

New FCA Client Categorisation Rules

Introduction

The Financial Conduct Authority published its final client-categorisation rules in PS26/23 on 20 November 2026. The new COBS 3A framework takes effect on 1 December 2026, with transitional arrangements running to 31 May 2028. Its principal changes are separate wealth and expertise routes to elective professional status, revised safeguards and a review of affected existing clients.

This briefing considers the classification changes and their practical consequences for investment firms. The new flexibility is welcome, particularly where the old tests excluded capable clients. Its usefulness will depend on whether firms can exercise judgement with a reasonable degree of confidence about how that judgement will later be assessed.

Client Categories and Qualifying Routes

The basic categories remain the original MiFID-speak introduced in 2007: retail client, professional client and eligible counterparty. Professional clients can be per se or elective. The wealth and expertise routes are different ways of establishing elective professional status; they are not additional client categories. Firms must establish the appropriate classification before providing services and communicate it to the client. A firm can choose to provide retail treatment where it can meet the applicable requirements. [COBS 3A.3.1R-3A.3.5R; 3A.5.1R.]

Category or route	Basis and principal qualification
Retail client	The ordinary protective category for a client who is neither professional nor an eligible counterparty. Retail treatment can also be chosen for a client otherwise eligible for a different category.
Per se professional	Qualifying entities and institutions, including regulated financial-market entities and large undertakings satisfying the relevant criteria. This status does not depend on the individual elective wealth or expertise assessment.
Elective professional	The client requests the classification and meets the wealth or expertise requirements, together with the general safeguards. Local authorities and municipalities have a separate route.

Category or route	Basis and principal qualification
Eligible counterparty	A separate classification for qualifying counterparties and business. It is not a general exemption for every service provided to a professional client; separate conditions and scope requirements apply.

Per se professional clients. The new rules apply a single set of size criteria to large undertakings for MiFID and non-MiFID business: two of a £20 million balance-sheet total, £40 million net turnover and £2 million own funds, assessed on a company basis. Other qualifying categories include specified public bodies and institutional investors. The investment-vehicle category expressly accommodates bodies corporate, trusts and partnerships meeting the control and investment-purpose conditions. A vehicle controlled only by elective professional clients does not qualify under that particular limb. [COBS 3A.5.2R.]

The wealth route. A client must have at least £10 million in investable assets at the assessment date. The calculation uses fair market values, deducts loans and other liabilities, and excludes the client's primary residence. The definition is broader than a portfolio of quoted securities: cash and other qualifying assets count. The firm must take reasonable steps to establish the position rather than simply accept the client's representation. This route removes the need to assess expertise; the request, consent and other general conditions still apply. [COBS 3A.7.1R-3A.7.4R.]

That broader asset base matters for entrepreneurs whose wealth may be concentrated in a private business. A firm should consider how a valuation was reached, the associated liabilities and the reliability of the evidence. A large number written on an application form is not a valuation. Equally, a proportionate assessment should recognise that substantial wealth need not arrive in the form of a conveniently downloadable brokerage statement.

The expertise route. The firm needs reasonable assurance that the client has the relevant expertise, experience and knowledge to make investment decisions and assess the associated risks. It considers professional and investment experience, understanding of investments and risk, and financial capacity to bear the envisaged losses. The information is assessed in the round and against the proposed products and services. For a corporate or other non-natural-person client, the expertise assessment concerns the people authorised to transact on its behalf. [COBS 3A.8.1R-3A.8.5R; 3A.8.9R.]

A capable investor below the wealth threshold can therefore qualify through expertise. A specialist's knowledge may support classification for a particular market without supporting every complex product the firm offers. Local authorities and municipalities remain subject to the distinct requirements in COBS 3A.9, including retained quantitative conditions. They should not be put through the ordinary wealth or expertise route.

What changes in practice

Moving the rules into a new chapter provides a useful opportunity to replace inherited forms and processes that record a category without explaining why it is appropriate. The substantive changes require more attention than changing the COBS references on a declaration.

Evidence and scope. The expertise factors are not a substitute numerical checklist. Firms must reach their own reasoned assessment, make reasonable checks and consider contrary information already available to them. Information supplied by the client remains useful, but self-certification of competence does not discharge the firm's responsibility. Classification limited to particular products or services must not be extended to others without the necessary assessment. [COBS 3A.8.2R-3A.8.8R.]

Our view is that this creates a genuine trade-off. Removing blunt thresholds can improve access for clients whose experience does not fit a prescribed pattern. Replacing them with judgement also creates scope for inconsistent decisions and subsequent disputes about whether the evidence was enough. Small firms will need an assessment they can explain and apply consistently. They should not need to anticipate every future supervisory preference.

Area	Previous position	New approach
Rule location	Client-categorisation provisions in COBS 3.	A reorganised framework in COBS 3A.
Ordinary elective assessment	Expertise assessment with an additional mandatory quantitative test for MiFID business.	A judgement-based expertise route; the quantitative test is removed except for the distinct local-authority regime.
Wealth	No separate wealth-only basis replacing the expertise assessment.	An alternative route at £10 million of qualifying net investable assets, with the general safeguards.
Large undertakings	Different size criteria for MiFID and non-MiFID business.	A single set of size criteria where no other per se professional criterion is met.

Informed consent. After deciding that a client qualifies, the firm must provide a clear warning and explanation of the retail protections being relinquished in a durable medium. It must allow reasonable consideration time, satisfy itself that the client understands, obtain written confirmation and then signed consent. Electronic signatures are permitted, but clickwrap or checkbox-based signatures are excluded. The firm must also act in good faith and reasonably consider that professional treatment supports the client's financial objectives without causing foreseeable harm. Meeting an entry criterion alone does not complete the exercise. [COBS 3A.6.4R-3A.6.7R.]

Transition and existing clients. Between 1 December 2026 and 31 May 2028, firms may categorise under either the COBS 3 rules as they stood on 30 November 2026 or the new COBS 3A rules. This is implementation flexibility, not automatic permanent recognition of every old classification. [COBS TP 1A.1R.]

Where a firm provides an ongoing service beyond purely administrative activity to an elective professional client categorised under the old rules before or during the transition, it must complete

the required review and ensure compliant informed consent by 31 May 2028. For other such clients, a review is required from 1 June 2028 before a new service or transaction. Merely keeping an existing holding on the books or administering it does not, by itself, require a review during the transition. The migration review does not extend to existing per se professionals, eligible counterparties or elective professional local authorities and municipalities. [COBS TP 1A.2R-1A.3R; 1A.7G.]

Firms should segment the client book by service and classification route, identify the information and consent gaps, and allocate responsibility for resolving them. Silence from a client cannot establish continuing eligibility. If classification fails the new conditions, including the consent requirements, the transitional rules require retail recategorisation and notification. A firm without retail permissions must follow the prescribed orderly wind-down process; it should not assume an immediate forced sale is the only available response. [COBS TP 1A.5R-1A.6R; COBS 3A.3.8R.]

Records and later changes. Policies, assessment evidence, reasoning, disclosures and agreements need a contemporaneous record. The general retention period is at least five years after business with the client ceases, with indefinite retention for the specified pension-related cases. The wealth route does not require continuous asset-value monitoring, but material adverse information can trigger reassessment. Expertise classification must likewise remain appropriate as circumstances change. [COBS 3A.11.1R-3A.11.3R; 3A.7.5R; 3A.8.11R.]

A workable file should let a reviewer reconstruct the decision using the information available when it was made. That is a more useful discipline than collecting declarations whose reassuring language conceals an absence of assessment. For a small firm, a concise, reasoned record will usually be more serviceable than a large form that nobody can explain.

Discussing professional categorisation with retail clients

The new framework permits firms to raise the possibility of elective professional classification with existing or prospective clients. The final approach drops the consultation's proposed separate prerequisite that the firm already have a reasonable basis for believing the client will qualify before starting that discussion. The distinction is between explaining an option and selling the surrender of protections. [PS26/23, response to questions 11-12.]

COBS 3A.6.8R prohibits enticement, incentives, inducements and pressure, and presenting professional classification as elevated status. The accompanying guidance identifies language suggesting an upgrade, promotion, exclusivity or superior standing as problematic. It also identifies suggesting professional status to obtain otherwise unavailable products as contrary to the rule in the FCA's view. Sending promotions for specific professional-only products could breach the safeguards; firms must assess the actual communication and applicable promotion rules. [COBS 3A.6.8R-3A.6.9G.]

This is an area where the distinction between a rule and guidance deserves care. The prohibitions are binding requirements. The examples in guidance explain the FCA's interpretation; they are not an invitation to find a different label for the same sales tactic. Equally, the ability to discuss categorisation should not be treated as unusable merely because the client might be interested in it.

Illustrative neutral explanation. A firm might say that retail and professional classifications involve different protections, that it can explain the eligibility conditions and assessment process, and that remaining retail is a legitimate choice. The explanation should give the client room to decide whether to request an assessment. Its wording must fit the actual service, and the subsequent warning and consent requirements still need to be met.

Illustrative problematic approach. A message inviting a client to become professional to unlock an exclusive investment presents precisely the combination of product access and enhanced status identified in the guidance. A fee discount or other benefit contingent on making the request would also need to be considered against the prohibition on incentives and inducements.

Firms should examine introductions, websites, adviser conversations and referral arrangements as well as the final application form. A compliant declaration at the end cannot repair an earlier conversation designed to pressure the client. Where an existing professional client requests retail treatment, the safeguards also matter; the transition expressly applies the communications rule to reviews and requests for fresh consent. [COBS 3A.3.6R; COBS TP 1A.4R.]

Our concern is predictability. Firms need to be able to explain a legitimate classification route without treating every conversation as a potential enforcement event. Clear training and examples can reduce that uncertainty. Supervisors should recognise the difference between a balanced explanation that leads to an informed request and a sales process designed to secure one.

Finally, COBS categorisation does not rewrite the investor categories used in legislation for public offers, alternative investment fund marketing, PISCES or financial-promotion exemptions. Firms should map those regimes separately instead of treating professional status as a universal permission to promote or distribute a product. [PS26/23, response to question 24.]

Two potential problems for smaller issuers

For smaller corporate issuers, the reforms raise two connected questions about access to advice. The concern extends beyond wealthy individuals seeking access to complex investments.

Loss of the £5 million corporate test. For non-MiFID business, existing COBS 3.5.2R(3)(a) allows a body corporate, including an LLP, to qualify as a per se professional where it, a holding company or a subsidiary has, or has had during the previous two years, at least £5 million of called-up share capital or net assets. This is a distinct route, not the familiar two-out-of-three MiFID size test. COBS 3A removes that separate corporate route and applies the single set of large-undertaking thresholds described above. [Existing COBS 3.5.2R(3)(a); COBS 3A.5.2R(2).]

A trading company could satisfy the old net-assets test while falling below both the new balance-sheet and turnover thresholds. Meeting only the own-funds threshold would not be sufficient. Admission to AIM or the AQSE Growth Market does not itself confer professional status. Unless another per se category applies, the company would need to qualify through an elective route or receive retail treatment for the relevant service. The result could be a change of category without any corresponding loss of commercial experience. [COBS 3A.4.1R; 3A.5.2R; 3A.6.1R.]

The transition permits use of the old rules until 31 May 2028. Also, COBS TP 1A.7G excludes existing per se professionals from the particular mandatory review of elective classifications. The removal of the test should therefore not be described as requiring an immediate, universal downgrade of

existing corporate clients. The practical issue is the classification basis available when the new framework applies. [COBS TP 1A.1R; 1A.7G.]

Access to firms serving only professional clients. The second difficulty concerns the communications needed to establish an elective classification. COBS 3A.6.8R prohibits inducement, pressure and presenting professional treatment as elevated status. COBS 3A.6.9G(3)(a) identifies suggesting that a client request professional categorisation to obtain otherwise unavailable products or services as contrary to the rule in the FCA's view. The reference to services brings professional-only corporate-finance advisers into the discussion. [COBS 3A.6.8R; 3A.6.9G(3)(a).]

The FCA permits firms to initiate discussions; a client's request need not be unsolicited. Yet a professional-only firm must explain its service restrictions. In our view, stating those restrictions and explaining the protections differs from persuading a client to elect so that the firm can act. Neither the rule nor these examples provides an express safe harbour. Changing vocabulary alone does not resolve that awkward boundary. [PS26/23, response to questions 11-12.]

These safeguards should prevent manufactured professional status. But a smaller issuer losing the £5 million route may need an elective classification to appoint a specialist adviser. The adviser must explain its professional-only restriction without inducing the request by the prospect of access. A firm restricted to professional business cannot offer a retail mandate instead.

The FCA should publish examples for professional-only corporate-finance firms, distinguishing factual eligibility information from inducement and preserving informed client choice. Otherwise, a reform presented as improving access could make smaller issuers' access to advice depend on how cautiously their adviser reads the guidance. That substantially qualifies the promised flexibility.

Conclusion

The reforms offer a useful correction where mechanical criteria have prevented capable clients from being treated appropriately, and a clearer alternative for clients with substantial qualifying wealth. Firms should decide their adoption approach, document the assessment standards, review communications and plan the migration of affected existing clients. The consent and record requirements belong in that plan from the start.

Greater discretion will only deliver the promised benefits if it can be exercised with confidence. Our preference is for clear standards, proportionate evidence and supervision that judges a decision in its proper context. Otherwise, smaller firms may conclude that the safest response to a more flexible regime is to make fewer decisions under it. That would be an expensive route to the old outcome.

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