

**Senior management arrangements, Systems and Controls**

## Chapter 2

# Senior management arrangements

**2.1 Apportionment of Responsibilities**

- 2.1.1** **R** A *firm* must take reasonable care to maintain a clear and appropriate apportionment of significant responsibilities among its *directors* and *senior managers* in such a way that:
- (1) it is clear who has which of those responsibilities; and
  - (2) the business and affairs of the *firm* can be adequately monitored and controlled by the *directors*, relevant *senior managers* and *governing body* of the *firm*.
- 2.1.1A** **G** *Firms* should also consider the additional *guidance* on risk-centric governance arrangements for effective risk management contained in ■ SYSC 21.
- 2.1.2** **G** The role undertaken by a *non-executive director* will vary from one *firm* to another. For example, the role of a *non-executive director* in a *friendly society* may be more extensive than in other *firms*. Where a *non-executive director* is an *approved person*, for example where the *firm* is a *body corporate*, his responsibility and therefore liability will be limited by the role that he undertakes.
- 2.1.3** **R** A *firm* that is not a *Solvency II firm* or a *small non-directive insurer* must appropriately allocate to one or more individuals, in accordance with ■ SYSC 2.1.4 R, the functions of:
- (1) dealing with the apportionment of responsibilities under ■ SYSC 2.1.1 R; and
  - (2) overseeing the establishment and maintenance of systems and controls under ■ SYSC 3.1.1 R.
- 2.1.3A** **R** A *Solvency II firm* must appropriately allocate:
- (1) to one or more *approved persons* performing a *significant influence function*, the function of dealing with the apportionment of responsibilities under ■ SYSC 2.1.1R; and
  - (2) to one or more individuals, in accordance with ■ SYSC 2.1.4R, the function of overseeing the establishment and maintenance of systems and controls under ■ SYSC 3.1.1R.

- 2.1.3B** **G**
- (1) For *Solvency II firms*, it is the *governing body* that is ultimately responsible for compliance with regulatory requirements implementing or supplementing the *Solvency II Directive*. This does not preclude the *governing body* delegating to other *persons* within the *firm* the day-to-day tasks required for compliance, who then report to the *governing body*.
  - (2) ■ SYSC 1.1A.2G sets out the general principle that the *FCA* will apply provisions in *SYSC* to the extent of its powers and regulatory responsibilities. Where there is a direct overlap between *SYSC rules* and *guidance* and provisions implementing or supplementing the *Solvency II Directive*, either in *PRA rules* or the *Solvency II Regulation (EU) 2015/35* of 10 October 2014 (in particular articles 258 and 268), the *FCA* will take the *Solvency II Directive* derived requirements into account and interpret the *SYSC rules* and *guidance* in a way that avoids inconsistency.
  - (3) *Large non-directive insurers* are treated like and included within the Glossary definition of *Solvency II firms* for *SYSC* (and *APER*, *COCON*, ■ SUP 10A and *DEPP*). *Large non-directive insurers* should read references to the *PRA Rulebook* for ‘*Solvency II Firms*’ as if they were references to the corresponding *PRA Rulebook* provisions for *large non-directive insurers*.
  - (4) *Swiss general insurers* must read references in this chapter to the *PRA Rulebook* for ‘*Solvency II firms*’ as if they were references to the corresponding *PRA Rulebook* provisions for *large non-directive insurers*.

**2.1.3C** **R** A *small non-directive insurer* must appropriately allocate to one or more *approved persons* performing a *significant influence function*, the function of dealing with the apportionment of responsibilities under ■ SYSC 2.1.1R.

**2.1.3D** **G** The *PRA* includes *Swiss general insurers* in the *large non-directive insurers* sector of the *PRA Rulebook*.

**2.1.4** **R** **Allocation of functions**

This table belongs to ■ SYSC 2.1.3 R and ■ SYSC 2.1.3AR(2)

1: Firm type	2: (a) For a <i>firm</i> that is not a <i>Solvency II firm</i> : and that is not a <i>small non-directive insurer</i> : Allocation of both functions must be to the following individual, if any (see Note):  (b) for a <i>Solvency II firm</i> , allocation of the oversight function must be to the following individual, if any (see Note):	3: Allocation to one or more individuals selected from this column is compulsory if there is no allocation to an individual in column 2, but is otherwise optional and additional:
(1) A <i>firm</i> which is a <i>body corporate</i> and is	(1) the <i>firm's chief executive</i> (and all of	the <i>firm's</i> and its <i>group's</i> :

1: Firm type	2: (a) For a <i>firm</i> that is not a <i>Solvency II firm</i> and that is not a <i>small non-directive insurer</i> : Allocation of both functions must be to the following individual, if any (see Note):  (b) for a <i>Solvency II firm</i> , allocation of the oversight function must be to the following individual, if any (see Note):	3: Allocation to one or more individuals selected from this column is compulsory if there is no allocation to an individual in column 2, but is otherwise optional and additional:
a member of a <i>group</i> , other than a <i>firm</i> in row (2)	them jointly, if more than one); or  (2) a <i>director</i> or <i>senior manager</i> responsible for the overall management of:  (a) the <i>group</i> ; or (b) a <i>group</i> division within which some or all of the <i>firm's regulated activities</i> fall	(1) <i>directors</i> ; and (2) <i>senior managers</i>
(2) An <i>incoming EEA firm</i> or <i>incoming Treaty firm</i> (note: only the function in SYSC 2.1.3 R (2) or 2.1.3AR(2) must be allocated)	(not applicable)	the <i>firm's</i> and its <i>group's</i> : (1) <i>directors</i> ; and (2) <i>senior managers</i>
(3) Any other <i>firm</i>	the <i>firm's chief executive</i> (and all of them jointly, if more than one)	the <i>firm's</i> and its <i>group's</i> : (1) <i>directors</i> ; and (2) <i>senior manager's</i>

**Note:** Column 2 does not require the involvement of the *chief executive* or other executive *director* or *senior manager* in an aspect of corporate governance if that would be contrary to generally accepted principles of good corporate governance.

**2.1.5** G ■ SYSC 2.1.3 R, ■ SYSC 2.1.3AR and ■ SYSC 2.1.4 R give a *firm* some flexibility in the individuals to whom the functions may be allocated. In a *firm* that is not a *Solvency II firm* and is not a *small non-directive insurer*, it will be common for both the functions to be allocated solely to the *firm's chief executive*.  
 ■ SYSC 2.1.6 G contains further guidance on the requirements of ■ SYSC 2.1.3 R, ■ SYSC 2.1.3AR(2) and ■ SYSC 2.1.4R in a question and answer form.

**2.1.6** G Frequently asked questions about allocation of functions in ■ SYSC 2.1.3R and ■ SYSC 2.1.3AR(2).

This table belongs to ■ SYSC 2.1.5 G

	Question	Answer
1	Does an individual to whom a function is allocated under SYSC 2.1.3 R and SYSC 2.1.3AR(2) need to be an <i>approved person</i> ?	<p>An individual to whom a function is allocated under SYSC 2.1.3 R will be performing the <i>apportionment and oversight function</i> (CF 8, see SUP 10A.7.1 R) and an application must be made under section 59 of the <i>Act</i> for approval of the individual before the function is performed. There are exceptions from this in SUP 10A.1 (Approved persons - Application).</p> <p>An individual to whom a function is allocated under SYSC 2.1.3AR(2) will not be performing the <i>apportionment and oversight function</i>, as that function is disapplied for <i>Solvency II firms</i>. But that person will be performing a <i>PRA controlled function</i> by virtue of the allocation to a CEO, or equivalent, under SYSC 2.1.4R.</p>
2	If the allocation is to more than one individual, can they perform the functions, or aspects of the functions, separately?	If the functions are allocated to joint <i>chief executives</i> under SYSC 2.1.4 R, column 2, they are expected to act jointly. If the functions are allocated to an individual under SYSC 2.1.4 R, column 2, in addition to individuals under SYSC 2.1.4 R, column 3, the former may normally be expected to perform a leading role in relation to the functions that reflects his position. Otherwise, yes.
3	What is meant by "appropriately allocate" in this context?	The allocation of functions should be compatible with delivering compliance with <i>Principle 3</i> , SYSC 2.1.1 R and SYSC 3.1.1 R. The <i>appropriate regulator</i> considers that allocation to one or two individuals is likely to be appropriate for most <i>firms</i> .
4	If a committee of management governs a <i>firm</i> or <i>group</i> , can the functions be allocated to every member of that committee?	Yes, as long as the allocation remains appropriate (see Question 3). If the <i>firm</i> also has an individual as <i>chief executive</i> , then the functions must be allocated to that individual as well under SYSC 2.1.4 R, column 2 (see Question 7).
5	Does the definition of <i>chief executive</i> include the possessor of equivalent responsibilities with another title, such as a managing <i>director</i> or managing <i>partner</i> ?	Yes.
6	Is it possible for a <i>firm</i> to have more than one individual as its <i>chief executive</i> ?	Although unusual, some <i>firm</i> may wish the responsibility of a <i>chief executive</i> to be held jointly by more than one individual. In that case, each of them will be a <i>chief executive</i> and the functions must

	Question	Answer
		be allocated to all of them under SYSC 2.1.4 R, column 2 (see also Questions 2 and 7).
7	If a <i>firm</i> has an individual as <i>chief executive</i> , must the functions be allocated to that individual?	<p>Normally, yes, under SYSC 2.1.4 R, column 2.</p> <p>But if the <i>firm</i> is a <i>body corporate</i> and a member of a <i>group</i>, the functions may, instead of to the <i>firm's chief executive</i>, be allocated to a <i>director</i> or <i>senior manager</i> from the <i>group</i> responsible for the overall management of the <i>group</i> or of a relevant <i>group</i> division, so long as this is appropriate (see Question 3). Such individuals may nevertheless require approval under section 59 (see Question 1).</p> <p>If the <i>firm</i> chooses to allocate the functions to a <i>director</i> or <i>senior manager</i> responsible for the overall management of a relevant <i>group</i> division, the <i>appropriate regulator</i> would expect that individual to be of a seniority equivalent to or greater than a <i>chief executive</i> of the <i>firm</i> for the allocation to be appropriate.</p> <p>See also Question 14.</p>
8	If a <i>firm</i> has a <i>chief executive</i> , can the functions be allocated to other individuals in addition to the <i>chief executive</i> ?	Yes. SYSC 2.1.4 R, column 3, permits a <i>firm</i> to allocate the functions, additionally, to the <i>firm's</i> (or where applicable the <i>group's</i> ) <i>directors</i> and <i>senior managers</i> as long as this is appropriate (see Question 3).
9	What if a <i>firm</i> does not have a <i>chief executive</i> ?	<p>Normally, the functions must be allocated to one or more individuals selected from the <i>firm's</i> (or where applicable the <i>group's</i>) <i>directors</i> and <i>senior managers</i> under SYSC 2.1.4 R, column 3.</p> <p>But if the <i>firm</i>:</p> <p>(1) is a <i>body corporate</i> and a member of a <i>group</i>; and</p> <p>(2) the <i>group</i> has a <i>director</i> or <i>senior manager</i> responsible for the overall management of the <i>group</i> or of a relevant <i>group</i> division;</p> <p>then the functions must be allocated to that individual (together, optionally, with individuals from column 3 if appropriate) under SYSC 2.1.4 R, column 2.</p>

	Question	Answer
10	What do you mean by "group division within which some or all of the firm's regulated activities fall"?	<p>A "division" in this context should be interpreted by reference to geographical operations, product lines or any other method by which the <i>group's</i> business is divided.</p> <p>If the <i>firm's regulated activities</i> fall within more than one division and the <i>firm</i> does not wish to allocate the functions to its <i>chief executive</i>, the allocation must, under SYSC 2.1.4 R, be to:</p> <p>(1) a <i>director</i> or <i>senior manager</i> responsible for the overall management of the <i>group</i>; or</p> <p>(2) a <i>director</i> or <i>senior manager</i> responsible for the overall management of one of those divisions;</p> <p>together, optionally, with individuals from column 3 if appropriate. (See also Questions 7 and 9.)</p>
11	How does the requirement to allocate the functions in SYSC 2.1.3R or SYSC 2.1.3AR(2) apply to an <i>overseas firm</i> which is not an <i>incoming EEA firm</i> , <i>incoming Treaty firm</i> or <i>UCITS qualifier</i> ?	<p>The <i>firm</i> must appropriately allocate those functions to one or more individuals, in accordance with SYSC 2.1.4 R, but:</p> <p>(1) The responsibilities that must be apportioned and the systems and controls that must be overseen are those relating to activities carried on from a <i>UK</i> establishment with certain exceptions (see SYSC 1 Annex 1.1.7 R). Note that SYSC 1 Annex 1.1.10 R does not extend the territorial scope of SYSC 2 for an <i>overseas firm</i>.</p> <p>(2) The <i>chief executive</i> of an <i>overseas firm</i> is the <i>person</i> responsible for the conduct of the <i>firm's</i> business within the <i>United Kingdom</i> (see the definition of "<i>chief executive</i>"). This might, for example, be the manager of the <i>firm's UK</i> establishment, or it might be the <i>chief executive</i> of the <i>firm</i> as a whole, if he has that responsibility.</p> <p>The <i>apportionment and oversight function</i> applies to such a <i>firm</i>, unless it is a <i>Solvency II firm</i> or a <i>small non-directive insurer</i>, or falls within a particular exception from the <i>approved persons</i> regime (see Question 1).</p>
12	How does the requirement to allocate the functions in SYSC 2.1.3R or SYSC 2.1.3AR(2) apply to an <i>incoming EEA</i>	<p>SYSC 1 Annex 1.1.1R and SYSC 1 Annex 1.1.8 R restrict the application of SYSC 2.1.3 R for such a <i>firm</i>. Accordingly:</p>

	Question	Answer
	<i>firm or incoming Treaty firm?</i>	<p>(1) Such a <i>firm</i> is not required to allocate the function of dealing with apportionment in SYSC 2.1.3 R (1).</p> <p>(2) Such a <i>firm</i> is required to allocate the function of oversight in SYSC 2.1.3 R (2). However, the systems and controls that must be overseen are those relating to matters which the <i>appropriate regulator</i>, as <i>Host State regulator</i>, is entitled to regulate (there is <i>guidance</i> on this in SUP 13A Annex 2 G). Those are primarily, but not exclusively, the systems and controls relating to the conduct of the <i>firm's</i> activities carried on from its <i>UK branch</i>.</p> <p>(3) Such a <i>firm</i> need not allocate the function of oversight to its <i>chief executive</i>; it must allocate it to one or more <i>directors</i> and <i>senior managers</i> of the <i>firm</i> or the <i>firm's group</i> under SYSC 2.1.4 R, row (2).</p> <p>(4) An <i>incoming EEA firm</i> which has provision only for <i>cross border services</i> is not required to allocate either function if it does not carry on <i>regulated activities</i> in the <i>United Kingdom</i>; for example if they fall within the overseas persons exclusions in article 72 of the <i>Regulated Activities Order</i>.</p> <p>See also Questions 1 and 15.</p>
13	What about a <i>firm</i> that is a <i>partnership</i> or a <i>limited liability partnership</i> ?	The <i>appropriate regulator</i> envisages that most if not all <i>partners</i> or members will be either <i>directors</i> or <i>senior managers</i> , but this will depend on the constitution of the <i>partnership</i> (particularly in the case of a <i>limited partnership</i> ) or <i>limited liability partnership</i> . A <i>partnership</i> or <i>limited liability partnership</i> may also have a <i>chief executive</i> (see Question 5). A <i>limited liability partnership</i> is a <i>body corporate</i> and, if a member of a <i>group</i> , will fall within SYSC 2.1.4 R, row (1) or (2).
14	What if generally accepted principles of good corporate governance recommend that the <i>chief executive</i> should not be involved in an aspect of corporate governance?	The Note to SYSC 2.1.4 R provides that the <i>chief executive</i> or other executive director or <i>senior manager</i> need not be involved in such circumstances. For example, the <i>UK Corporate Governance Code</i> recommends that the board of a listed company should establish an



	Question	Answer
		audit committee of independent, non-executive directors to be responsible (among other things) for overseeing the effectiveness of the audit process and the objectivity and independence of the external auditor. That aspect of the oversight function may therefore be allocated to the members of such a committee without involving the <i>chief executive</i> . Such individuals may require approval under section 59 in relation to that function (see Question 1).
15	What about <i>electronic commerce activities</i> carried on from an <i>establishment</i> in another <i>EEA State</i> with or for a <i>person</i> in the <i>United Kingdom</i> ?	SYSC does not apply to an <i>incoming ECA provider</i> acting as such.

## 2.2 Recording the apportionment

- 2.2.1** **R** (1) A *firm* must make a record of the arrangements it has made to satisfy **SYSC 2.1.1 R** (apportionment) and **SYSC 2.1.3 R** (allocation) and take reasonable care to keep this up to date.
- (2) This record must be retained for six years from the date on which it was superseded by a more up-to-date record.
- 2.2.1A** **R** **SYSC 2.2.1R** does not apply to a *firm* to whom *PRA Rulebook: Solvency II firms: Insurance – Allocation of Responsibilities, 5.1 and 5.2* or *PRA Rulebook: Large Non-Solvency II firms – Allocation of Responsibilities, 5.1 and 5.2*, applies nor to a *large non-directive insurer*.
- 2.2.2** **G** (1) A *firm* will be able to comply with **SYSC 2.2.1 R** by means of records which it keeps for its own purposes provided these records satisfy the requirements of **SYSC 2.2.1 R** and provided the *firm* takes reasonable care to keep them up to date. Appropriate records might, for this purpose, include organisational charts and diagrams, project management *documents*, job descriptions, committee constitutions and terms of reference provided they show a clear description of the *firm's* major functions.
- (2) *Firms* should record any material change to the arrangements described in **SYSC 2.2.1 R** as soon as reasonably practicable after that change has been made.
- 2.2.3** **G** Where responsibilities have been allocated to more than one individual, the *firm's* record should show clearly how those responsibilities are shared or divided between the individuals concerned.
- 2.2.4** **R** A *Solvency II firm* (including a *large non-directive insurer*) must have, and maintain, a governance map which satisfies the following conditions:
- (a) it complies, as applicable, with *PRA Rulebook: Solvency II firms: Insurance – Allocation of Responsibilities, 5.1 and 5.2*, or *PRA Rulebook: Large Non-Solvency II firms – Allocation of Responsibilities, 5.1 and 5.2*, as if those rules had been made by the *FCA*;
- (b) it includes details relating to all *persons* carrying out a *significant influence function* within the *firm* not already included under (a);

- (c) the details in (b) must give as much information as required by, as applicable, the PRA Rulebook: Solvency II firms: Insurance – Allocation of Responsibilities, 5.1 or PRA Rulebook: Large Non-Solvency II firms – Allocation of Responsibilities, 5.1, as if those rules applied in relation to the *persons* in (b) and as if they had been made by the FCA;
  - (d) where the FCA requires responsibilities to be allocated to a *person* carrying out a *significant influence function*, the governance map must clearly show the *person* allocated responsibilities; and
  - (e) the details in (b) and (d) must be updated in the same way as required by, as applicable, PRA Rulebook: Solvency II firms: Insurance – Allocation of Responsibilities, 5.2, or PRA Rulebook: Large Non-Solvency II firms – Allocation of Responsibilities, 5.2, as if those rules applied in relation to the *persons* in (b) and as if they had been made by the FCA.
- (2) A Solvency II firm must keep an up-to-date record of the scope of responsibilities for each *approved person* performing a *significant influence function*.
  - (3) The scope of responsibilities record in (2), and each updated version, must:
    - (a) have the form and content, subject to amendments to keep it up to date, as required to be provided to the FCA or PRA on the application of an *approved person* to perform a *significant influence function*; and
    - (b) be signed by the *approved person* and also an appropriate representative of the *firm*.
  - (4) Where a *firm* amends its governance map to show changes in a *person's* responsibilities it must also ensure that:
    - (a) the *person* concerned is informed in writing of the changes; and
    - (b) the document recording the *person's* scope of responsibilities is amended to show the changes.
  - (5) Each version of the governance map and, separately, the document recording a *person's* scope of responsibilities must be retained for ten years, or six years for *large non-directive insurers*, from the date on which it was superseded by a more up-to-date record, and the *firm* must be in a position to provide it to the FCA on request.
  - (6) ■ SYSC 2.2.4R(1) only applies to *firms* to whom PRA Rulebook: Solvency II firms: Insurance – Allocation of Responsibilities, 5.1 and 5.2 or PRA Rulebook: Large Non-Solvency II firms – Allocation of Responsibilities, 5.1 and 5.2, applies.

**2.2.5**

**G** *Firms* are not expected to update a *person's* scope of responsibilities record in ■ SYSC 2.2.4R(2) more frequently than the governance map in ■ SYSC 2.2.4R(1).

2.2.6

**R**

A *small non-directive insurer* must keep an up-to-date record of the scope of responsibilities for each *approved person* performing a *significant influence function* and must:

- (1) retain each version of the record for six years from the date on which it was superseded by a more up-to-date record;
- (2) be in a position to provide any version of the record in (1) to the *FCA* on request;
- (3) ensure that the record in (1) and each updated version:
  - (a) has the form and content, subject to amendments to keep it up to date, as required, to be provided to the *FCA* or *PRA* on the application of an *approved person* to perform a *significant influence function*; and
  - (b) is signed by the *approved person* and also an appropriate representative of the *firm*.

2.2.7

**G**

A *firm* applying for a *person* to be approved to perform a *significant influence function* is required to submit with Form A (long and short form) a scope of responsibilities document (see ■ SUP 10A Annex 4D).