

The Senior Managers and Certification Regime: Guide for insurers

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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

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

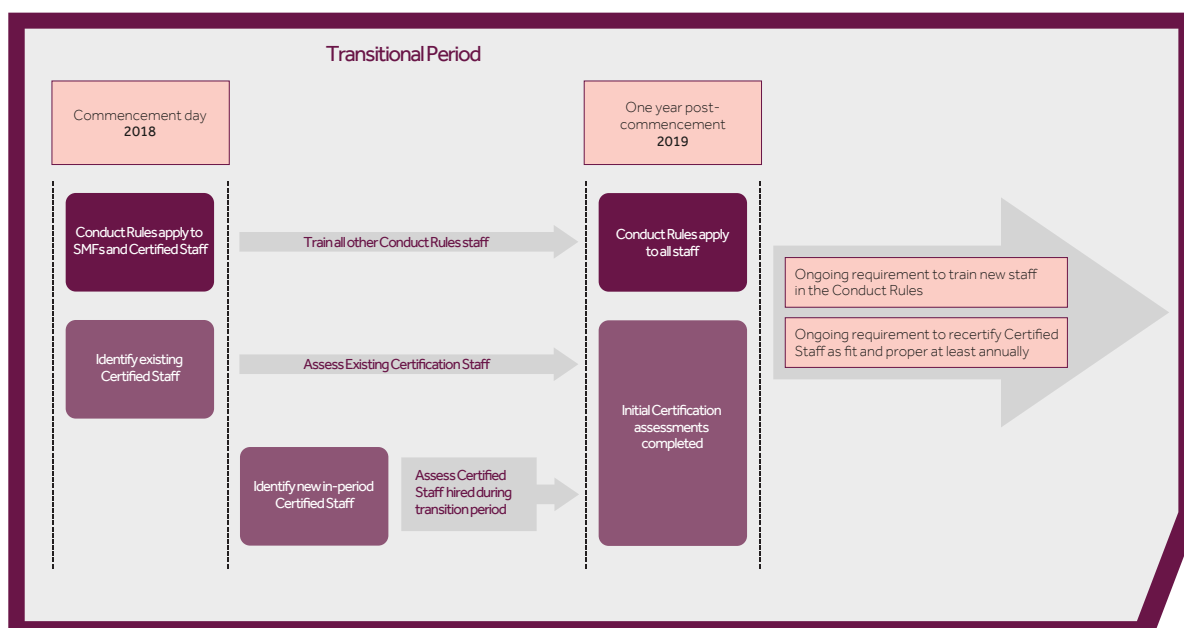
Next steps and implementation dates

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)

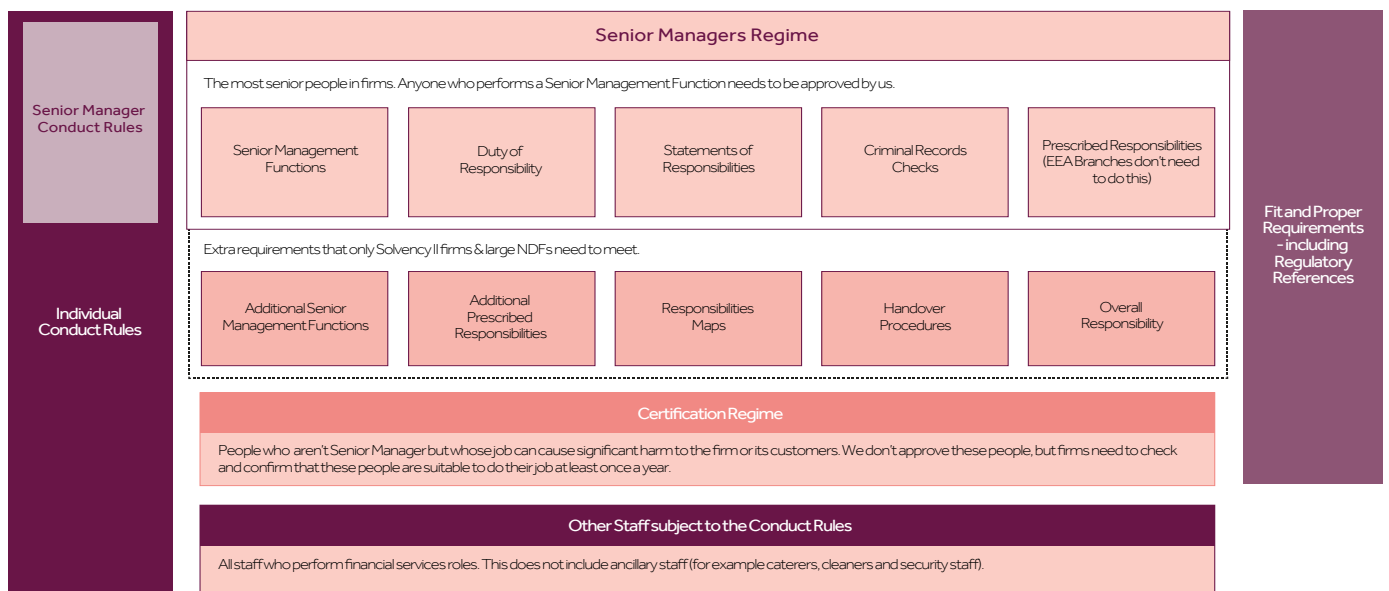
Figure 1: Summary of transitional arrangements



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



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

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)	SMF 3 - Executive Director Function SMF 13 - Chair of the Nomination Committee Function SMF 15 - Chair of the With-Profits Committee Function SMF 16 - Compliance Oversight Function SMF 17 - Money Laundering Reporting Function SMF 18 - Other Overall Responsibility Function SMF 23b - Conduct Risk Oversight (Lloyd's) Function SMF 27 - Partner Function	SMF3 - Executive Director Function SMF16 - Compliance Oversight Function SMF17 - Money Laundering Reporting Function SMF 27 - Partner Function	SMF21 - EEA Branch Senior Manager SMF17 - Money Laundering Reporting Function	SMF3 - Executive Director Function SMF 15 - Chair of the With-Profits Committee Function SMF16 - Compliance Oversight Function SMF17 - Money Laundering Reporting Function SMF22 - Other Local Responsibility Function	SMF3 - Executive Director Function SMF16 - Compliance Oversight Function
Duty of Responsibility	Applies to all firms				
Prescribed Responsibilities	19 in total, 3 FCA only	9 in total, 3 FCA only	N/A	16 in total, 3 FCA only	5 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.

Financial Conduct Authority

The Senior Managers and Certification Regime: Guide for insurers

Section 3

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>

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 10 , 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.

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.

An example is the Compliance Oversight Function. We have broadened this function under the SM&CR to now cover all insurers for all requirements of the regulatory system for which the FCA is responsible (including all FCA rule requirements, as well as any directly applicable UK or EU legislation where the FCA has responsibility for ensuring compliance). Under the SM&CR all insurers (except EEA branches) will need to have someone performing the SMF16 Compliance Oversight Function.

By contrast, under our money laundering requirements, only some firms need to have an MLRO. If a firm doesn't currently need to comply with these requirements – ie if they don't need to have someone in the MLRO function – the SMR doesn't change this, although all insurers (except EEA branches) will be required to allocate the prescribed responsibility for financial crime to a Senior Manager of the firm.

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.

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 10](#).

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 6 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>
SMF27 - Partner Function	A partner in a firm, other than a limited partner in a partnership registered under the Limited Partnership Act 1907.

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
- 8 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 8 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.

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 4 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.
SMF27 - Partner Function	A partner in a firm, other than a limited partner in a partnership registered under the Limited Partnership Act 1907.
PRA Senior Management Functions (for information)	
SMF7 - Group Entity Senior Manager	
SMF9 - Chair of the Governing Body	
SMF20 - Chief Actuary	
SMF20a - With-Profits Actuary	
SMF25 - Small Insurer Senior Management Function	

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 4 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.
SMF27 - Partner Function	A partner in a firm, other than a limited partner in a partnership registered under the Limited Partnership Act 1907.
PRA Senior Management Functions (for information)	
SMF 1 - Chief Executive	
SMF 2 - Chief Finance	
SMF 4 - Chief Risk	
SMF 5 - Head of Internal Audit	
SMF 6 - Head of Key Business Area	
SMF 7 - Group Entity Senior Manager	
SMF 9 - Chair of the Governing Body	
SMF10 - Chair of the Risk Committee	
SMF11 - Chair of the Audit Committee	
SMF12 - Chair of the Remuneration Committee	
SMF14 - Senior Independent Director	
SMF20 - Chief Actuary	
SMF20a - With-Profits Actuary	
SMF23 - Chief Underwriting Officer	
SMF24 - Chief Operations	
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 Code of Conduct (COCON) (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
GG	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)	
SMF 1 - Chief Executive	
SMF 2 - Chief Finance	
SMF 7 - Group Entity Senior Manager	
SMF20 - Chief Actuary	

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

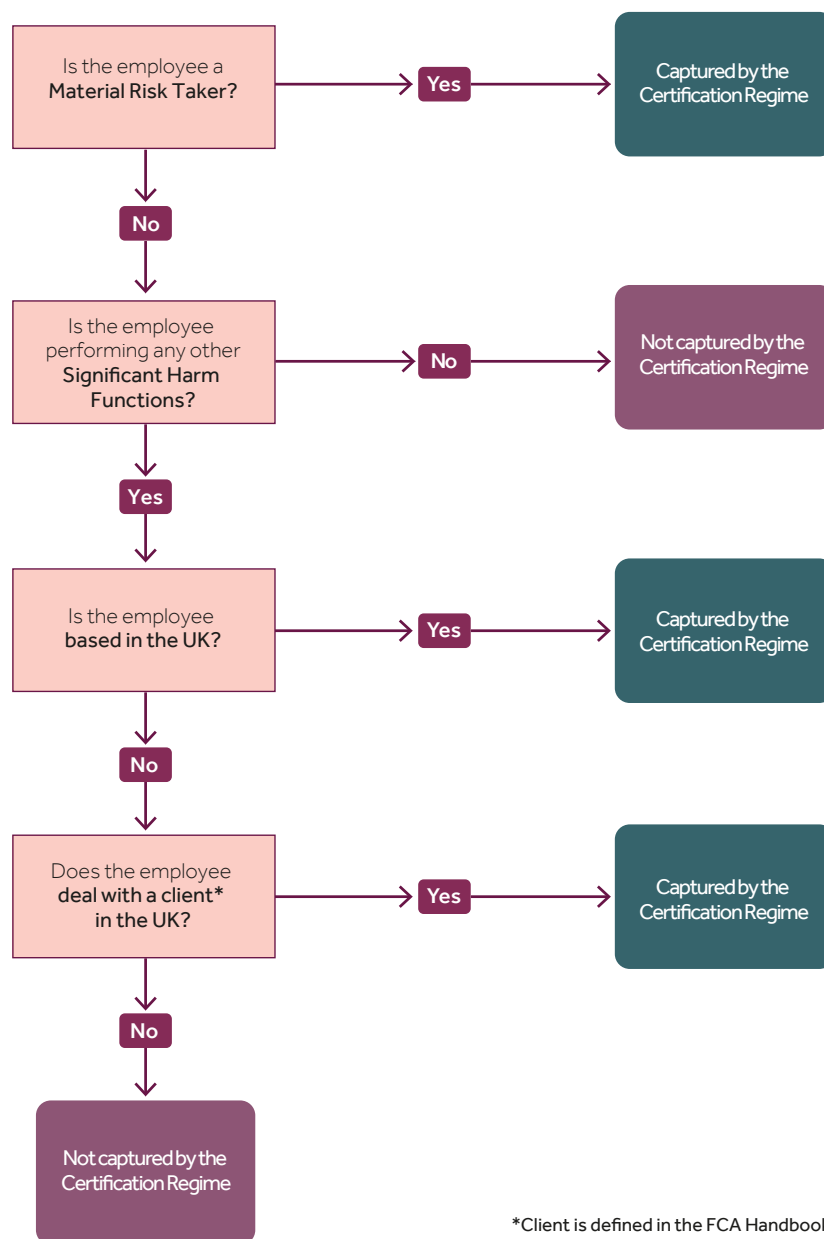
For UK firms, the Certification Regime is limited to people performing a Certification Function who are either based in the UK or, if based outside the UK, have contact with UK clients. We call this the territorial limitation.

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.

10 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)
SMF 1 - Chief Executive
SMF 2 - Chief Finance
SMF 4 - Chief Risk
SMF 5 - Head of Internal Audit
SMF 7 - Group Entity Senior Manager
SMF 9 - Chair of the Governing Body
SMF10 - Chair of the Risk Committee
SMF11 - Chair of the Audit Committee
SMF12 - Chair of the Remuneration Committee
SMF14 - Senior Independent Director
SMF19 - Head of Third Country Branch/ Head of Overseas
SMF20 - Chief Actuary
SMF20a - With-Profits Actuary
SMF23 - Chief Underwriting Officer
SMF24 - Chief Operations

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
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
AA	PRA	Responsibility for management of the firm's risk management processes in the UK
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.

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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12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk
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