



FCA Senior Managers and Certification Regime

The final countdown

June 2019



Introduction to the regime

The Senior Managers and Certification Regime (“SMCR”) for FCA solo-regulated firms is due to go live in December 2019 and replaces the current Approved Persons Regime (“APER”). It raises the level that Senior Managers need to demonstrate that they are adequately able to oversee their areas of the business and obliges firms (not the regulator) to regularly assess and certify their client-facing and other critical staff as “Fit and Proper”. As a result, compliance with the regime requires the updating/creation of certain key documents and frameworks. The FCA’s application of the regime introduces proportionality (reflecting the diverse size and nature of firms it regulates) categorising firms as Enhanced, Core, or Limited Scope with each category having differentiated requirements as to the elements of the regime which apply to each type of firm:



Limited Scope

This covers all the firms that are currently subject to a limited application of APER.



Core Firms

This category is reserved for firms that do not fall into the Limited Scope Category, i.e. are currently subject to the full APER regime, but do not meet the Enhanced Firm Criteria.



Enhanced Firms

A firm will be classed as an Enhanced Firm if it is/has:

- A significant IFPRU firm.
- A large Client Assets Sourcebook (“CASS”) firm
- Assets under management of £50 billion or more (as a three year rolling average)
- Total intermediary regulated business revenue of £35 million or more per annum (as a three year rolling average)
- Annual consumer credit revenue of £100 million or more (as a three year rolling average)
- A mortgage lender/administrator with 10,000 or more regulated mortgages outstanding

SMCR requirements: Overview

	 Limited	 Core	 Enhanced
Senior Management Functions ("SMFs")	✓	✓	✓
Statement of Responsibilities ("SoRs")	✓	✓	✓
Prescribed Responsibilities		✓	✓
Management Responsibilities Maps ("MRM")			✓
Certifications Staff	✓	✓	✓
Conduct Rules	✓	✓	✓
Handover Arrangements			✓
Overall Responsibility			✓

Key questions

1

What category of firm will your business be classified as?

2

Have you undertaken an SMCR impact assessment on your firm?

3

How mature and advanced are your preparations for SMCR?

4

How informed are your senior managers on their individual requirements and what they need to do to fulfill them?

5

Do you feel you have sufficient resource and budget available to help you meet the requirements of the regime in good time?

6

Have you mapped out a BAU Certification process that leverages HR and Compliance resources and processes?

Lessons learned

The PRA's implementation of SMCR in 2016 has had a lasting impact on banks, building societies and insurers' approaches to governance, and, to some extent, on their culture and behaviours. Some implementation issues have arisen, in particular in more complex groups and the UK subsidiaries of overseas banks. Supervisory attention since has focused primarily on the approval of Senior Managers, and on checking that financial institutions have the main elements of the regime in place.



Implementation

Successful programmes have usually been based on a willingness to use the SMCR as an opportunity to reassess the appropriateness and effectiveness of current governance arrangements and to challenge the roles of both individuals and committees.



Culture and behaviour

Senior Managers have reviewed and challenged their own personal responsibilities and considered whether those are appropriate. Even where SMCR has largely codified existing responsibilities, a much brighter spotlight has been targeted on Senior Manager accountability.



Complexity and unintended consequences

Firms have struggled with SMCR implementation in three key areas:

- Understanding and demonstrating the obligations that Senior Managers individually have;
- Negotiating operational challenges i.e. IT; and
- Implementing SMCR at the same time as introducing organisational change.



Use of systems/technology

Firms have added to their implementation challenges by inadequate use of systems/technology. This includes a reliance on manual processes and controls to manage and maintain large populations.

Challenges: Core firms



Certified Population

Accurate Identification of the Certified Population and implementation of associated internal processes and governance.



Fit & Proper

Fit and Proper processes need to be embedded within the organisation, with an effective working relationship between HR and control functions.



Data Capture

There is an IT element whereby it becomes important to capture and record population data accurately.



Transitioning to Regime

Utilising the transition period effectively for Certified Persons and Conduct Rules staff will ensure a smoother transition to the new regime.

Challenges: Enhanced firms



Overall Responsibility

Understanding of Overall Responsibility and ensuring complete coverage across the business and reporting to governing body from Senior Management Function ("SMFs") takes place.



Management Responsibilities Map ("MRM")

Drafting and maintaining an accurate MRM requires clear ownership and buy-in from senior stakeholders.



Non-Executives

Non-Executives will need to be bought into the process with time invested in making them comfortable with their obligations in relation to the firm.



Handover Procedures

The creation/update of a clear and consistent handover process for Senior Managers will require involvement from Compliance, HR and senior management.

How KPMG can help

We have spent the last five years helping bank, building societies, major investment firms and insurers on the design and implementation of individual accountabilities programmes so that they can meet the requirements of SMCR and the Senior Managers Regime for Insurers.

We provide a scalable structure of services which allows more bespoke advice depending on your requirements, level of internal resources and your objectives, allowing you to achieve the necessary compliance with the regime.

Available services

(Below list is non-exhaustive)

- MRM review/drafting*
- Senior Manager Handover documentation*
- Conduct rules breach reporting review
- F&P Policy review
- Overall responsibility review*
- Workshops
- Interview/coaching
- Complete population and PR mapping review*
- Senior Manger Policy review
- Certification Policy review
- Certified population capture check

Ad-hoc support

We can offer ad-hoc services to provide subject matter expertise on any aspects of your SMCR implementation programme. This will allow you to feel more comfortable that regulatory expectations have been addressed in areas providing you the most concern.

Full support

We can also provide increased support where we can work alongside you as resource augmentation to assist in drafting the relevant documentation and designing the relevant frameworks needed, and expected, under the regime.

Why KPMG?

Market leading

Our team has extensive SMCR experience, including leading two of the largest SMCR implementation programmes in the UK. We understand what is required and have a real appreciation for the typical concerns that Senior Managers may have and ensure these key learnings are incorporated into our measured approach.

Leading industry role

Throughout the last four years we have been a market leading firm in industry forums with some of the biggest financial services firms in the UK, helping to shape the response to the implications of SMCR and improve awareness of the challenges the regime poses. We connect to this network and utilise our roundtables to bring the industry and regulators together to drive practical outcomes. We continue to host industry roundtables which bring together attendees from major financial services firms and the FCA.

Innovative and solution driven

We are committed to seeking new and innovative ways to assist our clients in meeting their regulatory requirements. Our SMCR ServiceNow tool is indicative of this commitment; we have designed a powerful technology-driven solution which simplifies the regime, enabling clients to achieve compliance on an ongoing basis. For further details on this tool please reach out to your KPMG contact who can organise a demonstration.

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