

## Chapter 2

# Recognition requirements

## 2.4A Management body

### 2.4A.1 UK Schedule to the Recognition Requirements Regulations, paragraph 2A

- (1) The composition of the management body of a [UK RIE] must reflect an adequately broad range of experience.
- (2) The *management body* must possess adequate collective knowledge, skills and experience in order to understand the [UK RIE's] activities and main risks.
- (3) Members of the management body must -
  - (a) commit sufficient time to perform their functions on the management body;
  - (b) act with honesty, integrity and independence of mind; and
  - (c) effectively -
    - (i) assess and challenge, where necessary, the decisions of the senior management; and
    - (ii) oversee and monitor decision making.
- (4) The management body must -
  - (a) define and oversee the implementation of governance arrangements that ensure the effective and prudent management of the [UK RIE] in a manner which promotes the integrity of the market, which at least must include the -
    - (i) the segregation of duties in the organisation; and
    - (ii) the prevention of conflicts of interest;
  - (b) monitor and periodically assess the effectiveness of the [UK RIE's] governance arrangements; and
  - (c) take appropriate steps to address any deficiencies found as a result of the monitoring under paragraph (b).
- (5) A [UK RIE] must -
  - (a) devote adequate human and financial resources to the induction and training of members of the management body;
  - (b) ensure that the management body has access to the information and documents it requires to oversee and monitor management decision-making; and
  - (c) notify the FCA of the identity of all the members of its management body.
- (6) A [UK RIE] and, if it has a nomination committee, its nomination committee must engage a broad set of qualities and competences when recruiting persons to the management body, and for that purpose have a policy promoting diversity on the management body.

(7) The number of directorships a member of the management body can hold at the same time must take into account individual circumstances and the nature, scale and complexity of the [UK RIE's] activities.

2.4A.2

UK

Schedule to the Recognition Requirements Regulations, paragraph 2B

- (1) If the [UK RIE] is significant the following requirements apply to the management body -
- (a) members of the management body must not at the same time hold positions exceeding more than one of the following combinations -
    - (i) one executive directorship with two non-executive directorships (or where so authorised by the FCA under regulation 44(1) [of the *MiFI Regulations*], three non-executive directorships); or
    - (ii) four non-executive directorships (or where so authorised by the FCA under regulation 44(1) [of the *MiFI Regulations*], five non-executive directorships); and
  - (b) the management body must have a nomination committee unless it is prevented by law from selecting and appointing its own members.
- (2) For the purposes of sub-paragraph (1)(a) -
- (a) any directorship in which the person represents the United Kingdom is not counted;
  - (b) executive or non-executive directorships -
    - (i) held within the same group, or
    - (ii) held within the same undertaking where the [UK RIE] holds a qualifying holding,
 shall be counted as a single directorship; and
  - (c) any directorship in an organisation which does not pursue predominantly commercial objectives is not counted.
- (3) The nomination committee referred to in sub-paragraph (1)(b) must -
- (a) be composed of members of the management body who do not perform an executive function in the [UK RIE];
  - (b) identify and recommend to the [UK RIE] persons to fill management body vacancies;
  - (c) at least annually assess the structure, size, composition and performance of the management body and make recommendations to the management body;
  - (d) at least annually assess the knowledge, skills and experience of individual members of the management body and of the management body collectively and report to the management body accordingly; and
  - (e) periodically review the policy of the management body for the selection and appointment of senior management and make recommendations to the management body; and
  - (f) be able to use any forms of resource it deems appropriate, including external advice.
- (4) In performing its functions under sub-paragraph (3), the nomination committee must take account of the need to ensure that the management body's decision making is not dominated by-

- (a) any one individual; or
  - (b) a small group of individuals, in a manner that is detrimental to the interests of the [UK RIE] as a whole.
- (5) In performing its function under sub-paragraph 3(b) the nomination committee must -
- (a) evaluate the balance of knowledge, skills, diversity and experience of the management body;
  - (b) prepare a description of the roles, capabilities and expected time commitment for any particular appointment;
  - (c) decide on a target for the representation of the underrepresented gender in the management body and prepare a policy on how to meet that target;
  - (d) engage a broad set of qualities and competences, and for that purpose have a policy promoting diversity on the management body.
- (6) In sub-paragraph (1), “significant” in relation to a [UK RIE] means significant in terms of the size and internal organisation of the [UK RIE] and the nature, scale and complexity of the [UK RIE’s] activities.
- (7) In sub-paragraph (2)(b)(ii)—
- “qualifying holding” means a direct or indirect holding in an investment firm which represents 10% or more of the capital or of the voting rights, as set out in Articles 9 and 10 of Directive 2004/109/EC, taking into account the conditions regarding aggregation thereof laid down in Article 12(4) and (5) of that Directive, or which makes it possible to exercise a significant influence over the management of the investment firm in which that holding subsists;
- “Directive 2004/109/EC” means Directive 2004/109/EC of the European Parliament and of the Council on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.

2.4A.3

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The FCA will assess an application under section 299AB of the Act for a *person* on a *management body* to hold an additional non-executive directorship on a case-by-case basis, having regard to the *person’s* ability to commit sufficient time to perform their functions on the *management body* and the complexity, nature and scale of operations of the *UK RIE*.