EPTA response to FCA Consultation 25/21 on Reforming the Senior Managers & Certification Regime (Deadline 7 October 2025)

Introduction	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 the UK and Europe. EPTA works constructively with policy-makers, regulators and other market stakeholders to ensure efficient, resilient and trusted financial markets in Europe. EPTA members welcome the opportunity to respond to the FCA Consultation on Reforming the Senior Managers & Certification Regime (SM&CR). Note that EPTA members also responded, in parallel to the HMT CP on the same topic. **Comments in Question 1 (phase 2 of the reform)** We have provided in question 1 detailed comments on the phase 2 of the FCA reform should the HMT's proposal to remove the SMCR regime from FSMA 2000 be implemented. In the HMT CP, 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 FCA's competitiveness and growth objectives. 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 clients and lower impact to market and consumers). We also suggest that regulators may want to consider allowing a relevant set of firms to determine the SMFs 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.

Finally on the section (in the HMT CP) on international talent and obstacles to recruiting, 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.

We understand that the FCA has started a review of the remuneration rules for mid-size banks and asset managers, and we are looking forward to a similar review for principal trading firms that would take into account the business models (liquidity provider) and risk profile (private firms trading with own capital with no clients). EPTA has already provided its recommendations to the FCA's remuneration team over the summer of 2025, and we are looking forward to further engagement.

It is worth noting that although the reform of the senior manager regime as proposed in this CP and in the HMT 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.

Comments on phase 1 (Question 2 to question 11)

On the phase 1 of the proposal, EPTA members refer to the specific comments below.

FCA Proposal

Question 1: To what extent do you support the further changes we are considering in phase 2 of the reform (summarised in paragraph 1.11). Are there any other changes you suggest? We would welcome views on the impact (positive or negative) of each potential change and on any suggested additional improvements.

EPTA members refer to the comments made in the HMT CP and reproduced below.

Senior Manager Functions

EPTA agrees with the proposals to reduce the number of SMF approvals required. This will reduce delays in onboarding key personnel and improve operational effectiveness. EPTA believes that reducing the administrative burden will allow for efficient management transitions within firms. EPTA supports proposals that would give regulators more flexibility to reduce the overall number of SMF roles 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.

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 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.

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.

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. EPTA believes 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).

One possibility would be to allow a relevant set of firms to determine the SMF's they believe are 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 and in nature 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 take into account their specific business risks and set SMF categories. 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.

The regulator should 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.

Certification Regime

EPTA believes 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 administrating it. Key planks 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 are highly motivated to ensure this is the case.

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 does not pass the cost-benefit analysis. 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 proper to conduct their role, firms are required to assess this immediately and flag to the regulator if deemed necessary.

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).

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.

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. 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.

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. 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 consumer market) and the size, complexity and business models of regulated firms. 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. 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.

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.

Question 2a: Please provide feedback on your experience of applying for SMF approval, particularly where you have experienced unnecessary friction or uncertainty in the process and how this compares to other overseas jurisdictions.
Question 2b: On which priority areas would firms welcome more information, guidance, or changes to forms, noting our intention to review and improve most application forms?

EPTA believes that the process of applying for SMF approval has generally been robust. However, there are a few areas of friction that we believe could be improved. For example, there are often significant time lapses between submission and decision. This can delay onboarding of key personnel and disrupt business operations. Additionally, EPTA members have experienced inconsistent feedback from FCA Case Officers making it difficult to anticipate and address potential issues proactively. For example, some case officers have asked for detailed skills gap analysis for some SMF applications, but others do not. Finally, firms are often asked to submit information that has already been provided in other regulatory filings, increasing the administrative burden. For example, when a Senior Manager who is already approved for one Senior Management Function wishes to take on an additional SMF role, the current FCA process requires the submission of a new application for the additional function. Even though the individual has already been vetted and approved, the firm must complete a full application for the new SMF role. This includes resubmitting much of the same personal, employment and regulatory information, as well as updated Statements of Responsibilities. The need for a full new application can result in delays in formally assigning new responsibilities, as the individual cannot officially perform the new SMF role until FCA approval is granted.

EPTA believes the key priority areas should be to:

- simplify application forms to eliminate duplication and unnecessary fields as described above;
- provide regular updates on application status and timelines; and
- align forms and requirements with those of other major financial centers to facilitate cross border mobility of Senior Managers and increase international competitiveness.

Question 3: Do you agree to our proposals for changes to criminal record checks and disclosures?
EPTA members support the proposal to set the validity period for CRCs obtained for an SMF candidate to 6 months and to remove the requirement for firms to undertake CRCs where an existing SMF holder is applying for an SMF in the same firm or group.

Question 4: Do you agree with our proposed changes to the 12-week rule?
EPTA members support the proposal, including to give firms 12 weeks to submit an application for an SMF (rather than 12 weeks to get a decision on an application) and to apply the Senior Manager Conduct Rules to the individual performing the SMF role under the proposed new 12-week rule.

Question 5: Do you agree with our proposals on SMF7 EPTA members support the proposal to provide further guidance, and we refer to the more general comments on SMFs roles in question 1.
Question 6: Do you agree with our proposals on SMF18? EPTA members support the proposal to provide further guidance, and we refer to the more general comments on SMFs roles in question 1.
Question 7: Do you agree with our proposals on Prescribed Responsibilities? EPTA members suggest 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 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.
Question 8: Do you agree with our proposals to raising the thresholds for becoming an Enhanced SM&CR firm? Although EPTA members support the adjustment of thresholds for inflation, it notes that this would not have a meaningful impact and is not addressing the real problem. EPTA suggests 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). 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. We would strongly recommend a fundamental review of the "significant SYSC firm" regime and whether it remains an appropriate tool to mitigate harms. 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. 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).

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. However, for principal trading firms, there is no risk to clients (as the business is primarily counterparty), 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 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. Separately, further administrative burden is created by the MIFIDPRU Remuneration Code. Under SYSC 19G, principal trading firms have to establish a remuneration committee, and “material risk takers” are subject to deferral (3 years) and payment in kind provisions relating to their remuneration. 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.
Question 9: Do you agree with our proposals on SoRs and MRMs? Although the periodic submission of SORs would be an improvement, EPTA members believe that the FCA should go further and allow firms to maintain up to date SORs at all times that would only be submitted to the FCA at the FCA’s request. The FCA would be able to require firms to submit SORs from time to time, and the timing and frequency of such request could vary in line with the FCA supervisory engagement model and supervisory strategy. This approach would be aligned with a more proportionate approach taken by some NCAs e.g. CBI. EPTA members support further guidance on MRMs pending further potential additional changes in the next phase of the reform.
Question 10: Do you agree with our proposal to align with the PRA on SoR submission requirements for dual-regulated firms? EPTA members refer to the comments in question 9.
Question 11: Do you agree with our proposals on certification? As more fully described in our response to Question 1 above, EPTA believes that removing the certification regime completely from legislation would enhance regulatory agility. In substance, the Certification Regime can be modified to achieve the same level of efficacy but without the significant burden of administrating it. The FCA should design a risk-based regime that could consider the specificities of the market (e.g. wholesale vs retail) and the size, complexity and business models of regulated firms, cutting unnecessary red tape and reducing administrative

burden. EPTA believes this would align with the broader goals of post Brexit regulatory reform to make the UK a more competitive financial center. EPTA stands ready to work with the FCA to design a new regime.
Question 12: Do you agree with our proposal to change the timescales for updating the Directory EPTA members support the proposal to change the timescales for updating the Directory
Question 13: Do you agree with our proposals on regulatory references? EPTA members support the proposal.
Question 14: Do you agree with the proposed guidance on the Conduct Rules? EPTA members support the proposal to add guidance to further support firms in considering how to apply the Conduct Rules.