

## Transitioning firms and individuals to the Senior Managers & Certification Regime

December 2017



Earlier this year, the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) consulted on extending the Senior Managers and Certification Regime (SMCR) to almost all regulated firms. However, given the differences in the size and nature of firms covered by the extension, the regulators are proposing proportionate approaches for different types of firms.

On 13<sup>th</sup> December, the FCA and PRA published a package of proposals across four consultation papers on how firms and individuals will move to SMCR. The aim of the new regime is to make individuals more accountable for their conduct and competence.

### Proposed approach to the conversion process

The FCA is calling this process of firms moving to SMCR 'conversion', and their aim is to make it simple, clear and proportionate. For the smaller firms, they are planning to automatically convert Approved Persons Regime (APR) approvals to Senior Management Functions. This means the majority of firms will not need to submit anything to the FCA to make this happen. For Insurers, the PRA propose to re-designate individuals approved as a SIMF automatically to a SMF as part of the extension.

#### Conversion – smaller firms *(Small NDFs, Small run-off firms, ISPVs and firms in the core regime)*

Individuals at smaller firms will be automatically converted from APR functions to corresponding Senior Management Functions wherever possible with no action required by firms.

The FCA recommend that firms consider whether any changes to their approvals are required ahead of Commencement. This will ensure that the move to the new regime is as smooth as possible.

Firms will not have to apply for re-approval for their approved individuals and no extra checks are required (for example, mandatory criminal records checks and regulatory references). This is because firms already have to ensure that these individuals are, and continue to be, fit and proper.

There is one exception however. The FCA will require firms with a non-executive Chair to submit a Form K, telling them that they wish to convert an approved NED to the SMF9 – Chair function.

#### Conversion – larger firms *(Solvency II firms, Large NDFs and firms in the enhanced regime)*

Larger firms will need to submit a Form K conversion notification, Statements of Responsibilities and a Responsibilities Map to convert existing approved

individuals to new Senior Management Functions.

Larger firms will have to tell the FCA who they want to assign to the new Senior Management Functions, but they will not have to re-apply for approval if the proposed Senior Management Functions can be mapped directly from the Approved Persons Regime.

Firms are already required to ensure that these individuals are, and continue to be, fit and proper.

### Commencement timings

For the purpose of their draft rules that form part of the consultation issued, the FCA and PRA have assumed that the rules will apply to insurers in late 2018 and solo-regulated firms in mid-to-late 2019. The actual commencement dates will be announced and set by the Treasury in due course.

The FCA will subsequently communicate the date by which all larger firms, and by exception, smaller firms, will need to have submitted the appropriate conversion documentation to transition their relevant approved individuals into the new regime.

Similar to their approach to banks, the FCA plans to implement the rules for Certification gradually, so that firms can get used to applying the new regime. The Treasury intends to commence the requirement for firms to certify relevant employees as fit and proper for the first time 12 months after the SMCR commencement date for in scope firms.

However the Conduct Rules will apply to these employees from Commencement at all firms. This means that firms will need to know who all of their certified staff are on day one of the regime and these employees must comply with the Conduct Rules from commencement, but firms will have 12 months to complete their fitness and propriety assessments and to get the certification paperwork in place.

### Duty of Responsibility

The Duty of Responsibility was introduced in the Bank of England and Financial Services Act 2016 and came into force on 10<sup>th</sup> May 2016. It currently applies to Senior Managers of banking firms and, as explained in the July consultation papers, it will also apply to Senior Managers of insurers and FCA solo-regulated firms when SMCR is extended.

The extension of the Duty of Responsibility is subject to agreement by the Treasury. The FCA anticipate that the extension of the Duty of Responsibility will align with these start dates.

## The Financial Services Register

In prior consultations the FCA proposed that, for firms subject to SMCR, only details of people holding Senior Management Functions would be included on the Financial Services Register. This would mean that, under these proposals, people performing Certification Functions would not appear on the Register following the extension of SMCR.

The FCA have now stated that they are reviewing all feedback that they have received to these consultations to decide the right approach. This includes concerns raised around the potential impact of excluding certain people from the Register. The FCA have made clear they have listened to this feedback and are considering next steps as part of their preparations to implement the new regime.

## Amendments to Fitness and Propriety Questions

The FCA and PRA have worked together to revise the Fitness and Propriety questions that are repeated in several solo and dual-regulated forms. These amendments include changes to the Civil Proceedings, Regulatory Matters and Business and Employment Matters sections.

The FCA hopes this will improve clarity and reduce the range of questions to strike the correct balance between the information they need and proportionate requirements for firms.

## Appointed Representatives

While there are consequential amendments that will be of interest to Appointed Representatives (ARs) of firms, the FCA have made clear the extension of SMCR proposed in CP17/25 does not affect individuals and Approved Persons working at ARs.

The Bank of England and Financial Services Act 2016 does not currently provide the FCA with the power to extend the regime to ARs.

The provisions of the Approved Persons Regime will therefore still apply to ARs. The FCA are of the view that Principal firms remain fully responsible for their ARs and networks meeting their rules and Senior Managers at these firms must make sure that this happens.

## Feedback to the FCA and timelines for implementation

The FCA and PRA welcome feedback and they have asked firms to let them know what they think of their proposals and have set a deadline for comments of 21<sup>st</sup> February 2018. The FCA and PRA will then consider feedback received and publish final policy rules, including their final approach to transition and conversion, in a Policy Statement in summer 2018.

The date for the implementation of the new rules will be announced and set by HM Treasury in due course.



### Next steps

KPMG will continue to actively engage with firms and their proposed Senior Managers and Certified Persons directly

and continue to facilitate SMCR roundtables and other industry events over the coming months up to conversion and final implementation of SMCR.

### Four key actions for firms

There are four key actions firms can take now in preparation for the implementation of SMCR:

1. Get your CEO, Board and Executive Committee on-board.
2. Create an effective communications plan for both internal and external stakeholders, including the Regulators and Parent/Branches.
3. Look at what you already have in place and how you can embed SMCR into your current governance structure.
4. Think about whether you have the appropriate people in the correct approved functions before the conversion of approved individuals takes place.

For further information or to discuss any of the above, please contact the Financial Risk Management team below.

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