



Grant Thornton

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Individual accountability framework

The challenges, opportunities
and our services



Building blocks of individual accountability framework



The expectations

Senior Executive Accountability Regime (SEAR)

The increased focus of the Central Bank of Ireland (CBI) on behaviour and culture and its views on the interconnectedness of same with conduct risk in regulated firms has been a recurring theme of senior regulators in recent times. Following on from the CBI report on Behaviour and Culture in Irish Retail Banks in 2018, the CBI formally signposted its desire to enhance its gatekeeping, supervision and oversight powers by implementing a comprehensive accountability framework for individuals operating in regulated firms. Together with other measures (conduct standards, enhancements to fitness and probity, and administrative sanctions) SEAR is part of the CBI's wider framework to enhance transparency and accountability in the financial sector. The new regime will introduce a wide array of challenges that will need to be addressed and overcome if organisations are to be successfully compliant.

- With specified exemptions in each sector, it is expected that the bill will initially be applied to:
 - banks;
 - insurance undertakings; and
 - investment firms and their third country branches.
- Senior Executive Functions (SEFs) will broadly correspond to Pre-Approval Control Function (PCF) role holders under the current fitness and probity regime, with in-scope SEFs expected to include board members, executives reporting directly to board and heads of critical business areas.
- Each person carrying out a SEF will have role-related responsibilities allocated by their firm and the CBI will also prescribe mandatory responsibilities depending upon the type of firm and sector (Additionally, conduct and prudential risk will be the responsibility of someone carrying out a SEF).
- Firms will be required to draw up comprehensive responsibility maps setting out their key governance and management oversight arrangements.

The four pillars: A closer examination

SEAR

- An accountability regime which places obligations on firms and senior individuals within them to set out clearly where responsibility and decision making lines for their business.



Conduct standards



- The CBI propose to enhance existing standards with the introduction of new standards at both an individual and firm level which will impose binding and enforceable obligations on Regulated Financial Service Providers (RSFPs) and the individuals working within them to adhere to specific conduct standards.

Enhanced fitness and probity regime

- The introduction of a certification regime imposing a positive obligation on firms to certify on an annual basis that the individuals in question are fit and proper to carry out their functions.
- CBI is also expected to seek the power to publish where it has refused to approve an individual's PCF application.



Enhanced administrative sanctions regime



- With a view to 'breaking the participation' link the CBI will seek powers to pursue individuals directly for their own misconduct without having to prove their participation in wrong-doing by the RFSP.
- The CBI will also seek powers to pursue enforcement action for breach of the new proposed conduct standards.

What should firms do now

To prepare for SEAR, firms should assess how the regime will affect their infrastructure and organisational arrangements in the long term. Firms should also address how SEAR will drive cultural attitudes and conduct on an ongoing basis.

Lessons learned from the UK

The UK regime requires banks to allocate particular responsibilities to individual senior managers: prepare statements of responsibility for each individual senior manager, arrange suitable handover of responsibilities between senior managers and to prepare a 'management responsibilities' map to identify which individual is responsible for a matter at any given time.

Key considerations for firms

Organisational

Firms should consider how SEAR will affect their organisational structure, including:

- entity structure;
- governance committees;
- communication plan;
- allocation/negotiating responsibilities; and
- ownership of SEAR.

Infrastructure

Essential elements of infrastructure will also be affected and firms should review the following areas:

- map of management structure;
- responsibilities map;
- job descriptions;
- training conduct and regime; and
- fitness and probity checks.

Business as usual

Once implemented, SEAR will continue to evolve as the business changes with the following events:

- new hires;
- internal transfers;
- leavers;
- promotions and demotions; and
- regulatory changes.

Impact of remuneration changes

One of the biggest changes the new regime will introduce is to the remuneration structure for senior managers including enhanced transparency measures and fines when regulatory breaches occur.

- Firms will be required to undertake comprehensive reviews and revise the governance structure within the firm on a frequent basis. This will include the management of reporting lines; individual responsibilities clearly outlined; risk and control frameworks adequately implemented and reviewed accordingly; and governance responsibility maps.
- Firms will be required to ensure management responsibility maps are clear and easy to navigate and contain sufficient detail on governance arrangements and interactions between the local entity and parent group, specifically on remuneration policies.
- Individuals held accountable for regulatory breaches may incur a reduction in their variable remuneration for failing to comply with their accountability obligations. This will impact firms through the challenge of having a reduced pool of suitable candidates for senior positions.

How Grant Thornton can help

Grant Thornton recognises that implementing the new regime 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 client relationships. We can provide assistance in some of the following key areas:



Gap analysis review in line with the requirements of the SEAR



Organisational structures and responsibility mapping



Conduct risk identification and framework design



Corporate governance & regulatory compliance advice and application



Board and senior executive training



Drafting new policies and procedures in line with the SEAR



Project management and business analysis



Governance structures, senior responsibilities and reporting line review



Embedding understanding and cultural change

Key management contacts for our local team include:



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