

The Senior Managers and Certification Regime: Guide for insurers

July 2018

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1 Introduction

How this guide will help you

This guide is a summary of the FCA's rules and guidance on the Senior Managers & Certification Regime (SM&CR). It gives an overview of how the SM&CR works and how we will move firms and individuals from the existing Approved Persons Regime (APR) to the new SM&CR.

The guide brings together what we consulted on in Consultation Paper (CP) 17/26 and CP17/41 with the changes that we made in response to feedback, as set out in PS18/15.

It isn't a substitute for reading the relevant Handbook requirements, but we have provided cross-references to where you can find further information wherever possible.

There are also questions and things for you to consider when applying the SM&CR. These shouldn't be treated as a tick box exercise and we expect you to consider how applying these requirements in your firm will support the aims of the SM&CR.

If there are differences between this guide and our Handbook rules and guidance, the rules and guidance take precedence. References in this Guide to rules and guidance in our Handbook are based on the near-final rules published in PS18/15.

Who the guide is for

The SM&CR will apply to all insurers and reinsurers regulated by the FCA and the PRA. It will specifically apply to:

- **Solvency II firms:** (all firms in scope of the UK rules implementing the Solvency II Directive). This includes the Society of Lloyd's, managing agents, incoming branches of non-UK firms and Insurance Special Purpose Vehicles (ISPVs)
- **Non-Directive firms (NDFs):** All insurers outside the scope of the Solvency II Directive (referred to in this Guide as Non-Directive firms or NDFs). A small NDF is a firm where the value of assets for all the regulated activities it carries out is £25,000,000 or less. NDFs over this threshold qualify as large NDFs
- **Small run-off firms:** All insurers with less than £25,000,000 in technical provisions that no longer have permission to write or acquire new business. This category also includes firms are not treated as Solvency II firms because they have had the rules which implement the Solvency II Directive dis-applied to them (Rule 2 of the PRA's Rulebook 'Solvency II firms: Transitional Measures'). References to run-off firms in this guide include transitional firms

The SM&CR won't apply to Appointed Representatives. They will continue to be subject to the Approved Persons Regime.

Context

The SM&CR introduces changes to how we regulate people working in financial services. It will replace the revised APR. Appointed Representatives (that are not also FSMA firms) are an exception and will remain subject to the APR.

The SM&CR aims to reduce harm to consumers and strengthen market integrity, by creating a system that enables firms and regulators to hold people to account. As part of this, the SM&CR aims to:

- encourage staff to take personal responsibility for their actions
- improve conduct at all levels
- make sure firms and staff clearly understand and can show who does what

In March 2016, we replaced the APR with the SM&CR for banking firms. The original legislation didn't cover insurers. However, considering the risks that such firms pose, and as part of implementing the EU Solvency II Directive's guidance on systems of governance, the Prudential Regulation Authority (PRA) introduced the Senior Insurance Managers Regime (SIMR). We revised APR to complement the PRA's proposals.

SIMR and the APR revisions came into force on 7 March 2016. In May 2016, the Bank of England and Financial Services Act 2016 made changes to FSMA that required us to extend the SM&CR to all firms authorised to provide financial services under FSMA.

FSMA

FSMA is the Financial Services and Markets Act 2000, which is an Act of the Parliament of the United Kingdom.

From 10 December 2018, the revised APR will be replaced by the SM&CR for insurers. The SM&CR consists of 3 parts, which apply on a legal entity basis:

- the Senior Managers Regime (SMR), which focuses on individuals who hold key roles or have overall responsibilities for whole areas of relevant firms
- the Certification Regime, which applies to other staff who could pose a risk of significant harm to the firm or any of its customers
- the Conduct Rules, which are high level requirements that hold individuals to account

What this guide covers

Part 1 of this guide explains:

- the different types of insurers under the SM&CR
- the Senior Managers Regime, including Senior Management Functions, Prescribed Responsibilities, and what firms and Senior Managers need to do

- how the Senior Managers Regime applies to different types of insurers
- the Certification Regime, fitness and propriety, and Conduct Rules

Part 2 of the guide explains:

- implementation timescales and parts of the regime that will be implemented gradually
- how Approved Persons will move into new SMFs

You can use this guide to:

- familiarise yourself with the terms and tools under the SM&CR
- find out how the SM&CR applies to your firm type

You may want to read this guide alongside PS18/15, which answers the specific feedback and questions that we got to our consultation papers on the SM&CR.

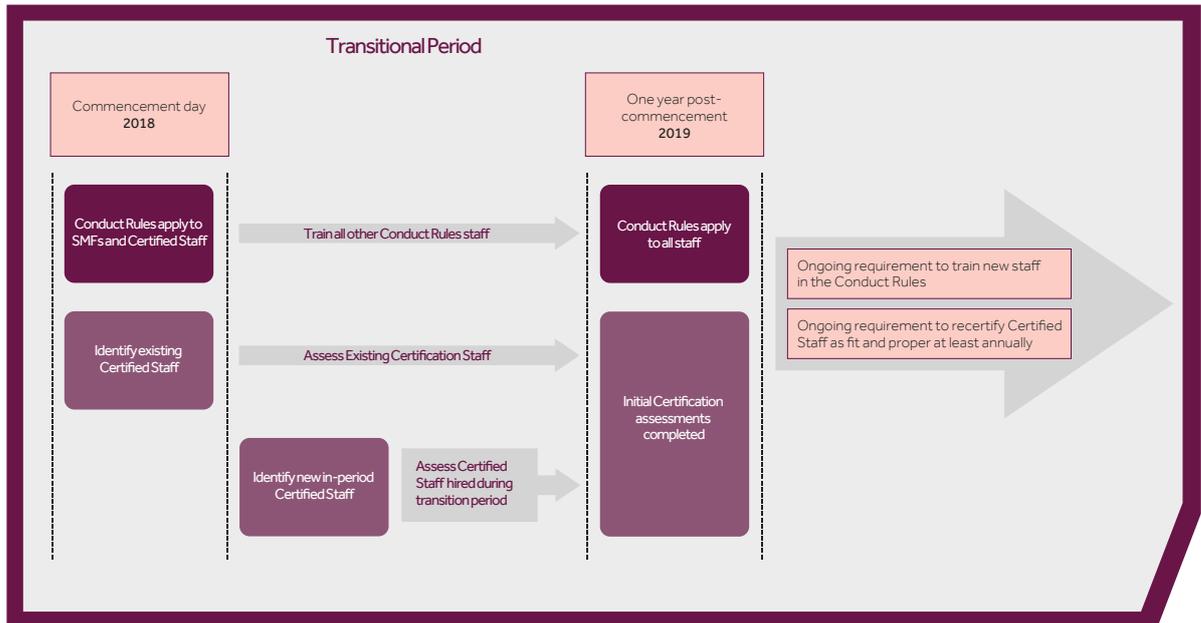
Next steps and implementation dates

Firms affected by these changes will move to the new regime from 10 December 2018.

There are also 2 transitional provisions to help firms move to the new regime:

- firms will have to identify their Certification Staff ahead of 10 December, but have 12 months from the Commencement date to complete the initial certification process (read Section 7 for information on the Certification Regime)
- Senior Managers and Certification Staff will need to have been identified and trained on the Conduct Rules ahead of 10 December and abide by these from this date. Firms will have 12 months to train their other staff on the Conduct Rules (read Section 9 for information on the Conduct Rules)

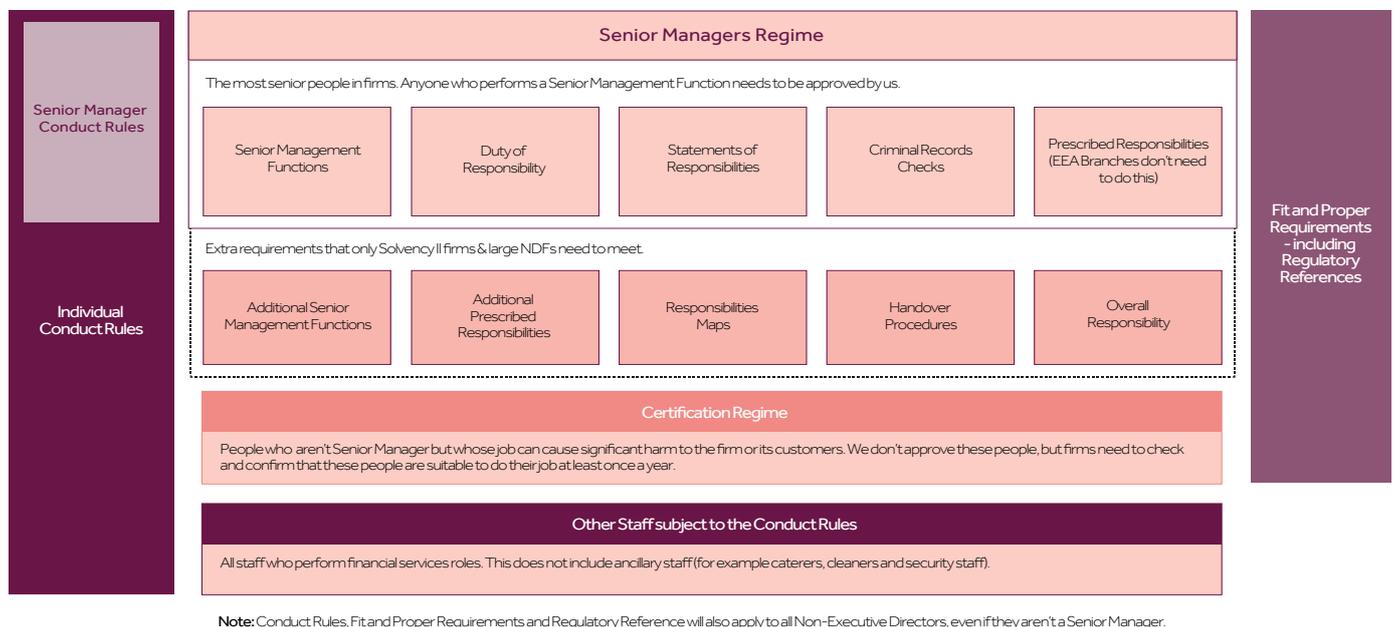
Figure 1: Summary of transitional arrangements



2 Overview of the regime

To help you understand our rules, we've provided:

- a diagram showing the key elements of the regime for all firms (see below)
- a summary of the SM&CR tools
- an SM&CR readiness checklist



Summary of the SM&CR tools

Table 1: Summary of the SM&CR tools

Tools	Solvency II & Large NDFs	Small NDFs & Small Run – off firms	EEA Branches	Non-EEA Branches	ISPVs
Senior Management Functions ¹ (FCA only)	SMF3 - Executive Director SMF18 - Other Overall Responsibility SMF16 - Compliance Oversight SMF17 - Money Laundering Reporting Officer SMF13 - Chair of Nominations Committee SMF15 - Chair of the With – Profits Committee ² SMF23b - Conduct Risk Oversight Officer (Lloyd's)	SMF3 - Executive Director SMF16 - Compliance Oversight SMF17 - Money Laundering Reporting Officer	SMF21 - EEA Branch Senior Manager SMF17 - Money Laundering Reporting Officer	SMF3 - Executive Director SMF16 - Compliance Oversight SMF17 - Money Laundering Reporting Officer SMF22 - Other Local Responsibility function	SMF3 - Executive Director SMF16 - Compliance Oversight
Duty of Responsibility	Applies to all firms				
Prescribed Responsibilities	19 in total, 3 FCA only	9 in total, 3 FCA only	N/A	14 in total, 3 FCA only	4 in total, 2 FCA only
Statements of Responsibilities	Applies to all firms				
Responsibilities Maps	✓	✗	✓	✓	✗
Handover Procedures	✓	✗	✗	✗	✗
Overall Responsibility	✓	✗	✗	✓	✗
Certification Regime	Applies to all firms				
Fit and Proper	Applies to all firms				
Conduct Rules	Relevant to all firms				

1 Note that these functions only apply where the firm already has someone fulfilling the role or if it is a required function for the firm type

2 Note this includes the person(s) responsible for the with-profits advisory arrangement where relevant

SM&CR readiness checklist

The checklist below isn't exhaustive, but highlights some key questions that firms may want to think about when preparing for the new regime.

The SM&CR key questions

The SMR & Prescribed Responsibilities (Section 4, The Senior Managers Regime: overview for all firms)

All firms

Is my firm a Solvency II firm, large NDF, small NDF, small run-off firm or ISPV?

Have I identified all the entities in the group that are caught by the regime?

Do I know who will be a Senior Manager at my firm?

Do I understand the implications of the SM&CR being set up at legal entity level? Does this mean I need to reassess who the Senior Managers will be at my firm?

Do I need to change any existing approvals, or add new ones, ahead of conversion? Do I understand what I need to do, and which forms are required, to amend these where appropriate?

Do I know which of my current Approved Persons will no longer be approved (ie which APR approvals will lapse)?

Do I know the Senior Managers responsible and accountable for the firm's key activities?

Does each of my firm's Senior Managers have a Statement of Responsibilities (SoR)?

Have all of the Prescribed Responsibilities (PRs) applicable to my firm been allocated to the relevant Senior Manager and clearly included in their SoR?

Do you know which of your Senior Managers is accountable for your outsourced functions?

Extra elements for Solvency II firms and large NDFs (Section 4, Extra requirements for Solvency II and large NDFs)

Which additional Senior Management Functions do I need to allocate?

Has the firm prepared and submitted the following documents to the FCA by the deadline?

- A Management Responsibilities Map
- Statements of Responsibilities for each of the firm's Senior Managers
- A Form K, notifying the FCA of which currently approved individuals need to be converted to a mapped Senior Management Function.

Do I know how to submit these documents?

Am I aware of the implications if my firm missed the deadline?

Has every activity, business area and management function been allocated to a Senior Manager under the Overall Responsibility requirement?

Have the additional PRs for Solvency II firms and large NDFs been assigned to appropriate Senior Managers?

Does my firm have appropriate Handover Procedures in place?

The Certification Regime and Fitness and Propriety Checks (Sections 7 and 8)

Do I know which of the Certification Functions apply to my firm?

Can I identify the individuals within my firm that need to be certified on an annual basis?

How might the annual fitness and propriety checks for Certification staff and Senior Managers fit into my firm's existing HR processes?

Regulatory References and Criminal Records Checks (Section 8, Regulatory references for Senior Managers and Certified persons)

How do the new Criminal Records Checks and Regulatory Reference Requirements fit into my firm's recruitment processes?

Does my firm have in place the appropriate processes to obtain Criminal Records Checks for new Senior Managers? Eg is my firm registered with the Disclosure and Barring Service?

Conduct Rules (Section 9)

Can I identify my firm's ancillary staff (ie those to whom the Conduct Rules do not apply)?

Have I identified all 'other conduct rules staff' (all other employees, except for ancillary staff)?

Do I understand the Conduct Rules training and notification/reporting requirements for Senior Managers and all other staff?

3 Terms used in this guide

Term	Description
Ancillary staff	Employees who aren't covered by the Conduct Rules, such as cleaners, receptionists, catering staff and security staff.
Certification Function	A function performed by employees who are not Senior Managers but who could pose a risk of significant harm to the firm or its customers. The Certification Functions are defined in our Handbook, but we don't approve these people.
Certification Regime	This describes the overarching regime that covers Significant Harm Functions.
Criminal records checks	A requirement for firms to conduct criminal records checks for Senior Managers and NEDs (where a fitness requirement applies) as part of checking that they are fit and proper.
Duty of Responsibility	Every Senior Manager will have a Duty of Responsibility as a result of FSMA. This means that if a firm breaches one of our requirements, the Senior Manager responsible for that area could be held accountable if they didn't take reasonable steps to prevent or stop the breach.
Employee	'Employee' is defined in FSMA 63E as a person who: personally provides, or is under an obligation personally to provide, services to A under an arrangement made between A and the person providing the services or another person, and b) is subject to (or to the right of) supervision, direction or control by A as to the manner in which those services are provided.
Fit and proper requirements	Firms must make sure all Senior Managers and people performing Certification Functions (ie people under the Certification Regime) are fit and proper to perform their role. This must be done on appointment and at least once a year.
Handover procedures	A firm must take all reasonable steps to make sure a new Senior Manager has the information/materials they need to do their job.
Individual Conduct Rules	These are basic standards of behaviour that apply to all individuals performing financial services activities in firms. The Individual Conduct Rules therefore apply to Senior Managers, Certified staff and all other staff, excluding ancillary staff. Firms need to train their staff on the conduct rules and how they apply to them. Firms will need to report breaches of Conduct Rules resulting in disciplinary action to us every year.
Other Overall Responsibility Function	An SMF that applies where a senior executive is the most senior person responsible for an area of the firm's business, but they don't perform any other SMF.
Overall Responsibility	A requirement for every area, activity and management function of the firm to have a Senior Manager with Overall Responsibility for it. This should be limited to regulated and unregulated financial services activities only.
Prescribed Responsibilities (PRs)	FCA-defined responsibilities that must be allocated to an appropriate Senior Manager.
Regulatory references	Information that firms need to share with each other when an employee or director moves from one firm to another (candidates for Senior Manager Functions, NEDs and Certification Functions).
Responsibilities Maps	A document setting out a firm's governance and management arrangements, and how responsibilities are allocated to individuals within the firm.
Senior Management Functions (SMFs)	The roles where the people doing them need to be approved by the FCA. These are defined in our Handbook.

Senior Manager Conduct Rules	<p>These are additional Conduct Rules that apply to all Senior Managers. Firms need to train Senior Managers so they understand what the Conduct Rules are and how they apply to them.</p> <p>Firms will need to report breaches of all Individual and Senior Manager Conduct Rules by Senior Managers resulting in disciplinary action to us within 7 days.</p>
Senior Managers	<p>The people who perform an SMF. These people need to be approved by the FCA.</p>
The Senior Managers Regime (SMR)	<p>This includes SMFs, SoRs, Duty of Responsibility, Fit and Proper, Conduct Rules, Prescribed Responsibilities (PRs), Regulatory References and criminal records checks.</p> <p>For Solvency II firms (including large Non-Directive Firms), it also includes Responsibilities Maps, handover procedures and Overall Responsibility.</p>
Statement of Responsibilities (SoRs)	<p>A document that every Senior Manager needs to submit with their application for FCA approval, setting out what they are responsible and accountable for.</p> <p>This needs to be kept up to date. Firms should have these documents ready when the SM&CR commences.</p>

Part One: How the SM&CR will apply to the different types of insurers?

Sections	Who should read this section
Section 4 , The Senior Managers Regime: overview for all firms	All insurers
Section 5 , How the Senior Managers Regime applies to Solvency II firms & large NDFs	All insurers, excluding UK branches of EEA firms (EEA branches) and third-country branches (non-EEA branches)
Section 6 , How the Senior Managers Regime applies to small NDFs, small run-off firms and ISPVs	Small NDFs, small run-off firms and Insurance Special Purpose Vehicles (ISPVs)
Section 7 , Certification Regime	All insurers
Section 8 , Fit and Proper requirements	All insurers
Section 9 , Conduct Rules	All insurers
Section 13 , How the Senior Managers Regime applies to UK branches of foreign firms	EEA branches and non-EEA branches

4 The Senior Managers Regime: overview for all firms

This Section explains how the Senior Managers Regime (SMR) will apply to Solvency II firms, large Non-Directive firms (NDFs), small NDFs, small run-off firms and Insurance Special Purpose Vehicles (ISPVs). Specifically:

- what Senior Management Functions are
- what all firms and Senior Managers need to do under the SMR
- what a Statement of Responsibilities (SoR) is and how it should be used
- what Prescribed Responsibilities (PRs) are and how they should be allocated
- the extra requirements that Solvency II firms and large NDFs need to apply under the SMR

The following Chapters then explain how these SMR requirements apply to different types of the SM&CR firms.

Senior Management Functions (SMFs)

A Senior Management Function (SMF) is a new type of controlled function set out in Financial Services and Markets Act 2000 (FSMA). Under FSMA s. 59AZ, a function is a 'senior management function' as 'in relation to the carrying on of a regulated activity by [a firm], if the function will require the person performing it to be responsible for managing one or more aspects of the [firm's] affairs, so far as relating to the activity, and those aspects involve, or might involve, a risk of serious consequences for the [firm], or for business or other interests in the United Kingdom'. Which ones will apply to you will depend on what SM&CR firm type you are. They are explained in [Sections 5](#), [Section 6](#) and [Section 7](#).

We call the people who hold these functions Senior Managers. They are the most senior people in a firm with the greatest potential to cause harm or impact upon market integrity.

We decide which roles are FCA SMFs (as limited by the description in FSMA). These are in addition to those roles designated by the PRA.

We make particular functions SMFs so that we know who a firm's most senior decision makers are, and to make sure responsibilities are clearly allocated to key individuals. The list of SMF functions isn't meant to change how firms organise themselves. Firms only need to have SMFs for functions that they currently have and don't need to hire people to fill roles that would not otherwise exist.

The only exception to this is for FCA Required Functions. The term 'Required Function' is an existing definition under APR that we have carried over to the SM&CR. In summary, it's intended to categorise those functions that we require some types of firms to have under other sections of our Handbook. For example, under the Solvency II Directive, some firms need to have a Compliance Oversight Function. If a firm doesn't currently need to comply with these requirements – ie if they don't need to have someone in the Compliance Oversight or MLRO functions – the SMR doesn't change this. Firms should already know whether these functions apply to them or not.

Anyone who performs an SMF needs to be approved by us before they can start their role.

The overlap rule

There may be cases where a Senior Manager is applying to perform a PRA and FCA SMF at the same time. If the function is an 'FCA governing function' as defined in our Handbook, such as the SMF3 or SMF13, an overlap rule will be applied at the point of application.

For example, if a firm is seeking approval for an SMF2 - Chief Finance Officer (CFO – PRA function) and the person will also be appointed to the Board (SMF3 – Executive Director – an FCA function) at the same time, then only one application needs to be made to the PRA. Acting as a CFO is a PRA SMF, and being an Executive Director SMF3 is an FCA governing function.

The overlap rule makes sure the approval covers both roles. The person's functions as an SMF3 – Executive Director will be included in the PRA designated SMF. In this example, the overlap rule works by dis-applying the FCA SMF3 - Executive Director function. The rule aims to reduce the administrative burden on firms by streamlining the approvals process. We work closely with the PRA on these applications to make sure FCA issues are considered fully.

The overlap function applies to FCA governing functions only. For example, if an individual is put forward for an SMF2 (a PRA function) and an SMF16 Compliance Oversight Function, which is an FCA Required Function, the firm will need to apply to both the FCA and PRA separately. In all cases, the individual's Statement of Responsibilities (SoR) would need to reflect details of all the functions and roles they perform at SMF level.

There may be cases where a Senior Manager is appointed to perform a PRA Senior Manager role, for example Chief Risk Officer and the same person is later appointed as an Executive Director, in addition to their existing role. Where this happens, you need to apply to the FCA for the person to be approved for their new responsibilities – but this won't affect their existing approval from the PRA. The person will only need one SoR but it must clearly describe all of their responsibilities under both functions.

If, at commencement, an individual holds more than one convertible function under APR, then all of the relevant functions will be converted. This is detailed in [Section 12](#) for Solvency II firms & large NDFs and [Section 13](#) for Small NDFs, small run-off firms and ISPVs.

[SUP10C.9.9G](#) of the FCA Handbook gives some examples of how the overlap rule works in practice.

Statements of Responsibilities (SoRs)

A SoR is a single document that every Senior Manager will need to have, clearly setting out their role and what they are responsible for. This is required under FSMA.

A Statement of Responsibilities document is the same in substance as a Scope of Responsibilities document, which some insurers were required to submit under the revised APR and PRA's SIMR. It has been re-named to 'Statements of Responsibilities' to be consistent with the new legislation and reduce potential confusion.

Every Senior Manager is required to have a SoR, which details what they are responsible and accountable for. We will require insurers to:

- submit SoRs with an application for approval of a new Senior Manager
- keep the SoRs up to date and re-submit them whenever there is a significant change in responsibilities

These are requirements imposed by FSMA.

Solvency II firms must keep records of their SoRs documents for 10 years. Large and small NDFs are required to keep records for 6 years.

We have existing guidance in [SUP10C](#) of our Handbook, setting out examples of what might be a significant change in responsibilities. This includes where a Senior Manager has a Prescribed Responsibility (PR) added or removed from their responsibilities, or where there is a change to how responsibilities are shared between Senior Managers. This is set out further in [Section 4](#) on Prescribed Responsibilities.

The Duty of Responsibility

Every Senior Manager will have a Duty of Responsibility as a result of FSMA. This means that if a firm breaches one of our requirements, the Senior Manager responsible for that area could be held accountable if they didn't take 'reasonable steps' to prevent or stop the breach.

The burden of proof lies with the FCA to show that the Senior Manager didn't take reasonable steps to avoid the firm's breach occurring.

When deciding whether to take action against someone based on the Duty of Responsibility, we will look at all the circumstances of the case, including the seriousness of the breach, the person's position, responsibilities and seniority, and the need to use enforcement powers effectively and proportionately. These criteria are published in the [FCA's Decision Procedure and Penalties Manual \(DEPP\)](#).

Sometimes it will be appropriate to take action against a Senior Manager, sometimes against a firm, and sometimes against both. These decisions will be made on a case by case basis, applying the criteria set out in DEPP, which is non-exhaustive.

In bringing enforcement action against Senior Managers – whether under the Duty

of Responsibility, the Conduct Rules or otherwise – we will look at the individual's SoR when deciding the extent of the Senior Manager's responsibilities, among other considerations.

You can find further guidance on enforcing the Duty of Responsibility in insurers and FCA solo-regulated firms in PS18/16.

Fit and proper requirements

Senior Managers must be fit and proper to do their jobs. We have set out what firms need to do for fitness and propriety in [Section 8](#) of this guide and the [FIT Sourcebook](#) in our Handbook.

Impact on firm governance and structure

The ultimate decisionmaking body of a firm is its governing body, acting collectively. Individual accountability under the SM&CR doesn't cut across or undermine this. However, individual Senior Managers have an important part to play in establishing and embedding the right culture and governance within firms, to improve the standard of conduct at all levels.

If a role is an SMF, this doesn't mean your firm needs to reorganise itself or hire new people to fill these specific roles. If you don't have anyone doing these jobs, the functions don't apply. The number and type of Senior Managers a firm has depends on how each firm is organised. Certain functions are required by other sections of our Handbook, so firms should make sure they continue to have people fulfilling these roles where applicable. The SM&CR is not proposing to change this.

There are new responsibilities that will be held by Senior Managers called Prescribed Responsibilities, which we discuss below. When considering the SMFs, firms should also think about how these responsibilities should be allocated.

Holding more than one SMF

It is possible to hold more than one SMF. For example, an SMF3 – Executive Director may also hold the SMF17 – Money Laundering Reporting Officer function.

Where this is the case, the person will need to apply for approval from us for each function (this can be done at the same time and using the same form for both functions). They will only need one SoR, but this must clearly describe all of their responsibilities.

Overseas Senior Managers

There is no territorial limitation on the SMR. This means that it will apply to anyone who performs a Senior Manager role, whether they are based in the UK or overseas.

Other SMR considerations

The 12-week rule

The Senior Managers Regime allows someone to cover for a Senior Manager without being approved, where the absence is temporary or reasonably unforeseen, and the appointment is for less than 12 consecutive weeks.

This rule also applies to responsibilities under the 'Overall Responsibility' requirement (explained in [Section 4](#), Overall Responsibility & the Other Overall Responsibility function).

Example: if the person approved to perform the Chief Operations Function becomes unwell and they're also the person with Overall Responsibility for the complaints-handling process, the 12-week rule allows the firm for a maximum of 12 weeks to:

- appoint a person to perform the Chief Operations Function without the new appointment being approved
- reallocate the responsibility for the complaints-handling process to the same person, or a different person, without them being approved

Outsourcing under the SMR

If your firm relies on a third party for the operational functions of the firm, your firm is still fully responsible for carrying out all of its regulatory obligations. While you may outsource the function, you can't outsource accountability for this function.

Example: If an insurer decides to outsource its internal audit or claims handling functions to third parties, they will be required to explain clearly how responsibility for oversight of these outsourced functions is allocated among its Senior Managers within the firm. In addition, firms will need to take into account the outsourcing guidance in [SYSC 13](#), as well as any directly applicable UK or EU legislation.

Applying conditions when approving Senior Managers

FSMA granted the FCA new powers to apply conditions and time limits when approving Senior Managers. We can use these powers where necessary to take action and to do so will advance our statutory objectives.

FSMA also requires us to publish a statement of our policy for these new powers, which is set out in [SUP10C](#) of our Handbook.

Under the extension of the SM&CR to insurers we are able to:

- approve a Senior Manager, but make this subject to conditions
- approve a Senior Manager for a limited time only
- change existing approvals, including imposing, changing or removing conditions or time limits

An example of where time-limited approval may apply might be where a firm needs to appoint a candidate on an interim basis, while seeking a permanent candidate for a particular function.

Circumstances where the FCA may consider imposing, changing or removing conditions might include where approval is linked to required remedial actions to be undertaken by the firm.

Prescribed Responsibilities (PRs)

What is a PR?

PRs are specific responsibilities, defined in SYSC 24 of our Handbook and the PRA's Rulebook, that a firm must give to a Senior Manager. They are in addition to the responsibilities that are an essential part of a Senior Manager's role, such as responsibilities for aspects of the business and activities and functions of the firm.

EEA branches will not need to apply the PRs, because they remain subject to Home State supervision. They will apply to all other firms.

The Senior Manager allocated a PR should be the most senior person responsible for that area in the firm. The PR must be allocated clearly and should normally be held by a single individual, except where a firm can show that dividing or sharing a responsibility is appropriate and justifiable (see below).

With the exception of the CASS responsibility, PRs cannot be allocated to individuals approved under SMF18 (Other Overall Responsibility Function).

If a firm moves a PR from one Senior Manager to another, the relevant Senior Managers' SoRs will need to be updated to reflect these changes and resubmitted to us. However, simply re-allocating PRs won't require approval.

Who the PR should be given to

These FCA and FCA-PRA shared Prescribed Responsibilities are new. They are in addition to those PRs set out by the PRA. Firms will need to consider carefully which Senior Manager is the best person to hold each of these PRs.

Each PR should be given to the Senior Manager who is the most senior person responsible for that issue. They will also need to have sufficient authority and an appropriate level of knowledge and competence to carry out the responsibility properly.

When allocating PRs, firms will need to think about who in practice is the most senior person for an issue. For example, if the person performing the Money Laundering Reporting Officer (MLRO) SMF isn't responsible for all aspects of financial crime and/or reports to a more senior individual with responsibility for financial crime matters, the PR for financial crime should be allocated to this person and not the Money Laundering Reporting Officer.

Dividing and sharing a PR

Each PR should normally be held by only 1 person. Firms will only be able to divide or share a PR in limited circumstances and where a firm can show that this is appropriate and justifiable.

If a firm divides or shares a PR, they will need to show why this is justified and confirm that this does not leave a gap. For example, it would be justifiable to share a function or responsibility as part of a job share, where departing and incoming Senior Managers work together temporarily as part of a handover, or where a particular area of a firm is run by 2 Senior Managers.

Where responsibilities are shared or divided, this will need to be clearly explained in the relevant SoRs. In general, where responsibilities are shared, each Senior Manager will be jointly accountable for those responsibilities.

Extra requirements for Solvency II and large NDFs only

Overall Responsibility & the Other Overall Responsibility function

The Overall responsibility requirements and SMF18 and SMF22 functions will only apply to Solvency II firms (including third country branches) and large NDFs. They will not apply to small NDFs, small run-off firms and ISPVs.

The Overall Responsibility requirement means that insurers will need to make sure that every activity, business area and management function has a Senior Manager with overall responsibility for it.

Overall Responsibility means a Senior Manager:

- has ultimate responsibility for managing or supervising a function
- briefs and reports to the governing body about their area of responsibility
- puts matters for decision about their area of responsibility to the governing body

This approach makes sure that there are no gaps in accountability at the most senior levels within a firm. This applies to regulated and unregulated financial services activities.

Where a senior executive is the most senior person responsible for an area of the firm's business, but they don't perform any other Senior Manager Function, they can be allocated the 'Other Overall Responsibility' function, SMF18.

For third country branches, the equivalent function is the 'Other local responsibility' function or SMF22. This will include any individuals who have local responsibility for any of the activities, business areas or management function of the branch. Therefore, if a branch has allocated local responsibility for all the activities, business areas and management functions of the branch between its other SMFs, it won't need to have any individuals approved under the Other Local Responsibility function. This is explained further in [Section 13](#).

Individuals holding either of these functions must meet the definition of SMF18.

As the SM&CR applies at the legal entity level, firms need to make sure that they identify the individual who is genuinely accountable for the entity in question.

Responsibilities Maps

The Responsibilities Map is a single document that sets out the firm's management and governance arrangements. They give an overview of the allocation of responsibilities across a firm and show that the Senior Managers' SoRs doesn't leave gaps. They also help us to identify who to speak to about particular issues and who is accountable if something goes wrong.

The requirements to produce and maintain Responsibilities Maps will only apply to Solvency II firms and large NDFs. It won't apply to small NDFs, small run-off firms and ISPVs.

We are renaming the governance map, required by SIMR for Solvency II firms and large NDFs, to a Responsibilities Map. The Responsibilities Map is essentially the same in substance as the governance map, but has been renamed to be consistent with the new legislation.

As set out in [SYSC 25](#) of our Handbook, a Responsibilities Map should include:

- names of all the firm's approved persons
- members of its governing body (and where they are different, members of the management body who are not approved persons)
- senior management and the responsibilities they hold
- responsibilities described in any current Statement of Responsibilities
- details of management and governance arrangements relating to FCA and PRA Prescribed Responsibilities
- reasons for sharing or dividing an FCA Prescribed Responsibility
- details of functions allocated that meet our Overall and Local Responsibility requirements. For example, activities, business areas and management functions that have been allocated and associated management and governance arrangements

- how the management and governance arrangements fit together with the group, where relevant. This includes reporting lines between groups, committees and other bodies within the group

Responsibilities Maps must be kept up to date and submitted alongside any application for approval that is sent to the FCA. This doesn't duplicate the PRA's requirements. We don't require firms to create 2 separate maps. We expect firms will submit the same Responsibilities Maps to both us and the PRA, depending on the role that they are seeking approval for.

Although small NDFs, small run-off firms and ISPVs don't need to produce and maintain Responsibilities Maps, these firms will need to continue to keep up-to-date records of apportionment of responsibilities in line with the requirements in [SYSC 2](#).

Handover procedures

We require Solvency II firms and large NDFs to take all reasonable steps to make sure that a person taking on a Senior Manager role has all the information and materials they could reasonably expect to have to do their job effectively. One way of doing this could be for the predecessor to prepare a suitable handover note. [SYSC 25.9](#) provides more information on Handover procedures.

Insurers must have a policy to explain how they comply with this requirement, and maintain adequate records of the steps they have taken.

5 How the Senior Managers Regime applies to Solvency II firms & large NDFs

This Section sets out how the SMR will apply to Solvency II firms and large NDFs. For how the regime will apply to small NDFs, small run-off firms and ISPVs, please refer to [Section 6](#).



Things to consider

- Does my firm have individuals who will perform relevant Senior Management Functions (SMFs)?
- Which PRs, if any, apply to my firm?
- Which Senior Manager should be allocated each PR?
- Is the PR clearly included in their SoR?
- What are my firm's activities, business area and management functions?
- Has every activity, business area and management function been allocated to a Senior Manager under the Overall Responsibility requirement?
- Do I need any individuals to be approved under the SMF18 – Other Overall Responsibility Function, if they have Overall Responsibility for an area but aren't already a Senior Manager?
- Are Overall Responsibilities clearly included in Senior Managers' SoRs?
- Does my firm have in place the appropriate Handover Procedures?

Solvency II firms and large NDFs SMFs

There are 5 FCA Executive and 2 Oversight Senior Management Functions for Solvency II firms and large NDFs. These are set out in the tables below.

We have listed both the FCA and PRA functions in the table below for completeness.

Table 2: Executive Senior Management Functions - Solvency II firms & large NDFs

Function Name	Description
SMF3 – Executive Director	A director of a firm, other than a Non-Executive Director.
SMF16 – Compliance Oversight	This is the person responsible for the compliance function in the firm and reporting to the governing body on this.
SMF17 – Money Laundering Reporting Officer	This is the person who has responsibility for overseeing the firm's compliance with the FCA's rules on systems and controls against money laundering.
SMF18 – Other Overall Responsibility	<p>This function applies where a senior executive is the most senior person responsible for an area of the firm's business, but they don't perform any other SMF.</p> <p>Many firms won't need this function, as the people ultimately responsible for everything the business does will already be captured by other SMFs. However, it gives flexibility and recognises the diversity of business structures in different types of firms. This is discussed in more detail below in the section on Overall Responsibility.</p>
SMF23b – Conduct Risk Oversight Officer (Lloyds only)	<p>This function will be responsible for overseeing the conduct of business standards required by the Society for the Managing Agents that write business at Lloyd's.</p> <p>Our aim is that a Senior Manager in Lloyd's is clearly accountable for monitoring and overseeing Managing Agents' compliance with the Lloyd's conduct of business standards.</p> <p>This accountability won't overlap with the accountabilities that SMFs in Managing Agents must have. Senior Managers in Managing Agents have a role to play in ensuring the highest standard of conduct within their firms. They should already be accountable for reducing conduct of business risks. This won't change.</p>

PRA Executive Senior Management Functions (for information)

SMF1 – Chief Executive

SMF2 - Chief Finance Function

SMF4 - Chief Risk Function

SMF5 - Head of Internal Audit

SMF6 - Head of Key Business Area

SMF24 - Chief Operations

Under the SM&CR, only Non-Executive Directors (NEDs) that perform specific roles will be Senior Managers.

Conduct Rules, Fit and Proper Requirements and Regulatory References will also apply to all Non-Executive Directors, even if they aren't a Senior Manager.

Table 3: Oversight Senior Management Functions – Solvency II firms & large NDFs

Function Name	Description
SMF13 – Chair of Nominations Committee	If the firm has a Nominations Committee, this is the person who chairs this committee.
SMF15 – Chair of the With-Profits Committee or the person(s) responsible for the with-profits advisory arrangement	If the firm has a with-profits committee, this is the person who chairs this committee. The person(s) responsible for the with-profits advisory arrangement are also covered by the definition of the chair of the with-profits committee.
PRA Oversight Senior Management Functions (for information)	
SMF7 - Group Entity Senior Manager	
SMF9 - Chair of the governing body	
SMF10 - Chair of Risk Committee	
SMF11 - Chair of Audit Committee	
SMF12 - Chair of Remuneration Committee	
SMF14 - Senior Independent Director	
SMF20 - Chief Actuarial Function	
SMF20a - With-Profits Actuary	
SMF23 - Chief Underwriting Function	
SMF23a - Underwriting Risk Oversight Function (Lloyds only)	

PRs for Solvency II firms and large NDFs

- The FCA and PRA have 19 PRs in total. Of these 19 PRs:
- 7 are shared between the PRA and the FCA
- 9 have been allocated by the PRA only
- 3 are FCA only:
 - a new PR for the firm’s performance of its obligations under the Code of Conduct (COCON), to make sure the firm trains its staff in the Conduct Rules and complies with the FCA notification requirements
 - a CASS PR (although this is only applicable where there is an underlying obligation on the firm to comply with these rules)
 - a PR for preventing Financial Crime

Table 4: PRs for Solvency II firms & Large NDFs

Handbook PRs Reference	PRA, FCA or dual	Prescribed Responsibilities
A	Dual	Performance by the firm of its obligations under the Senior Managers Regime, including implementation and oversight
B	Dual	Performance by the firm of its obligations under the Certification Regime
C	Dual	Compliance with the requirements of the regulatory system about the Responsibilities Map
F	Dual	Induction, training and professional development of all members of the firm's governing body
G	Dual	Induction, training and professional development of all persons performing designated senior management functions on behalf of the firm other than members of the governing body and key function holders
J-2	Dual	Oversight of Internal Audit (IA) at firms that outsource their IA to a third party
N	Dual	Whistleblowing (The whistleblowers' champion's allocated responsibilities are set out in SYSC 18.4.4R. This responsibility doesn't apply to a firm that is not required to have a whistleblowers' champion).
B-1	FCA	Responsibility for the firm's performance of its obligations under the Code of Conduct (COCON) (in terms of training and regulatory reporting)
D	FCA	For the firm's policies and procedures for countering the risk that the firm might be used to further financial crime
Z	FCA	Overall responsibility for the firm's compliance with CASS
H	PRA	Overseeing the adoption of the firm's culture
I	PRA	Leading the development of the firm's culture by the governing body as a whole
O	PRA	Management of the allocation and maintenance of the firm's capital and liquidity
Q	PRA	Production and integrity of the firm's financials and its regulatory reporting
T	PRA	Development and maintenance of the firm's business model by the governing body
T-2	PRA	Performance of the firm's Own Risk and Solvency assessment (ORSA)
U	PRA	Performance of the firm's obligations under Fitness and Propriety in the PRA Rulebook
X	PRA	Outsourced operational functions including systems and technology

The 7 dual PRs in Table 4 indicate areas where both regulators have an interest in how these responsibilities are being discharged. We expect each of these responsibilities to be allocated to an SMF.

The 9 PRA PRs are primarily focused on the PRA's objectives for prudential soundness of firms. For example, the PRs on 'overseeing the adoption of the firm's culture' and 'leading the development of the firm's culture by the governing body as a whole' were introduced by the PRA under the SIMR and have a prudential focus. We view such responsibilities broadly and we think that the whole firm, from the governing body down, is responsible for these. Therefore, we have not introduced an equivalent conduct-focused PR for one individual.

In [Section 11](#), we explain how the CASS PR interacts with the CASS Oversight Function in the Certification Regime.

Extra requirements that only apply to Solvency II firms and large NDFs

As set out in [Section 4](#), there are some extra requirements under the SMR that only Solvency II firms and large NDFs will need to apply:

- Overall responsibility
- Responsibilities maps
- Handover procedures

6 How the Senior Managers Regime applies to small NDFs, small run-off firms and ISPVs

This Section sets out how the SMR will apply to small NDFs, small run-off firms, and ISPVs. For how the regime will apply to Solvency II firms and large NDFs, please refer back to [Section 5](#).



Things to consider

- Does my firm have individuals who will perform relevant Senior Management Functions (SMFs)?
- Which PRs apply to my firm?
- Which Senior Manager should be allocated each PR?
- Is the PR clearly included in their SoR?

Small NDFs

SMFs in small NDFs

The application of the SM&CR to small NDFs is designed to be proportionate. There are 3 FCA Senior Management Functions for small NDFs and these are set out in the table below.

We have listed both the FCA and PRA functions in the table below for completeness.

Table 5: SMFs for small NDFs

Function Name	Description
FCA Senior Management Functions	
SMF3 – Executive Director	A director of a firm, other than a Non-Executive Director.
SMF16 – Compliance Oversight	This is the person responsible for the compliance function in the firm and reporting to the governing body on this.
SMF17 – Money Laundering Reporting Officer	This is the person who has responsibility for overseeing the firm’s compliance with the FCA’s rules on systems and controls against money laundering.
PRA Senior Management Functions (for information)	
SMF1 - Chief Executive Function	
SMF2 - Chief Finance Function	
SMF20a - With-Profits Actuary Function	
SMF26 - Head of small run-off firm	

We have not applied requirements relating to Overall Responsibility and SMF 18 allocation to small NDFs, small run-off firms and ISPsVs.

We won't require approval for the Chair of the Nominations Committee and the Chair of the With-Profits Committee for small NDFs. Our rules don't prevent firms from establishing these committees if they wish, but their Chairs won't need approval.

PRs for small NDFs

There are fewer PRs for small NDFs, in line with our approach to make sure that the regime is proportionate.

Table 6: PRs in small NDFs

Handbook PRs Ref	FCA, PRA or dual	Prescribed Responsibilities
A	Dual	Performance by the firm of its obligations under the SMR, including implementation and oversight
B	Dual	Performance by the firm of its obligations under the Certification Regime
B-1	FCA	Responsibility for the firm's performance of its obligations under the <u>Code of Conduct (COCON)</u> (in terms of training and regulatory reporting)
D	FCA	Overall Responsibility for the firm's policies and procedures for countering the risk that the firm might be used to further financial crime
Z	FCA	Overall Responsibility for the firm's compliance with CASS
T-1	PRA	Providing the governing body with an up-to-date business plan and all relevant MI
CC	PRA	Management of the firm's financial resources
DD	PRA	Ensuring the governing body is kept informed of its legal and regulatory obligations
GG	PRA	Responsibility for the oversight of systems and controls, along with risk management policies and procedures, that are proportionate to the nature, scale, and complexity of the risks inherent in the firm's business model.

Small run-off firms

SMFs in small run-off firms

The application of the SM&CR to small run-off firms is designed to be proportionate. There are 3 FCA SMFs for small run-off firms. These will sit alongside the PRA's functions and are set out in the table below.

Table 7: SMFs for small run-off firms

Function Name	Description
FCA Senior Management Functions	
SMF3 – Executive Director	A director of a firm, other than a Non-Executive Director.
SMF16 – Compliance Oversight	This is the person responsible for the compliance function in the firm and reporting to the governing body on this.

SMF17 – Money Laundering Reporting Officer	This is the person who has responsibility for overseeing the firm's compliance with the FCA's rules on systems and controls against money laundering.
PRA Senior Management Functions (for information)	
SMF1 - Chief Executive Function	
SMF2 - Chief Finance Function	
SMF20a - With-Profits Actuary Function	
SMF26 - Head of small run-off firm	

PRs for small run-off firms

To make the SMR proportionate, there is a shorter list of PRs for small NDFs.

Table 8: Prescribed Responsibilities in small run – off firms

Handbook PRs Ref	FCA, PRA or dual	Prescribed Responsibilities
A	Dual	Performance by the firm of its obligations under the SMR, including implementation and oversight
B	Dual	Performance by the firm of its obligations under the Certification Regime
B-1	FCA	Responsibility for the firm's performance of its obligations under the <u>Code of Conduct (COCON)</u> (in terms of training and regulatory reporting)
D	FCA	Overall Responsibility for the firm's policies and procedures for countering the risk that the firm might be used to further financial crime
Z	FCA	Overall Responsibility for the firm's compliance with CASS
T-1	PRA	Providing the governing body with an up-to-date business plan and all relevant MI
AA	PRA	Oversight of systems and controls, along with risk-management policies and procedures, that are proportionate to the nature, scale and complexity of the risks inherent in the firm's business model
CC	PRA	Management of the firm's financial resources
DD	PRA	Making sure the governing body is kept informed of its legal and regulatory obligations

ISPVs

SMFs in ISPVs

To make the regime proportionate, there are 2 FCA Senior Management functions for ISPVs:

- SMF 3 – Executive Director
- SMF 16 – Compliance Oversight

We don't expect ISPVs with simple governance structures to necessarily have both of these in place.

Table 9: SMFs for ISPVs

Function Name	Description
FCA Senior Management Functions	
SMF3 – Executive Director	A director of a firm, other than a Non-Executive Director.
SMF16 – Compliance Oversight	This is the person responsible for the compliance function in the firm and reporting to the governing body on this.
PRA Senior Management Functions (for information)	
SMF1 - Chief Executive	
SMF2 - Chief Finance Function	
SMF9 – Chair of the governing body	

PRs for ISPVs

PRs will be applied to ISPVs. See Table 10 below for the list of PRs.

Table 10: Prescribed Responsibilities for ISPVs

Handbook PRs Reference	PRA, FCA or dual	Prescribed Responsibilities for ISPVs
A	Dual	Performance by the firm of its obligations under the SMR, including implementation and oversight
B	Dual	Performance by the firm of its obligations under the Certification Regime
B-1	FCA	Responsibility for the firm’s performance of its obligations under the <u>COCON</u> (in terms of training and regulatory reporting)
D	FCA	Overall Responsibility for the firm’s policies and procedures for countering the risk that the firm might be used to further financial crime

7 Certification Regime

Who should read this Section?

All firms should read this Section, as the Certification Regime applies to all insurers.

It explains:

- which functions will be included under the Certification Regime
- what firms need to do under the Certification Regime

Overview

The Certification Regime is a FSMA requirement which is being extended to all insurers. This is one of the biggest changes for insurers from the SIMR and revised APR.

It applies to people who perform certain functions, known as Certification Functions, but who are not Senior Managers. FSMA defines a Certification Function as one that 'requires the person performing it to be involved in one or more aspects of the firm's affairs, so far as relating to a regulated activity, and those aspects involve, or might involve, a risk of significant harm to the firm or any of its customers' (s63E(5) of FSMA).

Certification is not limited to regulated activities and applies to individuals within a regulated firm who meet the definition of one or more Certification Functions. If a Senior Manager performs one of these roles and it is not related to their Senior Management Function, then they will also need to be certified. We think that such instances will be uncommon in insurers.

We set out the functions that we consider to meet the FSMA definition in our Handbook. If a role is a Certification Function, insurers are required to make sure that anyone doing that role is fit and proper to do the job, and issue them with a certificate. This certification must be done at least once a year, and firms should take into account whether the individual:

- has obtained a qualification
- has undergone, or is undergoing, training
- possesses a level of competence

Certificates issued by insurers should:

- state that the authorised person is satisfied that the person is a fit and proper person to perform the Certification Function
- set out the aspects of the firm's business in which the individual is involved

Some of the staff in scope of the Certification Regime may have been previously

approved by us. We won't approve these people any more, as one objective of the Certification Regime is to reinforce that firms, rather than the regulator, are responsible for making sure their staff are fit and proper.

The same list of Certification Functions will apply to all firms. We recognise that some of the Functions already in place for banks (such as algorithmic trading and proprietary trading) are unlikely to apply in practice to insurers. In small firms, it is possible that there will be no one in the Certification Regime if there are only a handful of senior individuals (who will be Senior Managers) supported by administrative staff.

Insurers will have to identify their Certification Staff at the start of the new regime, but have 12 months from the Commencement date to complete the initial certification process.

Certification Functions

The following roles are Certification Functions, building on some of the existing roles in the revised APR. These will apply to all FSMA-authorised firms.

The Certification Regime only applies to employees of firms, as per the definition of employee in section 64A(6) of FSMA. It doesn't apply to Non-Executive Directors, for example.

Table 16: Certification Functions

<p>Significant management function (based on current CF29)</p>	<p>These individuals perform functions that would have been Significant Influence Functions under our APR.</p> <p>This includes individuals with significant responsibility for a business unit. More detail can be found in SYSC 27.7.</p> <p>These important roles can seriously impact the way the firm conducts its business and are not limited to revenue-generating business areas.</p> <p>The significant management function is described in more detail below.</p>
<p>Functions that are subject to qualification requirements</p>	<p>These are set out in our Training and Competence Sourcebook. For example, life insurers should identify individuals:</p> <ul style="list-style-type: none"> • advising on long-term care insurance contracts • overseeing administrative functions for insurance contracts that are life policies and for pension schemes • giving advice or performing activities related to pension transfers (current CF30s)
<p>Anyone who supervises or manages a Certified Person (directly or indirectly), but isn't a Senior Manager</p>	<p>This will ensure that people who supervise certified employees are held to the same standard of accountability. It also ensures a clear chain of accountability between junior certified employees and the Senior Manager ultimately responsible for that area. In practice, it means that if a firm employs a customer-facing financial adviser, for example, every manager above them in the same chain of responsibility will have to be certified (until the Senior Manager approved under the SMR is reached).</p>

Material Risk Takers	For dual-regulated insurers, these individuals are those that Solvency II firms already need to identify under Solvency II regulations on remuneration. Solvency II firms need to identify those individuals whose professional activities have a material impact on the firm's risk profile. The Certification Function does not apply to firms that are not currently subject to the Solvency II requirements on remuneration.
The client dealing function (based on the relevant elements of the current CF30 function)	<p>This function will be expanded from the current CF30 function to apply to any person dealing with clients, including retail and professional clients and eligible counterparties.</p> <p>This will cover people who:</p> <ul style="list-style-type: none"> • advise on investments other than a non-investment insurance contract and perform other functions related to this, such as dealing and arranging deal, as principal or agent, and arrange (bring about) deals in investments • act in the capacity of an investment manager and the functions connected with this • act as a bidder's representative
Proprietary traders (current CF29)	These individuals perform functions that would have been Significant Influence Functions under our Approved Persons Regime.
CASS Oversight function (current CF10a)	<p>These important roles can seriously impact the way the firm conducts its business.</p> <p>This function includes people with responsibility for:</p> <ul style="list-style-type: none"> • approving the deployment of a trading algorithm or a material part of one • approving the deployment of a material amendment to a trading algorithm or a material part of one, or the combination of trading algorithms • monitoring or deciding whether or not the use or deployment of a trading algorithm is or remains compliant with the firm's obligations <p>These roles are unlikely to apply to most insurance firms.</p>
Algorithmic trading	

The PRA has a different set of Certification Functions, although the two don't conflict:

- all Key Function Holders (KFHs)³ for all Solvency II insurers and large NDFs along with Insurance Special Purpose Vehicles
- Material Risk Takers (MRTs)⁴ – this will only apply to large⁵ Solvency II insurers and large NDFs
- individuals who are managing a Material Risk Taker

The set of Certification Functions specified by the FCA is wider than those specified by the PRA, however the functions sit alongside one another. This is to reflect the different statutory objectives of the two regulators, and recognises that there is a wider set of functions within insurers that might pose significant risks to the FCA's statutory objectives.

Significant Management Certification Function

The Significant Management Certification Function applies to someone with significant responsibility for a significant business unit. By this we mean people below Senior Managers who are responsible for business units that, on account of their size, nature or impact, are considered significant by the firm.

³ Individuals who are responsible for a 'key function' at Solvency II insurers, ie risk, actuarial, Internal Audit, Compliance and Finance.

⁴ Those 'employees' of an insurer whose professional activities have a material impact on the firm's risk profile as per the Solvency II remuneration requirements.

⁵ The PRA define 'large' as a firm with premium income of more than £1bn in each of the last 3 years, or with assets of more than £10bn at the end of the last 3 years.

The intention of the Significant Management Certification Function is to provide broad coverage of a firm's main activities below the Senior Manager layer. Firms will need to decide whether a business unit is significant. We have set out factors in our Handbook ([SYSC27.7.10](#)) for firms to consider, including:

- the size and significance of the firm's business in the UK
- the risk profile of the unit
- the unit's contribution to the firm's capital requirements
- its contribution to the profit and loss account
- the number of employees, Certification Functions or Senior Managers in the unit
- the number of customers served by the unit

For example, we expect that most insurers in the general insurance or life sector have complaints-handling business units that may be significant according to the factors listed above. Similarly, we consider underwriting to be one of the most significant business units in insurers in any sector. As a result, we would generally expect that the people below the Senior Managers layer responsible for these functions will be certified.

A business unit isn't limited to one that carries on commercial activities with customers and third parties or that generates revenue. A business unit can also be an internal support department (for example, human resources, operations or information technology).

There is further guidance in the Handbook ([Annex 1, SYSC 4](#)) on the factors that insurers should consider, as well as examples of business units that may be significant. The guidance is to prompt firms to think about how the function applies to their activities, and we don't require firms to organise themselves in this way. Additionally, some of the examples may not apply to all firms.

Performing more than one Certification Function

If someone performs more than one Certification Function, a firm needs to certify that the individual is fit and proper to carry out each function. For example, someone might carry out a function requiring a qualification, and also carry out the Significant Management Function. There might be different competencies required for the different functions, so firms need to assess that the person is fit and proper to do each role (but this can be done as part of a single assessment process).

If a Senior Manager also performs a Certification Function that is closely linked to their role as a Senior Manager, then they won't need to be certified under the Certification Regime. However, if they are performing a Certification Function that is very different to the activity they are performing as a Senior Manager, they will also need to be certified. We expect that this will not be common in practice.

Overseas employees

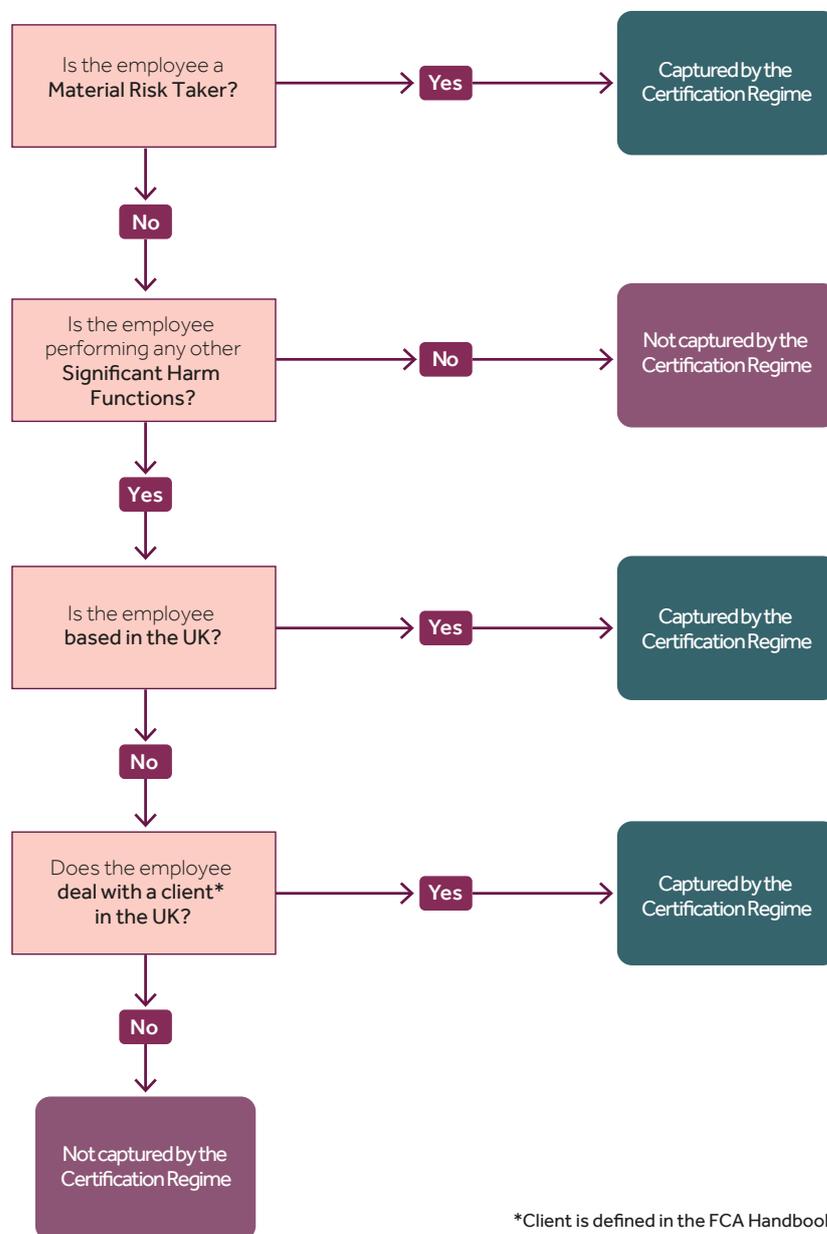
For UK firms, the Certification Regime is limited to people performing a Certification Function who are either based in the UK or, if based outside the UK, have contact with UK clients. We call this the territorial limitation.

This means that if a person based overseas doesn't deal with UK clients, but would otherwise have been carrying out one of the functions listed in Table 16, the Certification Regime won't apply to them. However, there will still be a Senior Manager who is responsible for the Certification Regime (through the PR).

The exception to this is where a person is a material risk taker under Solvency II regulations on remuneration. For these individuals, there is no territorial limitation. This means that if a person is a material risk taker, the Certification Regime will apply even if they are based overseas and do not deal with a UK client.

Figure 2 below sets this out:

Figure 2: Identifying whether a role is captured by the Certification Regime



8 Fit and Proper requirements - all insurers

This Section applies to all insurers. It explains how your firm should assess whether the following staff are fit and proper to do their job:

- Senior Managers
- Certification staff
- non-approved Non-Executive Directors

In particular, it summarises:

- the fit and proper test
- the evidence we expect you to gather when making your assessment

Introduction

A key feature of the SM&CR is to reinforce that firms need to take responsibility for their staff being fit and proper to do their jobs. Our Handbook requires firms to make sure anyone performing an SMF or a Certification Function is fit and proper for their role. This requirement will also apply to Non-Executive Directors (NEDs) who are not Senior Managers.

Once someone is in a role, firms will need to assess them on an ongoing basis, and at least once a year. This assessment should take into account relevant FCA rules around the qualifications, training, competence and personal characteristics required for that role.

The Fit & Proper test

As part of the extension of the SM&CR, we extended the application of the fit and proper guidance in the FIT part of our Handbook to cover Certification staff, as well as Senior Managers and non-approved NEDs in insurance firms.

FIT sets out detailed guidance about the types of things firms should consider as part of assessing a person's fitness and propriety. This includes:

- honesty, integrity and reputation
- competence and capability, including whether the person satisfies any relevant FCA training and competence requirements
- financial soundness

Evidence requirements

Under the SM&CR, firms must collect extra evidence when assessing candidates for Senior Manager positions, Certification Functions or NED roles (even if they're not a Senior Manager). These requirements are explained below.

Criminal records checks for Senior Managers

Under the Approved Persons application process, firms and candidates need to declare if a candidate has a criminal record (including any spent convictions the employer has a legal right to be made aware of). This will continue for Senior Manager applications. You will also need to undertake a criminal records check as part of each Senior Manager approval application. This will make sure the information the candidate has given to the firm is accurate and complete. This requirement will also apply to NEDs who are not Senior Managers where a fitness requirement already applies to them.

This means you will have to register with the Disclosure and Barring Service (DBS), and the equivalent agencies in Scotland and Northern Ireland, who run the checks. Smaller firms may need to use an umbrella organisation to access these services.

If a candidate has spent a considerable amount of time working or living outside the UK, firms should consider undertaking an equivalent check with the appropriate overseas regulatory body, where possible.

We won't mandate criminal record checks for Certification functions, but you may choose to conduct these checks for Certified and other staff where you are legally allowed to do so – this is up to firms to decide.

Regulatory references for Senior Managers and Certified persons

We require that all insurers seeking to appoint someone to a Senior Manager or a Certified role to request a regulatory reference from the candidate's past employer(s). This requirement will also apply to all NEDs who aren't Senior Managers.

These references will help you make better-informed decisions about candidates. The requirements build on existing obligations on firms to provide all information relevant to the fit and proper assessment of the hiring firm.

The regulatory reference rules require you to:

- request a reference from all previous employers in the past 6 years for people applying for Senior Manager, Certification and non-approved NED roles
- share information between firms in a standard template
- disclose certain information going back 6 years. This includes details of any disciplinary action taken due to breaches of the Conduct Rules and any findings that the person was not fit and proper
- disclose any other information relevant to assessing whether a candidate is fit and proper (eg, the number of upheld complaints), covering the previous 6 years (unless it relates to serious misconduct, in which case there is no time limit). You will need to use your judgement when considering what is relevant, on a case-by-case basis
- retain records of disciplinary and fit and proper findings going back 6 years
- not enter into arrangements that conflict with your disclosure obligations (eg non-disclosure agreements)

In addition, you will need to update regulatory references where new, significant information comes to light.

Regulatory references already apply to Solvency II firms and large Non-Directive firms (NDFs), for Approved Persons and standard NEDs. Under the SM&CR, regulatory references will now apply to Certified staff as well.

Since March 2017, small NDFs have been required to provide a reference upon request and to include all relevant information in the reference going back 6 years. Under the SM&CR, the same full set of requirements will apply to small NDFs as for Solvency II firms and large NDFs.

Summary of fitness and propriety requirements

Table 17: Summary of fitness and propriety requirements

	New hire	Internal hire (including intra-group hires)	Annual assessment
Senior Manager			
Regulatory reference	✓	✗	✗
F&P assessment	✓	✓	✓

FCA approval before commencing role	✓	✓	✗
Criminal record check	✓	✓	✗
Certification Function			
Regulatory reference	✓	✗	✗
F&P assessment	✓	✓	✓
Certificate for function	✓	✓	✓

9 Conduct Rules

All firms should read this Section as the Conduct Rules apply to all insurers. This Section sets out:

- a summary of the Conduct Rules, and who they apply to
- the training and notification requirements linked to the Conduct Rules

Overview

FSMA gave the FCA new powers to write conduct rules and apply them to all employees within a firm, not just approved individuals. These are a new set of enforceable Conduct Rules in the Code of Conduct (COCON) Sourcebook. COCON sets basic standards of good personal conduct, against which we can hold individuals to account.

As the Conduct Rules apply to staff directly, they will help shape the culture, standards and policies of firms as a whole and promote positive behaviours that reduce harm.

The Conduct Rules are intended to improve standards of individual behaviour in financial services from the top down and the bottom up. They represent a meaningful change in the standards of conduct we expect from those working in the industry. By applying the Conduct Rules to a broad range of staff we aim to improve individual accountability and awareness of conduct issues across firms.



Things to consider

- Can I identify my ancillary staff (ie those to whom the Conduct Rules don't apply)?
- Do I understand the Conduct Rules training and notification requirements?

Two tiers of the Conduct Rules

Two tiers of Conduct Rules apply to all firms.

The first is a general set of rules that applies to most employees and directors in a firm (see below for more detail on who these rules apply to). The second tier consists of rules that only apply to Senior Managers. There is also one Senior Manager rule, SC4, that applies to NEDs who are not Senior Managers.

Table 18: Conduct Rules

First Tier – Individual Conduct Rules
You must act with integrity
You must act with due care, skill and diligence
You must be open and cooperative with the FCA, the PRA and other regulators
You must pay due regard to the interests of customers and treat them fairly
You must observe proper standards of market conduct
Second Tier – Senior Manager Conduct Rules
SC1. You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively
SC2. You must take reasonable steps to ensure that the business of the firm for which you are responsible complies with the relevant requirements and standards of the regulatory system
SC3. You must take reasonable steps to ensure that any delegation of your responsibilities is to an appropriate person and that you oversee the discharge of the delegated responsibility effectively
SC4. You must disclose appropriately any information of which the FCA or the PRA would reasonably expect notice

Activities the Conduct Rules apply to

The Conduct Rules apply to a firm’s regulated and unregulated financial services activities (including any related ancillary activities - ie an activity carried on in connection with a regulated activity).

Who the Conduct Rules apply to

Conduct Rules 1- 5 will apply to the following types of role:

- all Senior Managers
- all Certification staff
- all Non-Executive Directors who are not Senior Managers (to whom, in addition to the individual Conduct Rules, the Senior Manager Conduct Rule 4 will also apply)
- all other employees, except ancillary staff (ie people who don't perform a role specific to financial services)

The list of roles that we consider ancillary and therefore out of scope of the Conduct Rules are set out below:

Ancillary Staff List
Receptionists
Switchboard Operators
Postroom Staff
Reprographics/Printroom Staff

Property/Facilities Management
Events Management
Security Guards
Invoice Processing
Audio-Visual Technicians
Vending Machine Staff
Medical Staff
Archive Records Management
Drivers
Corporate Social Responsibility Staff
Cleaners
Catering Staff
Personal Assistants and Secretaries
Information Technology Support (ie Helpdesk)
Human Resources Administrators/Processors

Training requirements

You need to make the individuals who are subject to the Conduct Rules aware that this is the case, and train them in how the rules apply to them. This is set out in [FSMA 64B](#).

Senior Managers and Certification Staff will need to have been trained and abide by the Conduct Rules from the start of the new regime, but firms will have 12 months to train their other staff on the Conduct Rules.

Conduct Rule breach reporting requirements

[FSMA 64C](#) requires firms to notify us when disciplinary action has been taken against a person for a Conduct Rules breach. Notification of disciplinary action is only required if that action was because of Conduct Rule breaches.

For SMF holders:

- we require firms to notify us within 7 business days of concluding disciplinary action using Form D (Changes to personal information/application details and conduct breaches/disciplinary action related to conduct) or Form C where the individual will no longer be approved
- where a Conduct Rules breach results in dismissal, you may use Form C and won't need to submit Form D as well

For all other staff:

- we will require the notification to be made every year using REP008 on our electronic reporting system, GABRIEL. Insurers should report in October, for the reporting year 1 September to 31 August

- firms need to make an annual notification about Conduct Rules even if there haven't been any breaches. This is known as submitting a nil return. This is to make sure firms correctly monitor and identify Conduct Rule breaches
- failure to submit will be considered a breach of your firm's reporting requirements and will result in your firm being charged a late return fee

Disciplinary action means:

- issuing of a formal written warning
- suspension or dismissal of a person
- reduction or recovery of remuneration

The new notification requirements won't change or remove firms' obligations to report concerns about an individual's conduct under existing rules and principles, such as SUP 15 and FCA Principle 11.

The SM&CR applies on a legal entity basis and our Conduct Rule reporting requirements are consistent with this. Where an individual works across more than one entity within a group, breaches should be reported under the firm in which the individual meets the definition of an employee, and was undertaking the activity related to the breach.

Under FSMA, an employee in this context is defined as:

- a person who personally provides, or is under an obligation personally to provide, services to [a firm] under an arrangement made between [a firm] and the person providing the services or another person, and
- is subject to (or to the right of) supervision, direction or control by [a firm] as to the manner in which those services are provided.

Part Two: How Approved Persons will move into Senior Management Functions under Senior Managers Regime

Sections	Who should read this section
<u>Section 10</u> , Moving insurers to the SM&CR	All insurers
<u>Section 11</u> , Solvency II firms & large Non-Directive firms (NDFs) – conversion to the Senior Managers Regime (SMR)	Solvency II firms and large NDFs
<u>Section 12</u> , Small Non-Directive firms, small run-off firms and Insurance Special Purpose Vehicles – conversion to the Senior Managers Regime	Small NDFs, small run-off firms, Insurance Special Purpose Vehicles (ISPVs)

10 Moving insurers to the SM&CR

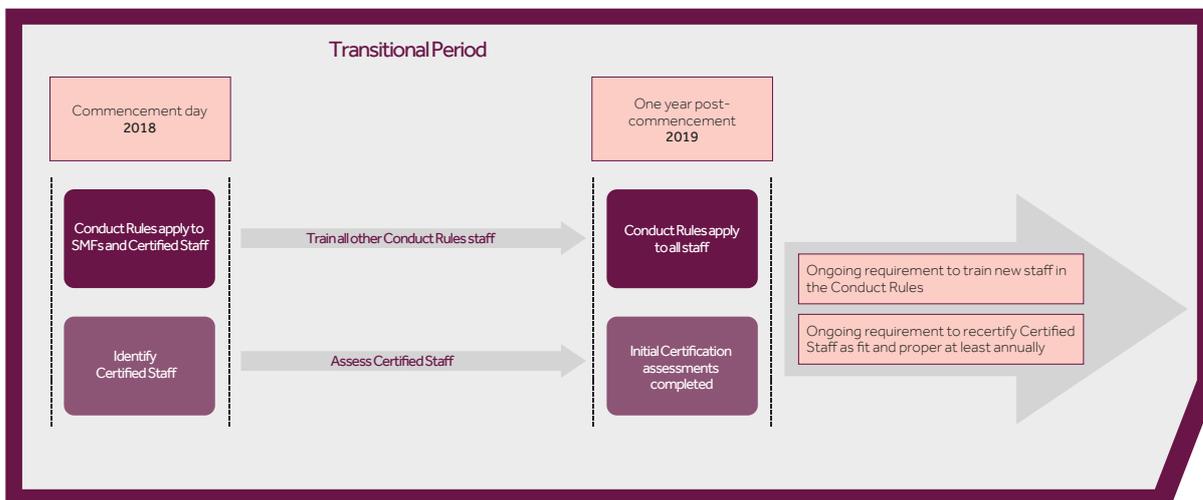
Next steps and implementation dates

Firms affected by these changes will move to the new regime from 10 December 2018.

There are also 2 transitional provisions to help firms move to the new regime:

- firms will have to identify their Certification Staff at the start of the new regime, but have 12 months from the Commencement date to complete the initial certification process (read [Section 8](#) for information on the Certification Regime)
- Senior Managers and Certification Staff will need to have been trained and abide by the Conduct Rules from the start of the new regime, but firms will have 12 months to train their other staff on the Conduct Rules (read [Section 9](#) for information on the Conduct Rules)

Timelines for moving to the SM&CR



Provisions for moving to the Certification Regime

We are implementing the rules for Certification gradually, so that firms can get used to the new regime and ensure they have time to undertake the fitness and propriety assessments. This is to ensure only appropriate people are certified and objective of SM&CR are realised.

Insurers have until 10 December 2019 to certify individuals performing a Certification Function, but must identify them by 10 December 2018.

Insurers should identify all their Certified staff and make sure they meet the Conduct Rules, when the Regime starts on 10 December 2018. Firms will then have 12 months to complete their fitness and propriety assessments and to get the certification paperwork in place.

This means that while the Conduct Rules will apply to these individuals from 10 December 2018, firms must have completed their fitness and propriety assessments (read [Section 8](#)) and certified the relevant employees by 10 December 2019 at the latest.

Firms won't be required to obtain regulatory references for existing employees who will be performing the same role after the start of the new regime.

Other Conduct Rules staff

Insurers have 12 months from the start of the regime, on 10 December 2018, to apply the Conduct Rules to their Other Conduct Rules staff. As explained in [Section 9](#), Other Conduct Rules staff are those who come under the Conduct Rules in [COCON](#), but who don't hold a Senior Management Function or Certification Function.

11 Solvency II firms & large Non-Directive firms (NDFs) – conversion to the Senior Managers Regime (SMR)

This Section sets out how we will move approved individuals at Solvency II firms and large Non-Directive firms (NDFs) from the revised Approved Persons Regime (APR) to the new Senior Managers Regime (SMR).

It also sets out timelines and the relevant application and notification forms for conversion.

How Solvency II firms & large NDFs will move to the SMR

Converting existing approvals

Solvency II firms and large NDFs will be required to notify us which individuals are to be converted to which SMFs. They will need to submit a conversion notification Form K alongside their Responsibilities Map and SoR.

We recommend you consider whether any changes to your firm's approvals are needed ahead of Commencement. This will make sure that the move to the new regime is as smooth as possible.

As explained in [Section 5](#), there are 5 FCA Executive and 2 FCA Oversight Senior Management Functions within the regime for Solvency II firms and large NDFs. These are set out in the table below. The PRA have renamed their Senior Insurance Management Functions (SIMFs) as SMFs.

Table 19: SMFs in Solvency II firms & large NDFs

Function Name	Description
SMF3 – Executive Director	A director of a firm, other than a Non-Executive Director.
SMF16 – Compliance Oversight	This is the person responsible for the compliance function in the firm and reporting to the governing body on this.
SMF17 – Money Laundering Reporting Officer	This is the person who has responsibility for overseeing the firm's compliance with the FCA's rules on systems and controls against money laundering.
SMF18 – Other Overall Responsibility	This function applies where a senior executive is the most senior person responsible for an area of the firm's business but they do not perform any other SMF. Many firms won't need this function as the people ultimately responsible for everything the business does will already be captured by other SMFs. However, it gives flexibility and recognises the diversity of business structures in different types of firms. This is discussed in more detail below in the section on 'Overall Responsibility'.

SMF23b – Conduct Risk Oversight Officer (Lloyd’s only)	This function applies to Lloyds only and is responsible for overseeing the conduct of business standards required by the Society for the Managing Agents that write business at Lloyds.
SMF13 – Chair of the Nominations Committee	If the firm has a Nominations Committee, this is the person who chairs this committee.
SMF15 - Chair of the With-Profits Committee or the person(s) responsible for the with-profits advisory arrangement	If the firm has a with-profits committee, this is the person who chairs this committee. The person(s) responsible for the with-profits advisory arrangement are also covered by the definition of the chair of the with-profits committee.

SMF23b – Conduct Risk Oversight Function

Given the size, scale and structurally-unique role of the Society of Lloyd’s, there is a specific Lloyd’s FCA Conduct Risk Oversight function. This Function will be responsible for overseeing the conduct of business standards required by the Society for the Managing Agents that write business at Lloyd’s. We want to avoid overlap with the responsibility of Managing Agents’ SMFs because these people already have accountability for reducing conduct of business risks. So this new Conduct Risk Oversight Officer will only be relevant to the Society of Lloyd’s.

Converting existing approvals at Solvency II firms and NDFs

Solvency II firms and large NDFs will have to tell us who they want to assign to the new SMFs, but they won’t have to re-apply for approval if the SMFs can be mapped directly from the revised APR.

This process doesn’t apply to (Insurance Special Purpose Vehicles) ISPVs, who will be subject to auto-conversion similar to small NDFs and small run-off firms. This is due to the size and nature of this firm type. Please see [Section 12](#) for the relevant conversion approach for ISPVs.

Conversion will happen only when the existing controlled function and the corresponding new SMF apply to the relevant firm type. Those that will convert to the new SMF need to be the most senior people in a firm with the greatest potential to cause harm. If the individual doesn’t meet the definition of the Senior Management Function that they are converting into, then they may fall into the Certification Regime (see [Section 7](#)). This applies to the current CF10a – CASS Operational Oversight Function and the CF28 – Systems and Controls Function (only applicable to third-country branches and ISPVs).

You are not required to do extra checks on these individuals when they are converted. You are already required to make sure that these individuals are, and continue to be, fit and proper. This is the same approach as we took for the SM&CR for banking firms.

Table 20 shows how we will convert people with existing approvals at Solvency II firms and large NDFs. The first column shows the existing controlled functions under the revised APR. The second column shows the new SMFs, into which a person performing the controlled function in column one will be eligible to be converted (mapped functions).

The CF30 – Customer Function will no longer be approved under the SM&CR and is not available for conversion mapping. However, it will most likely fall into the Certification Regime. CF30s at Appointed Representatives will be unaffected by these changes as they remain subject to the APR.

Table 20: Function mapping for Solvency II firms and large NDFs

Current controlled function	Possible corresponding Senior Management Function(s)
CF1 – Director	SMF3 – Executive Director SMF23b – Conduct Risk Oversight Officer (Lloyd’s only)
CF2a – Chair of the Nominations Committee	SMF13 – Chair of the Nomination Committee
CF2b – Chair of the With-Profits Committee	SMF15 – Chair of the With-Profits Committee
CF5 – Director of Unincorporated Association	SMF3 – Executive Director
CF6 – Small Friendly Society Function	SMF3 – Executive Director
CF10 – Compliance Oversight	SMF16 – Compliance Oversight
CF10a – CASS Operational Oversight Function ⁶	SMF18 – Other Overall Responsibility Function SMF22 – Other Local Responsibility Function
CF11 – Money Laundering Reporting Officer (MLRO)	SMF17 – Money Laundering Reporting Officer (MLRO)
CF28 – Systems and Controls Function ⁷	SMF22 – Other Local Responsibility Function
CF29 – Significant Management Function	SMF18 – Other Overall Responsibility Function SMF21 – EEA Branch Senior Manager Function SMF22 – Other Local Responsibility Function

The overlap rule, described in Section 4, will continue to apply for conversion purposes. For example, someone could apply to perform a Chief Finance Officer (CFO), and at the same time is intended to be an Executive Director to be appointed to the Board. Acting as a CFO is a PRA SIMF, and being an Executive Director is an FCA governing function. In this case, an overlap rule will be applied and separate approval from the FCA and the PRA is not needed.

Instead, you apply once to the PRA and the overlap rule makes sure the approval covers both roles. The person’s function as an FCA Executive Director will be included in the PRA SIMF and the firm won’t need to submit an additional Form K conversion notification, SoR and a Responsibilities Map for the SMF3 role. But, they will have to submit a SoR and a Responsibilities Map in accordance with PRA requirements.

The overlap rule only applies when the function is an FCA governing function which is applied for at the same time as a PRA function. For FCA required functions, such as the SMF16 Compliance Oversight Function; SMF17 Money Laundering Reporting Officer and SMF18 Other Overall Responsibility Function, a separate application needs to be made to the FCA alongside any PRA application. In this case, the overlap rule does not apply.

6 If a Solvency II firm or large NDF elects not to convert an individual performing a CF10a (CASS Oversight) function to SMF18 (Other Overall Responsibility) function, then this individual will be expected to be certified under the Certification Regime. The CASS prescribed responsibility should then be allocated to the Senior Manager to whom the individual reports.

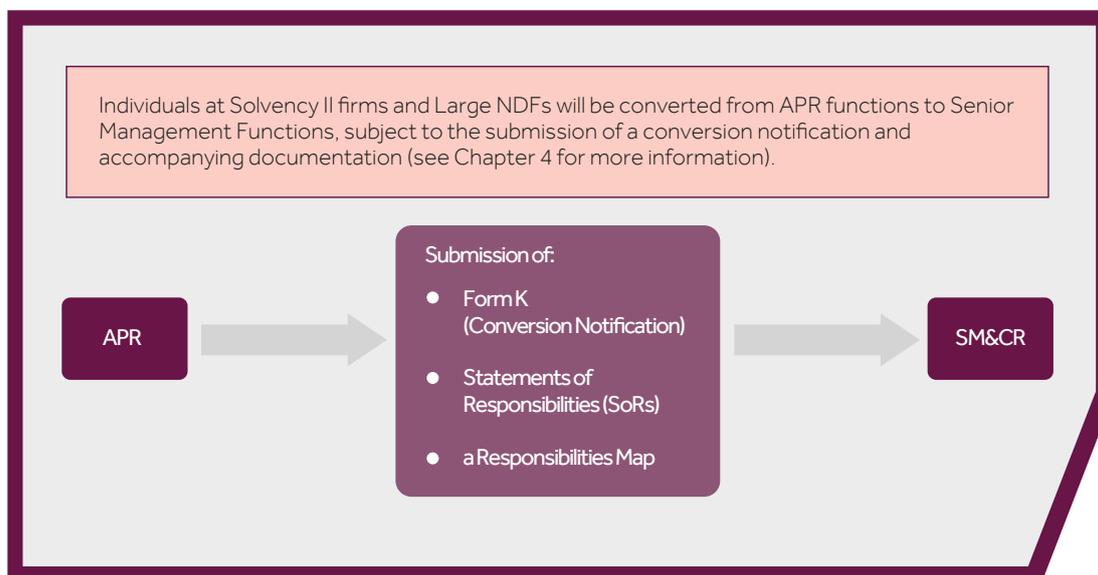
7 Currently only applicable to non-EEA branches and ISPsVs. Please refer to paragraph 7.19 in CP17/26.

What do you need to submit for conversion?

Solvency II firms and large NDFs will need to submit:

- Form K, detailing all of the approved persons converted to SMFs as at Commencement
- SoRs for all of the SMFs covered by the Form K
- a Responsibilities Map
- Forms A and E for new or transferred individuals respectively

Figure 3: Conversion notifications and accompanying documentation



Dealing with functions that roll up under the APR

Under the APR, someone holding a governing function (CFs 1-6) can perform the CF28 – Systems and Controls or the CF29 – Significant Management functions without needing further FCA approval. This means that they may be performing more than one of those functions in Table 20 above, but only approved for the governing function.

If an individual holds a governing function and performs one or more of the functions mapping from that governing function, you should select all of those relevant convertible functions in Form K.

You must make sure that the correct SMFs are selected where this occurs, or the individual won't have the correct approvals at Commencement.

What to do if your current controlled function is not listed

Conversion only applies for the controlled functions which have relevant corresponding SMFs as listed above. For all other current controlled functions, regulatory approval won't be needed and existing approvals will lapse when the new regime begins.

We will no longer require approval for the:

- CF51 – Actuarial Conduct Function,
- CF28 – Systems and Controls Function and
- CF2a – Chair of the Nominations Committee in non – EEA branches

The following roles will no longer require FCA approval. However, some of these roles may fall into the Certification Regime. These are:

- CF29 – Significant Management Function
- CF30 – Customer Function

Example: Conversion for a Solvency II firm or large NDF

An individual currently approved as a CF1 – Director will be eligible for conversion on Commencement into the Executive Director function (SMF3) or Partner function (SMF27) subject to the timely submission of Form K and accompanying documentation.

Someone currently approved as a CF28 – Systems and Controls in a non – EEA branch will be eligible to be converted, on Commencement, into the Other Local Responsibility function (SMF22), subject to the timely submission of Form K and accompanying documentation. However, this person will only be converted to a Senior Manager if they meet the definition of an SMF22. They will also not be converted if, on Commencement, they already have an approval from the PRA or the FCA for another controlled function for the same firm. This is because the Other Local Responsibility functions doesn't apply to someone who has been approved for any other SMF.

Failure to submit a conversion notification

If a Solvency II firm or large NDF doesn't submit a conversion notification (Form K), it will be in breach of regulatory requirements. APR approvals will lapse and they won't have the necessary SMR approvals. They will have no-one approved by us and will be in breach of our rules.

Firms in this situation would have to re-apply for approval of individuals through the full SM&CR application process, including mandatory criminal records checks and regulatory references.

New and applications in progress (including transfers of existing approved individuals)

This section explains how we will deal with applications submitted near to Commencement.

The summary diagram in Figure 4 and the summary table at the end of this Section will help you.

The revised APR will continue to apply in full up until Commencement. We will deal with applications for the revised APR right up until Commencement. Our approach for new and applications in progress is set out below. Figure 4 shows different scenarios that Solvency II firms and large NDFs may encounter, depending on how their business model fits to the new regime.

Summary

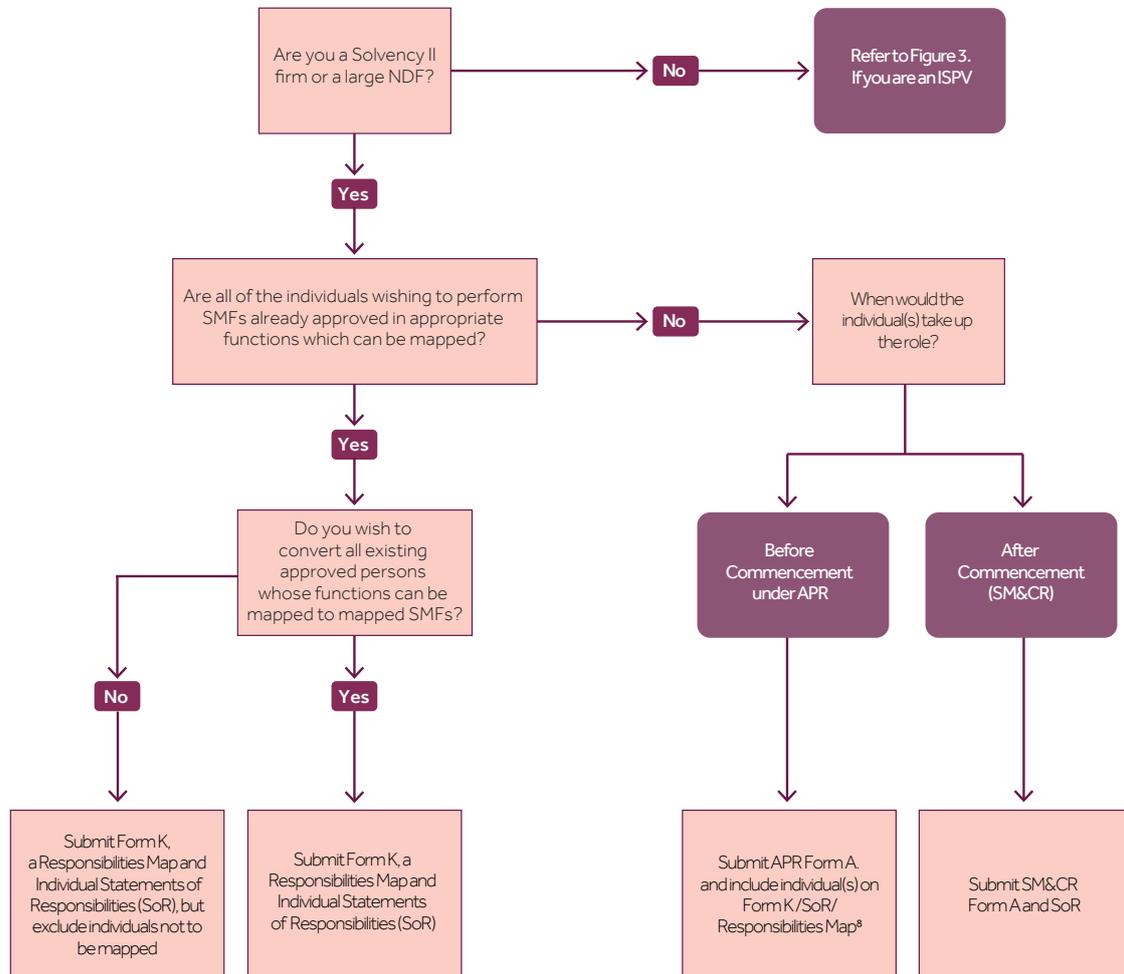
Where Solvency II firms and large NDFs wish to change their approved individuals the following principles apply:

- the existing processes for individual applications continue to apply as usual until the start of the new regime. Individuals approved under APR should be included on the firm's Form K if they are to be converted
- the SM&CR application forms will be available for submission before Commencement but these approvals will only be effective from the start of the new regime
- an APR application submitted, but not determined before the start of the new regime, will be converted to an application for the relevant Senior Management Function at Commencement as long as it is included on the firm's Form K

If you don't intend to apply for any new individual approvals or make any changes to existing ones then you can read ahead to the following section below 'Interim applications for roles which won't be approved under the SM&CR'.

Figure 4: Solvency II firms and large NDFs: what you need to submit

The diagram provides a non-exhaustive summary of the most common scenarios explained in this section.



This decision tree shows which forms are required. It should be used with Table 20 (Function mapping for Solvency II firms and large NDFs). The cut-off date for submitting these notifications is 1 week before Commencement of the regime. Any notifications received after this date won't be automatically converted.

Approval for a new function to be effective after Commencement

If your firm wants someone to perform an SMF after Commencement, but not before, and they don't hold a mapped APR function, they will be required to submit the new SM&CR Form A.

Applications submitted to take effect on or after Commencement (using the SM&CR versions of the forms) must meet the majority of the SM&CR application requirements, even if submitted before the start of the new regime. This includes criminal records

8 Where an individual is giving up an existing controlled function under the APR in order to take up a new function, a firm may use Form E to apply for this transfer.

checks but won't include regulatory references, as the rules requiring firms to undertake these will only come into force at Commencement. This means that firms will not be required to undertake regulatory references until that point.

Seeking approval for a new function to be effective before Commencement

If your firm applies for an individual to take up a function under the revised APR, before Commencement, and this function is intended to be converted to a new SMF, this application should be made using the APR version of Form A and the individual should be included in your firm's Form K. If not approved ahead of Commencement, the application for approval will be converted to an application for the mapped SMF upon Commencement.

Moving an existing approved individual into an SMF that does not map from their APR function

If an individual is giving up an existing function that can't be mapped appropriately according to Table 20 above and will take up a new mapped function before the start of the new regime, firms must submit a transfer application using APR Form E and add the individual to their Form K. We will reject applications to map an individual to a non-mapped SMF using Form K alone.

If the individual will continue to hold their existing APR function until Commencement and also take up the new mapped function prior to Commencement, then Form A should be used instead of Form E.

Form E applications will be dealt with as follows:

- we will try to decide these applications before the new regime starts. Form E applications submitted alongside Form K before the cut-off date should be submitted using the existing APR version of the form
- if a Form E application is submitted but isn't approved by Commencement, the application will be converted into an application for the new SMF at the start of the new regime

Moving a lapsing approved individual into an SMF role that starts after Commencement

Where an approved individual holding a function that lapses at Commencement will perform an SMF after Commencement, you have 2 options:

- if the individual will perform the existing function until Commencement and a new function after Commencement, you should apply for the new role using the SM&CR Form A and submit a SoR. The existing function will lapse at Commencement and the new function become effective when the individual is approved (following submission of Form A)
- if the individual will perform the existing function until Commencement and also take up a new mappable function before Commencement, you should use the APR Form A and include the individual on the submitted Form K

The next section sets out our approach to applications which have not been approved by Commencement.

Applications in progress at Commencement

We will continue to receive applications for new approvals under the current rules right up until Commencement (new applications).

We may not have made a decision on all applications when the new rules commence. So, there will be a number of applications in progress.

We won't apply the new criminal records checks and regulatory references requirements for applications in progress. Where the old APR forms are used, the APR rules apply.

Firms might not know if we will have determined applications before the new regime starts. This means you will not know if the application will be subject to conversion. If you have applied under the revised APR for a mapped function you should include details of that application and intended conversion in your Form K.

If the application isn't approved before the start of the new regime, we will convert the application, where possible, into an application for the corresponding SMF in accordance with your Form K. There is no need to make a new application for the relevant Senior Management Function.

For example, if you apply for approval for someone to perform the CF1 – Director function, that application would be converted to an application for the SMF3 – Executive Director function. This will only happen if the application isn't approved before the start of the new regime, as long as the application has been included in your Form K.

Interim applications for roles which won't be approved under the SM&CR

Under the SM&CR we will only approve Senior Managers. This means that a number of roles that are currently approved under the revised APR will fall into the Certification Regime when the new regime starts. They won't require FCA approval. Examples of these functions are the CF29 – Significant Management Function and CF30 – Customer Function. This is the same approach that we took for banking firms.

The revised APR will apply until the new regime starts and we'll accept applications for these controlled functions until this date.

Firms may wish to plan their recruitment activities during the period between the publication of final rules and Commencement accordingly. Any application for approval of a role that doesn't require approval under the SM&CR and isn't approved before Commencement, will automatically lapse at the Commencement date.

If people are actively performing controlled functions for a firm, then approval is required, regardless of how close we are to Commencement. You must take reasonable care to make sure that no one performs a controlled function unless they have been approved by the appropriate regulator. Firms who allow individuals to perform controlled functions without prior approval will be in breach of our rules.

Summary table– which forms to submit

The table below summarises the forms needed in different scenarios. It will help Solvency II firms and large NDFs to work out which forms (if any) they need. It isn't exhaustive.

Table 21: Which forms to submit

Form reference	Purpose
Firms that don't want to make any changes will just need to submit Form K, SoRs and a Responsibilities Map for their existing APR functions to be converted to new SM&CR functions.	
There are 2 versions of Forms A and E referred to in this Section – the existing APR versions and the new SM&CR versions. The statutory clock for these applications will technically start at the Commencement date. The SM&CR forms will be available for submission before the start of the new regime and we will try to process them before Commencement, as long as they are submitted in good time, but approval of these applications can only be effective from the start of the new regime.	
Form A	Application form used to apply for a new controlled function for an individual
Form C	Application form used to cancel an individual approval
Form E	Application form used to transfer an approved individual from one controlled function to another
Form K	Used to notify conversion of mapped individuals

Table 22: Solvency II firms and large NDFs - Applicable forms in various scenarios

Summary: Solvency II firms and large NDFs will need to submit a conversion notification (Form K), Statements of Responsibilities (SoR) for their SMFs, and a Responsibilities Map. Other forms may be needed if they make additional applications. Possible scenarios are outlined below.

Scenario	Action
Convert approved individuals to mapped SMFs.	Form K – Conversion Notification
	SoRs
	Include the individual on the firm's Responsibilities Map

An approved individual in a mapped function is not to be converted to the corresponding SMF (eg where they have resigned)	Do not include the individual on Form K – Conversion Notification or Responsibilities Map
	No SoR required
An approved individual is going to give up an existing controlled function that will lapse at the start of the new regime and take up a new convertible controlled function, with the intention that they will be converted to a relevant Senior Management Function. For example, an individual moving from the CF29 – Significant Management Function to the CF1 – Director function in order to hold the SMF3 – Executive Director function under the new regime.	If the individual leaves the role before the start of the new regime, then an APR Form C should be submitted
	Submit the existing APR Form E
An approved individual is going to give up an existing controlled function that will lapse at the start of the new regime and take up a new SMF after Commencement. They must have an existing approval after Commencement. If the individual was not converted at Commencement, then a new application (Form A) must be submitted.	Include the individual on Form K
	Submit a SoR
Seeking approval for a new individual with immediate effect, with the intention that they will be converted to a relevant SMF after Commencement.	Include the individual on the firm's Responsibilities Map
	Submit the new SM&CR form A
Seeking approval for a new individual with effect after Commencement.	Submit a SoR
	Include the individual on the firm's Responsibilities Map
Seeking approval for a new individual with immediate effect, with the intention that they will be converted to a relevant SMF after Commencement.	Submit the existing APR Form A
	Include the individual on Form K
Seeking approval for a new individual with effect after Commencement.	Submit a SoR
	Include the individual on the firm's Responsibilities Map
Seeking approval for a new individual with effect after Commencement.	Submit the SM&CR Form A
	Submit a SoR
Seeking approval for a new individual with effect after Commencement.	Include the individual on the firm's Responsibilities Map
	Submit the SM&CR Form A
Seeking approval for a new individual with effect after Commencement.	Submit a SoR
	Include the individual on the firm's Responsibilities Map

If you want to make changes to the conversions set out in your initial Form K, you should submit a revised Form K. This may happen, for example, if the firm hires a new approved individual in a convertible role before the new regime starts or if a firm has submitted a Form C to cancel an individual's approval since the submission of the firm's first Form K.

Applicant Firms

Some firms will apply for authorisation before the new regime starts, but it is likely they will only need to submit Form A (application for approval) for their relevant staff.

If the firm is to be a Solvency II firm or a large NDF and the application is submitted before Commencement, it should also submit a Form K.

12 Small Non-Directive firms, small run-off firms and Insurance Special Purpose Vehicles – conversion to the Senior Managers Regime

This Section sets out how small Non-Directive firms (NDFs), small run-off firms and Insurance Special Purpose Vehicles (ISPVs) will move to the Senior Managers Regime (SMR).

If you are a Solvency II firm or large NDF, see [Section 11](#).

How small NDFs, small run-off firms and ISPVs will move to the SMR

Individuals at small NDFs, small run-off firms and ISPVs will be automatically converted wherever possible, with no action required by your firm. You won't have to apply for re-approval for their approved individuals.

No extra checks are required (for example, mandatory criminal records checks and regulatory references). This is because your firm already has to make sure that these individuals are, and continue to be, fit and proper.

Converting existing approvals at small NDFs and small run-off firms

There are 3 FCA SMFs for small NDFs and small run-off firms. These are set out in the table below.

Table 23: SMFs for small NDFs and small run-off firms

Function Name	Description
FCA Senior Management Functions	
SMF3 – Executive Director	A director of a firm, other than a Non-Executive Director.
SMF16 – Compliance Oversight	This is the person responsible for the compliance function in the firm and reporting to the governing body on this.
SMF17 – Money Laundering Reporting Officer	This is the person who has responsibility for overseeing the firm's compliance with the FCA's rules on systems and controls against money laundering.

We recommend that you consider whether any changes to your approvals are needed ahead of Commencement. This will make sure that the move to the new regime is as smooth as possible.

Details for the conversion of people with existing APR approvals are in Table 23. The first column shows existing controlled functions under the revised APR. The second column shows the set of new SMFs into which a person performing the controlled function in column one will be eligible to be converted (mapped functions). These functions will only apply and convert if they are both relevant for your firm type and if those functions are already held by your firm.

Small NDFs and small run-off firms – mapping revised APR functions to new SMFs

The table below sets out the final mappings that will be used for automatic conversion for APR functions to the SMR.

Table 23: Function mapping for small NDFs and small run-off firms

Current FCA controlled function	Corresponding FCA Senior Management Function(s)
CF1 – Director	SMF3 – Executive Director
CF3 – Chief Executive Function (only applicable to Small NDFs)	SMF3 – Executive Director
CF2a – Chair of the Nominations Committee	N/A
CF2b – Chair of the with-profits committee function	N/A
CF5 – Director of Unincorporated Association	SMF3 – Executive Director
CF6 – Small Friendly Society Function	SMF3 – Executive Director
CF10 – Compliance Oversight	SMF16 – Compliance Oversight
CF11 – Money Laundering Reporting Officer (MLRO)	SMF17 – Money Laundering Reporting Officer (MLRO)

Example: Automatic conversion for a small NDF or small run-off firm

Someone performing the CF10 (Compliance Oversight function) for a small NDF or a small run-off firm will be eligible to be converted automatically into an SMF16 (Compliance Oversight function).

Existing approved roles that end at Commencement of the SM&CR

A number of existing functions won't be automatically converted at the Commencement of the new regime. This is because these roles will no longer require approval by the FCA. However, some of these roles will fall into the Certification Regime.

We will no longer require approval for the Chair of the Nominations and With-Profits Committees.

Specific roles will no longer require approval by the FCA. However, some of these roles may fall into the Certification Regime. These are:

- CF10a – CASS Oversight Function
- CF28 – Systems & Controls Function
- CF29 – Significant Management Function
- CF30 – Customer Function

Individuals performing these functions won't be converted to a new SMF unless:

- they also hold an existing mapped function
- they apply for an additional mapped function using Form A, or
- the firm submits a Form E to transfer them to one of these functions ahead of Commencement

What to do if your current controlled function isn't listed

Conversion only applies for the controlled functions and corresponding SMFs listed in Table 23. For all other controlled functions, regulatory approval will no longer be required and existing approvals will lapse when the new regime begins. These people are likely to become part of the Certification Regime (see [Section 7](#)).

New and applications in progress (including transfers of existing approved individuals)

This section explains how we will deal with applications by small NDFs, and small run-off firms submitted near to Commencement.

The revised APR will continue to apply in full up until Commencement of the SM&CR. It is likely that we will receive applications for approval under the current regime. We set out our approach for new and applications in progress below. Figure 5 shows different scenarios depending on how firms' business models fit into the new regime.

Summary

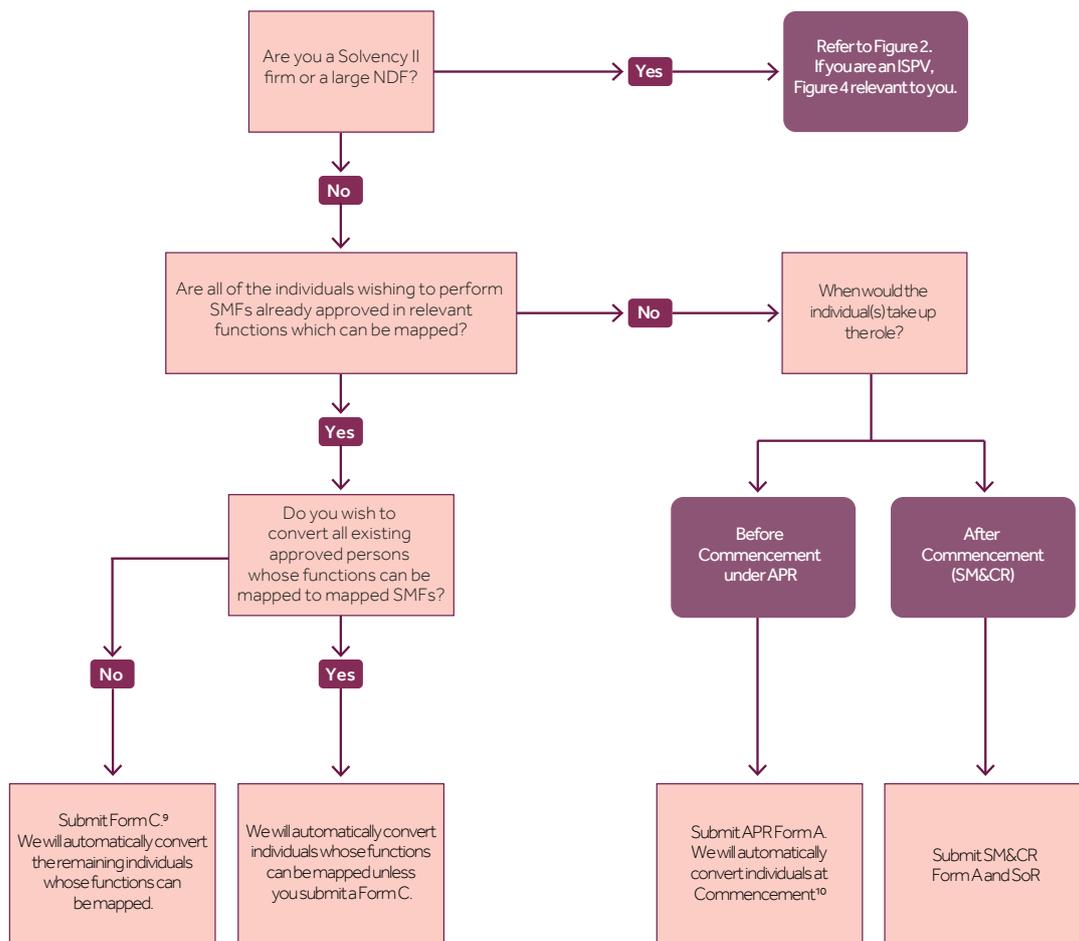
Most firms won't need to take any action ahead of conversion but if firms want to change their approved individuals the following principles apply:

- the existing processes for individual applications continue to apply as usual until the start of the new regime
- the SM&CR application forms will be available for submission before Commencement but these approvals will only be effective from the start of the new regime
- an APR application submitted, but not decided before the start of the new regime, will be converted to an application for the relevant SMF at Commencement

If you don't intend to apply for any new individual approvals or make any changes to existing ones, then you can read ahead to the following section 'Interim applications for roles which won't be approved under the SM&CR'.

Figure 5: Small NDFs and small run-off firms: what do I need to submit?

The diagram provides a non-exhaustive summary of the most common scenarios explained in this section.



9 Where a function falls away at Commencement, firms do not need to submit a Form C – the individual's approval will lapse at the Commencement date.

10 If an individual is giving up an existing controlled function under the APR in order to take up a new function, a firm may use Form E to apply for this transfer.

Example: An individual holding the CF30 – Customer Function who will hold the SMF3 - Executive Director function after Commencement, but not before

If the firm intends for the individual to retain their CF30 approval until Commencement then an SM&CR Form A is required for the SMF3 – Executive Director function. The individual's CF30 approval will lapse at the start of the new regime and, as long as the application is approved, the individual will hold the SMF3 function after Commencement.

New approvals to be effective before Commencement

Applications for APR functions before Commencement must be submitted using the APR version of Form A. If not approved ahead of Commencement, they will be converted to an application for the relevant SMFs once the regime has started.

New approvals to be effective after Commencement

If you want someone not currently approved for an equivalent role to perform a mapped SMF after Commencement, you will need to use the new SM&CR Form A.

You should remember that applications submitted to take effect after Commencement using the SM&CR versions of the forms have to meet the majority of the SM&CR application requirements, even if submitted for approval prior to Commencement. These include conducting criminal records checks but won't include regulatory references, as the rules requiring firms to undertake these will only come into force at Commencement.

Moving an existing approved individual into an SMF that doesn't map from their APR function

You have 3 options in these circumstances:

- if the individual will perform the APR function until Commencement and both an equivalent SMF and a new function after Commencement, you should apply for the new function using the SM&CR Form A. The new function will become effective upon approval of the Form A, or at the start of the new regime, whichever is later
- if the individual will perform the APR function until Commencement and also take up a new mapped function before Commencement under the existing APR, you should use the APR Form A to apply for the new function. If the individual is intended to hold only the new function after Commencement (and their existing function is not one which lapses at the start of the new regime) then a Form C should be submitted to cancel the original approval
- if the individual will stop performing the existing un-mapped function and start performing a new mapped function immediately upon approval, you should use an APR Form E to transfer the individual. The individual will then be converted to the appropriate SMF at Commencement

Applications in progress at Commencement

We will continue to receive applications for new approvals under the current rules right up until Commencement (new applications).

We may not have made a decision on all applications when the new rules commence. So, there will be a number of applications in progress.

We won't apply the new criminal records checks and regulatory references requirements for applications in progress. Where the old APR forms are used, the APR rules apply.

You might not know if we will have determined applications before the new regime starts. This means you will not know if the application will be subject to automatic conversion. In this case, if the application isn't approved by the start of the new regime, we will automatically convert the application where possible, meaning that an APR application in progress at Commencement will be converted to be an application for the relevant SMF upon Commencement. There will be no need for you to make a new application for the relevant SMF.

Interim applications for roles which won't be approved under the SM&CR

Under the SM&CR we will only approve Senior Managers. This means that a number of roles that are currently approved under the revised APR will fall into the Certification Regime when the new regime starts. They won't require FCA approval. Examples of these functions are the CF29 – Significant Management Function and CF30 – Customer Function.

The revised APR will apply until the new regime starts and we know that we will get applications for these controlled functions until this date.

You may wish to plan your recruitment activities during the transitional period accordingly. Any application that won't require approval under the SM&CR and that isn't approved prior to the new regime will automatically lapse on 10 December 2018.

If people are actively performing controlled functions, then approval is still required, regardless of how close we are to 10 December 2018.

You must take reasonable care to make sure that no one performs a controlled function unless they have been given approval by the appropriate regulator. Firms who allow individuals to perform controlled functions without prior approval will be in breach of our rules.

Applicant firms

Some firms will apply for authorisation before the new regime starts, but it is likely they will only need to submit Form A (application for approval) for their relevant individuals.

Summary table– which forms to submit

The table below summarises the forms required in different scenarios, and will help you to work out which forms (if any) you need. It isn't exhaustive.

Table 24: Small NDFs and small run-off firms - Applicable forms in various scenarios

Summary: Individuals at small NDFs, small run-off firms and ISPs will be automatically converted at Commencement. Other forms may be needed for additional applications. The main scenarios are outlined below.

Scenario	Action
Convert approved individuals to mapped SMFs.	No action required
An approved individual in a mapped function is not to be converted to the corresponding SMF (eg where they have resigned)	Submit Form C for that individual
An approved individual is going to give up an existing controlled function that will lapse at the start of the new regime and take up a new convertible controlled function, with the intention that they will be converted to a relevant SMF. For example, an individual moving from the CF29 – Significant Management Function to the CF1 – Director function in order to hold the SMF3 – Executive Director function under the new regime.	Submit the existing APR Form E.
An approved individual is going to give up an existing controlled function that will lapse at the start of the new regime and take up a new SMF after Commencement.	Submit the new SM&CR form A Submit a SoR
Seeking approval for a new individual with immediate effect, so that they can be converted to a mapped SMF after Commencement.	Submit the existing APR Form A
Seeking approval for a new individual with effect after Commencement.	Submit the SM&CR Form A Submit a SoR

Converting existing approvals at ISPsVs

Individuals at ISPsVs will be automatically converted wherever possible, with no action required by firms. We recommend you consider whether any changes to your approvals are required ahead of Commencement. This will make sure that the move to the new regime is as smooth as possible.

You won't have to apply for re-approval for their approved individuals.

No extra checks are required (for example, mandatory criminal records checks and regulatory references). This is because your firm already has to make sure that these individuals are, and continue to be, fit and proper.

Details for the conversion of people with existing APR approvals are in Table 24. The first column shows existing controlled functions under the revised APR. The second column shows the set of new SMFs into which a person performing the controlled function in column one will be eligible to be converted (mapped functions).

ISPVs – mapping revised APR functions to new SMFs

The table below sets out the final mappings that will be used for automatic conversion for APR functions to the SMR:

Table 25: Function mapping for ISPVs

Current controlled function	Corresponding Senior Management Function(s)
CF1 – Director	SMF3 – Executive Director
CF2a – Chair of the Nominations Committee	N/A
CF2b – Chair of the with-profits committee function	N/A
CF5 – Director of Unincorporated Association	SMF3 – Executive Director
CF10 – Compliance Oversight	SMF16 – Compliance Oversight
CF10a – CASS operational oversight function	N/A
CF11 – Money Laundering Reporting Officer (MLRO)	N/A
CF29 – Significant management function	N/A

Example: Automatic Conversion for an ISPV

An individual performing the CF10 (Compliance Oversight function) at the date of notification will be eligible to be converted automatically at Commencement into an SMF16 (Compliance Oversight function).

Existing pre-approved roles that fall away at Commencement of the SM&CR

Several existing functions for ISPVs will not be automatically converted at Commencement of the new regime.

We will no longer require approval for the Chair of the Nominations and With-Profits Committees

Other specific roles will no longer require approval by the FCA. However, some of these roles may fall into the Certification Regime. These are:

- CF10a – CASS Oversight Function
- CF28 – Systems & Controls Function
- CF29 – Significant Management Function

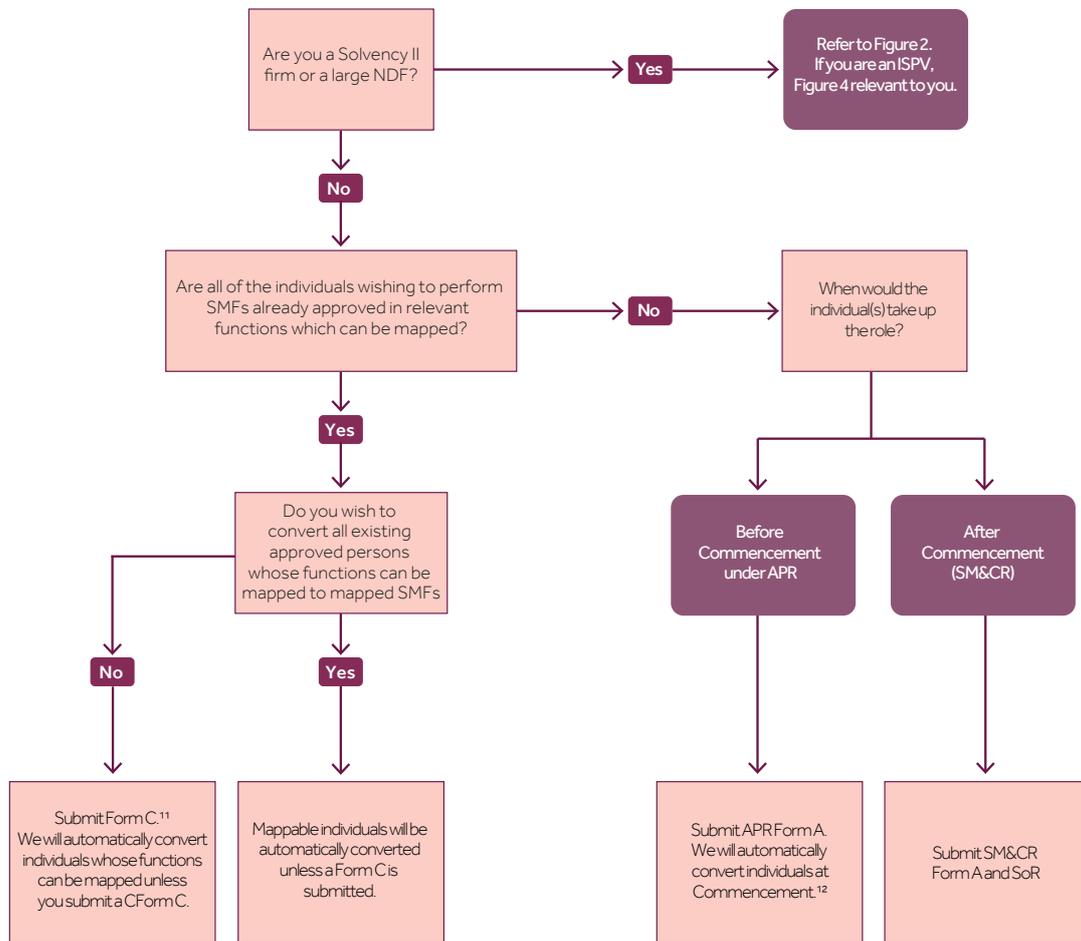
We also no longer require CF11 – Money Laundering Reporting Officer (MLRO) for ISPVs.

Individuals performing these functions will not be converted to a new SMF, unless they also hold an existing role that does convert, or the firm submits a Form E to transfer them to one of these roles.

What to do if your current controlled function is not listed

Conversion only applies for the controlled functions and corresponding SMFs listed in Table 25. For all other controlled functions, regulatory approval will no longer be required and existing approvals will lapse when the new regime begins. These people can become part of the Certification Regime.

Figure 6: ISPVs: what do I need to submit?



Summary table– which forms to submit

The table below summarises the forms required in different scenarios, and will help ISPVs to work out which forms (if any) they need. It isn't exhaustive.

11 Where a function falls away at Commencement, firms do not need to submit a Form C – the individual's approval will lapse at the Commencement date.
12 If an individual is giving up an existing controlled function under the APR in order to take up a new function, a firm may use Form E to apply for this transfer.

Table 26: ISPVs - Applicable forms in various scenarios

Summary: Individuals at ISPVs will be automatically converted at Commencement. Other forms may be needed for additional applications. The main scenarios are outlined below.

Scenario	Action
Convert approved individuals to mapped SMFs.	No action required
An approved individual in a mapped function is not to be converted to the corresponding SMF (eg where they have resigned)	Submit Form C for that individual
An approved individual is going to give up an existing controlled function that will lapse at the start of the new regime and take up a new convertible controlled function, with the intention that they will be converted to a relevant SMF. For example, an individual moving from the CF29 – Significant Management Function to the CF1 – Director function in order to hold the SMF3 – Executive Director function under the new regime.	Submit the existing APR Form E.
An approved individual is going to give up an existing controlled function that will lapse at the start of the new regime and take up a new SMF after Commencement.	Submit the new SM&CR form A Submit a Statement of Responsibilities
Seeking approval for a new individual with immediate effect, so that they can be converted to a mapped SMF after Commencement.	Submit the existing APR Form A
Seeking approval for a new individual with effect after Commencement.	Submit the SM&CR Form A Submit a SoR

13 How the Senior Managers Regime applies to UK branches of foreign firms

This Section sets out our regime for incoming branches, specifically UK branches of EEA firms (EEA branches) and third-country branches (non-EEA branches).

UK branches of EEA firms and non-EEA firms are treated in principle as Solvency II firms in our rules, with some variations to account for home-host supervisory arrangements. This section should be read alongside our approach to Solvency II firms and large Non-Directive firms (NDFs) in Section 5.



Things to consider

- Does my firm have individuals who will perform relevant Senior Management Functions (SMFs)?
- Which PRs apply to my firm?
- Which Senior Manager should be allocated each PR?
- Is the PR clearly included in their SoR?

Senior Managers Regime in EEA branches

How does SMR apply to EEA branches?

Under the SM&CR, we will designate only 2 executive functions shown in Table 11 as SMFs. These are the same as the executive roles that currently apply under the revised Approved Persons Regime (APR).

Table 11: Executive Senior Management Functions in EEA branches

SMF21 – EEA Branch Senior Manager

SMF17 – Money Laundering Reporting Officer

PRA Senior Management Functions (for information)

N/A

The Money Laundering Reporting function will be defined in the same way as for UK Solvency II firms.

The EEA Branch Senior Manager (EBSM) will cover individuals with responsibility for the management and conduct of the business of the branch.

As is the case for UK-authorized firms, there is no territorial limitation for Senior Managers in EEA branches. This means that the SMR will apply to anyone who performs a Senior Manager role, whether they are based in the UK or overseas. In practice, we expect most branches to be able to identify Senior Managers who are primarily based in the UK.

Fit and proper

We won't form a judgement on whether an individual applying to perform the EEA Branch Senior Manager is fit and proper, as we consider this to be a matter for the home member state. But, we are still interested in the person's honesty, integrity and financial soundness as it affects the branch's conduct obligations.

PRs

PRs won't apply to EEA branches. This is because allocating responsibilities is a matter for the home member state. Similarly, we don't have any requirements around handover procedures for Senior Managers in these branch operations.

Responsibilities Maps

UK branches of EEA firms will need to provide and maintain Responsibilities Maps. This is similar to the approach for branches of EEA banks. The general override principle applies, ie where home state requirements provide equivalent protection to our rules, our rules won't apply.

We recognise that the requirement to provide and maintain Responsibilities Maps could overlap with information received as part of the required details provided when an EEA branch passports into the UK. To address this, we have mirrored the amendment to the rule we made for EEA banking branches to specifically avoid duplication.

Certification Regime in EEA branches

The Certification Regime will apply to EEA branches in the same way as for Solvency II firms. However, the Certification functions are restricted so they apply only in relation to the branch. EEA branches should note that the CASS oversight function won't apply, as the CASS rules don't apply to EEA branches.

A territorial limitation will apply. That means that the Certification Regime will only apply to individuals who are based in the UK. It won't extend to people based outside the UK, even if they deal with a UK client. This is the same approach that was taken for banks and has also been taken for FCA solo regulated firms.

How do Conduct Rules apply to EEA branches?

Conduct Rules will apply to EEA branches, as they do for Solvency II firms. However, the Conduct Rules will only apply to staff in EEA branches for matters that are within the UK's scope of responsibilities as the host state regulator – ie the single market override will apply. As with the Certification Regime, the Conduct Rules won't apply to employees based outside the UK.

SMR in third country branches

How does the SMR apply to third country branches

We have set out specific SMFs that cover the senior individuals responsible for the management of the branch business.

Table 12 shows our 4 SMFs.

Table 12: Senior Management Functions in third country branches

SMF3 – Executive Director
SMF15 – Chair of the with-profits committee function
SMF16 – Compliance Oversight
SMF17 – Money Laundering Reporting Officer
SMF22 – Other Local Responsibility function
PRA Senior Management Functions (for information)
SMF2 – Chief Finance Officer
SMF4 – Chief Risk Officer
SMF5 – Head of Internal Audit
SMF7 – Group Entity Senior Manager
SMF19 – Head of Third Country Branch
SMF20a – With-Profits Actuary Function
SMF24 – Chief Operating Officer

The Executive Director (SMF3) function will mirror the existing Director controlled function (CF1). Its scope will cover people performing their role for the branch only, rather than for the whole firm.

The Other Local Responsibility (SMF22) function will operate in a similar way to the Other Overall Responsibility (SMF18) function for Solvency II firms. It will include any individuals who have local responsibility for any of the activities, business areas or management function of the branch. This function is a standalone function and the function holder cannot hold any other SMF. If a branch has allocated local responsibility for all the activities, business areas and management functions of the branch between its other SMFs, it won't need to have any individuals approved under the Other Local Responsibility function.

Under the SMR we will stop requiring approval for the Systems and Control (CF28) the Significant Management (CF29), and the Chair of the Nominations Committee (CF2a) functions in branches. However, we expect that the functions that will be dropped will closely map to the Other Local Responsibility function, so this should not result in a significant change from current APR rules.

The Actuarial Conduct Function (CF51) was introduced under the FCA's revised APR for insurers in response to PRA changes made in light of Solvency II. Under current rules, the PRA have an SIMF19 (renumbered to SMF19, Head of Third-Country Branch function), which covers the responsibility for the conduct of all activities of the third-country branch subject to the regulatory system. As FCA COCON requirements would apply to this person, we consider that this gives an appropriate degree of protection to consumers and so we will no longer require a specific actuarial conduct controlled function.

PRs in third country branches

The PRs listed in Table 13 will apply to UK branches of third country firms. As with Solvency II firms, some of these responsibilities have been specified by both regulators and others by either the FCA or the PRA only. Reference to 'firm' for this purpose means the UK branch and not the overseas legal entity.

Table 13: Prescribed Responsibilities in third-country branches

Handbook PRs Reference	PRA, FCA or dual	Prescribed Responsibilities for third-country branches
A	Dual	Performance by the firm of its obligations under the Senior Managers Regime, including implementation and oversight
B	Dual	Performance by the firm of its obligations under the Certification Regime
C	Dual	Responsibilities Maps
AA	Dual	Responsibility for management of the firm's risk management processes in the UK
EE	Dual	Escalation of correspondence from the PRA, FCA and other regulators in respect of the firm to the governing body and/or the management body...
FF	Dual	Compliance with the UK regulatory system
B-1	FCA	Responsibility for the firm's performance of its obligations under the COCON (in terms of training and regulatory reporting)
D	FCA	Local responsibility for the firm's policies and procedures for countering the risk that the firm might be used to further financial crime
Z	FCA	Local responsibility for the firm's compliance with CASS
O	PRA	Management of the allocation and maintenance of the firm's capital, funding and liquidity
Q	PRA	Production and integrity of the firm's financials and its regulatory reporting
T	PRA	Development and maintenance of the firm's business model by the governing body
T-2	PRA	Performance of the firm's ORSA
U	PRA	Insurance Fitness & Propriety
X	PRA	Outsourced operational functions (including systems and technology)
BB	PRA	Responsibility for management of the firm's systems and controls in the UK.

PRs should be allocated to the most senior individual responsible for the day-to-day management of the function or area of responsibility of the branch only. While the SMR requires responsibilities to be allocated to the most senior person with responsibility in the firm, if we applied this to third country branches, we would include the most senior individuals in the legal entity as a whole, which would be outside of the FCA's remit.

FCA PRs can only be allocated to individuals performing executive functions in the branch.

Our approach to the CASS PR is in line with our approach for Solvency II firms and only applies where CASS requirements apply to the branch.

PRs, except for the CASS PR, cannot be allocated to those holding the Other Local Responsibility function.

Responsibilities Map

Third country branches will need to prepare, submit and, where appropriate, update a Responsibilities Map. For firms that don't have a UK board, but have a management committee or equivalent instead, Responsibilities Maps must set out matters reserved to the management body of the branch, rather than the ultimate overseas governing body.

We expect non-EEA branches to provide a detailed explanation of how their management and governance arrangements fit together with those of its overseas head office and the wider group.

How does the Certification Regime apply to third-country branches

We will apply the Certification Regime in the same way as for Solvency II firms, where necessary restricting the Certification Functions so they apply only in relation to the branch.

How do Conduct Rules apply to third-country branches?

The Conduct Rules will apply to third-country branches in the same way as for Solvency II firms. The Conduct Rules will apply for the activities of the branch only and only to individuals who are based in the UK.

Due to the structure of a branch, staff may also be subject to a Code of Conduct set by the branch's parent entity. However, our Conduct Rules are drafted at a high level and we don't expect them to be inconsistent with any separate standards set by head office or the home state regulator.

Converting existing approvals at branches

For the purposes of conversion, we will treat incoming branches of non-UK firms (both EEA and third country branches) the same as Solvency II firms. This means that firms will need to follow the conversion notification process outlined in [Section 11](#) for Solvency II firms.

All branches will need to tell us who they want to assign to the new SMFs but they won't have to re-apply for approval if the SMFs can be mapped directly from the revised APR.

Conversion will only happen when the existing controlled function and the corresponding new SMF apply to the relevant firm type. Also, the existing controlled function has to meet the definition of the Senior Management Function.

EEA and non-EEA branches, as Solvency II firms, will need to submit:

- Form K, detailing all of the approved persons converted to SMFs at Commencement
- SoRs for all of the SMFs covered by the Form K
- a Responsibilities Map
- Forms A and E for new or transferred individuals respectively.

Conversion mapping for EEA branches

This table shows how we will convert people with existing approvals at EEA branches. The first column shows the existing controlled functions under the revised APR. The second column shows the new SMFs into which a person performing the controlled function in column one will be eligible to be converted.

Table 14: Function mapping for EEA branches

Current controlled function	Corresponding Senior Management Function(s)
CF11 – Money Laundering Reporting Officer	SMF17 – Money Laundering Reporting Officer
CF29 – Significant Management Function	SMF21 – EEA Branch Senior Manager

Conversion mapping for third country branches

This table shows how we will convert people with existing approvals at third country branches. The first column shows the existing controlled functions under the revised APR. The second column shows the new SMFs into which a person performing the controlled function in column one will be eligible to be converted.

Table 15: Function mapping for third country branches

Current controlled function	Corresponding Senior Management Function(s)
CF1 – Director	SMF3 – Executive Director SMF27 – Partner
CF2a – Chair of the Nominations Committee	SMF 22 – Other Local Responsibility Function
CF10 – Compliance Oversight	SMF16 – Compliance Oversight
CF10a – CASS Operational Oversight Function	SMF 22 – Other Local Responsibility Function
CF11 – Money Laundering Reporting Officer (MLRO)	SMF17 – Money Laundering Reporting Officer (MLRO)
CF28 - Systems and Control Function	SMF 22 – Other Local Responsibility Function
CF29 – Significant Management Function	SMF 22 – Other Local Responsibility Function
CF51 – Actuarial Conduct Function	This is no longer required under the SMR

Failure to submit a conversion notification

If an incoming branch of a non-UK firm doesn't submit a conversion notification (Form K) it will be in breach of regulatory requirements. APR approvals will lapse and they won't have any SMR approvals. This means that they will have no one approved by us and will be in breach of our rules.

We will consider what further regulatory action needs to be taken, including possible enforcement action.

Firms in this situation would then have to re-apply for approval of individuals through the full SM&CR application process, including mandatory criminal records checks and regulatory references.

Annex 1

Abbreviations in this document

APER	Statements of Principle and Code of Practice for Approved Persons (Handbook)
APR	Approved Persons Regime
Banking firms	Banks, Building Societies, Credit Unions and PRA-designated Investment Firms
CASS	Client Assets Sourcebook (Handbook)
CBA	Cost Benefit Analysis
CCJ	Country Court Judgement
COBS	Conduct of Business Sourcebook (Handbook)
CF	Controlled Function
COCON	Code of Conduct Sourcebook (Handbook)
COLL	Collective Investment Schemes Sourcebook (Handbook)
CP	Consultation Paper
CR	Certification Regime
DBS	Disclosure and Barring Service
DEPP	Decision Procedure and Penalties Manual (Handbook)
EEA	European Economic Area
EU	European Union
FCA	Financial Conduct Authority
F&P	Fitness and Propriety
FCA	Financial Conduct Authority
FEMR	Fair and Effective Markets Review
FIT	The Fit and Proper Test for Approved Persons (Handbook)
FSMA	Financial Services and Markets Act 2000
ILS	Insurance Linked Securities
ISPVs	Insurance Special Purpose Vehicles
HR	Human Resources
MiFID	Markets in Financial Instruments Directive
MRT	Material Risk Taker
NDFs	Non-Directive Firms

NED	Non-Executive Director
PCBS	Parliamentary Commission on Banking Standards
PRs	Prescribed Responsibilities
PS	Policy Statement
PRA	Prudential Regulation Authority
Revised APR	Revised Approved Persons Regime
RMAR	Retail Mediation Activities Return
SIFs	Significant Influence Functions
SIMF	Senior Insurance Management Function
SIMR	Senior Insurance Managers Regime
SHF	Significant Harm Function
SMF	Senior Management Function
SMR	Senior Managers Regime
SLA	Service Level Agreement
SOR	Statement of Responsibilities
SM&CR	Senior Managers and Certification Regime
SMF	Senior Management Function
SMR	Senior Managers Regime
SUP	Supervision Manual (Handbook)
SYSC	Senior Management Arrangements, Systems and Controls (Handbook)
TC	Training and Competence Sourcebook (Handbook)
UCITS	Undertakings for Collective Investment in Transferable Securities
UK	United Kingdom



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