



EPTA's members response to the HMT Consultation on Reforming the Senior Managers & Certification Regime (Deadline 7 October 2025)

Introduction	<p>The European Principal Traders Association (EPTA) represents Europe's leading Principal Trading Firms. Our members are independent market makers and providers of liquidity and risk-transfer for markets and end-investors across Europe. EPTA works constructively with policy-makers, regulators and other market stakeholders to ensure efficient, resilient and trusted financial markets in Europe.</p> <p>EPTA members welcome the opportunity to respond to the HMT Consultation on Reforming the Senior Managers & Certification Regime (SM&CR). EPTA members support the removal of the certification regime from FSMA 2000 and the development of a more proportionate regime by regulators that should be more risk based with rules tailored to the specificities of the market (e.g. wholesale versus retail or consumer market) and to the size, complexity and business models of regulated firms. We also suggest the removal of unnecessary red tape (e.g. annual re-certification). This reform is a unique opportunity to support the government's competitiveness and growth objectives.</p> <p>EPTA members also support the proposal to give regulators more flexibility to reduce the overall number of Senior Management Function (SMF) roles as the current requirements are disproportionately high for some roles that do not carry a material risk for the market, and are more suited for listed companies (and less so for firms with no client and lower impact to market and consumers). We also suggest that regulators may want to consider allowing a relevant set of firms to determine</p>
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	<p>the SMF's they thought were appropriate for their business, taking into account scale, complexity and risk of harm to the market or consumers. EPTA members also support the reduction of pre-approval roles that will reduce unnecessary administrative burden for firms and increase firms' agility to recruit. EPTA members provide further suggestions on other areas within the SMCR regime that may deserve a review, such as the list of prescribed responsibilities (some are duplicative and not necessary) and we also question the necessity to have an enhanced regime for significant firms (that trigger not only the SM&CR rules, but also additional governance rules like risk committees), particularly for firms that trade with own capital, that do not have clients nor hold client assets.</p> <p>Finally on the section on international talent and obstacles to recruit, EPTA members strongly recommend that UK remuneration rules for non-bank institutions are reformed in parallel. The UK, together with the EU, is the only major global financial services jurisdiction that has chosen to apply remuneration requirements derived from the Basel Framework, being the primary global standard for prudential regulation of banks, to non-bank investment firms. EPTA members believe that these rules have therefore discouraged international professionals from relocating to the UK to the extent that no other jurisdictions have implemented similar prescriptive rules in the non-bank sector. We would be pleased to provide a copy of the 2025 PwC (independent) report that EPTA has commissioned, which provides an international comparison of the prudential, governance and remuneration rules for non-banks in competing jurisdictions such as the US, Australia and Singapore.</p>
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Questions	Comments CP
1. Do you agree that the Certification Regime should be removed from FSMA 2000?	EPTA members agree that the certification regime should be removed from FSMA 2000 and left to the FCA to develop a more flexible and proportionate regime. We refer to question 7 for the benefits of removing SMCR from FSMA 2000.
2. Do you agree that the Regulators should consider developing a more proportionate approach, that would replace the existing Certification Regime?	<p>EPTA members believe that the FCA should indeed develop a risk-based regime which should be more proportionate and less onerous on firms. Firms at present must indeed comply with rigid documentation requirements which takes time and resources (without clear benefits), representing an opportunity cost to grow the business and a diversion of focus to areas that have higher risks.</p> <p>The regime should be more principles-based recognizing that firms have in place various internal processes to hold key employees accountable.</p>

	The FCA could issue more guidance on some areas reducing implementation divergence within firms.
3. Do you believe there are risks or unintended consequences if the Certification Regime is removed from FSMA 2000, and replaced with regulator rules? For example, how would it impact consumer protection, market integrity, safety and soundness, and policyholder protection?	EPTA members believe that the FCA should be able to develop a more risk based and agile regime without compromising consumers and market safety.
4. Are there alternative approaches that will still deliver the desired benefits, but may not involve removing the regime from legislation entirely?	EPTA has no comment.
5. What are the critical elements for any replacement regime to achieve the government objectives of a lower cost, more proportionate and competitive regime?	<p>EPTA members believe that a lower cost, more proportionate and competitive regime is achievable without increasing risks for consumers and market integrity. In substance, the Certification Regime can be modified to achieve the same level of efficacy but without the significant burden of administering it. Core features of the existing regime can be maintained: for example, reference checks, criminal background checks, ongoing training, and assessments as to fit and proper status are all embedded within firms' current frameworks. Firms should have discretion to ensure an individual has the requisite honesty, integrity, competence and capability. Indeed, firms have a vested interest to ensure this is the case.</p> <p>The annual re-certification requirement for existing SM&CR staff is particularly onerous and places unnecessary administrative burden on firms. Indeed, the annual requirement involves a full re-certification of all SM&CR staff to assess their continued fitness and propriety (F&P) to perform their required functions, followed by the issuance of a certificate to all in-scope staff members. We consider that the requirement to ensure all SM&CR individuals are fit and proper to perform their roles is an ongoing requirement as part of good business practices, this annual assessment places an unduly bureaucratic and time intensive burden on all firms, which collectively across the industry may exceed the likely benefit. As it stands under the current regime, in any instance of a breach or new information that casts doubt on an individual's integrity and whether they remain fit and</p>

	<p>proper to conduct their role, firms are required to assess this immediately and flag to the regulator if deemed necessary.</p> <p>In contrast, SMFs are not re-approved by the regulator on an annual basis. Doing so would place an unnecessary administrative burden on the regulator whilst providing little to no benefit, particularly in situations where there has been no change to an individual's fitness and propriety (F&P).</p> <p>Therefore, on the basis of the ongoing requirement for firms to flag to the regulator any significant change of this nature impacting individuals' abilities to conduct their roles, we consider the annual recertification process to be duplicative and disproportionately burdensome, while failing to bring additional benefits to the regime. We would propose that this annual re-certification process be removed, and the requirement to conduct an F&P assessment would only be required at the point of a new certified function being approved, or a known change in the circumstance of the individual. This approach would be similar to that of the previous FCA 'approved persons' regime, which did not have a requirement to perform a formal annual re-assessment.</p> <p>Also, the regulator could still retain the power to request firms to demonstrate that employees with key functions are fit and proper within the supervisory cycle or on an ad hoc basis when necessary.</p> <p>This would retain the objectives of the regime in ensuring individuals conducting certain roles are deemed fit and proper whilst simplifying the bureaucratic processes around this initial approval and ongoing oversight.</p> <p>Overall, we would encourage the regulator to develop a regime that is more risk and principles based taking account of specific risks and desired outcomes.</p> <p>Being risk based would allow the FCA to tailor the rules that could take into account the specificities of the market (e.g. wholesale versus retail or</p>
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	<p>consumer market) and the size, complexity and business models of regulated firms.</p> <p>For example, we believe that the regime should differentiate between firms that may pose a risk to customers and clients and those that do not trade with retail clients or otherwise interact in the consumer market.</p> <p>Where firms are holding client money or dealing with retail or consumers, the regulator should be able to develop and tailor certification rules which continue to enhance standards and promote transparency with a clear regulatory outcome for the users of that market.</p> <p>Currently, the list of certified functions is long and often duplicative. One individual can have multiple certified roles for essentially the same activity. For example, a trader using an algorithmic system might have the certified functions of client dealing, algorithmic trading, proprietary trading and significant management function – this would all be for one activity.</p>
6. Do the regulators currently have the necessary powers and tools to deliver a replacement regime or are further powers required?	EPTA members have no comment.
7. Do you have any comments on the likely costs and benefits of removing the Certification Regime from legislation and replacing it with a more proportionate regime, at this stage?	<p>Removing the certification regime from legislation would enhance regulatory agility where the regime can be amended quickly via consultation and rulemaking depending on market changes, emerging risks, feedback from regulated firms, supervisory priorities and practical experience from the supervisory oversight.</p> <p>In addition, moving the regime under the FCA rulebook would allow the FCA to design a risk based regime that could take into account the specificities of the market (e.g. whole sale v retail/consumer segment) and the size, complexity and business models of regulated firms, cutting unnecessary red tape and reducing administrative burden.</p>

	<p>Finally, this would align with the broader goals of post Brexit regulatory reform to make the UK a more competitive financial center.</p> <p>In summary, the benefits of removing the certification regime from legislation will very much depend on the approach taken by the FCA when developing a new regime. Provided the new regime is risk based and principles based, takes into account the processes that firms have already in place, and does not introduce unnecessary red tape, the removal of the regime from legislation could reduce significantly the administrative burden of firms and restore the competitiveness of the UK financial market.</p> <p>EPTA members stand ready to work with the FCA to design a new regime that we understand from the recent FCA CP will take place under phase 2 should the proposal to remove SMCR from legislation be successful.</p>
Questions	Comments CP
8. Do you agree with the proposal to give the regulators more flexibility to reduce the overall number of senior manager roles?	<p>EPTA members support the proposal to give the regulators more flexibility to reduce the overall number of Senior Management Function (SMF) roles in SUP10C.4.3R as the current requirements are disproportionately high for some roles that do not carry a material risk for the market. By focusing primarily on those roles that manage material risk the FCA would create a more proportionate regime. A more proportionate regime would reduce the regulatory burden for firms, allow the FCA to focus greater attention on a smaller number of key roles and provide greater clarity on the key roles whose professional activities have a material impact on the risk profile of firms.</p> <p>The current list of SMFs is not always clear (resulting in different interpretations and inconsistent applications by firms) and overly broad due to the loose wording that catches roles that do not have a material impact on the risk profile of firms. For example, the list includes Chief Operations Function that catches HR or IT employees. Although these functions are</p>

	<p>important to support the business of a firm, they are not always critical and do not always have a material impact on the risk profile of firms. Although some roles would inherently be impactful e.g. CEO, others would be dependent on the nature of the business models (and inherent risk) of each firm. The scope of the rules is so wide however (i.e. they seek to capture everything the business does) that more people are brought in as Senior Managers than need to be.</p> <p>For enhanced firms, which are often not complex or particularly large, Senior Manager roles are set out in SUP 10C Annex 1, 6.2R and include: Chair of Remuneration Committee, Chair of Nomination Committee, Senior Independent Director, Group Entity Senior Manager and Other Overall Responsibility Functions.</p> <p>These positions and functions are more suitable for listed companies than for investment firms which, in the case of members of EPTA, are often privately owned, do not have customers, do not deal with retail, do not hold client money, do not manage third party funds and do not generally solicit external equity investment. We consider separately, at question 16 below, the issue of whether principal trading firms should (in light of this) be subject to the enhanced scope regime under SM&CR. However, in any case, EPTA members believe that firms should be able to apply proportionality to those Senior Manager roles that go beyond the requirement for Core firms (i.e. the C-Suite roles, Compliance Oversight and MLRO functions).</p> <p>One possibility would be to allow a relevant set of firms to determine the SMF's they thought appropriate for their business, taking into account scale, complexity and nature. For example, if a firm was primarily focused on providing liquidity to the market that firm may consider its business model straightforward in nature and related to only a few risks. For example, one risk for such a firm would be to ensure appropriate risk management of trading positions. A set of firms, deemed appropriate, could, taking into account their specific business risks, set their own SMF categories. Based on</p>
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	<p>the above, this would likely be roles such as Chief Executive and Chief Risk Officer. This would be consistent with the prudential approach reflected in the ICARA process, whereby a firm reviews its risks and "adds on" regulatory capital dependent on its view of these risks and whether they are covered by a level one set of minimum requirements (in the prudential case, these would be driven by either operational expenses or a function of what are referred to as K-Factors). The ability for firms to determine the appropriate risk management function could be limited to a set of firms who did not have certain characteristics, such as no client money/assets, no advisory or portfolio management permissions (to non-group entities), no retail clients and whose primary role and set of risks related to providing liquidity to market counterparties. We note that similar processes of allowing for appropriate risk calibration have taken place recently by the FCA. For example, trade venues in certain products can now set their own transparency requirements at a level they consider appropriate taking into account a range of factors.</p> <p>The regulator should also draw from its experience in implementing the SM&CR to reduce the number of SMFs to those with whom the regulator has had the most meaningful and frequent interactions, those functions who have been identified as SMFs whose professional activities have a material impact on the risk profile of the firm during the FCA supervisory activity or following enforcement actions.</p>
9. In addition, do you agree with the proposal to give the regulators flexibility to reduce the number of roles within the regime for which pre-approval is required?	EPTA members support the proposal to give the regulators flexibility to reduce the number of roles within the regime for which pre-approval is required.
10. Do you have any comments on the likely costs and benefits of making such changes to the Senior Manager Regime?	<p>Reducing the number of senior managers and roles subject to pre-approval will materially reduce the regulatory burden upon firms as the volume of documentation, fit and proper assessment is disproportionately high for some roles that do not carry material risks.</p> <p>In addition, it will increase the agility of firms to recruit (externally or by internal move) and to fill in senior appointments on a timely basis, which has</p>

	<p>been too often delayed due to the lengthy approval process and the lack of resources of the FCA. This is particularly important in this industry, which is fast-moving, and in smaller firms that are lean in resources.</p> <p>This will free up time and resources from the FCA that can be reallocated to higher risk areas.</p> <p>It would also make the UK more competitive and therefore more attractive for international talents to work for UK firms as many competitive financial centers do not have similar (rigid) rules.</p>
11. Are there any alternative approaches that government should consider to reform the approach to regulator pre-approval, which would still deliver the desired benefits?	EPTA members have no comment.
12. Do you have any other comments or suggestions regarding these proposed changes?	EPTA members refer to Question 18 for more comments.
Questions	Comments CP
13. Do you agree with the proposal to remove prescriptive legislative requirements relating to provision, maintenance and updating of Statement of Responsibilities, with the aim of allowing regulators to adopt a more proportionate approach?	EPTA members support the proposal as this may reduce unnecessary administrative burden and red tape.
14. What are the types of change for which an update to the Statement of Responsibilities is currently required, that you consider to be disproportionate?	<p>Updates to the Statement of Responsibilities are not a material burden by itself but the number of statements of responsibilities to be produced, which depends on the number of Senior Manager, is. Reducing the number of senior managers would therefore reduce the administrative burden to comply with the prescriptive requirements of the statements of responsibilities. The FCA should also take this opportunity to review, based on its supervisory reviews, whether these Statement of Responsibilities have actually added value and achieved its intended objectives. Based on this review, the FCA may want to amend or streamline these Statement of Responsibilities.</p>

<p>15. Are there requirements in the legislation for the Conduct Rules which you consider create a disproportionate burden? What are these elements?</p>	<p>EPTA members do not consider that the Conduct Rules create a disproportionate burden. EPTA members do not believe the Conduct Rules have materially promoted good practice, simply because firms generally applied these expectations within existing policies and procedures. In addition to this, the rules are very high level and simply provide basic minimum requirements for an individual who works in financial services. EPTA members believe that historically firms have tailored training programs which are more effective in promoting good conduct.</p>
<p>Questions</p>	<p>Comments CP</p>
<p>16. Are there any further elements of the SM&CR legislation that create unnecessary regulatory burdens on firms, the removal of which would not impact on the primary objectives of the regime?</p>	<p>In addition to the reduction in the amount of Senior Manager roles, we would also strongly recommend a review of the list of prescribed responsibilities. These are duplicative in many cases and in other cases vague and potentially redundant. For example, prescribed responsibilities (a), (b), (b-1), and (c) all relate to the SMCR's regime but are unnecessarily granular when one prescribed responsibility could work instead. Another example is prescribed responsibility (t) which relates to "Developing and maintaining the firm's business model" which we consider to be too vague.</p> <p>More generally, we would strongly encourage a holistic review of the regulatory burden that applies to certain UK investment firms which are classified as "significant SYSC firms". Such firms are treated as enhanced firms under the Senior Managers regime, due to SYSC 23, Annex 1, 9.1R(1).</p> <p>The definition of a "significant SYSC firm" for these purposes is in SYSC 1.5.2 which sets out certain thresholds which, if met, determine "significance". An investment firm can be considered a "significant SYSC firm" by virtue of relatively modest assets and liabilities (for example, total assets exceeding £530 million or total liabilities exceeding £380 million). This then drives additional governance requirements and enhanced regulatory expectations under SMCR.</p> <p>We would strongly encourage a fundamental review of the "significant SYSC firm" regime and whether it remains an appropriate tool to mitigate harms.</p>

	<p>In particular, for principal trading firms (that is, firms whose principal purpose is the provision of liquidity to the market) the nature of the business is such that there is no need for the classification as "enhanced" under SM&CR. We therefore consider that such firms should be carved out of the "significant SYSC firms" definition.</p> <p>We set out a number of good reasons for this below. In addition, we also note that under the FCA's approach to cryptoasset regulation (CP25/25), "enhanced scope" cryptoassets firms for the purposes of SM&CR will only be those which fall into the "CASS large firm" or £50bn AUM categories (para 3.39, CP25/25). From a policy perspective, if this approach is sufficient for the cryptoasset industry we would expect a similar approach could apply to other firms (such that traditional principal trading firms also do not fall within the enhanced scope category).</p> <p>One good reason to de-scope firms concerned mainly with liquidity provision is that, although the balance sheet or trading volumes of the firm may be material, the nature of the business means that it does not have the same risks as a comparable balance sheet or trading volume when carried out by a retail broker, portfolio manager, or investment bank. Currently, principal trading firms can still be categorized in the same way for SMCR purposes as large CASS firms, asset managers with assets in excess of £50bn and mortgage lenders with more than 10,000 mortgages outstanding.</p> <p>However, for principal trading firms, there is no risk to clients as there are no client assets or funds held, and, generally, there is no service provided to the market other than the activity of liquidity. The key risk is therefore ensuring a sound risk management both in terms of market conduct and prudential policy. Neither of these matters is assisted by having the requirements of SM&CR placed on firms.</p> <p>Separately, further administrative burden is created by the MIFIDPRU Remuneration Code: under SYSC 19G, principal trading firms have to</p>
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	<p>establish a remuneration committee, and “material risk takers” are subject to deferral (3 years) and payment in kind provisions relating to their remuneration. We discuss the remuneration obligations in more detail in our response to Question 18.</p> <p>Taken together, the interaction of all these provisions subject “significant” investment firms to a disproportionate and inappropriate regulatory burden by requiring additional committees, further Senior Manager roles and deferral and remuneration requirements all of which means UK firms are having to satisfy more administrative requirements than their international peers.</p>
Questions	Comments CP
<p>17. Do you face, or have you faced, any specific obstacles in trying to recruit internationally for senior manager roles?</p>	<p>EPTA members have experienced material obstacles in trying to recruit international talent due to a combination of a regulatory framework that puts UK firms at a competitive disadvantage.</p> <p>Those are mainly the SMCR regime and the remuneration rules (see question 18) which differ significantly from other jurisdictions, like the US, Australia and Singapore, and we refer to the PwC report mentioned in question 18.</p>

<p>18. If so, which are the key obstacles that would not be addressed by the reforms proposed in either this consultation or by the consultations the regulators have published in parallel?</p>	<p>PTFs and market makers are subject to the UK Investment Firms Prudential Regime ("IFPR") which was designed pre-Brexit and subsequently onshored in the UK with little adjustment.</p> <p>This is effected by MiFIDPRU 1.2.1R(5)(a), which, for the definition of "SNI investment firm", has a blanket exclusion for firms which have permission for dealing on own account (i.e. PTFs and market makers). This means that such firms are automatically "non-SNI investment firms" and subject to more stringent rules.</p> <p>For non-SNI investment firms, the MIFIDPRU remuneration requirements which apply, besides being overly burdensome for firms from an administrative point of view with no clear benefit, impact materially the way employees are remunerated (with claw back, a long deferral period and payment in cash restricted with a mandatory high proportion of payment in shares).</p> <p>We would suggest that the definition of "SNI investment firm" be reviewed, particularly as it applies to firms dealing on own account.</p> <p>We have set out below further background explaining how the current UK remuneration rules, which are largely based on EU rules applicable to large (above 5 billion) international banks, have been applied to MIFIDPRU firms.</p> <p>Before the regime applicable to EU (IFR) and UK (IFPR) investment firms that were effective in July 2021 and January 2022 respectively, only large banks and large investment firms with a balance sheet above 5billion were subject to the strict remuneration's rules under CRD IV (claw back, deferral and payment in instruments to certain individuals i.e. Material Risk Takers) with further national discretions. The UK historically chose to apply remuneration rules to principal trading firms in a proportionate way (waiving the most onerous requirements)</p>
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	<p>IFPR was drafted and adopted in the UK in parallel with the adoption of the EU Investment Firm Directive (“IFD”) and was designed to be aligned in many respects with the EU regime (although there were notable differences, reflecting the FCA’s rulemaking approach and response to feedback received during the consultation process). With the implementation of specific prudential legislation for investment firm in the EU and the UK, the remuneration and governance rules under CRD IV, including crucially those that only applied to significant firms, were transposed into both IFPR and IFD with limited modifications and much lower thresholds at which they applied.</p> <p>As a result, the IFPR has pulled small and midsized firms (i.e. any investment firm with a balance sheet over GBP 300m) into the governance and remuneration system that CRD IV only applied to the largest banks and the very largest investment firms. These requirements were intended to strengthen governance and align firms’ remuneration policies with their risk profile in order to protect the public and the market from a failure. However, as the rules were written for large banks and the very largest investment firms, they are calibrated to the risks posed by such firms and are not well aligned to the business models and risks posed by the majority of investment firms subject to IFPR, including in the case of EPTA members, principal trading firms. We understand the policy rationale to discourage excessive short term risk taking and encourage more effective risk management. The payment in instruments, deferral and retention period were put in place post 2008 crisis for banks to align their remuneration policies with their risk profile and to stop rewarding risk not apparent in the balance sheet that would crystalize years later and lead to the bailout (with public funding) of large credit institutions.</p> <p>The enhanced remuneration requirements were not designed for the type of risks inherent to principal trading firms and create unnecessary complexity and cost burden. Indeed, principal trading firms trade with their own capital, do not have client deposits and are not eligible for state support in the event of insolvency. Their main asset (trading book) is marked to</p>
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	<p>market with unrealised losses recognised on a daily basis. Further, they generally trade cleared and exchange traded equities and derivatives that can be unwound in a matter of days, and the main operational risk (model risk or execution risk) would be apparent very quickly. The deferral period required under IFPR of 3 years plus the additional retention period are therefore not aligned with the risk profile of the business model of principal trading firms and so do not foster alignment of risk and reward.</p> <p>The rules are unduly burdensome in that principal trading firms that are not already public companies (i.e. the vast number) do not usually issue equities and do not have listed equities and share plans. The requirements to issue shares (or alternative arrangements) to material risk takers (even to small subset of identified staff) is unduly complex and burdensome due to administrative costs and management time required to administer these schemes, particularly given the required time scale for deferral does not align to the time horizons within which risk crystalize.</p> <p>The UK, together with the EU, is the only major global financial services jurisdiction that has chosen to apply remuneration, requirements derived from the Basel Framework, being the primary global standard for prudential regulation of banks, to non-bank investment firms. EPTA members believe that these rules have therefore discouraged international professionals from relocating to the UK to the extent that no other jurisdictions have implemented similar prescriptive rules in the non-bank sector. We would be pleased to provide a copy of the 2025 PwC (independent) report that EPTA has commissioned, which provides an international comparison of the prudential, governance and remuneration rules for non-banks in competing jurisdictions such as the US, Australia and Singapore. The report shows that the UK and the EU are a clear outlier and has a regulatory framework that we believe disincentivizes new entrants and creates an obstacle to the movement of international talent into senior manager roles in the UK.</p>
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	<p>We understand that the FCA has started a review of the remuneration rules for mid-size banks and the asset managers, and we are looking forward to a similar review for principal trading firms that would take into account the business models (main liquidity provider) and risk profile (private firms trading with own capital with no clients).</p> <p>It is worth noting that although the reform of the senior manager regime as proposed in this CP, if implemented properly, could strengthen the attractiveness and competitiveness of the UK as a key financial center, it would be a missed opportunity if the UK remuneration rules for non-bank institutions are not reformed in parallel. We consider these to be the biggest regulatory obstacles to the movement of international talent into senior manager roles in the UK.</p>
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