



**99** ADVISORY  
A clever transformation

SENIOR MANAGERS AND  
CERTIFICATION REGIME (SM&CR)

July 2019

What are the biggest implementation challenges for investment institutions in 2019?

# Challenges for investment institutions

- Following the 2008 financial crisis, UK parliament sought to replace the Approved Persons Regime (APR) with a regime that was more focused on senior managers and individual responsibility.
- This resulted in the new Senior Managers and Certification Regime (SM&CR), which in force for banks and insurers since March 2016 and will be extended to asset management firms from the 9th December 2019 onwards.

**SM&CR** implementation is an opportunity to review and assess the effectiveness of governance structures, the allocation of responsibilities, and the current internal processes.

## Key focus

**Who?** Top senior management, board members and those who have significant influence falling within the certification regime requirements.

**Why?** To protect clients and to strengthen market integrity.

**How?** By Improving standards of conduct in the financial services sector, and ensuring greater accountability and responsibility for senior people in terms of conduct, actions and competence.

**When?** 9th December 2019 for investment institutions.

## 5 objectives and challenges

### 1 - Accountability

- **Objective:** Roles and responsibility are clearly understood and staff are aware of their own accountability
- **Challenge:** Firms will need to make sure they have appropriately allocated all of the inherent and prescribed responsibilities to their Senior Managers



### 2 - Governance

- **Objective:** Necessary actions are managed at the appropriate level and issues raised are identified and resolved accordingly
- **Challenge:** Firms will need to set the 'tone from the top'. The effectiveness of management and governance and incentive structures should contribute to the overall culture of a firm

### 3 - Alignment

- **Objective:** The SM&CR is align with business objectives
- **Challenge:** Firms need to take responsibility for their staff being fit and proper to perform their role

### 4 - Consistency

- **Objective:** New employees understand and maintain the requirements of the SM&CR
- **Challenge:** Firms will need to make sure the SM&CR requirements are transmitted to new employees

### 5 - Understanding

- **Objective:** All staff understand the SM&CR and how it affects them
- **Challenge:** Firms will need to make individuals who are subject to the SM&CR aware how the rule apply to them and provide appropriate training

# Challenges for investment institutions

## Key impacts

- Under the SM&CR, FCA approval is required for the most senior people ('senior managers') performing key roles ('senior management functions').
- A document must be provided to every senior manager outlining their responsibilities and what they are accountable for. Firms will be required to certify, at least on an annual basis, that individuals in "significant harm functions" ("Certified Persons") are able to fulfil their role.
- Firms must ensure that changes required by the regime are properly implemented. They will need to design systems, including effective training, to put into place all three aspects of the regime (describe below). A review can be conducted to assess which changes are necessary to ensure compliance with SM&CR.

## Three aspects of the Core Regime

- The FCA proposes to take principles from the banking regime "to create consistency across financial services, but tailor them to reflect the different risks, impact and complexity of firms subject to the extension". Firms will be categorised depending on their size and profile into Core, Enhanced<sup>1</sup> or Limited Scope Firms.
- The Core Regime is applicable to the majority of firms and consists of three elements: Senior Managers Regime (SMR), Certification Regime (CR), and Conduct Rules.

### Senior Managers Regime (SMR)

Reserved for the most Senior Management Functions (SMF) and individuals. The FCA has designated a number of senior management roles, which are deemed by the regulator to pose the greatest potential risk to customers or market integrity such as Executives, Partners, Compliance Oversight, MLRO.

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### Certification Regime (CR)

Those who are not senior managers but whose position can cause significant damage to the firm or its customers. For example:

- Significant management function
- CASS oversight function
- Client dealing function
- Proprietary traders
- Functions subject to qualification requirements

### Conduct Rules

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There are two sets of basic rules, which apply to almost every person who works in financial services:

- Individual Conduct Rules
- Senior Manager Conduct Rules

## How 99 Advisory can help

- Develop regulatory transformation project plans
- Design of responsibilities maps and statements of responsibilities
- Audit and update of policies and processes to transition from the Approved Persons Regime
- Provide ongoing training to staff on their obligations and responsibilities under the regime
- Assess necessary changes to ensure compliance with the regime
- Provide extensive benchmark and market insight

<sup>1</sup>The Enhanced Regime will consist of the same three elements as the Core Regime but will have additional requirements that reflect more closely the regime as it applies to dual PRA/FCA regulated firms.



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