KPMG

Individual Accountability: Extending SMCR

What, why and when?

On 26 July 2017, the FCA released its consultation paper on the extension of the Senior Manager's Certification Regime to all FSMA authorised firms - including insurers, investment firms, asset managers, insurance and mortgage brokers and consumer credit firms.

The FCA maintains that the principles across all firms should remain consistent, clear, and proportionate with its overarching aim to reduce harm to consumers across financial services firms. We support this principle but also recognise that the operating models, size, culture and businesses of firms now in scope are diverse. Individual institutions will approach the implementation of the rules differently, at different times and paces, and outcomes will vary. However, there is an recognition that SMCR should be made a priority and it is clear that 'accountability is the new norm' for all financial services firms.

SMCR – firm led, impacting

99% **of firms population**

2018-2019: Implementation of SMCR extension to all FSMA-authorised persons

26 July 2017: FCA Consultation Paper on the extension of SMCR published

7 March 2016: SMCR implemented for Banks, Building Societies, Credit Unions, PRA Investment Banks and branches

October 2015: HM Treasury Paper announcing a proposed extension of SMCR to all FSMA-authorised persons

APER – regulator led, impacting

10% **of firm population**

What does it all mean?

The new regime is an extension of the SMCR for banking, however it has been split in to two different regimes, based on size and type of firm. The core regime will apply to all FCA solo-regulated firms in the financial services sector, except those who fall in to a Limited Scope category. The enhanced regime will apply to around 350 investment managers and insurers. The key principles of the two new regimes are outlined below:

Regime	Core population	Enhanced population

Senior Managers Regime	— Senior Management Functions (SMFs) in scope will include:
	  – SMF9 Chair
	  – SMF1 CEO
	  – SMF3 Executive Director
	  – SMF27 Partner
	  – SMF16 Compliance Oversight
	  – SMF17 MLRO
	— Six Prescribed Responsibilities to be allocated
	— An additional Prescribed Responsibility for Authorised Fund Managers for Value for Money
	— Senior Managers subject to the 'duty of responsibility'
		— Senior Management Functions in scope will include those in the core regime as well as:
		  – SMF2 Chief Finance Function
		  – SMF4 Chief Risk Function
		  – SMF5 Head of Internal Audit
		  – SMF14 Senior Independent Director
		  – SMF12 Chair of Remuneration Co
		  – SMF10 Chair of Risk Co
		  – SMF11 Chair of Audit Co
		  – SMF13 Chair of Nominations Co
		  – SMF7 Group Entity Senior Manager
		  – SMF24 Chief Operations Function
		  – SMF18 Other Overall Responsibility
		— Seven additional Prescribed Responsibilities
		— A Senior Manager must have Overall Responsibility for every business activity, business area and management function
		— A Responsibilities Map detailing the firm's management and governance arrangements
		— Handover procedures for Senior Managers

Certification Regime	— All employees performing regulated activities who are not SMFs who can cause 'significant harm' including significant management functions, prop traders, CASS oversight, functions requiring qualifications, client dealing functions, algorithmic traders, material risk takers, anyone who supervises or managers any of the above. — Firms will need to certify that this population is Fit and Proper to carry out their role annually	— No additional requirements
Conduct Rules	— Five conduct rules applicable to all staff working at the firm, with the exception of ancillary staff, including notified NEDs — Four additional conduct rules applicable to Senior Managers — All breaches of Conduct Rules must be reported to the regulator	— No additional requirements

Limited Scope firms (for example Limiter Permission consumer credit firms) will have fewer SMGs depending on their specific permissions and activities. Prescribed Responsibilities will not apply though firms will be subject to the Certification Regime where the firm has people in the relevant roles (for example CASS Oversight Functions). Conduct Rules will also apply to his population.

The Consultation Paper also introduces a new Prescribed Responsibility for Conduct Rules for the Banking Sector.

Lessons learned and what it means for you

Policies and Procedures

— Existing policies relating to SMR were not up to date or effective

— Have you considered a current state assessment of all relevant policies and procedures?

Governance

— Many institutions sought to embed SMCR into their existing Governance framework without validating the effectiveness of their current arrangements

— Are you confident that your existing Governance framework is designed effectively?

Accountabilities

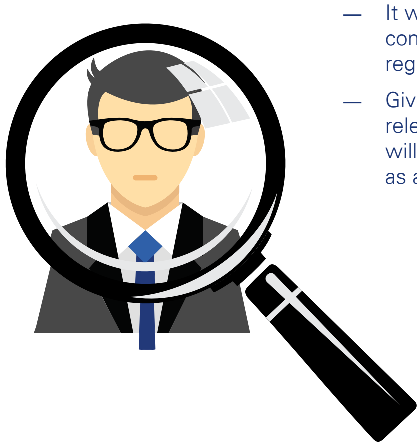
— It was unclear who was responsible for each area of business, including where there was overlaps in responsibilities

— Do you have in place clear role profiles or job descriptions to ensure responsibilities, boundaries or overlaps are clear?

Legal entity MI and Reporting

— There was an absence of legal entity specific Management Information

— Do you have sufficient MI that is legal entity focused?



Culture

— It was often unclear who was responsible for culture

— How is the ‘right’ culture embedded and measured at your firm?

Compliance and ownership

— It was often unclear who was responsible for compliance and operational effectiveness of the regime in business as usual (BAU)

— Given the need to involve different functions, are all relevant stakeholders engaged and clear on who will own each aspect of the regime, and the regime as a whole?

Programme governance

— Delivery teams often didn’t anticipate the necessary funding or resourcing that would be required in BAU

— Do you have a robust implementation plan, sufficient resources, strategic sponsorship and clear oversight?

How can KPMG help?

There are a number of ways in which KPMG professionals can help provide support to firms to ensure they are prepared for the SMCR.

Programme design and delivery

— Design of your SMCR implementation programme and management in BAU.

— Programme implementation and delivery; supplementing your existing team or running the full programme.

— Traceability exercises from rules to practical actions and solutions.

Templates, tools, methodologies, training

KPMG in the UK has developed a **tool kit** of the relevant templates, policies, procedures and training material required as part of the regime, as well as guidance documents. This includes:

— SoRs/Job descriptions

— MRM templates and guidance

— SMF and Conduct Rule training

— Certification Population identification and maintenance

— Fitness and Propriety guidance

— Breach management process.

Review and assurance

— Assessment of the design of the implementation programme.

— Review of draft documents.

— Assurance and operational effectiveness reviews of programme and BAU plans.

Who is in scope?

— This will bring around 47,000 additional financial services firms and 200,000 individuals within the scope of the SMCR.

— The regime has been split in to two main parts: Core and Enhanced, with some smaller scale firms falling in to a Limited Scope. The Core regime will apply to all small to medium sized FSMA authorised firms from every sector (around 46,500). The Enhanced regime will apply to 350 of the largest investment managers and insurers. The FCA propose using the following criteria to determine which firms will fall in to the Enhanced regime:

  – 'significant investment (IFPRU) firms';
  – CASS Large firms';
  – Assets Under Management of £50 billion or more;
  – total intermediary regulated business revenue of £35 million or more per annum;
  – annual regulated revenue generated by consumer credit lending of £100 million or more per annum; and
  – mortgage lenders (that are not banks) with 10,000 or more regulated mortgages outstanding

What do you need to do?

There are three main elements to the regime, which impact three populations within a firm. Firms will need to identify the populations, submit individual applications for approval of individuals to the regulator, and train the populations on the regime and the relevant conduct rules. Below details the requirements for each regime and each population:

Regime	Core population	Enhanced population
Senior Managers Regime	— Review governance arrangements. — Identify the Senior Managers who would take the required SMFs. — Allocate the six or seven Prescribed Responsibilities. — Produce SoRs and submit regulatory applications.	— As per the core population — Allocate all additional SMFs. — Allocate the additional seven Prescribed Responsibilities. — Produce a Responsibilities Map. — Produce the relevant handover process.
Certification Regime	— Identify all certified population — Identify process for attesting that the population is fit and proper.	— As per Core population.
Conduct Rules	— Identify in scope population for Conduct Rules. — Provide training to conduct rules population on the rules.	— As per Core population.

For asset management firms

Specifically for asset managers we see there being a number of additional areas of consideration:

— Two-tiered approach: The SMCR extension recognises that proportionality is key to make this manageable both for the industry and for the regulator. Firms will be classified as Core or Enhanced, with the latter category including CASS large firms and firms with Assets Under Management of £50 billion or more. These firms will have additional requirements to comply with.

— International reach: There is no territorial limitation on the Senior Manager requirements so executives based overseas will be caught. This is particularly applicable in an industry where global operating models are commonplace and we are seeing further international consolidation.

— Strategic approach to regulatory change: Some changes within the SMCR are related to other regulatory initiatives, such as legal entity governance (MiFID II) and providing value-for-money to customers (Asset Management Market Study). Firms should adopt a strategic approach to ensure consistency across their regulatory change programmes.

— Duty of Responsibility: A “Duty of Responsibility” has been introduced which requires firms to demonstrate reasonable steps to prevent wrongdoing such as breaches of FCA requirements. This represents a significant step-up for asset managers in terms of the level of MI and evidence required to support this.

For insurers

Insurers are in a unique position as they are currently captured by a revised accountability regime, the Senior Insurance Managers Regime (SIMR), which was implemented in March 2016. The additional requirements outlined in CP14/17 & CP 17/26 are intended to more closely align the SMCR individual accountability regimes for the banking and insurance sectors.

The principles for insurers align closely with the principles set out in the regime for the wider FS sector, as described earlier in this brochure, with some differences to take account of the existing SIMR and Solvency II regimes.

The key proposed enhancements to impact insurers include:

— Introduction of a certification regime for insurers

— Application of certain Conduct Rules to all employees (apart from ancillary staff)

— A duty of responsibility for Senior Managers and Directors

— A requirement for every area, activity and management of the firm to have a Senior Manager responsible for it (other overall responsibility — SMF18)

Next steps

— It is important for firms to engage in the consultation process before 3 November 2017 to identify and highlight where proposals will be difficult to implement in practice, but also to offer constructive insights/suggestions to the regulator on implementation.

— The FCA has indicated that they will release a technical Consultation Paper later in the year, along with more detailed Consultation Papers on the operation transition and on the template for Statements of Responsibilities (SoRs) and the process for submitting them.

— As many of the changes are likely to have a significant organisational impact it is crucial to approach this in a structured way – maximising early planning, and aiming for consistency and integration.

— It will be critical for organisations to build and design the right framework for the Certification Regime, have an appropriate Statement of Responsibilities for Senior Managers and create an effective monitoring mechanism to detect any Conduct Rule breaches - especially where there is a large population of staff.

Why KPMG?

Skilled and experienced team: We are a skilled and experienced team delivering a number of SMCR implementation programmes across the Financial Services sector. Our team members have led over 20 programmes, and been involved in assurance for a number of others, with a core team having worked on the regime for over two years.

Regulatory insight: A UK firm partner completed a secondment to the original Parliamentary Commission on Banking Standards, along with regular secondees to the FCA working on the regime. We also have regular dialogue with the regulator and frequent industry roundtables which the regulators attend.

Established frameworks: Through our experience working on SMCR engagements, we have developed guidance, tools, templates, methodologies and policy documents which can be readily deployed and adopted on SMCR programmes and incorporate our view of leading market practice and understanding of regulatory standards.

Industry benchmarking: Through our industry roundtables and contacts across the relevant Financial Services industries, KPMG professionals can bring market insight and peer group comparison.

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

Mike Walters
Head of FRM and IM lead, Partner
T: +44 (0) 20 7694 4987
E: mike.walters@kpmg.co.uk

David Yim
Asset Management Assurance Services, Partner
T: +44 (0) 20 7311 5973
E: david.yim@kpmg.co.uk

David Miller
Insurance, Partner
T: +44 (0) 20 7694 2253
E: david.miller@kpmg.co.uk

Neville Dastoor
Consumer Credit, Director
T: +44 (0) 113 231 3423
E: neville.dastoor@kpmg.co.uk

Warren Mead
FinTech, Partner
T: + 44 (0) 20 7311 5675
E: warren.mead@kpmg.co.uk

Suvro Dutta
Banking, Partner
T: +44 (0) 20 7311 1466
E: suvro.dutta@kpmg.co.uk

Anthony Donohoe
Banking, Director
T: +44 (0) 20 7311 1570
E: anthony.donohoe@kpmg.co.uk

kpmg.co.uk

Designed by CREATE | CRT084016 | July 2017