

## **What are the regulatory training and competency requirements for investment managers?**

Key points –

- There are currently no qualification requirements for those managing investments for institutional clients.
- Many firms choose however to follow the guidance in the FCA Handbook and have their employees undertake qualifications as a way of demonstrating competence.
- Individuals managing investments for retail clients do have a requirement to take an appropriate qualification.
- The IMC is the appropriate qualification offered by CFA UK. This covers various activities including ‘managing investments’
- Over 5000 sittings take place a year of IMC examinations. Approximately 25% of candidates take the qualification for regulatory reasons.
- Mifid II comes into force on 3 January 2018 and includes new training and competency requirements for those ‘giving information’ and/or ‘giving investment advice’. Many investment managers are expected to be categorised as ‘information givers’.

### **Introduction**

There are a several FCA sourcebooks covering different aspects of the training and competency requirements for those managing investments. We are also in a period of regulatory change. Mifid II will be introduced in January 2018 and all investment firms will transition to the Senior Managers & Certification Regime, also in 2018. This document seeks to summarise the key requirements with a particular focus on those seeking to work in managing investments.

The UK has two key regulators of investment firms, the PRA and the FCA. Whilst the PRA publishes a rulebook, this does not give much detail concerning the training and competency requirements. Instead this is largely covered in the Financial Conduct Authority (FCA) handbook.

The FCA handbook protects both consumers and the financial markets. It covers the day-to-day rules and guidance for regulated firms and their employees.

Most of the training and competency requirements for an individual working as an investment manager come from three areas of the FCA handbook.

- o The Senior Management Arrangements, Systems and Controls Sourcebook (SYSC) – which applies to all employees
- o The Training and Competence Sourcebook (TC) – which applies to those undertaking certain activities for retail clients (including managing investments)
- o The Fit and Proper Test for Approved Persons and specified significant harm functions (FIT) – which applies to those undertaking a control function/significant harm function (which normally would include those managing investments).

## Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

This sourcebook covers the high level training and competency requirements. In particular, section SYSC 5.1 covers the areas of 'Skills, Knowledge and Expertise'. There is only one FCA rule within this section. It is a very important one:

**SYSC 5.1.1 (Rule) – A firm must employ personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them.**

This high level requirement is known as the 'competent employee rule'. Whatever the job an employee is undertaking, firms have a duty to ensure that the individual is competent to discharge their duties.

Much else in SYSC on training and competence is FCA 'guidance' rather than 'rules'. Firms are not obligated to follow guidance. However doing so is more likely to demonstrate compliance with the rules.

Such guidance includes:

- SYSC 5.1.4A – which states that firms carrying on activities not subject to TC may nevertheless wish to take TC into account in complying with the competence requirements in SYSC.
- SYSC 5.1.5A – which states that where a firm requires employees who are not subject to a qualification requirement in TC to pass a relevant examination from the list of appropriate examinations, the regulator will take that into account when assessing whether the firm has ensured that the employee satisfies the knowledge component of the competent employee rule.

You will note there is little specific detail as to how skills, knowledge and expertise are achieved. This is up to the firms to determine.

## Training and Competency Sourcebook (TC)

**TC applies to firms which have employees carrying out certain activities for **retail clients**, customers or consumers.**

In practice, the types of activity to which TC applies are wide ranging. These include 'designated investment business' which broadly cover most core investment activities. It is important for us as it also includes the activity of managing investments <sup>(1)</sup>.

The FCA defines three types of client. In order of knowledge and understanding, these are (1) eligible counterparties, (2) professional clients and (3) retail clients. There are more training and competency requirements for individuals who work with retail clients <sup>(2)</sup>.

In practice, most individual investors will be retail clients. If you are managing investment for them, then the TC rules and requirement are likely to apply to you. Broadly these require that you are both assessed as being competent and maintain your competence.

For most retail activities, including the activity of ‘managing investments’, the assessment of competence includes a need to attain each module of an appropriate qualification <sup>(3)</sup>. The activity of ‘managing investments’ is just one examples of where an appropriate qualification must be completed.

It is possible for individuals to carry out investment management activities under supervision whilst going through the process of completing their appropriate examinations. An individual cannot however take longer than 48 months to complete this process. If the exam is not passed by this time, the firm must ensure the individual ceases to act in the role [of investment manager] and doesn’t resume the activity without first passing the exam.

#### The IMC examination

If you take and pass **both units of the IMC** qualification, this is an appropriate qualification for the activity of ‘managing investments’.

Ultimately, it is for the firm to decide whether their employee is competent. The T&C sourcebook says that *‘firms should ensure that employees are appropriately supervised at all times’*. The level of such supervision should take account of the employee’s relevant experience and should be significantly higher during the *‘period before the firm has assessed the employee as competent’*.

Your firm must also ensure that your *‘training needs are assessed at the outset and at regular intervals’* and that *‘appropriate training and support should be provided to ensure that any relevant training needs are satisfied.’*<sup>1</sup> On a regular and frequent basis, it is therefore a requirement that firms ensure their employees remain competent for their roles.

### **The Fit and Proper Test for Approved Persons and specified significant harm functions (FIT)**

If you are working in a role as an investment manager, the likelihood is you will be deemed to be doing a control function and therefore designated as an ‘approved person’. However, changes to the regulations are coming. In 2018 the Senior Managers & Certification Regime will be rolled out to cover all authorised investment firms (and not just the banking sector as is currently the case). This will result in the concept of control functions being broadly replaced by ‘significant harm functions’. Such individuals will be recorded as being ‘certificated employees’.

A key requirement of both the existing and the new regime is that firms must satisfy themselves that individuals are fit and proper prior to them becoming approved persons or certificated employees.

When assessing fitness and propriety, the FCA may have regard to whether the individual has (1) obtained a qualification, (2) undergone training and (3) possesses a level of

<sup>1</sup> FCA handbook – TC2.1.11 *Firms should ensure that their employees’ training needs are assessed at the outset and at regular intervals (including if their role changes). Appropriate training and support should be provided to ensure that any relevant training needs are satisfied. Firms should also review at regular intervals the quality and effectiveness of such training.*

competence. FIT also provides guidance on how to determine a persons competence and capability<sup>(4)</sup>.

The certification status must be assessed at least annually.

Overall therefore, the new SM &CR will pay attention to both the training and qualifications of an individual and when the decision to issue a certificate is made.

## **Summary**

There are currently no qualification requirements for investment managers who are offering services to institutional clients. However, many firms choose to follow the guidance provided by the FCA in SYSC and FIT and have their employees undertake qualifications as a way of demonstrating competence.

Individuals managing investment for retail clients must follow TC and take an Appropriate qualifications. .

Further details on the qualifications offered by CFA UK are provided in the appendix. For the full range of appropriate qualifications please see the FCA Appropriate Qualification Tables – TC App 4

## **References**

(1) See FCA Handbook TC App 1 for further detail.

(2) See FCA Handbook COBS 3 for further information on client categories

(3) See FCA Handbook TC App 1.1 for further detail.

(4) See FCA Handbook FIT 1.2.4 and 2.2 for further detail

(5) See FCA Appropriate Qualification Tables – TC App 4 for further detail

## **Disclaimer**

This article seeks only to summarise the regulations in this area. It is important firms review the specific FCA rules and guidance when coming to a decision about their approach to training and competency and where necessary seek appropriate advice.

## Appendix / CFA UK Appropriate Qualifications

### Appendix A

Unit(s) or IMC	Qualification detail	Activity(s) for which full qualification requirements are <u>met in full</u>
<b>Unit 1 only</b>	Investment Management Certificate (Unit 1) UK Regulation and Markets (Level 3); or Investment Management Certificate Unit 1: The Investment Environment (Level 4)	<b>[8]</b> Advising on investments in the course of corporate finance business
<b>Unit 2 only</b>	Investment Practice Paper (Unit 2) of Investment Management Certificate (Level 3 or 4)	<b>None</b>
<b>IMC L3 or IMC L4</b>	Investment Management Certificate (Level 3 or 4)	<b>[8]</b> Advising on investments in the course of corporate finance business
<b>IMC L3 or IMC L4</b>	Investment Management Certificate (Level 3 or 4)	<b>[14 and 10] Managing investments</b> and/or undertaking the activity of a broker fund adviser
<b>Unit 1 and Unit 2</b>	Investment Management Certificate (Unit 1) UK Regulation and Markets (Level 3) or Investment Management Certificate Unit 1: The Investment Environment (Level 4) <b>and</b> Investment Practice Paper (Unit 2) of Investment Management Certificate (Level 3 or 4)	<b>[8]</b> Advising on investments in the course of corporate finance business
<b>Unit 1 and Unit 2</b>	Investment Management Certificate (Unit 1) UK Regulation and Markets (Level 3) or Investment Management Certificate Unit 1: The Investment Environment (Level 4) <b>and</b> Investment Practice Paper (Unit 2) of Investment Management Certificate (Level 3 or 4)	<b>[14 and 10] Managing investments</b> and/or undertaking the activity of a broker fund adviser

Unit(s) or IMC	Qualification detail	Additional qualification needed	Activity(s) for which full qualification requirements are met in full
<b>IMC (level 4) plus other qualification(s)</b>	<b>IMC (level 4) plus</b> other qualifications that meet specialist standards for advising on securities	other qualifications that meet specialist standards for advising on securities [e.g. CFA L1]	<b>[2]</b> Advising on securities which are not stakeholder pension schemes, personal pension schemes or broker funds
<b>IMC (level 4) plus other qualification(s)</b>	<b>IMC (level 4) plus</b> other qualifications that meet specialist standards for advising on securities	other qualifications that meet specialist standards for advising on securities [e.g. CFA L1]	<b>[12]</b> Advising on and dealing in securities which are not stakeholder pension schemes, personal pension schemes or broker funds
<b>IMC (level 4) plus other qualification(s)</b>	<b>IMC (level 4) plus</b> other qualifications that meet specialist standards for advising on packaged products	other qualifications that meet specialist standards for advising on securities [e.g. CFA L1]	<b>[4]</b> Advising on retail investment products which are not broker funds
<b>IMC (level 4) plus other qualification(s)</b>	<b>IMC (level 4) plus</b> other qualifications that meet specialist standards for advising on packaged products	other qualifications that meet specialist standards for advising on securities [e.g. CFA L1]	<b>[12]</b> Advising on and dealing in securities which are not stakeholder pension schemes, personal pension schemes or broker funds
<b>IMC (level 4) plus other qualification(s)</b>	<b>IMC (Level 4) plus</b> other qualifications that meet specialist standards for advising on derivatives	other qualifications that meet specialist standards for advising on securities [e.g. CFA L1]	<b>[4]</b> Advising on retail investment products which are not broker funds
<b>IMC (level 4) plus other qualification(s)</b>	<b>IMC (Level 4) plus</b> other qualifications that meet specialist standards for advising on derivatives	other qualifications that meet specialist standards for advising on securities [e.g. CFA L1]	<b>[6]</b> Advising on friendly society tax exempt policies (other than Holloway sickness policy sickness policies where the Holloway special application conditions are met)

In practice the FCA provides criteria for defining both eligible counterparties and professional clients and if a client does not meet the criteria for being one of these then they are a retail client