

SM&CR Case Study Series

SM&CR DOCUMENTATION UPDATES

ISSUE 3 • MAY 2019

This is the third instalment in our SM&CR case study series, designed to help you prepare for the implementation of the FCA's Senior Managers & 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.

Have you:

1. Read the first two 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

Remember 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 project plan](#) and, after [identifying the senior managers at the firm, those that need to be certified as fit and proper, and the remaining staff](#), it is now time to consider the documentation updates that will be necessary for the SM&CR to be implemented.



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**

SM&CR documentation updates

Documentation to be updated and drafted

Sam has carefully reviewed relevant guidance from the FCA's website and, after discussion with Smith & Cromer's retained compliance consultants, she has come up with three key areas to consider:

1) *Statements of Responsibilities*

The SM&CR requires a Statement of Responsibilities (SoR) for each senior manager. So, as covered in [issue 2](#), for Smith & Cromer that will be the CEO, the other four executive directors, the Chair and Sam herself. These SoRs will need to be self-contained and, once they are in place, they will need to be kept up to date. When the regime comes into force in December 2019 a copy will need to be submitted to the FCA as part of the approval process for each senior manager. Furthermore, each SoR will need to incorporate any prescribed responsibility allocated to the senior manager.

As Smith & Cromer does not hold client assets and is not an Authorised Fund Manager, it must allocate each of the following four prescribed responsibilities to a senior manager:

- (i) Performance by the firm of its obligations under the SM&CR including implementation and oversight
- (ii) Performance by the firm of its obligations under the certification regime
- (iii) Performance by the firm of its obligations in respect of notification and training of the conduct rules
- (iv) Responsibility for the firm's policies and procedures for countering the risk that the firm might be used to further financial crime

It is clear that to a lesser or greater extent the practical implementation of these requirements has been delegated to Sam, but the responsibilities must go to the most senior person accountable for the firm's compliance with these requirements. As a result, the first three will be given to the CEO and the fourth (re financial crime) will go to the person to whom Sam, as MLRO, reports, which is the Chief

Operations Officer, who is a board member of the firm and an SMF 3 – Executive Director.

The SoRs will be generated to reflect this allocation of the prescribed responsibilities. Thankfully, the task is not too difficult as Smith & Cromer already has fully drafted job descriptions for all of the senior managers from which the self-contained Statements of Responsibilities can be prepared.

2) *Code of Conduct*

Smith & Cromer's 'Code of Conduct' will need to be updated to reflect the SM&CR's Conduct Rules. This will be done in advance of the roll out of conduct training. As well as detailing and illustrating the regime's conduct requirements, the conduct training will provide the perfect opportunity to reinforce the expectations of Smith & Cromer in relation to appropriate conduct to all staff. Sam has identified a number of employees who will come within the conduct regime who have never been FCA Approved Persons. Particular care will be taken to ensure they understand the standards that will be expected of them.

3) *Responsibilities Map*

Although not required, Sam thinks generating a Responsibilities Map will be both useful internally and externally, if it ever needs to be presented to the regulator. She has discovered that the FCA has itself generated a Responsibilities Map for its own senior management team, and this will be used as a template to generate a more straightforward version for Smith & Cromer. Preparing the map should capture all of the responsibilities of the senior managers and make sure nothing falls between the cracks.

Sam will generate draft SoRs, a revised Code of Conduct and a Responsibilities Map to be submitted for consideration at Smith & Cromer's next Board meeting. Sam also makes a note to remind her colleague responsible for HR to make sure that the staff handbook and contracts of employment will be updated to reflect the SM&CR.

KEY TAKEAWAYS

- 1 Statements of Responsibilities for the senior managers – these need to pick up all of the prescribed responsibilities and each prescribed responsibility should be allocated to the most senior person accountable for the firm's compliance with the requirement.
- 2 Code of Conduct – the firm's code of conduct needs to reflect the SM&CR's conduct rules.
- 3 Responsibilities Maps – although not required for core firms, it could be a useful exercise to prepare a responsibilities map for the firm. Inspiration can be drawn from the FCA's own responsibilities map (the FCA calls this their '[Diagram of FCA allocation](#)')

Next month our case study will move on to 'Fitness and propriety of senior managers'

The next stage will be for Sam to consider the fitness and propriety (F&P) of the senior managers and devise training plans to address any shortcomings.



TRAINING

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