



Senior Managers and Certification Regime Overview

This document is intended to assist members in understanding the background and intentions of the scheme. Firms should also read the specific guides related to their classification. These are designed to assist firms in knowing where to look for assistance, much of which is shown by links to the FCA website and documents.

Introduction

1. The Financial Conduct Authority (FCA) is changing how people working in financial services are regulated and this will affect almost every firm that is regulated by the FCA. Currently the FCA regulates senior management through the Approved Persons Regime.
2. After the financial crisis it was recommended that the FCA develops a new accountability system that was more focused on senior managers and individual responsibility. The FCA has created the Senior Managers and Certification Regime (SM&CR), the regime was applied to banks and building societies from March 2016.
3. The UK Government legislated to extend the regime to all financial services firms and the FCA is replacing the Approved Persons Regime with the Senior Managers and Certification Regime from 9th December 2019.
4. The aims of the regime are to **raise the standards of conduct and culture** for everyone who works in financial services by making senior people in firms more responsible and accountable for their actions. Also, the regime will increase understanding of where responsibility lies.
5. The regime will apply to firms or groups on a legal entity basis and is tailored to reflect the different risks, impact and complexity of different firms.
6. The staff at the financial services firms will be divided into three categories in terms of the application of the regime – Senior Managers, Certification Staff and Conduct Staff.

Jonathan Davidson, Executive Director of Supervision- Retail and Authorisations at the FCA, said:

"Culture and governance in financial services and its impact on consumer outcomes is a priority for the FCA. The extension of the Senior Managers and Certification Regime is key to driving forward culture change in firms.

"This is about individuals, not just institutions. The new Conduct Rules will ensure that individuals in financial services are held to high standards, and that consumers know what is required of the individuals they deal with. The regime will also ensure that Senior Managers are accountable both for their own actions, and for the actions of staff in the business areas that they lead."

Design of the Regime

7. The SM&CR has three elements Senior Managers Regime, Certification Regime and Conduct Rules and all apply to each legal entity. The regime has three types of firms Limited Scope, Core Regime and Enhanced Regime, with extra requirements for some bigger or more complex firms or groups.

Senior Managers

8. Regulated firms are required to identify the most senior people whose roles will carry out 'Senior Management Functions' (SMF) whose activities involve or might involve a risk of serious consequences for the firm. The regime sets out various Senior Management Functions that are applicable to senior individuals in the firm. The number of these Senior Management Functions depend on whether the firm is a Limited, Core or Enhanced firm and the firm's regulated permissions. [FCA: The Senior Managers and Certification Regime: Guide for FCA solo-regulated firms]

9. There are a set of 'core' Senior Management Functions which will apply to firms; almost all of these are currently controlled functions under the Approved Persons Regime. The main difference is the FCA approach to approval i.e. Chair is approved by the FCA instead of all Non-Executive Directors. This means that some individuals that are approved under the Approved Persons Regime will not be under the Senior Managers and Certification Regime.
10. Prescribed Responsibilities (PRs) are new and careful consideration is needed as to which senior manager is most suitable to hold each of the prescribed responsibilities, prescribed responsibilities do not apply to Limited Scope firms.
11. The regime introduces various other requirements dependent on whether the firm is Core or Enhanced, these include the introduction of Statements of Responsibility (SoR's), Responsibility Maps with handover procedures (Enhanced firms only) and the Senior Manager's 'Duty of Responsibility'

Certification Regime

12. The Certification Regime is a new Financial Services Market Act (FSMA) requirement for all firms. It covers people who aren't senior managers but whose role can have a big impact on customers, markets or the firm. [FCA: The Senior Managers and Certification Regime: Guide for FCA solo-regulated firms] [FCA Handbook: SYSC 27]
13. The Certification Regime applies to people who perform certain functions, known as Certification Functions, but they are not senior managers. Some people in scope of the Certification Regime will have previously been approved by the FCA as Approved Persons. For mortgage and protection firms these will mostly be those who advise on products. You need to be certified if you need to have an approved qualification to do your job. The FCA will no longer approve those people or any individual fulfilling a role that is described as a 'Certified Function'. The responsibility for the appointment and ongoing suitability and competence of the individual in a certified role rests with the regulated firm and the allocated senior manager to oversee.
14. SM&CR introduces new FCA powers to make certain roles 'significant harm functions' under the Certified Regime. This function is as it sounds and applies to someone with significant responsibility for a significant business unit, the business unit does not necessarily have to be a customer facing function. It is for the firm to decide if they have one of these functions and apply the certification regime accordingly, the FCA does not approve the persons carrying out these functions. This might be such as a paraplanner unit, business support team or IT developers.

Fit and Proper

15. The FSMA requires a firm to make sure that anyone performing a Senior Management Function, or a Certification Function is fit & proper for their role. The individual is required to be assessed on an ongoing basis and at least once a year. [FCA FIT Handbook guidance] Firms should take regard of the new evidence retention requirements when assessing candidates for senior management roles, certified functions, board directors or Non-Executive Directors (even if they are not a senior manager).

16. Senior managers and board directors are required to declare if they have a criminal record (including spent convictions that the employer has a legal right to be made aware of) and the FCA will now require firms to undertake a criminal record check as part of their application for a senior management role. Firms should ensure that they review other new appointments and determine if the check should also be undertaken.
17. The FCA has not mandated criminal record checks for certification functions but a firm may choose to undertake these checks where they are legally allowed to do so or where the firm has determined the check is required i.e. SYSC 28 – good repute requirement for insurance activities.
18. The FCA regime also introduces a requirement for firms to request a reference from senior management and certification function candidates' past employers - a regulatory reference. This also applies to Non-Executive Directors who aren't senior managers. The standard template and requirements can be found in FCA SYSC chapter 22 and firms must also consider the Conduct Rules. The new Conduct Rules 'COCON' replace the APER section of the FCA Handbook.

Conduct Rules

19. Firms must as part of the introduction of the SM&CR ensure that staff are trained and understand how the FCA Conduct Rules apply to them, there is a transition period, but this does not apply to senior managers. The regime will also introduce a new reporting requirement and firms are required to notify the FCA when formal disciplinary action is taken against someone for breaching a conduct rule. The timescales vary depending on whether the individual involved is a senior manager or holds a certified function role.

Firms should use this as a guide to support their understanding of the FCA SM&CR, but be aware that rules and references can change, all information and links in this document were correct at the time of publication. Firms should, where appropriate, adjust their timeline view of the FCA Handbook to reflect the date that the new FCA requirements are due to be in force i.e. after 9th December 2019, this will then show the rules and guidance that applies.

FCA Materials and information sources

SENIOR MANAGEMENT & CERTIFICATION REGIME – USEFUL LINKS / INFORMATION SOURCES

FCA materials and information sources

[FCA website lead](#) page, including video by bank senior managers

FCA website, [solo-regulated firms](#) information

FCA website, [guide](#) for solo-regulated firms (July 2018)

FCA website, guide [Statement of Responsibilities and responsibilities maps](#) (March 2019)

FCA SM&CR Banking Stocktake [report](#) published 5th August 2019 (NEW)

FCA podcast transcript, interview with Jonathan Davidson and Jayne-Anne Gadhia on Culture and SMCR (NEW)

FCA Handbook links

[COCON](#) – application and purpose (Code of Conduct)

SYSC – [application and purpose](#), table outlines SYSC chapters that apply to firms by type

[Useful references in SYSC](#)

SYSC 22 – Regulatory references (template standard material Annex 1R)

SYSC 23 – SM&CR introduction and application

SYSC 24 – SM&CR allocation of prescribed responsibilities

SYSC 25 – SM&CR management responsibility maps and handover procedures and materials

SYSC 26 – SM&CR overall and local responsibility

SYSC 27 – SM&CR Certification Regime

Banking Standards Board – guidance to [‘Statement of Good Practice’](#) The Certification Regime: Fitness and Propriety Assessment Principles