



## Senior Managers' Regime – the net is widening!

In mid October the Government announced that it is proposing to extend the Senior Managers and Certification (SM&CR) regime to all sectors of the financial services industry, replacing the discredited Approved Persons Regime. The key features of the extended SM&CR are:

- an approval regime focused on senior management, with requirements on firms to submit robust documentation on the scope of these individuals' responsibilities
- a statutory requirement for senior managers to take reasonable steps to prevent regulatory breaches in their areas of responsibility
- a requirement on firms to certify as fit and proper any individual who performs a function that could cause significant harm to the firm or its customers, both on recruitment and annually thereafter
- a power for the regulators to apply enforceable Rules of Conduct to any individual who they believe comes under their responsibility (they use the wording "impact their statutory objectives")

The Government says this expansion of the SM&CR to all financial services firms will enhance personal responsibility for senior managers as well as providing a more effective and proportionate means to raise standards of conduct.

The SM&CR will introduce a new regulatory framework for individual accountability to replace the Approved Persons Regime (APR) for banking sector firms from **7 March 2016**.

The new framework will have essentially three components:

- Senior Managers Regime (SMR)
- Certification Regime
- Rules of Conduct.



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For firms other than insurers, the Senior Managers Regime will directly replace the Approved Persons Regime in its application to persons performing the senior roles in a firm. These roles (known as Senior Management Functions - SMFs) will have been specified in rules made by the PRA and FCA. Firms need to provide for individuals already approved to be 'grandfathered' into relevant roles in the new regime. Any firms planning a new senior manager appointment, or a material change in role for currently approved individuals, will need to prepare and submit an application to the regulators for approval. In the case of insurers, the senior insurance managers regime (SIMR) (which comes into force in early 2016) already incorporates some of the substantive ideas and principles underpinning the SM&CR. The introduction of the senior insurance managers regime will therefore pave the way for the application of the SM&CR to insurers.

The Certification Regime will apply to individuals who are not carrying out SMFs but whose roles have been deemed capable of causing significant harm to the firm or its customers by the regulators. The regime requires firms themselves to assess the fitness and propriety of persons performing other key roles, and to formally certify this at least annually. These roles ("significant harm functions") are also specified by the regulators in rules, but the appointments are not subject to prior regulatory approval.

The government intends to implement the extended SM&CR during 2018.

The paper also expresses a clear view that implementation for about 60,000 firms in a wide range of sectors from "traditional" financial services (financial advisers, asset managers, stock brokers etc) and consumer credit firms **will be very challenging**.

The Government has said that it intends that the newly extended regime should come into operation **during 2018**. Watch this space!