




The Senior Managers and Certification Regime

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This meeting will be recorded.

A Quick Poll?

- How well has your firm implemented the SM&CR?
- Do you believe that it has raised standards in your firm?

PRA Evaluation of the SM&CR (December 2020)

- New fitness and propriety requirements are supporting higher professional standards
- Supervisors are using the regime to clarify responsibility for new business risks and to hold senior individuals to account
- 94% of senior managers observed that the SM&CR had brought about positive changes to behaviours
- Nearly all firms reported integrating to some extent the SM&CR with internal practices
- Initial nervousness that accompanied the introduction of the SM&CR has reduced as practitioners have become familiar with it
- Conduct notifications are being used to a limited extent only
- It is not yet clear whether the regime is working fully as intended in conduct notifications and references.

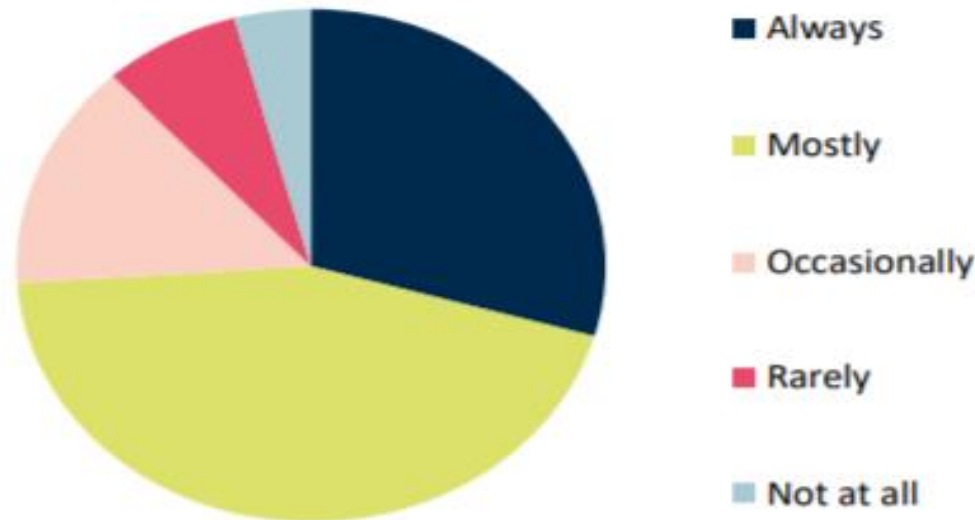


Evaluation of the senior managers and certification regime

December 2020

PRA Evaluation of the SM&CR (December 2020)

Chart 13: Have the tools for assessing the Fitness and Propriety of senior individuals – eg the approval process for Senior Managers, Certification, regulatory references – supported higher professional standards in your firm? (n=119)



PRA Evaluation of the SM&CR (December 2020)

- The SM&CR is being used widely as a supervisory tool
- A 2019 internal survey showed that c.70% of PRA supervisors found the SM&CR helped them hold individuals to account.

Year to September 2020:

- 1360 applications for approval
- 1146 applications were approved
- 98 applications were withdrawn
- to date (Dec 2020) the PRA has not provided a formal rejection notice.



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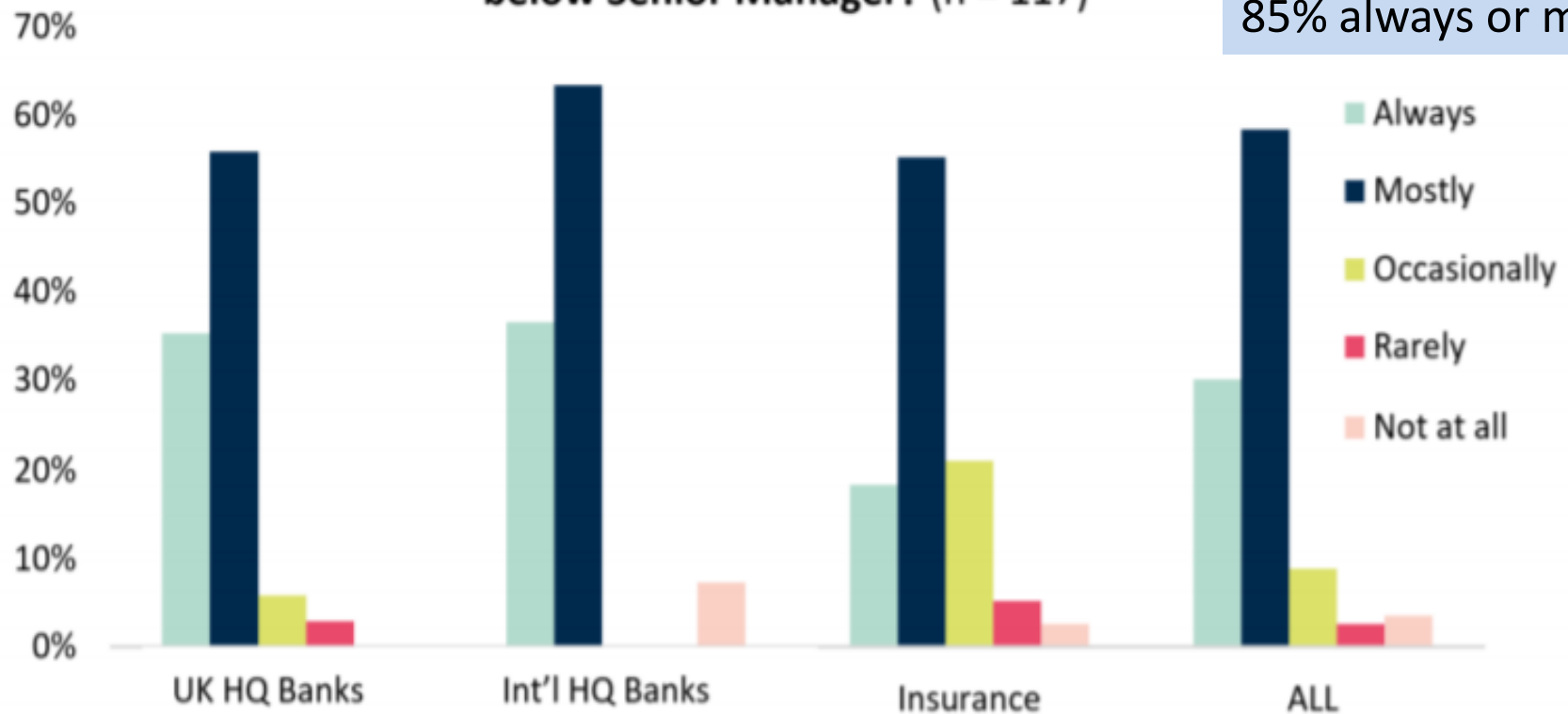
PRA Evaluation of the SM&CR (December 2020)

- Survey evidence showed a large majority of firms (85%) either mostly or always considered the regulatory references they received to be of sufficient quality to inform their assessment of an individual's suitability
- 83% of firms said that they did not find it difficult to fill roles because of the SM&CR
- A few, however, noted it was challenging to recruit for the Head of Operations Function (SMF24) and Chief Risk Officer Function (SMF4)
- A few firms noted that consider the pool of INED candidates had shrunk since the introduction of the SM&CR

PRA Evaluation of the SM&CR (December 2020)

Chart 14: Is the Certification Regime an effective mechanism for promoting improved behaviour/conduct among staff at the level below Senior Manager? (n = 117)

85% always or mostly



FCA 2021 Disclosure Log

➤ What is the Disclosure Log?

Year	SMF Applications	Interviews		Withdrawn		Qualified Form C's
2016	1533	78	5%	120	7.8%	5
2017	1594	139	8.7%	110	6.9%	8
2018	2005	134	6.7%	173	8.6%	15
2019	4378	149	3.4%	375	8.6%	31
2020	7067	132	1.9%	323	4.6%	68

- Total number of recommendations to Regulatory Transactions Committee (RTC): 2019: 8, 2020: 7
- Total number of recommendations to Regulatory Decisions Committee (RDC): 2019: 1, 2020: 1
- Three applications were refused in 2020.

FCA 2021 Disclosure Log

Period	Issue	Number Opened	No Action
March 2016-March 2020	Enforcement investigations into SMFs	46	15
March 2016-March 2020	Enforcement investigations into Certified Persons	12	3
March 2017-March 2020	Enforcement investigations into Conduct Rules staff	15	10

FCA 2021 Disclosure Log

- How many investigations has the FCA opened into non-financial misconduct in 2018, 2019 and 2020?
- 2018 - 1
- 2019 - 5
- 2020 - 0
- Q: How many of those investigations focus on individuals classed as senior managers?
- A: 1
- Q: How many active investigations does the FCA have into non-financial misconduct?
- A: 1

Other Questions

- Is every firm taking it seriously?
- Has SMCR brought about change in accountability and conduct?
- How to remedy the old situations where firms did not have the right people approved (I am seeing a few of these)
- How are the regulators coping? Are they processing applications quickly enough?
- Certification – don't forget internal transfers as well as international movers
- Considerable focus by PRA and FCA towards Board due diligence on new SMF recruits
- Levels of SMF interviews – not many are being held, but don't be complacent
- The old chestnut of Statements of Responsibilities. How much to include or should you keep them succinct and concise without reference to any other document (and leave yourself totally exposed if anything goes wrong)?
- How far do the conduct rules go?

Other Questions

- The need for (and confusion around) conduct rules training and reporting
- How often is conduct rules training required?

- Who decides what should be reported?
- People can be very trigger happy in training courses!
- What is the governance over this?
- HR? Compliance? Both?
- Conduct Rule Breaches Committee?
- Does this lead to fewer breaches being subject to disciplinary action?
- Where does this leave the person with the prescribed responsibility?

- How far do the conduct rules go?

Friends Behaving Badly?

- Mo is a friend and colleague of Geoff, who is a trader, having been friends since their school days. They are both working from home and Mo calls Geoff for a chat. After a minute's conversation, Geoff mentions that he has a WhatsApp call coming through on another phone and asks Mo just to hang on for a second. As Geoff has his phone on speaker, Mo hears the following:
- Geoff: Hello Big Man, what's happening with you?
- Viv: I'm just coming back to you on your message. You asked me to send you a letter stating that you owe £250k on your mortgage? We both know it's £500k, but you're applying for another loan. This COVID thing has really stretched you. It's not allowed, of course, but I owe you for that evening at the nightclub before lockdown....
- At this point, Mo's call goes dead.

Friends Behaving Badly?

- a) Has Geoff breached the conduct rules in any way? **YES, YES, YES!!!**
- b) Should Mo do anything, having overheard this conversation?
- c) Has Mo breached the conduct rules if she does not escalate it?

Poll