

FCA Consults on Reforms to Client Categorisation and Conflicts of Interest

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Executive Summary

- **What's new:** On 8 December 2025, the UK Financial Conduct Authority published a consultation paper proposing reforms to the professional client categorisation regime and targeted simplifications to the conflicts of interest rules.
- **Why it matters:** The proposals would significantly reshape how firms determine whether clients can opt out of retail protections, shifting greater emphasis onto firms' qualitative judgement and governance. If implemented, the changes could expand access to complex and private market investments for wealthy and sophisticated clients, while increasing regulatory scrutiny of firms' client categorisation processes, disclosures and record-keeping.
- **What to do next:** Firms should consider assessing how the proposed changes would affect their existing and prospective client base, and reviewing the robustness of their qualitative assessment and consent processes. They may also want to determine whether client documentation and internal policies would require updating. Firms operating cross-border may also want to monitor parallel EU developments to manage divergence between the UK and EU client categorisation regimes.

Background and Policy Context

On 8 December 2025, the UK Financial Conduct Authority (FCA) published Consultation Paper (CP26/36) (the CP), proposing reforms to the professional client categorisation regime and targeted simplifications to the conflicts of interest rules. The proposals would remove the existing quantitative test for elective professional clients, introduce a new opt-out route for individuals with at least £10 million in investable assets, clarify the qualitative assessment firms must apply and streamline SYSC 10 without materially changing firms' underlying conflicts obligations.

The CP reflects a broader FCA policy objective of improving access to investment opportunities for sophisticated and wealthy investors while maintaining appropriate consumer protections. In particular, the FCA considers that elements of the current client categorisation framework, derived from MiFID II, are overly rigid and insufficiently tailored to modern investment behaviours, especially in private markets and long-term investment strategies. The CP identifies several drawbacks in the current regime, which restricts wealthy investors from accessing some investment opportunities, and limits financial firms from offering complex products and services which align with the objectives and risk appetite of some of their customers.

The paper recognises that a recategorization may allow for a commensurate level of protection to be afforded to the professional clients.

In parallel, the FCA has identified unnecessary complexity and duplication in the conflicts of interest rules in SYSC 10, particularly for firms operating across multiple regulated sectors.

The deadline for responses to the CP is **2 February 2026**, with the FCA intending to publish the final rules in a policy statement later in 2026.

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Proposed Changes to Client Categorisation

Under the current UK regime, clients are classified as retail clients, professional clients or eligible counterparties, with professional status available either on a *per se* basis or on an elective basis. *Per se* professional clients include certain regulated financial institutions, large undertakings meeting prescribed balance sheet, turnover and own-funds thresholds, and other institutional investors, reflecting an assumption of inherent sophistication.

Clients that do not fall within these categories may elect to be treated as professional clients, provided firms are satisfied (based on a qualitative assessment of the client's expertise, experience and knowledge) and (for MiFID business) a quantitative test is met, requiring at least two of the following: specified transaction frequency, a financial instrument portfolio exceeding €500,000 or relevant professional experience in the financial sector. In all cases, firms must provide clear warnings and obtain written confirmation before reclassifying a client.

The quantitative test in particular has been criticised for its inflexibility — for example, even sophisticated private equity investors may struggle to meet the transaction frequency requirements, and the requirement for “professional experience in the financial sector” is ambiguous.

Elective Professional Clients

Removal of the Quantitative Test

The FCA proposes to remove the existing quantitative test for elective professional client status (other than for local authorities). That test, which as above is based on transaction frequency, portfolio size and professional experience, has been criticised as favouring active trading strategies and failing to capture other indicators of sophistication, such as long-term investment experience or exposure to private investments.

In the FCA's view, removing the quantitative test would give firms greater flexibility to assess client capability in a way that better reflects investment reality, while continuing to require firms to act in clients' best interests.

New Opt-Out Route for Very Wealthy Investors

The CP introduces a new alternative opt-out route for individuals with £10 million or more in investable assets (*i.e.*, cash and/or designated investments). Eligible clients would be able to elect professional client status without satisfying the existing experience-based criteria.

The FCA considers that investors at this level of wealth are likely either to possess sufficient financial sophistication or to have access to professional advice. Importantly, the FCA emphasises that this route would sit alongside existing safeguards, including informed consent, the best-interests obligation and the Consumer Duty.

Firms would not be permitted to pressure or induce clients to opt out of retail protections and could only initiate opt-out discussions where they have a reasonable basis to believe the client meets the relevant criteria.

Enhanced Qualitative Assessment

To address perceived ambiguity in the current qualitative test, the FCA proposes a non-exhaustive list of “relevant factors” firms should consider when assessing whether a client has the expertise, experience and knowledge to be treated as an elective professional client. These include:

Occupational experience (not limited to financial services).

- The nature and history of the client's investments, including buy-and-hold strategies.
- The client's financial resilience and capacity to bear losses.
- The client's understanding of the risks associated with complex products and services.
- The rationale for seeking professional client status.
- Any adverse information known to the firm (including vulnerability indicators).

The FCA stresses that these factors should be assessed holistically and that weaknesses in one area should not automatically preclude professional classification.

Informed Consent

The proposals would formalise an enhanced informed consent requirement, including clear and prominent disclosure of the loss of retail protections and regulatory redress. Clients would need to give express informed consent, by signature, that they understand the protections they will lose and agree that they no longer need most retail protections. Firms would need to ensure that opting out is consistent with the client's best interests and the Consumer Duty.

Per Se Professional Clients

The FCA also proposes targeted simplifications to the *per se* professional client regime, including:

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- Replacing detailed lists of regulated entity types with a principle-based test based on UK or overseas authorisation (while seeking feedback on whether some form of list should be retained).
- Treating SPVs controlled by authorised firms as per se professional clients.
- Applying a single set of financial thresholds that automatically deem an entity to be a professional client across MiFID and non-MiFID business (aligned with the MiFID thresholds).

A one-year transitional period is proposed following implementation.

Practical Implications and Next Steps

If the new provisions are implemented as proposed, firms should expect to:

- Review and update client categorisation policies and procedures.
- Reassess existing elective professional clients against the revised framework.
- Enhance qualitative assessment processes and record-keeping.
- Update client disclosures and informed consent documentation.
- Consider operational impacts for cross-border client bases.

The proposals represent a meaningful recalibration of the UK professional client regime and are likely to be welcomed by wealth managers, private market participants and sophisticated investors, although firms will need to navigate the increased responsibility that comes with greater flexibility.

Conflicts of Interest

The FCA proposes limited amendments to SYSC 10 to remove duplication and simplify drafting, without materially changing firms' substantive obligations. SYSC 10 would apply consistently across insurance distribution activities, although Lloyd's would remain out of scope.

The FCA does not expect firms to make substantive changes to existing conflicts policies as a result of these proposals.

Client Categorisation in the EU

While the FCA is proposing a more principles-based and flexible approach to professional client categorisation, it is important to note that similar reforms are underway in the European Union. Currently, both the UK and EU regimes for categorising EPCs are aligned, as they are based on the requirements set out in MiFID II. However, the EU's Retail Investment Strategy (RIS) also introduces amendments aimed at making the opt-out process for professional client status more accessible and adaptable.

The EU's proposed changes retain quantitative criteria but lower the thresholds and introduce additional flexibility (with one transaction frequency criterion and either the wealth or education criterion having to be fulfilled):

- For transaction frequency, clients can now satisfy one of three alternative criteria: 15 transactions annually over the last three years, 30 transactions in the past year or 10 transactions of at least €30,000 in unlisted companies in the past year.
- The wealth threshold for portfolio size is reduced from €500,000 to €250,000 on average during the last three years, broadening access to professional client status.
- Furthermore, a new education and training criterion is introduced, allowing clients to qualify based on recognised education or training that demonstrates their understanding of relevant financial transactions and their ability to assess associated risks.

Both the FCA and the EU are moving towards regimes that aim to balance increased access to investment opportunities for sophisticated clients with the need to maintain appropriate investor protections. However, the FCA's approach is more principles-based and tailored, whereas the EU's reforms remain rules-based but with relaxed thresholds and added flexibility.

Firms operating cross-border will need to be mindful of the differences between the UK and EU regimes and ensure that their client categorisation processes are aligned with the applicable regime.

We will continue to provide updates as the proposed changes in the UK and EU develop.

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