

Chapter 7

Governance and risk management

7.2 Internal governance

7.2.1

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- (1) A MIFIDPRU investment firm must have robust governance arrangements, including:
 - (a) a clear organisational structure with well defined, transparent and consistent lines of responsibility;
 - (b) effective processes to identify, manage, monitor and report the risks the *firm* is or might be exposed to, or the *firm* poses or might pose to others; and
 - (c) adequate internal control mechanisms, including sound administration and accounting procedures.
- (2) The arrangements in (1) must:
 - (a) be appropriate and proportionate to the nature, scale and complexity of the risks inherent in the business model and the activities of the *firm*; and
 - (b) be compatible with the requirements in the *FCA Handbook* relating to risk management and internal governance, for example those in ■ MIFIDPRU 7 and SYSC, that apply to the *firm*.

7.2.2

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When establishing and maintaining the arrangements in ■ MIFIDPRU 7.2.1R(1), a *firm* should consider at least the following:

- (1) the requirements that apply to the *firm* under ■ MIFIDPRU 7 and ■ SYSC 19G (MIFIDPRU Remuneration Code);
- (2) the legal structure of the *firm*, including its ownership and funding structure;
- (3) whether the *firm* is part of a *group*;
- (4) the type of activities for which the *firm* is authorised, including the complexity and volume of those activities;
- (5) the business model and strategy of the *firm*, including its risk strategy, risk appetite and risk profile;
- (6) the types of client the *firm* has;
- (7) the outsourced functions and distribution channels of the *firm*; and
- (8) the *firm's* existing IT systems, including continuity systems.

Governance for risk management

7.2.3

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- (1) The *management body* of a *MIFIDPRU investment firm* has overall responsibility for risk management. It must devote sufficient time to the consideration of risk.
- (2) The *management body* of a *MIFIDPRU investment firm* must be actively involved in, and ensure that adequate resources are allocated to, the management of all material risks, including the valuation of assets, the use of external ratings and internal models relating to those risks.
- (3) A *MIFIDPRU investment firm* must establish reporting lines to the *management body* that cover all material risks and risk management policies and changes thereof.

7.2.4

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- (1) A *MIFIDPRU investment firm* must ensure that the *management body* in its supervisory function and any risk committee that has been established have adequate access to information on the risk profile of the *firm* and, if necessary and appropriate, to the risk management function and to external expert advice.
- (2) The *management body* in its supervisory function and any risk committee that has been established must determine the nature, the amount, the format, and the frequency of the information on risk which they are to receive.