Senior Managers & Certification Regime

Industry perspectives

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Executive summary

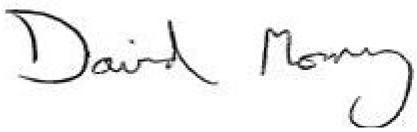
By number of firms impacted, the Senior Managers & Certification Regime (SM&CR) counts as the largest regulatory change initiative in the modern history of financial services regulation. At no other time have upwards of 55,000 authorised firms faced the prospect of adapting to new and significantly different rules at the same time.

In this document, we present a number of perspectives on the change that will begin to take effect with the publication of the Financial Conduct Authority's (FCA) Consultation Paper on SM&CR over the summer of this year. Some of those perspectives are informed by the first wave of Senior Managers Regime (SMR) which has been in place for a year within a few hundred banks, giving real insight into the challenges of implementing the new regime in practice.

Other perspectives address the intent behind the new rules. It should not be forgotten that SM&CR had as its genesis the financial crisis and the strong political and public sense that individuals working in the sector had not been held personally accountable for irresponsible actions. This leads inexorably to a new regime where the accountability for all decisions of consequence are clearly identified with decision makers, with implications for how those decisions are made and recorded. It also leads to a regime, where the powers to act against individuals are enhanced and the certification and referencing rules expose almost all of a regulated firm's staff, to the possibility that their failings will be recorded and follow them through their career.

Ultimately these changes are intended to drive culture change in regulated firms, with better individual accountability and commitment to act in a responsible and compliant manner. It is our view that the eventual success of the SM&CR regime will be judged not by the number of actions the regulator takes against individuals under the new rules, but by the rarity of cases of failure or misconduct where they have been called upon to take such action.

Following the expected publication of the FCA's consultation in the coming months, we expect the final rules to be concluded at the end of 2017, with implementation taking place during 2018 in line with the government's high level timetable. Based on the banking implementation, there will be a great deal of work to do in a relatively short period of time and we believe those firms that begin considering their implementation in the coming weeks will be best placed to meet the new rules in a sensible and proportionate manner. We hope the perspectives presented here contribute to delivering a successful response.



David Morrey
Partner

Approved Persons to Senior Management Regime

Much more than a name change

Simon Morris
CMS

The SM&CR will create a new landscape for Approved Persons when it is extended to all regulated firms in 2018. How should regulated firms be preparing for the extension?

The current rules apply to all staff at banks and senior management at insurers. The Government has decided to roll out this new regime across all FCA-regulated firms, replacing the current Approved Persons (APER) rules. The intention is for the new rules to bring about a real cultural change across the industry and significantly enhance individual accountability.

So what is actually changing?

A great deal is unchanged. Firstly, the rules are largely unaltered as individuals promise to be honest and competent and senior managers ensure they run the business compliantly. What is new is a global promise to treat your customers fairly and firms must ensure staff are trained to do this.

Secondly, you can breach the rules and become liable to FCA discipline, in much the same way as at present, as the much trumpeted 'Reversed burden of proof' for senior managers never actually happened.

Thirdly, senior managers will continue to need prior personal licensing from the FCA before they can start or change jobs.

There are three very real changes:

1. Each senior manager must have a regulatory job description, called a Statement of Responsibility, setting out his/her reporting line and actual areas of responsibility. The firm must put these all together to create a firmwide responsibilities map. Together these should ensure that every part of a firm's business is effectively overseen.
2. Staff beneath senior manager level, ranging from control functions and divisional managers to customer-facing staff and traders, will no longer be licensed by the FCA. Instead, the firm will regulate them and is required to annually certify each one as fit and proper against comprehensive assessment criteria. Hence the name of certified staff. This is meant to ensure that firms fully vet and oversee their key staff.
3. All other staff, except ancillary staff such as cooks, cleaners and similar, for the first time will be subject to the key FCA rules of honesty, competence and treating customers fairly. They will need annual training against the Conduct Rules.

Firms must identify each category of staff and amend their contracts as needed. They must document each senior manager's responsibility and prepare a firmwide responsibilities map using set templates. Firms must also rigorously assess certified staff for fitness and properness. Banks used this work to identify improvements in assigning responsibilities or in the operation of their governance or risk management. Others needed to part company with staff whom they could no longer view as fit and proper.

For all its similarities with the current APER, this is a serious regime change. The regulators have flagged that they will use it three ways. Firstly, to ensure that all a firm's staff treat its customers fairly. Secondly, to require a firm's staff to vet and oversee its key staff below the senior manager level. Thirdly, and most importantly, to hold senior management to account. This however shouldn't cause trepidation. A competent senior manager who takes the trouble to understand his or her business, grasp regulatory requirements, check that the ever-changing risks are properly mapped and who makes prudent decisions can continue to sleep soundly every night.

Senior Management Function Responsibilities

How to get them right and how to get them wrong

Simon Morris
CMS

The SM&CR introduces a new Duty of Responsibility for senior managers. How can senior managers ensure that they do not fall foul of this Duty?

There are three ways for a senior manager to breach the FCA's rules of conduct.

1. Breach one of the rules requiring honesty, competence or the compliant management of the business.

2. Be knowingly concerned, basically involved, in the firm's rulebook breaches.

3. Breach the duty of responsibility that requires a senior manager to take reasonable steps to prevent a regulatory breaches in the area of the firm for which he or she is responsible.

This is little different to the current position.

The FCA rules that apply to you as an individual are largely unchanged, requiring honesty, competence, good market conduct and the fair treatment of customers. A senior manager promises to ensure that the business is run compliantly and that he/she will properly oversee delegates.

With changes to the rules, the steps that a senior manager should take to ensure compliance will follow current good practice with, at most, a shift in emphasis. However, the FCA has been sharpening its requirements in light of significant misconduct in recent years in the banking sector. Other firms, certainly the great majority that are not relationship managed, will have little direct experience of how the FCA expects a senior manager to act. So, while the rules may not have significantly changed, most firms will find that the FCA's expectations have considerably escalated.

So what should a senior manager do?

1 Ensure that your statement of responsibilities is accurate, the firm has thoroughly mapped all its risks and functions on its responsibilities map and that these are effectively overseen

2 Properly discharge your duties – ensure that you consider all commercial decisions in light of the risks the business faces, and critically, the risk of breaching FCA rules or of not treating its customers fairly

3 Get the facts – having determined the key risks, ensure you receive timely and accurate management information on what is happening and vigorously follow it up

4 Scan the horizon – be alert to how changes to the market or your customer base can impact your firm and the services it offers. Keep up with the FCA's announcements and stay abreast of regulatory change as it impacts you

5 Oversee your delegates – only rely on people in whom you have confidence. Check and challenge them when needed

6 Ensure decisions are properly taken by the right committee or level of management. Fully document decisions and keep your own notes of what people tell you and what is then said or done.

The greatest impact will be preventative. Senior managers are encouraged to take reasonable steps and we have suggested half a dozen to ensure that things don't go wrong in the first place. However when things do go wrong, the spotlight will be on the senior manager who will be asked in an FCA interview what steps he/she did actually take to establish a proper control framework.

Now is the time for every senior manager to refresh his/her fundamental assurance. Find a spare moment and walk through your area from nose to tail, ensure that the risks are properly identified, responsibility for managing them are properly assigned and there is a proper flow of information about what is happening that arrives promptly on your desk.

Making a success of authorisation

Tales of grandfather(ing)

Keith Williams
Grant Thornton

The initial roll out of the regime to banks, building societies and credit unions involved a transition phase from the preceding APER. This was enacted through the 'grandfathering' of existing Approved Persons into broadly aligned Senior Management Function (SMF) roles and the attribution of prescribed responsibilities. The prescribed responsibilities include 'hard' measurable requirements such as responsibility for financial performance, as well as 'softer' more subjective elements such as culture. These responsibilities are overlaid with conduct rules with which the SMF holders must comply.

Each ascribed owner of these responsibilities must evidence acceptance of ownership by way of a signed Statement of Responsibilities. In signing, they are saying "this is what I am responsible for and these are the values that I uphold".

It is important that all firms and captured individuals pay careful attention to this in their day-to-day responsibilities. Focus on ensuring their function is risk managed appropriately is paramount. Anything less will create the potential for unintended regulatory implications.

These requirements prompted the need for many organisations and their management teams to review and occasionally revise how they go about their activities. For some, it led to the need to contemplate whether the picture painted was a true reflection and whether regulatory expectations were being met. For a few, it meant that grandfathering was not possible.

It also quickly became apparent that some HR and Compliance functions required an even deeper understanding of how their firm operated in order to satisfy themselves that the initial requirements of the regime were met. Immediate requirements were the redrafting of job descriptions to remove any discrepancies with Statements of Responsibility and reviewing the Terms of Reference and membership of senior decision-making committees. In some instances it was necessary to redefine roles and restructure high level governance.

Importantly, the new conduct rules impose not only standards of behaviour on senior management but also a duty to ensure that the means and manner in which these standards are adhered to filters through the organisation to the most junior and newest members of staff.

Well-ordered organisations with clearly defined purpose, responsibilities and values typically found the grandfathering process less challenging. This also meant that firms acting early were able to surface potential issues and address them before the Regime deadlines were enforced.

Lessons from a year spent running the Regime

Professor Moorad Choudhry
Non-Executive Director and Professor at the University of Kent Business School

What imperatives arise for Non-Executive Directors as we head into the SM&CR next year?

A good place to look for insight is in the banking sector, which has operated under the SMR for over a year now. The underlying driver of SMR was to assign direct personal responsibility for the continued good governance and sustainability of a bank to specific named senior executives and Board directors.

In itself this is logical, given that it merely codifies into law what was always supposed to be understood, if not necessarily always practised. However in today's regulatory environment, the practical impact of this particularly for Non-Executive Directors (NEDs) is not trivial. A firm's Board must approve a wide range of excessively technical documents, ranging from recovery and resolution plans to asset-liability management stress scenarios. As members are signing off on these papers in their individual capacities, they will wish to understand the detailed nuances behind them. This is not always straightforward because of the distance between those drafting the processes and those approving them.

All corporate entities, particularly the larger ones, have always operated on an element of Board-delegated approvals. Prior to SM&CR, a Board could in practice, if not in theory, rely heavily on the approval granted by a firm's Risk Committee and Management Committee (EXCO) to imply adequate technical review and challenge of many Board papers. However in the formal arrangements that characterise SM&CR, clearly this would be lax at best and personally ruinous at worst. The level of technical scrutiny that a Board must apply to all aspects of the firm's operations, business model, customer conduct and regulatory relationships need to be at least as detailed as that undertaken by the executive committees.

Submissions that are Board-approved statements to the regulator, such as the Capital Adequacy Assessment (ICAAP) and the Liquidity Risk Assessment (ILAAP), are detailed documents with complex tests, analyses and outputs. They are genuinely firm-specific because the regulator requires stress scenarios to be tailored and not follow the standard template profiles that were the norm in the pre-crash era. Understanding these processes requires a detailed knowledge of the shape and structure of the balance sheet, with respect to capital, liquidity and operational risk, as well as its sensitivity to a wide range of internal and external factors. The larger the firm and the wider the customer franchise, the more complex the review parameters and the more onerous the review and challenge process will be.

The problem that firms face under the SM&CR is two-fold:

1. Guaranteeing that Board members possess the technical and firm-specific knowledge required to scrutinise all MI adequately.

2. Ensuring that they are able to devote the time required to become familiar with the firm at the same level of detail required of full-time executives.

These are not insurmountable issues of course. Regulatory bodies have long stressed the importance of firms appointing NEDs who are sufficiently competent with the arcane properties of balance sheets, capital and liquidity. Addressing the second issue will take longer to achieve and requires Board members to devote more time to understanding the firm's properties, risks and culture.

It is almost a paradox, but one that has to be worked through. In the era of Basel III and SM&CR, NEDs need to be at least as intimately familiar with the business model, balance sheet shape, structure and risk sensitivities as the full time executives have to be. There is no other route to effective firm governance and sustainability.

Conduct rules

Yes, it really is all about the culture

Gareth Miller
Grant Thornton

Reading the FCA's newly-published Business Plan, it is abundantly clear that the regulator maintains its focus on firms' culture. However, unlike before the FCA makes the explicit link between its expectation of firms' culture and accountability embedded in the SMR. In short, senior managers are accountable for the culture within their firm.

The FCA and PRA hold the view that culture is a key determinant of the behaviour of firms and thus the outcomes on customers and financial stability. The most obvious manifestation of this comes in two prescribed responsibilities which form part of SM&CR. In the current scope, which we expect to be extended, such responsibilities are dictated by the regulators and have to be allocated within firms to individual senior managers.

The responsibilities which map directly to culture are:

h Responsibility for overseeing the adoption of the firm's culture in the day-to-day management of the firm

i Responsibility for leading the development of the firm's culture by the governing body as a whole.

The expectation is that (h) will be the responsibility of the CEO and (i) will be allocated to the Chair. However, this doesn't mean that the rest of the senior manager population can rest on its laurels when it comes to culture. Conduct Rules will apply to everyone in the firm to varying degrees and these will be the minimum hurdle the FCA uses when looking at a firm's culture.

As a senior manager, not only will you be required to sign up to a series of responsibilities, you will also be expected to adhere to a higher conduct bar through four Senior Manager Conduct Rules. These in essence relate to the way a senior manager discharges their responsibilities. The onus is on the individual to demonstrate they have taken reasonable steps to ensure effective controls, regulatory compliance, effective delegation and transparency with the regulators.

A further set of five conduct rules are applicable to all, not just senior managers, but it remains the senior manager's responsibility to ensure these are adhered to in their area. This is where we see culture at the coal face. In contrast to the Senior Manager Conduct Rules, these Conduct Rules are more concerned with outcomes, behaviours and attitudes. We know that the FCA uses these aspects to understand the culture of a firm and that they are capable of triangulating references taken from a broad sample, horizontally and vertically.

The big questions for you, as a senior manager with documented responsibility for the proper running of a function or business, focus on how you discharge your responsibilities:

- How do I gain assurance that those working under me understand the Conduct Rules?
- How can I track whether they actually adhere to them?
- What would I show the FCA if they asked for evidence that I understand the culture in my area?
- What does reasonable steps look like in terms of embedding the Conduct Rules and meeting the regulator's expectations of culture?
- If there were an issue, what evidence would demonstrate I had taken reasonable steps to embed a strong customer-focused culture?

SMR Conduct Rules

Generally applicable 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.

Senior manager Conduct Rules

- SC1: You must take reasonable steps to ensure that the business of the firm for which you are responsible is controllded effectively
- SC2: 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
- SC3: 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
- SC4: You must disclose appropriately any information of which the FCA or PRA would reasonably expect notice.

Reporting and references

When it really does go wrong

Alison McHaffie
CMS

The FCA recently stated "failure at senior manager level becomes one that is more likely to affect others beyond the firm, either through the imposition of financial harm or damage, or affecting trust and confidence in the market." It is critical that senior managers and other staff with a proven poor conduct history should be prevented from moving between firms and continuing to damage the financial sector. The new regulatory reference rules, which came into force on 7 March 2017, aim to prevent exactly this and should enable employers to make more informed and accurate decisions when recruiting candidates for senior roles and other key functions.

Who? The new rules apply to banks, building societies, credit unions and PRA-designated investment firms, branches of certain foreign banks as well as large insurance and reinsurance firms. A key extension is planned for 2018 when these rules will apply to all FCA regulated firms.

What? The rules require firms to:

1. Take reasonable steps to obtain references from all previous employers (in the last six years) of individuals applying for regulated positions
2. Provide references and disclose mandatory information relating to current/former employees
3. Update previous references when appropriate
4. Have policies and procedures to ensure compliance.

How? The FCA has produced a mandatory template requiring disclosure of the following for a period of six years:

- Roles held and their responsibilities
- Breaches of an individual conduct requirement
- Any findings that the individual was not fit and proper
- Any disciplinary action taken for breach of conduct rules or lacking fitness and properness (with no time limit if relating to serious misconduct).

The provisions of employment contracts and settlement agreements should not conflict with a firm's obligation to provide regulatory references. Record keeping systems, policies, processes and suitable training should be in place to guarantee compliance with the new rules, ensuring that regulatory references are obtained where required, reference requests are dealt with by staff familiar with the rules and references are updated where necessary. There are bound to be some early challenges in the employment courts, however the FCA's requirements are likely to prevail and even earlier non-disclosure settlement agreements will not stop a firm complying.

It has been common in recent years for unsatisfactory staff to roll from one firm to another, with each employer giving a reference containing little more than start date, end date and job title. In many cases this bland form of reference was agreed as part of a termination settlement. This practice has enabled dishonest or incompetent staff to remain in the industry and to continue causing damage when the interests of both a firm and customers require that he or she is removed from the marketplace. The new rules will emphatically put a stop to this. References are now required to be clear and informative, highlighting rule breaches, findings of unsatisfactory conduct and disciplinary action. Current experience is that firms are taking this new responsibility seriously and that a number of individuals who would previously have slipped between firms now rightly find themselves excluded from the industry.

Confessions of a Non-Executive Director under SM&CR

The cyber threat: the devil comes calling on boardroom doors

George Littlejohn
Chartered Institute for Securities & Investment

The cyber threat is near the top of most financial boards' and senior managers' agendas. For those in finance who thought the danger was overblown, the WannaCry attacks in May 2017 were the final wake-up call.

John Griffith-Jones, Chairman of the FCA, stated "Of the increasing risk areas that we have identified, one in particular stands out – cyber resilience. Firms' technological resilience has significant implications, both for markets and for their customers. Therefore it needs to be, and stay, high on all of our agendas."

Regulators are ever more alive to the issue and are probing managers further on their responses to this near-existential threat to the financial system. WannaCry was typical of the type of low-probability, high-impact event that had, because of the sheer scale of the technical issues involved, to be left to the technicians and the risk managers. But the twin effect of ever-great computerisation of the world and the poor overall state of computer security, particularly in some of the smaller firms being brought into the SM&CR net, risk turning such attacks into high-probability, high-impact events.

The FCA is establishing cyber coordination groups across five sectors to help coordinate experiences and foster innovation. It is targeting in particular technological capabilities and cyber-readiness in firms considered high-impact.

Sir David Ormand was one of the first to alert the financial services industry to the cyber threat, five years ago. He is a former director of GCHQ and before his retirement was UK Security and Intelligence Coordinator in the Cabinet Office, crafting the British counter-terrorism strategy 'CONTEST' after 9/11. As the new world of personal responsibility dawns for many directors next year with the SM&CR, Sir David, himself an independent director of a FTSE 100 firm, recalls the legend that grew up around the great American blues player Robert Johnson. "It is said that as a young man he had gone to the crossroads at midnight and sold his soul to the devil, in return for the gift of playing the blues as never before. And one night, of course, as his song says, the devil came calling.

"We should remember," warns Sir David, "that we rushed to sell our souls to the inherently insecure Internet in return for the easy advantages it offered, savings in staff costs, direct interaction with customers, targeted marketing, profits from global trading. Now the devil has come calling for us, in the shape of cyber attacks."

Sir Alan Yarrow, Chairman of the CISI (and Lord Mayor of London in 2015-16), is unequivocal on the nature of the threat. Speaking after the launch in February 2017 of the London operations hub of the National Cyber Security Centre (NCSC), he said "the cyber threat is the new daily reality: it's a matter of when not if. Management has an obligation to their staff to make sure they are appropriately trained and equipped for the future. "

The Risk survey respondents know the ever-present and global range of threats such as the theft of £2.5 million from 9,000 Tesco Bank customers' accounts following a data breach in November 2016. The FCA says that the number of reported incidents of cyber crimes at firms under its jurisdiction is rising sharply and it is now challenging firms more regularly on cyber security.

The potential penalties are eye-watering. Under the General Data Protection Regulation (GDPR) which comes into force in May 2018, financial organisations face fines of up to 4% of their global annual turnover for data privacy breaches. If GDPR were in force now, Tesco Bank's fine for its data breach could have been almost £2 billion.

The resilience that Sir Alan Yarrow mentions is key to how smart independent directors in particular should be considering their responses to the cyber threat. Directors, especially under SM&CR need to ensure both their firm and clients are protected. Independent directors should be stepping back from the technicalities and focusing on risk appetite, rather than purely on trying to prevent attacks. They need to help strike a balance between actively managing the risk with appropriate (and very expensive) technology and infrastructure. This balance varies across the industry, but is a cornerstone of defining risk appetite, then measuring, monitoring and managing its implementation.

Senior Managers & Certification Regime

The international complications

Paul Young
Grant Thornton

The Senior Manager Regime is a UK regulatory requirement embedded in the FCA Handbook and the PRA Rulebook. For the present, it applies to Capital Requirements Regulated (CRR) firms operating in the UK.

The nature of the legislation is that, whilst it only directly affects firms trading in the UK, it captures all parties decision-making processes regardless of their location, for example 'business influencing' directors based overseas. It also extends to UK entity owned service activities operating in overseas locations such as off-shore call centres or card processing centres.

Clearly the affected population incorporates a large number of overseas firms from both within and outside of the European Economic Area (EEA) operating in the UK. SM&CR differentiates between EEA and non-EEA ownership and it is important to understand the difference between the two. The requirements for branches (no board structure) also differs from those for subsidiaries.

EU home/host regulatory considerations mean that branches of banks owned by EEA entities are treated distinctly from sole UK and non-EEA organisations. The FCA requires incoming branches to appoint a senior manager to the Money Laundering Reporting Officer function (SMF 17) together with an EEA branch senior manager role (SMF 21) to capture the individual(s) responsible for the management and conduct of the business of the incoming branch.

As the PRA and FCA are concerned with the governance of the branch itself rather than of the institution as a whole, they place reliance on the supervision of the wider firm by the home state regulator. Therefore it is generally not the boards of incoming branches that are captured by SM&CR, but rather the individuals responsible for the day-to-day running of the UK branch. In some circumstances such individuals may be located overseas.

Whilst a single individual responsible for all the regulated activities of a UK branch should provide an adequate and proportionate level of individual senior management accountability, small and less complex non-EEA branches firms have the ability to have more than one individual approved as Head of Overseas Branch. Where this is the case, the specific responsibilities of each individual must be clearly documented.

Large, complex non-EEA branches are likely to have more people performing key management roles and hence being able to approve only one senior manager might fail to capture the appropriate individuals.

For individual organisations, a clear allocation of management responsibilities and reporting structures is vital to ensuring the appropriate individuals are identified under the Regime.

Day-to-day management reflecting these responsibilities can be a challenge. Loosely defined management oversight will no longer be acceptable and this may result in the realignment of management responsibilities both in the UK and overseas. These issues should not be underestimated.

If I had to implement SM&CR again

Avoiding the £250 billion black hole

George Littlejohn
Chartered Institute for Securities & Investment

In the five years to end-2015, the world's top 20 financial institutions paid an eye-watering £252 billion in fines and recompenses (Conduct Costs Research Foundation). That is more than twice the annual budget of the National Health Service in England. A large bank, which came top of this league table – not an enviable position – clocked up more than £20 billion of this total.

These figures had been growing for some years, like an approaching thunderstorm, and by the time the original SMR kicked in for the biggest players in March 2016, it was already disturbing the nights of senior managers. At a City roundtable on 'long-tail risks' a year later, attention turned to who worried most and how the core issues of responsibility and control might be addressed.

What lessons have been learnt from the first SMR round? Who slept worst? The consensus was probably the CFO – they see into all the dark corners (or should do). How to make things better? Here, culture was the key.

Shareholders and other stakeholders will no longer forgive or forget senior managers who allow negligence to rip their balance sheets and share values to shreds. Keith Williams, in his 'tales of grandfathering' on page 7, praises "well-ordered organisations with clearly defined purpose, responsibilities and values". Professor Roger McCormick, the distinguished former City lawyer who leads the conduct costs project, echoes this with "the events of the past few years provide a reminder of the importance of firms acting and demonstrating their honesty, openness, transparency and fairness in all their business activities. The Project needs to be seen in the context of banks' 'restore public trust' agenda and the apparently inexorable rise in regulatory penalties and other 'conduct costs' being imposed on banks. These costs are a phenomenon worth studying in their own right but the wider implications are even more interesting."

The ability of CFOs to see into the darkest corners is seen as a key lead indicator of success in drawing a line under the huge fines and damage to shareholder value. The task is mammoth but, in the same way as our Neanderthal forebears tackled that now-extinct delicacy, one bite at a time works wonders. The conduct cost researchers take some months to piece together the full damage revealed in each years' published reports. Banks are naturally coy about headlining the numbers, but the main takeaway from that Spring roundtable was that the CFO and his colleagues must have the key measures at their fingertips. Quite literally.

The role of culture

A month or so after taking over the chairmanship of the then-new Financial Conduct Authority in 2013, John Griffith-Jones thumped the lectern at the Chartered Institute for Securities & Investment's (CISI) annual conference with a resounding demand for the 'tone at the top' in the institutions he regulates to be replicated in the 'tone in the middle'. Later, he spanned the whole eco-system with a call for the 'tone at the till' to be the same. That culture leitmotif and the virtuous circle of which it forms part, threads through all the FCA Chairman's pronouncements and his organisation's overall strategy.

Richard Charnock, CEO, Standard Life Wealth and Chair of the CISI's Integrity and Ethics Committee says "The CISI's Code of Conduct contains eight core principles aligned with the values of honesty, openness, transparency and fairness. These are designed to provide guidance to our members when they find themselves in a situation where they feel unsure about the most appropriate course of action. The Code focuses on stakeholders as well as values and each Principle is linked to one or more stakeholders to prompt members to think about who will be affected by their actions."

So, two key lessons from the first round of SMR:

1. make sure the information is available in the right place at the right time and timeliness as opposed to absolute accuracy is next to godliness on this count
2. make the culture allow colleagues to behave in an honest, open, transparent and fair way.

That way lies relief from that £250 billion threat.

Conclusion

All but the newest of organisations are formed of legacy practices and have a culture which heavily informs how they make decisions and control their business practices. An entirely new regulatory regime for determining and allocating accountability is, we suggest, unlikely to leave those legacy practices and cultures unscathed. Those firms in the banking sector who have sought to overlay SM&CR onto its existing control structures without re-assessing whether those structures are appropriate have, in most cases, found SM&CR a significant struggle.

We hope that the perspectives set out in this document will inform the large body of firms who are now facing their own SM&CR implementation. We believe understanding the banking sector's pitfalls, errors and challenges will enable successful implementation of the new regime.

As the year moves forward and the FCA Consultation Paper is published, we will be active in providing the industry with further analysis of the new regime. Many firms have already performed a high level impact assessment as a pre-cursor for the detailed planning and implementation which will follow later in 2017.

We hope the perspectives in this document will help your own planning for the new regime.

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Over the past 16 years Gareth has worked with, and supervised, a wide range of financial services firms, ranging from Globally Systemically Important Financial Institutions (GSIFIs) to FinTech start-ups. His particular interests lie in big themes such as governance, culture and the impact of regulation on individual decision-makers (notably those falling under the SM&CR). In Gareth's role advising firms coping with an increasing regulatory burden, with onerous sanctions for breaches, he seeks to understand and promote how good governance and the promotion of a strong customer-focused culture can help Boards and Executives to meet their obligations. His most recent work included reviewing governance and SMR arrangements at a large global financial institution undergoing a time of significant organisational change.

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