to rationalise the rules in SYSC 3 (Systems and Controls) and S YSC 10 (Conflicts of Interest) of the FCA Handbook. By reducing the length and complexity of the current rules, the FCA are seeking to make sure its rules are proportionate and clear for firms to interpret and implement.

What Firms Should Do

Firms impacted should review the proposed changes in the Consultation Paper. The deadline for response to the Consultation Paper is 2 February 2026.

Once the final client categorisation rules are published, firms should begin reviewing whether any client reassessments / re-categorisations are required within the one-year post-effective date deadline.

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