

Bank of England PRA

Appendices to CP18/25 – **Review of the Senior Managers and Certification Regime (SM&CR)**

Consultation paper | CP18/25

July 2025

Draft for consultation



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1: Draft amendments to PRA Rulebook

PRA RULEBOOK: CRR FIRMS, NON-CRR FIRMS, SOLVENCY II FIRMS AND NON-SOLVENCY II FIRMS: SENIOR MANAGERS REGIME (AMENDMENT) INSTRUMENT [2025]

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 59 (Approval for particular arrangements);
 - (2) section 60 (Applications for approval);
 - (3) section 63E (Certification of employees by authorised persons);
 - (4) section 64A (Rules of conduct);
 - (5) section 137G (The PRA’s general rules); and
 - (6) section 137T (General supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

PRA Rulebook: CRR Firms, Non-CRR Firms, Solvency II Firms, Non-Solvency II Firms: Senior Managers Regime (Amendment) Instrument [2025]

- C. The PRA makes the rules in the Annexes to this instrument.

Part	Annex
Glossary	A
Allocation of Responsibilities	B
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Certification	D
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Non-Solvency II Firms – Conduct Standards	K

Non-Solvency II Firms – Senior Management Functions	L
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Commencement

D. This instrument comes into force on [DATE]

Citation

E. This instrument may be cited as the PRA Rulebook: CRR Firms, Non-CRR Firms, Solvency II Firms, Non-Solvency II Firms: Senior Managers Regime (Amendment) Instrument [2025].

By order of the Prudential Regulation Committee

[DATE]

Draft for consultation

Annex A

Amendments to the Glossary Part

In this Annex new text is underlined and deleted text is struck through.

...

banking group company

in the following Parts:

(1) Allocation of Responsibilities;

(2) Certification; and

(3) Senior Management Functions,

has the meaning given in section 81D of the Banking Act 2009.

...

controller

has the meaning given in section 422 FSMA, read in conjunction with the Exemption Order.

...

Exemption Order

means the Financial Services and Markets Act 2000 (Controllers) (Exemption) Order 2009 (SI 2009/774).

...

nominated representative

means a person acting on behalf of the controller or appointed by the controller to ensure the controller's interests, in one or more aspects of the affairs of the firm in relation to its regulated activities, are represented.

...

~~senior insurance management function holder~~

means any person who is responsible for discharging a senior insurance management function.

...

senior manager

in the following Parts:

(1) Allocation of Responsibilities;

(2) Certification;

(3) Conduct Rules; and

(4) Senior Management Functions,

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 a banking group company.

...

stabilisation option

means any of the stabilisation options listed in section 1(3) of the Banking Act 2009.

stabilisation power

means any of the stabilisation powers listed in section 1(4) of the Banking Act 2009.

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) Banking Act 2009.

...

temporary public ownership stabilisation option

means the transfer to temporary public ownership in accordance with section 13 of the Banking Act 2009.

temporary replacement

means:

- (1) in Senior Management Functions, the individual referred to in 2.3(1);
- (2) in Insurance – Senior Management Functions, the individual referred to in 2.4(1);
- (3) in Large Non-Solvency II Firms – Senior Management Functions, the individual referred to in 2.4(1); and
- (4) in Non-Solvency II Firms – Senior Management Functions, the individual referred to in 2.3(1).

...

Annex B

Amendments to the Allocation of Responsibilities Part

In this Annex new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.3 This Part does not apply to a function performed by:

- (1) a *person* acting as an insolvency practitioner within the meaning of section 388 of the Insolvency Act 1986;~~or~~
- (2) a *person* acting as a nominee in relation to a voluntary arrangement under Parts I (Company Voluntary Arrangements) and VIII (Individual Voluntary Arrangements) of the Insolvency Act 1986;~~or~~
- (3) a *person* acting as an insolvency practitioner within the meaning of Article 3 of the Insolvency (Northern Ireland) Order 1989;~~or~~
- (4) a *person* acting as a nominee in relation to a voluntary arrangement under Parts II (Company Voluntary Arrangements) and VIII (Individual Voluntary arrangements) of the Insolvency (Northern Ireland) Order 1989;~~i~~
- (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 two years beginning with the date of that appointment.

...

Annex C

Amendments to the Change in Control Part

In this Annex new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

~~controller~~

has the meaning given in section 422 of ~~FSMA~~, read in conjunction with the ~~Exemption Order~~.

...

~~Exemption Order~~

means the Financial Services and Markets Act 2000 (Controllors) (Exemption) Order 2009 (SI 2009/774).

...

Annex D

Amendments to the Certification Part

In this Annex new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.3 This Part does not apply to a function performed by:

...

- (6) a *person* who performs an *FCA controlled function*; ~~or~~
- (7) a *non-executive director* in relation to their *non-executive director* function; _i
- (8) a *person* acting as a resolution administrator appointed by the *Bank of England* in accordance with section 62B of the Banking Act 2009;
- (9) a *person* appointed by the *Bank of England* as a *director* or a *senior manager* to a *bank*, *building society*, *stabilisation vehicle* or a *banking group company* for any purpose in connection with the exercise of a *stabilisation option*, or a *stabilisation power*, or
- (10) a *person* appointed by the *Treasury* as a *director* or a *senior manager* to a *bank*, *building society* or to a *banking group company* for any purpose in connection with the exercise of the *temporary public ownership stabilisation option*, throughout the period of two years beginning with the date of that appointment.

...

Annex E

Amendments to the Conduct Rules Part

In this Annex new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

1.1 ...

(2) This Part only applies if P:

- (a) is approved under section 59 of *FSMA* to perform a *senior management function* in relation to A;
- (b) is an *employee* of A that should have been so approved;
- (c) is an *employee* or *director* who is performing a function that would have been a controlled function but for Senior Management Functions 2.3;
- (d) performs a *certification function* in relation to A;
- (e) is a *Conduct Rules non-executive director* of A; ~~or~~
- (f) is a *person* in relation to whom a notice under *section 59ZZA* has been or could be given by the *PRA* to an *authorised person*; or
- (g) is a *person* who would have required approval to perform a *senior management function* in relation to A under section 59 of *FSMA* but for the application of Senior Management Functions 1.3(5) to (7).

(3) 3.1 to 3.3 only apply to a *person* in (2)(a), (b), (c) or (f).

(4) 3.4 only applies to a *person* in (2)(a), (b), (c), (e) or (f).

...

Annex F

Amendments to the Senior Management Functions Part

In this Annex new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.3 This Part does not apply to a function performed by:

- (1) a *person* acting as an insolvency practitioner within the meaning of section 388 of the Insolvency Act 1986; ~~or~~
- (2) a *person* acting as a nominee in relation to a voluntary arrangement under Parts I (Company Voluntary Arrangements) and VIII (Individual Voluntary Arrangements) of the Insolvency Act 1986; ~~or~~
- (3) a *person* acting as an insolvency practitioner within the meaning of Article 3 of the Insolvency (Northern Ireland) Order 1989; ~~or~~
- (4) a *person* acting as a nominee in relation to a voluntary arrangement under Parts II (Company Voluntary Arrangements) and VIII (Individual Voluntary arrangements) of the Insolvency (Northern Ireland) Order 1989; ~~or~~
- (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 a 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 to a banking group company for any purpose in connection with the exercise of the temporary public ownership stabilisation option, throughout the period of two years beginning on the date of that appointment.

2 GENERAL

...

2.3 To the extent that,

- (1) a *firm* appoints an ~~individual person~~ who is an employee of the firm to perform a function which, but for this rule, would be a PRA senior management function;
 - (2) the appointment is solely to provide cover for a PRA approved person who is an individual and whose absence is:
 - (a) temporary; or
 - (b) reasonably unforeseen; and
 - (3) the appointment is for less than 12 weeks in a consecutive 12-~~month~~ month period,
- the description of that PRA senior management function does not relate to those activities of that *person*.

2.3A In this Chapter, a PRA approved person being absent includes the PRA approved person ceasing to perform their PRA senior management function.

2.3B (1) This rule deals with an appointment by a firm under 2.3 where:

- (a) the absence is reasonably unforeseen; or

- (b) an absence of over 12 weeks is reasonably unforeseen.
- (2) If, before the period under 2.3(3) would have expired but for this rule, the *firm* makes a valid and complete application for the approval for the performance by a *person* of the *PRA senior management function* that was performed by the absent *PRA approved person*:
- (a) the period for which the function performed by the *temporary replacement* is not a *PRA senior management function* is extended until that application is finally determined; and
- (b) the period for which the *temporary replacement* may perform the function without approval is extended accordingly.
- (3) An application is finally determined for the purposes of (2) when:
- (a) the application is withdrawn;
- (b) the *PRA* grants the application;
- (c) where the *PRA* has refused or not granted the application and the matter is not referred to *the Tribunal*, when the time for referring the matter to *the Tribunal* has expired; or
- (d) where the *PRA* has refused or not granted the application and the matter is referred to *the Tribunal*, when the reference, and any appeal against *the Tribunal's* determination has been fully disposed of.
- (4) The reference to 'not granted' in (3)(c) and (d) includes a situation where the *PRA* has granted an application subject to conditions or for a limited period (or both).

...

5 GROUP ENTITIES

- 5.1 This Chapter does not apply to a *credit union*.
- 5.2 The *Group Entity Senior Manager function* (SMF7) is the function of having a significant influence on the management or conduct of one or more aspects of the affairs of a *firm* in relation to its *regulated activities* (other than in the course of the performance of another *PRA senior management function*) and which is performed by ~~a person employed by, or an officer of:~~
- ~~(1) a parent undertaking or holding company of a firm; or [deleted]~~
- ~~(2) another undertaking which is a member of the firm's group. [deleted]~~
- (1A) an employee, or an officer of:
- (a) a parent undertaking or holding company of a firm; or
- (b) another undertaking which is a member of the firm's group; or
- (2A) a controller or a nominated representative.

...

Annex G

Amendments to the Insurance – Conduct Standards Part

In this Annex new text is underlined and deleted text is struck through.

...

2 SCOPE OF CONDUCT STANDARDS

2.1 If you are a natural person who is:

- (1) an *employee* of a *firm* who is a *key function holder*;
- (2) approved under section 59 of *FSMA* by either:
 - (a) the *PRA*; or
 - (b) the *FCA*, in relation to a *relevant senior management function*; ~~or~~
- (3) a *person* in relation to whom a notice under *section 59ZZA* has been given by the *PRA* to an *authorised person*; ~~or~~
- (4) an *employee* of the type specified in 1.1(6)(f).

you must comply at all times with all of the *conduct standards*.

...

2.1B If you are an *employee* of a type specified in 1.1(6)(c), (e), ~~(f)~~ or (g) you must comply at all times with the *conduct standards* specified in 3.1 to 3.3.

2.2 A *firm* must require:

- (1) any *person* performing a *key function* to observe the *conduct standards* specified in 3.1 to 3.3;
- (2) any *key function holder* (other than a *notified non-executive director* and an *authorised UK representative*) to observe the *conduct standards* specified in 3.4 to 3.8, in addition to complying with (1);
- (3) any *notified non-executive director* to observe the *conduct standards* specified in 3.7 and 3.8, in addition to complying with (1); ~~and~~
- (4) an *employee* of a type specified in 1.1(6)(c); or (e) ~~or (f)~~ to observe the *conduct standards* specified in 3.1 to 3.3; and
- (5) an *employee* of a type specified in 1.1(6)(f) to observe the *conduct standards* specified in 3.4 to 3.8, in addition to complying with (1).

...

Annex H

Amendments to the Insurance – Senior Management Functions Part

In this Annex new text is underlined and deleted text is struck through.

...

2 GENERAL

...

2.4 To the extent that:

- (1) a *firm* appoints an individual ~~person~~ who is an employee of the firm to perform a *key function* which, but for this rule, would be a *PRA senior management function*;
 - (2) the appointment is solely to provide cover for a *PRA senior management function holder* who is an individual and whose absence is:
 - (a) temporary; or
 - (b) reasonably unforeseen; and
 - (3) the appointment is for less than 12 weeks in a consecutive 12-~~month~~ month period,
- the description of the applicable *PRA senior management function* does not relate to those activities of that *person*.

2.4A In this Chapter, a *PRA senior management function holder* being absent includes the *PRA senior management function holder* ceasing to perform their *PRA senior management function*.

2.4B (1) This rule deals with an appointment by a *firm* under 2.4 where:

- (a) the absence is reasonably unforeseen; or
- (b) an absence of over 12 weeks is reasonably unforeseen.
- (2) If, before the period under 2.4(3) would have expired but for this rule, the *firm* makes a valid and complete application for the approval for the performance by a *person* of the *PRA senior management function* that was performed by the absent *PRA senior management function holder*:
 - (a) the period for which the function performed by the *temporary replacement* is not a *PRA senior management function* is extended until that application is finally determined; and
 - (b) the period for which the *temporary replacement* may perform the function without approval is extended accordingly.
- (3) An application is finally determined for the purposes of (2) when:
 - (a) the application is withdrawn;
 - (b) the *PRA* grants the application;
 - (c) where the *PRA* has refused or not granted the application and the matter is not referred to the *Tribunal*, when the time for referring the matter to the *Tribunal* has expired; or
 - (d) where the *PRA* has refused or not granted the application and the matter is referred to the *Tribunal*, when the reference, and any appeal against the *Tribunal's* determination has been fully disposed of.
- (4) The reference to 'not granted' in (3)(c) and (d) includes a situation where the *PRA* has granted an application subject to conditions or for a limited period (or both).

...

2.8 (1) A ~~firm (other than a UK ISPV)~~ must take all reasonable steps to ensure that before a *person* begins to perform:

(a) a *PRA senior management function*; or

(b) new or revised responsibilities in performance of a *PRA senior management function*,

that *person* is provided with all of the information and materials that the *person* may reasonably expect in order to perform that *PRA senior management function* or those new or revised responsibilities effectively and in accordance with the *regulatory system*.

...

5 GROUP ENTITIES

5.1 The *Group Entity Senior Manager function* (SMF7) is the function of having a significant influence on the management or conduct of one or more aspects of the affairs of a *firm* in relation to its *regulated activities* (other than in the course of the performance of another *PRA senior management function*) and which is performed by ~~a person employed by, or an officer of:~~

(1) ~~a parent undertaking or holding company of a firm; or [deleted]~~

(2) ~~another undertaking which is a member of the firm's group. [deleted]~~

(1A) an employee, or an officer of:

(a) a parent undertaking or holding company of a firm; or

(b) another undertaking which is a member of the firm's group; or

(2A) a controller or a nominated representative.

...

Annex I

Amendments to the Large Non-Solvency II Firms – Conduct Standards Part

In this Annex new text is underlined and deleted text is struck through.

...

2 SCOPE OF CONDUCT STANDARDS

2.1 If you are a natural person who is:

(1) an *employee* of a *firm* who is a *key function holder*; ~~or~~

(2) approved under section 59 of *FSMA* by either:

(a) the *PRA*; or

(b) the *FCA*, in relation to a *relevant senior management function*; ~~or~~

(3) an *employee* of the type specified in 1.1(3)(f).

you must comply at all times with all of the *conduct standards*.

...

2.1B If you are an *employee* of a type specified in 1.1(3)(c); or (e) ~~or (f)~~ you must comply at all times with the *conduct standards* specified in 3.1 to 3.3.

2.2 A *firm* must require:

(1) any *person* performing a *key function* to observe the *conduct standards* specified in 3.1 to 3.3;

(2) any *key function holder* (other than a *notified non-executive director*) to observe the *conduct standards* specified in 3.4 to 3.8, in addition to complying with (1);

(3) any *notified non-executive director* to observe the *conduct standards* specified in 3.7 and 3.8, in addition to complying with (1); ~~and~~

(4) an *employee* of a type specified in 1.1(3)(c); or (e) ~~or (f)~~ to observe the *conduct standards* specified in 3.1 to 3.3; and

(5) an *employee* of a type specified in 1.1(3)(f) to observe the *conduct standards* specified in 3.4 to 3.8 in addition to complying with (1).

...

Annex J

Amendments to the Large Non-Solvency II Firms – Senior Management Functions Part

In this Annex new text is underlined and deleted text is struck through.

...

2 GENERAL

...

2.4 To the extent that:

- (1) a firm appoints an individual ~~person~~ who is an employee of the firm to perform a key function which, but for this rule, would be a *PRA senior management function*;
 - (2) the appointment is solely to provide cover for a *PRA senior management function holder* who is an individual and whose absence is:
 - (a) temporary; or
 - (b) reasonably unforeseen; and
 - (3) the appointment is for less than 12 weeks in a consecutive 12-month period,
- the description of the applicable *PRA senior management function* does not relate to those activities of that *person*.

2.4A In this Chapter, a *PRA senior management function holder* being absent includes the *PRA senior management function holder* ceasing to perform their *PRA senior management function*.

2.4B (1) This rule deals with an appointment by a firm under 2.4 where:

- (a) the absence is reasonably unforeseen; or
- (b) an absence of over 12 weeks is reasonably unforeseen.
- (2) If, before the period under 2.4(3) would have expired but for this rule, the firm makes a valid and complete application for the approval for the performance by a *person* of the *PRA senior management function* that was ~~performed by the absent *PRA senior management function holder*.~~
 - (a) the period for which the function performed by the temporary replacement is not a *PRA senior management function* is extended until that application is finally determined; and
 - (b) the period for which the temporary replacement may perform the function without approval is extended accordingly.
- (3) An application is finally determined for the purposes of (2) when:
 - (a) the application is withdrawn;
 - (b) the PRA grants the application;
 - (c) where the PRA has refused or not granted the application and the matter is not referred to the Tribunal, when the time for referring the matter to the Tribunal has expired; or
 - (d) where the PRA has refused or not granted the application and the matter is referred to the Tribunal, when the reference, and any appeal against the Tribunal's determination has been fully disposed of.
- (4) The reference to 'not granted' in (3)(c) and (d) includes a situation where the PRA has granted an application subject to conditions or for a limited period (or both).

...

5 GROUP ENTITIES

5.1 The *Group Entity Senior Manager function* (SMF7) is the function of having a significant influence on the management or conduct of one or more aspects of the affairs of a *firm* in relation to its *regulated activities* (other than in the course of the performance of another *PRA senior management function*) and which is performed by ~~a person employed by, or an officer of:~~

(1) ~~a parent undertaking or holding company of a firm; or~~~~[deleted]~~

(2) ~~another undertaking which is a member of the firm's group.~~~~[deleted]~~

(1A) an employee, or an officer of:

(a) a parent undertaking or holding company of a firm; or

(b) another undertaking which is a member of the firm's group; or

(2A) a controller or a nominated representative.

...

Annex K

Amendments to the Non-Solvency II Firms – Conduct Standards Part

In this Annex new text is underlined and deleted text is struck through.

...

1A SCOPE OF CONDUCT STANDARDS

1A.1 If you are a natural person who is approved under section 59 of *FSMA* by either:

- (1) the *PRA*; or
 - (2) the *FCA*, in relation to a *relevant senior management function*,
- you must comply at all times with all of the *conduct standards*.

1A.2 If you are a *Conduct Rules non-executive director*, you must comply at all times with the *conduct standards* specified in 2.1 to 2.3, 2.7 and 2.8.

1A.3 If you are an *employee* of a type specified in 1.1(2)(c), or 1.1(2)(d) ~~or 1.1(2)(e)~~ you must comply at all times with the *conduct standards* specified in 2.1 to ~~to~~ 2.3.

1A.3A If you are an *employee* of a type specified in 1.1(2)(e) you must comply at all times with all of the *conduct standards*.

1A.4 A *firm* must require:

- (1) a natural *person* of a type specified in 1.1(2)(b) to observe all of the *conduct standards*; and
- (2) an *employee* of a type specified in 1.1(2)(c), or 1.1(2)(d) ~~or 1.1(2)(e)~~ to observe the *conduct standards* specified in 2.1 to 2.3.
- (3) an *employee* of a type specified in 1.1(2)(e) to observe all of the *conduct standards*.

...

Annex L

Amendments to the Non-Solvency II Firms – Senior Management Functions Part

In this Annex new text is underlined and deleted text is struck through.

...

2 GENERAL

...

2.3 To the extent that:

- (1) a *firm* appoints an individual ~~person~~ who is an *employee* of the *firm* to perform a function which, but for this rule, would be a ~~*senior insurance management function*~~ *PRA senior management function*;
 - (2) the appointment is solely to provide cover for a *PRA senior management function holder* who is an individual and whose absence is:
 - (a) temporary; or
 - (b) reasonably unforeseen; and
 - (3) the appointment is for less than 12 weeks in a consecutive 12-month period,
- the description of the applicable *PRA senior management function* does not relate to those activities of that *person*.

2.3A In this Chapter, a *PRA senior management function holder* being absent includes the *PRA senior management function holder* ceasing to perform their *PRA senior management function*.

2.3B (1) This rule deals with an appointment by a *firm* under 2.3 where:

- (a) the absence is reasonably unforeseen; or
- (b) an absence of over 12 weeks is reasonably unforeseen.
- (2) If, before the period under 2.3(3) would have expired but for this rule, the *firm* makes a valid and complete application for the approval for the performance by a *person* of the *PRA senior management function* that was performed by the absent *PRA senior management function holder*:
 - (a) the period for which the function performed by the *temporary replacement* is not a *PRA senior management function* is extended until that application is finally determined; and
 - (b) the period for which the *temporary replacement* may perform the function without approval is extended accordingly.
- (3) An application is finally determined for the purposes of (2) when:
 - (a) the application is withdrawn;
 - (b) the *PRA* grants the application;
 - (c) where the *PRA* has refused or not granted the application and the matter is not referred to *the Tribunal*, when the time for referring the matter to *the Tribunal* has expired; or
 - (d) where the *PRA* has refused or not granted the application and the matter is referred to *the Tribunal*, when the reference, and any appeal against *the Tribunal's* determination has been fully disposed of.
- (4) The reference to 'not granted' in (3)(c) and (d) includes a situation where the *PRA* has granted an application subject to conditions or for a limited period (or both).

...

EXTERNALLY DEFINED TERMS

Term	Definition source
The Tribunal	Section 417 Financial Services and Markets Act 2000

Draft for consultation

2: Draft amendments to Supervisory Statement (SS) 28/15 – Strengthening individual accountability in banking

In this appendix, new text is underlined and deleted text is struck through.

1 Introduction

1.1 This supervisory statement sets out the Prudential Regulation Authority's (PRA's) approach to strengthening individual accountability in banking.¹ It is relevant to all Relevant Authorised Persons (Relevant Firms), ~~as defined in section 71A of the Financial Services and Markets Act 2000 (FSMA)~~² namely:

- banks;
- building societies;
- credit unions; and
- PRA designated investment firms.¹³

...

2 The Senior Managers Regime

2.1 This chapter sets out the PRA's expectations of how Relevant Firms and individuals performing a senior management function (SMF) (Senior Managers) should comply with the SMR. The chapter also clarifies:

- the responsibilities of those non-executive director (NED) functions which are in scope of the SMR namely, the Chair of the Governing Body ('chair'), Senior Independent Director (SID) and the Chairs of the Audit, Nomination, Remuneration and Risk Committees; ~~and~~
- the PRA's expectations regarding the contents of Statements of Responsibilities (SoR) and Management Responsibilities Maps; and
- how the PRA expects to apply Section 66B(5) FSMA (known as the Duty of Responsibility).

...

¹ On 24 February 2020, this SS was updated – see Annex for full details.

² As amended by the Financial Services (Banking Reform) Act 2013: www.legislation.gov.uk/ukpga/2013/33/contents/enacted.

¹³ Relevant Firms include UK branches of third-country ~~non-EEA~~ banks and PRA designated investment firms (incoming third-country ~~non-EEA~~ branches).

Table A

Executive SMFs	Oversight SMFs
<u>Chief Executive (SMF1)</u>	<u>Chair of the Governing Body (SMF9)</u>
<u>Chief Finance (SMF2)</u>	<u>Chair of the Risk Committee (SMF10)</u>
<u>Executive Director (SMF3)</u>	<u>Chair of the Audit Committee (SMF11)</u>
<u>Chief Risk (SMF4)</u>	<u>Chair of the Remuneration Committee (SMF12)</u>
<u>Head of Internal Audit (SMF5)</u>	<u>Chair of the Nomination Committee (SMF13)</u>
<u>Head of Key Business Area (SMF6)</u>	<u>Senior Independent Director (SID) (SMF14)</u>
<u>Group Entity Senior Manager (SMF7)</u>	
<u>Credit Union Senior Manager</u>	
<u>(credit unions only) (SMF8)</u>	
<u>Compliance Oversight (SMF16)</u>	
<u>Money Laundering Reporting (SMF17)</u>	
<u>Other Overall Responsibility (SMF18)</u>	
<u>Head of Overseas Branch (incoming third-country non-EEA branches only) (SMF19)</u>	
<u>Other local responsibility function (incoming branches only) (SMF22)</u>	
<u>Chief Operations (SMF24)</u>	

...

2.6 Senior Management Functions 2.2 requires all banks, building societies and designated investment firms (Relevant CRR firms), all of which are in scope of the Capital Requirements Regulation,⁷ to have separate individuals preapproved as Chief Executive (SMF1), Chief Finance (SMF2) and Chair of the Governing Body (SMF9) (referred to in this statement as 'mandatory SMFs'). This reflects the requirements in the Capital Requirements Directive IV as amended by the Capital Requirements Directive V (referred to in this statement as 'CRD')⁸ and Markets in Financial Instruments Directive (MiFID II)⁹ to have at least two individuals who effectively direct the business of a firm, and the restriction on combining the roles of Chair and Chief Executive in CRD. In view of the need to establish that an individual with appropriate skills, experience and personal characteristics is responsible and accountable for each SMF, the PRA would expect to preapprove natural persons (ie individuals), as opposed to legal persons (such as companies, partnerships etc.) as SMFs.⁷⁴⁰

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2.8 Conversely, larger firms are often subject to pre-existing legal or regulatory obligations which, in effect, require them to have certain SMFs. For instance, under the PRA rules GRD, significant CRR

⁷ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32013R0575>.

⁸ Directive (EU) 2019/878 of the European Parliament and the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers, and capital conservation measures: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019L0878&from=EN>.

⁹ Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61 <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0065&from=EN>.

⁷⁴⁰ Banks, building societies and credit unions with assets of £250 million or less (Small Firms) are subject to less onerous requirements under the SMR. The £250 million threshold is calculated across a rolling period of five years or, if the firm has been in existence for less than five years, across the period during which it has existed.

firms must establish Risk⁸, Nomination⁹ and Remuneration Committees.¹⁰⁻¹⁴ The Chairs of these committees require preapproval as the relevant SMFs (SMFs11–13).

...

Table B

SMF	Category of Relevant Firm	Required by
Chief Risk (SMF4)	Banks, building societies and PRA-designated investment firms where proportionate	CRD, Article 76(5). Risk Control 3.1.
Head of Internal Audit (SMF5)	Banks, building societies and PRA-designated investment firms where proportionate	Article 16(5) MiFID II Compliance and Internal Audit 3. ¹²
Chair of the Risk Committee (SMF10)	Banks, building societies and PRA-designated investment firms which are classed as 'significant' CRR firms.	CRD, Article 76(3). Risk Control 3.1.
Chair of the Audit Committee (SMF11)	Banks, building societies and PRA-designated investment firms which have their securities admitted to trading on a regulated market and have to appoint a statutory auditor.	Disclosure and Transparency Rules [FCA], Rule 7.1. ¹³
Chair of the Remuneration Committee (SMF12)	Banks, building societies and PRA-designated investment firms which are CRR firms with assets above £15 billion.	CRD, Article 95(1) Remuneration 7.4.
SID (SMF14)	Banks, building societies and PRA-designated investment firms with a premium listing on the London Stock Exchange.	FRC Corporate Governance Code (FRC Code), A.4.4 Provision 11 (comply-or-explain). ¹⁴

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Group Entity Senior Manager (SMF7)

2.12 The SMR only applies to a Relevant Firm's UK-regulated activities. This inherently limits the extent to which it can apply to individuals in a Relevant Firm's parent or group entities, particularly those based overseas. However, the fact that an individual is located outside the United Kingdom or is not employed by a Relevant Firm or within its group does not, in itself, mean that they cannot affect the safety and soundness of the firm or perform an SMF on behalf of a Relevant Firm.

2.13 Chapter 5 of the Senior Management Functions part of the PRA Rulebook specifies an SMF (Group Entity Senior Manager (SMF7)) aimed at individuals based in parent or group entities who exercise significant influence over the management or conduct of one or more aspects of a Relevant Firm's UK-regulated activities and who:

⁸ In accordance with Risk Control – Risk committee 3.1.

⁹ In accordance with General Organisational Requirements – Nomination committee 6.1.

¹⁰ Only category 1 or 2 firms should consider themselves as significant for the purposes of these requirements. See PRA Policy Statement 7/13, 'Strengthening capital standards: implementing CRD IV, feedback and final rules', December 2013: <https://www.bankofengland.co.uk/prudential-regulation/publication/2013/strengthening-capital-standards-implementing-crd-4>.
In accordance with Remuneration – Governance 7.4.

¹² From January 2018, Compliance and Internal Audit 3 will be largely superseded by Article 24 of Commission Delegated Regulation (EU) of 25.4.2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive: <http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2398.pdf> (abbreviated to MODR in the PRA Rulebook).

¹³ Most credit institutions will be required to establish an Audit Committee when the United Kingdom implements the new EU regulatory framework for statutory audit. Directive 2014/56/ amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts: <http://eurlex.europa.eu/legalcontent/EN/TXT/HTML/?uri=CELEX:32014L0056&from=EN>, Article 39.

¹⁴ <https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx>.

- operate at a parent, holding company or other entity in a Relevant Firm's group; or
- are controllers (or their representatives) of a Relevant Firm.

SMFs at branches and subsidiaries of overseas-headquartered groups

2.14 The PRA is mindful of both the territorial scope of the SMR and the governance arrangements of overseas banks operating in the United Kingdom. Consequently, the PRA does not require pre-approval of senior individuals located overseas whose responsibilities in relation to the United Kingdom are limited to developing the group's overall strategy. The PRA's focus is on those individuals who, irrespective of their location, are directly responsible for implementing the group's strategy in UK Relevant Firms. ~~The PRA and FCA followed a similar approach under the Approved Persons Regime (APR), which resulted in a small number of individuals based overseas being approved as Significant Influence Functions (SIFs) of UK firms.~~¹⁸

2.14A An individual may still be able to affect the safety and soundness of a Relevant Firm's UK-regulated activities irrespective of their geographical location (eg being located outside the United Kingdom); and where they are not employed by a Relevant Firm or within its group. As such, they can still be considered in scope of the SMR, or perform an SMF on behalf of a Relevant Firm.

2.15 Consequently, where an individual in a parent or group entity who exercises significant influence (including those located overseas) if an individual located overseas is directly responsible for taking decisions about how a UK Relevant Firm should conduct their UK-regulated activities and has not delegated this responsibility to a Senior Manager based in the United Kingdom, it is likely that they will require approval as SMF7 (or, in some cases, another SMF).

2.15A Table D1 sets out non-exhaustive examples of individuals likely to be identified and those less likely to be identified as having significant influence for the purpose of being an SMF7 in relation to branches and subsidiaries of overseas-headquartered groups.

Table D1

Individuals likely to be identified as having significant influence for the purpose of being an SMF7 in relation to branches and subsidiaries of overseas-headquartered groups.

Individuals less likely to be identified as having significant influence for the purpose of being an SMF7 in relation to international branches and subsidiaries of overseas-headquartered groups.

¹⁸—See SUP 10A.7.4G in the FCA Handbook.

-
- Group executives on the board or the committees of a PRA-authorised entity.
 - Group executives who only occasionally attend the PRA-authorised entity's board or board committees and have limited direct influence over the business, operations, or governance of the PRA-authorised entity.
 - Group executives operating as senior executives at a PRA-authorised entity.
 - Group executives with responsibilities for setting the strategy in areas that are key to the business model of the PRA-authorised entity.
 - Group executives reporting into a more senior group executive who has ultimate responsibility for the performance of the PRA-authorised entity.
 - Group executives responsible for material business remotely booked into the PRA-authorised entity.
 - Group executives who have influence and responsibility for a business line in the UK which forms a small proportion of the UK's operations.
 - Group executives tasked with the launch of a new product and/or ongoing oversight of a significant business line in the UK market.
 - Group directors or executives without UK-specific responsibilities where the PRA regulated entity forms a small part of the overall group business and ultimate decision-making rests with the PRA-authorised entity's CEO (SMF1), or the Head of the UK Branch (SMF19).
 - Group executives with responsibilities for setting and overseeing risk management and/or controls in the PRA-authorised entity.

2.16 The PRA does not aim or expect to approve individuals as SMF7 in every UK Relevant Firm which is part of an overseas-headquartered group. Whether these entities are required to have any individuals approved as SMF7 is assessed on a case-by-case basis. In the first instance, it is up to Firms are required to consider whether there may be any individuals in their parent or group companies, in the United Kingdom or overseas, who may be performing an SMF7 on behalf of a Relevant Firm. Nevertheless, the PRA may also identify that an individual is performing a role within scope of the SMF7. Where the PRA does so, firms should apply for their approval without delay. In doing so, When assessing whether someone is performing a role in scope of the SMF7, firms they should take into account:

- the respective organisational structures of the group and the Relevant Firm;
- the split of key responsibilities between the group and UK boards and senior management; and
- whether SMFs based in the United Kingdom have an appropriate level of delegated authority from the group or parent to ensure that the UK entities comply with local regulatory obligations.

SMF7s at UK-headquartered firms

2.16A The SMF7 is also applicable to UK-headquartered firms. Individuals who exercise significant influence over the day-to-day management or conduct of one or more aspects of a Relevant Firm's affairs in relation to its regulated activities are also in-scope of the SMF7 where:

- they are employed by a holding company, parent, or an entity within a UK-headquartered Relevant Firm's group; or
- are controllers of a Relevant Firm; or
- are representatives of those controllers.

2.16B The PRA does not expect every controller of a PRA firm (or their representatives) to be identified as an SMF7. Instead, the PRA expects that individuals would only be in-scope where they have (or plan to have in the case of change in control applications or new authorisation applications) a continued and sustained involvement in, or exercise continued influence over the day-to-day management and conduct of business of a Relevant Firm in relation to its regulated activities. Firms are required to consider whether there are individuals performing as an SMF7 in these circumstances.

2.16C This reflects the intention of the SMR to ensure appropriate accountability for those individuals who are able to take or impose decisions on the management or conduct of business at a firm such that it has the potential to affect its safety and soundness. This may be through their position as a member of the firm's board although this would not in and of itself be the determining factor. The PRA would not, for example, expect an individual to be an SMF7 where their involvement in the firm is restricted to operating as a non-executive director in line with the PRA's requirements and expectations for boards and non-executive directors. On the other hand, a controller (or their representatives) may exercise significant influence over a firm's management and conduct of business without being a member of the firm's board and still be in scope of the SMF7.

2.16D Table D2 sets out non-exhaustive examples of individuals likely to be identified, and those less likely to be identified, as having significant influence for the purpose of being an SMF7 in relation to UK-headquartered firms.

Table D2

Individuals likely to be identified as having significant influence for the purpose of being an SMF7 in relation to UK-headquartered firms.

- When the group holding company is not PRA-
authorised or when a banking group includes a ring-
fenced entity:
 - Group directors or executives on the board or the
committees of a PRA-authorised entity; or on the
board or its committees of the ring-fenced entity.
 - Group executives operating as senior executives at
a PRA-authorised entity; or in the ring-fenced
entity, to the extent permitted by PRA rules.
 - Individuals who have a group role with key
influence over the PRA-authorised entity; or in the
ring-fenced entity.
 - Group executives with responsibilities for setting
the strategy in areas that are key to the business
model of the PRA-authorised entity; or in the ring-
fenced entity.
 - Group executives with responsibilities for setting
and overseeing risk management and/or controls in
the PRA-authorised entity; or in the ring-fenced
entity.
- A controller of a PRA-authorised entity (or their
representative) who has material influence over
strategic matters and engages in day-to-day

Individuals less likely to be identified as having significant influence for the purpose of being an SMF7 in relation to UK-headquartered firms.

- Group executives who only occasionally attend the
PRA-authorised entity's board or board committees
and have limited direct influence over the business,
operations, or governance of the PRA-authorised
entity.
- Group executives reporting into a more senior
group executive who has ultimate responsibility for
the performance of the UK regulated entity.
- Group executives who have influence and
responsibility for a business line in the UK which
forms a small proportion of the UK's operations.
- Group directors or executives without UK-specific
responsibilities where the PRA regulated entity
forms a small part of the overall group business and
ultimate decision-making rests with the PRA-
authorised entity's CEO (SMF1).
- A controller of a PRA-authorised entity (or their
representative) who attends board meetings as a
non-executive director and their involvement in
decision making at the firm is limited to their role as
a board member/investor director.

management of the business, for example directing the decisions of the entity's senior executives.

- Directors of the holding company that owns a PRA-authorised entity who have material influence over strategic matters and engage in day-to-day management of the business, for example directing the decisions of the PRA-authorised entity's senior executives.

Scope for incoming third-country branches

2.17 The PRA requires all incoming third-country non-EEA branches to have at least one individual preapproved as a Head of Overseas Branch (SMF19). Consistent with the approach for UK Relevant Firms, incoming third-country branches can elect to have more than one individual preapproved as an SMF19. Where this is the case, all individuals approved as SMF19s will be accountable for all the responsibilities conferred by that function. SMF19s should have the highest degree of individual decision-making authority in the branch over activities and areas subject to UK regulation.

2.18 In addition, incoming third-country branches are required to have additional specific SMFs pre-approved by the PRA in the following circumstances:

- Where an incoming third-country non-EEA branch has individuals performing the Chief Finance (SM2), Chief Risk (SMF4), Head of Internal Audit (SMF5) and Chief Operations (SMF24) functions. This includes individuals performing these SMFs across an overseas-headquartered banking group's UK legal entities, such as a UK Chief Risk Officer (CRO) with responsibility for risk management across the group's UK subsidiaries as well as the incoming third-country non-EEA branch.
- As noted in paragraphs 2.12–2.16 above, where an individual based in a parent or group entity has direct management and/or decision-making responsibility over an incoming third-country non-EEA branch's UK-regulated activities and has not delegated it to the SMF19 or another SMF based in the branch, they may require preapproval as a Group Entity Senior Manager (SMF7) of that branch. An example might be a head of Europe, Middle East and Africa (EMEA) who is not formally based in or employed in one of the group's UK subsidiaries but makes decisions affecting how the branch carries out its UK-regulated activities. In practice, SMF7s of an incoming third-country non-EEA branch will commonly be based in the United Kingdom but they may also be based overseas.

2.19 NEDs are outside the scope of the SMR for incoming third-country non-EEA branches. However, there may be situations where individuals employed by an incoming third-country non-EEA branch's parent or group company sit on the branch's local management committee (or equivalent) and ~~were correspondingly, previously preapproved as a Director (CF1s) or Non-Executive Director (CF2s) of the branch under the APR.~~ These individuals are therefore likely to be performing the Group Entity Senior Manager function (SMF7) in respect of the branch and are required to be preapproved.

Independence requirements and banned combinations of SMFs

2.20 Certain rules prevent individuals from performing specific combinations of SMFs at the same Relevant Firm or require certain SMFs to be performed independently of all other functions and activities of the firm. Table E below lists the SMFs subject to such restrictions.

Table E

SMF	Restriction	Required by
Chief Executive (SMF1) and Chair of the Governing Body (SMF9)	A firm must ensure that an individual who performs the Chair of the Governing Body Function on its behalf does not simultaneously perform the Chief Executive Function within the same firm.	CRD, Article 88(1)(e). Senior Management Functions 7.2.
Chief Risk (SMF4)	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 specifically appointed person, another senior person within the firm may fulfil that function, provided there is no conflict of interest.	CRD, Article 76(5). Risk Control 3.5.
Head of Internal Audit (SMF5)	Must be separate and independent from the other functions and activities of the firm.	Article 16(5) MiFID II Compliance and Internal Audit 3.19
Chair of the Risk Committee (SMF10)	Must not perform any executive function in the firm.	CRD, Article 76(3). Risk Control 3.1.
Chair of the Remuneration Committee (SMF12)	Must not perform any executive function in the firm.	CRD, Article 95(2) Remuneration 7.4(2).
...		

Prescribed Responsibilities for UK Relevant Firms

...

2.26 UK Relevant Firms must allocate all Prescribed Responsibilities among individuals performing an SMF subject to preapproval by the PRA or FCA (except the FCA's Other Overall Responsibility function (SMF18) as noted in Allocation of Responsibilities 3.1). The PRA expects firms to allocate each Prescribed Responsibility to the Senior Manager it is most closely linked to. PRA and FCA Prescribed Responsibilities for UK Relevant Firms comprise the following categories:

...

- **Prescribed Responsibilities which only apply to certain types of firm (excluding Small Firms):**
 - firms that carry out proprietary trading;¹⁹²⁰

¹⁹ See footnote 12 above.

¹⁹²⁰ Allocation of Responsibilities 1 defines proprietary trading for the purposes of the SMR as:

(a) the regulated activity of dealing in investments as principal as specified in Article 14 of the Regulated Activities Order (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 and (in relation to MiFID II business) ancillary services carried out in relation to the regulated activity.

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Prescribed Responsibilities for incoming third-country branches

2.28 There is a customised set of PRA and FCA Prescribed Responsibilities for incoming third-country non-EEA branches set out in Rule 6 of the Allocation of Responsibilities Part of the PRA Rulebook 6. Consistent with the approach for UK firms, these third-country non-EEA branch-specific Prescribed Responsibilities can be allocated to any SMF in the branch except the FCA's *Other local responsibility* (SMF22) function.

...

Table F

SMF	Description of responsibilities (a full list is available in Senior Management Functions 4.1)	Relevant PRA Rulebook material
Chair of the Governing Body (SMF9)	<p>Chairing and overseeing the performance of the board.</p> <p>Leading the development and overseeing the implementation of the firm's policies and procedures for the induction, training and development of all directors.</p> <p>Overseeing the assessment of fitness and propriety of those NEDs who are not in scope of the SMR and the related notification requirements to the PRA.</p> <p>Leading the development of the firm's culture by the board.</p>	Fitness and Propriety 2.3, 2.4, and 4.
Chair of the Audit Committee (SMF11)	<p>Chairing and overseeing the performance of the Audit Committee.</p> <p>Ensuring and overseeing the integrity and independence of the firm's internal audit function (including the Head of Internal Audit).</p>	Compliance and Internal Audit 3.1 ²¹
Chair of the Risk Committee (SMF10)	<p>Chairing and overseeing the performance of the Risk Committee.</p> <p>Ensuring and overseeing the integrity and independence of the firm's risk function (including the CRO).</p>	Risk Control 3.5.
Chair of the Remuneration Committee (SMF12)	<p>Chairing and overseeing the performance of the Remuneration Committee.</p> <p>Overseeing the development and implementation of the firm's remuneration policies and practices.</p>	Remuneration 7.2–7.4.
Chair of the Nominations Committee (SMF13) [FCA]	Chairing and overseeing the performance of the Nomination Committee	SUP10C.5.2 R (FCA Handbook).
SID (SMF14)	Performing the role of a SID (in line with the FRC Code) and leading the assessment of the Chair's performance.	

²¹ See Footnote 12 above.

Either Chair of the Governing Body (SMF9) or Chair of the Audit Committee (SMF11)	Ensuring and overseeing the integrity and independence of the compliance function (including the Head of Compliance).	Compliance and Internal Audit 2.4. ²²
	Ensuring and overseeing the integrity, independence and effectiveness of the firm's policies and procedures on whistleblowing and ensuring staff that raise concerns are protected from detrimental treatment.	

Responsibilities and potential accountability of NEDs in the scope of the SMR

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2.30 NEDs in scope of the SMR are neither required nor expected to assume executive responsibilities but are expected to take on certain responsibilities (set out in Table F), all of which are non-executive in nature and are either inherent in or derive from their Chairing Chairship or SID roles.

...

2.33 The role of the Chair is integral to firms' safety and soundness. Consequently, the PRA expects Chairs ~~men~~ to:

- seek proactively to remain apprised of matters relating to the board and its individual committees by, for instance, having regular discussions with the Chairs of the Audit, Remuneration and Risk Committees outside board meetings; and
- commit a significantly larger proportion of their time to their functions than other NEDs. The PRA expects Chairs ~~men~~, in particular those of major firms, not to have or take on additional commitments which may interfere with the fulfilment of their responsibilities to the firm under the SMR. The PRA may consider using its powers to impose conditions on approval to time limit a Chair's ability to take on additional external commitments where it considers that doing so may advance its objectives.²⁰²³

...

Individual accountability and collective decision-making by boards

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2.38 Moreover, regardless of the fact that some NEDs are subject to limited individual responsibilities and potential accountability under the SMR, the PRA considers it vital that boards as a whole understand the Threshold Conditions in FSMA, the Fundamental Rules and other detailed underlying rules in the PRA Rulebook. Boards should establish within their firms a culture that supports adherence to the spirit and letter of these requirements.²¹²⁴

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²² ~~Ibid.~~

²⁰²³ See PRA Statement of Policy, 'The Prudential Regulation Authority's policy on conditions, time limits and variations of approval', June 2015 www.bankofengland.co.uk/pr/Pages/publications/sop/2015/conditions.aspx.

²¹²⁴ PRA Policy Statement PS5/14, 'The PRA Rulebook', June 2014, paragraph 2.4: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2014/ps514>

Sharing Prescribed Responsibilities

...

2.41A Similarly, where one or more individuals share the Prescribed Responsibility for the firm's performance of its obligations under the Outsourcing part of the Rulebook, firms may wish to provide details on which key outsourced relevant services and activities,²²²⁵ each individual is responsible for overseeing in their respective SoRs.

...

Prescribed Responsibilities relating to culture

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2.43 These Prescribed Responsibilities reflect the expectation set out in the PRA's Approach Documents that firms should have a culture that supports their prudent management and builds on the idea that boards and management of regulated firms should embed the principle of safety and soundness in the culture of the whole organisation.²³²⁶

...

2.45 Large UK-headquartered banking groups comprising multiple Relevant Firms may wish to allocate the two Prescribed Responsibilities relating to culture to the group CEO and group Chair as opposed to the CEOs and Chairs ~~men~~ of the individual legal entities, for instance where culture is a matter reserved for the group board. They are not, however, required or expected to do so. In this situation, it may be appropriate for the group CEO and Chair to be approved as Group Entity Senior Managers (SMF7) of each of the Relevant Firms in the group.

Statements of Responsibilities and Management Responsibilities Maps

Purpose of Statements of Responsibilities and Management Responsibilities Maps

...

2.46E SoRs and MRMs can help identify the Senior Manager responsible for an area if things go wrong. ~~However, as stated in the PRA approach document 'the PRA's preference is to use its statutory powers to secure ex ante, remedial action'.~~²⁴²⁷

...

²²²⁵ www.prarulebook.co.uk/rulebook/Content/Part/214147/28-03-2017.

²³²⁶ 'The Prudential Regulation Authority's approach to banking supervision', paragraph 42;

<https://www.bankofengland.co.uk/prudential-regulation/publication/2018/pr-a-approach-documents-2018>.

²⁴²⁷ The Prudential Regulation Authority's approach to banking supervision, available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/pr-a-approach-documents-2018>; <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/approach/banking-approach-2023.pdf>

2.47I Firms can consult the set of responsibilities set out in the PRA's published inventory of senior manager responsibilities²⁵ to assist in the allocation of responsibilities to the relevant Senior Manager / appropriate SMF holders.

...

Consistency

2.53 Likewise, the PRA expects the SoRs of NEDs in scope of the SMR to be less extensive than those of executive Senior Managers. Nonetheless, it is important that the SoRs of NEDs in scope of the SMR provide at least some detail. Merely stating that an SMF10-13 is responsible for chairing a given board committee in accordance with its terms of reference is unlikely to ~~be provide an~~ appropriate in many cases. The SoRs of non-executive SMFs should go into a somewhat greater level of detail and break down the chairing chairmanship of these key committees into more granular key tasks (without allocating executive or quasi-executive responsibilities to the relevant NEDs). Examples of additional detail which firms would be expected to include, if applicable, in the SoRs of NEDs in scope of the SMR may include but are not limited to:

- the SID's (SMF14) responsibility for leading the board (and/or Nominations Committee) in implementing an orderly succession plan for the Chair; and/or
- the Chair of the Remuneration Committee's responsibility for ensuring that the Committee discusses and approves buy-outs of variable remuneration (for new hires) and termination packages (for outgoing employees) in specific, pre-determined circumstances, such as when they exceed a certain amount.

Updating a Statement of Responsibilities

2.54 Section 62A of FSMA requires firms to submit a revised Statement of Responsibilities whenever there is a significant change in the aspects of the authorised person's affairs which the person is responsible for managing in performing the function. FSMA does not specify a deadline for submitting a SoR to the regulators. The PRA, however, expects firms to submit a SoR no later than six months following a significant change in responsibilities, unless the firm has been notified of the need for earlier submission by its supervisor, or is submitting a SoR in relation to the 12-week rule, or earlier submission is required in order to comply with Fundamental Rule 7 (eg a significant and wide reallocation of responsibilities across the firm's Senior Managers). Although the firm has six months to submit the SoR, where there are changes, the allocation of PRs should be updated as soon as practicable, and this should be documented internally.

...

Management Responsibilities Maps

...

2.58 There is no template for MRMs and it is up to firms to develop and maintain a MRM that is appropriate for and accurately reflects the structure, size and complexity of the firm including, where applicable, group governance arrangements. The PRA expects firms to submit an MRM no later than six months following a significant change in the set of responsibilities, unless the firm has been notified of the need for earlier submission by its supervisor or earlier submission is required in order to comply with Fundamental Rule 7 (eg a broad and significant restructuring of management responsibilities within the firm). Although the firm has six months to submit the MRM, where there are

²⁵ [Strengthening accountability | Bank of England](#)

changes, the firm should submit the MRM as soon as practicable, and this should be documented internally.

...

Operation of the 12-week rule

2.58C The 12-week rule applies where a firm experiences an SMF vacancy that is (a) temporary or (b) reasonably unforeseen. As such, the PRA does not expect firms to use it frequently, and firms are expected to have in place and operate effective and up-to-date succession plans for each of its SMFs. The PRA also expects firms to operate notice periods effectively to identify candidates to fill the place of the departing SMF holder and apply for approval for the permanent SMF replacement as soon as reasonably possible. The PRA will monitor firms' use of the 12-week rule, and if it considers the rule is being used excessively, this will be raised in its engagement with firms on their governance and succession planning arrangements.

2.58D Table H sets out non-exhaustive examples of instances whereby the 12-week rule may be or may not be used for temporary SMF cover.

Table H

Instances whereby the 12-week rule may be used for temporary SMF cover

An individual gives one month's notice that they want to take parental leave and the parental leave does not last more than three months. The firm can use the rule and the absence is treated as reasonably unforeseen.

In a general sense a firm will know that many members of staff are at some time likely to ask for parental leave. That does not mean though that a firm can foresee a request for such leave before it is made.

However, a firm should try to avoid the need to use or minimise use of the rule. A firm should have systems in place to deal with parental leave that will enable it to identify a replacement to fill in for the individual during their absence.

An individual gives one year's notice in accordance with their contract of employment. However immediately after the individual gives the notice, they stop performing their designated senior management function, and instead stay on as a consultant to help with the handover. The individual leaves the firm altogether when the notice expires.

For the purposes of the rule, the individual's absence begins when they stop performing the

Instances whereby the 12-week rule may not be used for temporary SMF cover

An individual has a contract of employment under which there is three months' notice of termination on either side. The individual and the firm agree a retirement plan a year before the individual leaves, including the retirement date. The individual, in accordance with the retirement plan, gives three months' notice and leaves when the notice expires. The firm rely on the rule as the departure was reasonably foreseeable.

As the absence is not temporary, the firm cannot rely on the temporary absence part of the rule either.

An individual has a contract of employment for a fixed term of two years. There is no understanding that the individual will stay on after that. The individual leaves immediately after the end of that two-year period.

The firm cannot rely on the rule. Right from the start of the individual's employment it was reasonably foreseeable that they would leave at the expiry of their contract. The answer would

designated senior management function. The firm can use the rule and the absence is treated as reasonably unforeseen.

be the same even if the fixed term was for a shorter period, such as six or nine months. As the absence is not temporary, the firm cannot rely on the temporary absence part of the rule either.

An individual becomes sick and must take sick leave and/or chooses to resign immediately after. The firm may use the rule and the absence is treated as reasonably unforeseen.

An individual gives the firm five months' notice that they are going to resign.

If the individual becomes ill a long time before they resign, the firm may still be able to use the rule. For example, the firm and individual may believe that the individual will be able to carry on working, and so a temporary arrangement may be appropriate.

The firm cannot rely on the rule as the absence is not unforeseen. The firm should not wait until the individual leaves to make an application for a permanent replacement. Where the absence of the SMF is permanent, should the firm decide to initiate a longer recruitment process for a permanent replacement, they would need to apply for a suitable interim candidate until a permanent candidate is found.

The firm may use the rule even if it does not initially know whether the individual will be able to return or how long the individual will be away.

An individual leaves the firm, and the firm appoints someone to fill in for the individual until a permanent replacement is approved.

The firm makes an application to the PRA five weeks after the temporary SMF holder was appointed. However, the firm withdraws the application for approval of the candidate two weeks later, and following another fortnight (nine weeks following the appointment of the 'temporary' SMF holder), the firm makes an application for the approval of someone else.

The PRA grants its approval six weeks later, meaning that a temporary SMF holder was performing the function for greater than 12 weeks prior to receiving an outcome on their application.

The firm can use the rule. However, it is worth noting that the firm would not be able to use the extended period if the second 'permanent' application was made more than 12 weeks after the temporary SMF holder is appointed.

...

Statutory framework

...

2.63 The PRA may take disciplinary action under section 66 of FSMA where it appears to the PRA that the person is guilty of misconduct and the PRA is satisfied that it is appropriate in all the circumstances to take action against them~~him or her~~.²⁶

...

3The PRA's Certification Regime

...

Associated requirements in FSMA

3.13 Section 63E of FSMA in particular requires firms to ensure that no employee performs a certification function unless they have a valid certificate issued under section 63F. Section 63F requires a firm to issue a certificate to someone only if the firm is satisfied that they are fit and proper; and that the certificate must:

(a) state that the authorised person is satisfied that the person is a fit and proper person to perform the function to which the certificate relates; and

(b) set out the aspects of the affairs of the authorised person in which the person will be involved in performing the function.

3.14 Section 63F of FSMA does not, however, prescribe the format that a certificate must take. The PRA also does not prescribe the format of a certificate or how a firm chooses to issue a certificate to a certified employee. Firms may instead choose to produce and issue a certificate in a way that is consistent with its internal systems and processes as long as the information in section 63F(4)(a) and (b) is recorded.

3.15 Section 63F(5) of FSMA states that a certificate is valid for a period of 12 months beginning with the day on which it is issued. The PRA acknowledges that, as a consequence, firms will be required to assess the fitness and propriety of certain certified employees at least every 12 months in order for them to continue having a valid certificate to perform their function. The PRA acknowledges that some firms may have a high number of certified employees that must be assessed. The PRA does not prescribe the process of how a firm conducts this process or the timing each year that they do it. Firms may choose to undertake and complete the fitness and propriety assessments of their certified employees consistent with their own internal systems, policies, and processes.

4 Assessing fitness and propriety

4.1 This chapter sets out the factors that the PRA:

²⁶ See The Bank's approach to enforcement: statutory statements of policy and procedure <https://www.bankofengland.co.uk/prudential-regulation/publication/2024/january/the-bank-of-england-approach-to-enforcement-statements-of-policy-and-procedure>

- will take into account when assessing whether an individual is fit and proper to perform an SMF; and
- expects firms to take into account when assessing whether an individual is fit and proper to perform:
 - an SMF specified in PRA rules;
 - a certification function specified in PRA rules; or
 - a notified NED function specified in PRA rules (that is, a NED in a CRR firm who is not approved by the PRA or FCA to perform a controlled function at that firm).

...

4.6 The PRA will also have regard to the joint European Securities and Markets Authority and European Banking Authority's Guidelines on the assessment of the suitability of members of the management body and key function holders (the EBA Suitability Guidelines) and in particular to the Assessment Criteria set out in Title III of those Guidelines.²⁹ The PRA will also take into account whether the individual has been approved in another jurisdiction or similar accountability regime; as well as taking into account of any previous experience of the SM&CR as an SMF holder in another regulated firm.

...

Assessing the fitness and propriety of Notified NEDs

4.11 The United Kingdom is required under the following EU Directives and guidelines to ensure that all members of the management body of a Relevant Firm are fit and proper:

- CRD (Articles 13, 88 and 91);
- MiFID II (Article 9); and
- the EBA Suitability guidelines.

4.12 General Organisational Requirements 5.2 CRD requires that firms have primary responsibility for ensuring board members of CRR firms 'at all times be of sufficiently good repute and possess sufficient knowledge, skills and experience to perform their duties'. According to the EBA Suitability Guidelines, this includes ensuring the appointment of all board members is subject to a regulatory approval or notification process. The EBA Suitability Guidelines recognise that as members of the management body have specific roles, the assessment process and criteria can differ.

²⁹ The Guidelines (EBA/GL/2017/12) are available at:

https://eba.europa.eu/sites/default/documents/files/documents/10180/1972984/43592777_a543_4a42_8d39-530dd4401832/Joint%20ESMA%20and%20EBA%20Guidelines%20on%20the%20assessment%20of%20suitability%20of%20members%20of%20the%20management%20body%20and%20key%20function%20holders%20%28EBA-GL-2017-12%29.pdf?retry=1
<https://www.bankofengland.co.uk/-/media/boe/files/paper/2021/interpretation-of-eu-guidelines-and-recommendations-boe-and-pra-approach-sop-november-2022.pdf>

4.13 ~~In order to comply with these EU obligations,~~ Notified NEDs are subject to assessment and notification requirements by the PRA in lieu of pre-approval. Under these requirements firms must:

- assess the fitness and propriety of all NEDs not subject to regulatory approval on appointment and periodically thereafter. The PRA rules do not define appointment for these purposes but appointment should generally be understood as being linked to a contractual arrangement between the firm and the Notified NED, ie a letter of appointment;
- notify the PRA that such NEDs have been deemed fit and proper; and
- notify the PRA of any other information which would be reasonably material to the assessment of a NED's fitness and propriety.

4.14 The requirements ~~The EU obligations~~ listed above do not apply to credit unions. Consequently, the appointment of a NED who does not perform an SMF in a credit union is not subject to either pre-approval or notification, although credit unions are being required to ensure that such NEDs are fit and proper to perform their role and that they observe key conduct standards.

...

4.17 ~~In addition to complying with the PRA's EU obligations,~~ Supervisors will be able to use the information provided in these notifications to assess the fitness and propriety of the Notified NED and inform supervision's views on the overall balance and composition of the Board.

...

Criminal background checks

4.19 In England and Wales, a firm should get an application form from the Disclosure and Barring Service (DBS) or an umbrella body (a registered body that gives access to DBS checks). There is an equivalent procedure in Scotland (involving Disclosure Scotland) and Northern Ireland (involving Access-NI). If the candidate is employed by a contractor, the firm may ask the contractor to obtain the certificate. A firm should not send any DBS certificates (or equivalent) or copies of such certificates to the PRA. For non-SMF holders, the PRA expects a firm to obtain a criminal records check (with the consent of the candidate). The firm should request all necessary information in relation to the candidate as it is lawfully able to under the legislation. It is expected that any relevant detail which could impact a candidate's fitness and propriety, be disclosed in the submission form(s).

...

Persons and activities to which the PRA Conduct Rules ~~Part~~ apply

...

5.4 Where an employee is performing a function that would have been an SMF but for the rule at Senior Management Functions 2.3 (which provides a twelve-week grace period to cover absences which are temporary or reasonably unforeseen), the effect of the cross-reference to Conduct Rules 1.1(2)(c) in Conduct Rule 1.1(3) and 1.1(4) is to apply the Individual Conduct Rules and the Senior Manager Conduct Rules to that employee. This means that the employee is ~~not~~ held to the same standards as a permanent Senior Manager.

...

Individual Conduct Rules³²

Acting with due skill, care and diligence as a manager

...

5.10 Where unusually profitable business is undertaken, or where the profits are particularly volatile or the business involves funding requirements on the firm beyond those reasonably anticipated, a manager should require explanations from those who report to ~~them~~him or her. Where those explanations are implausible or unsatisfactory, the manager should take steps to test the veracity of those explanations.

...

Application of the conduct rules to NEDs in scope of the SMR and Notified NEDs

5.24 NEDs in scope of the PRA's SMR are subject to the conduct rules, including those applicable only to Senior Managers. ~~As was the case under the APR, breaches of the conduct rules by NEDs in scope of the SMR are directly enforceable against the individual Senior Manager. Notified NEDs are subject to the three individual Conduct Rules and Senior Manager Conduct Rule 4.~~

...

Application of the conduct rules to NEDs in scope of the SMR and Notified NEDs

...

5.28 The requirements to 'be open and cooperative with the FCA, the PRA and other regulators' (Individual Conduct Rule 3) and 'disclose appropriately any information of which the FCA or PRA would reasonably expect notice' (Senior Manager Conduct Rule 4) are particularly important for NEDs. ~~As the PRA Approach Document states, if any director has 'concerns about the firm or its management and governance, the PRA will expect them to press for action to remedy the matter and, if those concerns are not addressed, to alert the PRA.'~~³³

...

Notifications by firms to the PRA (Notifications 11)

...

5.36 Moreover, absent internal disciplinary action (as defined), the following PRA rules will continue to require misconduct involving Notified NEDs to be notified to the regulators as soon as reasonably practicable:

³² Individual Conduct Rule 1 is: 'You must act with integrity'. The PRA does not believe it is necessary to provide guidance on what it means to act with integrity.

³³ The Prudential Regulation Authority's approach to banking supervision (April 2013) at paragraph 78:

www.bankofengland.co.uk/publications/Documents/paapproach/bankingappr1304.pdf and The Prudential Regulation Authority's approach to insurance supervision (June 2014) at paragraph 88: www.bankofengland.co.uk/publications/Documents/paapproach/insuranceappr1406.pdf.

- Fundamental Rule 7, which states that ‘a firm must deal with its regulators in an open and cooperative way and must disclose to the PRA appropriately anything relating to the firm of which the PRA would reasonably expect notice’;
- Rule 4.4 in the Fitness and Propriety part of the Rulebook, which states that ‘if a firm becomes aware of information which would reasonably be material to the assessment of a current or former notified non-executive director’s fitness and propriety ... it must inform the PRA in writing as soon as practicable’; and
- General Organisational Requirements 5.2, which requires CRR firms to ensure that ‘members of the management body [are] at all times ... of sufficiently good repute and possess sufficient knowledge, skills and experience to perform their duties’;³⁴

...

6 Regulatory references

...

6.3 The rules on regulatory references and the expectations set out in this chapter take into account the recommendations of the Fair and Effective Markets Review (FEMR).³⁵

...

Requesting regulatory references

...

6.5 Regulatory references must cover the previous six years of employment and be sought from all relevant former employers and, if different, any firms at which the candidate has performed:

- an SMF;
- another Controlled Function (CF);
- a Certification function;
- a notified NED function or credit union NED function; or
- any other Key Function Holder in Solvency II insurers which is neither an SMF nor a CF.

...

Obtaining references before applying for pre-approval as an SMF or certifying a Certification employee

...

6.24 Similarly, where a firm needs to fill a vacancy which is a Certification function and which could not have reasonably been foreseen, the PRA recognises that it may not be reasonable to expect the firm to obtain references prior to issuing a certificate. In such cases, firms should take up the

³⁴ — See also Article 91(1) of CRD.

³⁵ June 2015, <https://www.bankofengland.co.uk/markets/Documents/femrjun15.pdf> <https://www.bankofengland.co.uk/-/media/boe/files/report/2015/fair-and-effective-markets-review-final-report.pdf>

references as soon as reasonably possible. If the references duly obtained raise concerns about the employee's fitness and propriety, the firm should immediately revisit and, if appropriate, revoke, its decision to issue them~~him or her~~ with a certificate.

...

6.41 The 'all relevant information' section may also include information on events that did not culminate in formal disciplinary action as defined in section 64C of FSMA or a formal finding that the individual was not fit and proper. Where an internal investigation into misconduct relevant to the assessment of fitness and propriety was commenced but disciplinary procedures were not concluded because the individual left the firm, firms should consider whether to include details of this in the reference. Where a firm is considering the disclosure of information relating to investigations into misconduct where internal disciplinary procedures were not concluded, the firm should carefully consider the legal duties referred to below.

...

Annex: Updates made to SS28/15

...

December 2015

- Incorporated the General Organisational Requirements Part in 2.2 as a relevant source of related material;
- Expanded scope to include incoming third-country (previously referred to as 'non-EEA') branches by updating table A, and adding 2.17 – 2.19 and 2.28. Existing paragraphs were renumbered.

3: Draft amendments to Supervisory Statement (SS) 35/15 – Strengthening individual accountability in insurance

In this appendix, new text is underlined and deleted text is struck through.

Contents

...

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...

1 Introduction

...

1.4 This statement has been subject to public consultation and reflects the responses received by the PRA.³⁴

...

Criteria for a 'Group Entity Senior Management Function'

2.5 The definition of a Group Entity Senior Manager (SMF 7) for insurers will only encompass those individuals who meet the criteria in section 59ZA of FSMA, and who are also deemed to be in a key function (as defined in the PRA Rulebook). This is likely to include the chair of the group board, or the chair of a key group board committee where that committee has direct responsibility for oversight of the affairs of the insurer. It is ~~also~~ expected to include those Group Executive Directors and Senior Managers who have responsibility for some aspect of the safety and soundness of the group, or of the PRA regulated insurance firms in the group. It also includes controllers (and their representatives) who exercise significant influence over the day-to-day management or conduct in relation to an insurer's regulated activities.

...

³ This statement combines draft supervisory statements that were consulted on in CP26/14, 'Senior Insurance Managers Regime: a new regulatory framework for individuals', November 2014; www.bankofengland.co.uk/pru/Pages/publications/cp/2014/cp2614.aspx; and CP7/15, 'Approach to Non-Executive Directors in banking and Solvency II firms & Application of the presumption of responsibility to senior managers in banking firms', February 2015; www.bankofengland.co.uk/pru/Pages/publications/cp/2015/cp715.aspx.

⁴ Please see also the feedback provided in PS22/15, 'Strengthening individual accountability in insurance: responses to CP26/14, CP7/15 and CP13/15', August 2015; www.bankofengland.co.uk/pru/Pages/publications/ps/2015/ps2215.aspx.

2.7 This function should include any individual within the group (eg a group CEO or the controller of the insurer and its representatives) whose decisions and actions have to be regularly taken into account by the governing body of the firm.

...

International groups SMFs at branches and subsidiaries of international groups

2.10 The scope of the SMFs under the SMR only applies in relation to a firm's UK-regulated activities. ~~This inherently limits the extent to which it can apply to individuals in a firm's parent or group entities, particularly those based overseas. However, the fact that an individual is located outside the United Kingdom does not, in itself, mean that they cannot perform an SMF on behalf of a firm.~~

2.11 The PRA is mindful of both the territorial scope of the SMR and the governance arrangements of international groups operating in the United Kingdom. Consequently, the PRA does not require pre-approval of senior individuals located overseas whose responsibilities in relation to the United Kingdom are limited to developing the group's overall strategy. The PRA's focus is on those individuals who, irrespective of their location, are directly responsible for implementing the group's strategy at UK firms and who:

- operate at a parent, holding company or other entity in a firm's group; or
- are controllers (or their representatives) of a firm.

~~The PRA and FCA followed a similar approach under the APR, which resulted in a small number of individuals based overseas being approved as Significant Influence Functions (SIFs) of UK firms.~~

2.11A An individual may still be able to affect the safety and soundness of a Relevant Firm's UK-regulated activities irrespective of their geographical location (eg being located outside the United Kingdom); and where they are not employed by a Relevant Firm or within its group. As such, they can still be considered in scope of the SMR or perform an SMF on behalf of a Relevant Firm.

2.12 Consequently, where an individual in a parent or group entities who exercises significant influence (including those located overseas) ~~if an individual located overseas~~ is directly responsible for taking decisions about how a UK firm should conduct its UK-regulated activities and has not delegated this responsibility to a Senior Manager based in the United Kingdom, it is likely that they will require approval as SMF 7 (or, in some cases, another SMF).

2.12A Table A sets out non-exhaustive examples of individuals likely to be identified or not as having significant influence for the purpose of being an SMF7 in relation to branches and subsidiaries of international groups.

Table A

Individuals likely to be identified as having significant influence for the purpose of being an SMF7 in relation to branches and subsidiaries of international groups.

Individuals less likely to be identified as having significant influence for the purpose of being an SMF7 in relation to branches and subsidiaries of international groups.

-
- Group directors and executives on the board or the committees of a PRA-authorised entity.
 - Group executives operating as senior executives at a PRA-authorised entity.
 - Group executives with responsibilities for setting the strategy in areas that are key to the business model of the PRA-authorised entity.
 - Group executives tasked with the launch of a new product and/or ongoing oversight of a significant business line in the UK market.
 - Group executives with responsibilities for setting and overseeing risk management and/or controls in the PRA-authorised entity.
 - Group executives who only occasionally attend the PRA-authorised entity's board or board committees and have limited direct influence over the business, operations, or governance of the PRA-authorised entity.
 - Group executives who report into a more senior business line head who has ultimate responsibility for the performance of the PRA-authorised entity.
 - Group executives who have influence and responsibility for a business line in the UK which forms a small proportion of the UK's operations.
 - Group directors or employees without UK-specific responsibilities where the PRA regulated entity forms a small part of the overall group business and ultimate decision making still rests with the PRA-authorised entity's CEO (SMF1), or the Head of the UK Branch (SMF19), or SMF25 (Small Insurer Senior Manager), or SMF26 (Head of Small Run-Off firm).

2.13 The PRA does not aim or expect to approve individuals as SMF 7 in every UK firm which is part of an overseas-headquartered group. Whether these entities are required to have any individuals approved as SMF 7 is assessed on a case-by-case basis. In the first instance, it is up to firms to decide whether they are required to consider whether there may be any individuals in their parent or group companies, in the United Kingdom or overseas, who may be performing an SMF 7 on behalf of a firm. Nevertheless, the PRA may also identify that an individual is performing a role within scope of the SMF7. Where the PRA does so, firms should apply for their approval without delay. In doing so, When assessing whether someone is performing a role in scope of the SMF7, firms they should take into account:

- the respective organisational structures of the group and the firm;
- the split of key responsibilities between the group and UK boards and senior management; and
- whether SMFs based in the United Kingdom have an appropriate level of delegated authority from the group or parent to ensure that the UK entities comply with local regulatory obligations.

SMF7s at UK-headquartered firms

2.13A The SMF7 is applicable to UK-headquartered insurance firms. Individuals who exercise significant influence over the day-to-day management or conduct of one or more aspects of a firm's affairs in relation to its regulated activities are also in-scope of the SMF7 where:

- they are employed by a holding company, parent, or an entity within a UK-headquartered firm's group; or
- are controllers of a firm; or
- are representatives of those controllers.

2.13B The PRA does not expect every controller of a PRA firm (or their representatives) to be identified as an SMF7. Instead, the PRA expects that individuals would be in-scope only where they have (or plan to have in the case of change in control applications or new authorisation applications) a continued and sustained involvement in, or exercise continued influence over the day-to-day management and conduct of business of a firm in relation to its regulated activities. Firms are required to consider whether there are individuals performing an SMF7 in these circumstances.

2.13C This reflects the intention of SMR to ensure appropriate accountability for those individuals who are able to take or impose decisions on the management or conduct of business at a firm such that it has the potential to affect its safety and soundness. This may be through their position as a member of the firm's board although this would not in and of itself be the sole determining factor. The PRA would not, for example, expect an individual to be an SMF7 where their involvement in the firm is restricted to operating as a non-executive director in line with the PRA's requirements and expectations for boards and non-executive directors. On the other hand, a controller (or their representatives) may exercise significant influence over a firm's management and conduct of business without being a member of the firm's board and still be in scope of the SMF7.

2.13D Table B sets out non-exhaustive examples of individuals likely to be identified or not as having significant influence for the purpose of being an SMF7 in relation to UK-headquartered firms.

Table B

Individuals likely to be identified as having significant influence for the purpose of being an SMF7 in relation to UK-headquartered firms.

- When the group holding company is not PRA-
authorised:
 - Group directors and executives on the board or
the committees of a PRA-
authorised entity.
 - Group executives operating as senior executives at
a PRA-
authorised entity.
 - Individuals who have a group role with key
influence over the PRA-
authorised entity.
- A controller of a PRA-
authorised entity (or their
representative) who has material influence over
strategic matters and engages in day-to-day
management of the business, for example directing
the decisions of the entity's senior executives.
- Directors of the holding company that owns a PRA-
authorised entity who have material influence over
strategic matters and engage in day-to-day
management of the business, for example directing
the decisions of the PRA-
authorised entity's senior
executives.

Individuals less likely to be identified as having significant influence for the purpose of being an SMF7 in relation to UK-headquartered firms.

- Group executives who only occasionally attend the
PRA-
authorised entity's board or board committees
and have limited direct influence over the business,
operations, or governance of the PRA-
authorised
entity.
- Group executives who report into a more senior
business line head who has ultimate responsibility
for the performance of the PRA-
authorised entity.
- Group executives who have influence and
responsibility for a business line in the regulated
entity which forms a small proportion of the UK's
operations.
- Group directors or executives where the PRA
regulated entity forms a small part of the overall
group business and ultimate decision making still
rests with the PRA-
authorised entity's CEO (SMF1),
or SMF25 (Small Insurer Senior Manager), or SMF26
(Head of Small Run-Off firm).
- A controller of a PRA-
authorised entity (or their
representative) who attends board meetings as a
non-executive director and their involvement in
decision making at the firm is limited to their role
as a board member/investor director.

Statements of Responsibilities and Management Responsibilities Maps

Purpose of Statements of Responsibilities and Management Responsibilities Maps

...

2.62 SoRs and MRMs can help identify the Senior Manager or key function holder responsible for an area if things go wrong. ~~However, as stated in the PRA approach documents “the PRA’s preference is to use its statutory powers to secure ex ante, remedial action”.~~¹⁴

...

2.69 Firms are free to assign to a Senior Manager or key function holder, and include in their SoR, additional responsibilities not covered in the PRA’s rules. Additional responsibilities must not, however, modify or qualify any responsibilities prescribed by the PRA. The PRA recognises that there are instances whereby the SMF is also responsible for the identified key function(s). In these instances, the firm is only required to submit the relevant SMF application form and accompanying material. There would not be an expectation that a Form M notification in addition to a SMF application, be required. Responsibility allocation should be achieved solely through the Overall Responsibilities section of the SoR.

...

2.73A Firms can consult the set of responsibilities set out in the PRA’s published inventory of senior manager responsibilities to assist in the allocation of responsibilities to the relevant Senior Manager / appropriate SMF holders.¹⁴

...

Consistency

...

2.85 Likewise, the PRA expects the SoRs of NEDs in scope of the SMR to be less extensive than those of executive Senior Managers. Nonetheless, it is important that the SoRs of NEDs in scope of the SMR provide at least some detail. Merely stating that an SMF10-13 is responsible for chairing a given board committee in accordance with its terms of reference is unlikely to ~~be provide an~~ appropriate level of detail in many cases. The SoRs of non-executive SMFs should go into a somewhat greater level of detail and break down the chairing chairmanship of these key committees into more granular key tasks (without allocating executive or quasi-executive responsibilities to the relevant NEDs). Examples of additional detail which firms would be expected to include, if applicable, in the SoRs of NEDs in scope of the SMR may include but are not limited to:

- the SID’s (SMF14) responsibility for leading the board (and/or Nominations Committee) in implementing an orderly succession plan for the Chair of the governing body; and
- the Chair of the Remuneration Committee’s responsibility for ensuring that the Committee discusses and approves buy-outs of variable remuneration (for new hires) and termination

¹⁴ — ‘The Prudential Regulation Authority’s approach to insurance supervision’ (paragraph 106), available at: www.bankofengland.co.uk/prudential-regulation/publication/2016/pru-approach-documents-2016.

¹⁴ — [Strengthening accountability | Bank of England](#)

packages (for outgoing employees) in specific, pre-determined circumstances, such as when they exceed a certain amount.

Updating a Statement of Responsibilities

2.86 Section 62A of FSMA requires firms to submit a revised Statement of Responsibilities whenever there is a significant change in the aspects of the authorised person's affairs which the person is responsible for managing in performing the function. FSMA does not specify a deadline for submitting a SoR to the regulators. The PRA, however, expects that a SoR should be submitted no later than six months following a significant change in responsibilities, unless the firm has been notified of the need for earlier submission by its supervisor or earlier submission is required in order to comply with Fundamental Rule 7 (eg a significant and wide reallocation of responsibilities across the firm's Senior Managers). Although the firm has six months to submit the SoR, where there are changes, the allocation of responsibilities should be updated as soon as practicable, and this should be documented internally.

Management Responsibilities Maps (MRMs)

...

2.91 There is no template for MRMs and it is up to firms to develop and maintain an MRM that is appropriate for and accurately reflects the structure, size and complexity of the firm including, where applicable, group governance arrangements. The PRA expects firms to submit an MRM no later than six months following a significant change in the set of responsibilities, unless the firm has been notified of the need for earlier submission by its supervisor or earlier submission is required in order to comply with Fundamental Rule 7 (eg a broad and significant restructuring of management responsibilities within the firm). Although the firm has six months to submit the MRM, where there are changes, the firm should submit the MRM as soon as practicable, and this should be documented internally.

...

Operation of the 12-week rule

2.93A The 12-week rule applies where a firm experiences an SMF vacancy that is (a) temporary or (b) reasonably unforeseen. As such, the PRA does not expect firms to use it frequently, and firms are expected to have in place, and operate effective and up-to-date succession plans for each of its SMFs. The PRA also expects firms to operate notice periods effectively to identify candidates to fill the place of the departing SMF holder and apply for approval for the permanent SMF replacement as soon as reasonably possible. The PRA will monitor firms' use of the 12-week rule, and if it considers the rule is being used excessively, this will be raised in its engagement with firms on their governance and succession planning arrangements.

2.93B Table C sets out non-exhaustive examples of instances whereby the 12-week rule may be or may not be used for temporary SMF cover.

Table C

Instances whereby the 12-week rule may be used for temporary SMF cover

An individual gives one month's notice that they want to take parental leave and the parental leave does not last more than three months. The firm can use the

Instances whereby the 12-week rule may not be used for temporary SMF cover

An individual has a contract of employment under which there is three months' notice of termination on either side. The individual and the firm agree a

rule and the absence is treated as reasonably unforeseen.

In a general sense a firm will know that many members of staff are at some time likely to ask for parental leave. That does not mean though that a firm foresees a request for such leave before it is made.

However, a firm should try to avoid the need to use or minimise use of the rule. A firm should have systems in place to deal with parental leave that will enable it to identify a replacement to fill in for the individual during their absence.

retirement plan a year before the individual leaves, including the retirement date. The individual, in accordance with the retirement plan, gives three months' notice and leaves when the notice expires. The firm rely on the rule as the departure was reasonably foreseeable.

As the absence is not temporary, the firm cannot rely on the temporary absence part of the rule either.

An individual gives one year's notice in accordance with their contract of employment. However immediately after the individual gives the notice, they stop performing their designated senior management function, and instead stay on as a consultant to help with the handover. The individual leaves the firm altogether when the notice expires.

For the purposes of the rule, the individual's absence begins when they stop performing the designated senior management function. The firm can use the rule and the absence is treated as reasonably unforeseen.

An individual has a contract of employment for a fixed term of two years. There is no understanding that the individual will stay on after that. The individual leaves immediately after the end of that two-year period.

The firm cannot rely on the rule. Right from the start of the individual's employment it was reasonably foreseeable that they would leave at the expiry of their contract. The answer would be the same even if the fixed term was for a shorter period, such as six or nine months. As the absence is not temporary, the firm cannot rely on the temporary absence part of the rule either.

An individual becomes sick and must take sick leave and/or chooses to resign immediately after. The firm may use the rule and the absence is treated as reasonably unforeseen.

If the individual becomes ill a long time before they do resign, the firm may still be able to use the rule. For example, the firm and individual may believe that the individual will be able to carry on working, and so a temporary arrangement may be appropriate.

The firm may use the rule even if it does not initially know whether the individual will be able to return or how long the individual will be away.

An individual gives the firm five months' notice that they are going to resign.

The firm cannot rely on the rule as the absence is not unforeseen. The firm should not wait until the individual leaves to make an application for a permanent replacement. Where the absence of the SMF is permanent, should the firm decide to initiate a longer recruitment process for a permanent replacement, they would need to apply for a suitable interim candidate until a permanent candidate is found.

An individual leaves the firm, and the firm appoints someone to fill in for the individual until a permanent replacement is approved.

The firm makes an application to the PRA five weeks after the temporary SMF holder was appointed. However, the firm withdraws the application for

approval of the candidate two weeks later, and following another fortnight (nine weeks following the appointment of the 'temporary' SMF holder), the firm makes an application for the approval of someone else.

The PRA grants its approval six weeks later, meaning that a temporary SMF holder was performing the function for greater than 12 weeks prior to receiving an outcome on their application.

The firm can use the rule. However, it is worth noting that the firm would not be able to use the extended period if the second 'permanent' application was made more than 12 weeks after the temporary SMF holder is appointed.

...

The Duty of Responsibility under the SMR

...

Statutory framework

...

2.98 The PRA may take disciplinary action under section 66 of FSMA where it appears to the PRA that the person is guilty of misconduct and the PRA is satisfied that it is appropriate in all the circumstances to take action against them.¹⁴

...

2A The PRA's Certification Regime ~~Senior Managers Regime (SMR)~~

...

Associated requirements in FSMA

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2A.12 Section 63E of FSMA in particular requires firms to ensure that no employee performs a certification function unless they have a valid certificate issued under section 63F. Section 63F requires a firm to issue a certificate to someone only if the firm is satisfied that they are fit and proper; and that the certificate must:

(a) state that the authorised person is satisfied that the person is a fit and proper person to perform the function to which the certificate relates; and

¹⁴ See The Bank's approach to enforcement: statutory statements of policy and procedure <https://www.bankofengland.co.uk/prudential-regulation/publication/2024/january/the-bank-of-england-approach-to-enforcement-statements-of-policy-and-procedure>

(b) set out the aspects of the affairs of the authorised person in which the person will be involved in performing the function.

2A.13 Section 63F of FSMA does not, however, prescribe the format that a certificate must take. The PRA also does not prescribe the format of a certificate or how a firm chooses to issue a certificate to a certified employee. Firms may instead choose to produce and issue a certificate in a way that is consistent with its internal systems and processes as long as the information in section 63F(4)(a) and (b) is recorded.

2A.14 Section 63F(5) of FSMA states that a certificate is valid for a period of 12 months beginning with the day on which it is issued. The PRA acknowledges that as a consequence firms will be required to assess the fitness and propriety of certain certified employees at least every 12 months in order for them to continue having a valid certification to perform their function. The PRA acknowledges that some firms may have a high number of employees that must be assessed. The PRA therefore notes that it does not prescribe the process of how a firm conducts this process or the timing each year that they do it. Firms may instead undertake and complete the fitness and propriety assessments of their certified employees consistent with their own internal systems, policies, and processes.

3 Application of Conduct Standards and associated notification requirements

...

Persons and activities to which the PRA Conduct Standards apply

3.2B Where an employee is performing a function that would have been an SMF but for the rule¹⁹ which provides a 12-week grace period to cover absences which are temporary or reasonably unforeseen (the '12-week rule'), the effect of Conduct Standards ~~the PRA rules~~²⁰ is to apply the Individual Conduct Standards ~~(but not~~ and the Senior Manager Conduct Standards directly to that employee. This means that the employee is ~~not~~ held to the same standards as a permanent Senior Manager.

...

Individual Conduct Standards²²

Individual Conduct Standards 2: '*You must act with due skill, care and diligence.*'

...

3.11 A person who is effectively running a firm or is responsible for another key function is a key function holder. A key function holder may, but will not necessarily, perform a CF that is a PRA SMF or an FCA CF. Should this be the case, as explained under section 2.69, the SMF position will mean that the responsibilities of the key function holder, and/or CF is included in the SMF's SoR. The PRA expects a key function holder to understand the business for which they are responsible. Key function holders are unlikely to be experts in all aspects of a complex financial services business. However,

¹⁹ Insurance - Senior Management Functions 2.4 and Large Non-Solvency II Firms – Senior Management Functions 2.4.

²⁰ Insurance - Conduct Standards 1.1(6)(f) and 2.1B, and Large Non-Solvency II Firms – Conduct Standards 1.1(36)(f) and 2.1B.

²² Individual Conduct Standard 1 is: 'You must act with integrity'. The PRA does not expect to have to describe what is meant by acting with integrity.

the PRA expects that they should understand and inform themselves about the business sufficiently to understand the key risks relating to a firm's insurance, investment or other business activities.

...

Application of the Conduct Standards to NEDs in scope of the SMR and Notified NEDs

3.29 NEDs who are subject to pre-approval by the PRA or the FCA, are directly subject to all the Conduct Standards, including those applicable only to Senior Managers. Conduct Rules NEDs are directly subject to Individual Conduct Standards 1-3 and Senior Manager Conduct Standards 4-5. ~~As was the case under the APR, breaches of the Conduct Standards by NEDs in an SMF, or by Conduct Rules NEDs, are directly enforceable by the PRA using its powers under FSMA.~~

...

3.33 The requirements to 'be open and co-operative with the FCA, the PRA and other regulators' (Individual - Conduct Standard 3) and 'disclose appropriately any information of which the FCA or PRA would reasonably expect notice' (Senior Manager Conduct Standard 4) are particularly important for NEDs. ~~As the PRA Approach Document states, if any director has 'concerns about the firm or its management and governance, the PRA will expect them to press for action to remedy the matter and, if those concerns are not addressed, to alert the PRA.'~~²⁵

...

Assessing fitness and propriety

4.2 In assessing whether an individual is fit and proper to be effectively running a firm or to be performing another key function or certification function, firms and groups should apply the rules in Insurance — Fitness and Propriety 2 and Large Non-Solvency II Firms – Fitness and Propriety 2- Solvency II firms and groups should also apply the Conditions Governing Business Part of the PRA Rulebook; and have regard to the EIOPA Guidelines on Systems of Governance.²⁶ The PRA will also take into account whether the individual has been approved in another jurisdiction or similar accountability regime; as well as taking into account of any previous experience of the SM&CR as an SMF holder in another regulated firm.

...

Criminal background checks

4.12 In order to meet the requirement in Insurance — Fitness and Propriety 2.4 and Large Non-Solvency II Firms – Fitness and Propriety 2.4 to make a criminal record check, the PRA expects a firm to get an application form from the Disclosure and Barring Service (DBS) or an umbrella body (a registered body that gives access to DBS checks) in England and Wales. There is an equivalent procedure in Scotland (involving Disclosure Scotland) and Northern Ireland (involving AccessNI). If the candidate is employed by a contractor, the PRA expects that the firm may ask the contractor to obtain the certificate. The PRA does not expect firms to send any DBS certificates or copies of such certificates to the PRA. For non-SMF holders, the PRA expects a firm to obtain a criminal records

²⁵ See paragraph 88 of the PRA's approach to insurance supervision', June 2014: www.bankofengland.co.uk/prudential-regulation/publication/2014/pru-approach-documents-2014.

²⁶ <https://www.bankofengland.co.uk/-/media/boe/files/paper/2021/interpretation-of-eu-guidelines-and-recommendations-boe-and-pra-approach-sop-november-2022.pdf>

check (with the consent of the candidate). The firm should request all necessary information in relation to the candidate as it is lawfully able to under the legislation. It is expected that any relevant detail which could impact a candidate's fitness and propriety, be disclosed in the submission form(s).

...

5 Regulatory references

...

All relevant information

...

5.41 The 'all relevant information' section may also include information on events that did not culminate in formal 'disciplinary action' as defined in the PRA Rulebook, or in a formal finding that the individual was not fit and proper. Where an internal investigation into misconduct relevant to the assessment of fitness and propriety was commenced but disciplinary procedures were not concluded because the individual left the firm, firms should consider whether to include details of this in the reference. Where a firm is considering the disclosure of information relating to investigations into misconduct where internal disciplinary procedures were not concluded, the firm should carefully consider the legal duties referred to below.

Draft for consultation

4: Draft amendments to supervisory statement 5/21 – International banks: The PRA’s approach to branch and subsidiary supervision

In this appendix, new text is underlined and deleted text is struck through.

4. Information, co-operation, and controls to be effectively supervised

...

Accountability of Senior Management Functions (SMFs)

4.19 A subsidiary Subsidiaries and branches should ensure that they have an appropriate number of SMFs according to ~~its~~ their size, complexity, and governance structure, in line with the principles outlined in SS28/15 – Strengthening individual accountability in banking.³⁷ This includes the identification of individuals who hold Group Entity Senior Manager Function (SMF 7) role. A description of the nature of the function and examples are included in SS28/15. Firms should particularly ensure that Management Responsibilities Maps and Statements of Responsibilities (SoR) are up to date and that responsibilities are allocated in accordance with the Allocation of Responsibilities Part of the PRA Rulebook and SS28/15.³⁸

4.20 Where applicable, the PRA expects firms to allocate the responsibility for overseeing the firm’s booking arrangements to an SMF, and record this appropriately in their Statement of Responsibilities. Where individuals in the parent or in group entities exercise significant influence over the management or conduct of one or more aspects of the firm’s UK regulated activities, it may be appropriate for them to be approved as a Group Entity Senior Manager (SMF7). ~~However, firms have applied for individuals performing a range of functions to be approved as SMF7. Examples include:~~

- ~~• group executives on the board of a UK subsidiary (including smaller firms where parent executives may sit on a UK subsidiary board as non-executives);~~
- ~~• global business line heads operating as senior executives at a UK branch or subsidiary; and~~

³⁷ July 2015: <https://www.bankofengland.co.uk/prudential-regulation/publication/2015/strengthening-individual-accountability-in-banking-ss>

³⁸ Statements of Responsibilities are those required by section 60 (2A) of FSMA. Available at: <https://www.legislation.gov.uk/ukpga/2000/8/section/60>

- individuals who combine a global or group role with key responsibilities in the UK (and with significant influence over the UK branch or subsidiary), such as global heads of technology, heads of internal audit, and global heads of operations.

4.21 However, while these examples may be helpful, ultimately whether an individual requires approval as a SMF7 is assessed by the PRA on a case-by-case basis.

Draft for consultation