Proskauer

SM&CR Phase 2: Removal of the Certification Regime and Notification for Senior Managers

Global Financial Regulatory Insights on **November 11, 2026**

On 22 October 2026, the Financial Conduct Authority (the "**FCA**") and the Prudential Regulation Authority (the "**PRA**") proposed some of the most significant changes to the Senior Managers & Certification Regime (the "**SM&CR**") since it was introduced.

The UK regulators' proposals, published in parallel consultation papers (FCA CP26/37 and PRA CP14/26), build upon earlier reforms, introduced in April 2026, and similarly seek to simplify current SM&CR rules. The regulators intend that these latest reforms will further reduce the regulatory burden posed by the regime, and they are estimated to save firms around £2 billion over 10 years.

For background on the earlier stages of the review, please see our note on the 2025 consultations.

The key changes proposed are the abolition of the Certification Regime and the replacement of regulatory pre-approval with a notification requirement for certain Senior Management Functions ("**SMFs**").

Responses are due by 22 January 2027, and the regulators intend to implement final rule changes in the second half of next year.

Background

The SM&CR has applied to banks since 2016 and to most other authorised firms since 2021.

The regime consists of three parts:

- **Senior Managers Regime:** individuals in the most senior roles (SMFs) must be approved by the applicable regulator before they start.
- **Certification Regime:** firms must annually confirm that staff in roles that could cause significant harm are fit and proper, and certify them accordingly.

- **Conduct Rules:** basic standards of behaviour that apply to almost all staff.

The Government launched a review of the SM&CR in December 2022, culminating in the first phase of changes set out in FCA PS26/6 and PRA PS12/26. These reforms took effect on 24 April 2026.

Unlike the first set of reforms, this second phase requires prior legislative change to the SM&CR's statutory basis contained in the Financial Services and Markets Act 2000 ("**FSMA**"). The Financial Services and Markets Bill 2026 (the "**FSM Bill**"), introduced in May 2026, would remove much of the detail of the SM&CR from FSMA, providing regulators with greater flexibility to design the regime. The Phase 2 consultations set out how the regulators would use this flexibility.

Removal of the Certification Regime

As stated above, the key change is the removal of the Certification Regime. The FCA and the PRA propose a slightly different approach to this.

The FCA would remove the Certification Regime entirely, and FCA authorised firms would no longer need to:

- identify which roles are certification functions;
- assess and certify those staff as fit and proper on appointment and every year; or
- obtain regulatory references from previous employers for staff who were previously certified.

Information on Certified Staff would also no longer appear on the Financial Services Register.

The FCA considers that existing rules already provide a more proportionate way for firms to assess the fitness, propriety, competence, and conduct of their staff. These rules include firms' obligations to employ competent staff, the training and competence rules, and the Consumer Duty and the Conduct Rules, which would continue to apply to staff who are currently certified. Under these rules, firms must check an individual's honesty and competence on appointment and whenever there is reason to do so, rather than annually under the Certification Regime.

The PRA also proposes to remove its Certification regime for PRA authorised firms without creating a replacement regime; however, it would keep two safeguards:

- **Integrity checks:** banks, building societies, insurers and other dual-regulated firms would need to take reasonable steps to ensure that functions previously subject to certification are performed only by staff of good repute and integrity.
- **Conduct Rules:** three of the individual Conduct Rules would continue to apply to Key Function Holders, Material Risk Takers and certain credit union roles.

Notification Instead of Approval for Certain SMFs

At present, a firm cannot appoint anyone to an SMF until the FCA or PRA (whichever is the relevant regulator) has approved them. Under the proposals, certain SMFs would instead become "notified" roles. The firm would carry out the checks itself, including regulatory references and criminal records checks where required, and then tell the relevant regulator about the appointment. The Senior Manager responsible for the firm's compliance with the Senior Managers Regime would own these checks.

Notified SMFs would be held to the same standards as approved SMFs, including the Duty of Responsibility, and would still appear on the Financial Services Register.

FCA: the notification instead of approval changes would apply only to SMFs held for dual-regulated firms and "Enhanced" firms, which face the fullest requirements. Core and Limited Scope firms, which include most asset managers, would see no change to their SMF roles and the need for prior approval. The following roles would become notified for dual-regulated/Enhanced firms:

- Head of Internal Audit (SMF5);
- the Chairs of the Risk, Audit, Remuneration, Nomination and With-Profits Committees (SMF10 to SMF13 and SMF15); and
- the Senior Independent Director (SMF14).

The FCA would also abolish the Other Overall Responsibility (SMF18) and Local Responsibility (SMF22) functions, with their responsibilities passing to other Senior Managers, and narrow the Group Entity Senior Manager function (SMF7) at solo-regulated firms.

PRA: the changes would apply to all PRA-authorised firms. The following roles would become notified:

- Head of Internal Audit (SMF5) and Head of Key Business Area (SMF6);

- Credit Union Manager (SMF8);
- the Chairs of the Risk, Audit and Remuneration Committees (SMF10 to SMF12) and the Senior Independent Director (SMF14); and
- Chief Actuary (SMF20) and With-Profits Actuary (SMF20a).

The PRA would also split SMF7 in two. Group roles equivalent to pre-approved functions would still need approval (SMF7), and all other group roles would become notified (SMF7a).

Under both FCA and PRA regimes, the most senior roles would still need approval, including the Chief Executive, Chief Finance, Chief Risk and Chair functions. So would the Chief Operations function (SMF24), given the operational risks from AI and cyber incidents, although both regulators intend to revisit this two years after implementation.

Notification would work as follows:

- **Timing:** firms could notify up to three months before the individual starts. The notification would take effect on the later of the start date and the regulator's acknowledgement of receipt.
- **Exceptional cases:** the regulators could still require approval for a notified role, for example where they have serious concerns about a firm's governance.
- **Transition:** firms could submit notifications up to one month before the new rules take effect and existing approvals would carry over.

Other Changes

- **Temporary cover:** firms would have 18 weeks, rather than 12 weeks, to submit an SMF application for someone providing temporary cover. The FCA would also replace the "reasonably unforeseen" test with a more flexible "reasonable use" standard for solo-regulated firms and for FCA roles at dual-regulated firms. The FCA's proposed guidance indicates that firms should use the rule only where needed, and for as short a period as reasonably possible. It gives the example that where a firm has sufficient warning of an SMF's departure, it should find a replacement before the departure rather than rely on temporary cover. By contrast, the PRA would keep the existing test, so dual-regulated firms could face different tests depending on the role.
- **Responsibilities documents:** firms would no longer need to submit Statements of Responsibilities and Management Responsibilities Maps routinely to the FCA or PRA, but would need to keep them up to date and provide them on request. Firms

where one individual performs all SMF roles would no longer need a Statement of Responsibilities, which the FCA estimates would benefit around 18,800 firms.

- **Prescribed Responsibilities:** the FCA would keep only those covering the Senior Managers Regime, financial crime and client assets, plus oversight of outsourced internal audit for Enhanced firms. The PRA would also reduce its list of Prescribed Responsibilities to reduce duplication and complexity.
- **Enhanced thresholds:** the FCA would raise the thresholds by around 50%. The assets under management threshold would rise from £65 billion to £100 billion, consumer credit revenue from £130 million to £200 million and intermediary revenue from £45 million to £75 million.
- **Conduct Rules training:** section 64B of FSMA currently requires firms to take "all reasonable steps" to ensure that relevant staff understand the Conduct Rules and how they apply to their roles. This statutory training duty would be removed by the FSM Bill. The FCA would not replicate this duty in its own rules, but would instead require firms to tell staff which Conduct Rules apply to them and the consequences of a breach. The PRA similarly does not propose any replacement for the current statutory training requirement.
- **Reporting Conduct Rules breaches:** under the FCA's proposals, for most staff other than SMFs, only disciplinary action resulting in a final written warning or dismissal would need to be reported, and firms would have up to 14 months to do so. The PRA would raise its threshold for previously certified roles to a final written warning, but suspension, dismissal and reduction or recovery of pay would still need to be reported within seven business days. Reporting for SMFs would not change.

What Happens Next

Final rules are expected in the first half of 2027, with the changes taking effect in the second half of 2027. This depends on the FSM Bill receiving Royal Assent and the relevant provisions being brought into force. Until then, firms must continue to comply with the current regime in full.

For asset managers, insurance intermediaries and other FCA solo-regulated Core firms, the removal of the Certification Regime is the most significant change. The FCA estimates this alone would save £133 million a year across the market. Firms will still need to show that their staff are competent and suitable, and we expect many to keep a lighter, documented assessment process for key roles.

Firms should consider responding to the consultations by 22 January 2027, particularly on the FCA's question of whether any elements of the Certification Regime should be retained. Dual-regulated firms should also map where the FCA and PRA proposals differ.

For further information, please contact ukreg@proskauer.com.

Related Professionals

- **Adam Frost**
  Associate
- **Andrew Wingfield**
  Partner
- **Anna Maleva-Otto**
  Partner
- **Edward Lister**
  Special Regulatory Counsel
- **John Verwey**
  Partner
- **Michael Singh**
  Associate
- **Rachel E. Lowe**
  Partner
- **Sulaiman I. Malik**
  Associate