



The Senior Managers & Certification Regime: Key Steps to Implementation and Ongoing Maintenance– A Quick Guide

Part of the Rosediem Thought Leadership Series



The Extension of the Regime and Ongoing Maintenance

For solo-regulated firms, the countdown for the extension of the Senior Managers & Certification Regime (“SMCR”) has begun, with implementation due on 9th December 2019.

For firms already under the Regime, this is also an opportunity to ensure that all components of the Regime are being managed effectively. For example, individuals caught by the regime should consider building out a robust framework for evidencing ‘reasonable steps’.

To help with this, Rosediem has created this simple guide which sets out some of the key areas that firms should focus on to assist with

thought leadership in this area, both for implementation and for evidencing ‘reasonable steps’. It also provides guidance on prioritising activities.

Firms who are facing the requirements of the Regime for the first time need to begin considering where the Regime will affect business models and organisational arrangements now.

It is important to remember that in implementing SMCR effectively and accurately, firms should be considering changes to their modus operandi. In addition to identifying all Senior Managers and Certified Individuals which may require some organisational changes, firms should work towards establishing a way of formally documenting a collection of relevant responsibilities at a firm level so that these can then be appropriately allocated to the relevant individuals. In turn, these individuals will then need to work on establishing a framework for (i) managing their responsibility; (ii) ensuring effective delegation; (iii) performing oversight; and (iv) demonstrating ‘reasonable steps’.



SMCR: Key Steps for a Firm to Focus on

Task: **Identifying Senior Managers and Certified Individuals**

Why required: **Rule requirement**

When to begin: **Now**

Importance of Task: **Significant**

Determining those individuals that will take up Senior Manager roles under the new Regime is a key first step for all firms. The applicable Senior Management functions will depend on whether your firm is defined as a limited scope, core or enhanced firm.

The process to identify Senior Managers should be a well thought out exercise which considers roles, reporting lines and overseas implications. Determining those individuals that will be Certified under the Regime is also a key step and will help with other implementation steps such as responsibilities mapping. It is important to remember that, under the SMCR, all Certified Individuals will need to report into a Senior Manager or a Certified Individual and therefore once the initial mapping has been performed there may be a need for more individuals to be Certified.

Task: **Statements of Responsibilities**

Why required: **Rule requirement**

When to begin: **Now**

Importance of Task: **Significant**

A Statement of Responsibility (“SoR”) is required for every Senior Manager. The content of these must accurately reflect the role that the Senior Manager is performing and how this fits into the firm’s governance and management structure. This is key to show individual responsibility and accountability and will therefore require updating on an on-going basis.

Task: **Prescribed Responsibilities**

Why required: **Rule requirement**

When to begin: **Now**

Importance of Task: **Significant**

The SMCR Regime contains a list of Prescribed Responsibilities (“PRs”). The applicable PRs must be allocated to the Senior Manager who is most responsible for the PR as set out in the regulations. Those responsibilities must also be documented on each individual Senior Manager’s Statement of Responsibility (see above). The applicable PR’s for each firm will depend on whether the firm is a limited, core or enhanced firm.



Task: **Defining and allocating firm responsibilities**

Why required: **Evidencing reasonable steps**

When to begin: **Now**

Importance of Task: **Significant**

When determining a list of Senior Managers and Certified Individuals, the firm must consider individual responsibilities as well as compliance with the Conduct Rules. Whilst the FCA has a set of PRs that must be allocated to Senior Managers, in reality each firm will have detailed specific responsibilities that are applicable to its business model. For example, the firm will want to assign the responsibilities of managing customer complaints, managing business continuity, and managing third party relationships to one or more Senior Managers or Certified Individuals. These examples are not FCA PRs and therefore must be included on a firm's own list of detailed responsibilities so that they can then be appropriately allocated. This firm set of responsibilities is critical and must therefore be carefully thought through and constructed.

Task: **Creating responsibilities maps**

Why required: **Rule requirement**

When to begin: **Now**

Importance of Task: **Significant**

The creation of Responsibilities Maps for SMCR is needed as these are a key tool to show how responsibilities within an organisation are split and how lines of individual accountability work. Though not a mandatory requirement for all firms, we believe it is a crucial part of the new regime to be able to show complete and accurate ownership over all responsibilities within the organisation (including where responsibilities are shared or apply in different ways for differing business lines). This tool works like an organisation chart and is a key tool for governance and oversight. The creation of a Responsibilities Map is also invaluable in helping a firm to assess responsibility coverage and gaps. The FCA has produced an example of what its own Responsibilities Map would look like.

Task: **Creating a detailed responsibilities framework and ensuring on-going management**

Why required: **Evidencing reasonable steps**

When to begin: **Now**

Importance of Task: **Significant**

Once firm specific responsibilities have been allocated appropriately to all Senior Managers and Certified Individuals, there is a need for these individuals to create (or input into area specific) detailed responsibilities frameworks which set out:

- The areas they are responsible for
- The committees to which reporting is executed in line with the responsibility
- The direct and in-direct individuals to whom responsibility is delegated
- The processes which are delegated
- The details of the risks, processes and controls managed by all the individuals to whom tasks are delegated

These responsibilities frameworks are invaluable in evidencing effective delegation and management of responsibility and should be maintained on an on-going basis. This tool can also be used as a basis for attestations and testing. Both the complexity of the task and the resulting value should not be underestimated.



Task: **Creating a plan for managing and evidencing 'reasonable steps'**

Why required: **Evidencing reasonable steps**

When to begin: **Now**

Importance of Task: **Significant**

As one of the SMCR's main objectives is to ensure personal accountability, it is essential that individuals are able to demonstrate 'reasonable steps' on an on-going basis. With this in mind, we would recommend that all Senior Managers and Certified Individuals create a plan for managing and evidencing 'reasonable steps'. A large part of this plan will be covered by the step above, i.e. through the creation and management of a detailed responsibility and process management framework. However, there may also be other components to consider such as management information and escalation protocols relevant to an individual's responsibilities.

Task: **Amendment of employment contracts and job descriptions**

Why required: **Evidencing reasonable steps**

When to begin: **Now**

Importance of Task: **Moderate**

It would be considered good practice for a regulated firm to amend all employment contracts and / or job descriptions in line with the SMCR Regime. Updates should include but not be limited to specific Senior Manager and Certified Individual role profiles. Any gaps in other staff documentation should also be corrected and firms may wish to include objectives on general conduct rules.

Task: **Training of Senior Managers and Certified Individuals**

Why required: **Rule requirement**

When to begin: **Now**

Importance of Task: **Significant**

All senior managers and certified individuals must be trained on the Conduct Rules by 9 December 2019.

Task: **Training of all staff**

Why required: **Rule requirement**

When to begin: **Now but roll out post-implementation**

Importance of Task: **Moderate**

All staff (subject to a few exceptions e.g. receptionists), must be trained on the Conduct Rules. A detailed plan to train these staff must be in place by 9th December 2019 and have been implemented within 12 months from that date.



Task: **Certification process**

Why required: **Rule requirement**

When to begin: **Now but roll out post-implementation**

Importance of Task: **Moderate**

A certification process must be designed for firms to assess the suitability of all Certified Individuals. This process should be designed in advance, and all Certified Individuals must be identified by 9th December 2018. Notwithstanding this, the certification process itself does not need to be completed until 12 months from 9th December 2019. Thereafter, the Certification process must be completed at least yearly and set out that the firm has assessed that each Certified Individual is 'fit and proper' for their role.

Task: **Sending applications to the FCA**

Why required: **Rule requirement**

When to begin: **Later but preparation to begin now**

Importance of Task: **Significant**

Each firm implementing the regime will need to establish where individuals will be 'auto-converted' and where applications and other documents must be submitted. The relevance of auto-conversion will depend on the firm type i.e. limited, core or enhanced, and will also depend on whether auto-conversion remains relevant after a true consideration of role profiles.

It is expected that the relevant forms will become available for firms to complete around 9th September 2019. Applications to the FCA must be submitted via the Connect Applications System. These must be signed by the firm and countersigned by the individual that the application relates to. Within the application, the firm must evidence how it considers the individual to be 'fit and proper' for the role.



How can we help?



Assisting with a review of organisational structures to help identify Senior Managers and Certified Individuals



Creating and defining a firm-wide set of detailed responsibilities as per the firm's business model



Conducting governance reviews to assess the effectiveness of the firm's current governance structure, including the allocation of roles and responsibilities



Assisting in the design and drafting of Statements of Responsibilities for Senior Managers and firm Responsibilities Maps



Delivering and rolling out our Conduct Rules training to Senior Managers, Certified Individuals and all other staff



Designing a certification process to review and evidence that each Certified Individual is 'fit and proper' for their role



Working with firms or individuals to design and establish a detailed responsibilities framework which details the direct and indirect individuals to whom responsibility is delegated, together with a mapping of processes, risks and controls.



Working with firms or individuals to design and roll-out a cascaded oversight mechanism to manage the on-going effectiveness of a detailed responsibilities framework, and evidence responsible delegation.



Assisting firms or individuals with developing a framework for managing and evidencing 'reasonable steps'



Assisting in the drafting of new job descriptions that include SMCR responsibilities for Senior Managers and Certified Individuals



Contacts

If you would like to discuss this paper or the implementation of SMCR further please get in touch directly by email or by leaving a message behind on the website and one of our team will get back to you.

www.rosediem.com



Nisha Madhvani Sanghani
CEO & Managing Director

nisha.sanghani@rosediem.com

M: 07930 323 758



Ian Perham
Director of Operational Advisory

ian.perham@rosediem.com

M: 07768 876 335