



Senior Managers Regime

1 RESPONSIBILITY AND ACCOUNTABILITY

In response to a number of scandals in the financial sector, and a perceived lack of accountability relating to the decisions of senior individuals in large financial firms operating under the Approved Persons Regime (APER), the UK government proposed a need for change.

The Financial Conduct Authority and Prudential Regulatory Authority (the 'Regulators') were jointly tasked with creating a regime that properly apportioned responsibility and held accountable those senior individuals who make decisions at the highest level. The solution was the Senior Managers Regime (SMR) - an improved level of due diligence and regulatory measures to ensure those working at the top tier of management are both suitable and held to account over their decisions.

2 SENIOR MANAGERS AND CERTIFICATION REGIME

In March 2016 after extensive consultation between the Regulators and business, the Senior Management Regime went live across impacted firms in the UK. SMR requires firms to identify those responsible for making decisions at the highest level, and map out the responsibilities associated with that role. Those wishing to occupy a Senior Management Function (SMF) require an appropriate level of due diligence in order to ascertain whether they have the appropriate 'fitness and propriety'.

The expectation is that firms will satisfy themselves that an individual is both fit and proper to carry out these roles prior to submitting applications to the Regulators for pre-approval. Among the factors that a firm should consider would be the individual's education, qualification, criminal history, financial propriety, business interests and previous conduct in roles.

The move from APER to the SMR enabled the Regulators to focus their resources on the highest level of management in RAPs (Relevant Authorised Persons) and avoid spreading themselves too thinly. This did however result in a reduction in the number of individuals who had previously required pre-approval. As a result the Regulators proposed that financial firms operating under the Senior Managers Regime should create a parallel system of governance called the Certification Regime.

The Certification Regime requires the financial institution itself to take on the responsibility of regulator. Firms are required to identify those members of staff that hold a significant harm function and establish whether they are appropriately qualified and suitable to occupy such a role. Once installed, firms must monitor the individual's suitability through the award of an annual certificate, demonstrating the individual continues to be deemed suitable to perform the role. This in turn echoes an important sentiment of the Senior Manager and Certification Regime of a need for 'ongoing fitness and propriety.'



3 SENIOR INSURANCE MANAGERS REGIME

The insurance sector have also made changes to their accountability system by introducing the Senior Insurance Managers Regime. These changes seek to embed the requirements of Solvency II by embracing a stricter levels of governance within insurance institutions. Those in the most senior positions must undergo due diligence undertaken by their firms prior to seeking approval from the Regulators.

In terms of the due diligence firms are required to perform, in assessing whether an individual can carry out a Senior Insurance Manager Function, they are broadly similar to those undertaken to satisfy the requirements mentioned in Section 2 of this document in relation to the Senior Managers Regime (which relates to the banking sector).

4 REGULATORY REFERENCES

In September 2016 the FCA and PRA published final rules on regulatory references which must be implemented by the 7th March 2017.

The policy paper PS16/22 covers topics such as the:

- Extension of regulatory referencing to cover Significant Harm Functions
- Duty to obtain references from overseas employers
- Obligation to seek references going back six years
- Duty for previous employers to update a current employer for whom they have already provided a reference, should adverse information comes to light (where employer is FCA authorised firm)
- Reference template (to standardise regulatory references across the industry)

Please visit the link below for further details on regulatory references:

<https://www.fca.org.uk/publications/consultation-papers/strengthening-accountability-banking-insurance-reg-refs>

5 FURTHER INFORMATION

Vero have experience in supporting financial and insurance sector firms with the implementation of the Senior Managers Regime and the Senior Insurance Managers Regime, devising solutions for their screening needs. We also maintain an extensive library of documents relating to screening specific topics, including legislation and regulation. If you require further information on this or any other topic, please contact your Client Relationship Manager or get in touch via the 'contact us' page on our website.