

Simplification of the Certification Regime

In March 2016, the UK's Financial Conduct Authority [FCA] Certification Regime came into force. This aims to enhance the accountability of a significant number of individuals who are not part of the Senior Management Regime but:

- Are material risk takers – i.e. have the potential to cause significant harm to a firm; and/or
- Could cause harm to consumers; and/or
- Are in customer-facing roles which are subject to qualification requirements.

Additionally, the Senior Managers & Certification Regimes ("SMCR"), which currently applies to banks and PRA designated investment firms, will be extended to apply to all authorised firms, including insurers, investment firms, asset managers, insurance and mortgage brokers and consumer credit firms. The government anticipates that the SMCR will come into force for these other firms during 2018.



What does certification mean?

- Firms must annually certify that individuals are fit and proper to perform specified functions which could involve a risk of 'significant harm' to the bank or any of its customers.
- Such individuals will not be subject to regulatory approval; rather it is a firm's responsibility to ensure that they are certified as fit and proper to perform their functions. Companies will need to ensure that they have appropriate and easy-to-follow guidelines that set out objective standards for employees to meet.
- A stringent HR framework that requires HR to confirm that the proper certification processes have been implemented
- Adequate documentation for any decisions made.

A key point will be the increasing link up between the firm's HR processes (for example, the disciplinary, grievance, performance improvement and whistleblowing processes) and the identification of potential regulatory breaches of the new rules.

To be compliant firms need to have identified:

- all certified individuals by 7 March 2016
- assess them as fit and proper by 7 March 2017
- have procedures in place to re-assess the fitness and propriety of certified staff on an annual basis

Solution Summary

The Certification Regime Accelerator from Monad Solutions provides a prebuilt rule set based on the guidelines laid out by the FCA. The solution identifies job titles subject to certification and provides a guided interview which will help determine the certification requirements of eligible staff. This solution can integrate with current HR systems and form part of a new hire/promotion work flow or be used as a standalone reference tool which will be used as part of the new business process for becoming compliant with the Certification Regime.

Key Considerations

1. Implementation requires clarity on, and documentation of, complex relationships between executive management and its reporting lines, governance and risk management structures.
2. The regulator's jurisdiction will extend significantly to include a much larger proportion of a firm's employees – implications for recruitment, training, appraisal and disciplinary processes.
3. The risks of getting this wrong are serious – implementation is likely to be among the first questions asked in any investigation.
4. As such, managing implementation is a complex and sensitive task, taking into account detailed rule requirements meshed with the organisation and culture of the firm.

Identify Certifiable Jobs

Each job role and title will need to be evaluated to determine whether the employee performing it requires certification. Certification Regime Accelerator provides a prebuilt, customizable and extendable set of rules which will be used to evaluate each job for potential indicators that it is a certifiable position. It will also determine which certification checks are required to be performed, including criminal check, Material Risk Takers Certification or CASS Oversight Qualifications.

Identify Employee Certification

Each new hire or person changing job roles to a position that requires certification will require a guided process to determine their certification status. This should include credit checks, criminal record checks, propriety trader certificates, etc. Certification Regime Accelerator integrates with leading identity data intelligence platforms for Identity Verification and People Screening to support the Certification of Employees.

The screenshot displays two main panels. The left panel, titled 'Identify Employee Certification Detail', shows a list of certification requirements with status indicators (e.g., 'General Certification is obtained', 'Benchmark SA is missed', 'CASS Oversight is missed', 'Functions Requiring is missed', 'General Certification is missed', 'Managers of Certification is missed', 'Material Risk Takers is missed', 'Proprietary Trader is missed', 'Significant Management is missed'). Below this are sections for 'Credit Check', 'CASS Oversight Qualifications', 'Benchmark Submission and Administration Qualification', and 'Proprietary Trader Certification'. The right panel, titled 'Identify Certifiable Job Detail', shows a table of job details for 'CJ400000037' (Employee: Dave Testing). The table lists various statements (e.g., 5.2.18R.1, 5.2.18R.2, 5.2.19R, 5.2.19R.1, 5.2.19R.2, 5.2.19R.3, 5.2.19R.4, 5.2.32R) and their corresponding certification requirements, with checkboxes for 'Check' and 'Answer'.

Statement	Description	Check	Answer
5.2.18R.1 statement	The job role is a controlled function in relation to the carrying on of its general regulated activity by the firm.	Check	✓
5.2.18R.2 statement	The job role requires the person performing it to be involved in one or more aspects of the firm's affairs as related to its general regulated activity.	Check	✓
5.2.19R			
5.2.19R.1 statement	The job role is performed by a person from an establishment of the firm in the United Kingdom.	Check	✓
5.2.19R.2 statement	The job role is performed by a person from an establishment of the firm's appointed representative in the United Kingdom.	Check	✓
5.2.19R.3 statement	The job role is performed by a person that deals with a client of the firm in the United Kingdom from an establishment of the firm overseas.	Check	✓
5.2.19R.4 statement	The job role is performed by a person that deals with a client of the firm in the United Kingdom from an establishment of the firm's appointed representative overseas.	Check	☐
5.2.32R			
5.2.32R.1 statement	The job role is in relation to a CASS medium firm.	Check	✓
5.2.32R.2 statement	The job role is in relation to a CASS large firm.	Check	✓
5.2.32R.3 statement	The job role involves the function of acting in the capacity of a person who is allocated the function in CASS 1A.3.1AR (oversight of operational effectiveness).	Check	✓

Summary

Most importantly though, employees must be central to the development of this regime. This is an opportunity for staff to invest in their own development and to see Certification as an endorsement that they meet – and are willing and able to maintain – the highest standards of professionalism. For firms, it is an opportunity to ensure that they have the right people in the right roles and with a renewed commitment to high standards of ethical behavior. Combined with the right solution this challenge becomes a way for business and their employees to ensure that risks are mitigated and the client's best interest always put first.

Monad Solutions will be delighted to discuss your detailed requirements. Please contact us for further information at info@monadsolutions.com.