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STREAMLINING THE SMCR: UNPACKING THE LEEDS REFORMS

CLIENT BRIEFING

Introduction and guiding principles to the reforms

HM Treasury, the PRA and the FCA have published consultation papers on reforming the Senior Managers and Certification Regime (**SMCR**). This follows the regulators' joint discussion paper (FCA DP23/3 and PRA DP1/23) on reviewing the operational aspects of the SMCR and HM Treasury's call for evidence on the legislative aspects of the regime (both published in March 2023).

It is proposed that reform of the SMCR will take place over two phases: a first phase of rule changes (Phase 1), followed by a potentially more radical second phase, facilitated by changes to the legislation underpinning the SMCR (Phase 2). The PRA and FCA's proposals in Phase 1 can broadly be grouped according to the following guiding principles:

(a) ***Simplification***: Streamlining the SMCR within the context of the current legislative framework under the Financial Services and Markets Act 2000 (**FSMA**) to reduce the administrative burden on firms.

(b) ***Clarification***: Reducing ambiguity in firms' interpretation of guidance by providing additional guidance and clarifying issues raised with the regulators.

(c) ***Facilitation***: Giving firms more time to complete certain activities, which should support greater compliance.

The Appendix to this briefing sets out a summary of the proposed reforms. Here, we consider three of the key Phase 1 proposals in further detail.

Modifications to the 12-week rule

- Historically, SMCR firms have been able to appoint individuals to carry out senior management functions (**SMF**) for 12-week periods where temporary or reasonably unforeseen vacancies arise, without those individuals having been formally approved by the regulators. However, the lack of clarity as to when a vacancy might be "*temporary or reasonably unforeseen*" meant that firms have applied this rule (the "**12-week rule**") in a wide and divergent range of circumstances. In addition, where the rule was used to manage changes in SMF-holders, firms have often found that 12 weeks was not enough time to get a new SMF approved.

- Firms have been favourable to the notion of a 'grace period' for SMF appointments, but feedback provided to the regulators was that "*the existing rule is not fit for purpose and does not sufficiently help firms manage changes in SMFs*". The regulators have therefore taken steps to update the 12-week rule to reflect market practice and provide a more effective transitional regime for SMF appointments.

- Rather than firms having 12 weeks during which an individual can carry on an SMF without approval, the rule will now provide that firms have 12 weeks from a vacancy arising to apply for approval of a new SMF holder. Once an application has been submitted, the person performing the role under the 12-week rule could continue to perform it until the application is determined. The regulators have also clarified that — whilst the 12-week rule should not be used for business-as-usual succession planning — firms can use it in a wider range of circumstances than the rules and guidance might otherwise currently imply. This is broadly positive for firms, who now have clarity on using the rule to manage vacancies which arise in more unusual circumstances such as certain M&A transactions - but firms will want to heed the FCA's proposed guidance that they should use the rule "*reasonably*" and "*as infrequently as reasonably possible*".

Clarification of the scope of the SMF7 function

- The SMF7 role — that of "*having a significant influence on the management or conduct of one or more aspects of the affairs of a firm*" as an employee of that firm's parent — has been an important feature of the SMCR. It has been a way for the regulators to have oversight of how firms are managed on a group basis, and has also permitted greater scrutiny of the influence which sponsors might have on private equity-owned businesses.

- The PRA's proposal both expands the population of people who might potentially be caught (by making explicit that "*controllers*" of an SMCR firm, and their nominated representatives, can be carrying on the relevant function, even where they are not an employee of that firm's parent) and also limits it, by giving helpful illustrative examples of who does and does not have "*significant influence*". In particular, dual-regulated firms will find it helpful to know that where a group executive only occasionally attends the firm's board or board committee and has only "*limited direct influence*" over the firm, that group executive is unlikely to require approval as an SMF7; similarly for group executives who do not have "*continued and sustained involvement in, or [who] exercise continued influence over the day-to-day management*" of the firm. The FCA has provided similar clarification on what "*significant influence*" means for firms that it regulates; however, the PRA's expansion to cover "*controllers*" will not apply for FCA-authorised (solo-regulated) firms.

FCA reflections on the Conduct Rules

- The Conduct Rules set minimum standards of behaviour that apply to most individuals working in financial services. Although the FCA does not propose changes to the Conduct Rules in Phase 1, the FCA proposes to give additional guidance to support firms in their application of the Conduct Rules, in recognition of the burden on firms in interpreting the requirements. The FCA states that it will explore changes to the Conduct Rules in Phase 2.

- Among other things, the proposed guidance will reaffirm that only Conduct Rule breaches where specified disciplinary action is taken by a firm require notification to the regulator, and will clarify when suspension of an individual or reducing or recovering their remuneration requires notification. Firms will likely welcome further clarity on these points.

- The FCA is also consulting on whether further guidance is required to help firms understand non-financial misconduct in the context of the Conduct Rules. Our briefing, *Non-financial misconduct: five things we are thinking about now*, has further details on this topic.

Conclusion and next steps

Phase 2

HM Treasury is separately consulting on legislative changes to the SMCR regime which, if adopted, would provide the PRA and FCA with greater flexibility to improve the operation of the SMCR as part of a second phase of reform. Phase 2 is likely to be more radical than Phase 1, which is necessarily limited in scope given the legislative constraints of FSMA. The proposed changes include:

(a) removing the certification regime from FSMA entirely, leaving space for the regulators to use their rule-making powers to develop a more flexible and proportionate regime; and

(b) increasing flexibility for the regulators to reduce the number of SMFs which require pre-approval.

HM Treasury explains that the changes would make a significant contribution to the overall ambition of the government and regulators to reduce the regulatory burdens of the SMCR by 50%.

Timing

Comments on all three consultation papers are welcomed by 7 October 2025. The PRA and FCA intend to publish a policy statement containing final rules in mid-2026.

Conclusion

Providing firms with greater clarity and time in relation to their SMCR obligations will be welcomed by many firms. Nevertheless, firms will watch the move towards more ambitious reforms in Phase 2 carefully to ensure that they achieve their objectives and do not create ambiguity. For now, the Phase 1 reforms seem like a pragmatic solution to common administrative frustrations that many firms have experienced under the SMCR.

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APPENDIX

The PRA and FCA proposals are broadly coordinated. Reforms marked below with an asterisk (*) reflect PRA-only proposals.

Topic	Summary of reform
Proposals to streamline the SMCR	
12-week rule	- Amending the 12-week rule so that firms have 12 weeks to submit an application to the FCA, rather than a 12 week transitional period where an SMF's departure is not reasonably foreseen - Providing guidance on when the proposed new 12-week rule can be used - Applying the Senior Management Conduct Rules to an individual performing the SMF role under the new proposed 12-week rule while not yet approved
SMF approval process	- Making further amendments to Form A (which firms must use to apply for an individual to perform an SMF role), including reducing or consolidating some of the documentation requested in the form - Simplifying and digitising online forms to make the application process more efficient and accessible
SMF roles	- * For dual-regulated firms, broadening the definition of SMF7 to include controllers and their representatives if they have significant influence over the day-to-day management or conduct of the firm's affairs in relation to its regulated activities - For solo-regulated firms, permitting SMF18 to hold prescribed responsibilities beyond the '*Other overall responsibility function*'
Criminal record checks (**CRCs**)	- Removing the requirement for firms to undertake CRCs when applying for approval of an existing SMF holder who is already an approved SMF holder in the same firm or group
Certification regime	- Removing duplication of certification roles where an individual must be certified for separate functions (*e.g.*, removing the requirement for separate certification as an FCA Material Risk Taker where an individual at a dual-regulated firm is also PRA-certified)
Regulatory references	- Amending guidance to allow for a four-week period (reduced from six weeks) for firms to provide regulatory references upon request from a hiring firm (unlike the FCA, the PRA does not propose to set such a period)
Enhanced SMCR firm thresholds	- Applying a c.30% increase to the financial criteria thresholds for becoming an Enhanced SMCR firm and creating a mechanism that updates these thresholds every five years such that they remain in line with inflation
Navigating the SMCR	- * Increasing visibility of the inventory of senior manager responsibilities and creating a specific SMCR policy index that will be added to the Bank of England's website - * Removing references to certain EU policy materials, redundant references to the old Approved Persons Regime and gendered language from SS28/15 and SS35/15
Technical changes to the Handbook	- Making technical changes to the FCA Handbook to align with some of the PRA's proposals
Proposals relating to the provision of clearer guidance	
Key SMF roles	- Adding guidance to help firms determine whether a person is captured by SMF7 - Amending guidance to emphasise the considerations a firm should have when determining whether the SMF18 function applies
Certification regime	- Providing additional guidance on the annual (re-)certification process and clarifying that senior managers may need to be certified to perform certification roles if the role is distinct and separate from their SMF role
Conduct Rules and	- Adding guidance on how to apply the Conduct Rules

Topic	Summary of reform
related reporting requirements	
Prescribed Responsibilities (**PRs**) and Statements of Responsibilities (**SoRs**)	- Providing guidance on the allocation of PRs - Clarifying when a change is sufficiently material that it requires submission of an updated SoR
Key Function Holders (**KFHs**)	- * Clarifying that KFHs are only required to submit the SMF application form and accompanying material, and not also Form M (*Notification of a non-executive director or KFH*)
Proposals that afford firms more time	
CRCs	- Increasing the validity period of CRCs from three months to six months for SMF applications
SoRs	- Permitting submission of updated SoRs on a periodic basis and no later than every six months after the last submission
Directory of certified and assessed persons (**Directory**)	- Reducing the scope of the Directory by reflecting changes to the certification regime - Extending the deadline to update most of the information on the Directory to 20 business days