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EMEA Centre for Regulatory Strategy

Senior Managers Regime
Individual accountability and reasonable steps

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Introduction

The Senior Managers Regime (SMR) and Certification Regime commenced on 7 March 2016 for banks (including building societies, credit unions, PRA-designated investment firms and UK branches of foreign banks).

This new regime represents a complete overhaul of the current Approved Persons Regime (APER) following the recommendations of the Parliamentary Commission on Banking Standards, which was established in June 2012 to consider the professional standards and culture of the UK banking sector after the financial crisis of 2007-2008.

The Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) final rules[1] establish a new regulatory framework to:

- focus accountability on a narrower number of individuals at the top of the bank;
- encourage individuals to take greater responsibility for their actions; and
- make it easier for both banks and regulators to hold individuals to account.

The SMR largely refines and formalises existing regulatory expectations on accountability and governance. However, the increased onus on individual accountability, in particular the introduction of the statutory duty of responsibility – requiring Senior Managers to take **reasonable steps** to prevent regulatory breaches from occurring, or continuing to occur, in their area of responsibility – is leading many Senior Managers to reassess the appropriateness of the scope of their responsibilities and to review their approach to controlling and managing these areas of responsibility.

This paper seeks to help Senior Managers understand what individual accountability means in practice and how they can implement the SMR in a way that allows them to demonstrate and evidence their reasonable steps.

Whilst this paper will be of immediate relevance to Senior Managers in banks, our suggestions are also relevant to insurers subject to the Senior Insurance Managers Regime. Furthermore HM Treasury announced in October 2015 that the SMR will be extended to all remaining regulated firms in the UK in 2018. The exact scope of the extended regime is still subject to consultation but it seems reasonable to assume that the focus on individual accountability will remain intact.

1 FCA PS15/30 “Strengthening accountability in banking: UK branches of foreign banks (final rules)” – December 2015 http://www.fca.org.uk/static/fca/documents/policy-statements/ps15-30.pdf

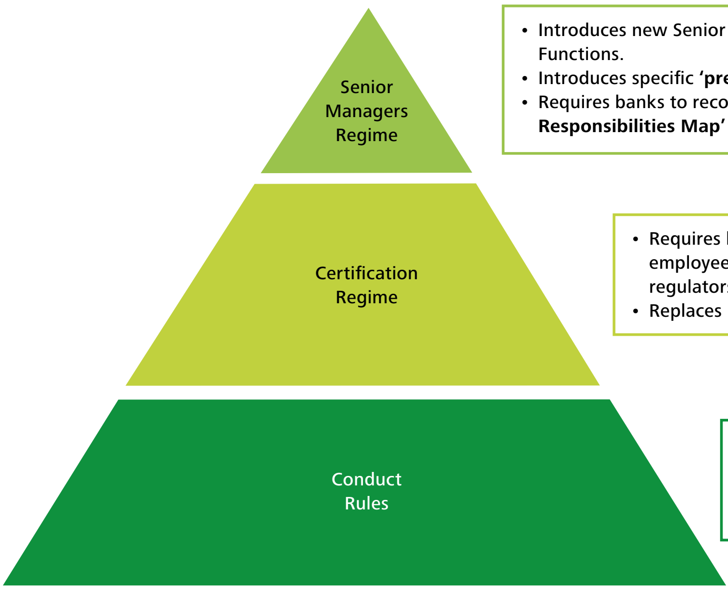
FCA CP15/22 “Strengthening accountability in banking: Final rules (including feedback on CP14/31 and CP15/5) and consultation on extending the Certification Regime to wholesale market activities” – July 2015 http://www.fca.org.uk/static/documents/consultation-papers/cp15-22.pdf

PRA PS16/15 “Strengthening individual accountability in banking: responses to CP14/14, CP28/14 and CP7/15” – July 2015 http://www.bankofengland.co.uk/pra/Documents/publications/ps/2015/ps1615.pdf

PRA PS29/15 “Strengthening individual accountability in banking: UK branches of non-EEA banks” – December 2015 http://www.bankofengland.co.uk/pra/Documents/publications/ps/2015/ps2915.pdf

Overview of the Senior Managers Regime

This paper does not seek to provide a comprehensive description of the SMR and Certification Regime, but we provide a summary of the core concepts of the new regime below. The new regime can be split into three key elements and summarised as follows:



- Introduces new Senior Management Functions (SMFs) to replace existing Significant Influence Functions.
- Introduces specific **'prescribed responsibilities'** which must be allocated amongst SMFs.
- Requires banks to record their key governance arrangements in a **'Management Responsibilities Map'** and for SMFs to complete individual **'Statements of Responsibilities'.**

- Requires banks to **annually certify the fitness and propriety** of certain key employees in 'significant-harm functions' who are not pre-approved by the regulators as SMFs.
- Replaces regulatory approval for individuals who are not Senior Managers.

- **New Code of Conduct Rules** to replace existing approved persons principles.
- Tier 1 – Individual Conduct Rules apply to **all employees** excluding ancillary staff.
- Tier 2 – Senior Manager Conduct Rules apply to those in SMF roles.

For Senior Managers the core concepts that affect individual accountability are set out below and details of each can be found in the 'SMR Reference Guide' at the end of this paper.

- **Senior Management Functions** – the PRA and FCA have established a combined list of SMFs requiring regulatory pre-approval and who are subject to the SMR. The list replaces the existing Controlled Functions under the APER and focuses on a smaller number of more senior roles. Generally these roles are limited to those in the top two tiers of management within the bank (e.g. board of directors and executive management).

  Accordingly, the list excludes a number of the current APER Controlled Functions typically occupied by less senior staff, including: the CF30 Customer function; the CF10a CASS Oversight Operation function; and the CF40 and CF50 benchmarking functions. These roles are now captured under the Certification Regime.

- **Prescribed responsibilities and key business areas and activities** – the PRA and FCA have set out a combined list of prescribed responsibilities which must be allocated amongst Senior Managers in banks. The regulators expect that each responsibility will be allocated to a single Senior Manager; where a responsibility is shared each Senior Manager will be wholly accountable for it.

  In addition to the prescribed responsibilities, the FCA wants to be clear who is responsible for each of the key activities, business areas and management functions of the bank. The FCA has provided a non-exhaustive list of potential key business areas and activities as guidance, however, banks must identify the key business areas and activities relevant to their organisation and allocate overall responsibility for each to one or more Senior Managers.

- **Statements of Responsibilities and Management Responsibilities Map** – once a bank has allocated responsibilities amongst its Senior Managers the SMR requires that the allocation is recorded and that the FCA and PRA are duly notified.

  – *Statement of Responsibilities* – each individual Senior Manager must complete a 'Statement of Responsibilities' clearly setting out the role they are undertaking and describing those areas of the bank for which they are responsible.

  – *Management Responsibilities Map* – banks will be required to write and maintain a comprehensive Management Responsibilities Map which describes the bank's management and governance arrangements in a single document. This should include key reporting lines, committee structures and details about key management and their responsibilities.

- **Senior Manager Conduct Rules** – the FCA and PRA have replaced the current APER Statements of Principle with a new set of Conduct Rules for a wider set of individuals. Whilst the Conduct Rules are high level principles, the FCA and PRA have gone further than previously by setting out examples of conduct that they consider would constitute a breach of the rules. The regulators have made clear that these examples are not comprehensive, but it is a useful indicator of their thinking and should be built into each Senior Manager's training.

  The first tier of 'Individual Conduct Rules' will apply to all employees (including Senior Managers) with some exclusions for ancillary staff.

  In addition, a second tier of rules has been established specifically for Senior Managers. The rules focus on the reasonable steps the Senior Managers should be taking to control their area of responsibility, ensure regulations are complied with and breaches notified to the regulators.

- **Statutory duty of responsibility** – the government has introduced a statutory duty of responsibility to be applied consistently to all Senior Managers, requiring Senior Managers to take reasonable steps to prevent regulatory breaches in the areas of the bank for which they are responsible.

The cumulative effect of these concepts is to instil a greater culture of personal accountability at the very top of banks.

These requirements mean that in the case of a regulatory breach, regulators will now have the information available to quickly identify the Senior Manager(s) responsible for the area at fault and a clear set of Conduct Rules against which they can assess the extent of any potential breach.

Individual accountability

The shift to individual accountability

Since the financial crisis there have been many instances of banks being held to account by regulators for management failings, but far fewer instances of individual managers being held to account.

In part, this can be attributed to the fact that regulators had no direct way of linking control failings to specific Senior Managers. As there has previously been no requirement to define who is responsible for what in a bank, it has been possible for individuals to claim that it was someone else's responsibility, or *"Individuals seeking to protect themselves on a 'Murder on the Orient Express' defence (it wasn't me, it could have been anyone)"* as noted by Martin Wheatley, the former Chief Executive of the FCA [3].

See our blog – Individual and collective responsibility, Rewriting Agatha Christie[4]

Where a regulatory breach occurs, the regulators have indicated they will now use the Management Responsibilities Map and individual Statements of Responsibilities as the starting point to identify who is responsible for the area(s) in question.

This will normally lead to the regulators engaging in dialogue with the identified Senior Manager(s) prior to considering whether or not to refer them to Enforcement.

The increased focus on individual accountability will therefore move the regulators away from the time-consuming task of having to determine who is accountable for what, to a position of determining whether the individual(s) responsible took reasonable steps to control their areas effectively and to comply with all relevant regulations.

What does this mean for Senior Managers?

This shift is likely to lead to supervision and enforcement focussing much more on the actions of individual Senior Managers as opposed to the overall actions of the bank. Even with the removal of the 'reverse burden of proof'[5], Senior Managers should be cognisant of the need to ensure that they have full control of their areas of responsibility and that their individual actions can be evidenced and are defensible.

> "…the SMR was created against the backdrop of a clear – and shared – understanding that culture needed to change and a culture of personal responsibility had to be embedded."

Tracey McDermott, Acting Chief Executive, FCA – December 2015[2]

2 https://www.fca.org.uk/news/personal-accountability
3 Martin Wheatley, then Chief Executive of the FCA – March 2015 – https://www.fca.org.uk/news/nothing-to-fear-from-high-standards
4 Individual and collective responsibility, Rewriting Agatha Christie - http://blogs.deloitte.co.uk/financialservices/2015/06/individual-and-collective-responsibilityrewriting-agatha-christie.html
5 HM Treasury Senior Managers and Certification Regime – October 2015 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/468328/SMCR_policy_paper_final_15102015.pdf

Reasonable steps

What are reasonable steps?

The new statutory duty of responsibility places the onus on Senior Managers to take reasonable steps to prevent regulatory breaches from occurring or continuing to occur, and the new Senior Manager Conduct Rules require Senior Managers to take reasonable steps to effectively control their area of the business, to delegate appropriately and to comply with regulatory requirements (see table below).

The statutory duty of responsibility supersedes the original 'presumption of responsibility' which would have reversed the burden of proof, requiring Senior Managers to prove that the steps they took were reasonable. The same tough underlying obligation will remain on the individual to ensure that they take reasonable steps, but the burden will be on the regulators to prove that a Senior Manager has failed to do so.

Whilst the term 'reasonable' is generic and relative, the guidance provided by regulators during the SMR consultation period goes some way towards demonstrating what is expected.

Senior Managers are potentially taking 'reasonable steps' every working day but do not necessarily think of their actions in these terms. Making decisions on resourcing allocation, assessing the competence of staff, reading and responding to management reports – all of these could be considered examples of reasonable steps if they are done appropriately. Whilst the PRA and FCA will be the final arbiter of what is 'appropriate' or 'reasonable' they have provided some guidance as to how they will approach this evaluation.

Tier 2 – Senior Manager Conduct Rules		Applied by
SC1	You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively.	FCA / PRA
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.	FCA / PRA
SC3	You must take reasonable steps to ensure that any delegation of your responsibilities is to an appropriate person and that you oversee this effectively.	FCA / PRA
SC4	You must disclose appropriately any information of which the FCA or PRA would reasonably expect notice.	FCA / PRA

6 https://www.fca.org.uk/news/nothing-to-fear-from-high-standards

Regulatory expectations of reasonable steps

In the case of a regulatory breach the regulators have indicated they will assess the steps that the specific Senior Manager actually took, against such steps as the regulators consider that a Senior Manager in that position could reasonably have been expected to take to avoid the contravention occurring or continuing to occur.

One of the key considerations will be **proportionality**, assessing the reasonableness of actions taken commensurate with the size, scale and complexity of the bank. For example, a large complex bank operating across a number of geographies and product lines will be expected to have more robust risk management controls in place than a small bank with a simple structure.

Other potential considerations may include:

- What the Senior Manager actually knew, or ought to have known (taking into account, among other factors, the length of time he/she has been in the role and handover arrangements to those new to a role).
- What due diligence the Senior Manager undertook, upon assuming the role, to familiarise him or herself with any historic conduct or regulatory issues and with the control environment he or she was to assume responsibility for.
- What expertise and competence the Senior Manager had, or ought to have possessed, at the time to perform his/her specific SMF.
- What steps the Senior Manager could have taken; considering what alternative actions might have been open to the Senior Manager at the time and the timescale within which he or she could have acted.
- The actual responsibilities of that Senior Manager and the relationship between those responsibilities and the responsibilities of other Senior Managers in the bank (including in relation to any joint responsibilities or matrix-management structures).
- Whether the Senior Manager delegated any functions, taking into account that any such delegation should be appropriately arranged, managed and monitored.
- The overall circumstances and environment in which the Senior Manager was operating at the time. For example, where a Senior Manager was subject to competing priorities, the regulator may consider whether the way in which he or she prioritised them was informed by an appropriate risk assessment.

"… for senior managers, most of the steps you'd expect them to take appear common-sense, frankly. Behave with integrity; delegate appropriately; make sure you understand your business area; and comply with common law, existing rules and legal obligations."

Martin Wheatley, then Chief Executive of the FCA March 2015[6]

How can I demonstrate that I am taking reasonable steps?

The SMR should not fundamentally change how well-run banks organise their businesses. The concept of reasonable steps should already be embedded in Senior Managers' day-to-day actions in managing and controlling their areas of responsibility. The challenge posed by the SMR is to achieve this in an efficient and consistent way across the bank to reduce the administrative burden on already overloaded businesses and support functions.

Whilst there is no prescriptive list of actions that can be followed to guarantee that a Senior Manager's steps will be viewed as reasonable by a third party after the event, it is possible to adopt a structured approach that will evidence a culture of close and continuous management and improvement.

Taking reasonable steps is not a science, but the following, non-exhaustive, matrix can support Senior Managers to contextualise and evidence how well they run the business and discharge their responsibilities.

Knowledge & Understanding

- **Handover** – on taking on the role ensure you take time to read any handover material and to undertake any additional assessments required to fully understand the key risks and issues facing the business and concerns that the regulator may have highlighted in the past.
- **Know your risks** – work collaboratively with second and third-line functions to understand and manage the risks in your area.
- **Capacity and capabilities** – consider whether you have the necessary bandwidth to fulfil your responsibilities and escalate if you have concerns or require additional resource.
- **Maintain your knowledge** – attend industry forums, seminars and regulatory briefings to ensure that you maintain your technical skills and an understanding of the evolving business and regulatory environment.
- **Market events** – reflect on the broader markets in which the bank operates including external factors (e.g. high-profile regulatory issues) that should be considered as part of decision making.
- **Your bank** – request and review regular updates and reports from your team to understand what is going on in your department. Read internal memos and attend relevant forums across the bank to maintain your understanding of the activity of the wider bank and where you fit within it.

Review & Improve

- **Reporting** – critically interrogate the information you receive and produce for others. Consider whether this appropriately covers the most material issues. Is this presented in a concise and easily understandable way? Are metrics and KRIs aligned to key risks? Ask for the MI you need, not just what is currently available.
- **People** – set relevant objectives for your team and conduct regular performance appraisals to test competence and capability. Identify training requirements for your team and feed into training plans to ensure these areas are covered.
- **Controls** – continually review your control framework and where gaps are identified take steps to improve and update policies, procedures, systems etc. Work with the bank's support and assurance functions as necessary.
- **Challenge and discussion** – discuss key decisions within your team and welcome challenge. Document outcomes (e.g. email confirmation of decisions taken, actions agreed etc.). Contribute your own opinion to collective decision making and take time to review meeting minutes and actions for completeness and accuracy.
- **Be proactive** – and initially focus attention on the highest priority tasks whilst capturing other actions. Ensure that your team is aware which tasks are critically important at any given point.

Organise & Control

- **Resourcing** – continue to monitor the resourcing requirements of your business area/function including the capacity of individuals. Where there are resource gaps, demonstrate this is understood and is being managed.
- **Succession planning** – put in place a clear structure within your team so that when individuals leave the business their key tasks are not left unassigned.
- **Reporting lines** – if members of your team have dual reporting lines, make clear to them what this means in practice so that they are clear as to whom they are accountable and for what. Where you have a dual reporting line ensure you understand the appropriate escalation channels.
- **Delegations** – where you are delegating key tasks ensure these are clearly assigned/allocated to appropriate individuals. Retain accountability through continuing oversight of the delegated activity (e.g. weekly meetings, daily reports etc.) and where appropriate challenge the information received.
- **Governance** – establish relevant forums to formally discuss issues and help understand the business. Review whether your committee memberships are appropriate and avoid repeatedly sending delegates if you are a committee member.

Resolve & Learn

- **Take action** – if you become aware of an issue, inaction is not an option. Take steps to resolve and make others aware of the issue, even if it is not directly in your area of responsibility.
- **Support** – recognise your limits and seek and obtain appropriate expert advice or assurance from internal and external sources.
- **Escalate** – escalate and report issues to increase awareness across the bank and to gain support from relevant departments and/or governing bodies.
- **Action plans** – maintain plans with clearly assigned owners and deadlines to enable key projects/work streams to be completed on time. Ensure actions are followed through to completion and are not left unresolved.
- **Lessons learned** – where issues have been resolved ensure that any weaknesses identified are used to inform future audit and testing, for example:
  - consider building case studies into training;
  - perform root cause analysis to assess whether issues are systemic within the wider business; and
  - identify weaknesses in reporting and seek improvements to help prevent similar incidents from occurring in the future.
- **Handover** – where issues remain unresolved ensure that handover documentation provides your successor with a clear overview of the issue.

Evidencing reasonable steps

The formal governance documentation of a bank – meeting minutes, action logs, job descriptions, Statements of Responsibilities etc. – will be a key factor in demonstrating that individual Senior Managers took reasonable steps to prevent regulatory breaches from occurring, or continuing to occur. However, the vast majority of day-to-day decisions in a bank are taken outside of these formal governance structures.

As we have stated, the SMR should not necessarily change the way banks run their businesses. However, as banks adapt to the requirements of the SMR, consideration should be given to whether improvements are required to help evidence, contemporaneously, what was discussed and agreed in more informal settings (e.g. weekly team meetings, hallway conversations, or a colleague's office) without adding large amounts of additional time-consuming bureaucracy.

We have seen a variety of approaches across individual banks to setting the benchmark for evidencing reasonable steps. Some banks are leaving this entirely to the discretion of individual Senior Managers, whereas others are establishing a framework which sets out the bank's expectations and provides guidance material.

Whilst evidencing reasonable steps is ultimately the responsibility of Senior Managers, we believe it is prudent for banks to establish at least a high-level framework in which the expectations for record keeping are clearly articulated. By setting the tone from the top a bank can make it easier for new standards to be adopted and to drive consistency in approach.

Demonstrating reasonable steps for Non-Executive Senior Managers

In May 2015 the PRA undertook a consultation (CP18/15)[7] identifying the key aspects of good board governance to which the PRA attaches particular importance in the conduct of its supervision. For Non-Executive Directors this included:

- The role of the Non-Executive Directors should be clearly defined by the Board, reflecting the requirement for impartiality and management challenge.
- The Board should act in a co-operative and collegiate manner whereby the Non-Executive Directors support and encourage management and vice versa.
- Non-Executive Directors must maintain sufficient independence from the Executives.
- Non-Executive Directors should hold management to account against the matters delegated from the Board and be able to challenge the executive effectively and promptly.
- Non-Executive Directors should not delegate away responsibility for major decisions to individuals among them who are considered specialist in the area.

There is an increasing expectation that Non-Executive Directors will do more than attend formal meetings, and under the SMR several specific responsibilities have been introduced for Non-Executive Directors who chair committees (refer to SMR Reference Guide).

Where a Non-Executive Director is expected to 'safeguard the independence of and oversee the performance of the internal audit/compliance/risk function' he/she may choose to have regular meetings with the head of that function outside of formal governance committees. However, such meetings, and actions arising, should be recorded to demonstrate, on a contemporaneous basis, that the Non-Executive Director took steps to fulfil his/her responsibilities.

In many banks this may require additional support – in the form of increased Company Secretarial or Legal resource – to provide Non-Executive Directors with the required level of comfort that their actions are being recognised and evidenced. As part of preparations for the SMR we have seen a number of banks formalise their disciplines in relation to Chair and Non-Executive Director appraisals, Board and individual training plans and recording the time discharged by Non-Executive Directors in role.

The following is a non-exhaustive set of practical considerations that may help Senior Managers to evidence their reasonable steps on an on-going basis.

Minutes from Board and Board Committees	• Do formal meeting minutes accurately record the level of discussion, debate and challenge provided by Senior Managers around key issues? • Do Senior Managers have the opportunity to review and amend draft minutes before they are finalised?
Statements of Responsibilities and Management Responsibilities Maps	• Do they accurately reflect the actual responsibilities of Senior Managers and the relationship between those responsibilities and the responsibilities of other Senior Managers in the bank? • Do Senior Managers proactively inform the document owner when their responsibilities change?
Organisation charts	• Does the bank have a clear reporting structure that is understood and can be articulated by Senior Managers? • If the bank has matrix reporting lines, is it clear who is reporting to whom and for what?
Handover material	• Does the bank have a standard approach to recording the handover between Senior Managers? • Are these records practical and helpful, including an assessment of what issues should be prioritised? Do they include judgement and opinion, not just facts and figures?
Management Information (MI) and Reports	• Is the bank's MI and reporting concise, accurate, timely, forward-looking and prioritised on a risk basis? Where it is not, is this challenged by Senior Managers? • Do Senior Managers receive reports for their area of responsibility demonstrating how issues and risks are escalated and managed, and providing insights into the information available at a point in time? • Are these reports stored/archived and can they be easily retrieved if required?
CV, Role Profile and Job Description	• Do CV/role profiles accurately demonstrate the expertise and competence the Senior Manager had, or ought to have possessed, in order to perform his/her specific function? • If Senior Managers delegate functions, are these captured in a way that allows appropriate oversight and monitoring? • Do CV/role profiles of delegates support the Senior Manager's decision to delegate to that individual (e.g. skills, seniority, capacity etc.)?
Email records	• Where issues are being dealt with immediately and important decisions are being agreed verbally, do Senior Managers follow up important discussions and decisions with an email to the relevant people so that is clear to all parties what was agreed and the next steps?
Meeting invites and standing agendas	• Do Senior Managers ensure meeting invites are diarised to evidence frequency and scope of meetings? • Do Senior Managers agree high-level standing agendas for regular meetings to help demonstrate that they received regular updates on key topics (e.g. risks, issues, resource, financial position etc.)?
Departmental action logs	• Do Senior Managers record actions in team meetings to evidence what was discussed and agreed? • Can Senior Managers evidence that actions were assigned to appropriate owners and with consideration of other demands on the team's time? • Is there a clear record of following up on actions and ensuring they are closed out?

7 http://www.bankofengland.co.uk/pra/Documents/publications/cp/2015/cp1815.pdf

Summary and next steps

Summary

Reasonable steps will inevitably mean different things to different people in different situations. However, as we have outlined, there are a number of basic steps Senior Managers can take to help demonstrate that they are effectively controlling their area of responsibility.

The SMR is now in force and banks need to ensure they are configured in a way that can support and enable Senior Managers to drive forward the business whilst instilling a culture of accountability.

> "The key principle of that regime is to establish clearly appropriate responsibility for the governance of firms. Put like that, it is not meant to be radical or life-changing, despite whatever you may hear and read…Clarity of responsibility is I hope unobjectionable"

Andrew Bailey, Deputy Governor, Prudential Regulation, Bank of England and CEO of the PRA – May 2015[8]

Next steps

Following commencement there are a number of practical next steps banks should be taking to ensure compliance with the new regime.

Analysing and refining a reasonable steps framework	• Senior Managers will be seeking support and guidance on the bank's reasonable steps framework and how this should be applied in practice. • Banks should consider undertaking an analysis of current governance and controls arrangements against the desired state to identify potential weaknesses and to prioritise areas of improvement within the framework. • Given the new focus on individual accountability, Senior Managers should also consider undertaking more in-depth analysis of their own areas of responsibilities to test whether the current controls meet their own, and regulatory, expectations of reasonable steps.
Business as usual Conduct Rules training	• Banks should ensure processes are in place to train new Senior Managers and identified Certification staff in the new Conduct Rules. • Banks should also consider providing bespoke training for Senior Managers on individual accountability, the statutory duty of responsibility and demonstrating reasonable steps.
Certification Regime	• Banks have until 7 March 2017 to issue the first certificates to their Certification staff. • Banks should by then have developed and tested workflow or system solutions to ensure a robust process is in place to support the timely and accurate assessment of individuals' fitness and propriety. • The Senior Manager with responsibility for the Certification Regime should pay particular attention to ensuring he/she can receive reporting on the on-going effectiveness of the certification process.
Testing embeddedness	• Whilst many banks undertook a lot of preparation work to meet the requirements of the SMR ahead of commencement, there is still much to do in the coming months to ensure these processes are well embedded within the bank. • Banks should ensure that the newly created policies, procedures and systems are well communicated across the business as on-going compliance requires every member of the bank to contribute to a culture of good conduct and accountability. • Many banks will want to test embeddedness through internal (i.e. Internal Audit) and external reviews to determine whether any newly created processes have been adopted and are working as expected. This will enable banks to demonstrate that they have accountable Senior Managers with the right infrastructure in place to discharge their responsibilities.

8 http://www.bankofengland.co.uk/publications/Pages/speeches/2015/815.aspx

SMR Reference Guide

A. Senior Management Functions

SMF	Function	PRA/FCA	UK bank	Non-EU branch	EEA branch
SMF1	Chief Executive function	PRA / FCA	•		
SMF2	Chief Finance function	PRA / FCA	•	•	
SMF3	Executive Director function	FCA only	•	•	
SMF4	Chief Risk function	PRA / FCA	•	•	
SMF5	Head of Internal Audit function	PRA / FCA	•	•	
SMF6	Head of Key Business Area function	PRA / FCA	•		
SMF7	Group Entity Senior Manager function	PRA / FCA	•	•	
SMF8	Credit Union Senior Manager function	PRA / FCA	•		
SMF9	Chairman function	PRA / FCA	•		
SMF10	Chair of the Risk Committee	PRA / FCA	•		
SMF11	Chair of the Audit Committee	PRA / FCA	•		
SMF12	Chair of the Remuneration Committee	PRA / FCA	•		
SMF13	Chair of the Nomination Committee	FCA only	•		
SMF14	Senior Independent Director	PRA / FCA	•		
SMF15	N/A	–			
SMF16	Compliance Oversight function	PRA / FCA	•	•	
SMF17	Money Laundering Reporting function	FCA only	•	•	•
SMF18	Other Overall Responsibility function	FCA only	•		
SMF19	Head of Overseas Branch function	PRA / FCA		•	
SMF20	N/A	–			
SMF21	EEA Branch Senior Manager	FCA only			•
SMF22	Other local responsibility function	FCA only		•	

B. Prescribed responsibilities – Relevant UK banks[9]

Ref.	Prescribed responsibility	PRA/FCA
Applying to all firms		
A	Responsibility for the firm's performance of its obligations under the senior management regime.	**PRA/FCA**
B	Responsibility for the firm's performance of its obligations under the employee certification regime.	**PRA/FCA**
C	Responsibility for compliance with the requirements of the regulatory system about the management responsibilities map.	**PRA/FCA**
D	Overall responsibility for the firm's policies and procedures for countering the risk that the firm might be used to further financial crime.	**FCA**
E	Responsibility for the allocation of all prescribed responsibilities.	**PRA**
Applying to larger firms		
F	Responsibility for: (a) leading the development of; and (b) monitoring the effective implementation of; policies and procedures for the induction, training and professional development of all members of the firm's governing body.	**PRA/FCA**
G	Responsibility for monitoring the effective implementation of policies and procedures for the 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.	PRA/FCA
H	Responsibility for overseeing the adoption of the firm's culture in the day-to-day management of the firm.	PRA
I	Responsibility for leading the development of the firm's culture by the governing body as a whole.	PRA
J	Responsibility for: (a) safeguarding the independence of; and (b) oversight of the performance of; the internal audit function, in accordance with SYSC 6.2 (Internal Audit).	PRA/FCA
K	Responsibility for: (a) safeguarding the independence of; and (b) oversight of the performance of; the compliance function in accordance with SYSC 6.1(Compliance).	PRA/FCA
L	Responsibility for: (a) safeguarding the independence of; and (b) oversight of the performance of; the risk function, in accordance with SYSC 7.1.21R and SYSC 7.1.22R (Risk control).	PRA/FCA
M	Responsibility for overseeing the development of, and implementation of, the firm's remuneration policies and practices in accordance with SYSC 19D (Remuneration Code).	PRA/FCA
N	Responsibility for the independence, autonomy and effectiveness of the firm's policies and procedures on whistleblowing, including the procedures for protection of staff who raise concerns from detrimental treatment.	PRA/FCA
O	Management of the allocation and maintenance of capital, funding and liquidity.	PRA
P	The firm's treasury management functions.	PRA
Q	The production and integrity of the firm's financial information and its regulatory reporting in respect of its regulated activities.	PRA
R	The firm's recovery plan and resolution pack and overseeing the internal processes regarding their governance.	PRA
S	Responsibility for managing the firm's internal stress-tests and ensuring the accuracy and timeliness of information provided to the PRA and other regulatory bodies for the purposes of stress-testing.	PRA
T	Responsibility for the development and maintenance of the firm's business model by the governing body.	PRA
U	Responsibility for the firm's performance of its obligations under Fitness and Propriety in respect of its notified non-executive directors.	PRA
V	If the firm carries out proprietary trading, responsibility for the firm's proprietary trading activities.	PRA

Continued overleaf

9 Responsibilities highlighted in blue should be allocated to Non-Executives

Ref.	Prescribed responsibility	PRA/FCA
Applying to all firms		
W	If the firm does not have an individual performing the Chief Risk function, overseeing and demonstrating that the risk management policies and procedures which the firm has adopted in accordance with SYSC 7.1.2 R to SYSC 7.1.5 R satisfy the requirements of those rules and are consistently effective in accordance with SYSC 4.1.1R.	PRA
X	If the firm outsources its internal audit function taking reasonable steps to ensure that every person involved in the performance of the service is independent from the persons who perform external audit, including (a) Supervision and management of the work of outsourced internal auditors and (b) Management of potential conflicts of interest between the provision of external audit and internal audit services.	PRA
Y	If the firm is a ring-fenced body, responsibility for ensuring that those aspects of the firm's affairs for which a person is responsible for managing are in compliance with the ring-fencing requirements.	PRA
Z	Overall responsibility for the firm's compliance with CASS.	FCA
Applying to small firms only*		
aa	Responsibility for implementing and management of the firm's risk management policies and procedures.	PRA
bb	Responsibility for managing the systems and controls of the firm.	PRA
cc	Responsibility for managing the firm's financial resources.	PRA
dd	Responsibility for ensuring the governing body is informed of its legal and regulatory obligations.	PRA

* Small firms are firms with gross total assets of £250 million or less (determined on the basis of the annual average amount calculated across a rolling period of 5 years (calculated by reference to the firm's annual accounting date)).

C. Prescribed responsibilities – Relevant Non-EEA branches

Ref.	Prescribed responsibility	PRA/FCA
ZA	Responsibility for the branch's performance of its obligations under the Senior Managers Regime.	PRA/FCA
ZB	Responsibility for the branch's performance of its obligations under the employee certification regime.	PRA/FCA
ZC	Responsibility for compliance with the requirements of the regulatory system about the management responsibilities' map.	PRA/FCA
ZD	Responsibility for management of the branch's risk management processes in the UK.	PRA/FCA
ZE	Responsibility for the branch's compliance with the UK regulatory system applicable to the branch.	PRA/FCA
ZF	Responsibility for the escalation of correspondence from the PRA, FCA and other regulators in respect of the branch to the governing body and/or the management body of the firm or, where appropriate, of the parent undertaking or holding company of the firm's group.	PRA/FCA
ZG	Local responsibility for the branch's policies and procedures for countering the risk that the firm might be used to further financial crime.	FCA
ZH	Local responsibility for the branch's compliance with CASS.	FCA
ZI	Responsibility for management of the branch's systems and controls in the UK.	PRA
ZJ	Responsibility for the allocation of all UK branch prescribed responsibilities.	PRA
ZK	Responsibility for management of the branch's liquidity or, where a liquidity waiver is in place, the submission of information to the PRA on the firm's liquidity position.	PRA
ZL	Responsibility for the production and integrity of the branch's financial information and its regulatory reporting in respect of its regulated activities.	PRA

D. Conduct Rules

Tier 1 – Individual Conduct Rules		Applied by
Rule 1	You must act with integrity.	FCA / PRA
Rule 2	You must act with due skill, care and diligence.	FCA / PRA
Rule 3	You must be open and cooperative with the FCA, the PRA and other regulators.	FCA / PRA
Rule 4	You must pay due regard to the interests of customers and treat them fairly.	FCA only
Rule 5	You must observe proper standards of market conduct.	FCA only

Tier 2 – Senior Manager Conduct Rules		Applied by
SC1	You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively.	FCA / PRA
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.	FCA / PRA
SC3	You must take reasonable steps to ensure that any delegation of your responsibilities is to an appropriate person and that you oversee this effectively.	FCA / PRA
SC4	You must disclose appropriately any information of which the FCA or PRA would reasonably expect notice.	FCA / PRA

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