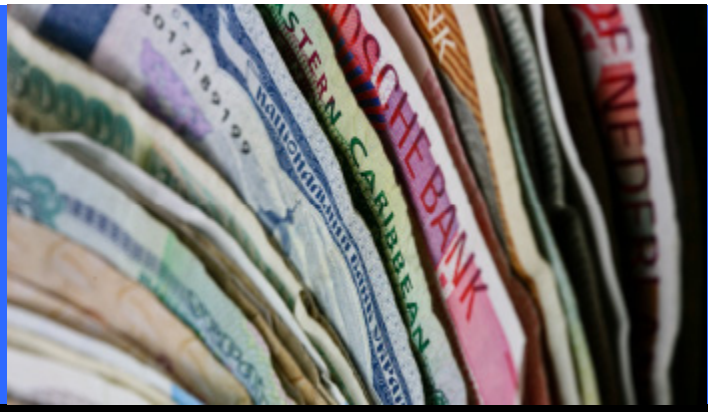
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GIBSON DUNN



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Senior Managers and Certification Regime Phase 2: What the FCA and PRA Are Proposing and What It Means for Firms

The proposals would abolish the Certification Regime, reduce the number of Senior Management Function applications that firms need to make, and remove a number of ongoing compliance and reporting obligations.

On 22 October 2026, the Financial Conduct Authority (**FCA**) and Prudential Regulation Authority (**PRA**) published parallel consultation papers detailing proposed reforms to the Senior Managers and Certification Regime (**SM&CR**).[1] The reforms are aimed at maintaining accountability and conduct standards, while reducing the operational compliance burden for firms. The proposals would abolish the Certification Regime, reduce the number of Senior Management Function (**SMF**) applications that firms need to make, and remove a number of ongoing compliance and reporting obligations.

Why are the regulators making these changes?

The SM&CR reform programme was announced by the Government in December 2022 and taken forward as part of the Leeds Reforms in July 2025. Phase 1 was completed in April 2026 within the existing legislative framework. The Phase 2 proposals are subject to the enactment of the Financial Services and Markets Bill 2026 (**FSM Bill**), which would remove prescriptive SM&CR requirements from legislation and empower the regulators to determine how these apply through their rulebooks.

What changes are being made to the Senior Managers Regime?

(a) SMF applications

The proposals would allow firms to notify the regulators of certain SMF appointments rather than seek approval, subject to a power to require pre-approval in exceptional cases. The FCA has identified that for dual-regulated and Enhanced Firms, SMF5 (Head of Internal Audit) and SMF10 to SMF15 (the Committee Chairs and the Senior Independent Director) would become notified roles. The PRA goes further, with nearly half of the SMF roles becoming notified, including SMF6 (Head of Key Business Area) and SMF20 (Chief Actuary).

The FCA also proposes to remove SMF18 (Other Overall Responsibility) and SMF22 (Local Responsibility), with firms reallocating those responsibilities to other SMFs. Further, for solo-regulated firms, the scope of SMF7 (Group Entity Senior Manager) would be narrowed such that only individuals who exercise significant influence and perform one of a defined list of group roles would be caught, reducing the SMF7 population by around 40%. The PRA instead retains pre-approval for SMF7s whose group role corresponds to a pre-approved function (e.g. Group Chief Executive, Chief Financial Officer or Board Chair) and introduces a new notified SMF7a for all others.

The regulators also propose to clarify that the Prescribed Responsibility (**PR**) for the firm's performance of its obligations under the SM&CR (**PR A**) includes responsibility for the firm's vetting of candidates for all SMF roles, including notified roles.

(b) Enhanced Firm thresholds

Following the Phase 1 inflation adjustment, the FCA proposes raising the Firm thresholds to £200 million revenue for consumer credit lenders, £100 billion AUM for asset managers and £75 million revenue for intermediaries. For wholesale markets firms, the Significant SYSC threshold would be replaced with a £750 million asset-based threshold.

(c) Prescribed Responsibilities, Statements of Responsibilities and Management Responsibilities Maps

The FCA proposes to remove nine PRs, retaining only the PRs for the Senior Managers Regime, financial crime and CASS and, for Enhanced Firms only, oversight of outsourced internal audit. The PRA also proposes to reduce its list, but would retain a longer one than the FCA, so some PRs currently shared would become PRA-only for dual-regulated firms.

Firms would also no longer submit updated Statements of Responsibilities or Management Responsibilities Maps after each significant change, but would still need to keep both documents current and be able to produce them on request. Firms in which a single individual performs all SMF roles would no longer need either document.

(d) Temporary cover

Both regulators propose to extend the period within which firms covering a Senior Manager's absence must submit an SMF application (or notification) from 12 to 18 weeks. However, the FCA proposes to replace the requirement for the absence to be "reasonably unforeseen" with a "reasonable use" standard, while the PRA retains the existing test for PRA functions. To avoid divergent rules within dual-regulated firms, the FCA has invited views on retaining the existing test for all SMF roles at such firms.

(e) Announcing appointments

The PRA has restated its expectation that firms obtain approval for pre-approved roles before announcing an appointment. Announcements made "subject to regulatory approval" should be reserved for genuine necessity, such as an urgent change of Chair or Chief Executive that must be disclosed to the market or an appointment linked to a time-sensitive change in control, and should be discussed with the PRA in advance. Firms will still need to assess any market disclosure obligations separately.

What changes are being made to the Certification Regime?

The most significant change is the removal of the Certification Regime. Firms would no longer be required to assess the fitness and propriety of each person who holds a certification function on appointment and annually thereafter. Regulatory references would also no longer be needed for previously certified persons (although they remain for all SMFs). The FCA Directory would also be retired. The regulators consider that the regime no longer provides sufficient benefit relative to its cost, and that its objectives can be achieved more proportionately via existing obligations, including the Conduct Rules and the competent employee rules.

Nevertheless, to reduce risk, the PRA would require CRR and Solvency II firms to ensure that material risk takers (and, for Solvency II firms, key function holders) who are not Senior Managers are competent and have appropriate personal characteristics, including integrity and honesty. The FCA has invited views on retaining parts of the Certification Regime, regulatory references or the Directory.

What changes are being made to the Conduct Rules?

The SM&CR currently requires firms to take all reasonable steps to ensure staff understand how the Conduct Rules apply to their roles. The FCA instead proposes to require firms to ensure that all persons subject to the Conduct Rules are notified of the rules that apply to them and the consequences of breach.

Under the FCA's proposals, for staff not subject to the Senior Manager Conduct Rules, only disciplinary action resulting in a final written warning or dismissal would be reportable, with the final outcome reported within 14 months. Moreover, for notification purposes, firms would not be expected to determine whether misconduct is a COCON breach unless the outcome would be reportable. The PRA proposes a similar threshold for individuals previously within the Certification Regime, although suspension and the reduction or recovery of remuneration remain reportable. Reporting for SMFs, and the Conduct Rules themselves, are unchanged.

What does this all mean in practice for firms?

For firms with large certified populations the savings will be considerable. For the Senior Managers Regime the position is less clear-cut. The regulators have not lowered the standard to which SMFs are assessed, but for notified roles they would stop checking it in advance. A firm appointing a notified SMF will have to carry out the same vetting as before, the Senior Manager holding PR A will be responsible for the firm's vetting process, and the FCA has made clear that it may consult on reinstating pre-approval if it sees firms making unsuitable appointments or failing to apply appropriate scrutiny. The practical consequence is that a firm's own records will matter more than they do today, and firms should expect fitness and propriety documentation and Statements of Responsibilities to be among the first documents requested in any supervisory engagement.

Removing the Certification Regime will also require more thought than switching it off. The individuals concerned remain subject to the competent employee rules and the Conduct Rules, including, where the Consumer Duty applies, the rule on delivering good outcomes for retail customers (and, at CRR and Solvency II firms, the PRA's new integrity and honesty requirement). In addition, most firms' employment contracts, disciplinary procedures, remuneration terms and reference processes have been drafted on the assumption that certification exists. We expect many firms to retain a simplified form of assessment for roles that are currently certified, and firms that consider any part of the current regime worth keeping should respond to the consultation, given the FCA's indication that it will not consult again.

The proposals also send a signal on technology risk. Both regulators would keep the Chief Operations Function (SMF24) on pre-approval, expressly because of the risks posed by AI and cyber incidents, and would review that position two years after implementation. At a time when controls are being removed elsewhere, that is telling. Firms should expect closer supervisory focus on accountability for AI and should make sure their Statements of Responsibilities show clearly who owns it.

Finally, the proposals bear unevenly on different firm types. A solo-regulated asset manager with a small number of SMFs will see relatively little change to its Senior Managers Regime compliance, other than the possibility of falling out of the Enhanced tier. Dual-regulated firms face divergent FCA and PRA rules on breach reporting and temporary cover. UK branches and subsidiaries of non-UK groups will need to re-test each SMF7 holder against the new definitions, while UK branches will also need to find a home for the local responsibilities currently held by SMF22s.

What steps should firms take now?

The consultations close on 22 January 2027. Final rules are expected in the first half of 2027, with implementation around six months later in the second half of 2027, subject to the FSM Bill being enacted and commenced. Until then, the current rules continue to apply in full.

This is the main opportunity to shape the final regime, not least because the FCA does not intend to consult again if it decides to retain parts of the Certification Regime. The points most worth engaging on are the list of notified roles, the removal of SMF18 and SMF22, alignment of the temporary cover test and breach reporting thresholds at dual-regulated firms, and which elements of certification, if any, should survive.

In the meantime, firms should start with an impact assessment, mapping which SMFs would become notified or be removed, how the responsibilities of SMF18 and SMF22 would be reallocated, and which SMF7 holders would fall outside the new definition. They should test whether their vetting process could support a Senior Manager appointment made without regulatory review, and decide what they will keep from certification, Conduct Rules training and breach reporting. Dual-regulated firms should align their disciplinary, HR and remuneration processes with the different FCA and PRA reporting triggers. Firms planning senior appointments around commencement should also factor in the transitional arrangements, under which existing approvals carry over and notifications can be filed up to a month in advance.

[1] FCA Consultation Paper 26/37: Senior Managers & Certification Regime Review: Phase 2 (**CP 26/37**), https://www.fca.org.uk/publication/consultation/cp26-37.pdf and PRA Consultation Paper 14/26 – Review of the Senior Managers and Certification Regime – Phase 2 (**CP 14/26**), https://www.bankofengland.co.uk/prudential-regulation/publication/2026/october/review-of-the-smcr-phase-two-consultation-paper.

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Gibson Dunn's lawyers are available to assist in addressing any questions you may have regarding these developments. If you wish to discuss any of the matters set out above, please contact the authors or any leader or member of Gibson Dunn's Financial Regulatory practice group:

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