

Chartered Banker

**The Chartered Banker Institute
Response to
PRA CP34/16
Strengthening individual accountability in banking and
insurance: amendments and optimisations**

General Comments

Our Institute is focused on raising professionalism across the financial services sector and in promoting to our members, and others, the very highest standards of knowledge, skill, integrity, trust and behaviour. We are therefore supportive of all efforts to improve outcomes for consumers through the regulatory regime.

As we have expressed in previous consultations on this topic, we strongly support all steps taken to help establish and embed appropriate behaviours and norms in firms. It is our view that an effective board requires individuals to have very significant and relevant professional expertise and experience. Whilst these proposals go some way to ensuring greater emphasis on conduct amongst board members, we believe that regulators could still do more to incentivise senior executives and non-executive directors alike to attain relevant professional qualifications, membership and continuing professional development [CPD] through a relevant professional body.

Furthermore, the Chartered Banker Professional Standards Board (CB:PSB) has established Foundation, Intermediate and Leadership Standards which can help boards understand and embed the professional norms required to support a positive, customer-focused culture throughout the organisations for which they are responsible. These Standards may also be used as a tool to help boards' measure culture, as well as helping boards (and individuals) in understanding what is expected of them and in implementing the letter and spirit of the Senior Managers and Certification Regime (SM&CR). In developing these standards, CB:PSB has created a 'Leadership Standard Translation Tool'. Working with member firms, this can be used to show the read across from a firm's systems and processes to the Leadership Standard requirements, including cross reference to elements of the SM&CR.

Below, we have commented only on those aspects of CP34/16 which fall within the Institute's expertise and on which we are expected by our members to comment. This paper has been read and considered alongside FCA CP16/26 and CP16/27. Regarding the latter of these papers, we note that each regulator uses a different term: 'notified' and 'standard' NEDs. We recommend that the regulators address this issue and adopt a common name, definition and approach. This will assist bodies such as ours in ensuring clear communication to our members of these changes and their implications.

Information about the background and ongoing work of our Institute can be found in the [Appendix](#) to this response.

Specific responses:

Q1: Do you agree with the proposed PRA expectations on the new duty of responsibility as set out in the revisions to Supervisory Statement 28/15 in Appendix 3 to this CP? If so, do you have any comments or suggestions on the draft text?

It is our view that the proposed PRA expectations on the new duty of responsibility provide clarity and an appropriate level of insight into how the regulators will enforce this. It is our view that firms should have the flexibility to allocate responsibilities in a way that accommodates different models and organisational structures as appropriate. It is therefore equally appropriate that in enforcement the regulators should adopt an approach that can accommodate these differences and assess each case as it presents itself.

Q2. Do you agree with the PRA’s proposals applying the Conduct Rules and /or Conduct Standards to Notified NEDs in RAPs and insurers? In particular, do you agree with:

- **the specific Conduct Rules and Conduct Standards that the PRA proposes to apply to Notified NEDs; and**
- **the proposed deadline for notifying the PRA of internal disciplinary action for breaches of the Conduct Rules against Notified NEDs in RAPs under section 64C of FSMA?**

The proposal to extend the individual and senior conduct rules to Non-Executive Directors [NEDs] is welcomed by our Institute. We support the proposal to apply the 5 FCA individual conduct rules to Notified NEDs. We agree with the arguments put forward by both the FCA and PRA in this respect and, when taking into consideration our members to which these rules already apply, we believe it is fit and proper to extend application of these rules to all individuals providing direction and oversight at board level.

We support the proposal to apply the 5 FCA individual conduct rules to standard NEDs. We agree with the arguments put forward by both the FCA and PRA in this respect and, when taking into consideration our members to which these rules already apply, we believe it is fit and proper to extend application of these rules to all individuals providing direction and oversight at board level.

Whilst we agree that Senior Conduct Rule 4 should also apply to a notified NED, it is our view that there is still some room for additional interpretation with regards to SC1 and SC2, and whether these should apply to the nature of the NED’s role as described in Annex 1 of COCON.

COCON 2.1	The role of a NED performing the general NED role is to:	
	(1)	provide effective oversight and challenge; and
	(2)	help develop proposals on strategy.

COCON 2.3	Other key roles of a NED include:
	(1) scrutinising the performance of management in meeting agreed goals and objectives;
	(2) monitoring the reporting of performance;
	(3) satisfying themselves on the integrity of financial information;
	(4) satisfying themselves that financial controls and systems of risk management are robust and defensible;
	(5) scrutinising the design and implementation of the remuneration policy;
	(6) providing objective views on resources, appointments and standards of conduct; and
	(7) being involved in succession planning.

We understand that the intention of the wording of SC 1 and 2 is to underpin the regime of individual accountability, and so we would recommend adding the phrase 'business activity of the firm', which we believe would address this issue and help clarify the reference is specific to that objective. If a wider definition of 'business' is taken, then it could be argued that all board members have a duty of responsibility for the business of the firm. We would like the regulators to consider further any potential unintended consequences of not applying SC1 and 2 to all NEDs.

We do agree with the case for not applying SC3, which would not seem appropriate in the case of NEDs.

We also agree that the deadline for notifying the PRA of internal disciplinary action for breaches of the Conduct Rules, already applicable to senior managers, is equally relevant and applicable to NEDs. However, we note that this proposal, in line with the new '*duty of responsibility*' reflects the current framework where it remains difficult in some circumstances for professional bodies in the banking sector, such as ours, to discipline members as we do not have investigatory powers. Valuable evidence on breaches of conduct could be shared with professional bodies, but currently there is no formal mechanism to do so. We ask that the regulators consider how professional bodies might be engaged in this process in order that we too may sanction members who have failed to meet the high standards expected.

Q3: Do you agree with the proposed modification to the PRA's Statement of Policy on conditions, time limits and variations of approval?

Having considered the current situation as presented, we would agree that the proposed modification seems fair and appropriate.

Q4: Do you agree with the proposal to create a Chief Operations PRA SMF and the proposed definition and scope of the function? and

Q5: Do you agree with the proposed new Prescribed Responsibility for 'managing the areas processes and systems aimed at preserving the operational resilience (including technology security), and the operational continuity of a firm's functions?'

There is indeed a growing the growing importance of the areas which are expected to fall under the responsibility of the proposed Chief Operations SMF, and new Prescribed Responsibility. For this reason, we are supportive of the scope and definition for the creation of the new Chief Operations SMF and addition of the new Prescribed Responsibility outlined in CP34/16 and of the proportionate approach proposed in their application.

As you note in the background to this proposed amendment, business areas exist that cannot meet both of the quantitative criteria but could have a significant impact on the 'safety and soundness' of their organisations. Therefore, we also agree with the proposed revised definition of the Head of Key Business Area function (SMF6) [incorrectly referenced as Q5 on page 15].

Q6: Do you have any comments, questions or suggestions relating to the PRA's expectations on SoRs and MRMs in the draft revised SS28/15 in Appendix 3?

We believe that the work of our Institute complements that of the regulators. Within the proposed guidance there are areas where we can further support our members and the wider banking community through relevant professional development initiatives, for example with regards to ethical decision making and delegation.

Furthermore, the work of the Chartered Banker Professional Standards Board (CB:PSB) can provide firms with valuable assistance in helping embed these proposals, both in terms of the letter and spirit. The CB:PSB has already provided firms with a range of useful resources to support the new regime. Examples of such resources are the two versions of translation tools, details of each having been previously been shared with the FCA. The Foundation Standard Translation Tool shows the read across from the Foundation Standard requirements to the 5 Individual Conduct Rules and shows how a member firm can demonstrate how and where their activities align with the Individual Conduct Rules. The Leadership Standard Translation Tool shows the read across from the Leadership Standard requirements to elements of the SM&CR. Noting the PRA's view that '*SoRs that read like generic job descriptions and do not reflect firm-specific circumstances, priorities or projects are not consistent with the spirit of the SMR*', CB:PSB will look closely at the clarity of responsibility mapping and statements as it extends the implementation of the CB:PSB Foundation, Intermediate and Leadership Standards amongst member firms.

Other comments

For accuracy, we have noted there is an error in the drafting of Appendix 3 2.46B [page 70 of the paper] – we believe this should read '*fitness ~~s~~and propriety*'.

APPENDIX 1

The Institute in Numbers



Institute Background

1. The Chartered Banker Institute (“the Institute”) is the oldest professional banking institute in the world. The Institute was founded in 1875, operates in all UK nations, and has a significant and growing international presence. The Institute has driven an agenda of ethical professionalism throughout its existence; promoting professional standards for bankers, providing professional qualifications for retail, commercial and private bankers in the UK and overseas, and offering professional membership to qualified individuals.
2. The Institute received Royal Charters of incorporation in 1976 and 1991. In 2000, approval was received from the Privy Council to award the “Chartered Banker” professional designation to individuals meeting the Institute’s highest standards and qualification requirements for ethical, professional and technical competence. The Chartered Banker Institute is the only body able to award this title. For an individual to become a Chartered Banker requires Masters-level study of modules in: (a) contemporary issues in banking, (b) credit & lending, and (c) risk management, plus a choice of elective modules in subjects including retail banking, corporate banking and private banking. All students must also complete a Masters-level module in Professional Ethics and Regulation. Qualifications are offered by the Institute itself, as well as by a range of university partners.
3. Post qualification, all Chartered Bankers and the great majority of the Institute’s members must satisfy the Institute’s Continuing Professional Development (CPD) requirements, including mandatory annual ethics refresher training, to continue to use the “Chartered Banker” designation.

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4. In addition to the flagship Chartered Banker qualification, the Institute offers a wide range of professional banking and regulatory qualifications, to support individuals at all career levels, all of which involve study of professional ethics.
5. The Institute currently has over 30,000 members. In addition, over the past 5 years, a further 25,000 individuals have participated in a training programme delivered by an employer, university, college or other training provider, accredited by the Institute against our professional and qualifications standards, and providing a pathway to achieving a professional qualification awarded by the Institute.
6. The Institute works with a very wide range of education partners, including universities, colleges, other professional bodies, and training providers to support the initial and continuing professional development of bankers. This includes a wide range of UK university degree partnerships (including the unique Chartered Banker MBA, with Bangor University) and apprenticeship/higher apprenticeship programmes. We also work with banks themselves, and their chosen learning partners, to develop, implement and accredit training programmes aligned to the Chartered Banker framework, creating pathways to professionalism linked to banks' own employee journeys.
7. Internationally, the Institute's impact and influence is growing, with partnerships with professional bodies in the Bahamas, Hong Kong, Ireland, Malaysia, Malta and Pakistan. Nearly 400 emerging banking leaders from 49 countries are currently studying on the Chartered Banker MBA programme (offered in partnership with Bangor University). In Malaysia, more than 1,000 individuals are currently studying to become Chartered Bankers, and seven bank CEOs became the first Malaysian Chartered Bankers in November 2015 with strong support from Bank Negara (Malaysian Central Bank). The first 500 students to gain the Professional Banker Certificate (China) qualified in 2016, via the Institute's partnership with the training division of the People's Bank of China.
8. *Young Banker of the Year Award* - In 1989, the Institute established the Young Banker of the Year competition, and this continues to be the highlight of the Institute's annual event calendar. The competition seeks to highlight the contribution of one individual with the potential to lead positive, customer-focused change, as judged by a distinguished panel of industry figures, chaired by the Lord Mayor of London, and plays an important role in promoting a revitalised banking profession by recognising the qualities of young bankers, who through their ideas and actions can help to improve the reputation of the industry.
9. See www.charteredbanker.com for more information on the Institute and its activities.
10. In 2008, the Institute began work leading to the launch of the Chartered Banker Professional Standards Board (CB:PSB) in October 2011, chaired by Lady Susan Rice. The CB:PSB is a unique initiative, led by 9 UK banks¹ and the Chartered Banker Institute, to enhance and sustain professional and ethical standards in banking in the UK. The CB:PSB develops and, through its

¹ CB:PSB members are Barclays, Clydesdale & Yorkshire Banks, HSBC, Sainsbury's Bank, Santander UK, RBS, Tesco Bank, United Trust Bank and Virgin Money; covering over 300,000 individuals in the UK employed by CB:PSB firms.

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member banks, implements professional standards (standards of conduct and expertise) for individual bankers which will contribute to the restoration of public trust and confidence and promote a culture of professionalism in the banking sector.

11. In October 2011, the CB:PSB published the Chartered Banker Code of Professional Conduct, to which all member banks subscribe, and which encompasses approximately 70% of the UK banking workforce. In July 2012, the CB:PSB launched its first standard, the Foundation Standard for Professional Bankers (the Foundation Standard). Nearly 250,000 bankers, including 173,986 in the UK, achieved the Foundation Standard in 2015. As well as increasing the numbers who achieved the Foundation Standard, some CB:PSB firms have started working towards the Leadership Standard (CB:PSB's second standard launched in 2015) and expect a number of senior individuals to meet this exacting standard in 2016².
12. The CB:PSB works closely with regulators, and also with the Banking Standards Board (BSB). The BSB's mission is the development, promotion and encouragement of professional high professional standards in the banking sector, with a focus on institutions. The CB:PSB focuses on professional standards for individuals.

See www.cbpsb.org for more information on the CB:PSB and its professional standards.

² [CB:PSB Annual Progress Report 2016](#)