AFB PRIORITIES FOR PHASE 2 OF THE SENIOR MANAGERS & CERTIFICATION REGIME REFORMS

Background

The Financial Services Growth and Competitiveness Strategy published on 15 July 2025, set out the Government's commitment to reducing the regulatory burden for financial services to help drive growth. HM Treasury has since consulted on Phase 1 of the reforms to streamline the Senior Managers & Certification Regime (SM&CR). HMT published its consultation on its proposed reforms to the SM&CR alongside the FCA and the PRA on 15 July 2025. The AFB submitted responses to each consultation, which are available on its website (HMT here, FCA here, PRA here).

On 22 April 2026, HMT published its response to feedback received on its consultation on reforming the SM&CR (here). This was published alongside the FCA's PS26/6 and the PRA's PS12/26.

The above policy statements set out HMT's and the regulators' Phase 1 reforms and the timetable for Phase 2. In particular, the regulators are due to publish a consultation on Phase 2 in autumn 2026. This paper summarises the priorities of AFB members for Phase 2.

They are as follows:

1. Certification Regime

AFB members propose that the Certification Regime move away from its current prescriptive approach towards a more flexible, principles-based framework. Firms should be responsible for maintaining systems and controls to assess the fitness and propriety of certification staff, while the regulators' rules should focus on achieving the appropriate outcomes rather than prescribing processes. The proposals outlined below set out areas where a more proportionate and risk-based approach should be adopted.

- **Removal of annual certification**

The most important reform required in relation to the Certification Regime is to remove the requirement for annual certification and that the regulators prescribe a more proportionate framework for the assessment of fitness and propriety of certification staff members by firms. For those firms with a significant number of certification staff, the annual reassessment process is unnecessarily burdensome, and AFB members question the value that it delivers, in circumstances where a comprehensive assessment of fitness and propriety is undertaken on initial appointment and there are systems and controls in place which support ongoing assessment, such as annual performance reviews.

The regulators should introduce a regulatory rule that requires certification staff to undergo reassessments of their fitness and propriety on a reactive basis, for example in response to concerns that have arisen concerning their conduct, rather than needing to be done for all certification staff on a prescribed timeframe. AFB members are, however, not in favour of removing the regulatory references regime for certified persons.

Additional guidance is required to assist non-UK banks (with branches in the UK) with identifying which individuals should be certified staff (also including the definition of material risk takers) and to reduce the scope of individuals who fall within the definition of certified persons. The current lack of guidance means that many branches of non-UK banks take a cautious approach and certify a broader group of employees than is necessary.

- **Reduce the scope of the Certification Regime**

The regulators should undertake a review of the current Certified Functions framework with a view to reducing its scope. In particular, certification should apply only to Material Risk Takers (MRTs), individuals performing trading or sales functions, and client facing roles. This more targeted approach would allow firms to focus their resources on those individuals who pose the greatest regulatory risk. The regulators should undertake a review of the current certification functions, including those relating to MRTs, with a view to reducing their scope where appropriate.

- **Remove the requirement for separate certification as an FCA Material Risk Taker**

The primacy of MRTs over other certified functions, such as Significant Management, adds complexity, and makes it more difficult to determine when particular functions should apply or be disapplied. This increases the risk of firms omitting certifications or registrations within the current regulatory deadlines.

The regulators should consider removing, redefining or amalgamating Certified Functions, as this would have a greater positive impact on streamlining the Certification Regime and reducing the burden on our members.

2. SMF Approvals Framework

- **Recognition of equivalent overseas approvals**

Where an individual seeking to be an SMF has gone already gone through an approval process in the UK for another role or in a jurisdiction which applies equivalent conduct standards, they should not be required to go through the full application/approval process. This approach could be taken in circumstances where the other jurisdiction grants a reciprocal exemption on the basis of an agreement on the exchange of information between the UK and that jurisdiction. The introduction of such a process would (in the medium and long term) reduce the time spent on the approvals process by firms and regulators without undermining the aim of reducing the level of risk to the financial services industry.

- **Reduce the number of SMFs requiring pre-approval / Introduce a tiered model**

AFB members support reducing the total number of Senior Management Functions that require pre-approval by the regulators, where this can be done without undermining the effectiveness of the accountability framework. In particular, where an SMF role is lower risk in nature, subject to significant oversight, or does not involve responsibility for core prudential or conduct-related decision-making, firms question whether a full pre-approval process remains necessary. A more targeted approach to the allocation of SMFs requiring approval would reduce unnecessary administrative burden for firms and the regulators, while maintaining clear individual accountability for those performing the most senior and influential roles. The regulators should therefore undertake a review of the current SMF roles with a view to introducing a tiered SMF model where some SMFs do not require pre-approval and can be notified to the regulators.

Applying the same approval requirements across all SMFs creates unnecessary complexity, particularly for branches of non-UK banks where certain SMFs may operate within a wider group governance structure and be subject to significant oversight to overseas parent senior management.

A tiered SMF model would allow the regulators to distinguish between those roles that outlines the responsibility for the management and strategic direction of the UK firm, and those roles that are more limited in scope or are primarily responsible for defined control, oversight or reporting functions.

- **Proportionate approval process for SMF role transitions**

The FCA and the PRA should introduce an exemption where SMFs who have previously been approved by one or both regulators, where the new role is not materially different to the role previously approved and provided that there have been no prior concerns in relation to fitness and propriety. Due diligence would still be undertaken by the firm, and the application to the regulators (including the supporting documentation would still be submitted). However, the individual would be permitted to undertake the formal responsibilities of the role from the date of submission. This would not preclude regulators from reviewing the application, interviewing the candidate, or requesting further information before deciding on the fitness and propriety of the individual.

An alternative approach would be to allow individuals who are not already an SMF, to perform an SMF role under the supervision of an existing senior manager within the firm until regulatory approval is granted. This altered process would allow for an appropriate investigation to take place within a timeframe suited to the circumstances of each application, while avoiding unnecessary disruption to the business of the regulated firm.

- **Extending the 12-Week rule to INEDS**

The regulators should consider extending the changes relating to the 12-week rule, announced as part of Phase 1, to Independent Non-Executive Directors (INEDs). AFB members state that the current process of identification, assessment, recruitment and onboarding of INEDs typically takes longer than 12 weeks. We propose that a period of 20 weeks is given for INEDs.

3. Conduct Rules Framework

- **Proportionate reporting and training for Conduct Rules staff**

The requirement to notify regulators in all instances of disciplinary action for conduct that would amount to a breach of a conduct rule creates a disproportionate burden for firms. This is because such determinations are recognised within firms to have potentially career ending consequences for an individual's future and consequently absorb large amount of senior management time. We propose that this requirement is amended so that such matters are disclosed in an individual's regulatory reference, rather than being notified proactively to the regulators, except where the conduct breach was serious enough to require notification to the regulators under Principle 11 / Fundamental Rule 7 more generally. AFB members also propose removing the statutory requirement for firms to provide training to Conduct Rules staff, noting that firms are trusted to provide training on many other regulatory topics without there being a statutory requirement to do so.

4. Reducing Duplication in SM&CR Processes and Documentation

- **Incorporating Statements of Responsibilities into Management Responsibilities Maps**

AFB members propose incorporating Statements of Responsibilities (SoRs) into Management Responsibilities Maps (MRMs). The current language of SYSC 25.4.8G makes it mandatory for MRMs only to include summary details about SoRs. For some, particularly smaller, firms this creates unnecessary complexity. AFB members would therefore welcome a more flexible approach allowing firms to incorporate SoRs as part of their MRMs.

- **Redesign or removal of FCA Directory for wholesale firms**

AFB members propose that Phase 2 of the SM&CR reforms should include a review of the FCA Directory and its application to wholesale firms. For wholesale firms, the Directory creates a significant administrative burden because firms must maintain and update large volumes of individual-level data, often in respect of staff whose roles have limited relevance to retail consumers or the wider public. This burden is particularly acute for branches of non-UK banks, where changes to roles, reporting lines or responsibilities may need to be reflected across multiple internal and regulatory systems.

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