SOURCEBOOK

SYSC Senior Management Arrangements, Systems and Controls

Table of Contents

SYSC 1 Application and purpose

- SYSC 1.1A Application
- SYSC 1.2 Purpose
- SYSC 1.4 Application of SYSC 12 to 28A
- SYSC 1.5 Significant SYSC firm
- SYSC 1 Annex 1 Detailed application of SYSC

SYSC 2 Senior management arrangements

- SYSC 2.1 Apportionment of Responsibilities
- SYSC 2.2 Recording the apportionment

SYSC 3 Systems and controls

- SYSC 3.1 Systems and controls
- SYSC 3.2 Areas covered by systems and controls
- SYSC 3.3 Additional requirements for insurance distribution
- SYSC 3.4 SRD requirements

SYSC 4 General organisational requirements

- SYSC 4.1 General requirements
- SYSC 4.2 Persons who effectively direct the business
- SYSC 4.3 Responsibility of senior personnel
- SYSC 4.3A Management body and nomination committee
- SYSC 4.4 Apportionment of responsibilities
- SYSC 4.5
- SYSC 4.6
- SYSC 4.7
- SYSC 4.8
- SYSC 4.9
- SYSC 4 Annex 1

SYSC 5 Employees, agents and other relevant persons

- SYSC 5.1 Skills, knowledge and expertise
- SYSC 5.2

SYSC 6 Compliance, internal audit and financial crime

SYSC 6.1 Compliance

SYSC 6.2 Internal audit

SYSC 6.3 Financial crime

SYSC 7 Risk control

SYSC 7.1 Risk control requirements

SYSC 8 Outsourcing

SYSC 8.1 General outsourcing requirements

SYSC 9 Record-keeping

SYSC 9.1 General rules on record-keeping

SYSC 9.2 Credit institutions providing account information services or payment initiation services

SYSC 10 Conflicts of interest

SYSC 10.1 Application

SYSC 10.1A Insurance-based investment products – Conflicts of interest

SYSC 10.2 Chinese walls

SYSC 10A Recording telephone conversations and electronic communications

SYSC 10A.1 Application

SYSC 12 Group risk systems and controls requirements

SYSC 12.1 Application

SYSC 13 Operational risk: systems and controls for insurers

SYSC 13.1 Application

SYSC 13.2 Purpose

SYSC 13.3 Other related Handbook sections

SYSC 13.4 Requirements to notify the appropriate regulator

SYSC 13.5 Risk management terms

SYSC 13.6 People

SYSC 13.7 Processes and systems

SYSC 13.8 External events and other changes

SYSC 13.9 Outsourcing

SYSC 13.10 Insurance

SYSC 14 Risk management and associated systems and controls for insurers

SYSC 14.1 Application

SYSC 15A Operational resilience

SYSC 15A.1 Application

SYSC 15A.2 Operational resilience requirements

SYSC 15A.3 Strategies, processes and systems

SYSC 15A.4 Mapping

SYSC 15A.5 Scenario testing

SYSC 15A.6 Self-assessment and lessons learned exercise documentation

SYSC 15A.7 Governance

SYSC 15A.8 Communications

SYSC 15A.9 Supervisory review and feedback

SYSC 18 Whistleblowing

SYSC 18.1 Application and purpose

SYSC 18.3 Internal arrangements

SYSC 18.4 The whistleblowers' champion

SYSC 18.5 Settlement agreements with workers

SYSC 18.6 Whistleblowing obligations under the MiFID regime and other sectoral legislation

SYSC 19B AIFM Remuneration Code

SYSC 19B.1 Application

SYSC 19D Dual-regulated firms Remuneration Code

SYSC 19D.1A Application and purpose

SYSC 19D.2A Remuneration requirements and expectations specific to the FCA

SYSC 19D Annex 1 Detailed provisions on voiding and recovery (SYSC 19D.2A.12R)

SYSC 19E UCITS Remuneration Code

SYSC 19E.1 Application

SYSC 19E.2 Remuneration policies and practices

SYSC 19F Remuneration and performance management

SYSC 19F.1 MiFID remuneration incentives

SYSC 19F.2 IDD remuneration incentives

SYSC 19F.3 Funeral plan remuneration incentives

SYSC 19F.4 Public offer platform remuneration incentives

SYSC 19G MIFIDPRU Remuneration Code

SYSC 19G.1 General application

SYSC 19G.2 Remuneration policies and practices

SYSC 19G.3 Governance and oversight

SYSC 19G.4 Fixed and variable components of remuneration

SYSC 19G.5 Application of remuneration requirements to material risk takers

SYSC 19G.6 Variable remuneration

SYSC 19G.7 Remuneration committee

SYSC 19G Annex 1 Other instruments for use in variable remuneration

SYSC 21 Risk control: additional guidance

SYSC 21.1 Risk control: guidance on governance arrangements

SYSC 22 Regulatory references

SYSC 22.1 Application

SYSC 22.2 Getting, giving and updating references: the main rules

SYSC 22.3 Drafting the reference and the request for a reference

SYSC 22.4 Drafting the reference: detailed requirements

SYSC 22.5 Giving references: additional rules and guidance for all firms

SYSC 22.6 Giving and updating references: additional rules and guidance

SYSC 22.7 Getting references: additional rules and guidance for SMCR firms

SYSC 22.8 Policies and requests for references from and by persons who are not firms

SYSC 22.8A Groups and outsourcing

SYSC 22.9 Records and transitionals

SYSC 22 Annex 1 Template for regulatory references given by SMCR firms and disclosure requirements

SYSC 22 Annex 2 Factors to take into account when asking for and giving regulatory references

SYSC 23 Senior managers and certification regime: Introduction and classification

SYSC 23.1 Purpose

SYSC 23.2 Definitions and types of firms

SYSC 23.3 Overview of the senior managers and certification regime

SYSC 23.4 Checks for certain directors

SYSC 23 Annex 1 Definition of SMCR firm and different types of SMCR firms

SYSC 23 Annex 2 Form O: Changing firm status under the Senior Managers and Certification Regime

SYSC 24 Senior managers and certification regime: Allocation of prescribed responsibilities

SYSC 24.1 Application

SYSC 24.2 Allocation of FCA-prescribed senior management responsibilities: Main allocation rules

SYSC 24.3 Who prescribed responsibilities should be allocated to

SYSC 24 Annex 1 Which FCA-prescribed senior management responsibilities apply to which kind of firm

SYSC 24 Annex 2 Preferred allocations of FCA-prescribed senior management responsibilities

SYSC 25 Senior managers and certification regime: Management responsibilities maps and handover procedures and material

SYSC 25.1 Application and purpose

SYSC 25.2 Management responsibilities maps: Main rules

SYSC 25.3 Management responsibilities maps: Exclusion of non-financial services activities for some firms

SYSC 25.4 Guidance about what should be in a management responsibilities map

SYSC 25.5 Management responsibilities map should be a single document

SYSC 25.6 Management responsibilities maps: Material only relevant to EEA SMCR firms

SYSC 25.7 Guidance about SYSC 25 Annex 1G

SYSC 25.8 Management responsibilities maps: Records

SYSC 25.9 Handover procedures and material

SYSC 25 Annex 1 Examples of the business activities and functions of an SMCR firm

SYSC 26 Senior managers and certification regime: Overall and local responsibility

SYSC 26.1 Application

SYSC 26.2 Purpose

SYSC 26.3 Main rules

SYSC 26.4 Exclusions

SYSC 26.5 Guidance on territorial scope

SYSC 26.6 Meaning of local and overall responsibility: General

SYSC 26.7 Meaning of local and overall responsibility: Reporting to the governing body

SYSC 26.8 Meaning of local and overall responsibility: Not reporting to the governing body

SYSC 26.9 Who functions should be allocated to

SYSC 26.10 Group management arrangements and outsourcing

SYSC 26.11 Link between this chapter and other parts of the senior managers regime

SYSC 27 Senior managers and certification regime: Certification regime

SYSC 27.1 Application and purpose

SYSC 27.2 Requirements of the certification regime

SYSC 27.3 Territorial scope

SYSC 27.4 General material about the scope of the certification regime

SYSC 27.5 Exclusions for emergency and temporary appointments

SYSC 27.6 Other exclusions

SYSC 27.7 Specification of functions

SYSC 27.8 Definitions of the FCA certification functions

SYSC 27.9 Material relating to several FCA certification functions

SYSC 27 Annex 1 Examples of how the temporary UK role rule in SYSC 27.5.3R (the 30-day rule) works

SYSC 28 Insurance distribution: specific knowledge, ability and good repute requirements

SYSC 28.1 Minimum knowledge, ability and good repute requirements for carrying out insurance distribution activities

SYSC 28.2 Knowledge and ability requirements

SYSC 28.3 Good repute

SYSC 28.4 Record-keeping requirements

SYSC 28.5 Other requirements to consider

SYSC 28A Regulated funeral plan activities: good repute requirements

SYSC 28A.1 Application

SYSC 28A.2 Good repute

SYSC 28A.3 Record keeping requirements

SYSC TP 2 Firms other than common platform firms, insurers, managing agents and the Society

SYSC TP 2 Firms other than common platform firms, insurers, managing agents and the Society

SYSC TP 3 Remuneration codes

SYSC TP 3 Remuneration codes

SYSC TP 5 Financial Services (Banking Reform) Act 2013: Certification and regulatory references

SYSC TP 5 Financial Services (Banking Reform) Act 2013: Certification and regulatory references

SYSC TP 6 Transitional Provision 6

SYSC TP 6 Transitional Provision 6

SYSC TP 7 Bank of England and Financial Services Act 2016: Certification and regulatory references

SYSC TP 7 Bank of England and Financial Services Act 2016: Certification and regulatory references

SYSC TP 8 Bank of England and Financial Services Act 2016: Application to claims management companies

SYSC TP 8 Bank of England and Financial Services Act 2016: Application to claims management companies

SYSC TP 9 Updates to reflect CRD V

SYSC TP 9 Updates to reflect CRD V

SYSC TP 10 Operational resilience

SYSC TP 10 Operational resilience

SYSC TP 11 MIFIDPRU Remuneration Code transitional provision

SYSC TP 11 MIFIDPRU Remuneration Code transitional provision

SYSC TP 12 Updates to the dual-regulated firms Remuneration Code transitional provision

SYSC TP 12 Updates to the dual-regulated firms Remuneration Code transitional provision

SYSC TP 13 SMCR: application to firms with deferred payment credit

temporary permission

SYSC TP 13 SMCR: application to firms with deferred payment credit temporary permission

SYSC TP 14 Miscellaneous transitional provisions relating to the Senior Managers and Certification Regime

SYSC TP 14.1 Part 1

SYSC Sch 1 Record keeping requirements

SYSC Sch 1 Record keeping requirements

SYSC Sch 2 Notification requirements

SYSC Sch 2 Notification requirements

SYSC Sch 3 Fees and other required payments

SYSC Sch 3 Fees and other required payments

SYSC Sch 4 Powers exercised

SYSC Sch 4 Powers exercised

SYSC Sch 5 Rights of action for damages

SYSC Sch 5 Rights of action for damages

SYSC Sch 6 Rules that can be waived

SYSC Sch 6 Rules that can be waived

CHAPTER

SYSC 1 Application and purpose

Section : SYSC 1.1A Application

SYSC 1.1A.1 G The application of this sourcebook is summarised at a high level in the following table. The detailed application is cut back in *SYSC 1 Annex 1* and in the text of each chapter.

Type of firm	Applicable chapters
Insurer, *UK ISPV*	Chapters 2, 3, 12 to 18, 19F.2, 21, 22, 23, 24, 25, 26, 27, 28, 28A
Managing agent	Chapters 2, 3, 11, 12, 15A, 18, 19F.2, 21, 22, 23, 24, 25, 26, 27, 28, 28A
Society	Chapters 2, 3, 12, 15A, 18, 19F.2, 21, 22, 23, 24, 25, 26, 27, 28, 28A
Any other *SMCR firm*	Chapters 4 to 12, 15A, 18, 19D, 19F, 19G, 21, 22, 23, 24, 25, 26, 27, 28, 28A
Every other *firm*	Chapters 4 to 12, 15A, 18, 19D, 19F, 19G, 21, 22, 28, 28A

Firms that *SYSC 19D* applies to should also refer to the Remuneration part of the *PRA Rulebook*.

SYSC 1.1A.1A G The application of this sourcebook to specific*firms* that are not *PRA-authorised persons* is summarised at a high level in the following table. The detailed application is cut back in *SYSC 1 Annex 1* and in the text of each chapter.

Type of firm	Applicable chapters
Full-scope UK AIFM	Chapters 4 to 10, 12, 18, 19B, 19F.2, 21, 22, 23, 24, 25, 26, 27, 28, 28A
MIFIDPRU investment firm (including an *overseas firm* that would have been a *MIFIDPRU investment firm* if it had been a *UK domestic firm*, except that *SYSC 19G* does not apply to such a *firm*)	Chapters 4 to 10, 12, 18, 19F, 19G, 21, 22, 23, 24, 25, 26, 27, 28, 28A

SYSC 1.1A.1B G Chapter 15A of this sourcebook also applies to:

(1) an *electronic money institution*, a *payment institution* and a *registered account information service provider*;

(2) a *UK RIE*.

as set out in the text of that chapter.

SYSC 1.1A.2 G The provisions in *SYSC* should be read in conjunction with *GEN 2.2.23 R* to *GEN 2.2.25 G*. In particular:

(1) [deleted]

(2) Provisions made by the *FCA*, and by the*PRA* in the *PRA* Rulebook, may be applied by both regulators to *PRA-authorised persons*. Such provisions are applied by each regulator to the extent of its powers and regulatory responsibilities.

(3) For *Solvency II firms*, the *FCA* considers that the requirements and *guidance* in Chapters 2, 3, 12 to 18, 19F.2, 21, 22 and 28 of *SYSC* are not inconsistent with:

(a) the parts of the *PRA* Rulebook which implemented the governance provisions in the *Solvency II Directive* (articles 40 to 49);

(b) the *Solvency II Regulation*, or

(c) *EIOPA* guidelines on systems of governance dated 28 January 2015 (EIOPA-BoS-14/253 EN).

In most cases, there is no direct overlap with those provisions because the *SYSC* requirements are directed at *FCA* conduct requirements not expressly covered by or under provisions which implemented or supplemented the *Solvency II Directive*. Where there is a direct overlap with *SYSC rules* and guidance, the *FCA* will take requirements and guidelines which implemented or supplemented the *Solvency II Directive* into account. The definition of *Solvency II firm* includes (for *SYSC*) *large non-directive insurers* because the *PRA* have applied certain Solvency II derived requirements to those *firms*. Where *SYSC* refers to the *PRA* Rulebook applicable to *Solvency II firms*, *large non-directive insurers* should read those references as if they were references to the corresponding part of the *PRA* Rulebook applicable to *large non-directive insurers*.

Section : SYSC 1.2 Purpose

SYSC 1.2.1 G

The purposes of *SYSC* are:

(1) to encourage *firms' directors* and *senior managers* to take appropriate practical responsibility for their *firms'* arrangements on matters likely to be of interest to the *FCA* because they impinge on the *FCA's* functions under the *Act*;

(2) to increase certainty by amplifying *Principle* 3, under which a *firm* must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems;

(3) to encourage *firms* to vest responsibility for effective and responsible organisation in specific *directors* and *senior managers*; and

(4) to create a common platform of organisational and systems and controls requirements for all *firms*.

(5) [deleted]

Section : SYSC 1.4 Application of SYSC 12 to 28A

What?

SYSC 1.4.1 G

The application of each of chapters *SYSC 12* to *SYSC 21* is set out in those chapters and in *SYSC 1.4.1A R*.

SYSC 1.4.1-A G

The application of each of the chapters *SYSC 19F.2*, *SYSC 22* to *SYSC 28A* is set out in those chapters.

SYSC 1.4.1A R

SYSC 12 and *SYSC 21* do not apply to a *firm* in relation to its carrying on of *auction regulation bidding*.

SYSC 1.4.1B G

Apart from *SYSC 12*, and *SYSC 21* which are disapplied by *SYSC 1.4.1A R*, the other chapters of *SYSC 12* to *SYSC 14* do not apply in relation to a *firm's* carrying on of *auction regulation bidding* because they only apply to an *insurer*. *SYSC 18* provides guidance on the Public Interest Disclosure Act. Other chapters of *SYSC* may not apply to *auction regulation bidding*, for example because an *exempt MiFID commodities firm* will not be a *MIFIDPRU investment firm*.

Actions for damages

SYSC 1.4.2 R

A contravention of a *rule* in *SYSC 12* to *SYSC 14*, *SYSC 18* to *SYSC 21*, *SYSC 22.8.1R*, *SYSC 22.9.1R* or *SYSC 23* to *SYSC 28A* does not give rise to a right of action by a *private person* under section 138D of the *Act* (and each of those *rules* is specified under section 138D(3) of the *Act* as a provision giving rise to no such right of action).

Section : SYSC 1.5 Significant SYSC firm

Purpose

SYSC 1.5.1 G

(1) The purpose of *SYSC 1.5* is to set out the definition of a *significant SYSC firm*.

(2) The following governance requirements in *SYSC* apply by reference to the term *significant SYSC firm*:

(a) *SYSC 4.3A.6R* on the limitations in the number of directorships;

(b) *SYSC 4.3A.8R* on the nomination committee; and

(c) *SYSC 7.1.18R* and *SYSC 7.1.18AAR* on the risk committee.

(3) *MIFIDPRU investment firms* are not subject to *SYSC 4.3A.8R* or *SYSC 7.1.18R*, and should refer instead to *MIFIDPRU 7.3*.

(4) The definition of *significant SYSC firm* is also relevant in determining whether a *firm* is an *enhanced scope SMCR firm* for the purposes of the senior managers and certification regime.

Definition of a significant SYSC firm

SYSC 1.5.2 R

A *firm* is a *significant SYSC firm* if it meets one or more of the following conditions:

(1) its total assets exceed £530 million;

(2) its total liabilities exceed £380 million;

(3) the annual fees and commission income it receives in relation to the *regulated activities* carried on by the *firm* exceeds £160 million in the 12-*month* period immediately preceding the date the *firm* carries out the assessment under this *rule*;

(4) the client money that it receives or holds exceeds £425 million; and

(5) the assets belonging to its *clients* that it holds in the course of, or in connection with, its *regulated activities* exceeds £7.8 billion.

SYSC 1.5.3 R

(1) This *rule* defines some of the terms used in *SYSC 1.5.2R*.

(2) "Total assets" means the *firm's* total assets:

1. (a)
   as set out in the most recent relevant report submitted to the *FCA* under *SUP 16.12* (Integrated Regulatory Reporting); or

2. (b)
   (where the *firm* carries out the assessment under *SYSC 1.5.4R* at any time after the date of its most recent report in (a)) as the *firm* would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ended on the date of the assessment.

(3) "Total liabilities" means the *firm's* total liabilities:

(a)
as set out in the most recent relevant report submitted to the *FCA* under *SUP 16.12* (Integrated Regulatory Reporting); or

(b)
(where the *firm* carries out the assessment under *SYSC 1.5.4R* at any time after the date of its most recent report in (a)) as the firm would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ended on the date of the assessment.

(4)
"client money" means *client money* that a *firm* receives or holds in the course of, or in connection with, all of the *regulated activities* that it carries on:
(a)
as set out in the most recent relevant report submitted to the *FCA* under *SUP 16.12* (Integrated Regulatory Reporting); or
(b)
(where the *firm* carries out the assessment under *SYSC 1.5.4R* at any time after the date of its most recent report in (a)) as the *firm* would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ended on the date of the assessment.

(5) "Assets belonging to its *clients*" means the assets to which the *custody rules* apply:
(a)
as set out in the most recent relevant report submitted to the *FCA* under *SUP 16.12* (Integrated Regulatory Reporting); or
(b)
(if the *firm* carries out the assessment under *SYSC 1.5.4R* at any time after the date of its most recent report in (a)) as the *firm* would report to the *FCA* in accordance with the relevant report, as if the reporting period for that report ends on the date the assessment is carried out.

SYSC 1.5.4 R A *firm* must assess regularly whether it becomes a *significant SYSC firm*.

SYSC 1.5.5 R (1) If a *firm*, at any time, becomes aware that it is likely to become a *significant SYSC firm*, it must forthwith make arrangements to establish and have in place sound, effective and comprehensive strategies, processes and systems to achieve compliance with the requirements that apply to a *significant SYSC firm*.

(2) The *firm* in (1) must comply with the requirements that apply to a *significant SYSC firm* on the expiry of a period of 3 *months* from the date it meets any one of the conditions in *SYSC 1.5.2R*.

SYSC 1.5.6 R If a *firm* that is a *significant SYSC firm* ceases to meet any of the conditions in *SYSC 1.5.2R*, it must continue to comply with the *rules* and requirements applicable to a *significant SYSC firm* until the first anniversary of the date on which the *firm* ceased to be a *significant SYSC firm*.

SYSC 1.5.7 G The *FCA* may, on a case-by-case basis, require a *firm* which does not meet any of the conditions in *SYSC 1.5.2R* to comply with the rules and requirements that apply to a

significant SYSC firm if the *FCA* considers it appropriate to do so to meet its strategic objective or to advance one or more of its operational objectives under the *Act*.

SYSC 1.5.8 G

(1) A *firm* may apply to the *FCA* under section 138A of the *Act* to waive any one or more of the conditions in *SYSC 1.5.2R* if it believes that one or more of the governance requirements in (2) that apply to a *significant SYSC firm* may be disproportionate. In its application for a *waiver*, the *FCA* expects the *firm* to demonstrate that it should not be considered as significant, taking into account the size, nature, scope and complexity of its activities, any membership of a *group* and the internal organisation of that *group*.

(2) The governance requirements referred to in (1) are:

(a) *SYSC 4.3A.6R* on the limitations in the number of directorships;

(b) *SYSC 4.3A.8R* on the nomination committee; or

(c) *SYSC 7.1.18 R* on the risk committee.

(3) The effect of such *waiver* is that the *firm* would not be a *significant SYSC firm* only for the purpose of the particular governance requirement in (2) that the *waiver* is expressed to apply to. For the avoidance of doubt, such a *firm* would still be a *significant SYSC firm* for the purpose of the other *rules* in the *FCA Handbook* that apply to a *significant SYSC firm*, except where expressly otherwise provided for.

Section : SYSC 1 Annex 1 Detailed application of SYSC

Part 1 Application of SYSC 2 and SYSC 3 to an insurer, a UK ISPV, a managing agent and the Society

	Who?			
1.1	R	*SYSC 2* and *SYSC 3* only apply to an *insurer* , a *UK ISPV* , a *managing agent* and the *Society* except that:		
		(1)	[deleted]	
		(2)	[deleted]	
		(3)	[deleted]	
		(4)	for a *sole trader* :	
			(a)	*SYSC 2* applies but only if he employs any *person* who is required to be approved under *section 59* of the *Act* (Approval for particular arrangements);
			(b)	*SYSC 3.2.6I R* does not apply if he has no *employees* ; and
		(5)	[deleted]	
		(6)	Except as provided for in (7), *SYSC 2* and *SYSC 3* do not apply to a *firm* in relation to *benchmark activities* .	
		(7)	*SYSC 2* and *SYSC 3* continue to apply to a *person* with *permission* to carry on the *regulated activity* of *administering a specified benchmark* acting as such.	
1.1A	G	(1)	As a consequence of the *benchmarks regulation* , the *regulated activity* referred to in *SYSC 1 Annex 1* 1.1R(7) will cease to apply in certain circumstances (see *SUP TP 10* for an explanation of those circumstances).	
		(2)	The effect of *SYSC 1 Annex 1* 1.1R(7) is that *SYSC 2* and *SYSC 3* continue to apply to *firms* which still have *permission* to carry on the *regulated activity* in *SYSC 1 Annex 1*	

Part 1	Application of SYSC 2 and SYSC 3 to an insurer, a UK ISPV, a managing agent and the Society			
			1.1R(7) when carrying on that activity.	
1.2	G		[deleted]	
	What?			
1.3	R	*SYSC 2* and *SYSC 3* apply with respect to the carrying on of:		
		(1)	*regulated activities* ;	
		(2)	activities that constitute *dealing in investments as principal* , disregarding the exclusion in *article 15* of the *Regulated Activities Order* (Absence of holding out etc);	
		(3)	*ancillary activities* in relation to *designated investment business* , *home finance activity* and *insurance distribution activity* ; and	
		(4)	activities directly arising from *insurance risk transformation* ;	
		except that *SYSC 3.3* applies as described in *SYSC 1 Annex 1* 1.3AR and *SYSC 3.2.6A R* to *SYSC 3.2.6J G* do not apply as described in *SYSC 1 Annex 1* .1.4R.		
1.3A	R	*SYSC 3.3* only applies in relation to the carrying on of *insurance distribution activities* .		
1.4	R	*SYSC 3.2.6A R* to *SYSC 3.2.6J G* do not apply:		
		(1)	with respect to the activities described in *SYSC 1 Annex 1* .1.3R(2) and *SYSC 1 Annex 1* .1.3R(3); or	
		(2)	in relation to the following *regulated activities* :	
			(a)	*general insurance business* ;
			(aa)	*insurance risk transformation* ;
			(b)	*insurance distribution activity* in relation to a *general insurance contract* or *pure protection contract* ;

Part 1	Application of SYSC 2 and SYSC 3 to an insurer, a UK ISPV, a managing agent and the Society				
			(c)	*long-term insurance business* which is outside the scope of the *Solvency II Directive* (unless it is otherwise one of the *regulated activities* specified in this *rule*);	
			(d)	business relating to contracts which are within the *Regulated Activities Order* only because they fall within paragraph (e) of the definition of "contract of insurance" in article 3 of that Order;	
			(e)	(i)	arranging, by the *Society* , of deals in *general insurance contracts* written at Lloyd's; and
				(ii)	managing the underwriting capacity of a Lloyd's syndicate as a managing agent at Lloyd's ;
			(f)	*home finance mediation activity* and *administering a home finance transaction* ; and	
			(g)	*reversion activity* ; or	
		(3)	to a *pure reinsurer* ; or		
		(4)	in relation to activities directly arising from *insurance risk transformation* .		
1.5	R	*SYSC 2* and *SYSC 3* , except *SYSC 3.2.6A R* to *SYSC 3.2.6J G* , also apply with respect to the *communication* and *approval* of *financial promotions* which:			

Part 1	Application of SYSC 2 and SYSC 3 to an insurer, a UK ISPV, a managing agent and the Society		
		(1)	if *communicated* by an *unauthorised person* without *approval* would contravene *section 21(1)* of the *Act* (Restrictions on financial promotion); and
		(2)	may be *communicated* by a *firm* without contravening *section 238(1)* of the *Act* (Restrictions on promotion of collective investment schemes).
1.6	R	*SYSC 2* and *SYSC 3* , except *SYSC 3.2.6A R* to *SYSC 3.2.6J G* , also:	
		(1)	apply with respect to the carrying on of *unregulated activities* in a *prudential context* ; and
		(2)	take into account any activity of other members of a *group* of which the *firm* is a member.
1.7	G	*SYSC 1 Annex 1* .1.6R(2) does not mean that inadequacy of a *group* member's systems and controls will automatically lead to a *firm* contravening, for example, *SYSC 3.1.1 R* . Rather, the potential impact of a *group* member's activities, including its systems and controls, and any systems and controls that operate on a *group* basis, will be relevant in determining the appropriateness of the *firm's* own systems and controls.	
	Where?		
1.8	R	*SYSC 2* and *SYSC 3* apply with respect to activities carried on from an establishment maintained by the *firm* (or its *appointed representative* or, where applicable, its *tied agent*) in the *United Kingdom* unless another applicable *rule* which is relevant to the activity has a wider territorial scope, in which case *SYSC 2* and *SYSC 3* apply with that wider scope in relation to the activity described in that *rule* .	
1.8A	R	(1) *SYSC 3* , except *SYSC 3.2.6AR* to *SYSC 3.2.6JG* , and (2) for a *UK domestic firm* , *SYSC 2* ; also apply in a *prudential context* with respect to activities wherever they are carried on.	
1.9	R	*SYSC 2* and *SYSC 3* , except *SYSC 3.2.6A R* to *SYSC 3.2.6J G* , also apply in a *prudential context* to a *UK domestic firm* with respect to activities wherever they are carried on.	
1.10	R	*SYSC 3* , except *SYSC 3.2.6A R* to *SYSC 3.2.6J G* , also applies in a *prudential context* to an	

Part 1	Application of SYSC 2 and SYSC 3 to an insurer, a UK ISPV, a managing agent and the Society		
		overseas firm with respect to activities wherever they are carried on.	
1.11	G	(1)	In considering whether to take regulatory action under *SYSC 2* or *SYSC 3* in relation to activities carried on outside the *United Kingdom* , the *appropriate regulator* will take into account the standards expected in the market in which the *firm* is operating.
		(2)	Most of the *rules* in *SYSC 3* are linked to other requirements and standards under the *regulatory system* which have their own territorial limitations so that those *SYSC rules* are similarly limited in scope.
	Actions for damages		
1.12	R	A contravention of the *rules* in *SYSC 2* and *SYSC 3* does not give rise to a right of action by a *private person* under section 138D of the *Act* (and each of those *rules* is specified under section 138D(3) of the *Act* as a provision giving rise to no such right of action).	

SYSC 1 Annex 1 Part 2

Part 2	Application of the common platform requirements (SYSC 4 to 10)		
	Who?		
2.1	R	The *common platform requirements* apply to every *firm* apart from an *insurer* , a *UK ISPV* , a *managing agent* and *the Society* unless provided otherwise in a specific *rule* .	
2.2	R	[deleted]	
2.3	R	For a *sole trader* :	
		(1)	SYSC 4.3 does not apply as long as they do not employ any *person* who is required to be approved under *section 59* of the *Act* (Approval for particular arrangements);
		(2)	*SYSC 4.1.4 R* and *SYSC 6.3.9 R* do not apply if he has no *employees* .

2.4	R	For a *UCITS qualifier* :	
		(1)	the *rule* on responsibility of senior personnel (SYSC 4.3) does not apply; and
		(2)	the *common platform requirements* apply in relation to the *communication* and *approval* of *financial promotions* only as set out in *SYSC 1 Annex 1* .2.12R.
		[**Note** : *section 266* of the *Act* .]	
2.4A	R	For an *AIFM qualifier* :	
		(1)	the *rule* on responsibility of senior personnel (SYSC 4.3) does not apply; and
		(2)	the *common platform requirements* apply in relation to the *communication* and *approval* of *financial promotions* only as set out in *SYSC 1 Annex 1* , 2.12R.
2.5	R	For an *authorised professional firm* when carrying on *non-mainstream regulated activities* , the *common platform requirements on financial crime* , conflicts of interest and *Chinese walls* do not apply.	
2.5A	R	The *common platform requirements* on *financial crime* do not apply to a *firm* for which a professional body listed in Schedule 1 to the *Money Laundering Regulations* , and not the *FCA* , acts as the supervisory authority for the purposes of those regulations.	
2.6	R	[deleted]	
2.6A	R	[deleted]	
2.6B	R	Subject to *SYSC 1 Annex 1* 2.6CR, the *common platform requirements* do not apply to a *full-scope UK AIFM* of an *unauthorised AIF* except for:	
		(1)	*SYSC 4.1.1 R* to *SYSC 4.1.2 R* and *SYSC 4.1.2B R* to *SYSC 4.1.2D R* ;
		(2)	*SYSC 4.2.1 R* , *SYSC 4.2.1B R* , *SYSC 4.2.2 R* to *SYSC 4.2.5 G* , *SYSC 4.2.7 R* and *SYSC 4.2.8 G* ;
		(3)	*SYSC 6.1.1 R* , which only applies to the extent that it relates to the obligation to establish, implement and maintain adequate policies and procedures for countering the risk that the *firm* (including its managers and *employees*) might be used to further *financial crime* ;
		(4	*SYSC 6.1.4-AAG*

		)	
		(5)	*SYSC 6.3* ;
		(6)	*SYSC 7.1.7BA G*
		(7)	*SYSC 10.1.1 R* and *SYSC 10.1.22 R* to *SYSC 10.1.26 R* ; and
		(8)	*SYSC 10.2* .
2.6C	R	The *common platform requirements* apply to an *AIFM investment firm* which is a *full-scope UK AIFM* in respect of its *MiFID business* in line with Column A in Table A of Part 3.	
2.6D	R	The *common platform requirements* apply to a *full-scope UK AIFM* of an *authorised AIF* in line with Column A++ in Table A of Part 3.	
2.6E	G	The *common platform requirements* apply to a *small authorised UK AIFM* in line with Column B in Table A of Part 3 (unless such a *firm* is also a *common platform firm* , in which case they must comply with Column A).	
2.6F	R	[deleted]	
2.6G	R	(1)	Except as provided for in (2), the *common platform requirements* do not apply to a *firm* in relation to *benchmark activities* .
		(2)	The *common platform requirements* continue to apply to a person with *permission* to carry on the *regulated activity* of *administering a specified benchmark* acting as such.
2.6H	G	(1)	As a consequence of the *benchmarks regulation* , the *regulated activity* referred to in *SYSC 1 Annex 1* 2.6GR(2) will cease to apply in certain circumstances (see *SUP* TP 10 for an explanation of those circumstances).
		(2)	The effect of *SYSC 1 Annex 1* 2.6GR(2) is that the *common platform requirements* continue to apply to *firms* which still have *permission* to carry on the *regulated activity* in *SYSC 1 Annex 1* 2.6GR(2) when carrying on that activity.
2.7	G	[deleted]	
2.7A	G	[deleted]	
2.7	R	(1	Subject to *SYSC 1 Annex 1* 2.7BR(2), the *common platform*

B		)	*requirements* do not apply to a *Gibraltar-based investment firm*.	
		(2)	A *Gibraltar-based investment firm*, when carrying on what would otherwise be *MiFID business*, must comply with the:	
			(a)	*common platform requirements on financial crime*; and
			(b)	*common platform record-keeping requirements* in accordance with *SYSC 1 Annex 1* 2.17R.
	What?			
2.8	R	The *common platform organisational requirements* apply with respect to the carrying on of the following (unless provided otherwise within a specific *rule*):		
		(1)	*regulated activities* ;	
		(2)	activities that constitute *dealing in investments as principal* , disregarding the exclusion in *article 15* of the *Regulated Activities Order* (Absence of holding out etc);	
		(3)	*ancillary activities* ;	
		(4)	in relation to *MiFID business* , *ancillary services* ; and	
		(5)	*collective portfolio management* .	
2.8A	R	(1)	[deleted]	
		(1A)	[deleted]	
		(2)	[deleted]	
		(3)	[deleted]	
		(4)	[deleted]	
		(5)	The requirements in *SYSC 9.1.1B* and *SYSC 9.1.2-AR* do not apply to a *firm* to the extent that *SYSC 9.1.2CR* applies to the *firm*.	
		(6)	[deleted]	

2.8B	G	[deleted]		
2.8C	G	[deleted]		
2.8D	G	[deleted]		
2.9	G	The application of the provisions on the conflicts of interest in *SYSC 10* is set out in *SYSC 10.1.-4G* to *SYSC 10.1.1AR* and *SYSC 10.2.1 R*		
2.10	R	The provisions on record-keeping in *SYSC 9*, *SYSC 4.1.1-AR, SYSC 5.1.1R, SYSC 5.1.6R, SYSC 5.1.12R, SYSC 5.1.13R* and *SYSC 5.1.14R*, apply as set out in *SYSC 1 Annex 1* .2.8R, except that they only apply to the carrying on of *ancillary activities* that are performed in relation to:		
		(1)	*designated investment business* ;	
		(2)	*home finance activity* ;	
		(3)	*insurance distribution activity* ;	
		(4)	*credit-related regulated activity* ; and	
		(5)	*regulated pensions dashboard activity* .	
2.11	R	The *common platform requirements on financial crime* apply as set out in *SYSC 1 Annex 1* 2.8R, except that they do not apply:		
		(1)	with respect to:	
			(a)	activities that constitute *dealing in investments as principal* , disregarding the exclusion in *article 15* of the *Regulated Activities Order* (Absence of holding out etc); and
			(b)	*ancillary activities* ; or
		(2)	in relation to the following *regulated activities* :	
			(a)	*general insurance business* ;
			(b)	*insurance distribution activity* in relation to a *general*

					insurance contract or *pure protection contract* ;
			(c)		*long-term insurance business* which is outside the *Solvency II Directive* (unless it is otherwise one of the *regulated activities* specified in this *rule*);
			(d)		business relating to contracts which are within the *Regulated Activities Order* only because they fall within paragraph (e) of the definition of "contract of insurance" in article 3 of that Order;
			(e)	(i)	arranging by the *Society* of deals in *general insurance contracts* written at Lloyd's; and
				(ii)	managing the underwriting capacity of a Lloyd's syndicate as a managing agent at Lloyd's ;
			(f)		*home finance mediation activity* and *administering a home finance transaction* ;
			(g)		*reversion activity* ;
			(h)		*meeting of repayment claims* and *managing dormant asset funds (including the investment of such funds)* ; and
			(i)		*regulated funeral plan activities* .
2.12	R	The *common platform organisational requirements* , except the *common platform requirements on financial crime* , also apply with respect to the *communication* and *approval* of *financial promotions* which:			
		(1)	if *communicated* by an *unauthorised person* without *approval* would contravene section 21(1) of the Act (Restrictions on financial promotion); and		
		(2)	may be *communicated* by a *firm* without contravening *section 238(1)* of the *Act* (Restrictions on promotion of collective investment schemes).		
2.13	R	The *common platform organisational requirements* , except the *common platform requirements on financial crime* , also:			
		(1)	apply with respect to the carrying on of *unregulated activities* in a *prudential context* ; and		
		(2)	take into account any activity of other members of a *group* of which the *firm* is a member.		
2.13A	R	*SYSC 6.3* only applies to a *firm* in relation to carrying on a *credit-related regulated activity* or *regulated claims management activity* , or *operating an electronic system in relation to lending* , to which the *Money Laundering Regulations* also apply.			
2.1	R	*SYSC 6.3.8 R* and *SYSC 6.3.9 R* do not apply to a *firm* with a *limited permission* for *entering into a regulated credit agreement as lender* .			

3B			
2.13C	G	The *persons* to whom the *Money Laundering Regulations* apply are set out in regulation 10 of the *Money Laundering Regulations* . The *persons* include *credit institutions* (for example, banks) and financial institutions (for example, *persons* who carry on *regulated activities* which consist of or include *entering into regulated credit agreements as lender*). These expressions are defined in regulation 10 of those Regulations.	
2.14	G	*SYSC 1 Annex 1* .2.13R(2) does not mean that inadequacy of a *group* member's systems and controls will automatically lead to a *firm* contravening any of the *common platform organisational requirements* . Rather, the potential impact of a *group* member's activities, including its systems and controls, and any systems and controls that operate on a *group* basis, will be relevant in determining the appropriateness of the *firm's* own systems and controls.	
2.14A	G	The systems and control requirements in article 17 of *MiFID* for the following are in chapter 7A of the Market Conduct sourcebook (*MAR*):	
		(1)	*algorithmic trading* ;
		(2)	*direct electronic access* to a *trading venue* ; and
		(3)	acting as a general clearing member of a *trading venue* .
2.14B	G	*Firms* should refer to *COBS 11A.1* (Underwriting and placing) for additional organisational requirements for underwriting and placing.	
2.14C	R	References to *designated investment business* include selling, or advising *clients* in relation to *structured deposits*.	
	Where?		
2.15	R	The *common platform requirements* , except the *common platform record-keeping requirements* , apply to a *firm* in relation to activities which:	
		(1)	(except for *regulated claims management activities* and ancillary activities) are carried on by it from an establishment in the *United Kingdom* ; or
		(2)	are, or are ancillary to, *regulated claims management activities* .
2.16	R	[deleted]	
2.1	R		[deleted]

6A			
2.16B	G	[deleted]	
2.16C	R	The *common platform requirements* apply to a *full-scope UK AIFM* in respect of its management of an *AIF* where carried on from an establishment in the *UK* .	
2.16D	R	[deleted]	
2.16E	R	The *common platform requirements* apply to an *AIFM investment firm* which is a *full-scope UK AIFM* in respect of its *MiFID business* where carried on from an establishment in the *UK* .	
2.16F	R	[deleted]	
2.17	R	The *common platform record-keeping requirements* apply to activities which:	
		(1)	(except for *regulated claims management activities* and ancillary activities) are carried on by it from an establishment in the *United Kingdom* ; or
		(2)	are, or are ancillary to, *regulated claims management activities* .
		If, however, another applicable *rule* which is relevant to the activity has a wider territorial scope, the *common platform record-keeping requirements* apply with that wider scope in relation to the activity described in that *rule* .	
		[**Note** : article16(11) first paragraph of *MiFID*]	
2.17A	G	For an activity to amount to a *regulated claims management activity* it must be carried on in *Great Britain* (see *PERG 2.4A*). Subject to the exception for *common platform record-keeping requirements* in paragraph 2.17R of this Annex, the application of the *common platform requirements* to *firms* which carry on *regulated claims management activities* (and ancillary activities) depends on whether the activity is carried on in *Great Britain* rather than whether it is carried on from an establishment maintained in the *United Kingdom* .	
		The *common platform organisational requirements* , except the *common platform requirements on financial crime* , also apply in a *prudential context* to a *UK domestic firm* and to an *overseas firm* with respect to activities wherever they are carried on.	

2.18A	G	*SYSC 6.1.1R* on systems and controls for countering the risk that a *firm* might be used to further *financial crime* is:	
		(1)	a *common platform organisational requirement* , not a *common platform requirement on financial crime* ; and
		(2)	subject to the application, amongst other provisions, of *SYSC 1 Annex 1* 2.13R, *SYSC 1 Annex 1* 2.16R and *SYSC 1 Annex 1* 2.18R.
	Actions for damages		
2.19	R	A contravention of a *rule* in the *common platform requirements* and in *SYSC 10A* (Recording telephone conversations and electronic communications) does not give rise to a right of action by a *private person* under section 138D of the *Act* (and each of those *rules* is specified under section 138D(3) of the *Act* as a provision giving rise to no such right of action).	

SYSC 1 Annex 1 Part 3

Part 3 Tables summarising the application of the common platform requirements to different types of firm

3.1 G The *common platform requirements* apply as described in the following table (subject to the provisions in Part 2 of this Annex (Application of the common platform requirements)).

Type of firm	Common platform requirements
Common platform firm	*SYSC 1 Annex 1* 3.2G
Management company	*SYSC 1 Annex 1* 3.2AG
Full-scope UK AIFM of an *authorised AIF*	*SYSC 1 Annex 1* 3.2BR
MiFID optional exemption firm	*SYSC 1 Annex 1* 3.2CR
Third country firm	*SYSC 1 Annex 1* 3.2CR
All other *firms* (apart from *insurers* , *managing agents* , the *Society* , *full-scope UK AIFMs* of *unauthorised AIFs* , *MiFID optional exemption firms* and *third country firms*)	*SYSC 1 Annex 1* .3.3R

3.1A	G	[deleted]
Common platform firm		
3.2	G	For a *common platform firm*:
	(1)	*SYSC 4* to *SYSC 10* apply in accordance with Column A in Table A below.
	(2)	[deleted]
3.2-ZA	G	A *common platform firm* that is a *MIFIDPRU investment firm* should read *SYSC 4* to *SYSC 10* together with *MIFIDPRU 7* . While *MIFIDPRU investment firms* are not in scope of the requirements in *SYSC 4.3A.8R* and *SYSC 7.1.18R* regarding nomination and risk committees, certain *MIFIDPRU investment firms* are required by *MIFIDPRU 7.3.1R* and *MIFIDPRU 7.3.5R* to establish nomination and risk committees.
3.2-A	R	[deleted]
3.2-B	R	[deleted]
Management company		
3.2A	G	For a *management company* , the *common platform requirements* in *SYSC 4* to *SYSC 10* apply in accordance with Column A+ in Table A below.
Full-scope UK AIFM of an authorised AIF		
3.2B	R	For a *full-scope UK AIFM* of an *authorised AIF* , the *common platform requirements* in *SYSC 4* to *SYSC 10* apply in accordance with Column A++ in Table A below.
MiFID optional exemption firm and a third country firm		
		For a *MiFID optional exemption firm* and a *third country firm* :

3.2C	R	(1)	*SYSC 4* to *SYSC 10* apply as *rules* or as *guidance* in accordance with Table B below in the following way:	
			(a)	where a *rule* is shown modified as 'Guidance', it should be read as *guidance* (as if "should" appeared in that *rule* instead of "must"); and
			(b)	the provision should be applied in a proportionate manner, taking into account the nature, scale and complexity of the *firm's* business.
		(2)	[deleted]	
3.2D	R	(1)	Subject to (2), *SYSC 4.3A.6R* , *SYSC 4.3A.8R* and *SYSC 7.1.18R* apply to a *MiFID optional exemption firm* that is 'significant' as a *rule* or as *guidance* in accordance with *SYSC 1 Annex 1* 3.2CR.	
		(2)	In (1), 'significant' means a *MiFID optional exemption firm* that is a *significant SYSC firm* .	
Other firms				
3.2E	R	*SYSC 1 Annex 1* 3.3R does not apply to the following:		
		(1)	*insurers* and *UK ISPVs* ;	
		(2)	*managing agents* ;	
		(3)	the *Society* ;	
		(4)	*full-scope UK AIFMs* of *unauthorised AIFs* ;	
		(5)	*MiFID optional exemption firms* ; and	
		(6)	*third country firms* .	
3.3	R	For all other *firms* :		
		(	*SYSC 4* to *SYSC 10* apply as *rules* or as *guidance* in accordance with Column B	

		1)	in Table A below in the following way:	
			(a)	where a *rule* is shown modified in Column B as 'Guidance', it should be read as *guidance* (as if "should" appeared in that *rule* instead of "must"); and
			(b)	the provision should be applied in a proportionate manner, taking into account the nature, scale and complexity of the *firm's* business.
		(2)	[deleted]	
3.3A	R	[deleted]		

Table A: Application of the common platform requirements in SYSC 4 to SYSC 10

SYSC 1 Annex 1 Table A

Provision SYSC 4	COLUMN A Application to a common platform firm other than to a UCITS investment firm	COLUMN A+ Application to a UCITS management company	COLUMN A++ Application to a full-scope UK AIFM of an authorised AIF	COLUMN B Application to all other firms apart from insurers, UK ISPVs, managing agents, the Society, full-scope UK AIFMs of unauthorised AIFs, MiFID optional exemption firms and third country firms
SYSC 4.1.-2G	Guidance	Not applicable save in relation to a *UCITS investment firm* and its *MiFID business*	Not applicable	Not applicable
SYSC 4.1.-1G	Not applicable	Not applicable	Not applicable	Not applicable
SYSC 4.1.1R	Rule	Rule	Rule	Rule
SYSC 4.1.1-AR	Rule	Rule for a *UCITS*	Not applicable	Not applicable

		investment firm; otherwise not applicable		
SYSC 4.1.1AR	Not applicable	Not applicable	Rule	Not applicable
SYSC 4.1.1BR	Not applicable	Not applicable	Rule	Not applicable
SYSC 4.1.1CR	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 4.1.1DR	Not applicable	Rule	Not applicable	Not applicable
SYSC 4.1.1ER	Not applicable	Rule	Not applicable	Not applicable
SYSC 4.1.1FG	Not applicable	Guidance	Not applicable	Not applicable
SYSC 4.1.2R	Rule	Rule for a *UCITS investment firm* ; otherwise guidance	Rule	Guidance
SYSC 4.1.2AG	Not applicable	Guidance for a *UCITS firm* ; not applicable to a *UCITS investment firm*	Not applicable	Guidance
SYSC 4.1.2AAR	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 4.1.2BR	Not applicable	Rule	Rule	Not applicable
SYSC 4.1.2CR	Not applicable		Rule	Not applicable
SYSC 4.1.2DR	Not applicable	Not applicable	Rule	Not applicable
SYSC 4.1.3R	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 4.1.4R	Not applicable	Rule	Not applicable	(1) and (3): Guidance; (2): Rule
SYSC 4.1.4AG	Not applicable	Not applicable	Not applicable	Guidance
SYSC 4.1.5R	Not applicable	Rule	Not applicable	Not applicable
SYSC 4.1.5AR	Not applicable	Not applicable	Not applicable	Applies as a *rule* only to a *firm* carrying on *regulated pensions dashboard activity*

SYSC 4.1.5BR	Not applicable	Not applicable	Not applicable	Applies as a *rule* only to a *firm* carrying on *regulated pensions dashboard activity*
SYSC 4.1.5CR	Not applicable	Not applicable	Not applicable	Applies as a *rule* only to a *firm* carrying on *regulated pensions dashboard activity*
SYSC 4.1.6R	Rule	Rule for a *UCITS investment firm* ; otherwise guidance	Not applicable	Guidance
SYSC 4.1.7R	Rule *CRR firm* for a only	Rule	Not applicable	Guidance
SYSC 4.1.7AG	Not applicable	Not applicable	Not applicable	Guidance
SYSC 4.1.8G	Guidance	Guidance	Guidance	Guidance
SYSC 4.1.8AR	Applies as a rule only to an *operator of an electronic system in relation to lending*	Not applicable	Not applicable	Applies as a rule only to an *operator of an electronic system in relation to lending*
SYSC 4.1.8CG	Applies as guidance only to an *operator of an electronic system in relation to lending*	Not applicable	Not applicable	Applies as guidance only to an *operator of an electronic system in relation to lending*
SYSC 4.1.8DG	Applies as guidance only to an *operator of an electronic system in relation to lending*	Not applicable	Not applicable	Applies as guidance only to an *operator of an electronic system in relation to lending*
SYSC 4.1.8DAG	Applies as guidance only to an *operator of an electronic system in relation to*	Not applicable	Not applicable	Applies as guidance only to an *operator of an electronic system in relation to*

	lending			*lending*
SYSC 4.1.8DBR	Applies as a rule only to an *operator of an electronic system in relation to lending*	Not applicable	Not applicable	Applies as a rule only to an *operator of an electronic system in relation to lending*
SYSC 4.1.8DCR	Applies as a rule only to an Applies as a rule only to an *operator of an electronic system in relation to lending*	Not applicable	Not applicable	Applies as a rule only to an *operator of an electronic system in relation to lending*
SYSC 4.1.8DDR	Applies as a rule only to an *operator of an electronic system in relation to lending*	Not applicable	Not applicable	Applies as a rule only to an *operator of an electronic system in relation to lending*
SYSC 4.1.9R	Not applicable	Rule	Not applicable	Not applicable
SYSC 4.1.10R	Not applicable	Rule	Not applicable	Guidance - except reference to *SYSC 4.1.9 R* which does not apply to these *firms*
SYSC 4.1.10AG	Not applicable	Not applicable	Not applicable	Guidance
SYSC 4.1.11G	Guidance	Guidance	Guidance	Guidance
SYSC 4.1.13G	Guidance	Guidance	Guidance	Guidance
SYSC 4.1.14G	Guidance	Guidance	Guidance	Guidance
SYSC 4.2.1R	Rule	Rule	Rule	Guidance
SYSC 4.2.1AG	Not applicable	Not applicable	Not applicable	Guidance
SYSC 4.2.2R	Rule	Rule	Rule	Not applicable
SYSC 4.2.3G - *4.2.5G*	Guidance	Guidance	Guidance	Not applicable
SYSC 4.2.6R	Rule	Rule for	Not applicable	Not applicable

		a *UCITS investment firm* ; otherwise not applicable		
SYSC 4.2.7R	Not applicable	Not applicable	Rule	Not applicable
SYSC 4.2.8G	Not applicable	Not applicable	Rule	Not applicable
SYSC 4.2.9G	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 4.3.1R	Not applicable	Rule	Not applicable	Rule
SYSC 4.3.2R	Not applicable	Rule	Not applicable	Guidance but applies as a rule to an *operator of an electronic system in relation to lending*
SYSC 4.3.2-AR	Rule	Rule for a *UCITS investment firm* in relation to its *MiFID business*; otherwise not applicable	Not applicable	Not applicable
SYSC 4.3.2AG	Not applicable	Not applicable	Not applicable	Guidance (but not applicable to an *operator of an electronic system in relation to lending*)
SYSC 4.3.3G	Guidance	Guidance	Not applicable	Guidance
SYSC 4.3A.-1R	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 4.3A.1R	Rule	Rule for a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.1AR	Rule	Rule for a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.2R	Rule	Rule for a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.2AG	Guidance	Guidance for a *UCITS investment firm*	Not applicable	Not applicable

SYSC 4.3A.3R	Rule	Rule for a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.3AG	Guidance	Guidance for a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.4R	Rule	Rule for a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.5R	Rule	Rule for a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.6R	Rule	Rule for a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.7R	Rule	Rule for a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.7AR	Rule (except for a *MIFIDPRU investment firm*)	Not applicable	Not applicable	Not applicable
SYSC 4.3A.7BG	Guidance for a *MIFIDPRU investment firm*	Guidance for a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.8R	Rule (except for a *MIFIDPRU investment firm*)	Not applicable	Not applicable	Not applicable
SYSC 4.3A.9R	Rule	Rule for a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.10R	Rule	Rule for a *UCITS investment firm*	Not applicable	Not applicable
SYSC 4.3A.11R	Rule applicable to *CRR firms*	Not applicable	Not applicable	Not applicable
SYSC 4.4.1R	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 4.4.1AR	Not applicable	Not applicable	Not applicable	As specified in *SYSC 4.4.1AR*
SYSC 4.4.2G	Not applicable	Not applicable	Not applicable	Guidance only

				applying to the *firms* specified in *SYSC 4.4.1A R*
SYSC 4.4.3R	Not applicable	Not applicable	Not applicable	Rule only applying to the *firms* specified in *SYSC 4.4.1A R*
SYSC 4.4.4G	Not applicable	Not applicable	Not applicable	Guidance only applying to the *firms* specified in *SYSC 4.4.1A R*
SYSC 4.4.5R	Not applicable	Not applicable	Not applicable	Rule only applying to the *firms* specified in *SYSC 4.4.1A R*
SYSC 4.4.6G	Not applicable	Not applicable	Not applicable	Guidance only applying to the *firms* specified in *SYSC 4.4.1A R*

Provision **SYSC 5**	**COLUMN A** **Application to a common platform firm other than to a UCITS investment firm**	**COLUMN A+** **Application to a UCITS management company**	**COLUMN A++** **Application to a full-scope UK AIFM of an authorised AIF**	**COLUMN B** **Application to all other firms apart from insurers, UK ISPVs, managing agents, the Society, full-scope UK AIFMs of unauthorised AIFs, MiFID optional exemption firms and third country firms**
SYSC 5.1.-2G	Guidance	Not applicable save in relation to a *UCITS investment firm* and its *MiFID business*	Not applicable	Not applicable
SYSC 5.1.-1G	Not applicable	Not applicable	Not applicable	Not applicable

SYSC 5.1.1R	Rule	Rule	Not applicable	Rule
SYSC 5.1.2G	Guidance	Guidance	Guidance	Guidance
SYSC 5.1.3G	Guidance	Guidance	Not applicable	Guidance
SYSC 5.1.3AG	Guidance	Guidance	Guidance	Guidance
SYSC 5.1.4G	Guidance	Guidance	Guidance	Guidance
SYSC 5.1.4AG	Guidance	Guidance	Guidance	Guidance
SYSC 5.1.5G	Guidance	Guidance	Guidance	Guidance
SYSC 5.1.5AG	Guidance	Guidance	Guidance	Guidance
SYSC 5.1.5AAR	Rule	Not applicable save in relation to a *UCITS investment firm* and its *MiFID business*	Not applicable	Not applicable
SYSC 5.1.5ABR	Rule	Not applicable save in relation to a *UCITS investment firm* and its *MiFID business*	Not applicable	Not applicable
SYSC 5.1.5ACG	Guidance	Not applicable save in relation to a *UCITS investment firm* and its *MiFID business*	Not applicable	Not applicable
SYSC 5.1.5ADG				[deleted]
SYSC 5.1.5AEG				[deleted]
SYSC 5.1.5BR	Rule	Rule	Rule	Rule
SYSC 5.1.6R	Rule	Rule	Guidance	Guidance
SYSC 5.1.7R	Rule	Rule for a *UCITS investment firm* ; otherwise guidance	Guidance	Guidance

SYSC 5.1.7AG	Not applicable	Not applicable to a *UCITS investment firm* ; otherwise guidance	Guidance	Guidance
SYSC 5.1.8G	Guidance	Guidance	Guidance	Guidance
SYSC 5.1.9G	Guidance	Guidance	Guidance	Guidance
SYSC 5.1.10G	Guidance	Guidance	Guidance, but not applicable for the segregation of risk management functions	Guidance
SYSC 5.1.11G	Guidance	Guidance	Guidance	Guidance
SYSC 5.1.12R	Rule	Rule	Not applicable	Guidance
SYSC 5.1.12AG	Not applicable	Not applicable	Not applicable	Guidance
SYSC 5.1.13R	Rule	Rule	Not applicable	Rule
SYSC 5.1.14R	Rule	Rule	Not applicable	Guidance
SYSC 5.1.15G	Not applicable	Not applicable	Not applicable	Guidance

Provision **SYSC 6**	**COLUMN A** **Application to a common platform firm other than to a UCITS investment firm**	**COLUMN A+** **Application to a UCITS management company**	**COLUMN A++** **Application to a full-scope UK AIFM of an authorised AIF**	**COLUMN B** **Application to all other firms apart from insurers, UK ISPVs, managing agents, the Society, full-scope UK AIFMs of unauthorised AIFs, MiFID optional exemption firms and third country firms**
SYSC 6.1.-2G	Guidance	Not applicable save in relation to a *UCITS investment firm* and its *MiFID*	Not applicable	Not applicable

		business		
SYSC 6.1.-1G	Not applicable	Not applicable	Not applicable	Not applicable
SYSC 6.1.1R	Rule	Rule	Rule but only regarding the obligation to establish, implement and maintain adequate policies and procedures for countering the risk that the *firm* (including its managers and *employees*) might be used to further *financial crime*	Rule
SYSC 6.1.1AG	Guidance	Guidance	Guidance	Guidance
SYSC 6.1.2R	Not applicable	Rule	Not applicable	Guidance, but applies as a rule to an *operator of an electronic system in relation to lending*
SYSC 6.1.2-AR	Rule	Rule for a *UCITS investment firm* in relation to its *MiFID business*; otherwise not applicable	Not applicable	Not applicable
SYSC 6.1.2AG	Not applicable	Not applicable	Not applicable	Guidance, but applies as a rule to an *operator of an electronic system in relation to lending*
SYSC 6.1.3R	Not applicable	Rule	Not applicable	Guidance, but applies as a rule to an *operator of an electronic system in relation to lending* . For *firms* other than an *operator of*

				an electronic system in relation to lending , this provision shall be read with the following additional sentence at the start. "Depending on the nature, scale and complexity of its business, it may be appropriate for a *firm* to have a separate compliance function. Where a *firm* has a separate compliance function, the *firm* should also take into account *SYSC 6.1.3R* and *SYSC 6.1.4R* as guidance."
SYSC 6.1.3-AR	Rule	Rule for a *UCITS investment firm* in relation to its *MiFID business*; otherwise not applicable	Not applicable	Not applicable
SYSC 6.1.3-BR	Rule	Rule for a *UCITS investment firm* in relation to its *MiFID business*; otherwise not applicable	Not applicable	Not applicable
SYSC 6.1.3-CR	Rule	Rule for a *UCITS investment firm*; otherwise not applicable	Not applicable	Not applicable
SYSC 6.1.3AG	Not applicable	Not applicable	Not applicable	Guidance, but does not apply to an *operator of an electronic system in relation to lending*
SYSC 6.1.4R	Not applicable	Rule	Not applicable	(1), (3) and (4):

				Guidance; (2): - Rule for *firms* which carry on *designated investment business* with or for *retail clients* or *professional clients* . - Guidance for all other *firms* . Applies as a rule to an *operator of an electronic system in relation to lending* .
SYSC 6.1.4-AG	Guidance	Not applicable	Rule	Guidance
SYSC 6.1.4-AAG	Not applicable	Not applicable	Guidance	Not applicable
SYSC 6.1.4-ABG	Guidance applies to *relevant authorised persons* only	Not applicable	Guidance	Not applicable
SYSC 6.1.4AR	Not applicable	Not applicable	Not applicable	Rule for *firms* which carry on *designated investment business* with or for *retail clients* or *professional clients* .
SYSC 6.1.4CR	Not applicable	Not applicable	Not applicable	As specified in *SYSC 6.1.4CR* .
SYSC 6.1.5R	Not applicable	Rule	Not applicable	- Guidance, but applies as a rule to an *operator of an electronic system in relation to lending* - " *investment services and activities* " shall

				be read as "financial services and activities"
SYSC 6.1.5AR	Rule	Rule for a *UCITS investment firm*; otherwise not applicable	Not applicable	Not applicable
SYSC 6.1.6G	Not applicable	Not applicable	Not applicable	Guidance, but does not apply to an *operator of an electronic system in relation to lending*
SYSC 6.1.7R	Rule	Rule for a *UCITS investment firm* ; otherwise not applicable	Not applicable	Guidance
SYSC 6.1.8G	Not applicable	Not applicable	Not applicable	Only applies to an *operator of an electronic system in relation to lending*
SYSC 6.2.1R	Rule	Rule	Not applicable	Guidance, but applies as a rule to an *operator of an electronic system in relation to lending*
SYSC 6.2.1AG	Not applicable	Not applicable	Not applicable	Guidance, but does not apply to an *operator of an electronic system in relation to lending*
SYSC 6.2.1BG	Guidance applies to *relevant authorised persons* only	Not applicable	Not applicable	Not applicable
SYSC 6.2.2G	Guidance	Guidance	Not applicable	Guidance
SYSC 6.3.1R	Rule	Rule	Rule	Rule For *firms* carryin

				g on a *credit-related regulated activity* or *regulated claims management activity* , or *operating an electronic system in relation to lending* , applies only where the *Money Laundering Regulations* apply to the *firm* . Rule does not apply to a *firm* for which a professional body listed in Schedule 1 to the *Money Laundering Regulations* , and not the *FCA* , acts as the supervisory authority for the purposes of those regulations.(FCA Handbook only)
SYSC 6.3.2G	Guidance	Guidance	Guidance	Guidance For *firms* carrying on a *credit-related regulated activity* or *regulated claims management activity* , or *operating an electronic system in relation to lending* , applies only where the *Money Laundering Regulations* apply to the *firm* . Guidance does not apply to a *firm* for which a professional body listed in Schedule 1 to the *Money*

				Laundering Regulations , and not the *FCA* , acts as the supervisory authority for the purposes of those regulations.(FCA Handbook only)
SYSC 6.3.3R	Rule	Rule	Rule	Rule For *firms* carrying on a *credit-related regulated activity* or *regulated claims management activity* , or *operating an electronic system in relation to lending* , applies only where the *Money Laundering Regulations* apply to the *firm* . Rule does not apply to a *firm* for which a professional body listed in Schedule 1 to the *Money Laundering Regulations* , and not the *FCA* , acts as the supervisory authority for the purposes of those regulations.(FCA Handbook only)
SYSC 6.3.4G	Guidance	Guidance	Guidance	Guidance For *firms* carrying on a *credit-related regulated activity* or *regulated claims management activity* , or *operating an electronic*

				system in relation to lending , applies only where the *Money Laundering Regulations* apply to the *firm* . Guidance does not apply to a *firm* for which a professional body listed in Schedule 1 to the *Money Laundering Regulations* , and not the *FCA* , acts as the supervisory authority for the purposes of those regulations. (FCA Handbook only)
SYSC 6.3.5G	Guidance	Guidance	Guidance	Guidance For *firms* carrying on a *credit-related regulated activity* or *regulated claims management activity* , or *operating an electronic system in relation to lending* , applies only where the *Money Laundering Regulations* apply to the *firm* . Guidance does not apply to a *firm* for which a professional body listed in Schedule 1 to the *Money Laundering Regulations* , and not the FCA, acts as the supervisory authority for the purposes of those regulations.

				(FCA Handbook only)
SYSC 6.3.6G	Guidance	Guidance	Guidance	Guidance For *firms* carrying on a *credit-related regulated activity* or *regulated claims management activity*, or *operating an electronic system in relation to lending*, applies only where the *Money Laundering Regulations* apply to the *firm*. Guidance does not apply to a *firm* for which a professional body listed in Schedule 1 to the *Money Laundering Regulations*, and not the *FCA*, acts as the supervisory authority for the purposes of those regulations. (FCA Handbook only)
SYSC 6.3.7G	Guidance	Guidance	Guidance	Guidance For *firms* carrying on a *credit-related regulated activity* or *regulated claims management activity*, or *operating an electronic system in relation to lending*, applies only where the *Money Laundering Regulations* apply to the *firm*. Guidance does

				not apply to a *firm* for which a professional body listed in Schedule 1 to the *Money Laundering Regulations* , and not the *FCA* , acts as the supervisory authority for the purposes of those regulations. (FCA Handbook only)
SYSC 6.3.8R	Rule	Rule	Rule	Rule For *firms* carrying on a *credit-related regulated activity* or *regulated claims management activity* , or *operating an electronic system in relation to lending* , applies only where the *Money Laundering Regulations* apply to the *firm* . Rule does not apply to a *firm* with a *limited permission* for *entering into a regulated credit agreement as lender* . Rule does not apply to a *firm* for which a professional body listed in Schedule 1 to the *Money Laundering Regulations* , and not the *FCA* , acts as the supervisory authority for the purposes of those regulations.

				(FCA Handbook only)
SYSC 6.3.9R	Rule	Rule	Rule	Rule For *firms* carrying on a *credit-related regulated activity* or *regulated claims management activity*, or *operating an electronic system in relation to lending*, applies only where the *Money Laundering Regulations* apply to the *firm*. Rule does not apply to a *firm* with a *limited permission* for *entering into a regulated credit agreement as lender*. Rule does not apply to a *firm* for which a professional body listed in Schedule 1 to the *Money Laundering Regulations*, and not the *FCA*, acts as the supervisory authority for the purposes of those regulations (FCA Handbook only). Rule does not apply to a *firm* carrying on *regulated pensions dashboard activity*.
SYSC 6.3.10G	Guidance	Guidance	Guidance	Guidance For *firms* carrying on a *credit-related regulated*

				activity or *regulated claims management activity* , or *operating an electronic system in relation to lending* , applies only where the *Money Laundering Regulations* apply to the *firm* . Guidance does not apply to a *firm* for which a professional body listed in Schedule 1 to the *Money Laundering Regulations* , and not the *FCA* , acts as the supervisory authority for the purposes of those regulations. (FCA Handbook only)
SYSC 6.3.11G	Guidance	Guidance	Guidance	Guidance For *firms* carrying on a *credit-related regulated activity* or *regulated claims management activity* , or *operating an electronic system in relation to lending* , applies only where the *Money Laundering Regulations* apply to the *firm* .Guidance does not apply to a *firm* for which a professional body listed in Schedule 1 to the *Money Laundering Regulations* ,

				and not the *FCA*, acts as the supervisory authority for the purposes of those regulations. (FCA Handbook only)

Provision **SYSC 7**	**COLUMN A** **Application to a common platform firm other than to a UCITS investment firm**	**COLUMN A+** **Application to a UCITS management company**	**COLUMN A++** **Application to a full-scope UK AIFM of an authorised AIF**	**COLUMN B** **Application to all other firms apart from insurers, UK ISPVs, managing agents, the Society, full-scope UK AIFMs of unauthorised AIFs, MiFID optional exemption firms and third country firms**
SYSC 7.1.-2G	Guidance	Not applicable save in relation to a *UCITS investment firm* and its *MiFID business*	Not applicable	Not applicable
SYSC 7.1.-1G	Not applicable	Not applicable	Not applicable	Not applicable
SYSC 7.1.1G	Guidance	Guidance	Not applicable	Guidance
SYSC 7.1.2R	Not applicable	Rule for a *UCITS investment firm*	Not applicable	Guidance, but applies as a rule to an *operator of an electronic system in relation to lending*
SYSC 7.1.2-AR	Rule	Not applicable	Not applicable	Not applicable
SYSC 7.1.2AG	Not applicable	Not applicable to a *UCITS investment firm*; otherwise guidance	Not applicable	Guidance, but does not apply to an *operator of an electronic system in relation to lending*

SYSC 7.1.2BG	Not applicable	Guidance	Not applicable	Not applicable
SYSC 7.1.3R	Rule	Rule for a *UCITS investment firm* ; otherwise guidance	Not applicable	Guidance, but applies as a rule for an *operator of an electronic system in relation to lending*
SYSC 7.1.4R	Rule	Rule for a *UCITS investment firm* ; otherwise guidance	Not applicable	Guidance, but applies as a rule to an *operator of an electronic system in relation to lending*
SYSC 7.1.4AG	Guidance for a *MIFIDPRU investment firm*	Guidance for a *UCITS investment firm*	Not applicable	Guidance
SYSC 7.1.4BG	Not applicable	Rule for a *UCITS investment firm* ; otherwise guidance	Not applicable	Guidance
SYSC 7.1.5R	Rule	Rule for a *UCITS investment firm* ; otherwise guidance	Not applicable	Guidance, but applies as a rule to an *operator of an electronic system in relation to lending*
SYSC 7.1.6R	Rule	Rule for a *UCITS investment firm* ; otherwise guidance	Not applicable	Guidance, but applies as a rule to an *operator of an electronic system in relation to lending*
SYSC 7.1.7R	Rule	Rule for a *UCITS investment firm* ; otherwise guidance	Not applicable	Guidance, but applies as a rule to an *operator of an electronic system in relation to lending*
SYSC 7.1.7AG	Not applicable	Rule for a *UCITS investment firm* ; otherwise guidance	Not applicable	Guidance, but does not apply to an *operator of an electronic system in relation to lending*

SYSC 7.1.7BG	Guidance applicable to a *CRR firm*	Not applicable	Guidance	Guidance
SYSC 7.1.7BAG	Not applicable	Not applicable	Guidance	Not applicable
SYSC 7.1.7BBG	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 7.1.7BDG	Guidance applies only to a *MIFIDPRU investment firm*	Guidance applies only to a *UCITS investment firm*	Not applicable	Not applicable
SYSC 7.1.7CG	Guidance	Guidance	Guidance	Guidance
SYSC 7.1.8G	Guidance	Guidance	Guidance	Guidance
SYSC 7.1.9R	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 7.1.10R	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 7.1.11R	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 7.1.12G	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 7.1.13R - 7.1.16R	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 7.1.16AG	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 7.1.16BG	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 7.1.16CR	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 7.1.17R	Rule applies to a *CRR firm*	Not applicable	Not applicable	Not applicable
SYSC 7.1.18R	Rule applies to a *CRR firm*	Not applicable	Not applicable	Not applicable
SYSC 7.1.18AAG	Guidance applies to a *CRR firm*	Not applicable	Not applicable	Not applicable
SYSC 7.1.18BR	Rule applies to a *CRR firm*	Not applicable	Not applicable	Not applicable
SYSC 7.1.19R	Rule applies to a *CRR firm*	Not applicable	Not applicable	Not applicable

SYSC 7.1.20R	Rule applies to a *CRR firm*	Not applicable	Not applicable	Not applicable
SYSC 7.1.21R	Rule applies to a *CRR firm*	Not applicable	Not applicable	Not applicable
SYSC 7.1.22R	Rule applies to a *CRR firm*	Not applicable	Not applicable	Not applicable
SYSC 7.1.23G	Guidance applies to *UK relevant authorised persons* and *third country relevant authorised persons* only	Not applicable	Not applicable	Not applicable

Provision **SYSC 8**	**COLUMN A** **Application to a common platform firm other than to a UCITS investment firm**	**COLUMN A+** **Application to a UCITS management company**	**COLUMN A++** **Application to a full-scope UK AIFM of an authorised AIF**	**COLUMN B** **Application to all other firms apart from insurers, UK ISPVs, managing agents, the Society, full-scope UK AIFMs of unauthorised AIFs, MiFID optional exemption firms and third country firms**
SYSC 8.1.-2G	Guidance	Not applicable save in relation to a *UCITS investment firm* and its *MiFID business*	Not applicable	Not applicable
SYSC 8.1.-1G	Not applicable	Not applicable	Not applicable	Not applicable
SYSC 8.1.1R	Rule	Rule for a *UCITS investment firm* ; otherwise guidance	Not applicable	Guidance
SYSC 8.1.1AG	Not applicable	Not applicable to a *UCITS*	Not applicable	Guidance

		investment firm ; otherwise guidance		
SYSC 8.1.2G	Guidance	Guidance	Not applicable	Guidance
SYSC 8.1.3G	Guidance	Guidance	Not applicable	Guidance
SYSC 8.1.4R	Not applicable	Rule for a *UCITS investment firm* ; otherwise guidance	Not applicable	Guidance
SYSC 8.1.4AR	Rule	Rule for a *UCITS investment firm* ; otherwise guidance	Not applicable	Not applicable
SYSC 8.1.5R	Rule	Rule for a *UCITS investment firm* ; otherwise guidance	Not applicable	Guidance
SYSC 8.1.5AG	Not applicable	Rule for a *UCITS investment firm* ; otherwise guidance	Not applicable	Guidance
SYSC 8.1.6R	Not applicable	Rule for a *UCITS investment firm* in relation to its non-*MiFID business* ; otherwise guidance	Not applicable	Rule
SYSC 8.1.6-AR	Rule	Rule for a *UCITS investment firm* ; otherwise not applicable	Not applicable	Not applicable
SYSC 8.1.6AG	Guidance for a *UCITS investment firm* in relation to its *MiFID business*	Not applicable	Not applicable	Not applicable
SYSC 8.1.7R	Rule	Rule for a *UCITS investment firm* ; otherwise guidance	Not applicable	Guidance

SYSC 8.1.8R	Rule	Rule for a *UCITS investment firm* ; otherwise guidance	Not applicable	Guidance
SYSC 8.1.9R	Rule	Rule for a *UCITS investment firm* ; otherwise guidance	Not applicable	Guidance
SYSC 8.1.10R	Rule	Rule for a *UCITS investment firm* ; otherwise guidance	Not applicable	Guidance
SYSC 8.1.11R	Not applicable	Rule for a *UCITS investment firm* in relation to its non-*MiFID business* ; otherwise guidance	Not applicable	Guidance
SYSC 8.1.11-AR	Rule	Rule for a *UCITS investment firm* in relation to its *MiFID business* ; otherwise not applicable	Not applicable	Not applicable
SYSC 8.1.11-BR	Rule	Rule for a *UCITS investment firm* in relation to its *MiFID business* ; otherwise not applicable	Not applicable	Not applicable
SYSC 8.1.11-CG	Guidance	Guidance for a *UCITS investment firm* in relation to its *MiFID business* ; otherwise not applicable	Not applicable	Not applicable
SYSC 8.1.11AG	Not applicable	Not applicable to a *UCITS investment firm* ; otherwise guidance	Not applicable	Guidance

SYSC 8.1.12G	Guidance	Guidance	Not applicable	Guidance
SYSC 8.1.13R	Not applicable	Rule	Not applicable	Not applicable
SYSC 8.1.14G	Not applicable	Guidance	Not applicable	Not applicable
SYSC 8.2	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 8.3	[deleted]	[deleted]	[deleted]	[deleted]

Provision **SYSC 9**	**COLUMN A** **Application to a common platform firm other than to a UCITS investment firm**	**COLUMN A+** **Application to a UCITS management company**	**COLUMN A++** **Application to a full-scope UK AIFM of an authorised AIF**	**COLUMN B** **Application to all other firms apart from insurers, UK ISPVs, managing agents, the Society, full-scope UK AIFMs of unauthorised AIFs, MiFID optional exemption firms and third country firms**
SYSC 9.1.-2G	Guidance	Not applicable save in relation to a *UCITS investment firm* and its *MiFID business*	Not applicable	Not applicable
SYSC 9.1.-1G	Not applicable	Not applicable	Not applicable	Not applicable
SYSC 9.1.1R	Not applicable	Rule	Rule but only for the requirement to arrange for orderly records to be kept of its business and internal organisation which do not relate to portfolio transactions and subscription and redemptions orders	Rule

SYSC 9.1.1AR	Rule	Not applicable	Not applicable	Not applicable
SYSC 9.1.1BR	Rule applies only in relation to *MiFID business*	Rule applies only in relation to *MiFID business* of a *UCITS investment firm*	Not applicable	Not applicable
SYSC 9.1.2R	Rule applies only in relation to *MiFID business*	Rule applies only in relation to *MiFID business* of a *UCITS investment firm*	Rule but only for records specified by the modified application of *SYSC 9.1.1 R*	Not applicable
SYSC 9.1.2-AR	Rule applies only in relation to *MiFID business*	Rule applies only in relation to *MiFID business* of a *UCITS investment firm*	Not applicable	Not applicable
SYSC 9.1.2AR	Rule	Rule	Rule	Rule
SYSC 9.1.2BG	Guidance	Guidance	Guidance	Guidance
SYSC 9.1.2CR	Rule applicable to a *firm* carrying on *insurance distribution* in relation to *insurance-based investment products*	Rule applicable to a *firm* carrying on *insurance distribution* in relation to *insurance-based investment products*	Rule applicable to a *firm* carrying on *insurance distribution* in relation to *insurance-based investment products*	Rule applicable to a *firm* carrying on *insurance distribution* in relation to *insurance-based investment products*
SYSC 9.1.3R	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 9.1.4G	Guidance	Guidance	Guidance	Guidance
SYSC 9.1.5G	Guidance	Guidance	Not applicable	Guidance
SYSC 9.1.6G	Guidance	Guidance	Not applicable	Guidance
SYSC 9.1.6A	Guidance	Guidance	Guidance	Guidance
	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 9.2G	Not applicable	Not applicable	Not applicable	Applicable to *credit institutions* only

Provision SYSC 10	Column A Application to a common platform firm other than to a UCITS investment firm	COLUMN A+ Application to a UCITS management company	COLUMN A++ Application to a full-scope UK AIFM of an authorised AIF	Column B Application to all other firms apart from insurers, UK ISPVs, managing agents, the Society, full-scope UK AIFMs of unauthorised AIFs, MiFID optional exemption firms and third country firms
SYSC 10.1. -5G	Not applicable	Not applicable	Not applicable	Guidance in relation to *funeral plan distribution*
SYSC 10.1.-4G	Guidance in relation to *insurance distribution activities*	Guidance in relation to *insurance distribution activities*	Guidance in relation to *insurance distribution activities*	Guidance in relation to *insurance distribution activities*
SYSC 10.1.-3R	Rule in relation to *insurance distribution activities*	Rule in relation to *insurance distribution activities*	Rule in relation to *insurance distribution activities*	Rule in relation to *insurance distribution activities*
SYSC 10.1.-2G	Guidance	Guidance in relation to relation to a *UCITS investment firm* in relation to its *MiFID business* ; otherwise not applicable	Not applicable	Not applicable
SYSC 10.1.-1G	Not applicable	Not applicable	Not applicable	Not applicable
SYSC 10.1.1R	Rule	Rule	Not applicable	Rule
SYSC 10.1.1AR	Not applicable	Not applicable	Rule	Not applicable
SYSC 10.1.2G	Guidance	Guidance	Guidance in relation to *insurance distribution activities* . Otherwise, not	Guidance

			applicable	
SYSC 10.1.3R	Rule	Rule	Rule in relation to *insurance distribution activities* . Otherwise not applicable	Rule
SYSC 10.1.4R	Rule	Rule, but not applicable in relation to *insurance distribution activities*	Not applicable	Guidance - but applies as a rule in relation to the production or arrangement of investment research, or the production or dissemination of non-independent research, in accordance with *COBS 12.2* Not applicable in relation to *insurance distribution activities* or *funeral plan distribution*
SYSC 10.1.4AG	Not applicable	Not applicable	Not applicable	Guidance -but not applicable in relation to *insurance distribution activities* or *funeral plan distribution*
SYSC 10.1.4BR	Not applicable	Rule in relation to *insurance distribution activities*	Rule in relation to *insurance distribution activities*	Rule in relation to *insurance distribution activities* and *funeral plan distribution*
SYSC 10.1.4CR	Not applicable	Rule in relation to *insurance distribution activities*	Rule in relation to *insurance distribution activities*	Rule in relation to *insurance distribution activities* and *funeral plan distribution*
SYSC 10.1.5G	Guidance	Guidance	Not applicable	Guidance
SYSC 10.1.6R	Rule	Rule	Rule in relation to *insurance distribution*	Guidance - but applies as a rule: (a) in

			activities . Otherwise, not applicable	relation to the production or arrangement of investment research, or the production or dissemination of non-independent research, in accordance with *COBS 12.2* ; and (b) in relation to *insurance distribution activities* and *fu neral plan distribution*
SYSC 10.1.6AG	Not applicable	Not applicable	Guidance - but not applicable in relation to *insurance distribution activities*	Guidance - but not applicable in relation to *insurance distribution activities* or *fune ral plan distribution*
SYSC 10.1.6AAR	Rule	Rule in relation to *insurance distribution activities*	Rule in relation to *insurance distribution activities*	Rule in relation to *insurance distribution activities* and *fu neral plan distribution*
SYSC 10.1.6BG	Not applicable	Guidance	Guidance	Guidance
SYSC 10.1.7R	Rule	Rule	Rule in relation to *insurance distribution activities* . Otherwise not applicable	Rule
SYSC 10.1.7AR	Rule	Rule	Rule	Rule
SYSC 10.1.8R	Rule	Rule	Rule in relation to *insurance distribution activities* . Otherwise, not applicable	Rule
SYSC 10.1.9G	Guidance	Guidance	Not applicable	Guidance
SYSC 10.1.9AR	Rule	Rule	Rule in relation	Guidance - but

			to *insurance distribution activities* . Otherwise, not applicable	applies as a rule in relation to *insurance distribution activities* and *funeral plan distribution*
SYSC 10.1.10R	Rule	Rule	Rule in relation to *insurance distribution activities* . Otherwise, not applicable	Guidance - but applies as a rule: (a) in relation to the production or arrangement of investment research, or the production or dissemination of non-independent research, in accordance with *COBS 12.2* ; and (b) in relation to *insurance distribution activities* and *funeral plan distribution*
SYSC 10.1.11R	Rule	Rule	Rule in relation to *insurance distribution activities* . Otherwise, not applicable	Guidance - but applies as a rule: (a) in relation to the production or arrangement of investment research, or the production or dissemination of non-independent research, in accordance with *COBS 12.2* ; and (b) in relation to *insurance distribution activities* and *funeral plan distribution*
SYSC 10.1.11AG	Not applicable	Not applicable	Guidance - but not applicable in relation to *insurance distribution activities*	Guidance - but not applicable in relation to *insurance distribution activities* or *funeral plan distribution*

SYSC 10.1.11AAR	Rule	Rule	Rule in relation to *insurance distribution activities*	Rule in relation to *insurance distribution activities* and *fu neral plan distribution*
SYSC 10.1.11ABR	Rule in relation to *insurance distribution activities*	Not applicable	Not applicable	Not applicable
SYSC 10.1.11BG	Not applicable	Guidance	Guidance	Guidance
SYSC 10.1.12G	Guidance	Guidance	Guidance	Guidance
SYSC 10.1.13 - *10.1.15G*	[deleted]	[deleted]	[deleted]	[deleted]
SYSC 10.1.16R	Not applicable	Not applicable	Not applicable	Rule
SYSC 10.1.17R	Not applicable	Rule	Not applicable	Not applicable
SYSC 10.1.18G [FCA]	Not applicable	Guidance	Not applicable	Not applicable
SYSC 10.1.19R	Not applicable	Rule	Not applicable	Not applicable
SYSC 10.1.20R	Not applicable	Rule	Not applicable	Not applicable
SYSC 10.1.21R	Not applicable	Rule	Not applicable	Not applicable
SYSC 10.1.22R	Not applicable	Rule	Rule	Not applicable
SYSC 10.1.23R to *SYSC 10.1.26R*	Not applicable	Not applicable	Rule	Not applicable
SYSC 10.1A	R Rules applicable to a *firm* carrying on *insurance distribution* in relation to *insurance-based investment products*	R Rules applicable to a *firm* carrying on *insurance distribution* in relation to *insurance-based investment products*	R Rules applicable to a *firm* carrying on *insurance distribution* in relation to *insurance-based investment products*	R Rules applicable to a *firm* carrying on *insurance distribution* in relation to *insurance-based investment products*
SYSC 10.2.1R	Rule	Rule	Rule	Rule
SYSC 10.2.2R	Rule	Rule	Rule	Rule

SYSC 10.2.3G	Guidance	Guidance	Guidance	Guidance
SYSC 10.2.4R	Rule	Rule	Rule	Rule
SYSC 10.2.5G	Guidance	Guidance	Guidance	Guidance

Table B: Application of the common platform requirements in SYSC 4 to 10 to MiFID optional exemption firms and third country firms

SYSC 1 Annex 1 Table B

Provision	COLUMN A MiFID optional exemption firms	COLUMN B Third country firms
SYSC 4		
SYSC 4.1.-2G	Not applicable	Not applicable
SYSC 4.1.-1G	Guidance	Guidance
SYSC 4.1.1R	Rule	Rule
SYSC 4.1.1-AR	Rule	(1)(a): Guidance (1)(b), (c), (d) and first paragraph: Rule (2): Rule (3) to (5): Guidance
SYSC 4.1.1AR	Not applicable	Not applicable
SYSC 4.1.1BR	Not applicable	Not applicable
SYSC 4.1.1DR	Not applicable	Not applicable
SYSC 4.1.1ER	Not applicable	Not applicable
SYSC 4.1.1FG	Not applicable	Not applicable
SYSC 4.1.2R	Rule	Guidance
SYSC 4.1.2AG	Not applicable	Not applicable
SYSC 4.1.2BR	Not applicable	Not applicable
SYSC 4.1.2CR	Not applicable	Not applicable
SYSC 4.1.2DR	Not applicable	Not applicable

SYSC 4.1.4R	Not applicable	Not applicable
SYSC 4.1.4AG	Not applicable	Not applicable
SYSC 4.1.5R	Not applicable	Not applicable
SYSC 4.1.6R	Rule	Guidance
SYSC 4.1.7R	Rule	Guidance
SYSC 4.1.7AG	Not applicable	Not applicable
SYSC 4.1.8G	Guidance	Guidance
SYSC 4.1.8AR	Rule	Rule
SYSC 4.1.8CG	Guidance	Guidance
SYSC 4.1.8DG	Guidance	Guidance
SYSC 4.1.8DAG	Guidance	Guidance
SYSC 4.1.8DBR	Rule	Rule
SYSC 4.1.8DCR	Rule	Rule
SYSC 4.1.8DDR	Rule	Rule
SYSC 4.1.9R	Not applicable	Not applicable
SYSC 4.1.10R	Not applicable	Not applicable
SYSC 4.1.10AG	Not applicable	Not applicable
SYSC 4.1.11G	Guidance	Guidance
SYSC 4.1.13G	Guidance	Guidance
SYSC 4.1.14G	Guidance	Guidance
SYSC 4.2.1R	Rule	Rule
SYSC 4.2.1AG	Not applicable	Not applicable
SYSC 4.2.2R	Rule	Rule
SYSC 4.2.3G - 4.2.5G	Guidance	Guidance
SYSC 4.2.6R	Rule	Rule

SYSC 4.2.7R	Not applicable	Not applicable
SYSC 4.2.8G	Not applicable	Not applicable
SYSC 4.3.1R	Not applicable	Not applicable
SYSC 4.3.2R	Not applicable	Not applicable
SYSC 4.3.2-AR	Guidance	(1) and (2): Rule (3): Guidance
SYSC 4.3.2AG	Not applicable	Not applicable
SYSC 4.3.3G	Guidance	Guidance
SYSC 4.3A.1AR	Rule	Not applicable
SYSC 4.3A.2R	Rule	Not applicable
SYSC 4.3A.2AG	Guidance	Not applicable
SYSC 4.3A.3R	Rule	Not applicable
SYSC 4.3A.3AG	Guidance	Not applicable
SYSC 4.3A.4R	Rule	Not applicable
SYSC 4.3A.5R	Rule	Not applicable
SYSC 4.3A.6R	Rule	Not applicable
SYSC 4.3A.7R	Rule	Not applicable
SYSC 4.3A.8R	Rule	Not applicable
SYSC 4.3A.9R	Rule	Not applicable
SYSC 4.3A.10R	Rule	Not applicable
SYSC 4.3A.11R	Not applicable	Not applicable
SYSC 4.4.1AR	As specified in *SYSC 4.4.1AR*	As specified in *SYSC 4.4.1AR*
SYSC 4.4.2G	As specified in *SYSC 4.4.1AR*	As specified in *SYSC 4.4.1AR*
SYSC 4.4.3R	As specified in *SYSC 4.4.1AR*	As specified in *SYSC 4.4.1AR*
SYSC 4.4.5R	As specified in *SYSC 4.4.1AR*	As specified in *SYSC 4.4.1AR*
SYSC 4.4.6G	As specified in *SYSC 4.4.1AR*	As specified in *SYSC 4.4.1AR*

Note = *SYSC 4.1.8AR* to *SYSC 4.1.8DDR* apply as a *rule* or *guidance* , as indicated above, only to an *operator of an electronic system in relation to lending* .

SYSC 5		
SYSC 5.1.-2G	Not applicable	Not applicable
SYSC 5.1.-1G	Guidance	Guidance
SYSC 5.1.1R	Rule	Rule
SYSC 5.1.2G	Guidance	Guidance
SYSC 5.1.3G	Guidance	Guidance
SYSC 5.1.4G	Guidance	Guidance
SYSC 5.1.4AG	Guidance	Guidance
SYSC 5.1.5G	Guidance	Guidance
SYSC 5.1.5AAR	Not applicable	Rule
SYSC 5.1.5ABR	Not applicable	Rule
SYSC 5.1.5ACG	Not applicable	Guidance
SYSC 5.1.5ADG	Not applicable	Guidance
SYSC 5.1.5AEG	Not applicable	Guidance
SYSC 5.1.5AG	Guidance	Guidance
SYSC 5.1.6R	Rule	Guidance
SYSC 5.1.7R	Rule	Rule
SYSC 5.1.7AG	Not applicable	Not applicable
SYSC 5.1.8G	Guidance	Guidance
SYSC 5.1.9G	Guidance	Guidance
SYSC 5.1.10G	Guidance	Guidance
SYSC 5.1.11G	Guidance	Guidance
SYSC 5.1.12R	Rule	Guidance

SYSC 5.1.12AG	Not applicable	Not applicable
SYSC 5.1.13R	Rule	Rule
SYSC 5.1.14R	Rule	Guidance
SYSC 5.1.15G	Not applicable	Not applicable

SYSC 6		
SYSC 6.1.-2G	Not applicable	Not applicable
SYSC 6.1.-1G	Guidance	Guidance
SYSC 6.1.1R	Rule	Rule
SYSC 6.1.1AG	Guidance	Guidance
SYSC 6.1.2R	Not applicable	Not applicable
SYSC 6.1.2-AR	Guidance	Guidance
SYSC 6.1.2AG	Not applicable	Not applicable
SYSC 6.1.3R	Not applicable	Not applicable
SYSC 6.1.3-AR	Guidance	Guidance
SYSC 6.1.3-BR	Guidance	Guidance
SYSC 6.1.3-CR	Guidance	(1), (3), (4) and (5): Guidance (2): Rule
SYSC 6.1.3AG	Not applicable	Not applicable
SYSC 6.1.4R	Not applicable	Not applicable
SYSC 6.1.4-AG	Guidance	Guidance
SYSC 6.1.4-AAG	Not applicable	Not applicable
SYSC 6.1.4-ABG	Not applicable	Guidance for a *third country relevant authorised person*
SYSC 6.1.4AR	Not applicable	Not applicable
SYSC 6.1.4CR	*SYSC 6.1.4CR(3)* applies as specified	*SYSC 6.1.4CR(3)* applies as specified in *SYSC 6.1.4CR*

	in *SYSC 6.1.4CR* Otherwise not applicable	Otherwise not applicable
SYSC 6.1.5R	Not applicable	Not applicable
SYSC 6.1.5AR	Guidance	Guidance
SYSC 6.1.6G	Not applicable	Not applicable
SYSC 6.1.7R	Not applicable	Not applicable
SYSC 6.2.1R	Guidance	Guidance
SYSC 6.2.1AG	Not applicable	Not applicable
SYSC 6.2.1BG	Not applicable	Guidance for a *third country relevant authorised person*
SYSC 6.2.2G	Guidance	Guidance
SYSC 6.3.1R	Rule	Rule
SYSC 6.3.2G	Guidance	Guidance
SYSC 6.3.3R	Rule	Rule
SYSC 6.3.4G	Guidance	Guidance
SYSC 6.3.5G	Guidance	Guidance
SYSC 6.3.6G	Guidance	Guidance
SYSC 6.3.7G	Guidance	Guidance
SYSC 6.3.8R	Rule	Rule
SYSC 6.3.9R	Rule	Rule
SYSC 6.3.10G	Guidance	Guidance
SYSC 6.3.11G	Guidance	Guidance

SYSC 7		
SYSC 7.1.-2G	Not applicable	Not applicable
SYSC 7.1.-1G	Guidance	Guidance

SYSC 7.1.1G	Guidance	Guidance
SYSC 7.1.2R	Not applicable	Not applicable
SYSC 7.1.2-AR	Guidance	Guidance
SYSC 7.1.2AG	Not applicable	Not applicable
SYSC 7.1.2BG	Not applicable	Not applicable
SYSC 7.1.3R	Guidance	Guidance
SYSC 7.1.4R	Rule	Guidance
SYSC 7.1.4AG	Guidance	Guidance
SYSC 7.1.4BG	Not applicable	Not applicable
SYSC 7.1.5R	Guidance	Guidance
SYSC 7.1.6R	Guidance	Guidance
SYSC 7.1.7R	Guidance	Guidance
SYSC 7.1.7AG	Not applicable	Not applicable
SYSC 7.1.7BG	Not applicable	Not applicable
SYSC 7.1.7BAG	Not applicable	Not applicable
SYSC 7.1.7CG	Guidance	Guidance
SYSC 7.1.8G	Guidance	Guidance
SYSC 7.1.16AG	Not applicable	Not applicable
SYSC 7.1.16BG	Not applicable	Not applicable
SYSC 7.1.17R	Guidance	Not applicable
SYSC 7.1.18R	Guidance	Not applicable
SYSC 7.1.18AAG	Guidance	Not applicable
SYSC 7.1.18BR	Guidance	Not applicable
SYSC 7.1.19R	Guidance	Not applicable
SYSC 7.1.20R	Guidance	Not applicable

SYSC 7.1.21R	Guidance	Not applicable
SYSC 7.1.22R	Guidance	Not applicable
SYSC 7.1.23G	Not applicable	Guidance for a *third country relevant authorised person*

SYSC 8		
SYSC 8.1.-2G	Not applicable	Not applicable
SYSC 8.1.-1G	Guidance	Guidance
SYSC 8.1.1R	Rule	Guidance
SYSC 8.1.1AG	Not applicable	Not applicable
SYSC 8.1.2G	Guidance	Guidance
SYSC 8.1.3G	Guidance	Guidance
SYSC 8.1.4R	Not applicable	Not applicable
SYSC 8.1.4AR	Guidance	Guidance
SYSC 8.1.5R	Guidance	Guidance
SYSC 8.1.5AG	Not applicable	Not applicable
SYSC 8.1.6R	Not applicable	Not applicable
SYSC 8.1.6-AR	Rule	Rule
SYSC 8.1.6AG	Not applicable	Not applicable
SYSC 8.1.7R	Guidance	Guidance
SYSC 8.1.8R	Guidance	Guidance
SYSC 8.1.9R	Guidance	Guidance
SYSC 8.1.10R	Guidance	Guidance
SYSC 8.1.11R	Not applicable	Not applicable
SYSC 8.1.11-AR	Guidance	Guidance
SYSC 8.1.11-BR	Rule	Guidance
SYSC 8.1.11-CG	Guidance	Guidance

SYSC 8.1.11AG	Not applicable	Not applicable
SYSC 8.1.12G	Not applicable	Not applicable
SYSC 8.1.13R	Not applicable	Not applicable
SYSC 8.1.14G	Not applicable	Not applicable

SYSC 9		
SYSC 9.1.-2G	Not applicable	Not applicable
SYSC 9.1.-1G	Guidance	Guidance
SYSC 9.1.1R	Not applicable	Not applicable
SYSC 9.1.1AR	Rule	Rule
SYSC 9.1.1BR	Rule	Guidance
SYSC 9.1.2R	Rule	Not applicable
SYSC 9.1.2-AR	Rule	Guidance
SYSC 9.1.2AR	Rule in relation to *insurance distribution activities*	Rule in relation to *insurance distribution activities*
SYSC 9.1.2BG	Guidance in relation to *insurance distribution activities*	Guidance in relation to *insurance distribution activities*
SYSC 9.1.2CR	Rule applicable to a *firm* carrying on *insurance distribution* in relation to *insurance-based investment products*	Rule applicable to a *firm* carrying on *insurance distribution* in relation to *insurance-based investment products*
SYSC 9.1.4G	Guidance	Guidance
SYSC 9.1.5G	Guidance	Guidance
SYSC 9.1.6G	Guidance	Guidance
SYSC 9.1.6AG	Guidance in relation to *insurance distribution activities*	Guidance in relation to *insurance distribution activities*

SYSC 10

SYSC 10.1.-4G	Guidance in relation to *insurance distribution activities*	Guidance in relation to *insurance distribution activities*
SYSC 10.1.-3G	Rule in relation to *insurance distribution activities*	Rule in relation to *insurance distribution activities*
SYSC 10.1.-2G	Not applicable	Not applicable
SYSC 10.1.-1G	Guidance	Guidance
SYSC 10.1.1R	Rule	Rule
SYSC 10.1.1AR	Not applicable	Not applicable
SYSC 10.1.2G	Guidance	Guidance
SYSC 10.1.3R	Rule	Rule
SYSC 10.1.4R	Rule	Guidance – but applies as a rule in relation to the production or arrangement of investment research, or the production or dissemination of non-independent research, in accordance with *COBS 12.2*
SYSC 10.1.4AG	Not applicable	Guidance
SYSC 10.1.4BR	Rule in relation to *insurance distribution activities*	Rule in relation to *insurance distribution activities*
SYSC 10.1.4CR	Rule in relation to *insurance distribution activities*	Rule in relation to *insurance distribution activities*
SYSC 10.1.5G	Guidance	Guidance
SYSC 10.1.6R	Rule	Guidance – but applies as a rule in relation to: (a) the production or arrangement of investment research, or the production or dissemination of non-independent research, in accordance with *COBS 12.2* ; and (b) *insurance distribution activities*
SYSC 10.1.6AG	Not applicable	Guidance
SYSC 10.1.6AAR	Rule	Guidance - but applies as a rule in relation to *insurance distribution activities*

SYSC 10.1.6BG	Not applicable	Guidance
SYSC 10.1.7R	Rule	Rule
SYSC 10.1.7AR	Rule in relation to *insurance distribution activities*	Rule in relation to *insurance distribution activities*
SYSC 10.1.8R	Rule	Rule
SYSC 10.1.9G	Guidance	Guidance
SYSC 10.1.9AR	Rule	Rule in relation to *insurance distribution activities* . Otherwise not applicable
SYSC 10.1.10R	Rule	Guidance – but applies as a rule in relation to: (a) the production or arrangement of investment research, or the production or dissemination of non-independent research, in accordance with *COBS 12.2* ; and (b) *insurance distribution activities*
SYSC 10.1.11R	Rule	Guidance – but applies as a rule in relation to: (i) the production or arrangement of investment research, or the production or dissemination of non-independent research, in accordance with *COBS 12.2* ; and (ii) *insurance distribution activities*
SYSC 10.1.11AG	Not applicable	Guidance
SYSC 10.1.11AAR	Rule	Guidance, but applies as a rule in relation to *insurance distribution activities*
SYSC 10.1.11ABR	Rule in relation to *insurance distribution activities*	Rule in relation to *insurance distribution activities*
SYSC 10.1.11BG	Not applicable	Guidance
SYSC 10.1.12G	Guidance	Guidance
SYSC 10.1.16R	Not applicable	Not applicable
SYSC 10.1.17R	Not applicable	Not applicable
SYSC 10.1.18G	Not applicable	Not applicable

SYSC 10.1.19R	Not applicable	Not applicable
SYSC 10.1.20R	Not applicable	Not applicable
SYSC 10.1.21R	Not applicable	Not applicable
SYSC 10.1.22R	Not applicable	Not applicable
SYSC 10.1.23R	Not applicable	Not applicable
SYSC 10.1.24R	Not applicable	Not applicable
SYSC 10.1.25R	Not applicable	Not applicable
SYSC 10.1.26R	Not applicable	Not applicable
SYSC 10.1.27G	Not applicable	Not applicable
SYSC 10.1A	R Rule applicable to a *firm* carrying on *insurance distribution* in relation to *insurance-based investment products*	R Rule applicable to a *firm* carrying on *insurance distribution* in relation to *insurance-based investment products*
SYSC 10.2.1R	Rule	Rule
SYSC 10.2.2R	Rule	Rule
SYSC 10.2.3G	Guidance	Guidance
SYSC 10.2.4R	Rule	Rule
SYSC 10.2.5G	Guidance	Guidance

CHAPTER

SYSC 2 Senior management arrangements

Section : SYSC 2.1 Apportionment of Responsibilities

SYSC 2.1.1 R

A *firm* must take reasonable care to maintain a clear and appropriate apportionment of significant responsibilities among its *directors* and *senior managers* in such a way that:

(1) it is clear who has which of those responsibilities; and

(2) the business and affairs of the *firm* can be adequately monitored and controlled by the *directors*, relevant *senior managers* and *governing body* of the *firm*.

SYSC 2.1.1A G

Firms should also consider the additional *guidance* on risk-centric governance arrangements for effective risk management contained in *SYSC 21*.

SYSC 2.1.2 G

The role undertaken by a *non-executive director* will vary from one *firm* to another. For example, the role of a *non-executive director* in a *friendly society* may be more extensive than in other *firms*. Where a *non-executive director* is an *approved person*, for example where the *firm* is a *body corporate*, his responsibility and therefore liability will be limited by the role that he undertakes.

Insurance distribution activities

SYSC 2.1.6A R

A *firm* carrying on *insurance distribution activities* must allocate to a *senior manager* the function of ensuring the proper implementation of the policies and procedures approved in accordance with *SYSC 3.1.11R*.

[**Note:** second paragraph of article 10(8) of the *IDD*]

Section : SYSC 2.2 Recording the apportionment

SYSC 2.2.1 R

(1) A *firm* must make a record of the arrangements it has made to satisfy *SYSC 2.1.1 R* (apportionment) and take reasonable care to keep this up to date.

(2) This record must be retained for six years from the date on which it was superseded by a more up-to-date record.

SYSC 2.2.1A R

SYSC 2.2.1R does not apply to a *firm* to whom *PRA* Rulebook: Solvency II firms: Insurance – Allocation of Responsibilities, 5.1 and 5.2 or *PRA* Rulebook: Large Non-Solvency II firms – Allocation of Responsibilities, 5.1 and 5.2, applies nor to a *large non-directive insurer*.

SYSC 2.2.2 G

(1) A *firm* will be able to comply with *SYSC 2.2.1 R* by means of records which it keeps for its own purposes provided these records satisfy the requirements of *SYSC 2.2.1 R* and provided the *firm* takes reasonable care to keep them up to date. Appropriate records might, for this purpose, include organisational charts and diagrams, project management *documents*, job descriptions, committee constitutions and terms of reference provided they show a clear description of the *firm's* major functions.

(2) *Firms* should record any material change to the arrangements described in *SYSC 2.2.1 R* as soon as reasonably practicable after that change has been made.

SYSC 2.2.3 G

Where responsibilities have been allocated to more than one individual, the *firm's* record should show clearly how those responsibilities are shared or divided between the individuals concerned.

SYSC 2.2.7 G

CHAPTER

SYSC 3 Systems and controls

Section : SYSC 3.1 Systems and controls

SYSC 3.1.1 R

A *firm* must take reasonable care to establish and maintain such systems and controls as are appropriate to its business.

SYSC 3.1.2 G

(1) The nature and extent of the systems and controls which a *firm* will need to maintain under *SYSC 3.1.1 R* will depend upon a variety of factors including:

(a) the nature, scale and complexity of its business;

(b) the diversity of its operations, including geographical diversity;

(c) the volume and size of its transactions; and

(d) the degree of risk associated with each area of its operation.

(2) To enable it to comply with its obligation to maintain appropriate systems and controls, a *firm* should carry out a regular review of them.

(3) The areas typically covered by the systems and controls referred to in *SYSC 3.1.1 R* are those identified in *SYSC 3.2*. Detailed requirements regarding systems and controls relevant to particular business areas or particular types of *firm* are covered elsewhere in the *Handbook*.

SYSC 3.1.2A G

Firms should also consider the additional *guidance* on risk-centric governance arrangements for effective risk management contained in *SYSC 21*.

SYSC 3.1.3 G

Where the *UK Corporate Governance Code* is relevant to a *firm*, the *appropriate regulator*, in considering whether the *firm's* obligations under *SYSC 3.1.1 R* have been met, will give it due credit for following corresponding provisions in the code.

SYSC 3.1.4 G

A *firm* has specific responsibilities regarding its *appointed representatives* or, where applicable, its *tied agents* (see *SUP 12*).

SYSC 3.1.5 G

SYSC 2.1.3 R (2) prescribes how a *firm* must allocate the function of overseeing the establishment and maintenance of systems and controls described in *SYSC 3.1.1 R*.

Competent employees rule

SYSC 3.1.6 R

A *firm* must employ personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them.

SYSC 3.1.7 R

When complying with the *competent employees rules*, a *firm* must take into account the nature, scale and complexity of its business and the nature and range of financial services and activities undertaken in the course of that business.

SYSC 3.1.7A G

SYSC 28 contains *rules* and *guidance* on knowledge and competence in relation to *insurance distribution activities* undertaken by a *firm*.

SYSC 3.1.8 G The Training and Competence sourcebook (*TC*) contains additional *rules* and *guidance* relating to specified retail activities undertaken by a *firm*.

SYSC 3.1.9 G *Firms* which are carrying on activities that are not subject to *TC* may nevertheless wish to take *TC* into account in complying with the competence requirements in *SYSC*.

SYSC 3.1.10 G If a *firm* requires *employees* who are not subject to a qualification requirement in *TC* to pass a relevant examination from the list of appropriate qualifications maintained by the *FCA*, the *appropriate regulator* will take that into account when assessing whether the *firm* has ensured that the *employee* satisfies the knowledge component of the *competent employees rule*.

Insurance distribution activities

SYSC 3.1.11 R A *firm* carrying on *insurance distribution activities* must approve, implement and regularly review its internal policies and procedures in respect of its obligations under *SYSC 28*. [**Note:** first paragraph of article 10(8) of the *IDD*]

SYSC 3.1.12 G *SYSC 2.1.6AR* prescribes how a *firm* must allocate the function of ensuring the proper implementation of the policies and procedures approved in accordance with *SYSC 3.1.11R*.

Section : SYSC 3.2 Areas covered by systems and controls

Introduction

SYSC 3.2.1 G This section covers some of the main issues which a *firm* is expected to consider in establishing and maintaining the systems and controls appropriate to its business, as required by *SYSC 3.1.1 R*.

Organisation

SYSC 3.2.2 G A *firm's* reporting lines should be clear and appropriate having regard to the nature, scale and complexity of its business. These reporting lines, together with clear management responsibilities, should be communicated as appropriate within the *firm*.

SYSC 3.2.3 G

(1) A *firm's governing body* is likely to delegate many functions and tasks for the purpose of carrying out its business. When functions or tasks are delegated, either to *employees* or to *appointed representatives* or, where applicable, its *tied agents*, appropriate safeguards should be put in place.

(2) When there is delegation, a *firm* should assess whether the recipient is suitable to carry out the delegated function or task, taking into account the degree of responsibility involved.

(3) The extent and limits of any delegation should be made clear to those concerned.

(4) There should be arrangements to supervise delegation, and to monitor the discharge of delegates functions or tasks.

(5) If cause for concern arises through supervision and monitoring or otherwise, there should be appropriate follow-up action at an appropriate level of seniority within the *firm*.

SYSC 3.2.4 G

(1) The *guidance* relevant to delegation within the *firm* is also relevant to external delegation ('outsourcing'). A *firm* cannot contract out its regulatory obligations. So, for example, under *Principle* 3 a *firm* should take reasonable care to supervise the discharge of outsourced functions by its contractor.

(2) A *firm* should take steps to obtain sufficient information from its contractor to enable it to assess the impact of outsourcing on its systems and controls.

SYSC 3.2.5 G Where it is made possible and appropriate by the nature, scale and complexity of its business, a *firm* should segregate the duties of individuals and departments in such a way as to reduce opportunities for *financial crime* or contravention of requirements and standards under the *regulatory system*. For example, the duties of front-office and back-office staff should be segregated so as to prevent a single individual initiating, processing and controlling transactions.

Systems and controls in relation to compliance, financial crime and money laundering

SYSC 3.2.6 R

A *firm* must take reasonable care to establish and maintain effective systems and controls for compliance with applicable requirements and standards under the *regulatory system* and for countering the risk that the *firm* might be used to further *financial crime*.

SYSC 3.2.6A R

A *firm* must ensure that these systems and controls:

(1) enable it to identify, assess, monitor and manage *money laundering* risk; and

(2) are comprehensive and proportionate to the nature, scale and complexity of its activities.

SYSC 3.2.6B G

"*Money laundering* risk" is the risk that a *firm* may be used to further *money laundering*. Failure by a *firm* to manage this risk effectively will increase the risk to society of crime and terrorism.

SYSC 3.2.6C R

A *firm* must carry out regular assessments of the adequacy of these systems and controls to ensure that it continues to comply with *SYSC 3.2.6A R*.

SYSC 3.2.6D G

A *firm* may also have separate obligations to comply with relevant legal requirements, including the *Terrorism Act 2000,* the *Proceeds of Crime Act 2002* and the *Money Laundering Regulations*. *SYSC 3.2.6 R* to *SYSC 3.2.6J G* are not relevant for the purposes of regulation 76(6) or 86(2) of the *Money Laundering Regulations*, *section 330(8)* of the Proceeds of Crime Act 2002 or *section 21A(6)* of the Terrorism Act 2000.

SYSC 3.2.6E G

The *FCA*, when considering whether a breach of its *rules* on systems and controls against *money laundering* has occurred, will have regard to whether a *firm* has followed relevant provisions in the guidance for the *UK* financial sector issued by the Joint Money Laundering Steering Group.

SYSC 3.2.6F G

In identifying its *money laundering* risk and in establishing the nature of these systems and controls, a *firm* should consider a range of factors, including:

(1) its customer, product and activity profiles;

(2) its distribution channels;

(3) the complexity and volume of its transactions;

(4) its processes and systems; and

(5) its operating environment.

SYSC 3.2.6G G

A *firm* should ensure that the systems and controls include:

(1) appropriate training for its employees in relation to *money laundering*;

(2) appropriate provision of information to its *governing body* and senior management, including a report at least annually by that *firm's money laundering reporting officer* (*MLRO*) on the operation and effectiveness of those systems and controls;

(3) appropriate documentation of its risk management policies and risk profile in

relation to *money laundering*, including documentation of its application of those policies (see *SYSC 3.2.20 R* to *SYSC 3.2.22 G*);

(4) appropriate measures to ensure that *money laundering* risk is taken into account in its day-to-day operation, including in relation to:

(a) the development of new products;

(b) the taking-on of new customers; and

(c) changes in its business profile; and

(5) appropriate measures to ensure that procedures for identification of new customers do not unreasonably deny access to its services to potential customers who cannot reasonably be expected to produce detailed evidence of identity.

SYSC 3.2.6H R

A *firm* must allocate to a *director* or *senior manager* (who may also be the *money laundering reporting officer*) overall responsibility within the *firm* for the establishment and maintenance of effective anti-*money laundering* systems and controls.

The money laundering reporting officer

SYSC 3.2.6I R

A *firm* must:

(1) appoint an individual as *MLRO*, with responsibility for oversight of its compliance with the *FCA's rules* on systems and controls against *money laundering*; and

(2) ensure that its *MLRO* has a level of authority and independence within the *firm* and access to resources and information sufficient to enable him to carry out that responsibility.

SYSC 3.2.6J G

The job of the *MLRO* within a *firm* is to act as the focal point for all activity within the *firm* relating to anti-*money laundering*. The *FCA* expects that a *firm's MLRO* will be based in the *United Kingdom*.

Financial crime guidance

SYSC 3.2.6K G

The *FCA* provides *guidance* on steps that a *firm* can take to reduce the risk that it might be used to further *financial crime* in *FCG* (Financial Crime Guide: A firm's guide to countering financial crime risks) and *FCTR* (Financial Crime Thematic Reviews).

The compliance function

SYSC 3.2.7 G

(1) Depending on the nature, scale and complexity of its business, it may be appropriate for a *firm* to have a separate compliance function. The organisation and responsibilities of a compliance function should be documented. A compliance function should be staffed by an appropriate number of competent staff who are sufficiently independent to perform their duties objectively. It should be adequately resourced and should have unrestricted access to the *firm's* relevant records as well as ultimate recourse to its *governing body*.

(2) [deleted]

(3) [deleted]

SYSC 3.2.8 R

(1)

A *firm*, other than an *UK ISPV*, must allocate to a *director* or *senior manager* the function of:

1. (a) having responsibility for oversight of the *firm's* compliance; and
2. (b) reporting to the *governing body* in respect of that responsibility.

(2)

In (1) "compliance" means compliance with the *firm's* obligations under the *regulatory system* in relation to which the *FCA* has responsibility.

SYSC 3.2.9 G

SUP 10C.6.1R uses *SYSC 3.2.8R* to describe the *controlled function*, known as the *compliance oversight function*, of acting in the capacity of a *director* or *senior manager* to whom this function is allocated.

Conduct risk oversight (Lloyd's) function

SYSC 3.2.9A R

In relation to business done at Lloyd's, the *Society* must allocate to a *director* or *senior manager* the function of having responsibility for overseeing the conduct of business standards required of *managing agents* for which the *Society* has responsibility.

Risk assessment

SYSC 3.2.10 G

(1) Depending on the nature, scale and complexity of its business, it may be appropriate for a *firm* to have a separate risk assessment function responsible for assessing the risks that the *firm* faces and advising the *governing body* and *senior managers* on them.

(2) The organisation and responsibilities of a risk assessment function should be documented. The function should be adequately resourced and staffed by an appropriate number of competent staff who are sufficiently independent to perform their duties objectively.

(3) The term 'risk assessment function' refers to the generally understood concept of risk assessment within a *firm*, that is, the function of setting and controlling risk exposure. The risk assessment function is not an *FCA controlled function* itself, but *firms* it may fall under the *PRA* chief risk officer *controlled function*.

(4) Paragraphs (1) and (3) do not apply to a *Solvency II firm* and (2) only applies as if the term 'risk assessment function' was replaced by 'risk management function'.

(5) *Solvency II firms* are subject to requirements for an effective risk management system in PRA Rulebook: Solvency II firms: Conditions Governing Business 3.

(6) Also, PRA Rulebook: Solvency II firms: Insurance Senior Management Functions makes the chief risk function a *PRA controlled function*. The chief risk function is the function of having responsibility for overall management of the risk management system, as specified in PRA Rulebook: Solvency II firms: Conditions Governing Business 3.

(7) The *FCA* will take the requirements in (5) and (6) into account.

Management information

SYSC 3.2.11A G

(1) A *firm's* arrangements should be such as to furnish its *governing body* with the information it needs to play its part in identifying, measuring, managing and controlling risks of regulatory concern. Three factors will be the relevance, reliability and timeliness of that information.

(2) Risks of regulatory concern are those risks which relate to the fair treatment of the *firm's customers*, to the protection of *consumers*, to effective competition and to the integrity of the *UK financial system*. Risks which are relevant to the integrity of the *UK financial system* include risks which relate to its soundness, stability and resilience and to the use of the system in connection with *financial crime*.

SYSC 3.2.12 G

It is the responsibility of the *firm* to decide what information is required, when, and for whom, so that it can organise and control its activities and can comply with its regulatory obligations. The detail and extent of information required will depend on the nature, scale and complexity of the business.

Employees and agents

SYSC 3.2.13 G

A *firm's* systems and controls should enable it to satisfy itself of the suitability of anyone who acts for it.

SYSC 3.2.14 G

(1) *SYSC 3.2.13 G* includes assessing an individual's honesty, and competence. This assessment should normally be made at the point of recruitment. An individual's honesty need not normally be revisited unless something happens to make a fresh look appropriate.

(2) Any assessment of an individual's suitability should take into account the level of responsibility that the individual will assume within the *firm*. The nature of this assessment will generally differ depending upon whether it takes place at the start of the individual's recruitment, at the end of the probationary period (if there is one) or subsequently.

(3) [deleted]

(4) The requirements on *firms* with respect to *approved persons* are in *Part V* of the *Act* (Performance of regulated activities) and *SUP 10C* and the Senior Insurance Management Functions parts of the *PRA Rulebook*

Audit committee

SYSC 3.2.15 G

Depending on the nature, scale and complexity of its business, it may be appropriate for a *firm* to form an audit committee. An audit committee could typically examine management's process for ensuring the appropriateness and effectiveness of systems and controls, examine the arrangements made by management to ensure compliance with requirements and standards under the *regulatory system*, oversee the functioning of the internal audit function (if applicable - see *SYSC 3.2.16 G*) and provide an interface between management and the external auditors. It should have an appropriate number of *non-executive directors* and it should have formal terms of reference.

Internal audit

SYSC 3.2.16 G

(1) Depending on the nature, scale and complexity of its business, it may be appropriate for a *firm* to delegate much of the task of monitoring the appropriateness and effectiveness of its systems and controls to an internal audit function. An internal audit function should have clear responsibilities and reporting lines to an audit committee or appropriate *senior manager*, be adequately resourced and staffed by competent individuals, be independent of the day-to-day activities of the *firm* and have appropriate access to a *firm's* records.

(2) The term 'internal audit function' refers to the generally understood concept of internal audit within a *firm*, that is, the function of assessing adherence to and the effectiveness of internal systems and controls, procedures and policies. The internal audit function is not an *FCA controlled function* itself, but for certain *firms* it may fall under the *PRA* chief risk officer *controlled function*.

(3) Paragraph (1) does not apply to *Solvency II firms*.

(4) *Solvency II firms* are subject to a requirement in PRA Rulebook: Solvency II firms: Conditions Governing Business, rule 5 to have an effective internal audit function.

(5) Also, the PRA Rulebook: Solvency II firms: Insurance Senior Management Functions makes the chief internal audit function a *PRA controlled function*. The chief internal audit function is the function of having responsibility for management of the internal audit function specified in PRA Rulebook: Solvency II firms: Conditions Governing Business, rule 5.

(6) The *FCA* will take the requirements in (4) and (5) into account.

Business strategy

SYSC 3.2.17 G

A *firm* should plan its business appropriately so that it is able to identify, measure, manage and control risks of regulatory concern (see *SYSC 3.2.11 G (2)*). In some *firms*, depending on the nature, scale and complexity of their business, it may be appropriate to have business plans or strategy plans documented and updated on a regular basis to take account of changes in the business environment.

Remuneration policies

SYSC 3.2.18 G

It is possible that *firms'* remuneration policies will from time to time lead to tensions between the ability of the *firm* to meet the requirements and standards under the *regulatory system* and the personal advantage of those who act for it. Where tensions exist, these should be appropriately managed. See also *Solvency II Regulation* (Article 275) and *EIOPA* Guidelines on system of governance dated 28 January 2015 (EIOPA-BoS-14/253 EN) (Guidelines 9 and 10).

Business continuity

SYSC 3.2.19 G

A *firm*, other than a *Solvency II firm*, should have in place appropriate arrangements, having regard to the nature, scale and complexity of its business, to ensure that it can continue to function and meet its regulatory obligations in the event of unforeseen interruption. These arrangements should be regularly updated and tested to ensure their effectiveness.

Solvency II firms are subject to the business continuity requirements in PRA Rulebook: Solvency II firms: Conditions Governing Business, 2.6, and the *FCA* will take those requirements into account.

Records

SYSC 3.2.20 R

(1) A *firm* must take reasonable care to make and retain adequate records of matters and dealings (including accounting records) which are the subject of requirements and standards under the *regulatory system*.

(2) Subject to (3) and to any other record-keeping *rule* in the *Handbook*, the records required by (1) or by such other *rule* must be capable of being reproduced in the English language on paper.

(3) If a *firm's* records relate to business carried on from an establishment in a country or territory outside the *United Kingdom*, an official language of that country or territory may be used instead of the English language as required by (2).

SYSC 3.2.21 G

A *firm* should have appropriate systems and controls in place to fulfil the *firm's* regulatory and statutory obligations with respect to adequacy, access, periods of retention and security of records. The general principle is that records should be retained for as long as is relevant for the purposes for which they are made.

SYSC 3.2.21A G

SYSC 28 contains *rules* and *guidance* on knowledge and competence record keeping in relation to *insurance distribution activities* undertaken by a *firm*.

SYSC 3.2.22 G

Detailed record-keeping requirements for different types of *firm* are to be found elsewhere in the *Handbook*. Schedule 1 to the Handbook is a consolidated schedule of these requirements.

Investment strategy and investment decision making

SYSC 3.2.23 G

(1)

This *guidance* sets out the *FCA's* expectation on how a *firm* may take into account *ESG financial considerations* and *other financial considerations* and *non-financial matters* as part of its *investment* strategy and *investment* decision making, to demonstrate compliance with *Principles* 2, 3, 6, 8 or 12.

(2)

This *guidance* only applies where the *firm's investment* strategy or *investment* decision could have a material impact on a *policyholder's investment* returns and relates to a product where:

1. (a) the primary purpose is to provide an *investment* return; and
2. (b)

any *investment* risk is borne by a *policyholder* who is a natural person or a *relevant policyholder*.

(3)

As part of its *investment* strategy or *investment* decision making, a *firm* should take into account *ESG financial considerations* and *other financial considerations* over the period of time that the *firm* reasonably considers is needed to achieve the *investment* objective or *investment* strategy.

(4)

References to *other financial considerations* in (3) may include (but are not limited to) interest rate, liquidity, concentration, exchange rate, political and counterparty risks.

(5)

As part of its *investment* strategy or *investment* decision making in relation to a product, a *firm* may take into account *non-financial matters* if:

(a)

the *firm* has good reason to consider that affected *policyholders* or *relevant policyholders* would generally share the views on which the *non-financial matters* are based; and

(b)

taking those matters into account would not involve a risk of a significant financial detriment to any affected *investment*.

(6)

(5) does not apply to a *firm's investment* strategy or *investment* decision making in relation to a product (other than in relation to a *relevant scheme* or a *pathway investment*), that has been deliberately designed by the *firm* to take into account *non-financial matters*, and *policyholders* or *relevant policyholders* make an active decision to select that product.

Operators of pensions dashboard services: security, integrity and confidentiality

SYSC 3.2.24 R

A *firm* carrying on *regulated pensions dashboard activity* must comply with the requirements set out in *SYSC 4.1.5AR*, *SYSC 4.1.5BR* and *SYSC 4.1.5CR* as if those *rules* applied to *firms* to which *SYSC 3* applies.

Section : SYSC 3.3 Additional requirements for insurance distribution

Application

SYSC 3.3.1 R *SYSC 3.3* applies to an *insurer* in the course of it carrying on any *insurance distribution activities*.

Identifying conflicts

SYSC 3.3.5 R A *firm* must take all appropriate steps to identify conflicts of interest that arise between:

(1) the *firm*, including its managers, employees and *appointed representatives* (or where applicable, *tied agents*), or any *person* directly or indirectly linked to it by *control*, and a *client* of the *firm*; or

(2) one *client* of the *firm* and another *client*.

[**Note:** article 28(1) of the *IDD*]

SYSC 3.3.6 R For the purposes of identifying, in accordance with *SYSC 3.3.5R* and *SYSC 3.3.13R*, the types of conflicts of interest that arise in the course of carrying out any *insurance distribution activities* related to *policies* and which entail a risk of damage to the interests of a *client*, a *firm* must assess whether it, a *relevant person* or any *person* directly or indirectly linked to it by *control*, has an interest in the outcome of the *insurance distribution activities*, which meets the following criteria:

(1) it is distinct from the *client's* or potential *client's* interest in the outcome of the *insurance distribution activities*;

(2) it has the potential to influence the outcome of the *insurance distribution activities* to the detriment of the *client*.

A *firm* must proceed in the same way for the purposes of identifying conflicts of interest between one *client* and another.

SYSC 3.3.7 R For the purposes of the assessment in *SYSC 3.3.6R*, a *firm* must take into account, by way of minimum criteria, the following situations:

(1) the *firm*, a *relevant person* or any *person* directly or indirectly linked to it by *control* is likely to make a financial gain, or avoid a financial loss, to the potential detriment of the *client*;

(2) the *firm*, a *relevant person* or any *person* directly or indirectly linked to it by *control* has a financial or other incentive to favour the interest of another *client* or group of *clients* over the interest of the *client*;

(3) the *firm*, a *relevant person* or any *person* directly or indirectly linked by *control* to the *firm* is substantially involved in the management or development of *policies*, in particular where such a *person* has an influence on the pricing of those *policies* or their distribution costs.

[**Note:** article 3 of the *IDD Regulation*]

Managing conflicts

SYSC 3.3.8 R

A *firm* must maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps designed to prevent conflicts of interest identified under *SYSC 3.3.5R* from adversely affecting the interests of its *clients*.

[**Note:** article 27 of the *IDD*]

Proportionality

SYSC 3.3.9 R

The arrangements in *SYSC 3.3.8R* must be proportionate to the activities performed, the *policies* sold and the type of *insurance distributor* the *firm* is or uses.

[**Note:** article 27 of the *IDD*]

Conflicts policy

SYSC 3.3.10 R

(1) For the purposes of *SYSC 3.3.8R* and *SYSC 3.3.9R*, a *firm* must establish, implement and maintain an effective conflicts of interest policy set out in writing and appropriate to its size and organisation and the nature, scale and complexity of its business.

(2) Where the *firm* is a member of a group, the policy must also take into account any circumstances, of which the *firm* is or should be aware, which may give rise to a conflict of interest arising as a result of the structure and business activities of other members of the group.

[**Note:** article 4(1) of the *IDD Regulation*]

Contents of policy

SYSC 3.3.11 R

The conflicts of interest policy required in *SYSC 3.3.10R* must include the following content:

(1) with reference to the specific *insurance distribution activities* carried out, the circumstances which constitute or may give rise to a conflict of interest entailing a risk of damage to the interests of one or more *clients*;

(2) procedures to be followed and measures to be adopted in order to manage such conflicts and prevent them from damaging the interests of the *client*.

[**Note:** article 4(2) of the *IDD Regulation*]

SYSC 3.3.12 R

(1) The procedures and measures required in *SYSC 3.3.11R(2)* must be appropriate to the size and activities of the *firm* and of the group to which it may belong, and to the risk of damage to the interests of the *client*.

(2) The procedures to be followed and measures required in *SYSC 3.3.11R(2)* must include, where appropriate, the following:

(a) effective procedures to prevent or control the exchange of information between *relevant persons* engaged in activities involving a risk of conflict of interest where the exchange of that information may damage the interests of one or more *clients*;

(b) the separate supervision of *relevant persons* whose principal functions involve carrying out activities on behalf of, or providing services, to *clients* whose interests may conflict, or who otherwise represent different interests

that may conflict, including those of the *firm*;

(c) the removal of any direct link between payments, including *remuneration*, to *relevant persons* engaged in one activity and payments, including *remuneration*, to different *relevant persons* principally engaged in another activity, where a conflict of interest may arise in relation to those activities;

(d) measures to prevent or limit any *person* from exercising inappropriate influence over the way in which *insurance distribution activities* are carried out by the *firm* or its managers or employees or any *person* directly or indirectly linked to it by *control*;

(e) measures to prevent or control the simultaneous or sequential involvement of a *relevant person* in separate *insurance distribution activities* where such involvement may impair the proper management of conflicts of interest;

(f) a gifts and benefits policy which determines clearly under which conditions gifts and benefits can be accepted or granted and which steps are to be taken when accepting and granting gifts and benefits.

(3) Where the *firm* can demonstrate that the measures and procedures referred to in (1) and (2) are not appropriate to ensure that the *insurance distribution activities* are carried out in accordance with the best interest of the *client* and are not biased due to conflicting interests of the *firm*, an *insurance intermediary* or another *client*, the *firm* must adopt adequate alternative measures and procedures for that purpose.

[**Note:** article 5 of the *IDD Regulation*]

Disclosure of conflicts

SYSC 3.3.13 R

(1) If arrangements made under *SYSC 3.3.8R* are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of a *client* will be prevented, the *firm* must:

(a) clearly disclose to the *client* the general nature or sources of the conflicts of interest (or both); and

(b) include sufficient detail in the disclosure, taking into account the nature of the *client*, to enable that *client* to take an informed decision with respect to the *insurance distribution activities* in the context of which the conflict of interest arises.

(2) The disclosure must be made:

(a) in a *durable medium*; and

(b) in good time before the conclusion of the *contract of insurance*.

[**Note:** article 28(2) and (3) of the *IDD*]

SYSC 3.3.14 R

(1) A *firm* must avoid over-reliance on disclosure to ensure that disclosure to *clients*, under *SYSC 3.3.13R* is a measure of last resort that can be used only where the effective organisational and administrative arrangements established by the *firm* to prevent or manage conflicts of interest in accordance with *SYSC 3.3.8R* and *SYSC 3.3.9R* are not sufficient to ensure, with reasonable confidence, that risks of damage

to the interests of the *client* will be prevented.

(2) For the purposes of a disclosure of conflicts of interest a *firm* must:

(a) provide a specific description of the conflict of interest in question;

(b) explain the general nature and sources of the conflict of interest;

(c) explain the risks to the *client* that arise as a result of the conflict of interest and the steps undertaken to mitigate those risks;

(d) clearly state that the organisational and administrative arrangements established by the *firm* to prevent or manage the conflict of interest are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of the *client* will be prevented.

[**Note:** article 6 of the *IDD Regulation*]

Review of conflicts policy

SYSC 3.3.15 R

For the purposes of *SYSC 3.3.8R*, a *firm* must assess and periodically review, on an at least annual basis, the conflicts of interest policy established in accordance with *SYSC 3.3.10R* and take all appropriate measures to address any deficiencies.

[**Note:** article 7(1) of the *IDD Regulation*]

Record keeping

SYSC 3.3.16 R

(1) A *firm* must keep and regularly update a record of the situations in which a conflict of interest entailing a risk of damage to the interests of a *client* has arisen or, in the case of an ongoing service or activity may arise.

(2) A *firm* must ensure its senior management receives on a frequent basis, and at least annually, written reports on the situations referred to in (1).

[**Note:** article 7(2) of the *IDD Regulation*]

SYSC 3.3.17 R

A *firm* carrying on *insurance distribution activities* in relation to *insurance-based investment products* must retain its records relating to:

(1) suitability (*COBS 9A*); and

(2) appropriateness (*COBS 10A*),

for a period of at least five years.

SYSC 3.3.18 G

(1) *COBS 9A.4* and *COBS 10A.7* (record keeping and retention periods for suitability and appropriateness records) contain record keeping requirements that specify information which should be recorded by *firms* in relation to *insurance-based investment products* and for how long the records must be retained.

(2) For the purposes of *SYSC 3.3.17R*, a *firm* will need to consider whether the requirement in *COBS 9A.4.3R* or *COBS 10A.7.2AR* means that a record needs to be retained for longer than five years.

SYSC 3.3.19 R

(1) The records required under *COBS 9A.4* and *COBS 10A.7* must be retained in a medium that allows the storage of information in a way accessible for future

reference by the *FCA*.

(2) The *FCA* must be able to access the records in (1) readily, to reconstitute each element in a clear and accurate manner and to identify easily any changes, corrections or other amendments, and the contents of the records prior to such modifications.

[**Note:** article 19(4) of the *IDD Regulation*]

Section : SYSC 3.4 SRD requirements

Application

SYSC 3.4.1 R This section applies to:

(a) a *UK insurer*; and

(b) a *UK pure reinsurer*,

doing *long-term insurance business*.

SYSC 3.4.2 R The *rules* in this section apply to the extent that a *firm* is investing (or has invested), directly or through an *SRD asset manager*, in shares traded on a *regulated market*.

SYSC 3.4.3 G The defined term *regulated market* has an extended meaning for the purposes of this section. The definition includes certain markets situated outside the *United Kingdom*.

Engagement policy and disclosure of information

SYSC 3.4.4 R A *firm* must either:

(1)

(a) develop and publicly disclose an *engagement policy* that meets the requirements of *SYSC 3.4.5R* (an "engagement policy"); and

(b) publicly disclose on an annual basis how its *engagement policy* has been implemented, in a way that meets the requirements of *SYSC 3.4.6R*; or

(2) publicly disclose a clear and reasoned explanation of why it has chosen not to comply with any of the requirements imposed by (1).

[**Note:** article 3g(1) and (1)(a) of *SRD*]

SYSC 3.4.5 R The *engagement policy* must describe how the *firm*:

(1) integrates shareholder engagement in its investment strategy;

(2) monitors investee companies on relevant matters, including:

(a) strategy;

(b) financial and non-financial performance and risk;

(c) capital structure; and

(d) social and environmental impact and corporate governance;

(3) conducts dialogues with investee companies;

(4) exercises voting rights and other rights attached to *shares*;

(5) cooperates with other shareholders;

(6) communicates with relevant stakeholders of the investee companies; and

(7) manages actual and potential conflicts of interests in relation to the *firm's* engagement.

[**Note:** article 3g(1)(a) of *SRD*]

SYSC 3.4.6 R

(1) The annual disclosure must include a general description of voting behaviour, an explanation of the most significant votes and the use of the services of *proxy advisors*.

(2)

(a) Subject to (b), a *firm* must publicly disclose how it has cast votes in the general meetings of companies in which it holds *shares*.

(b) A *firm* is not required to disclose votes that are insignificant due to the subject matter of the vote or the size of the holding in the company.

[**Note:** article 3g(1)(b) of *SRD*]

SYSC 3.4.7 R

(1) The applicable disclosures or information referred to in *SYSC 3.4.4R* to *SYSC 3.4.6R* must be made available free of charge on the *firm's* website.

(2) Where an *SRD asset manager* implements the engagement policy, including voting, on behalf of a *firm*, the *firm* must make a reference as to where such voting information has been published by the *SRD asset manager*.

[**Note:** article 3g(2) of *SRD*]

Investment strategy and arrangements with SRD asset managers

SYSC 3.4.8 R

A *firm* must disclose publicly how the main elements of its equity investment strategy are consistent with the profile and duration of its liabilities, in particular long-term liabilities, and how they contribute to the medium- to long-term performance of its assets.

[**Note:** article 3h(1) of *SRD*]

SYSC 3.4.9 R

(1) Where an *SRD asset manager* invests on behalf of a *firm*, whether on a discretionary client-by-client basis or through a collective investment undertaking, the *firm* must publicly disclose the following information regarding its arrangement with the *SRD asset manager*:

(a) how the arrangement with the *SRD asset manager* incentivises the *SRD asset manager* to align its investment strategy and decisions with the profile and duration of the liabilities of the *firm*, in particular long-term liabilities;

(b) how that arrangement incentivises the *SRD asset manager* to make investment decisions based on assessments of medium- to long-term financial and non-financial performance of the investee company, and to engage with investee companies in order to improve their performance in the medium- to long-term;

(c) how the method and time horizon of the evaluation of the *SRD asset manager's* performance and the remuneration for asset management services are in line with the profile and duration of the liabilities of the *firm*, in particular its long-term liabilities, taking into account its absolute long-term performance;

(d) how the *firm* monitors portfolio turnover costs incurred by the *SRD asset manager* and how it defines and monitors a targeted portfolio turnover or turnover range; and

(e) the duration of the arrangement with the *SRD asset manager*.

(2) Where the arrangement with the *SRD asset manager* does not contain one or more such elements, the *firm* must give a clear and reasoned explanation why this is the case.

[**Note:** article 3h(2) of *SRD*]

SYSC 3.4.10 R The information referred to in *SYSC 3.4.8R* and *SYSC 3.4.9R* must:

(1) be made available, free of charge, on the *firm's* website; and

(2) be updated annually, unless there is no material change.

[**Note:** article 3h(3), first paragraph of *SRD*]

CHAPTER

SYSC 4 General organisational requirements

Section : SYSC 4.1 General requirements

Application to a common platform firm

SYSC 4.1.-2 G

For a *common platform firm*:

(1) [deleted]

(2) the *rules* and *guidance* apply as set out in the table below:

Subject	Applicable rule or guidance
General requirements	*SYSC 4.1.1R*, *SYSC 4.1.1-AR*, *SYSC 4.1.2R*
Business continuity	*SYSC 4.1.6R*, *SYSC 4.1.7R*, *SYSC 4.1.8G*
Audit committee	*SYSC 4.1.11G*, *SYSC 4.1.13G*, *SYSC 4.1.14G*
Persons who effectively direct the business	*SYSC 4.2.1R*, *SYSC 4.2.2R*, *SYSC 4.2.3G*, *SYSC 4.2.4G*, *SYSC 4.2.5G*, *SYSC 4.2.6R*
Responsibility of senior personnel	*SYSC 4.3.2-AR*, *SYSC 4.3.3G*
Management body	*SYSC 4.3A.-1R* to *SYSC 4.3A.7R*
Nominations committee	*SYSC 4.3A.8R* to *SYSC 4.3A.11R*

Application to a MiFID optional exemption firm and to a third country firm

SYSC 4.1.-1 G

For a *MiFID optional exemption firm* and a *third country firm*:

(1) the *rules* and *guidance* in this chapter apply to them as if they were *rules* or as *guidance* in accordance with *SYSC 1 Annex 1* 3.2CR(1).

(2) [deleted]

General requirements

SYSC 4.1.1 R

(1) A *firm* must have robust governance arrangements, which include a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks it is or might be exposed to, and internal control mechanisms, including sound administrative and accounting procedures and effective control and safeguard arrangements for information processing systems.

(2) [deleted]

[**Note**: article 74 (1) of *CRD*, article 16(5) second paragraph of *MiFID*, article 12(1)(a) of the

UCITS Directive, and article 18(1) of *AIFMD*]

(3) Without prejudice to the ability of the *FCA* or any other relevant *competent authority* to require access to communications in accordance with *MiFID* and *MiFIR*, a *common platform firm* must have sound security mechanisms in place for the following, while maintaining the confidentiality of the data at all times:

(a) to guarantee the security and authentication of the means of transfer of information;

(b) to minimise the risk of data corruption and unauthorised access; and

(c) to prevent information leakage.

[**Note:** article 16(5) third paragraph of *MiFID*]

SYSC 4.1.1-A R

(1) A *common platform firm* must, taking into account the nature, scale and complexity of its business, and the nature and range of the activities carried on in the course of its *designated investment business*, comply with the following organisational requirements:

(a) establish, implement and maintain decision-making procedures and an organisational structure which clearly and in a documented manner specifies reporting lines and allocates functions and responsibilities;

(b) establish, implement and maintain adequate internal control mechanisms designed to secure compliance with decisions and procedures at all levels of the *common platform firm*;

(c) establish, implement and maintain effective internal reporting and communication of information at all relevant levels of the *common platform firm*; and

(d) maintain adequate and orderly records of its business and internal organisation.

(2) A *common platform firm* must establish, implement and maintain systems and procedures that are adequate to safeguard the security, integrity and confidentiality of information, taking into account the nature of the information in question.

(3) A *common platform firm* must establish, implement and maintain an adequate business continuity policy aimed at ensuring, in the case of an interruption to its systems and procedures, the preservation of essential data and functions and the maintenance of its *designated investment business*, or, where that is not possible, the timely recovery of such data and functions and the timely resumption of its *designated investment business*.

(4) A *common platform firm* must establish, implement and maintain accounting policies and procedures that enable it, at the request of the *FCA*, to deliver in a timely manner to the *FCA* financial reports which reflect a true and fair view of its financial position and which comply with all applicable accounting standards and rules.

(5) A *common platform firm* must monitor and, on a regular basis, evaluate the adequacy and effectiveness of its systems, internal control mechanisms and arrangements established in accordance with *SYSC 4.1.1-AR(1)* to *(4)*, *SYSC 5.1.1R*, *SYSC 5.1.6R*, *SYSC 5.1.12R*, *SYSC 5.1.13R* and *SYSC 5.1.14R*, and take

appropriate measures to address any deficiencies.

SYSC 4.1.1A R

A *full-scope UK AIFM* must comply with the *AIFM Remuneration Code*.
[**Note**: article 13(1) of *AIFMD*]

SYSC 4.1.1B R

A *full-scope UK AIFM* must, in particular:

(1) have rules for personal transactions by its *employees* or for the holding or management of investments it invests on its own account;

(2) ensure that each transaction involving the *AIFs* may be reconstructed according to its origin, the parties to it, its nature, and the time and place at which it was effected; and

(3) ensure that the assets of the *AIFs* managed by the *AIFM* are invested in accordance with the *instrument constituting the fund* and the legal provisions in force.

[**Note**: article 18(1) second paragraph of *AIFMD*]

SYSC 4.1.1D R

A *UK UCITS management company* must comply with the *UCITS Remuneration Code* if it manages a *UCITS scheme*.
[**Note**: article 14a(1) of the *UCITS Directive*]

SYSC 4.1.1E R

A *UK UCITS management company* must have appropriate procedures for its employees to report potential or actual breaches of *UK* provisions which implemented the *UCITS Directive* internally through a specific, independent and autonomous channel.
[**Note**: article 99d(5) of the *UCITS Directive*]

SYSC 4.1.1F G

SYSC 18 (Guidance on Public Interest Disclosure Act: Whistleblowing) contains further *guidance* on the effect of the *Public Interest Disclosure Act 1998* in the context of the relationship between *firms* and the *FCA*.

SYSC 4.1.2 R

For a *common platform firm*, the arrangements, processes and mechanisms referred to in *SYSC 4.1.1 R* must be comprehensive and proportionate to the nature, scale and complexity of the risks inherent in the business model and of the *common platform firm's* activities and must take into account the specific technical criteria described in *SYSC 4.1.1-AR(3)*, *SYSC 5.1.7 R*, *SYSC 7* and whichever of the following is applicable:

(1) [deleted];

(2) (for a *full-scope UK AIFM*) *SYSC 19B* (AIFM Remuneration Code);

(3) [deleted];

(4) (for a *firm* to which *SYSC 19D* applies) *SYSC 19D* (Dual-regulated firms Remuneration Code);

(5) (for a *firm* to which the remuneration part of the *PRA Rulebook* applies) the remuneration part of the *PRA Rulebook*; or

(6)
(for a *firm* to which *SYSC 19G* applies) *SYSC 19G* (MIFIDPRU Remuneration Code).

SYSC 4.1.2A G Other *firms* should take account of the comprehensiveness and proportionality *rule* (*SYSC 4.1.2 R*) as if it were *guidance* (and as if "should" appeared in that *rule* instead of "must") as explained in *SYSC 1 Annex 1* 3.3 R(1).

SYSC 4.1.2B R For a *management company* or a *full-scope UK AIFM*, the arrangements, processes and mechanisms referred to in *SYSC 4.1.1 R* and *SYSC 4.1.1A R* must also take account of the *UCITS schemes*managed by the *management company* or the *AIFs* managed by the *full-scope UK AIFM*.
[**Note:** article 12(1) second paragraph of the *UCITS Directive*and article 18(1) second paragraph of *AIFMD*]

Resources for management companies and AIFMs

SYSC 4.1.2C R A *management company* and a *full-scope UK AIFM* must have, and employ effectively, the resources and procedures that are necessary for the proper performance of its business activities.
[**Note:** articles 12(1)(a) and 14(1)(c) of the *UCITS Directive* and article 12(1)(c) of *AIFMD*]

SYSC 4.1.2D R A *full-scope UK AIFM* must use, at all times, adequate and appropriate human and technical resources that are necessary for the proper management of *AIFs*.
[**Note**: article 18(1) first paragraph of *AIFMD*]

Subordinate measures relating to provisions implementing article 12(1) of AIFMD

SYSC 4.1.2E G Articles 16 to 29 of the *AIFMD level 2 regulation* provide detailed rules supplementing the *UK* provisions which implemented article 12(1) of *AIFMD*, and articles 57 to 66 of the *AIFMD level 2 regulation* provide detailed rules supplementing the *UK* provisions which implemented articles 12 and 18 of *AIFMD*.

Mechanisms and procedures for a firm

SYSC 4.1.4 R A *firm* (with the exception of a *common platform firm* and a *sole trader* who does not employ any *person* who is required to be approved under *section 59* of the *Act* (Approval for particular arrangements)) must, taking into account the nature, scale and complexity of the business of the *firm*, and the nature and range of the financial services, *claims management services* and other activities undertaken in the course of that business:

(1) (if it is a *management company*) establish, implement and maintain decision-making procedures and an organisational structure which clearly and in a documented manner specifies reporting lines and allocates functions and responsibilities;

(2) establish, implement and maintain adequate internal control mechanisms designed to secure compliance with decisions and procedures at all levels of the *firm*;

(3) establish, implement and maintain effective internal reporting and communication of information at all relevant levels of the *firm*; and

(4) (if it is a *management company*) establish, implement and maintain effective internal reporting and communication of information at all relevant levels of the *management company* as well as effective information flows with any third party involved.

[**Note**: articles 4(1) final paragraph, 4(1)(a), 4(1)(c) and 4(1)(d) of the *UCITS implementing Directive*]

SYSC 4.1.4A G A *firm* that is not a *common platform firm* or a *management company* should take into account the decision-making procedures and effective internal reporting *rules* (*SYSC 4.1.4R (1)*,*(3)* and *(4)*) as if they were *guidance* (and as if "should" appeared in those *rules* instead of "must") as explained in *SYSC 1 Annex 1* 3.3 R(1).

SYSC 4.1.5 R A *management company* must establish, implement and maintain systems and procedures that are adequate to safeguard the security, integrity and confidentiality of information, taking into account the nature of the information in question.
[**Note**: article 4(2) of the *UCITS implementing Directive*]

Operators of pensions dashboard services: security, integrity and confidentiality

SYSC 4.1.5A R A *firm* carrying on *regulated pensions dashboard activity* must establish, implement and maintain systems and procedures that are adequate to safeguard the security, integrity and confidentiality of any personal or pensions information held by the *firm*, taking into the account the nature of the information in question.

SYSC 4.1.5B R A *firm* carrying on *regulated pensions dashboard activity* must keep appropriate records to demonstrate compliance with *SYSC 4.1.5AR*.

SYSC 4.1.5C R (1) If there is an incident which may compromise the security, integrity or confidentiality of any personal or pensions information held by the *firm*, the *firm* must immediately notify the *FCA* using the relevant form in Connect.

(2) A notification under (1) must contain:

(a) a description of the incident;

(b) the time of the incident (where known); and

(c) a description of the steps the *firm* is taking since being made aware of the incident (where applicable).

Business continuity

SYSC 4.1.6 R A *common platform firm* must take reasonable steps to ensure continuity and regularity in the performance of its *regulated activities*. To this end the *common platform firm* must employ appropriate and proportionate systems, resources and procedures.
[**Note**: article 16(4) of *MiFID*]

SYSC 4.1.7 R

A *CRR firm* and a *management company* must establish, implement and maintain an adequate business continuity policy aimed at ensuring, in the case of an interruption to its systems and procedures, that any losses are limited, the preservation of essential data and functions, and the maintenance of its *regulated activities*, or, in the case of a *management company*, its *collective portfolio management* activities, or, where that is not possible, the timely recovery of such data and functions and the timely resumption of those activities. [**Note**: article 4(3) of the *UCITS implementing Directive* and article 85(2) of *CRD*]

SYSC 4.1.7A G

Other *firms* should take account of the business continuity *rules* (*SYSC 4.1.6 R* and *4.1.7 R*) as if they were *guidance* (and as if "should" appeared in those *rules* instead of "must") as explained in *SYSC 1 Annex 1* 3.3 R(1).

SYSC 4.1.8 G

The matters dealt with in a business continuity policy should include:

(1) resource requirements such as people, systems and other assets, and arrangements for obtaining these resources;

(2) the recovery priorities for the *firm's* operations;

(3) communication arrangements for internal and external concerned parties (including the *FCA*, *clients* and the press);

(4) escalation and invocation plans that outline the processes for implementing the business continuity plans, together with relevant contact information;

(5) processes to validate the integrity of information affected by the disruption; and

(6) regular testing of the business continuity policy in an appropriate and proportionate manner in accordance with *SYSC 4.1.10R* and for a *common platform firm* with *SYSC 4.1.1-AR(5)* and *SYSC 5.1.14R*.

Operators of electronic systems in relation to lending: arrangements to administer loans in the event of platform failure

SYSC 4.1.8A R

(1) An *operator of an electronic system in relation to lending* must have arrangements in place to ensure that *P2P agreements* facilitated by it will have a reasonable likelihood of being managed and administered, in accordance with the contract terms between the *firm* and its relevant borrower and lender customers, if at any time it ceases to manage and administer those *P2P agreements*.

(2) Under (1), and wherever the requirement in (1) is referenced in the *FCA's rules* and *guidance*, the reference to *P2P agreements* includes any *non-P2P agreement* included in a *P2P portfolio*.

(3) The arrangements under (1) must not be designed to prefer any particular customers or class of customers for whom it manages and administers *P2P agreements* or *non-P2P agreements*.

SYSC 4.1.8C G

Arrangements that are required to be put in place under *SYSC 4.1.8AR* may include any one or more of the following:

(1) entering into an arrangement with another *firm* that has the appropriate *permissions* to take over the management and administration of *P2P agreements* if the operator ceases to *operate the electronic system in relation to lending* and, where appropriate:

(a) obtaining prior and informed consent from *lender clients* to fund the continued cost of management and administration of their respective loans, for example through increased commissions; and/or

(b) obtaining prior and informed consent from *lender clients* and *borrower clients* for the transfer of the service of managing and administration of *P2P agreements* from the *firm* to that other *firm*; or

(2) holding sufficient collateral to cover the cost of management and administration while the loan book is wound down, ensuring that the collateral is held through a structure that is ring-fenced in the event of the *firm's* insolvency; or

(3) [deleted]

(4) managing the loan book in a way that ensures that income from *P2P agreements* facilitated by the *firm* is sufficient to cover the costs of managing and administering those agreements during the winding down process, taking into account the reduction of the loan pool and fee income from it.

SYSC 4.1.8D G

(1) When designing its arrangements, a *firm* should take into account the general law to ensure that the insolvency of the *firm* does not prejudice the operation of arrangements that the *firm* has put in place.

(2) A *firm* should consider the need to obtain professional advice on the adequacy of its arrangements. For example, a *firm* may benefit from obtaining legal advice or advice from a qualified insolvency practitioner on the likelihood of its arrangements securing the required outcome for continuity of management and administration of *P2P agreements*.

(3) In assessing the adequacy of its arrangements, a *firm* should consider, in particular:

(a) whether any terms included in relevant contracts as part of its arrangements are enforceable, for example terms in customer, service and supplier contracts;

(b) the extent to which other practical obstacles could foreseeably prevent the implementation of the arrangements or frustrate the required outcome, including whether the *firm* will be likely to have sufficient financial resources to fund the implementation of the arrangements at the relevant time;

(c) whether the arrangements make adequate provision for any activities that are ancillary to the management and administration of *P2P agreements* upon which the required outcome is, or could be, dependent;

(d) whether, having regard to *SYSC 4.1.8AR(3)*, its arrangements are designed so as not to produce a better outcome for its customers who are

party to *non-P2P agreements* than for customers who are party to *P2P agreements*;

(e) whether its arrangements take into account any relevant security arrangements in relation to loans; and

(f) whether its arrangements take into account any relevant tax arrangements for *lender clients*.

(4) *Firms* are reminded of the disclosure requirements in *COBS 18.12.28R* (Information concerning platform failure).

(5) *Firms* may find it useful to refer to the *FCA's* Wind-down Planning Guide (*WDPG*) when designing their arrangements.

SYSC 4.1.8DA G

In line with Principle 11 and *SUP 15.3.8G* (Communication with the appropriate regulator in accordance with Principle 11), a firm should notify the *FCA* in writing if it is contemplating:

(1) ceasing to manage and administer *P2P agreements* facilitated by it;

(2) implementing its arrangements under *SYSC 4.1.8AR*; or

(3) implementing any other arrangements that have a similar purpose.

SYSC 4.1.8DB R

An *operator of an electronic system in relation to lending* must produce and keep up to date a *P2P resolution manual* which contains information about the *firm* that, in the event of the *firm's* insolvency, would assist in resolving the *firm's* business of management and administration of *P2P agreements* that it has facilitated. For these purposes, the reference to *P2P agreements* includes any *non-P2P agreement* included in a *P2P portfolio*. It must, as a minimum, include a written explanation of each of the following:

(1) how the *firm* conducts the business of management and administration of *P2P agreements* that it has facilitated, what the day-to-day operation of that business entails and what resources would be needed to continue that business if the *firm* ceased to carry it on, including a specification of:

(a) critical staff and their respective roles;

(b) critical premises;

(c) the *firm's* IT systems, including details of data storage and data recovery arrangements;

(d) the *firm's* record-keeping systems, including how records are organised;

(e) all relevant bank accounts and payment facilities;

(f) all relevant *persons* outside of the *firm*, and their respective roles, including any outsourced service providers;

(g) all relevant legal documentation, including customer, service and supplier contracts;

(h) the *firm's group*, using a structure chart showing:

(i) the legal entities in the *group*;

(ii) the ownership structure of those entities; and

(iii) the jurisdiction of those entities; and

(i) how the *firm* holds and manages any security for loans;

(2) the steps that would need to be implemented under the arrangements in place under *SYSC 4.1.8AR* in order for *P2P agreements* facilitated by the *firm* to continue to be managed and administered;

(3) any terms in contracts that may need to be relied on to ensure *P2P agreements* facilitated by it will continue to be managed and administered under those arrangements; and

(4) how the *firm's* systems can produce the detail specified in *COBS 18.12.31R* (Ongoing disclosures) for each *P2P agreement* facilitated by it.

SYSC 4.1.8DC R

An *operator of an electronic system in relation to lending* must put in place arrangements to ensure that its *P2P resolution manual* would be immediately available to:

(1) an administrator, receiver, trustee, liquidator or analogous officer appointed in respect of it or any material part of its property; and

(2) the *FCA*, on request.

SYSC 4.1.8DD R

A *operator of an electronic system in relation to lending* must store its *P2P resolution manual* in the same place as its *CASS resolution pack*, if *CASS 10* (CASS resolution pack) applies to it.

Operators of electronic systems in relation to lending: title transfer

SYSC 4.1.8E R

(1) An *operator of an electronic system in relation to lending* must not accept, take, or receive the transfer of full ownership of *money* relating to *P2P agreements*.

(2) If *an operator of an electronic system in relation to lending* has made a *client money* election under *CASS 7.10.7AR*, when it is *operating an electronic system in relation to non-P2P agreements* it must also not accept, take, or receive the transfer of full ownership of *money* relating to *non-P2P agreements*.

Accounting policies: management company

SYSC 4.1.9 R

A *management company* must establish, implement and maintain accounting policies and procedures that enable it, at the request of the *FCA*, to deliver in a timely manner to the *FCA* financial reports which reflect a true and fair view of its financial position and which comply with all applicable accounting standards and rules.

[**Note**: article 4(4) of the *UCITS implementing Directive*]

Regular monitoring: management company

SYSC 4.1.10 R

A *management company* must monitor and, on a regular basis, evaluate the adequacy and effectiveness of its systems, internal control mechanisms and arrangements established in accordance with *SYSC 4.1.4 R* to *SYSC 4.1.9 R* and take appropriate measures to address any deficiencies.

[**Note**: article 4(5) of the *UCITS implementing Directive*]

Regular monitoring: other firms

SYSC 4.1.10A G Other *firms* should take account of the regular monitoring *rule* (*SYSC 4.1.10 R*) as if it were *guidance* (and as if "should" appeared in that *rule* instead of "must") as explained in *SYSC 1 Annex 1* 3.3 R(1), but ignoring the cross-reference to *SYSC 4.1.5 R* and *SYSC 4.1.9R*.

Audit committee

SYSC 4.1.11 G Depending on the nature, scale and complexity of its business, it may be appropriate for a *firm* to form an audit committee. An audit committee could typically examine management's process for ensuring the appropriateness and effectiveness of systems and controls, examine the arrangements made by management to ensure compliance with requirements and standards under the *regulatory system*, oversee the functioning of the internal audit function (if applicable) and provide an interface between management and external auditors. It should have an appropriate number of *non-executive directors* and it should have formal terms of reference.

Risk control: additional guidance

SYSC 4.1.13 G *Firms* should also consider the additional *guidance* on risk-centric governance arrangements for effective risk management contained in *SYSC 21*.

Apportionment of responsibilities: the role of the non-executive director

SYSC 4.1.14 G The role undertaken by a *non-executive director* will vary from one *firm* to another.

Investment strategy and investment decision making of an operator of a personal pension scheme or stakeholder pension scheme

SYSC 4.1.15 G (1) This *guidance* sets out the *FCA's* expectation on how an operator of a *personal pension scheme* or a *stakeholder pension scheme* may take into account *ESG financial considerations* and *other financial considerations* and *non-financial matters* as part of its *investment* strategy or *investment* decision making, to demonstrate compliance with *Principles* 2, 3, 6, 8 or 12.

(2) This *guidance* only applies where the *personal pension scheme* or *stakeholder pension scheme* operator's *investment* strategy or *investment* decision could have a material impact on a *client* or a *relevant policyholder's investment* returns and relates to a product where:

1. (a) the primary purpose of the product is to provide an *investment* return; and
2. (b) the *investment* risk is borne by a *client* who is a natural person or a *relevant policyholder*.

(3)

As part of its *investment* strategy or *investment* decision making, an operator of a *personal pension scheme* or a *stakeholder pension scheme* should take into account *ESG financial considerations* and *other financial considerations*, over the period of time that the *firm* reasonably considers is needed to achieve the objective of the *investment* or the *investment* strategy.

(4)

References to *other financial considerations* in (3) may include (but are not limited to) interest rates, liquidity, concentration, exchange rate, political and counterparty risks.

(5)

As part of its *investment* strategy or *investment* decision making in relation to a product, an operator of a *personal pension scheme* or a *stakeholder pension scheme* may take into account *non-financial matters* if:

(a)

the *firm* has good reason to consider that affected *clients* or *relevant policyholders* would generally share the views on which the *non-financial matters* are based; and

(b)

taking those matters into account would not involve a risk of a significant financial detriment to an affected *investment*.

(6)

(5) does not apply to a *firm's investment* strategy or *investment* decision making in relation to a product (other than in relation to a *relevant scheme* or a *pathway investment*) that has been deliberately designed by the *firm* to take into account *non-financial matters*, and *clients* or *relevant policyholders* make an active decision to select that product.

Section : SYSC 4.2 Persons who effectively direct the business

General requirement

SYSC 4.2.1 R

The *senior personnel* of a *common platform firm*, a *management company*, a *full-scope UK AIFM*, or of the *UK* branch of a *non-UK bank* must be of sufficiently good repute and sufficiently experienced as to ensure the sound and prudent management of the *firm*.
[**Note**: article 9(1)(4) of *MiFID*, article 7(1)(b) of the *UCITS Directive*, article 8(1)(c) of *AIFMD* and article 91(1) of *CRD*]

SYSC 4.2.1A G

Other *firms* should take account of the senior personnel *rule* (*SYSC 4.2.1 R*) as if it were *guidance* (and as if "should" appeared in that *rule* instead of "must") as explained in *SYSC 1 Annex 1* 3.3 R(1).

Responsibility of senior personnel of an AIFM

SYSC 4.2.1B R

For a *full-scope UK AIFM*, the *senior personnel* must, in complying with *SYSC 4.2.1 R*, be sufficiently experienced in relation to the investment strategies pursued by the *AIFs* it manages.
[**Note**: article 8(1)(c) of *AIFMD*]

Composition of management

SYSC 4.2.2 R

A *common platform firm*, a *management company*, a *full-scope UK AIFM* and the *UK* branch of a *non-UK bank* must ensure that its management is undertaken by at least two persons meeting the requirements laid down in *SYSC 4.2.1 R* and :

(a) for a *full-scope UK AIFM*, SYSC 4.2.7R; or

(b) for a *common platform firm*, *SYSC 4.3A.3R*.

[**Note**: article 9(6) first paragraph of *MiFID*, article 7(1)(b) of the *UCITS Directive*, article 8(1)(c) of *AIFMD* and article 13(1) of *CRD*]

SYSC 4.2.3 G

In the case of a *body corporate*, the persons referred to in SYSC 4.2.2 R should either be executive *directors* or persons granted executive powers by, and reporting immediately to, the *governing body*. In the case of a *partnership*, they should be active *partners*.

SYSC 4.2.4 G

At least two independent minds should be applied to the formulation and implementation of the policies of a *common platform firm*, a *management company*, a *full-scope UK AIFM* and the *UK* branch of a *third country firm*. Where a *firm* nominates just two individuals to direct its business, the *FCA* will not regard them as both effectively directing the business where one of them makes some, albeit significant, decisions relating to only a few aspects of the business. Each should play a part in the decision-making process on all significant decisions. Both should demonstrate the qualities and application to influence strategy, day-to-day policy and its implementation. This does not require their day-to-day involvement in the execution and implementation of policy. It does, however, require involvement in strategy and general direction, as well as knowledge of, and influence on, the way in which

strategy is being implemented through day-to-day policy.

SYSC 4.2.5 G Where there are more than two individuals directing the business of a *common platform firm*, a *management company*, a *full-scope UK AIFM* or the *UK* branch of a *third country firm*, the *FCA* does not regard it as necessary for all of these individuals to be involved in all decisions relating to the determination of strategy and general direction. However, at least two individuals should be involved in all such decisions. Both individuals' judgement should be engaged so that major errors leading to difficulties for the *firm* are less likely to occur. Similarly, each individual should have sufficient experience and knowledge of the business and the necessary personal qualities and skills to detect and resist any imprudence, dishonesty or other irregularities by the other individual. Where a single individual, whether a chief executive, managing *director* or otherwise, is particularly dominant in such a *firm* this will raise doubts about whether SYSC 4.2.2 R is met.

Alternative arrangements

SYSC 4.2.6 R If a *common platform firm*, (other than a *credit institution* or *AIFM investment firm*) or the *UK* branch of a *third country firm*, is:

(1) a natural person; or

(2) a legal person managed by a single natural person;

then:

(3) it must have alternative arrangements in place which ensure:

(a) sound and prudent management of the *firm*; and

(b) adequate consideration of the interests of *clients* and the integrity of the market; and

(4) the natural persons concerned must be of sufficiently good repute, possess sufficient knowledge, skills and experience and commit sufficient time to perform their duties.

it must have alternative arrangements in place which ensure sound and prudent management of the *firm*.

[**Note**: article 9(6) second paragraph of *MiFID*]

SYSC 4.2.7 R A *full-scope UK AIFM* must notify the *FCA* of the names of the *senior personnel* of the *firm* and of every person succeeding them in office.

[**Note**: article 8(1)(c) of *AIFMD*]

SYSC 4.2.8 G Where the *senior personnel* of a *full-scope UK AIFM* will carry out a *FCA governing function* and the *firm* has applied for the *FCA's* approval under *section 59* of the *Act*, this will be considered sufficient to comply with *SYSC 4.2.7 R*.

Section : SYSC 4.3 Responsibility of senior personnel

SYSC 4.3.1 R

A *firm* (with the exception of a *common platform firm* and a *sole trader* who does not employ any *person* who is required to be approved under *section 59* of the *Act* (Approval for particular arrangements)), when allocating functions internally, must ensure that *senior personnel* and, where appropriate, the *supervisory function*, are responsible for ensuring that the *firm* complies with its obligations under the *regulatory system*. In particular, *senior personnel* and, where appropriate, the *supervisory function* must assess and periodically review the effectiveness of the policies, arrangements and procedures put in place to comply with the *firm's* obligations under the *regulatory system* and take appropriate measures to address any deficiencies.

[**Note**: articles 9(1) and 9(3) of the *UCITS implementing Directive*]

SYSC 4.3.2 R

A *firm* that is a*management company* or an *operator of an electronic system in relation to lending* must ensure that:

(1) its *senior personnel* receive on a frequent basis, and at least annually, written reports on the matters covered by *SYSC 6.1.2 R* to *6.1.5 R*, *SYSC 6.2.1 R*, *SYSC 7.1.2 R*, *SYSC 7.1.3 R* and *SYSC 7.1.5 R* to *7.1.7 R*, indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies; and

(2) the *supervisory function*, if any, receives on a regular basis written reports on the same matters. [**Note**: articles 9(4) and 9(6) of the *UCITS implementing Directive*]

SYSC 4.3.2-A R

(1) A *common platform firm*, when allocating functions internally, must ensure that *senior management* and, where appropriate, the *supervisory function*, are responsible for ensuring that the *firm* complies with its obligations under the *UK law on markets in financial instruments*. In particular, *senior management* and, where appropriate, the *supervisory function* must assess and periodically review the effectiveness of the policies, arrangements and procedures put in place to comply with the *firm's* obligations under the *UK law on markets in financial instruments*, and take appropriate measures to address any deficiencies.

(2) When allocating significant functions among *senior management* under *SYSC 4.3.2-AR(1)*, a *common platform firm* must:

(a) establish who is responsible for overseeing and maintaining the *firm's* organisational requirements; and

(b) keep up-to-date records of such allocation.

(3) A *common platform firm* must ensure that:

(a) its *senior management* receive on a frequent basis, and at least annually, written reports on the matters covered by *SYSC 6.1.2-AR*, *SYSC 6.1.3-AR*, *SYSC 6.1.3-BR*, *SYSC 6.1.3-CR*, *SYSC 6.1.5R*, *SYSC 6.2.1R*, *SYSC 7.1.2-AR*, *SYSC 7.1.3R* and *SYSC 7.1.5R* to *SYSC 7.1.7R*, indicating in particular whether the appropriate remedial measures have been taken in the event of

any deficiencies; and

(b) the *supervisory function*, if any, receives on a regular basis written reports on the same matters.

SYSC 4.3.2A G Other *firms* should take account of the written reports *rule* (*SYSC 4.3.2 R*) as if it were *guidance* (and as if "should" appeared in that *rule* instead of "must") as explained in *SYSC 1 Annex 1* 3.3 R(1).

SYSC 4.3.3 G The *supervisory function* does not include a general meeting of the shareholders of a *firm*, or equivalent bodies, but could involve, for example, a separate supervisory board within a two-tier board structure or the establishment of a non-executive committee of a single-tier board structure.

Section : SYSC 4.3A Management body and nomination committee

Management body

SYSC 4.3A.1 R

A *common platform firm* must ensure that the *management body* defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the *firm*, including the segregation of duties in the organisation and the prevention of conflicts of interest, and in a manner that promotes the integrity of the market and the interests of *clients*. The *firm* must ensure that the *management body*:

(1) has overall responsibility for the *firm*;

(2) approves and oversees implementation of the *firm's* strategic objectives, risk strategy and internal governance;

(3) ensures the integrity of the *firm's* accounting and financial reporting systems, including financial and operational controls and compliance with the *regulatory system*.

(4) oversees the process of disclosure and communications;

(5) has responsibility for providing effective oversight of *senior management*;

(6) monitors and periodically assesses:

(a) the adequacy and the implementation of the *firm's* strategic objectives in the provision of *investment services and/or activities* and *ancillary services*;

(b) the effectiveness of the *firm's* governance arrangements; and

(c) the adequacy of the policies relating to the provision of services to *clients*, and

takes appropriate steps to address any deficiencies; and

(7) has adequate access to information and documents which are needed to oversee and monitor management decision-making.

[**Note**: article 88(1) of *CRD* and articles 9(1) and 9(3) of *MiFID*]

SYSC 4.3A.1A R

Without prejudice to *SYSC 4.3A.1R*, a *common platform firm* must ensure that the *management body* defines, approves and oversees:

(1) the organisation of the *firm* for the provision of *investment services and/or activities* and *ancillary services*, including the skills, knowledge and expertise required by personnel, the resources, the procedures and the arrangements for the provision of services and activities, taking into account the nature, scale and complexity of its business and all the requirements the *firm* has to comply with;

(2) a policy as to services, activities, products and operations offered or provided, in accordance with the risk tolerance of the *firm* and the characteristics and needs of the *firm's clients* to whom they will be offered or provided, including carrying out appropriate stress testing, where appropriate; and

(3) a remuneration policy of persons involved in the provision of services to *clients* aiming to encourage responsible business conduct, fair treatment of *clients* as well as avoiding conflict of interest in the relationships with *clients*.

[**Note:** article 9(3) of *MiFID*]

SYSC 4.3A.2 R

A *common platform firm* must ensure that the chairman of the *firm's management body* does not exercise simultaneously the *PRA's* Chief Executive function (*controlled function* SMF1) or *chief executive function* within the same *firm*.
[**Note**: article 88(1)(e) of *CRD* and article 9(1) of *MiFID*]

SYSC 4.3A.2A G

A *firm* may apply to the *FCA* under *section 138A* of the *Act* to waive *SYSC 4.3A.2R*.

SYSC 4.3A.3 R

A *common platform firm* must ensure that the members of the *management body* of the *firm*:

(1) are of sufficiently good repute;

(2) possess sufficient knowledge, skills and experience to perform their duties;

(3) possess adequate collective knowledge, skills and experience to understand the *firm's* activities, including the main risks;

(4) reflect an adequately broad range of experiences;

(5) commit sufficient time to perform their functions in the *firm*; and

(6) act with honesty, integrity and independence of mind to effectively assess and challenge the decisions of *senior management* where necessary and to effectively oversee and monitor management decision-making.

[**Note**: article 91(1)-(2) and (7)-(8) of *CRD* and article 9(1) and 9(4) of *MiFID*]

SYSC 4.3A.3A G

(1) A *firm* should have procedures for monitoring the collective adequacy of the knowledge, skills and experience of its *management body* as well as of its individual members.

(2) A *firm* may wish to use the "Template for a matrix to assess the collective competence of members of the management body" in Annex I of the joint *ESMA* and *EBA* publication titled "Guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU" when assessing collective competence.
[**Note**: *https://www.esma.europa.eu/document/joint-esma-and-eba-guidelines-assessment-suitability-members-management-body-and-key-0*]

SYSC 4.3A.4 R

A *common platform firm* must devote adequate human and financial resources to the induction and training of members of the *management body*.
[**Note**: article 91(9) of *CRD* and article 9(1) of *MiFID*]

SYSC 4.3A.5 R

A *common platform firm* must ensure that the members of the *management body* of the *firm* do not hold more directorships than is appropriate taking into account individual circumstances and the nature, scale and complexity of the *firm's* activities.
[**Note**: article 91(3) of *CRD* and article 9(1) of *MiFID*]

SYSC 4.3A.6 R

(1) A *common platform firm* that is a *significant SYSC firm* must ensure that the

members of the *management body* of the *firm* do not hold more than one of the following combinations of directorship in any organisation at the same time:

(a) one executive directorship with two non-executive directorships; and

(b) four non-executive directorships.

(2) Paragraph (1) does not apply to members of the *management body* that represent the *United Kingdom*.

[**Note**: article 91(3) of *CRD* and article 9(1) of *MiFID*]

SYSC 4.3A.7 R For the purposes of *SYSC 4.3A.5 R* and *SYSC 4.3A.6 R*:

(1) directorships in organisations which do not pursue predominantly commercial objectives shall not count; and

(2) the following shall count as a single directorship:

(a) executive or non-executive directorships held within the same *group*; or

(b) executive or non-executive directorships held within:

(i) [deleted]

(ii) *undertakings* (including non-financial entities) in which the *firm* holds a *qualifying holding*.

[**Note**: article 91(4) and (5) of *CRD* and article 9(1) of *MiFID*]

Nomination Committee

SYSC 4.3A.7A R *SYSC 4.3A.8R* does not apply to a *common platform firm* that is a *MIFIDPRU investment firm*.

SYSC 4.3A.7B G The regulatory requirement for certain *MIFIDPRU investment firms* to establish nomination committees is contained in *MIFIDPRU 7.3.5R*. However, all *MIFIDPRU investment firms* are still subject to *SYSC 4.3A.9R* and *SYSC 4.3A.10R*.

SYSC 4.3A.8 R A *common platform firm* that is a *significant SYSC firm* must:

(1) establish a nomination committee composed of members of the *management body* who do not perform any executive function in the *firm*;

(2) ensure that the nomination committee is able to use any forms of resources the nomination committee deems appropriate, including external advice; and

(3) ensure that the nomination committee receives appropriate funding.

[**Note**: article 88(2) of *CRD* and article 9(1) of *MiFID*]

SYSC 4.3A.9 R A *common platform firm* that has a nomination committee must ensure that the nomination committee:

(1) engages a broad set of qualities and competences when recruiting members to the *management body* and for that purpose puts in place a policy promoting diversity on the *management body*;

(2) identifies and recommends for approval, by the *management body* or by general meeting, candidates to fill *management body* vacancies, having evaluated the

balance of knowledge, skills, diversity and experience of the *management body*;

(3) prepares a description of the roles and capabilities for a particular appointment, and assesses the time commitment required;

(4) decides on a target for the representation of the underrepresented gender in the *management body* and prepares a policy on how to increase the number of the underrepresented gender in the *management body* in order to meet that target;

(5) periodically, and at least annually, assesses the structure, size, composition and performance of the *management body* and makes recommendations to the *management body* with regard to any changes;

(6) periodically, and at least annually, assesses the knowledge, skills and experience of individual members of the *management body* and of the *management body* collectively, and reports this to the *management body*;

(7) periodically reviews the policy of the *management body* for selection and appointment of *senior management* and makes recommendations to the *management body*; and

(8) in performing its duties, and to the extent possible, on an ongoing basis, takes account of the need to ensure that the *management body's* decision making is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interest of the *firm* as a whole.

[**Note**: article 88(2) and article 91(10) of *CRD* and article 9(1) of *MiFID*]

SYSC 4.3A.10 R

A *common platform firm* that does not have a nomination committee must engage a broad set of qualities and competences when recruiting members to the *management body*. For that purpose a *common platform firm* that does not have a nomination committee must put in place a policy promoting diversity on the *management body*.
[**Note**: article 91(10) of *CRD* and article 9(1) of *MiFID*]

Website

SYSC 4.3A.11 R

A *CRR firm* that maintains a website must explain on the website how it complies with the requirements of *SYSC 4.3A.1 R* to *SYSC 4.3A.3 R* and *SYSC 4.3A.4 R* to *SYSC 4.3A.11 R*.
[**Note**: article 96 of *CRD*]

Section : SYSC 4.4 Apportionment of responsibilities

Application

SYSC 4.4.1A R

(-2) This section applies to:

(a) a *limited scope SMCR firm* other than:

(i) a *firm* in *SUP 10C Annex 1 7.10R* (Table: Limited scope SMCR firms to which no controlled functions apply); and

(ii) a *limited scope SMCR benchmark firm*; and

(b) an *authorised professional firm* that is a *core SMCR firm*.

(-1) The application of this section is further limited by the rest of this *rule*.

(1) This section applies to an authorised professional *firm* as follows:

(a) it only applies in respect of its *non-mainstream regulated activities*; and

(b) it does not apply if the *firm*:

(i) is also conducting other *regulated activities*; and

(ii) has appointed *approved persons* to perform the *FCA governing functions* with equivalent responsibilities for the *firm's non-mainstream regulated activities* and other *regulated activities*.

(2) [deleted]

(3) [deleted]

(4) Only *SYSC 4.4.5R(2)* applies to an *EEA SMCR firm*. However, the limitation in this paragraph (4) does not apply to a *firm* within *SYSC 23 Annex 1 6.13R* (claims management).

(5) This section only applies to a *sole trader* if they:

(a) have any *person* (other than themselves) who is required to be approved under *section 59* of the *Act* (Approval for particular arrangements); or

(b) are an *authorised approved person employer* (except where they are the only *approved person* concerned); or

(c) have any *certification employees*.

SYSC 4.4.2 G This section does not apply to a *common platform firm*.

Maintaining a clear and appropriate apportionment

SYSC 4.4.3 R A *firm* must take reasonable care to maintain a clear and appropriate apportionment of significant responsibilities among its *directors* and *senior managers* in such a way that:

(1) it is clear who has which of those responsibilities; and

(2) the business and affairs of the *firm* can be adequately monitored and controlled by the *directors*, relevant *senior managers* and *governing body* of the *firm*.

Allocating functions of apportionment and oversight

SYSC 4.4.5 R A *firm* must appropriately allocate to one or more individuals, in accordance with the

following table, the functions of:

(1) dealing with the apportionment of responsibilities under *SYSC 4.4.3 R*; and

(2) overseeing the establishment and maintenance of systems and controls under *SYSC 4.1.1 R*.

1: Firm type	2: Allocation of both functions must be to the following individual, if any (see Note):	3: Allocation to one or more individuals selected from this column is compulsory if there is no allocation to an individual in column 2, but is otherwise optional and additional:
(1) A *firm* which is a *body corporate* and is a member of a *group*, other than a *firm* in row (2)	(1) the *firm's chief executive* (and all of them jointly, if more than one); or	the *firm's* and its *group's*: (1) *directors*; and (2) *senior managers*
	(2) a *director* or *senior manager* responsible for the overall management of: (a) the *group*; or (b) a *group* division within which some or all of the *firm's regulated activities* fall	
(2) An *EEA SMCR firm* (note: only the functions in *SYSC 4.4.5R (2)* must be allocated)	(not applicable)	the *firm's* and its *group's*: (1) *directors*; and (2) *senior managers*
(3) Any other *firm*	the *firm's chief executive* (and all of them jointly, if more than one)	the *firm's* and its *group's*: (1) *directors*; and (2) *senior managers*
Note: Column 2 does not require the involvement of the *chief executive* or other executive *director* or *senior manager* in an aspect of corporate governance if that would be contrary to generally accepted principles of good corporate governance.		

SYSC 4.4.6 G

Frequently asked questions about allocation of functions in *SYSC 4.4.5 R*

	Question	Answer
1	Does an individual to	Yes. They will be

	Question	Answer
	whom a function is allocated under *SYSC 4.4.5 R* need to be an *approved person*?	performing the limited scope function. However, the *limited scope function* does not apply to an *EEA SMCR firm* (except claims management and funeral plan *firms*) or an *authorised professional firm* that is a *core SMCR firm*.
2	If the allocation is to more than one individual, can they perform the functions, or aspects of the functions, separately?	If the functions are allocated to joint *chief executives* under *SYSC 4.4.5 R*, column 2, they are expected to act jointly. If the functions are allocated to an individual under *SYSC 4.4.5 R*, column 2, in addition to individuals under *SYSC 4.4.5 R*, column 3, the former may normally be expected to perform a leading role in relation to the functions that reflects his position. Otherwise, yes.
3	What is meant by "appropriately allocate" in this context?	The allocation of functions should be compatible with delivering compliance with *Principle* 3, *SYSC 4.4.3 R* and *SYSC 4.1.1 R*. The *FCA* considers that allocation to one or two individuals is likely to be appropriate for most *firms*.
4	If a committee of management governs a *firm* or *group*, can the functions be allocated to every member of that committee?	Yes, as long as the allocation remains appropriate (see Question 3). If the *firm* also has an individual as *chief executive*, then the functions must be allocated to that individual as well under *SYSC 4.4.5 R*, column 2 (see Question 7).

	Question	Answer
5	Does the definition of *chief executive* include the possessor of equivalent responsibilities with another title, such as a managing *director* or managing *partner*?	Yes.
6	Is it possible for a *firm* to have more than one individual as its *chief executive*?	Although unusual, some *firms* may wish the responsibility of a *chief executive* to be held jointly by more than one individual. In that case, each of them will be a *chief executive* and the functions must be allocated to all of them under *SYSC 4.4.5 R*, column 2 (see also Questions 2 and 7).
7	If a *firm* has an individual as *chief executive*, must the functions be allocated to that individual?	Normally, yes, under *SYSC 4.4.5 R*, column 2. But if the *firm* is a *body corporate* and a member of a *group*, the functions may, instead of being allocated to the *firm's chief executive*, be allocated to a *director* or *senior manager* from the *group* responsible for the overall management of the *group* or of a relevant *group* division, so long as this is appropriate (see Question 3). Such individuals may nevertheless require approval under section 59 (see Question 1). If the *firm* chooses to

	Question	Answer
		allocate the functions to a *director* or *senior manager* responsible for the overall management of a relevant *group* division, the *FCA* would expect that individual to be of a seniority equivalent to or greater than a *chief executive* of the *firm* for the allocation to be appropriate. See also Question 14.
8	If a *firm* has a *chief executive*, can the functions be allocated to other individuals in addition to the *chief executive*?	Yes. *SYSC 4.4.5 R*, column 3, permits a *firm* to allocate the functions, additionally, to the *firm's* (or where applicable the *group's*) *directors* and *senior managers* as long as this is appropriate (see Question 3).
9	What if a *firm* does not have a *chief executive*?	Normally, the functions must be allocated to one or more individuals selected from the *firm's* (or where applicable the *group's*) *directors* and *senior managers* under *SYSC 4.4.5 R*, column 3. But if the *firm*: (1) is a *body corporate* and a member of a *group*; and (2) the *group* has a *director* or *senior manager* responsible

	Question	Answer
		for the overall management of the *group* or of a relevant *group* division; then the functions must be allocated to that individual (together, optionally, with individuals from column 3 if appropriate) under *SYSC 4.4.5 R*, column 2.
10	What do you mean by "*group* division within which some or all of the *firm's regulated activities* fall"?	A "division" in this context should be interpreted by reference to geographical operations, product lines or any other method by which the *group's* business is divided. If the *firm's regulated activities* fall within more than one division and the *firm* does not wish to allocate the functions to its *chief executive*, the allocation must, under *SYSC 4.4.5 R*, be to: (1) a *director* or *senior manager* responsible for the overall management of the *group*; or (2) a *director* or *senior manager* responsible for the overall management of one of those divisions;

	Question	Answer
		together, optionally, with individuals from column 3 if appropriate. (See also Questions 7 and 9.)
11	How does the requirement to allocate the functions in *SYSC 4.4.5 R* apply to an *overseas SMCR firm* which is not an *EEA SMCR firm*?	The *firm* must appropriately allocate those functions to one or more individuals, in accordance with *SYSC 4.4.5 R*, but: (1) The responsibilities that must be apportioned and the systems and controls that must be overseen are those relating to activities carried on from a *UK* establishment with certain exceptions (see *SYSC 1 Annex 1 2.15R*). (2) The *chief executive* of an *overseas firm* is the *person* responsible for the conduct of the *firm's* business within the *United Kingdom* (see the definition of "*chief executive*"). This might, for example, be the manager of the *firm's UK* establishment, or it might be the *chief executive* of the *firm* as a whole, if he has that responsibility.

	Question	Answer
		(3) *SYSC 4.4* does not apply to such a *firm* if it does not have a *branch* in the *United Kingdom*.
12	How does the requirement to allocate the functions in *SYSC 4.4.5 R* apply to an *EEA SMCR firm* other than a claims management or funeral plan *firm*?	(1) Such a *firm* is not required to allocate the function of dealing with apportionment in *SYSC 4.4.5R (1)*. (2) Such a *firm* is required to allocate the function of oversight in *SYSC 4.4.5R (2)*. (3) Such a *firm* need not allocate the function of oversight to its *chief executive*; it must allocate it to one or more *directors* and *senior managers* of the *firm* or the *firm's group* under *SYSC 4.4.5 R*, row (2). (4) *SYSC 4.4* does not apply to an *EEA PTV firm* if it does not have a *branch* in the *United Kingdom*. See also Question 1.
13	What about a *firm* that is a *partnership* or a *limited liability partnership*?	The *FCA* envisages that most if not all *partners* or members will be either *directors* or *senior managers*, but this will depend on the constitution of the *partnership* (particularly in the case of a limited *partnership*) or *limited liability partnership*. A *partnership* or *limited liability partnership* may

	Question	Answer
		also have a *chief executive* (see Question 5). A *limited liability partnership* is a *body corporate* and, if a member of a *group*, will fall within *SYSC 4.4.5 R*, row (1) or (2).
14	What if generally accepted principles of good corporate governance recommend that the *chief executive* should not be involved in an aspect of corporate governance?	The Note to *SYSC 4.4.5 R* provides that the *chief executive* or other executive director or *senior manager* need not be involved in such circumstances. For example, the *UK Corporate Governance Code* recommends that the board of a listed company should establish an audit committee of independent, non-executive directors to be responsible (among other things) for overseeing the effectiveness of the audit process and the objectivity and independence of the external auditor. That aspect of the oversight function may therefore be allocated to the members of such a committee without involving the *chief executive*. Such individuals may require approval under section 59 in relation to that function (see Question 1).
15	[deleted]	

Section : SYSC 4.7

SYSC 4.7.26	G	[deleted [*Editor's note:* The text of this provision has been moved to *SYSC 24.3.9G*]

Section : SYSC 4 Annex 1

SYSC 4 Annex 1 G

[*Editor's note:* The text of this provision has been moved to *SYSC 25 Annex 1G*]

CHAPTER

SYSC 5 Employees, agents and other relevant persons

Section : SYSC 5.1 Skills, knowledge and expertise

Application to a common platform firm

SYSC 5.1.-2 G

For a *common platform firm*:

(1) [deleted]

(2) the *rules* and *guidance* apply as set out in the table below:

Subject	Applicable rule or guidance
Competent employees rule, knowledge and competence and segregation of functions	*SYSC 5.1.1R, SYSC 5.1.2G to SYSC 5.1.5AG, SYSC 5.1.5AAR, SYSC 5.1.5ABR, SYSC 5.1.5ACG to SYSC 5.1.5AEG, SYSC 5.1.6R, SYSC 5.1.7R, SYSC 5.1.8G to SYSC 5.1.11G, SYSC 5.1.12R, SYSC 5.1.13R, SYSC 5.1.14R*
[deleted]	[deleted]

Application to an MiFID optional exemption firm and to a third country firm

SYSC 5.1.-1 G

For a *MiFID optional exemption firm* and a *third country firm*:

(a) the *rules* and *guidance* in this chapter apply to them as if they were *rules* or as *guidance* in accordance with *SYSC 1 Annex 1* 3.2CR(1);

(b) [deleted]

Competent employees rule

SYSC 5.1.1 R

A *firm* must employ personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them.

[**Note:** articles 12(1)(a) and 14(1)(c) of the *UCITS Directive* and article 5(1) of the *UCITS implementing Directive*]

SYSC 5.1.2 G

A *firm's* systems and controls should enable it to satisfy itself of the suitability of anyone who acts for it. This includes assessing an individual's honesty and competence. This assessment should normally be made at the point of recruitment. An individual's honesty need not normally be revisited unless something happens to make a fresh look appropriate.

SYSC 5.1.3 G

Any assessment of an individual's suitability should take into account the level of responsibility that the individual will assume within the *firm*. The nature of this assessment will generally differ depending upon whether it takes place at the start of the individual's recruitment, at the end of the probationary period (if there is one) or subsequently.

SYSC 5.1.3A G *SYSC 28* contains *rules* and *guidance* on knowledge and competence in relation to *insurance distribution activities* undertaken by a *firm*.

SYSC 5.1.4 G The Training and Competence sourcebook (*TC*) contains additional *rules* and *guidance* relating to specified retail activities undertaken by a *firm*.

SYSC 5.1.4A G *Firms* which are carrying on activities that are not subject to *TC* may nevertheless wish to take *TC* into account in complying with the competence requirements in *SYSC*.

SYSC 5.1.5 G The requirements on *firms* with respect to *approved persons* are in *Part V* of the *Act* (Performance of regulated activities) and *SUP 10A*, *SUP 10C* and in the corresponding parts of the *PRA's* Rulebook.

SYSC 5.1.5A G If a *firm* requires *employees* who are not subject to a qualification requirement in *TC* to pass a relevant examination from the list of appropriate qualifications maintained by the *FCA*, or for the purposes of meeting its obligations under *SYSC 5.1.5ABR*, the *FCA* will take that into account when assessing whether the *firm* has ensured that the *employee* satisfies the knowledge component of the *competent employees rule*.

Knowledge and competence

SYSC 5.1.5AA R *SYSC 5.1.5ABR* applies to a *common platform firm* and a *third country firm*:

(1) in relation to its *MiFID or equivalent third country business*;

(2) in respect of any natural persons ("relevant individuals") who, on behalf of the *firm*:

(a) make *personal recommendations* to *clients* in relation to *financial instruments* or *structured deposits*; or

(b) provide information to *retail clients* or *professional clients* about *financial instruments*, *structured deposits*, *investment services* or *ancillary services*; or

who are otherwise responsible for the supervision of a relevant individual who has not acquired the necessary knowledge and competence to act in a capacity prescribed in (a) or (b).

[**Note:** article 25(1) of *MiFID*]

SYSC 5.1.5AB R A *firm* must ensure, and be able to demonstrate to the *FCA*, at the *FCA's* request, that any relevant individuals possess the necessary knowledge and competence so as to ensure that the *firm* is able to meet its obligations related to information to *clients*, and the assessment of suitability and appropriateness and reporting to *clients* under *SYSC*, *COBS* and *PROD* in relation to *MiFID business*.

(1) [deleted]

(2) [deleted]

[**Note:** article 25(1) of *MiFID*]

SYSC 5.1.5AC G The *rules* which implement articles 24 and 25 of *MiFID* can be found in *COBS* and *PROD*

and are identified with a 'Note:'.

SYSC 5.1.5AD G

The *ESMA* "Guidelines for the assessment of knowledge and competence", 3 January 2017 (ESMA71-1154262120-153 EN (rev)), specify the criteria for the assessment of knowledge and competence for the purposes of *SYSC 5.1.5ABR*.

SYSC 5.1.5AE G

(1) The *FCA* expects a *firm* to act consistently with the *ESMA* guidelines referred to in *SYSC 5.1.5ADG* in relation to its *MiFID or equivalent third country business*.

(2) The *FCA* is required to publish various information on its website in relation to *firms'* assessment of relevant individuals' knowledge and competence. That information can be found at *https://www.fca.org.uk/firms/training-competence*

(3) A *firm* to which the Training and Competence sourcebook (*TC*) applies may satisfy its knowledge and competence obligations under *SYSC 5.1.5ABR* in relation to a relevant individual by way of compliance with its obligations in *TC*.

SYSC 5.1.5B R

When complying with the *competent employees rule*, a *firm* must take into account the nature, scale and complexity of its business and the nature and range of financial services and activities undertaken in the course of that business.

Segregation of functions

SYSC 5.1.6 R

A *common platform firm* and a *management company* must ensure that the performance of multiple functions by its *relevant persons* does not and is not likely to prevent those persons from discharging any particular functions soundly, honestly and professionally.
[**Note:** article 5(3) of the *UCITS implementing Directive*]

SYSC 5.1.7 R

The *senior personnel* of a *common platform firm* must define arrangements concerning the segregation of duties within the *firm* and the prevention of conflicts of interest.
[**Note:** article 88 of *CRD* and article 9(1) of *MiFID*]

SYSC 5.1.7A G

Other *firms* should take account of the segregation of functions *rules* (*SYSC 5.1.6 R* and *SYSC 5.1.7 R*) as if they were *guidance* (and as if "should" appeared in those *rules* instead of "must") as explained in *SYSC 1 Annex 1* 3.3 R(1).

SYSC 5.1.8 G

The effective segregation of duties is an important element in the *internal controls* of a *firm* in the *prudential context*. In particular, it helps to ensure that no one individual is completely free to commit a *firm's* assets or incur liabilities on its behalf. Segregation can also help to ensure that a *firm's governing body* receives objective and accurate information on financial performance, the risks faced by the *firm* and the adequacy of its systems.

Segregation of functions: additional guidance

SYSC 5.1.9 G

A *firm* should normally ensure that no single individual has unrestricted authority to do all of the following:

(1) initiate a transaction;

(2) bind the *firm*;

(3) make payments; and

(4) account for it.

SYSC 5.1.10 G Where a *firm* is unable to ensure the complete segregation of duties (for example, because it has a limited number of staff), it should ensure that there are adequate compensating controls in place (for example, frequent review of an area by relevant *senior managers*).

SYSC 5.1.11 G Where a *firm* outsources its internal audit function, it should take reasonable steps to ensure that every individual involved in the performance of this service is independent from the individuals who perform its external audit. This should not prevent services from being undertaken by a *firm's* external auditors provided that:

(1) the work is carried out under the supervision and management of the *firm's* own internal staff; and

(2) potential conflicts of interest between the provision of external audit services and the provision of internal audit are properly managed.

Awareness of procedures: common platform firm and management company

SYSC 5.1.12 R A *common platform firm* and a *management company* must ensure that its *relevant persons* are aware of the procedures which must be followed for the proper discharge of their responsibilities.

[**Note:** article 4(1)(b) of the *UCITS implementing Directive*]

Awareness of procedures: other firms

SYSC 5.1.12A G Other *firms* should take account of the *rule* concerning awareness of procedures (*SYSC 5.1.12 R*) as if it were *guidance* (and as if should appeared in that *rule* instead of must) as explained in *SYSC 1 Annex 1* 3.3 R(1).

General

SYSC 5.1.13 R The systems, internal control mechanisms and arrangements established by a *firm* in accordance with this chapter must take into account the nature, scale and complexity of its business and the nature and range of financial services, *claims management services* and other activities undertaken in the course of that business.

[**Note:** articles 4(1) final paragraph and 5(4) of the *UCITS implementing Directive*]

SYSC 5.1.14 R A *common platform firm* and a *management company* must monitor and, on a regular basis, evaluate the adequacy and effectiveness of its systems, internal control mechanisms and arrangements established in accordance with this chapter, and take appropriate measures to address any deficiencies.

[**Note:** article 4(5) of the *UCITS implementing Directive*]

SYSC 5.1.15 G Other *firms* should take account of the *rule* requiring monitoring and evaluation of the

adequacy and effectiveness of systems (*SYSC 5.1.14 R*) as if it were *guidance* (and as if should appeared in that *rule* instead of must) as explained in *SYSC 1 Annex 1* 3.3 R(1).

CHAPTER

SYSC 6 Compliance, internal audit and financial crime

Section : SYSC 6.1 Compliance

Application to a common platform firm

SYSC 6.1.-2 G

For a *common platform firm*:

(1) [deleted]

(2) the *rules* and *guidance* apply as set out in the table below:

Subject	Applicable rule or guidance
Adequate policy and procedures	*SYSC 6.1.1R*, *SYSC 6.1.1AG*, *SYSC 6.1.2-AR*
Compliance function	*SYSC 6.1.3-AR*, *SYSC 6.1.3-BR*, *SYSC 6.1.3-CR*, *SYSC 6.1.4-AG*, *SYSC 6.1.4-ABG*, *SYSC 6.1.5AR*
Internal audit	*SYSC 6.2.1R*, *SYSC 6.2.2G*
Financial crime	*SYSC 6.3.1R* to *SYSC 6.3.11G*

Application to an MiFID optional exemption firm and to a third country firm

SYSC 6.1.-1 G

For a *MiFID optional exemption firm* and a *third country firm*:

(1) the *rules* and *guidance* in this chapter apply to them as if they were *rules* or as *guidance* in accordance with *SYSC 1 Annex 1* 3.2CR(1).

(2) [deleted]

Adequate policy and procedures

SYSC 6.1.1 R

A *firm* must establish, implement and maintain adequate policies and procedures sufficient

to ensure compliance of the *firm* including its managers, employees and *appointed representatives* (or where applicable, *tied agents*) with its obligations under the *regulatory system* and for countering the risk that the *firm* might be used to further *financial crime*.
[**Note:** article 16(2) of *MiFID* and article 12(1)(a) of the *UCITS Directive*]

SYSC 6.1.1A G

The *FCA* provides *guidance* on steps that a *firm* can take to reduce the risk that it might be used to further *financial crime* in *FCG* (Financial Crime Guide: A firm's guide to countering financial crime risks) and *FCTR* (Financial Crime Thematic Reviews).

SYSC 6.1.2 R

A *firm* that is a*management company* or an *operator of an electronic system in relation to lending* must, taking intoaccount the nature, scale and complexity of its business, and the nature and range of financial services and activities undertaken in the course of that business, establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the *firm* to comply with its obligations under the *regulatory system*, as well as associated risks, and put in place adequate measures and procedures designed to minimise such risks and to enable the *FCA* to exercise its powers effectively under the *regulatory system*.
[**Note:** article 10(1) of the *UCITS implementing Directive*]

SYSC 6.1.2-A R

A *common platform firm* must, taking into account the nature, scale and complexity of its business, and the nature and range of financial services and activities undertaken in the course of its *designated investment business*, establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the *firm* to comply with its obligations under the *UK law on markets in financial instruments*, as well as associated risks, and put in place adequate measures and procedures designed to minimise such risks and to enable the *FCA* to exercise its powers effectively under the *UK law on markets in financial instruments*.

SYSC 6.1.2A G

Other *firms* should take account of the adequate policies and procedures *rule* (*SYSC 6.1.2 R*) as if it were *guidance* (and as if should appeared in that *rule* instead of must) as explained in *SYSC 1 Annex 1* 3.3 R(1).

Compliance function

SYSC 6.1.3 R

A *firm* that is a*management company* or an *operator of an electronic system in relation to lending* must maintain a permanent and effective compliance function which operates independently and which has the following responsibilities:

(1) to monitor and, on a regular basis, to assess the adequacy and effectiveness of the measures and procedures put in place in accordance with *SYSC 6.1.2 R*, and the actions taken to address any deficiencies in the *firm's* compliance with its obligations; and

(2) to advise and assist the *relevant persons* responsible for carrying out *regulated activities* to comply with the *firm's* obligations under the *regulatory system*.

[**Note:** article 10(2) of the *UCITS implementing Directive*]

SYSC 6.1.3-A R

A *common platform firm* must establish and maintain a permanent and effective compliance function which operates independently and which has the following responsibilities:

(1) to monitor on a permanent basis and to assess, on a regular basis, the adequacy and effectiveness of the measures, policies and procedures put in place in accordance with *SYSC 6.1.2-AR*, and the actions taken to address any deficiencies in the *firm's* compliance with its obligations;

(2) to advise and assist the *relevant persons* responsible for carrying out the *firm's designated investment business* to comply with the *firm's* obligations under the *UK law on markets in financial instruments*;

(3) to report to the *management body*, at least on an annual basis, on:

(a) the implementation and effectiveness of the overall control environment for the *firm'sdesignated investment business*;

(b) the risks that have been identified; and

(c) the complaints-handling reporting as well as remedies undertaken or to be undertaken;

(4) to monitor the operations of the complaints-handling process and consider complaints as a source of relevant information in the context of its general monitoring responsibilities.

SYSC 6.1.3-B R

To comply with *SYSC 6.1.3-AR(1)* and *(2)*, the *firm's* compliance function must conduct an assessment on the basis of which it must establish a risk-based monitoring programme that takes into consideration all areas of the *firm'sdesignated investment business* and any relevant *ancillary services* and *ancillary activities* associated with the *firm'sregulated activities*, including relevant information gathered in relation to the monitoring of complaints-handling. The monitoring programme must establish priorities determined by the compliance risk assessment ensuring that compliance risk is comprehensively monitored.

SYSC 6.1.3-C R

In order to enable the compliance function referred to in *SYSC 6.1.3-AR* and *SYSC 6.1.3-BR* to discharge its responsibilities properly and independently, a *common platform firm* must ensure that the following conditions are satisfied:

(1) the compliance function must have the necessary authority, resources, expertise and access to all relevant information;

(2) a compliance officer must be appointed and replaced by the *management body* and must be responsible for the compliance function and for any reporting as to compliance required in relation to the *UK law on markets in financial instruments* and by *SYSC 4.3.2-AR(3)*;

(3) the compliance function reports on an ad-hoc basis directly to the *management body* where it detects a significant risk of failure by the *firm* to comply with its obligations under the *UK law on markets in financial instruments*;

(4) the *relevant persons* involved in the compliance functions must not be involved in the performance of the services or activities they monitor;

(5) the method of determining the *remuneration* of the *relevant persons* involved in the compliance function must not compromise their objectivity and must not be likely to do so.

SYSC 6.1.3A G

(1) Other *firms* should take account of the compliance function *rule* (*SYSC 6.1.3 R*)

as if it were *guidance* (and as if should appeared in that *rule* instead of must) as explained in *SYSC 1 Annex 1* 3.3 R(1).

(2) Notwithstanding *SYSC 6.1.3 R*, as it applies under (1), depending on the nature, scale and complexity of its business, it may be appropriate for a *firm* to have a separate compliance function. Where a *firm* has a separate compliance function the *firm* should also take into account *SYSC 6.1.3 R* and *SYSC 6.1.4 R* as guidance.

SYSC 6.1.4 R

In order to enable the compliance function to discharge its responsibilities properly and independently, a *firm* that is a*management company* or an *operator of an electronic system in relation to lending* must ensure that the following conditions are satisfied:

(1) the compliance function must have the necessary authority, resources, expertise and access to all relevant information;

(2) a compliance officer must be appointed and must be responsible for the compliance function and for any reporting as to compliance required by *SYSC 4.3.2 R*;

(3) the *relevant persons* involved in the compliance functions must not be involved in the performance of the services or activities they monitor;

(4) the method of determining the remuneration of the *relevant persons* involved in the compliance function must not compromise their objectivity and must not be likely to do so.

[**Note:** article 10(3) of the *UCITS implementing Directive*]

SYSC 6.1.4-A G

In setting the method of determining the *remuneration* of *relevant persons* involved in the compliance function:

(1) [deleted]

(2) [deleted]

(3) *firms* that *SYSC 19D* applies to will also need to comply with the *dual-regulated firms Remuneration Code*;

(4) *firms* that the remuneration part of the *PRA Rulebook* applies to will also need to comply with it; and

(5) firms that *SYSC 19G* applies to will also need to comply with the *MIFIDPRU Remuneration Code*.

SYSC 6.1.4-AA G

In setting the method of determining the *remuneration* of *relevant persons* involved in the compliance function, *full-scope UK AIFMs* will need to comply with the *AIFM Remuneration Code*.

SYSC 6.1.4-AB G

(1)

This *guidance* is relevant to an *SMCR firm* required to appoint a compliance officer under *SYSC 6.1.4R* or *SYSC 6.1.3-CR* as applicable.

(2)

Taking account of the nature, scale and complexity of its activities, the *firm* should have appropriate procedures to ensure that the removal or any other disciplinary sanctioning of the compliance officer does not undermine the independence of the compliance function.

(3)

In the *FCA's* view, it will be appropriate, in many cases, for the removal or any other disciplinary sanctioning of the compliance officer to require the approval of a majority of the *management body*, including at least a majority of its members who do not perform any executive function in the *firm*.

SYSC 6.1.4A R

(1) A *firm* which is not a *common platform firm* or *management company* and which carries on *designated investment business* with or for retail clients or professional clients must allocate to a *director* or *senior manager* the function of:

(a) having responsibility for oversight of the *firm's* compliance; and

(b) reporting to the *governing body* in respect of that responsibility.

(2) In *SYSC 6.1.4A R (1)* compliance means compliance with the rules in:

(a) *COBS* (Conduct of Business sourcebook);

(b) *COLL* (Collective Investment Schemes sourcebook);

(c) *CASS* (Client Assets sourcebook); and

(d) *ICOBS* (Insurance: Conduct of Business sourcebook).

SYSC 6.1.4C R

(1) A *firm* in (2) or (3) must appoint a compliance officer to be responsible for ensuring the *firm* meets its obligations under *SYSC 6.1.1R* for any compliance function the *firm* has and for any reporting as to compliance which may be made under *SYSC 4.3.2R*.

(2) This *rule* applies to:

(a) a *debt management firm*; and

(b) a *credit repair firm*.

(3) This *rule* also applies to a *firm* that meets the following conditions:

(a) it is a Class 1 firm as defined in *CMCOB 7.2.5R(1)*; and

(b) *SUP 10C* (FCA senior managers regime for approved persons in SMCR firms) applies the *compliance oversight function* to it.

SYSC 6.1.5 R

A *firm* that is a*management company* or an *operator of an electronic system in relation to lending* need not comply with *SYSC 6.1.4 R (3)* or *SYSC 6.1.4 R (4)* if it is able to demonstrate that in view of the nature, scale and complexity of its business, and the nature and range of financial services and activities, the requirements under those *rules* are not proportionate and that its compliance function continues to be effective.
[**Note**: article 10(3) second paragraph of the *UCITS implementing Directive*]

SYSC 6.1.5A R

A *common platform firm* need not comply with *SYSC 6.1.3-CR(4)* or *SYSC 6.1.3-CR(5)* if it is able to demonstrate that in view of the nature, scale and complexity of its business, and

the nature and range of its *designated investment business*, the requirements under those *rules* are not proportionate and that its compliance function continues to be effective. In that case, a *common platform firm* must assess whether the effectiveness of the compliance function is compromised, and the assessment must be reviewed on a regular basis.

SYSC 6.1.6 G Other *firms* should take account of the proportionality *rule* (*SYSC 6.1.5 R*) as if it were *guidance* (and as if should appeared in that *rule* instead of must) as explained in *SYSC 1 Annex 1* 3.3R(1).

SYSC 6.1.8 G The exemptions in *SYSC 6.1.5R* are unlikely to apply to a *firm* that is an *operator of an electronic system in relation to lending* where that *firm* offers lenders a *P2P portfolio* with a *target rate*.

Section : SYSC 6.2 Internal audit

SYSC 6.2.1 R

A *firm* that is a *common platform firm* or a *management company* or an *operator of an electronic system in relation to lending management company* must, where appropriate and proportionate in view of the nature, scale and complexity of its business and the nature and range of its financial services and activities or (if it is a *common platform firm*) its *designated investment business*, undertaken in the course of that business, establish and maintain an internal audit function which is separate and independent from the other functions and activities of the *firm* and which has the following responsibilities:

(1) to establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the *firm's* systems, internal control mechanisms and arrangements;

(2) to issue recommendations based on the result of work carried out in accordance with (1);

(3) to verify compliance with those recommendations;

(4) to report in relation to internal audit matters in accordance with *SYSC 4.3.2 R* or (if it is a *common platform firm*) *SYSC 6.1.3-AR* and *SYSC 6.1.3-BR*.

[**Note**: article 11 of the *UCITS implementing Directive*]

SYSC 6.2.1A G

Other *firms* should take account of the internal audit *rule* (*SYSC 6.2.1 R*) as if it were *guidance* (and as if should appeared in that *rule* instead of must) as explained in *SYSC 1 Annex 1* 3.3 R(1).

SYSC 6.2.1B G

(1) This *guidance* is relevant to an *SMCR firm* required to establish and maintain an internal audit function under *SYSC 6.2.1R*.

(2) Taking account of the nature, scale and complexity of its activities, the *firm* should have appropriate procedures to ensure that the removal or any other disciplinary sanctioning of the head of the internal audit function does not undermine the independence of the internal audit function.

(3) In the *FCA's* view, it will be appropriate, in many cases, for the removal or any other disciplinary sanctioning of the head of the internal audit function to require the approval of a majority of the *management body*, including at least a majority of its members who do not perform any executive function in the *firm*.

SYSC 6.2.2 G

(1)

The term 'internal audit function' in *SYSC 6.2.1R* (and *SYSC 4.1.11G*), and for a *common platform firm* in *SYSC 6.2.1R*, refers to the generally understood concept of internal audit within a *firm*, that is, the function of assessing adherence to and the effectiveness of internal systems and controls, procedures and policies.

(2) [deleted]

(3)

For an *SMCR firm* that is a *PRA-authorised person*,the internal audit function is a *PRA controlled function* (SMF5). For an *enhanced scope SMCR firm* it is an *FCA controlled function* (SMF5).

Section : SYSC 6.3 Financial crime

SYSC 6.3.1 R

A *firm* must ensure the policies and procedures established under *SYSC 6.1.1 R* include systems and controls that:

(1) enable it to identify, assess, monitor and manage *money laundering* risk; and

(2) are comprehensive and proportionate to the nature, scale and complexity of its activities.

SYSC 6.3.2 G

"*Money laundering* risk" is the risk that a *firm* may be used to further *money laundering*. Failure by a *firm* to manage this risk effectively will increase the risk to society of crime and terrorism.

SYSC 6.3.3 R

A *firm* must carry out a regular assessment of the adequacy of these systems and controls to ensure that they continue to comply with *SYSC 6.3.1 R*.

SYSC 6.3.4 G

A *firm* may also have separate obligations to comply with relevant legal requirements, including the *Terrorism Act 2000,* the *Proceeds of Crime Act 2002* and the *Money Laundering Regulations*. *SYSC 6.1.1 R* and *SYSC 6.3.1 R* to *SYSC 6.3.10 G* are not relevant for the purposes of regulation 76(6) or 86(2) of the *Money Laundering Regulations*, *section 330(8)* of the Proceeds of Crime Act 2002 or *section 21A(6)* of the Terrorism Act 2000.

SYSC 6.3.5 G

The *FCA*, when considering whether a breach of its *rules* on systems and controls against *money laundering* has occurred, will have regard to whether a *firm* has followed relevant provisions in the guidance for the *United Kingdom* financial sector issued by the Joint Money Laundering Steering Group.

SYSC 6.3.6 G

In identifying its *money laundering* risk and in establishing the nature of these systems and controls, a *firm* should consider a range of factors, including:

(1) its customer, product and activity profiles;

(2) its distribution channels;

(3) the complexity and volume of its transactions;

(4) its processes and systems; and

(5) its operating environment.

SYSC 6.3.7 G

A *firm* should ensure that the systems and controls include:

(1) appropriate training for its employees in relation to *money laundering*;

(2) appropriate provision of information to its *governing body* and senior management, including a report at least annually by that *firm's money laundering reporting officer* (*MLRO*) on the operation and effectiveness of those systems and controls;

(3) appropriate documentation of its risk management policies and risk profile in relation to *money laundering*, including documentation of its application of those policies (see *SYSC 9*);

(4) appropriate measures to ensure that *money laundering* risk is taken into account in its day-to-day operation, including in relation to:

(a) the development of new products;

(b) the taking-on of new customers; and

(c) changes in its business profile; and

(5) appropriate measures to ensure that procedures for identification of new customers do not unreasonably deny access to its services to potential customers who cannot reasonably be expected to produce detailed evidence of identity.

SYSC 6.3.8 R

(1) A *firm* must allocate to a *director* or *senior manager* (who may also be the *money laundering reporting officer*) overall responsibility within the *firm* for the establishment and maintenance of effective anti-*money laundering* systems and controls.

(2) A *firm* may not allocate overall responsibility under (1) to a *person* who is approved to perform the *other overall responsibility function*.

The money laundering reporting officer

SYSC 6.3.9 R

A *firm* (with the exception of a *sole trader* who has no employees) must:

(1) appoint an individual as *MLRO*, with responsibility for oversight of its compliance with the *FCA's rules* on systems and controls against *money laundering*; and

(2) ensure that its *MLRO* has a level of authority and independence within the *firm* and access to resources and information sufficient to enable him to carry out that responsibility.

SYSC 6.3.10 G

The job of the *MLRO* within a *firm* is to act as the focal point for all activity within the *firm* relating to anti-*money laundering*. The *FCA* expects that a *firm's MLRO* will be based in the *United Kingdom*.

Financial crime guidance

SYSC 6.3.11 G

The *FCA* provides *guidance* on steps that a *firm* can take to reduce the risk that it might be used to further *financial crime* in *FCG* (Financial Crime Guide: A firm's guide to countering financial crime risks) and *FCTR* (Financial Crime Thematic Reviews).

CHAPTER

SYSC 7 Risk control

Section : SYSC 7.1 Risk control requirements

Application to a common platform firm

SYSC 7.1.-2 G

For a *common platform firm*:

(1) [deleted]

(2) the *rules* and *guidance* apply as set out in the table below:

Subject	Applicable rule or guidance
Risk assessment	*SYSC 7.1.1G*, *SYSC 7.1.2-AR*
Risk management	*SYSC 7.1.3R*, *SYSC 7.1.4R*, *SYSC 7.1.4AG*, *SYSC 7.1.5R*, *SYSC 7.1.6R*, *SYSC 7.1.7R*
Risk control: remuneration	*SYSC 7.1.7BG*
Risk control: additional provisions	*SYSC 7.1.7CG*, *SYSC 7.1.8G*
Additional rules for CCR firms	*SYSC 7.1.16CR* to *SYSC 7.1.22R*

Application to an MiFID optional exemption firm and to a third country firm

SYSC 7.1.-1 G

For a *MiFID optional exemption firm* and a *third country firm*:

(1) the *rules* and *guidance* in this chapter apply to them as if they were *rules* or as *guidance* in accordance with *SYSC 1 Annex 1* 3.2CR(1).

(2) [deleted]

Risk assessment

SYSC 7.1.1 G *SYSC 4.1.1 R* requires a *firm* to have effective processes to identify, manage, monitor and report the risks it is or might be exposed to.

SYSC 7.1.2 R A *firm* that is a*UCITS investment firm* or an *operator of an electronic system in relation to lending* must establish, implement and maintain adequate risk management policies and procedures, including effective procedures for risk assessment, which identify the risks relating to the *firm's* activities, processes and systems, and where appropriate, set the level of risk tolerated by the *firm*.

SYSC 7.1.2-A R A *common platform firm* must establish, implement and maintain adequate risk management policies and procedures which identify the risks relating to the *firm's* activities, processes and systems and, where appropriate, set the level of risk tolerated by the *firm*.

SYSC 7.1.2A G Other *firms* should take account of the risk management policies and procedures *rule* (*SYSC 7.1.2 R*) as if it were *guidance* (and as if should appeared in that *rule* instead of must) as explained in *SYSC 1 Annex 1* 3.3 R(1).

SYSC 7.1.2B G A *management company* should be aware that *COLL 6.11* contains requirements in relation to risk control and internal reporting that will apply to it.

SYSC 7.1.2C G *Full-scope UK AIFMs* should be aware that *FUND 3.7* and articles 38 to 47 of the *AIFMD level 2 regulation* contain further requirements in relation to risk management.

SYSC 7.1.3 R A *firm* that is a *common platform firm* or an *operator of an electronic system in relation to lending* must adopt effective arrangements, processes and mechanisms to manage the risk relating to the *firm's* activities, processes and systems, in light of the level of risk tolerance set in accordance with *SYSC 7.1.2R* or (if it is *common platform firm*) *SYSC 7.1.2-AR*.

Risk management

SYSC 7.1.4 R The *management body* of a *common platform firm* or of an *operator of an electronic system in relation to lending* must approve and periodically review the strategies and policies for taking up, managing, monitoring and mitigating the risks the *firm* is or might be exposed to, including those posed by the macroeconomic environment in which it operates in relation to the status of the business cycle.
[**Note**: article 76(1) of *CRD*]

SYSC 7.1.4A G *MIFIDPRU investment firms* should refer to *MIFIDPRU 7* for more specific details on risk management expectations.

SYSC 7.1.4B G Other *firms* should take account of the risk management *rules* (*SYSC 7.1.3 R* and *SYSC 7.1.4 R*) as if they were *guidance* (and as if "should" appeared in those *rules* instead of "must") as explained in *SYSC 1 Annex 1* 3.3 R(1).

SYSC 7.1.5 R

A *firm* that is a *common platform firm* or an *operator of an electronic system in relation to lending* must monitor the following:

(1) the adequacy and effectiveness of the *firm's* risk management policies and procedures;

(2) the level of compliance by the *firm* and its *relevant persons* with the arrangements, processes and mechanisms adopted in accordance with *SYSC 7.1.3 R*;

(3) the adequacy and effectiveness of measures taken to address any deficiencies in those policies, procedures, arrangements, processes and mechanisms, including failures by the *relevant persons* to comply with such arrangements or processes and mechanisms or follow such policies and procedures.

SYSC 7.1.6 R

A *firm* that is a *common platform firm* or an *operator of an electronic system in relation to lending* must, where appropriate and proportionate in view of the nature, scale and complexity of its business and the nature and range of the *designated investment business* undertaken in the course of that business, establish and maintain a risk management function that operates independently and carries out the following tasks:

(1) implementation of the policies and procedures referred to in *SYSC 7.1.2 R* to *SYSC 7.1.5 R;* and

(2) provision of reports and advice to *senior personnel* in accordance with *SYSC 4.3.2 R* or (if it is a *common platform firm*) to *senior management* in accordance with *SYSC 4.3.2-AR(3)*.

Risk assessment

SYSC 7.1.7 R

Where a *firm* that is a *common platform firm* or an *operator of an electronic system in relation to lending* is not required under *SYSC 7.1.6 R* to maintain a risk management function that functions independently, it must nevertheless be able to demonstrate that the policies and procedures which it has adopted in accordance with *SYSC 7.1.2 R* to *SYSC 7.1.5 R* satisfy the requirements of those *rules* and (in the case of an *operator of an electronic system in relation to lending*) are consistently effective.

Risk management

SYSC 7.1.7A G

Other *firms* should take account of the risk management *rules* (*SYSC 7.1.5 R* to *SYSC 7.1.7 R*) as if they were *guidance* (and as if should appeared in those *rules* instead of must) as explained in *SYSC 1 Annex 1* 3.3 R(1).

SYSC 7.1.7B G

In setting the method of determining the *remuneration* of *employees* involved in the risk management function:

(1) *firms* that *SYSC 19D* applies to will also need to comply with the *dual-regulated firms Remuneration Code*; and

(2) *firms* that the remuneration part of the *PRA Rulebook* applies to will also need to comply with it.

SYSC 7.1.7BA G

In setting the method of determining the *remuneration* of *employees* involved in the risk management function *full-scope UK AIFMs* will need to comply with the *AIFM Remuneration Code*.

SYSC 7.1.7BD G

In setting the method of determining the *remuneration* of *employees* involved in the risk management function, *firms* that *SYSC 19G* applies to will also need to comply with the *MIFIDPRU Remuneration Code*.

Risk control: additional provisions

SYSC 7.1.7C G

Firms should also consider the additional *guidance* on risk-centric governance arrangements for effective risk management contained in *SYSC 21*.

SYSC 7.1.8 G

(1) [deleted]

(2)

The term 'risk management function' in *SYSC 7.1.6 R* and *SYSC 7.1.7R*, refers to the generally understood concept of risk assessment within a *firm*, that is, the function of setting and controlling risk exposure.

(3) [deleted]

(4)

For an *SMCR firm* that is a *PRA authorised person*, the risk management function is a *PRA controlled function* (SMF4). For an *enhanced scope SMCR firm* it is an *FCA controlled function*.

Additional rules for CRR firms

SYSC 7.1.17 R

(1) The *management body* of a *CRR firm* has overall responsibility for risk management. It must devote sufficient time to the consideration of risk issues.

(2) The *management body* of a *CRR firm* must be actively involved in and ensure that adequate resources are allocated to the management of all material risks addressed in the rules implementing the *CRD* and in the *UK CRR* as well as in the valuation of assets, the use of external ratings and internal models related to those risks.

(3) A *CRR firm* must establish reporting lines to the *management body* that cover all material risks and risk management policies and changes thereof.

[**Note**: article 76(2) of *CRD*]

SYSC 7.1.18 R

(1) A *CRR firm* that is significant must establish a risk committee composed of members of the *management body* who do not perform any executive function in the firm. Members of the risk committee must have appropriate knowledge, skills and

expertise to fully understand and monitor the risk strategy and the risk appetite of the *firm*.

(2) The risk committee must advise the *management body* on the institution's overall current and future risk appetite and assist the *management body* in overseeing the implementation of that strategy by *senior management*.

(3) The risk committee must review whether prices of liabilities and assets offered to clients take fully into account the *firm's* business model and risk strategy. Where prices do not properly reflect risks in accordance with the business model and risk strategy, the risk committee must present a remedy plan to the *management body*.

[**Note**: article 76(3) of *CRD*]

SYSC 7.1.18AA G A *CRR firm* which is not a *significant SYSC firm* may combine the risk committee with the audit committee.
[**Note**: article 76(3) of *CRD*]

SYSC 7.1.18B R Members of the combined risk and audit committee must have the knowledge, skills and expertise required for both committees.
[**Note**: article 76(3) of *CRD*]

SYSC 7.1.19 R

(1) A *CRR firm* must ensure that the *management body* in its supervisory function and, where a risk committee has been established, the risk committee have adequate access to information on the risk profile of the *firm* and, if necessary and appropriate, to the risk management function and to external expert advice.

(2) The *management body* in its supervisory function and, where one has been established, the risk committee must determine the nature, the amount, the format, and the frequency of the information on risk which it is to receive.

[**Note**: article 76(4) of *CRD*]

SYSC 7.1.20 R In order to assist in the establishment of sound remuneration policies and practices, the risk committee must, without prejudice to the tasks of the remuneration committee, examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.
[**Note**: article 76(4) of *CRD*]

SYSC 7.1.21 R

(1) A *CRR firm's* risk management function (*SYSC 7.1.2-AR*, *SYSC 7.1.3R*, *SYSC 7.1.5R* to *SYSC 7.1.7R*) must be independent from the operational functions and have sufficient authority, stature, resources and access to the *management body*.

(2) The risk management function must ensure that all material risks are identified, measured and properly reported. It must be actively involved in elaborating the *firm's* risk strategy and in all material risk management decisions and it must be able to deliver a complete view of the whole range of risks of the *firm*.

(3)

A *CRR firm* must ensure that the risk management function is able to report directly to the *management body* in its supervisory function, independent from *senior management* and that it can raise concerns and warn the *management body*, where appropriate, where specific risk developments affect or may affect the *firm*, without prejudice to the responsibilities of the *management body* in its supervisory and/or managerial functions pursuant to the *CRD* and the *UK CRR*.

[**Note**: article 76(5) of *CRD*]

SYSC 7.1.22 R

The head of the risk management function must be an independent *senior manager* with distinct responsibility for the risk management function. Where the nature, scale and complexity of the activities of the *CRR firm* do not justify a specially appointed person, another senior person within the *firm* may fulfil that function, provided there is no conflict of interest. The head of the risk management function must not be removed without prior approval of the *management body* and must be able to have direct access to the *management body* where necessary.

[**Note**: article 76(5) of *CRD*]

SYSC 7.1.23 G

(1) This *guidance* is relevant to an *SMCR banking firm* that has appointed a head of the risk management function.

(2) Taking account of the nature, scale and complexity of its activities, the *firm* should have appropriate procedures to ensure that the removal or any other disciplinary sanctioning of the head of the risk management function does not undermine the independence of the risk management function.

(3) It will be appropriate, in many cases, for the procedures in (2) to include that any approval for the removal of the head of the risk management function requires the approval of a majority of the *management body*, including at least a majority of its members who do not perform any executive function in the *firm*.

(4) It will also be appropriate, in many cases, for any other disciplinary sanctioning of the head of the risk management function to require the approval of a majority of the *management body*, including at least a majority of its members who do not perform any executive function in the *firm*.

CHAPTER

SYSC 8 Outsourcing

Section : SYSC 8.1 General outsourcing requirements

Application to a common platform firm

SYSC 8.1.-2 G

For a *common platform firm*:

(1) [deleted]

(2) the *rules* and *guidance* apply as set out in the table below:

Subject	Applicable rule or guidance
General requirements	*SYSC 8.1.1R*, *SYSC 8.1.2G*, *SYSC 8.1.3G*
Scope of critical and important operational functions	*SYSC 8.1.4AR, SYSC 8.1.5R*
Outsourcing critical or important operational functions	*SYSC 8.1.6-AR* to *SYSC 8.1.8R, SYSC 8.1.9R, SYSC 8.1.10R, SYSC 8.1.11-AR, SYSC 8.1.11-BR, SYSC 8.1.11-CG, SYSC 8.1.12G*

Application to an MiFID optional exemption firm and to a third country firm

SYSC 8.1.-1 G

For a *MiFID optional exemption firm* and a *third country firm*:

(1)

the *rules* and *guidance* in this chapter apply to them as if they were *rules* or as *guidance* in accordance with *SYSC 1 Annex 1* 3.2CR(1).

(2) [deleted]

General requirements

SYSC 8.1.1 R

A *common platform firm* must:

(1) when relying on a third party for the performance of operational functions which are critical for the performance of *regulated activities*, *listed activities* or *ancillary services* (in this chapter "relevant services and activities") on a continuous and satisfactory basis, ensure that it takes reasonable steps to avoid undue additional operational risk; and

(2) not undertake the *outsourcing* of important operational functions in such a way as to impair materially:

(a) the quality of its internal control; and

(b) the ability of the *FCA* to monitor the *firm's* compliance with all obligations under the *regulatory system* and, if different, of a *competent authority* to monitor the *firm's* compliance with all obligations under *MiFID*.

[**Note:** article 16(5) first paragraph of *MiFID*]

SYSC 8.1.1A G Other *firms* should take account of the outsourcing *rule* (*SYSC 8.1.1 R*) as if it were *guidance* (and as if should appeared in that *rule* instead of must) as explained in *SYSC 1 Annex 1* 3.3R(1).

SYSC 8.1.2 G The application of *SYSC 8.1* to relevant services and activities (see *SYSC 8.1.1 R (1)*) is limited by *SYSC 1 Annex 1 (Part 2)* (Application of the common platform requirements).

SYSC 8.1.3 G *SYSC 4.1.1 R* requires a *firm* to have effective processes to identify, manage, monitor and report risks and internal control mechanisms. Except in relation to those functions described in *SYSC 8.1.5R*, where a *firm* relies on a third party for the performance of operational functions which are not critical or important for the performance of relevant services and activities (see *SYSC 8.1.1 R (1)*) on a continuous and satisfactory basis, it should take into account, in a manner that is proportionate given the nature, scale and complexity of the *outsourcing*, the *rules* in this section in complying with that requirement.

Scope of critical and important operational functions

SYSC 8.1.4 R For the purposes of this chapter an operational function is regarded as critical or important if a defect or failure in its performance would materially impair the continuing compliance of a *firm* (other than a *common platform firm*) with the conditions and obligations of its *authorisation* or its other obligations under the *regulatory system*, or its financial performance, or the soundness or the continuity of its relevant services and activities.

SYSC 8.1.4A R For the purposes of this chapter, an operational function is regarded as critical or important if a defect or failure in its performance would materially impair the continuing compliance of a *common platform firm* with the conditions and obligations of its *authorisation* or its other obligations under the *UK law on markets in financial instruments*, or its financial performance, or the soundness or the continuity of its *designated investment business*.

SYSC 8.1.5 R For a *common platform firm* and without prejudice to the status of any other function, the following functions will not be considered as critical or important for the purposes of this chapter:

(1) the provision to the *firm* of advisory services, and other services which do not form part of the relevant services and activities of the *firm*, including the provision of legal advice to the *firm*, the training of personnel of the *firm*, billing services and the security of the *firm's* premises and personnel;

(2)

the purchase of standardised services, including market information services and the provision of price feeds;

(3) the recording and retention of relevant telephone conversations or electronic communications subject to *SYSC 10A*.

SYSC 8.1.5A G Other *firms* should take account of the critical functions *rules* (*SYSC 8.1.4 R* and *SYSC 8.1.5 R*) as if they were *guidance* (and as if should appeared in those *rules* instead of must) as explained in *SYSC 1 Annex 1* 3.3R(1).

Outsourcing critical or important operational functions

SYSC 8.1.6 R If a *firm* (other than a *common platform firm*) *outsources* critical or important operational functions or any relevant services and activities, it remains fully responsible for discharging all of its obligations under the *regulatory system* and must comply, in particular, with the following conditions:

(1) the *outsourcing* must not result in the delegation by *senior personnel* of their responsibility;

(2) the relationship and obligations of the *firm* towards its *clients* under the *regulatory system* must not be altered;

(3) the conditions with which the *firm* must comply in order to be *authorised*, and to remain so, must not be undermined;

(4) none of the other conditions subject to which the *firm'sauthorisation* was granted must be removed or modified.

SYSC 8.1.6-A R If a *common platform firm outsources* critical or important operational functions, it remains fully responsible for discharging all of its obligations under the *UK law on markets in financial instruments* and must comply with the following conditions:

(1) the *outsourcing* must not result in the delegation by *senior management* of their responsibility;

(2) the relationship and obligations of the *firm* towards its *clients* under the *UK law on markets in financial instruments* must not be altered;

(3) the conditions with which the *firm* must comply in order to be *authorised*, and to remain so, must not be undermined;

(4) None of the other conditions subject to which the *firm'sauthorisation* was granted must be removed or modified.

SYSC 8.1.6A G A *UCITS investment firm* should take account of the provisions that apply to a *common platform firm* in relation to its *MiFID business* in accordance with *SYSC 8.1.-2G*.

SYSC 8.1.7 R A *common platform firm* must exercise due skill and care and diligence when entering into, managing or terminating any arrangement for the *outsourcing* to a service provider of critical or important operational functions or of any relevant services and activities.

SYSC 8.1.8 R A *common platform firm* must in particular take the necessary steps to ensure that the

following conditions are satisfied:

(1) the service provider must have the ability, capacity, appropriate organisational structure supporting the performance of the *outsourced* functions, and any authorisation required by law to perform the *outsourced* functions, services or activities reliably and professionally;

(2) the service provider must carry out the *outsourced* services effectively, and in compliance with applicable laws and regulatory requirements, and to this end the *firm* must establish methods for assessing the standard of performance of the service provider and for reviewing on an ongoing basis the services provided by the service provider;

(3) the service provider must properly supervise the carrying out of the *outsourced* functions, and adequately manage the risks associated with the *outsourcing*;

(4) appropriate action must be taken if it appears that the service provider may not be carrying out the functions effectively and in compliance with applicable laws and regulatory requirements;

(5) the *firm* must effectively supervise the *outsourced* functions or services and manage the risks associated with the *outsourcing*, and to this end the *firm* must retain the necessary expertise and resources to supervise the *outsourced* functions effectively and to manage those risks;

(6) the service provider must disclose to the *firm* any development that may have a material impact on its ability to carry out the *outsourced* functions effectively and in compliance with applicable laws and regulatory requirements;

(7) the *firm* must be able to terminate the arrangement for the *outsourcing* where necessary, with immediate effect when this is in the interest of its *clients*, without detriment to the continuity and quality of its provision of services to *clients*;

(8) the service provider must co-operate with the *FCA* and any other relevant *competent authority* in connection with the *outsourced* activities;

(9) the *firm*, its auditors, the *FCA* and any other relevant competent authority must have effective access to data related to the *outsourced* activities, as well as to the business premises of the service provider, where necessary for the purpose of effective oversight in accordance with this provision; and the *FCA* and any other relevant competent authority must be able to exercise those rights of access;

(10)

the service provider must protect any confidential information relating to the *firm* and its *clients*;

(11) the *firm* and the service provider must establish, implement and maintain a contingency plan for disaster recovery and periodic testing of backup facilities where that is necessary having regard to the function, service or activity that has been *outsourced*.

(12) the *firm* must ensure that the continuity and quality of the *outsourced* functions or services are maintained also in the event of termination of the *outsourcing* either by transferring the *outsourced* functions or services to another third party or by performing them itself.

SYSC 8.1.9 R

A *common platform firm* must ensure that the respective rights and obligations of the *firm* and of the service provider are clearly allocated and set out in a written agreement. In particular, the *firm* must keep its instruction and termination rights, its rights of information, and its right to inspections and access to books and premises. The agreement must ensure that *outsourcing* by the service provider only takes place with the *firm's* consent in writing.

SYSC 8.1.10 R

If a *common platform firm*, and the service provider are members of the same *group*, the *firm* may, for the purpose of complying with *SYSC 8.1.6-AR, SYSC 8.1.7 R* to *SYSC 8.1.10R, SYSC 8.1.11-BR* and *SYSC 8.1.11-CG*, take into account the extent to which the *common platform firm controls* the service provider or has the ability to influence its actions.

SYSC 8.1.11 R

A *firm* (other than a *common platform firm*) must make available on request to the *FCA*all information necessary to enable the *FCA*to supervise the compliance of the performance of the *outsourced* activities with the requirements of the *regulatory system*.

SYSC 8.1.11-A R

A *common platform firm* must make available on request to the *FCA* all information necessary to enable the *FCA* to supervise the compliance of the performance of the *outsourced* activities with the requirements of the *UK law on markets in financial instruments*.

SYSC 8.1.11-B R

In addition to the requirements in *SYSC 8.1.6-AR*, *SYSC 8.1.7R* to *SYSC 8.1.10R* and *SYSC 8.1.11-AR*, where a *common platform firm outsources* functions related to *portfolio management* provided to *clients* to a service provider located in a *third country*, the *firm* must ensure that the following conditions are satisfied:

(1) the service provider is authorised or registered in its home jurisdiction to provide that service and is effectively supervised by a *regulatory body* in that *third country*; and

(2) there is an appropriate cooperation agreement between the *FCA* and the *regulatory body* of the service provider.

SYSC 8.1.11-C G

For the purposes of the cooperation agreement referred to in *SYSC 8.1.11-BR(2)*:

(1) If the *FCA* enters into such agreement with a *regulatory body* in a *third country*, the *FCA* would include provisions to:

(a) obtain on request the information necessary to carry out their supervisory tasks pursuant to the *UK law on markets in financial instruments*;

(b) obtain access to the documents relevant for the performance of their supervisory duties maintained in the *third country*;

(c) receive information from the *regulatory body* in the *third country* as soon as possible for the purpose of investigating apparent breaches of the requirements under the *UK law on markets in financial instruments*;

(d) cooperate with regard to enforcement, in accordance with the national and international law applicable to the *regulatory body* in a *third country* and the *FCA* in the *United Kingdom* in cases of breach of the requirements under the *UK law on markets in financial instruments*.

(2) The *FCA* publishes on its website a list of the cooperation agreements with *regulatory bodies* in *third countries*.

[**Note**: The list of *FCA's* cooperation agreements with *regulatory bodies* in *third countries* can be found at: *https://www.fca.org.uk/publication/corporate/outsourcing-portfolio-management-list-cooperation-agreements-2018.pdf*]

SYSC 8.1.11A G Other *firms* should take account of the outsourcing of important operational functions *rules* (*SYSC 8.1.7 R* to *SYSC 8.1.11 R*) as if they were *guidance* (and as if should appeared in those *rules* instead of must) as explained in *SYSC 1 Annex 1* 3.3R(1).

SYSC 8.1.12 G As *SUP 15.3.8 G* explains, a *firm* should notify the *FCA* when it intends to rely on a third party for the performance of operational functions which are critical or important for the performance of relevant services and activities on a continuous and satisfactory basis.

Additional requirements for a management company

SYSC 8.1.13 R A *management company* must retain the necessary resources and expertise so as to monitor effectively the activities carried out by third parties on the basis of an arrangement with the *firm*, especially with regard to the management of the risk associated with those arrangements.
[**Note:** article 5(2) of the *UCITS implementing Directive*]

SYSC 8.1.14 G A *management company* should be aware that *SUP 15.8.6 R* (Delegation by UCITS management companies) and *COLL 6.6.15A R* (Committees and delegations) contain requirements implementing article 13 of the *UCITS Directive* in relation to delegation that will apply to it.

CHAPTER

SYSC 9 Record-keeping

Section : SYSC 9.1 General rules on record-keeping

Application to a common platform firm

SYSC 9.1.-2 G

For a *common platform firm*:

(1) [deleted]

(2) the *rules* and *guidance* apply as set out in the table below:

Subject	Applicable rule or guidance
General requirements	*SYSC 9.1.1AR, SYSC 9.1.1BR, SYSC 9.1.2-AR*
Specific requirements for insurance distribution	*SYSC 9.1.2AR*, *SYSC 9.1.2CR*
Guidance on record-keeping	*SYSC 9.1.2BG*,*SYSC 9.1.4G*, *SYSC 9.1.5G*, *SYSC 9.1.6G*, *SYSC 9.1.6AG*

Application to an MiFID optional exemption firm and to a third country firm

SYSC 9.1.-1 G

For a *MiFID optional exemption firm* and a *third country firm*:

(1) the *rules* and *guidance* in this chapter apply to them as if they were *rules* or as *guidance* in accordance with *SYSC 1 Annex 1* 3.2CR(1).

(2) [deleted]

General requirements

SYSC 9.1.1 R

A *firm* (other than a *common platform firm*) must arrange for orderly records to be kept of its business and internal organisation, including all services and transactions undertaken by it, which must be sufficient to enable the *FCA* to monitor the *firm's* compliance with the requirements under the *regulatory system*, and in particular to ascertain that the *firm* has complied with all obligations with respect to *clients*.

[**Note**: article 12(1)(a) of the *UCITS Directive* and article 4(1)(e) of the *UCITS implementing Directive*]

SYSC 9.1.1A R

(1) A *common platform firm* must arrange for records to be kept of all services, activities and transactions undertaken by it.

(2) The records in (1) must be sufficient to enable the *FCA* to fulfil its supervisory tasks and to perform the enforcement actions under the *regulatory system* including *MiFID*, *MiFIR* and the *Market Abuse Regulation*, and in particular to ascertain that the *common platform firm* has complied with all obligations including those with respect to *clients* or potential *clients* and to the integrity of the market.

[**Note:** article 16(6) of *MiFID*]

SYSC 9.1.1B R

A *common platform firm* must:

(1) at least keep the records in relation to organisational requirements as set out in the table below:

Organisational requirements	
Type of record	**Summary of content**
The *firm's* business and internal organisation	Records as provided for under *SYSC 4.1.1-AR(1)(d)*
Compliance reports	Each compliance report to *management body*
Conflict of Interest record	Records as provided for under *SYSC 10.1.6R* and *SYSC 10.1.6AAR*
Risk management reports	Each risk management report to *senior management*
Internal audit reports	Each internal audit report to senior management
Records of personal transactions	Records as provided for under *COBS 11.7A.5R(5)(c)*

(2) keep written records of any policies and procedures it is required to maintain to comply with its obligations under the *UK law on markets in financial instruments* and the *UK law on market abuse*.

SYSC 9.1.2 R

A *common platform firm*must retain all records kept by it under this chapter in relation to its *MiFID business* for a period of at least five years.

SYSC 9.1.2-A R

In relation to its *MiFID business*, a *common platform firm* must retain records in a medium that allows the storage of information in a way accessible for future reference by the *FCA*, and so that the following conditions are met:

(1) the *FCA* or any other relevant competent authority must be able to access them readily and to reconstitute each key stage of the processing of each transaction;

(2) it must be possible for any corrections or other amendments, and the contents of the records prior to such corrections and amendments, to be easily ascertained;

(3) it must not be possible for the records otherwise to be manipulated or altered;

(4) it must allow the use of IT systems or any other efficient technology when the analysis of the data cannot be easily carried out due to the volume and the nature of the data; and

(5) the *firm's* arrangements must comply with the record keeping requirements irrespective of the technology used.

Specific requirements for the distribution of insurance-based

investment products

SYSC 9.1.2A R

A *firm* carrying on *insurance distribution activities* in relation to *insurance-based investment products* must retain its records relating to:

(1) suitability (*COBS 9A*); and

(2) appropriateness (*COBS 10A*),

for a period of at least five years.

SYSC 9.1.2B G

(1) COBS 9A.4 and COBS 10A.7 (record keeping and retention periods for suitability and appropriateness records) set record keeping requirements that specify information which should be recorded by *firms* carrying on *insurance distribution activities* in relation to insurance-based investment products and for how long the records must be retained.

(2) For the purposes of *SYSC 9.1.2AR*, a *firm* will need to consider whether the requirement in *COBS 9A.4.3R* or *COBS 10A.7.2AR* means that a record needs to be retained for longer than five years.

SYSC 9.1.2C R

(1) The records required by *COBS 9A.4* or *COBS 10A.7* must be retained in a medium that allows the storage of information in a way accessible for future reference by the *FCA*.

(2) For the purposes of (1), the *FCA* must be able to access the records readily, to reconstitute each element in a clear and accurate manner and to identify easily any changes, corrections or other amendments, and the contents of the records prior to such modifications.

[**Note:** article 19(4) of the *IDD Regulation*]

Guidance on record-keeping

SYSC 9.1.4 G

Subject to any other record-keeping *rule* in the *Handbook*, the records required under the *Handbook* should be capable of being reproduced in the English language on paper. Where a *firm* is required to retain a record of a communication that was not made in the English language, it may retain it in that language. However, it should be able to provide a translation on request. If a *firm's* records relate to business carried on from an establishment in a country or territory outside the *United Kingdom*, an official language of that country or territory may be used instead of the English language.

SYSC 9.1.5 G

In relation to the retention of records for non-*MiFID business*, a *firm* should have appropriate systems and controls in place with respect to the adequacy of, access to, and the security of its records so that the *firm* may fulfil its regulatory and statutory obligations. With respect to retention periods, the general principle is that records should be retained for as long as is relevant for the purposes for which they are made.

SYSC 9.1.6 G

Schedule 1 to each module of the *Handbook* sets out a list summarising the record-keeping requirements of that module.

SYSC 9.1.6A G *SYSC 28* contains *rules* and *guidance* on knowledge and competence record keeping in relation to *insurance distribution activities* undertaken by the *firm*.

Section : SYSC 9.2 Credit institutions providing account information services or payment initiation services

SYSC 9.2.1 R

A *credit institution* must keep records of any *account information services* and *payment initiation services* it provides in the *UK*.

SYSC 9.2.4 R

The records required by *SYSC 9.2.1R* must be sufficient to enable the *credit institution* to provide to the *FCA*, upon request, the following information:

(1) The number of different *payment accounts* that the *credit institution* has accessed for the purposes of providing *account information services*.

(2) The number of *payment service users* who have used the *account information services* provided by the *credit institution*.

(3) The number of different *payment accounts* that the *credit institution* has accessed for the purposes of providing *payment initiation services*.

(4) The number of *payment transactions* the *credit institution* has initiated when providing *payment initiation services*.

SYSC 9.2.5 R

The records required by *SYSC 9.2.1R* must be sufficient to enable the *credit institution* to provide the *FCA* with the information specified in *SYSC 9.2.4R* for each calendar year in the previous five years, except that there is no requirement to record this information for any period prior to 13 January 2018.

SYSC 9.2.6 R

(1) When keeping records in accordance with *SYSC 9.2.4R (1)* and *(3)*, *credit institutions* should count each individual payment account once, even where it has been accessed multiple times.

(2) When keeping records in accordance with *SYSC 9.2.4R (2)*, *credit institutions* should count each customer once (including where the customer has used the *account information services* multiple times).

SYSC 9.2.7 G

Credit institutions providing *account information services* and *payment initiation services* are also required to notify the *FCA* in accordance with *SUP 15.8.12R*.

CHAPTER

SYSC 10 Conflicts of interest

Section : SYSC 10.1 Application

Application to funeral plan distribution

SYSC 10.1.-5 G This section applies to a *firm* carrying on *funeral plan distribution* in accordance with the tables in Part 3 of *SYSC 1 Annex 1*.

Application to insurance intermediaries

SYSC 10.1.-4 G (1) Subject to *SYSC 10.1.-3R*, this section applies to a *firm* carrying on *insurance distribution activities* in accordance with the tables in Part 3 of *SYSC 1 Annex 1*. Certain *rules* are disapplied where the *firm* is subject to the provisions in *SYSC 10.1A* (see *SYSC 10.1.-3R*).

(2) Where a provision in this section applies to an *insurance intermediary*, it applies in relation to the carrying on of *insurance distribution activities*.

SYSC 10.1.-3 R The *rules* and *guidance* in the table below do not apply to a *firm* when carrying on *insurance distribution* in relation to *insurance-based investment products* where the *rules* in *SYSC 10.1A* apply instead.

Subject	Rule or guidance
Types of conflict	*SYSC 10.1.4R* , *SYSC 10.1.4AG*, *SYSC 10.1.4BR*, *SYSC 10.1.4CR*(1), (2) and (5) and *SYSC 10.1.5G*.
Record of conflicts	*SYSC 10.1.6R* , *SYSC 10.1.6AG*, *SYSC 10.1.6AAR* and *SYSC 10.1.6BG*
Disclosure of conflicts	*SYSC 10.1.8R* (1)(b), (2)(b) to (2)(d) and *SYSC 10.1.9AR*
Conflicts policy	*SYSC 10.1.10R*
Contents of policy	*SYSC 10.1.11R* , *SYSC 10.1.11AG*, *SYSC 10.1.11AAR* and *SYSC 10.1.11BG*

Application to a common platform firm

SYSC 10.1.-2 G For a *common platform firm*:

(1) [deleted]

(2) the *rules* and *guidance* in the table below apply:

Subject	Applicable rule or guidance
Application	*SYSC 10.1.-4R*, *SYSC 10.1.-3R*
General application	*SYSC 10.1.1R*

Requirements only apply if a service is provided	*SYSC 10.1.2G*
Identifying conflicts	*SYSC 10.1.3R*
Types of conflicts	*SYSC 10.1.4R*, *SYSC 10.1.5G*
Records of conflicts	*SYSC 10.1.6R*, *SYSC 10.1.6AAR*
Managing conflicts	*SYSC 10.1.7R*
Disclosure of conflicts	*SYSC 10.1.8R*, *SYSC 10.1.9G*, *SYSC 10.1.9AR*
Conflicts policy	*SYSC 10.1.10R*, *SYSC 10.1.12G*
Contents of policy	*SYSC 10.1.11R*, *SYSC 10.1.11AAR*, *SYSC 10.1.11ABR*

(3)

SYSC 10.1.7AR (Proportionality – insurance distribution activities), *SYSC 10.1.8R* (Disclosure of conflicts) and *SYSC 10.1.11ABR* (Contents of policy) also apply in relation to the carrying on of *insurance distribution activities*.

Application to a MiFID optional exemption firm and to a third-country firm

SYSC 10.1.-1 G

For a *MiFID optional exemption firm* and a *third country firm*, the rules and guidance in this chapter apply to them as if they were *rules* or as *guidance* in accordance with *SYSC 1 Annex 1* 3.2CR(1).

General application

SYSC 10.1.1 R

(1) This section applies to a *firm* which provides services to its *clients* in the course of carrying on *regulated activities* or *ancillary activities* or providing *ancillary services* (but only where the *ancillary services* constitute *MiFID business*).

(2) This section also applies to a *UK UCITS management company*.

[**Note:** The provisions in *SYSC 10.1* also implement articles 27 and 28 of the *IDD*, articles 74(1) and 88 of *CRD* and as applied under the discretion in the third paragraph of article 95(2) of the *UK CRR*, *BCD* article 22 and *BCD* Annex V paragraph 1]

SYSC 10.1.1A R

This section also applies to:

(1) a *full-scope UK AIFM* of:

(a) a *UK AIF*; and

(b) [deleted]

(c) a *non-UK AIF*; and

(2) [deleted]

Requirements only apply if a service is provided

SYSC 10.1.2 G

(1) The requirements in this section only apply where a service is provided by a *firm*. The status of the *client* to whom the service is provided (as a *retail client*, *professional client* or *eligible counterparty*) is irrelevant for this purpose.

(2) For the avoidance of doubt, a reference to "service" in this section includes all *insurance distribution activities*.

SRD requirements

SYSC 10.1.2A R

The requirements in this section apply to an *SRD asset manager* with regard to its engagement activities covered by the *SRD*.

[**Note:** article 3g(3) of *SRD*]

Identifying conflicts

SYSC 10.1.3 R

A *firm* must take all appropriate steps to identify and to prevent or manage conflicts of interest between:

(1) the *firm*, including its managers, employees and *appointed representatives* (or where applicable, *tied agents*), or any *person* directly or indirectly linked to them by *control*, and a *client* of the *firm*; or

(2) one *client* of the *firm* and another *client*;

that arise or may arise in the course of the *firm* providing any service referred to in *SYSC 10.1.1R* including those caused by the receipt of inducements from third parties or by the *firm's* own remuneration and other incentive structures.

[**Note:** article 23(1) of *MiFID* and articles 27 and 28(1) of the *IDD*]

Types of conflicts

SYSC 10.1.4 R

For the purposes of identifying the types of conflict of interest that arise, or may arise, in the course of providing a service and whose existence may damage the interests of a *client*, a *firm* must take into account, as a minimum, whether the *firm* or a *relevant person*, or a *person* directly or indirectly linked by *control* to the *firm*:

(1) is likely to make a financial gain, or avoid a financial loss, at the expense of the *client*;

(2) has an interest in the outcome of a service provided to the *client* or of a transaction carried out on behalf of the *client*, which is distinct from the *client's* interest in that outcome;

(2A)
in the case of a *management company* providing *collective portfolio management* services for a *UCITS scheme*, (2) also applies where the service is provided to, or the transaction is carried out on behalf of, a *client* other than the *UCITS scheme*;

(3)
has a financial or other incentive to favour the interest of another *client* or group of *clients* over the interests of the *client*;

(4)
carries on the same business as the *client*; or in the case of a *management company*, carries on the same activities for the *UCITS scheme* and for another *client* or *clients* which are not *UCITS schemes*;

(5)
(except in the case of a *common platform firm* or *MiFID optional exemption firm*) receives or will receive from a *person* other than the *client* an inducement in relation to a service provided to the *client*, in the form of monies, goods or services, other than the standard commission or fee for that service; or

(6)
(in the case of a *common platform firm* or a *MiFID optional exemption firm*) receives or will receive from a *person* other than the *client* an inducement in relation to a service provided to the *client*, in the form of monetary or non-monetary benefits or services.

The conflict of interest may result from the *firm* or *person* providing a service referred to in *SYSC 10.1.1 R* or engaging in any other activity or, in the case of a *management company*, whether as a result of providing *collective portfolio management* services or otherwise.

[**Note:** article 17(1) of the *UCITS implementing Directive*]

SYSC 10.1.4A G

Other *firms* (except *common platform firms*, *MIFID optional exemption firms*, *third country firms*, *UCITS management companies* and *insurance intermediaries*) should take account of the *rule* on the types of conflicts (see *SYSC 10.1.4 R*) in accordance with*SYSC 1 Annex 1* 3.3R.

SYSC 10.1.4B R

For the purposes of identifying the types of conflict of interest that arise, or may arise, in the course of carrying on *insurance distribution activities* or funeral plan distributions*funeral plan distributions* and whose existence may damage the interests of a *client* ("A"), a *firm* must assess whether:

(1) the *firm* or a *relevant person*, or a *person* directly or indirectly linked by *control* to the *firm*; or

(2) (in the case of conflicts between A and another *client*) the other *client*,

has an interest in the outcome of the *insurance distribution activities* or *funeral plan distribution*, which meets the following criteria:

(3) it is distinct from A's interest in the outcome of the *insurance distribution activities* or *funeral plan distributions*; and

(4) it has the potential to influence the outcome of the activities to the detriment of A.

SYSC 10.1.4C R

For the purpose of carrying out the assessment in *SYSC 10.1.4BR*, a *firm* must take into account, as a minimum, whether the *firm* or a *relevant person*, or a *person* directly or indirectly linked by *control* to the *firm*:

(1) is likely to make a financial gain, or avoid a financial loss, at the expense of the *client*;

(2) has a financial or other incentive to favour the interest of another *client* or group of *clients* over the interest of the *client*;

(3) carries on the same business as the *client*;

(4) receives or will receive from a *person* other than the *client* an inducement in relation to a service provided to the *client*, in the form of monies, goods or services, other than the standard commission or fee for that service; or

(5) is substantially involved in the management or development of *policies*, in particular where such a *person* has an influence on the pricing of those policies or their distribution costs.

SYSC 10.1.5 G

The circumstances which should be treated as giving rise to a conflict of interest cover cases where there is a conflict between the interests of the *firm* or certain *persons* connected to the *firm* or the *firm'sgroup* and the duty the *firm* owes to a *client*; or between the differing interests of two or more of its *clients*, to whom the *firm* owes in each case a duty. It is not enough that the *firm* may gain a benefit if there is not also a possible disadvantage to a *client*, or that one *client* to whom the *firm* owes a duty may make a gain or avoid a loss without there being a concomitant possible loss to another such *client*.

Record of conflicts

SYSC 10.1.6 R

A *firm* must keep and regularly update a record of the kinds of service or activity carried out by or on behalf of that*firm* in which a conflict of interest entailing a material risk of damage, or for a *common platform firm* or a *MiFID optional exemption firm*, a risk of damage, to the interests of one or more *clients* has arisen or, in the case of an ongoing service or activity, may arise.

[**Note:** article 20(1) of the *UCITS implementing Directive*]

SYSC 10.1.6A G

Other *firms* (other than *common platform firms*, *MiFID optional exemption firms*, *third country firms* and *insurance intermediaries*) should also take account of the *rule* on records of conflicts (see *SYSC 10.1.6 R*) in accordance with *SYSC 1 Annex 1* 3.3R).

SYSC 10.1.6AA R

A *firm* must ensure that its *senior management* receives on a frequent basis, and at least annually, written reports on all situations referred to in *SYSC 10.1.6R*.

SYSC 10.1.6B G

Where *SYSC 10.4.6AAR* applies as *guidance* to a *firm* in accordance with *SYSC 1 Annex 1.3.3R*, a *firm* should read *SYSC 10.1.6AAR* as if “should” appeared in that rule instead of “must”.

Managing conflicts

SYSC 10.1.7 R

A *firm* must maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps to prevent conflicts of interest as defined in *SYSC 10.1.3 R* from adversely affecting the interests of its *clients*.

[**Note:** article 16(3) of *MiFID* and article 27 of the *IDD*]

Proportionality – insurance distribution activities

SYSC 10.1.7A R

Where a *firm* carries on *insurance distribution activities*, the arrangements in *SYSC 10.1.7R* must be proportionate to the activities performed, the *policies* sold and the type of *insurance distributor* the *firm* is or uses.

[**Note:** article 27 of the *IDD*]

Disclosure of conflicts

SYSC 10.1.8 R

(1) If arrangements made by a *firm* under *SYSC 10.1.7 R* are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of a *client* will be prevented, the *firm* must clearly disclose the following to the *client* before undertaking business for the *client*:

1. (a) the general nature or sources of conflicts of interest, or both; and
2. (b) the steps taken to mitigate those risks.

(2) The disclosure must:

(a) be made in a *durable medium*;

(b) clearly state that the organisational and administrative arrangements established by the *firm* to prevent or manage that conflict are not sufficient to ensure, with reasonable confidence, that the risks of damage to the interests of the *client* will be prevented;

(c) include specific description of the conflicts of interest that arise in the provision of services, taking into account the nature of the *client* to whom the disclosure is being made;

(d) explain the risks to the *client* that arise as a result of the conflicts of interest; and

(e) include sufficient detail, taking into account the nature of the *client*, to enable that *client* to take an informed decision with respect to the service in the context of which the conflict of interest arises.

(3) This *rule* does not apply to the extent that *SYSC 10.1.21 R* applies.

[**Note:** 23(2) and (3) of *MiFID* and article 28(2) and (3) of the *IDD*]

SYSC 10.1.9 G

Firms should aim to identify and manage the conflicts of interest arising in relation to their various business lines and their *group's* activities under a comprehensive *conflicts of interest policy*. In particular, the disclosure of conflicts of interest by a *firm* should not exempt it from the obligation to maintain and operate the effective organisational and administrative arrangements under *SYSC 10.1.7 R*. While disclosure of specific conflicts of interest is

required by *SYSC 10.1.8 R*, an over-reliance on disclosure without adequate consideration as to how conflicts may appropriately be managed is not permitted.

SYSC 10.1.9A R

A *firm* must treat disclosure of conflicts pursuant to *SYSC 10.1.8R* as a measure of last resort to be used only where the effective organisational and administrative arrangements established by the *firm* to prevent or manage its conflicts of interest in accordance with *SYSC 10.1.3R* and *SYSC 10.1.7R* are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of the *client* will be prevented.

Conflicts policy

SYSC 10.1.10 R

(1)

A *firm* must establish, implement and maintain an effective *conflicts of interest policy* that is set out in writing and is appropriate to the size and organisation of the *firm* and the nature, scale and complexity of its business.

(2)

Where the *firm* is a member of a *group*, the policy must also take into account any circumstances, of which the *firm* is or should be aware, which may give rise to a conflict of interest arising as a result of the structure and business activities of other members of the *group*.

[**Note:** article 18(1) of the *UCITS implementing Directive*]

Contents of policy

SYSC 10.1.11 R

(1) The *conflicts of interest policy* must include the following content:

1. (a)

it must identify in accordance with *SYSC 10.1.3 R*, *SYSC 10.1.4 R*, *SYSC 10.1.4BR* and *SYSC 10.1.4CR* (as applicable), by reference to the specific services and activities carried out by or on behalf of the *firm*, the circumstances which constitute or may give rise to a conflict of interest entailing a material risk of damage, or for a *common platform firm* or a *MiFID optional exemption firm* a risk of damage, to the interests of one or more *clients*; and

2. (b)

it must specify procedures to be followed and measures to be adopted by a *firm* in order to manage, or for a *common platform firm* or *MiFID optional exemption firm* to prevent or manage, such conflicts.

(2) The procedures and measures provided for in paragraph (1)(b) must:

(a)

be designed to ensure that *relevant person*s engaged in different business activities involving a conflict of interest of the kind specified in paragraph (1)(a) carry on those activities at a level of independence appropriate to the size and activities of the *firm* and of the *group* to which either of them respectively belongs, and to the materiality of the risk of damage to the interests of *clients*;

(aa)

(for an *insurance intermediary* or a *firm* carrying on *funeral plan distribution*) be designed to ensure that the *insurance distribution activities* or *funeral plan distribution* are carried out in accordance with the best interests of the *client* and are not biased due to conflicting interests of the *insurance intermediary*, the *firm* carrying on *funeral plan distribution* or another *client*; and

(b)

include, for a *firm*, where appropriate, the following, and for a *management company*, such of the following as are necessary and appropriate for the *management company* to ensure the requisite degree of independence:

1. (i)

effective procedures to prevent or control the exchange of information between *relevant person*s engaged in activities involving a risk of a conflict of interest where the exchange of that information may harm the interests of one or more *clients*;

2. (ii)

the separate supervision of *relevant person*s whose principal functions involve carrying out activities on behalf of, or providing services to, *clients* whose interests may conflict, or who otherwise represent different interests that may conflict, including those of the *firm*;

3. (iii)

the removal of any direct link between the remuneration of *relevant person*s principally engaged in one activity and the remuneration of, or revenues generated by, different *relevant person*s principally engaged in another activity, where a conflict of interest may arise in relation to those activities;

4. (iv)

measures to prevent or limit any *person* from exercising inappropriate influence over the way in which a *relevant person* carries out services or activities;

5. (v)

measures to prevent or control the simultaneous or sequential involvement of a *relevant person* in separate services or activities where such involvement may impair the proper management of conflicts of interest; and

6. (vi)

(for *insurance intermediaries* or *firms* carrying on *funeral plan distribution*) a gifts and benefits policy which determines clearly under which conditions gifts and benefits can be accepted or granted and which steps are to be taken when accepting and granting gifts and benefits.

(3)

If the adoption or the practice of one or more of those measures and procedures does not ensure the requisite level of independence, a *management company* must adopt such alternative or additional measures and procedures as are necessary and appropriate for the purposes of paragraph (1)(b).

(4)

If one or more of the measures and procedures in paragraph (2) is not appropriate for the purposes of paragraph (2)(aa), an *insurance intermediary* or a *firm* carrying on *funeral plan distribution* must adopt such alternative measures and procedures as are necessary and appropriate.

(5)

The procedures and measures provided for in paragraph (1)(b) must be appropriate to the size and activities of an *insurance intermediary* or a *firm* carrying on *funeral plan distribution*, the *group* to which it may belong and to the risk of damage to the interests of the *client*.

[**Note:** articles 18(2), 19(1) and 19(2) of the *UCITS implementing Directive*]

SYSC 10.1.11A G

Other *firms* (except *common platform firms*, *UCITS management companies*, *MiFID optional exemption firms*, *third-country firms*, *insurance intermediaries* and *firms* carrying on *funeral plan distribution*) should take account of the *rules* relating to *conflicts of interest policies* (see *SYSC 10.1.10 R* and *SYSC 10.1.11 R*) in accordance with *SYSC 1 Annex 1* 3.3R.

SYSC 10.1.11AA R

A *firm* must assess and periodically review, on at least an annual basis, the *conflicts of interest policy* established in accordance with *SYSC 10.1.10R* and *SYSC 10.1.11R* (or for a *common platform firm* or *MiFID optional exemption firm, SYSC 10.1.8R*, *SYSC 10.1.9AR* to *SYSC 10.1.11R*) and should take all appropriate measures to address any deficiencies (such as over reliance on disclosure of conflicts of interest).

SYSC 10.1.11AB R

A *common platform firm* and a *MiFID optional exemption firm*, in relation to its *insurance distribution activities*, must:

(1)

take into account the factors set out in *SYSC 10.1.4BR(4)* and *SYSC 10.1.4CR(5)* when complying with *SYSC 10.1.4R*; and

(2)

include the measure set out in *SYSC 10.1.11R(2)(b)(vi)* in the list of measures to be adopted, where necessary, when complying with *SYSC 10.1.11R(2)*.

SYSC 10.1.11B G

A *firm* (other than a *common platform firm*, an *insurance intermediary* and a *firm* carrying on *funeral plan distribution*) should read *SYSC 10.1.11AAR* as if “should” appeared in that rule instead of “must”.

SYSC 10.1.12 G

In drawing up a *conflicts of interest policy* which identifies circumstances which constitute or may give rise to a conflict of interest, a *firm* should pay special attention to the activities of investment research and advice, proprietary trading, portfolio management and corporate finance business, including underwriting or selling in an offering of securities and advising on mergers and acquisitions. In particular, such special attention is appropriate where the *firm* or a *person* directly or indirectly linked by *control* to the *firm* performs a combination of two or more of those activities.

Application of conflicts of interest rules to non-common platform firms

when producing investment research or non-independent research

SYSC 10.1.16 R

The *rules* relating to:

(1) types of conflict (see *SYSC 10.1.4 R*);

(2) records of conflicts (see *SYSC 10.1.6 R*); and

(3) *conflicts of interest policies* (see *SYSC 10.1.10 R* and *SYSC 10.1.11 R*);

also apply to a *firm* which is not a *common platform firm* when it produces, or arranges for the production of, *investment research* that is intended or likely to be subsequently disseminated to *clients* of the *firm* or to the public, and when it produces or disseminates *non-independent research*, in accordance with *COBS 12.2*.

Additional requirements for a management company

SYSC 10.1.17 R

A *UK UCITS management company*, when identifying the types of conflict of interests for the purposes of *SYSC 10.1.4 R*, must take into account:

(1) the interests of the *firm*, including those deriving from its belonging to a *group* or from the performance of services and activities, the interests of the *clients* and the duty of the *firm* towards the *UCITS scheme*it manages; and

(2) where it manages two or more *UCITS schemes*, the interests of all of them.

[**Note:** article 17(2) of the *UCITS implementing Directive*]

SYSC 10.1.18 G

For a *UK UCITS management company*, references to client in *SYSC 10.1.4 R* and in the other *rules* in this section should be construed as referring to any *UCITS scheme*managed by that *firm* or which it intends to manage, and with or for the benefit of which the relevant activity is to be carried on.

Structure and organisation of a management company

SYSC 10.1.19 R

A *UK UCITS management company* must be structured and organised in such a way as to minimise the risk of a *UCITS scheme's* or *client's* interests being prejudiced by conflicts of interest between the *UK UCITS management company* and its *clients*, between two of its *clients*, between one of its *clients* and a *UCITS scheme*, or between two such *schemes*.
[**Note:** articles 12(1)(b) and 14(1)(d) of the *UCITS Directive*]

Avoidance of conflicts of interest for a management company

SYSC 10.1.20 R

A *UK UCITS management company* must try to avoid conflicts of interest and, when they cannot be avoided, ensure that the *UCITS schemes*it manages are fairly treated.
[**Note:** articles 12(1)(b) and 14(1)(d) of the *UCITS Directive*]

Disclosure of conflicts of interest for a management company

SYSC 10.1.21 R

(1) Where the organisational or administrative arrangements made by a *UK UCITS management company* for the management of conflicts of interest are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of the *UCITS scheme*it manages or of its *Unitholders* will be prevented, the *senior personnel* or other competent internal body of the *firm* must be promptly informed in

order for them to take any necessary decision to ensure that in all cases the *firm* acts in the best interests of the *scheme* and of its *Unitholders*.

(2) A *UK UCITS management company* must report situations referred to in (1) to the *Unitholders* of the *UCITS scheme*it manages by any appropriate *durable medium* and give reasons for its decision.

[**Note:** articles 20(2) and 20(3) of the *UCITS implementing Directive*]

Collective portfolio management investment firms

SYSC 10.1.22 R

A *collective portfolio management investment firm* which manages investments other than for an *AIF* or *UCITS* for which it has been appointed as manager, must obtain approval from its *client* before it invests all or part of the *client's* portfolio in *units* or *shares* of an *AIF* or *UCITS* it manages.

[**Note**: article 12(2)(a) of the *UCITS Directive* and article 12(2)(a) of *AIFMD*]

Additional requirements for an AIFM

SYSC 10.1.23 R

An *AIFM* must take all reasonable steps to identify conflicts of interest that arise, in the course of managing *AIFs*, between:

(1) the *AIFM*, including its managers, *employees* or any person directly or indirectly linked to the *AIFM* by *control*, and an *AIF* managed by the *AIFM* or the investors in that *AIF*; or

(2) an *AIF* or the investors in that *AIF*, and another *AIF* or the investors in that *AIF*; or

(3) an *AIF* or the investors in that *AIF*, and another *client* of the *AIFM*; or

(4) an *AIF* or the investors in that *AIF*, and a *UCITS* managed by the *AIFM* or the investors in that *UCITS*; or

(5) two *clients* of the *AIFM*.

[**Note**: article 14(1) first paragraph of *AIFMD*]

SYSC 10.1.24 R

An *AIFM* must take all reasonable steps to avoid conflicts of interest and, when they cannot be avoided, manage, monitor and (where applicable) disclose those conflicts of interest in order to prevent them from adversely affecting the interests of the *AIFs* and their investors, and to ensure that the *AIFs* it manages are fairly treated.

[**Note**: article 12(1)d of *AIFMD*]

SYSC 10.1.25 R

An *AIFM* must:

(1) maintain and operate effective organisational and administrative arrangements, with a view to taking all reasonable steps designed to identify, prevent, manage and monitor conflicts of interest in order to prevent them from adversely affecting the interests of the *AIFs* and their investors;

(2) segregate, within its own operating environment, tasks and responsibilities which may be regarded as incompatible with each other or which may potentially generate systematic conflicts of interest; and

(3) assess whether its operating conditions may involve any other material conflicts of

interest and disclose them to the *AIF's* investors.

[**Note**: article 14(1) second and third paragraphs of *AIFMD*]

SYSC 10.1.26 R If the organisational arrangements made by the *AIFM* to identify, prevent, manage and monitor conflicts of interest are not sufficient to ensure, with reasonable confidence, that risks of damage to investors' interests will be prevented, the *AIFM* must:

(1) clearly disclose the general nature or sources of conflicts of interest to the investors before undertaking business on their behalf; and

(2) develop appropriate policies and procedures.

[**Note**: article 14(2) of *AIFMD*]

Subordinate measures for alternative investment fund managers

SYSC 10.1.27 G Articles 30 to 37 of the *AIFMD level 2 regulation* provide detailed rules supplementing the provisions of article 14 of *AIFMD*.

Section : SYSC 10.1A Insurance-based investment products – Conflicts of interest

Application

SYSC 10.1A.1 G This section applies, in addition to *rules* in *SYSC 10.1*, to a *firm* when carrying on *insurance distribution* in relation to *insurance-based investment products*. Where a *firm* carries on other *insurance distribution activities* in relation to a *life policy* or *non-investment insurance contract*, the requirements in *SYSC 10.1* will apply.

Identifying conflicts

SYSC 10.1A.2 R (1) For the purposes of identifying, in accordance with *SYSC 10.1.3R* and *SYSC 10.1.8R*, the types of conflicts of interest that arise in the course of carrying out any *insurance distribution activities* related to *insurance-based investment products* and which entail a risk of damage to the interests of a *client*, a *firm* must assess whether it, a *relevant person* or any *person* directly or indirectly linked to it by *control*, has an interest in the outcome of the *insurance distribution activities*, which meets the following criteria:

(a) it is distinct from the *client's* interest in the outcome of the *insurance distribution activities*;

(b) it has the potential to influence the outcome of the *insurance distribution activities* to the detriment of the *client*.

(2) A *firm* must proceed in the same way for the purposes of identifying conflicts of interest between one *client* and another.

(3) For the purposes of the assessment in (1), a *firm* must take into account, by way of minimum criteria, the following situations:

(a) the *firm*, a *relevant person* or any *person* directly or indirectly linked to it by *control* is likely to make a financial gain, or avoid a financial loss, to the potential detriment of the *client*;

(b) the *firm*, a *relevant person* or any *person* directly or indirectly linked to it by *control* has a financial or other incentive to favour the interest of another *client* or group of *clients* over the interest of the *client*;

(c) the *firm*, a *relevant person* or any *person* directly or indirectly linked by *control* to the *firm* is substantially involved in the management or development of *insurance-based investment products*, in particular where such a *person* has an influence on the pricing of those *policies* or their distribution costs.

[**Note:** article 3 of the *IDD Regulation*]

Conflicts policy

SYSC 10.1A.3 R (1) For the purposes of *SYSC 10.1.3R*, *SYSC 10.1.7R* and *SYSC 10.1.7AR*, in so far as those *rules* apply to *insurance-based investment products*, a *firm* must establish, implement and maintain an effective conflicts of interest policy set out in writing and appropriate to its size and organisation and the nature, scale and complexity of its business.

(2) Where the *firm* is a member of a group, the policy must also take into account any circumstances, of which the *firm* is or should be aware, which may give rise to a conflict of interest arising as a result of the structure and business activities of other members of the group.

[**Note:** article 4(1) of the *IDD Regulation*]

Contents of policy

SYSC 10.1A.4 R

The conflicts of interest policy required in *SYSC 10.1A.3R* must include the following content:

(1) with reference to the specific *insurance distribution activities* carried out, the circumstances which constitute or may give rise to a conflict of interest entailing a risk of damage to the interests of one or more *clients*;

(2) procedures to be followed and measures to be adopted in order to manage such conflicts and prevent them from damaging the interests of the *client*.

[**Note:** article 4(2) of the *IDD Regulation*]

SYSC 10.1A.5 R

(1) The procedures and measures required in *SYSC 10.1A.4R(2)* must be appropriate to the size and activities of the *firm* and of the group to which it may belong, and to the risk of damage to the interests of the *client*.

(2) The procedures to be followed and measures required in *SYSC 10.1A.4R(2)* must include, where appropriate, the following:

(a) effective procedures to prevent or control the exchange of information between *relevant persons* engaged in activities involving a risk of conflict of interest where the exchange of that information may damage the interests of one or more *clients*;

(b) the separate supervision of *relevant persons* whose principal functions involve carrying out activities on behalf of, or providing services, to *clients* whose interests may conflict, or who otherwise represent different interests that may conflict, including those of the *firm*;

(c) the removal of any direct link between payments, including *remuneration*, to *relevant persons* engaged in one activity and payments, including *remuneration*, to different *relevant persons* principally engaged in another activity, where a conflict of interest may arise in relation to those activities;

(d) measures to prevent or limit any *person* from exercising inappropriate influence over the way in which *insurance distribution activities* are carried out by the *firm* or its managers or employees or any *person* directly or indirectly linked to it by *control*;

(e) measures to prevent or control the simultaneous or sequential involvement of a *relevant person* in separate *insurance distribution activities* where such involvement may impair the proper management of conflicts of interest;

(f) a gifts and benefits policy which determines clearly under which conditions gifts and benefits can be accepted or granted and which steps are to be taken

when accepting and granting gifts and benefits.

(3) Where the *firm* can demonstrate that the measures and procedures referred to in (1) and (2) are not appropriate to ensure that the *insurance distribution activities* are carried out in accordance with the best interest of the *client* and are not biased due to conflicting interests of the *firm*, an *insurance undertaking* or another *client*, the *firm* must adopt adequate alternative measures and procedures for that purpose.

[**Note:** article 5 of the *IDD Regulation*]

Disclosure of conflicts

SYSC 10.1A.6 R

(1) A *firm* must avoid over-reliance on disclosure to ensure that disclosure to *clients* under *SYSC 10.1.8R*, in so far as those *rules* apply to *insurance-based investment products*, is a measure of last resort that can be used only where the effective organisational and administrative arrangements established by the *firm* to prevent or manage conflicts of interest in accordance with *SYSC 10.1.3R*, *SYSC 10.1.7R* and *SYSC 10.1.7AR*, in so far as those *rules* apply to *insurance-based investment products* are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of the *client* will be prevented.

(2) For the purposes of a disclosure of conflicts of interest a *firm* must:

(a) provide a specific description of the conflict of interest in question;

(b) explain the general nature and sources of the conflict of interest;

(c) explain the risks to the *client* that arise as a result of the conflict of interest and the steps undertaken to mitigate those risks;

(d) clearly state that the organisational and administrative arrangements established by the *firm* to prevent or manage the conflict of interest are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of the *client* will be prevented.

[**Note:** article 6 of the *IDD Regulation*]

Review of conflicts policy

SYSC 10.1A.7 R

For the purposes of *SYSC 10.1.3R*, *SYSC 10.1.7R* and *SYSC 10.1.7AR* a *firm* must assess and periodically review, on an at least annual basis, the conflicts of interest policy established in accordance with *SYSC 10.1A.3R* and take all appropriate measures to address any deficiencies.

[**Note:** article 7(1) of the *IDD Regulation*]

Record keeping

SYSC 10.1A.8 R

(1) A *firm* must keep and regularly update a record of the situations in which a conflict of interest entailing a risk of damage to the interests of a *client* has arisen or, in the case of an ongoing service or activity may arise.

(2) A *firm* must ensure its senior management receives on a frequent basis, and at least annually, written reports on the situations referred to in (1).

[**Note:** article 7(2) of the *IDD Regulation*]

Section : SYSC 10.2 Chinese walls

Application

SYSC 10.2.1 R This section applies to any *firm*.

Control of information

SYSC 10.2.2 R (1) When a *firm* establishes and maintains a *Chinese wall* (that is, an arrangement that requires information held by a *person* in the course of carrying on one part of the business to be withheld from, or not to be used for, *persons* with or for whom it acts in the course of carrying on another part of its business) it may:

(a) withhold or not use the information held; and

(b) for that purpose, permit *persons* employed in the first part of its business to withhold the information held from those employed in that other part of the business;

but only to the extent that the business of one of those parts involves the carrying on of *regulated activities*, *ancillary activities* or, in the case of *MiFID business*, the provision of *ancillary services*.

(2) Information may also be withheld or not used by a *firm* when this is required by an established arrangement maintained between different parts of the business (of any kind) in the same *group*. This provision does not affect any requirement to transmit or use information that may arise apart from the *rules* in *COBS*.

(3) For the purpose of this *rule*, "maintains" includes taking reasonable steps to ensure that the arrangements remain effective and are adequately monitored, and must be interpreted accordingly.

(4) [deleted]

Effect of rules

SYSC 10.2.3 G *SYSC 10.2.2 R* is made under section 137P of the *Act* (Control of information rules). It has the following effect:

(1) acting in conformity with *SYSC 10.2.2 R (1)* provides a defence against proceedings brought under sections89(2), 90(1) and 91(1) of the *Financial Services Act 2012* (Misleading statements, Misleading impressions and Misleading statements etc. in relation to benchmarks) - see sections 89(3)(b), 90(9)(c) and 91(3)(b); and

(2) [deleted]

(3) acting in conformity with *SYSC 10.2.2 R (1)* provides a defence for a firm against *FCA* enforcement action, or an action for damages under section 138D of the *Act*, based on a breach of a relevant requirement to disclose or use this information.

Attribution of knowledge

SYSC 10.2.4 R When any of the *rules* of *COBS* or *CASS* apply to a *firm* that acts with knowledge, the *firm* will not be taken to act with knowledge for the purposes of that *rule* if none of the relevant

individuals involved on behalf of the *firm* acts with that knowledge as a result of arrangements established under *SYSC 10.2.2 R*.

SYSC 10.2.5 G When a *firm* manages a conflict of interest using the arrangements in *SYSC 10.2.2 R* which take the form of a *Chinese wall*, individuals on the other side of the wall will not be regarded as being in possession of knowledge denied to them as a result of the *Chinese wall*.

CHAPTER

SYSC 10A Recording telephone conversations and electronic communications

Section : SYSC 10A.1 Application

Application

SYSC 10A.1.1 R

Subject to the exemptions in *SYSC 10A.1.4R*, this chapter applies to a *firm*:

(1) that is a:

(a) *MiFID investment firm*; or

(b) *full-scope UK AIFM*; or

(c) *small authorised UK AIFM* or *residual CIS operator*; or

(d) [deleted]

(e) *UCITS management company*; or

(f) *MiFID optional exemption firm*, performing activities covered by the exemption; or

(g) [deleted]

(h) *third country investment firm*; or

(i) that carries on activities referred to in the *general application rule* related to:

(i) *commodity futures*; or

(ii) *commodity options*; or

(iii) *contracts for differences* related to an underlying *commodity*; or

(iv) other *futures* or *contracts for differences* which are not related to *commodities*, *financial instruments* or cash,

which are not *MiFID or equivalent third country business* and *energy market activity* or *oil market activity*, but excluding the following *firms*:

(v) a *depositary* when acting as such; and

(vi) an *authorised professional firm* with respect to its *non-mainstream regulated activities*; or

(j) that carries on *energy market activity* or *oil market activity*; or

(k) is an *OPS firm*; and

(2) that carries out any of the following activities, in *investments* that are *financial instruments*:

(a) *arranging (bringing about) deals in investments*;

(b) *dealing in investments as agent*;

(c) *dealing in investments as principal*;

(d) *managing investments*;

(e) managing a UK UCITS to the extent that this comprises the function of investment management referred to in Annex II of the *UCITS Directive*;

(f) *managing an AIF* to the extent that this comprises the function of portfolio management referred to in Annex I of the *AIFMD*;

(g) *establishing, operating or winding up a collective investment scheme* to the extent that this comprises *scheme management activity*,

only with respect to a *firm's* activities carried on from an establishment (including a *branch*) maintained by the *firm* in the *United Kingdom*.

[**Note:** article 16(7) and 16(11) of *MiFID*]

SYSC 10A.1.2 G Where this chapter applies to a *third country investment firm*, it applies in conjunction with *GEN 2.2.22AR*, to ensure that such *firms* are not treated in a more favourable way than a *UK firm*.

SYSC 10A.1.4 R This chapter does not apply to the carrying on of:

(1) activities between *operators* and *depositaries*, of the same fund (when acting in that capacity); or

(2) *energy market activity* and *oil market activity* which is not *MiFID or equivalent third country business* but which, if the *firm* carrying it on were not *authorised*, would not be a *regulated activity* because of *article 16* of the *Regulated Activities Order* (Dealing in contractually based investments) or *article 22* of the *Regulated Activities Order* (Deals with or through authorised persons etc.); or

(3) any activity referred to in *SYSC 10A.1.1R(2)*, to the extent that it is carried out by a *firm* that is not a *MiFID investment firm*, *MiFID optional exemption firm* or *third country investment firm*, in *financial instruments* that are not:

(a) admitted to trading on a *trading venue*; or

(b) traded on a *trading venue*; or

(c) instruments for which a request has been made for admission to trading on a *trading venue*; or

(d) instruments covered by paragraph (a), (b) or (c), but the price or value of which depends on, or has an effect on, the price or value of a *financial instrument* referred to in those paragraphs; or

(3A) the activities referred to in *SYSC 10A.1.1R(2)(d)* to (g), to the extent that they are carried out by a *MiFID investment firm* or *third country investment firm* in *financial instruments* that are not:

(a) admitted to trading on a *trading venue*; or

(b) traded on a *trading venue*; or

(c) instruments for which a request has been made for admission to trading on a *trading venue*; or

(d) instruments covered by paragraph (a), (b) or (c), but the price or value of which depends on, or has an effect on, the price or value of a *financial instrument* referred to in those paragraphs; or

(4) activities which comprise:

(a) underwriting of *financial instruments* on a firm commitment basis; or

(b) placing of *financial instruments* with or without a firm commitment basis,

within the meaning of section A(6) or A(7) of Annex 1 of *MiFID*.

(5) *ancillary services*.

Obligations for telephone and electronic communications

SYSC 10A.1.6 R

A *firm* must take all reasonable steps to record telephone conversations, and keep a copy of electronic communications, that relate to the activities in *financial instruments* referred to in *SYSC 10A.1.1R(2)* (and that are not excluded by *SYSC 10A.1.4R*), and that are made with, sent from, or received on, equipment:

(1) provided by the *firm* to an *employee* or contractor; or

(2) the use of which by an *employee* or contractor has been accepted or permitted by the *firm*.

[**Note:** article 16(7) of *MiFID*, third subparagraph]

SYSC 10A.1.7 R

A *firm* must take all reasonable steps to prevent an *employee* or contractor from making, sending, or receiving relevant telephone conversations and electronic communications on privately-owned equipment which the *firm* is unable to record or copy.

[**Note:** article 16(7) of *MiFID*, eighth subparagraph]

SYSC 10A.1.8 R

The telephone conversations and electronic communications referred to in *SYSC 10A.1.6R* include those that are intended to result in the performance of the activities in *financial instruments* referred to in *SYSC 10A.1.1R(2)*, even if those conversations or communications do not in fact result in the performance of such activities.

[**Note:** article 16(7) of *MiFID*, second subparagraph]

SYSC 10A.1.9 R

A *MiFID optional exemption firm* that provides services solely or mainly to *retail clients* is not required to comply with the requirements of *SYSC 10A.1.6R*, *SYSC 10A.1.7R* and *SYSC 10A.1.11R* in relation to telephone conversations, subject to compliance with the following requirements:

(1) a telephone conversation that would be subject to *SYSC 10A.1.6R* must be recorded instead using a written minute or note; and

(2) the minute or note must include all relevant, and at least the following, information:

(a) date and time of the conversation;

(b) identity of the individual participants in the conversation;

(c) initiator of the conversation; and

(d) relevant information about the client order, including the price, volume, type of order and when it will be transmitted or executed.

SYSC 10A.1.10 G

A *MiFID optional exemption firm* that chooses to take advantage of the provisions in *SYSC 10A.1.9R* should set out its decision in its recording policy. Further, any minute or note made in accordance with *SYSC 10A.1.9R* should contain all relevant substantive details of the conversation, as well as the information set out in *SYSC 10A.1.9R(4)(a) to (d)*.

Notification

SYSC 10A.1.11 R

A *firm* must notify new and existing *clients* that telephone communications or conversations between the *firm* and its *clients* that result or may result in activities in *financial instruments*

referred to in *SYSC 10A.1.1R(2)* (and that are not excluded by *SYSC 10A.1.4R*) will be recorded. The notification must be made before the provision of any *investment services* to new and existing *clients*.
[**Note:** article 16(7) of *MiFID*, fourth subparagraph]

SYSC 10A.1.12 G A notification referred to in *SYSC 10A.1.11R* is only required to be made by the *firm* once, at the following times:

(1) to a new *client* prior to the provision of any *investment services*; and

(2) to an existing *client* prior to the provision of any *investment services* following:

(a) the commencement of these *rules*; or

(b) the *firm* otherwise becoming subject to these *rules*, after the date of commencement.

[**Note:** article 16(7) of *MiFID*, fifth subparagraph]

SYSC 10A.1.12A R (1) Before carrying out any activities referred to in *SYSC 10A.1.1R(2)* (and that are not excluded by *SYSC 10A.1.4R*) for new and existing *clients*, a *firm* must inform the *client* that:

(a) the conversations and communications are being recorded; and

(b) a copy of the recording of such conversations and communications with the *client* will be available, upon request, for a period of:

(i) 5 years to the *client*; and

(ii) 7 years to the *FCA*.

(2) A *firm* must present the information referred to in *SYSC 10A.1.11R* to *SYSC 10A.1.12AR(1)* in the same language(s) used to provide *designated investment business* to *clients*.

Obligation for other communications

SYSC 10A.1.13 R *Client* instructions given otherwise than by telephone must be made in a *durable medium* such as by mail, faxes, emails or documentation of *client* instructions issued at meetings. In particular, the content of relevant face-to-face conversations with a *client* may be recorded by using written minutes or notes.
[**Note:** article 16(7) of *MiFID*, seventh subparagraph]

Record-keeping

SYSC 10A.1.14 R The records kept in accordance with this chapter must be:

(1) provided by the *firm* to the *client* involved upon request; and

(2) kept for a period of five years and, where requested by the *FCA*, for a period of up to seven years.

[**Note:** article 16(7) of *MiFID*, ninth subparagraph]

Additional requirements on recording of telephone conversations or electronic communications

SYSC 10A.1.15 R

A *firm* must:

(1) establish, implement and maintain an effective recording of telephone conversations and electronic communications policy, set out in writing, and appropriate to the size and organisation of the *firm*, and the nature, scale and complexity of its business. The policy must include the following content:

(a) the identification of the telephone conversations and electronic communications, including relevant internal telephone conversations and electronic communications, that are subject to the requirements in accordance with this chapter; and

(b) the specification of the procedures to be followed and measures to be adopted to ensure the *firm's* compliance with *SYSC 10A.1.6R* and *SYSC 10A.1.7R* where exceptional circumstances arise and the *firm* is unable to record the conversation/communication on devices issued, accepted or permitted by the *firm*. A *firm* must retain the evidence of such circumstances and make it accessible to the *FCA*;

(2) ensure that the *management body* has effective oversight and control over the policies and procedures relating to the *firm's* recording of telephone conversations and electronic communications;

(3) ensure that the arrangements to comply with recording requirements are technology-neutral;

(4) periodically evaluate the effectiveness of the *firm's* policies and procedures and adopt any such alternative or additional measures and procedures as are necessary and appropriate at a minimum when a new medium of communication is accepted or permitted for use by the *firm*;

(5) keep and regularly update a record of those individuals who have *firms'* devices or privately owned devices that have been approved for use by the *firm*;

(6) educate and train employees in procedures governing the requirements in this chapter;

(7) monitor compliance with the recording and record-keeping requirements in accordance with this chapter, by periodically monitoring the records of transactions and orders, including relevant conversations, subject to those requirements in a proportionate and risk-based manner; and

(8) demonstrate to the *FCA*, at the *FCA's* request, the policies, procedures and management oversight of the recording rules.

SYSC 10A.1.16 R

A *firm* must:

(1) record in a *durable medium* all relevant information related to relevant face-to-face conversations with *clients*. The information recorded shall include at least the following:

(a) date and time of meetings;

(b) location of meetings;

(c) identity of the attendees;

(d) initiator of the meetings; and

(e) relevant information about the *client* order including the price, volume, type of order and when it shall be transmitted or executed;

(2) store records in a *durable medium*, which allows them to be:

(a) replayed or copied;

(b) retained in a format that does not allow the original record to be altered or deleted. The period of time for the retention of a record must begin on the date when the record is created; and

(c) readily accessible and available to *clients*, upon request;

(3) ensure the quality, accuracy and completeness of the records of all telephone recordings and electronic communications.

CHAPTER

SYSC 12 Group risk systems and controls requirements

Section : SYSC 12.1 Application

SYSC 12.1.1 R

Subject to *SYSC 12.1.2 R* to *SYSC 12.1.4 R*, this section applies to each of the following which is a member of a *group*:

(1) a *firm* that falls into any one or more of the following categories:

(a) an *investment firm* that is not a *designated investment firm*;

(b) [deleted]

(c) an *insurer*;

(ca) a *UK ISPV*;

(d) [deleted]

(e) a *UK parent entity* of an *investment firm group* that is subject to prudential consolidation under MIFIDPRU 2.5 or to the *group capital test* under *MIFIDPRU 2.6*; and

(f) a *firm* subject to the *rules* in *IPRU(INV)* Chapter 14.

(2) a *UCITS firm*, but only if its *group* contains a *firm* falling into (1); and

(3) the *Society*.

SYSC 12.1.2 R

Except as set out in *SYSC 12.1.4 R*, this section applies with respect to different types of *group* as follows:

(1) *SYSC 12.1.8 R* and *SYSC 12.1.10 R* apply with respect to all *groups*, including *financial conglomerates* and *groups* dealt with in *SYSC 12.1.13 R* to *SYSC 12.1.15 R*;

(2) the additional requirements set out in *SYSC 12.1.11 R* and *SYSC 12.1.12 R* only apply with respect to a *financial conglomerate* of which notification has been made that it has been identified as a *financial conglomerate* as contemplated by regulation 2 of the *Financial Groups Directive Regulations*; and

(3) the additional requirements set out in *SYSC 12.1.13 R* to *SYSC 12.1.15 R* only apply with respect to *groups* of the kind dealt with by whichever of those *rules* apply.

SYSC 12.1.3 R

This section does not apply toan *ICVC*.

SYSC 12.1.4 R

(1) This *rule* applies in respect of the following *rules*:

(a) *SYSC 12.1.8R (2)*;

(b) *SYSC 12.1.10R (1)*, so far as it relates to *SYSC 12.1.8R (2)*;

(c) *SYSC 12.1.10R (2)*; and

(d) *SYSC 12.1.11 R* to *SYSC 12.1.15 R*.

(2) The *rules* referred to in (1):

(a) only apply with respect to a *financial conglomerate* if it is a *financial conglomerate* of which notification has been made that it has been identified as a *financial conglomerate* as contemplated by regulation 2 of the *Financial*

Groups Directive Regulations;

(b) [deleted]

(c) (so far as they apply with respect to a *financial conglomerate*) do not apply to a *firm* with respect to a *financial conglomerate* of which it is a member if the interest of the *financial conglomerate* in that *firm* is no more than a *participation*;

(d) (so far as they apply with respect to other *groups*) do not apply to a *firm* with respect to a *group* of which it is a member if the only relationship of the kind set out in paragraph (3) of the definition of *group* between it and the other members of the *group* is nothing more than a *participation*; and

(e) do not apply with respect to a *third-country group*.

SYSC 12.1.5 G For the purpose of this section, a *group* is defined in the *Glossary*, and includes the whole of a *firm's* group, including financial and non-financial undertakings. It also covers undertakings with other links to *group* members if their omission from the scope of *group* risk systems and controls would be misleading. The scope of the *group* systems and controls requirements may therefore differ from the scope of the quantitative requirements for *groups*.

Purpose

SYSC 12.1.6 G The purpose of this chapter is to set out how the systems and control requirements imposed by *SYSC* (Senior Management Arrangements, Systems and Controls) apply where a *firm* is part of a *group*. If a *firm* is a member of a *group*, it should be able to assess the potential impact of risks arising from other parts of its *group* as well as from its own activities.

General rules

SYSC 12.1.8 R A *firm* must:

(1) have adequate, sound and appropriate risk management processes and internal control mechanisms for the purpose of assessing and managing its own exposure to *group* risk, including sound administrative and accounting procedures; and

(2) ensure that its *group* has adequate, sound and appropriate risk management processes and internal control mechanisms at the level of the *group*, including sound administrative and accounting procedures.

SYSC 12.1.9 G For the purposes of *SYSC 12.1.8 R*, the question of whether the risk management processes and internal control mechanisms are adequate, sound and appropriate should be judged in the light of the nature, scale and complexity of the *group's* business and of the risks that the *group* bears.

SYSC 12.1.10 R The internal control mechanisms referred to in *SYSC 12.1.8 R* must include:

(1) mechanisms that are adequate for the purpose of producing any data and information which would be relevant for the purpose of monitoring compliance with any prudential requirements (including any reporting requirements and any

requirements relating to capital adequacy, solvency, systems and controls and large exposures):

(a) to which the *firm* is subject with respect to its membership of a *group*; or

(b) that apply to or with respect to that *group* or part of it; and

(2) mechanisms that are adequate to monitor funding within the *group*.

SYSC 12.1.10A G *SYSC 1.1A.2 G* sets out the general principle that the *FCA* will apply provisions to the extent of its powers and regulatory responsibilities. *SYSC 12.1.10 R* will, therefore, have limited application to a *Solvency II firm*.

Financial conglomerates

SYSC 12.1.11 R Where this section applies with respect to a *financial conglomerate*, the risk management processes referred to in *SYSC 12.1.8R (2)* or, for a *Solvency II firm*, the risk management system referred to in the PRA Rulebook: Solvency II firms: Conditions Governing Business, rule 3, must include:

(1) sound governance and management processes, which must include the approval and periodic review by the appropriate managing bodies within the *financial conglomerate* of the strategies and policies of the *financial conglomerate* in respect of all the risks assumed by the *financial conglomerate*, such review and approval being carried out at the level of the *financial conglomerate*;

(2) adequate capital adequacy policies at the level of the *financial conglomerate*, one of the purposes of which must be to anticipate the impact of the business strategy of the *financial conglomerate* on its risk profile and on the capital adequacy requirements to which it and its members are subject;

(3) adequate procedures for the purpose of ensuring that the risk monitoring systems of the *financial conglomerate* and its members are well integrated into their organisation;

(4) adequate procedures for the purpose of ensuring that the systems and controls of the members of the *financial conglomerate* are consistent and that the risks can be measured, monitored and controlled at the level of the *financial conglomerate*; and

(5) arrangements in place to contribute to and develop, if required, adequate recovery and resolution arrangements and plans; a *firm* must update these arrangements regularly.

[**Note**: article 9(2) of the *Financial Groups Directive*]

SYSC 12.1.12 R Where this section applies with respect to a *financial conglomerate*, the internal control mechanisms referred to in *SYSC 12.1.8R (2)* or, for a *Solvency II firm*, the internal control system referred to in the PRA Rulebook: Solvency II firms: Conditions Governing Business, rule 3, must include:

(1) mechanisms that are adequate to identify and measure all material risks incurred by members of the *financial conglomerate* and appropriately relate capital in the *financial conglomerate* to risks; and

(2) sound reporting and accounting procedures for the purpose of identifying, measuring, monitoring and controlling *intra-group transactions* and *risk concentrations*.

CRR firms and non-CRR firms that are parent financial holding companies in the United Kingdom or UK parent financial holding companies

SYSC 12.1.13 R

If this *rule* applies under *SYSC 12.1.14 R* to a *firm*, the *firm* must:

(1) comply with *SYSC 12.1.8R (2)* in relation to any *UK consolidation group* of which it is a member, as well as in relation to its *group*; and

(2) ensure that the risk management processes and internal control mechanisms at the level of any *consolidation group* of which it is a member comply with the obligations set out in the following provisions on a consolidated (or sub-consolidated) basis:

(a) *SYSC 4.1.1 R* and *SYSC 4.1.2 R*;

(b) *SYSC 4.1.7 R*;

(bA) *SYSC 4.3A*;

(c) *SYSC 5.1.7 R*;

(d) *SYSC 7*;

(dA) the *dual-regulated firms Remuneration Code*, if applicable;

(e) [deleted]

(f) [deleted];

(g) [deleted];

(h) [deleted];

[**Note**: article 109(2) of *CRD*]

(3) ensure that compliance with the obligations in (2) enables the consolidation group to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

[**Note**: article 109(2) of *CRD*]

SYSC 12.1.14 R

SYSC 12.1.13 R applies to a *firm* that is:

(1) [deleted]

(2) a *CRR firm*; or

(3) anon-*CRR firm* that is a parent financial holding company in the United Kingdom or a *UK parent financial holding company*.

SYSC 12.1.15 R

In the case of a *firm* that:

(1) is a*CRR firm*; and

(2) has a *mixed-activity holding company* as a *parent undertaking*;

the risk management processes and internal control mechanisms referred to in *SYSC 12.1.8 R* must include sound reporting and accounting procedures and other mechanisms

that are adequate to identify, measure, monitor and control transactions between the *firm's parent undertaking mixed-activity holding company* and any of the *mixed-activity holding company's subsidiary undertakings*.

Nature and extent of requirements and allocation of responsibilities within the group

SYSC 12.1.18 G Assessment of the adequacy of a *group's* systems and controls required by this section will form part of the *FCA's* risk management process.

SYSC 12.1.19 G The nature and extent of the systems and controls necessary under *SYSC 12.1.8R (1)* to address *group* risk will vary according to the materiality of those risks to the *firm* and the position of the *firm* within the *group*.

SYSC 12.1.20 G In some cases the management of the systems and controls used to address the risks described in *SYSC 12.1.8R (1)* may be organised on a *group*-wide basis. If the *firm* is not carrying out those functions itself, it should delegate them to the *group* members that are carrying them out. However, this does not relieve the *firm* of responsibility for complying with its obligations under *SYSC 12.1.8R (1)*. A *firm* cannot absolve itself of such a responsibility by claiming that any breach of that *rule* is caused by the actions of another member of the *group* to whom the *firm* has delegated tasks. The risk management arrangements are still those of the *firm*, even though personnel elsewhere in the *firm's group* are carrying out these functions on its behalf.

SYSC 12.1.21 G *SYSC 12.1.8R (1)* deals with the systems and controls that a *firm* should have in respect of the exposure it has to the rest of the *group*. On the other hand, the purpose of *SYSC 12.1.8R (2)* and the *rules* in this section that amplify it is to require *groups* to have adequate systems and controls. However a *group* is not a single legal entity on which obligations can be imposed. Therefore the obligations have to be placed on individual *firms*. The purpose of imposing the obligations on each *firm* in the *group* is to make sure that the *FCA* can take supervisory action against any *firm* in a *group* whose systems and controls do not meet the standards in this section. Thus responsibility for compliance with the *rules* for *group* systems and controls is a joint one.

SYSC 12.1.22 G If both a *firm* and its *parent undertaking* are subject to *SYSC 12.1.8R (2)*, the *FCA* would not expect systems and controls to be duplicated. In this case, the *firm* should assess whether and to what extent it can rely on its parent's *group* risk systems and controls.

CHAPTER

SYSC 13 Operational risk: systems and controls for insurers

Section : SYSC 13.1 Application

SYSC 13.1.1	G	*SYSC 13* applies to an *insurer* unless it is a *non-directive friendly society*.
SYSC 13.1.2	G	*SYSC 13* applies a *Swiss general insurer* only in respect of the activities of the *firm* carried on from a *branch* in the *United Kingdom*. only in respect of the activities of the *firm* carried on from a *branch* in the *United Kingdom*.
SYSC 13.1.3	G	*SYSC 13* applies to a *UK ISPV*.
SYSC 13.1.4	G	*SYSC 13* does not apply to an *incoming ECA provider* acting as such.

Section : SYSC 13.2 Purpose

SYSC 13.2.1 G

SYSC 13 provides *guidance* on how to interpret *SYSC 3.1.1 R* and *SYSC 3.2.6 R*, which deal with the establishment and maintenance of systems and controls, in relation to the management of operational risk. Operational risk has been described by the Basel Committee on Banking Supervision as "the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events". This chapter covers systems and controls for managing risks concerning any of a *firm's* operations, such as its IT systems and *outsourcing* arrangements. It does not cover systems and controls for managing credit, market, liquidity and insurance risk.

SYSC 13.2.2 G

Operational risk is a concept that can have a different application for different *firms*. A *firm* should assess the appropriateness of the *guidance* in this chapter in the light of the scale, nature and complexity of its activities as well as its obligations as set out in *Principle* 3, to organise and control its affairs responsibly and effectively.

SYSC 13.2.3 G

A *firm* should take steps to understand the types of operational risk that are relevant to its particular circumstances, and the operational losses to which they expose the *firm*. This should include considering the potential sources of operational risk addressed in this chapter: people; processes and systems; external events.

SYSC 13.2.4A G

Operational risk can, amongst other things, lead to unfair treatment of consumers or lead to financial crime. A *firm* should consider all operational risk events that may affect these matters in establishing and maintaining its systems and controls.

Section : SYSC 13.3 Other related Handbook sections

SYSC 13.3.1A G

The following is a non-exhaustive list of *rules* and *guidance* in the *Handbook* that are relevant to a *firm's* management of operational risk:

(1) *COBS* contains *rules* and *guidance* that can relate to the management of operational risk; for example, *COBS 2* (Conduct of business obligations), *COBS 4* (Communicating with clients, including financial promotions), *COBS 6* (Information about the firm, its services and remuneration), *COBS 7* (Insurance distribution), *COBS 9* (Suitability (including basic advice)(other than MiFID and insurance-based investment products)), COBS 9A (Suitability (MiFID and insurance-based investment products provisions), COBS 10A (Appropriateness (for non-advised services) (MiFID and insurance-based investment products provisions), COBS 11 (Dealing and managing), *COBS 12* (Investment research), *COBS 14* (Providing product information to clients) and *COBS 19* (Pensions: supplementary provisions).

Section : SYSC 13.4 Requirements to notify the appropriate regulator

SYSC 13.4.1 G

Under *Principle* 11 and *SUP 15.3.1 R*, a *firm* must notify the *FCA* immediately of any operational risk matter of which the *FCA* would reasonably expect notice. *SUP 15.3.8 G* provides *guidance* on the occurrences that this requirement covers, which include a significant failure in systems and controls and a significant operational loss.

SYSC 13.4.2 G

Regarding operational risk, matters of which the *FCA* would expect notice under *Principle* 11 include:

(1) any significant operational exposures that a *firm* has identified;

(2) the *firm's* invocation of a business continuity plan; and

(3) any other significant change to a *firm's* organisation, infrastructure or business operating environment.

Section : SYSC 13.5 Risk management terms

SYSC 13.5.1 G

In this chapter, the following interpretations of risk management terms apply:

(1) a *firm's* risk culture encompasses the general awareness, attitude and behaviour of its *employees* and *appointed representatives* or, where applicable, its *tied agents*,to risk and the management of risk within the organisation;

(2) operational exposure means the degree of operational risk faced by a *firm* and is usually expressed in terms of the likelihood and impact of a particular type of operational loss occurring (for example, fraud, damage to physical assets);

(3) a *firm's* operational risk profile describes the types of operational risks that it faces, including those operational risks within a *firm* that may have an adverse impact upon the quality of service afforded to its *clients*, and its exposure to these risks.

Section : SYSC 13.6 People

SYSC 13.6.1 G

A *firm* should consult *SYSC 3.2.2 G* to *SYSC 3.2.5 G* for *guidance* on reporting lines and delegation of functions within a *firm* and *SYSC 3.2.13 G* to *SYSC 3.2.14 G* for *guidance* on the suitability of *employees* and *appointed representatives* or, where applicable, its *tied agents*. This section provides additional *guidance* on management of *employees* and other human resources in the context of operational risk.

SYSC 13.6.2 G

A *firm* should establish and maintain appropriate systems and controls for the management of operational risks that can arise from *employees*. In doing so, a *firm* should have regard to:

(1) its operational risk culture, and any variations in this or its human resource management practices, across its operations (including, for example, the extent to which the compliance culture is extended to in-house IT staff);

(2) whether the way *employees* are remunerated exposes the *firm* to the risk that it will not be able to meet its regulatory obligations (see *SYSC 3.2.18 G*). For example, a *firm* should consider how well remuneration and performance indicators reflect the *firm's* tolerance for operational risk, and the adequacy of these indicators for measuring performance;

(3) whether inadequate or inappropriate training of *client*-facing services exposes *clients* to risk of loss or unfair treatment including by not enabling effective communication with the *firm*;

(4) the extent of its compliance with applicable regulatory and other requirements that relate to the welfare and conduct of *employees*;

(5) its arrangements for the continuity of operations in the event of *employee* unavailability or loss;

(6) the relationship between indicators of 'people risk' (such as overtime, sickness, and *employee* turnover levels) and exposure to operational losses; and

(7) the relevance of all the above to *employees* of a third party supplier who are involved in performing an *outsourcing* arrangement. As necessary, a *firm* should review and consider the adequacy of the staffing arrangements and policies of a service provider.

Employee responsibilities

SYSC 13.6.3 G

A *firm* should ensure that all *employees* are capable of performing, and aware of, their operational risk management responsibilities, including by establishing and maintaining:

(1) appropriate segregation of *employees*' duties and appropriate supervision of *employees* in the performance of their responsibilities (see *SYSC 3.2.5 G*);

(2) appropriate recruitment and subsequent processes to review the fitness and propriety of *employees* (see *SYSC 3.2.13 G* and *SYSC 3.2.14 G*);

(3) clear policy statements and appropriate systems and procedures manuals that are effectively communicated to *employees* and available for *employees* to refer to as

required. These should cover, for example, compliance, IT security and health and safety issues;

(4) training processes that enable *employees* to attain and maintain appropriate competence; and

(5) appropriate and properly enforced disciplinary and employment termination policies and procedures.

SYSC 13.6.4 G A *firm* should have regard to *SYSC 13.6.3 G* in relation to *approved persons*, people occupying positions of high personal trust (for example, security administration, payment and settlement functions); and people occupying positions requiring significant technical competence (for example, *derivatives* trading and technical security administration). A *firm* should also consider the *rules* and *guidance* for *approved persons* in other parts of the *Handbook* (including *APER*, *COCON* and *SUP*) and the *rules* and *guidance* on *senior manager* responsibilities in *SYSC 2.1* (Apportionment of Responsibilities).

Section : SYSC 13.7 Processes and systems

SYSC 13.7.1 G

A *firm* should establish and maintain appropriate systems and controls for managing operational risks that can arise from inadequacies or failures in its processes and systems (and, as appropriate, the systems and processes of third party suppliers, agents and others). In doing so a *firm* should have regard to:

(1) the importance and complexity of processes and systems used in the end-to-end operating cycle for products and activities (for example, the level of integration of systems);

(2) controls that will help it to prevent system and process failures or identify them to permit prompt rectification (including pre-approval or reconciliation processes);

(3) whether the design and use of its processes and systems allow it to comply adequately with regulatory and other requirements;

(4) its arrangements for the continuity of operations in the event that a significant process or system becomes unavailable or is destroyed; and

(5) the importance of monitoring indicators of process or system risk (including reconciliation exceptions, compensation payments for *client* losses and documentation errors) and experience of operational losses and exposures.

Internal documentation

SYSC 13.7.2 G

Internal documentation may enhance understanding and aid continuity of operations, so a *firm* should ensure the adequacy of its internal documentation of processes and systems (including how documentation is developed, maintained and distributed) in managing operational risk.

External documentation

SYSC 13.7.3 G

A *firm* may use external documentation (including contracts, transaction statements or advertising brochures) to define or clarify terms and conditions for its products or activities, its business strategy (for example, including through press statements), or its brand. Inappropriate or inaccurate information in external documents can lead to significant operational exposure.

SYSC 13.7.4 G

A *firm* should ensure the adequacy of its processes and systems to review external documentation prior to issue (including review by its compliance, legal and marketing departments or by appropriately qualified external advisers). In doing so, a *firm* should have regard to:

(1) compliance with applicable regulatory and other requirements;

(2) the extent to which its documentation uses standard terms (that are widely recognised, and have been tested in the courts) or non-standard terms (whose meaning may not yet be settled or whose effectiveness may be uncertain);

(3) the manner in which its documentation is issued; and

(4) the extent to which confirmation of acceptance is required (including by *customer* signature or counterparty confirmation).

IT systems

SYSC 13.7.5 G

IT systems include the computer systems and infrastructure required for the automation of processes, such as application and operating system software; network infrastructure; and desktop, server, and mainframe hardware. Automation may reduce a *firm's* exposure to some 'people risks' (including by reducing human errors or controlling access rights to enable segregation of duties), but will increase its dependency on the reliability of its IT systems.

SYSC 13.7.6 G

A *firm* should establish and maintain appropriate systems and controls for the management of its IT system risks, having regard to:

(1) its organisation and reporting structure for technology operations (including the adequacy of senior management oversight);

(2) the extent to which technology requirements are addressed in its business strategy;

(3) the appropriateness of its systems acquisition, development and maintenance activities (including the allocation of responsibilities between IT development and operational areas, processes for embedding security requirements into systems); and

(4) the appropriateness of its activities supporting the operation of IT systems (including the allocation of responsibilities between business and technology areas).

Information security

SYSC 13.7.7 G

Failures in processing information (whether physical, electronic or known by *employees* but not recorded) or of the security of the systems that maintain it can lead to significant operational losses. A *firm* should establish and maintain appropriate systems and controls to manage its information security risks. In doing so, a *firm* should have regard to:

(1) confidentiality: information should be accessible only to *persons* or systems with appropriate authority, which may require firewalls within a system, as well as entry restrictions;

(2) integrity: safeguarding the accuracy and completeness of information and its processing;

(3) availability and authentication: ensuring that appropriately authorised *persons* or systems have access to the information when required and that their identity is verified;

(4) non-repudiation and accountability: ensuring that the *person* or system that processed the information cannot deny their actions.

SYSC 13.7.8 G

A *firm* should ensure the adequacy of the systems and controls used to protect the processing and security of its information, and should have regard to established security standards such as ISO17799 (Information Security Management).

Geographic location

SYSC 13.7.9 G

Operating processes and systems at separate geographic locations may alter a *firm's* operational risk profile (including by allowing alternative sites for the continuity of operations). A *firm* should understand the effect of any differences in processes and systems at each of its locations, particularly if they are in different countries, having regard to:

(1) the business operating environment of each country (for example, the likelihood and impact of political disruptions or cultural differences on the provision of services);

(2) relevant local regulatory and other requirements regarding data protection and transfer;

(3) the extent to which local regulatory and other requirements may restrict its ability to meet regulatory obligations in the *United Kingdom* (for example, access to information by the *FCA* and local restrictions on internal or external audit); and

(4) the timeliness of information flows to and from its headquarters and whether the level of delegated authority and the risk management structures of the overseas operation are compatible with the *firm's* head office arrangements.

Section : SYSC 13.8 External events and other changes

SYSC 13.8.1 G

The exposure of a *firm* to operational risk may increase during times of significant change to its organisation, infrastructure and business operating environment (for example, following a corporate restructure or changes in regulatory requirements). Before, during, and after expected changes, a *firm* should assess and monitor their effect on its risk profile, including with regard to:

(1) untrained or de-motivated *employees* or a significant loss of *employees* during the period of change, or subsequently;

(2) inadequate human resources or inexperienced *employees* carrying out routine business activities owing to the prioritisation of resources to the programme or project;

(3) process or system instability and poor management information due to failures in integration or increased demand; and

(4) inadequate or inappropriate processes following business re-engineering.

SYSC 13.8.2 G

A *firm* should establish and maintain appropriate systems and controls for the management of the risks involved in expected changes, such as by ensuring:

(1) the adequacy of its organisation and reporting structure for managing the change (including the adequacy of senior management oversight);

(2) the adequacy of the management processes and systems for managing the change (including planning, approval, implementation and review processes); and

(3) the adequacy of its strategy for communicating changes in systems and controls to its *employees*.

Unexpected changes and business continuity management

SYSC 13.8.3 G

SYSC 3.2.19 G provides high level *guidance* on business continuity. This section provides additional *guidance* on managing business continuity in the context of operational risk.

SYSC 13.8.4 G

The high level requirement for appropriate systems and controls at *SYSC 3.1.1 R* applies at all times, including when a business continuity plan is invoked. However, the *FCA* recognises that, in an emergency, a *firm* may be unable to comply with a particular *rule* and the conditions for relief are outlined in *GEN 1.3* (Emergency).

SYSC 13.8.5 G

A *firm* should consider the likelihood and impact of a disruption to the continuity of its operations from unexpected events. This should include assessing the disruptions to which it is particularly susceptible (and the likely timescale of those disruptions) including through:

(1) loss or failure of internal and external resources (such as people, systems and other assets);

(2) the loss or corruption of its information; and

(3) external events (such as vandalism, war and "acts of God").

SYSC 13.8.6 G

A *firm* should implement appropriate arrangements to maintain the continuity of its operations. A *firm* should act to reduce both the likelihood of a disruption (including by succession planning, systems resilience and dual processing); and the impact of a disruption (including by contingency arrangements and insurance).

SYSC 13.8.7 G

A *firm* should document its strategy for maintaining continuity of its operations, and its plans for communicating and regularly testing the adequacy and effectiveness of this strategy. A *firm* should establish:

(1) formal business continuity plans that outline arrangements to reduce the impact of a short, medium or long-term disruption, including:

(a) resource requirements such as people, systems and other assets, and arrangements for obtaining these resources;

(b) the recovery priorities for the *firm's* operations; and

(c) communication arrangements for internal and external concerned parties (including the *FCA*, *clients* and the press);

(2) escalation and invocation plans that outline the processes for implementing the business continuity plans, together with relevant contact information;

(3) processes to validate the integrity of information affected by the disruption; and

(4) processes to review and update (1) to (3) following changes to the *firm's* operations or risk profile (including changes identified through testing).

SYSC 13.8.8 G

The use of an alternative site for recovery of operations is common practice in business continuity management. A *firm* that uses an alternative site should assess the appropriateness of the site, particularly for location, speed of recovery and adequacy of resources. Where a site is shared, a *firm* should evaluate the risk of multiple calls on shared resources and adjust its plans accordingly.

Section : SYSC 13.9 Outsourcing

SYSC 13.9.1 G

As *SYSC 3.2.4 G* explains, a *firm* cannot contract out its regulatory obligations and should take reasonable care to supervise the discharge of outsourced functions. This section provides additional *guidance* on managing *outsourcing* arrangements (and will be relevant, to some extent, to other forms of third party dependency) in relation to operational risk. *Outsourcing* may affect a *firm's* exposure to operational risk through significant changes to, and reduced control over, people, processes and systems used in outsourced activities.

SYSC 13.9.2 G

Firms should take particular care to manage *material outsourcing* arrangements and, as *SUP 15.3.8 G (1)(e)* explains, a *firm* should notify the *FCA* when it intends to enter into a *material outsourcing* arrangement.

SYSC 13.9.3 G

A *firm* should not assume that because a service provider is either a regulated *firm* or an intra-group entity an *outsourcing* arrangement with that provider will, in itself, necessarily imply a reduction in operational risk.

SYSC 13.9.4 G

Before entering into, or significantly changing, an *outsourcing* arrangement, a *firm* should:

(1) analyse how the arrangement will fit with its organisation and reporting structure; business strategy; overall risk profile; and ability to meet its regulatory obligations;

(2) consider whether the agreements establishing the arrangement will allow it to monitor and control its operational risk exposure relating to the *outsourcing*;

(3) conduct appropriate due diligence of the service provider's financial stability and expertise;

(4) consider how it will ensure a smooth transition of its operations from its current arrangements to a new or changed *outsourcing* arrangement (including what will happen on the termination of the contract); and

(5) consider any concentration risk implications such as the business continuity implications that may arise if a single service provider is used by several *firms*.

SYSC 13.9.5 G

In negotiating its contract with a service provider, a *firm* should have regard to:

(1) reporting or notification requirements it may wish to impose on the service provider;

(2) whether sufficient access will be available to its internal auditors, external auditors or *actuaries* (see *section 341* of the *Act*) and to the *FCA* (see *SUP 2.3.5 R* (Access to premises) and *SUP 2.3.7 R* (Suppliers under material outsourcing arrangements);

(3) information ownership rights, confidentiality agreements and *Chinese walls* to protect *client* and other information (including arrangements at the termination of the contract);

(4) the adequacy of any guarantees and indemnities;

(5) the extent to which the service provider must comply with the *firm's* policies and procedures (covering, for example, information security);

(6) the extent to which a service provider will provide business continuity for outsourced operations, and whether exclusive access to its resources is agreed;

(7) the need for continued availability of software following difficulty at a third party supplier;

(8) the processes for making changes to the *outsourcing* arrangement (for example, changes in processing volumes, activities and other contractual terms) and the conditions under which the *firm* or service provider can choose to change or terminate the *outsourcing* arrangement, such as where there is:

(a) a change of ownership or *control* (including insolvency or receivership) of the service provider or *firm*; or

(b) significant change in the business operations (including sub-contracting) of the service provider or *firm*; or

(c) inadequate provision of services that may lead to the *firm* being unable to meet its regulatory obligations.

SYSC 13.9.6 G

In implementing a relationship management framework, and drafting the service level agreement with the service provider, a *firm* should have regard to:

(1) the identification of qualitative and quantitative performance targets to assess the adequacy of service provision, to both the *firm* and its *clients*, where appropriate;

(2) the evaluation of performance through service delivery reports and periodic self certification or independent review by internal or external auditors; and

(3) remedial action and escalation processes for dealing with inadequate performance.

SYSC 13.9.7 G

In some circumstances, a *firm* may find it beneficial to use externally validated reports commissioned by the service provider, to seek comfort as to the adequacy and effectiveness of its systems and controls. The use of such reports does not absolve the *firm* of responsibility to maintain other oversight. In addition, the *firm* should not normally have to forfeit its right to access, for itself or its agents, to the service provider's premises.

SYSC 13.9.8 G

A *firm* should ensure that it has appropriate contingency arrangements to allow business continuity in the event of a significant loss of services from the service provider. Particular issues to consider include a significant loss of resources at, or financial failure of, the service provider, and unexpected termination of the *outsourcing* arrangement.

SYSC 13.9.9 G

(1) Parts of the *guidance* in *SYSC 13.9* do not apply to a *Solvency II firm*. They are *SYSC 13.9.3G*, *SYSC 13.9.4G*(1), (2), (4) and (5) and *SYSC 13.9.5G(6)*.

(2) A *Solvency II firm* is subject to the outsourcing requirements in PRA Rulebook: Solvency II firms: Conditions Governing Business 7.

(3) The *Solvency II Regulation* (EU) 2015/35 of 10 October 2014 (article 274) also

imposes specific requirements on *firms* which outsource, or propose to outsource, functions or insurance activities.

(4) *EIOPA* guidelines on systems of governance dated 28 January 2015 (EIOPA-BoS-14/253 EN) include guidelines on, or relating to, outsourcing.

(5) The *FCA* will take the requirements and guidelines in (2) to (4) into account when considering a *firm's* outsourcing arrangements.

Section : SYSC 13.10 Insurance

SYSC 13.10.1 G

Whilst a *firm* may take out insurance with the aim of reducing the monetary impact of operational risk events, non-monetary impacts may remain (including impact on the *firm's* reputation). A *firm* should not assume that insurance alone can replace robust systems and controls.

SYSC 13.10.2 G

When considering utilising insurance, a *firm* should consider:

(1) the time taken for the *insurer* to pay claims (including the potential time taken in disputing cover) and the *firm's* funding of operations whilst awaiting payment of claims;

(2) the financial strength of the *insurer*, which may determine its ability to pay claims, particularly where large or numerous small claims are made at the same time; and

(3) the effect of any limiting conditions and exclusion clauses that may restrict cover to a small number of specific operational losses and may exclude larger or hard to quantify indirect losses (such as lost business or reputational costs).

CHAPTER

SYSC 14 Risk management and associated systems and controls for insurers

Section : SYSC 14.1 Application

SYSC 14.1.1 R This section applies to an *insurer* unless it a *non-directive friendly society*.

SYSC 14.1.2 R This section applies to a *Swiss general insurer* only in respect of the activities of the *firm* carried on from a *branch* in the *United Kingdom*.

SYSC 14.1.2A R This section does not apply to:

(1) an *incoming ECA provider* acting as such; or

(2) a *firm* in relation to *benchmark activities*.

SYSC 14.1.2AA R This section applies to a *UK ISPV*.

Internal controls: introduction

SYSC 14.1.27 R A *firm* must take reasonable steps to establish and maintain adequate *internal controls*.

SYSC 14.1.28 G The precise role and organisation of *internal controls* can vary from *firm* to *firm*. However, a *firm's internal controls* should normally be concerned with assisting its *governing body* and relevant *senior managers* to participate in ensuring that it meets the following objectives:

(1) safeguarding both the assets of the *firm* and its *customers*, as well as identifying and managing liabilities;

(2) maintaining the efficiency and effectiveness of its operations;

(3) ensuring the reliability and completeness of all accounting, financial and management information; and

(4) ensuring compliance with its internal policies and procedures as well as all applicable laws and regulations.

SYSC 14.1.29A G When determining the adequacy of its *internal controls*, a *firm* should consider both the potential risks that might hinder the achievement of the objectives listed in *SYSC 14.1.28 G*, and the extent to which it needs to control these risks. More specifically, this should normally include consideration of:

(1) the appropriateness of its reporting and communication lines (see *SYSC 3.2.2 G*);

(2) how the delegation or contracting of functions or activities to *employees*, *appointed representatives* or, where applicable, its *tied agents* or other third parties (for example *outsourcing*) is to be monitored and controlled (see *SYSC 3.2.3 G* to *SYSC 3.2.4 G* and the additional guidance on the management of *outsourcing* arrangements is also provided in *SYSC 13.9*);

(3) the risk that a *firm's employees* or contractors might accidentally or deliberately breach a *firm's* policies and procedures (see *SYSC 13.6.3 G*);

(4) the need for adequate segregation of duties (see *SYSC 3.2.5 G*);

(5) the establishment and control of risk management committees;

(6) the need for risk assessment and the establishment of a risk assessment function (see *SYSC 3.2.10 G*);

(7) the need for internal audit and the establishment of an internal audit function and audit committee (see *SYSC 3.2.15 G* to *SYSC 3.2.16 G*).

SYSC 14.1.29B G

(1) *SYSC 14.1.29G(6)* does not apply to a *Solvency II firm*.

(2) *SYSC 14.1.29G(7)* does not apply to a *Solvency II firm*, but only in relation to references to the internal audit function. It does apply to a *Solvency II firm* in relation to references to the internal audit committee.

(3) For *Solvency II firms*, the *PRA* has made rules implementing the governance provisions of the *Solvency II Directive* relating to internal controls (article 46), see PRA Rulebook: Solvency II firms: Conditions Governing Business.

(4) The *Solvency II Regulation* (EU) 2015/35 of 10 October 2014 also imposes specific requirements (see articles 266, 267 and 270).

(5) The *FCA* will take the rules and requirements in (3) and (4) into account when considering a *Solvency II firm's* internal controls.

CHAPTER

SYSC 15A Operational resilience

Section : SYSC 15A.1 Application

Application

SYSC 15A.1.1 R This chapter applies to:

(1) a *firm* that is:

(a) an *enhanced scope SMCR firm*;

(b) a *bank*;

(c) a *designated investment firm*;

(d) a *building society*;

(e) a *Solvency II firm*,

(2) a *UK RIE*;

(3) an *electronic money institution*, a *payment institution* or a *registered account information service provider*; and

(4) a *consolidated tape provider*.

SYSC 15A.1.2 R In this chapter, a reference to a *firm* includes a *UK RIE*, an *electronic money institution*, a *payment institution*, a *registered account information service provider* and a *consolidated tape provider*.

SYSC 15A.1.3 R This chapter does not apply to a *TP firm*, a *TA PI firm*, *TA RAISP firm* or a *TA EMI firm*.

SYSC 15A.1.4 R This chapter does not apply to a *firm* which has its registered office (or, if it has no registered office, its head office) outside the *United Kingdom*.

SYSC 15A.1.5 R In this chapter, a reference to a *client* in relation to a *UK RIE* includes a *person* who is entitled, under an arrangement or agreement between them and that *UK RIE*, to use the *UK RIE's facilities*.

SYSC 15A.1.5A R This chapter applies in relation to a *consolidated tape provider* as if a reference to a *client* includes a *person* who purchases a *consolidated tape for bonds* from:

(a) a *consolidated tape provider*; or

(b) a *data vendor*.

SYSC 15A.1.6 R In this chapter, a reference to a *client* in relation to a *firm* carrying on the activity of *managing a UK UCITS* or *managing an AIF* includes:

(1) a *unitholder*; and

(2) an investor in an *AIF*.

SYSC 15A.1.7 R The requirements in this chapter apply with respect to:

(1) *regulated activities*;

(2) activities that constitute *dealing in investments as principal*, disregarding the exclusion in *article 15* of the *Regulated Activities Order* (Absence of holding out etc.);

(3) *ancillary activities*;

(4) in relation to *MiFID or equivalent third country business*, *ancillary services*;

(5) *collective portfolio management*;

(6) the provision of *payment services* and the issuance of *electronic money*, and activities connected to the provision of *payment services* and to the issuing of *electronic money* (whether or not the activity of issuing *electronic money* is specified in *article 9B* of the *Regulated Activities Order*);

(7) any other *unregulated activities*, but only in a *prudential context*; and

(8) *data reporting services* provided by a *consolidated tape provider*.

SYSC 15A.1.8 R Notwithstanding *SYSC 15A.1.7R*, where the requirements in this chapter apply to a *firm* only as a result of *SYSC 15A.1.1R(3)*, the requirements only apply to the provision of *payment services* and the issuance of *electronic money* by the *firm*, and activities connected to the provision of *payment services* and to the issuing of *electronic money* (whether or not the activity of issuing *electronic money* is specified in *article 9B* of the *Regulated Activities Order*).

SYSC 15A.1.9 R There is no territorial limitation on the application of this chapter.

Section : SYSC 15A.2 Operational resilience requirements

Important business services

SYSC 15A.2.1 R A *firm* must identify its *important business services*.

SYSC 15A.2.2 R A *firm* must keep its compliance with *SYSC 15A.2.1R* under review and, in particular, consider its compliance in the following circumstances:

(1) if there is a material change to the *firm's* business or the market in which it operates; and

(2) in any event, no later than 1 year after it last carried out the relevant assessment.

SYSC 15A.2.3 G In the course of identifying its *important business services* under *SYSC 15A.2.1R*, a *firm* should treat each distinct relevant service separately, and should not identify a collection of services as a single *important business service*.

SYSC 15A.2.4 G The factors that a *firm* should consider when identifying its *important business services* include, but are not limited to:

(1) the nature of the *client* base, including any vulnerabilities that would make the *person* more susceptible to harm from a disruption;

(2) the ability of *clients* to obtain the service from other providers (substitutability, availability and accessibility);

(3) the time criticality for *clients* receiving the service;

(4) the number of *clients* to whom the service is provided;

(5) the sensitivity of data held;

(6) potential to inhibit the functioning of the *UK financial system*;

(7) the *firm's* potential to impact the soundness, stability or resilience of the *UK financial system*;

(8) the possible impact on the *firm's* financial position and potential to threaten the *firm's* viability where this could harm the *firm's clients* or pose a risk to the soundness, stability or resilience of the *UK financial system* or the orderly operation of the financial markets;

(9) the potential to cause reputational damage to the *firm*, where this could harm the *firm's clients* or pose a risk to the soundness, stability or resilience of the *UK financial system* or the orderly operation of the financial markets;

(10) whether disruption to the services could amount to a breach of a legal or regulatory obligation;

(11) the level of inherent conduct and market risk;

(12) the potential to cause knock-on effects for other market participants, particularly those that provide financial market infrastructure or critical national infrastructure; and

(13) the importance of that service to the *UK financial system*, which may include

market share, *client* concentration and sensitive *clients* (for example, governments or pension funds).

Impact tolerances

SYSC 15A.2.5 R

A *firm* must, for each of its *important business services*, set an *impact tolerance*.

SYSC 15A.2.6 R

A *firm* must keep its compliance with *SYSC 15A.2.5R* under review and, in particular, consider its compliance in the following circumstances:

(1) if there is a material change to the *firm's* business or the market in which it operates; and

(2) in any event, no later than 1 year after it last carried out the relevant assessment.

SYSC 15A.2.7 G

The factors that a *firm* should consider when setting its *impact tolerance* include, but are not limited to:

(1) the nature of the *client* base, including any vulnerabilities that would make the *person* more susceptible to harm from a disruption;

(2) the number of *clients* that may be adversely impacted and the nature of the impact;

(3) the potential financial loss to *clients*;

(4) the potential financial loss to the *firm* where this could harm the *firm's clients* or pose a risk to the soundness, stability or resilience of the *UK financial system* or the orderly operation of the financial markets;

(5) the potential level of reputational damage to the *firm* where this could harm the *firm's clients* or pose a risk to the soundness, stability or resilience of the *UK financial system* or the orderly operation of the financial markets;

(6) the potential impact on market or consumer confidence;

(7) potential spread of risks to their other business services, other *firms* or the *UK financial system*;

(8) the potential loss of functionality or access for *clients*;

(9) any potential loss of confidentiality, integrity or availability of data;

(10) the potential aggregate impact of disruptions to multiple *important business services*, in particular where such services rely on common operational resources as identified by the *firm's* mapping exercise under *SYSC 15A.4.1R*.

SYSC 15A.2.8 G

When setting its *impact tolerance*, a *firm* should take account of the fluctuations in demand for its *important business service* at different times of the day and throughout the year in order to ensure that its *impact tolerance* reflects these fluctuations and is appropriate in light of the peak demand for the *important business service*.

SYSC 15A.2.9 R

A *firm* must ensure it can remain within its *impact tolerance* for each *important business service* in the event of a severe but plausible disruption to its operations.

SYSC 15A.2.10 G While under *SYSC 15A.2.9R* a *firm* must ensure it is able to remain within its *impact tolerance*, it should generally not do so if this would put the *firm* in breach of another regulatory obligation, conflict with the proper exercise of a discretion granted to it under any *rule* or regulation, or result in increased risk of harm to its *clients* or the soundness, stability or resilience of the *UK financial system* or the orderly operation of the financial markets. Under certain circumstances, a *firm* may wish to resume a degraded service. This is usually only appropriate if having regard to the interest of the *firm's clients*, the soundness, stability and resilience of the *UK financial system* and the orderly operation of the financial markets, the benefits of resuming a degraded service outweigh the negatives of keeping the service unavailable until the issues have been fully remediated and the service is able to be fully restored to its pre-disruption levels.

SYSC 15A.2.11 G Under *Principle* 11 (Relations with regulators), the *FCA* expects to be notified of any failure by a *firm* to meet an *impact tolerance*.

SYSC 15A.2.12 G When setting *impact tolerances* under *SYSC 15A.2.5R* a *payment services provider* should have regard to its obligations under the *EBA* Guidelines on ICT and security risk management.

SYSC 15A.2.13 G *Payment service providers* should have regard to the *impact tolerance* set under *SYSC 15A.2.5R* when complying with the *EBA* Guidelines on ICT and security risk management. In particular, they should, as part of their continuity planning and testing, consider their ability to remain within their *impact tolerance* through a range of severe but plausible disruption scenarios.

Section : SYSC 15A.3 Strategies, processes and systems

SYSC 15A.3.1	R	A *firm* must have in place sound, effective and comprehensive strategies, processes and systems to enable it to comply with its obligations under this chapter.
SYSC 15A.3.2	R	The strategies, processes and systems required under *SYSC 15A.3.1R* must be comprehensive and proportionate to the nature, scale and complexity of the *firm's* activities.

Section : SYSC 15A.4 Mapping

SYSC 15A.4.1 R

A *firm* must identify and document the people, processes, technology, facilities and information necessary to deliver each of its *important business services*. This must be sufficient to allow the *firm* to identify vulnerabilities and remedy these as appropriate.

SYSC 15A.4.2 G

Where a *firm* relies on a third party for the delivery of an *important business service*, we would expect the *firm* to have sufficient understanding of the people, processes, technology, facilities, and information that support the provision by the third party of its services to or on behalf of the *firm* so as to allow the *firm* to comply with its obligations under *SYSC 15A.4.1R*.

SYSC 15A.4.3 R

A *firm* must keep its compliance with *SYSC 15A.4.1R* under review and, in particular, review its compliance in the following circumstances:

(1) if there is a material change to the *firm's* business, the *important business services* identified in accordance with *SYSC 15A.2.1R* or *impact tolerances* set in accordance with *SYSC 15A.2.5R*; and

(2) in any event, no later than 1 year after it last carried out the relevant assessment.

Section : SYSC 15A.5 Scenario testing

Testing plan

SYSC 15A.5.1 R

A *firm* must develop and keep up to date a testing plan that appropriately details how it will gain assurance that it can remain within the *impact tolerances* for each of its *important business services*.

SYSC 15A.5.2 G

Firms should ensure that the testing plan takes account of a number of factors, including but not limited to:

(1) the type of scenario testing undertaken. For example, whether it is paper based, simulations or through the use of live-systems;

(2) the scenarios which the *firm* expects to be able to remain within their *impact tolerances* and which ones they may not;

(3) the frequency of the testing;

(4) the number of *important business services* tested;

(5) the availability and integrity of supporting assets;

(6) how the *firm* would communicate with internal and external stakeholders effectively to reduce the harm caused by operational disruptions.

Testing

SYSC 15A.5.3 R

A *firm* must carry out scenario testing, to assess its ability to remain within its *impact tolerance* for each of its *important business services* in the event of a severe but plausible disruption of its operations.

SYSC 15A.5.4 R

In carrying out the scenario testing, a *firm* must identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to its business and risk profile and consider the risks to the delivery of the *firm's important business services* in those circumstances.

SYSC 15A.5.5 G

Where a *firm* relies on a third party for the delivery of its *important business services*, we would expect the *firm* to work with the third party to ensure the validity of the *firm's* scenario testing under *SYSC 15A.5.3R*. To the extent that the *firm* relies on the third party to carry out testing of the services provided by the third party to or on behalf of the *firm*, the *firm* should ensure the suitability of the methodologies, scenarios and considerations adopted by the third party in carrying out testing. The *firm* is ultimately responsible for the quality and accuracy of any testing carried out, whether by the *firm* or by a third party.

SYSC 15A.5.6 G

In carrying out the scenario testing, a *firm* should, among other things, consider the following scenarios:

(1) corruption, deletion or manipulation of data critical to the delivery of its *important business services*;

(2) unavailability of facilities or key people;

(3) unavailability of third party services, which are critical to the delivery of its *important business services*;

(4) disruption to other market participants, where applicable; and

(5) loss or reduced provision of technology underpinning the delivery of *important business services*.

SYSC 15A.5.7 R

A *firm* must carry out the scenario testing:

(1) if there is a material change to the *firm's* business, the *important business services* identified in accordance with *SYSC 15A.2.1R* or impact tolerances set in accordance with *SYSC 15A.2.5R*;

(2) following improvements made by the *firm* in response to a previous test; and

(3) in any event, on a regular basis.

Lessons learned

SYSC 15A.5.8 R

A *firm* must, following scenario testing or, in the event of an operational disruption, after such event, conduct a lessons learned exercise that allows the *firm* to identify weaknesses and take action to improve its ability to effectively respond and recover from future disruptions.

SYSC 15A.5.9 R

Following the lessons learned exercise, a *firm* must make necessary improvements to address weaknesses identified to ensure that it can remain within its *impact tolerances* in accordance with *SYSC 15A.2.9R*.

Section : SYSC 15A.6 Self-assessment and lessons learned exercise documentation

SYSC 15A.6.1 R

A *firm* must make, and keep up to date, a written record of its assessment of its compliance with the requirements in this chapter, including, but not limited to, a written record of:

(1) *important business services* identified by the *firm* and the justification for the determination made;

(2) the *firm's impact tolerances* and the justification for the level at which they have been set by the *firm*;

(3) the *firm's* approach to mapping under *SYSC 15A.4.1R*, including how the *firm* has used mapping to:

(a) identify the people, processes, technology, facilities and information necessary to deliver each of its *important business services*;

(b) identify vulnerabilities; and

(c) support scenario testing;

(4) the *firm's* testing plan and a justification for the plan adopted;

(5) details of the scenario testing carried out as part of its obligations under *SYSC 15A.5*, including a description and justification of the assumptions made in relation to scenario design and any identified risks to the *firm's* ability to meet its *impact tolerances*;

(6) any lessons learned exercise conducted under *SYSC 15A.5.8R*;

(7) an identification of the vulnerabilities that threaten the *firm's* ability to deliver its *important business services* within the *impact tolerances* set, including the actions taken or planned and justifications for their completion time;

(8) its communication strategy under *SYSC 15A.8.1R* and an explanation of how it will enable it to reduce the anticipated harm caused by operational disruptions; and

(9) the methodologies used to undertake the above activities.

SYSC 15A.6.2 R

A *firm* must retain each version of the records referred to in *SYSC 15A.6.1R* for at least 6 years and, on request, provide these to the *FCA*.

Section : SYSC 15A.7 Governance

SYSC 15A.7.1 R

A *firm* must ensure that its *governing body* approves and regularly reviews the written records required under *SYSC 15A.6* (Self-assessment and lessons learned exercise documentation).

Section : SYSC 15A.8 Communications

SYSC 15A.8.1 R

A *firm* must maintain an internal and external communication strategy to act quickly and effectively to reduce the anticipated harm caused by operational disruptions.

SYSC 15A.8.2 G

As part of a *firm's* communications strategy, the *FCA* expects the *firm* to:

(1) consider, in advance of a disruption, how it would provide important warnings or advice quickly to *clients* and other stakeholders, including where there is no direct line of communication;

(2) use effective communication to gather information about the cause, extent, and impact of operational incidents; and

(3) ensure that their choice of communication method takes account of the circumstances, needs and vulnerabilities of their *clients* and other stakeholders.

SYSC 15A.8.3 R

A *firm* must provide clear, timely and relevant communications to stakeholders in the event of an operational disruption.

Section : SYSC 15A.9 Supervisory review and feedback

SYSC 15A.9.1 G

The *FCA* may provide individual *guidance* as to whether a *firm's* compliance with this chapter is adequate and, if necessary, require a *firm* to take the necessary actions or steps to address any failure to meet the requirements in this chapter.

SYSC 15A.9.2 G

A *firm* should have regard to the views provided by the *FCA* in relation to the *firm's* compliance. If a *firm* considers that any individual *guidance* given to it is inappropriate to its circumstances it should, consistent with *Principle* 11 (Relations with regulators), inform the *FCA* that it disagrees with that *guidance*. The *FCA* may reissue the individual *guidance* if, after discussion with the *firm*, the *FCA* concludes that the appropriate actions or steps a *firm* should take is different from that initially suggested by the *FCA*.

SYSC 15A.9.3 G

If, after discussion, the *FCA* and a *firm* still do not agree, the *FCA* may consider other tools available to it, including its powers under *sections 55J* and *55L* of the *Act* on its own initiative to require the *firm* to take specific steps in line with the *FCA's* view to comply with the requirements in this chapter.

CHAPTER

SYSC 18 Whistleblowing

Section : SYSC 18.1 Application and purpose

Application

SYSC 18.1.1A R

This chapter applies to:

(1) a *firm*;

(2) in relation to the *guidance* in *SYSC 18.3.9G*, every *firm*;

(3) in relation to *SYSC 18.3.6R* and *SYSC 18.3.10R*, *EEA SMCR banking firms* and *overseas SMCR banking firms* only in relation to a *branch* maintained by them in the *United Kingdom*; and

(4) in relation to *SYSC 18.6.1R* to *SYSC 18.6.3G* (Whistleblowing obligations under MiFID):

(a) a *UK MiFID investment firm*, except a *collective portfolio management firm*; and

(b) a *third country investment firm*; and

(5) in relation to *SYSC 18.6.4G* to *SYSC 18.6.5G* (Whistleblowing obligations under other EU legislation), a *person* within the scope of the identified *EU* sectoral and cross-sectoral legislation.

SYSC 18.1.1AA G

Firms are reminded that for the purpose of *SYSC 18* (except for *SYSC 18.3.9G*) "*firm*" has the specific meaning set out in paragraph (8) of that definition in the *Glossary*, namely:

"(8) (in *SYSC 18*, with the exception of the *guidance* in *SYSC 18.3.9G*):

(a) a *UK SMCR banking firm* except a *small deposit taker*; and

(b) a firm as referred to in Chapter 1.1 of the PRA Rulebook: Solvency II Firms: Whistleblowing Instrument 2015."

SYSC 18.1.1B R

In this chapter, a reference to a provision of the *Employment Rights Act 1996* includes a reference to the corresponding provision of the *Employment Rights (Northern Ireland) Order 1996*.

SYSC 18.1.1C G

A *firm* not referred to in *SYSC 18.1.1AR* may adopt the *rules* and *guidance* in this chapter as best practice. If so, it may tailor its approach in a manner that reflects its size, structure and headcount.

Purpose

SYSC 18.1.2 G

(1) The purposes of this chapter are to:

(a) set out the requirements on *firms* in relation to the adoption, and communication to *UK*-based *employees*, of appropriate internal procedures for handling *reportable concerns* made by *whistleblowers* as part of an effective risk management system (SYSC 18.3);

(b) set out the role of the *whistleblowers' champion* (*SYSC 18.4*);

(c) require *firms* to ensure that *settlement agreements* expressly state that

workers may make *protected disclosures* (*SYSC 18.5*) and do not include warranties related to *protected disclosures*;

(ca) set out the requirements which implemented the whistleblowing obligation under article 73(2) of *MiFID*, which requires *MiFID investment firms* (except *collective portfolio management firms*) to have in place appropriate procedures for their employees to report potential or actual infringements of the MiFID regime (*SYSC 18.6*);

(cb) outline other *EU*-derived whistleblowing obligations similar to those in article 73(2) of *MiFID*, some of which may also be applicable to *MiFID investment firms* (*SYSC 18.6*);

(d) outline best practice for *firms* which are not required to apply the measures set out in this chapter but which wish to do so; and

(e) outline the link between effective whistleblowing measures and fitness and propriety.

(2) [deleted]

Section : SYSC 18.3 Internal arrangements

Arrangements to be appropriate and effective

SYSC 18.3.1 R

(1) A *firm* must establish, implement and maintain appropriate and effective arrangements for the disclosure of *reportable concerns* by *whistleblowers*.

(2) The arrangements in (1) must at least:

(a) be able effectively to handle disclosures of *reportable concerns* including:

(i) where the *whistleblower* has requested confidentiality or has chosen not to reveal their identity; and

(ii) allowing for disclosures to be made through a range of communication methods;

(b) ensure the effective assessment and escalation of *reportable concerns* by *whistleblowers* where appropriate, including to the *FCA* or *PRA*;

(c) include reasonable measures to ensure that if a *reportable concern* is made by a *whistleblower* no *person* under the control of the *firm* engages in victimisation of that *whistleblower*;

(d) provide feedback to a *whistleblower* about a *reportable concern* made to the *firm* by that *whistleblower*, where this is feasible and appropriate;

(e) include the preparation and maintenance of:

(i) appropriate records of *reportable concerns* made by *whistleblowers* and the *firm's* treatment of these reports including the outcome; and

(ii) up-to-date written procedures that are readily available to the *firm's UK*-based *employees* outlining the *firm's* processes for complying with this chapter;

(f) include the preparation of the following reports:

(i) a report made at least annually to the *firm's governing body* on the operation and effectiveness of its systems and controls in relation to whistleblowing (see *SYSC 18.3.1R*); this report must maintain the confidentiality of individual *whistleblowers*; and

(ii) prompt reports to the *FCA* about each case the *firm* contested but lost before an employment tribunal where the claimant successfully based all or part of their claim on either detriment suffered as a result of making a protected disclosure in breach of *section 47B* of the Employment Rights Act 1996 or being unfairly dismissed under *section 103A* of the Employment Rights Act 1996;

(g) include appropriate training for:

(i) *UK*-based *employees*;

(ii) *managers* of *UK*-based *employees* wherever the *manager* is based; and

(iii) *employees* responsible for operating the *firms'* internal arrangements.

SYSC 18.3.2 G

(1) When establishing internal arrangements in line with *SYSC 18.3.1R* a *firm* may:

(a) draw upon relevant resources prepared by whistleblowing charities or other recognised standards setting organisations; and

(b) consult with its *UK*-based *employees* or those representing these *employees*.

(2) In considering if a *firm* has complied with *SYSC 18.3.1R* the *FCA* will take into account whether the *firm* has applied the measures in (1).

(3) A *firm* may wish to clarify in its written procedures for the purposes of *SYSC 18.3.1R(2)(e)(ii)*, that:

(a) there may be other appropriate routes for some issues, such as employee grievances or consumer complaints, but internal arrangements as set out in *SYSC 18.3.1R(2)* can be used to blow the whistle after alternative routes have been exhausted, in relation to the effectiveness or efficiency of the routes; and

(b) nothing prevents *firms* taking action against those who have made false and malicious disclosures.

SYSC 18.3.3 G

(1) A *firm* may wish to operate its arrangements under *SYSC 18.3.1R* internally, within its *group* or through a third party.

(2) *Firms* will have to consider how to manage any conflicts of interest.

(3) If the *firm* uses another member of its group or a third party to operate its arrangements under *SYSC 18.3.1R* it will continue to be responsible for complying with that *rule*.

Training and development

SYSC 18.3.4 G

A *firm's* training and development in line with *SYSC 18.3.1R(2)(g)* should include:

(1) for all *UK*-based *employees*:

(a) a statement that the *firm* takes the making of *reportable concerns* seriously;

(b) a reference to the ability to report *reportable concerns* to the *firm* and the methods for doing so;

(c) examples of events that might prompt the making of a *reportable concern*;

(d) examples of action that might be taken by the *firm* after receiving a *reportable concern* by a *whistleblower*, including measures to protect the *whistleblower's* confidentiality; and

(e) information about sources of external support such as whistleblowing charities;

(2) for all managers of *UK*-based *employees* wherever the *manager* is based:

(a) how to recognise when there has been a disclosure of a *reportable concern* by a *whistleblower*;

(b) how to protect *whistleblowers* and ensure their confidentiality is preserved;

(c) how to provide feedback to a *whistleblower*, where appropriate;

(d) steps to ensure fair treatment of any *person* accused of wrongdoing by a *whistleblower*; and

(e) sources of internal and external advice and support on the matters referred to in (a) to (d);

(3) all *employees* of the *firm*, wherever they are based, responsible for operating the *firm's* arrangements under *SYSC 18.3.1R*, how to:

(a) protect a *whistleblower's* confidentiality;

(b) assess and grade the significance of information provided by *whistleblowers*; and

(c) assist the *whistleblowers' champion* (see *SYSC 18.4*) when asked to do so.

SYSC 18.3.5 G Where a *firm* operates its arrangements under *SYSC 18.3.1R* through another member of its *group* or a third party it should consider providing the training referred to in *SYSC 18.3.4G(3)* to the *persons* operating the arrangements by the *group* member or third party.

Reporting of concerns by employees to regulators

SYSC 18.3.6 R This *rule* applies to an *EEA SMCR banking firm* and an *overseas SMCR banking firm*.

(1) A *person* subject to this *rule* ('P') must, in the manner described in (2), communicate to its *UK*-based *employees* that they may disclose *reportable concerns* to the *PRA* or the *FCA* and the methods for doing so. P must make clear that:

(a) reporting to the *PRA* or to the *FCA* is not conditional on a report first being made using P's internal arrangements;

(b) it is possible to report using P's internal arrangements and also to the *PRA* or *FCA*; these routes may be used simultaneously or consecutively; and

(c) it is not necessary for a disclosure to be made to P in the first instance.

(2) The communication in (1) must be included in the *firm's* employee handbook or other equivalent *document*.

SYSC 18.3.7 R *Firms* must ensure that their *appointed representatives* or, where applicable, their *tied agents*, inform any of their *UK*-based *employees* who are *workers* that, as *workers*, they may make *protected disclosures* to the *FCA*.

Appointed representatives and tied agents

SYSC 18.3.8 G *Firms* are encouraged to invite their *appointed representatives* or, where applicable, their *tied agents* to consider adopting appropriate internal procedures which will encourage *workers* with concerns to blow the whistle internally about matters which are relevant to the functions of the *FCA* or *PRA*.

Link to fitness and propriety

SYSC 18.3.9 G The *FCA* would regard as a serious matter any evidence that a *firm* had acted to the detriment of a *whistleblower*. Such evidence could call into question the fitness and

propriety of the *firm* or relevant members of its staff, and could therefore, if relevant, affect the *firm's* continuing satisfaction of *threshold condition* 5 (Suitability) or, for an *approved person* or a *certification employee*, their status as such.

Additional rules for UK branches

SYSC 18.3.10 R

(1) This *rule* applies where an *EEA SMCR banking firm* or an *overseas SMCR banking firm* has:

(a) a *branch* in the *United Kingdom*; and

(b) a *group* entity which is a *UK SMCR banking firm*.

(2) An *EEA SMCR banking firm* and an *overseas SMCR banking firm* must, in the manner described in (3), communicate to the *UK*-based *employees* of its *UK branch*:

(a) the whistleblowing arrangements of the *group* entity that is a *UK SMCR banking firm*; and

(b) indicate that these arrangements may be used by *employees* of its *UK branch*.

(3) The communication in (2) must be included in the *branch's* employee handbook or other equivalent *document*.

Section : SYSC 18.4 The whistleblowers' champion

SYSC 18.4.1 G

(1) A *UK SMCR banking firm* is required under *SYSC 24.2.1R* to allocate the *FCA*-prescribed senior management responsibility for acting as the *firm's whistleblowers' champion*.

(2) *SYSC 18.4.2R* requires the appointment by an insurer of a *director* or *senior manager* as its *whistleblowers' champion*.

(3) This section sets out the role of the *whistleblowers' champion*.

(4) The *FCA* expects that a *firm* will appoint a *non-executive director* as its *whistleblowers' champion*. A *firm* that does not have a *non-executive director* would not be expected to appoint one just for this purpose.

SYSC 18.4.2 R An *insurer* must appoint a *director* or *senior manager* as its *whistleblowers' champion*.

SYSC 18.4.3 R A *firm* must assign the responsibilities set out in *SYSC 18.4.4R* to its *whistleblowers' champion*.

SYSC 18.4.4 R A *firm* must allocate to the *whistleblowers' champion* the responsibility for ensuring and overseeing the integrity, independence and effectiveness of the *firm's* policies and procedures on whistleblowing (see *SYSC 18.3* (Internal Arrangements)) including those policies and procedures intended to protect *whistleblowers* from being victimised because they have disclosed *reportable concerns*.

SYSC 18.4.5 G The whistleblowers' champion:

(1) should have a level of authority and independence within the *firm* and access to resources (including access to independent legal advice and training) and information sufficient to enable him to carry out that responsibility;

(2) need not have a day-to-day operational role handling disclosures from *whistleblowers*; and

(3) may be based anywhere provided he can perform his function effectively.

SYSC 18.4.6 G The role of a *whistleblowers' champion*, before the introduction of his or her responsibilities under those provisions of *SYSC 18* which are to come into force on 7 September 2016, includes oversight of the *firm's* transition to its new arrangements for whistleblowing.

Section : SYSC 18.5 Settlement agreements with workers

SYSC 18.5.1 R

A *firm* must include a term in any *settlement agreement* with a *worker* that makes clear that nothing in such an agreement prevents a *worker* from making a *protected disclosure*.

SYSC 18.5.2 E

(1) *Firms* may use the following wording, or alternative wording which has substantively the same meaning, in any *settlement agreement*:
"For the avoidance of doubt, nothing precludes [name of worker] from making a "protected disclosure" within the meaning of Part 4A (Protected Disclosures) of the *Employment Rights Act 1996*. This includes protected disclosures made about matters previously disclosed to another recipient."

(2) Compliance with (1) may be relied on as tending to establish compliance with *SYSC 18.5.1R*.

SYSC 18.5.3 R

(1) *Firms* must not request that *workers* enter into warranties which require them to disclose to the *firm* that:

(a) they have made a *protected disclosure*; or

(b) they know of no information which could form the basis of a *protected disclosure*.

(2) *Firms* must not use measures intended to prevent *workers* from making *protected disclosures*.

Section : SYSC 18.6 Whistleblowing obligations under the MiFID regime and other sectoral legislation

Whistleblowing obligations under the MiFID regime

SYSC 18.6.1 R

(1) A *MiFID investment firm* (except a *collective portfolio management investment firm*) must have appropriate procedures in place for its employees to report a potential or actual breach of:

(a) any rule which implemented *MiFID*; or

(b) a requirement imposed by *MiFIR* or any *onshored regulation* which was previously an *EU regulation* adopted under *MiFID* or *MiFIR*.

(2) The procedures in (1) must enable employees to report internally through a specific, independent and autonomous channel.

(3) The channel referred to in (2) may be provided through arrangements made by social partners, subject to the *Public Interest Disclosure Act 1998* and the *Employment Rights Act 1996* to the extent that they apply.

[**Note:** article 73(2) of *MiFID*]

SYSC 18.6.2 R

SYSC 18.6.1R applies to a *third country investment firm* as if it were a *MiFID investment firm* (unless it is a *collective portfolio management investment firm*) when the following conditions are met:

(1) it carries on *MiFID or equivalent third country business*; and

(2) it carries on the business in (1) from an establishment in the *United Kingdom*.

SYSC 18.6.3 G

When considering what procedures may be appropriate for the purposes of *SYSC 18.6.1R(1)*, a *UK MIFID investment firm* or a *third country investment firm* may wish to consider the arrangements in *SYSC 18.3.1R(2)*.

Whistleblowing obligations under other sectoral legislation

SYSC 18.6.4 G

In addition to obligations under the *MiFID* regime, similar whistleblowing obligations apply to miscellaneous *persons* subject to regulation by the *FCA* under the following non-exhaustive list of legislation:

(1) article 32(3) of the *Market Abuse Regulation*, as implemented in *section 131AA* of the *Act*;

(2) [deleted]

(3) the *UK* provisions which implemented article 99d(5) of the *UCITS Directive* (see *SYSC 4.1.1ER* in respect of *UK UCITS management companies*, and *COLL 6.6B.30R* in respect of *depositaries*) ;

(4) article 24(3) of the *securities financing transactions regulation*; and

(5)

regulation 45 of the *Public Offers and Admissions to Trading Regulations* as regards reporting of infringements.

SYSC 18.6.5 G Depending on the nature of its business, in addition to *SYSC 18.6.1R*, a *MiFID investment firm* may, for example, be subject to one or more of the requirements in *SYSC 18.6.4G*.

CHAPTER

SYSC 19B AIFM Remuneration Code

Section : SYSC 19B.1 Application

SYSC 19B.1.1 R

The *AIFM Remuneration Code* applies to a *full-scope UK AIFM* of:

(1) a *UK AIF*; and

(2) a non-UK AIF.

(3) [deleted]

SYSC 19B.1.1A G

(1) *Full-scope UK AIFMs* are advised that *ESMA* published Guidelines on sound remuneration policies under the *AIFMD* on 3 July 2013 (Guidelines on sound remuneration policies under the AIFMD, 03.07.2013|ESMA/2013/232), which *full-scope UK AIFMs* should comply with in applying the *rules* in this section.

(2) The *FCA* has provided additional *guidance* on the application of principles of proportionality to remuneration policies of *AIFM*. The *guidance* also addresses several other aspects of the *AIFM Remuneration Code* and the Guidelines. The *guidance* can be found at: [*http://www.fca.org.uk/your-fca/documents/finalised-guidance/fg14-02*]

Remuneration policies and practices

SYSC 19B.1.2 R

An *AIFM* must establish, implement and maintain *remuneration* policies and practices for *AIFM Remuneration Code staff* that are consistent with, and promote, sound and effective risk management and do not encourage risk-taking which is inconsistent with the risk profile of the *instrument constituting the fund* of the *AIFs* it manages.
[**Note:** article 13(1) of *AIFMD*]

SYSC 19B.1.3 R

AIFM Remuneration Code staff comprise those categories of staff whose professional activities have a material impact on the risk profiles of the *AIFMs* or of the *AIFs* the *AIFM* manages. This includes senior management, risk takers, control functions, and any *employees* receiving total *remuneration* that takes them into the same *remuneration* bracket as senior management and risk takers.
[**Note:** article 13(1) of *AIFMD*]

SYSC 19B.1.4 R

(1) When establishing and applying the total *remuneration* policies for *AIFM Remuneration Code staff* (inclusive of salaries and discretionary pension benefits), an *AIFM* must comply with the *AIFM remuneration principles* in a way and to the extent that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

(2) Paragraph (1) does not apply to the requirement for significant *AIFMs* to have a *remuneration* committee (*SYSC 19B.1.9 R*).

(3) The *AIFM remuneration principles* apply to remuneration of any type paid by the *AIFM*, to any amount paid directly by the *AIF* itself, including *carried interest*, and to any transfer of *units* or *shares* of the *AIF* made to the benefits of *AIFM Remuneration*

Code staff.

[**Note:** paragraph 1 and 2 of Annex II of *AIFMD*]

AIFM Remuneration Principle 1: Risk management

SYSC 19B.1.5 R An *AIFM* must ensure that its *remuneration* policy is consistent with, and promotes, sound and effective risk management and does not encourage risk-taking which is inconsistent with the risk profiles of the *instrument constituting the fund* of the *AIFs* it manages.
[**Note:** paragraph 1(a) of Annex II of *AIFMD*]

AIFM Remuneration Principle 2: Supporting business strategy, objectives, values and interests, and avoiding conflicts of interest

SYSC 19B.1.6 R An *AIFM* must ensure that its *remuneration* policy is in line with the business strategy, objectives, values and interests of the *AIFM* and the *AIFs* it manages or the investors of such *AIFs*, and includes measures to avoid conflicts of interest.
[**Note:** paragraph 1(b) of Annex II of *AIFMD*]

AIFM Remuneration Principle 3: Governance

SYSC 19B.1.7 R An *AIFM* must ensure that the *governing body* of the *AIFM*, in its supervisory function, adopts and periodically reviews the general principles of the *remuneration* policy and is responsible for its implementation.
[**Note:** paragraph 1(c) of Annex II of *AIFMD*]

SYSC 19B.1.8 R An *AIFM* must ensure the implementation of the *remuneration* policy is, at least annually, subject to central and independent internal review for compliance with policies and procedures for *remuneration* adopted by the *governing body* in its supervisory function.
[**Note:** paragraph 1(d) of Annex II of *AIFMD*]

SYSC 19B.1.9 R

(1) An *AIFM* that is significant in terms of its size, internal organisation and the nature, the scope and the complexity of its activities must establish a *remuneration* committee.

(2) The *remuneration* committee must be constituted in a way that enables it to exercise competent and independent judgment on *remuneration* policies and practices, and the incentives created for managing risk.

(3) The chairman and the members of the *remuneration* committee must be members of the *governing body* who do not perform any executive function in the *AIFM*.

(4) The *remuneration* committee must be responsible for the preparation of decisions regarding *remuneration*, including those which have implications for the risk and risk management of the *AIFM* or the *AIF* concerned and which are taken by the *governing body* in its supervisory function.

[**Note:** paragraph 3 of Annex II of *AIFMD*]

AIFM Remuneration Principle 4: Control functions

SYSC 19B.1.10 R An *AIFM* must ensure that *employees* engaged in control functions are compensated

according to the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.
[**Note:** paragraph 1(e) of Annex II of *AIFMD*]

SYSC 19B.1.11 R An *AIFM* must ensure the *remuneration* of the senior officers in the risk management and compliance functions is directly overseen by the *remuneration* committee, or, if such a committee has not been established, by the *governing body* in its supervisory function.
[**Note:** paragraph 1(f) of Annex II of *AIFMD*]

AIFM Remuneration Principle 5(a): Remuneration structures - assessment of performance

SYSC 19B.1.12 R An *AIFM* must ensure that, where *remuneration* is performance related, the total amount of *remuneration* is based on a combination of the assessment of the performance of the individual and of the business unit or *AIF* concerned and of the overall results of the *AIFM*. When assessing individual performance, financial and non-financial criteria are taken into account.
[**Note:** paragraph 1(g) of Annex II of *AIFMD*]

SYSC 19B.1.13 R An *AIFM* must ensure that the assessment of performance is set in a multi-year framework appropriate to the life-cycle of the *AIFs* managed by the *AIFM* to ensure that:

(1) the assessment process is based on longer term performance; and

(2) the actual payment of performance-based components of remuneration is spread over a period which takes account of the redemption policy of the *AIFs* it manages and their investment risks.

[**Note:** paragraph 1(h) of Annex II of *AIFMD*]

SYSC 19B.1.13A G (1) Taking account of the remuneration principles proportionality *rule* in *SYSC 19B.1.4 R*, the *FCA* does not generally consider it necessary for a *firm* to apply the *rules* referred to in (2) where, in relation to an individual ("X"), both of the following conditions are satisfied:

(a) Condition 1 is that X's variable *remuneration* is no more than 33% of total *remuneration*; and

(b) Condition 2 is that X's total *remuneration* is no more than £500,000.

(2) The *rules* referred to in (1) are those relating to:

(a) guaranteed variable *remuneration* (*SYSC 19B.1.14 R*);

(b) retained *units*, *shares* or other instruments (*SYSC 19B.1.17 R*);

(c) deferral (*SYSC 19B.1.18 R*); and

(d) performance adjustment (*SYSC 19B.1.19 R*).

AIFM Remuneration Principle 5(b): Remuneration structures - guaranteed variable remuneration

SYSC 19B.1.14 R An *AIFM* must not award, pay or provide guaranteed variable remuneration unless it;

(1) is exceptional;

(2) occurs only in the context of hiring new staff; and

(3) is limited to the first year of service.

[**Note:** paragraph 1(i) of Annex II of *AIFMD*]

AIFM Remuneration Principle 5(c): Remuneration structures - fixed and variable components of total remuneration

SYSC 19B.1.15 R

An *AIFM* must ensure that:

(1) fixed and variable components of total *remuneration* are appropriately balanced; and

(2) the fixed component represents a sufficiently high proportion of the total *remuneration* to allow the operation of a fully flexible policy on variable *remuneration* components, including the possibility to pay no variable *remuneration* component.

[**Note:** paragraph 1(j) of Annex II of *AIFMD*]

AIFM Remuneration Principle 5(d): Remuneration structures - payments related to early termination

SYSC 19B.1.16 R

An *AIFM* must ensure that payments related to the early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure.

[**Note:** paragraph 1(k) of Annex II of *AIFMD*]

AIFM Remuneration Principle 5(e): Remuneration structures - retained units, shares or other instruments

SYSC 19B.1.17 R

(1) Subject to the legal structure of the *AIF* and the *instrument constituting the fund*, an *AIFM* must ensure that a substantial portion, and in any event at least 50% of any variable *remuneration*, consists of *units* or *shares* of the *AIF* concerned, or equivalent ownership interests, or share-linked instruments or equivalent non-cash instruments. However, if the management of *AIFs* accounts for less than 50% of the total portfolio managed by the *AIFM*, the minimum of 50 % does not apply.

(2) The instruments in (1) must be subject to an appropriate retention policy designed to align incentives with the long-term interests of the *AIFM* and the *AIFs* it manages and the investors of such *AIFs*.

(3) This *rule* applies to the portion of the variable *remuneration* component deferred in line with *SYSC 19B.1.18R (1)* and the portion not deferred.

[**Note:** paragraph 1(m) of Annex II of *AIFMD*]

AIFM Remuneration Principle 5(f): Remuneration structures - deferral

SYSC 19B.1.18 R

(1) An *AIFM* must not award, pay or provide a variable *remuneration* component unless a substantial portion, and in any event at least 40%, of the variable *remuneration* component, is deferred over a period which is appropriate in view of the life cycle and redemption policy of the *AIF* concerned and is correctly aligned with the nature of the risks of the *AIF* in question

(2) The period referred to in (1) must be at least three to five years, unless the life cycle of the *AIF* concerned is shorter.

(3) *Remuneration* payable under (1) must vest no faster than on a pro-rata basis.

(4) In the case of a variable remuneration component of a particularly high amount, at least 60 % of the amount must be deferred.

[**Note:** paragraph 1(n) of Annex II of *AIFMD*]

SYSC 19B.1.18A G

(1) £500,000 is a particularly high amount for the purpose of *SYSC 19B.1.18R (4)*.

(2) Paragraph (1) is without prejudice to the possibility of lower sums being considered a particularly high amount.

(3) Whilst any variable *remuneration* component of £500,000 or more paid to *AIFM Remuneration Code staff* should be subject to 60% deferral, *firms* should also consider whether lesser amounts should be considered to be 'particularly high', taking account, for example, of whether there are significant differences within *AIFM Remuneration Code staff* in the levels of variable *remuneration* paid.

AIFM Remuneration Principle 5(g): Remuneration structures - performance adjustment, etc.

SYSC 19B.1.19 R

An *AIFM* must ensure that any variable *remuneration*, including a deferred portion, is paid or vests only if it is sustainable according to the financial situation of the *AIFM* as a whole and justified according to the performance of the *AIF*, the business unit and the individual concerned.

[**Note:** paragraph 1(o) first sub-paragraph of Annex II of *AIFMD*]

SYSC 19B.1.20 G

The total variable *remuneration* should generally be considerably contracted where subdued or negative financial performance of the *AIFM* or of the *AIF* concerned occurs, taking into account both current compensation and reductions in payouts of amounts previously earned, including through malus or clawback arrangements.

[**Note:** paragraph 1(o) second sub-paragraph of Annex II of *AIFMD*]

AIFM Remuneration Principle 6: Measurement of performance

SYSC 19B.1.21 R

An *AIFM* must ensure the measurement of performance used to calculate variable *remuneration* components, or pools of variable *remuneration* components, includes a comprehensive adjustment mechanism to integrate all relevant types of current and future risks.

[**Note:** paragraph 1(l) of Annex II of *AIFMD*]

AIFM Remuneration Principle 7: Pension policy

SYSC 19B.1.22 R

An *AIFM* must ensure that:

(1) its pension policy is in line with its business strategy, objectives, values and long-term interests of the *AIFs* it manages;

(2) when an *employee* leaves the *firm* before retirement, any *discretionary pension*

benefits are held by the *firm* for a period of five years in the form of instruments in *SYSC 19B.1.17R (1)*; and

(3) in the case of an *employee* reaching retirement, *discretionary pension benefits* are paid to the *employee* in the form of instruments referred to in *SYSC 19B.1.17R (1)* and subject to a five-year retention period.

[**Note:** paragraph 1(p) of Annex II of *AIFMD*]

AIFM Remuneration Principle 8: Personal investment strategies

SYSC 19B.1.23 R

An *AIFM* must ensure that its *employees* undertake not to use personal hedging strategies or *remuneration*- and liability-related insurance to undermine the risk alignment effects embedded in their *remuneration* arrangements.

[**Note:** paragraph 1(q) of Annex II of *AIFMD*]

AIFM Remuneration Principle 9: Avoidance of the remuneration code

SYSC 19B.1.24 R

An *AIFM* must ensure that variable remuneration is not paid through vehicles or methods that facilitate the avoidance of the requirements of the *AIFM Remuneration Code*.

[**Note:** paragraph 1(r) of Annex II of *AIFMD*]

CHAPTER

SYSC 19D Dual-regulated firms Remuneration Code

Section : SYSC 19D.1A Application and purpose

SYSC 19D.1A.1 R

(1) A *firm* to which this chapter applies must comply with the *PRA Remuneration Rules*, as applied and modified by the *rules* in this chapter.

(2) Any reference to the *PRA Remuneration Rules* in this section is to the *PRA Remuneration Rules* as applied and modified by the *rules* in this chapter.

(3) The *PRA Remuneration Rules* are modified by the following *rules*:

1. (a) *SYSC 19D.2A.4R* (Gender-neutral policies and practices);
2. (b) *SYSC 19D.2A.6R* (Record-keeping);
3. (c) *SYSC 19D.2A.11R* (Performance adjustment); and
4. (d) *SYSC 19D.2A.12R* (Breaches of the dual-regulated firms Remuneration Code).

[**Note**: The PRA Remuneration Rules are available on the *PRA's website*. In addition, the PRA has issued a *Supervisory Statement (SS2/17)* on Remuneration which sets out the PRA's expectations on how firms should comply with the PRA Remuneration Rules.]

SYSC 19D.1A.2 G

(1) For *firms* subject to the *dual-regulated firms Remuneration Code*, the *PRA* is responsible for *remuneration* requirements from a prudential perspective. The *FCA* is responsible for *remuneration* requirements from a conduct perspective.

(2) The aim of the *dual-regulated firms Remuneration Code* is to ensure that *firms* have risk-focused *remuneration* policies, which are consistent with and promote effective risk management, and do not expose them to excessive risk. It expands upon the general organisational requirements in *SYSC 4*.

(3) Historically, the *FCA* and the *PRA* had 2 parallel sourcebooks containing *rules* on *remuneration*. *Firms* subject to the *dual-regulated firms Remuneration Code* were required to comply with both sets of *rules*. The *FCA* has now simplified its *rules* for *firms* subject to the *dual-regulated firms Remuneration Code* by cross-referring to the *PRA Remuneration Rules*. All cross-references to the *PRA Remuneration Rules* are to those *rules* 'as amended from time to time'. This means that where the *PRA's rules* change, so do the *FCA's*.

(4) Where the *FCA's rules* modify the *PRA Remuneration Rules*, or where the *FCA* wishes to explain how the *dual-regulated firms Remuneration Code* is to be applied, those *rules* and *guidance* remain in *SYSC 19D*.

SYSC 19D.1A.3 G

(1) The effect of *SYSC 19D.1A.1R* is that the requirements of the *PRA Remuneration Rules* apply to a *firm* subject to the *dual-regulated firms Remuneration Code* as if they were *FCA rules*. The *FCA* will supervise and enforce these *rules*, as if they were *FCA rules*.

(2) *Firms* subject to the *dual-regulated firms Remuneration Code* must still apply to

both the *FCA* and the *PRA* to waive or modify a *rule*. However, they will now (save in relation to the *rules* and *guidance* in *SYSC 19D.2A*) be able to propose a waiver of or modifications to the same *rule*, instead of proposing changes to 2 different *PRA* and *FCA* versions of the *rules*.

Section : SYSC 19D.2A Remuneration requirements and expectations specific to the FCA

SYSC 19D.2A.1 G

(1) This section contains *rules* which are specific to the *FCA*.

(2) This section also provides *guidance* on how the *FCA* expects *firms* to comply with the *dual-regulated firms Remuneration Code*.

Notifications

SYSC 19D.2A.2 G

(1) In addition to the notification requirements in the *dual-regulated firms Remuneration Code*, *SUP 15.3* (General notification requirements) explains the general circumstances in which the *FCA* expects to be notified by *firms* of matters relating to their compliance with requirements under the *regulatory system*.

(2) For *remuneration* matters, those circumstances include both *regulated activities* and *unregulated activities*, as well as the activities of other members of a *group*, and would include each of the following:

(a) significant breaches of the *dual-regulated firms Remuneration Code*. The *FCA* considers any breach of a *rule* to which *SYSC 19D Annex 1* applies to be a significant breach which should be notified to the *FCA*. In such a situation, the notification should include information on the steps which a *firm* or other *person* has taken or intends to take to recover payments or property in accordance with *SYSC 19D Annex 1.7R*;

(b) any proposed *remuneration* policies, procedures or practices which could:

(i) have a significant adverse impact on the *firm's* reputation;

(ii) affect the *firm's* ability to continue to provide adequate services to its *customers* and could result in serious detriment to a *customer* of the *firm*; or

(iii) result in serious financial consequences for the *UK financial system* or for other *firms*;

(c) any proposed changes to *remuneration* policies, practices or procedures which could have a significant impact on the *firm's* risk profile or resources; and

(d) fraud, errors and other irregularities described in *SUP 15.3.17R* (Fraud, errors and other irregularities) which may suggest weaknesses in, or be motivated by, the *firm'sremuneration* policies, procedures or practices.

(3) Notifications should be made as soon as the *firm* becomes aware or has information which reasonably suggests that those circumstances have occurred, may have occurred or may occur in the foreseeable future.

Individual guidance

SYSC 19D.2A.3 G

The *FCA's* policy on individual *guidance* is set out in *SUP 9*. *Firms* should note, in particular, the policy on what the *FCA* considers to be a reasonable request for guidance (see *SUP 9.2.5G*). For example, where a *firm* is seeking *guidance* on a proposed *remuneration*

structure, the *FCA* will expect the *firm* to provide a detailed analysis of how the structure complies with the *dual-regulated firms Remuneration Code*.

Gender-neutral policies and practices

SYSC 19D.2A.4 R

A *firm* must ensure that its *remuneration* policy is a *gender-neutral remuneration policy* and that the practices referred to in *rule* 6.1 of the *PRA Remuneration Rules* are gender-neutral.

SYSC 19D.2A.5 G

(1) *Firms* are reminded that the Equality Act 2010 prohibits discrimination on the basis of an individual's protected characteristics both before and after employment is offered. The Act applies to pay and all other contractual terms, including variable *remuneration*. A firm should ensure that its *remuneration* policy complies with the Equality Act 2010.

(2) *Firms* should ensure that, when they assess individual performance, the assessment process and any variable *remuneration* awarded in accordance with *rule* 15.4 of the *PRA Remuneration Rules* does not discriminate on the basis of the protected characteristics of an individual.

Record keeping

SYSC 19D.2A.6 R

In *rule* 3.4 of the *PRA Remuneration Rules*, reference to 'the Record-Keeping Part' should be read as instead referring to 'the general record-keeping requirements (*SYSC 9*)'.

Exceptional government intervention

SYSC 19D.2A.7 G

(1) The *guidance* provision at (2) is relevant to *rule* 10.1 of the *PRA Remuneration Rules*.

(2) The *FCA* considers that it would normally be appropriate for the ban on paying variable *remuneration* to members of the *management body* of a *firm* that benefits from exceptional government intervention to apply only to members of the *management body* who were in office at the time that the intervention was required.

Profit-based measurement and risk adjustment

SYSC 19D.2A.8 G

(1) The *guidance* provisions in (2) are relevant to *rule* 11.1 of the *PRA Remuneration Rules*.

(2) The *FCA* considers that:

1.

(a) a *firm* should apply qualitative judgements and common sense in the final decision about the performance-related components of variable *remuneration* pools. This reflects the importance of risk adjustment in measuring performance, and the importance within that process of applying judgement and common sense;

(b) good practice is demonstrated by those *firms* who provide a quantitative reference or starting point that explicitly includes risk-adjusted metrics, before applying more discretionary factors. Common metrics include those based on

economic profit or economic capital. Whichever technique is chosen, the full range of future risks should be covered, including non-financial risks such as reputation, conduct, *client* outcomes, values and strategy;

(c) a *firm* should be able to provide the *FCA* with details of all adjustments that the *firm* has made, whether through application of formulae or the exercise of discretion. This will enable the *FCA* to consider whether the *firm's* risk adjustment framework is sufficiently robust. Where discretion has been applied, the *firm* should be able to provide a clear explanation for, and quantification of, such adjustments; and

4. (d) a *firm's* risk management function should validate and assess risk-adjustment techniques, and attend meetings of the *governing body* or *remuneration* committee for this purpose.

Assessment of performance

SYSC 19D.2A.9 G

(1) The *guidance* provisions at (2) are relevant to *rule* 15.4 of the *PRA Remuneration Rules*.

(2) The *FCA* considers that:

(a) the non-financial criteria referred to in *rule* 15.4(2) of the *PRA Remuneration Rules* should include:

1.

(i) the extent to which the *employee* has adhered to effective risk management practices, and complied with the *regulatory system* and relevant overseas regulatory requirements; and

(ii) metrics relating to conduct, which should comprise a substantial portion of the non-financial criteria;

(b) aligning variable awards to sustainable financial performance requires *firms* to make appropriate ex-ante adjustments to take account of the potential for future unexpected losses. Performance measures commonly used (such as earnings per *share* (EPS), total shareholder return (TSR) and return on equity (RoE)) are not suitably adjusted for longer-term risk factors and may incentivise highly leveraged activities;

(c) non-financial metrics should override metrics of financial performance where appropriate, as poor performance (such as poor risk management or other behaviours contrary to *firm* values) can pose significant risks for a *firm*; and

(d) a *firm* should keep in mind that *rule* 15.4(2) of the *PRA Remuneration Rules* applies wherever *remuneration* is performance-related, including when a *firm* is assessing and setting future *remuneration*.

Deferral

SYSC 19D.2A.10 G

(1) The *guidance* provisions in (2) are relevant to *rule* 15.17 of the *PRA*

Remuneration Rules.

(2) The *FCA*:

(a) considers that deferred *remuneration* paid in:

(i) *shares* or *share*-linked instruments should be made under a scheme which meets appropriate criteria, including risk adjustment of the performance measure used to determine the initial allocation of *shares*; and

(ii) cash should also be subject to performance criteria; and

(b) would generally expect a *firm* to have a *firm*-wide policy (and *group*-wide policy, where appropriate) on deferral. The proportion deferred should generally rise with the ratio of variable *remuneration* to fixed *remuneration* and with the amount of variable *remuneration*.

Performance adjustment

SYSC 19D.2A.11 R

In *rule* 15.20A(2) of the *PRA Remuneration Rules*, references to 'a relevant *material risk taker* who performs a *PRAsenior management function*' should be read as if they instead referred to 'a relevant *material risk taker* who performs an *FCA-designated senior management function*'.

Breaches of the dual-regulated firms Remuneration Code

SYSC 19D.2A.12 R

(1) *SYSC 19D Annex 1* makes provision about voiding and recovery.

(2) The voiding provisions in *SYSC 19D Annex 1* apply to the *rules* listed in *rule* 16.1 of the *PRA Remuneration Rules*, save in the circumstances specified in *rules* 16.2 to 16.8 of the *PRA Remuneration Rules*.

SYSC 19D.2A.13 G

(1) Section 137H of the *Act* enables the *FCA* to make *rules* that render void any provision of an agreement that contravenes specified prohibitions, and that provide for the recovery of any payment made, or other property transferred, in pursuance of such a provision.

(2) *SYSC 19D.2A.12R* explains the prohibitions that are subject to these voiding arrangements, and *SYSC 19D Annex 1* explains how those voiding arrangements work.

Section : SYSC 19D Annex 1 Detailed provisions on voiding and recovery (SYSC 19D.2A.12R)

SYSC 19D Annex 1

Rendering contravening provisions of agreements void

1	R	Any provision of an agreement that contravenes a prohibition on *persons* being *remunerated* in a way specified in a *rule* to which this *rule* applies (a 'contravening provision') is void.	
2	R	A contravening provision does not cease to be void because:	
		(1)	the *firm* concerned ceases to satisfy any of the conditions set out in *rules* 16.3 and 16.4 of the *PRA Remuneration Rules*; or
		(2)	the *material risk taker* concerned starts to satisfy both of the conditions set out in *rule* 16.7(1) and (2) of the *PRA Remuneration Rules*.
3	R	A contravening provision will not be void where:	
		(1)	it is contained in an agreement that was in force at the time when the *rule* the provision contravenes was first made; and
		(2)	it has not subsequently been amended so as to contravene that *rule*.
4	G	(1)	The effect of *SYSC 19D Annex 1.3R* is to prevent contravening provisions being rendered void retrospectively. However, contravening provisions may be rendered void if they are contained in an agreement made after the *rule* containing the prohibition is made by the *FCA* but before the *rule* comes into effect.
		(2)	For example, the *FCA* makes a *rule* containing a prohibition on 1 March 2025 but the *rule* does not come into effect until 1 September 2025. A *dual-regulated firm* takes actions in June

Rendering contravening provisions of agreements void

			2025 that contravene the provision. Given that the *rule* has been made, but has not yet come into force, the contravening provision may be rendered void.	
5	R	(1)	A pre-existing provision is not rendered void by *SYSC 19D Annex 1.1R*.	
		(2)	In this Annex, a pre-existing provision is any provision of an agreement that would (but for this *rule*) be rendered void by *SYSC 19D Annex 1.1R* that was agreed at a time when either:	
			(a)	the *firm* concerned did not satisfy any of the conditions set out in *rules* 16.3 and 16.4 of the *PRA Remuneration Rules*; or
			(b)	the *material risk taker* concerned satisfied both of the conditions set out in *rule* 16.7(1) and (2) of the *PRA Remuneration Rules*.
		(3)	But an amendment to, or in relation to, a pre-existing provision is not to be treated as a pre-existing provision where the amendment is agreed at a time when both:	
			(a)	the *firm* concerned satisfies at least one of the conditions set out in *rules* 16.3

Rendering contravening provisions of agreements void

				and 16.4 of the *PRA Remuneration Rules*; and
			(b)	the *material risk taker* concerned does not satisfy both of the conditions set out in *rule* 16.7(1) and (2) of the *PRA Remuneration Rules*.
6	R	For the purposes of this annex, it is immaterial whether the law which (apart from this annex) governs a contravening provision is the law of the *United Kingdom*, or of a part of the *United Kingdom*.		
Recovery of payments made or property transferred pursuant to a void contravening provision				
7	R	In relation to any payment made or other property transferred in pursuance of a contravening provision other than a pre-existing provision, a *firm* must take reasonable steps to:		
		(1)	recover any such payment made or other property transferred by the *firm*; and	
		(2)	ensure that any other *person* (P) recovers any such payment made or other property transferred by that *person*.	
8	R	*SYSC 19D Annex 1.7R* continues to apply in one or both of the following cases:		
		(1)	the *firm* concerned ceases to satisfy any of the conditions set out in *rules* 16.3 to 16.4 of the *PRA Remuneration Rules*;	
		(2)	the *material risk taker* concerned starts to satisfy both of the conditions set out in *rule* 16.7(1) and (2) of the *PRA Remuneration Rules*.	
9	G	The *rule* in *SYSC 19D Annex 1.7R(2)* would, for example, apply in the context of a		

Rendering contravening provisions of agreements void

		secondment. Where a *group* member seconds an individual to a *firm* and continues to be responsible for the individual's *remuneration* in respect of services provided to the *firm*, the *firm* would need to take reasonable steps to ensure that the *group* member recovers from the secondee any *remuneration* paid in pursuance of a contravening provision.		
Replacing payments recovered or property transferred				
10	R	(1)	A *firm* must not award, pay or provide variable *remuneration* to a *person* who has received *remuneration* in pursuance of a contravening provision other than a pre-existing provision (the 'contravening *remuneration*') unless the *firm* has obtained a legal opinion stating that the award, payment or provision of the *remuneration* complies with the *dual-regulated firms Remuneration Code*.	
		(2)	This *rule* applies only to variable *remuneration* relating to a performance year to which the contravening *remuneration* related.	
		(3)	The legal opinion in (1) must be properly reasoned and be provided by an appropriately qualified independent individual.	
		(4)	Paragraph (1) continues to apply in one or both of the following cases:	
			(a)	the *firm* concerned ceases to satisfy any of the conditions set out in *rules* 16.3 and 16.4 of the *PRA Remuneration Rules*;
			(b)	the *material risk*

Rendering contravening provisions of agreements void

				taker concerned starts to satisfy both of the conditions set out in *rule* 16.7(1) and (2) of the *PRA Remuneration Rules*.
Notification to the FCA				
11	G	[deleted]		

CHAPTER

SYSC 19E UCITS Remuneration Code

Section : SYSC 19E.1 Application

SYSC 19E.1.1 R

(1) The *UCITS Remuneration Code* applies to a *UK UCITS management company* that manages a *UCITS scheme*.

(2) [deleted]

(3) In this section, a *firm* under (1) above, is referred to as a *management company*.

SYSC 19E.1.2 R

(1) This chapter applies to a *UK UCITS management company* in relation to *remuneration* paid, provided or awarded by any *person* to the extent that it is paid, provided or awarded in connection with *employment* by a *management company*.

(2) Paragraph (1) is without prejudice to the meaning of *remuneration* elsewhere in the *Handbook*.

SYSC 19E.1.3 G

Remuneration includes payments made by a seconding organisation, which is not subject to the *UCITS Remuneration Code*, to a secondee in respect of their employment by a *management company* which is subject to the *UCITS Remuneration Code*.

Section : SYSC 19E.2 Remuneration policies and practices

SYSC 19E.2.1 R

A *management company* must establish and apply *remuneration* policies and practices for *UCITS Remuneration Code staff* that:

(1) are consistent with and promote sound and effective risk management;

(2) do not encourage risk taking which is inconsistent with the risk profiles or the *instrument constituting the fund* or the *prospectus*, as applicable, of the *UCITS* it manages;

(3) do not impair the *management company's* compliance with its duty to act in the best interests of the *UCITS* it manages; and

(4) include fixed and variable components of *remuneration*, including salaries and discretionary pension benefits.

[**Note**: article 14a(1) and (2) of the *UCITS Directive*]

SYSC 19E.2.2 R

(1) *UCITS Remuneration Code staff* comprise those categories of staff whose professional activities have a material impact on the risk profiles of:

(a) the *management company*; or

(b) the *UCITS* that the *management company* manages.

(2) *UCITS Remuneration Code staff* must comprise:

(a) senior management;

(b) risk takers;

(c) staff engaged in control functions; and

(d) any *employees* receiving total *remuneration* that takes them into the same *remuneration* bracket as senior management and risk takers.

[**Note**: article 14a(3) of the *UCITS Directive*]

SYSC 19E.2.3 G

A *management company* need not treat a *person* in *SYSC 19E.2.2R(2)* as *UCITS Remuneration Code staff* if it can demonstrate that the *person's* professional activities do not have a material impact on the risk profiles of:

(1) the *management company*; or

(2) the *UCITS* that the *management company* manages.

Proportionality

SYSC 19E.2.4 R

(1) When establishing and applying the *remuneration* policies for *UCITS Remuneration Code staff*, a *management company* must comply with the *UCITS remuneration principles* in a way and to the extent that is appropriate to:

(a) its size;

(b) internal organisation; and

(c) the nature, scope and complexity of its activities.

(2) Paragraph (1) does not apply to the requirement for significant *management*

companies to have a *remuneration* committee (*SYSC 19E.2.9R*).

(3) The *UCITS remuneration principles* apply to:

(a) any benefit of any type paid by the *management company*;

(b) any amount paid directly by the *UCITS* itself, including performance fees, for the benefit of *UCITS Remuneration Code staff*; and

(c) any transfer of *units* or *shares* of the *UCITS* made for the benefit of *UCITS Remuneration Code staff*.

[**Note**: article 14b(1), (3) and (4) of the *UCITS Directive*]

UCITS Remuneration Principle 1: Risk management

SYSC 19E.2.5 R

A *management company* must ensure that its *remuneration* policy:

(1) is consistent with, and promotes sound and effective risk management; and

(2) does not encourage risk taking which is inconsistent with the risk profiles or the *instrument constituting the fund* of the *UCITS* it manages.

[**Note**: article 14b(1)(a) of the *UCITS Directive*]

UCITS Remuneration Principle 2: Supporting business strategy, objectives, values and interests, and avoiding conflicts of interests

SYSC 19E.2.6 R

A *management company* must ensure that its *remuneration* policy:

(1) is in line with the business strategy, objectives, values and interests of:

(a) the *management company*;

(b) the *UCITS* it manages; and

(c) the investors in such *UCITS*; and

(2) includes measures to avoid conflicts of interest.

[**Note**: article 14b(1)(b) of the *UCITS Directive*]

UCITS Remuneration Principle 3: Governance

SYSC 19E.2.7 R

(1) A *management company* must ensure that its *management body in its supervisory function*:

(a) adopts and reviews at least annually the general principles of the *remuneration* policy; and

(b) is responsible for the implementation of the general principles of the *remuneration* policy.

(2) The tasks in (1) must be undertaken only by members of the *management body* who:

(a) do not perform any executive functions in the *management company* concerned; and

(b) have expertise in risk management and *remuneration*.

[**Note**: article 14b(1)(c) of the *UCITS Directive*]

SYSC 19E.2.8 R

A *management company* must ensure the implementation of the *remuneration policy* is, at

least annually, subject to central and independent internal review for compliance with policies and procedures for *remuneration* adopted by the *management body in its supervisory function*.

[**Note**: article 14b(1)(d) of the *UCITS Directive*]

SYSC 19E.2.9 R

(1) A *management company* must establish a *remuneration* committee if it is significant in terms of:

(a) its size, or the size of the *UCITS* that it manages;

(b) [deleted]

(c) the complexity of its internal organisation; and

(d) the nature, the scope and the complexity of its activities.

(2) The *remuneration* committee must be constituted in a way that enables it to exercise competent and independent judgment on:

(a) *remuneration* policies and practices; and

(b) the incentives created for managing risk.

(3) The *remuneration* committee must be responsible for the preparation of decisions regarding *remuneration*, including those which:

(a) have implications for the risk and risk management of the *management company* or the *UCITS* concerned; and

(b) are taken by the *management body in its supervisory function*.

(4) The chairman and the members of the *remuneration* committee must be members of the *management body* who do not perform any executive function in the *management company*.

(5) When preparing its decisions, the *remuneration* committee must take into account the long-term interest of investors and other stakeholders and the public interest.

[**Note**: article 14b(4) of the *UCITS Directive*]

UCITS Remuneration Principle 4: Control functions

SYSC 19E.2.10 R

A *management company* must ensure that employees engaged in control functions are compensated according to the achievement of the objectives linked to their functions, independent of the performance of the business areas that are within their remit.

[**Note**: article 14b(1)(e) of the *UCITS Directive*]

SYSC 19E.2.11 R

A *management company* must ensure the *remuneration* of the senior officers in the risk management and compliance functions is directly overseen by:

(1) the *remuneration* committee; or

(2) if such a committee has not been established, the *management body in its supervisory function*.

[**Note**: article 14b(1)(f) of the *UCITS Directive*]

UCITS Remuneration Principle 5(a): Remuneration structures – assessment of performance

SYSC 19E.2.12 R

(1) A *management company* must ensure that, where *remuneration* is performance related, the total amount of *remuneration* is based on a combination of:

(a) the assessment of the performance of the individual and of the business unit or *UCITS* concerned, and of their risks; and

(b) the overall results of the *management company*.

(2) When assessing individual performance, financial and non-financial criteria must be taken into account.

[**Note**: article 14b(1)(g) of the *UCITS Directive*]

SYSC 19E.2.13 R

A *management company* must ensure that the assessment of performance is set in a multi-year framework appropriate to any holding period recommended to the investors of the *UCITS* managed by the *management company* to ensure that the:

(1) assessment process is based on the long-term performance of the *UCITS* and its investment risks; and

(2) actual payment of the performance-based components of *remuneration* is spread over the same period.

[**Note**: article 14b(1)(h) of the *UCITS Directive*]

UCITS Remuneration Principle 5(b): Remuneration structures – guaranteed variable remuneration

SYSC 19E.2.14 R

A *management company* must not award, pay or provide guaranteed variable *remuneration* unless it:

(1) is exceptional;

(2) occurs only in the context of hiring new staff; and

(3) is limited to the first year of engagement.

[**Note**: article 14b(1)(i) of the *UCITS Directive*]

UCITS Remuneration Principle 5(c): Remuneration structures – fixed and variable components of total remuneration

SYSC 19E.2.15 R

A *management company* must ensure that:

(1) fixed and variable components of total *remuneration* are appropriately balanced; and

(2) the fixed component represents a sufficiently high proportion of the total *remuneration* to allow the operation of a fully flexible policy on variable *remuneration* components, including the possibility to pay no variable *remuneration* component.

[**Note**: article 14b(1)(j) of the *UCITS Directive*]

UCITS Remuneration Principle 5(d): Remuneration structures – payments related to early termination

SYSC 19E.2.16 R

A *management company* must ensure that payments related to the early termination of a contract:

(1) reflect performance achieved over time; and

(2) are designed in a way that does not reward failure.

[**Note**: article 14b(1)(k) of the *UCITS Directive*]

SYSC 19E.2.17 G

(1) Taking account of the *remuneration* principles proportionality rule in *SYSC 19E.2.4R*, the *FCA* does not generally consider it necessary for a *management company* to apply the *rules* referred to in (2) where, in relation to an individual ("X"), both the following conditions are satisfied:

(a) Condition 1 is that X's variable *remuneration* is no more than 33% of total *remuneration*; and

(b) Condition 2 is that X's total *remuneration* is no more than £500,000.

(2) The *rules* to which (1) applies are those relating to:

(a) retained *units*, *shares* or other instruments (*SYSC 19E.2.18R*);

(b) deferral (*SYSC 19E.2.20R*); and

(c) performance adjustment (*SYSC 19E.2.22R*).

UCITS Remuneration Principle 5(e): Remuneration structures – retained units, shares or other instruments

SYSC 19E.2.18 R

(1) Subject to the legal structure of the *UCITS* and the *instrument constituting the fund*, a *management company* must ensure that a substantial portion, and in any event at least 50%, of any variable *remuneration* component consists of:

(a) *units* or *shares* of the *UCITS* concerned; or

(b) equivalent ownership interests in the *UCITS* concerned; or

(c) share-linked instruments relating to the *UCITS* concerned; or

(d) equivalent non-cash instruments relating to the *UCITS* concerned with incentives that are equally as effective as any of the instruments referred to in (a) to (c).

(2) However, if the management of *UCITS* accounts for less than 50% of the total portfolio managed by the *management company*, the minimum of 50% does not apply.

(3) The instruments in (1) must be subject to an appropriate retention policy designed to align incentives for the *UCITS Remuneration Code staff* with the long-term interests of:

(a) the *management company*;

(b) the *UCITS* it manages; and

(c) the investors of such *UCITS*.

(4) This *rule* applies to:

(a) the portion of the variable *remuneration* component deferred in line with *SYSC 19E.2.20R(1)*; and

(b) the portion not deferred.

[**Note**: article 14b(1)(m) of the *UCITS Directive*]

SYSC 19E.2.19 G

(1) If the management of *UCITS* accounts for less than 50% of the total portfolio managed by the *management company*, the minimum of 50% in *SYSC 19E.2.18R(1)* does not apply.

(2) However, in the circumstances in (1) the *management company* is still required to ensure that a substantial portion of any variable *remuneration* component consists of the instruments in *SYSC 19E.2.18R(1)* and appropriately reflects the extent of the management of *UCITS* by the *management company*.

(3) In the circumstances in (1), the *management company* may consider the additional use of instruments other than those in *SYSC 19E.2.18R(1)* that achieve the alignment of interest referred to in *SYSC 19E.2.18R(3)*.

UCITS Remuneration Principle 5(f): Remuneration structures – deferral

SYSC 19E.2.20 R

(1) A *management company* must not award, pay or provide a variable *remuneration* component unless a substantial portion, and in any event at least 40%, of the variable *remuneration* component, is deferred over a period which is:

(a) appropriate in view of any holding period recommended to the investors of the *UCITS* concerned; and

(b) correctly aligned with the nature of the risks of the *UCITS* in question.

(2) The period referred to in (1) must be at least three years.

(3) *Remuneration* payable under (1) must vest no faster than on a pro-rata basis.

(4) For a variable *remuneration* component of a particularly high amount, at least 60% of the amount must be deferred.

[**Note**: article 14b(1)(n) of the *UCITS Directive*]

SYSC 19E.2.21 G

(1) £500,000 should be considered a particularly high amount for the purpose of *SYSC 19E.2.20R(4)*.

(2) While any variable *remuneration* component of £500,000 or more paid to *UCITS Remuneration code staff* should be subject to 60% deferral, *management companies* should also consider whether lesser amounts should be considered to be 'particularly high'.

(3) *Management companies* should take into account, for example, whether there are significant differences within *UCITS Remuneration Code staff* in the levels of variable *remuneration* paid.

UCITS Remuneration Principle 5(g): Remuneration structures – performance adjustment, etc.

SYSC 19E.2.22 R

A *management company* must ensure that any variable *remuneration*, including a deferred portion, is paid or vests only if it is:

(1) sustainable according to the financial situation of the *management company* as a whole; and

(2) justified according to the performance of:

(a) the *UCITS*;

(b) the business unit; and

(c) the individual concerned.

[**Note**: first sub-paragraph of article 14b(1)(o) of the *UCITS Directive*]

SYSC 19E.2.23 G

(1) The total variable *remuneration* should generally be considerably contracted where subdued or negative financial performance of the *management company* or of the *UCITS* concerned occurs.

(2) When considering (1), *management companies* should take into account both current compensation and reductions in payouts of amounts previously earned, including through malus or clawback arrangements.

[**Note**: second sub-paragraph of article 14b(1)(o) of the *UCITS Directive*]

UCITS Remuneration Principle 6: Measurement of performance

SYSC 19E.2.24 R

A *management company* must ensure that the measurement of performance used to calculate variable *remuneration* components, or pools of variable *remuneration* components, includes a comprehensive adjustment mechanism to integrate all relevant types of current and future risks.

[**Note**: article 14b(1)(l) of the *UCITS Directive*]

UCITS Remuneration Principle 7: Pension Policy

SYSC 19E.2.25 R

A *management company* must ensure that:

(1) its pension policy is in line with the business strategy, objectives, values and long-term interests of:

(a) the *management company*; and

(b) the *UCITS* it manages;

(2) when an employee leaves the *management company* before retirement, any discretionary pension benefits are held by the *management company* for a period of five years in the form of the instruments referred to in *SYSC 19E.2.18R(1)*; and

(3) for an *employee* reaching retirement, discretionary pension benefits are:

(a) paid to the employee in the form of instruments referred to in *SYSC 19E.2.18R(1)*; and

(b) subject to a five-year retention period.

[**Note**: article 14b(1)(p) of the *UCITS Directive*]

UCITS Remuneration Principle 8: Personal investment strategies

SYSC 19E.2.26 R

A *management company* must ensure that its *employees* undertake not to use any of the following to undermine the risk alignment effects embedded in their *remuneration* arrangements:

(1) personal hedging strategies; or

(2) *remuneration*-related insurance; or

(3) liability-related insurance.

[**Note**: article 14b(1)(q) of the *UCITS Directive*]

UCITS Remuneration Principle 9: Avoidance of the remuneration code

SYSC 19E.2.27 R

A *management company* must ensure that variable *remuneration* is not paid through vehicles or methods that facilitate the avoidance of the requirements of the *UCITS Remuneration Code*.

[**Note**: article 14b(1)(r) of the *UCITS Directive*]

CHAPTER

SYSC 19F Remuneration and performance management

Section : SYSC 19F.1 MiFID remuneration incentives

Application

SYSC 19F.1.1 R

(1) *SYSC 19F.1* applies to:

(a) a *common platform firm*, unless it is a *collective portfolio management investment firm*;

(b) a *MiFID optional exemption firm*; and

(c) a *third country firm*.

(d) [deleted]

(2) In relation to a *firm* that falls under (1)(c), *SYSC 19F.1* applies only in relation to activities carried on from an establishment in the *United Kingdom*.

Purpose

SYSC 19F.1.2 G

This chapter contains *rules* implementing article 24(10) of *MiFID* and on remuneration policies and practices.

MiFID requirement on remuneration incentives

SYSC 19F.1.3 R

A *firm* which provides *investment services* to *clients* must ensure that it does not remunerate or assess the performance of its staff in a way that conflicts with its duty to act in the best interests of its *clients*. In particular, a *firm* must not make any arrangement by way of *remuneration*, sales targets or otherwise that could provide an incentive to its staff to recommend a particular *financial instrument* to a *retail client* when the *firm* could offer a different *financial instrument* which would better meet that *client's* needs.

[**Note:** article 24(10) of *MiFID*]

Remuneration policies and practices

SYSC 19F.1.4 R

(1)

A *common platform firm* (unless it is a *collective portfolio management investment firm*), a *MiFID optional exemption firm* in respect of its *investment services* and *ancillary services* and a *third country firm* in respect of its *MiFID or equivalent third country business* must:

1. (a)

define and implement *remuneration* policies and practices under appropriate internal procedures taking into account the interests of all the *clients* of the *firm*, with a view to ensuring that *clients* are treated fairly and their interests are not impaired by the *remuneration* practices adopted by the firm in the short, medium or long term. *Remuneration* policies and practices must be designed in such a way so as not to create a conflict of interest or incentive that may lead *relevant persons* to favour their own interests or the *firm's* interests to the potential detriment of any *client*;

2. (b)

ensure that their *remuneration* policies and practices apply to all *relevant persons* with an impact, directly or indirectly, on *investment services* and *ancillary services* provided by the *firm* or on its corporate behaviour, regardless of the type of *clients*, to the extent that the *remuneration* of such persons and similar incentives may create a conflict of interest that encourages them to act against the interests of any of the *firm's clients*; and

3. (c)

ensure that its *management body* approves, after taking advice from the compliance function, the *firm's remuneration* policy. The *senior management* of the *firm* must be responsible for the day-to-day implementation of the *remuneration* policy and the monitoring of compliance risks related to the policy.

(2)

(a)

Remuneration and similar incentives must not be solely or predominantly based on quantitative commercial criteria, and must take fully into account appropriate qualitative criteria reflecting compliance with the applicable regulations, the fair treatment of *clients* and the quality of services provided to *clients*.

(b)

A balance between fixed and variable components of *remuneration* must be maintained at all times, so that the *remuneration* structure does not favour the interests of the *firm* or its *relevant persons* against the interests of any *client*.

SYSC 19F.1.5 G

A *firm* should also be aware of:

(1) [deleted]

(2)

the requirements in relation to remuneration policies (*SYSC 4.3A.1AR*) and conflicts of interest (*SYSC 10.1.7R*);

(3)

the Finalised Guidance 13/01 entitled 'Risks to customers from financial incentives' published in January 2013; and

(4)

the Finalised Guidance 15/10 entitled 'Risks to customers from performance management at firms' published in July 2015.

Section : SYSC 19F.2 IDD remuneration incentives

Application

SYSC 19F.2.1 R

This section applies to *insurance distributors* carrying on *insurance distribution activities* from an establishment maintained by it, or its *appointed representative*, in the *United Kingdom*.

[**Note:** article 7(2) of the *IDD*]

SYSC 19F.2.1A R

This section does not apply to an *authorised professional firm* with respect to its *non-mainstream regulated activities* if:

(1) the *firm's designated professional body* has made rules which implemented article 17(3) of the *IDD*;

(2) those rules have been approved by the *FCA* under *section 332(5)* of the *Act*; and

(3) the *firm* is subject to the rules in the form in which they were approved.

Remuneration and the customer's best interests

SYSC 19F.2.2 R

(1) *Insurance distributors* must not:

(a) be *remunerated*; or

(b) *remunerate* or assess the performance of their *employees*,

in a way that conflicts with their duty to comply with the customer's best interests rules (*ICOBS 2.5.-1R*, in relation to a *non-investment insurance contract*, or *COBS 2.1.1R*, in relation to a *life policy*).

(2) In particular, an *insurance distributor* must not make any arrangements by way of *remuneration*, sales target or otherwise that could provide an incentive to itself or its *employees* to recommend a particular *contract of insurance* to a *customer* in contact with the *firm* when the *insurance distributor* could offer a different insurance contract which would better meet the *customer's* needs.

[**Note:** article 17(3) of the *IDD*]

(3) In relation to a *non-investment insurance contract*, an *insurance distributor* must not make any arrangements by way of remuneration or incentive to any *person*, including itself, its *employees* or any third party, that could lead:

(a) the *firm* or its *employees* to arrange a particular *contract of insurance*; or

(b) the *customer* to take out a particular insurance contract,

where that would not be consistent with the interests of all *customers* of the *policy*, including prospective or actual *policyholders* or *policy stakeholders* including *leaseholders* (as the case may be).

SYSC 19F.2.2A G

(1) When assessing whether it complies with *SYSC 19F.2.2R*, an *insurance distributor* should consider all of the *remuneration* it receives in connection with a *non-investment insurance contract*, whether or not it intends to retain that *remuneration* or make payments out of that amount to another *person*. A *firm* should

consider whether the gross amount of any sum it receives by way of *remuneration*, whether in the form of *commission* or of any other type, is consistent with *ICOBS 2.5.-1R*, rather than the net amount that the *firm* intends to retain.

(2) Where a *firm* has arrangements to provide incentives, including partial *premium* refunds or commission-like payments, to third parties (including the *customer* taking out the *policy*), this may encourage those *persons* to use the services of the *firm*. Where that is the case, those arrangements would be expected to lead to the *firm* receiving a financial or non-financial benefit or other incentive in respect of the *insurance distribution activities* to which it relates and so would be *remuneration* to which *SYSC 19F.2.2R(1)* applies.

Retail premium finance

SYSC 19F.2.3 R The requirement in *SYSC 19F.2.2R* applies to *remuneration* an *insurance distributor* receives in relation to *retail premium finance*.

SYSC 19F.2.4 G *ICOBS 6A.5* includes further *guidance* on remuneration in relation to *retail premium finance*.

Section : SYSC 19F.3 Funeral plan remuneration incentives

Application

SYSC 19F.3.1 R This section applies to a *firm* carrying on *regulated funeral plan activities*.

Remuneration and the customer's best interests

SYSC 19F.3.2 R (1) A *firm* must not:

(a) be *remunerated*; or

(b) *remunerate* or assess the performance of its *employees*,

in a way that conflicts with its duty to comply with the *customer's best interests rule*.

(2) In particular, a *firm* must not make any arrangements by way of *remuneration*, sales target or otherwise that could provide an incentive to itself or its *employees* to recommend or offer a particular *funeral plan contract* to a *customer* when the *firm* could offer a different *funeral plan contract* which would better meet the *customer's* needs.

SYSC 19F.3.3 G (1) A *firm* should consider *FPCOB 6.4R* and *FPCOB 6.5R* when making arrangements which concern *remuneration* or performance incentives.

(2) Examples of *remuneration* arrangements which may conflict with the *customer's best interests rule* include:

(a) arrangements which provide for higher levels of *remuneration* based on the price of the plan that is recommended or offered (i.e. higher *remuneration* for selling a more expensive plan);

(b) arrangements for *remuneration* or performance management which are based primarily on the number of plans sold, or the price of plans sold; and

(c) arrangements which do not have adequate provision for *remuneration* to be taken back if the customer cancels the plan.

Section : SYSC 19F.4 Public offer platform remuneration incentives

Application

SYSC 19F.4.1 R This section applies to a *firm* with respect to the activity of *operating a POP*.

SYSC 19F.4.2 R (1) A *firm* must not:

(a) be *remunerated*; or

(b) *remunerate* or assess the performance of its *employees*,

in a way that conflicts with its duty to comply with *COBS 2.1*, in respect of its *clients*.

(2) In particular, a *firm* must not make any arrangements by way of *remuneration*, sales target or otherwise that could provide an incentive to itself, or its *employees*, to facilitate a particular *qualifying public offer*.

(3) *Remuneration* and similar incentives must not be solely or predominantly based on quantitative commercial criteria and must take fully into account appropriate qualitative criteria reflecting compliance with the applicable regulations, the fair treatment of its *clients* and the quality of services provided to its *clients*.

SYSC 19F.4.3 G A *firm* should be aware of:

(1) the requirements in relation to *remuneration* policies (*SYSC 4.3A.1AR*) and conflicts of interest (*SYSC 10.1.7R*);

(2) Finalised Guidance 13/01 entitled 'Risks to customers from financial incentives' published in January 2013; and

(3) Finalised Guidance 15/10 entitled 'Risks to customers from performance management at firms' published in July 2015.

CHAPTER

SYSC 19G MIFIDPRU Remuneration Code

Section : SYSC 19G.1 General application

Application: non-SNI MIFIDPRU investment firms

SYSC 19G.1.1 R

(1) Subject to (2), the *MIFIDPRU Remuneration Code* applies to a *non-SNI MIFIDPRU investment firm*.

(2) The provisions in (4) do not apply to a *non-SNI MIFIDPRU investment firm*:

(a) where the value of the *firm's* on-balance sheet assets and *off-balance sheet items* over the preceding 4-year period is a rolling average of £100 million or less; or

(b) where:

(i) the value of the *firm's* on-balance sheet assets and *off-balance sheet items* over the preceding 4-year period is a rolling average of £300 million or less; and

(ii) the conditions in (3) are (where they are relevant to a *firm*) satisfied.

(3) The conditions referred to in (2)(b)(ii) are:

(a) that the exposure value of the *firm's* on- and off-balance sheet *trading book* business is equal to or less than £150 million; and

(b) that the exposure value of the *firm's* on- and off-balance sheet derivatives business is equal to or less than £100 million.

(4) The provisions referred to in (2) are:

(a) *SYSC 19G.6.19R* to *SYSC 19G.6.21G* (Shares, instruments and alternative arrangements);

(b) *SYSC 19G.6.22R* and *SYSC 19G.6.23G* (Retention policy);

(c) *SYSC 19G.6.24R* to *SYSC 19G.6.29R* (Deferral); and

(d) *SYSC 19G.6.35R(2)* (Discretionary pension benefits).

(5) For the purposes of paragraph (2), paragraph (6) applies where a *non-SNI MIFIDPRU investment firm* does not have monthly data covering the 4-year period referred to in that paragraph.

(6) Where this paragraph applies, a *non-SNI MIFIDPRU investment firm* must calculate the rolling averages referred to in paragraph (2) using the data points that it does have.

SYSC 19G.1.2 G

(1) For the purposes of *SYSC 19G.1.1R(5)*, the *FCA* expects a *non-SNI MIFIDPRU investment firm* to have insufficient data for a period only where it did not carry on any *MiFID business* during that period, or where (for periods prior to the application of the *MIFIDPRU Remuneration Code*) the *firm* did not record the relevant data on a monthly basis.

(2) Where a *firm* doesn't have all the monthly data points, the *firm* should use the data points it has in the way that paints the most representative picture of the period in question. For example, if a *firm* has monthly data for 2 years of the 4-year period, but prior to that only recorded the relevant data on a quarterly basis, the *firm* could

sensibly calculate its rolling average by using the quarterly figure for each of the 3 monthly data points in each quarter.

SYSC 19G.1.3 R

(1) The amounts referred to in *SYSC 19G.1.1R* must be calculated on an individual basis, and:

(a) in the case of on-balance sheet assets, in accordance with the applicable accounting framework;

(b) in the case of *off-balance sheet items*, using the full nominal value.

(2) The value of the on-balance sheet assets and *off-balance sheet items* in *SYSC 19G.1.1R(2)(a)* and *(b)* must be an arithmetic mean of the assets and items over the preceding 4 years, based on monthly data points.

(3) A *firm* may choose the day of the *month* that it uses for the data points in (2), but once that day has been chosen the *firm* may only change it for genuine business reasons.

SYSC 19G.1.4 R

(1) When calculating the amounts referred to in *SYSC 19G.1.1R(2)(a)* and *(b)*, a firm must use the total amount of its on-balance sheet assets and off-balance sheet items.

(2) A *firm* must calculate the exposure values referred to in *SYSC 19G.1.1R(3)(a)* and *(b)* by adding together the following items:

(a) the positive excess of the *firm's* long positions over its short positions in all *trading book financial instruments*, using the approach specified for K-NPR in *MIFIDPRU 4.12.2R* to calculate the net position for each instrument; and

(b) the exposure value of contracts and transactions referred to in *MIFIDPRU 4.14.3R*, calculated using the approach specified for K-TCD in *MIFIDPRU 4.14.8R*.

(3) Any amounts in foreign currencies must be converted into pound sterling using the relevant conversion rate.

(4) A *firm* must determine the relevant conversion rate referred to in (3) by reference to an appropriate market rate and must record which rate was chosen.

SYSC 19G.1.5 G

The *FCA* considers that an example of an appropriate market rate for the purposes of *SYSC 19G.1.4R(4)* is the relevant daily spot exchange rate against pound sterling published by the Bank of England.

Application: SNI MIFIDPRU investment firms

SYSC 19G.1.6 R

(1) The provisions in (2) apply to a *SNI MIFIDPRU investment firm*.

(2) The provisions referred to in (1) are:

(a) *SYSC 19G.2* (Remuneration policies and practices);

(b) *SYSC 19G.3.1R* to *SYSC 19G.3.3R* (Oversight of remuneration policies and practices);

(c) *SYSC 19G.3.6R* to *SYSC 19G.3.8G* (Control functions);

(d) *SYSC 19G.4.1R* to *SYSC 19G.4.5R* and *SYSC 19G.4.7G(1)* and *(2)* (Fixed and variable components of remuneration);

(e) *SYSC 19G.6.1R* (Remuneration and capital);

(f) *SYSC 19G.6.2R* (Exceptional government intervention); and

(g) *SYSC 19G.6.5R* to *SYSC 19G.6.6G* (Assessment of performance).

Application: summary of application to MIFIDPRU investment firms

SYSC 19G.1.7 G

(1)

The effect of the application provisions in *SYSC 19G.1.1R* to *19G.1.6R* is summarised in the following table.

Type of firm	Applicable sections
Non-SNI MIFIDPRU investment firm not falling within *SYSC 19G.1.1R(2)*	The *MIFIDPRU Remuneration Code*
Non-SNI MIFIDPRU investment firm falling within *SYSC 19G.1.1R(2)*	The *MIFIDPRU Remuneration Code* except for: *SYSC 19G.6.19R* to *SYSC 19G.6.21G* (Shares, instruments and alternative arrangements); *SYSC 19G.6.22R* and *SYSC 19G.6.23G* (Retention policy); *SYSC 19G.6.24R* to *SYSC 19G.6.29R* (Deferral); and *SYSC 19G.6.35R(2)* (Discretionary pension benefits)
SNI MIFIDPRU investment firm	*SYSC 19G.2* (Remuneration policies and practices); *SYSC 19G.3.1R* to *SYSC 19G.3.3R* (Oversight of remuneration policies and practices); *SYSC 19G.3.6R* to *SYSC 19G.3.8G* (Control functions); *SYSC 19G.4.1R* to *SYSC 19G.4.5R* and *SYSC 19G.4.7G(1)* and *SYSC 19G.4.7G(2)* (Fixed and variable components of remuneration); *SYSC 19G.6.1R* (Remuneration

	and capital); *SYSC 19G.6.2R* (Exceptional government intervention); and *SYSC 19G.6.5R* to *SYSC 19G.6.6G* (Assessment of performance)

(2) *MIFIDPRU 1.2* contains provisions regarding the classification of a *firm* as a *SNI MIFIDPRU investment firm* and *non-SNI MIFIDPRU investment firm*.

Application: where the application of SYSC 19G.1.1R changes in relation to a firm

SYSC 19G.1.8 R

(1) This *rule* applies to a *non-SNI MIFIDPRU investment firm* that did not meet either condition in *SYSC 19G.1.1R(2)(a)* or *(b)* but subsequently does.

(2) The provisions referred to in *SYSC 19G.1.1R(2)* cease to apply to the *firm* in (1) if:

(a) the *firm* has met the conditions in either *SYSC 19G.1.1R(2)(a)* or *(b)* for a continuous period of at least 6 *months* (or such longer period as may have elapsed before the firm submits the notification in (b)); and

(b) it has notified the *FCA* that it has met the conditions in (a).

(3) The notification in (2)(b) must be submitted through the *online notification and application system* using the form in *MIFIDPRU 7 Annex 3R*.

SYSC 19G.1.9 G

The effect of *SYSC 19G.1.8R(2)(a)* is that a *firm* may move between meeting the conditions in *SYSC 19G.1.1R(2)(a)* and *(b)* during the 6-*month* period.

SYSC 19G.1.10 R

Where a *non-SNI MIFIDPRU investment firm* has met the conditions in *SYSC 19G.1.1R(2)(a)* or *(b)* but then ceases to do so, it must comply with the provisions referred to in *SYSC 19G.1.1R(2)* within 12 *months* from the date on which the *firm* ceased to meet the conditions.

SYSC 19G.1.11 R

(1) Where a *non-SNI MIFIDPRU investment firm* ceases to meet the conditions in *SYSC 19G.1.1R(2)(a)* or *(b)*, it must promptly notify the *FCA*.

(2) The notification in (1) must be submitted through the *online notification and application system* using the form in *MIFIDPRU 7 Annex 3R*.

SYSC 19G.1.12 G

Where a *firm* ceases to meet the conditions in *SYSC 19G.1.1R(2)(a)* or *(b)*, but subsequently meets the conditions again within a period of 6 *months*, the *firm* will still be subject to the provisions referred to in *SYSC 19G.1.1R(2)* for 12 *months* after the date on which it first ceased to meet the conditions. The *firm* only ceases to be subject to the

provisions referred to in *SYSC 19G.1.1R(2)* where it meets the conditions in *SYSC 19G.1.8R(2)*.

SYSC 19G.1.13 R The requirements in *SYSC 19G.1.8R(2)(b)* and *SYSC 19G.1.11R(1)* do not apply where a *non-SNI MIFIDPRU investment firm* has notified the *FCA* in accordance with the requirements of *MIFIDPRU 7.1.9R(2)(b)* or *MIFIDPRU 7.1.12R(1)* of the same event.

Application: collective portfolio management investment firms

SYSC 19G.1.14 G The *MIFIDPRU Remuneration Code* applies to a *collective portfolio management investment firm*.

SYSC 19G.1.15 G

(1) A *collective portfolio management investment firm* must assess the thresholds in *SYSC 19G.1.1R(2)* and *(3)* on the basis of the total of both its *MiFID business* and *non-MiFID business*.

(2) *SYSC 19G.1.20R* to *SYSC 19G.1.23G* explain the position for *firms* subject to the *MIFIDPRU Remuneration Code* and another *FCA* remuneration code.

Application: levels of application

SYSC 19G.1.16 G *SYSC 19G.1.1R* to *SYSC 19G.1.15R* and *SYSC 19G.1.17R* explain when the *MIFIDPRU Remuneration Code* applies to a *firm* on an individual basis. *SYSC 19G.1.18R* and *19G.1.19*R explain when the *MIFIDPRU Remuneration Code* applies on a consolidated basis, and what that means.

SYSC 19G.1.17 R The *MIFIDPRU Remuneration Code* applies to a *firm* on an individual basis where the *FCA* has granted a firm permission under *MIFIDPRU 2.4.17R* and *MIFIDPRU 2.4.18R* to apply the *group capital test*.

SYSC 19G.1.18 R

(1) Subject to (3), where *MIFIDPRU 2.5* applies to a *UK parent entity*, the *MIFIDPRU Remuneration Code* applies to that *UK parent entity* on a consolidated basis.

(2) A *UK parent entity* that is treated as an *SNI MIFIDPRU investment firm* in accordance with *MIFIDPRU 2.5.21R* is also treated as an *SNI MIFIDPRU investment firm* when applying the *MIFIDPRU Remuneration Code* on a consolidated basis.

(3) A *UK parent entity* that is treated as a *non-SNI MIFIDPRU investment firm* in accordance with *MIFIDPRU 2.5.21R* is also treated as a *non-SNI MIFIDPRU investment firm* when applying the *MIFIDPRU Remuneration Code* on a consolidated basis.

(4) The following provisions only apply to a *firm* on an individual basis:

(a) *SYSC 19G.1.1R(2)*, *(3)*, *(5)* and *(6)*;

(b) The provisions listed in *SYSC 19G.1.1R(4)*;

(c) *SYSC 19G.1.2G* to *19G.1.5G*; and

(d) *SYSC 19G.1.8G* to *19G.1.13G*.

(5) For the purposes of the *MIFIDPRU Remuneration Code*, application on a

consolidated basis means on the basis of the situation that results from applying the requirements in the *MIFIDPRU Remuneration Code* to a *UK parent entity* as if that *undertaking*, together with all the *investment firms*, *financial institutions*, *ancillary services undertakings* and *tied agents* in the *investment firm group*, formed a single *MIFIDPRU investment firm*.

(6) For the purposes of (5), the terms *investment firm*, *financial institution*, *ancillary services undertaking* and *tied agent* apply to *undertakings* established in *third countries*, which, if established in the *UK*, would satisfy the definitions of those terms.

(7) Where an *undertaking* in a *third country* is included in the consolidated situation of a *UK parent entity* as a result of (6), the *MIFIDPRU Remuneration Code* only applies in relation to *material risk takers* at that *undertaking* who oversee or are responsible for business activities that take place in the *UK*.

SYSC 19G.1.19 G

(1) Where the *MIFIDPRU Remuneration Code* applies on a consolidated basis, the effect of *SYSC 19G.1.18R(5)* is that the *UK parent entity* and all the *investment firms*, *financial institutions*, *ancillary services undertakings* and *tied agents* in the *investment firm group* are treated for these purposes as a single *MIFIDPRU investment firm*. This means, for example, treating a staff member of an *undertaking* within the *investment firm group* as if they were a staff member of the *UK parent entity*.

(2) When considering which rules in the *MIFIDPRU Remuneration Code* apply on a consolidated basis, a *UK parent entity* must consider whether it is treated as an *SNI MIFIDPRU investment firm* or a *non-SNI MIFIDPRU investment firm* under *MIFIDPRU 2.5.21R* (which, as *SYSC 19G.1.18R(2)* and *(3)* explain, also determines its categorisation under the *MIFIDPRU Remuneration Code*).

(3) The effect of *SYSC 19G.1.18R(4)(b)* is that a *UK parent entity* need not comply with the provisions listed in *SYSC 19G.1.1R(4)* on a consolidated basis. These provisions apply on an individual basis where a *firm* exceeds the thresholds in *SYSC 19G.1.1R(2)(a)* or *(b)*. As these thresholds are not relevant where the *MIFIDPRU Remuneration Code* applies on a consolidated basis, the provisions concerning them are also disapplied.

Application: firms subject to different remuneration requirements

SYSC 19G.1.20 R

(1) Where a *firm* is subject to the *MIFIDPRU Remuneration Code* and, as a result of the application of any of the requirements listed in (2), to provisions imposing different *remuneration* requirements, only one of which can be complied with, it must comply with the most stringent of the relevant provisions.

(2) The requirements referred to in (1) are:

(a) different requirements in the *MIFIDPRU Remuneration Code*;

(b) the *AIFM Remuneration Code*;

(c) the *Dual-regulated firms Remuneration Code*; and

(d) the *UCITS Remuneration Code*.

SYSC 19G.1.21 G

(1) *SYSC 19G.1.20R* states that where different *remuneration* requirements apply to a *firm* it must comply with the most stringent of the relevant provisions. Some non-exhaustive examples follow.

(2) Example 1: A *firm* may be subject to different requirements under the *MIFIDPRU Remuneration Code* on an individual basis and on a consolidated basis. This scenario may arise because a *firm* is an *SNI MIFIDPRU investment firm* on an individual basis but a *non-SNI MIFIDPRU investment firm* on a consolidated basis.

(3) Example 2: Different *remuneration* requirements may apply to a *firm* when an *investment firm group* contains both a *PRA-designated investment firm* and an *FCA investment firm* (but not a *credit institution*). This may lead to a *firm* being subject to both the *MIFIDPRU Remuneration Code* and the *Dual-regulated firms Remuneration Code*.

(4) Example 3: A staff member at a *collective portfolio management investment firm* may be a *material risk taker* and also *AIFM Remuneration Code Staff* or *UCITS Remuneration Code Staff*. In this case the *material risk taker* will be subject to the *MIFIDPRU Remuneration Code* and the requirements of the *AIFM Remuneration Code* or the *UCITS Remuneration Code*.

SYSC 19G.1.22 G The effect of *SYSC 19G.1.20R* is that a *firm* must consider which requirement is the most stringent on a provision by provision basis.

SYSC 19G.1.23 G *SYSC 19G.1.20R* is not relevant where a *firm* can comply with both sets of *remuneration* requirements, for example requirements to establish, implement and maintain *remuneration* policies and practices on both an individual basis and a consolidated basis.

Application: staff

SYSC 19G.1.24 G The term 'staff' should be interpreted broadly in the *MIFIDPRU Remuneration Code* to include, for example, employees of the *firm* itself, *partners* or members (in the case of partnership structures), *employees* of other entities in the *group*, *employees* of joint service companies, and secondees.

Application: performance periods

SYSC 19G.1.25 G The rules in the *MIFIDPRU Remuneration Code* apply to each performance period, regardless of whether it is annual, quarterly, or another frequency. A *firm* must comply with the rules on performance assessment and risk adjustment in relation to each such performance period.

Application: proportionality

SYSC 19G.1.26 R A *firm* must comply with the *MIFIDPRU Remuneration Code* in a manner that is appropriate to its size and internal organisation and to the nature, scope and complexity of its activities.

Application: carried interest

SYSC 19G.1.27 R

(1) The *MIFIDPRU Remuneration Code* applies to *remuneration*, including carried interest (which represents a share in the profits of a *fund* managed by the *firm's* staff, as compensation for the management of the *fund*).

(2) Where arrangements concerning carried interest meet the conditions in (3), the following provisions do not apply:

(a) *SYSC 19G.6.19R* to *SYSC 19G.6.21G* (Shares, instruments and alternative arrangements);

(b) *SYSC 19G.6.22R* and *SYSC 19G.6.23G* (Retention policy);

(c) *SYSC 19G.6.24R* to *SYSC 19G.6.29R* (Deferral); and

(d) *SYSC 19G.6.30R* to *SYSC 19G.6.34G* (Performance adjustment).

(3) The conditions referred to in (2) are that:

(a) the value of the carried interest must be determined by the performance of the *fund* in which the carried interest is held;

(b) the period between the award of the carried interest and any payment under it must be at least 4 years; and

(c) there are provisions for the forfeiture or cancellation of carried interest that include at least the circumstances set out in *SYSC 19G.6.31R(3)(a)* and *SYSC 19G.6.31R(3)(b)*.

SYSC 19G.1.28 R

For the purposes of the *MIFIDPRU Remuneration Code*, a carried interest must be valued at the time of its award.

Application: general

SYSC 19G.1.29 G

While the rules in the *MIFIDPRU Remuneration Code* set out the minimum regulatory requirements that a *MIFIDPRU investment firm* must comply with, the *FCA* considers it good practice for a *firm* to assess whether going beyond those regulatory requirements would contribute to sound risk management or a healthy firm culture.

When?

SYSC 19G.1.30 R

A *firm* must apply the *MIFIDPRU Remuneration Code* from the start of its first performance period that begins on or after 1 January 2022.

Section : SYSC 19G.2 Remuneration policies and practices

General requirements

SYSC 19G.2.1 R A *MIFIDPRU investment firm* must establish, implement and maintain *remuneration* policies and practices.

SYSC 19G.2.2 G The *remuneration* policies and practices referred to in *SYSC 19G.2.1R* should cover all aspects of *remuneration* within the scope of the *MIFIDPRU Remuneration Code*, and all staff.

SYSC 19G.2.3 G In line with the record-keeping requirements in *SYSC 9*, a *firm* should ensure that its *remuneration* policies and practices (including performance assessment processes and decisions) are clear and documented.

Proportionality

SYSC 19G.2.4 R A *firm's remuneration* policies and practices must be appropriate and proportionate to the nature, scale and complexity of the risks inherent in the business model and the activities of the *firm*.

SYSC 19G.2.5 G The proportionality principle in *SYSC 19G.2.4R* means that the content and level of detail of a *firm's remuneration* policy may depend on a number of factors. These may include the number of staff it employs, the different types of roles, the activities it carries out, and whether the *firm* is part of a *group* with a *group*-wide *remuneration* policy.

Gender neutral remuneration policies and practices

SYSC 19G.2.6 R A *firm* must ensure that its *remuneration* policy is a *gender neutral remuneration policy* and the practices referred to in *SYSC 19G.2.1R* are gender neutral.

SYSC 19G.2.7 G *Firms* are reminded that the Equality Act 2010 prohibits discrimination on the basis of an *individual's* protected characteristics both before and after employment is offered. The Act applies to pay and all other contractual terms, including variable *remuneration*. A *firm* must ensure that its *remuneration* policy complies with the Equality Act 2010.

Risk management, business strategy and avoiding conflicts of interest

SYSC 19G.2.8 R A *firm* must ensure that its *remuneration* policies and practices are consistent with, and promote sound and effective, risk management.

SYSC 19G.2.9 R A *firm* must ensure that its *remuneration* policies and practices are in line with the business strategy, objectives and long-term interests of the *firm*.

SYSC 19G.2.10 G For the purposes of *SYSC 19G.2.9R*, the business strategy, objectives and long-term interests of the *firm* should include consideration of:

(1) the *firm's* risk appetite and strategy, including environmental, social and governance risk factors;

(2) the *firm's* culture and values; and

(3) the long-term effects of the investment decisions taken.

SYSC 19G.2.11 R

A *firm* must ensure that its *remuneration* policy:

(1) contains measures to avoid conflicts of interest;

(2) encourages responsible business conduct; and

(3) promotes risk awareness and prudent risk taking.

SYSC 19G.2.12 R

A *MIFIDPRU investment firm* must not pay variable *remuneration* to members of the *management body* who do not perform any executive function in the *firm*.

Section : SYSC 19G.3 Governance and oversight

Oversight of remuneration policies and practices

SYSC 19G.3.1 R A *MIFIDPRU investment firm* must ensure that its *management body in its supervisory function* adopts and periodically reviews the *remuneration* policy and has overall responsibility for overseeing its implementation.

SYSC 19G.3.2 G

(1) Each *firm* should assess the most appropriate frequency for the periodic reviews referred to in *SYSC 19G.3.1R*, taking into account all relevant factors.

(2) The development and review of the *remuneration* policy should be supported by the *control functions*, including (where they exist) risk management, compliance, internal audit and human resources, and by *business units*.

(3) The processes and decision-making around the development, review and amendment of *remuneration* policies and practices are subject to the general record-keeping requirements set out in *SYSC 9*.

SYSC 19G.3.3 R A *firm's remuneration* committee, where it has one, must oversee the implementation of the *firm's remuneration* policies and practices established under *SYSC 19G.2.1R*.

SYSC 19G.3.4 R A *non-SNI MIFIDPRU investment firm* must, at least annually, conduct a central and independent internal review of whether the implementation of its *remuneration* policies and practices complies with the *remuneration* policy and practices adopted by the *management body in its supervisory function*.

SYSC 19G.3.5 G

(1) The *FCA* would expect the central and independent internal review to assess whether the implementation of the *remuneration* policies and practices:

(a) results in *remuneration* awards that are in line with the *firm's* business strategy;

(b) reflects the risk profile, long-term objectives and other relevant goals of the *firm*; and

(c) complies with all relevant legal requirements.

(2) A *non-SNI MIFIDPRU investment firm* may outsource part or all of the independent review in *SYSC 19G.3.4R*. The *management body in its supervisory function* remains responsible for ensuring the review is carried out and any necessary follow up actions are taken.

(3) A *non-SNI MIFIDPRU investment firm* should document appropriately the results of the review and the actions taken to remedy any findings.

Control functions

SYSC 19G.3.6 R A *MIFIDPRU investment firm* must ensure that staff engaged in *control functions*:

(1) are independent from the *business units* they oversee;

(2) have appropriate authority; and

(3) are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

SYSC 19G.3.7 R

A *MIFIDPRU investment firm* must ensure that the *remuneration* of the senior officers in risk management and compliance functions is directly overseen by the *remuneration* committee, or, if such a committee has not been established, by the *management body in its supervisory function*.

SYSC 19G.3.8 G

SYSC 19G.3.6R and *SYSC 19G.3.7R* are designed to manage the conflicts of interest which may arise if other business areas had undue influence over the *remuneration* of staff in *control functions*. Conflicts of interest can easily arise when staff members are involved in the determination of *remuneration* for their own business area. Where these could arise, they need to be managed by having in place independent *control functions* (in particular risk management, compliance and human resources functions).

Section : SYSC 19G.4 Fixed and variable components of remuneration

Categorising fixed and variable remuneration

SYSC 19G.4.1 R A *MIFIDPRU investment firm* must ensure that the *remuneration* policy makes a clear distinction between criteria for setting fixed and variable *remuneration*.

SYSC 19G.4.2 G (1) The effect of *SYSC 19G.4.1R* is that all *remuneration* paid to a staff member must be clearly categorised as either fixed or variable *remuneration*.

(2) In allocating individual *remuneration* components to fixed or variable *remuneration*, it is the quality and purpose of the component that is decisive, not the label applied to it.

(3) The *FCA* considers that:

(a) fixed *remuneration*:

(i) should primarily reflect a staff member's professional experience and organisational responsibility as set out in the staff member's job description and terms of employment; and

(ii) should be permanent, pre-determined, non-discretionary, non-revocable and not dependent on performance; and

(b) variable *remuneration*:

(i) should be based on performance or, in exceptional cases, other conditions;

(ii) where based on performance, should reflect the long-term performance of the staff member as well as performance in excess of the staff member's job description and terms of employment;

(iii) includes *discretionary pension benefits*; and

(iv) includes carried interest, as referred to in *SYSC 19G.1.27R*.

SYSC 19G.4.3 G Returns made by staff on co-investment arrangements are shares in the profits as a pro rata return on an investment. The *FCA* does not usually consider these returns to be *remuneration* for the purposes of the *MIFIDPRU Remuneration Code*. However, the *FCA* considers these returns will be *remuneration* if the investment was made using a loan provided by the *firm* or by an *undertaking* in the same *group* as the *firm*, and if the loan was either not provided on commercial terms or had not been repaid in full by the date on which the returns on investment were paid.

SYSC 19G.4.4 G (1) In relation to *remuneration* received by a *partner* or a member in a *limited liability partnership*, the *FCA's* view on how to categorise certain payments received by those *individuals* is as follows:

(a) at the end of each year, the residual profits of a *partnership* or *limited liability partnership* are distributed among the *partners* or members. The level of ownership of each *partner* or member is reflected in the number of

ownership shares they have. Residual profits are distributed according to the ownership shares, so are not linked to work or performance. In the *FCA's* view, payments on this basis are not *remuneration*;

(b) a *partner* or member may receive an amount fixed at the beginning of the year and subject only to the *firm* making a profit. These are often called fixed profit shares. A *partner* or member usually takes drawings on it throughout the year, often monthly. If profits at year-end are insufficient, drawings may have to be paid back. The *FCA* considers that drawings on fixed profit shares are usually fixed *remuneration*;

(c) a *partner* or member may receive a discretionary share of the profit at the end of the year. These may be distributed to all *partners* or members but are usually dependent on the performance of the *individual* or their *business unit*. Awards may be at the discretion of the *remuneration* committee. The *FCA* considers that payments made on this basis are usually variable *remuneration*.

(2) A *firm* that is a *partnership* or *limited liability partnership* may use a benchmarking approach instead of, or in addition to, the approach in (1) to categorise payments made to *partners* or members of *limited liability partnerships*. For example, it may take into account:

(a) the *remuneration* structures of other *individuals* performing similar tasks or working in similar businesses as the *partner* or member in question; or

(b) the return expected in a similar investment context where the *partner* or member has invested in a *fund* or *firm*.

(3) Where a *partner* or member of a *limited liability partnership* works full-time for a *firm* the *FCA* would expect a reasonable portion of the *partner's* or member's profit share to be categorised as *remuneration*. Where a *partner* or member works part-time and receives less *remuneration* than a *partner* or member who works full-time, the *FCA* would expect a smaller proportion of the part-time *partner* or member's profit share to be classed as *remuneration*.

Balance of fixed and variable components of total remuneration

SYSC 19G.4.5 R

A *MIFIDPRU investment firm* must ensure that:

(1) the fixed and variable components of the total *remuneration* are appropriately balanced; and

(2) the fixed component represents a sufficiently high proportion of the total *remuneration* to enable the operation of a fully flexible policy on variable *remuneration*, including the possibility of paying no variable *remuneration* component.

SYSC 19G.4.6 R

For the purposes of *SYSC 19G.4.5R*, a *non-SNI MIFIDPRU investment firm* must set an appropriate ratio between the variable component and the fixed component of the total *remuneration* in their *remuneration* policies.

SYSC 19G.4.7 G

(1) When determining what is an appropriate balance and an appropriate ratio for the purposes of *SYSC 19G.4.5R* and *SYSC 19G.4.6R* respectively, a *firm* should consider all relevant factors, including:

(a) the *firm's* business activities and associated prudential and conduct risks; and

(b) the role of the *individual* in the *firm* and, in the case of *material risk takers*, the impact that different categories of staff have on the risk profile of the *non-SNI MIFIDPRU investment firm* or of the assets it manages.

(2) It may be appropriate for some staff to receive only fixed *remuneration*. The *FCA* does not consider it would be an appropriate balance for any *individual* to receive only variable *remuneration*.

SYSC 19G.4.8 G

A *non-SNI MIFIDPRU investment firm* may set different ratios for different categories of staff. For example, the *FCA* considers that it will usually be appropriate to set a lower ratio of variable to fixed *remuneration* for *control functions* than for the *business units* they control.

SYSC 19G.4.9 G

Ratios may differ from one performance period to the next.

SYSC 19G.4.10 G

When setting a ratio, a *firm* should consider all potential scenarios, including that a firm exceeds its financial objectives. The ratio should reflect the highest amount of variable *remuneration* that can be awarded in the most positive scenario. A *firm* should be satisfied that it has considered all relevant factors and should be able to explain its decision to the *FCA* if requested.

SYSC 19G.4.11 R

When a *firm* is assessing whether the award of variable *remuneration* is consistent with the ratio set in accordance with *SYSC 19G.4.6R*, it may exclude from that calculation any amount of severance pay that:

(1) exceeds the maximum amount of severance pay that can be paid under the *firm's remuneration policy* (in accordance with *SYSC 19G.6.12R(2)*); and

(2) the *firm* has become obliged to pay as a result of a legal obligation that has arisen after the date on which the *firm* adopted the relevant version of its *remuneration* policy.

SYSC 19G.4.12 G

As explained in *SYSC 19.6.12R(2)*, where severance pay is payable a *firm's remuneration* policy must set out the maximum level of severance pay or the criteria for determining the amount. *Firms* should therefore take these policies into account when establishing the ratio between variable and fixed *remuneration* in accordance with *SYSC 19G.4.6R*. The *FCA* accepts that in rare circumstances, for reasons that wouldn't have been clear to a *firm* when setting its *remuneration* policy, a *firm* may become legally obliged to pay a higher amount of severance pay, for example as a result of legal proceedings. In these situations, *SYSC 19G.4.11* states that the difference between the maximum severance pay permitted under the *firm's remuneration* policy and the higher amount the *firm* is legally obliged to pay may be excluded from an assessment of whether an award of variable *remuneration* is

consistent with the ratio set in accordance with *SYSC 19G.4.6R*.

Section : SYSC 19G.5 Application of remuneration requirements to material risk takers

Identifying material risk takers

SYSC 19G.5.1 R

A *material risk taker* is a staff member at a *non-SNI MIFIDPRU investment firm* whose professional activities have a material impact on the risk profile of the *firm* or of the assets that the *firm* manages.

SYSC 19G.5.2 R

A *non-SNI MIFIDPRU investment firm* must assess at least once a year which of its staff members are *material risk takers*.

SYSC 19G.5.3 R

For the purposes of *SYSC 19G.5.1R*, a staff member's professional activities are deemed to have a material impact on a *firm's* risk profile or the assets the *firm* manages if one or more of the following criteria are met:

(1) the staff member is a *member of the management body* in its management function;

(2) the staff member is a *member of the management body* in respect of the *management body in its supervisory function*;

(3) the staff member is a member of the *senior management*;

(4) the staff member has *managerial responsibility* for *business units* that are carrying on at least one of the following *regulated activities*:

1. (a) *arranging (bringing about) deals in investments*;
2. (b) *dealing in investments as agent*;
3. (c) *dealing in investments as principal*;
4. (d) *managing investments*;
5. (e) *making investments with a view to transactions in investments*;
6. (f) *advising on investments (except P2P agreements)*; and/or
7. (g) *operating an organised trading facility*;

(5) the staff member has *managerial responsibilities* for the activities of a *control function*;

(6) the staff member has *managerial responsibilities* for the prevention of *money laundering* and terrorist financing;

(7) the staff member is responsible for managing a material risk within the *firm*;

(8) in a *firm* that has permission for carrying on at least one of the *regulated activities* in (4)(a) to (g), the staff member is responsible for managing one of the following activities:

(a) information technology;

(b) information security; and/or

(c)

outsourcing arrangements of critical or important functions as referred to in *SYSC 8.1.4AR*; and

(9) the staff member has authority to take decisions approving or vetoing the introduction of new products.

SYSC 19G.5.4 G

The *FCA* considers the following are key indicators that the professional activities of a staff member (X) have a material impact on the risk profile of the *firm* or of the assets that the *firm* manages for the purposes of *SYSC 19G.5.1R*:

(1) there is no sufficiently senior and experienced *material risk taker* who supervises X on a day-to-day basis or to whom X reports;

(2) X is responsible for key strategic decisions; and

(3) X is responsible for significant revenue, material assets under management or for approving transactions.

SYSC 19G.5.5 G

The *FCA* expects *individuals* in the following roles would usually be categorised as *material risk takers*:

(1) in relation to portfolio management business, heads of key areas including equities, fixed income, alternatives, private equity;

(2) heads of investment research;

(3) *individuals* responsible for a high proportion of revenue;

(4) senior advisors where they can exert key strategic influence;

(5) chief market strategists, where media profile is linked to reputational risk and risk to market integrity;

(6) heads of a trading or broking desk; and

(7) all *individuals* with responsibility for information technology, information security and outsourcing where there is not a single person with responsibility for all three areas. For example, if there is a chief operating officer and a chief information technology officer who are both equally senior and have shared responsibility for these areas, then both should be identified as *material risk takers*.

SYSC 19G.5.6 G

(1) A *firm* should update its assessment under *SYSC 19G.5.2R* as necessary throughout the year.

(2) It is important that *firms* consider all types of roles that may have a material impact on the *firm's* risk profile or on the assets it manages. The categories of staff referred to in SYSC 19G.5.3R are intended to be a starting point only. A *firm* should develop its own additional criteria to identify further *individuals* based on the specific types of activities and risks relevant to the *firm*.

(3) In identifying its *material risk takers*, a *firm* should consider all types of risks involved in its professional activities. These may include prudential, operational, market, conduct and reputational risks.

(4) The decisive factor when identifying *material risk takers* is not the name of the function or role, but the authority and responsibility held by the *individual*.

SYSC 19G.5.7 R

(1) If a *non-SNI MIFIDPRU investment firm* is part of an *FCA investment firm group* to which prudential consolidation applies, its *material risk takers* must be identified at both *individual* and consolidated level.

(2) The *UK parent entity* of a *firm* is responsible for the *material risk taker* identification process at a consolidated level and must identify as *material risk takers*:

(a) all staff members whose professional activities have a material impact on the risk profile of the *investment firm group*; and

(b) all staff members of an *undertaking* in the *investment firm group* ('*undertaking* A') whose professional activities have a material impact on:

(i) the risk profile of another *undertaking* within the *investment firm group* to whom the *MIFIDPRU Remuneration Code* applies on an individual basis ('*undertaking* B'); or

(ii) the risk profile of any assets managed by *undertaking* B.

SYSC 19G.5.8 G

It may be helpful for the *UK parent entity* to coordinate the process for identifying *material risk takers* across the *group* entities.

Exemption for individuals

SYSC 19G.5.9 R

(1) The provisions in (2) do not apply in relation to a *material risk taker* (X), where X's annual variable *remuneration*:

(a) does not exceed £167,000; and

(b) does not represent more than one-third of X's total annual *remuneration*.

(2) The provisions referred to in (1) are:

(a) *SYSC 19G.6.19R* to *SYSC 19G.6.21G* (Shares, instruments and alternative arrangements);

(b) *SYSC 19G.6.22R* and *SYSC 19G.6.23G* (Retention policy);

(c) *SYSC 19G.6.24R* to *SYSC 19G.6.29R* (Deferral); and

(d) *SYSC 19G.6.35R(2)* (Discretionary pension benefits).

SYSC 19G.5.10 G

(1) *SYSC 19G.5.9R* applies only to *material risk takers* of *non-SNI MIFIDPRU investment firms* that do not fall within *SYSC 19G.1.1R(2)*.

(2) A *non-SNI MIFIDPRU investment firm* not falling within *SYSC 19G.1.1R(2)* should therefore assess whether staff members are *material risk takers* before applying the thresholds in *SYSC 19G.5.9R*.

(3) As the provisions listed in *SYSC 19G.5.9R(2)* don't apply on a consolidated basis (see *19G.1.18R(4)(b)*), the exemption for *individuals* in *SYSC 19G.5.9R(1)* will not be relevant on a consolidated basis.

SYSC 19G.5.11 R

When considering whether an *individual* that becomes a *material risk taker* at a point during the *firm's* performance period falls within *SYSC 19G.5.9R*, a *firm* must:

(1) apply the full £167,000 variable *remuneration* threshold;

(2) apply the requirement that the variable *remuneration* must not be more than one-third of the *individual's* total *remuneration* to the relevant portion of the total *remuneration* paid for the part of the performance period that the *individual* is a *material risk taker* at that *firm*; and

(3) include any guaranteed variable *remuneration*, for example a 'sign-on bonus', in the *individual's* variable *remuneration* for the part of the performance period that the *individual* is a *material risk taker* at that *firm*.

SYSC 19G.5.12 G

(1) An *individual* may become a *material risk taker* at any point during the *firm's* performance period, either by changing role within the *firm* or by joining the *firm*.

(2) The effect of *SYSC 19G.5.11R* is illustrated by the following example:
An *individual* ('X'), becomes a *material risk taker* 6 *months* into the *firm's* performance period. X receives annual fixed *remuneration* of £900,000. This means X will receive £450,000 for the 6 *months* of the performance period for which X is a *material risk taker*. X receives variable *remuneration* of £100,000 in respect of the first 6 *months*. X falls below the thresholds in *SYSC 19G.5.9R* because X's variable *remuneration* of £100,000 is:

(a) less than the £167,000 threshold in *SYSC 19G.5.9R(1)(a)*, and

(b) less than one-third of the £450,000 fixed *remuneration* received (which would be £150,000) for the purposes of *SYSC 19G.5.9R(1)(b)*.

SYSC 19G.5.13 G

The *FCA* considers it good practice for a *firm* to consider whether applying any of the rules applicable to *material risk takers* to other members of *staff* would contribute to sound risk management or a healthy firm culture.

Section : SYSC 19G.6 Variable remuneration

Remuneration and capital

SYSC 19G.6.1 R A *MIFIDPRU investment firm* must ensure that variable *remuneration* does not affect the *firm's* ability to ensure a sound capital base.

Exceptional government intervention

SYSC 19G.6.2 R A *MIFIDPRU investment firm* that benefits from exceptional government intervention must ensure that:

(1) no variable *remuneration* is paid to members of its *management body*, unless it is justified to do so; and

(2) variable *remuneration* is limited to a portion of net revenue when its payment to staff that are not members of its *management body* would be inconsistent with:

(a) the maintenance of the *firm's* sound capital base; and

(b) its timely exit from exceptional government intervention.

SYSC 19G.6.3 G An example of where it may be justifiable to pay variable *remuneration* to a member of the *management body* of a *MIFIDPRU investment firm* that benefits from exceptional government intervention is where that *person* was not in office at the time the exceptional government intervention was first required.

Assessment of performance

SYSC 19G.6.4 R A *non-SNI MIFIDPRU investment firm* must ensure that where variable *remuneration* is performance-related:

(1) the total amount of the variable *remuneration* is based on a combination of the assessment of the performance of:

(a) the *material risk taker*;

(b) the *business unit* concerned; and

(c) the overall results of the *firm*;

(2) the assessment of performance is part of a multi-year framework that ensures:

(a) the assessment of performance is based on longer-term performance; and

(b) the payment of perfomance-based *remuneration* is spread over a period that takes account of the business cycle of the *firm* and its business risks.

SYSC 19G.6.5 R When assessing individual performance to determine the amount of variable *remuneration* to be paid to an *individual*, a *MIFIDPRU investment firm* must take into account financial as well as non-financial criteria.

SYSC 19G.6.6 G (1) For some *firms* it may be appropriate to give equal weight to financial and non-financial criteria for the purposes of *SYSC 19G.6.5R*. For other *firms* a slightly different split may be appropriate.

(2) Non-financial criteria under *SYSC 19G.6.5R* should:

(a) form a significant part of the performance assessment process;

(b) override financial criteria, where appropriate;

(c) include metrics on conduct, which should make up a substantial portion of the non-financial criteria; and

(d) include how far the *individual* adheres to effective risk management and complies with relevant regulatory requirements.

(3) Examples of non-financial criteria under *SYSC 19G.6.5R* include:

(a) measures relating to building and maintaining positive customer relationships and outcomes, such as positive customer feedback;

(b) performance in line with firm strategy or values, for example by displaying leadership, teamwork or creativity;

(c) adherence to the *firm's* risk management and compliance policies;

(d) achieving targets relating to:

(i) environmental, social and governance factors; and

(ii) diversity and inclusion.

(4) A *firm* should ensure that when it assesses individual performance, the assessment process and any variable *remuneration* awarded in accordance with *SYSC 19G.6.4R* does not discriminate on the basis of the protected characteristics of an *individual* in accordance with the Equality Act 2010.

General requirements for awards of non-standard forms of variable remuneration

SYSC 19G.6.7 R

(1) A *non-SNI MIFIDPRU investment firm* must ensure that all guaranteed variable *remuneration*, retention awards, severance pay and buy-out awards falling under *SYSC 19G.6.8R* to *SYSC 19G.6.14G* are:

(a) subject to malus and clawback;

(b) in the case of *non-SNI MIFIDPRU investment firms* to which those *rules* apply:

(i) subject to the requirements in *SYSC 19G.6.19R* and *SYSC 19G.6.21G* (Shares, instruments and alternative arrangements), *SYSC 19G.6.22R* and *SYSC 19G.6.23G* (Retention policy), and *SYSC 19G.6.24R* to *SYSC 19G.6.29R* (Deferral); and

(ii) included in the variable component of the variable to fixed ratio for the performance period in which the award is made.

(2) A *non-SNI MIFIDPRU investment firm* must ensure that each decision it makes to award variable *remuneration* falling within the scope of (1) is appropriate, taking all relevant circumstances into account.

Guaranteed variable remuneration

SYSC 19G.6.8 R

A *non-SNI MIFIDPRU investment firm* must not award, pay or provide guaranteed variable *remuneration* to a *material risk taker* unless:

(1) it occurs in the context of hiring a new *material risk taker*;

(2) it is limited to the first year of service; and

(3) the *firm* has a strong capital base.

SYSC 19G.6.9 G

(1) Guaranteed variable *remuneration* is sometimes referred to as a 'sign-on bonus' or 'golden handshake'.

(2) Guaranteed variable *remuneration* can be used as a way to compensate new staff members where they have lost the opportunity to receive variable *remuneration* by leaving their previous employment during the performance period. These awards may be called 'lost opportunity bonuses'.

(3) The *FCA* expects *non-SNI MIFIDPRU investment firms* to award guaranteed *remuneration* only rarely and not as common practice.

Retention awards

SYSC 19G.6.10 R

Retention awards must only be paid to *material risk takers*:

(1) after a defined event; or

(2) at a specified point in time.

SYSC 19G.6.11 G

(1) Retention awards are bonuses which are dependent on an *individual* remaining in a role until a defined event or for a set period of time. For example, retention bonuses can be used under restructurings, in wind-down or in the context of specific projects within a *firm*.

(2) The payment of a retention award may be made dependent on the *material risk taker* meeting certain performance criteria that have been defined in advance.

(3) The *FCA* expects *non-SNI MIFIDPRU investment firms* to make retention awards to *material risk takers* only rarely and not as common practice.

Severance pay

SYSC 19G.6.12 R

(1) A *non-SNI MIFIDPRU investment firm* must ensure that payments to *material risk takers* relating to the early termination of an employment contract reflect the *individual's* performance over time and do not reward failure or misconduct.

(2) A *non-SNI MIFIDPRU investment firm* must set out in its *remuneration* policy whether severance payments may be paid, and any maximum amount or criteria for determining the amount.

Buy-out awards

SYSC 19G.6.13 R

A *non-SNI MIFIDPRU investment firm* must ensure that *remuneration* packages relating to compensation for, or buy out from, a *material risk taker's* contracts in previous employment:

(1) align with the long term interests of the *firm*; and

(2) contain provisions on periods of retention, deferral, vesting and ex post risk adjustment that are no shorter than any corresponding periods that applied to

unvested variable *remuneration* under the previous contract of employment, and which remained outstanding.

SYSC 19G.6.14 G Buy-out awards involve a *firm* compensating a new staff member, or 'buying out' their previous contract with another employer, where the deferred variable *remuneration* of the staff member was reduced, revoked or cancelled by the previous employer. This could be because they terminated their contract or because the *individual* has to pay back some money, for example where the employer has paid for a training course or qualification for the *individual* that was attached to a retention clause.

Risk adjustment

SYSC 19G.6.15 R A *non-SNI MIFIDPRU investment firm* must ensure that any measurement of performance used as a basis to calculate pools of variable *remuneration* takes into account all types of current and future risks and the cost of the capital and liquidity required in accordance with *MIFIDPRU*.

SYSC 19G.6.16 R A *non-SNI MIFIDPRU investment firm* must ensure that the allocation of variable *remuneration* components within the *firm* takes into account all types of current and future risks.

SYSC 19G.6.17 R For the purposes of *SYSC 19G.6.15R* and *SYSC 19G.6.16R*, a *non-SNI MIFIDPRU investment firm* must:

(1) determine at what level the adjustments should be applied (for example at *business unit*, trading desk or individual level), which risks are relevant, and which risk adjustment techniques and measures are most appropriate; and

(2) in considering all types of current and future risks, include both financial risks (for example economic profit or economic capital) and non-financial risks (for example reputation, conduct and customer outcomes, values and strategy).

SYSC 19G.6.18 R A *non-SNI MIFIDPRU investment firm* must ensure that its total variable *remuneration* is generally considerably contracted, including through malus or clawback arrangements, where the financial performance of the *firm* is subdued or negative.

Shares, instruments and alternative arrangements

SYSC 19G.6.19 R A *non-SNI MIFIDPRU investment firm* to which this *rule* applies must ensure that at least 50% of the variable *remuneration* paid to a *material risk taker* in relation to a performance period consists of any of the following *eligible instruments*:

(1) *shares*, or subject to the *firm's* legal structure, equivalent ownership interests;

(2) *share*-linked instruments, or subject to the *firm's* legal structure, equivalent non-cash instruments;

(3) instruments that comply with the requirements in *SYSC 19G Annex 1R*; or

(4) non-cash instruments (including those settled in cash) which reflect the

instruments of the portfolios managed.

SYSC 19G.6.20 R

Where an *eligible instrument* that falls within the scope of *SYSC 19G.6.19R(1)* or *(2)* relates to an ownership interest in a *parent undertaking* of the *MIFIDPRU investment firm*, it will only satisfy the requirements of *SYSC 19G.6.19R* where its value moves in line with the value of an equivalent ownership interest in the *MIFIDPRU investment firm*.

SYSC 19G.6.21 G

(1) Where a *MIFIDPRU investment firm* is unable to issue *eligible instruments*, the *firm* may apply to the *FCA* for a modification under section 138A of the *Act* to permit the *firm* to use alternative arrangements. The *firm* will need to provide a detailed explanation in its application of the alternative arrangements it is proposing to operate.

(2) The *FCA* may grant a modification under section 138A of the *Act* for these purposes only where it is satisfied that:

(a) compliance by the *firm* with the requirement to issue variable *remuneration* in *eligible instruments* would be unduly burdensome or would not achieve the purpose for which the *rules* were made; and

(b) granting the modification would not adversely affect the advancement of any of the *FCA*'s objectives.

(3) As part of its assessment of whether the modification would adversely affect the advancement of its objectives, the *FCA* will consider whether the proposed alternative arrangements for variable *remuneration* achieve similar outcomes to the standard requirements applicable to *eligible instruments*. In particular, the *FCA* will normally consider the following non-exhaustive list of factors:

(a) whether the proposed alternative arrangement ensures suitable alignment between the interests of the staff member and the long-term interests of the *firm*, its *clients* and creditors;

(b) whether the proposed alternative arrangement is subject to a retention policy that is of sufficient length to align the incentives of the staff member with the long-term interests of the *firm*, its *clients* and creditors;

(c) whether the proposed alternative arrangement is clear and transparent to the staff member and contains sufficient detail on the applicable conditions;

(d) whether the *firm* will ensure that any amounts that are subject to deferral and retention arrangements cannot be accessed, transferred or redeemed by the staff member during the deferral and retention periods;

(e) whether the proposed alternative arrangement would facilitate the appropriate application of malus and clawback requirements;

(f) whether the proposed alternative arrangements adequately ensure that the value of the variable *remuneration* received does not increase during the deferral period through distributions or other payments on the instrument; and

(g) where the proposed alternative arrangements allow for predetermined changes of the value received as variable *remuneration* during deferral and

retention periods, based on the performance of the *firm* or the managed assets, whether the following conditions would be met:

(i) the change of the value is based on predefined performance indicators that are based on the credit quality of the *firm* or the performance of the managed assets;

(ii) where deferral and retention must be applied, value changes are calculated at least annually and at the end of the retention period;

(iii) the rate of possible positive and negative value changes is equally based on the level of positive or negative credit quality changes or performance measured;

(iv) where the value change under (i) is based on the performance of assets managed, the percentage of value change should be limited to the percentage of value change of the managed assets;

(v) where the value change under (i) is based on the credit quality of the *firm*, the percentage of value change should be limited to the percentage of the annual total gross revenue in relation to the *firm's* total *own funds*.

(4) If a *firm* cannot issue *eligible instruments* because of its legal structure, that is likely to be a reason for the *FCA* to conclude that requiring the *firm* to comply with *SYSC 19G.6.19R* would not achieve the purpose for which that *rule* was made.

Retention policy

SYSC 19G.6.22 R

A *non-SNI MIFIDPRU investment firm* to which this *rule* applies must establish an appropriate retention policy for *eligible instruments* that is designed to align the interests of the staff member with the longer-term interests of the *firm*, its creditors and clients.

SYSC 19G.6.23 G

(1) In considering what is an appropriate retention policy for the purposes of *SYSC 19G.6.22R*, a *firm* should consider at least the following:

(a) the length of the deferral period referred to in *SYSC 19G.6.24R(1)*;

(b) the length of the *firm's* business cycle;

(c) the types of risks relevant to the role of the staff member; and

(d) how long it could take for the risks underlying the staff member's performance to crystallise.

(2) The greater the impact of the *material risk taker* on the risk profile of the *firm* and of the assets managed, the longer the retention period should be. Different retention periods for different *material risk takers* may be appropriate, particularly where the applicable deferral periods differ.

Deferral

SYSC 19G.6.24 R

(1) A *non-SNI MIFIDPRU investment firm* to which this *rule* applies must not award, pay or provide a variable *remuneration* component unless at least 40% is deferred over a period which is at least 3 years.

(2) Where the variable *remuneration* is a particularly high amount, and in all cases where the variable *remuneration* is £500,000 or more, at least 60% of the amount must be deferred.

(3) Deferred variable *remuneration* must vest no faster than on a pro-rata basis.

(4) The first deferred portion of the variable *remuneration* must not vest sooner than a year after the start of the deferral period.

SYSC 19G.6.25 R

(1) A *non-SNI MIFIDPRU investment firm* must take into account the factors in (2) when determining:

(a) the amount of variable *remuneration* to be deferred under *SYSC 19G.6.24R(1)* and *(2)*;

(b) the length of the deferral period under *SYSC 19G.6.24R(1)*; and

(c) the speed of vesting of the variable *remuneration* for the purposes of *SYSC 19G.6.24R(3)*.

(2) The factors referred to in (1) are:

(a) the *firm's* business cycle, the nature of its business and its risk profile;

(b) the activities and responsibilities of the staff member in question and how these may impact the risk profile of the *firm* or the assets the *firm* manages;

(c) whether the deferred variable *remuneration* is paid out in instruments or cash;

(d) the amount of the variable *remuneration*; and

(e) the ratio of variable to fixed *remuneration*.

SYSC 19G.6.26 G

(1) Where appropriate, a *firm* should tailor the proportion of deferred variable *remuneration*, the deferral period and the speed of vesting in different ways for different categories of *material risk taker*.

(2) The *FCA* considers that it may be appropriate for the most senior *material risk takers* at a *firm* (for example members of the *management body*), to be subject to a deferral period longer than the 3-year minimum.

(3) It may be appropriate for *firms* to apply different proportions of deferred variable *remuneration*, deferral periods or vesting arrangements to the portion of variable *remuneration* paid out in cash and the portion paid out in instruments.

(4) In the *FCA's* view, the higher the amount of the variable *remuneration*, and the higher the ratio of variable to fixed *remuneration*, the more appropriate it is likely to be to defer a greater proportion of the variable *remuneration*.

(5) In certain circumstances variable *remuneration* below £500,000 may still be considered 'particularly high' and so subject to 60% deferral. A *firm* should take into account the average *remuneration* at the *firm*, the ratio of the variable to fixed *remuneration* of the *material risk taker*, and the amount of variable *remuneration* compared to that of other staff at the *firm*.

(6) After the first deferred portion of the variable *remuneration* vests in accordance

with *SYSC 19G.6.24R(4)*, the *FCA* does not expect vesting to take place more often than once a year.

SYSC 19G.6.27 R A *non-SNI MIFIDPRU investment firm* must pay out at least 50% of the variable *remuneration* deferred under *SYSC 19G.6.24R* in instruments falling within *SYSC 19G.6.19R*.

SYSC 19G.6.28 G The *FCA* considers it good practice for the deferred portion to contain a higher proportion of instruments than the non-deferred portion.

SYSC 19G.6.29 R A *non-SNI MIFIDPRU investment firm* may only pay to a *material risk taker* interest or dividends on an instrument which is subject to deferral under SYSC 19G.24R where:

(1) the rate of interest or level of dividends paid on that instrument is no higher than would have been paid to an ordinary holder of such an instrument; and

(2) payment is not made before the date on which the instrument vests.

Performance adjustment

SYSC 19G.6.30 R A *non-SNI MIFIDPRU investment firm* must ensure that any variable *remuneration*, including a deferred portion, is paid or vests only if it is sustainable according to the financial situation of the *firm* as a whole, and justified on the basis of the performance of the *firm*, the *business unit* and the *material risk taker* concerned.

SYSC 19G.6.31 R A *non-SNI MIFIDPRU investment firm* must:

(1) ensure that all of the total variable *remuneration* is subject to in-year adjustments, malus or clawback arrangements;

(2) set specific criteria for the application of malus and clawback; and

(3) ensure that the criteria for the application of malus and clawback in particular cover situations where the *material risk taker*:

(a) participated in or was responsible for conduct which resulted in significant losses to the *firm*; and/or

(b) failed to meet appropriate standards of fitness and propriety.

SYSC 19G.6.32 R A *non-SNI MIFIDPRU investment firm* must:

(1) set minimum malus and clawback periods as part of its *remuneration* policies;

(2) ensure that malus can be applied until the award has vested in its entirety; and

(3) ensure that the clawback period spans at least the combined length of any deferral and retention periods.

SYSC 19G.6.33 G (1) The effect of *SYSC 19G.6.31R(1)* is that (save in the circumstances explained in (2)) a *non-SNI MIFIDPRU investment firm* must include in its *remuneration* policy the possibility of applying in-year adjustments, malus and clawback to the variable *remuneration* of its *material risk takers*. Where performance adjustment is required,

the appropriate tool or tools (in-year adjustments, malus or clawback) should then be applied.

(2) A *non-SNI MIFIDPRU investment firm* that is not required by *SYSC 19G.6.24R* to apply deferral will not be able to apply malus, so should foresee the use of in-year adjustments and clawback arrangements only. Alternatively, the *firm* may choose to use deferral, which would enable the use of malus arrangements in addition to in-year adjustments and clawback.

(3) A *non-SNI MIFIDPRU investment firm* should ensure that the malus and clawback periods it sets and applies allow sufficient time for any potential risks to crystallise. This may mean that different periods are set for different categories of *material risk takers*.

(4) In setting appropriate malus and clawback periods, a *non-SNI MIFIDPRU investment firm* should take into account all relevant factors, including:

(a) the nature of the *material risk taker's* activities;

(b) the *material risk taker's* impact on the risk profile of the *firm* or of the assets it manages; and

(c) the length of the business cycle that is relevant for the *material risk taker's* role.

(5) For a *non-SNI MIFIDPRU investment firm* that satisfies the conditions in *SYSC 19G.1.1R(2)(a)* or *(b)*, the *FCA* considers that 3 years will generally be an appropriate starting point for the *firm's* consideration of the appropriate clawback period.

(6) The *FCA's* 'General guidance on the application of ex-post risk adjustment to variable remuneration' provides further detail of the *FCA's* expectations on *firms'* use of malus and clawback arrangements.

SYSC 19G.6.34 G

(1) In the *FCA's* view, malus should be applied when, as a minimum:

(a) there is reasonable evidence of staff member misbehaviour or material error;

(b) the *firm* or the relevant *business unit* suffers a material downturn in its financial performance; or

(c) the *firm* or the relevant *business unit* suffers a material failure of risk management.

(2) In the *FCA's* view, clawback should, in particular, be applied in cases of fraud or other conduct with intent or severe negligence which led to significant losses.

Discretionary pension benefits

SYSC 19G.6.35 R

(1) A *non-SNI MIFIDPRU investment firm* must ensure that:

(a) any *discretionary pension benefits* it awards or pays to *material risk takers* are:

(i) in line with its business strategy, objectives, values and long-term interests; and

(ii) paid only in *eligible instruments*;

(b) it applies malus and clawback arrangements to *discretionary pension benefits* in the same way as to other elements of variable *remuneration*.

(2) A *non-SNI MIFIDPRU investment firm* to which this paragraph applies must ensure that:

(a) where a *material risk taker* leaves the *firm* before retirement age, any *discretionary pension benefits* are held by the *firm* for a period of 5 years; and

(b) where a *material risk taker* reaches retirement age, any *discretionary pension benefits* are subject to a 5-year retention period by that *individual*.

Personal investment strategies

SYSC 19G.6.36 R

A *non-SNI MIFIDPRU investment firm* must take all reasonable steps to ensure that *material risk takers* do not use personal hedging strategies or *remuneration*- and liability-related *contracts of insurance* to undermine the *remuneration rules* in the *MIFIDPRU Remuneration Code*.

SYSC 19G.6.37 G

Actions a *firm* may take under *SYSC 19G.6.36R* include requesting an undertaking or declaration from its *material risk takers* and implementing policies regarding dealing in *financial instruments*.

Avoidance of the MIFIDPRU Remuneration Code

SYSC 19G.6.38 R

A *non-SNI MIFIDPRU investment firm* must not pay variable *remuneration* through financial vehicles or methods that facilitate non-compliance with the *MIFIDPRU Remuneration Code* or *MIFIDPRU*.

Section : SYSC 19G.7 Remuneration committee

SYSC 19G.7.1 G

(1) *MIFIDPRU 7.3.3R(1)* requires a *non-SNI MIFIDPRU investment firm* to establish a *remuneration* committee, unless *MIFIDPRU 7.3.3R(2)* applies.

(2) The *FCA* encourages *non-SNI MIFIDPRU investment firms* that are not required to establish a *remuneration* committee under *MIFIDPRU 7.3.3R(1)* to consider whether establishing and maintaining a *remuneration* committee would contribute to the better alignment of risk and individual reward across the *firm*.

Section : SYSC 19G Annex 1 Other instruments for use in variable remuneration

SYSC 19G Annex 1R

	Purpose		
1.1	G	*SYSC 19G.6.19R* requires that at least 50% of variable *remuneration* must be paid in *eligible instruments*. Under *SYSC 19G.6.19R(3)*, *eligible instruments* include instruments that meet the requirements set out in this Annex. The instruments within the scope of this Annex include *additional tier 1 instruments*, *tier 2 instruments* and other instruments which can be fully converted to *common equity tier 1 instruments*, or written down, and that adequately reflect the *firm's* credit quality.	
	Requirements for instruments		
1.2	R	An instrument under *SYSC 19G.6.19R(3)* must satisfy the following requirements	
		(1)	the instrument must be issued by the *firm*;
		(2)	the instrument must not be secured or subject to a guarantee or any other arrangement that enhances the seniority of the claims of its holder in insolvency;
		(3)	the terms of the instrument must provide that any distributions on the instrument will be paid on at least an annual basis and will be paid to the holder;
		(4)	the instrument must be priced at its value at the time of issuance under the accounting framework applicable to the *firm*;
		(5)	the valuation of the instrument in (4) must be subject to independent review;
		(6)	if the instrument is part of an issuance which has the sole purpose of being used for variable *remuneration*, the price at which the instrument is redeemed, called, repurchased or converted must be subject to an independent valuation in accordance with the accounting framework applicable to the *firm*;
		(7)	if the instrument is not perpetual, at the time at which it is awarded as variable *remuneration*, the remaining period before the maturity of the instrument must be at least equal to

			the sum of any deferral and retention periods that would apply to the staff member to whom the instrument is awarded;	
		(8)	the instrument must not be subject to redemption, call or repurchase during any deferral and retention periods that would apply to the *material risk taker* to whom the instrument is awarded;	
		(9)	any right to redeem, call or repurchase the instrument must be exercisable only at the sole discretion of the *firm*;	
		(10)	the holder of the instrument must have no rights to accelerate the future scheduled payment of interest or principal, except in the insolvency or liquidation of the *firm*;	
		(11)	the terms of the instrument must provide that the claim on the principal amount of the instrument is wholly subordinated to the claim of all non-subordinated creditors;	
		(12)	one of the requirements in *SYSC 19G Annex 1.3R* must be satisfied; and	
		(13)	the instrument must be either:	
			(a)	a *convertible instrument*, in which case the requirements in *SYSC 19 Annex 1.4R* and SYSC 19 Annex 1.5R must be satisfied; or
			(b)	a *write-down instrument*, in which case the requirements in *SYSC 19 Annex 1.6R* must be satisfied.
1.3	R	(1)	An instrument under *SYSC 19G.6.19R(3)* must meet either the conditions in (2) or the conditions in (4).	
		(2)	The first set of conditions is as follows:	
			(a)	the instrument must be part of an issuance which has the sole purpose of being used as variable *remuneration*; and

			(b)	the terms of the instrument must ensure that any distributions payable on the instrument are paid at a rate which is:	
				(i)	consistent with market rates for similar issuances issued by other *firms* with comparable credit quality; and
				(ii)	subject to (3), no higher than 8% above the Consumer Price Index 12-month rate as published by the UK Office of National Statistics from time to time.
		(3)	If the instrument has been awarded to a member of staff whose professional duties are predominantly performed outside the *UK* and the instruments are denominated in a currency other than pound sterling, a *firm* may substitute another similar independently-calculated consumer price index for a relevant *third country* in place of the rate specified in (2)(b)(ii).		
		(4)	The second set of conditions is that, at the time at which the instrument was awarded as variable *remuneration*, at least 60% of that class of instrument in issuance was:		
			(1)	issued other than for use as variable *remuneration*; and	

			(2)	not held by any *person* who has close links to:	
				(i)	the *firm*;
				(ii)	the *firm's group*; or
				(iii)	a *connected undertaking* included within the *firm's investment firm group*.
	Additional requirements for convertible instruments				
1.4	R	A *firm* must satisfy the following requirements in relation to an instrument referred to *SYSC 19G.6.19R(3)* that is a *convertible instrument*:			
		(1)	the instrument must contain a trigger event which, if it occurs, results in the full principal amount of the instrument being converted into *common equity tier 1 capital* of the *firm*;		
		(2)	the trigger event in (1) must occur where the *common equity tier 1 capital* of the *firm* falls below a specified level that is no lower than 64% of the *firm's own funds requirement*;		
		(3)	the *firm* issuing the instrument must ensure the following to the extent necessary to give full effect to the required conversion following the trigger event in (1):		
			(a)	where applicable, the *firm* has sufficient authorised share capital;	
			(b)	the *firm* has all necessary permissions, authorisations and corporate authorities; and	
			(c)	there are no other restrictions in the *firm's* constitutional documents, contractual arrangements or applicable national law that would prevent the *firm* from issuing the required *common equity*	

				tier 1 capital instruments.
1.5	R	The rate of conversion of the principal amount into *common equity tier capital* of the *firm* specified in the terms governing an instrument under *SYSC 19G.6.19R(3)* that is a *convertible instrument* must be set at a level that ensures that the value of the *common equity tier 1 capital* received by the holder upon conversion:		
		(1)	would not be higher than the value of the instrument at the time that it was originally awarded as variable *remuneration*; and	
		(2)	if the *convertible instrument* is part of an issuance which has the sole purpose of being used as variable *remuneration*, would not be higher than the value of the instrument at the time of conversion.	
	Additional requirements for write-down instruments			
1.6	R	A *firm* must satisfy the following requirements in relation to an instrument under *SYSC 19G.6.19R(3)* that is a *write-down instrument*:		
		(1)	the instrument must contain a trigger event which, if it occurs, results in the principal amount of the instrument being written down;	
		(2)	the trigger event in (1) must occur where the *common equity tier 1 capital* of the *firm* falls below a specified level that is no lower than 64% of the *firm's own funds requirement*;	
		(3)	the aggregate principal amount of *write-down instruments* that must be written down following the trigger event in (1) must be at least equal to the lower of the following:	
			(a)	the amount required to ensure that the *common equity tier 1 capital* of the *firm* referenced in the trigger event is restored to a level that is higher than the specified trigger; or
			(b)	the full principal amount of the instrument;
		(4)	any write-down in the principal amount of the instrument following the trigger event in (1) must:	

			(a)	apply on a pro rata basis across all *write-down instruments* that contain the same trigger event;	
			(b)	generate items that, under the accounting framework applicable to the *firm*, qualify as *common equity tier 1 capital*;	
			(c)	result in a proportional reduction in the holder's entitlement to receive:	
				(i)	distributions paid in connection with the instrument;
				(ii)	payment if the instrument is called or redeemed; and
				(iii)	repayment in the insolvency or liquidation of the *firm*;
		(5)	any write-down in the principal amount of the instrument following the trigger event in (1) may be permanent or temporary, but if it is temporary, any subsequent write-up must comply with the following requirements:		
			(a)	it cannot increase the principal amount of the instrument beyond its level before the write-down occurred;	
			(b)	it must be at the absolute discretion of the *firm*;	
			(c)	the *firm* must have a reasonable basis to conclude that the write-up is appropriate, having regard to the following factors, among others:	

				(i)	the importance of effectively aligning the interests of the recipient with the longer-term interests of the *firm*, its clients and its creditors;
				(ii)	the financial position of the *firm* and the effect of the write-up on the *firm's own funds*; and
				(iii)	if the *firm* or any member of its *group* has been subject to exceptional government intervention, whether the write-up is consistent with the objective of ensuring the timely exit from that support;
			(d)	it must be applied on a pro rata basis between all recipients of instruments falling under *SYSC 19G.6.19R(3)* that are *write-down instruments* where those	

				instruments have previously been subject to a write-down.

CHAPTER

SYSC 21 Risk control: additional guidance

Section : SYSC 21.1 Risk control: guidance on governance arrangements

Additional guidance on governance arrangements

SYSC 21.1.1 G

(1) This chapter provides additional guidance on risk-centric governance arrangements for effective risk management. It expands upon the general organisational requirements in *SYSC 2*, *SYSC 3*, *SYSC 4*, *SYSC 7* and *FUND 3.7*, and so applies to the same extent as *SYSC 3.1.1 R* (for *insurers*, *managing agents* and the *Society*), *SYSC 4.1.1 R* (for every other *firm*) and *FUND 3.7* (for a *full-scope UK AIFM* of an *authorised AIF*).

(2) *Firms* should, taking account of their size, nature and complexity, consider whether in order to fulfil the general organisational requirements in *SYSC 2*, *SYSC 3*, *SYSC 4*, *SYSC 7* and (for a *full-scope UK AIFM* of an *authorised AIF*) *FUND 3.7* their risk control arrangements should include:

(a) appointing a Chief Risk Officer; and

(b) establishing a *governing body* risk committee.

The functions of a Chief Risk Officer and *governing body* risk committee are explained further in this section.

(3) The *FCA* considers that *banks* and *insurers* that are included in the FTSE 100 Index are examples of the types of *firm* that should structure their risk control arrangements in this way. However, this *guidance* will also be relevant to some similar sized *firms* (whether or not *listed*) and some smaller *firms*, by virtue of their risk profile or complexity.

(4) For *Solvency II firms*, the PRA Rulebook: Solvency II firms: Senior Insurance Management Functions makes the chief risk function a *PRA controlled function*.

(5) The chief risk function is having responsibility for overall management of the risk management system specified in PRA Rulebook: Solvency II firms: Conditions Governing Business, rule 3.

(6) *Solvency II firms* may read references to Chief Risk Officer in *SYSC 21* as if it were a reference to the risk management function in the PRA Rulebook.

Chief Risk Officer

SYSC 21.1.2 G

(1) A Chief Risk Officer should:

1. (a) be accountable to the *firm's governing body* for oversight of *firm*-wide risk management;
2. (b) be fully independent of a *firm's* individual business units;
3. (c) have sufficient authority, stature and resources for the effective execution of his responsibilities;
4. (d)

have unfettered access to any parts of the *firm's* business capable of having an impact on the *firm's* risk profile;

5. (e) ensure that the data used by the *firm* to assess its risks are fit for purpose in terms of quality, quantity and breadth;

6. (f) provide oversight and challenge of the *firm's* systems and controls in respect of risk management;

7. (g) provide oversight and validation of the *firm's* external reporting of risk;

8. (h) ensure the adequacy of risk information, risk analysis and risk training provided to members of the *firm's governing body*;

9. (i) report to the *firm's governing body* on the *firm's* risk exposures relative to its risk appetite and tolerance, and the extent to which the risks inherent in any proposed business strategy and plans are consistent with the *governing body's* risk appetite and tolerance. The Chief Risk Officer should also alert the *firm's governing body* to and provide challenge on, any business strategy or plans that exceed the *firm's* risk appetite and tolerance;

10. (j) provide risk-focused advice and information into the setting and individual application of the *firm's remuneration* policy (Where the *MIFIDPRU Remuneration Code* applies, see in particular *SYSC 19G.3.2G (2)*. Where the *dual-regulated firms Remuneration Code* applies, see the *PRA's* Supervisory Statement on Remuneration).

[**Note:** The *PRA*'s Supervisory Statement on remuneration is available on the *PRA* website at *http://www.bankofengland.co.uk/pra/Pages/default.aspx*.]

(2) *Firms* will need to seek the *FCA's* or *PRA's* (as appropriate) approval for a Chief Risk Officer to perform:

(a) (for an *SMCR firm* that is a *PRA-authorised person*) the *PRA's* Chief Risk Function *controlled function*; or

(b) (for an *enhanced scope SMCR firm*) the *chief risk officer function*.

(3) The *FCA* expects that where a *firm* is part of a *group* it will structure its arrangements so that a Chief Risk Officer at an appropriate level within the *group* will exercise functions in (1) taking into account *group*-wide risks.

Reporting lines of Chief Risk Officer

SYSC 21.1.3 G

(1) The Chief Risk Officer should be accountable to a *firm's governing body*.

(2) The *FCA* recognises that in addition to the Chief Risk Officers primary

accountability to the *governing body*, an executive reporting line will be necessary for operational purposes. Accordingly, to the extent necessary for effective operational management, the Chief Risk Officer should report into a very senior executive level in the *firm*. In practice, the *FCA* expects this will be to the *chief executive*, the chief finance officer or to another executive *director*.

Appointment of Chief Risk Officer

SYSC 21.1.4 G

(1) *Firms* should ensure that a Chief Risk Officers *remuneration* is subject to approval by the *firm's governing body*, or an appropriate sub-committee.

(2) *Firms* should also ensure that the Chief Risk Officer may not be removed from that role without the approval of the *firm's governing body*.

SYSC 21.1.4A G

(1) This *guidance* is relevant to an *SMCR banking firm* that has appointed a chief risk officer.

(2) Taking account of the nature, scale and complexity of its activities, the *firm* should have appropriate procedures to ensure that the removal or any other disciplinary sanctioning of the chief risk officer does not undermine the independence of the chief risk officer.

(3) It will be appropriate, in many cases, for the procedures in (2) to include that any approval for the removal of the chief risk officer requires the approval of a majority of the *governing body*, including at least a majority of its members who do not perform any executive function in the *firm*.

(4) Similarly, it will also be appropriate, in many cases, for any other disciplinary sanctioning of the chief risk officer to require the approval of a majority of the *governing body*, including at least a majority of its members who do not perform any executive function in the *firm*.

Governing body risk committee

SYSC 21.1.5 G

(1) The *FCA* considers that, while the *firm's governing body* is ultimately responsible for risk governance throughout the business, *firms* should consider establishing a *governing body* risk committee to provide focused support and advice on risk governance.

(2) Where a *firm* has established a *governing body* risk committee, its responsibilities will typically include:

(a) providing advice to the *firm's governing body* on risk strategy, including the oversight of current risk exposures of the *firm*, with particular, but not exclusive, emphasis on prudential risks;

(b) development of proposals for consideration by the *governing body* in respect of overall risk appetite and tolerance, as well as the metrics to be used to monitor the *firm's* risk management performance;

(c) oversight and challenge of the design and execution of stress and scenario testing;

(d) oversight and challenge of the day-to-day risk management and oversight arrangements of the executive;

(e) oversight and challenge of due diligence on risk issues relating to material transactions and strategic proposals that are subject to approval by the *governing body*;

(f) provide advice to the *firm's remuneration committee* on risk weightings to be applied to performance objectives incorporated in the incentive structure for the executive;

(g) providing advice, oversight and challenge necessary to embed and maintain a supportive risk culture throughout the *firm*.

(3) Where a *governing body* risk committee is established, its chairman should be a *non-executive director*, and while its membership should predominantly be non-executive it may be appropriate to include senior executives such as the chief finance officer.

SYSC 21.1.6 G In carrying out their risk governance responsibilities, a *firm's governing body* and *governing body* risk committee should have regard to any relevant advice from its audit committee or internal audit function concerning the effectiveness of its current control framework. In addition, they should remain alert to the possible need for expert advice and support on any risk issue, taking action to ensure that they receive such advice and support as may be necessary to meet their responsibilities effectively.

CHAPTER

SYSC 22 Regulatory references

Section : SYSC 22.1 Application

General application

SYSC 22.1.1 R This chapter applies to all *SMCR firms*.

SYSC 22.1.1A G *SYSC TP 8.5.1R* applies this chapter to certain claims management *firms* that are not *SMCR firms*.

Activities covered

SYSC 22.1.2 G This chapter is not limited to *regulated activities* or other specific types of activities.

Territorial scope and overseas firms

SYSC 22.1.3 R There is no territorial limitation on the application of this chapter, subject to *SYSC 22.1.6R*.

SYSC 22.1.4 G One effect of *SYSC 22.1.3R* is that the obligation to provide a reference can apply even if the *employee* worked in an overseas office of the *employer*.

SYSC 22.1.6 R For an *overseas firm*, *SYSC 22.2.2R* (Obligation to give references) only applies if the current or former *employee* in question (defined as "P" in *SYSC 22.2.2R*) is or was an *employee* of its *branch* in the *United Kingdom* and only relates to their activities as such.

SYSC 22.1.7 R (1) In order to decide whether someone is an *employee* of a *branch*, the *Glossary* definition of *employee* is applied to the *branch* as if the *branch* and the *firm* of which it forms part were separate *firms*.

(2) For the purpose of (1), paragraph (4A)(c) of the definition of *employee* (someone employed elsewhere in the *group*) does not apply.

Section : SYSC 22.2 Getting, giving and updating references: the main rules

Obligation to obtain references

SYSC 22.2.1 R

(1) If a *firm* (A) is considering:

(a) permitting or appointing someone (P) to perform a *controlled function*;

(b) issuing a certificate under the certification regime for P; or

(ba) appointing a *board director*;

(as explained in more detail in rows (A) and (B) of the table in *SYSC 22.2.3R*), A must take reasonable steps to obtain appropriate references from:

(c) P's current *employer*; and

(d) anyone who has been P's *employer* in the past six years.

(2) A must take reasonable steps to obtain the reference before the time in column two of the applicable row in the table in *SYSC 22.2.3R*. If A does not obtain it within that time it must take reasonable steps to obtain it as soon as possible thereafter.

(3) A must in particular request:

(a) the information in *SYSC 22.2.2R(1)* to (3); and

(b) (if P's current or previous *employer* is also an *SMCR firm*) the information in *SYSC 22.2.2R(4)* (questions (A) to (F) of Part One of *SYSC 22 Annex 1R*).

(4) When deciding what information to request under (1), A must have regard to the factors in *SYSC 22.2.2R(5)* (Factors set out in *SYSC 22 Annex 2R*).

Obligation to give references

SYSC 22.2.2 R

(1)

A *firm* (B) must provide a reference to another *firm* (A) as soon as reasonably practicable if:

1. (a) A is considering:
   1. (i) permitting or appointing someone (P) to perform a *controlled function*; or
   2. (ii) issuing a certificate under the certification regime for P; or
   3. (iii) appointing P to, or permitting P to perform, another position in the table in *SYSC 22.2.3R*;

(as explained in more detail in the table in *SYSC 22.2.3R*);

2. (b) A makes a request, for a reference or other information in respect of P from B, in B's capacity as P's current or former *employer*;

3. (c) B:
   (i) is P's current *employer*; or
   (ii) has been P's *employer* at any time in the six year period preceding the request in (1)(b); and

4. (d) A indicates to B the purpose of the request.

(2)
B must disclose to A in the reference all information of which B is aware that B reasonably considers to be relevant to A's assessment of whether P is fit and proper.

(3) B is only required to disclose under (1) and (2) something that occurred or existed:

(a) in the six years before the request for a reference; or

(b)
between the date of the request for the reference and the date B gives the reference; or

(c) (in the case of serious misconduct) at any time.

[**Note:** See *SYSC 22.5.10G* and *SYSC 22.5.11G* for *guidance* on the meaning of serious misconduct]

(4)
B must in addition disclose the information in questions (A) to (F) of Part One of *SYSC 22 Annex 1R* (Template for regulatory references given by SMCR firms and disclosure requirements).

(5)
When deciding what information to give to A under (1) to (3), B must have regard to the factors in *SYSC 22 Annex 2R* (Factors to take into account when asking for and giving regulatory references).

SYSC 22.2.3 R

Table: What positions need a reference

Position	When to obtain reference	Comments
(A) Permitting or appointing someone to perform an *FCA controlled function* or a *PRA controlled function*.	One *month* before the end of the application period Where a request for a reference would require: (a) the *firm* requesting the reference; (b) the *employer* giving the reference; or (c) any other *person*; to make a mandatory disclosure prior to P disclosing to its current *employer* that such application has been made, the date is the end of the application period.	
(B) Issuing a certificate under *section 63F* of the *Act* (Certification of employees by authorised persons).	Before the certificate is issued	This includes renewing an existing certificate.

Position	When to obtain reference	Comments
(C) Appointing someone to any of the following positions (as defined in the *PRA Rulebook*): (a) a notified non-executive director; (b) a credit union non-executive director; or (c) a key function holder.	Not applicable	(1) *SYSC 22.2.1R* (obligation to obtain a reference) does not apply to a *firm* appointing someone to the position in column (1). (2) However *SYSC 22.2.2R* does apply to a *firm* asked to give a reference to a *firm* appointing someone to the position in column (1). (3) The obligation to give a reference only applies if the *person* making the appointment is a *PRA-authorised person*.
(D) An *SMCR firm* appointing or permitting someone to be a *non-SMF board director* of itself.	Before appointment	Only applies where the appointment is by a *UK SMCR firm* that is: (a) a *core SMCR firm*; or (b) an *enhanced scope SMCR firm*.
Note 1: Mandatory disclosure means an obligation in any applicable laws, regulations or rules to declare or disclose information to the public.		
Note 2: P refers to the *employee* or ex-*employee* about whom the reference is given as defined in more detail in *SYSC 22.2.1R* and *SYSC 22.2.2R*.		
Note 3: The application period means the period for consideration referred to in *section 61* of the *Act* (Determination of application).		

Obligation to revise references: The main rule

SYSC 22.2.4 R

If at any time:

(1) a *firm* (B) has given a reference under *SYSC 22.2.2R* to another *firm* (A) about an *employee* or ex-*employee* of B (P);

(2) B was also an *SMCR firm* when it gave the reference in (1);

(3) either of the following applies:

(a) B is aware of matters or circumstances that mean that if B had been aware of them when giving that reference, this chapter would have required B to draft the reference differently; or

(b) the following applies:

(i) B has since giving the reference reached conclusions of the type described in question (E) of Part One of *SYSC 22 Annex 1R* or taken disciplinary action of the type described in question (F) of Part One of

SYSC 22 Annex 1R; and

(ii) if B had taken or reached those conclusions or actions within the six year period referred to in Part One of *SYSC 22 Annex 1R*, this chapter would have required B to draft the reference differently; and

(4) it would be reasonable to consider the differences in (3) to be significant for an assessment by A of the fitness and propriety of P for the role at A for which the reference was given;

B must:

(5) make reasonable inquiries as to the identity of P's current *employer*; and

(6) give A details of those differences in writing as soon as reasonably practicable, unless *SYSC 22.2.5R* says that B does not have to do so.

SYSC 22.2.5 R

B does not need to update A if:

(1) A is no longer a *firm*;

(2) P has not yet been *employed* by A (because, for example, P is still working their notice period with B) and it is no longer intended for A to *employ* P;

(3) A is no longer P's *employer*; or

(4) despite making reasonable enquiries under *SYSC 22.2.4R*, B does not know whether P is still *employed* by A.

SYSC 22.2.6 R

This *rule* sets out time limits about the obligation to update a reference in *SYSC 22.2.4R*.

(1) If B still *employs* P, *SYSC 22.2.4R* applies throughout the period B remains *employed*.

(2) If B no longer *employs* P, the obligation to update ends six years after P ceased to be *employed* by B.

(3) If B no longer *employs* P and the matters or circumstances are not serious misconduct by P, B does not have to disclose something if it did not occur or exist in the six year period ending on the date B gave the original reference. This limitation applies in addition to the one in (2).

[**Note:** See *SYSC 22.5.10G* and *SYSC 22.5.11G* for *guidance* on the meaning of serious misconduct]

Obligation to revise references: Finding out who the current employer is

SYSC 22.2.7 R

If at any time:

(1) a *firm* (B) has given a reference under *SYSC 22.2.2R* to another *firm* (A) about an *employee* or ex-*employee* of B (P);

(2) B asks A whether P is still an *employee* of A; and

(3) B gave A the reference no more than six years ago;

A must answer that question as soon as reasonably practicable, even if B does not tell A why it wants to know that information.

Sole traders

SYSC 22.2.8 R The obligation in *SYSC 22.2.1R* (Obligation to obtain references) does not apply if A and P (as referred to in that *rule*) are the same *person*.

SYSC 22.2.9 G An example of *SYSC 22.2.8R* is this. Say that P works at a *firm* (B) and leaves to become a *firm* and a *sole trader*. P appoints themselves to perform the *compliance oversight function*. P does not need to get a regulatory reference from B about themselves.

SYSC 22.2.10 G (1) If a *firm* is appointing someone who was a *sole trader* to a position that would normally require a regulatory reference under *SYSC 22.2.1R*, it does not have to request a reference from the *sole trader* themselves. That is because *SYSC 22.2.1R* only requires a *firm* to request a reference from a previous *employer* and a *sole trader* is not their own *employer*.

(2) An example of (1) is this. Say that P was a *firm* and a *sole trader* and performed the *compliance oversight function* themselves. P goes to work for another *firm* (A). A does not need to request a regulatory reference from P about P.

Section : SYSC 22.3 Drafting the reference and the request for a reference

SYSC 22.3.3 G

(1)

A *firm* (A) asking another *firm* (B) for a reference should give B sufficient information to let B know that the requirements in this chapter apply to the reference it is being asked to give and which requirements apply. A might do that by, for example, attaching to the request for a reference, or referring in the request to, the regulatory references template in Part One of *SYSC 22 Annex 1R* (Template for regulatory references given by SMCR firms and disclosure requirements).

(2)

As long as it complies with (1), A does not have to set out specifically the information this chapter requires it to obtain. This is because B should include that information even though B is not specifically asked to include it.

SYSC 22.3.4 G

A *firm* asking for a reference under this chapter from a current or former *employer* that is not a *firm* will normally need to specify what information it would like.

Section : SYSC 22.4 Drafting the reference: detailed requirements

Drafting the reference: detailed requirements for SMCR firms

SYSC 22.4.1 G *SYSC 22 Annex 1R* (Template for regulatory references given by SMCR firms and disclosure requirements) has two purposes:

(1) to set out what information a *firm* should disclose under *SYSC 22.2.2R(4)*; and

(2) to provide a template that a *firm* should use when giving a reference under this chapter.

How to draft the reference

SYSC 22.4.2 R (1)

A *firm* must use the template in Part One of *SYSC 22 Annex 1R* (Template for regulatory references given by SMCR firms and disclosure requirements) when giving a reference under this chapter to another *firm*.

(2)

A *firm* may make minor changes to the format of the template in Part One of *SYSC 22 Annex 1R* when giving a reference under this chapter, provided that the reference includes all the information required by *SYSC 22 Annex 1R*.

(3) [deleted]

SYSC 22.4.4 G A *firm* should use the template in *SYSC 22 Annex 1R* (Template for regulatory references given by SMCR firms and disclosure requirements) even if the *firm* asking for the reference does not specifically ask it to.

PRA requirements

SYSC 22.4.5 R B may combine in a single reference what the *PRA's rules* require and what this chapter requires.

Inclusion of additional material

SYSC 22.4.6 G (-1)

This chapter sets out minimum requirements for a reference. It does not prevent a *firm* from including more than is required by this chapter.

(1) Therefore *SYSC 22.4.2R* does not stop a *firm* including matters in the reference not required by the template in *SYSC 22 Annex 1R*.

(2) A *firm* may include the material required by the template and additional material in the same document.

(3) Any additional material should not alter the scope of any of the questions in the templates.

SYSC 22.4.7 G If a *firm* does disclose more than is required by this chapter the reference should still meet its duties under general law to its former *employee* and the recipient (see *SYSC 22.5.3G* to

SYSC 22.5.5G).

Time limits

SYSC 22.4.8 G Nothing in this chapter prevents a *firm* from disclosing material outside the time limits under this chapter.

Section : SYSC 22.5 Giving references: additional rules and guidance for all firms

Verification

SYSC 22.5.1 R

This chapter does not require a *firm* to disclose information that has not been properly verified.

SYSC 22.5.2 G

(1)

For example, this chapter does not necessarily require a *firm* to include in a reference the fact that an ex-*employee* left while disciplinary proceedings were pending or had started. Including such information is likely to imply that there is cause for concern about the ex-*employee* but the *firm* may not have established that the ex-*employee* was actually responsible for misconduct.

(2)

However, a *firm* may include such information in a reference if it wishes to (see *SYSC 22.4.6G(-1)*, subject to *(3)* and *(4)*, and *SYSC 22.5.4G* (Fairness)).

(3) If a *firm* believes that an *employee* has committed misconduct but the *employee* leaves before the *firm* completes its investigations, it should consider including the details of the suspected misconduct in a reference, taking into account:

(a) whether the suspected misconduct would be material enough to disclose if it were true;

(b) whether the *firm* has good enough grounds for its belief for the *firm* reasonably to consider that it would be relevant to the new *employer's* assessment of whether the *employee* is fit and proper;

(c) whether including it would be consistent with *SYSC 22.5.4G* and *SYSC 22.5.5G* (Fairness); and

(d) the extent to which including the information is otherwise permissible under privacy, employment and other provisions of relevant law.

(4) A *firm* should not include information about suspected misconduct unless the *firm* has taken sufficient steps to verify the information (see *SYSC 22.5.4G* and *SYSC 22.5.5G* (Fairness)). However, the fact that the *employee* leaves before the investigation into the suspected misconduct is complete does not necessarily mean that the *firm* should omit the suspected misconduct. For example:

(a) the *firm* may complete the investigation after the *employee* leaves, perhaps for one of the reasons in *SYSC 22.5.18G* (Duty to investigate allegations); or

(b) the investigation may have advanced sufficiently far by the time the *employee* leaves that the *firm* is satisfied that the misconduct has taken place even though the details (such as, for example, the extent of the harm done) have not been fully established.

Accuracy

SYSC 22.5.3 G

A *firm* should, when giving a reference under this chapter, provide as complete a picture of an *employee's* conduct record as possible to new *employers*.

Fairness

SYSC 22.5.4 G

(1)
A *firm* supplying a reference in accordance with this chapter owes a duty under the general law to its former *employee* and the recipient *firm* to exercise due skill and care in the preparation of the reference.

(2)
The *firm* may give frank and honest views, but only after taking reasonable care both as to factual content, and as to the opinions expressed.

(3) References should be true, accurate, fair and based on documented fact.

(4) If a *firm* wishes to refer to misconduct or include adverse information about the subject of the reference, the *firm* should have reasonable grounds for believing that the misconduct has taken place or that the information is true. References should not be based on unproven allegations or mere suspicions. See also *SYSC 22.5.2G* (Verification).

SYSC 22.5.5 G

(1) An example of the general duty described in *SYSC 22.5.4G* is that fairness will normally require a *firm* to have given an *employee* an opportunity to comment on information in a reference. The *firm* might do this through, for example, disciplinary proceedings.

(2) Paragraph (1) does not mean that the *firm* should provide an opportunity to comment on the reference itself, as opposed to the allegations on which it is based.

(3) A *firm* may have given the *employee* an opportunity to comment on allegations that are later included in a reference even though, at the time that the *firm* is giving that opportunity, no reference is being contemplated. That may mean that the *firm* gives the *employee* their opportunity to comment on the allegations some time before the reference is prepared.

(4) Paragraph (1) does not mean that a *firm* will be unable to include an allegation in a reference if it has offered the *employee* an opportunity to comment on the allegation but the *employee* has unreasonably refused to do so.

(5) Where a *firm* should have given an *employee* an opportunity to comment on an allegation if the allegation is to be included in a reference, this chapter requires the *firm* to give the *employee* that opportunity rather than merely to leave the allegation out of the reference.

(6) Paragraph (5) may mean that where the *firm* has not given its *employee* an opportunity to comment on a matter at the time it first arose, it will have to give the *employee* the opportunity around the time that the *firm* is preparing the reference.

(7) The obligation to give an *employee* an opportunity to comment does not mean that there is a wider duty to investigate whether there are facts that show that there has been a conduct breach (see *SYSC 22.5.18G*).

(8) This chapter does not require the *employee's* views to be included in the reference. Instead the *firm* should take those views into account so far as appropriate when deciding whether something should be disclosed and how the disclosure is

drafted.

Outsourcing

SYSC 22.5.6 G The requirements in this chapter for a *firm* (B) to give a *firm* (A) a reference also apply where A has outsourced the collection of that information to another (unregulated) third party, where B has been made aware that the unregulated third party is acting on behalf of A.

Circumstances in which the ex-employee left

SYSC 22.5.7 G The obligation to give a reference for an *employee* or ex-*employee* applies however the *employment* ended or is going to end. For example, it applies whether it ended through resignation, redundancy, dismissal or fixed term work, a secondment or temporary work coming to an end.

Missing or incomplete information

SYSC 22.5.8 G (1) If a *firm's* records do not cover the maximum periods contemplated by *SYSC 22.2.2R* or *SYSC 22 Annex 1R* (Template for regulatory references given by SMCR firms and disclosure requirements), the *firm* should note that in the reference.

(2) A *firm* should not include a warning of the type described in (1) as a matter of routine. It should only be included if there is a genuine need to include it.

All relevant information: Calculation of six year period for disclosure

SYSC 22.5.9 G (1) In general there is a six year limit on what should be disclosed under *SYSC 22.2.2R(1)* to (3).

(2) Where the matter to be disclosed consists of a single course of conduct (such as market manipulation) the six year period does not begin until that course of conduct has come to an end. This means that individual events that occurred more than six years ago may still be within the six year limit.

(3) This *guidance* is also relevant to the six year time limits for updating references in *SYSC 22.2.6R*.

All relevant information: Removal of six year period

SYSC 22.5.10 G (1)*SYSC 22.2.2R(1)* to (3) normally has a six year time limit. *SYSC 22.2.2R(3)(c)* removes that time limit for serious matters. This paragraph (*SYSC 22.5.10G*) and *SYSC 22.5.11G* have *guidance* about this. This *guidance* is also relevant to the time limits for updating references in *SYSC 22.2.6R*.

(2)

The removal of the time limit does not mean that the time that has elapsed since the matter occurred is irrelevant. The length of time that has elapsed is relevant to deciding whether the matter is serious. In general, the longer ago the matter occurred, the less likely it is still to be serious for these purposes.

(3)

In determining whether something is serious for these purposes, the key question is how important the information still is for the requesting *firm's* assessment of the *employee's* fitness for the function that they are going to perform.

(4)

In considering what is relevant, a *firm* should, in particular, have regard to *SYSC 22.5.4G* (Fairness).

(5)

The table in *SYSC 22.5.11G* provides *guidance* on some of the factors which a *firm* should take into account when determining whether a matter is serious.

(6)

The *guidance* in this paragraph and in the table in *SYSC 22.5.11G* is only designed for the purposes of this chapter. It does not, for example, apply for the purposes of *SUP 15* (Notifications to the FCA), *DEPP* or *ENFG*.

SYSC 22.5.11 G

Table: Examples of factors to take into account when deciding whether old misconduct is sufficiently serious to disclose

Factors to take into account	Comments
(A) Whether P has committed a serious breach of individual conduct requirements.	Individual conduct requirements has the same meaning as in Part Two of *SYSC 22 Annex 1R* (Template for regulatory references given by SMCR firms and disclosure requirements). Factors to take into account in deciding whether the breach is serious include the following. (1) The extent to which the conduct was deliberate or reckless. (2) The extent to which the conduct was dishonest. (3) Whether the breaches are frequent or whether they have continued over a long period of time. The fact that breaches were frequent or repeated may increase the likelihood that they should be disclosed since the breaches may show a pattern of non-compliance. (4) The extent of loss, or risk of loss, caused to existing, past or potential investors, depositors, policyholders or other counterparties or customers.

Factors to take into account	Comments
	(5) The reasons for the breach. For example, where the breach was caused by lack of experience which has been remedied by training or further experience, it is less likely that the breach will still be relevant.
(B) Whether the conduct caused B to breach requirements of the *regulatory system* or P was concerned in a contravention of such a requirement by B and, in each case, whether P's conduct was itself serious.	(1) The factors in (A) are relevant to whether P's conduct was serious. (2) The seriousness of the breach by B is relevant. The factors in (A) are also relevant to this. (3) A breach by B of certain requirements is always likely to be serious under (2). Breach of the *threshold conditions* is an example. However that does not mean that P's involvement will automatically be serious.
(C) Whether P's conduct involved dishonesty (whether or not also involving a criminal act).	Dishonesty is an important factor but it is not automatically decisive in every case. For instance, a small one-off case of dishonesty many years ago may not be sufficiently serious to require disclosure.
(D) Whether the conduct would have resulted in B's dismissing P, had P still been working for B, based on B's disciplinary policies and the requirements of the law about unfair dismissal.	
(E) Whether the conduct was such that, if B was considering P for a role today and became aware of the historical conduct, B would not employ P today notwithstanding the time that has passed.	
Note 1: P refers to the *employee* about whom the reference is being written.	
Note 2: B refers to the *firm* giving the reference.	

Agreements not to disclose information

SYSC 22.5.13 R

A *firm* must not enter into any arrangements or agreements with any *person* that limit its ability to disclose information under this chapter.

SYSC 22.5.14 G

SYSC 22.5.13R covers all types of agreements and arrangements. For example:

(1) it is not limited to an agreement or arrangement entered into when the *employee* leaves;

(2) it applies however the *employment* ends (see *SYSC 22.5.7G*); and

(3) it covers a "COT 3" Agreement settled by the Advisory, Conciliation and Arbitration Service (ACAS).

SYSC 22.5.15 G A *firm* should not give any undertakings to supress or omit relevant information in order to secure a negotiated release.

SYSC 22.5.16 G The obligation to supply information to another *firm* under this chapter will apply notwithstanding any agreement prohibited by *SYSC 22.5.13R*.

Time in which to respond to reference requests

SYSC 22.5.17 G The *FCA* expects that normally a *firm* should issue a reference under this chapter within 4 weeks of being asked to.

Duty to investigate allegations

SYSC 22.5.18 G

(1) A *firm* should, wherever feasible, conclude investigative procedures before the *employee* departs.

(2) However, this chapter does not create a duty to investigate alleged misconduct by an *employee* or former *employee*.

(3) There are several reasons why a *firm* may find it appropriate to investigate potential misconduct by an *employee* or former *employee*, including:

1. (a) assessing the actual and potential damage resulting from misconduct;
2. (b) identifying other individuals potentially culpable or accountable for the breach;
3. (c) satisfying itself that the *SMF manager* responsible for the areas where the misconduct occurred took reasonable steps to prevent or stop it; and
4. (d) (where the *employee* has *remuneration* susceptible to malus or clawback) enabling it to consider whether any adjustments are justified.

(4) See more about incomplete investigations in *SYSC 22.5.2G* (Verification).

Criminal record checks

SYSC 22.5.19 G A *firm* giving a reference need not include information from a criminal records check it has carried out under *Part V* of the Police Act 1997 (Certificates of Criminal Records, &). The recruiting *firm* should carry out a criminal records check itself if necessary. The main *FCA*

Handbook requirements on a recruiting *firm* to carry out a criminal records check are:

(1) *SUP 10C.10.16R* a *firm* should carry out such a check when appointing an *SMF manager*); and

(2) *SYSC 23.4* (Checks for certain directors).

Section : SYSC 22.6 Giving and updating references: additional rules and guidance

Omitting or supplementing mandatory disclosures

SYSC 22.6.1 G

(1) A *firm* may have concluded that an *employee* is unfit or has breached *COCON* or *APER* (as described in questions (E) to (F) of Part One of *SYSC 22 Annex 1R* (Template for regulatory references given by SMCR firms and disclosure requirements)). The *firm* may later become aware of facts or matters causing it to revise its original conclusions.

(2) If so, the *firm* may decide not to disclose in a reference its conclusion or may qualify its conclusion with supplementary information.

SYSC 22.6.2 G

(1) A *firm* may have concluded that an *employee* is unfit or has breached *COCON* or *APER* (as described in questions (E) to (F) of Part One of *SYSC 22 Annex 1R* (Template for regulatory references given by SMCR firms and disclosure requirements)). However the *firm* may consider that the disclosure is incomplete without including mitigating circumstances.

(2) For example, if the *firm* is reporting a breach of *COCON* it may consider that the breach is very uncharacteristic of the *employee* and that they have had an exemplary record since then. In that case, the *firm* should include those views.

Requirement to consider whether there has been a conduct breach

SYSC 22.6.3 G

(1) If a *firm* has taken disciplinary action of the type referred to in question (F) in Part One of *SYSC 22 Annex 1R* (Template for regulatory references given by SMCR firms and disclosure requirements) against an *employee* and is asked to give a reference about that *employee*, the *firm* should (if it has not already done so) consider whether the basis on which it took that action amounts to a breach of any individual conduct requirements covered by question (F).

(2) If the *firm* decides that the basis on which it took that action does amount to a breach of those requirements, it should include that disciplinary action in the reference under question (F).

(3) Paragraph (2) applies even if the grounds of the disciplinary action did not include such a breach of individual conduct requirements.

(4) The requirement in (1) is disapplied for disciplinary action taken before certain specified dates, where a *firm's* records do not record whether previous conduct subject to disciplinary action amounted to a breach. The date differs between different types of *firms*. *SYSC TP 5* and *SYSC TP 7* set out those specified dates and other details.

(5) The obligation to consider whether there was a conduct breach does not mean that there is a wider duty to investigate whether there are facts that show that there has been a conduct breach (see *SYSC 22.5.18G*).

SYSC 22.6.3A G If an *employee* has breached *COCON* but the *firm* has not taken disciplinary action of the type referred to in question F in Part One of *SYSC 22 Annex 1R* (Template for regulatory references given by SMCR firms and disclosure requirements), the *firm*:

(1) should not report that breach in the answer to question F;

(2) need not report that breach in the answer to question G (or anywhere else in the reference) if the *firm* reasonably considers it not to be relevant to the assessment by the *firm* asking for the reference of whether the individual is fit and proper; and

(3) should include it in the answer to question G if it would be reasonable to consider that it is relevant to that assessment.

All relevant information: Interaction with mandatory disclosures

SYSC 22.6.4 G (1) *SYSC 22.2.2R(1)* to (3) may require a *firm* to disclose information that goes beyond the mandatory minimum information in Part One of *SYSC 22 Annex 1R* (Template for regulatory references given by SMCR firms and disclosure requirements).

(2) This may mean, for instance, that a *firm* should in some cases disclose a conclusion that an *employee* or former *employee* has breached *COCON* or *APER* where that conclusion was reached outside the time limits in Part One of *SYSC 22 Annex 1R*.

Updating references fairly

SYSC 22.6.5 G (1) *SYSC 22.5.1R* to *SYSC 22.5.5G* (Verification, accuracy and fairness) also apply to updating a reference under *SYSC 22.2.4R*.

(2) Therefore fairness may require a *firm* to have given an *employee* an opportunity to comment on an allegation if it is included in an update to a reference.

Section : SYSC 22.7 Getting references: additional rules and guidance for SMCR firms

Who should be asked to give a reference

SYSC 22.7.3 G

The *Glossary* definition of *employer* covers more than just a conventional employer and so it may not always be obvious who a *person's employer* is. Therefore a *firm* appointing someone to a position that requires a reference may have to get the *employee's* help in identifying their previous *employers*.

SYSC 22.7.4 G

(1) *SYSC 22.2.1R* (Obligation to obtain a reference) applies even if the ex-*employer* is not a *firm*.

(2) A *firm* should take all reasonable steps to try to obtain the reference in these circumstances. However, the *FCA* accepts that the previous *employer* may not be willing to give sufficient information.

Asking for a reference to be updated

SYSC 22.7.5 G

(1) *SYSC 22.2.1R* (Obligation to obtain references) applies even if the *employer* has already got a reference for the *employee*. For example:

1. (a) a *firm* should have a reference whenever it renews the certificate of a *certification employee*; and
2. (b) changing jobs within the same *firm* may require a reference.

(2) However, the *firm* does not necessarily need to obtain a new reference each time (a) or (b) above occurs. That is because an existing reference will very often still be appropriate for the purpose (see *SYSC 22.7.6G* to *SYSC 22.7.8G* and *SYSC 22.8A.3G* (Intra-group transfers)).

SYSC 22.7.6 G

If a *firm* (A):

(1) appoints someone (P) to a *certification function* position;

(2) obtains a reference from an ex-*employer*; and

(3) later wishes to renew P's certificate under the certification regime;

it is unlikely that A will need to ask for another reference from that ex-*employer* or ask for it to be reissued unless there is a change in P's role of the type described in *SYSC 27.2.15G* (major changes in role).

SYSC 22.7.7 G

(1) If a *firm* (A):

1. (a) appoints someone (P) to a position that requires A to obtain a reference about P (a 'reference position');
2. (b) obtains a reference from an ex-*employer* (B); and

3. (c) later wishes to:

1. (i) appoint P to another reference position; or

2. (ii) (in the case of a *certification function*) keep P in the same *certification function* but make a change in P's role of the type described in *SYSC 27.2.15G* (major changes in role), whether that change is made at a time when the certificate has not yet come up for renewal or at the time it is being reissued; or

3. (iii) move P from one kind of reference position to another kind (for example, from a *certification function* to an *approved person* position or vice versa),

4. A should consider whether to ask B to reissue or amend its reference.

(2) A may decide that it is not necessary to ask B to reissue or amend its reference. For example, A may decide that:

(a) the existing reference already covers everything necessary; or

(b) (where B is not a *firm*) B will not give any further information.

When references are to be obtained

SYSC 22.7.9 G

If a *firm* is unable to obtain a reference by the time in column two of the table in *SYSC 22.2.3R*, it should still try to obtain the reference as soon as possible afterwards.

SYSC 22.7.10 G

(1) Where a *firm* needs to fill a vacancy for a *certification function* which could not have reasonably been foreseen, the *FCA* recognises that it may not be reasonable to expect the *firm* to obtain references prior to issuing a certificate.

(2) In such cases, the *SMCR firm* should take up the reference as soon as reasonably possible.

(3) If a reference obtained later raises concerns about the person's fitness and propriety, the *firm* should revisit its decision to issue the person with a certificate.

SYSC 22.7.11 G

(1) Although this chapter (see *SYSC 22.2.3R*) only requires a *firm* to try to get a reference for a *person* it is recruiting to perform an *FCA controlled function* or a *PRA controlled function* towards the end of the application process, the *FCA* would normally expect a *firm* to have obtained the reference before the application for approval is made.

(2) The main examples of circumstances in which it would be reasonable for a *firm* to delay getting a reference are where asking for a reference earlier will create a serious risk of:

(a) breaching the confidentiality of a wider commercial or corporate transaction;

(b) prematurely triggering the need for a public announcement; or

(c) the *candidate* not applying for the position in the first place because it would reveal to the *candidate's* current *employer* the proposed move too soon.

(3) The *FCA* may consider that it needs to see the information in a reference before it reaches a decision. If so, it may formally ask for that information and extend the time period in which it has to make its decision until it gets the reference. *SUP 10C.10.28G* gives additional details about requests for further information and the effect they have on the period of time the *FCA* has to make a decision about an application.

(4) *Firms* are reminded that the *Act* itself requires a *firm* to be satisfied that a *candidate* is fit and proper before it makes an application for approval (see *SUP 10C.10.14G* for more detail). *SYSC 22.7.11G(2)* does not affect that obligation.

Overseas employer

SYSC 22.7.12 G

While a *firm* should take reasonable steps to obtain information from an *overseas employer*, the *FCA* will take into account any demonstrable and relevant legal impediments when assessing whether a *firm* is complying with the requirement to obtain a reference. Evidence of these legal constraints may include, but is not limited to, relevant correspondence with the *overseas employer* or a legal opinion setting out the applicable legal restrictions in a given jurisdiction.

Section : SYSC 22.8 Policies and requests for references from and by persons who are not firms

Policies and procedures

SYSC 22.8.1 R

A *firm* must establish, implement and maintain policies and procedures that are adequate for the purpose of complying with the obligations in this chapter.

SYSC 22.8.2 G

(1) *SYSC 22.8.1R* does not require a *firm* to create or keep records that are not required under *SYSC 22.9.1R* (General record keeping rules) or another *rule*.

(2) (1) applies to a *firm* whether or not *SYSC 22.9.1R* applies to it.

Appointed representatives

SYSC 22.8.3 R

This chapter applies:

(1) in relation to a *firm's appointed representatives* as well as to the *firm*; and

(2) to a *firm* asked to give a reference by or on behalf of an *appointed representative* and to a *firm* obtaining a reference from an *appointed representative*,

and must be interpreted with the necessary adjustments.

SYSC 22.8.4 R

There is no requirement that an *appointed representative* meet the following requirements:

(1) *SYSC 22.2.1R* (Obligation to obtain references);

(2) *SYSC 22.2.2R(4)* (Obligation to give references);

(3) *SYSC 22.2.4R* to *SYSC 22.2.6R* (Obligation to revise references);

(4) *SYSC 22.4.2R* (How to draft the reference);

(5) *SYSC 22.8A.1R* (Intra-group transfers); and

(6) *SYSC 22.9.1R* (General record keeping rules).

SYSC 22.8.4A R

(1) The *approved person's authorised approved person employer* is responsible for compliance with *SYSC 22.8.3R* in the case of a requirement:

(a) to give a reference about an *approved person* whose approval is under *SUP 10A* (FCA Approved Persons in Appointed Representatives); and

(b) [deleted]

(c) under *SYSC 22.2.7R* in relation to any such *person*.

(2) In any other case, each *principal* of the *appointed representative* in question is responsible for compliance with *SYSC 22.8.3R*.

(3) If another *principal* of the *appointed representative* has accepted responsibility for the obligation in *SYSC 22.8.3R*, that *principal* is responsible in place of the other *firms* in (1) or (2).

SYSC 22.8.5 G

(1) This provision explains the effects of *SYSC 22.8.4R*.

(2) When an *appointed representative* appoints an *approved person* under *SUP 10A*

(FCA Approved Persons in Appointed Representatives) there is no requirement for the *appointed representative* to request a reference or to use the intra-group information procedures in *SYSC 22.8A.1R* (Intra-group transfers).

(3) There is no requirement for the *appointed representative* to disclose the information in questions A to F of Part One of *SYSC 22 Annex 1R* (Template for regulatory references given by SMCR firms and disclosure requirements) when giving a reference under this chapter and there is no obligation for a *firm* requesting a reference from the *appointed representative* to ask for this information.

(4) However, an *appointed representative* should give the information required by *SYSC 22.2.2R(2)* (Obligation to give references) and a *firm* should seek such information from an *appointed representative*.

(5) There is no requirement under this chapter for the *appointed representative* to update under *SYSC 22.2.4R* references it has given.

(6) There is no requirement for the *appointed representative* to use the template in Part One of *SYSC 22 Annex 1R* (Template for regulatory references given by SMCR firms and disclosure requirements) when giving a reference under this chapter.

(7) There is no requirement for the *appointed representative* to comply with *SYSC 22.9.1R* (General record keeping rules).

(8) For the sake of simplicity, this provision refers to what an *appointed representative* should do and need not do. Technically, such references are to what the *principal* of an *appointed representative* should ensure that its *appointed representative* does and what it need not ensure it does.

SYSC 22.8.5A G This chapter does not apply in relation to an *appointed representative* of a *firm* that is not an *SMCR firm*.

SYSC 22.8.6 G

(1) A *firm* should ensure that its *appointed representative* gives a reference when another *firm* (or its *appointed representative*) asks that *appointed representative* to give a reference in accordance with this chapter.

(2) A *firm* is not responsible for its *appointed representative's* giving references if another *principal* has accepted responsibility for this.

(3) The *appointed representative* need not give the reference using the template in *SYSC 22 Annex 1* (Template for regulatory references given by SMCR firms and disclosure requirements).

SYSC 22.8.6A G If an *appointed representative* asks a *firm* for a reference, the *firm* should give one. The requirements of this chapter apply to the *firm* in the same way as they would if the *appointed representative* were a *firm*.

SYSC 22.8.10 G

(1) A *firm* should try to ensure that its *appointed representative* considers whether it needs to disclose a breach of individual conduct requirements (as defined in Part Two of SYSC 22 Annex 1R (Template for regulatory references given by SMCR firms

and disclosure requirements)) when giving a reference under this chapter.

(2) Therefore an example of information that may be relevant under *SYSC 22.2.2R(1)* to *(3)* is the fact that the *employee* has breached a requirement in *APER*, not just a requirement in *COCON*.

Firms applying for authorisation

SYSC 22.8.11 R

This chapter applies to a *firm* asked to give a reference by a *person* who:

(1) is applying to be *authorised*; and

(2) will be an *SMCR firm* if it is *authorised*,

in the same way as it does to a request by a *firm* and must be interpreted with the necessary adjustments.

SYSC 22.8.12 G

(1) This provision describes the main adjustments to the *rules* in this section where *SYSC 23.8.11R* applies.

(2) The first column of row (A) of the table in *SYSC 22.2.3R* (Table: What positions need a reference) should be read as referring to what will be an *FCA controlled function* or a *PRA controlled function* if the *person* is *authorised*.

(3) The first column of row (B) of the table in *SYSC 22.2.3R* should be read as referring to issuing a certificate if the *person* is *authorised*.

(4) Rows (C) and (D) of the table in *SYSC 22.2.3R* only apply if the *person* to be appointed as described in the first column will fall into the relevant category if the *person* is *authorised*.

(5) Row (C) of the table in *SYSC 22.2.3R* only applies if the *person* applying for *authorisation* will be a *PRA-authorised person* if the *person* is *authorised*. Row (D) of that table only applies if the *person* applying for *authorisation* will be a *firm* of the type described in the 'Comments' column of that row if the *person* is *authorised*.

(6) *SYSC 22.2.4R* and *SYSC 22.2.5R* (Obligation to revise references: The main rule) are adjusted so that where A was an *unauthorised person* when B gave the reference, B does not need to update A if A is not a *firm* and its application for *authorisation* has been withdrawn or determined. A and B refer to A and B as referred to in that *rule*.

(7) *SYSC 22.2.7R* (Obligation to revise references: Finding out who the current employer is) applies even though A (as referred to in that *rule*) was given a reference at a time when it was not a *firm*.

(8) *SYSC 22.8.3R* applies and so:

(a) a *principal* should ensure that its *appointed representatives* give a reference if asked to by a *person* applying to be *authorised*; and

(b) this chapter applies to references requested by or on behalf of someone who will be an *appointed representative* of the *person* concerned if that *person* is *authorised*.

Section : SYSC 22.8A Groups and outsourcing

Intra-group transfers

SYSC 22.8A.1 R

(1) This *rule* applies when:

(a) a *firm* (A) would otherwise have to ask another *person* (B) for a reference under *SYSC 22.2.1R*; and

(b) A and B are in the same *group*.

(2) A need not ask for a reference from B if there are adequate arrangements in place under which A has access to the same information sources as B to the extent that they are relevant to things A has to ask B under *SYSC 22.2.1R* (Obligation to obtain references).

(3) If A only has access to some of the information sources in (2), A may ask for a reference that only covers the sources to which A does not have such access.

(4) If A, in accordance with this *rule*, does not ask for a reference or a full reference it must access the information resources referred to in this *rule* and get the relevant information within the time specified by *SYSC 22.2.3R*.

SYSC 22.8A.2 G

(1) *SYSC 22.8A.1R* means that a *firm* recruiting someone from another member of its *group* is not required to request a reference from the other where the *group* has centralised records or alternative measures in place to ensure sharing of relevant information between its members.

(2) The recruiting *firm* should be satisfied that the centralised or alternative measures ensure relevant information is made available as part of the fit and proper assessment of the recruit.

SYSC 22.8A.3 G

If:

(1) a *firm* (A) appoints someone (P) to a position that requires P to obtain a reference (a 'reference position');

(2) A obtains a reference from an ex-*employer* (B);

(3) later P transfers to a reference position with an *SMCR firm* in A's *group* (C);

(4) B's reference is:

1. (a) addressed to all *firms* in A's *group*; or
2. (b) otherwise drafted so that it is clear that C may rely on it; and

(5) C does not need to ask for the reference to be reissued or amended, taking account of *SYSC 22.7.6G* and *SYSC 22.7.7G*;

C may be able to rely on that reference without asking B to give another one.

Getting and giving a reference where the employee has worked in a group or on secondment

SYSC 22.8A.4 G

If:

(1) a *firm* (A) is thinking of employing someone (P);

(2) P is *employed* by a group services company (D) that is not a *firm*;

(3) P (in their capacity as an *employee* of D) performs a function or service for a *firm* (B) in the same *group* as D such that P is also an *employee* of B; and

(4) A intends to appoint (P) to a position that entitles A to obtain a reference from B;

then:

(5) A should ask both B and D for a reference;

(6) B is obliged to give the reference if A asks it to;

(7) B should ask D to provide it with the information needed to provide a reference in accordance with this chapter;

(8) D may give a reference but (as it is not a *firm*) it is not obliged to; and

(9) D and B may give a single joint reference.

SYSC 22.8A.5 G

SYSC 22.8A.4G also applies where:

(1) D is not in the same *group* but has seconded P to B; and

(2) P (in their capacity as an *employee* of D) performed any function or services for B such that P was also an *employee* of B.

SYSC 22.8A.6 G

If:

(1) a *firm* (A) is thinking of appointing someone (P) to a position that entitles A to obtain a reference from another *firm* (B); and

(2) P was an *employee* of other members of B's *group* as well as of B;

then:

(3) A should ask all the group members that *employed* P for a reference;

(4) B should give a reference if A asks it to;

(5) P's *employers* in that group (including any that are not *firms*) may give a single joint reference; and

(6) if the reference is being provided on a consolidated group basis, it should be clear what information is relevant to which *employer* within the *group*.

Section : SYSC 22.9 Records and transitionals

General record keeping rules

SYSC 22.9.1 R

(1) A *firm* must arrange for orderly records to be created and kept that are sufficient to enable it to comply with the requirements of this chapter.

(2) This *rule* only applies to records in relation to the following questions in Part One of *SYSC 22 Annex 1R* (Template for regulatory references given by SMCR firms and disclosure requirements):

(a) question (E) (fit and proper); and

(b) question (F) (disciplinary action).

Time limit for records to be kept

SYSC 22.9.2 G

SYSC 22.9.1R does not have an express time limit for which a *firm* should retain the records as its effect is that those time limits are the same as the time limits in *SYSC 22 Annex 1R* (Template for regulatory references given by SMCR firms and disclosure requirements).

Reduction in disclosure obligations where there are limited record keeping requirements

SYSC 22.9.3 R

A *firm* does not breach the requirements of this chapter by failing to include information in a reference that it would otherwise have to include if:

(1) the reason for the omission is that the *firm* does not have the necessary records; and

(2) neither *SYSC 22.9.1R* nor any other requirement of or under the *regulatory system* requires the *firm* to have those records.

SYSC 22.9.4 G

If a *firm* is asked to give a reference in circumstances where the record keeping requirements in *SYSC 22.9.1R* do not apply:

(1) it is still required to give the reference;

(2) it should give the reference based on the records it does have; and

(3) it will not breach the requirements of this chapter by failing to include information in a reference if the reason for this is that it does not have the necessary records, as long as it is not required to have those records by some other requirement in the *Handbook* outside this chapter or some other requirement of or under the *regulatory system*.

Effect of previous record keeping requirements

SYSC 22.9.5 G

(1) *SYSC 22.9.1R* applies to keeping records created before the date this chapter came into force as well as ones created afterwards.

(2) A *firm* does not breach the requirements of this chapter by failing to include something in a reference or by failing to have records because it destroyed the relevant records before the date this chapter came into force in accordance with the

record keeping requirements applicable to it at the time of destruction.

(3) (1) also applies to records created before this chapter (or the relevant provision of this chapter) first applied to the *firm*.

(4) (2) also applies if the *firm* destroyed the records before this chapter (or the relevant provision of this chapter) first applied to it.

Transitionals

SYSC 22.9.6 R

If:

(1) a *firm* (A) asks a *person* (B) who is not an *SMCR firm* for a reference;

(2) B then becomes an *SMCR firm*; and

(3) B gives the reference after it becomes an *SMCR firm*;

the requirements in this chapter apply to B when giving the reference.

SYSC 22.9.7 G

If a *firm* gives a reference after it becomes an *SMCR firm*, the requirements of this chapter apply even if the matters covered by the reference occurred before then.

SYSC 22.9.8 G

SYSC 22.2.4R (Obligation to revise references) does not apply to a reference that a *firm* gave before it became an *SMCR firm*.

Section : SYSC 22 Annex 1 Template for regulatory references given by SMCR firms and disclosure requirements

SYSC 22 Annex 1.1 R

Part One: Form of Template

Guide to using this template:
Each question must be answered. Where there is nothing to disclose, this should be confirmed by ticking the "No" box for the relevant question.
In this template:
• "we" / "our firm" refers to the firm or firms giving the reference (as set out in either 1A or 1B below) ;
• "individual" refers to the subject of the reference (as set out in 2 below); and
• "your" refers to the firm requesting the reference (as set out in 3 below).

	Information requested	Response
1A	Name, contact details and firm reference number of firm providing reference; or	
1B	Names, contact details and firm reference numbers (where applicable) of group firms providing a joint reference	
2	Individual's name (i.e. the subject of the reference)	
3	Name, contact details and firm reference number of firm requesting the reference	
4	Date of request for reference	
5	Date of reference	

The answers to Questions A to F cover the period beginning six years before the date of your request for a reference and ending on the date of this reference

Question A	
Has the individual:	
	(1) performed a certification function for our firm; or
	(2) been an approved person for our

The answers to Questions A to F cover the period beginning six years before the date of your request for a reference and ending on the date of this reference

	firm.		
	Answer:		
	Yes		
	No		
Question B:			
Has the individual performed one or more of the following roles in relation to our firm:			
	(1) notified non-executive director;		
	(2) credit union non-executive director;		
	(3) key function holder (other than a controlled function); or		
	(4) board director.		
	Answer:		
	Yes		
	No		
Question C:			
If we have answered 'yes' to either Question A or B above, we set out the details of each position held below, including:			
	(1) what the controlled function, certification function or key function holder role is or was;		
	(2) (in the case of a controlled function) whether the approval is or was subject to a condition, suspension, limitation, restriction or time limit;		
	(3) whether any potential FCA governing function is or was included in a PRA controlled function; and		
	(4) the dates during which the individual held the position.		
	Answer:		
Question D:			
Has the individual performed a role for our firm other than the roles referred to in Questions A and B above:			
	Answer:		

The answers to Questions A to F cover the period beginning six years before the date of your request for a reference and ending on the date of this reference

	Yes		
	No		
If 'yes', we have provided summary details of the other role(s), e.g. job title, department and business unit, below.			
Question E:			
Have we concluded that the individual was not fit and proper to perform a function:			
	Answer:		
	Yes		
	No		
If 'yes' and associated disciplinary action was taken as a result, please refer to Question F below. If 'yes', and no associated disciplinary action was taken as a result, we have set out below the facts which led to our conclusion.			
Question F:			
We have taken disciplinary action against the individual that:			
	(1) relates to an action, failure to act, or circumstances, that amounts to a breach of any individual conduct requirements that:		
		(a) apply or applied to the individual; or (b) (if the individual is or was a key function holder, a notified non-executive director or a credit union non-executive director for your firm) the	

The answers to Questions A to F cover the period beginning six years before the date of your request for a reference and ending on the date of this reference

		individual is or was required to observe under *PRA* rules (including if applicable, *PRA* rules in force before 7 March 2016); or	
	(2) relates to the individual not being fit and proper to perform a function.		
	Answer:		
	Yes		
	No		
If 'yes', we have provided below a description of the breaches (including dates of when they occurred) and the basis for, and outcome of, the subsequent disciplinary action.			
Question G:			
Are we aware of any other information that we reasonably consider to be relevant to your assessment of whether the individual is fit and proper, taking into account in particular (but not exclusively) the factors listed in SYSC 22 Annex 2 in the FCA Handbook? This disclosure is made on the basis that we shall only disclose something that:			
	(1) occurred or existed:		
		(a) in the six years before your request for a reference; or (b) between the date of your request for the reference and the date of this reference; or	
	(2) is serious misconduct.		

The answers to Questions A to F cover the period beginning six years before the date of your request for a reference and ending on the date of this reference

	Answer:		
	Yes		
	No		
If 'yes', we have provided the relevant information below.			

SYSC 22 Annex 1.2 R

Part Two: Definitions used in Part One

Section One of Part Two of this annex defines terms used in this annex.

Section Two of Part Two of this annex modifies the meaning of certain requirements in Part One and has material about completing the template.

Section One: Meaning of certain terms and phrases

Defined term or phrase	Meaning
B	B refers to the *employer* or ex-*employer* giving the reference as defined in more detail in *SYSC 22.2.1R* and *SYSC 22.2.2R*.
P	P refers to the *employee* or ex-*employee* about whom the reference is given as defined in more detail in *SYSC 22.2.1R* and *SYSC 22.2.2R*.
A finding or conclusion by B that P was not fit and proper to perform a function (see questions (E) to (F) of the template)	This means a finding or conclusion by B where: (a) B assesses the continuing fitness and propriety of P as an *approved person* in accordance with the requirements of the *regulatory system*, including when carrying out this assessment under *section 63(2A)* of the *Act* (annual assessment of *approved persons* by an *SMCR firm*); or (b) B assesses the fitness and propriety of P when B is proposing to issue a certificate under *section 63F* of the *Act* (Certification of employees by *SMCR firms*) for P. Paragraph (b) applies whether the certificate is being issued for the first time or is being renewed.

Section One: Meaning of certain terms and phrases

Defined term or phrase	Meaning
Individual conduct requirements	Individual conduct requirements mean any of the following:
	(a) *COCON*; (b) *APER*; (c) the *PRA's* Individual Conduct Standards or Senior Manager Conduct Standards in: (i) Chapter 3 of the Part of the *PRA Rulebook* called Insurance – Conduct Standards; (ii) Chapter 3 of the Part of the *PRA Rulebook* called Large Non-Solvency II Firms – Conduct Standards; and (iii) Chapter 2 of the Part of the *PRA Rulebook* called Non-Solvency II firms - Conduct Standards; or (d) the *PRA's* Individual Conduct Rules or Senior Manager Conduct Rules in: (i) Chapters 2 and 3 of the Part of the *PRA Rulebook* called *CRR* Firms: Conduct Rules; and (ii) Chapters 2 and 3 of the Part of the PRA Rulebook called Non-*CRR* Firms: Conduct Rules.
Function (as referred to in questions (E) to (F))	A function means a function as an *approved person* or *certification employee*.
Disciplinary action	Disciplinary action has the same meaning as in *section 64C(2)* of the *Act* (Requirement for authorised persons to notify regulatory of disciplinary action), which is: (a) the issue of a formal written warning; or (b) the suspension or dismissal of P; or (c) the reduction or recovery of any of P's remuneration. This definition applies even if B is not

Section One: Meaning of certain terms and phrases	
Defined term or phrase	**Meaning**
	an *SMCR firm*.
Notified non-executive director, credit union non-executive director and key function holder	These terms have the same meaning as they do in the *PRA Rulebook*.
Certification function, approved person, controlled function and PRA controlled function	These terms have the same meaning as they do in the *Glossary*.
Board director	Non-SMF board director, as defined in the *Glossary*.
Potential FCA governing function	Potential FCA governing function means a function: (a) that would have been an *FCA controlled function* but for: (i) *SUP 10A.11* (Minimising overlap with the PRA approved persons regime) (when that section was in force); or (ii) *SUP 10C.9* (Minimising overlap with the PRA approved persons regime); (b) but instead is included in a *PRA controlled function* under the parts of the *PRA Rulebook* listed in *SUP 10C.9.6G*.
Section Two: Supplementary requirements	
Item of template for which supplemental requirements apply	Supplemental requirements
Questions (E) and (F)	If: (a) the finding or disciplinary action was reached or taken by another member of B's *group* with the authority to do so; and (b) the finding or disciplinary action relates to conduct by P relating to the carrying on of activities (whether or not *regulated activities*) by B; this question applies to such finding or disciplinary action in the same way as it does to findings or disciplinary action made or taken by

Section One: Meaning of certain terms and phrases

Defined term or phrase	Meaning
	the *firm* itself.
Question (F)	This question is subject to *SYSC TP 5.4.5R* and *SYSC TP 7.4.4R* (where there is no need to disclose disciplinary action that took place before certain dates if the *firm's* records do not show whether there was a breach of individual conduct requirements).
The whole of Part One of this annex	The template to be used by a *firm* in giving a reference consists of everything in Part One of this annex except for the "Guide to using this template" paragraph.

Section : SYSC 22 Annex 2 Factors to take into account when asking for and giving regulatory references

SYSC 22 Annex 2 R

Matters to take into account	Comments
(A) Any outstanding liabilities of that person from commission payments	
(B) Any relevant outstanding or upheld complaint from an *eligible complainant* against P	
(C) [deleted]	
(D) *FIT 2* (Main assessment criteria)	
(E) The persistency of any life policies sold by P	This only applies if *SUP 16.8.1G(1)* (Persistency reports from insurers) applies to B
Note: P refers to the *employee* or ex-*employee* about whom the reference is given as defined in more detail in *SYSC 22.2.1R* and *SYSC 22.2.2R*.	

CHAPTER

SYSC 23 Senior managers and certification regime: Introduction and classification

Section : SYSC 23.1 Purpose

SYSC 23.1.1 G

The purpose of this chapter is to:

(1) explain what the senior managers and certification regime is and where to find the main *FCA Handbook* provisions;

(2) define which *firms* the regime applies to;

(3) define the different kinds of *SMCR firm*; and

(4) require certain *firms* to carry out criminal record checks before appointing certain *board directors*.

Section : SYSC 23.2 Definitions and types of firms

SYSC 23.2.1 R

SYSC 23 Annex 1R (Definition of SMCR firm and different types of SMCR firms) defines:

(1) what an *SMCR firm* is; and

(2) what the different types of *SMCR firm* are.

SYSC 23.2.2 G

Broadly speaking, *firms* covered by the senior managers and certification regime that are dual-regulated by the *FCA* and the *PRA* are divided into two categories:

(1) Banks and deposit-takers. They are called *SMCR banking firms*.

(2) Insurers. They are called *SMCR insurance firms*.

SYSC 23.2.3 G

Broadly speaking, *firms* covered by the senior managers and certification regime that are regulated by the *FCA* are divided into three categories:

(1) *Firms* regulated by the *FCA* that do not fall into (2) or (3). They are called *core SMCR firms*. A large number of *firms* will be in this category.

(2) Certain large *firms*. These are called *enhanced scope SMCR firms*. Relatively few *firms* fall into this category.

(3) *Firms* whose business is limited to certain types. These are called "*limited scope SMCR firms*". A large number of *firms* will be in this category. The main examples are:

(a) *limited permission* consumer credit *firms*;

(b) an *authorised professional firm* whose only *regulated activities* are *non-mainstream regulated activities*;

(c) internally managed *AIFs*;

(d) *firms* whose main business is not regulated and whose regulated business is (with limited exceptions) restricted to *insurance distribution activity* in relation to *non-investment insurance contracts*;

(e) a *firm* that only has *regulated claims management activities* in its *permission*;

(f) a *firm* that only has *permission* for benchmark activities and has the benefit of a *waiver* treating it as a *limited scope SMCR firm* as described in *SYSC 23 Annex 1* 6.12R (Benchmark firms: Waiver applying limited scope status);

(g) a *firm* that only has *permission* for *funeral plan distribution*; and

(h) a *firm* that only has *permission* for *regulated pensions dashboard activity* and, if applicable, *making arrangements with a view to transactions in investments*, which has a *limitation* to activities that are *post-view services* as permitted under *PDCOB 12*.

Section : SYSC 23.3 Overview of the senior managers and certification regime

SYSC 23.3.1 G There are three main elements to the regime:

(1) the senior managers regime;

(2) the certification regime; and

(3) conduct rules that apply directly to a *firm's* workforce.

SYSC 23.3.2 G The table in *SYSC 23.3.3G* gives more details about each of those three elements. The first two columns of the table apply to all *firms*. The third column only covers *firms* that are not regulated by the *PRA*.

SYSC 23.3.3 G Table: Summary of the senior managers and certification regime

(1) Description of component of the regime	(2) Handbook provisions	(3) Application to solo-regulated firms
The senior managers regime: Parts that apply to all firms		
Pre-approval by the *FCA* of senior management (the *FCA Handbook* calls senior management subject to pre-approval *SMF managers*)	*SUP 10C*	Applies to all solo-regulated *firms*
Firm to be satisfied that a person is fit and proper before applying for them to be approved as an *SMF manager* by the *FCA* or *PRA*	This requirement is in *section 60A* of the *Act*. There is *guidance* on it in *SUP 10C.10.14G* (Vetting of candidates by the firm).	Applies to all solo-regulated *firms*
Annual assessment of fitness and propriety by the *SMF managers' firms*	This requirement is in *section 63(2A)* of the *Act*. There is *guidance* and related notification obligations in *SUP 10C.14.18R* to *SUP 10C.14.25G* (Notifications about fitness, disciplinary action and breaches of COCON).	Applies to all solo-regulated *firms*
A *firm* should carry out criminal records checks before applying for someone to be approved as an *SMF manager*, with certain exceptions described in	*SUP 10C.10.16R* (Criminal records checks and verifying fitness and properness)	Applies to all solo-regulated *firms* except for a *sole trader* without employees

(1) Description of component of the regime	(2) Handbook provisions	(3) Application to solo-regulated firms
the *rule* referred to in column (2) of this row where the *firm* has already done a check or in the case of a *sole trader*		
A *firm* should ask for a regulatory reference before appointing someone to be an *SMF manager*, or to certain other senior management positions, and give one if asked to by another *firm* doing so	*SYSC 22* (Regulatory references)	Obligation to give a reference applies to all solo-regulated *firms*. Obligation to ask for one applies to all solo-regulated *firms* except for a *sole trader* without employees.
Statements of responsibilities This is a document that sets out the responsibilities that an *SMF manager* performs as part of their *designated senior management function*. It is prepared as part of the *firm's* application to the *FCA* or (if the *firm* is a *PRA-authorised person*) PRA for them to be approved as an *SMF manager*. It should be updated after approval when there has been any significant change in the responsibilities of the *SMF manager*	*SUP 10C.11* (Statements of responsibilities). Many of the requirements are in the *Act* itself but they are summarised in *SUP 10C.11*. *SUP 10C.11* also adds some further requirements, particularly about there being one *statement of responsibilities* per *SMF manager* per *firm*.	Applies to all solo-regulated *firms*
Duty of responsibility This applies to *SMF managers* in all types of	This is dealt with in *section 66A(5)* of the *Act*.	Applies to all solo-regulated *firms*

(1) Description of component of the regime	(2) Handbook provisions	(3) Application to solo-regulated firms
firm.	There is *guidance* on this in *DEPP 6.2.9-AG* to *DEPP 6.2.9-FG*.	
The senior managers regime: Parts that apply to many firms		
A *firm* should allocate certain specified management responsibilities among its *SMF managers* The *FCA Handbook* calls them *FCA-prescribed senior management responsibilities*	*SYSC 24* (Senior managers and certification regime: Allocation of prescribed responsibilities)	Does not apply to a *limited scope SMCR firm*. Applies to a *core SMCR firm* and an *enhanced scope SMCR firm*.
A *firm* solo-regulated by the *FCA* should: (1) only appoint someone as a *board director* who does not need approval as an *SMF manager* for the position if they are fit and proper for that role; and (2) carry out criminal records checks before making the appointment	*SYSC 23.4* (Checks for non-executive directors)	Does not apply to a *limited scope SMCR firm*. Applies to a *core SMCR firm* and an *enhanced scope SMCR firm*.
The senior managers regime: Parts that only apply to a limited range of firms		
A *firm* should maintain a comprehensive and up-to-date *document* (called the *management responsibilities map*) that describes its management and governance arrangements	*SYSC 25* (Senior managers and certification regime: Management responsibilities maps and handover procedures and material)	Does not apply to a *limited scope SMCR firm* or a *core SMCR firm*. Applies to an *enhanced scope SMCR firm*.
A *firm* should ensure that, at all times, one or more of its *SMF managers* have overall responsibility for each of the activities,	*SYSC 26* (Senior managers and certification regime: Overall and local responsibility)	Does not apply to a *limited scope SMCR firm* or a *core SMCR firm*. Applies to an *enhanced*

(1) Description of component of the regime	(2) Handbook provisions	(3) Application to solo-regulated firms
business areas and functions of the *firm*.		*scope SMCR firm*.
A *firm* should ensure that a person becoming an *SMF manager* has all the information and material that they could reasonably expect to have to perform their responsibilities	*SYSC 25.9* (Handover procedures and material)	Does not apply to a *limited scope SMCR firm* or a *core SMCR firm*. Applies to an *enhanced scope SMCR firm*.
A retail intermediary *firm* should check whether it meets the financial criteria for being an *enhanced scope SMCR firm* and report to the *FCA* when it meets those criteria for the first time or ceases to meet them.	*SUP 15.15* (Notification by retail intermediaries of qualifying as an enhanced scope SMCR firm)	Only applies to certain *UK* retail intermediaries. The full details of who this covers are in *SUP 15.15*.
Firms should report changes to their *management body* when members who are not *SMF managers* leave or join it.	*SUP 15.16* (Notification of changes in the management body)	Only applies to a *MiFID investment firm* or a *MiFID optional exemption firm*.
A *firm* is required to maintain a clear and appropriate apportionment of significant responsibilities among its *directors* and *senior managers*	*SYSC 4.4* (Apportionment of responsibilities)	Applies to a *limited scope SMCR firm*, except for a *limited scope SMCR benchmark firm* Does not apply to most *core SMCR firms.* Does not apply to an *enhanced scope SMCR firm*.
A *limited scope SMCR benchmark firm* is required to report to the *FCA* certain changes in the split of its revenue between *regulated activities* and *unregulated activities*	*SUP 15.17* (Notification of regulated income by limited scope SMCR benchmark firm)	Only applies to a *limited scope SMCR benchmark firm*. Does not apply to any other *limited scope SMCR firm*. Does not apply to a

(1) Description of component of the regime	(2) Handbook provisions	(3) Application to solo-regulated firms
		core SMCR firm or an *enhanced scope SMCR firm*.
The senior managers regime: Parts outside the Handbook		
Criminal offence relating to a decision that causes a financial institution to fail. It applies to a *UK SMCR banking firm* but does not apply to a *credit union*. It does not apply to any *firm* that is not a *UK SMCR banking firm*.	This is contained in *section 36* of the Financial Services (Banking Reform) Act 2013	Does not apply to any solo-regulated *firm*
The certification regime		
A *firm* should not permit an *employee* to carry out certain functions (*certification functions*) unless it has issued them with a certificate. The certificate is only valid for a year. The *firm* will have to renew it if the *employee* is to carry on performing the function. A *firm* may not issue or renew a certificate unless it is satisfied that the *person* is fit and proper. Certification does not involve pre-approval by the *FCA* or *PRA*.	Most of the requirements of this regime are in sections 63E (Certification of employees by authorised persons) and 63F (Issuing of certificates) of the *Act*. *SYSC 27* (Senior managers and certification regime: Certification regime) describes the regime and explains which *employees* are covered.	Applies to all solo-regulated *firms* except for internally managed *AIFs* and *pure benchmark SMCR firms*. The certification regime does not apply to *benchmark activities*.
A *firm* should ask for a	*SYSC 22* (Regulatory	Applies to all solo-

(1) Description of component of the regime	(2) Handbook provisions	(3) Application to solo-regulated firms
regulatory reference before appointing someone to perform an *FCA certification function* (or a *PRA* equivalent) and give one if asked to by another *firm* doing so.	references)	regulated *firms*
A *firm* must report information to the *FCA* about its *Directory persons*, including its *certification employees*.	*SUP 16.26* (Reporting of information about Directory persons)	Applies to all solo-regulated *firms* except *pure benchmark SMCR firms*
Conduct rules (applies to all firms)		
Rules of conduct that apply directly to a *firm's* workforce other than ancillary staff	*COCON*	Applies to all solo-regulated *firms*
A *firm* should report breaches of *COCON* to the *FCA*	*Section 64C* of the *Act* (Requirement for authorised persons to notify regulator of disciplinary action) and *SUP 15.11* (Notification of COCON breaches and disciplinary action)	Applies to all solo-regulated *firms*
A *firm* should: (a) ensure that all *persons* subject to *COCON* are notified of the *rules* that apply to them; and (b) take all reasonable steps to ensure that they understand how *COCON* applies to them	These obligations are in section 64B of the Act (Rules of conduct: responsibilities of authorised persons). There is guidance in *COCON 2.3* (Firms: Training and breaches).	Applies to all solo-regulated *firms*

SYSC 23.3.4 G The *PRA* has requirements corresponding to the senior managers and certification regime that apply to *PRA-authorised persons*. The *FCA* and *PRAs'* regimes are designed to work together and complement each other. A *PRA-authorised person* will therefore need to consider the *PRA's* requirements to get a complete picture of the requirements that apply to it (and its workforce) in the area covered by the senior managers and certification regime

and the requirements in the *Act* on which it is based.

Section : SYSC 23.4 Checks for certain directors

SYSC 23.4.1 R

This section applies to a *UK SMCR firm* that is:

(1) an *enhanced scope SMCR firm*; or

(2) a *core SMCR firm*.

SYSC 23.4.1A R

A *firm* must not appoint a *person*, or permit them to act, as a *non-SMF board director* unless it is satisfied that that *person* is fit and proper to perform that role.

SYSC 23.4.2 R

A *firm* must (as part of its assessment of the fitness and propriety of any of its *non-SMF board directors* under *SYSC 23.4.1AR(P)*) obtain the fullest information that it is lawfully able to obtain about P under *Part V* of the Police Act 1997 (Certificates of Criminal Records, &c) and related subordinated legislation of the *United Kingdom* or any part of the *United Kingdom* before P's appointment as a *board director*.

SYSC 23.4.3 G

The *guidance* in *SUP 10C.10.17G*, *SUP 10C.10.18G* and *SUP 10C.10.21G* about criminal record checks for *candidates* to be an *SMF manager* applies to criminal record checks under this section.

SYSC 23.4.4 R

SYSC 23.4.2R does not apply if:

(1) the *person* to be appointed is already performing, and has approval for the performance of, a *designated senior management function* for the *firm* or another *firm* in the same *group*;

(2) the *person* to be appointed was performing, and had approval for the performance of, a *designated senior management function* for the *firm* or another *firm* in the same *group* within 1 *month* before the appointment; or

(3) the *firm* (A) has already carried out the check in *SYSC 23.4.2R* in relation to the appointment of the *person* as a *non-SMF board director* of a *firm* in the same *group* and the *person* concerned is still performing that role or was doing so within 1 *month* before the appointment to the position with A.

SYSC 23.4.5 R

A *firm* must, so far as it is reasonably able, ensure that the information it obtains under *SYSC 23.4.2R* is no older than 6 *months* as at the time the appointment takes effect.

Section : SYSC 23 Annex 1 Definition of SMCR firm and different types of SMCR firms

SYSC 23 Annex 1

Part One: Flow diagram and other basic provisions			
1.1	R	The flow diagram in *SYSC 23 Annex 1 1.2R* defines:	
		(1)	an *SMCR firm*; and
		(2)	the different categories of *SMCR firm*.
1.2	R	Flow diagram: Types of SMCR firm	

Note to the flow diagram

The categorisation in this flow diagram is subject to *SYSC 23 Annex 1 2.1R* and *SYSC 23 Annex 1 6.25R*.

1.3	R	A reference in this Annex to a *firm* having permission to carry on a particular *regulated activity* but no other *regulated activity* includes that *firm* also having *permission* for *agreeing to carry on a regulated activity* in respect of that first *regulated activity*.	
1.4	R	(1)	A Gibraltar-based firm (as defined in *GEN 2.3* (General saving of the Handbook for Gibraltar)) is treated as an *EEA PTV firm* for the purposes of deciding whether it is an *SMCR firm* and into which category of *SMCR firm* it falls. In particular, if it is an *SMCR firm*, it is to be treated as an *EEA SMCR firm*.
		(2)	(1) is without prejudice to the generality of *GEN 2.3*.

Part Two: Changing category			
2.1	R		If a *firm* is subject to a *requirement* that it must comply with the *rules* in the *FCA Handbook* applicable to one of the categories of *SMCR firm* set out in this Annex, it is to be treated as falling into that category of *SMCR firm* for all purposes.
2.2	G	(1)	The *FCA* may, on a case-by-case basis, require a *limited scope SMCR firm* or a *core SMCR firm* to comply with the requirements that apply to an *enhanced scope SMCR firm* if the *FCA* considers it appropriate to do so to advance one or more of its operational objectives under the *Act*.
		(2)	The most common example of a *requirement* described in *SYSC 23 Annex 1 2.1R* is likely to be one of the kind described in (1).
		(3)	One effect of *SYSC 23 Annex 1 2.1R* is that if a *firm* is moved from the *limited scope SMCR firm* or *core SMCR firm* category to the *enhanced scope SMCR firm* category, the *FCA-designated senior management functions* that will apply to it are the ones for *enhanced scope SMCR firms*.
2.3	G	(1)	In practice, it is unlikely that the procedure described in *SYSC 23 Annex 1 2.1R* will be used to move a *firm* from a category applicable to *PRA-authorised persons* to one applicable to *FCA-authorised persons* or vice versa.
		(2)	This is because the *FCA's* regime for *PRA-authorised persons* is designed on the basis that the *PRA's* regime also applies to those *firms* while the regime for *FCA-authorised persons* is designed on the basis that no *PRA* requirements apply.
2.4	G	(1)	Where a *firm* becomes or stops being an *enhanced scope SMCR firm* under the procedure described in *SYSC 23 Annex 1 2.1R*, the material in Parts 10 and 11 of this Annex about when the change of status becomes effective will not apply. Instead the timing will be dealt with in the variation of *permission*.
		(2)	If the variation does not specify the timing of the change, the change is likely to take effect when the variation does.
Part Three: Definition of exempt firm			
3.1	R		This part defines an exempt firm for the purposes of the flow diagram in Part One of this Annex.
3.2	R		An *overseas firm* is an exempt *firm* if it:
		(1)	does not have; and
		(2)	does not have an *appointed representative* that has;
			an establishment in the *United Kingdom*.
3.3	R		An *EEA PTV firm* that is a *pure reinsurer* is an exempt firm.
3.4	R		[deleted]

3.5	R	A *TP UCITS qualifier* is an exempt firm.				
3.6	R	[deleted]				
3.7	R	[deleted]				
3.8	G	As explained in *SYSC TP 8.2.1R*, certain claims management *firms* are excluded from being *SMCR firms* and treated as exempt under this Part.				
Part Four: Definition of banking sector						
4.1	R	A *firm* is in the banking sector for the purposes of the flow diagram in Part One of this Annex if the *firm* meets the conditions in *SYSC 23 Annex 1 4.2R*, *SYSC 23 Annex 1 4.4R* or *SYSC 23 Annex 1 4.6R*.				
4.2	R	A *firm* is in the banking sector for the purposes of the flow diagram in Part One of this Annex if it is an institution that meets the following conditions:				
		(1)	it is incorporated in, or formed under the law of any part of, the *United Kingdom*;			
		(2)	it is not an institution authorised under the *Act* to carry on the *regulated activity* of *effecting contracts of insurance* or *carrying out contracts of insurance*; and			
		(3)	it meets one of the following conditions:			
			(a)	its *Part 4A permission* includes *accepting deposits*; or :		
			(b)	it meets all the following conditions:		
				(i)	the institution is an *investment firm*;	
				(ii)	its *Part 4A permission* covers *dealing in investments as principal*; and	
				(iii)	when carried on by it, that activity is a *PRA-regulated activity*.	
4.3	R	An *SMCR banking firm* in *SYSC 23 Annex 1 4.2R* is a *UK SMCR banking firm*.				
4.4	R	A *firm* is also in the banking sector for the purposes of the flow diagram in Part One of this Annex if it is a non-UK institution other than an *EEA PTV firm* that meets the following conditions:				
		(1)	it has a *branch* in the *United Kingdom*;			
		(2)	it is not an institution authorised under the *Act* to carry on the *regulated activity* of *effecting contracts of insurance* or *carrying out contracts of insurance*; and			
			it meets one of the following conditions:			

		(3)	(a)	it is a *credit institution* which has a *Part 4A permission* that includes *accepting deposits*; or	
			(b)	it meets all the following conditions:	
				(i)	the institution is an *investment firm*;
				(ii)	its *Part 4A permission* covers *dealing in investments as principal*; and
				(iii)	when carried on by it, that activity is a *PRA-regulated activity*.
4.5	R	An *SMCR banking firm* in *SYSC 23 Annex 1 4.4R* is an *overseas SMCR banking firm*.			
4.6	R	A *firm* is also in the banking sector for the purposes of the flow diagram in Part One of this Annex if it is an *EEA PTV firm* that meets the following conditions:			
		(1)	it has a *branch* in the *United Kingdom*;		
		(2)	it is not an institution authorised under the *Act* to carry on the *regulated activity* of *effecting contracts of insurance* or *carrying out contracts of insurance*; and		
		(3)	it meets one of the following conditions:		
			(a)	it is a *credit institution* which has a *permission* under Part 4A of the *Act* that includes *accepting deposits*; or	
			(b)	it meets all the following conditions:	
				(i)	the institution is an *investment firm*;
				(ii)	it has a *permission* under Part 4A of the *Act* that covers *dealing in investments as principal*; and
				(iii)	when carried on by it, that activity is a *PRA-regulated activity*.
4.7	R	An *SMCR banking firm* in *SYSC 23 Annex 1 4.6R* is an *EEA SMCR banking firm*.			
Part Five: Definition of insurance sector					
5.1	R	A *firm* is in the insurance sector for the purposes of the flow diagram in Part One of this Annex if the *firm* is:			
		(1)	a *Solvency II firm* (including a *large non-directive insurer*); or		

		(2)	a *small non-directive insurer*.	
5.2	R	(1)	A *firm* from which the Solvency II rules (as defined by the part of the *PRA Rulebook* described in this paragraph (1)) are disapplied by chapter 2 of the Solvency II Firms: Transitional Measures part of the *PRA Rulebook* is in the insurance sector for the purposes of the flow diagram in Part One of this Annex.	
		(2)	A *firm* defined as a small run-off firm in the Glossary part of the *PRA Rulebook* is in the insurance sector for the purposes of the flow diagram in Part One of this Annex.	
Part Six: Definition of limited scope SMCR firm				
Introduction				
6.1	R	(1)	This Part sets out the requirements for being a *limited scope SMCR firm* referred to in the flow diagram in Part One of this Annex.	
		(2)	Where this Part says that a *firm* is a *limited scope SMCR firm*, that means that the *firm* meets those requirements.	
Opting up				
6.2	G	Part 12 of this Annex sets out a procedure for a *firm* that would otherwise have been a *limited scope SMCR firm* to elect to be a *core SMCR firm* or an *enhanced scope SMCR firm* and to reverse that election.		
Specialised activities				
6.3	R	(1)	A *firm* listed in the table in *SYSC 23 Annex 1 6.4R* is a *limited scope SMCR firm* if:	
			(a)	its principal purpose is to carry on activities other than *regulated activities*; and
			(b)	it is not a *MiFID investment firm* or an *EEA MiFID investment firm* that is an *EEA PTV firm*.
		(2)	In the case of a *firm* in *SYSC 23 Annex 1 6.4R(5)*, *regulated claims management activities* are treated as *unregulated activities* for the purpose of deciding what the *firm's* principal purpose is under (1).	
6.4	R	Table: List of limited scope SMCR firms referred to in *SYSC 23 Annex 1 6.3R*		
(1)	*Oil market participant*			
(2)	*Service company*			
(3)	*Energy market participant*			
(4)	A wholly owned *subsidiary* of:			
	(a) a *local authority*; or			

	(b) a registered social landlord.			
(5)	A *firm* that meets the following conditions:			
	(a) it has *permission* to carry on *insurance distribution activity* in relation to *non-investment insurance contracts*; and			
	(b) it:			
		(i) either does not have *permission* to carry on any other *regulated activity*; or		
		(ii) has *permission* to carry on no other *regulated activity* except one or more of the following:		
			(A) *advising on P2P agreements*; or	
			(B) *regulated claims management activities*.	
(6)	A *firm* that meets the following conditions:			
	(a)			it has *permission* for any activity constituting *funeral plan distribution*; and
	(b)			it does not have *permission* to carry on any other *regulated activity*.
6.5	G	It will be a matter of fact in each case whether, having regard to all the circumstances, including in particular where the balance of the business lies, a *firm's* principal purpose is to carry on activities other than *regulated activities*. If a *firm* wishes to rely on *SYSC 23 Annex 1 6.3R*, it should be in a position to demonstrate that its principal purpose is to carry on activities other than *regulated activities*.		
Sole trader				
6.6	R	A *sole trader* is a *limited scope SMCR firm*.		
Limited permission consumer credit firms				
6.7	R	A *firm* whose *permission* is limited to the carrying on of a relevant credit activity (as defined in *paragraph 2G* of Schedule 6 to the *Act*) (a *limited permission*) is a *limited scope SMCR firm*, excluding a *firm* in *SYSC 23 Annex 1 6.8R*.		
6.8	R	A *not-for-profit debt advice body* is a *limited scope SMCR firm*.		
Authorised professional firms				
6.9	R	An *authorised professional firm* whose only *regulated activities* are *non-mainstream regulated activities* is a *limited scope SMCR firm*.		
Internally managed AIFs				
6.10	R	A *firm* is a *limited scope SMCR firm* if it meets the following conditions:		
		(1)	it is an *internally managed AIF*;	

		(2)	it is a *body corporate*; and		
		(3)	it is not a *collective investment scheme*.		
Claims management					
6.11	R	(1)	A *firm* is a *limited scope SMCR firm* if it meets the following conditions:		
			(a)	it has *permission* to carry on *regulated claims management activities*; and	
			(b)	it:	
				(i)	either does not have *permission* to carry on any other *regulated activity*; or
				(ii)	has *permission* to carry on no other *regulated activity* except a *relevant credit activity*.
		(2)	A *firm* in *SYSC 23 Annex 1 6.7R* or *SYSC 23 Annex 1 6.8R* does not fall within this *rule*.		
Benchmark firms: Waiver applying limited scope status					
6.12	R	A *firm* is a *limited scope SMCR firm* (and a *limited scope SMCR benchmark firm*) if:			
		(1)	it is subject to a *waiver* that applies this *rule* to the *firm*; and		
		(2)	it meets the conditions in SYSC 23 Annex 1 6.13R.		
6.13	R	(1)	The conditions referred to in SYSC 23 Annex 1 6.12R(2) are that the *firm*:		
			(a)	is capable of being a *limited scope SMCR firm* under the flow diagram in SYSC 23 Annex 1 1.2R (Flow diagram: Types of SMCR firm);	
			(b)	has *permission* to carry on the *regulated activity* of *administering a benchmark* but no other *regulated activity* (a *pure benchmark SMCR firm)*; and	
			(c)	is an *FCA-authorised person*.	
		(2)	A *firm* that meets the conditions in this *rule* is referred to in this Annex as a “potential benchmark waiver firm”.		
6.14	G	(1	If, after the *waiver* in SYSC 23 Annex 1 6.12R(1) comes into force, a *firm* ceases to be a potential benchmark waiver firm it		

		)	immediately ceases to be:	
			(a)	a *limited scope SMCR benchmark firm*; and
			(b)	a *limited scope SMCR firm* (unless it qualifies as one for another reason).
		(2)	(1) applies even if the *firm* subsequently becomes a potential benchmark waiver firm again.	
		(3)	If (2) applies, it may become a *limited scope SMCR benchmark firm* again if it applies for and obtains a new *waiver*.	
Benchmark firms: When the waiver is likely to be available				
		(1)	The *FCA* considers that treating a potential benchmark waiver firm (as defined in SYSC 23 Annex 1 6.13R(2)) as a *core SMCR firm* may be unduly burdensome as contemplated by *section 138A(4)(a)* of the *Act* (Modification or waiver of rules).	
		(2)	The *FCA* considers that deciding whether this is the case involves balancing the factors in (3) and (4).	
		(3)	The directors of a potential benchmark waiver firm who would require approval for performing one of the *FCA governing functions* if it was a *core SMCR firm* may spend very little of their time managing the *firm's regulated activities*. In a big *firm* they may also be distant from those activities. It may therefore be more proportionate to require approval for someone who is closer to the day-to-day management of the *firm's regulated activities*.	
		(4)	On the other hand, applying the *Act* and the *FCA's* requirements directly to a *firm's* most senior management will make it more likely that they will take steps and put in place systems that will increase the likelihood that the *firm's* staff will meet the requirements of the senior managers and certification regime and that the values represented by those requirements will be absorbed into the *firm's* culture. It also helps to ensure that the *firm's* leaders have sufficient knowledge of, and skills in, the *firm's regulated activities*.	
		(5)	The approach in SYSC 23 Annex 1 6.16G is designed to weigh the factors in (3) and (4) against each other.	
6.16	G	(1)	SYSC 23 Annex 1 6.16G summarises the approach the *FCA* anticipates it will take in deciding whether to grant the waiver. SYSC 23 Annex 1 6.17G to SYSC 23 Annex 1 6.22G then give more detail.	
		(2)	Subject to (3), the *FCA* considers that a potential benchmark waiver firm (as defined in SYSC 23 Annex 1 6.13R(2)) is likely to meet the criteria for the granting of a *waiver* in *section 138A(4)(a)* of the *Act* (Modification or waiver of rules) if *regulated activities* form a small part of its activities, measured in the way described in SYSC 23 Annex 1 6.17G.	
		(3	The *FCA* considers that a potential benchmark waiver firm meeting the conditions in (2) is nevertheless unlikely to meet	

		)	the criteria for the granting of a *waiver* in *section 138A(4)* of the *Act* if:	
			(a)	any of the benchmarks it administers are important; or
			(b)	the *firm* or the person who would be performing the *limited scope function* would not meet the requirements of *MAR 8.5.2R* (Responsibility for benchmark activities: regulated benchmark administrators).
		(4)	In particular, under (3)(b):	
			(a)	the person who would be performing the *limited scope function* should be sufficiently senior (see *MAR 8.5.3AG*); and
			(b)	the responsibilities in *MAR 8.5.2R* should not be split between several people (see *MAR 8.5.3G*).
		(5)	SYSC 23 Annex 1 6.18G to SYSC 23 Annex 1 6.20G describe what important means in (3)(a).	
		(6)	SYSC 23 Annex 1 6.22G gives more detail about (3)(b).	
		(7)	The *waiver* would be available to *firms* of any size.	
6.17	G	(1)	SYSC 23 Annex 1 6.17G describes how the *FCA* anticipates that it would decide whether *regulated activities* form a small part of a *firm's* activities for the purpose of SYSC 23 Annex 1 6.16G(2).	
		(2)	The *FCA* anticipates that it would consider that:	
			(a)	a *firm* would meet the criterion in (1) if revenue from *regulated activities* represents less than 20% of its overall revenue; and
			(b)	a *firm* would not meet the criterion in (1) if revenue from *regulated activities* were 20% or more.
		(3)	The *FCA* anticipates that it would measure those figures over a reasonable period and not just a single accounting period.	
		(4)	The *FCA* anticipates that it would measure revenue from *regulated activities* and overall revenue in the way described in *SUP 15.17.5R* to *SUP 15.17.7R* (Obligation to make calculations).	
		(5)	The *FCA* anticipates that it would adjust the calculation if there were good reason to think that past revenue is unlikely to be representative of the future. For instance:	

			(a)	the *firm's* past revenue may be distorted by extraordinary items; or
			(b)	the *firm* may recently have carried out a major reorganisation of its business involving, for example, the disposal of all its activities other than benchmark activities or the acquisition of a business carrying out activities other than benchmark activities.
6.18	G	The *FCA* anticipates that, in deciding whether a benchmark is important for the purposes in SYSC 23 Annex 1 6.16G, it will take into account whether there could be a significant and adverse impact on the *United Kingdom's* economy or financial system if the benchmark:		
		(1)	stops being provided; or	
		(2)	is provided in a way that significantly breaches or falls short of the requirements and standards of the *benchmarks regulation*.	
6.19	G	The *FCA* considers that a *firm's* benchmark is likely to be important for the purposes in SYSC 23 Annex 1 6.16G(3) and to meet the criteria in SYSC 23 Annex 1 6.18G if the benchmark is recognised as critical under the *benchmarks regulation*.		
6.20	G	In making the assessment of the importance of a benchmark that is not recognised as critical as described in SYSC 23 Annex 1 6.19G, the *FCA* anticipates that it will take into account factors that include the following:		
		(1)	whether the benchmark has no or very few appropriate market-led substitutes; and	
		(2)	whether the benchmark is used extensively in particular markets or sectors.	
6.21	G	(1)	One reason for taking into account the importance of a benchmark is that if it is important, the factors in SYSC 23 Annex 1 6.15G(4) outweigh the factors in SYSC 23 Annex 1 6.15G(3).	
		(2)	Another reason is that, under *section 138A(4)(b)* of the *Act* (Modification or waiver of rules), the *FCA* may not grant a *waiver* if doing so would adversely affect the advancement of any of its *operational objectives*. Granting the *waiver* where a benchmark is important is likely to be inconsistent with section 138A(4)(b) because:	
			(a)	the occurrence of the situation in SYSC 23 Annex 1 6.18G(1) or (2) is likely in particular to prejudice the integrity operational objective; and
			(b)	for the reasons in SYSC 23 Annex 1 6.15G(4), the *FCA* considers that applying the regime for *core SMCR firms* to benchmark *firms* will reduce the risk of that happening.

6.22	G	The *FCA* anticipates that if a *firm* has a complicated management structure, that may mean that the *firm* does not meet the conditions in SYSC 23 Annex 1 6.16G(3)(b). In particular this may be the case if:	
		(1)	there are several managers involved in managing the *firm's regulated activities* who have different reporting lines; or
		(2)	the person managing the *firm's regulated activities* has different reporting lines for different aspects of the role that give them different levels of autonomy.
Benchmark firms: Ceasing to meet waiver criteria			
6.23	G	If a *limited scope SMCR benchmark firm* ceases to meet the criterion in SYSC 23 Annex 1 6.17G, it is likely to be inappropriate for the *waiver* to continue. The mechanism for ensuring that this is the case might include one or more of the following:	
		(1)	building those criteria into the *waiver*;
		(2)	revocation of the *waiver*; or
		(3)	granting the *waiver* subject to a time limit and re-examining the criteria if the *firm* applies for a renewal.
6.24	G	The *FCA* anticipates that the mechanisms in SYSC 23 Annex 1 6.23G will generally provide for a period of time between the *firm* ceasing to meet the criterion in SYSC 23 Annex 1 6.17G and the *firm* ceasing to be a *limited scope SMCR firm*.	
Benchmark firms: Opting to be a core or enhanced scope firm			
6.25	R	(1)	A *limited scope SMCR benchmark firm* may opt to be an *enhanced scope SMCR firm* in accordance with this Annex.
		(2)	A *limited scope SMCR benchmark firm* may not opt to be a *core SMCR firm* under this Annex.
6.26	G	If a *limited scope SMCR benchmark firm* opts to be an *enhanced scope SMCR firm* and it subsequently revokes that election after it comes into effect, the *firm* will become a *core SMCR firm*. If it wants to be a *limited scope SMCR benchmark firm* again it will need to apply for a new *waiver*.	
6.27	G	A *limited scope SMCR benchmark firm* that wishes to become a *core SMCR firm* again should request the *FCA* to revoke the *waiver* in SYSC 23 Annex 1 6.12R.	
Pensions dashboard service			
6.28	R	A *firm* is a *limited scope SMCR firm* if it meets the following conditions:	
		(1	it has *permission* to carry on *regulated pensions dashboard activity*; and

		)			
		(2)	either:		
			(i)	it does not have *permission* to carry on any other *regulated activity*; or	
			(ii)	it does not have *permission* to carry on any other *regulated activity* except for:	
				(a)	*permission* to carry on *making arrangements with a view to transactions in investments* which has a *limitation* to activities which are *post-view services* as permitted under *PDCOB 12*; and/or
				(b)	*permission* for *agreeing to carry on a regulated activity* in respect of *regulated pensions dashboard activity*.
6.29	G	The *FCA* considers that, if a *firm* offers *post-view services* as permitted under *PDCOB 12*, the *firm* may need *permission* to carry on the *regulated activity* of *making arrangements with a view to transactions in investments* which has a *limitation* to activities which are *post-view services* as permitted under *PDCOB 12*. In that scenario, the *firm* will be a *limited scope SMCR firm* if it meets the requirement in *SYSC 23 Annex 1 6.28R*.			
Part Seven: Exclusion from enhanced regime					
7.1	R	This Part sets out which *firms* are excluded from the enhanced regime for the purposes of the flow diagram in Part One of this Annex.			
7.2	R	An *overseas SMCR firm* is excluded from the enhanced regime.			
7.3	R	A *firm* is excluded from the enhanced regime if its *permission* only covers being the *full-scope UK AIFM* of:			
		(	an *unauthorised AIF*; or		

		(1)	
		(2)	an *authorised AIF* only marketed to investors that are *professional clients*.
7.4	R	A *firm* is excluded from the enhanced regime if:	
		(1)	it is *an exempt MiFID commodities firm*; and
		(2)	its only *permission* is *bidding in emissions auctions*.
7.5	R	An *ICVC* is excluded from the enhanced regime.	
Part Eight: Financial qualification condition for being an enhanced scope SMCR firm			
The financial qualification tests			
8.1	R	A *firm* meets a qualification condition for the purposes of identifying an *enhanced scope SMCR firm* under the flow diagram in Part One of this Annex if it meets one of the criteria set out in column (1) of the table in *SYSC 23 Annex 1 8.2R*.	
8.2	R	Table: Financial qualification conditions	

(1) Qualification condition	**(2) How to do the calculation and corresponding reporting requirement**	**(3) Comments**
Part One: Point in time measurements		
(1) The average amount of the *firm's* assets under management (calculated as a three-year rolling average) is £65 billion or more	Assets under management are calculated in accordance with the method that must be used to calculate the amount to be recorded in *data element* 1A (Total funds under management) in *data item* FSA038 (Volumes and Type of Business)	*SYSC 23 Annex 1 8.8R(2)* and *SYSC 23 Annex 1 8.11R* apply to this calculation.
(2) The *firm* currently has 10,000 or more outstanding regulated mortgages	A *firm's* outstanding regulated mortgages are calculated as follows: (a) calculate the amount that must be recorded in row E4.5 (Total) in the box under the successive headings and sub-headings "Regulated Loans", "Balances outstanding" and "Number" in the *MLAR*; (b) calculate the amount that must be recorded in row G1.1(d) (total) under	

	the successive headings and sub-headings “As PRINCIPAL administrator” and “Regulated loans” in the *MLAR*; and (c) add those amounts together.	
Part Two: Revenue measurements		
(3) The average amount of the *firm's* total intermediary regulated business revenue (calculated as a three-year rolling average) is £45 million per annum or more	Total intermediary regulated business revenue is calculated in accordance with the method that must be used to calculate the amount to be recorded in *data element* 4E (Total regulated business revenue) in Section B (Profit and Loss account) of the *RMAR*	*SYSC 23 Annex 1 8.8R(3)* applies to this calculation. *SYSC 23 Annex 1 8.18R* applies this condition to *firms* to which the reporting requirement in column (2) does not apply in the cases specified in that *rule*.
(4) The average amount of the *firm's* annual revenue generated by regulated consumer credit lending (calculated as a three-year rolling average) is £130 million or more	Annual revenue generated by regulated consumer credit lending is calculated as follows: (a) calculate each amount that must be recorded in column B (Revenue) for the rows headed “Lending” in *data item* CCR002 (Consumer Credit data: Volumes); and (b) add those amounts together.	*SYSC 23 Annex 1 8.8R(3)* applies to this calculation.
Note 1: Where Parts 8 to 11 of *SYSC 23 Annex 1* refer to a calculation period they refer to the annual period in column (1).		
Note 2: Where Parts 8 to 11 of *SYSC 23 Annex 1* refer to an averaging period they refer to the three-year period in column (1).		
Note 3: Where Parts 8 to 11 of *SYSC 23 Annex 1* refer to a reporting period they refer to the period for which reports in column (2) are prepared.		
Note 4: Where Parts 8 to 11 of *SYSC 23 Annex 1* refer to a calculation date they refer to the date as of which the calculations in column (2) of this table are made.		

8.3	G	(1)	Column (2) of the table in *SYSC 23 Annex 1 8.2R* refers to the *FCA Handbook* versions of the relevant *data items*.	
		(2)	The boxes referred to in row (2) (outstanding regulated mortgages) correspond to the online version of the *MLAR* as follows:	
			(a)	paragraph (a) corresponds to *data item* c3; and
			(b)	paragraph (b) corresponds to *data item* G1.1 c1 (d).
	Qualification conditions only apply if reporting requirements apply			

8.4	R	Subject to *SYSC 23 Annex 1 8A.18R*, a qualification condition in column (1) of the table in *SYSC 23 Annex 1 8.2R* only applies to a *firm* if the corresponding reporting requirement referred to in column (2) of the table currently applies to the *firm*.		
	General calculation principles			
8.5	R	If the applicable financial reporting requirements in column (2) of the table in *SYSC 23 Annex 1 8.2R* have changed during the relevant period, the calculations must be made in accordance with whatever requirements applied for the applicable period.		
8.6	R	The calculations are made on a solo basis.		
8.7	R	(1)	The calculation periods, averaging periods and dates in column (1) of the table in *SYSC 23 Annex 1 8.2R* are defined so as to be consistent with the financial reporting periods and calculation dates used for the corresponding *data item* in column (2) of that table. The rest of this *rule* gives examples of this principle.	
		(2)	If a calculation in column (1) of the table in *SYSC 23 Annex 1 8.2R* is based on per annum or annual revenue and the reporting period in column (2) is based on the *firm's* accounting period:	
			(a)	the calculation periods in column (1) are also based on the *firm's* accounting period; and
			(b)	the averaging period in column (1) is made up of the applicable number of accounting periods.
		(3)	If a calculation in column (1) of the table in *SYSC 23 Annex 1 8.2R* is based on per annum or annual revenue and the reporting period in column (2) is based on a calendar year:	
			(a)	the calculation periods in column (1) are also based on a calendar year; and
			(b)	the averaging period in column (1) is made up of the applicable number of calendar years.
		(4)	Where row (2) of column (1) of the table in *SYSC 23 Annex 1 8.2R* refers to a *firm's* current financial figures it refers to the figures as at the calculation date for its most recent reporting period in column (2).	
		(5)	A *firm's* most recent reporting period is the one for the *data item* whose required submission date has passed most recently.	
	Averaging periods			
8.8	R	(1)	This *rule* deals with the establishment of a *firm's* averaging periods.	
		(2)	When the table in *SYSC 23 Annex 1 8.2R* specifies that this paragraph (2) applies:	
			(a)	each averaging period ends on the calculation date for a reporting period; and
			(b)	there is an averaging period that ends on each

				such day.
		(3)	When the table in *SYSC 23 Annex 1 8.2R* specifies that this paragraph (3) applies:	
			(a)	each averaging period ends on the last day of a year; and
			(b)	there is an averaging period that ends on each such day.
		(4)	The term 'year' in (3) is defined in accordance with *SYSC 23 Annex 1 8.7R*.	
8.9	G	(1)	*SYSC 23 Annex 1 8.8R(2)* provides for a *firm's* status to be tested every six *months* if the relevant *data item* is reported in six-*month* intervals and to be tested yearly if the relevant *data item* is reported yearly.	
		(2)	*SYSC 23 Annex 1 8.8R(3)* provides for a *firm's* status to be tested once a year even if the relevant *data item* is reported in six-*month* intervals.	
	Requirements where the firm reports more than once a year			
8.10	R	(1)	This *rule* applies to calculations in Part Two of the table in *SYSC 23 Annex 1 8.2R*.	
		(2)	If:	
			(a)	the *firm* reports the relevant *data items* more than once a year; and
			(b)	each successive report covers the whole year to date;
			the calculations in the table are only based on the *data item* that covers the full year.	
		(3)	The term year in (2) is defined in accordance with *SYSC 23 Annex 1 8.7R*.	
	Requirements for calculating average amounts in certain cases			
8.11	R	When the table in *SYSC 23 Annex 1 8.2R* specifies that this *rule* applies, the calculation of the average involves calculating the relevant amount for each reporting period relating to the averaging period, summing those amounts and dividing the result by the applicable number of reporting periods.		
	Adjustments where reporting periods cover irregular periods			
8.12	R	(1)	This *rule* applies where:	
			(a)	the calculation is under Part Two of the table in *SYSC 23 Annex 1 8.2R*;

			(b)	the reporting period in column (2) is based on the *firm's* accounting period;
			(c)	any of the *firm's* accounting periods in the applicable averaging period is not twelve *months*; and
			(d)	as a result the averaging period would not be a whole number of calendar years.
		(2)	Where this *rule* applies, the *firm* must adjust the minimum qualification amount in column (1) proportionately.	
8.13	G	The main example of when *SYSC 23 Annex 1 8.12R* may apply is where a *firm* changes its accounting reference date.		
	Short reporting periods			
8.14	G	(1)	The financial reporting period may be shorter than the corresponding calculation period.	
		(2)	For example, the calculation period may be based on annual revenue but the *firm* may have to prepare the corresponding *data item* in column (2) of the table in *SYSC 23 Annex 1 8.2R* for revenue arising in six-*month* periods.	
		(3)	If *SYSC 23 Annex 1 8.10R* applies this does not matter as the calculation is based on the figures for the full year.	
		(4)	If *SYSC 23 Annex 1 8.10R* does not apply, in the example in (2):	
			(a)	the calculation of the *firm's* most recent annual revenue in column (1) is based on the most recently ended six-*month* period and the six-*month* period before that; and
			(b)	each year within the three-year averaging period is based on two six-*month* periods.
	Effect of reporting requirements not applying for full period			
8.15	R	Subject to *SYSC 23 Annex 1 8.4R*, if the reporting requirement referred to in column (2) of the table in *SYSC 23 Annex 1 8.2R* did not apply to the *firm* for the whole of its most recent averaging period as defined in *SYSC 23 Annex 1 8.2R*, the averaging period is shortened to cover the period for which those requirements did apply.		
8.16	G	Reasons why *SYSC 23 Annex 1 8.15R* may apply to a *firm* include the following:		
		(1)	the *firm* has only recently been *authorised*;	
		(2)	the *firm's Part 4A permission* has only recently been varied to include the relevant *regulated activities*;	

		(3)	the *firm* has only recently become subject to the relevant reporting requirements; or	
		(4)	the reporting requirement did not exist for the full period (see *SYSC TP 7.7.6G* for an example).	
8.17	G	(1)	This paragraph gives an example of how *SYSC 23 Annex 1 8.15R* works.	
		(2)	In this example:	
			(a)	the relevant qualification condition is one of those in Part Two of the table in *SYSC 23 Annex 1 8.2R*;
			(b)	the reporting requirement is based on a *firm's* accounting year and reports are due every six *months*;
			(c)	the *firm's* accounting year ends on 31 December;
			(d)	the *firm* is authorised in February.
		(2)	The *firm* will not meet the qualification condition before the end of Year One, however large its business is in the period from February to June. This is because the calculations are based on calculation periods of a year and the year is not over yet.	
		(3)	Following the end of Year One, the assessment of whether the *firm* meets the qualification condition is based on the figures for Year One. There is no adjustment to take account of the fact that the *firm* was only authorised part of the way through that period.	
		(4)	After the end of Year Two, the averaging period is two years and the figures are taken from the part of Year One during which it was authorised and from Year Two.	
		(5)	The figures for the next averaging period are taken from the part of Year One during which it was authorised and from Years Two and Three.	
		(6)	If the *firm* in this example is authorised in September, the assessment of whether the *firm* meets the qualification condition for Year One is based on the figures for the part of Year One for which it is authorised, as it is in (3). However, in contrast to (2), that means that the assessment is made in respect of its first few months of authorisation.	
		(7)	In this paragraph:	
			(a)	the *firm* being authorised means the *firm* being *authorised* or the relevant *regulated activities* being included in its *permission* so that the relevant reporting requirement applies;
			(b)	the accounting year in which this occurs is

				referred to as Year One; and
			(c)	subsequent accounting years are referred to accordingly.
[*Editor's note*: *SYSC 23 Annex 1 8.18R* to the second *SYSC Annex 1 8.22G* have been renumbered and moved to new *SYSC 23 Annex 1 8A.1R* to *SYSC 23 Annex 1 8A.6G*.]				
	Automatic adjustment of financial thresholds: Purpose and general rule			
8.23	R	(1)		*SYSC 23 Annex 1 8.23R* to *SYSC 23 Annex 1 8.32G* provide for the automatic adjustment of the financial figures in the table in *SYSC 23 Annex 1 8.2R* (Table: Financial qualification conditions) listed in this *rule* once every 5 years in line with inflation over that period.
		(2)		The financial figures to be adjusted are the ones in the following rows of column (1) of the table:
			(a)	row (1) (assets under management);
			(b)	row (3) (total intermediary regulated business revenue); and
			(c)	row (4) (revenue generated by regulated consumer credit lending).
	Automatic adjustment of financial thresholds: Calculation			
8.24	R	Inflation is calculated from the CPI annual rate published by the Office for National Statistics.		
8.25	R	Each 5-year period in *SYSC 23 Annex 1 8.23R(1)* starts and ends as follows:		
		(1)		the first period starts on 10 July 2026;
		(2)		each subsequent period starts immediately following the end of the previous period;
		(3)		each period ends on the fifth anniversary of its start; and
		(4)		if the date in (3) is not the end of a *month*, it ends at the end of that *month*.
8.26	R	(1)		Any change to the financial figures referred to in *SYSC 23 Annex 1 8.23R* is made on the last day of the 5-year period in that *rule*.
		(2)		There is no adjustment to reflect the fact that the first or last inflation figure may cover a period falling partly outside the 5-year period.
	Automatic adjustment of financial thresholds: Effect on past and future calculations			
8.27	R	(1)		Any change to the financial figures referred to in *SYSC 23 Annex 1 8.23R* does not affect any averaging period of a *firm* that has ended before the end of the 5-year period in *SYSC 23 Annex 1 8.23R(1)*.
		(2)		Any change to the financial figures referred to in *SYSC 23 Annex 1 8.23R* applies to the whole of the averaging period of

			a *firm* current as at the end of the 5-year period in *SYSC 23 Annex 1 8.23R(1)*.	
		(3)	'Averaging period' has the meaning in Note 2 to the table in *SYSC 23 Annex 1 8.2R* (Table: Financial qualification conditions).	
8.28	G	(1)	This provision gives an example of how *SYSC 23 Annex 1 8.27R* works.	
		(2)	In this example, the financial threshold listed in *SYSC 23 Annex 1 8.23R* applicable to Firm A is increased in August of year 1. The financial threshold is based on a rolling 3-year average. Firm A's averaging periods are established by reference to its *accounting reference date*, which is 31 December. The reports on which the calculation is made are submitted half-yearly and the calculation is made twice a year. The reporting date is 30 days after the end of the relevant reporting period.	
		(3)	The change in the financial threshold has no effect for the averaging period ending on 30 June of year 1.	
		(4)	Therefore, if Firm A is an *enhanced scope SMCR firm* in June of year 1, it remains as an *enhanced scope SMCR firm* even if it would not have met the financial threshold during that last averaging period if the new threshold figure had applied.	
		(5)	The change in the financial threshold applies to the averaging period ending on 31 December of year 1. The revised figure applies for all 3 years of that averaging period.	
		(6)	The same applies for subsequent averaging periods.	
8.29	G	(1)	This provision gives a further example of how *SYSC 23 Annex 1 8.27R* works based on the example of Firm A in *SYSC 23 Annex 1 8.28G*. In this example:	
			(a)	the threshold is increased under *SYSC 23 Annex 1 8.23R* in August of year 2;
			(b)	Firm A first met the applicable financial threshold listed in *SYSC 23 Annex 1 8.23R* for the averaging period ending in December of year 1; and
			(c)	following the increase in the threshold, Firm A falls below the qualification level for the averaging period ending in December in year 2.
		(2)	Therefore, in this example, Firm A is not yet an *enhanced scope SMCR firm*. The 1-year period in *SYSC 23 Annex 1 10.1R* (General rule) is running.	
		(3)	The result is that the *firm* no longer qualifies. The adjustment ends the running of the 1-year period. Firm A will not be an *enhanced scope SMCR firm* at the end of it.	

		(4)	The reason for this is that the change happens before the end of the 1-year period. The 1-year period begins at the end of January in year 2 – that is, 1 *month* after the end of the reporting period ending in December in year 1. The 1-year period ends at the end of January in year 3 and the *firm* would have become an *enhanced scope SMCR firm* at the start of February in year 3. However, Firm A ceases to meet the qualifying condition for being an *enhanced scope SMCR firm* at the end of January in year 3.		
	Automatic adjustment of financial thresholds: Rounding				
8.30	R	(1)	There will be no adjustment if the amount of that adjustment would be below the amount in (3).		
		(2)	Subject to (1), any adjustment will be rounded up to the nearest multiple of the amounts set out in (3).		
		(3)	The amounts referred to in (1) and (2) are:		
			(a)	(in the case of the threshold referred to in *SYSC 23 Annex 1 8.23R(2)(a)*) £1 billion; and	
			(b)	(in the case of the other thresholds referred to in *SYSC 23 Annex 1 8.23R(2)*) £1 million.	
8.31	R	There will be no downwards adjustments, either from the figures in force on 10 July 2026 or from any subsequent higher figure.			
	Automatic adjustment of financial thresholds: Publication				
8.32	G	The *FCA* may publish its calculation of any adjustment under *SYSC 23 Annex 1 8.23R*.			
Part Eight A: Special requirements for calculating financial qualification conditions					
Special requirements for calculating intermediary regulated business revenue					
8A.1	R	The qualification condition in row (3) of the table in *SYSC 23 Annex 1 8.2R* may also apply to a *firm* that meets the following conditions, even though the financial reporting requirement referred to in that row does not apply to it:			
		(1)	it falls into any of the following categories:		
			(a)	its *permission* includes an *insurance distribution activity* in relation to *non-investment insurance contracts*;	
			(b)	its *permission* includes a *home finance mediation activity*;	
			(c)	it is a *retail investment firm*;	
			(d)	it is a *personal investment firm*;	
			(e)	(subject to *SYSC 23 Annex 1 8A.2R*) its *permission* includes *advising on P2P agreements*;	

				or
			(f)	(subject to *SYSC 23 Annex 1 8A.3R*) its *permission* includes *designated investment business* or it carries out *designated investment business*; and
		(2)	it is not required to complete Section B of the *RMAR*.	
8A.2	R	A *firm* is excluded from *SYSC 23 Annex 1 8A.1R(1)(e)* if its *permission*, so far as it relates to the activity in *SYSC 23 Annex 1 8A.1R(1)(e)*, is limited to activities carried on exclusively with or for *professional clients*.		
8A.3	R	A *firm* is excluded from *SYSC 23 Annex 1 8A.18(1)(f)* if its *permission*, so far as it relates to the activity in *SYSC 23 Annex 1 8A.1R(1)(f)*, is limited and subject to requirements in a way that means it may only carry on those activities exclusively with or for *professional clients* or *eligible counterparties*.		
8A.4	R	(1)	This *rule* deals with how the qualification condition in row (3) of the table in *SYSC 23 Annex 1 8.2R* applies to a *firm* in *SYSC 23 Annex 1 8A.1R*.	
		(2)	The calculation is made in accordance with the requirements for Section B (Profit and Loss account) of the *RMAR* and otherwise as described in column (2) of row (3) of the table in *SYSC 23 Annex 1 8.2R*.	
		(3)	The reporting period for the purposes of this Annex is an annual period ending on the *firm's accounting reference date*.	
		(4)	For the purpose of applying this Annex to a *firm* in *SYSC 23 Annex 1 8.18R*, a reference in this Annex to:	
			(a)	the due submission date for a *data item* is treated as being to the reporting date defined in *SUP 15.15.9R*;
			(b)	a *firm's* most recent reporting period is the period in (3) whose reporting date (as defined in (4)(a)) has occurred most recently; and
			(c)	being subject to a reporting requirement is treated as a reference to meeting the conditions in *SYSC 23 Annex 1 8A.1R*.
8A.5	G	(1)	There is only one qualification condition in row (3) of the table in *SYSC 23 Annex 1 8.2R*.	
		(2)	Therefore if a *firm* ceases to be in *SYSC 23 Annex 1 8A.1R* because it begins to report using the *RMAR*, *SYSC 23 Annex 1 8.4R* does not apply and the *firm* will continue to meet the qualification condition as long as its income remains at the necessary level.	
		(3	The same applies if the *firm* moves from reporting using the *RMAR* to being a firm within *SYSC 23 Annex 1 8A.1R*.	

		)			
		(4)	If a *firm* makes a change of the kind in (2) or (3), the figures for the averaging periods during which this occurs will be made up of figures taken from its *RMAR* and ones calculated under *SUP 15.15*. *SYSC 23 Annex 1 8.15R* does not apply.		
		(5)	If there is a gap between being subject to *SYSC 23 Annex 1 8A.1R* and reporting using the *RMAR*, *SYSC 23 Annex 1 11.8R* may mean that the *firm* never stops being an *enhanced scope SMCR firm*.		
8A.6	G	*SUP 15.15* requires a *firm* within *SYSC 23 Annex 1 8A.1R* regularly to calculate whether it meets the qualification condition in row (3) of the table in *SYSC 23 Annex 1 8.2R* and, in certain circumstances, to notify the *FCA* of the results.			
Part Nine: Other qualification conditions for being an enhanced scope SMCR firm					
9.1	R	A *firm* meets a qualification condition for the purposes of identifying an *enhanced scope SMCR firm* under the flow diagram in Part One of this Annex if it meets one of the following criteria:			
		(1)	the *firm* is a *significant SYSC firm* and it meets all the additional criteria in *SYSC 23 Annex 1 9.3R*;		
		(2)	the *firm* is a *CASS large firm*; or		
		(3)	the *firm* notifies the *FCA* in accordance with Part 12 of this Annex that it intends to become an *enhanced scope SMCR firm*.		
9.2	G	If a *firm* is subject to a *requirement* that it must comply with the *rules* in the *FCA Handbook* applicable to one of the categories of *firm* in *SYSC 23 Annex 1 9.1R(1)* or *SYSC 23 Annex 1 9.1R(2)* it is to be treated as falling into that category of *firm* for the purpose of this Annex as well.			
9.3	R	The additional criteria that a *significant SYSC firm* must meet as referred to in *SYSC 23 Annex 1 9.1R(1)* are as follows:			
		(1)	it is an investment firm, as defined in article 4(1)(2) of the *UK CRR* (including a *collective portfolio management investment firm*) as it has effect on 27 January 2023; and		
		(2)	it is not excluded by any of the exclusions in *SYSC 23 Annex 1 9.4R*.		
9.4	R	(1)	A *firm* is excluded for the purposes of *SYSC 23 Annex 1 9.3R(2)* if it is a *local firm*.		
		(2)	A *firm* is excluded for the purposes of *SYSC 23 Annex 1 9.3R(2)* if it meets the following conditions:		
			(a)	it is authorised to provide one or more of the following *investment services*:	
				(i)	reception and transmission

					of orders in relation to one or more *financial instruments*;
				(ii)	execution of orders on behalf of *clients*;
				(iii)	*portfolio management*;
				(iv)	*investment advice*; and
				(v)	*providing targeted support;*
			(b)	it is not authorised to provide any other *investment services*;	
			(c)	it is not authorised to provide the *ancillary service* referred to in paragraph 1 of Part 3A of Schedule 2 to the *Regulated Activities Order* (Safekeeping and administration of *financial instruments*); and	
			(d)	it is not permitted to hold MiFID money or securities (as defined in (3)) belonging to its *clients* and for that reason may not at any time place itself in debt with those *clients* in relation to its *MiFID business*.	
		(3)	MiFID money or securities (as referred to in (2)(d)) means money or securities that a *firm* receives from, or holds for or on behalf of, a *client* in the course of, or in connection with, its *MiFID business*.		
9.5	R	(1)	A *firm* that is authorised to execute investors' orders for *financial instruments* and to hold such *financial instruments* for its own account is not, for that reason, authorised for the purpose of *SYSC 23 Annex 1 9.4R* to provide the *investment service* of dealing on own account if it meets the following conditions:		
			(a)	such positions only arise as a result of the *firm's* failure to match investors' orders precisely;	
			(b)	the total market value of all such positions is no higher than 15% of the *firm's* initial capital; and	
			(c)	such positions are incidental and provisional in nature and strictly limited to the time required to carry out the transaction in question.	
		(2)	Position and initial capital have the meaning that they had for the purpose of *IFPRU 1.1.12R* (Meaning of dealing on own account) as it applied on 31 December 2021.		
9.6	G	The purpose of the criteria in *SYSC 23 Annex 1 9.3R* to *SYSC 23 Annex 1 9.5R* is to replicate the main part of the definition of 'IFPRU investment firm'. Other elements of the definition are reflected elsewhere in this Annex. However, the definition applies to a *firm* whether or not it ever has been treated as an IFPRU investment firm for the purposes of any *rules* that used that definition.			
Part Ten: When a firm becomes an enhanced scope SMCR firm					
General rule					

10.1	R	(1)	A *firm* must comply with the requirements for *enhanced scope SMCR firms* (and becomes an *enhanced scope SMCR firm*) from the date specified in this *rule*.	
		(2)	If a *firm*:	
			(a)	was not an *enhanced scope SMCR firm*; and
			(b)	then meets one of the qualification conditions in Part 8 or Part 9 of this Annex;
			the date is the *business day* following the end of the 12-*month* period after it first meets the first qualification condition that it met.	
		(3)	Where the first qualification condition it meets is the one in *SYSC 23 Annex 1 9.1R(3)*, the date is the *business day* following the end of the 3-*month* period after the *FCA* receives the notice in *SYSC 23 Annex 1 9.1R(3)*.	
		(4)	(3) also applies if:	
			(a)	it meets the qualification condition in *SYSC 23 Annex 1 9.1R(3)* after it meets another qualification condition; and
			(b)	the result of applying (3) would be that the *firm* would become an *enhanced scope SMCR firm* sooner.
		(5)	This *rule* is subject to *SYSC 23 Annex 1 11.8R*.	
	Meeting the financial thresholds in Part 8			
10.2	R	(1)	Subject to (4), a *firm* first meets one of the qualification conditions in Part 8 of this Annex (financial qualification conditions) on the due date for submission of the relevant *data item* (see (2) and (3) for the meaning of relevant *data item*).	
		(2)	Except where (3) applies, the relevant *data item* is the *data item* for the final reporting period applicable to the averaging period for which the *firm* first meets the condition in column (1) of the applicable row in the table in *SYSC 23 Annex 1 8.2R*.	
		(3)	Where the qualification condition is the one in row (2) of the table in *SYSC 23 Annex 1 8.2R*, the relevant *data item* is the one for the reporting period for which the *firm* first meets the condition in column (1) of that row.	
		(4)	In the case of a *firm* in *SYSC 23 Annex 1 8A.1R*, the *firm* meets the qualification condition in row (3) of the table in *SYSC 23 Annex 1 8.2R* on the reporting date for the final reporting period applicable to the averaging period for which the *firm* first meets the condition in column (1) of that row.	
	Meeting the qualification conditions in Part 9			
10.3	R	A *firm* meets one of the qualification conditions in Part 9 of this		

		annex (other qualification conditions) on the date when:	
		(1)	the status in *SYSC 23 Annex 1 9.1R(1)* or *SYSC 23 Annex 1 9.1R(2)* becomes effective; or (as the case may be)
		(2)	the *FCA* receives the notice in *SYSC 23 Annex 1 9.1R(3)*.
10.4	G	*SYSC 23 Annex 1 10.1R* and *SYSC 23 Annex 1 10.3R* mean that a *firm* becomes an *enhanced scope SMCR firm* under Part 9 of this Annex on the date in column (2) of the table in *SYSC 23 Annex 1 10.5G*.	
10.5	G	Table: Date firm becomes an enhanced scope firm	

Qualification condition	**Date firm becomes an enhanced scope SMCR firm**
The *firm* is a *significant SYSC firm*	If a *firm* meets the criteria in *SYSC 23 Annex 1 9.3R* but does not at first meet the conditions for being a *significant SYSC firm* and then later becomes a *significant SYSC firm*, it becomes an *enhanced scope SMCR firm* one year and three *months* after the date in *SYSC 1.5.2R* (the three-month period in *SYSC 1.5.5R(2)* plus the one year in this Part). If a *firm* meets the conditions for being a *significant SYSC firm* but at first does not meet the criteria in *SYSC 23 Annex 1 9.3R* and then later meets those criteria, the three-month period in *SYSC 1.5.5R(2)* does not apply. The one-year period in this Part runs from the date the *firm* first meets the criteria in *SYSC 23 Annex 1 9.3R*. If a *firm* first meets the conditions for being a *significant SYSC firm* and the criteria in *SYSC 23 Annex 1 9.3R* at the same time, the three-month period in *SYSC 1.5.5R(2)* applies.
The *firm* is a *CASS large firm* This includes a *firm* that has elected to be treated as a *CASS large firm*	If the *firm* notifies the *FCA* in accordance with *CASS 1A.2.9R(1)* or *CASS 1A.2.9R(2)*, it becomes an *enhanced scope SMCR firm* one year following the 1 February following the notification under *CASS*. If the *firm* notifies the *FCA* in accordance with *CASS 1A.2.9R(3)*, it becomes an *enhanced scope SMCR firm* one year after the day it begins to hold *client money* or *safe custody assets*.

			If the *firm* makes an election under *CASS 1A.2.5R(1)*, it becomes an *enhanced scope SMCR firm* one year after the day the notification made under *CASS 1A.2.5R(2)(a)* states that the election is intended to take effect.
The *firm* opts to be an *enhanced scope SMCR firm* by notifying the *FCA* using Form O			It becomes an *enhanced scope SMCR firm* three months after the *FCA* receives the notice.
10.6	G	(1)	The purpose of the one year or three-*month* period between meeting the conditions for being an *enhanced scope SMCR firm* and the *firm* becoming subject to the requirements for such *firms* is to allow it to make preparations to comply with the new requirements.
		(2)	For example, a *core SMCR firm* opting up to be an *enhanced scope SMCR firm* should use this period to apply for approval for its personnel to perform the new *designated senior management functions* that will apply because it has become an *enhanced scope SMCR firm*.
10.7	G	(1)	A *firm* retains its old status during the one-year or three-*month* period described in this Part.
		(2)	For example, a *core SMCR firm* that meets one of the qualification conditions for being an *enhanced scope SMCR firm* in *SYSC 23 Annex 1 9.1R(1)* or *SYSC 23 Annex 1 9.1R(2)* will remain as a *core SMCR firm* for one year after it meets the qualification condition.
Part Eleven: When a firm stops being an enhanced scope SMCR firm			
General rule			
11.1	R	A *firm* that:	
		(1)	was an *enhanced scope SMCR firm*; and
		(2)	then meets none of the qualification conditions in this Annex;
		ceases to be subject to the requirements for *enhanced scope SMCR firms* (and ceases to an *enhanced scope SMCR firm*) one year after it ceases to meet the last qualification condition that it met.	
	Ceasing to meet the financial thresholds in Part 8		
11.2	R	A *firm* ceases to meet one of the qualification conditions in Part 8 of this Annex (financial qualification conditions) on whichever of the following is applicable:	
		(1)	the due date for submission of the *data item* for the final reporting period applicable to the averaging period for which the *firm* first ceases to meet the condition in column (1) of the

			applicable row in the table in *SYSC 23 Annex 1 8.2R*; or
		(2)	(where the qualification condition is the one in row (2) of the table in *SYSC 23 Annex 1 8.2R*) the due date for submission of the *data item* for the reporting period for which the *firm* first ceases to meet the condition in column (1) of that row; or
		(3)	(in the case of a *firm* in *SYSC 23 Annex 1 8A.1R*) the reporting date for the final reporting period applicable to the averaging period for which the *firm* first ceases to meet the condition in column (1) of that row; or
		(4)	the date the relevant reporting requirement ceases to apply as referred to in *SYSC 23 Annex 1 8.4R*.
	Ceasing to meet the qualification conditions in Part 9		
11.3	R		A *firm* ceases to meet one of the qualification conditions in *SYSC 23 Annex 1 9.1R(1)* or *SYSC 23 Annex 1 9.1R(2)* (other qualification conditions) on the date that the status in *SYSC 23 Annex 1 9.1R* ceases to apply.
11.4	R	(1)	This *rule* deals with a *firm* that notifies the *FCA* under Part 12 of this Annex that it is cancelling its election to be an *enhanced scope SMCR firm* under *SYSC 23 Annex 1 9.1R(3)*.
		(2)	The *firm* ceases to meet the qualification condition under *SYSC 23 Annex 1 9.1R(3)* on the date the *FCA* receives the notice.
	Only meeting qualification conditions for a short time		
11.5	R	(1)	This *rule* deals with a case in which a *firm* ceases to meet a qualification condition in Part 8 or Part 9 of this Annex while the one-year period in Part 10 of this Annex resulting from meeting that qualification condition is still running.
		(2)	The result is that the *firm* does not become an *enhanced scope SMCR firm*. The one-year period no longer runs.
11.6	G		If, after the *firm* ceases to meet a qualification condition as described in *SYSC 23 Annex 1 11.5R*, it later meets the same qualification condition or another qualification condition in Part 8 or Part 9 of this Annex, a new one-year period or, as applicable, three-*month* period, under Part 10 of this Annex begins. This applies even if it meets that qualification condition during the one-year period referred to in *SYSC 23 Annex 1 11.5R*.
11.7	G	(1)	*SYSC 23 Annex 1 12.13R* allows a *firm* to withdraw an election to be an *enhanced scope SMCR firm* before it takes effect.
		(2)	The result is that the *firm* does not become an *enhanced scope SMCR firm* and the three-*month* period in in *SYSC 23 Annex 1 11.1R* does not apply.
	Only ceasing to meet qualification conditions for a short time		
11.8	R		If:
		(1	the one-year period in *SYSC 23 Annex 1 11.1R* is still running; and

		)		
		(2)	the *firm* again meets a qualification condition in Part Eight or Nine of this Annex;	
			then (subject to *SYSC 23 Annex 1 12.5R*):	
		(3)	the *firm* remains an *enhanced scope SMCR firm*; and	
		(4)	the one-year period in Part Ten of this Annex does not apply.	
11.9	G	*SYSC 23 Annex 1 12.5R* allows a *firm* to opt to remain as an *enhanced scope SMCR firm* during the one-year period in *SYSC 23 Annex 1 11.1R*		
	Ceasing to meet one qualification condition and beginning to meet another			
11.10	G	(1)	This paragraph deals with the following example	
			(a)	a *firm* meets a qualification condition for being an *enhanced scope SMCR firm* and becomes an *enhanced scope SMCR firm*;
			(b)	later the *firm* meets another qualification condition;
			(c)	shortly after (b) the *firm* ceases to meet the first qualification condition; and
			(d)	the gap between (b) and (c) is less than the one-year period provided for in Part 10 of this Annex.
		(2)	In this example:	
			(a)	the *firm* never stops being an *enhanced scope SMCR firm*; and
			(b)	neither the one-year period in Part 10 of this Annex nor the one year countdown provided for in *SYSC 23 Annex 1 11.1R* applies.
Part Twelve: Opting up and opting back down				
Opting up to being a core firm				
12.1	R	(1)	A *firm* may notify the *FCA* in accordance with this Part that it intends to become a *core SMCR firm*.	
		(2)	The notice takes effect three months after the *FCA* receives the notice.	
		(3)	A *firm* may only make such an election if the flow diagram in *SYSC 23 Annex 1 1.2R* (Flow diagram: Types of SMCR firm) allows this.	

12.2	G	The flow diagram in *SYSC 23 Annex 1 1.2R* (Flow diagram: Types of SMCR firm) means that only a *limited scope SMCR firm* may opt up to be a *core SMCR firm*.		
	Opting up to being an enhanced scope firm			
12.3	R	(1)	A *firm* may notify the *FCA* in accordance with this Part that it intends to become an *enhanced scope SMCR firm*.	
		(2)	The notice takes effect as described in Part 10 of this Annex.	
		(3)	A *firm* may only make such an election if the flow diagram in *SYSC 23 Annex 1 1.2R* (Flow diagram: Types of SMCR firm) allows this.	
12.4	G	The flow diagram in *SYSC 23 Annex 1 1.2R* (Flow diagram: Types of SMCR firm) means that only a *limited scope SMCR firm* or a *core SMCR firm* may opt up to be an *enhanced scope SMCR firm*.		
12.5	R	(1)	An *enhanced scope SMCR firm* that is within the one-year period in Part 11 of this Annex (When a firm stops being an enhanced scope SMCR firm) may notify the *FCA* in accordance with this Part that it intends to remain an *enhanced scope SMCR firm*.	
		(2)	The notice takes effect immediately on receipt by the *FCA*. The effect is that:	
			(a)	the *firm* remains an *enhanced scope SMCR firm*;
			(b)	the three-*month* period in Part Ten of this Annex (When a firm becomes an enhanced scope SMCR firm) does not apply; and
			(c)	the *firm* is treated as meeting the qualification condition for being an *enhanced scope SMCR firm* of having opted to be an *enhanced scope SMCR firm* under *SYSC 23 Annex 1 9.1R(3)*.
	Opting up by applicants for permission			
12.6	R	(1)	The following may also give a notice described in *SYSC 23 Annex 1 12.1R* or *SYSC 23 Annex 1 12.3R*:	
			(a)	an applicant for *Part 4A permission*; and
			(b)	other *persons* seeking to carry on *regulated activities* as an *SMCR firm*.
		(2)	The notice becomes effective when it becomes an *SMCR firm*.	
12.7	D	If a *person* in *SYSC 23 Annex 1 12.6R(1)* wishes to rely on *SYSC 23 Annex 1 12.6R*, it must make, or, as the case may be, amend its application so as to meet the relevant requirements of this Annex about the notices described in *SYSC 23 Annex 1 12.1R* or *SYSC 23 Annex 1 12.3R*.		

12.8	G	(1)	This paragraph relates to a *person* who is about to become an *SMCR firm* and wishes to opt up in accordance with this Part of this Annex.	
		(2)	This Part of this Annex restricts who can elect to opt up to a higher category of *SMCR firm*. In a case covered by this paragraph, this restriction relates to the category of *SMCR firm* of which the person will be a member when it becomes an *SMCR firm* if it had not made the election.	
		(3)	(2) also applies to the requirements about how to notify the *FCA*.	
	Revoking an opt up			
12.9	R	(1)	This *rule* deals with a *firm* that has elected under this Annex to become a *core SMCR firm* or an *enhanced scope SMCR firm* and that election has taken effect.	
		(2)	The *firm* may notify the *FCA* that it is cancelling its election under this Annex to be:	
			(a)	a *core SMCR firm*; or
			(b)	an *enhanced scope SMCR firm*.
		(3)	A notification under (2)(a) takes effect one year after the *FCA* receives the notice.	
		(4)	A notification under (2)(b) takes effect in accordance with Part 11 of this Annex.	
	Opted up firm later meets other qualification conditions			
12.10	G	(1)	A *firm* may elect to opt up to a higher category of *SMCR firm* and then later meet one of the other qualification conditions for that higher category.	
		(2)	The table in *SYSC 23 Annex 1 12.11G* gives examples of various scenarios that can follow on from that.	
12.11	G	Table: Examples involving a firm that opts up a category		

Scenario	Treatment under this Annex
(1) A *firm* elects to opt up to a higher category. It later meets one of the other qualification conditions for that higher category. It ceases to meet that second qualification condition some time later.	The *firm* remains in the higher category because its election remains in force.
(2) A *firm* elects to opt up to a higher category. It later meets one of the other qualification conditions for that higher category. It later cancels its election.	The *firm* remains within that higher category despite cancelling its election because it still meets that second qualification condition.

(3) A *firm* elects to opt up to a higher category. It later cancels its election. During the one-year period in Part Eleven of, or this Part of, this Annex following its cancellation notice it meets one of the other qualification conditions for that higher category.	The *firm* remains within that higher category despite the cancellation notice.
(4) A *firm* elects to opt up to a higher category. It later meets one of the other qualification conditions for that higher category. It later cancels its election. Some time after that, it ceases to meet the second qualification condition.	The cancellation notice has no immediate effect (see Example (2)). However when it ceases to meet the second qualification condition it ceases to be in the higher category. In contrast to Example (1), its election is no longer in force when it ceases to meet the second qualification condition.
Note: When this table refers to the cancellation of an election it refers to cancelling that election after it has taken effect and not to withdrawing it before it takes effect.	

	Giving notices		
12.12	R	(1)	This *rule* deals with a notification under *SYSC 23 Annex 1 12.1R* to *SYSC 23 Annex 1 12.6R*.
		(2)	The notification must be made in accordance with *SUP 10C.15.11R* (Method of submission: electronic submission).
		(3)	A *firm* must use the version of the form made available for this purpose on the electronic system referred to in *SUP 10C.15.11R*, which is based on the version found in *SYSC 23 Annex 2R* (Form O).
		(4)	If *SUP 10C.15.11R* requires the notification to be in accordance with *SUP 10C.15.14R* (Method of submission: other forms of submission), the *firm* must use the version of the form found in *SYSC 23 Annex 2R*.
	Withdrawing notices		
12.13	R	A *firm* may, by notice to the *FCA*, withdraw a notice in *SYSC 23 Annex 1* 12.12R at any time before it takes effect.	
		(1)	This paragraph relates to the withdrawal of a notice as described in *SYSC 23 Annex 1 12.13R*.
		(2)	If a *firm* decides to give a withdrawal notice, it should send it to the *FCA* as soon as possible.
		(3)	A *firm* should give a withdrawal notice in accordance with *SUP 15.7* (Form and method of notification). There is no specified form for the notice.
12.15	G	See *SYSC 23 Annex 1 11.7G* for more about the effect of withdrawing a notice electing to be an *enhanced scope SMCR firm*.	
12.16	G	If a *firm* notifies the *FCA* in accordance with this Part of this Annex that it intends to revoke its election to be an *enhanced scope*	

		SMCR firm and then changes its mind within a year, it should withdraw its revocation notice under *SYSC 23 Annex 1 12.13R* rather than use the opting-up procedure in *SYSC 23 Annex 1 12.5R*.

Section : SYSC 23 Annex 2 Form O: Changing firm status under the Senior Managers and Certification Regime

SYSC 23 Annex 2 R *Form O: Changing firm status under the Senior Managers and Certification Regime*

CHAPTER

SYSC 24 Senior managers and certification regime: Allocation of prescribed responsibilities

Section : SYSC 24.1 Application

Main application rules

SYSC 24.1.1 R This chapter applies to an *SMCR firm*, except to the extent that this chapter applies a narrower scope to a particular provision. However, this chapter does not apply to:

(1) an *EEA SMCR firm*; or

(2) a *limited scope SMCR firm*.

SYSC 24.1.2 R This chapter is not limited to *regulated activities* or other specific types of activities.

Territorial scope

SYSC 24.1.3 R There is no territorial limitation on the application of this chapter, subject to *SYSC 24.1.4R*.

SYSC 24.1.4 R When this chapter applies to an *overseas SMCR firm*, it applies in relation to the activities of the *firm's branch* in the *United Kingdom*.

Section : SYSC 24.2 Allocation of FCA-prescribed senior management responsibilities: Main allocation rules

Allocation of FCA-prescribed senior management responsibilities

SYSC 24.2.1 R

A *firm* must allocate each of the *FCA-prescribed senior management responsibilities* in the table in *SYSC 24.2.6R* that apply to it to one or more *SMF managers* of the *firm*.

SYSC 24.2.2 G

(1) Subject to (2),*SYSC 24 Annex 1* (Which prescribed responsibilities apply to which kind of firm) sets out which *FCA-prescribed senior management responsibilities* apply to which kind of *SMCR firm*.

(2) In some cases, an *FCA-prescribed senior management responsibility* is subject to further restrictions on the types of *firm* and circumstances to which it applies, as set out in the table in *SYSC 24.2.6R* (Table: FCA-prescribed senior management responsibilities).

SYSC 24.2.3 R

(1)

A *PRA-authorised person* may not allocate an *FCA-prescribed senior management responsibility* to an *SMF manager* who is only approved to perform the *other overall responsibility function* or the *other local responsibility function* for that firm, subject to (2).

(2)

A *PRA-authorised person* may allocate *FCA-prescribed senior management responsibility* (z) in the table in *SYSC 24.2.6R* (functions in relation to *CASS*) to an *SMF manager* who is only approved to perform the *other overall responsibility function* or the *other local responsibility function*.

SYSC 24.2.3A G

(1) This provision applies to an *FCA-authorised person*.

(2) An *FCA-prescribed senior management responsibility* should be given to the *SMF manager* who is the most senior person responsible for the relevant activity or area (see *SYSC 24.3.1G*). In most cases this would not be an *SMF manager* who holds the *other overall responsibility function* or the *other local responsibility function*, given the nature of those *designated senior management functions*.

(3) However, in some cases it may be appropriate for an *SMF manager* who is only approved to perform the *other overall responsibility function* or the *other local responsibility function* to hold an *FCA-prescribed senior management responsibility*, for example if:

(a) the *firm* has unusual management arrangements;

(b) the *firm* is allocating an *FCA-prescribed senior management responsibility* of an absent *SMF manager* (see *SUP 10C.3A.20G* (Re-allocation of prescribed responsibilities)); or

(c) the *FCA-prescribed senior management responsibility* is closely related to

the overall or local responsibility allocated to them under *SYSC 26.3.1R* or *SYSC 26.3.2R* (Main rules), making them the most appropriate *SMF manager* to hold the *FCA-prescribed senior management responsibility*.

(4) Therefore, there will be circumstances when an *FCA-authorised person* may allocate an *FCA-prescribed senior management responsibility* to an *SMF manager* who is only approved to perform the *other overall responsibility function* or the *other local responsibility function* for that *firm*.

SYSC 24.2.4 R A *firm* must make the allocations of *FCA-prescribed senior management responsibilities* in this chapter in such a way that it is clear who has which of those responsibilities.

What the FCA-prescribed senior management responsibilities are

SYSC 24.2.5 R The *FCA-prescribed senior management responsibilities* are set out in the table in *SYSC 24.2.6R*.

SYSC 24.2.6 R Table: FCA-prescribed senior management responsibilities

FCA-prescribed senior management responsibility	Explanation	Reference letter
(1) Responsibility for the *firm's* performance of its obligations under the senior managers regime	The senior managers regime means the requirements of the *regulatory system* applying to *SMCR firms* insofar as they relate to *SMF managers* performing *designated senior management functions*, including *SUP 10C* (FCA senior managers regime for approved persons). This responsibility includes: (1) compliance with conditions and time limits on approval; (2) compliance with the requirements about the *statements of responsibilities* (but not the allocation of responsibilities	(a)

FCA-prescribed senior management responsibility	Explanation	Reference letter
	recorded in them); (3) compliance by the *firm* with its obligations under section 60A of the Act (Vetting of candidates by authorised persons); and (4) compliance by the *firm* with the requirements in *SYSC 22* (Regulatory references) (and the corresponding *PRA* requirements) so far as they relate to the senior managers regime, including the giving of references to another *firm* about an *SMF manager* or former *SMF manager*.	
(2) Responsibility for the *firm's* performance of its obligations under the certification regime	The certification regime means the requirements of *sections 63E* and *63F* of the *Act* (Certification of employees) and all other requirements of the *regulatory system* about the matters dealt with in or relating to those sections, including: (1) SYSC 27 (Senior managers and certification regime: Certification Regime); (2) the requirements in *SYSC 22* (Regulatory	(b)

FCA-prescribed senior management responsibility	Explanation	Reference letter
	references) so far as they relate to the certification regime, including the giving of references to another *firm* about a *certification employee* or former *certification employee*; and (3) the corresponding *PRA* requirements; and (4) the requirements in *SUP 16.26* (Reporting of information about Directory persons), which require a *firm* to report information to the *FCA* about its *Directory persons*.	
(3) Responsibility for the *firm's* policies and procedures for countering the risk that the *firm* might be used to further *financial crime*	(1) This includes: (a) responsibility for the *firm's* policies and procedures in relation to the matters in *SYSC 3.2.6R* (Systems and controls in relation to compliance, financial crime and money laundering); (b) the functions in *SYSC 3.2.6HR* or *SYSC 6.3.8R* (*firm* must allocate to a *director* or *senior manager* overall responsibility within the *firm* for the establishment and maintenance of effective anti-*money laundering* systems and	(d)

FCA-prescribed senior management responsibility	Explanation	Reference letter
	controls); if any of those *rules* apply to the *firm*. (2) The *firm* may allocate this *FCA-prescribed senior management responsibility* to the *MLRO* but does not have to. (3) If the *firm* does not allocate this *FCA-prescribed senior management responsibility* to the *MLRO*, this *FCA-prescribed senior management responsibility* includes responsibility for supervision of the *MLRO*.	
(4) Responsibility for the *firm's* obligations for: (a) conduct rules training; and (b) conduct rules reporting.	(1) The *firm's* obligations for conduct rules training means its obligations under *section 64B* of the *Act* (Rules of conduct: responsibilities of authorised persons). (2) The *firm's* obligations for conduct rules reporting means its obligations under *section 64C* of the *Act* (Requirement for authorised persons to notify regulator of disciplinary action).	(b-1)
(5) Responsibility for:		(f)

FCA-prescribed senior management responsibility	Explanation	Reference letter
(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*.		
(6) Responsibility for monitoring the effective implementation of policies and procedures for the induction, training and professional development of all the *firm's*: (a) *SMF managers*; and (b) key function holders; other than members of the *firm's governing body*.	(1) Key function holder has the same meaning as it does in the Glossary Part of the *PRA Rulebook*. (2) Paragraph (b) of column (1) of this row (6) only applies to a *firm* if and to the extent that the *PRA's* requirements about key function holders apply to it.	(g)
(7) Responsibility for: (a) safeguarding the independence of; and (b) oversight of the performance of; the internal audit function, in accordance with the *internal audit requirements for SMCR firms* and the *PRA* requirements referred to in column (2) of this row	(1) This responsibility includes responsibility for: (a) safeguarding the independence of; and (b) oversight of the performance of; a person approved to perform the Head of Internal Audit function for the *firm* if that function applies to the *firm*. (2) This responsibility	(j)

FCA-prescribed senior management responsibility	Explanation	Reference letter
	only applies if and to the extent that: (a) the *internal audit requirements for SMCR firms*; or (b) any requirements of the *PRA* about the matters in paragraph (1) of this column of this row (7); apply to the *firm*. (3) Independence means independence to the extent it is required by the requirements referred to in paragraph (2) of this column of this row (7). (4) The Head of Internal Audit function means the *head of internal audit function* or the *PRA's* Head of Internal Audit *designated senior management function*.	
(8) Responsibility for: (a) safeguarding the independence of; and (b) oversight of the performance of; the compliance function in accordance with the *compliance requirements for SMCR firms*.	(1) This responsibility includes responsibility for: (a) safeguarding the independence of; and (b) oversight of the performance of; the person performing the *compliance oversight function* for the *firm*. (2) This responsibility only applies if and to the extent that the *compliance*	(k)

FCA-prescribed senior management responsibility	Explanation	Reference letter
	requirements for SMCR firms apply to the *firm*. (3) "Independence" means independence to the extent it is required by the *compliance requirements for SMCR firms*.	
(9) Responsibility for: (a) safeguarding the independence of; and (b) oversight of the performance of; the risk function, in accordance with the *risk control requirements for SMCR firms* and the *PRA* requirements referred to in column (2) of this row (9).	(1) This responsibility includes responsibility for: (a) safeguarding the independence of; and (b) oversight of the performance of; a person approved to perform the Chief Risk function for the *firm* if that function applies to the *firm*. (2) This responsibility only applies if and to the extent that: (a) the *risk control requirements for SMCR firms*; or (b) any requirements of the *PRA* about the matters in paragraph (1) of this column of this row (9); apply to the *firm*. (3) "Independence" means independence to the extent it is required by the requirements referred to in paragraph (2) of this column of this row (9). (4) The Chief Risk	(l)

FCA-prescribed senior management responsibility	Explanation	Reference letter
	function means the *chief risk officer function* or the *PRA's* Chief Risk *designated senior management function*.	
(10) Responsibility for overseeing the development of and implementation of the *firm's* remuneration policies and practices in accordance with *SYSC 19D* (Remuneration Code)	This responsibility does not apply to a *firm* to which *SYSC 19D* does not apply.	(m)
(11) Responsibility for the *firm's* compliance with *CASS*	(1) This responsibility only applies to a *firm* to which *CASS* applies. (2) A *firm* may include in this *FCA-prescribed senior management responsibility* whichever of the following functions apply to the *firm*: (a) *CASS 1A.3.1R* (certain *CASS* compliance functions for a *CASS small firm*); (b) *CASS 1A.3.1AR* (certain *CASS* compliance functions for a *CASS medium firm* or a *CASS large firm*); (c) *CASS 11.3.1R* (certain *CASS* compliance functions for certain *CASS small debt management firms*); (d) *CASS 11.3.4R* (certain *CASS*	(z)

FCA-prescribed senior management responsibility	Explanation	Reference letter
	compliance functions for a *CASS large debt management firm*); or (e) *CASS 13.2.3R* (certain *CASS* compliance functions for a *firm* carrying on a *regulated claims management activity*); but it does not have to. (3) If the *firm* does not include the functions in paragraph (2) of this column of this row (11) in this *FCA-prescribed senior management responsibility*, this *FCA-prescribed senior management responsibility* includes responsibility for supervision of the person performing the functions in paragraph (2) of this column of this row (11) that apply to the *firm*.	
(12) Responsibility for compliance with the requirements of the *regulatory system* about the *management responsibilities map*	(1) This responsibility does not include allocating responsibilities recorded in the *management responsibilities map*. (2) This responsibility does not apply to a *firm* to which the requirements about *management responsibilities maps* in	(c)

FCA-prescribed senior management responsibility	Explanation	Reference letter
	SYSC 25 (Senior managers and certification regime: Management responsibilities maps and handover procedures and material) do not apply.	
(13) Acting as the *firm's whistleblowers' champion*	(1) The *whistleblowers' champion's* allocated responsibilities are set out in *SYSC 18.4.4R*. (2) This responsibility does not apply to a *firm* that is not required to have a *whistleblowers' champion*.	(n)
(14) Responsibility for: (a) providing for an effective internal audit function in accordance with one of the sections of the *PRA Rulebook* listed in paragraph (2) of column (2) of this row (14); and (b) overseeing the performance of the internal audit function.	(1) Only applies to a *firm*: (a) that outsources its internal audit function to an external third party service provider; and (b) to which one of the following internal audit *PRA-prescribed senior management responsibilities* applies: (i) the responsibility in rule 3.3(1) in the Insurance – Allocation of Responsibilities Part of the *PRA Rulebook*; or (ii) the responsibility in rule 3.2(1) in the Large Non-Solvency II Firms – Allocation of Responsibilities Part of the *PRA Rulebook*.	(j-2)

FCA-prescribed senior management responsibility	Explanation	Reference letter
	(2) The parts of the *PRA Rulebook* referred to in column (1) of this row (14) are: (a) Solvency II firms - Conditions Governing Business 5; and (b) Non-Solvency II Firms – Governance 9.2. (3) Terms used in column (1) of this row (14) have the same meaning as they do for the corresponding *PRA-prescribed senior management responsibility* described in paragraph (1) of this column of this row (14).	
(15) Responsibility for management of the *firm's* risk management processes in the *UK*		(aa)
(16) Responsibility for the *firm's* compliance with the *UK regulatory system* applicable to the *firm*		(ff)
(17) Responsibility for the escalation of correspondence from the *PRA*, *FCA* and other regulators in respect of the *firm* to each of the *governing body* or the *management body* of the *firm* and, as appropriate, of the *firm's parent undertaking* and the ultimate *parent undertaking* of the *firm's group*	This includes taking steps to ensure that the *senior management* of the *firm* and, where applicable, the *group*, are made aware of any views expressed by the *regulatory bodies* and any steps taken by them in relation to the *branch*, *firm* or *group*.	(ee)
(18) Responsibility for	This only applies if the	(j-3)

FCA-prescribed senior management responsibility	Explanation	Reference letter
taking reasonable steps to ensure that every *person* involved in the performance of the *firm's* internal audit function 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.	*firm* outsources its internal audit function.	
(19) Responsibility for: (a) managing the *firm's* internal stress tests; and (b) ensuring the accuracy and timeliness of information provided to the *FCA* and other *regulatory bodies* for the purposes of stress testing.	Stress testing refers to stress testing under *MIFIDPRU 7.5* (ICARA process: capital and liquidity planning, stress testing, wind-down planning and recovery planning). This responsibility only applies to a *firm* to which *MIFIDPRU 7.5* applies.	(s)
(20) The responsibilities allocated under *COLL 6.6.27R*, *COLL 8.5.22R* or *COLL 15.7.24R* (Allocation of responsibility for compliance to an approved person).	Only applies to a *firm* to which the *rules* in column (1) apply.	(za)
(21) Responsibility for the development and maintenance of the	Business model means the same thing as it	(t)

FCA-prescribed senior management responsibility	Explanation	Reference letter
firm's business model by the *governing body*.	does in *Schedule 6* to the *Act* (Threshold Conditions). This responsibility applies even if the business model *threshold condition* does not apply to it.	

Section : SYSC 24.3 Who prescribed responsibilities should be allocated to

Seniority and authority

SYSC 24.3.1 G

The *FCA* expects that a *person* who has responsibility for an *FCA-prescribed senior management responsibility*:

(1) will generally (in the case of the *FCA-prescribed senior management responsibilities* in *SYSC 24.3.3G(1)*) be the most senior employee or officer responsible for managing that area (or the most senior below the *chief executive*); and

(2) will:

(i) be sufficiently senior and credible; and

(ii) have sufficient resources and authority;

to be able to exercise their management and oversight responsibilities effectively.

The SMF managers to whom FCA-prescribed senior management responsibilities should be allocated

SYSC 24.3.2 G

The *FCA* expects that normally a *firm* will allocate the *FCA-prescribed senior management responsibility* with the following *FCA* reference letters (see column three of the table in *SYSC 24.2.6R*) to an *SMF manager* who is a *non-executive director* of the *firm* (or, in the case of a partnership, a partner without management responsibilities):

(1) (f) (development of members of *governing body*);

(2) (j) (internal audit oversight);

(3) (k) (compliance oversight);

(4) (l) (risk control oversight);

(5) (m) (remuneration code oversight); and

(6) (n) (whistleblowers' champion).

SYSC 24.3.3 G

Subject to the more detailed *guidance* in *SYSC 24 Annex 2* (Preferred allocations of FCA-prescribed senior management responsibilities), the *FCA* expects that normally a *firm* will allocate *FCA-prescribed senior management responsibilities* other than the ones referred to in *SYSC 24.3.2G* to an *SMF manager* who performs executive functions for the *firm*.

SYSC 24.3.3A G

SYSC 24 Annex 2 (Preferred allocations of FCA-prescribed senior management responsibilities) sets out more detail about the *FCA's* expectations about the *SMF managers* to whom a *firm* should and should not allocate *FCA-prescribed senior management responsibilities*.

Exceptions for small non-complex firms

SYSC 24.3.4 G

(1) The *FCA* accepts that it may not be practical for a small non-complex *firm* to comply with the parts of *SYSC 24.3.1G(1)*, *SYSC 24.3.2G* and *SYSC 24.3.3G* that would otherwise apply to it.

(2) *SYSC 24 Annex 2* (Preferred allocations of FCA-prescribed senior management responsibilities) also explains how that annex applies to small non-complex *firms*.

SYSC 24.3.5 G

(1) A *UK SMCR banking firm* is likely to be small for the purposes in *SYSC 24.3.4G* if it is:

(a) a small *CRR* firm as defined in the part of the *PRA Rulebook* called "Allocation of responsibilities"; or

(b) a *credit union* that meets the *PRA's* size requirements for small *CRR* firms as defined.

(2) A *firm* is likely to be non-complex for these purposes if:

(a) it conducts a limited number of simple business lines;

(b) it does not rely on group governance arrangements; and

(c) (in the case of a *branch*) it does not rely on governance arrangements for other parts of the *firm*.

Not assigning too many responsibilities to one person

SYSC 24.3.6 G

When deciding how to allocate *FCA-prescribed senior management responsibilities*, a *firm* should avoid assigning such a wide range of responsibilities to a particular *SMF manager* that they are not able to carry out those responsibilities effectively.

Dividing and sharing management functions between different people

SYSC 24.3.7 G

(1) A *firm* should not split an *FCA-prescribed senior management responsibility* between more than 1 *SMF manager*, with each only having responsibility for part, unless this is appropriate and can be justified.

(2) As explained in *SYSC 24.3.10G*, a *firm* should allocate *FCA-prescribed senior management responsibilities* between its *SMF managers* appropriately. This may mean that a *firm* would be justified in dividing responsibility for an *FCA-prescribed senior management responsibility* between more than 1 *SMF manager*.

(3) In particular, it may be appropriate to split responsibility for an *FCA-prescribed senior management responsibility* between several *SMF managers* so that the allocation of responsibility for it is consistent with the split of business and commercial responsibilities between senior management.

(4) The *FCA* therefore accepts that there are circumstances in which a *firm* will split responsibility for an *FCA-prescribed senior management responsibility* between more than 1 *SMF manager*.

(5) If a *firm* splits responsibility for an *FCA-prescribed senior management responsibility* between more than 1 *SMF manager*, it should:

(a) manage the split effectively; and

(b) ensure that all parts of the *FCA-prescribed senior management responsibility* are clearly allocated to one of those *SMF managers* without any gaps.

(6) The *FCA* expects that generally it will only be appropriate for a larger *firm* with

more complex arrangements to split responsibility for an *FCA-prescribed senior management responsibility* between more than 1 *SMF manager*.

(7) In general, it will not be appropriate for a *firm* to split responsibility for an *FCA-prescribed senior management responsibility* between more than 2 *SMF managers*.

SYSC 24.3.8 G

The *FCA* expects that a *firm* will not normally allocate responsibility for an *FCA-prescribed senior management responsibility* to 2 or more *SMF managers* jointly. This is, however, subject to *SYSC 24.3.9G*.

SYSC 24.3.9 G

(1)

Although the norm should be that an *FCA-prescribed senior management responsibility* should not be shared, there may be circumstances in which responsibilities can be shared (see (2)).

(2)

A *firm* should only share a responsibility where this is appropriate and can be justified.

(3) For example, it would be justified to share a responsibility if that is done:

1. (a) as part of a job share; or

2. (b)

where departing and incoming senior managers work together temporarily as part of a handover.

(4)

A *firm* may have co-heads of a department or business unit if this can be justified under (1) to (3).

SYSC 24.3.10 G

(1)

The *FCA* expects a *firm* to divide and allocate responsibilities under this chapter between its *SMF managers* so that responsibilities are grouped together appropriately.

(2) The *firm* should make the judgement:

1. (a) in (1); and

2. (b) about whether and how responsibilities should be shared;

under:

(c) *SYSC 4.1.1R* (robust governance arrangements);

(d) any other applicable *Handbook* requirements, including:

1. (i) *SYSC 2* (Apportionment of Responsibilities);and

2. (ii) *SYSC 24.3.7G* to *SYSC 24.3.9G*;

3. (iii)

SYSC 4.1.1-AR, SYSC 5.1.1R, SYSC 5.1.6R, SYSC 5.1.12R, SYSC 5.1.13R and *SYSC 5.1.14R.*

(e) [deleted]

(3)

The *firm* should take into account the way it is organised, the business it carries out and the need not to allocate too many responsibilities to one individual (*SYSC 24.3.6G*).

(4)

The *FCA* expects a *firm* to allocate *FCA-prescribed senior management responsibilities* to the *SMF managers* they are most closely linked to.

SYSC 24.3.11 G

SUP 10C.11.31G to *SUP 10C.11.33G* (What statements of responsibilities should contain: dividing and splitting responsibilities) contains material about:

(1) how to prepare *statements of responsibilities* where a responsibility is shared or divided between several *SMF managers*; and

(2) dividing and sharing responsibilities.

SYSC 24.3.12 G

(1) A *firm* may allocate more than one *FCA-prescribed senior management responsibility* to the same *SMF manager*.

(2) This is subject to:

(a) *SYSC 24.3.6G* (should not give too many responsibilities to one person); and

(b) *SYSC 24.3.10G* (what responsibilities should be grouped together).

Allocation of responsibilities and territorial scope.

SYSC 24.3.13 G

(1) As explained in *SYSC 24.1.3R*, there is no territorial limitation to the application of this chapter.

(2) This means that a *firm* should allocate the *FCA-prescribed senior management responsibilities* so that they cover activities, transactions, business areas and management functions that are located or take place wholly or partly outside, as well as ones in, the *United Kingdom*.

SYSC 24.3.14 G

In the case of an *overseas SMCR firm*, the *FCA-prescribed senior management responsibilities* relate to the activities of the *firm's branch* in the *United Kingdom* (see *SYSC 24.1.4R*).

Section : SYSC 24 Annex 1 Which FCA-prescribed senior management responsibilities apply to which kind of firm

SYSC 24 Annex 1 G

Introduction and exclusions			
1.1	G	This annex sets out which *FCA-prescribed senior management responsibilities* apply to which type of *SMCR firm*.	
1.2	R	In this annex:	
		(1)	a √ means that the *FCA-prescribed senior management responsibility* does apply;
		(2)	a × means that the *FCA-prescribed senior management responsibility* does not apply; and
		(3)	a reference letter refers to the reference letters in column (3) of the table in *SYSC 24.2.6R* (Table: FCA-prescribed senior management responsibilities).
1.3	G	If an *FCA-prescribed senior management responsibility* is not included in the table for a particular class of *firm*, that *FCA-prescribed senior management responsibility* does not apply to any *firm* in that class.	
1.4	R	The following *FCA-prescribed senior management responsibilities* do not apply to a *full-scope UK AIFM* in relation to its *managing an AIF*:	
		(1)	responsibility (j) (internal audit oversight);
		(2)	responsibility (k) (compliance oversight);
		(3)	responsibility (l) (risk oversight);
		(4)	responsibility (j-3) (independence of outsourced internal audit); and
		(5)	responsibility (t) (business model).
Banking sector firms			
2.1	R	(1)	The table in *SYSC 24 Annex 1 2.3R* sets out which *FCA-prescribed senior*

			management responsibilities apply to which type of *SMCR banking firm*.	
		(2)	*SMCR firms* in (1) are divided into the following categories for the purposes in (1):	
			(a)	a *UK SMCR banking firm* (excluding firms in (b));
			(b)	a small *UK SMCR banking firm*; and
			(c)	an *overseas SMCR banking firm*.
2.2	R	A small *UK SMCR banking firm* means a *UK SMCR banking firm* that is:		
		(1)	a small *CRR* firm as defined in the part of the *PRA Rulebook* called "Allocation of responsibilities"; or	
		(2)	a *credit union*.	
2.3	R	Table: FCA-prescribed senior management responsibilities applying to banking sector firms		

Brief description of responsibility	Reference letter of responsibility	UK firm	Small UK firm	Overseas firm
Responsibility for the *firm's* performance of its obligations under the senior managers regime	(a)	√	√	√
Responsibility for the *firm's* performance of its obligations under the employee certification regime	(b)	√	√	√

Brief description of responsibility	Reference letter of responsibility	UK firm	Small UK firm	Overseas firm
Financial crime	(d)	√	√	√
COCON	(b-1)	√	√	√
Training *governing body*	(f)	√	×	×
Training of staff performing *designated senior management responsibilities* See Note (2)	(g)	√	×	×
Management responsibilities maps	(c)	√	√	√
Whistleblowers' champion	(n)	√	√	×
Internal audit oversight	(j)	√	×	×
Compliance oversight	(k)	√	×	×
Risk oversight	(l)	√	×	×
Remuneration	(m)	√	×	×
CASS	(z)	√	√	√
UK risk management	(aa)	×	×	√
Compliance with *UK regulatory system*	(ff)	×	×	√
Escalation of correspondence	(ee)	×	×	√

Note (1): the categories of *firm* in the column headings of this table are to be interpreted in accordance with the classification of *firms* in *SYSC 24 Annex 1 2.1R*. Therefore:

(a) column three (UK firm) refers to *SYSC 24 Annex 1 2.1R(2)(a)*;

Brief description of responsibility	Reference letter of responsibility	UK firm	Small UK firm	Overseas firm
(b) column four (Small UK firm) refers to *SYSC 24 Annex 1 2.1R(2)(b)*; and (c) column five (Overseas firm) refers to *SYSC 24 Annex 1 2.1R(2)(c)*.				
Note (2): Paragraph (b) of this *FCA-prescribed senior management responsibility* (key function holder) does not apply to any *firm* in this table.				
Insurance sector firms				
3.1	R	(1)	The table in *SYSC 24 Annex 1 3.2R* sets out which *FCA-prescribed senior management responsibilities* apply to which type of *SMCR insurance firm*.	
		(2)	*SMCR firms* in (1) are divided into the following categories for the purposes in (1):	
			(a)	a *Solvency II firm* (excluding *firms* in any other paragraph);
			(b)	a *firm* falling within paragraph (b) of the definition of *Solvency II firm* (undertaking that would require *Part 4A permission* as an insurance or reinsurance undertaking if its head office were situated in the *United Kingdom*);
			(c)	a *small non-directive insurer*;
			(d)	a *firm* in *SYSC 23 Annex 1 5.2R* (*firms* in run-

				off); and
			(e)	an *insurance special purpose vehicle*.
		(3)	An *insurance special purpose vehicle* only falls into paragraph (2)(e). Subject to that, a *firm* in (2)(d) does not fall into any other paragraph.	
3.2	G	References to a *Solvency II firm* include a *large non-directive insurer*.		
3.3	R	Table: FCA-prescribed senior management responsibility applying to insurance sector firms		

Brief description of responsibility	Reference letter of responsibility	Solvency II firm	Overseas branches	Other insurance sector	ISPV
Responsibility for the *firm's* performance of its obligations under the senior managers regime	(a)	√	√	√	√
Responsibility for the *firm's* performance of its obligations under the employee certification regime	(b)	√	√	√	√
Financial crime	(d)	√	√	√	√
COCON	(b-1)	√	√	√	√
Training *governing body*	(f)	√	×	×	×
Training of staff performing *designated*	(g)	√	×	×	×

Brief description of responsibility	Reference letter of responsibility	Solvency II firm	Overseas branches	Other insurance sector	ISPV
senior management responsibilities					
Management responsibilities maps	(c)	√	√	×	×
Whistleblowers' champion	(n)	√	×	×	×
CASS	(z)	√	√	√	×
Internal audit for non-significant insurers	(j-2)	√	×	×	×
Compliance with *UK regulatory system*	(ff)	×	√	×	×
Escalation of correspondence	(ee)	×	√	×	×

Note: The categories of *firm* in the column headings of this table are to be interpreted in accordance with the classification of *firms* in *SYSC 24 Annex 1 3.1R*. Therefore:

(1) Solvency II firm (column three) refers to *SYSC 24 Annex 1 3.1R(2)(a)*;

(2) Overseas branches (column four) refers to *SYSC 24 Annex 1 3.1R(2)(b)*;

(3) Other insurance sector (column five) refers to *SYSC 24 Annex 1 3.1R(2)(c)* and *(d)*; and

(4) ISPV (column six) refers to *SYSC 24 Annex 1 3.1R(2)(e)*.

	Solo regulated firms		
4.1	R	(1)	The table in *SYSC 24 Annex 1 4.2R* sets out which *FCA-prescribed senior management responsibilities* apply to which type of *core SMCR firm* and *enhanced scope SMCR firm*.
		(2)	*SMCR firms* in (1) are

			divided into the following categories for the purposes of in (1):	
			(a)	*UK core SMCR firm*;
			(b)	*overseas core SMCR firm* (excluding an *EEA SMCR firm*); and
			(c)	*enhanced scope SMCR firm*.
4.2	R	Table: FCA-prescribed senior management responsibility applying to solo regulated firms		

(1) Brief description of responsibilit	**(2) Reference letter of responsibility**	**(3) UK core firm**	**(4) Overseas core firm**	**(5) Enhanced scope firm**
Responsibility for the *firm's* performance of its obligations under the senior managers regime	(a)	√	√	√
Responsibility for the *firm's* performance of its obligations under the employee certification regime	(b)	√	√	√
Financial crime	(d)	√	√	√
COCON	(b-1)	√	√	√
Management responsibilities maps	(c)	×	×	√
Internal audit oversight	(j)	×	×	√
Compliance	(k)	×	×	√

(1) Brief description of responsibilit	(2) Reference letter of responsibility	(3) UK core firm	(4) Overseas core firm	(5) Enhanced scope firm
oversight				
Risk oversight	(l)	×	×	√
CASS	(z)	√	√	√
Independence of outsourced internal audit	(j-3)	×	×	√
Business model	(t)	×	×	√
Stress tests	(s)	×	×	√
Allocation of responsibility for *COLL* compliance to an approved person	(za)	√	√	√
UK risk management	(aa)	×	√	×
Compliance with *UK regulatory system*	(ff)	×	√	×
Escalation of correspondence	(ee)	×	√	×

Note: The categories of *firm* in the column headings of this table are to be interpreted in accordance with the classification of *firms* in *SYSC 24 Annex 1 4.1R*. Therefore:

(1) UK core firm (column three) refers to *SYSC 24 Annex 1 4.1R(2)(a)*;

(2) Overseas core firm (column four) refers to *SYSC 24 Annex 1 4.1R(2)(b)*; and

(3) Enhanced scope firm (column five) refers to *SYSC 24 Annex 1 4.1R(2)(c)*.

Section : SYSC 24 Annex 2 Preferred allocations of FCA-prescribed senior management responsibilities

Purpose

SYSC 24 Annex 2.1 G

This annex sets out detailed *guidance* on the *FCA's* expectations about what *designated senior management function* an *SMF manager* should and not should not hold if a *firm* wishes to allocate particular *FCA-prescribed senior management responsibilities* to them. It should be read together with *SYSC 24.3.2G* and *SYSC 24.3.3G* (The SMF managers to whom FCA-prescribed senior management responsibilities should be allocated), and *SYSC 24.3.4G* and *SYSC 24.3.5G* (Exceptions for small non-complex firms).

General material

SYSC 24 Annex 2.2 G

(1) The 'SMF most likely to be appropriate' column in the tables in this annex covers the combinations of *designated senior management functions* and *FCA-prescribed senior management responsibilities* that the *FCA* considers are likely to be appropriate.

(2) The 'Would generally consider harder to justify' column in the tables in this annex covers combinations of *designated senior management functions* and *FCA-prescribed senior management responsibilities* that the *FCA* considers to be generally inappropriate and which the *FCA* may question if a *firm* proposes to adopt one.

SYSC 24 Annex 2.3 G

However, ultimately, an *FCA-prescribed senior management responsibility* should be allocated to the most suitable *SMF manager*. This will depend on the individual circumstances of each *firm*.

SYSC 24 Annex 2.4 G

Therefore:

(1) a combination in the 'SMF most likely to be appropriate' column may be inappropriate in the circumstances of a particular *firm*; and

(2) a combination in the 'Would generally consider harder to justify' column may be appropriate in the circumstances of a particular *firm* (or may be appropriate for a specific period) if the *firm* has good reason for it, although even then the *FCA* may wish to explore those reasons with the *firm*.

SYSC 24 Annex 2.5 G

As an example of the principle in *SYSC 24 Annex 2.3G*, the *FCA* accepts that it may not be practical for a small non-complex *firm* (see *SYSC 24.3.4G* (Exceptions for small non-complex firms)) to comply with the tables in this annex.

SYSC 24 Annex 2.6 G

(1) This annex does not cover every possible combination of *designated senior management function* and *FCA-prescribed senior management responsibility*.

(2) In particular, some *designated senior management functions* may appear in

neither the 'SMFs most likely to be appropriate' nor the 'Would generally consider harder to justify' columns in a row of one of the tables in this annex dealing with a particular *FCA-prescribed senior management responsibility*.

(3) Paragraphs (1) and (2) do not mean that a *firm* should not allocate that *FCA-prescribed senior management responsibility* to an *SMF manager* performing that *designated senior management function*.

(4) Instead, in such a case, the *FCA* does not consider that it is possible to give any generalised *guidance*. The most important consideration will be whether the *SMF manager* is the most senior employee or officer responsible for managing that area, as set out in *SYSC 24.3.1G* (Seniority and authority).

SYSC 24 Annex 2.7 G

If no one performs the *chief executive function* for a *firm*, it will usually be most appropriate for those *FCA-prescribed senior management responsibilities* that are listed in the tables in this annex as being appropriate for SMF 1 to go instead to the most suitable *SMF manager*:

(1) approved to perform the *executive director function* or the *partner function*; or

(2) (in the case of a *PRA-authorised person*) into whose *designated senior management function* the functions in (1) have been absorbed under the arrangements in *SUP 10C.9* (Minimising overlap with the PRA approved persons regime).

Allocations for core SMCR firms

SYSC 24 Annex 2.8 G

The tables in *SYSC 24 Annex 2.10G* and *SYSC 24 Annex 2.11G* cover *core SMCR firms*.

SYSC 24 Annex 2.9 G

The table in *SYSC 24 Annex 2.11G* covers *FCA-prescribed senior management responsibilities* that only apply to *overseas SMCR firms*.

SYSC 24 Annex 2.10 G

Table: Combinations of designated senior management functions and FCA-prescribed senior management responsibilities for core SMCR firms

(1) **FCA-prescribed senior management responsibility**	(2) **SMFs most likely to be appropriate**	(3) **Would generally consider harder to justify**
(a) (Responsibility for performance of obligations under senior managers regime)	SMFs 1, 19	SMFs 9, 16, 17
(b) (Responsibility for performance of	SMFs 1, 19	SMFs 9, 16, 17

obligations under certification regime)		
(b-1) (Responsibility for conduct rules)	SMFs 1, 19	SMFs 9, 17
(d) (*Financial crime*)	See the Financial Crime Guide, particularly *FCG 2.2.1G* (Governance) and *FCG 2.2.3G* (Structure).	SMF 9
(z) (*CASS*)	See *CASS 1A.3* (Responsibility for CASS operational oversight).	SMF 9
(za) (*COLL*)	SMF 9 There are also *rules* governing the allocation of this function (see *COLL 6.6.27R*, *COLL 8.5.22R* and *COLL 15.7.24R*).	SMFs 1, 3, 16, 17, 27
(1) The letter and alphanumeric references in column (1) are to the codes in the column headed 'Reference letter' in *SYSC 24.2.6R* (Table: FCA-prescribed senior management responsibilities). (2) The numbers in columns (2) and (3) identify an *FCA-designated senior management function* by reference to the number assigned to it in the column headed 'SMF' in *SUP 10C.4.3R* (Table of FCA-designated senior management functions for SMCR firms).		

SYSC 24 Annex 2.11 G

Table: Combinations of designated senior management functions and FCA-prescribed senior management responsibilities only applicable to core SMCR firms that are overseas SMCR firms

(1) **FCA-prescribed senior management responsibility**	(2) **SMFs most likely to be appropriate**	(3) **Would generally consider harder to justify**
(aa) (*UK* management processes)	SMF 19	SMF 17
(ee) (Escalating correspondence)	SMF 19	SMF 17

(ff) (Compliance with *UK regulatory system*)	SMF 19	SMF 17
See the notes to the table in *SYSC 24 Annex 2.10G* for the meaning of the numerical and alphanumerical references in this table.		

Allocations for all other firms

SYSC 24 Annex 2.12 G

The table in *SYSC 24 Annex 2.13G* covers all *SMCR firms* required to allocate *FCA-prescribed senior management responsibilities*, other than *core SMCR firms*.

SYSC 24 Annex 2.13 G

Table: Combinations of designated senior management functions and FCA-prescribed senior management responsibilities for all other SMCR firms

(1) FCA-prescribed senior management responsibility	(2) SMFs most likely to be appropriate	(3) Would generally consider harder to justify
(a) (Responsibility for performance of obligations under senior managers regime)	SMFs 1, 19, 25, 26	SMFs 5, 9-15, 16, 17, 18, 20, 20a, 22, 23
(b) (Responsibility for performance of obligations under certification regime)	SMFs 1, 19, 25, 26	SMFs 5, 9-15, 16, 17, 18, 20, 20a, 22, 23
(b-1) (Responsibility for conduct rules)	SMFs 1, 19, 25, 26	SMFs 5, 9-15, 17, 18, 20, 20a, 22, 23
(c) (*Management responsibilities map*)	SMFs 1, 19	SMFs 5, 9-15, 17, 18, 20, 20a, 22, 23
(d) (*Financial crime*)	See the Financial Crime Guide, particularly *FCG 2.2.1G* (Governance) and *FCG 2.2.3G* (Structure).	SMFs 2, 5, 6, 9-15, 18, 20, 20a, 22, 23

(f) (Training of *governing body*)	SMFs 9, 19	SMFs 1-6, 15-18, 20-24
(g) (Training of senior management)	SMFs 1, 19	SMFs 2, 4, 5, 9-15, 18, 20, 20a, 22, 23, 24
(j) (Independence and oversight of internal audit)	SMF 11	SMFs 1-6, 16, 17, 18, 22, 24,
(j-2) (Outsourced internal audit where certain *PRA* rules apply)	SMF 11	SMFs 1-6, 12-18, 20, 20a, 22, 23, 24
(j-3) (Outsourced internal audit)	SMF 11	SMFs 1-5, 12, 13, 16, 17, 18, 22, 24
(k) (Independence and oversight of compliance)	SMF 10	SMFs 1-6, 16, 17, 18, 22, 24
(l) (Independence and oversight of risk function)	SMF 10	SMFs 1-6, 16, 17, 18, 22, 24
(m) (Remuneration policy and practices)	SMF 12	SMFs 1-6, 16, 17, 18, 20, 20a, 22, 23, 24
(n) (Whistleblowing)	See *SYSC 18.4.1G(4)*	SMFs 1-6, 16, 17, 18, 20, 20a, 22, 23, 24
(s) (Stress tests)	SMFs 2, 4	SMFs 5, 9-14, 16, 17, 18, 22, 24
(t) (Development and maintenance of business model)	SMFs 1, 25, 26	SMFs 5, 9-12, 14, 16, 17, 18, 20, 20a, 22, 23, 24
(z) (*CASS*)	See *CASS 1A.3* (Responsibility for CASS operational oversight).	SMFs 5, 9-15, 20, 20a, 23

(za) (*COLL*)	SMF 9 There are also *rules* governing the allocation of this function (see *COLL 6.6.27R*, *COLL 8.5.22R* and *COLL 15.7.24R*).	SMFs 1-5, 7, 16, 17, 18, 19, 22, 24
(aa) (*UK* management processes)	SMF 4	SMFs 5, 17, 22, 24
(ee) (Escalating correspondence)	SMF 19	SMFs 2, 4, 5, 9-12, 14, 17, 20, 20a, 22, 23, 24
(ff) (Compliance with *UK regulatory system*)	SMF 19	SMFs 2, 4, 5, 9-12, 14, 17, 20, 20a, 22, 23, 24

(1) The letter and alphanumeric references in column (1) are to the codes in the column headed 'Reference letter' in *SYSC 24.2.6R* (Table: FCA-prescribed senior management responsibilities).

(2) The numbers in columns (2) and (3) identify the *FCA-designated senior management function* by reference to the number assigned to it in the column headed 'SMF' in *SUP 10C.4.3R* (Table of FCA-designated senior management functions for SMCR firms). In the case of a *PRA-authorised person*, the numbers refer, where applicable, to the corresponding *PRA-designated senior management function* or, where there is no equivalent *FCA-designated senior management function*, to the number and letter used by the *PRA*.

(3) *SYSC 24.2.3R* (Allocation of FCA-prescribed senior management responsibilities) means that (with the exception set out in that *rule*) only an *enhanced scope SMCR firm* may allocate an *FCA-prescribed senior management responsibility* to an *SMF manager* who is only approved to perform the *other overall responsibility function* or the *other local responsibility function* for that *firm*. References to SMF 18 and SMF 22 in this table should be interpreted accordingly.

CHAPTER

SYSC 25 Senior managers and certification regime: Management responsibilities maps and handover procedures and material

Section : SYSC 25.1 Application and purpose

Main application rules

SYSC 25.1.1 R This chapter applies to:

(1) an *SMCR banking firm*;

(2) an *SMCR insurance firm* that is a *Solvency II firm* (including a *large non-directive insurer*) but excluding:

(a) an *insurance special purpose vehicle*; and

(b) a *firm* in *SYSC 23 Annex 1* 5.2R (*firms* in run-off); and

(3) an *enhanced scope SMCR firm*;

except to the extent that this chapter applies a narrower scope to a particular provision.

SYSC 25.1.2 R This chapter is not limited to *regulated activities* or other specific types of activities.

Territorial scope

SYSC 25.1.3 R Subject to *SYSC 25.1.4R*, there is no territorial limitation on the application of this chapter.

SYSC 25.1.4 R This chapter applies to an *overseas SMCR firm* in relation to the activities of a *branch* maintained by the *firm* in the *United Kingdom*.

How this chapter applies to overseas SMCR firms

SYSC 25.1.5 R Unless the context requires otherwise, the following terms in this chapter are modified as follows in relation to an *overseas SMCR firm*:

Reference in this chapter	Modification
firm	treated as a reference to the *branch*
governing body, *management body*, *senior management* and *senior personnel*	(a) treated as a reference to the *branch's governing body*, *management body*, *senior management* or *senior personnel*; (b) the *Glossary* definitions of these terms are adjusted so as to refer to the *branch* rather than the *firm* as a whole
group	treated as including the rest of the *firm*

Purpose

SYSC 25.1.6 G (1) One purpose of the *management responsibilities map* is to help the *firm* and the *FCA* satisfy themselves that the *firm* has a clear organisational structure (as required by the *regulatory system*).

(2) It also helps the *FCA* to identify who it needs to speak to about particular issues.

(3) The *management responsibilities map* helps the *FCA* to operate its powers and requirements for individuals. For example it helps the *FCA*:

(a) to identify who is accountable if something goes wrong;

(b) to understand the role of the *approved person* (or *candidate*) in the *firm* and therefore to judge how to use its powers under the regime for *SMCR firms*, such as the power to grant or refuse approval of an *SMF manager* or to amend or impose conditions.

Section : SYSC 25.2 Management responsibilities maps: Main rules

General rule

SYSC 25.2.1 R

(1) A *UK SMCR firm* must, at all times, have a comprehensive and up-to-date *document* (the *management responsibilities map*) that describes its management and governance arrangements.

(2) An *overseas SMCR firm* must, at all times, have a comprehensive and up-to-date *document* (the *management responsibilities map*) that describes the management and governance arrangements for any *branch* it maintains in the *United Kingdom*.

(3) A *management responsibilities map* must include:

(a) details of the reporting lines and the lines of responsibility; and

(b) reasonable details about:

(i) the *persons* who are part of those arrangements; and

(ii) their responsibilities.

(See further requirements in *SYSC 25.2.3R*.)

SYSC 25.2.2 R

The *firm's management responsibilities map* must show clearly how any responsibilities covered by a *firm's management responsibilities map* are shared or divided between different *persons*.

Specific requirements

SYSC 25.2.3 R

A *management responsibilities map* must include:

(1)

(a) the names of all the *firm's*:

(i) *approved persons* (including *PRA approved persons*);

(ii) members of its *governing body* and (if different) *management body* who are not *approved persons*;

(iii) *senior management*;

(iv) *senior personnel*; and

(b) details of the responsibilities which they hold;

(2) all responsibilities described in any current *statement of responsibilities*;

(3) details of the management and governance arrangements relating to:

(a) the *FCA-prescribed senior management responsibilities*; and

(b) the *PRA-prescribed senior management responsibilities*;

including the identity of the *persons* to whom those functions are allocated;

(4) the reasons why (if it has done any of these things) the *firm*:

(a) allocates responsibility for an *FCA-prescribed senior management responsibility* to more than one *person* jointly; or

(b) divides responsibility for an *FCA-prescribed senior management responsibility* between different *persons*;

(5) details about the functions allocated under, *SYSC 26* (Senior managers and certification regime: Overall and local responsibility), including:

(a) what the activities, business areas and management functions allocated under that chapter are;

(b) the management and governance arrangements relating to them;

(c) [deleted]

(d) the reasons why (if it has done this) the *firm* allocates responsibility for any such function to more than one *person* jointly; and

(e) the identity of the *persons* to whom those functions are allocated;

(6) matters reserved to the *governing body* (including the terms of reference of its committees) and, if different, the *management body*;

(7) details of how the *firm's* management and governance arrangements fit together with:

(a) its *group*; and

(b) any other *person* in (8);

(8) details of the extent to which the *firm's* management and governance arrangements are provided by, or shared with, other members of its *group* or others;

(9) details of the reporting lines and the lines of responsibility (if any) between the *firm* and those who carry out functions in relation to it and:

(a) other members of its *group* or other third parties;

(b) *persons* acting as employees or officers of, or otherwise acting for, anyone in (a); or

(c) committees or other bodies of anyone in (a);

(10) reasonable information about the *persons* described or identified in the *management responsibilities map*, including:

(a) whether they are *employees* of the *firm* and, if not, by whom they are employed;

(b) if they are *certification employees* of the *firm*; and

(c) the responsibilities they have in relation to other *group* members or any other *person* in (8); and

(11) details of how (1) to (10) fit together and fit into the *firm's* management and governance arrangements as a whole.

SYSC 25.2.4 R *SYSC 25.2.3R(1)* does not require the *firm* to include the names of *approved persons* under *SUP 10A* (FCA Approved Persons in Appointed Representatives).

Section : SYSC 25.3 Management responsibilities maps: Exclusion of non-financial services activities for some firms

SYSC 25.3.1 R

An *enhanced scope SMCR firm* may prepare its *management responsibilities map* so that (subject to *SYSC 25.3.2R*) it only includes its management and governance arrangements to the extent that they cover, support or otherwise relate to its *SMCR financial activities*.

SYSC 25.3.2 R

If a *firm* uses the exclusion in *SYSC 25.3.1R* it must include sufficient information about the excluded management and governance arrangements to show how the included management and governance arrangements fit in with the *firm's* management and governance arrangements as a whole.

SYSC 25.3.3 G

Support functions that should be covered by a *management responsibilities map* despite *SYSC 25.3.1R* include:

(1) human resources;

(2) the *firm's* information technology; and

(3) compliance and legal services.

SYSC 25.3.4 G

(1) A *firm* may have a non-financial services business in addition to carrying on its *SMCR financial activities*. Its support services may support both aspects of its business and its *management responsibilities map* may therefore still need to cover the support services even though they also cover the *firm's* non-financial services business.

(2) Take for example human resources. If the *firm's* human resources function covers the *firm's* entire workforce without separating the parts that deal with the *firm's* financial services and its other business, the *management responsibilities map* should cover the entire human resources function.

(3) On the other hand, the *firm* may separate the part of its human resources function that deals with those working in its financial services business from the part that deals with the other part of its business. In that case the *management responsibilities map* may leave out (subject to *SYSC 25.3.2R*) the part of the human resources function that covers its non-financial services business.

Section : SYSC 25.4 Guidance about what should be in a management responsibilities map

Material applicable to all firms

SYSC 25.4.1 G The *management responsibilities map* should be consistent with the *statements of responsibilities*.

SYSC 25.4.2 G The *statements of responsibilities* and the *management responsibilities map* should all be prepared in a way that makes it simple to see how the responsibilities allocated in a particular *statement of responsibilities* fit into the overall system of management and governance of the *firm*.

SYSC 25.4.3 G The *management responsibilities map* should include functions that are:

(1) included in a *PRA controlled function* under the *PRA rules* complementing *SUP 10C.9* (Minimising overlap with the PRA approved persons regime) (as listed in *SUP 10C.9.6G(2)*);

(2) excluded from the *other overall responsibility function* under *SUP 10C.7.1R(2)* (Exclusion for *approved person* with approval to perform other *designated senior management functions*); or

(3) excluded from the *other local responsibility function* under *SUP 10C.8.1R(2)* (Exclusion for *approved person* with approval to perform other *designated senior management functions*).

SYSC 25.4.4 G A *firm's management responsibilities map* should demonstrate that there are no gaps in the allocation of responsibilities among its management.

SYSC 25.4.5 G A *firm* need only include summary details of the *persons* in *SYSC 25.2.3R(1)*.

SYSC 25.4.6 G A *firm's SMF managers* and members of its governing body may overlap with its *senior management* and *senior personnel*. If so, the *firm* does not have to give the same details twice.

SYSC 25.4.7 G A *firm* should include details about individuals in addition to the details in *SYSC 25.2.3R(1)*, (3) and (5) if they are needed to make the *management responsibilities map* clear. For example, if the same individual has responsibilities in a number of different areas of the *firm* it may be necessary to make this clear.

SYSC 25.4.8 G A *firm* should only include summary details about *statements of responsibilities* under *SYSC 25.2.3R(2)*. There is no need to duplicate the *statements of responsibilities*. The main aim of including material about *statements of responsibilities* in the *management responsibilities map* is to show how that material:

(1) fits into the *firm's* overall governance structure; and

(2) for each *statement of responsibilities*, fits with the others.

SYSC 25.4.9 G A *management responsibilities map* should include a checklist confirming that all *FCA-prescribed senior management responsibilities* have been allocated or, if some have not been allocated, the reason why.

SYSC 25.4.10 G If:

(1) any *designated senior management function* is performed by; or

(2) any *FCA-prescribed senior management responsibility* is allocated to;

more than one *person*, a *firm's management responsibilities map* should give details of how the performance or discharge of the responsibilities is to be carried out by those *persons*.

SYSC 25.4.11 G The *executive director function*, the *other local responsibility function*, the *group entity senior manager function*, the *partner function* and the *other overall responsibility function* are defined generally and generically and can be performed by several people. Therefore, there is no need to explain why several people perform one of the functions.

SYSC 25.4.12 G The material in *SUP 10C.11.31G* and *SUP 10C.11.32G* (recording sharing and splitting of responsibilities in *statements of responsibilities*) also applies to a *management responsibilities map*.

SYSC 25.4.12A G In relation to the temporary absence of an *SMF manager* of a *firm* see the *guidance* at *SUP 10C.14.5JG*.

Branches of overseas firms

SYSC 25.4.13 G One effect of *SYSC 25.1.5R* is that an *overseas SMCR firm* should draw up its *management responsibilities map* as if the rest of the *firm* outside the *UK branch* were a separate company in its *group*. This means, for example, that the map should include:

(1) details of how the *branch's* management and governance arrangements fit together with the wider *firm*;

(2) details of the extent to which the *branch's* management and governance arrangements are provided by, or shared with, the wider *firm*; and

(3) details of the reporting lines and the lines of responsibility between the *branch* and those who carry out functions in relation to it and the wider *firm* and *persons* acting for it.

Small firms

SYSC 25.4.14 G

(1) The *FCA* expects that the *management responsibilities map* of a small and non-complex *firm* is likely to be simple and short. It may be no more than a single sheet of paper.

(2) See *SYSC 24.3.5G* for what small and non-complex mean.

Section : SYSC 25.5 Management responsibilities map should be a single document

SYSC 25.5.1 R

A *management responsibilities map* must be a single *document*.

SYSC 25.5.2 G

(1) The requirement for a *management responsibilities map* to be a single *document* does not mean that it has to be a single sheet of paper or must be capable of being reproduced as one.

(2) A *management responsibilities map* may be made up of a folder with several files or items in it. The folder may be electronic.

(3) However, a *firm* that creates a *management responsibilities map* in this way should ensure that its approach is compatible with it being a single *document*. In particular:

(a) there should be a single item that identifies every item making up the *management responsibilities map* and shows where each item can be found;

(b) for example, this could be a contents list of the items making up the *management responsibilities map* with electronic links to each of them;

(c) the *management responsibilities map* should be complete by itself and should not refer to documents not forming part of it;

(d) every item in the *management responsibilities map* should only contain material about the matters required by this chapter to be included in *management responsibilities maps*;

(e) for example, if there is relevant material in the *firm's* report and accounts, the folder should only contain the relevant parts or a link to those parts.

(4) The folder and its contents should be easily identifiable as the *firm's management responsibilities map*.

SYSC 25.5.3 G

Although a *management responsibilities map* can be large and complex, *SYSC 25.4.14G* explains that, for small non-complex *firms*, it may be small and simple.

Section : SYSC 25.6 Management responsibilities maps: Material only relevant to EEA SMCR firms

Application

SYSC 25.6.1 R This section applies to an *EEA SMCR firm*.

FCA-prescribed senior management responsibilities

SYSC 25.6.4 G *SYSC 25.2.3R* (Specific requirements) requires a *management responsibilities map* to cover the allocation of *FCA-prescribed senior management responsibilities*. This is not relevant to an *EEA SMCR firm* as *FCA-prescribed senior management responsibilities* do not apply to it.

Leaving out information already supplied

SYSC 25.6.5 R

(1) An *EEA SMCR firm* may exclude from its *management responsibilities map* any information that it has, before *IP completion day*, excluded under this section of the *FCA Handbook* in the form this section was in immediately before *IP completion day*.

(2) [deleted]

(3) An *EEA SMCR firm* may exclude from its *management responsibilities map* any other information that has been supplied by the *firm* to the *FCA* or the *PRA* (including through the *firm's* Home State competent authority) if:

(a) that information was supplied to the *FCA* or the *PRA* in carrying out their functions under the *regulatory system* in relation to *firms*; and

(b) the *Single Market Directives* or any other *EU* legislation the *Single Market Directives* or any other *EU* legislation provides provided as at *IP completion day* for the supply of that kind of information to a Host State competent authority.

(4) For these purposes:

(a) Home State and Host State have the meaning that they did in the *Glossary* as it was in force immediately before *IP completion day*; and

(b) competent authority means a competent authority in an *EEA State* for the purposes of a *Single Market Directive*.

SYSC 25.6.8 G The *FCA* expects that an *EEA SMCR firm* that excludes information from its management responsibilities map under *SYSC 25.6.5R* will identify in its *management responsibilities map* the documents supplied to the *FCA* or the *PRA* where the omitted information can be found.

SYSC 25.6.9 G In practice an *EEA SMCR firm* may find it easier to prepare its *management responsibilities map* without omitting any information under *SYSC 25.6.5R* so that all the information referred to in *SYSC 25.2* (Management responsibilities maps: Main rules) can be found in a single integrated *document*.

SYSC 25.6.10 G *SYSC 25.4* (Guidance about what should be in a management responsibilities map) does not take into account the right of a *firm* to omit information under *SYSC 25.6.5R*. It assumes that the *firm* will prepare a single *document* under *SYSC 25.6.9G*. However *SYSC 25.4* is not intended to take away the right to omit information under *SYSC 25.6.5R*.

Section : SYSC 25.7 Guidance about SYSC 25 Annex 1G

SYSC 25.7.1 G This section gives *guidance* about *SYSC 25 Annex 1*G (Examples of the business activities and functions of an *SMCR firm*).

Purpose of SYSC 25 Annex 1G

SYSC 25.7.2 G

(1) A *firm* may use *SYSC 25 Annex 1*G as a prompt to see whether its *management responsibilities map* covers all its business activities.

(2) A *firm* may wish to prepare its *management responsibilities map* using the same split of activities, where this is appropriate.

SYSC 25.7.3 G As mentioned in *SYSC 26.11.2G*, a *firm* may also use *SYSC 25 Annex 1*G as a prompt when allocating responsibilities under *SYSC 26* (Senior managers and certification regime: Overall and local responsibility).

SYSC 25.7.4 G If a *firm* uses *SYSC 25 Annex 1*G to help it prepare its *management responsibilities map* or when allocating responsibilities under *SYSC 26* (Senior managers and certification regime: Overall and local responsibility), it should bear in mind that it is not comprehensive and that there may be other business activities and functions that are relevant to that firm but that are not included in *SYSC 25 Annex 1*G (see *SYSC 25.7.8G*).

SYSC 25.7.5 G The purpose of *SYSC 25 Annex 1*G is not say how an *SMCR firm* should:

(1) prepare its *management responsibilities map*;

(2) allocate responsibilities amongst its senior management; or

(3) organise itself.

Contents of SYSC 25 Annex 1G

SYSC 25.7.6 G *SYSC 25 Annex 1*G sets out examples of the business activities and functions that the *FCA* thinks could be relevant to most large or complex *firms*, although the *FCA* does not require *firms* (large or small, complex or non-complex) to organise themselves in this way.

SYSC 25.7.7 G Most or all of these activities and functions will normally apply to a complex *firm*. Many of them may not apply to a non-complex *firm*.

SYSC 25.7.8 G

(1) *SYSC 25 Annex 1*G is not comprehensive. While it is intended to cover most front-line business activities of an *SMCR firm*, it does not cover all internal oversight and monitoring functions.

(2) For example, it does not cover compliance or internal audit or the *firm's governing body* or its committees.

Section : SYSC 25.8 Management responsibilities maps: Records

SYSC 25.8.1 G

A *firm* should consider past versions of its *management responsibilities map* as an important part of its records and as an important resource for the *FCA* in supervising the *firm*.

SYSC 25.8.2 G

Past versions of a *firm's management responsibilities map* form part of its records under the *regulatory system*.

SYSC 25.8.3 R

(1) This *rule* applies to a *Solvency II firm* (including a *large non-directive insurer*) to which *SYSC 25.1.1R(2)* (Main application rules) applies.

(2) A *firm* must retain each version of its *management responsibilities map* for:

(a) (in the case of a *large non-directive insurer*) six years; or

(b) (in any other case) ten years;

from the date on which it was superseded by a more up-to-date version.

(3) A *firm* must be prepared to provide each version to the *FCA* on request for as long as the *firm* is required to retain it.

Section : SYSC 25.9 Handover procedures and material

Application

SYSC 25.9.1 R

This section applies to a *firm* that meets the following conditions:

(1) it falls within *SYSC 25.1.1R* (Application and purpose); and

(2) it falls within one of the following categories:

(a) it is a *UK SMCR firm*; or

(b) it is an *overseas SMCR banking firm*.

SYSC 25.9.2 R

For *overseas SMCR banking firms*, references in this section to an *SMF manager* are references to the *SMF manager* when acting as an *SMF manager* for the *firm's branch* in the *United Kingdom*.

SYSC 25.9.3 R

This section does not apply to a *full-scope UK AIFM* in relation to its *managing an AIF*.

Rules about handover material

SYSC 25.9.4 R

A *firm* must take all reasonable steps to ensure that:

(1) a *person* who is becoming an *SMF manager*;

(2) an *SMF manager*:

(a) taking on a new job or new responsibilities; or

(b) whose responsibilities or job are being changed; and

(3) anyone who has management or supervisory responsibilities for the *SMF manager* in (1) or (2);

has, when the *SMF manager* starts to perform their new or revised responsibilities or job, all information and material that a *person* in (1) to (3) could reasonably expect to have to perform those responsibilities or that job effectively and in accordance with the requirements of the *regulatory system*.

SYSC 25.9.5 R

(1) A *firm* must have a policy about how it complies with *SYSC 25.9.4R*, including the systems and controls it uses.

(2) A *firm* must make and maintain adequate records of the steps taken to comply with *SYSC 25.9.4R*.

SYSC 25.9.6 G

The information and material in *SYSC 25.9.4R* that should be made available includes details:

(1) about unresolved or possible breaches of the requirements of the *regulatory system*; and

(2) of any unresolved concerns expressed by the *FCA*, the *PRA* or another *regulatory body*.

SYSC 25.9.7 G

(1) The main purpose of *SYSC 25.9.4R* is to help the *SMF manager* with their new or revised responsibilities or job and to help the managers of *SMF managers*.

(2) The information and material should be practical and helpful and not just a record.

(3) The material should include an assessment of what issues should be prioritised.

(4) The information and material should include judgement and opinion, not just facts and figures.

Handover arrangements and certificates

SYSC 25.9.8 G

(1) Where the responsibilities or job in *SYSC 25.9.4R* are being taken over from another *person*, the *firm* should have arrangements for an orderly transition.

(2) As part of these arrangements, the *firm* should take reasonable steps to ensure that the predecessor contributes to the information and material in *SYSC 25.9.4R* all that would be reasonable to expect the predecessor to know and consider relevant, including the predecessor's opinions.

(3) One way of doing this could be for the predecessor to prepare a handover certificate.

(4) However, the *FCA* accepts that there will be cases in which it will be impractical to ask the predecessor to prepare a handover certificate.

Application of this section to other parts of a firm's management

SYSC 25.9.9 G

A *firm* should consider whether to apply the procedures in this section to other parts of its management.

Section : SYSC 25 Annex 1 Examples of the business activities and functions of an SMCR firm

SYSC 25 Annex 1 G

Business areas and management functions	Explanation
(1) Payment services	This means: (1) *payment services*; (2) issuing and administering other means of payment (for example, cheques and bankers' drafts); (3) issuing *electronic money*; and (4) current accounts.
(2) Settlement	This means clearing and settlement of any transactions described in rows (3) and (6) to (9) of this annex, in relation to the assets covered by (9). It also includes clearing and settlement of any transactions described in row (10).
(3) Investment management	This has the same meaning as *managing investments* with the following adjustments: (a) it covers all types of assets; and (b) the exclusions in the *Regulated Activities Order* do not apply. It also covers fund management.
(4) Financial or investment advice	This includes *advising on investments* and *providing targeted support*.
(5) Mortgage advice	This has the same meaning as *advising on regulated mortgage contracts* but is expanded to cover land anywhere in the world and to cover security of any kind over land.
(6) Corporate investments	This means acquiring, holding, managing and disposing a *firm's* investments made for its own account.
(7) Wholesale sales	This means the *selling* of any *investment* to a *person* other than a *retail customer*. It does not include the activities in (1).

Business areas and management functions	Explanation
(8) Retail sales	This means the *selling* of any *investment* to a *retail customer*. It includes savings accounts. It does not include the activities in (1).
(9) Trading for clients	This means *dealing in investments as agent* and *execution of orders on behalf of clients* but the list of products also includes money market instruments and foreign exchange.
(10) Market making	This means the activities described in the *Glossary* definition of *market maker*.
(11) *Investment research*	
(12) Origination/syndication and underwriting	Origination and syndication include: (1) entering into or acquiring (directly or indirectly) any commitment or *investment* with a view to transferring some or all of it to others, or with a view to others investing in the same transaction; (2) sub-participation; and (3) any transaction described in each limb of the *Glossary* definition of *originator*. Underwriting includes underwriting that is not on a firm commitment basis. A commitment or *investment* includes an economic interest in some or all of it. This activity also includes the provision of services relating to such transactions.
(13) Retail lending decisions	Deciding whether, and on what terms, to lend to *retail customers*. Lending includes granting credit, leasing and hire (including finance leasing).
(14) Wholesale lending decisions	Deciding whether, and on what terms, to lend to *persons* who are not *retail customers*.

Business areas and management functions	Explanation
	Lending includes granting credit, leasing and hire (including finance leasing).
(15) Design and manufacturing of products intended for wholesale customers	Wholesale customers mean *persons* who are not *retail customers*.
(16) Design and manufacture of products intended for *retail customers*	
(17) Production and distribution of marketing materials and communications	This includes *financial promotions*.
(18) Customer service	This means dealing with *clients* after the point of sale, including queries and fulfilment of *client* requests.
(19) Customer complaints handling	This includes the *firm's* compliance with *DISP*. It also includes: (1) any similar procedures relating to activities that do not come under the jurisdiction of the *Financial Ombudsman Service*; (2) activities that take place outside the *UK*; and (3) activities that are not subject to any ombudsman service.
(20) Collection and recovering amounts owed to a *firm* by its customers Dealing with customers in arrears	'Customer' means any *person* falling into any of the definitions of *client* in the *Glossary* so far as they apply to the *FCA's Handbook*. The definition is extended to cover all services provided by the *firm* and not just those that are provided in the course of carrying on a *regulated activity* or an *ancillary service*.
(21) Middle office	This means risk management and controls in relation to, and accounting for, transactions in *securities* or *derivatives*.
(22) The *firm's* information technology	This includes cybersecurity.
(23) Business continuity planning	If *SYSC 4.1.6R* and *SYSC 4.1.7R* (Business continuity) apply to the *firm*, this includes the systems and

Business areas and management functions	Explanation
	policies used to comply with those *rules*. This business area of function includes operational continuity, resilience and strategy.
(24) Human resources	This includes recruitment, training and competence and performance monitoring.
(25) Incentive schemes for the *firm's* staff	This is not limited to schemes based on sales.
(26) *Contributing input data* to a *BMR benchmark administrator* (other than an *Annex II benchmark administrator*)	
(27) *Administering a benchmark*	
(28) Administration of insurance	This means the activity described in *SYSC 27.8.5G(1)(k)* (examples of what the significant management *FCA certification function* can cover).
(29) Issuing commitments	This means the activity described in *SYSC 27.8.5G(1)(i)* (examples of what the significant management *FCA certification function* can cover).
(30) Processing	This means the activity described in *SYSC 27.8.5G(1)(j)* (examples of what the significant management *FCA certification function* can cover).
(31) Outsourcing, procurement and vendor management Management of services shared with other *group* members	
(32) Internal operations	
(33) The *firm's* legal department	
Note (1): The purpose of this annex is explained in *SYSC 25.7* (Guidance about *SYSC 25 Annex 1*G) and SYSC 26.11.2G.	
Note (2): A *firm* does not have to use the split of example activities in this annex for the purposes in Note (1). If a *firm* does decide to use it, the *firm* should adapt it to suit the *firm's* management arrangements better. For example, a *firm* may find the split of activities into retail and wholesale activities unsuitable. If so, the *firm* might: (a) treat retail and wholesale activities together; or (b) use its own definition of retail and wholesale activities.	

CHAPTER

SYSC 26 Senior managers and certification regime: Overall and local responsibility

Section : SYSC 26.1 Application

Main application rules

SYSC 26.1.1 R This chapter applies to:

(1) an *SMCR banking firm*;

(2) an *SMCR insurance firm* that is a *Solvency II firm* (including a *large non-directive insurer*) but excluding:

(a) an *insurance special purpose vehicle*; and

(b) a *firm* in *SYSC 23 Annex 1* 5.2R (*firms* in run-off); and

(3) an *enhanced scope SMCR firm*;

except to the extent that this chapter applies a narrower scope to a particular provision.

SYSC 26.1.2 R This chapter is not limited to *regulated activities* or other specific types of activities.

Exclusions

SYSC 26.1.3 R This chapter does not apply to an *EEA SMCR firm*.

Territorial scope

SYSC 26.1.4 R There is no territorial limitation on the application of this chapter, save as set out in *SYSC 26.1.5R*.

SYSC 26.1.5 R When this chapter applies to an *overseas SMCR firm*, it applies in relation to the *firm's branch* in the *United Kingdom*.

SYSC 26.1.6 R Unless the context requires otherwise, the terms in the first column of the table in *SYSC 26.1.7R* are modified as described in the second column of that table in relation to an *overseas SMCR firm*.

SYSC 26.1.7 R Table: Application of this chapter to an overseas SMCR firm

Reference in this chapter	Modification
firm	treated as a reference to the *branch*
governing body	(a) treated as a reference to the *branch's governing body*; (b) the *Glossary* definition of this term is adjusted so as to refer to the *branch* rather than the *firm* as a whole
group	treated as including the rest of the

Reference in this chapter	Modification
	firm
chief executive	*branch* manager or the *person* performing the *head of third country branch function* or the *PRA's* Head of Overseas Branch *designated senior management function*

Section : SYSC 26.2 Purpose

SYSC 26.2.1 G

The purpose of this chapter is to ensure, together (in the case of a *PRA-authorised person*) with the equivalent *PRA* requirements and the requirements about *FCA-prescribed senior management responsibilities* in *SYSC 24* (Senior managers and certification regime: Allocation of prescribed responsibilities), that:

(1) an *SMF manager* is responsible and accountable for every area of a *firm's* activities;

(2) the allocation of responsibilities is done systematically and explicitly; and

(3) the process of allocation of responsibilities under this chapter covers every part of a *firm's* activities, business areas and management functions (subject to the exclusions in *SYSC 26.4* (Exclusions) without any gaps in what is allocated in this process.

SYSC 26.2.2 G

The purpose of this chapter is not primarily to ensure that formal responsibility for everything a *firm* does is allocated amongst its senior management. Even without the requirements of this chapter, responsibilities that have not been allocated explicitly would fall to the *chief executive* by default. However, one of the purposes of this chapter is to avoid responsibilities being allocated by implication or by default. Instead, a *firm* should allocate responsibilities under this chapter expressly and with thought and should record them in the *statements of responsibilities* of the *SMF managers* concerned and (if it is required to produce one) its *management responsibilities map*.

SYSC 26.2.3 G

(1) The allocation of responsibilities under this chapter does not replace the responsibilities of the *chief executive*.

(2) If a *firm* allocates responsibilities under this chapter to an *SMF manager* other than the *chief executive*, the *chief executive* will be responsible for managing that *person's* performance of those responsibilities in the same way that the *chief executive* manages that *person's* other responsibilities.

(3) A *firm* may allocate responsibilities under this chapter to the *chief executive*.

Section : SYSC 26.3 Main rules

SYSC 26.3.1 R

A *UK SMCR firm* must ensure that, at all times, one or more of its *SMF managers* have overall responsibility for each of the activities, business areas and management functions of the *firm*.

SYSC 26.3.2 R

(1) An *overseas SMCR firm* must ensure that, at all times, one or more of its *SMF managers* has overall responsibility (subject to the *branch's governing body*) for each of the activities, business areas and management functions of the *branch* that are under the management of the *branch's governing body*.

(2) An *overseas SMCR firm* must ensure that, at all times, one or more of its *SMF managers* has responsibility for each of the activities, business areas and management functions of the *branch* not covered by (1).

(3) An *SMF manager* in (2) must be directly involved in the management of the activity, business area or management function for which they have responsibility under (2).

SYSC 26.3.3 R

An *SMF manager* who has responsibility for an activity, business area or management function under this section:

(1) (in the case of a *UK SMCR firm*) has "overall responsibility";

(2) (in the case of an *overseas SMCR firm*) has "local responsibility";

for that activity, business area or management function.

SYSC 26.3.4 R

A *firm* must make the allocations of responsibilities in this chapter in such a way that it is clear who has which of those responsibilities.

Section : SYSC 26.4 Exclusions

Exclusions where other requirements apply

SYSC 26.4.1 R

SYSC 26.3 (Main rules) does not require a *PRA-authorised person* to ensure that *SMF managers* have local or overall responsibility for any activity, business area or management function that is included in an *FCA-prescribed senior management responsibility* that applies to the *firm*.

SYSC 26.4.2 R

SYSC 26.3 (Main rules) does not require a *firm* to ensure that *SMF managers* have local or overall responsibility for any activity, business area or management function that is:

(1) included in a *PRA-prescribed senior management responsibility* that applies to the *firm*; or

(2) managed (as part of the *PRA-designated senior management function* concerned) by any of the *firm's SMF managers* approved to perform any of the following *PRA-designated senior management functions* for the *firm*:

(a) the Chief Finance function;

(b) the Chief Risk function;

(c) the Head of Internal Audit function;

(d) the Head of Key Business Area function;

(e) the Chief Operations function; or

(f) the Group Entity Senior Manager function or the Group Entity Senior Insurance Manager function.

Exclusion of the governing body and non-executive directors

SYSC 26.4.3 R

SYSC 26.3 (Main rules) does not require a *firm* to allocate overall or local responsibility for the running of the *firm's governing body*.

SYSC 26.4.4 G

SYSC 26.4.3R means that a *person* does not have overall or local responsibility for a function under this chapter just by being a member of a *firm's governing body* or equivalent.

SYSC 26.4.5 G

(1) A *person* who just provides oversight of a function does not have overall or local responsibility for that function under this chapter.

(2) Paragraph (1) and *SYSC 26.4.4G* mean that a *non-executive director* acting as such does not have overall or local responsibility for a function under *SYSC 26.3* or perform the *other overall responsibility function* or the *other local responsibility function*.

(3) Paragraph (1) and *SYSC 26.4.4G* mean that a *non-executive director*:

(a) providing oversight of a function; or

(b) being responsible for the independence of a function;

does not have overall or local responsibility for that function under this chapter or perform the *other overall responsibility function* or the *other local responsibility function*.

Exclusion where the 12-week rule applies

SYSC 26.4.6 R

(1) This *rule* applies where:

1. (a) a *firm* appoints someone to perform a function in order to provide cover as described in *SUP 10C.3A.6R(1)* (The 12-week rule) or (in the case of a *PRA-authorised person*) the *PRA* equivalent; and

2. (b) the *firm* has allocated any responsibilities (the "Responsibilities") under *SYSC 26.3* (Main rules) to the *SMF manager* (the absent manager) who is absent as described in *SUP 10C.3A.6R(2)* or (in the case of a *PRA-authorised person*) the *PRA* equivalent.

(2) While the disapplication of the *designated senior management function* provided for in *SUP 10C.3A.6R* or (in the case of a *PRA-authorised person*) the *PRA* equivalent is still in force the *firm* may allocate the Responsibilities to an *employee* who is not an *SMF manager*.

(3) For the purposes of this *rule*, the *PRA* equivalent of:

(a) *SUP 10C.3A.6R* is the following parts of the *PRA Rulebook*:

1. (i) rule 2.3 in "Senior Management Functions";

2. (ii) rule 2.4 in "Insurance - Senior Management Functions"; and

3. (iii) rule 2.4 in "Large Non-Solvency II Firms – Senior Management Functions".

(b) *SUP 10C.3A.6R(1)* and *(2)* is the following parts of the *PRA Rulebook*:

(i) rules 2.3(1) and (2) in "Senior Management Functions";

(ii) rules 2.4(1) and (2) in "Insurance - Senior Management Functions"; and

(iii) rules 2.4(1) and (2) in "Large Non-Solvency II Firms – Senior Management Functions".

SYSC 26.4.7 G

A *firm* need not allocate the Responsibilities referred to in *SYSC 26.4.6R(1)(b)* to the person who is providing cover for the absent *SMF manager*.

SYSC 26.4.8 G

SYSC 26.4.6R and *SUP 10C.3A.6R* apply to a person performing the *other overall responsibility function* or the *other local responsibility function* as well as to a person performing one of the other *designated senior management functions*.

Exclusion of the legal function

SYSC 26.4.9 R

(1) *SYSC 26.3* (Main rules) applies to the *SMCR legal function* as modified by (2).

(2) A *firm* may allocate local or overall responsibility for the *SMCR legal function* to

someone who is not an *SMF manager*.

SYSC 26.4.10 R

(1) The *SMCR legal function* of a *firm* means an activity of the *firm* that consists of one or more of the following:

(a) the provision of legal advice or assistance to the *firm* or any member of its *group* in connection with the application of the law or with any form of resolution of legal disputes;

(b) the provision of representation for the *firm* or any member of its *group* in connection with any matter concerning the application of the law or any form of resolution of legal disputes;

(c) a reserved legal activity as defined in *section 12* of the Legal Services Act 2007 (Meaning of "reserved legal activity" and "legal activity") when carried out for the *firm* or any member of its *group*; or

(d) any of the activities set out in *section 32(1)* of the Solicitors (Scotland) Act 1980 (Offence for unqualified persons to prepare certain documents) when carried out for the *firm* or any member of its *group*.

(2) For the purposes of the definition of the *SMCR legal function*, legal dispute includes a dispute as to any matter of fact the resolution of which is relevant to determining the nature of any *person's* legal rights or liabilities.

SYSC 26.4.11 R

(1) If a *firm* allocates the functions in (2) to the same *person* as the one to whom it allocates responsibility for activities in *SYSC 26.4.10R*, the functions in (2) also form part of the *SMCR legal function*. As a result the exclusion in *SYSC 26.4.9R(2)* also applies.

(2) A function is covered by this *rule* to the extent that it directly supports the activities in *SYSC 26.4.10R*.

SYSC 26.4.12 G

(1) The purpose of *SYSC 26.4.11R* is to treat support services for the legal function as part of the legal function where responsibility for the support services is allocated to the person with overall responsibility for the legal function.

(2) A support service is one that is directly related, but subordinate, to the legal services described in *SYSC 26.4.10R*. It should be necessary for the successful or better functioning of the main legal services and be an integral part of them.

(3) One example of a support service is human resources services for the legal staff. This includes recruitment, training, continuing professional development, appraisal and discipline.

(4) The effect of *SYSC 26.4.11R* is that if the person with overall responsibility for the legal function also has overall responsibility for human resources services for the staff of the legal function, those services are covered by the exclusion in *SYSC 26.4.9R(2)*. However, they are not excluded if those services are provided by a separate human resources department.

SYSC 26.4.13 G

(1) A *firm* may divide its legal function into different parts and appoint a different person to have overall responsibility for each.

(2) If it does, *SYSC 26.4.9R* and *SYSC 26.4.11R* still apply.

(3) So for example, if the *firm* has two legal departments, one headed by A (for which A has overall responsibility) and one headed by B (for which B has overall responsibility):

(a) neither A nor B need be an *SMF manager*; and

(b) the *firm* may allocate overall responsibility for the human resources function for A's department to A and overall responsibility for the human resources function for B's department to B even though neither A nor B is an *SMF manager*.

SYSC 26.4.14 G

SUP 10C.7.1R and *SUP 10C.8.1R* exclude the person with overall responsibility for the legal function from the *other overall responsibility function* (SMF18) and the *other local responsibility function* (SMF22).

SYSC 26.4.15 G

The exclusions in *SYSC 26.4.9R(2)*, *SYSC 26.4.11R* and *SYSC 26.4.14G* do not affect the scope of the following or the obligation to appoint an *SMF manager* to carry them out:

(1) any *FCA-designated senior management function* other than the ones in *SYSC 26.4.14G*; or

(2) any of the *FCA-prescribed responsibilities*.

Exclusion of non-financial services activities

SYSC 26.4.16 R

SYSC 26.3 (Main rules) only requires an *enhanced scope SMCR firm* to allocate responsibility for activities, business areas and management functions to the extent that they support, form part of or otherwise relate to its *SMCR financial activities*.

SYSC 26.4.17 G

SYSC 25.3.3G and *SYSC 25.3.4G* (Management responsibilities maps: Exclusion of non-financial services activities for some firms) are relevant to when an *enhanced scope SMCR firm* may exclude support services from the allocation of responsibilities under this chapter.

Exclusion for AIFMD

SYSC 26.4.18 R

A *full-scope UK AIFM* may treat *managing an AIF* as not being part of its *SMCR financial activities* for the purposes of this chapter.

Section : SYSC 26.5 Guidance on territorial scope

Allocation of responsibilities and territorial scope

SYSC 26.5.1 G *SYSC 26.1.4R* (territorial scope) means that a *firm* should allocate overall responsibilities under this chapter so that they cover activities, transactions, business areas and functions that are located or take place wholly or partly outside, as well as ones in, the *United Kingdom*.

Allocation of responsibility for transactions in branches

SYSC 26.5.2 G There is an exception to *SYSC 26.5.1G* for an *overseas SMCR firm*. This is that *SYSC 26.1.5R* limits this chapter to the activities of its *UK branch*.

SYSC 26.5.3 G (1) It is common for a *branch* to carry out only part of a transaction. For instance, a transaction may be booked in a *branch* but negotiated and arranged elsewhere or vice versa.

(2) When allocating responsibility to an *SMF manager* for activities in relation to transactions under *SYSC 26.3* (Main rules), a *firm* should not exclude a transaction which is arranged, booked or negotiated in the *branch* merely because other elements of the transaction occur outside the *United Kingdom*.

Section : SYSC 26.6 Meaning of local and overall responsibility: General

UK firms

SYSC 26.6.1 G The meaning in practice of overall responsibility for a function of a *UK SMCR firm* depends on whether that function is under the management of the *firm's governing body* or not.

SYSC 26.6.2 G (1) Certain requirements of the *regulatory system* say that the *governing body* of certain *firms* should have ultimate responsibility for, and the prime and leading role in, managing the *firm*.

(2) In particular this is the case under:

(a) *SYSC 4.3A.1R* (Management body); and

(b) [deleted]

(c) rule 2.1 in the Part of the *PRA Rulebook* called Conditions Governing Business (General Governance Requirements) in the Part of the *PRA Rulebook* called Conditions Governing Business.

(3) This means that the *governing body* of a *UK SMCR firm* subject to these requirements will manage the conduct of the whole of the business of the *firm*. In turn that means that the parts of this chapter dealing with a function that is not managed by the *firm's governing body* will not be relevant to it.

SYSC 26.6.3 G The *FCA* recognises that for some *UK SMCR firms* not subject to the requirements in *SYSC 26.6.2G*, some activities, business areas and functions of a *firm* may not be under the management of its *governing body*. This may be the case where, for example:

(1) the *firm* does not have a *governing body*; or

(2) the *firm's* shareholders play a key role in managing it through, for example, a *group* management committee.

Branches of overseas firms

SYSC 26.6.4 G (1) *SYSC 26.3.2R(1)* refers to the activities, business areas and management functions of the *branch* that are under the management of the *branch's governing body*. However, the *FCA* recognises that for some *branches*, some activities, business areas and functions of the *branches* may not be under the management of the *branch's governing body*. This may be the case where the *branch* does not have its own *governing body* or where it is organised in such a way that certain functions are under the management of a *person* or body outside the *branch's* management structure. In those circumstances, it would not be appropriate to require the *firm* to allocate overall responsibility for that matter to a *person* who is part of the management structure of the *branch*.

(2) The requirements to allocate responsibility for activities, business areas and functions of a *branch* under *SYSC 26.3.2R(1)* and (2) respectively are intended to allow for the difference described in (1). In particular:

(a) *SYSC 26.3.2R(1)* is intended to cater for the situation where a particular activity, business area or function of the *branch* is under the management of the *branch's governing body*. In that situation, the *firm* should allocate responsibility for that matter under *SYSC 26.3.2R(1)*; and

(b) *SYSC 26.3.2R(2)* is intended to cater for the situation where a particular activity, business area or function of the *branch* is not under the management of *branch's governing body*. In that situation, the *firm* should allocate responsibility for that matter under *SYSC 26.3.2R(2)*.

Further guidance

SYSC 26.6.5 G *SYSC 26.7* gives *guidance* on the effect of *SYSC 26.3* (Main rules) when a function is under the *governing body's* management. *SYSC 26.8* gives *guidance* on the effect of *SYSC 26.3* when the function is not.

Day-to-day or ultimate control

SYSC 26.6.6 G Having overall or local responsibility under this chapter for a matter does not necessarily mean:

(1) having ultimate authority over it; or

(2) having day-to-day management control of that function.

SYSC 26.6.7 G In particular, the ultimate decision-making body of many *UK SMCR firms* is their *governing body*, acting collectively.

Section : SYSC 26.7 Meaning of local and overall responsibility: Reporting to the governing body

SYSC 26.7.1 G

This section gives *guidance* on what overall and local responsibility for a function means when the *governing body* manages the function in question under *SYSC 26.3* (Main rules).

SYSC 26.7.2 G

When this chapter refers to a *person* having overall or local responsibility for a function as described in *SYSC 26.7.1G*, it means a *person* who has:

(1) ultimate responsibility (under the *governing body* and the *chief executive*) for managing or supervising that function; and

(2) primary and direct responsibility for:

(a) briefing and reporting to the *governing body* about that function; and

(b) putting matters for decision about that function to the *governing body*.

SYSC 26.7.3 G

In general, the *FCA* expects that a person to whom overall responsibility for a function is allocated as described in *SYSC 26.7.1G* will be the most senior employee or officer responsible for managing or supervising that function under the management of the *governing body*.

SYSC 26.7.4 G

(1) A *person* with overall or local responsibility for a matter will either be a member of the *governing body* or will report directly to the *governing body* for that matter.

(2) For example, a *firm* appoints A to be head of sales. A is not on the *governing body*. A reports to an executive director (B) and B reports to the *governing body* about the sales function. In this example B, rather than A, has overall responsibility for sales.

SYSC 26.7.5 G

(1) A *person* who reports to another, or is subject to oversight by another, may still have overall or local responsibility for a function.

(2) For example, a head of compliance may report direct to the *governing body* but be subject to performance appraisal by the *chief executive*. In this example, the head of compliance will still have overall responsibility for compliance.

(3) If a *person* (A):

(a) reports directly to the *firm's governing body* about a particular matter; but

(b) is not a member of the *governing body*; and

(c) reports to a member of the *governing body* (B) about that matter, who also reports to the *governing body* about that matter;

B has overall or local responsibility for that matter.

(4) If:

(a) a *person* (A) reports directly to the *firm's governing body* about a particular matter;

(b) A also reports to another *person* (B) about that matter;

(c) neither A nor B is a member of the *governing body*; and

(d) B also reports directly to the *firm's governing body* about that matter;

B has overall responsibility for that matter.

(5) A member of the *governing body* who reports to the *chief executive* may still have overall or local responsibility for a function.

(6) If:

(a) a *person* (A) reports directly to the *firm's governing body* about a particular matter; and

(b) A's function is subject to oversight by a *non-executive director* (B) or by a committee of the *firm's governing body* chaired by B;

A (not B) has overall or local responsibility for that matter.

SYSC 26.7.6 G A *person* may have local responsibility for a function for a *branch* of an *overseas SMCR firm* even though that *person* also reports to a *person* outside the *branch*.

Section : SYSC 26.8 Meaning of local and overall responsibility: Not reporting to the governing body

Scope of this section

SYSC 26.8.1 G This section relates to the allocation of overall or local responsibility for any activities, business areas and functions of the *firm* which are not under the management of its *governing body* (see *SYSC 26.3* (Main rules)).

Branches: Responsibility held outside the management structure of branch

SYSC 26.8.2 G A *person* having local responsibility for a function for a *branch* does not need to be part of the management structure of the *branch* in order to have local responsibility for the function.

Branches: Setting overall strategy for a branch

SYSC 26.8.3 G (1) Generally, where a an *overseas SMCR firm* allocates responsibility as described in *SYSC 26.8.1G* to one of the *firm's SMF managers* who is not based in the *branch* the *FCA* would expect:

(a) that the responsibility would not be allocated to a manager whose responsibilities for the *branch* are limited to setting overall strategy for the *branch*; and

(b) that, instead, the *firm* would allocate it to a manager who is the most senior *person* responsible for implementing the strategy for the *branch*.

(2) See *SUP 10C.1.5AG* for more about how the difference between strategic and implementing responsibilities affects the *FCA* senior managers regime for *approved persons* in *overseas SMCR firms*.

Branches: Seniority

SYSC 26.8.4 G (1) In some cases, a *person* who has local responsibility for a particular function may be very senior within the *firm* as a whole.

(2) For instance, in some *branches*, an individual with local responsibility for a function may also be the head of the *firm's* Europe and Middle East division for a business line and may be more senior within the *firm* as a whole than the *person* performing the *PRA's* Head of Overseas Branch *designated senior management function*.

UK firms

SYSC 26.8.5 G Having overall responsibility for a function as described in *SYSC 26.8.1G* for a *UK SMCR firm* means being the most senior employee or officer (under the *chief executive* if there is one) responsible for managing or supervising that function.

Section : SYSC 26.9 Who functions should be allocated to

Seniority

SYSC 26.9.1 G The *FCA* expects that anyone who has overall or local responsibility for a matter:

(1) will be sufficiently senior and credible; and

(2) will have sufficient resources and authority;

to be able to exercise their management and oversight responsibilities effectively.

SYSC 26.9.2 G

(1) The *FCA* would not consider it unusual if a *person* who has overall or local responsibility for a particular function was not a member of the *firm's governing body* or equivalent.

(2) For example, in some *firms*, the head of compliance may report directly to the *firm's governing body* even though the head of compliance is not a member of the *governing body*.

SYSC 26.9.3 G Other parts of this chapter dealing with seniority are:

(1) *SYSC 26.7.3G* (seniority of someone with overall responsibility for a function under the management of a *firm's governing body*);

(2) *SYSC 26.8.3G* and *SYSC 26.8.4G* (seniority of someone from elsewhere in the *firm* having local responsibility in a *branch*); and

(3) *SYSC 26.8.5G* (seniority of someone within a *UK SMCR firm* with overall responsibility for a function not under the management of a *firm's governing body*).

Not giving too much responsibility to one individual

SYSC 26.9.4 G

(1) It will be common for a small non-complex *firm* to divide overall or local responsibility for its activities under the management of its *governing body* between members of its *governing body* and not to assign overall or local responsibility for any activity to someone who is not a member.

(2) However, when deciding how to divide up overall or local responsibility for its activities, a *firm* should avoid assigning such a wide range of responsibilities to a particular *person* that the *person* is not able to carry out those responsibilities effectively.

(3) Therefore, in a large or complex *firm*, the *FCA* expects overall or local responsibility for some functions to be assigned to *persons* in the layer of management below the *governing body*. Anyone in that layer having overall or local responsibility for an activity will be performing a *designated senior management function*.

SYSC 26.9.5 G *SYSC 26.9.4G(2)* also applies to allocating responsibility for functions that are not under the management of the *firm's* or *branch's governing body*.

Dividing and sharing management functions between different people

SYSC 26.9.6 G

The following provisions of *SYSC 24.3* (Who prescribed responsibilities should be allocated to) also apply to allocations under this chapter so far as those provisions deal with sharing responsibilities:

(1) *SYSC 24.3.8G* (responsibilities should generally not be shared);

(2) *SYSC 24.3.9G* (when responsibilities may be shared); and

(3) *SYSC 24.3.11G* (*statements of responsibilities*);

SYSC 26.9.7 G

(1) The material in *SYSC 24.3* (Who prescribed responsibilities should be allocated to) about splitting of responsibilities is not directly relevant to this chapter. This is because *SYSC 24* deals with functions that have been defined in the *FCA Handbook* whereas this chapter does not define the areas into which a *firm's* activities should be divided when allocating responsibilities to its *SMF managers*.

(2) However *SYSC 24.3.10G* (responsibilities should be grouped together appropriately) is also relevant for deciding whether responsibility for a particular set of matters should be allocated to one *SMF manager* or allocated between several.

Section : SYSC 26.10 Group management arrangements and outsourcing

SYSC 26.10.1 G

(1) This chapter requires overall or local responsibility for various aspects of a *firm's* affairs to be allocated to an *SMF manager*.

(2) This requirement does not prevent a *firm* from relying on an employee of a company in the same group to perform the function.

(3) A *firm* has two main choices about how to fit such arrangements into the senior managers regime for *SMCR firms*.

(a) The group employee is appointed by the *firm* (usually by its *governing body* if it has one) to perform the function. This means that the *firm* will have entered into an arrangement with that *person*. As explained in *SUP 10C.3.9G*, an arrangement with the *firm* is one of the factors that makes the senior managers regime for *SMCR firms* apply. The result is that the group official will be performing a *controlled function* and will need to be approved as an *SMF manager*.

(b) The *firm* appoints someone (A) to supervise what the group employee does (so far as it concerns the *firm*) and allocates responsibility for the function to A, leaving day-to-day activities to the group employee. A will need to be approved as an *SMF manager*.

SYSC 26.10.2 G

SYSC 26.10.1G also applies to a *firm* that outsources functions to a third party and is relying on an individual from the outsourced services provider to carry out the functions in those paragraphs.

SYSC 26.10.3 G

(1) This chapter does not cover responsibility for an aspect of a *PRA-authorised person's* affairs managed by an individual approved to perform the Group Entity Senior Manager or the Group Entity Senior Insurance Manager *PRA-designated senior management function* (see *SYSC 26.4.2R* (Exclusions where other requirements apply)).

(2) Where a responsibility is held by someone approved to perform one of those *PRA-designated senior management functions* for the *PRA-authorised person*, there is no need to appoint that person under this chapter and apply the arrangements in *SYSC 26.10.1G*.

(3)

(a) The *statement of responsibilities* for the individual performing the *PRA-designated senior management function*; and

(b) the *firm's management responsibilities map*;

should clearly show what responsibilities are held by that individual.

Section : SYSC 26.11 Link between this chapter and other parts of the senior managers regime

Link between designated senior management functions and this chapter

SYSC 26.11.1 G

(1) Having overall or local responsibility for an activity under this chapter requires approval as an *SMF manager*. This is because a *person* who has overall or local responsibility for an activity will be:

(a) performing the *other overall responsibility function* or the *other local responsibility function*; or

(b) approved to perform another *designated senior management function*.

(2) The *other overall responsibility function* applies because this is the effect of *SUP 10C.7.1R* (definition of *other overall responsibility function*).

(3) *SUP 10C.7.1R(2)* says that the *other overall responsibility function* does not apply to a person who is approved to perform another *designated senior management function*.

(4) The other local responsibility function applies because this is the effect of *SUP 10C.8.1R* (Definition of the other local responsibility function (SMF22)).

(5) *SUP 10C.8.1R(2)* says that the *other local responsibility function* does not apply to a *person* who is approved to perform another *designated senior management function* in relation to the *branch*.

Link between SYSC 25 Annex 1G and this chapter

SYSC 26.11.2 G

(1) The purpose of *SYSC 25 Annex 1*G (Examples of the business activities and functions of an SMCR firm) is to help a *firm* to prepare its *management responsibilities map* (see *SYSC 25.7.2G*).

(2) There is no direct link between *SYSC 25 Annex 1*G and this chapter.

(3) However, a *firm* may find *SYSC 25 Annex 1*G useful as a prompt to help it make sure that it has not failed to allocate overall or local responsibility under this chapter for a particular activity of the *firm*.

(4) If a *firm* uses *SYSC 25 Annex 1*G as a prompt when it allocates overall or local responsibility as described in (3), it should bear in mind that it is not comprehensive (see *SYSC 25.7.8G*).

SYSC 26.11.3 G

The *FCA* does not require:

(1) there to be a separate *person* with overall responsibility for each individual business area in *SYSC 25 Annex 1*G (Examples of the business activities and functions of an SMCR firm); or

(2) a *firm* to allocate functions under this chapter using the same split of business areas as in *SYSC 25 Annex 1*G.

Overall responsibility for internal operations

SYSC 26.11.4 G If a *firm* does not have anyone who performs the *chief operations function* (or the equivalent *PRA-designated senior management function*) the *firm* should allocate responsibility for the functions in *SUP 10C.6B.4G* (The chief operations function (SMF24)) among its *SMF managers* under this chapter.

CHAPTER

SYSC 27 Senior managers and certification regime: Certification regime

Section : SYSC 27.1 Application and purpose

Application

SYSC 27.1.1 R This chapter applies to an *SMCR firm*, except those excluded from this chapter by *SYSC 27.6* (Other exclusions).

SYSC 27.1.2 G This chapter is also relevant to *employees* of *SMCR firms* performing functions specified as *FCA certification functions*.

Purpose

SYSC 27.1.3 G (1) This chapter is about the *FCA's* certification regime.

(2) Under this regime, a *firm* should ensure that its employees only perform an *FCA certification function* if they have a certificate issued by that *firm* to perform that function.

(3) The purpose of this chapter is to specify '*FCA certification functions*' and to give *guidance* on the *FCA's* certification regime.

Section : SYSC 27.2 Requirements of the certification regime

General

SYSC 27.2.1 G Most of the requirements of the certification regime are in the *Act*. This section summarises and gives *guidance* on them.

SYSC 27.2.2 G *SYSC TP 5*, *SYSC TP 7* and *SYSC TP 8* contain transitional material about the certification regime. This includes material about the fact that:

(1) the requirement in *SYSC 27.2.3G* did not come into force at the same time as the rest of the certification regime; and

(2) the certification regime came into force at different times for different types of *firm*.

Basic requirements

SYSC 27.2.3 G Under *section 63E(1)* of the *Act*, a *firm* must take reasonable care to ensure that no *employee* of the *firm* performs an *FCA certification function* under an arrangement entered into by the *firm* in relation to the carrying on by that *firm* of a *regulated activity*, unless the *employee* has a valid certificate issued by that *firm* to perform the function to which the certificate relates.

Fitness to act

SYSC 27.2.4 G Under *section 63F* of the *Act*, a *firm* may issue a certificate to a *person* only if the *firm* is satisfied that the *person* is a fit and proper *person* to perform the *FCA certification function* to which the certificate relates.

SYSC 27.2.5 G Under *section 63F* of the *Act*, in assessing if a *person* is fit and proper to perform an *FCA certification function*, a *firm* must have regard, in particular, to whether that person:

(1) has obtained a qualification;

(2) has undergone, or is undergoing, training;

(3) possesses a level of competence; or

(4) has the personal characteristics,

required by general *rules* made by the *FCA*.

SYSC 27.2.6 G *FIT 1.3* provides guidance to *firms* about the criteria that the *FCA* would expect the *firm* to consider in assessing if a *person* is fit and proper to perform an *FCA certification function*.

SYSC 27.2.7 G *SYSC 22* (Regulatory references) deals with obtaining references from a previous *employer* when a *firm* is planning to appoint someone to perform a *certification function* as part of its assessment of whether that *person* is fit and proper.

SYSC 27.2.8 G

(1) A *person* seconded from a contractor may fall into the certification regime. The material in *SYSC 27.4.1G* is relevant to when this is the case.

(2) In deciding whether a *person* seconded from a contractor is fit and proper, the *firm* may take into account information and references from the contractor.

(3) In deciding how much reliance to put on the contractor, the *firm* should take into account:

(a) the familiarity of the contractor with the obligations of *firms* under this chapter, the corresponding *PRA* requirements (if the *firm* is a *PRA-authorised person*) and the requirements of the *Act* described in this chapter;

(b) whether any reference directly addresses the criteria in *FIT*; and

(c) the degree to which the *firm* believes it can rely on the contractor's judgement about the secondee's fitness and properness and the grounds for that belief.

Issuing and renewing certificates

SYSC 27.2.9 G

Under *section 63F* of the *Act*, a certificate issued by a *firm* to a *person* must:

(1) state that the *firm* is satisfied that the *person* is fit and proper to perform the function to which the certificate relates; and

(2) set out the aspects of the affairs of the *firm* in which the *person* will be involved in performing the function.

SYSC 27.2.10 G

(1) The *Act* says that a certificate is valid for a period of 12 months, beginning with the day on which it is issued.

(2) The *FCA* believes that the *Act* allows a *firm* to draft a certificate to expire after fewer than 12 months. The *FCA* interprets the *Act* in this way because to require a *firm* to make a certificate last longer than the *firm* thinks best is likely to make it harder for the *firm* to ensure the fitness of its *certification employees*. That would undermine the purpose of the certification regime in the *Act*.

(3) A certificate cannot be drafted to last more than 12 months.

SYSC 27.2.11 G

Under *section 63F* of the *Act*, if, after having considered if a *person* is fit and proper to perform an *FCA certification function*, a *firm* decides not to issue a certificate to that *person*, the *firm* must give the *person* a notice in writing stating:

(1) what steps (if any) the *firm* proposes to take in relation to the *person* as a result of the decision; and

(2) the reasons for proposing to take those steps.

SYSC 27.2.12 G

If, after having considered whether a *person* is fit and proper to perform an *FCA certification function*, a *firm* decides not to issue a certificate to that *person*, it should consider if the circumstances warrant making a notification to the *FCA* for a breach of the *rules* in *COCON* pursuant to *SUP 15.3.11R* (Breaches of rules and other requirements in or under the Act or the CCA).

SYSC 27.2.13 G

Under *section 63F* of the *Act*, a *firm* must maintain a record of every *employee* who has a

valid certificate issued by it.

SYSC 27.2.14 G

(1) A *firm* need not issue multiple certificates for one of its *employees* even if they perform several *FCA certification functions* as part of the same job.

(2) Similarly, a *firm* need not issue multiple certificates for one of its *employees* who performs an *FCA certification function* that is made up of a number of different functions.

(3) An example of an *FCA certification function* in (2) is the material risk taker *FCA certification function* described in *SYSC 27.8.14R*. *SYSC 27.8.14R* says that each function carried out by someone who is covered by that *rule* is an *FCA certification function*.

(4) Rather than having to issue multiple certificates, a *firm* may, in a single certificate, describe the *employee's* functions that involve an *FCA certification function* in broad terms, and without listing all the activities that the function may involve.

(5) A *firm* should assess whether the *employee* is fit and proper to perform all aspects of the *employee's* functions that involve an *FCA certification function* as described by a certificate.

(6) Although a *firm* does not need to issue multiple certificates for an *employee* who performs several different *certification functions*, under the requirements in *SUP 16.26* (Reporting of Directory persons) the *firm* will need to specify each of the *certification functions* which the *employee* has been assessed as fit and proper to perform and for which the *employee* has a certificate at the time of the report.

SYSC 27.2.15 G

(1) In cases where a *certification employee's* role changes to involve a new *FCA certification function* part way through the 12-month period for which their certificate is valid, the *firm* may need to reissue the certificate.

(2) If that new function has different requirements relating to:

1. (a) personal characteristics;
2. (b) the level or types of competence, knowledge and experience;
3. (c) qualifications; or
4. (d) training;

the *FCA* would expect the *firm* to assess whether the *employee* is fit and proper to perform that new function before they start it.

(3) In such a case, the *firm* should not wait until the point of annual reassessment to determine whether the *employee* is fit and proper for the new function.

(4) A *firm* may not need to issue a new certificate if:

(a) applying the conditions in paragraph (2), the *firm* concludes that no re-assessment is required; and

(b)

the certificate is drafted broadly enough to cover the new *FCA certification function*.

(5)

If a *certification employee's* role changes part way through the 12-month period without the new role involving a new *FCA certification function*, the *firm* may also need to re-assess the *certification employee* before the current certificate expires and either re-issue or withdraw it. This will depend on how significant the change is. The factors in (2) and (4) are relevant to whether re-assessment is necessary.

SYSC 27.2.15A G

(1) If a *firm* carries out a re-assessment under *SYSC 27.2.15G*, the *firm* may not have to make a completely new assessment as the existing assessment may already adequately cover aspects of the *certification employee's* new or changed function.

(2) For example, if an adviser changes from advising on mortgages to investments, the *firm's* existing assessment of the *certification employee's* integrity, reputation and financial soundness may not need to be re-assessed. The *firm* will only need to concentrate on the *certification employee's* knowledge and competence in the new product area.

SYSC 27.2.16 G

(1) This paragraph gives further *guidance* on the flexibility a *firm* has in drafting its certificates.

(2) A certificate may cover functions that a *certification employee* is not currently performing, as long as the *firm* has assessed the *employee's* fitness for these additional functions. This is subject to (3).

(3) When a *firm* is deciding what a certificate can cover beyond the functions that the *certification employee* is currently performing, it should take the factors in *SYSC 27.2.15G(2)* into account. A certificate should not normally cover an additional function if *SYSC 27.2.15G(2)* would require the *firm* to consider the *employee's* fitness before allowing them to perform it.

(4) A *firm* may, if it wishes, restrict a certificate to the functions that the *certification employee* is currently performing rather than drafting the certificate more widely as described in (2) and (3).

(5) *SYSC 27.2.10G* deals with the flexibility a *firm* has in choosing the period for which a certificate lasts.

SYSC 27.2.17 G

A certificate should be in writing. However, there is no need for a physical document. It can, for example, be issued in the form of an e-mail.

SYSC 27.2.18 G

A certificate should include the dates of validity and be provided to the *certification employee*.

SYSC 27.2.19 G

(1) A *firm* may embed the certification process in other relevant processes or run the certification process in parallel to them. For example, if it runs an annual staff appraisal process, it may include certification as part of that process. If its annual

appraisal process involves the issue of a written appraisal, it may include the certificate required by the certification regime in that written appraisal.

(2) If a *firm* runs its certification process alongside or as part of its general appraisal process, it should ensure that it applies the standards and requirements set by the *Act* and this chapter to the certification process insofar as they differ from those of its general appraisal process.

SYSC 27.2.20 G As major changes to a *certification employee's* function are dealt with under *SYSC 27.2.15G* when they occur, the *FCA* would expect annual re-certification on the expiry of an existing certificate to be done in a proportionate and streamlined manner. The *FCA* would expect the assessment to be less detailed than it would be for a new *certification employee*.

Section : SYSC 27.3 Territorial scope

SYSC 27.3.1 R

(1) A function is an *FCA certification function* for a *UK SMCR firm* only to the extent:

(a) it is performed by a *person* from an establishment of the *firm* (or its *appointed representative*) in the *United Kingdom*; or

(b) the *person* performing that function is dealing with a *client* of the *firm* in the *United Kingdom* from an establishment of the *firm* (or its *appointed representative*) overseas.

(2) A function is an *FCA certification function* for an *overseas SMCR firm* only to the extent that it is performed by a *person* from an establishment of the *firm* (or its *appointed representative*) in the *United Kingdom*.

(3) Paragraph (1) does not apply to *FCA certification function* (6) (material risk takers). For a *UK SMCR firm*, *FCA certification function* (6) applies without any territorial limitation.

SYSC 27.3.2 G

The *FCA* interprets the phrase 'dealing with' in *SYSC 27.3.1R* as including having contact with *clients* and extending beyond 'dealing' as used in the phrase 'dealing in investments'. 'Dealing in' is used in *Schedule 2* to the *Act* to describe in general terms the *regulated activities* which are specified in *Part II* of the *Regulated Activities Order*.

SYSC 27.3.3 G

The *FCA* interprets the phrase 'a *client* of the *firm* in the *United Kingdom*' in *SYSC 27.3.1R* as referring to:

(1) for a *client* which is a body corporate, its office or *branch* in the *United Kingdom*; or

(2) for a *client* who is an individual, a *client* who is in the *United Kingdom* at the time of the dealing.

SYSC 27.3.4 G

(1) The *Regulated Activities Order* has an effect on the territorial scope of this chapter.

(2) As explained in *SYSC 27.7.1R* (General requirements), a function is only an *FCA certification function* if it is connected to *regulated activities*.

(3) Therefore where overseas activities are excluded from being *regulated activities* by the *Regulated Activities Order*, that will have an effect on the certification regime.

SYSC 27.3.5 G

(1) An example of *SYSC 27.3.4G* is the territorial restriction relating to *regulated claims management activities*.

(2) As explained in *PERG 2.4A* (Link between regulated claims management activities and Great Britain), a claims management activity specified in the *Regulated Activities Order* is only a *regulated activity* if it is carried on by way of business in *Great Britain*.

(3) The result is that a claims management activity specified in the *Regulated*

Activities Order carried on outside *Great Britain* is an *unregulated activity* for the purposes of this chapter and the *FCA certification functions*.

(4) This restriction:

(a) applies to the *FCA certification function* in *SYSC 27.3.1R(3)* as well as to the other *FCA certification functions*; and

(b) applies in addition to the restriction in *SYSC 27.3.1R*.

Section : SYSC 27.4 General material about the scope of the certification regime

Employees

SYSC 27.4.1 G

(1) The certification regime only applies to an *employee*.

(2) This definition includes a *person* who:

(a) personally provides, or is under an obligation personally to provide, services to the *firm* in question under an arrangement made between the *firm* and the *person* providing the services or another *person*; and

(b) is subject to (or to the right of) supervision, direction or control by the *firm* as to the manner in which those services are provided.

SYSC 27.4.2 G

(1) A *person* who works for an *appointed representative* of a *firm* may fall into the certification regime. In practice, however, they may not meet the conditions for the certification regime to apply.

(2) One condition for the certification regime to apply to a *person* is that the *person* performs a *certification function* under an arrangement entered into by the *firm* (see *SYSC 27.2.3G*). However, unlike the equivalent parts of the *Act* for the *approved persons* regime, the *Act* does not say that the certification regime applies if the function is performed under an arrangement entered into by the employee with a contractor of the *firm* instead of the *firm*.

(3) The certification regime only applies if the *person* concerned is an *employee*. This is defined in *SYSC 27.4.1G*. In many cases, a *person* working for an *appointed representative* will not fall into this definition as they may not:

(a) provide services to the *firm*; or

(b) be subject to (or to the right of) supervision, direction or control by the *firm*.

(4) If none of these limitations on the scope of the certification regime apply, a *person* working for an *appointed representative* will be subject to the certification regime, as long as the other conditions in this chapter are met.

Effect of PRA requirements

SYSC 27.4.3 G

A function does not cease to be an *FCA certification function* if that function is also a *PRA certification function* except in the cases described in *SYSC 27.8.13R(3)* (Managers of certification employees) and *SYSC 27.8.14R(2)* (Material risk takers).

Section : SYSC 27.5 Exclusions for emergency and temporary appointments

Emergency appointments

SYSC 27.5.1 G

(1) If:

(a) a *firm* appoints an individual to perform a function which, but for this *rule*, would be an *FCA certification function*;

(b) the appointment is to provide cover for a *certification employee* whose absence is reasonably unforeseen; and

(c) the appointment is for less than four weeks;

then the performance by that individual of such function does not constitute an *FCA certification function*.

(2) This *rule* does not apply to *FCA certification function* (4) (functions requiring qualifications).

SYSC 27.5.2 G

SYSC 27.5.1R does not apply to *FCA certification function* (4) (functions requiring qualifications). Where there is an unforeseen absence of an *employee* performing a function for which there is a qualification requirement:

(1) the *firm* should take reasonable care to ensure that no *employee* of that *firm* performs that function without a valid certificate; and

(2) the certificate should be issued before the *person* starts to perform the function.

Temporary UK role (the 30-day rule)

SYSC 27.5.3 R

(1) None of the *FCA certification functions* extend to an individual ("P") in relation to a *firm* if:

(a) P is based outside the *United Kingdom* for the *firm*; and

(b) in a 12-*month* period, P spends no more than 30 days performing what would otherwise be an *FCA certification function* for that *firm* within the territorial scope of this chapter as described in *SYSC 27.3.1R*.

(2) Paragraph (1) only applies to the extent that P is appropriately supervised by:

(a) one of the *firm's SMF managers*; or

(b) one of the *firm's certification employees* whose certificate covers the *FCA certification function* that is to be disapplied under (1).

(3) This *rule* does not apply to any *FCA certification function* to the extent that it involves:

(a) giving advice or performing related activities in connection with *pension transfers*, *pension conversions* or *pension opt-outs* for *retail clients*; or

(b) giving advice to a *person* to become, or continue or cease to be, a member of a particular Lloyd's syndicate.

(4) In the case of a *UK SMCR firm*, this *rule* does not apply to *FCA certification function* (6) (material risk takers).

SYSC 27.5.4 G *SYSC 27 Annex 1*G gives examples of how *SYSC 27.5.3R* works.

SYSC 27.5.5 G The *FCA* would expect an individual from overseas using the temporary *UK* role *rule* in *SYSC 27.5.3R* to be accompanied on a visit to a *customer* in the *United Kingdom*.

SYSC 27.5.6 G An individual benefiting from the temporary *UK* role *rule* in *SYSC 27.5.3R* may still be subject to the requirements of *TC* (Training and competence). However, *TC 2.1.9R* gives an exemption from certain qualification requirements in *TC* to an individual benefiting from the temporary *UK* role *rule*.

Section : SYSC 27.6 Other exclusions

Insolvency

SYSC 27.6.2 R

This chapter does not apply to a function performed by a *person* acting as:

(1) an insolvency practitioner under *section 388* of the Insolvency Act 1986;

(2) a nominee in relation to a voluntary arrangement under Part I (Company Voluntary Arrangements) of the *Insolvency Act 1986*;

(3) an insolvency practitioner under *article 3* of the Insolvency (Northern Ireland) Order 1989;

(4) a nominee in relation to a voluntary arrangement under Part II (Company Voluntary Arrangements) of the *Insolvency (Northern Ireland) Order 1989*;

(5) a *person* acting as a resolution administrator appointed by the Bank of England in accordance with section 62B of the Banking Act 2009;

(6) a *person* appointed by the Bank of England as a *director* or a senior manager to a *bank*, *building society*, stabilisation vehicle or banking group company for any purpose in connection with the exercise of a stabilisation option or a stabilisation power; or

(7) a *person* appointed by the Treasury as a *director* or a senior manager to a *bank*, *building society* or banking group company for any purpose in connection with the exercise of the temporary public ownership stabilisation option, throughout the period of 2 years beginning with the date of that appointment.

SYSC 27.6.2A R

The following terms as used in *SYSC 27.6.2R* and in this *rule* have the following meanings:

(1) 'banking group company' has the meaning in section 81D of the Banking Act 2009;

(2) 'senior manager' means a *person* who exercises executive functions and is responsible, and directly accountable to the *directors*, for the day-to-day management of a *bank*, *building society*, stabilisation vehicle or banking group company;

(3) 'stabilisation option' means any of the stabilisation options listed in section 1(3) of the Banking Act 2009;

(4) 'stabilisation power' means any of the stabilisation powers listed in section 1(4) of the Banking Act 2009;

(5) 'stabilisation vehicle' means a bridge bank as defined in section 12(1) of the Banking Act 2009 or an asset management vehicle as defined in section 12ZA(2) of the Banking Act 2009; and

(6) 'temporary public ownership stabilisation option' means the transfer to temporary public ownership in accordance with section 13 of the Banking Act 2009.

Non-executive directors

SYSC 27.6.3 R A function performed by a *non-executive director* of a *firm* acting as such is not an *FCA certification function* for that *firm*.

Benchmarks

SYSC 27.6.4 R
(1) This chapter does not apply to a *firm* in relation to *benchmark activities*.
(2) In particular, this chapter does not apply to a *pure benchmark SMCR firm*.

SYSC 27.6.5 G Some benchmark activities are within the certification regime under *SYSC TP 7*.5 (Transitional provisions about benchmarks and the certification regime).

Overall responsibility

SYSC 27.6.6 R Performing any of the following is not an *FCA certification function*:
(1) a responsibility allocated to an *SMF manager* under *SYSC 26.3* (Main rules); or
(2) a responsibility allocated to someone under *SYSC 26.4.6R* (Exclusion where the 12-week rule applies).

SYSC 27.6.7 R *SYSC 27.6.6R* does not apply to having overall or local responsibility for the *SMCR legal function*.

Administrators

SYSC 27.6.8 R A function in paragraph (A) of row (6) of the table in *COCON 1.1.2R* (Table: To whom does COCON apply?) is not an *FCA certification function*.

Exclusions: Sole traders

SYSC 27.6.9 G
(1) An individual *sole trader* will not themselves be a *certification employee*.
(2) However members of a *sole trader's* staff may be.
(3) Therefore the certification regime does not apply to a *sole trader* with no *employees*.

Exclusions: Internally managed AIFs

SYSC 27.6.10 R This chapter does not apply to a *firm* that meets the following conditions:.
(1) it is an *internally managed AIF*;
(2) it is a *body corporate*; and
(3) it is not a *collective investment scheme*.

Section : SYSC 27.7 Specification of functions

General requirements

SYSC 27.7.1 R

In accordance with *section 63E* of the *Act* (Certification of employees by authorised persons), a function is an *FCA certification function* only if, in relation to the carrying on of a *regulated activity* by a *firm*, that function:

(1) is not a *controlled function* in relation to the carrying on of that *regulated activity* by that *firm*; and

(2) will require the *person* performing it to be involved in one or more aspects of the *firm's* affairs, so far as relating to that *regulated activity*.

Scope: FCA certification functions

SYSC 27.7.2 R

In accordance with *section 63E(3)* of the *Act*, the functions in the table in *SYSC 27.7.3R* are *FCA certification functions*.

SYSC 27.7.3 R

Table: FCA certification functions

Function	Where defined
(1) CASS oversight	*SYSC 27.8.1R*
(2) Proprietary trader	*SYSC 27.8.3R*
(3) Significant management	*SYSC 27.8.4R*
(4) Functions requiring qualifications	*SYSC 27.8.10R*
(5) Managers of certification employees	*SYSC 27.8.13R*
(6) Material risk takers	*SYSC 27.8.14R*
(7) Client-dealing	*SYSC 27.8.18R*
(8) Algorithmic trading	*SYSC 27.8.23R*

SYSC 27.7.4 G

(1) If a function falls into more than one of the *FCA certification functions* in the table in *SYSC 27.7.3R*, all of those *FCA certification functions* apply to it.

(2) For example, if a *person's* job involves both *FCA certification function* (4) (functions requiring qualifications) and (6) (material risk takers), the emergency appointments *rule* (*SYSC 27.5.1R*) does not apply to that job.

(3) Another example is the *rule* about the territorial scope of this section (*SYSC 27.3.1*R)) for a *UK SMCR firm*. For example, if a *person's* job involves both *FCA certification function* (4) (functions requiring qualifications) and (6) (material risk takers), the territorial restriction in that *rule* does not apply to that job. Instead, this chapter applies without any territorial limitation.

(4) The reason for (3) is that *SYSC 27.3.1R(3)* says that there is no territorial limitation on *FCA certification function* (6) for a *UK SMCR firm*. As explained in (1), it

does not matter that the job also involves *FCA certification function* (4), to which the territorial limitation does apply.

Overlap with designated senior management functions

SYSC 27.7.5 G

(1) *SYSC 27.7.1R(1)* means that an *FCA-designated senior management function* cannot also be an *FCA certification function* at the same time.

(2) So an *SMF manager* performing an activity that forms part of their *FCA-designated senior management function* is not, by performing that activity, also performing an *FCA certification function*.

(3) But if an *FCA-designated senior management function* does not apply to a *firm*, performing the function described in the definition of that *FCA-designated senior management function* can be an *FCA certification function*.

(4) See *SYSC 27.8.7AG* for an example of this.

SYSC 27.7.6 G *SYSC 27.7.1R(1)* also means that an *SMF manager* may need to be certified for a role that is distinct and separate from their *designated senior management function*.

SYSC 27.7.7 G This will sometimes mean that an *SMF manager* may need to be certified for the client-dealing *FCA certification function* if they meet clients.

SYSC 27.7.8 G However, it does not mean that, in all instances in which an *SMF manager* engages with clients, the *SMF manager* will automatically need to be certified as well. In many instances, client engagement would be a normal and expected part of an *SMF manager's* role and would not require certification.

SYSC 27.7.9 G For example, a *money laundering reporting officer* who meets with clients in relation to their *money laundering reporting officer* responsibilities would likely to be doing so within the scope of the *money laundering reporting function*. In such cases, the *money laundering reporting officer* would not need to be certified.

SYSC 27.7.10 G This is equally true for other *designated senior management function* roles – for example, where an executive *director* engages with a client for relationship management reasons. This may also be the case if the *director* is accompanied by a qualified investment adviser who is a *certification employee* who can deal with detailed requests for investment advice from the client.

SYSC 27.7.11 G However, the demands of a customer-facing role can, in some cases, be quite different from those of a senior management role. For example, advising on investments is often technical and requires relevant qualifications (set out in the Training and Competence sourcebook (*TC*)). Such an activity is distinctly different from the role many *SMF managers* perform and will, therefore, in many cases, fall outside the scope of the *SMF manager* role. As such, it would require certification.

Section : SYSC 27.8 Definitions of the FCA certification functions

CASS oversight function

SYSC 27.8.1 R

(1) Each of the following is an *FCA certification function*:

(a) in relation to a *CASS medium firm* and a *CASS large firm* (other than a *CASS large debt management firm*), the function of acting in the capacity of a *person* who is allocated the function in *CASS 1A.3.1AR* (oversight of operational effectiveness);

(b) in relation to a *CASS large debt management firm*, the function of acting in the capacity of a *person* who is allocated the function in *CASS 11.3.4R* (oversight of operational effectiveness);

(c) in relation to a *CASS small firm*, the function of acting in the capacity of a *person* who is allocated the function in *CASS 1A.3.1R* (oversight of operational effectiveness);

(d) in relation to a *firm* to which *CASS 13* (Claims management: client money) applies, the function of acting in the capacity of a *person* who is allocated the function in *CASS 13.2.3R* (Organisational requirements and responsibility for CASS operational oversight).

(2) A function in (1) is not an *FCA certification function* for that *firm* if it is performed by an *SMF manager* of that *firm*.

SYSC 27.8.2 G

SYSC 27.8.1R(1) only applies to a *firm* to the extent that *CASS* applies to that *firm*.

Proprietary trader function

SYSC 27.8.3 R

The function of acting as a *proprietary trader* whose activity involves, or might involve, a risk of significant harm to the *firm* or any of its *customers* is an *FCA certification function*.

Significant management function

SYSC 27.8.4 R

(1)

The function of acting as a *senior manager*, with significant responsibility for a significant business unit, is an *FCA certification function*.

(2)

For an *overseas SMCR firm's branch* in the *United Kingdom*, the significant management function is limited to business units of the *branch*.

(3) A function does not fall within (1) in relation to a particular *person* and *firm* if the *person* performing it:

(a) is also performing; and

(b) has a current valid certificate under section 63F of the *Act* (Issuing of certificates) that covers,

3. the material risk takers *FCA certification function* for the same *firm*.

SYSC 27.8.5 G

A *senior manager* carrying on the significant management *FCA certification function* under *SYSC 27.8.4R* could, for example, be:

(1) the head of a unit carrying on the activities of:

(a) retail banking;

(b) personal lending;

(c) corporate lending;

(d) salvage or loan recovery;

(e) *proprietary trading*;

(f) *designated investment business*;

(g) *effecting contracts of insurance*;

(h) *credit-related regulated activity*;

(i) making material decisions on the commitment of the *firm's* financial resources, its financial commitments, its assets acquisitions, its liability management or its overall cash and capital planning;

(j) processing confirmations, payments, settlements, insurance claims, *client money* and similar matters;

(k) administration of *contracts of insurance*;

(l) complaints handling; or

(m) determining whether an applicant should be accepted for *credit* (including lending) and on what terms; or

(2) a member of a committee (that is, a *person* who, together with others, has authority to commit the *firm*) making decisions in these functions.

SYSC 27.8.6 G

The examples in *SYSC 27.8.5G* are illustrative only. They are not intended to be exhaustive.

SYSC 27.8.7 G

A business unit is not limited to one that carries on commercial activities with customers and third parties or that earns revenue. A business unit can be an internal support department that has no contact with people outside the *firm*. It may include, for example, human resources, the legal department, operations or information technology.

SYSC 27.8.7A G

(1) An example of *SYSC 27.7.5G* is that a person performs the significant management *FCA certification function* if:

(a) the person performs a role coming within the definition of one of the following roles:

(i) an *FCA-designated senior management function* described in *SUP 10C.6A* (Systems and controls functions: Finance, risk and internal audit); or

(ii) the *chief operations function*; and

(b) that *FCA-designated senior management function* does not apply to the *firm*.

(2) For example, if a *core SMCR firm* has a chief risk officer, the chief risk officer will not be performing the *chief risk officer function* because the *chief risk officer function* does not apply to core *SMCR firms*. Instead that person will perform the significant management *FCA certification function*.

(3) (2) does not apply if the chief risk officer performs that role as part of their job as an executive director. The *executive director function* applies to *core SMCR firms* and so that person will be performing the *executive director function* rather than the significant management *FCA certification function*.

SYSC 27.8.8 G For the purposes of the definition of the significant management *FCA certification function*, the following additional factors about the *firm* should be considered:

(1) the size and significance of the *firm's* business in the *United Kingdom* – for example, a *firm* carrying on *designated investment business* may have a large number of *certification employees* (for example, in excess of 100 individuals); or a *firm* carrying on general insurance business may have gross written *premiums* in excess of £100m;

(2) the number of *regulated activities* carried on, or proposed to be carried on, by the *firm* and (if relevant) other members of the *group*;

(3) its *group* structure (if it is a member of a *group*);

(4) its management structure (for example, matrix management); and

(5) the size and significance of its international operations, if any.

SYSC 27.8.9 G When considering whether a business unit is significant for the purposes of *SYSC 27.8.4R*, the *firm* should take into account all relevant factors in the light of the *firm's* current circumstances and its plans for the future, including:

(1) the risk profile of the unit;

(2) its use or commitment of the *firm's* capital;

(3) its contribution to the profit and loss account;

(4) the number of *employees*, *certification employees* or *SMF managers* in the unit;

(5) the number of *customers* of the unit; and

(6) any other factor which makes the unit significant to the conduct of the *firm's* affairs so far as relating to the *regulated activity*.

Functions requiring qualifications

SYSC 27.8.10 R

(1) Each function involving an activity for which there is a qualification requirement as specified in *TC App 1.1.1R* (Activities and Products/Sectors to which *TC* applies) is an *FCA certification function*.

(2) For an *overseas SMCR firm*, each function involving an activity for which there would have been a qualification requirement, as specified in (1) if the *firm* had been a *UK SMCR firm*, is an *FCA certification function*.

(3) A *person* performs the *FCA certification function* in this *rule* even if:

(a) the time period within which the *person* must have obtained the qualification requirement has not yet expired; or

(b) the *person* is exempt from the qualification requirement.

SYSC 27.8.11 G

(1) *SYSC 27.8.10R* (Functions requiring qualifications) may still apply to an *SMCR firm* where one of the exclusions in *TC App 3.1* (Circumstances in which TC does not apply) or elsewhere in *TC* applies.

(2) *SYSC 27.8.10R* applies to an *overseas SMCR firm* irrespective of whether the function in *TC App 1.1.1R* (Activities and Products/Sectors to which *TC* applies) applies to *EEA PTV firms* or *overseas firms* for the purposes of *TC*.

(3) The territorial scope of qualification requirements as specified in *TC App 2.1.1R* (Territorial Scope subject to the limitation in TC Appendix 3) does not apply to the *FCA certification function* in *SYSC 27.8.10R*. However *SYSC 27.3.1R* (Territorial scope) restricts the scope of this chapter outside the *United Kingdom*.

SYSC 27.8.12 G

SYSC 27.8.10R(3) means that a *person* performs the *FCA certification function* in *SYSC 27.8.10R* even if for example they are:

(1) still in training and do not yet need to have the qualification; or

(2) exempt under *TC 2.1.9R* (Exemption from appropriate qualification requirements).

Managers of certification employees

SYSC 27.8.13 R

(1)
The function of managing or supervising a *certification employee*, directly or indirectly, is an *FCA certification function*.

(2)
A function in (1) is not an *FCA certification function* for that *firm* if it is performed by an *SMF manager* of that *firm*.

(3) A function does not fall within (1) in relation to a particular *person* and *firm* if the *person* performing it:

(a) is also performing; and

(b) has a current valid certificate under section 63F of the *Act* (Issuing of certificates) that covers,

3. another *certification function* for the same *firm*.

Material risk takers

SYSC 27.8.14 R

(1) Each function performed by a *person* in column (2) of the table in *SYSC 27.8.15R* is an *FCA certification function* with respect to a *firm* in the corresponding entry in column (1).

(2) A function does not fall within *SYSC 27.8.14R(1)* in relation to a particular *person* and *firm* if the *person* performing it:

(a) is also performing; and

(b) has a current valid certificate under section 63F of the *Act* (Issuing of certificates) that covers,

3. a *PRA certification function* for the same *firm*.

SYSC 27.8.15 R

Table: Definition of material risk taker

Type of SMCR firm	Employees included
(1) An *SMCR banking firm*, including an *EEA SMCR banking firm*	Each *material risk taker* of the *firm* in column (1) of this row (1). This includes any *person* who meets any of the criteria set out in articles 6 to 8 of the *Material Risk Takers Regulation 2020* (criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile).
(2) [deleted]	
(3) A *Solvency II firm*	*Persons* referred to in articles 275.1(c) and (d) of *Solvency II Regulation* 2015/35 (key functions and staff with a material impact).
(4) A *firm* subject to *SYSC 19G.5* (application of remuneration requirements to material risk takers) including an overseas *SMCR firm*	Each staff member identified as a *material risk taker* of the *firm* in column (1).
(5) [deleted]	
(6) A *firm* falling within *SYSC 19B.1* (application provisions for the remuneration code for a fullscope UK AIFM)	Each member of the *AIFM Remuneration Code staff* of the *firm* in column (1).
(7) An *above-threshold non-UK AIFM*	In relation to a *firm* in column (1), the definition of *AIFM Remuneration Code staff* is extended so that it includes *employees* of this kind of *firm* in the same way as it includes *employees* of *firms* in row (6) of this table.
(8) [deleted]	
(9) [deleted]	
(10) A *firm* falling within *SYSC 19E.1* (application provisions for remuneration code for UCITS management companies)	Each member of the *UCITS Remuneration Code staff* of the *firm* in column (1).
(11) [deleted]	
Note: The definition of the *persons* included in column (2) applies in relation	

Type of SMCR firm	Employees included
to an *EEA SMCR firm* in one of the rows of column (1) in the same way as it does to other *overseas SMCR firms* in that row. The definitions of *material risk taker* and *AIFM Remuneration Code staff* apply accordingly. Where an *overseas SMCR firm* would be subject to *SYSC 19G.5* if it were a *UK SMCR firm*, row (4) applies in the same way as it applies to *UK SMCR firms*, and the definition of *material risk taker* in column (2) applies accordingly.	

SYSC 27.8.16 G If the definitions or requirements in the 'Employees included' column of the table in *SYSC 27.8.15R* (as adjusted) do not apply to a *firm* in the corresponding entry in the 'Type of SMCR firm' column, that row of the table does not apply to the *firm*.

SYSC 27.8.17 G One example of *SYSC 27.8.16G* is that a *credit union* is excluded from the table in *SYSC 27.8.15R*. Therefore the material risk taker *FCA certification function* does not apply to a *credit union*. However, it is subject to equivalent *PRA* requirements.

Client-dealing function

SYSC 27.8.18 R A *person* ("P") performs the client-dealing *FCA certification function* for a *firm* if:

(1) P is carrying out any of the activities in the table in *SYSC 27.8.19R*; and

(2) those activities will involve P dealing with:

(a) a *person* with or for whom those activities are carried out; or

(b) the property of any such *person*;

in a manner substantially connected with the carrying on of *regulated activities* by the *firm*.

SYSC 27.8.19 R Table: Activities covered by the client-dealing FCA certification function

Activity	Comments
(1) The following activities: (a) *advising on investments* other than a *non-investment insurance contract*; or (b) performing other functions related to this, such as *dealing*, *arranging* and (where the product is a contract) entering into and carrying it out.	(a) does not include *advising on investments* in the course of carrying on the activity of giving *basic advice* on a *stakeholder product*.
(2) The following activities: (a) giving advice in connection with *corporate finance business*; or (b) performing other functions related	

Activity	Comments
to this.	
(3) If the *firm* does any of the following activities: (a) *dealing*, as principal or as agent; (b) *arranging (bringing about) deals in investments*; or (c) *funeral plan distribution* (but not *advising on investments*) or a *funeral plan provision activity*; taking part in those activities is included.	(a) and (b) do not include *dealing* or *arranging (bringing about) deals in investments* in a *non-investment insurance contract*. For the activity in this row (3), *SYSC 27.8.18R(2)(a)* and (b) are expanded to cover also: (a) a *person* in connection with whom the activities in the first column of this row are carried out; and (b) the property of any such *person*.
(4) If the *firm* is acting in the capacity of an *investment manager* the following are included: (a) taking part in that activity; and (b) carrying on functions connected to this.	
(5) Acting as a 'bidder's representative' in relation to *bidding in emissions auctions*.	Acting as a 'bidder's representative' has the meaning in regulation 5(5) of the *UK auctioning regulations*.

SYSC 27.8.20 G *SYSC 27.3.2G* (the *FCA* interprets the phrase 'dealing with' as including having contact with and extending beyond 'dealing' as used in 'dealing in investments') applies to *SYSC 27.8.18R*.

SYSC 27.8.21 G The client-dealing *FCA certification function* generally involves dealing with any *person* with or for whom the activities in the table in *SYSC 27.8.19R* are carried out (or their property). That *person* need not be a *client* of the *firm*.

SYSC 27.8.22 G The restrictions in *SYSC 27.7.1R* (*FCA certification function* should require the *person* performing it to be involved in one or more aspects of the *firm's* affairs so far as they relate to *regulated activities*) also applies to the client-dealing *FCA certification function*.

SYSC 27.8.22A R (1) This *rule* qualifies rows (3) and (4) of the table in *SYSC 27.8.19R* (Table: Activities covered by the client-dealing FCA certification function).

(2) A *person* does not perform a function in (1) if their only activities that would otherwise come within the client-dealing *FCA certification function* do not require them to exercise a significant amount of discretion, judgment or technical skill.

SYSC 27.8.22B G

(1) The client-dealing *FCA certification function* does not apply to purely administrative roles even though they involve customer contact.

(2) *SYSC 27.8.22AR* excludes someone who has no scope to choose, decide or reach a judgement on what should be done in a given situation, and whose tasks do not require them to exercise significant technical skill.

(3) *SYSC 27.8.22AR* is likely to exclude a role that is simple or largely automated.

(4) There is no need to apply *SYSC 27.8.22AR* to row (1)(b) or (2)(b) of the table in *SYSC 27.8.19R*, because a person must also be carrying out the functions in row (1)(a) or (2)(a) for the client-dealing *FCA certification function* to apply and the functions in row (1)(a) or (2)(a) require judgment and skill.

(5) The client-dealing *FCA certification function* does not apply to roles involved in the provision of *targeted support services*.

Algorithmic trading function

SYSC 27.8.23 R

(1) Each of the following is an *FCA certification function*:

(a) approving the deployment of:

(i) a trading algorithm or a part of one; or

(ii) an amendment to a trading algorithm or a part of one; or

(iii) a combination of trading algorithms; and

(b) each of the following functions:

(i) having significant responsibility for the management of monitoring whether or not a trading algorithm; and

(ii) deciding whether or not a trading algorithm;

is, or remains, compliant with the *firm's* obligations.

(2) The *firm's* obligations in (1)(b) include:

(a) the *firm's* regulatory obligations; and

(b) the rules and requirements of the *trading venues* to which the *firm's* trading systems are connected.

SYSC 27.8.24 R

A trading algorithm means a computer algorithm used in *algorithmic trading*.

SYSC 27.8.25 G

Algorithmic trading is not limited to high-frequency algorithmic trading.

SYSC 27.8.26 G

Deploying a trading algorithm includes deploying one on a *trading venue* on which the *firm* has not traded before where the *firm* is already using that trading algorithm on another *trading venue*.

SYSC 27.8.27 G

SYSC 27.8.23R(1)(b) (monitoring or deciding whether or not a trading algorithm is compliant) includes testing, such as validation and stress testing.

SYSC 27.8.28 G

(1) Sometimes an approval or a decision involves sign-off from different people about

different aspects of the decision or approval.

(2) If this is the case, all will have given the approval or decision for the purposes of *SYSC 27.8.23R*.

SYSC 27.8.29 G

(1) Sometimes an approval or decision involves sign-off by a number of people of different levels of seniority about the same aspects of the decision.

(2) If this is the case, only the most senior decision-taker gives the approval or decision for the purposes of *SYSC 27.8.23R*.

(3) Where the *firm's* procedures do not require the more senior person to carry out a detailed review of the decision of the more junior, both the junior and the senior person will give the approval or decision.

SYSC 27.8.30 G

A *firm* may have deployed an algorithm even though:

(1) it has not yet actually been used in the generation or acceptance of orders; or

(2) it is not actually being used in the generation or acceptance of orders at the moment; or

(3) it is not currently being used in the generation or acceptance of orders because the circumstances have not arisen for it to start doing so.

SYSC 27.8.31 G

In the examples in *SYSC 27.8.30G* the algorithm is capable of being used in the generation or acceptance of orders but is not actually generating or accepting them at the moment. However, a *firm* does not deploy an algorithm if the algorithm is not yet capable of generating or accepting orders because, for example, it is still in development.

SYSC 27.8.32 G

The algorithmic trading *FCA certification function* applies whether the *firm* develops the algorithm itself or buys one from a third party.

Section : SYSC 27.9 Material relating to several FCA certification functions

Legal function

SYSC 27.9.1 G A *person* performing the function described in *SYSC 26.4.9R* (Exclusion of the legal function) will perform the significant management or the material risk taker *FCA certification function*, or both.

Section : SYSC 27 Annex 1 Examples of how the temporary UK role rule in SYSC 27.5.3R (the 30-day rule) works

SYSC 27 Annex 1 G

	Example	How the temporary UK role rule applies
(1)	A spends 20 days in the *UK* performing the proprietary trader *FCA certification function* for Firm X and wishes to spend another 20 days in the *UK* performing the significant management *FCA certification function* for Firm X.	The *rule* does not allow this. There is a single 30-day allowance, not a separate 30-day allowance for each *FCA certification function*.
(2)	A spends 20 days in the *UK* performing an *FCA certification function* for Firm X (which is a *UK SMCR firm*) and wishes to spend another 20 days dealing with Firm X's *clients* in the *UK* from the overseas office of Firm X in which A is based.	The *rule* does not allow this. There is a single 30-day limit for both types of contact with the *UK*.
(3)	A wishes to spend 40 days dealing with Firm X's *clients* in the *UK* from the overseas office of Firm X (which is a *UK SMCR firm*) in which A is based. However the total time spent doing that will only be a few hours overall.	The *rule* does not allow this. If A deals with a *UK client* on one day, that uses up one day of the 30-day allowance, however short the time for which the contact lasts.
(4)	A spends 25 days in calendar year one for Firm X in the *UK* and 25 days in calendar year two. However A spends 40 days in the *UK* for Firm X between June in calendar year 1 and June in calendar year 2.	The *rule* does not allow this. This is because the 30-day annual allowance relates to any 12-*month* period and not just a calendar year.
(5)	Firm X is an *overseas SMCR firm*. A is *employed* by Firm X and is based in one of its offices outside the *UK*. A wants to work in the *UK branch* for 10 days.	The *rule* applies to *overseas SMCR firms*. It does not matter that A is not *employed* by the *UK branch* and instead is *employed* by another

	Example	How the temporary UK role rule applies
		part of Firm X. It does not make a difference whether A is based in an office of Firm X in its home state or one in a third country.
(6)	A is based in one of Firm X's overseas offices. Firm X then decides to relocate A to the *UK*, where A will be certified to perform an *FCA certification function* for Firm X. Firm X wants to rely on the temporary *UK* role *rule* for the first 30 days while Firm X goes through the certification process for A.	The *rule* does not allow this. A is no longer based in an overseas office and so the *rule* does not apply.
(7)	A is based in the overseas branch of a *UK SMCR firm*. A is to be promoted, so that A will be performing the material risk taker *FCA certification function*. Firm X wants to rely on the temporary *UK* role *rule* for the first 30 days while Firm X goes through the certification process for A.	The *rule* does not allow this because it does not apply to the material risk taker *FCA certification function* when it is performed for a *UK SMCR firm*.
	A reference in this table to an *FCA certification function* is to a function that would have been an *FCA certification function* but for *SYSC 27.5.3R* (temporary UK role).	

CHAPTER

SYSC 28 Insurance distribution: specific knowledge, ability and good repute requirements

Section : SYSC 28.1 Minimum knowledge, ability and good repute requirements for carrying out insurance distribution activities

Application

SYSC 28.1.1 R

(1) This chapter applies to a *firm* with *Part 4A permission*, including a *TP firm*, to carry on *insurance distribution activities*.

(2) *SYSC 28.2* (except *SYSC 28.2.1R(1)*) does not apply to an *authorised professional firm* with respect to its *non-mainstream regulated activities*.

SYSC 28.1.1A G

Firms are reminded that *GEN 2.2* sets out how the *Handbook* applies to *TP firms*. *SYSC 28* applies to *TP firms,* and this includes amendments to provisions in *SYSC 28* made after *IP completion day* (including for the avoidance of doubt any new *rules* created arising out of those amendments).

SYSC 28.1.2 R

In this chapter, non-investment insurance personnel are employees or other *persons*:

(1) directly involved in the carrying on of the *firm's insurance distribution activities* in relation to *non-investment insurance contracts*; or

(2) within the management structure responsible for the *firm's insurance distribution activities* in relation to *non-investment insurance contracts*; or

(3) responsible for the supervision of a non-investment insurance employee (or other *person*) acting in the capacity as set out in (1).

[**Note:** article 10(1) and the fifth paragraph of article 10(2) of the *IDD*]

SYSC 28.1.2A R

In this chapter, long-term insurance personnel are employees or other *persons*:

(1) directly involved in the carrying on of the *firm's insurance distribution activities* in relation to:

(a) *long-term insurance contracts* (other than *pure protection contracts*);

(b) *long-term care insurance contracts*; or

(c) rights to or interests in a *life policy*;

(2) within the management structure responsible for the *firm's insurance distribution activities* in relation to:

(a) *long-term insurance contracts* (other than *pure protection contracts*);

(b) *long-term care insurance contracts*; or

(c) rights to or interests in a *life policy*; or

(3) responsible for the supervision of a long-term insurance employee (or other *person*) acting in the capacity as set out in (1).

SYSC 28.1.3 R

In this chapter 'employee':

(1) is not restricted to an individual working under a contract of employment; and

(2) includes (without limitation) any natural or legal person whose services are placed at the disposal of the *firm*, under an arrangement between the *firm* and a third party; and

(3) also includes *appointed representatives* and their employees.

SYSC 28.1.4 G

Rules specified in sections *SYSC 28.2* (knowledge and ability), *SYSC 28.4* (record-keeping) and *SYSC 28.5* (other requirements to consider) relate to the requirements in:

(1) *SYSC 3.1.6R*;

(2) *SYSC 5.1.1R*;

(3) *SYSC 3.2.20R*, *SYSC 9.1.1R* and *SYSC 9.1.1AR*;

(4) *TC 4.2* (Specified requirements for firms carrying on insurance distribution activities); and

(5) article 22 of the *AIFMD level 2 regulation*.

Section : SYSC 28.2 Knowledge and ability requirements

Knowledge and ability requirements

SYSC 28.2.1 R

(1)

A *firm* must ensure that it and all non-investment insurance personnel (where the *firm* has non-investment insurance personnel) and all long-term insurance personnel (where the *firm* has long-term insurance personnel) possess appropriate knowledge and ability in order to complete their tasks and perform their duties adequately.

(2)

Where a *firm* has long-term insurance personnel, the *firm* must ensure that it and each long-term insurance employee (or *person*) complies with continued professional training and development requirements in order to maintain an adequate level of performance corresponding to the role they perform and the relevant market.

(3)

Where a *firm* has long-term insurance personnel, the *firm* must ensure that each long-term insurance employee (or other *person*) completes a minimum of 15 hours of professional training or development in each 12 *month* period.

(4) For the purposes of (3), a *firm* must take into account the:

1. (a)

role and activity carried out by the long-term insurance employee (or other *person*) within the *firm*; and

2. (b) type of distribution and the nature of the products sold.

[**Note:** article 10(1) and the first, second and fourth paragraphs of article 10(2) of the *IDD*]

SYSC 28.2.1A G

(1) Where a *firm* has non-investment insurance personnel, it is reminded of the provisions of *SYSC 3.1.6R* or *SYSC 5.1.1R* (Competent employees rule), as applicable, as well as *SYSC 28.2.1R(1)*. Such a *firm* should ensure that it and each non-investment insurance employee (or other *person*) undertakes continued professional training and development in order to maintain an adequate level of performance corresponding to the role they perform and the relevant market.

(2) For the purposes of (1), the *firm* should take into account:

(a) the role and activity carried out by the non-investment insurance employee (or other *person*) within the *firm*; and

(b) the type of distribution and the nature of the products sold.

SYSC 28.2.2 G

Training and development can encompass various types of facilitated learning opportunities including courses, e-learning and mentoring.[**Note:** recital 29 to the *IDD*]

SYSC 28.2.2A G

Where a *firm* has non-investment insurance personnel, the *firm* should, for the purposes of *SYSC 28.2.1R(1)* and *SYSC 3.1.6R* or *SYSC 5.1.1R* (Competent employees rule), as applicable, take into account the following elements of professional knowledge and competence in light of the role and activity carried out by each non-investment insurance

employee (or other *person*) within the *firm*:

(1) for *general insurance contracts*:

(a) knowledge of terms and conditions of policies offered, including ancillary risks covered by such policies;

(b) knowledge of applicable laws governing the distribution of insurance products, such as consumer protection law, relevant tax law and relevant social and labour law;

(c) knowledge of claims handling;

(d) knowledge of complaints handling;

(e) knowledge of assessing customer needs;

(f) knowledge of the insurance market;

(g) knowledge of business ethics standards; and

(h) financial competence; and

(2) for *pure protection contracts* (but not *long-term care insurance contracts*):

(a) knowledge of policies including the terms, conditions, the guaranteed benefits and, where applicable, ancillary risks;

(b) knowledge of organisation and benefits guaranteed by the pension system of the relevant state;

(c) knowledge of applicable insurance contract law, consumer protection law, data protection law, anti-money laundering law and, where applicable, relevant tax law and relevant social and labour law;

(d) knowledge of insurance and other relevant financial services markets;

(e) knowledge of complaints handling;

(f) knowledge of assessing consumer needs;

(g) conflict of interest management;

(h) knowledge of business ethics standards; and

(i) financial competence.

SYSC 28.2.3 R Where a *firm* has long-term insurance personnel, the *firm* must, including in relation to the long-term insurance employee (or other *person*), demonstrate compliance with the following professional knowledge and competence requirements:

(1) [deleted]

(2) for *insurance-based investment products*:

(a) minimum necessary knowledge of *insurance-based investment products*, including terms and conditions and net premiums and, where applicable, guaranteed and non-guaranteed benefits;

(b) minimum necessary knowledge of advantages and disadvantages of different investment options for policyholders;

3. (c) minimum necessary knowledge of financial risks borne by policyholders;

4. (d)

minimum necessary knowledge of policies covering life risks and other savings products;

5. (e) minimum necessary knowledge of organisation and benefits guaranteed by the pension system;

6. (f) minimum necessary knowledge of applicable laws governing the distribution of insurance products, such as consumer protection law and relevant tax law;

7. (g) minimum necessary knowledge of the insurance market and the saving products market;

8. (h) minimum necessary knowledge of complaints handling;

9. (i) minimum necessary knowledge of assessing customer needs;

10. (j) conflict of interest management;

11. (k) minimum necessary knowledge of business ethics standards; and

12. (l) minimum necessary financial competence; and

(3) for *long-term insurance contracts* (other than *pure protection contracts*) and *long-term care insurance contracts*:

(a) minimum necessary knowledge of policies including the terms, conditions, the guaranteed benefits and, where applicable, ancillary risks;

(b) minimum necessary knowledge of organisation and benefits guaranteed by the pension system of the relevant state;

(c) knowledge of applicable insurance contract law, consumer protection law, data protection law, anti-money laundering law and, where applicable, relevant tax law and relevant social and labour law;

(d) minimum necessary knowledge of insurance and other relevant financial services markets;

(e) minimum necessary knowledge of complaints handling;

(f) minimum necessary knowledge of assessing consumer needs;

(g) conflict of interest management;

(h) minimum necessary knowledge of business ethics standards; and

(i) minimum necessary financial competence.

[**Note:** article 10(2) last paragraph and annex I of the *IDD*]

Section : SYSC 28.3 Good repute

Good repute requirements

SYSC 28.3.-1 R This section does not apply to a *connected travel insurance intermediary*.

SYSC 28.3.1 R A *firm* must ensure that all the *persons* in its management structure and any staff directly involved in *insurance distribution activities* are of good repute.[**Note:** article 10(3) paragraphs 1 to 3 of the *IDD*]

SYSC 28.3.2 G This includes but is not limited to those natural persons:

(1) that are directly involved in *insurance distribution activities*; or

(2) within the management structure responsible for *insurance distribution activities*; or

(3) within the management structure responsible for any staff directly involved in *insurance distribution activities*.

[**Note:** article 10(3) paragraphs 1 and 3 of the *IDD*]

SYSC 28.3.3 R An *IDD ancillary insurance intermediary* must ensure that natural persons working in the *firm*, responsible for ancillary *insurance distribution activities*, are of good repute.
[**Note:** article 10(3) paragraph 4 of the *IDD*]

SYSC 28.3.4 R In considering a *person's* repute the firm must at a minimum ensure that the *person*:

(1) has a clean criminal record or any other national equivalent in relation to serious criminal offences linked to crimes against property or other crimes related to financial activities; and

(2) has not previously been declared bankrupt,

unless they have been rehabilitated in accordance with national law.
[**Note:** article 10(3) paragraph 1 of the *IDD*]

SYSC 28.3.5 G (1) In the *United Kingdom* the following *persons* will be considered to have been rehabilitated:

(a) in relation to a serious criminal offence, where the conviction is considered 'spent' under the *Rehabilitation of Offenders Act 1974*;

(b) in relation to bankruptcy, where the bankruptcy has been discharged.

(2) References to "serious criminal offences" are not restricted to offences considered to have been committed in or under the law of the *United Kingdom*.

(3) A *firm* should give particular consideration to offences of dishonesty, fraud, financial crime or other offences under legislation relating to banking and financial services, companies, insurance and consumer protection.

SYSC 28.3.6 G A *firm's* systems and controls should enable it to satisfy itself of the suitability of anyone who

acts for it (see *SYSC 3.2.13G* and *SYSC 5.1.2G*). This includes, among other things, the assessment of an individual's honesty.

Section : SYSC 28.4 Record-keeping requirements

Record-keeping requirements

SYSC 28.4.1 R

A firm must:

(1) establish, maintain and keep appropriate records to demonstrate compliance with this chapter; and

(2) be in a position to provide to the *FCA*, on request, the name of the person responsible for the record-keeping requirement in (1).

[**Note:** article 10(8) last paragraph of the *IDD*]

SYSC 28.4.2 R

A *firm* must:

(1) make an up-to-date record of the continued professional training or development completed by each long-term insurance employee (or other *person*) in each 12 *month* period;

(2) retain that record for not less than 3 years after the long-term insurance employee (or other *person*) stops carrying on the activity; and

(3) be in a position to provide any version of the record to the *FCA* on request.

[**Note:** article 10(2) second paragraph of the *IDD*]

SYSC 28.4.2A G

Firms are reminded of the record-keeping obligations in *SYSC 3.2.20R* and *SYSC 9.1.1R*, as applicable. The record maintained by a *firm* for the purposes of *SYSC 28.4.1R*, together with the records required by *SYSC 3.2.20R* or *SYSC 9.1.1R*, as applicable, should enable the *FCA* to monitor continued professional training and development undertaken by a *firm's* non-investment insurance personnel for the purposes of *SYSC 28.2.1R(1)* as well as *SYSC 3.1.6R* or *SYSC 5.1.1R*, as applicable (Competent employees rule).

SYSC 28.4.3 R

A *firm* must not prevent a non-investment insurance employee (or other *person*) from obtaining a copy of the records relating to that non-investment insurance employee which are maintained by the *firm* for the purposes of *SYSC 28.4.1R* and *SYSC 3.2.20R* or *SYSC 9.1.1R*, as applicable.

SYSC 28.4.4 R

A *firm* must not prevent a long-term insurance employee (or other *person*) from obtaining a copy of the record relating to that long-term insurance employee which is maintained by the *firm* for the purposes of *SYSC 28.4.1R* and *SYSC 28.4.2R*.

Section : SYSC 28.5 Other requirements to consider

SYSC 28.5.1 G

In addition to the requirements in *SYSC 28*:

(1) *firms* may have to take into account and comply with the requirements in the Training and Competence sourcebook (*TC*);

(2) article 22 of the *AIFMD level 2 regulation* and the *competent employees rules* (*SYSC 3.1.6R* and *SYSC 5.1.1R*) set out a high-level competence requirement which every *firm* has to comply with; and

(3) it may be that the effect of the *rules* referred to in (1) and (2) is that *firms* have to meet requirements additional to those in *SYSC 28*.

CHAPTER

SYSC 28A Regulated funeral plan activities: good repute requirements

Section : SYSC 28A.1 Application

SYSC 28A.1.1	R	This chapter applies to a *firm* with respect to *regulated funeral plan activities*.

Section : SYSC 28A.2 Good repute

Good repute requirements

SYSC 28A.2.1 R A *firm* must ensure that all the *persons* in its management structure and any staff directly involved in the activities specified in *SYSC 28A.1.1R* are of good repute.

SYSC 28A.2.2 G This includes but is not limited to those natural *persons*:

(1) that are directly involved in the activities specified in *SYSC 28A.1.1R*; or

(2) within the management structure responsible for the activities specified in *SYSC 28A.1.1R*; or

(3) within the management structure responsible for any staff directly involved in the activities specified in *SYSC 28A.1.1R*.

SYSC 28A.2.3 R In considering a *person's* repute the *firm* must at a minimum ensure that the *person*:

(1) has a clean criminal record or any other national equivalent in relation to serious criminal offences linked to crimes against property or other crimes related to financial activities; and

(2) has not previously been declared bankrupt,

unless they have been rehabilitated in accordance with national law.

SYSC 28A.2.4 G

(1) In the *United Kingdom* the following *persons* will be considered to have been rehabilitated:

(a) in relation to a serious criminal offence, where the conviction is considered 'spent' under the Rehabilitation of Offenders Act 1974;

(b) in relation to bankruptcy, where the bankruptcy has been discharged.

(2) References to "serious criminal offences" are not restricted to offences considered to have been committed in or under the law of the *United Kingdom*.

(3) A *firm* should give particular consideration to offences of dishonesty, fraud, financial crime or other offences under legislation relating to banking and financial services, companies, insurance and consumer protection.

SYSC 28A.2.5 G A *firm's* systems and controls should enable it to satisfy itself of the suitability of anyone who acts for it (see *SYSC 5.1.2G*). This includes, among other things, the assessment of an individual's honesty.

Section : SYSC 28A.3 Record keeping requirements

Record keeping requirements

SYSC 28A.3.1 R

A *firm* must:

(1) establish, maintain and keep appropriate records to demonstrate compliance with this chapter; and

(2) be in a position to provide to the *FCA*, on request, the name of the *person* responsible for the record-keeping requirement in (1).

SYSC 28A.3.2 R R

A *firm* must not prevent any *person* from obtaining a copy of the records relating to them which are maintained by the firm for the purposes of *SYSC 28A.3.1R*.

SYSC 28A.3.3 G

The rules specified in *SYSC 28A.3.1R* relate to the requirements specified in *SYSC 5.1.1R*, *SYSC 9.1.1R* and *SYSC 10.1.6R*.

CHAPTER

SYSC TP 2 Firms other than common platform firms, insurers, managing agents and the Society

Section : SYSC TP 2 Firms other than common platform firms, insurers, managing agents and the Society

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional provision	Transitional provision: dates in force	Handbook provisions: Coming into force
2.1 [FCA] [PRA]	*SYSC 8.1*	R	If a *firm* other than a *common platform firm*, *insurer*, *managing agent* or the *Society* has in force on 1 April 2009 *outsourcing* arrangements which would be covered by *SYSC 8.1* it need not amend those contracts to comply with these provisions but should comply with the new rules and guidance in respect of any *outsourcing* contracts which are entered into, or materially amended, on or after 1 April 2009.	1 April 2009 indefinitely	1 April 2009

(1)	(2)	(3)	(4)	(5)	(6)
2.2 [FCA]	The changes to *SYSC* set out in Annex D of the Alternative Investment Fund Managers Directive Instrument 2013	R	[expired]		
2.3 [FCA]	*SYSC 4.2.2 R* to *SYSC 4.2.5 G*, *SYSC 9.1.2 R* and *SYSC 9.1.3 R*	R	A *small authorised UK AIFM* of an *unauthorised AIF* which, prior to 22 July 2013, was a *common platform firm* must continue to comply with column (2) in respect of its activities as an *AIFM*.	From 22 July 2013 until 31 July 2015	22 July 2013
2.4 [FCA]	*SYSC 4.1.8A R* to *SYSC 4.1.8E R* and 4.1.9AR	R	[expired]		

CHAPTER

SYSC TP 3 Remuneration codes

Section : SYSC TP 3 Remuneration codes

Part A	IFPRU Remuneration Code [deleted]

Part B		UCITS Remuneration Code			
(1)	(2) Material to which the transitional provision applies		(3) Transitional provision	(4) Transitional provision: date in force	(5) Handbook provisions: coming into force
1	The *UCITS* remuneration principles	R	A *management company* need not apply the *UCITS remuneration principles* to any awards of variable *remuneration* until it commences its first full performance year starting on or after 18 March 2016.	From 18 March 2016 until 18 March 2017	18 March 2016

CHAPTER

SYSC TP 5 Financial Services (Banking Reform) Act 2013: Certification and regulatory references

Section : SYSC TP 5 Financial Services (Banking Reform) Act 2013: Certification and regulatory references

	Note to the reader		
5.1.1-2	G	(1)	*SYSC TP 5* has not been amended to reflect changes in the *FCA Handbook* and *Glossary* since the beginning of 2018. This is because it is made up of transitional provisions that mostly expired before then.
		(2)	A small number of provisions may have effect beyond that date. To help the reader, the table in *SYSC TP 5*.1.1-1G explains how superseded *Glossary* terms in *SYSC TP 5* should be interpreted.
5.1.1-1	G	Table: meaning of superseded Glossary terms	

Term in SYSC TP 5	Term that has replaced it	Comment
FCA specified significant-harm function	*FCA certification function*	
full scope regulatory reference firm	Any of the following: (a) an *SMCR banking firm*; (b) a *Solvency II firm*; or (c) a *large non-directive*	*SYSC TP 5*.4.2R refers to *SYSC 22.2.1R* (Obligation to obtain a regulatory reference). On 7 March 2017 (the date referred to in

Term in SYSC TP 5	Term that has replaced it	Comment
	insurer.	*SYSC TP 5*.4.2R), *SYSC 22.2.1R* applied to what were then called full scope regulatory reference firms.
relevant authorised person	*SMCR banking firm*	
specified significant-harm function	*certification function*	

	Purpose of *SYSC TP 5*		
SYSC 5.1.1	G	*SYSC TP 5*:	
		(1)	explains how the certification regime described in *SYSC 5.2* applies during the transitional period between 7 March 2016 and 7 March 2017 described in *SYSC TP 5.3.1G*; and
		(2)	has certain transitional provisions dealing with *SYSC 22* (Regulatory references).
5.1.2	G	*SYSC TP 5* deals with transitional issues that relate to changes to the *Handbook* that come into force in 2016 and 2017.	
	Application		
SYSC 5.2.1	G	(1)	All of *SYSC TP 5* applies to *relevant authorised persons*.

		(2)	*SYSC TP 5.1*, *SYSC TP 5.2* and *SYSC TP 5.5* apply to all *firms*.
	Certification: The transitional period		
SYSC 5.3.1	G	The obligation in *section 63E(1)* of the *Act* for a *relevant authorised person* to take reasonable care to ensure that no *employee* of the *firm* performs an *FCA specified significant-harm function*, unless the *firm* has issued the *employee* with a valid certificate, does not apply until the end of the transitional period.	
SYSC 5.3.2	G	However, other parts of the *Handbook* and the *Act* about *certification employees* apply in the transitional period.	
SYSC 5.3.3	G	The table in *SYSC TP 5.3.4G* explains how the requirements of the *Handbook* and the *Act* about *certification employees* apply in the transitional period.	
SYSC 5.3.4	G	Table: How the certification regime applies in the transitional period	

Provision in the Act or the Handbook **Definition of *certification employee***	**What that provision is about**	**How it applies in the transitional period** **During the transitional period, the *Glossary* definition of *certification employee* covers everyone who would need a certificate to perform their job if the obligation to issue certificates was in force**
SYSC 27.2.3G to *SYSC 5.2.17G*	*Guidance* about issuing certificates and fitness	Does not apply
SYSC 27.6.1R to *SYSC 27.8.31G*	Definition of who falls into the certification regime	Applies for the purpose of those parts of the *Handbook* and the *Act* that are in force as described in this table.
The parts of *SYSC 4.5* dealing with the *management responsibilities map*	*SYSC 4.5* says that the *management responsibilities map* should say if *persons* described or identified in the *management*	Applies to everyone who would need a certificate to perform their job if the obligation to issue certificates was in force.

Provision in the Act or the Handbook	What that provision is about	How it applies in the transitional period
Definition of *certification employee*		**During the transitional period, the *Glossary* definition of *certification employee* covers everyone who would need a certificate to perform their job if the obligation to issue certificates was in force**
	responsibilities map are *certification employees*	
COCON		Applies to everyone who would need a certificate to perform their job if the obligation to issue certificates was in force. This applies even if they have not been notified that: (a) *COCON* applies to them; or (b) of the *rules* that apply to them. Applies to those who would have been excluded from the certification regime by *SYSC 27.5.1R* (Scope: emergency appointments).
Section 64B of the *Act*	*Firm* should ensure that all *persons* subject to *COCON* are notified *Firm* should take reasonable steps to ensure that those *persons* understand how *COCON* applies to them.	Applies to everyone who would need a certificate to perform their job if the obligation to issue certificates was in force.
The parts of *SUP 15.3* that deal with *COCON* breaches	Notifying a significant breach of *COCON* to the *FCA*	Applies to everyone who would need a certificate to perform their job if the obligation

Provision in the Act or the Handbook	What that provision is about	How it applies in the transitional period
Definition of *certification employee*		**During the transitional period, the *Glossary* definition of *certification employee* covers everyone who would need a certificate to perform their job if the obligation to issue certificates was in force**
		to issue certificates was in force.
Section 64C of the *Act* and *SUP 15.11*	Notifying the *FCA* of disciplinary action	Applies to everyone who would need a certificate to perform their job if the obligation to issue certificates was in force.

	Transitional provisions about regulatory references: Full scope regulatory reference firms		
SYSC 5.4.1	R	(1)	If on 7 March 2017 an *employee* (P) is already performing a *specified significant-harm function* for a *relevant authorised person* (A), the obligation under *SYSC 22* (Regulatory references) for A to obtain a reference when issuing a certificate for P for that *significant-harm function* does not apply.
		(2)	Paragraph (1) ceases to apply if there has been a significant change in P's responsibilities

			forming part of that *specified significant-harm function* as compared to the position on 7 March 2017.
5.4.2	R	*SYSC 22.2.1R* (Obligation to obtain a regulatory reference) does not apply to an application for approval as an *approved person* that is made before 7 March 2017 but that has not yet been finally determined by that date.	
SYSC 5.4.3	G	(1)	*SYSC 22.7.5G* to *SYSC 22.7.8G* (Asking for a reference to be updated) deal with a *full scope regulatory reference firm* (A) that is obliged to get a reference from an ex-*employer* (B) and wants to rely on one that B has already given A.
		(2)	The *SYSC* material referred to in (1) can apply where the reference was given before 7 March 2017.
		(3)	One relevant factor is whether B is a *full scope regulatory reference firm*. This is because the *FCA* requirements about *firms* asked to give regulatory references that applied to *firms* that are not *full scope regulatory reference firms* before 7 March 2017 were similar to those in *SYSC 22*. As such, the existing

			reference may already be sufficient.
		(4)	The main difference between the requirements for a *firm* that is not a *full scope regulatory reference firm* before and after 7 March 2017 is that the range of functions for which A is entitled to ask for a reference was widened. For example, there was no obligation to supply a reference for a *certification employee* before then.
SYSC 5.4.4	G	*SYSC 22.2.4R* (Obligation to revise references) does not apply to references given before 7 March 2017.	
SYSC 5.4.5	R	Question (F) (disciplinary action) in Part One of *SYSC 22 Annex 1R* (Template for regulatory references given by relevant authorised persons and disclosure requirements) does not require disclosure of breaches of individual conduct requirements referred to in question (F) if the disciplinary action referred to in that item took place before:	
		(1)	(in the case of a *relevant authorised person*) 7 March 2016; or
		(2)	(in the case of any other *full scope regulatory reference firm*) 7 March 2017;
		if the *firm's* records do not show whether the conduct that was subject to disciplinary action amounted to a breach of those individual conduct requirements.	

	Transitional provisions about regulatory references: All firms	
SYSC 5.5.1	R	If a *firm* (A) asks another *firm* (B) for a reference before 7 March 2017, *SYSC 22* (Regulatory references) applies to B if B gives the reference after that date.
SYSC 5.5.2	G	*SYSC 22* applies to a reference requested or given after 7 March 2017 even if the matters covered by the reference occurred before then.

CHAPTER

SYSC TP 6 Transitional Provision 6

Section : SYSC TP 6 Transitional Provision 6

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provisions: coming into force
1.	*SYSC 2.2.4*	R	[expired]		
2.	*SYSC 2.1.3A*	R	[expired]		
3.	*SYSC 2.2.6*		[expired]		
4.	*SYSC 2.1.3C*	R	[expired]		
5.	*SYSC 2.2.1R* and *SYSC 2.2.1AR*	R	A *firm* must continue to retain the records it was required to make and retain under *SYSC 2.2.1R* before its disapplication to the *firm* under *SYSC 2.2.1AR*, for as long as *SYSC 2.2.1R* required before its disapplication.	From 1 January 2016 until the date that the records are no longer required to be retained.	1 January 2016
6	*SYSC 27.7.3R* (row 2) and *SYSC 5.2.33R*	R	[deleted]		
7	*SYSC 14.1.2AR*	R	The *rule* in column 2, as it was in force on 28 June	From 29 June 2018	Already in force

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provisions: coming into force
			2018, continues to apply to a *benchmark administrator*, until that administrator becomes authorised or registered under the *benchmarks regulation*, or ceases to be authorised for *administering a specified benchmark*.		

CHAPTER

SYSC TP 7 Bank of England and Financial Services Act 2016: Certification and regulatory references

Section : SYSC TP 7 Bank of England and Financial Services Act 2016: Certification and regulatory references

7.1		Application, purpose and definitions	
7.1.1	R	*SYSC TP 7* applies as set out in the table in *SYSC TP 7.1.2R*.	
7.1.2	R	Table: Application of *SYSC TP 7*	
		Type of firm	Parts of SYSC TP 7 that apply
		An *SMCR insurance firm* except one in the following row	All applies except *SYSC TP 7.7*
		An *SMCR insurance firm* that is a *Solvency II firm* (including a *large non-directive insurer*)	All applies except as follows: (1) *SYSC TP 7*.4.2R to *SYSC TP 7*.4.3G do not apply. (2) Subject to (3), *SYSC TP 7*.4.4R and *SYSC TP 7*.4.5G do not apply. (3) *SYSC TP 7*.4.4R and *SYSC TP 7*.4.5G apply where the requirement to obtain a reference arises under *SYSC 22.2.1R(1)(b)* (certification). (4) *SYSC TP 7.7* does not apply.
		A *core SMCR firm*, an *enhanced scope SMCR firm* and a *limited scope SMCR firm* other	All applies, subject to the adjustments in *SYSC TP 8* (*Bank of England and Financial*

7.1		Application, purpose and definitions	
		than a *pure benchmark SMCR firm*	*Services Act 2016:* Application to claims management companies).
		A *pure benchmark SMCR firm*	All applies, except that *SYSC TP 7*.2 (except as explained in the following paragraph), *SYSC TP 7*.3, *SYSC TP 7*.4.1R and *SYSC TP 7*.7.3G to *SYSC TP 7*.7.6G do not apply. The material in the row of *SYSC TP 7*.2.4G (Table: How the certification regime applies in the certification transitional period) whose first column is labelled "*SYSC 22*" about providing references applies to an *SMCR firm*. The material about obtaining references does not apply as the certification regime does not apply to a *pure benchmark SMCR firm*.

7.1 Application, purpose and definitions

		All other *firms*	Does not apply, except as follows. The material in the row of *SYSC TP 7*.2.4G (Table: How the certification regime applies in the certification transitional period) whose first column is labelled "*SYSC 22*" about providing references applies to an *SMCR firm*. *SYSC TP 7.6* applies. *SYSC TP 7*.5 applies to the firms specified in *SYSC TP 7*.5.

7.1.3	G	*SYSC TP 7*:	
		(1)	explains how the certification regime described in *SYSC 27* applies during the **certification transitional periods** described in *SYSC TP 7*.2.1G;
		(2)	has certain transitional provisions dealing with *SYSC 22* (Regulatory references) and with benchmark activities;
		(3)	has certain other transitional provisions relating to the amendments made to the *FCA Handbook* by the Individual Accountability (Dual-Regulated

			Firms) Instrument 2018, the Individual Accountability (FCA-Authorised Firms) Instrument 2019 and the Individual Accountability (FCA-Authorised Benchmark Firms) Instrument 2020;
		(4)	is adjusted and supplemented by *SYSC TP 8* in relation to certain claims management *firms*; and
		(5)	does not apply to a *firm* that becomes an *SMCR firm* after 31 March 2021 except that: (a) it may apply after then in relation to certain claims management *firms* covered by *SYSC TP 8*; and (b) the parts of *SYSC TP 7* that are described in the table in *SYSC TP 7.1.2R* (Table: Application of *SYSC TP 7*) as applying to "All other *firms*" might apply although in practice the material about employment references will not normally apply because of the time period in which *SYSC TP 7* operates as described in *SYSC TP 7*.1.4G.
7.1.4	G	(1)	The main time period for which *SYSC TP 7* operates is 2018 to 2021.
		(2)	There are transitional provisions that can apply beyond that period. They are based on events occurring during that period.

7.1.5	R	The terms in the first column of the table in *SYSC TP 7*.1.6R, where they appear in bold in *SYSC TP 7*, have the meaning in the corresponding row of column 2 for the purposes of *SYSC TP 7*.	
7.1.6	R	Table: glossary of bespoke terms used in *SYSC TP 7*	
		Part One: General	
		Defined term	**Meaning**
		commencement SIs	the **insurance firms commencement SI** and the

			solo firms commencement SI		
		insurance firms commencement SI	*the Bank of England and Financial Services Act 2016 (Commencement No. 5 and Transitional Provisions) Regulations 2018* (SI 2018/990)		
		solo firms commencement SI	*The Bank of England and Financial Services Act 2016 (Commencement No. 6 and Transitional Provisions) Regulations 2019* (SI 2019/1136) as amended by *The Bank of England and Financial Services Act 2016 (Commencement No. 6 and Transitional Provisions) (Amendment) Regulations 2020* (SI 2020/929)		
		[deleted]	[deleted]		
		Part Two: Dates			
		(1)	**(2)**	**(3)**	**(4) Meaning: Benchmark firms**
		Defined term	**Meaning: Insurers**	**Meaning: Others**	
		certification transitional period	the one year period beginning on 10 December 2018 and ending on 10 December 2019 referred to in regulation 2 of the **insurance firms commencement SI**	the period beginning on the **general commencement date** and ending on 31 March 2021 (as referred to in regulation 2(6) of the **solo firms commencement SI**)	Does not apply

			(Appointed days for the coming into force of section 21 and Schedule 4 for insurers)		
		general commencement date	10 December 2018	9 December 2019 (as referred to in regulation 2(4) of the **solo firms commencement SI**)	7 December 2020 (as referred to in regulation 2(5) of the **solo firms commencement SI**)
		Note (1): Column (2) (Insurers) applies to an *SMCR insurance firm* (to the extent that *SYSC TP 7* applies to such *firms*).			
		Note (2): Column (3) (Others) applies to a *core SMCR firm*, an *enhanced scope SMCR firm* and a *limited scope SMCR firm* but not to a *pure benchmark SMCR firm*.			
		Note (3): Column (4) (Benchmark firms) applies to a *pure benchmark SMCR firm*.			

7.2	**Certification: The certification transitional period**	
7.2.1	G	Under the **commencement SIs**,the obligation in *section 63E(1)* of the *Act* for an *SMCR firm* to take reasonable care to ensure that no *employee* of the *firm* performs an *FCA certification function*, unless the *firm* has issued the *employee* with a valid certificate, does not apply until the end of the **certification transitional period**.
7.2.2	G	However, other parts of the *FCA Handbook* and the *Act* about *certification employees* apply in the **certification transitional period**.
7.2.3	G	The table in *SYSC TP 7*.2.4G explains how the requirements of the *FCA Handbook* and the *Act* about *certification employees* apply in the **certification transitional period**.

7.2.4 G **Table: How the certification regime applies in the certification transitional period**

		Provision in the Act or the Handbook	What that provision is about	How it applies in the certification transitional period
		Glossary definition of *certification employee*		During the **certification transitional period**, the *Glossary* definition of *certification employee* covers everyone who would need a certificate to perform their job if the obligation to issue certificates were in force
		SYSC 27.2 and the parts of the *Act* on which it gives *guidance*	Issuing certificates and fitness	Does not apply except as follows. A *firm* may issue a certificate during the **certification transitional period**. The reason it may wish to do this is so that when the requirement in the *Act* to issue certificates comes into force, the *firm* will have

7.2.4	G	**Table: How the certification regime applies in the certification transitional period**		
		Provision in the Act or the Handbook	**What that provision is about**	**How it applies in the certification transitional period**
				issued all the certificates that it needs to have issued to allow its *certification employees* to carry on their jobs after the **certification transitional period**. If it does issue a certificate during the **certification transitional period**, that certificate is valid after the end of the **certification transitional period** for the twelve-*month* period provided for in *section 63F* of the *Act* (Issuing of certificates). That twelve-*month* period runs from the date of issue,

7.2.4	G	**Table: How the certification regime applies in the certification transitional period**		
		Provision in the Act or the Handbook	**What that provision is about**	**How it applies in the certification transitional period**
				even though it was issued during the **certification transitional period**. This means that a certificate issued before 31 March 2020 will not be effective. All the provisions of the *Act* and the *FCA Handbook* about certificates apply to a certificate issued in the **certification transitional period**.
		SYSC 27.3	Territorial scope of the certification regime	Applies for the purpose of those parts of the *FCA Handbook* and the *Act* that are in force as described in this table
		SYSC 27.4	General material about the scope of the certification regime	
		SYSC 27.5	Exclusions for emergency and	

7.2.4	G	**Table: How the certification regime applies in the certification transitional period**		
		Provision in the Act or the Handbook	**What that provision is about**	**How it applies in the certification transitional period**
			temporary appointments	
		SYSC 27.6	Other exclusions	
		SYSC 27.7	Specification of functions	
		SYSC 27.8	Definitions of the FCA certification functions	
		SYSC 27.9	Material relating to several FCA certification functions	
		SYSC 22	Regulatory references	Except as explained later in this row about *SYSC 22*, the obligation to obtain a reference does not apply because the obligation to get a reference is triggered by issuing a certificate. *SYSC TP* 7.4 has exemptions that apply after the **certification transitional**

7.2.4 G **Table: How the certification regime applies in the certification transitional period**

		Provision in the Act or the Handbook	What that provision is about	How it applies in the certification transitional period
				period. If a *firm* wishes to issue a certificate during the **certification transitional period** as described in the row of this table column 1 of which is titled "*SYSC 27.2* and the parts of the *Act* on which it gives *guidance*" the obligation on the *firm* to ask for a reference and the obligation of other *firms* to give one apply.
		SYSC 25	*SYSC 25* says that the *management responsibilities map* should say whether *persons* described or identified in the *management responsibilities map* are	Applies to everyone who would need a certificate to perform their job if the obligation to issue certificates was in force

7.2.4 G **Table: How the certification regime applies in the certification transitional period**

Provision in the Act or the Handbook	What that provision is about	How it applies in the certification transitional period
	certification employees	
COCON		Applies to everyone who would need a certificate to perform their job if the obligation to issue certificates was in force. This applies even if they have not been notified: (a) that *COCON* applies to them; or (b) of the *rules* that apply to them. *COCON* also applies to those who would have been excluded from the certification regime by *SYSC 27.5.1R* (Emergency appointments

7.2.4	G	**Table: How the certification regime applies in the certification transitional period**		
		Provision in the Act or the Handbook	**What that provision is about**	**How it applies in the certification transitional period**
				) or *SYSC 27.5.3R* (Temporary UK role).
		Section 64B of the *Act*	*Firm* should ensure that all *persons* subject to *COCON* are notified *Firm* should take reasonable steps to ensure that those *persons* understand how *COCON* applies to them.	Applies to everyone who would need a certificate to perform their job if the obligation to issue certificates was in force
		The parts of *SUP 15.3* that deal with *COCON* breaches	Notifying a significant breach of *COCON* to the *FCA*	
		Section 64C of the *Act* and *SUP 15.11*	Notifying the *FCA* of disciplinary action	

7.3	**General material about certification**		
7.3.1	G	(1)	*SYSC 27.5.1R* (Emergency appointments) allows a *firm* to appoint someone (P) to perform a function which

			would normally be an *FCA certification function* without P becoming a *certification employee*. There is a maximum period for which the appointment can last.
		(2)	When calculating the maximum time period in (1), the *firm* need not take into account any time spent by P before the **general commencement date** performing what will become the *FCA certification function* in (1).
		(3)	When a *firm*, after the end of the **certification transitional period**, is calculating the maximum time period in (1), the *firm* should take into account any time spent by P during the **certification transitional period** performing the *FCA certification function* in (1).
7.3.2	G	(1)	*SYSC 27.5.1R* only applies where P (as referred to in *SYSC TP 7*.3.1G) is providing cover for a *certification employee* whose absence is reasonably unforeseen.
		(2)	*SYSC 27.5.1R* may still apply if the absence referred to in (1) began before the **general commencement date** or during the **certification transitional period**.
7.3.3	G	(1)	Some *FCA certification functions* only apply where the place of performance of the function has a connection with the *United Kingdom* (for example, it is carried on there).
		(2)	*SYSC 27.5.3R* (Temporary UK role (the 30-day rule)) allows a *person* (P) to carry on a function for a *firm* that would normally be an *FCA certification function* because of its connection with the *United Kingdom* without P becoming a *certification*

			employee. There is a time limit on how long the *firm* can allow P to do this.
		(3)	When calculating the time limit in (2), the *firm* need not take into account any time spent by P before the **general commencement date** performing functions with a *United Kingdom* connection.
		(4)	When a *firm*, after the end of the **certification transitional period**, is calculating the maximum time period in (1), the *firm* should take into account any time spent by P during the **certification transitional period** performing functions with a *United Kingdom* connection.
7.4	**Transitional provisions about regulatory references**		
7.4.1	R	(1)	If on the **general commencement date** an *employee* (P) is already performing an *FCA certification function* for an *SMCR firm* (A), the obligation under *SYSC 22* (Regulatory references) for A to obtain a reference when issuing a certificate (including reissuing a certificate) for P for that *FCA certification function* does not apply during, at the end of or after the end of the **certification transitional period**.
		(2)	If there has been a significant change in P's responsibilities forming part of that *FCA certification function* as compared to the position on the **general commencement date**, paragraph (1) ceases to apply from that time.
7.4.2	R	*SYSC 22.2.1R* (Obligation to obtain a regulatory reference) does not apply to an application for approval as an *approved person* that:	
		(1)	is made before the **general commencement date** and is continued in force by *SUP TP 11.7* or *SUP TP 11A.7*

			(In-flight applications: Conversion); or
		(2)	is made under *SUP TP 11.15* or *SUP TP 11A.15* (Applications of approved persons to take effect from the commencement date).
7.4.3	G	*SYSC 22.2.4R* (Obligation to revise references) does not apply to references given before the **general commencement date**.	
7.4.4	R	Question (F) (disciplinary action) in Part One of *SYSC 22 Annex 1R* (Template for regulatory references given by SMCR firms and disclosure requirements) does not require disclosure of breaches of individual conduct requirements referred to in question (F) if:	
		(1)	the disciplinary action referred to in that item took place before the **general commencement date**; and
		(2)	the *firm's* records do not show whether the conduct that was subject to disciplinary action amounted to a breach of those individual conduct requirements.
7.4.5	G	The term individual conduct requirements in *SYSC TP 7.4.4R* is defined in Section One of Part Two of *SYSC 22 Annex 1*R.	
7.4.6	R	If:	
		(1)	a *firm* (A) asks another *firm* (B) for a reference before the **general commencement date**; but
		(2)	B gives the reference after that date;
		SYSC 22 (Regulatory references) in the form it is in at the time in (2) applies to B.	
7.4.7	G	*SYSC 22* in the form it is in after the **general commencement date** applies to a reference requested or given after the **general commencement date** even if the matters covered by the reference occurred before then.	
7.4.8	R		[deleted]

7.5	**Transitional provisions about benchmarks and the certification regime**	
7.5.1	G	*SYSC 27.6.4R* excludes *benchmark activities* from the certification regime. *SYSC TP 7*.5 brings certain activities in relation to benchmarks back into the certification regime.
7.5.2	R	*SYSC 27* (Senior managers and certification regime: Certification regime) applies to a *person* with *permission* to carry on the *regulated activity* of *administering a specified benchmark* acting as such.
7.5.3	G	As a consequence of the *benchmarks regulation*, the *regulated activities* referred to in *SYSC TP 7*.5.2R will cease to apply in certain circumstances (see *SUP TP 10* for an explanation of those circumstances).
7.5.4	G	The effect of *SYSC TP 7*.5.2R is that *SYSC 27* continues to apply to *firms* which still have *permission* to carry on the *regulated activity* in *SYSC TP 7*.5.2R when carrying on that activity.
7.6	**Miscellaneous**	
Common platform requirements		
7.6.1	G	The Individual Accountability (Dual-Regulated Firms) Instrument 2018 renumbered material that used to be in *SYSC 4* and *SYSC 5* so that it now appears in *SYSC 24* to *SYSC 27*. That instrument updated *FCA Handbook* cross-references accordingly.
7.6.2	G	The requirements of chapters *SYSC 24* to *SYSC 27* no longer form part of the *common platform organisational requirements* and a reference to anything in *SYSC 4* or *SYSC 5* does not include any material referred to in *SYSC TP 7*.6.1G.
7.7	**Qualification conditions for FCA-authorised firms**	
Firm classification: Effect of pre-commencement events		
7.7.1	R	If a *firm* is treated as a *core SMCR firm*, an *enhanced scope SMCR firm* or a *limited scope SMCR firm* immediately before the **general commencement date** for the purposes of *SUP TP 11A* (*Bank of England and Financial Services Act 2016:* Approved persons in solo-regulated firms) it retains that status after the **general commencement date** unless and until it changes under *SYSC 23 Annex 1* (Definition of SMCR firm and different types of SMCR firms).

7.7.2	G	For example if before the **general commencement date** a *firm* has opted up to be an *enhanced scope SMCR firm* it remains an *enhanced scope SMCR firm* after the **general commencement date**. It may then elect to cease being an *enhanced scope SMCR firm* using a Form O under the procedure in *SYSC 23 Annex 1* unless it also meets one of the other qualifications for being an *enhanced scope SMCR firm*.		
7.7.3	G	A calculation period, an averaging period or a reporting period as referred to in Part Eight of *SYSC 23 Annex 1* (Part Eight: Financial qualification condition for being an enhanced scope SMCR firm) may begin or end before the **general commencement date**.		
Financial qualification conditions for enhanced scope SMCR firms				
7.7.4	R	(1)	This *rule* applies to a *firm* that:	
			(a)	does not meet one of the qualification conditions for being an *enhanced scope SMCR firm* in Part 8 of *SYSC 23 Annex 1* (Financial qualification condition for being an enhanced scope SMCR firm) at the date in *SUP TP 11A.23.3R(2)* (Deciding which category a firm is in); but
			(b)	meets it between that date and the **general commence ment date**.
		(2)	The one-year period referred to in Part 10 of *SYSC 23 Annex 1* (When a firm becomes an enhanced scope SMCR firm) begins on	

			the date the *firm* met that qualification condition, even though that date is before the **general commencement date**.
7.7.5	G	The situation in *SYSC TP 7.7.4R* may apply to a *firm* because, for example, its accounting reference date falls between the date in *SUP TP 11A.23.3R(2)* and the **general commencement date**.	
Consumer credit reporting			
7.7.6	G	(1)	*SYSC 23 Annex 1 8.15R* deals with cases in which the period in relation to which the financial calculations are made to test whether a *firm* meets one of the financial qualification conditions for being an *enhanced scope SMCR firm* is adjusted because the relevant reporting requirements did not apply for the whole period. *SYSC 23 Annex 1 8.16G* gives examples of why this may happen.
		(2)	One example in *SYSC 23 Annex 1 8.16G* is that the relevant reporting requirements have not existed for the whole of the period. A particular example of this is consumer credit reporting requirements. At the time the financial qualification conditions for being an *enhanced scope SMCR firm* first came into force in 2019, the relevant reporting requirements had not existed for a full three years.

CHAPTER

SYSC TP 8 Bank of England and Financial Services Act 2016: Application to claims management companies

Section : SYSC TP 8 Bank of England and Financial Services Act 2016: Application to claims management companies

8.1		Application, purpose and definitions	
8.1.1	R	Subject to *SYSC TP 8.1.2R*, *SYSC TP 8* applies to a *firm* if it met the following conditions on the **general solo firms' commencement date**:	
		(1)	the only *regulated activities* in its *permission* were *regulated claims management activities*;
		(2)	it still had a *claims management temporary permission*; and
		(3)	it would have been an *SMCR firm* but for *SYSC TP 8.2.1R*.
8.1.2	R	*SYSC TP 8.1.1R* does not apply to *SYSC TP 8.6.1R*. Instead, *SYSC TP 8*.6.1R sets out the *firms* to which it applies.	
8.1.3	G	*SYSC TP 8*:	
		(1)	deals with the application of certain aspects of the senior managers and certification regime to claims management *firms* brought into regulation under the *Act* by the *Claims Management Order* in April 2019;
		(2)	explains how the transitional provisions in *SYSC TP 7* (*Bank of England and Financial*

8.1 Application, purpose and definitions

			Services Act 2016: Certification and regulatory references) are amended for certain claims management *firms*;
		(3)	in particular, describes a transition period (the **individual transitional period**) that applies for the purposes of the certification regime in place of the one described in *SYSC TP 7*; and
		(4)	has certain other transitional provisions relating to the application of the senior managers and certification regime to claims management *firms*.
8.1.4	R	The terms in the first column of the table in *SYSC TP 8.1.5R*, where they appear in bold in *SYSC TP 8*, have the meaning in the corresponding row of column 2 for the purposes of *SYSC TP 8*.	
8.1.5	R	Table: glossary of bespoke terms used in *SYSC TP 8*	

Part One: General

Defined term	Meaning
general solo firms' commencement date	9 December 2019
individual transitional period	the period of fifteen *months* and twenty two *days* referred to in regulation 3(2) of the **solo-regulated**

	firms' commencement SI. If a *firm's permission* is varied to include *regulated activities* in addition to *regulated claims management activities*, it means the shorter period (if any) provided for by regulations 3(2) and 3(3) of the **solo-regulated firms' commencement SI**.
solo-regulated firms' commencement SI	*The Bank of England and Financial Services Act 2016 (Commencement No. 6 and Transitional Provisions) Regulations 2019* (SI 2019/1136) as amended by *The Bank of England and Financial Services Act 2016 (Commencement No. 6 and Transitional Provisions) (Amendment) Regulations 2020* (SI 2020/929)

8.2 Exclusion from the SMCR

8.2.1	R	A *firm* is not an *SMCR firm* (and is included in Part Three of *SYSC 23 Annex 1* (Definition of exempt firm)) for as long as	
		(1)	the only *regulated activities* in its *permission* are *regulated claims management activities*; and
		(2)	it only has a *claims management temporary permission*.

8.3 Transitional period for certification for claims management firms

8.3.1	G	The effect of the **solo-regulated firms'**

8.3		Transitional period for certification for claims management firms		
		commencement SI is that the obligation in *section 63E(1)* of the *Act*, for an *SMCR firm* to take reasonable care to ensure that no *employee* of the *firm* performs an *FCA certification function* unless the *firm* has issued the *employee* with a valid certificate, does not apply during its **individual transitional period**.		
8.3.2	G	(1)	A *firm's* **individual transitional period** is the period that:	
			(a)	begins on (and includes) the date on which the *firm's claims management temporary permission* comes to an end under the *Claims Management Order* and the *firm's* full authorisation for *regulated claims management activities* comes into effect; and
			(b)	ends on (and excludes) the day falling fifteen *months* and twenty two *days* later.
		(2)	If other activities are included in a *firm's permission* part of the way through the period in (1), its **individual transitional period** ends at once.	
		(3)	If other activities are included in a *firm's permission* before it receives full authorisation for its *regulated claims management activities*, the transitional arrangements described in *SYSC TP 8* do not apply and the *firm* will	

8.3		Transitional period for certification for claims management firms	
			have no **individual transitional period**. However, the transitional arrangements in *SYSC TP 7* (*Bank of England and Financial Services Act 2016:* Certification and regulatory references) will still apply if it is authorised before 31 March 2021.
8.3.3	R	During a *firm's* **individual transitional period** the definition of "*certification employee*" is amended to mean an employee (as defined in *section 63E* of the *Act*) of the *firm* who performs a *certification function* under an arrangement entered into by the *firm* in relation to the carrying on by the *firm* of a *regulated activity*, even though the obligation of the *SMCR firm* to issue a certificate under *section 63F* of the *Act* does not yet apply to the *firm*.	

8.4		Application of SYSC TP 7		
8.4.1	R	*SYSC TP 7* (*Bank of England and Financial Services Act 2016:* Certification and regulatory references) applies to a *firm* with the adjustments set out in this section.		
8.4.2	R	A reference in *SYSC TP 7* to the "certification transitional period" is a reference to a *firm's* **individual transitional period**.		
8.4.3	R	(1)	A reference in *SYSC TP 7* to the "general commencement date" is a reference to the start of a *firm's* **individual transitional period**, except in the following provisions:	
			(a)	*SYSC TP 7.4.6R* (Giving references); and
			(b)	*SYSC TP 7.4.7G* (Form of references).
		(2)	The definition of "general	

8.4		Application of SYSC TP 7	
			commencement date" is unchanged in the provisions listed in (1)(a) and (b).
8.4.4	G	*SYSC TP 8.3.1G* applies in place of *SYSC TP 7.2.1G* (Certification: The certification transitional period).	
8.4.5	G	*SYSC TP 7.5* (Transitional provisions about benchmarks and the certification regime) is not relevant.	
8.4.6	G	*SYSC TP 7.7* (Qualification conditions for FCA-authorised firms) is not relevant as it covers *firms* that are *SMCR firms* on the **general solo firms' commencement date**.	

8.5	Additional material about regulatory references	
8.5.1	R	The provisions of *SYSC 22* (Regulatory references), except those listed in *SYSC 22.8.4R*, apply to a *firm* excluded from being an *SMCR firm* by *SYSC TP 8.2.1R* as they apply to an *SMCR firm*.

CHAPTER

SYSC TP 9 Updates to reflect CRD V

Section : SYSC TP 9 Updates to reflect CRD V

SYSC TP 9

	Material to which the transitional provision applies	R/G	Transitional Provision	Transitional Provision: dates in force	Handbook Provision: coming into force
1	*SYSC 19D.3*		A *firm* subject to *SYSC 19D.1.3* on 28 December 2020, must apply the *rules* and *guidance* in *SYSC 19D.3* as it stood on the 28 December 2020 in relation to: (a) *remuneration* awarded, whether pursuant to a contract or otherwise, in relation to the performance year active on the 28 December 2020; (b)	From 29 December 2020	29 December 2020

	Material to which the transitional provision applies	R/G	Transitional Provision	Transitional Provision: dates in force	Handbook Provision: coming into force
			remuneration due on the basis of contracts concluded before 29 December 2020 which is awarded or paid in relation to the performance year active on the 28 December 2020; and (c) *remuneration* awarded, but not yet paid, before 29 December 2020, for services provided in the performance year active on the 28 December 2020.		

CHAPTER

SYSC TP 10 Operational resilience

Section : SYSC TP 10 Operational resilience

SYSC TP 10

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provisions: dates in force
10.1	*SYSC 15A.2.9*	R	The provision in column (2) does not apply. However, a *firm* must ensure that, as soon as reasonably practicable after 31 March 2022, and in any event no later than 31 March 2025, it can remain within its *impact tolerance* for each *important business service* in the event of a severe but plausible disruption to its operations.	From 31 March 2022 to 31 March 2025	31 March 2022
10.2	*SYSC 15A.4.1* and *15A.5.3*	R	A *firm* is not required to have performed the mapping and testing exercises as required	From 31 March 2022 to 31 March 2025	31 March 2022

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provisions: dates in force
			by the provisions in column (2) to the full extent of sophistication by 31 March 2022. A *firm* is required to have carried out the mapping and testing exercises as required by the provisions in column (2) by 31 March 2022 to the extent necessary to identify important business services, set impact tolerances and to identify any vulnerabilities in its operational resilience. After that date, a *firm* must continue the mapping and testing exercises so that it is able to remain within its		

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provisions: dates in force
			impact tolerance for each *important business service* as soon as reasonably practicable, and in any event no later than 31 March 2025.		

CHAPTER

SYSC TP 11 MIFIDPRU Remuneration Code transitional provision

Section : SYSC TP 11 MIFIDPRU Remuneration Code transitional provision

	Application			
11.1	R	*SYSC TP 11* applies to an undertaking to whom the *MIFIDPRU Remuneration Code* will apply for the first time in the performance period beginning on or after 1 January 2022.		
	Duration of transitional			
11.2	R	*SYSC TP 11* applies to *remuneration* awarded for performance or services provided in the performance period before the performance period to which the *MIFIDPRU Remuneration Code* first applies.		
11.3	G	While the *MIFIDPRU Remuneration Code* comes into force on 1 January 2022, it only applies to performance periods that begin on or after that date (see *SYSC 19G.1.30R*). This transitional provision therefore addresses the position for remuneration for performance or services provided in any performance period prior to the performance period to which the *MIFIDPRU Remuneration Code* first applies.		
	Transitional			
11.4	R	(1)	Where an *undertaking* was subject to any of the remuneration codes listed in (2) immediately before the *MIFIDPRU Remuneration Code* came into force, that remuneration code (and any related reporting requirements) continues to apply in accordance with *SYSC TP 11.2*.	
		(2)	The remuneration codes referred to in (1) are:	
			(a)	*SYSC 19A* (IFPRU Remuneration Code); and
			(b)	*SYSC 19C* (BIPRU Remuneration Code).
11.5	G	(1)	The effect of the transitional provision in *SYSC TP 11.4* is to preserve the application of	

			the IFPRU and BIPRU remuneration codes to performance or services provided in any performance period prior to the performance period to which the *MIFIDPRU Remuneration Code* first applies.
		(2)	This means, for example, that remuneration paid to a member of the *Remuneration Code staff* of an *IFPRU investment firm* for performance in a performance period from 2019 to 2020 would continue to be subject to the remuneration rules in *SYSC 19A* (the IFPRU Remuneration Code).
		(3)	As the application of the transitional provision is determined by the date of the performance period in which the performance or services were provided (not when the *remuneration* was awarded or paid out) this would remain the case even if the member of the *Remuneration Code staff* was paid the remuneration after the *MIFIDPRU Remuneration Code* applied to a *firm*.
11.6	R	The reference in *SYSC TP 11.4R(1)* to an *undertaking* being subject to a remuneration code includes the situation in which those *rules* include an obligation for a *firm* to ensure a *parent undertaking* complies with certain requirements.	
11.7	G	Under previous remuneration codes, certain obligations were not applied directly to unregulated *parent undertakings* but were applied indirectly through the imposition of an obligation on a *firm* within the *group* to ensure compliance by the *parent undertaking*. *SYSC TP 11.6R* makes clear that the transitional provision in *SYSC TP 11.4R* also applies to those indirect obligations on the *parent undertaking*. This means that where provisions in *SYSC 19A* or *SYSC 19C* applied on an indirect basis to a *parent undertaking* before the *MIFIDPRU Remuneration Code* began to apply, those remain the relevant obligations for performance or services provided during the	

		performance period in which the *MIFIDPRU Remuneration Code* began to apply.

CHAPTER

SYSC TP 12 Updates to the dual-regulated firms Remuneration Code transitional provision

Section : SYSC TP 12 Updates to the dual-regulated firms Remuneration Code transitional provision

SYSC TP 12

	Material to which the transitional provision applies	R / G	Transitional provision	Transitional provision: dates in force	Handbook provision: coming into force
1	The changes made to *SYSC 19D* by the Senior Management Arrangements, Systems and Controls Instrument 2023.	R	A *firm* must apply *SYSC 19D* in the form in which it applied on 7 December 2023 to *remuneration* awarded in respect of a performance year starting before 8 December 2023.	8 December 2023	8 December 2023
2	The changes made to *SYSC 19D* by the Senior Management Arrangements, Systems and Controls (Remuneration Codes and Consequential Amendments) Instrument 2025 (FCA 2025/47).	R	(1) Subject to (2), a *firm* must apply *SYSC 19D* in the form in which it applied on 15 October 2025 to *remuneration* awarded in respect of a performance year starting before 16 October 2025.	16 October 2025	16 October 2025
			(2) A *firm* may:		
			(a) treat *SYSC 19D.3.56R(3)*, in the form in which it applied on 15 October 2025, as not applying to *remuneration* awarded in respect of a performance year starting before 16 October 2025; and		
			(b) treat *rules* 15.17 and 15.18 of the *PRA Remuneration Rules*, in the form in which they applied on 16 October 2025, as applying to *remuneration* awarded in respect of a performance year starting before 16 October 2025.		

CHAPTER

SYSC TP 13 SMCR: application to firms with deferred payment credit temporary permission

Section : SYSC TP 13 SMCR: application to firms with deferred payment credit temporary permission

Application

SYSC TP 13.1 R *SYSC TP 13* applies to a *firm* with a *deferred payment credit temporary permission*.
[**Note:** articles 10 and 11 of the *Deferred Payment Credit Order*.]

SYSC TP 13.2 G Once a *firm* no longer has a *deferred payment credit temporary permission* because it has ceased to have effect in accordance with article 10(3) of the *Deferred Payment Credit Order*, *SYSC TP 13* will cease to apply to that *firm*.

Firms with only a deferred payment credit temporary permission

SYSC TP 13.3 R In circumstances where the only *regulated activities* in a *firm's permission* are *deferred payment credit activities* permitted by a *deferred payment credit temporary permission*, a *firm* is not an *SMCR firm* (and is included in Part Three of *SYSC 23 Annex 1* (Definition of exempt firm)).

Firms whose Part 4A permission comprises permission granted by the FCA and deferred payment credit temporary permission

SYSC TP 13.4 R (1) This *rule* applies where a *firm's permission* comprises *permission* to carry on *regulated activities* granted by the *FCA* under Part 4A of the *Act* and a *deferred payment credit temporary permission*.

(2) The *firm's deferred payment credit temporary permission* is to be disregarded for the purposes of categorising what type of *SMCR firm* the *firm* is in accordance with *SYSC 23 Annex 1* (Definition of SMCR firm and different types of SMCR firms).

(3) For the purposes of those elements of the senior managers and certification regime that are implemented through the provisions of the *FCA Handbook* described in *SYSC 23.3.3G*:

(a) where the application of a provision is determined in whole or in part by reference to the *firm's permission*, the *firm's deferred payment credit temporary permission* is to be disregarded for the purpose of determining the application of the provision; and

(b) where the application of a provision is determined in whole or in part by reference to *regulated activities* carried on by the *firm*, any *deferred payment credit activity* which that *firm's deferred payment credit temporary permission* permits it to carry on is to be treated as if it were not a *regulated activity* for the purposes of determining the application of the provision.

SYSC TP 13.5 G An overview of the senior managers and certification regime and where to find the main *FCA Handbook* provisions can be found in *SYSC 23.3*.

CHAPTER

SYSC TP 14 Miscellaneous transitional provisions relating to the Senior Managers and Certification Regime

Section : SYSC TP 14.1 Part 1

Scope

SYSC TP 14.1.1 R *SYSC TP 14.1* relates to amendments to *SYSC* made by the Individual Accountability (SMCR Review) Instrument 2026 (FCA 2026/17).

SYSC TP 14.1.2 R In *SYSC TP 14.1*

(1) the 'first commencement date' means 24 April 2026; and

(2) the 'second commencement date' means 10 July 2026.

Regulatory references

SYSC TP 14.1.3 G The amendment to *SYSC 22.5.17G* (Time in which to respond to reference requests) applies to references requested after the first commencement date.

SYSC TP 14.1.4 G *SYSC 22.8.11R* (Firms applying for authorisation) applies to references requested after the first commencement date.

SYSC TP 14.1.5 R The amendment to the form of regulatory references in *SYSC 22 Annex 1* (Template for regulatory references given by SMCR firms and disclosure requirements) applies to references requested after the first commencement date.

Checks for certain directors

SYSC TP 14.1.6 R The amendments to *SYSC 23.4* (Checks for certain directors) apply to appointments coming into effect after the first commencement date.

Prescribed responsibilities

SYSC TP 14.1.7 G *SYSC 24 Annex 2* (Preferred allocations of FCA-prescribed senior management responsibilities) applies to allocations made after the first commencement date but as it largely reflects existing policy, it may be reflected in discussions between a *firm* and the *FCA* about existing allocations.

Changes to financial thresholds for the enhanced regime

SYSC TP 14.1.8 R (1) This provision deals with the changes to the financial figures in the table in *SYSC 23 Annex 1 8.2R* (Table: Financial qualification conditions).

(2) The *rules* in *SYSC 23 Annex 1 8.27R* to *SYSC 23 Annex 1 8.29G* (Automatic adjustment of financial thresholds: Effect on past and future calculations) about the effect of a change in the financial figures in the table in *SYSC 23 Annex 1 8.2R* on current and past averaging periods also apply to the changes in (1) as if the second commencement date was the end of a 5-year period as referred to in *SYSC 23 Annex 1 8.23R(1)* on which an increase to the thresholds had taken place.

Certification

SYSC TP 14.1.9 R

This provision and *SYSC TP 14.1.10G* to *SYSC TP 14.1.12G* relate to the changes to *SYSC 27.8.4R* (Significant management function), *SYSC 27.8.13R* (Managers of certification employees) and *SYSC 27.8.14R* (Material risk takers).

SYSC TP 14.1.10 G

The changes referred to in *SYSC TP 14.1.9R* also apply to *certification employees* already certified as at the second commencement date to perform the significant management, managers of certification employees or material risk takers *FCA certification functions* (as the case may be).

SYSC TP 14.1.11 R

A *firm* must not notify the *FCA* under *SUP 16.26* (Reporting of information about Directory persons) of a *person* ceasing to carry on the significant management, managers of certification employees or material risk takers *FCA certification functions* (as the case may be) under the amendments referred to in *SYSC TP 14.1.9R*.

SYSC TP 14.1.12 G

The *FCA* will itself make the changes to the *Directory* required to reflect that a *person* has ceased to carry on an *FCA certification function* because of the amendments referred to in *SYSC TP 14.1.9R*.

CHAPTER

SYSC Sch 1 Record keeping requirements

Section : SYSC Sch 1 Record keeping requirements

SYSC Sch 1.1 G

The aim of the guidance in the following table is to give the reader a quick over-all view of the relevant record keeping requirements.
It is not a complete statement of those requirements and should not be relied on as if it were.

SYSC Sch 1.2 G

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
SYSC 2.2.1 R	Arrangements made to satisfy *SYSC 2.1.1 R*(apportionment) and *SYSC 2.1.3 R*(allocation)	Those arrangements	On making the arrangements and when they are updated	6 years from the date on which the record is superseded by a more up-to-date record
SYSC 3.2.20 R	Matters and dealings (including accounting records) which are the subject of requirements and standards under the *regulatory system*	Adequate	Adequate time	Adequate
SYSC 4.1.8DBR	The *firm's* most recent *P2P resolution manual*	As stated in *rule*	When the *P2P resolution manual* is made or updated	None specified (but see *SYSC 4.1.8DCR*)
SYSC 9.1.1R	Business and internal organisation	Details of the *firm's* orderly records of services and transactions undertaken	Within a reasonable time	Adequate

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
SYSC 9.1.1AR	Business and internal organisation	Details of the *firm's* orderly records of services and transactions undertaken	Within a reasonable time	Adequate
SYSC 9.1.1BR	Organisational requirements	Details of the *firm's* policies and procedures on organisational requirements related to:	Within a reasonable time	5 years
		(a) The *firm's* business and internal organisation		
		(b) Compliance reports		
		(c) Conflict of Interest record		
		(d) Risk management reports		
		(e) Internal audit reports		
		(f) Records of *personal transactions*		
SYSC 9.1.2AR, *SYSC 3.3.16R*	Suitability or appropriateness in relation to an *insurance-based investment product*	(1) In relation to suitability: (a) why the recommendation is considered suitable; and	(1) From the date of: (a) recommendation; and	5 years
		(b) *client* information for *suitability report* and *suitability report*.	(b) the*suitability report*.	
		(2) In relation to	(2) Date of assessment.	

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
		appropriateness, client information obtained in making assessment of appropriateness and the appropriateness assessment.		
SYSC 10.1.6 R	Conflict of interest	Kinds of service or activity carried out by or on behalf of the *firm* in which a conflict of interest entailing a material risk of damage to the interests of one or more *clients* has arisen or, in the case of an ongoing service or activity, may arise.	Not specified	5 years
SYSC 10A.1.6R	Telephone conversations and electronic communications in relation to stipulated activities in *financial instruments* (see *SYSC 10A.1.1R*)	Those activities in *financial instruments*	At the time of the conversation or communication	Five years from the date of the conversation or communication unless the *FCA* requests a period of seven years
[deleted]				
SYSC 22.9.1R	Employment history of *employees*	As specified in the *rule* in column 1	Not specified	As specified in *SYSC 22.9.2G*
SYSC 25.8.1G	Past versions of a *firm's management responsibilitie*	Past versions of a *firm's management responsibilitie*	*SYSC 25.8.1G* does not itself impose	*SYSC 25.8.1G* does not itself impose

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
	s maps	*s maps*	requirements but says that past versions of a *firm's management responsibilities maps* are an important part of its records	requirements but says that past versions of a *firm's management responsibilities maps* are an important part of its records
SYSC 25.8.3R	Past versions of a *firm's management responsibilities maps*	Past versions of a *firm's management responsibilities maps*	None specified	10 years from the date superseded, or 6 years for *large non-directive insurers*
SYSC 25.9.5R	Steps taken to comply with *SYSC 25.9.4R* (Information to be made available to new manager)	Adequate	Adequate time	None specified
SYSC 28.4.1R	Arrangements made to demonstrate compliance with knowledge, ability and good repute requirements in relation to the carrying out of *insurance distribution activities*.	As required to demonstrate compliance.	As required to demonstrate compliance.	As required to demonstrate compliance.
SYSC 28.4.2R	Matters dealing with knowledge and competence and completed continued professional training and development in relation to the carrying out of	The *firm* must record the professional training or development completed by each long-term insurance employee (or other *person*) in each 12 *month*	As required to demonstrate compliance.	As required to demonstrate compliance but at least 3 years after the long-term insurance employee (or other *person*) stops carrying on the activity.

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
	insurance distribution activities by long-term insurance personnel.	period.		

CHAPTER

SYSC Sch 2 Notification requirements

Section : SYSC Sch 2 Notification requirements

SYSC Sch 2.1 G

(1) The aim of the *guidance* in the following table is to give the reader a quick overall view of the relevant notification requirements.

(2) It is not a complete statement of those requirements and should not be relied on as if it were.

(3) Table

Handbook reference	Matter to be notified	Content of the notification	Trigger event
[deleted]			
[deleted]			
SYSC 10A.1.12AR	A *firm* must inform to new and existing *clients* that:	Matters as described in *SYSC 10A.1.12AR*	Before carrying out any activities referred to in *SYSC 10A.1.1R(2)* (and that are not excluded by *SYSC 10A.1.4R*)
	(a) the conversations and communications are being recorded; and		
	(b) a copy of the recording of such conversations and communications with the *client* will be available, upon request, for a period of: 5 years to the *client*; and 7 years to the *FCA*.		
[deleted]			

CHAPTER

SYSC Sch 3 Fees and other required payments

Section : SYSC Sch 3 Fees and other required payments

SYSC Sch 3.1 G

There are no requirement for fees or other payments in *SYSC*.

CHAPTER

SYSC Sch 3 Fees and other required payments

Section : SYSC Sch 3 Fees and other required payments

SYSC Sch 3.1 G

There are no requirement for fees or other payments in *SYSC*.

CHAPTER

SYSC Sch 5 Rights of action for damages

Section : SYSC Sch 5 Rights of action for damages

SYSC Sch 5.1 G

The table below sets out the *rules* in *SYSC* contravention of which by an authorised person may be actionable under section 138D of the Act (Actions for damages) by a person who suffers loss as a result of the contravention.

SYSC Sch 5.2 G

If a 'Yes' appears in the column headed 'For private person', the *rule* may be actionable by a 'private person' under section 138D (or, in certain circumstances, his fiduciary or representative; see *article 6(2)* and *(3)(c)* of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2001 (SI 2001 No 2256)). A 'Yes' in the column headed 'Removed' indicates that the *FCA* has removed the right of action under section 138D(3) of the *Act*. If so, a reference to the *rule* in which it is removed is also given.

SYSC Sch 5.3 G

The column headed 'For other person' indicates whether the rule may be actionable by a person other than a private person (or his fiduciary or representative) under article 6(2) and (3) of those Regulations. If so, an indication of the type of person by whom the *rule* may be actionable is given.

SYSC Sch 5.4 G

Chapter/Appendix	Section/Annex	Paragraph	Right of action under section 138D		
			For private person?	Removed?	For other person?
SYSC 2 and *SYSC 3*			No	Yes*SYSC 1 Annex 1.1.12R*	No
SYSC 4 to *SYSC 10A*			No	Yes *SYSC 1 Annex 1.2.19R*	No
SYSC 12 to *SYSC 14*, *SYSC 18* to *SYSC 21*			No	Yes *SYSC 1.4.2 R*	No
SYSC 15A			Yes	No, *SYSC 1.4.2R*	No
SYSC 22			Yes (apart from *SYSC 22.8.1R* and *SYSC 22.9.1R* - see *SYSC 1.4.2R*)	No (apart from *SYSC 22.8.1R* and *SYSC 22.9.1R* - see *SYSC 1.4.2R*)	No
SYSC 23			No	Yes,	No

Chapter/Appendix	Section/Annex	Paragraph	Right of action under section 138D		
			For private person?	Removed?	For other person?
to *SYSC 28A*				*SYSC 1.4.2R*	

CHAPTER

SYSC Sch 6 Rules that can be waived

Section : SYSC Sch 6 Rules that can be waived

SYSC Sch 6.1A G

As a result of *section 138A* of the *Act* (Modification or waiver of rules) the *FCA* has power to waive all its *rules*, other than *rules* made under section 64A (rules of conduct), 137O (Threshold condition code), section 247 (Trust scheme rules), section 248 (Scheme particular rules), section 261I (Contractual scheme rules) or section 261J (Contractual scheme particulars rules) of the *Act*.