

Insights

SM&CR 2.0: REFORM WITHOUT RETREAT

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It is official - the Senior Managers and Certification Regime (“**SM&CR**”) is changing. The 2026 Phase 1 reforms – delivered through two policy statements published by the [Financial Conduct Authority \(“FCA”\)](#) and the [Prudential Regulation Authority \(“PRA”\)](#) on 22 April 2026 – are framed around efficiency and proportionality. Indeed, the unprecedented speed with which the first tranche of changes have been brought into force (just two days after publication) – and the prioritisation of the Phase 2 reforms in the 2026/27 parliamentary session that starts on 13 May 2026 – are a clear sign of a strong desire on the part of the government to get things moving.

However, individuals should not mistake the drive to create a lighter-touch, lower burden regime for a move towards lower personal regulatory accountability in the UK. Instead, the reforms signal a recalibration of how accountability is managed and overseen, not a reduction or retreat. In fact, personal accountability has been quietly [increased](#) as a result of certain of these changes (relating to the scope and application of the Senior Management Conduct Rules). This is consistent with our reading of the FCA’s first Enforcement Watch publication^[1], which reveals that the pipeline of live investigations into senior managers is substantial, viewed as a proportion of its overall activity.

It seems clear that, notwithstanding that major changes to the SM&CR are in contemplation with a view to reducing regulatory costs and burdens for firms, the underlying purpose of the regime in reinforcing individual accountability remains unchanged. The FCA’s Deputy CEO Sarah Pritchard reinforced this message in her piece in CityAM on 22 April 2026:

“Senior accountability is the foundation of building trust and confidence in UK financial services. But leaders being on the hook for their actions doesn’t need to mean they get tangled in red tape”.

PHASE 1: WHAT IS CHANGING NOW

The Phase 1 reforms are being implemented in stages:

- **24 April 2026** – the main package of changes came into force;

- **10 July 2026** – revised enhanced firm thresholds and removal of overlapping certification functions take effect;
- **1 September 2026** – new rules and guidance relating to non-financial misconduct come into force.

The impact for firms of most of the changes will be relatively modest. They clear administrative friction and remove process pain points – but they do so in advance of the more substantive Phase 2 changes that are expected to follow.

KEY 3 CHANGES FOR FIRMS

The following points, though, we do expect to have an immediate positive impact for firms:

1. **The revised 12-week rule.** Firms now have 12 weeks to submit an application for approval of a new Senior Manager Function holder (**SMF**) rather than the combined 12 weeks to submit the application and receive regulatory approval. Individuals may now act in an SMF role until the application is determined. This change will make the 12-week rule, which was described by many respondents to the FCA’s initial consultation as “unworkable”, truly work to provide flexibility for firms at difficult times of transition, and will be widely welcomed.
2. **Regulatory references timeframe and guidance.** The timeframe for firms to provide regulatory references has been reduced from 6 to 4 weeks, with effect from 24 April 2026. The impact of this change will depend upon the volume of regulatory references needing to be dealt with – larger firms are likely to feel this change more keenly. On a related point, updated guidance on regulatory referencing addresses more fully the issue of what may need to be included in a regulatory reference when an individual leaves a firm before an investigation into potential misconduct has been concluded. The new guidance will be helpful to firms when navigating this sensitive scenario.
3. **Prescribed Responsibilities.** The FCA has updated its Handbook to include helpful new guidance on the allocation of Prescribed Responsibilities between SMFs, as well as the circumstances in which it may be appropriate to split Prescribed Responsibilities between SMFs. The latter change is a particularly significant departure from the FCA’s original position and a welcome development that is more aligned with how commercial responsibilities are allocated between senior managers within a business.

KEY 3 CHANGES FOR INDIVIDUALS

The following three changes are expected to have the most significant impact on individuals:

1. **Conduct rules.** The FCA has updated the guidance in relation to Senior Manager Conduct Rule 4 (“**SC4**”), which now explicitly confirms that the matters they are personally required to disclose

extend to matters about themselves, not just their firm. Such personal matters include issues relating to the senior manager's personal, as well as work, life (such as being prosecuted for, or convicted of, offences involving fraud, dishonesty) if they are relevant to the individual's fit and proper assessment. These changes reflect the updates to COCON, to be implemented in September, relating to non-financial misconduct. They also should not come as any great surprise to firms, following prior enforcement activity (See Kristo Kaarmann).

- 2. Reasonable steps and escalation.** The FCA has also added new guidance requiring SMFs to take reasonable steps to ensure that matters notifiable to regulators are escalated promptly within firms to enable the relevant SMFs to notify regulators as needed. These changes come into force on 1 September 2026, alongside the changes to the Conduct Rules arising from the FCA's separate consultation on non-financial misconduct (covered by BCLP in a [related article](#)). We are advising firms to wrap both sets of changes to the Conduct Rules into a single Conduct Rules refresher training session for affected individuals ahead of the 1 September deadline.
- 3. SMF7 – Group Entity Senior Manager:** Although not a change in regulation, we note with relief the PRA's clarification that its proposals in relation to the scope of the SMF7 function was not intended to extend SMF7 to cover *overseas* individuals who are responsible for setting group level strategy. Such a change would have brought into SM&CR scope large numbers of overseas senior individuals, in a way that would not have been aligned with the overall, deregulatory, direction of travel. The PRA has now acknowledged the concerns raised by the industry and amended the proposed guidance to make clear that only those individuals with responsibility for implementing strategy within a UK regulated firm, or who otherwise may be able to affect the safety and soundness of a UK firm, are potentially within scope of SMF7.

PHASE 2: THE REAL STEP CHANGE

The Phase 2 reforms are expected to be announced in the King's Speech on 13 May 2026, and it is at that stage that the more fundamental changes to the regime will occur. We expect to see a reduction in the number of SMFs requiring pre-approval by the regulators; a wholesale rethink of the Statements of Responsibilities; and a streamlining of the fitness and propriety assessment process, following removal of the Certification Regime from primary legislation.

For individuals, the most significant longer-term shift may be the potential move from pre-approval to notification for certain roles. That change will not reduce personal accountability, but may actually increase individual exposure in the longer term, as the regulators focus on supervision, outcomes, and enforcement rather than gatekeeping.

TOP TIPS FOR SMF HOLDERS

We would encourage firms to support their SMFs – including individuals covering a temporary SMF role under the 12-week rule – to take the following three steps to ensure they remain on top of their

personal regulatory responsibilities in light of the SM&CR changes:

- **Review Statements of Responsibilities** for accuracy and alignment with the updated guidance. In particular, consider the Prescribed Responsibilities allocated to each SMF, whether these align with the FCA's updated guidance on usual allocation, and whether any Prescribed Responsibilities could now appropriately be split between more than one SMF.
- **Refresh understanding of the Conduct Rules**, particularly in relation to escalation, self-reporting and non-financial misconduct, including:
 - intervening to prevent non-financial misconduct;
 - self-reporting in relation to fitness and propriety matters; and
 - ensuring that reportable matters are escalated promptly within the firm.
- **Maintain a framework for documenting "reasonable steps"** taken to discharge personal regulatory duties under the Conduct Rules, including contemporaneous evidence of challenge, escalation and decisions taken under pressure.

CONCLUDING THOUGHTS

Taken together, the Phase 1 reforms and the direction of travel signalled for Phase 2, point to a consistent theme. SM&CR 2.0 is not a retreat from personal accountability, but a refinement in how it is delivered and managed. For senior managers, the emphasis is shifting away from process compliance and towards outcomes, judgement and evidence. As regulatory scrutiny becomes more targeted, the ability to demonstrate timely decision-making, effective challenge and clear ownership will matter more than ever. Firms and individuals that view SM&CR reform purely as a deregulatory exercise risk missing this broader and more consequential shift.

If you have any queries about what SM&CR reform could mean in practice, please do not hesitate to get in touch.

[1] [We have written about the Enforcement Watch and the headline trends we expect to define UK enforcement in 2026 in our blog earlier this year.](#)

EMERGING THEMES

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