Strengthening Accountability in Banking

Effectively managing your transition to the new regulatory regime for individuals

November 2015
About Us

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As a leading business adviser, we help dynamic organisations around the world to unlock their potential for growth by providing meaningful, forward-thinking advice. Proactive teams, led by approachable partners, use insight, experience and instinct to understand complex issues for privately owned, publicly listed and public sector clients and help them to find solutions.

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Context

Following the 2008-2009 financial crisis the behaviour and culture within banks came under greater scrutiny than ever from regulators. This was compounded by revelations of severe misconduct by discrete groups and individuals within the banking industry. Part of the regulatory response to this is contained within the joint Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA) consultation paper published in July 2014 setting out a new regulatory framework for firms and individuals, which they expect to become central to authorisation, supervision and enforcement. The new framework marks a fundamental change in the regulators’ ability to hold individuals to account, and by mapping responsibility, the PRA and FCA aim to improve professional standards in the UK banking industry. The regulators believe that holding individuals to account is key to achieving effective regulation and the new regime proposes to remove practical barriers to enforcement by:

- allocating responsibility more clearly through responsibilities maps and statements of responsibilities
- introducing criminal sanctions and a duty of responsibility for senior managers.

The proposals outlined in the consultation paper (PRA CP 14/14 and FCA CP 14/13) will replace the existing UK Approved Persons Regime with a new four-tiered approach:

Senior Managers Regime (SMR)
Under the SMR, the regulator has introduced a set of Senior Manager Functions (SMFs) that will replace the Significant Influence Functions (SIFs) of the existing Approved Persons Regime (APR). Focusing on the most senior individuals within a firm, the SMFs will give an accurate and comprehensive definition of individual role responsibilities in order to facilitate accountability within firms.

Conduct Rules
This new set of Conduct Rules will apply to almost all staff employed at a firm. For the first time these individuals will come under the purview of direct regulatory obligations and scrutiny.

Certification Regime
The Certification Regime aims to ensure that anybody not captured by the SMR, but with the ability to inflict ‘significant harm’ on a firm, is fit and proper.

Fitness and Propriety
Under the new regime, firms will also be required to ensure that the identified senior managers and certified personnel are fit and proper to perform their roles. For senior managers this will be part of the evidence supplied to the regulator on application for role approval. The fit and proper requirements will become an annual process for firms to ensure the senior managers, certified personnel and notified non-executive directors can continue in their roles and guidance is outlined in the FCA’s current FIT Handbook.

Timeline

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2012</td>
<td>Parliamentary Commission on Banking Standards (PCBS) established to evaluate and recommend professional standards and culture within the UK banking sector</td>
</tr>
<tr>
<td>July 2014</td>
<td>FCA and PRA released joint consultation paper (FCA CP 14/13 &amp; PRA CP14/14)</td>
</tr>
<tr>
<td>December 2013</td>
<td>Financial Services Banking Reform Act passed incorporating PCBS recommendations</td>
</tr>
<tr>
<td>17 November 2014</td>
<td>Consultation on UK branches of foreign banks opened</td>
</tr>
<tr>
<td>23 February 2015</td>
<td>Consultation released on FCA CP 15/15 &amp; PRA 7/15</td>
</tr>
<tr>
<td>December 2014</td>
<td>FCA and PRA released consultation paper (FCA CP 14/31 &amp; PRA CP28/14). The CP contains the application and notification forms necessary for implementing the Senior Managers and Certification regimes.</td>
</tr>
<tr>
<td>August 2015</td>
<td>Policy Statement PS20/15 including final rules on the application of the Senior Managers Regime, Certification Regime and Conduct Rules</td>
</tr>
<tr>
<td>8 February 2016</td>
<td>All Grandfathering Documentation must be submitted (incorporating Statements of Responsibilities and Firm Responsibilities Maps)</td>
</tr>
<tr>
<td>7 March 2016</td>
<td>New regime commences Conduct rules apply Senior Managers and Certified population must be trained beforehand</td>
</tr>
<tr>
<td>7 March 2017</td>
<td>Full implementation of Conduct Rules</td>
</tr>
<tr>
<td>2018</td>
<td>Extension of Senior Managers and Certification Regime to all financial services firms</td>
</tr>
</tbody>
</table>

The crisis showed that there must be much greater individual responsibility on banking. A buck that does not stop with an individual often stops nowhere.

Andrew Tyrie MP
Chairman of the Treasury Committee

The Approved Persons Regime ‘created a largely illusory impression of regulatory control over individuals, whereby Approved Persons faced little prospect of financial penalties or more serious sanctions with the severity of the failures with which they were associated.’
Key components of the new regulatory framework

**Duty of responsibility**
Under the new regime, senior managers are to be subject to a ‘duty of responsibility’ clause. This requires them to take reasonable steps to prevent regulatory breaches in the areas of the firm for which they are responsible.

**Criminal sanctions**
The introduction of criminal sanctions means that, under the new regulatory framework, Senior Managers and Certified Persons will be subject to unlimited fines, remuneration, clawback, lifetime bans and up to 7 years prison term for reckless misconduct in the management of a bank.

**Key documentation**

**Responsibilities maps**
The regulator requires each firm to maintain and update a single document that describes each firm’s management and governance arrangements.

This is to ensure that the allocation of responsibilities to senior managers within a firm does not leave any gaps in accountability.

Responsibilities maps:
- should include descriptions of how the bank’s management and governance fit together with those of its group including reporting lines to individuals, committees etc.
- must not leave any gaps in accountability
- may extend beyond the Senior Managers Regime to some certified persons who are part of governance arrangements.

**Statements of responsibilities**
Firms will be required to create statements of responsibilities for each SMF role that exists. Each individual must agree with and attest to their statement of responsibilities and ensure that they are upheld continually. In the case of any major failings or breaches, statements of responsibilities will be able to indicate who is responsible.

A statement of responsibilities will be required for each senior manager and will be used at the following stages:
- Authorisation - approval of applications must contain a statement
- Supervision - firms must update and submit statements whenever there is a significant change
- Enforcement - regulators will use statements to inform them of the scope of managers’ responsibilities when they bring enforcement action.

**Grandfathering**
Incumbent individuals in the appropriate controlled functions can be grandfathered into the corresponding SMF roles. This applies as long as individuals are moving from their current Controlled Functions into the equivalent SMF as designated by the FCA and PRA.

**Grandfathering notification form**
A grandfathering notification form (Form K) must be submitted to the regulator by the 8 February 2016 for this to apply. This must be accompanied by corresponding statement of responsibilities for each individual as well as the firm’s responsibilities map. A grandfathering application will still need to be submitted for notified non-executive directors informing the regulator of their transition to the new regime.

**Other templates**
The consultation paper released by the regulators in December noted standardised templates to be used to support the regime eg grandfathering notification form (Form K), notifications of breaches of conduct rules and related disciplinary action (Form L) and many others.

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**Who sits where?**

<table>
<thead>
<tr>
<th>APPROVED PERSONS Regime</th>
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</thead>
<tbody>
<tr>
<td>CF1</td>
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<tr>
<td>CF2</td>
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<td>CF3</td>
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<td>CF4</td>
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<tr>
<td>CF7</td>
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<tr>
<td>CF8</td>
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<tr>
<td>CF9</td>
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</table>

<table>
<thead>
<tr>
<th>CERTIFICATION Regime</th>
</tr>
</thead>
<tbody>
<tr>
<td>CF4</td>
</tr>
<tr>
<td>CF10</td>
</tr>
<tr>
<td>CF12</td>
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<tr>
<td>CF12A</td>
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<tr>
<td>CF12B</td>
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<tr>
<td>CF26</td>
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<tr>
<td>CF29</td>
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<tr>
<td>CF30</td>
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<tr>
<td>CF40</td>
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<tr>
<td>CF50</td>
</tr>
</tbody>
</table>

**Conduct Rules & Fitness and Propriety**

- Notified non-executive directors
- All staff excluding ancillary staff
Who will it impact?

The new regulatory framework will shift the goalposts significantly with regards to how individuals are held to account. Through the new proposals, regulators aim to encourage individuals to take greater accountability for their actions in order to ultimately improve the behaviour and culture within the banking industry.

ORGANISATIONS

Data from the FCA indicates that around 200 UK banks and investment firms will be affected by the new regime, not including the EEA and non-EEA firms. Furthermore, 45 building societies and 550 credit unions will be subject to the new policies according to the Building Society Association (BSA) and the FCA.

INDIVIDUALS

The new regime aims to allow both the regulator and the institution itself to hold individuals accountable. While the most significant changes are reserved for senior managers and certified persons, the introduction of new conduct rules and fitness and propriety measures means that all staff within an organisation, excluding ancillary staff, will be affected.

It is worth noting that while the regulators have indicated that non-executive directors in governing functions will be captured by the new regulatory regime, the PRA will only require a notification of any new notified non-executive directors appointment to be made to them including a statement of their fitness and propriety to perform the role.

UK BRANCHES OF FOREIGN BANKS

The Treasury and the regulator have indicated that both EEA and non-EEA branches of foreign firms located within the UK will fall under the new regime. The regulator has, however, committed to applying the new regime in an appropriate and proportionate way. This will need careful monitoring by affected firms as the regulator continues to provide clarifying details.

SENIOR MANAGERS

Regime

A new list of Senior Management Functions (SMFs) will replace the 18 Significant Influence Functions (SIFs) of the Approved Persons Regime.

As well as providing individuals, firms and regulators with an accurate understanding of an individual’s role and responsibilities in order to increase individual accountability, the regime also significantly increases the severity of sanctions that can be imposed upon individuals, including a new criminal sanction for the worst offences.

Overseas branches

EEA branches

The FCA proposes to apply a tailored EEA branch senior manager (EBSM) to capture the individuals responsible for the management and conduct of the business of the incoming branch. This reflects the current coverage of senior managers in EEA branches under the APR. Furthermore, the FCA will require incoming branches to appoint a senior manager to the money laundering reporting officer (MLRO).

Non-EEA branches

The PRA proposes to require all incoming non-EEA branches to have at least one individual pre-approved as a head of an overseas branch (SMF19). Furthermore, chief risk officers, chief finance officers and heads of internal audit will also come under the umbrella of senior management functions. Further, if a bank has a number of entities as well as a branch, in addition to SMF19, the firm will be required to assign a group entity senior manager (SMF7).

Who will it impact?

The FCA and PRA have introduced a set of Senior Management Functions (SMFs) that will be covered under the Senior Managers Regime (full list can be seen below.)

As the regulators have based the regime on the assumption that someone holding an SMF can include anyone taking decisions or participating in the taking of decisions on how a firm’s affairs should be run.

This wide designation means that non-executive directors and directors in other group entities that participate in the taking of decisions about the firm can be specified as SMFs as well as additional individuals deemed to hold significant influence or who could pose a significant risk to a firm’s safety and soundness.

Non-executive directors

The regulators have refined the scope of the Senior Managers Regime for non-executive directors (NEDs) by separating out the governing functions who will be subject to the full regime eg Chairman, Senior Independent Director and the Chairs of the Risk, Audit, Remuneration and Nomination. Other notified NEDs are excluded but remain subject to fitness and propriety. The FRA will require a notification of any new notified NEDs to be made to them including a statement and any relevant information on their fitness and propriety.

<table>
<thead>
<tr>
<th>Summary of designated senior managers</th>
<th>Regulator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief executive function</td>
<td>SMF1 PRA</td>
</tr>
<tr>
<td>Chief finance function</td>
<td>SMF2 PRA</td>
</tr>
<tr>
<td>Executive director</td>
<td>SMF3 FCA</td>
</tr>
<tr>
<td>Chief risk function</td>
<td>SMF4 PRA</td>
</tr>
<tr>
<td>Head of internal audit</td>
<td>SMF5 PRA</td>
</tr>
<tr>
<td>Head of key business area</td>
<td>SMF6 PRA</td>
</tr>
<tr>
<td>Group entity senior manager</td>
<td>SMF7 PRA</td>
</tr>
<tr>
<td>Credit union SMF (small credit unions only)</td>
<td>SMF8 PRA</td>
</tr>
<tr>
<td>Chairman</td>
<td>SMF9 PRA</td>
</tr>
<tr>
<td>Chair of the risk committee</td>
<td>SMF10 PRA</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Summary of designated senior managers</th>
<th>Regulator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chair of the audit committee</td>
<td>SMF11 PRA</td>
</tr>
<tr>
<td>Chair of the remuneration committee</td>
<td>SMF12 PRA</td>
</tr>
<tr>
<td>Chair of the nominations committee</td>
<td>SMF13 FCA</td>
</tr>
<tr>
<td>Senior independent director</td>
<td>SMF14 PRA</td>
</tr>
<tr>
<td>Compliance oversight</td>
<td>SMF15 FCA</td>
</tr>
<tr>
<td>Money laundering reporting</td>
<td>SMF16 FCA</td>
</tr>
<tr>
<td>Significant responsibility SMF</td>
<td>SMF17 FCA</td>
</tr>
<tr>
<td>Head of Overseas Branch</td>
<td>SMF18 FCA</td>
</tr>
<tr>
<td>Overseas Branch Senior Manager</td>
<td>SMF19 FCA</td>
</tr>
<tr>
<td>EEA Branch Senior Manager</td>
<td>SMF20 FCA</td>
</tr>
<tr>
<td>Other Overall Responsibility</td>
<td>SMF21 FCA</td>
</tr>
</tbody>
</table>

Where do I start?

The Treasury and the regulator have indicated that both EEA and non-EEA branches of foreign banks in the UK will fall under the new regime. The regulator has, however, committed to applying the new regime in an appropriate and proportionate way. This will need careful monitoring by affected firms as the regulator continues to provide clarifying details.
The Certification Regime covers the next level of management and any ‘material risk takers’ and ensures that anybody with the ability to cause ‘significant harm’ within a firm is fit and proper.

As well as increased scope the new Certification Regime places emphasis on firms themselves to ensure the fitness and propriety of relevant employees, including annual renewal for each individual.

Increased scope and the movement of primary responsibility to firms significantly increases the compliance burden, as well as presenting a significant intellectual and organisational challenge to firms who are unprepared.

Target employees of the Certification Regime:
- Anyone who could cause significant harm, which equates to material risk takers as outlined in the remuneration code
- Anyone influencing UK business directly wherever they are based, including dealing with clients in the UK
- Customer-facing roles that are subject to qualification requirements (e.g. financial advisors)
- Managers of certified persons
- Any other SIF roles not otherwise covered by the SMR, e.g. CASS oversight

Conduct Rules

The conduct rules affect the majority of a firm’s staff and will provide the framework against which the FCA and PRA judge an individual’s actions.

The aim of the new Conduct Rules is to shape the culture, standards and policies of a firm and promote positive behaviours, as well as to act as a deterrent against misconduct that could have a material impact on customers, the firm or financial markets. Firms are responsible for ensuring that relevant employees are aware of their obligations under the conduct rules.

First tier (individual conduct)

<table>
<thead>
<tr>
<th>Rule</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rule 1</td>
<td>You must act with integrity</td>
</tr>
<tr>
<td>Rule 2</td>
<td>You must act with due skill, care and diligence</td>
</tr>
<tr>
<td>Rule 3</td>
<td>You must be open and cooperative with the FCA, the PRA and other regulators</td>
</tr>
<tr>
<td>Rule 4</td>
<td>You must pay due regard to the interests of customers and treat them fairly</td>
</tr>
<tr>
<td>Rule 5</td>
<td>You must observe proper standards of market conduct</td>
</tr>
</tbody>
</table>

Second tier (SMFs only)

| 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 responsibilities is to an appropriate person and that you oversee the discharge of the delegated responsibility effectively |
| SM 4 | You must disclose any appropriate information that the FCA or PRA would reasonably expect notice of. In particular non-executive directors are reminded of SM4 |

Who will it impact?

As with the certification regime, the PRA has taken a much more limited approach with regards to scale and will only apply the conduct rules to individuals approved as SMFs and those captured by the certification regime. The FCA has taken a more extensive approach and the conduct rules will apply to almost everybody. Additional conduct rules will apply only to senior managers, notified NEDs are excluded as are ancillary staff.

Who will it impact?

The Certification Regime captures all those individuals who are deemed to perform a role in which they could cause significant harm within firms.

The FCA and PRA have taken distinctly different approaches. The PRA are keeping the scope of certification fairly limited to include only those categorised as ‘Material Risk Takers’ under the ‘Capital Requirements Regulation’ and excluding any individuals whose functions are not related to the regulated activity of the firm or any captured by the SMR.

In stark contrast to this, the FCA has cast its net much wider, capturing a huge population. By including all SIFs that have not been grandfathered to an equivalent SMF, all those in a customer facing role will be subject to qualification requirements (i.e. nearly all CF30s) and anyone that manages a certified person.
**Summary of the new regime**

<table>
<thead>
<tr>
<th>Senior Managers Regime</th>
<th>Certification Regime</th>
<th>Conduct Rules</th>
<th>Fitness and Propriety</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased focus upon individual responsibility and increased senior management accountability</td>
<td>To ensure that anybody who does not fall under the Senior Managers Regime but still has the ability to affect significant influence or harm upon the business is fit and proper</td>
<td>A framework against which regulators will make judgements about an individual’s actions</td>
<td>There is an obligation to relevant firms to establish that candidates for senior manager or certification roles are fit and proper to perform the role for which they are applying</td>
</tr>
<tr>
<td>Targeted oversight of key decision makers responsible for a firm’s main activities</td>
<td>Certification of any person in role as fit and proper</td>
<td>A common understanding of acceptable/unacceptable behaviour across firms</td>
<td>Firms are required to run criminal record checks for senior managers</td>
</tr>
<tr>
<td></td>
<td>Senior manager to assume responsibility for the assessment and certification process</td>
<td></td>
<td>Firms will need to keep appropriate records for at least five years</td>
</tr>
<tr>
<td></td>
<td>Annual renewal</td>
<td></td>
<td>For both senior managers and those certified firms must obtain references covering the last five years of employment including any breach of conduct rules and a description of any disciplinary action taken</td>
</tr>
</tbody>
</table>

**Who will it impact?**

Like the Conduct Rules, Fitness and Propriety will affect almost every individual working in a firm. What the PRA are yet to explicitly state is what Fitness and Propriety will capture. It is expected that almost everybody working in the banking industry will have a legal obligation to obtain employee references covering the last five years of employment including any breach of conduct rules and a description of any disciplinary action taken. In addition, for senior managers, firms are required to run criminal record checks and for candidates who have lived or worked outside the UK, firms should consider undertaking equivalent checks.

**THE CHALLENGES**

- The new requirements place an emphasis on accurately understanding individuals’ responsibilities and mapping them.
- The scale and complexity of this task is huge given the new requirements.
- The next challenge becomes correct apportionment and agreement of these responsibilities.

**Key challenges facing organisations in meeting the requirements**

The new regime introduces a wide array of challenges that will need to be addressed and overcome if organisations are to be successfully compliant with the new regulation. As well as new challenges, the regime also brings existing challenges to the fore, such as producing relevant and accurate management information, and gives a strong new impetus to overcome them.

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**What is required?**

- Accurate documentation of responsibilities of senior individuals
- Responsibilities map
- Statement of responsibilities
- Handover certificates
- Certification of any person in role as fit and proper
- Senior manager to assume responsibility for the assessment and certification process
- Annual renewal
- Training for all relevant individuals subject to conduct rules
- Procedures to notify regulator of breaches
- Firms are required to run criminal record checks for senior managers
- Firms will need to keep appropriate records for at least five years
- For both senior managers and those certified firms must obtain references covering the last five years of employment of prospective employees
- Obtaining, managing, analysing and presenting relevant, accurate and actionable management information to the right people so they feel confident in discharging their duties
- Aligning management information to legal entity structures
- Accurate organisational charts
- Putting in place the correct infrastructure and accurate record keeping of recruitment, training, job descriptions, statements of responsibilities, annual assessments and handover certificates
- Increased burden on document maintenance and management due to increased volume of required documentation
- Designing a single responsibilities map that defines all reporting lines and responsibilities
- Ensuring understanding across your organisation of the requirements placed upon individuals by the new regime
- Moving towards and eventually embedding a culture that promotes individual ownership and accountability across all levels of your organisation
- Increased sanctions applied to individuals who may deter potential candidates from taking up senior manager positions
- Equity it may cause those already in roles to reassess their positions and move into less exposed roles
- The challenge is therefore to ensure that senior managers have the information, training and understanding to ensure that they can continue to discharge their duties confidently and effectively

**Potential roadblocks**

- Non-acceptance of regime
- Unclear governance structures
- Extra-territorial responsibility
- Dispersed responsibility
- Management information unaligned to legal entity structure
- Lack of relevant data
- Improper information flow
- Incorrect analysis
- Information time lags
- Information spread across large number of systems
- Inappropriate infrastructure
- Lack of resources
- Missing/inappropriate information
- Out of date or incorrect legal documentation
- Deeply embedded cultures resistant to change
- Lack of engagement/buy in to training programmes
- Reduced pool of suitable candidates for senior management functions
- Inadequate understanding of the new regime
- Leavers/departures
A proposed approach to helping you achieve compliance with this regulation

To achieve compliance with this demanding regulation, organisations will need to thoroughly understand their current capability and processes as well as build upon existing structures.

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Policy</th>
<th>Governance</th>
<th>People</th>
<th>Processes and systems</th>
<th>Key questions</th>
<th>Competencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understanding requirements and acknowledging current state and capabilities</td>
<td>• Understand what the new regime means and what is required of your organisation</td>
<td>• Understand required steps align to UK regulatory expectations regarding governance, compliance and risk management</td>
<td>• Identify who will address key challenges to ensure timely compliance with the new requirements</td>
<td>• Do you understand, in detail, who the new regime covers and how it will affect them?</td>
<td>• You require the most appropriate experts in IT, legal, compliance, HR and risk who understand not only the regulation but the architecture required to ensure a sustainable state is reached and maintained</td>
<td>• You also require project professionals who have extensive experience of successful delivery</td>
</tr>
<tr>
<td>• Recognise current state and capabilities of the firm to allow for quick wins to be realised, opportunities for synergies identified and to expose any serious deficiencies that require more remediation</td>
<td>• Prepare for annual declaration of compliance with the requirements</td>
<td>• Prepare a project plan and identify key team members who have required expertise</td>
<td>• Do you have the necessary structures in place for implementation by summer 2015?</td>
<td>• Do you have the right people with appropriate skills and required expertise to implement the new framework?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Undertake thorough internal analysis of existing governance structures to identify individuals not covered by the Approved Persons Regime</td>
<td>• Implement pragmatic solutions that will achieve quick wins identified in the strategic diagnostic phase</td>
<td>• Implement effective monitoring of individual behaviours through new governance framework</td>
<td>• Ensure all required responsibilities are allocated to one or more appropriate individual</td>
<td>• Do you have the necessary training and understanding for implementation by summer 2015?</td>
<td>• As well as coordinating the right technical expertise, a robust quality assurance process will be required as part of continuing</td>
<td></td>
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</tbody>
</table>

**PROJECT MOBILISATION**

- Establish tactical solutions to pave the way for longer lasting sustainable systems
- Implement pragmatic solutions that will achieve quick wins identified in the strategic diagnostic phase
- Establish a new governance model to ensure alignment to UK regulatory expectations
- Define reporting lines and apportion responsibilities through responsibilities maps
- Establish a Project Management Office (PMO)
- Apportion amongst senior managers of the proposed PRA prescribed responsibilities and/or FCA responsibilities
- Ensure all required responsibilities are allocated to one or more appropriate individual

**LONG TERM DELIVERABLES**

- Develop sustainable processes and systems that will:
  - Promote the right behaviour and culture
  - Ensure compliance
  - Mitigate the risk of sanctions against individuals and firms
- Implement effective monitoring of individual behaviours through new governance framework
- Implement robust documentation and record keeping to allow statements of responsibilities to be reviewed annually
- Establish individuals who will update and maintain documentation on an on-going basis to ensure a sustainable state is reached and maintained
- Foster closer ties between HR, compliance and company secretarial functions to ensure documentation processes are subject to regular reviews
- Embed continual training and development programmes
- Create a culture of accountability through training, improved communication and more robust documentation
- Implement robust and effective MI that is clearly aligned to UK regulatory requirements
- Are you able to create an efficient organisational structure with a commensurate and robust control framework?
- Are you confident that you will be able to implement successful and sustainable processes and systems within your firm?
- How will you continue to attract the right talent in your firm?
- The new demands being placed by regulators may require that a specific function is created to:
  - Centrally co-ordinate and manage the volume of information that must now be updated and maintained
  - Track staffing, role responsibility and organisational and governance changes
Given the need to plan the significant upheaval that forthcoming changes will bring, the difficulty of implementation is complicated even further by the fact that questions regarding timing and scope remain unanswered.
Under the new regime, the time scale within which the regulators can take action for misconduct has doubled from three to six years.

### Potential work streams, considerations and stakeholders impacted

<table>
<thead>
<tr>
<th>Work streams</th>
<th>Considerations</th>
<th>Stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing employees</td>
<td>Large population previously not regulated before</td>
<td>Executive Directors</td>
</tr>
<tr>
<td>Introduction of regime</td>
<td>Additional communication likely</td>
<td>Non-executive Directors</td>
</tr>
<tr>
<td>• Introduction of regime</td>
<td>Training needs to ensure employees understand their obligations. Need for clear examples</td>
<td>Chief Executive Officers</td>
</tr>
<tr>
<td>• Identity target population</td>
<td>Potential need for enhanced whistleblowing procedures</td>
<td>Regional and global LOB heads</td>
</tr>
<tr>
<td>• Communication and training on obligations to vast majority of employees</td>
<td>Overlap/link to BAC code of conduct</td>
<td>Compliance, risk, audit</td>
</tr>
<tr>
<td>• Expectations of employees need to be clear and accessible and relevant to their role</td>
<td></td>
<td>LO, learning, ER</td>
</tr>
<tr>
<td>• Contractual or other employment changes</td>
<td></td>
<td>Generalists</td>
</tr>
<tr>
<td>• Investigations/disciplinary actions concerning rules</td>
<td></td>
<td>HR legal</td>
</tr>
<tr>
<td>• Notifications to regulators in the event of suspicion or breach of rules</td>
<td></td>
<td>Global compliance learning</td>
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<tr>
<td>• Ongoing training/inclusion in existing compliance training</td>
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<td></td>
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<tr>
<td>• Record keeping</td>
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</tr>
</tbody>
</table>

| New Hires | Vendor requirements eg First Advantage | LOB |
| • Changes to employment contract | Compliance | |
| • Explicit questions regarding past conduct. Broader scope. | Staffing, shared services, | |
| • Pre-screening adaptations | Learning | |
| • Review of exception policy | Generalists | |
| • Induction training | HR legal | |
| • Record keeping | | |

| Leavers | Standard and non-standard leavers | LOB |
| • References to include conduct information | Compliance | |
| • Record keeping | Shared services ER | |
| | Generalists | |
| | HR Legal | |

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**Key concerns and questions**

- Do you have the appropriate skills and resources within your organisation to implement the new regime?
- Do you understand, in detail, who the new regime covers and how it will affect them?
- How to define the certified population?
- How will you continue to attract the right talent? Employment contract issues?
- Do your current MI and reporting structures provide clear, actionable information to Senior Managers?
- Are you able to create an efficient organisational structure with a commensurate and robust control framework?
Grant Thornton will deploy a dedicated engagement management structure to ensure we deliver quality resources able to meet your requirements. The engagement management structure will be built upon proven management, regional co-ordination, early issue resolution and performance management driving continuous improvement.

A multi-disciplinary team is required to deliver the required results and outcomes outlined by the regulators. Given the complexity and number of co-dependent work streams, there is a need for a robust project management approach and methodology with a strong subject matter grounding in banking.

Our approach to project management

Team skill sets

Proven project management
- Clear milestones and progress checks
- Transparent roles and ownership of responsibilities
- Smooth transaction and migration of services
- Knowledge transfer at the heart of delivery
- Project management techniques used to ensure governance and control

A dedicated, co-ordinated approach
- Dedicated engagement team driving governance, co-ordination and performance
- The engagement team will manage resources, schedule and load balance resources across various work streams
- Respond quickly and proactively to project requirement needs as required

Early attention to issues and performance management
- Accessible and proactive engagement team
- Working with you to reach the right solution – flexing the project plan as decisions are made
- Open and honest in all interactions with you
- Clear performance metrics on all work streams
- Constant performance feedback loop driving behaviour

Commercial Understanding
- Experienced team
- Contracting under existing arrangements if applicable
- Competitive pricing
- Additional value-add offered including training, industry reports and sharing best practice

REQUIRED COMPETENCIES

DESIRED OUTCOMES

Robust OPERATING MODEL
Defined ROLES AND RESPONSIBILITIES with Accountability
Clear REPORTING LINES
Improved BEHAVIOUR AND CULTURE
Enhanced OPERATION RISK MANAGEMENT
S.M.A.R.T MANAGEMENT Information
Why Grant Thornton?

Grant Thornton recognises that implementing the new regulatory framework may prove to be onerous and time-consuming for firms. Our team of experts have extensive experience and are able to provide an unparalleled service, underpinned by keen regulatory insight and a commitment to strong and open client relationships.

1. **Best in class REGULATORY EXPERTISE**
   
   Our experts have best in class regulatory expertise, strengthened further with extensive experience working with both financial services firms and the relevant UK regulators. This wide-ranging expertise has been augmented and combined with a detailed deconstruction, by our in house research specialists, of the current consultation and related publications by regulatory and industry bodies. This enables us to provide you with the most up-to-date advice from the most experienced industry specialists available.

2. **Dedicated SUBJECT MATTER SPECIALISTS**
   
   With an average post qualified experience of 25 years, our team of experts are vastly experienced and able to provide an unparalleled service, as well as deliver innovative solutions and market insights. We will work in partnership with you to deliver incisive, value-adding results to, ultimately, allow you to effectively navigate the new regulatory landscape and overcome the new challenges proffered by the regulators.

3. **Project management EXPERTISE**
   
   Our project management and change specialists leverage their own experience combined with our proven tools and methodologies to analyse and assess your current state and coordinate and implement the necessary changes to ensure you are successfully compliant in a timely manner.

The new Regime could be a model for the rest of the financial services industry – with suggestions that insurers will be next in line – and could ultimately replace the Approved Persons Regime.

Parliamentary Commission on Banking Standards (PCBS)
Contact us

Sandy Kumar
Chair of Financial Services Group
Head of Business Risk Services UK
T +44 (0)20 7865 2193
E sandy.kumar@uk.gt.com