

Consultation Paper title	Senior Managers & Certification Regime Review: Phase 2
Summary of intervention	Proposed changes aimed to improve the efficiency and proportionality of the regime and to reduce firm burden while maintaining high standards of individual accountability and conduct.
Feedback date of issue	11/09/2026
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CBA Panel advice

Main recommendations

- **Analyse the proposals' expected impact on overall social welfare, rather than on direct compliance costs alone.** The CBA provides a detailed analysis of the reductions in direct compliance costs expected from the proposals, but treats foregone benefits, potential indirect costs, and potential consumer harms much more summarily. Given that the proposals are predominantly deregulatory, the analysis should explain whether the original economic rationale for SM&CR has weakened because initial estimates proved incorrect, realised outcomes differed from expectations, or the market environment and hence the originally identified market failures have changed over time. Without this, it is difficult to assess whether the proposals improve overall welfare rather than simply reducing direct compliance costs for firms.
- **Use SM&CR as a case study for systematic evaluation of regulatory outcomes.** SM&CR has been subject to extensive consultation, economic analysis and multiple CBAs over more than a decade, yet there appears to be little systematic comparison of realised outcomes against original ex ante estimates. This lack of evaluation now contributes directly to uncertainty around both the costs of the regime and the benefits that may be foregone through deregulation. The FCA should consider using SM&CR as a case study to strengthen its framework for post-implementation review and evidence-based deregulation.
- **Clarify the relationship between the FCA's proposals and analysis and the wider government reform agenda.** The consultation would benefit from a clearer explanation of how the proposals relate to the wider Government programme of SM&CR reform. In particular, it should distinguish between legislative changes determined by Parliament and subject to HMT's impact assessment, and rules changes under the FCA's own control and subject to assessment in this CBA. This would help stakeholders understand where the FCA is exercising its policy discretion and clarify the economic rationale for its choices.

Summary

Category	CBA Panel comments
The market	The market analysis should do more to explain what underlying market failures and harms SM&CR was originally designed to address. The discussion focuses heavily on compliance activities and accountability processes, but there is little discussion of the consumer harms that motivated the regime after the financial crisis and were analysed in detail in 2014's CP14/13 and a number of subsequent FCA consultations and studies as set out in Table A. The CBA should also consider the distribution of benefits from deregulation, whether cost savings are likely to be passed through to consumers, and how competition affects that outcome.
Problem and rationale for intervention	The rationale for intervention should be framed as a risk-reward trade-off rather than simply a reduction in regulatory burden. The CBA should clearly explain whether the case for deregulation arises because the original SM&CR analysis was mistaken, because realised costs and benefits have differed from expectations, or because market conditions have changed. The current analysis does not clearly explain why the original accountability and consumer protection rationale for SM&CR has weakened, nor whether the risks it was designed to mitigate have materially diminished.
Proposed intervention and alternative options	The CBA should explain more clearly whether the limited range of options analysed is due to the prescriptive nature of the government's reform programme or not – noting that the 2014 CBA of the original SM&CR proposals analysed three substantive options. The discussion of alternatives should place greater weight on the possibility of foregone benefits and increased risks. Without understanding the harms that may arise from removing requirements, it is difficult to assess whether the chosen option strikes the appropriate balance between lower compliance costs and increased risk.
Assessment of costs and benefits	Baseline and counterfactual. The CBA should clearly distinguish between historic SM&CR requirements, recent Phase 1 reforms, and the incremental effect of the current proposals. It should also be more transparent about the treatment of business-as-usual activities which firms may continue regardless of regulation. Evidence and data. The evidence base supporting cost estimates is extensive, but additional discussion is needed on representativeness and uncertainty. Given that response rates are relatively low and there is substantial variation between firms, greater transparency on these descriptive statistics would improve confidence in the results. Assumptions. Greater transparency would help users understand the drivers of the large ranges between low, central and high estimates. Assumptions on staff time, activity frequencies, wage rates and the proportion of compliance activity that firms would continue to undertake absent regulation should be explained clearly. Economic analysis. The economic analysis is strongest on direct compliance cost savings but weaker on overall welfare effects. This is a

	serious shortcoming, as the purpose of CBA is to provide an assessment of the expected costs and benefits of proposed policy in the round, rather than from the perspective of a single stakeholder group. The current approach creates an asymmetry whereby compliance savings are quantified in detail while benefits foregone are either discussed qualitatively or omitted. The analysis should also discuss whether indirect benefits and costs identified in earlier CBAs, such as labour market impacts, remain relevant.
Risk and uncertainty	The wide range between low and high estimates suggests the conclusions are sensitive to key assumptions. The CBA should clearly identify which assumptions drive this uncertainty and include additional sensitivity analysis particularly around the risk of increased consumer harm.
Wider economic impacts	The CBA should discuss the original wider economic impacts identified when SM&CR was introduced, including impacts on conduct, recruitment, retention, labour markets, accountability and confidence in financial services – especially because these were the primary rationale for the regime’s introduction. It should explain whether those effects have been realised or not, and how the proposed changes to the regime is expected to affect them.
Monitoring and evaluation	Over more than a decade, SM&CR has been subject to multiple consultations, CBAs, extensions and reviews, yet there appears to have been little systematic <i>ex post</i> benchmarking of realised outcomes against original <i>ex ante</i> estimates. The FCA should consider using SM&CR as a case study to develop a more systematic approach to monitoring, evaluation and comparison of realised outcomes against original CBA assumptions and analysis.