'Strengthening Accountability In Banking'

A Practical Guide To The New Senior Managers And Certification Regimes

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FRA

Key Points

The problem

> *Too many bankers, especially at the most senior levels, have operated in an environment with insufficient personal responsibility. Top bankers dodged accountability for failings on their watch by claiming ignorance or hiding behind collective decision-making. They then faced little realistic prospect of financial penalties or more serious sanctions commensurate with the severity of the failures with which they were associated. Individual incentives have not been consistent with high collective standards, often the opposite.'*

- Parliamentary Commission on Banking Standards report - 'Changing banking for good'

In a joint Consultation Paper (CP) entitled 'Strengthening accountability in banking: a new regulatory framework for individuals', the PRA and FCA outlined proposals for a new governance regime.

Underpinning everything is the political desire for positive cultural change in banking.

The most significant new measure is the introduction of a presumption of responsibility and reversal of the burden of proof for Senior Management. This will drive the need to look forward, anticipating and preventing breaches, rather than just backward, reacting to breaches only after they occur.

18 Senior Management Functions will replace the Significant Influence Functions accompanied by the documented assignation and mapping of a set of 20 PRA 'Prescribed Responsibilities' and 27 FCA 'Key Functions'.
Regulatory oversight will focus on Senior Managers who will be responsible and accountable to the regulators for oversight within the firm.
Responsibility for certification of individuals as 'fit and proper' to carry out approved roles will move from the regulators to the Senior Management of firms.
A new set of Conduct Rules replaces the existing APER Statements of Principle.
The presumption of responsibility means that Senior Managers will have *'to satisfy the regulators that they took reasonable steps to prevent, stop or remedy regulatory breaches by the firm which took place in their areas of responsibility, or face individual sanctions'.*
Requirement to notify the regulator when disciplinary action is taken against Senior Managers and other employees.
Treasury consultation in progress on extending the reforms to branches of foreign banks that operate in the UK.
Further consultation about whistleblowing to be published during 2015.

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Executive Overview

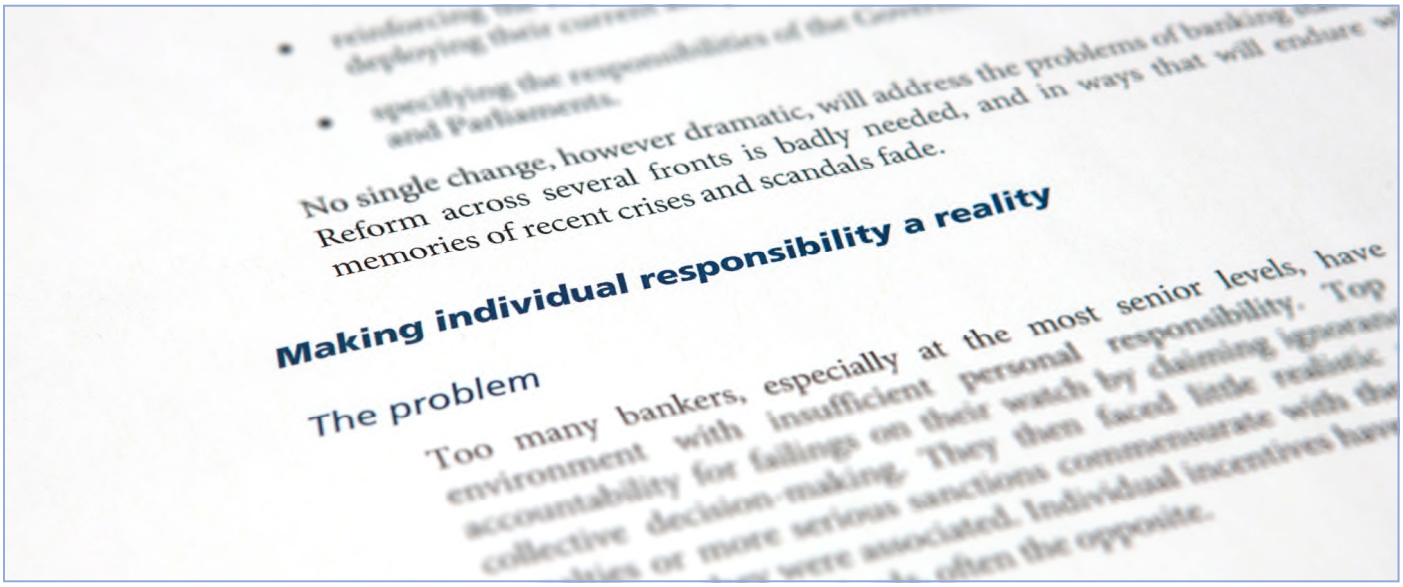
"Holding individuals to account is a key component of effective regulation" - CP

Overview

In response to the PCBS report *'Banking for Good'*, in July 2014 the PRA and FCA published a joint consultation paper 'Strengthening accountability in banking: a new regulatory framework for individuals'. The consultation period ended on 31 October 2014. Its results are expected in Q1 2015. The proposed new regulations implement the changes mandated by the Financial Services (Banking Reform) Act 2013 (the Act) which place the responsibility and accountability for a firm's regulatory adherence on the 'Senior Managers' of the firm.

- **Firms affected** are UK incorporated banks, building societies, credit unions and PRA designated investment firms. Responses to an ongoing Treasury consultation on extending the regime to branches of banks incorporated overseas are due by 30 January 2015.
- **Responsibility** is enforced through the documented allocation and mapping of a set of defined responsibilities covering all regulated activity between the firm's designated Senior Managers. The regulators will review and approve the allocation and mapping to ensure that the Senior Manager responsible for every aspect of regulated activity can be identified.
- **Accountability** is enforced through a reversal of the burden of proof. In the case of a breach of regulation, the Senior Manager responsible for the area in which the breach occurred must demonstrate that 'reasonable steps' were taken to prevent and stop the breach or face sanction. In addition, a new criminal offence relating to a reckless decision causing a financial institution to fail is introduced by the Act.
- **Senior Managers** are drawn from a firm's top levels of management and decision makers and must be approved by the regulators. The selection may vary between firms but is expected to include all members of the board and non-executive directors, most members of the executive committee, heads of internal audit, group entities and key business areas, and chairs of risk, audit, remuneration and nominations committees.

Firms are expected to have implemented the new regime within six months of finalisation of the new Conduct Rules.



The Three Tiers Of The New Regulations

Senior Managers Regime (SMR)

The SMR will ensure that there is an individual Senior Manager accountable for every aspect of regulated activity in a firm with a strong emphasis on documenting responsibility.

- The FCA and PRA have specified 27 roles and 20 responsibilities which must be allocated to Senior Managers undertaking 18 defined Senior Management Functions (SMFs).
- Individual Senior Manager's responsibilities must be documented in a Statement of Responsibilities (SoR) and overall allocation of Prescribed Responsibilities in a 'Responsibility Map'.
- Senior Managers must be approved by the PRA and/or FCA depending on the SMF being undertaken. The approval application must include the SoR for the applicant.
- A 'presumption of responsibility' is introduced placing an evidential burden on Senior Managers to demonstrate that they took 'reasonable steps' to prevent or stop regulatory breaches in their designated area of responsibility - or face individual sanction.

Certification Regime (CR)

The CR introduces a new class of Certified Persons who must be approved as 'fit and proper' under FIT. Certification is not by the regulators but by the firm itself.

- Senior Managers are not Certified Persons, since they are subject to approval by the PRA and/or FCA.
- PRA Certified Persons include anyone classified as a 'Material Risk Taker' or as undertaking a 'Significant Harm Function' at the firm.
- FCA Certified Persons include functions that were previously Significant Influence Functions (SIFs), customer-facing roles subject to qualification requirements and anyone other than an approved Senior Manager who supervises or manages a Certified Person.
- Firms must reassess whether persons are fit and proper for their role and renew their certificate on an annual basis and anytime the person's role changes.

Conduct Rules (C-CON)

The Conduct Rules are based on the old APER but apply to a far broader range of staff.

- C-CON are divided into 2 tiers: those applying to Senior Managers only, and those applying to all staff except ancillary staff who perform a role that is not specific to the financial services business of the firm.
- The PRA Conduct Rules will apply only to Senior Managers and PRA Certified Persons.
- The FCA Conduct Rules are a super-set of the PRA's and apply to all employees other than those who perform a role which is not specific to the financial services business of the firm.
- As C-CON will be a part of the regulatory rulebook, the 'presumption of responsibility' requirement under the SMR means that Senior Managers must take 'reasonable steps' to prevent or stop breaches of the Conduct Rules - or be personally accountable for the misconduct of employees in their area of responsibility.

The Senior Managers Regime

20
PRA Prescribed Responsibilities

+

27
FCA Key Functions

< Map Onto >

18
Senior Management Functions

< Document >

One
Responsibilities Map

+

One
Statement of Responsibilities Per Senior Manager

+

One
'Fit and Proper' Due Diligence per Senior Manager

> *'Clear individual responsibility coupled with enhanced enforcement powers for the regulators should give senior management a robust set of incentives and deterrents'* - CP

Who Will Be A Senior Manager ?

The existing concept of a Significant Influence Function is to be replaced with that of a Senior Management Function (SMF). The PRA has defined 20 'Prescribed Responsibilities' which must be assigned to a firm's top level of management and decision makers - the Senior Managers - who perform 18 defined SMFs. Additionally, the FCA has assigned 27 'Key Functions' which it expects to apply to most firms.

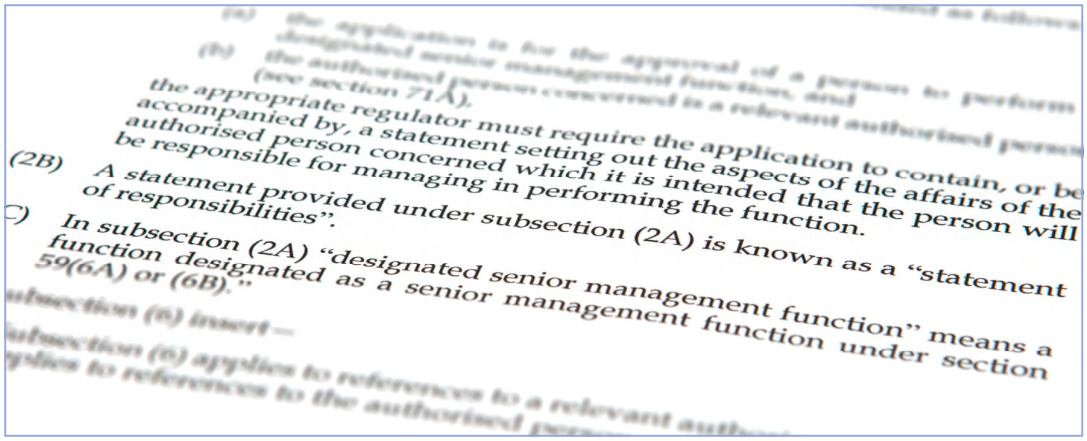
Approval

Firms are required to apply to the regulators for approval of individuals to be a Senior Manager. Applications must be accompanied by a Statement of Responsibilities for each candidate and a Management Responsibilities Map. The regulators will assess a candidate's fitness and propriety for the role and expect firms to have carried out appropriate due diligence on candidates including suitability for the role, criminal record checks and references from previous employers. With the exception of the Significant Responsibility SMF, an individual must make a separate application for each SMF being performed.

Allocating Responsibilities

Clearly, there is not going to be a 1:1 allocation of Prescribed Responsibilities and Key Functions to SMFs. Senior Managers at small firms may be allotted more than one prescribed area of responsibility: the requirement here is that all PRA Prescribed Responsibilities are allocated to at least one Senior Manager. FCA Key Functions must also be allocated as appropriate. SMFs may be shared between individuals provided there is clear documentation of which responsibilities are allocated to whom. It is important that firms ensure Senior Managers' contracts of employment reflect their areas of responsibility.

Firms will be required to ensure that a person becoming a Senior Manager or a Senior Manager whose responsibilities have changed has all the information he could reasonably expect to have in order to adequately perform his new duties. Compliance will likely take the form of a detailed handover note from a predecessor.


the appropriate regulator must require the application to contain, or be accompanied by, a statement setting out the aspects of the affairs of the authorised person concerned which it is intended that the person will be responsible for managing in performing the function.

(2B) A statement provided under subsection (2A) is known as a "statement of responsibilities".

In subsection (2A) "designated senior management function" means a function designated as a senior management function under section 59(6A) or (6B)."

59ZA Senior management functions

(1) This section has effect for determining whether a function is for the purposes of section 59(6) or (6A) a senior management function.

(2) A function is a "senior management function", in relation to the carrying on of a regulated activity by an authorised person, if—

(a) the function will require the person performing it to be responsible for managing one or more aspects of the authorised person's affairs, so far as relating to the activity, and

(b) those aspects involve, or might involve, a risk of serious consequences—

(i) for the authorised person, or

(ii) for business or other interests in the United Kingdom.

(3) In subsection (2)(a) the reference to managing one or more aspects of an authorised person's affairs includes a reference to taking decisions, or participating in the taking of decisions, about how one or more aspects of the affairs should be carried on."

The 18 Senior Management Functions		
	Executive	**Non-Executive**
PRA	Chief Executive function (SMF1) Chief Finance function (SMF2) Chief Risk function (SMF4) Head of Internal Audit (SMF5) Head of key business area (SMF6) Group Entity Senior Manager (SMF7) Credit Union SMF* (SMF8)	Chairman (SMF9) Chair of the Risk Committee (SMF10) Chair of the Audit Committee (SMF11) Chair of the Remuneration Committee (SMF12) Senior Independent Director (SMF14)
FCA	Executive Director (SMF3) Compliance Oversight (SMF16) Money Laundering Reporting (SMF17) Significant Responsibility Senior Manager (SMF18)	Chair of Nominations Committee (SMF13) Non-Executive Director (SMF15)

* Small credit unions only

Mapping Responsibilities

In order to satisfy the regulators that the allocation of Prescribed Responsibilities and Key Functions is complete, a firm must provide the regulators with a single documented map of who is responsible for what - the Management Responsibilities Map which describes the firm's management and governance arrangements.

Significant Responsibility Senior Manager

Where an FCA Key Function is allocated to an individual who is already assigned one of the other 17 SMFs, no further approval is required. Where approval has already been given to a Significant Responsibility SM for one Key Function, no further approval is required to take on another Key Function.

Handover Certificates

Firms will be required to ensure that a person becoming a Senior Manager or a Senior Manager whose responsibilities have changed has all the information he could reasonably expect to have in order to adequately perform his new duties. Compliance will likely take the form of a detailed handover note from a predecessor.

The Certification Regime

"firms took insufficient responsibility for the fitness and propriety of their staff" - CP

Overview

Under the Certification Regime, the onus passes from the regulators to firms themselves to certify that employees falling within the scope of the CR are fit and proper. As well as a requirement to conduct an annual assessment of Certified Persons to ensure that they remain fit and proper for their role, the regulators will expect a firm to keep its records up to date throughout the year as and when responsibilities change.

Broadly, those conducting functions that might involve a risk of 'significant harm' to the firm or its customers fall within the CR.

Certified Persons	
PRA	**FCA**
Those performing functions that might involve a risk to the safety and soundness of the firm (closely following the "material risk takers" under the Capital Requirements Directive (CRD IV)). This may include persons located outside the UK who exercise influence functions.	Those performing functions that were previously Significant Influence Functions (SIFs) **plus** Those performing customer-facing roles with qualification requirements (e.g. retail investment advisors) **plus** Anyone who supervises or manages a Certified Person
minus Senior Managers (SMs are required to be approved by the regulators and therefore do not fall within the CR)	

Changes to FIT

The regulators will not approve employees within the scope of the CR but will require Senior Managers within the firm to assume responsibility for the internal assessment and certification process.

- The FCA does not propose to make new rules on fitness and propriety, but will make certain amendments and clarification to the FIT guidance.
- Firms should follow - and evidence that they have followed - the guidance in the FCA's FIT handbook i.e. the existing rules around the qualifications, training, competence and personal characteristics required by an individual in the performance of his role.
- The PRA on the other hand will move to dis-apply the existing guidance in FIT and replace it with additional rules which will be set out in the proposed new fitness and propriety section of the PRA Rulebook. It is anticipated that the factors the PRA will consider will not change significantly and that the underlying substance will remain the same.
- If the Certification Regime Person moves from performing one role to a different role within the CR, the firm must be satisfied that the person is fit and proper to perform the new role.

Evidence Requirements

For Certified Persons, both regulators will require firms to request references from candidates' past employers covering five years employment. For SMF candidates, criminal record checks will also be required. Firms providing references will be required to disclose any breach of Conduct Rules and details of disciplinary action.

The Conduct Rules

'…if relevant firms are to achieve the culture change that [the FCA] is seeking there need to be a common understanding of what is acceptable and unacceptable behaviour at all levels of the firm.'
- CP

Moving From APER To C-CON

At first glance, the Conduct Rules proposed in the CP (C-CON) bear a striking resemblance to the existing Statements of Principle and Code of Practice for Approved Persons (APER) when comparing both the rules vs. the principles and the examples provided of breaches. In our view, the two key areas where the differences are material are scope and accountability.

Scope

- PRA Conduct Rules will apply only to Senior Managers and individuals within the PRA's certification regime, broadly the same set of individuals who are PRA approved persons performing significant influence functions under APER.
- FCA Conduct Rules will apply to all employees other than those who perform a role that is not specific to the financial services business of the Firm. This group of people will be defined by exception. The CP proposes a list of staff who will not be subject to C-CON which includes, inter alia, secretaries, receptionists, security and catering staff.

Consequently, the FCA will expect its Conduct Rules to apply to the vast majority of staff working in relevant firms unlike the APER principles which apply only to approved persons. The rationale in the CP for the wider application of C-CON is the FCA's stated belief that if relevant firms are to achieve cultural change there needs to be a common understanding of what is acceptable and unacceptable behaviour at all levels of a firm.

First tier – Individual Conduct Rules
Rule 1: You must act with integrity.
Rule 2: You must act with due skill, care and diligence.
Rule 3: You must be open and cooperative with the FCA, the PRA and other regulators.
Rule 4: You must pay due regard to the interests of customers and treat them fairly.
Rule 5: You must observe proper standards of market conduct.
Second tier – Senior Manager Conduct Rules
SM 1: You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively.
SM 2: You must take reasonable steps to ensure that the business of the firm for which you are responsible complies with the relevant requirements and standards of the regulatory system.
SM 3: You must take reasonable steps to ensure that any delegation of your responsibilities is to an appropriate person and that you oversee the discharge of the delegated responsibility effectively.
SM 4: You must disclose appropriately any information of which the FCA or PRA would reasonably expect notice.

Accountability

The key difference between the accountability of SIFs under APER and the accountability of Senior Managers under the SMR and C-CON is the reversal of the burden of proof placed on Senior Managers.

- Under APER, regulators would have to prove that a SIF was *knowingly concerned* in a contravention, or behaved in a way contrary to the principles for such an approved person. This was a relatively high hurdle - evident, perhaps, in the length and cost of regulatory investigations undertaken since the financial crisis.
- Under SMR, the onus will be on the Senior Manager to evidence '*that he had taken such steps as a person in [his] position could reasonably be expected to take to avoid the contravention occurring (or continuing)*' - or otherwise face sanction.

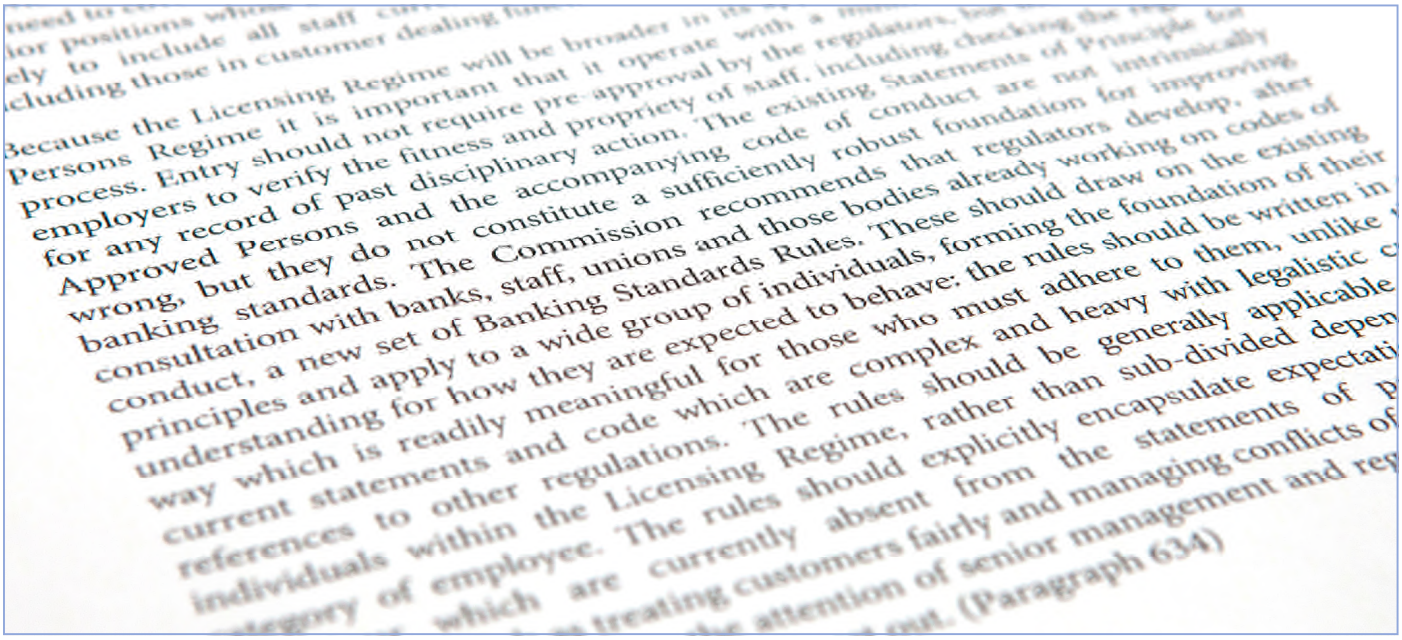
The importance of this cannot be understated when it comes to drawing the line on what is and is not acceptable behaviour.

- Under APER, it was plausible to state that a breach of regulation was down to an individual or isolated group of employees and not the fault of the supervising SIF.
- Under SMR, the Senior Manager responsible will be required to evidence that 'reasonable steps' were taken to prevent and stop the regulatory breach.

This clearly puts the onus on Senior Managers both to ensure that all staff are fully aware of what is and is not acceptable conduct for their specific function and to monitor and gather evidence that staff actually comply with these standards in their everyday interaction with customers, markets, colleagues and regulators.

Timing

The date on which C-CON will take effect has not yet been announced but it is likely to be introduced in two phases. The first phase will apply C-CON only to Senior Managers and persons certified under the Certification Regime. The second phase will apply C-CON to all other employees affected by the new rules.



HR And Bankers' Remuneration

'Many bank staff have been paid too much for doing the wrong things with bonuses awarded and paid before the long-term consequences become apparent.' - PCBS

Aligning Risk And Reward

In a separate consultation paper entitled 'Strengthening the alignment of risk and reward: new remuneration rules' which was published at the same time as the CP on the SMR, the PRA and FCA outlined proposed changes to the Remuneration Code. These changes are designed to address weaknesses in the alignment between risk and reward which were highlighted in the final report of the PCBS entitled 'Changing banking for good'.

The Remuneration Code

Under the new regime, banks' systems and processes will be significantly different. It is clear that appraisals and performance management, the supervision of those to whom responsibilities have been delegated, training and compliance, and fitness and propriety will move higher up the risk agenda. As traditional guardians of systems and processes, the HR role will assume greater prominence.

Remuneration is regarded as a key tool for effecting cultural change. The existing Code in SYSC 19A is maintained by both the PRA and the FCA who are jointly consulting over a new PRA Rulebook and new guidance on proportionality. There will be changes to SYSC 19A and the introduction of a new Remuneration Code (SYSC 19D).

Remuneration Requirements
• Ensure remuneration policy is consistent with and promotes sound and effective risk management, and does not encourage risk-taking that exceeds the bank's tolerance levels.
• The bank's management body must periodically review its remuneration policy and oversee its implementation. Banks need to disclose to the regulators details of their remuneration policies at least annually.
• Banks must not pay 'guaranteed' variable remuneration to any staff unless, in broad terms, it is paid in the employee's first year of service and is not more generous than any variable package under their previous employer.
• Fixed and variable remuneration components must be appropriately balanced. Variable remuneration must not exceed 100% of fixed remuneration, except where special shareholder approval has been obtained in which case a ceiling of 200% of fixed remuneration may apply.
• At least 50% of variable remuneration must consist of shares or equivalent non-cash instruments which are subject to an appropriate retention policy.
• Deferral – at least 40% (60% when an individuals' bonus exceeds £500,000) of variable remuneration must be deferred over a period of not less than 3-5 years and must vest no faster than on a pro-rata basis.
• Variable remuneration (including deferred portions) must only be paid or vest if the bank's financial position can sustain it. Variable remuneration must be subject to malus (the reduction of unvested deferred remuneration) or 'clawback' arrangements (repayment of variable remuneration already paid).
• Variable remuneration awards made on or after 1 January 2015 must be subject to clawback for a period of at least 7 years from the date on which they are awarded.

The PRA and FCA are also consulting on further proposed changes that could lead, amongst other things, to the introduction of requirements on banks to extend the minimum deferral and clawback periods for variable remuneration paid to Senior Manager and material risk takers.

Evidencing Compliance

This new statutory requirement will place an evidential burden on those Senior Managers who, by virtue of their rank and seniority, should have the knowledge and authority to prevent or tackle regulatory failure.' - CP

'Reasonable Steps'

Under the new regime, self certification by staff will not be considered as adequate evidence of compliance. In our opinion, there are three steps - the three C's - that a Senior Manager could reasonably be expected to take to avoid a contravention of regulation:

Clarify	With the Conduct Rules being expressed in such generic, high-level terms, even when provided with a set of behavioural examples which would be considered in breach of the rules, there remains considerable scope for interpretation. Responsibility for any misinterpretation will lie with the Senior Managers. The onus is on them to clarify how the rules apply to the business activities for which they are responsible.
Communicate	A programme of education and training must be carried out to ensure that all staff are fully aware of and remain up to date on their obligations under the regulations.
Confirm	Effective monitoring of compliance must be confirmed and evidenced. This requires a risk-based programme of deep-dive transaction testing and activity reviews designed to create documentary evidence of the effectiveness of monitoring and an audit trail of iterative enhancements to rule interpretation, training and controls.

Read-Across From The Bribery Act

The PRA and FCA specifically state that they will provide no advance guidance on what, in their view, constitute 'reasonable steps' for firms to meet their regulatory obligations but will determine this on a case-by-case basis. We look to the UK Bribery Act for parallels.

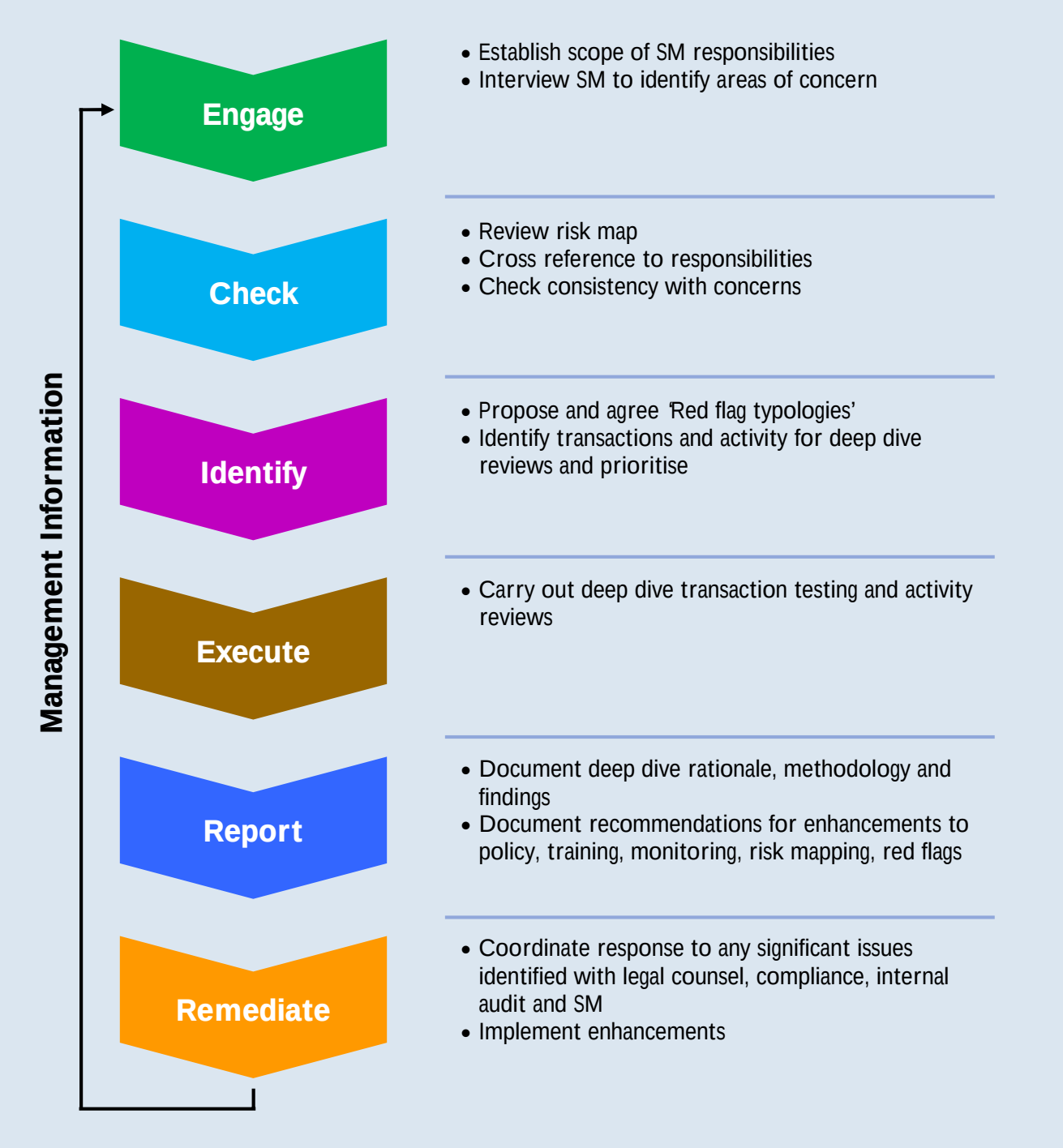
Under the Bribery Act, there is a similar 'reversal of the burden of proof' which places the onus on a firm to demonstrate that it has 'adequate procedures' in place to prevent bribery 'on the balance of probabilities'. Unlike the FCA and PRA approach to the SMR, the Ministry of Justice has provided some guidance as to what constitute 'adequate procedures' under the Bribery Act. The six principles are:

- **Proportionality**: Action should be proportionate to the risks you face and to the size of your business.
- **Top Level Commitment**: Ensure that all staff and key business partners understand that bribery will not be tolerated.
- **Risk Assessment**: Research and assess the bribery risks facing the organisation.
- **Due Diligence**: Know exactly who the organisation is dealing with.
- **Communication**: Communicate your policies and procedures clearly to staff and business partners.
- **Monitoring and Review**: Monitor and review the anti-bribery steps taken to ensure continued effectiveness as risks evolve.

Reinterpreting these principles in the context of financial services regulation, we see the key challenges for firms being:

- **Conduct Risk Assessment** - with the focus on pre-emption rather than reaction.
- **Clarification of the Conduct Rules** - with Senior Managers accountable for misinterpretation.
- **Effective Compliance Monitoring** - with the focus on evidence of compliance rather than self-certification.

The Compliance Testing Lifecycle



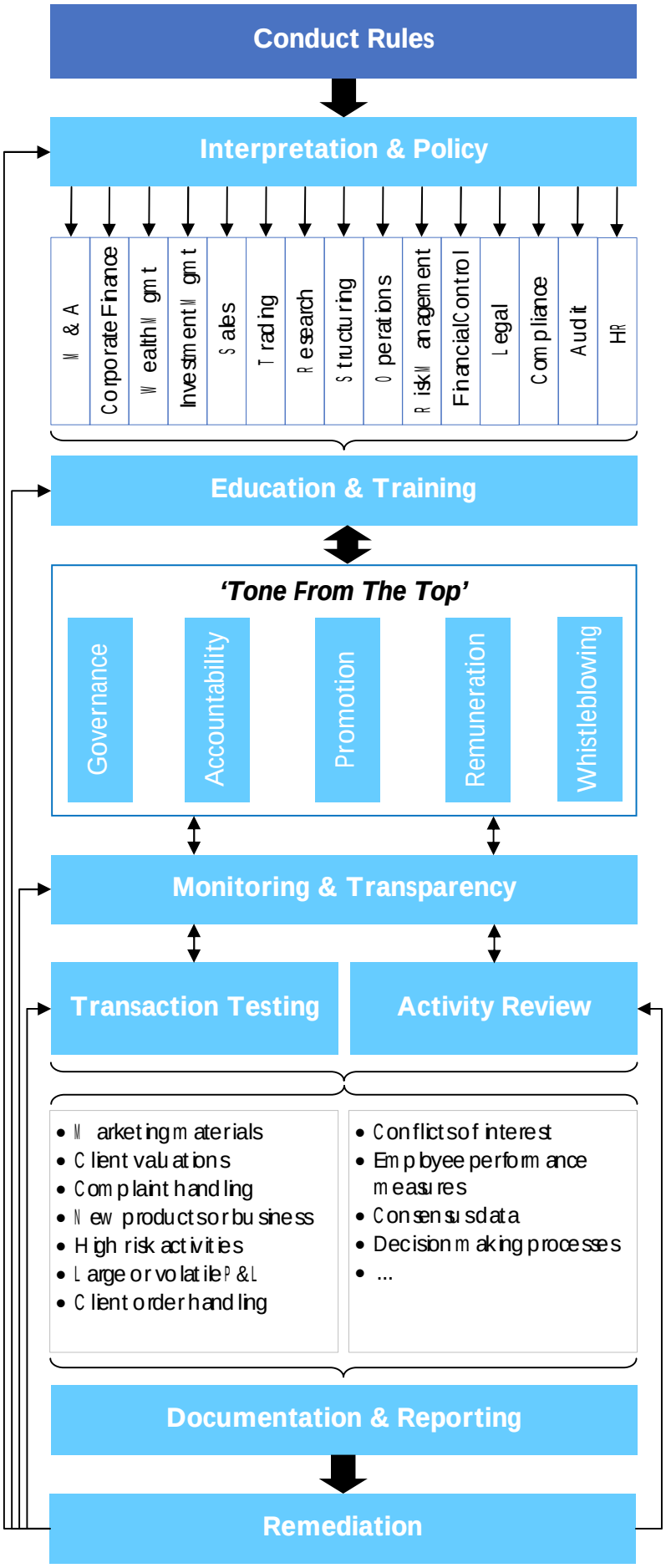
Presumption of responsibility

7.34 Under the new regime, FSMA will require Senior Managers to satisfy the regulators that they took 'reasonable steps' to prevent stop or remedy regulatory breaches by the firm which took place in their areas of responsibility, or face individual sanctions.

7.35 This new statutory requirement will place an evidential burden on those Senior Managers who, by virtue of their rank and seniority, should have the knowledge and authority to prevent or tackle regulatory failure.

7.36 This requirement does not establish a strict liability regime for Senior Managers. What constitutes 'reasonable steps' will be determined by the PRA on a case-by-case basis. The PRA recognises that reasonable steps may include the delegation of certain tasks for which that Senior Manager remains responsible, if that delegation was appropriate and undertaken effectively in the circumstances.

A Conduct Risk Framework



Interpretation and Policy

- Define robust specific conduct rules for all areas of business and support functions consistent with the high level rules and examples within C-CON.
- Maximise transparency to facilitate effective monitoring that rules are being followed.
- Extend the examples of good and bad conduct provided in C-CON to cover all business and support functions.

Education and Training

- Mandatory training adapted to be relevant for each business and support function with robust examples and associated testing.
- Periodic mandatory seminar training with communication of recently observed examples of what constitutes good and bad conduct.
- Avoid 'training fatigue'. Programmes must be smart, of high quality and targeted for audience.

Tone from the Top

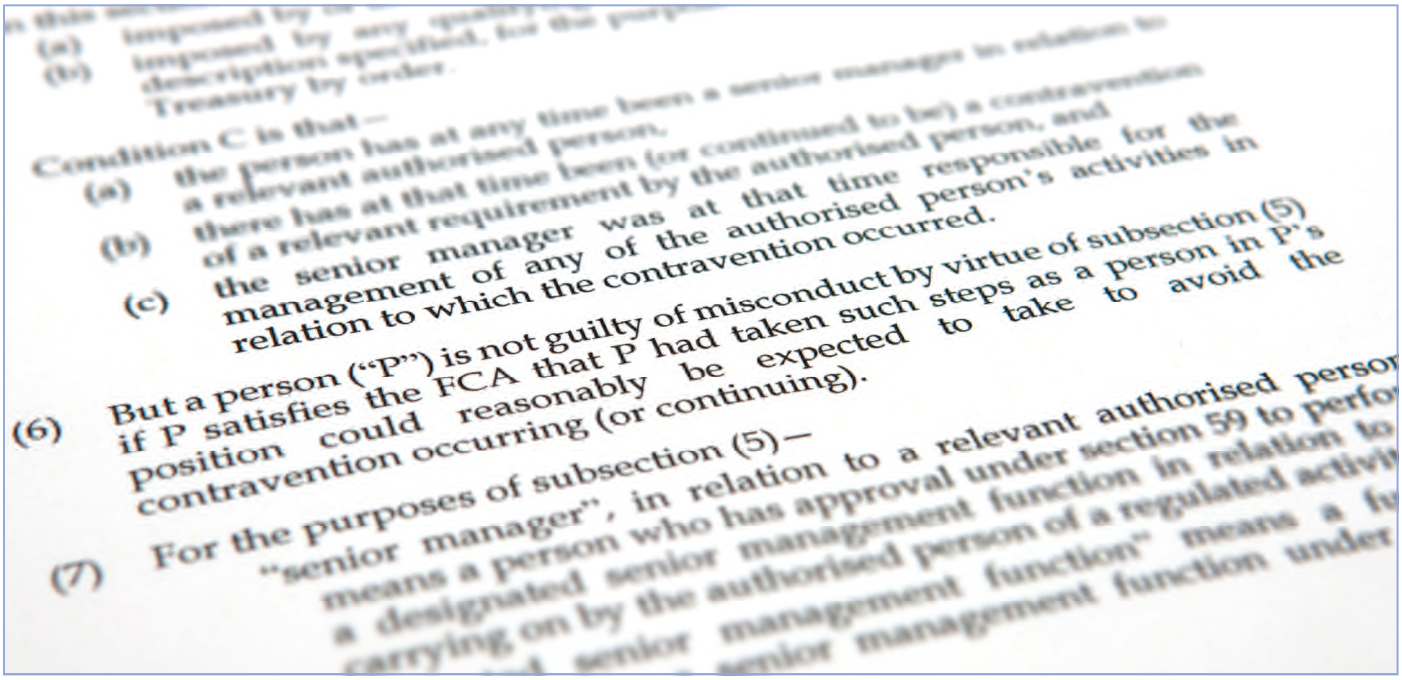
- Individual SMR accountability must be clearly defined for all areas of responsibility.
- Decision making processes delegated to governance committees with ultimate responsibility retained by Senior Managers under the regime.
- Governance and committees decision making should be clear and transparent, document competing views and rationale for decisions taken.
- Senior management must be strong culture carriers in all that they do and visibly set an example to all staff.
- There should be a zero tolerance for non culture carriers from the top down.
- Strong compliance conduct must be a non-negotiable requisite for promotion at all levels.
- Raising of red flags and concerns, both verbal and written, should be actively encouraged and facilitated with reviews documented and transparent.

Monitoring and Transparency

- Management information systems should be developed to report key conduct metrics e.g. quantity and risk level of customer complaints; trades accepted/declined in the presence of conflicts of interest; results from 'designed-to-fail' dummy transaction testing.
- Continuous sample testing should be performed on a rotational basis by independent business and subject matter experts e.g. review of representation made to different customers in marketing materials.
- Transactional testing and activity review results transparently reported to Senior Management and governance.
- Remedial action agreed and documented where results highlight issues.

What Should Firms Be Doing ?

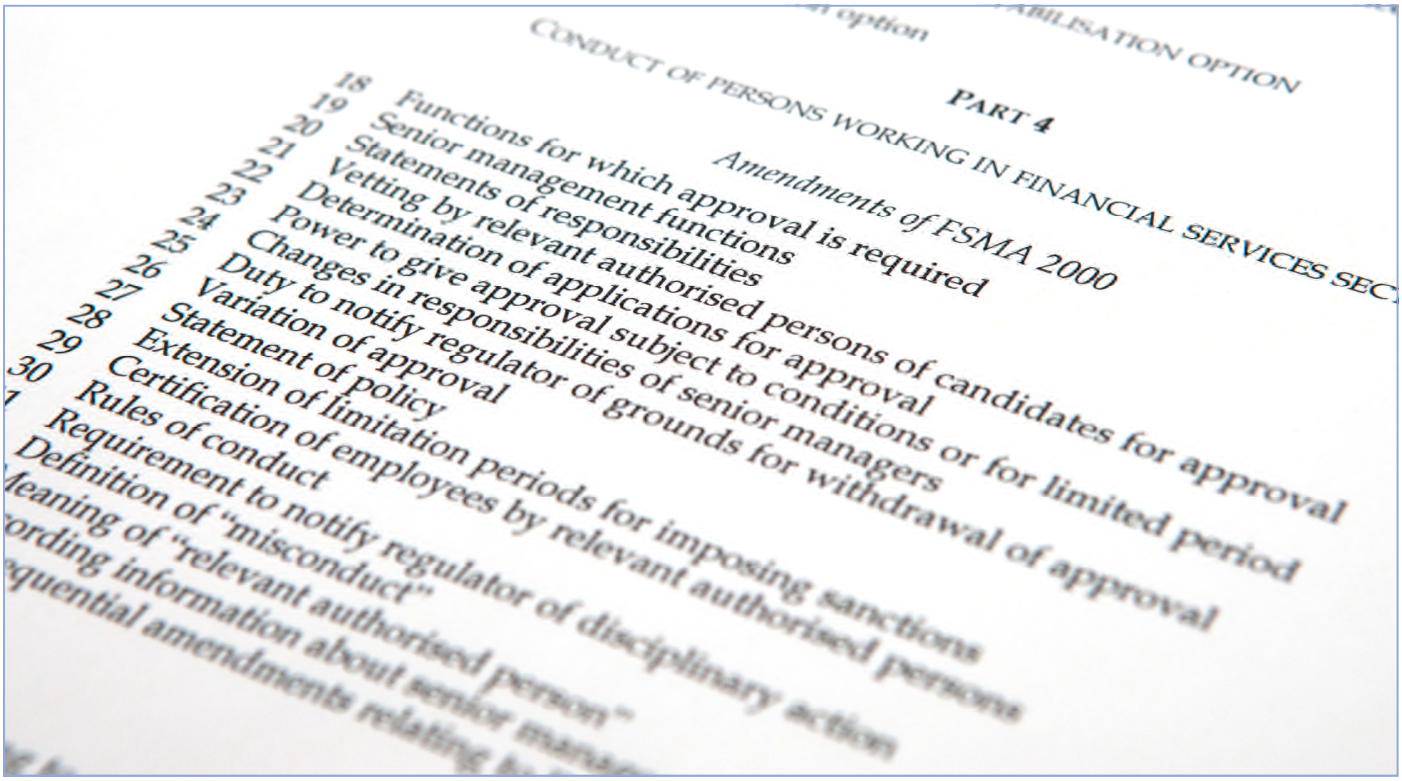
What You Should Be Doing	How We Can Help
Responsibility mapping and Statements of Responsibility	Get alongside stakeholders to identify which individuals will be captured and link regulatory risk to individuals and statements of responsibility: interviews of SMs to understand the scope of defined responsibilities and areas of concern.
Head-to-toe review of organisational governance, processes and control	Ensure review outcomes capture regulatory risks and responsibilities assigned to SMs and individuals subject to the certification regime: review of contracts of employment.
Review of banks' regulatory and compliance framework	Legal audit of frameworks to improve culture and deliver effective risks and controls: review procedures to meet FIT and provide across board training tailored to business needs.
Clarification of how rules apply to specific business activities	Provide independent practical advice on risk-reward assessment of how rules are applied to different business activities.
Training	Production of handbooks for Senior Managers performing Senior Management Functions, persons covered by the Certification Regime, and all other staff affected by the new Conduct Rules.
Documenting evidence of compliance	Independent validation through deep-dive testing and activity reviews to create documentary evidence of compliance and effectiveness of controls - or steps taken to remediate and enhance controls if appropriate.
Review existing contracts of employment to ensure they reflect employees' areas of responsibility	Employment contracts review.



Enforcement Powers

The aim is to raise standards of behaviour in firms, and especially amongst Senior Managers, by making clear there are real and meaningful consequences for poor practice. - CP

- **Private warning**
- **Restrictions on business that can be undertaken**
- **Withdraw authorisation (firms)**
- **Fines (firm/individuals)**
- **Public censure**
- **Suspension (individuals)**
- **Prohibition (individuals)**
- **Prosecution (individuals)**



Glossary

APER	Statements of Principle and Code of Practice for Approved Persons http://fshandbook.info/FS/html/handbook/APER
C-CON	Conduct Rules
CP	Consultation Paper 'Strengthening accountability in banking: a new regulatory framework for individuals' http://www.bankofengland.co.uk/pra/Documents/publications/cp/2014/cp1414.pdf
CR	Certification Regime
FCA	Financial Conduct Authority http://www.fca.org.uk/
FIT	The Fit and Proper test for Approved Persons http://fshandbook.info/FS/html/handbook/FIT
FSMA	Financial Services and Markets Act 2000 http://www.legislation.gov.uk/ukpga/2000/8/contents
PCBS	Parliamentary Commission on Banking Standards http://www.parliament.uk/bankingstandards
PRA	Prudential Regulatory Authority http://www.bankofengland.co.uk/pra/Pages/default.aspx
SIF	Significant Influence Function http://www.fca.org.uk/firms/being-regulated/approved/approved-persons/sif
SM	Senior Manager
SMF	Senior Management Function
SMR	Senior Managers Regime
SoR	Statement of Responsibilities
SYSC	Senior Management Arrangements, Systems and Controls http://fshandbook.info/FS/html/handbook/SYSC

PRA Prescribed Responsibilities

The PRA lists 20 'Prescribed Responsibilities' which will need to be allocated to a Senior Manager. We set these out in full below.

PRA Prescribed Responsibilities
1. performance by the firm of its obligations under the senior management regime, including implementation and oversight
2. performance by the firm of its obligations under the Certification Rules
3. compliance with the rules relating to the firm's management responsibilities map
4. the induction, training and professional development of all persons performing senior management functions on behalf of the firm and all members of the firm's management body
5. ensuring and overseeing the integrity and independence of the internal audit function in accordance with SYSC 6.2 (Internal audit)
6. ensuring and overseeing the integrity and independence of the compliance function in accordance with SYSC 6.1 (Compliance)
7. ensuring and overseeing the integrity and independence of the risk function in accordance with SYSC 7.1.22 R (Risk control)
8. ensuring and overseeing the integrity, independence and effectiveness of the firm's policies and procedures on whistleblowing and for ensuring staff who raise concerns are protected from detrimental treatment
9. allocation of all prescribed responsibilities
10. leading the development of the firm's culture and standards in relation to the carrying on of its business and the behaviours of its staff
11. embedding the firm's culture and standards in relation to the carrying on of its business and the behaviours of its staff in the day-to-day management of the firm
12. the development and maintenance of the firm's business model
13. management of the allocation and maintenance of capital, funding and liquidity
14. the firm's treasury management functions
15. the production and integrity of the firm's financial information and its regulatory reporting in respect of its regulated activities
16. the firm's recovery plan and resolution pack and overseeing the internal processes regarding their governance
17. if the firm carries out proprietary trading, the firm's proprietary trading activities
18. if the firm does not have an individual performing the Chief Risk function, overseeing and demonstrating that the risk management policies and procedures which the firm has adopted in accordance with SYSC 7.1.2 R to SYSC 7.1.5 R satisfy the requirements of those rules and are consistently effective in accordance with SYSC 4.1.1R
19. if the firm outsources its internal audit function, taking reasonable steps to ensure that every person involved in the performance of the service is independent from the persons who perform external audit, including (a) supervision and management of the work of outsourced internal auditors and (b) management of potential conflicts of interest between the provision of external audit and internal audit services
20. if the firm does not have a person who performs the Senior Independent Director function, (a) carrying out oversight of the person who performs the Chairman function; and (b) oversight of the adequacy and quality of the resources available to the office of that person to enable the role to be fulfilled within the firm

FCA Key Functions

The FCA has listed 27 Key Functions that it expects to apply to most banks that should be allocated to the relevant SMF. These are set out in full below.

Key functions (excludes control functions)
1. Establishing and operating systems and controls in relation to financial crime
2. Safekeeping and administration of assets of clients
3. Payment services
4. Settlement
5. Investment management
6. Financial or investment advice
7. Mortgage advice
8. Corporate investments
9. Wholesale sales
10. Retail sales
11. First line quality assurance of sales
12. Trading for clients
13. Investment research
14. Origination/syndication and underwriting
15. Retail lending decisions
16. Wholesale lending decisions
17. Design and manufacturing of products intended for wholesale customers
18. Design and manufacture of products intended for retail customers
19. Production and distribution of marketing materials and communications
20. Customer service
21. Customer complaints handling
22. Collection and recovering amounts owed to a firm by its customers/Dealing with customers in arrears
23. Middle office
24. The firm's information technology
25. Business continuity
26. Human resources
27. Incentive schemes for the firm's staff

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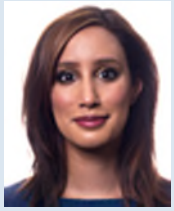

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