

Response to PRA CP18/25 – Review of the Senior Managers & Certification Regime

About the Building Societies Association

The Building Societies Association (BSA) represents all 42 UK building societies, including both mutual-owned banks, as well as 7 of the largest credit unions. Building societies have total assets of almost £525 billion and, together with their subsidiaries, hold residential mortgages of over £395 billion, 24% of the total outstanding in the UK. They also hold £399 billion of retail deposits, accounting for 19% of all such deposits in the UK. Building societies account for 40% of all cash ISA balances. With all their headquarters outside London, building societies employ around 52,300 full and part-time staff. In addition to digital services, they operate through approximately 1,300 branches, holding a 30% share of branches across the UK.

Executive summary

We welcome the Phase 1 proposals set out in the PRA's consultation, which we think successfully build on DP1/23: Review of the Senior Managers and Certification Regime. We note the PRA's intent to undertake a Phase 2 consultation following on from any additional flexibility that might arise from HMT's current consultation, in particular on legislative change that would allow a reduction in the number of senior manager determinations made by regulators and the removal of the certification regime.

The one exception to this is the PRA choosing to adopt a different position to the FCA by not considering a reduction in the time for regulatory references from 6 weeks to 4 weeks.

We note that the proposed implementation date will likely be mid-2026. Does the PRA intend that any changes would be made at or around the same time as changes on which the FCA is currently consulting?

Senior Manager Approval Process

We note the PRA's focus on sustaining the improved efficiency in making SMF determinations and the work that has been done and continues to be done to make further improvements. We agree with the PRA that there is great potential to further streamline the process should the necessary legislative change be adopted.

Should that happen, we would very much welcome a PRA consultation on re-assessing which roles do indeed require pre-approval, which roles require approval at all, and indeed whether some roles need to be SMF roles at all. Reliance on a firm's own assessment of F&P would fit better with a more permissive regulatory regime.

We have the following more specific points to raise:

- **The 12 week rule:** We are pleased that the PRA has listened to feedback from firms, and we welcome the proposals, which are in line with those being consulted on by the FCA. We are also pleased at the plan to add examples in SS28/15 and SS35/15.

However, we still believe that an extension of the 12 week period to 6 months in addition to the new proposal would be a more effective approach and would better sit with modern timescales for recruitment into senior roles. This in turn would be more likely to reduce the need for firms to apply for approval for interim candidates, thus being less of a burden on both regulator and regulated.

- **Industry Engagement:** We welcome the PRA's engagement to date in relation to SM&CR, and would welcome an outline of planned further engagement in advance of Phase 2 of this important work, and note the potential areas of focus outlined in the CP, should the necessary legislative change to facilitate that be introduced.
- **Role of SMF 7:** The planned revisions to SS28/15, SS35/15 and SS5/21 designed to bring greater clarity as to the scope of SMF7 and associated requirements will be helpful, as will the examples to be provided. We also agree with the proposal to bring owners and controllers into the definition of SMF7, and agree that that should address the issues identified and in particular the ability of such persons to influence the safety and soundness of a firm. The expectation that this is limited to those with a "continued and sustained" involvement in the day to day management or conduct of a firm's business is sensible.
- **Resolution-related roles:** We agree with the proposals and rationale behind exempting from the SM&CR regime the resolution-related roles set out in Paragraphs 3.15 to 3.17 of the CP.

The application and ongoing operation of the SM&CR

- **SoRs and MRMs:** We agree with the PRA's proposal to set an expectation that the submission of an updated SoR should take place no later than 6 months after a significant change in responsibilities. Adopting the same approach in relation to MRMs is sensible.
- **Thresholds:** In relation to the threshold at which a deposit taker would become a small firm, we urge the PRA to give this full consideration as part of Phase 2 consultation. We note that the PRA to date has not seen evidence of interest from firms to pursue this in terms of being able to justify the administrative costs for them of changes. Of course, in conjunction with other proposals planned to be consulted on in change 2, and with more clarity around the scope and extent of potential change, the cost implications should be clearer with firms. This could lead to a very different sentiment at that time.

- **Regulatory references:** We support the FCA's proposed reduction of the time period to respond. We are disappointed that the PRA is not proposing a similar reduction. We and our members recognise the issues identified in the feedback received by the FCA – time taken by firms to respond to a reference request (with many taking the full 6 weeks); failure to respond; and the quality/value of information from non-financial services firms.

We believe that the PRA should be open to changing the timescale here. Having a potentially different approach by each regulator is inconsistent and unhelpful to firms.

- **Criminal Record Checks:** Changing the validity period for Criminal Record Checks obtained for an SMF candidate from 3 to 6 months would provide clarity and more time for firms to use CRCs already obtained for an SMF candidate as part of the due diligence process in the SMF application.
- **Certification:** We look forward to reviewing HMT's future consultation on removing the current provisions of the Certification Regime from legislation, and welcome the PRA's proposed clarification of its expectations around the annual certification assessment meantime.
- **Key Function Holders:** The clarification around Form M not being required in addition to an SMF application for the identified key functions is helpful.

Conclusion

The BSA is broadly supportive of the Phase 1 proposals and looks forward to further engagement as part of Phase 2.