

FINANCIAL SERVICES

PREPARING FOR THE SENIOR MANAGERS AND CERTIFICATION REGIME

JULY 2019



SENIOR MANAGERS AND CERTIFICATION REGIME

With our regulatory expertise and industry knowledge obtained whilst assisting Banks and Insurers with implementing the Senior Managers and Certification Regime ('SM&CR'), our Financial Services team is well prepared to advise and assist firms on the extension of the regime. Our services are tailored to a firm's SM&CR category, business model, governance structure and operations.

The extended SM&CR will replace the current Approved Persons Regime (APR) for most solo-regulated firms. It has been introduced to enhance personal responsibility for senior managers and as a more effective and proportionate means to raise the standard of conduct of key staff.

The SM&CR has three main strands:

- ▶ **Senior Managers Regime (SMR)** – This focuses on the most senior individuals in firms who hold key roles or have overall responsibility for significant areas within a firm.

- ▶ **Certification Regime (CR)** – This will apply to 'material risk takers' and other staff who pose a risk of significant harm to the firm or any of its customers.
- ▶ **Conduct Rules** – These are high level rules about individuals' conduct that will apply to almost all staff.

The FCA has committed to implementing the regime in a way that is proportionate to the size and complexity of solo-regulated firms. To reflect this, firms will be categorised as a Limited, Core or Enhanced SM&CR firm with varying requirements applicable.

WHAT CAN FIRMS DO NOW?

With less than six months to implement the new regime, you need to start your preparations as soon as possible.

It is vital that firms do not underestimate the amount of work required to ensure compliance with the new regime. Early engagement from the Board and Senior Management is key. Although the level of work required will vary depending on the size and complexity of the firm, as well as the firm's SM&CR category, there are clear milestones that firms must meet before the commencement date of 9 December 2019.

This is where BDO can guide your firm to ensure compliance with SM&CR requirements.

Table 1 - Breakdown of SM&CR framework



HOW CAN BDO ASSIST?

There are a number of ways in which we can help firms with their SM&CR implementation, which include:

1. Governance Review

We carry out a detailed review and evaluation of your firm's governance framework, board effectiveness, oversight and processes ahead of your SM&CR implementation plan to assess where your firm benchmarks against good corporate governance standards. Firms can use this output to help inform additional work to include within their SM&CR implementation project or determine whether more resource may be needed to support the implementation project. Alternatively, the review may highlight areas that the firm looks to progress after 9 December 2019 once it has implemented SM&CR.

2. Project Management

This service offering is tailored on a case by case basis. We can either manage a firm's implementation project, provide support on different work streams or provide a level of assurance on a project driven by the firm.

As we take a tailored approach to project management, a full review and learning phase about the firm's structure, people, operations and business model is recommended to understand the current governance framework and to gain an insight into the firm's culture and values; this then enable us to tailor our approach and solutions to support the firm in how to approach the various elements of the SM&CR implementation plan.

In providing project management, we are also able to have regard to a firm's regulatory and/or governance obligations under RDR, CRV IV and MiFID II and how these interact with SM&CR.

Depending on the level of assistance required, we can cover areas such as:

- ▶ Determining the firm's category and scope under SM&CR;
- ▶ Mapping current roles into SM&CR;
- ▶ Assist with assigning Prescribed Responsibilities and developing individual Statements of Responsibility;
- ▶ Designing a framework to govern the initial and ongoing certification process and fit and proper assessments;

- ▶ Review and update relevant policies and procedures;
- ▶ Establish a framework for the introduction and maintenance of the FCA Directory;
- ▶ Design a framework for breach reporting; and
- ▶ Establish processes, policies and procedures to govern, support and/or guide the complete employee lifecycle, such as from candidate screening, regulatory references, criminal record checks to performance management, succession planning and termination of employment.

3. Gap analysis

This involves reviewing the firm's processes, procedures and documentation against the regulatory requirements under SM&CR, identifying the gaps and providing recommendations about how these gaps can be addressed to ensure compliance under the new rules.

This can be done for the individual components of SM&CR previously mentioned or across SM&CR as a whole.

4. Deep dives and culture

Our deep dive reviews focus on areas identified by the firm where they have any concerns or want to get a better understanding about what's in place and how it's operating. We look at what the processes are, how these work in practice, shadow relevant committee meetings, engage with and challenge key staff members and provide a written report detailing our findings and any recommended actions.

As culture is a key focus for the FCA within SM&CR, our deep dive culture reviews consider what a firm's culture is, how is this demonstrated in what the firm does, the embeddedness, staffs' awareness and the scope for development or improvement under SM&CR.

5. Workshops

Workshops are more interactive than the training sessions explained below, but can address a number of the same topics in more depth. With workshops the aim is to group relevant people together to work through a particular area of SM&CR, such as Statements of Responsibility and Prescribed Responsibilities or Duty of Responsibility for Senior Managers, focusing on the practical

aspects of it and addressing particular problem areas.

6. Templates / toolkit

Where firms want to manage the implementation of SM&CR internally, we can provide support in the form of template project plans and project management tools so you have the appropriate framework, governance and documentation in place to support your project.

We can also provide template compliance and regulatory documents, such as Handover Policies, regulatory references, Statements of Responsibility, Management Responsibilities Maps, Code of Conduct policies and learning and development plans for senior managers.

7. Training

Our training can be tailored for all levels of staff within your firm. With Senior Management we can use case studies to address the Duty of Responsibility and the interaction with reasonable steps. For Conduct Rule staff we can focus on what the rules mean for them and how they will relate to their day-to-day job.

For the Certification regime there are a few different training sessions we can provide, we can focus on the Conduct Rules as with conduct staff, but we can also look at how the fit and proper annual assessments will work and what managers of certification staff need to consider on an ongoing basis.

We can also provide introductory training to staff to explain and position SM&CR for them, the changes they can expect to see over the next few months and provide an overall picture of SM&CR.

8. Assurance

Our SM&CR health check can be carried out on a one-off basis to provide assurance to management that the firm will be operating in compliance with the regulator's expectations and rules for 9 December 2019.

Based on reviewing the firm's SM&CR implementation plan, the implementation work undertaken and interviews with key stakeholders, we provide a written report for Senior Management detailing the findings of our review, along with any recommendations to ensure SM&CR compliance.

On an annual basis we are able to repeat a similar exercise to ensure that the firm maintains its compliance with SM&CR.

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