

SM&CR Case Study Series

SETTING UP SYSTEMS AND CONTROLS TO SUPPORT SM&CR

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This is the eighth instalment of our SM&CR case study series, designed to help you prepare for the implementation of the FCA's Senior Managers and Certification Regime (SM&CR). This series follows fictitious firm Smith & Cromer Limited's project to implement the Regime with the process and tips being released to you throughout the year.

Before you read on, have you:

1. Read the first seven instalments?
2. Watched our one-minute explainer video – SM&CR in a Nutshell?

If you are up to date, read on...

Our case study firm

Smith & Cromer Limited is a fictional solo-regulated firm active in the wholesale markets with 25 staff in total, including 20 approved persons. There are five executive directors and two non-executives. All but one of the executive directors also performs the customer function under the Approved Persons Regime. The compliance function and the MLRO function are both performed by Sam Carr, who is not a director of the firm.

Sam is steering the SM&CR implementation project and it is progressing smoothly. The senior managers and certification staff have been identified, and the required updates to documentation for the SM&CR to be implemented have been put in place. The fitness and propriety of both the senior managers and the certification staff have been assessed. Training plans have been devised for the senior managers and the training for the certification staff has been designed and will shortly be delivered. It is now time to make the necessary amendments to the existing systems and controls to embed SM&CR into business as usual.



SM&CR Preparation Timeline

Are we where we should be?	MAR 2019
Senior managers, certification staff or conduct staff?	APR 2019
SM&CR documentation updates	MAY 2019
Fitness and propriety of senior managers	JUN 2019
Training for senior managers	JUL 2019
Fitness and propriety of certification staff	AUG 2019
Training for certification staff	SEP 2019
Setting up systems & controls to support SM&CR	OCT 2019
Training for conduct staff	NOV 2019
SM&CR checklist	DEC 2019

Setting up systems and controls to support SM&CR

Systems and controls amendments

The project leader, Sam Carr, has already met with Smith & Cromer's retained compliance consultants to consider necessary changes to embed the SM&CR into 'business as usual'. The key changes necessary fall into three areas.

HR Processes

First, and perhaps most significant, are the additions to existing human resources (HR) processes.

- New hires will be subject to the SM&CR requirements in relation to regulatory references for conduct breaches, in addition to conducting criminal record checks for future Senior Management Functions (SMFs) and Non-Executive Directors (NEDs).
- Existing SMFs, NEDs and certified staff will be subject to an initial and, thereafter, annual assessment of their fitness and propriety. This will be done as part of the annual appraisal and will be followed by the issuance of a formal annual certificate. A key element of this will be each individual meeting continuing professional development (CPD) requirements, which will draw on the Smith & Cromer inhouse requirement that each certified member of staff is a member of a professional body.
- Smith & Cromer will continue to use the appraisal process to identify any additional training that might be necessary, and this will be widened to consider the SM&CR requirements.
- The current HR systems will be utilised to capture and store the evidence in relation to fitness and propriety required

under the SM&CR. Sam is also reviewing the merits of deploying SM&CR software to help control the FCA authorisation and internal certification process; prescribed responsibilities; statements of responsibility; recording of conduct breaches along with attestations.

Policies and Procedures

The second area to update is the broader policies and procedures, including Smith & Cromer's compliance manual and operational procedures. The retained compliance consultants are invaluable here where the focus is on the following changes:

- Making sure conduct issues are specifically mentioned within the whistleblowing procedures.
- The introduction of a 'conduct breach register' that will be the central record for any conduct rule breaches.
- The reporting requirements of the FCA in respect of breaches by senior managers (within 7 business days) and other staff (within the annual report that will need to be submitted through GABRIEL even if there were no conduct breaches). The first report will become due on 02.11.20.

Management Information

A recurring point is added to the board agenda in relation to conduct and the SM&CR. This will cover any conduct rule breaches in the period since the previous board meeting and will also be utilised to highlight any other issues in relation to the SM&CR.

KEY TAKEAWAYS

- 1 Appraisals will need to incorporate the annual fitness and propriety assessment for senior managers, NEDs and certified staff and feed into the issuance of the certificate for certified staff.
- 2 Policies and procedures need to be updated to reflect the actions required in the event of any actual or suspected conduct rules breaches.
- 3 The board meeting must include conduct breaches as a regular item on the agenda.

Our case study will continue next month with 'Training for Conduct Staff.'

Sam's next step is to design and deliver the necessary training to the conduct staff.



TRAINING

Extensive experience in training senior managers and other staff who are subject to the SM&CR.

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