

# Extended Scope SM&CR

Since 31 March 2021, the scope of SM&CR has been extended for solo-regulated firms to include conduct training and breach reporting for all employees.

There are three categories for solo-regulated firms under the SM&CR.

- **Limited scope:** these firms will be exempt from some baseline requirements and typically have fewer Senior Management Functions.
- **Core:** firms in this tier will have to comply with the baseline requirements.
- **Enhanced:** this will apply to a small number of firms whose size, complexity, and potential impact on consumers or markets warrant more attention. These firms will have extra requirements.

Businesses are responsible for determining which category they fall into based on the rules. It is important to make sure that the business is correctly categorised, as the category determines how the SM&CR applies to the business. All firms need to take real ownership of SM&CR and embed individual accountability into their culture.

A freedom of information (FOI) request by Sicsic Advisory to the Financial Conduct Authority (FCA) detailed that only 15 conduct rule breaches were reported to the FCA by insurance brokers or intermediaries last year. Ten of those reported breaches were against integrity, followed by skill, care, and diligence.

## Culture and Conduct

The regulator is increasingly concerned with improving culture and conduct at all levels within financial services and this includes having a robust HR framework in place, which promotes healthy organisational cultures.

A firm's Employee Handbook should clarify the rules and regulations by which all employees need to abide in the workplace. Businesses should review and update employment related policies and procedures to ensure they are consistent with SM&CR requirements and processes.

## Code of Ethics

It is important that a firm's ethics and code of business conduct policy details the ethical principles governing everyday behaviour and decisions made by the firm's employees.

## Training and Competence

T & C policies should ensure that tailored breach and reporting training is provided to all staff. Firms are guided to take all reasonable steps to ensure that individuals understand how the restrictions apply to them and their role. In practice, this will require training of staff which should include an assessment component.

## Consistency and Transparency

Based on the FCA data, there have been no appeals on the reported breaches to date.

The low number of reported breaches may cause the FCA to apply more enforcement. The regulator underlines their initial intent of making conduct rules the minimum behaviours standard across the industry was to improve culture and conduct at all levels. At the present time, if firms are not getting the application of SM&CR correct, they need to ensure they do so quickly now that the conduct rules cover nearly all staff.

It has never been more important to update your policies in this regard. The team at IHR S are here to help. We can offer a Health Audit of your firms' policies, procedures and employee handbook and make recommendations on risks and issues.

If you have any enquiries, please get in touch.

## Contact

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