

A low-angle, upward-looking photograph of several modern skyscrapers with glass facades. The buildings are curved and reflect the sky and each other, creating a sense of height and architectural complexity. The sky is blue with some light clouds. A red horizontal band is overlaid across the middle of the image, containing the title text.

DUFF & PHELPS

Protect, Restore and Maximise Value

Extending the Senior Managers and Certification Regime

The Senior Managers & Certification Regime (SM&CR) is the biggest change in the regulation of individuals in recent history. It introduces a new era of accountability for individuals and aims to improve conduct at all levels.

Following the Financial Conduct Authority (FCA) and Prudential Regulation Authority's (PRA) implementation of the SM&CR for banks, building societies and PRA-designated investment firms in March 2016 and dual-regulated insurers in December 2018, the regulation will apply to all solo-regulated firms from 9 December 2019. SM&CR aims to resolve the critical failings of the Approved Persons Regime and is a key priority for the FCA, as reiterated in their 2019/2020 Business Plan.

THE KEY COMPONENTS OF SM&CR APPLY TO ALL FIRMS:



SENIOR MANAGERS REGIME

- Individuals in Senior Management Functions (SMFs) grandfathered or pre-approved by FCA
- Statements of Responsibilities
- Prescribed Responsibilities
- Duty of Responsibility
- Fitness & Propriety, regulatory references and criminal record checks
- Additional requirements under enhanced regime



CERTIFICATION REGIME

- Individuals other than SMFs who could cause significant harm to the firm or its customers, but not subject to FCA approval
- Firms must confirm ('certify') annually that certification staff are fit and proper to perform their role
- Regulatory references



CONDUCT RULES

- High-level standards of behaviour applicable to all employees except ancillary staff
- First Tier Conduct Rules apply to most employees
- Second Tier Conduct Rules only apply to Senior Managers
- Regular training
- Breach reporting requirements

FCA SOLO REGULATED FIRMS

The FCA recognised that it would not be appropriate to apply SM&CR in the same way to all firms, as it did for banks.

Instead, it will be applied in a proportionate and flexible way to the wider industry; considering different business models and governance structures.

The FCA's Policy Statement (PS 18/14) outlines how SM&CR will apply to different types of solo-regulated firms and includes a "Firm Checker", which will help firms to determine whether they are a Limited Scope, Core or Enhanced SM&CR firm.

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|-----------------|--|
| Limited Scope | Reduced set of requirements to firms undertaking fewer regulated activities. Applies to firms currently subject to limited application of Approved Persons Regime. |
| Core Regime | Standard set of requirements including 6 core Senior Management Functions and 5 Prescribed Responsibilities. Applies to most regulated firms. |
| Enhanced Regime | Additional requirements, including 17 Senior Management Functions and 12 Prescribed Responsibilities. Applies to larger more complex firms. |

INSURERS

Insurers, reinsurers and managing agents were brought into SM&CR in December 2018, having previously been subject to the less stringent Senior Insurance Managers Regime (SIMR). The regulators have chosen a tiered approach to SM&CR for insurers, with some elements of the regime applying only to Solvency II firms and large Non-Directive Firms and more streamlined requirements for small NDF or small run-off firms.



Key Challenges

SM&CR will require firms to implement a number of changes to HR and Compliance policies and processes. However, the Regime is all about individuals, and firms must ensure they support their employees and senior management, alongside process updates.

Based on our experience having supported firms in the banking and insurance sectors, as well as helping firms plan for 2019, we know the common challenges for firms to consider in anticipation of SM&CR implementation. Addressing these challenges from the outset will reduce the risk of having to re-visit and re-perform activities later in implementation, and importantly, will deliver the support to individuals impacted by the regime. These challenges include:

1. **Aligning authority with accountability:** Ensuring that those asked to be accountable have sufficient authority to support that requirement. This can be complex for organisations that are part of a group where significant outsourcing exists or where there are ambiguities in role responsibilities (for example where job descriptions are unclear or out of date).
2. **Delegation and oversight:** Providing the tools and mechanisms by which accountable individuals can delegate with confidence and maintain effective oversight.
3. **Governance arrangements:** Considering whether existing arrangements, and the management information that supports governance, are up-to-date and remain fit for purpose and provide efficient support to accountable Senior Managers.
4. **Legal entity considerations:** Where a regulated entity is part of a group, including where a parent may be based outside the UK, ensuring that the regulated UK entity is given sufficient attention, whilst maintaining synergies across the group.
5. **Training and support:** There have been, and continues to be, significant public, media and political interest in SM&CR. It is important that firms provide training and support to individuals at an early stage to avoid misinformation and confusion.



A New Era of Accountability

We recognise that SM&CR requires firms to articulate how they manage themselves in clear, unambiguous terms that both management and the regulators can understand. SM&CR also requires firms to be explicit about who is accountable for what. For some firms this exercise may not be straightforward.

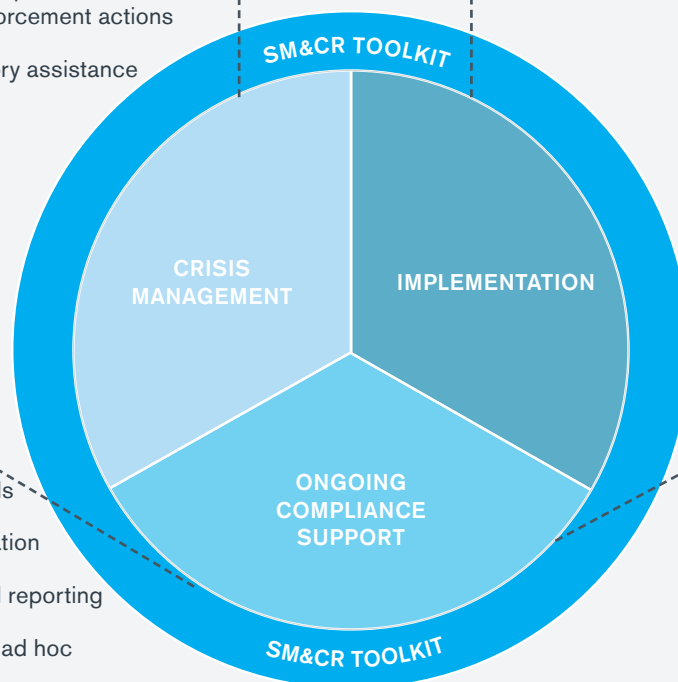
As an award-winning global compliance and regulatory consulting firm, Duff & Phelps has broad SM&CR experience and insights from supporting a diverse range of financial services firms with all aspects of SM&CR. Drawing on our experience and proprietary tools, our team of SM&CR experts can assess the needs of your firm and assist with strategic thinking, planning and implementation of SM&CR from mapping SMFs to Conduct Rules training. A non-exhaustive overview of the types of assistance we can provide is set out below. Further information on our Implementation Approach and SM&CR Toolkit is provided on the following pages.

Our services include:

- Internal investigations
- Preparation for FCA/PRA reviews
- Advice and assistance on potential and confirmed regulatory enforcement actions
- Counselling and regulatory assistance for Senior Managers
- Lessons learned

Our services include:

- Senior Manager approvals
- Assistance with Certification
- Breach management and reporting
- Ongoing assistance and ad hoc advisory services
- Independent assurance reviews and remediation of SM&CR arrangements for firms already subject to the regime
- Ongoing training



Our services include:

- Stakeholder engagement
- Functional operating models
- Legal entity considerations
- Senior management coaching
- Training to individuals, boards, executive committees and broader employee populations
- Advice to NEDs

Our Toolkit includes:

- SM&CR Implementation Guide
- Implementation plan
- Grandfathering tool
- SM&CR handbook
- 14 templates including Responsibilities Map, Statements of Responsibilities (SoRs), annual review procedures, fit and proper questionnaires, joiner and leaver procedures

Our Implementation Approach

We have developed a comprehensive phased SM&CR implementation approach that facilitates a robust SM&CR framework. This approach is underpinned by a set of design principles that lay the ground rules for implementation and ensure consistency across the organisation.

WE WILL TAILOR OUR APPROACH TO THE NEEDS OF YOUR BUSINESS



SM&CR Toolkit

We have developed a comprehensive and cost-effective toolkit that enables firms to self-implement and manage their SM&CR responsibilities. The toolkit covers all SM&CR requirements, as well as providing practical guidance and 14 templates and tools to support implementation. We are here to offer assistance in any aspect of delivery and can provide targeted support where required.



About Duff & Phelps' Compliance and Regulatory Consulting Practice

Duff & Phelps is a leading global adviser that helps clients protect, restore and maximise value with expertise in the areas of compliance and regulation, governance, valuation, corporate finance, investigations, disputes and other governance-related issues. With Kroll, a division of Duff & Phelps since 2018, our firm has nearly 3,500 professionals in 28 countries around the world.

Our award-winning Compliance and Regulatory Consulting team has decades of experience assisting financial services firms to build, manage and protect their businesses.

Our multidisciplinary team includes experts drawn from leading financial institutions, regulators, government authorities, legal and advisory firms. Through our experience and presence in key financial services markets globally, we have deep connections with regulators, industry bodies and business leaders. Our global team of over 300 professionals operates across borders to provide seamless service, cross-jurisdictional advice and varied expertise. This powerful combination of our unique focus on financial services, team of recognised industry experts and 'one team approach' allows clients to receive seamless service, relevant guidance and informed insights to overcome the challenges they face.

We provide a broad range of services to assist clients throughout their business lifecycle, from start-up and ongoing services, to consulting, advisory and remediation services. We are also recognised by the UK's Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) as experts in our field and are appointed on their Skilled Person Panel across eight Lots (including Governance and Individual Accountability (Lot B) and Controls and Risk Management Frameworks (Lot C) among others), where we have undertaken numerous reviews of firms' arrangements at the request of the regulator.

Our team is structured around Centres of Excellence across a broad range of expertise areas including:.

| | | |
|--|----------------------|------------------------------------|
| Governance and individual accountability | Compliance | Operational and enterprise risk |
| Markets | Conduct risk | Financial crime, AML and sanctions |
| Cybersecurity | Prudential | Client money/assets (CASS) |
| Regulatory authorisations, supervision and enforcement | Regulatory reporting | Regulatory change |

OUR RECENT AWARDS

BEST ADVISORY FIRM – REGULATION AND COMPLIANCE 2018
HFM European Hedge Fund Services Awards

COMPLIANCE CONSULTING TEAM OF THE YEAR 2017
Women in Compliance Awards

BEST GLOBAL REGULATORY ADVISORY FIRM 2017
Acquisition International M&A Awards

BEST CONSULTANCY FIRM 2016
CTA Intelligence, European Services

BEST OVERALL ADVISORY FIRM IN EUROPE 2016
HFMWeek

BEST FOR REGULATORY DUE DILIGENCE 2015*
Acquisition International M&A Awards

BEST OVERALL ADVISORY FIRM IN THE US 2014*
HFMWeek

BEST SEC REGISTRATION TEAM IN HONG KONG 2014*
Acquisition International

BEST ASSET MANAGEMENT REGULATORY CONSULTING FIRM IN IRELAND 2014*
Acquisition International

BEST EUROPEAN REGULATORY ADVISORY FIRM 2013*
HedgeWeek

*Awarded to Kinetic Partners, which was acquired by Duff & Phelps in 2015



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About Duff & Phelps

Duff & Phelps is the global advisor that protects, restores and maximizes value for clients in the areas of valuation, corporate finance, investigations, disputes, cyber security, compliance and regulatory matters, and other governance-related issues. We work with clients across diverse sectors, mitigating risk to assets, operations and people. With Kroll, a division of Duff & Phelps since 2018, our firm has nearly 3,500 professionals in 28 countries around the world. For more information, visit www.duffandphelps.com.