Individual Accountability and the Senior Executive Accountability Regime (SEAR)

Webinar – 23 July 2020
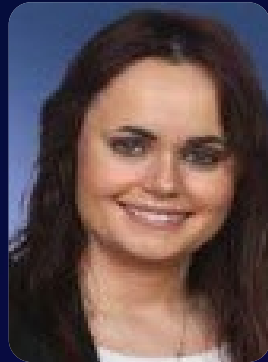
Who's with you today

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Agenda

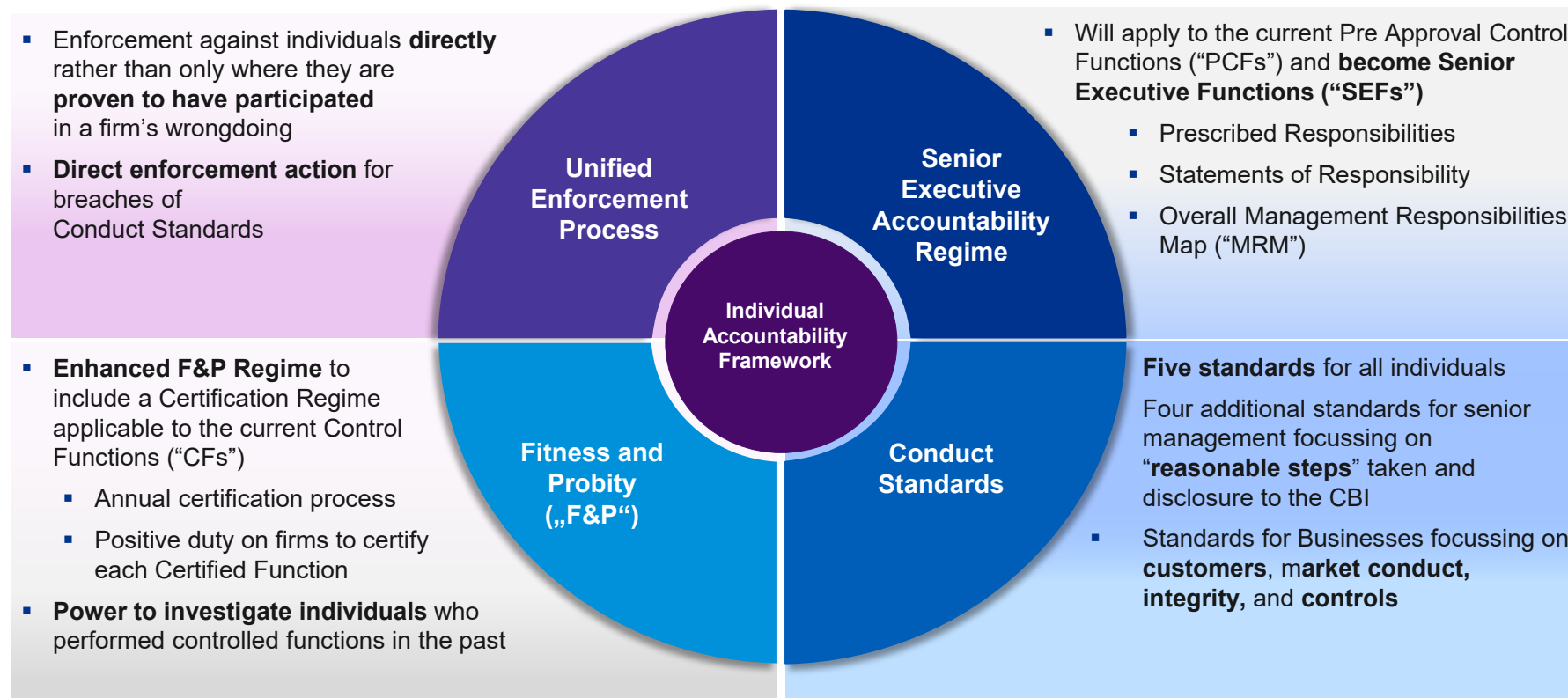|	
1	Regulatory expectations – what should you be doing now?
2	Group entity dynamics
3	Covid 19 impacts and operational resilience
4	Legal implications
5	Accountability Manager Tool
6	How KPMG can help
7	Q&A

1 / Regulatory expectations – what should you be doing now?

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The Central Bank of Ireland's proposals

The Senior Executive Accountability Regime (SEAR) is one of four elements of the Individual Accountability Framework proposed in the CBI's July 2018 report *Behaviour and Culture in Irish Retail Banks:*

- Enforcement against individuals **directly rather than only where they are proven to have participated** in a firm's wrongdoing
- **Direct enforcement action** for breaches of Conduct Standards

Unified Enforcement Process

Senior Executive Accountability Regime

Individual Accountability Framework

- Will apply to the current Pre Approval Control Functions ("PCFs") and **become Senior Executive Functions ("SEFs")**
  - Prescribed Responsibilities
  - Statements of Responsibility
  - Overall Management Responsibilities Map ("MRM")

- **Enhanced F&P Regime** to include a Certification Regime applicable to the current Control Functions ("CFs")
  - Annual certification process
  - Positive duty on firms to certify each Certified Function
- **Power to investigate individuals** who performed controlled functions in the past

Fitness and Probity („F&P")

Conduct Standards

Five standards for all individuals

Four additional standards for senior management focussing on "**reasonable steps**" taken and disclosure to the CBI

- Standards for Businesses focussing on **customers**, m**arket conduct, integrity,** and **controls**

Legislation to introduce these requirements is expected in Q2/Q3 2020

Impact on People, Processes and Technology

Board/ Board Committee

Senior Executive Functions

Certification Functions

Conduct rules

Reasonable Steps Framework including role of 3 Lines of Defence
First line accountability | Ongoing communication | Advice and Assurance | End to End Control Framework

People

- Performance Management
- Recruitment and Exit
- Succession Planning
- Employment Contracts
- Cultural agenda
- Training & Competency assessment

Technology

- Evidencing reasonable steps
- MI generation
- Record Keeping
- Interlock with old and new platforms

Operations

- Operating Model
- Resourcing for implementation and ongoing maintenance
- Breach Management and reporting

Conduct standards for business

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Common challenges for executive management

Unclear organisational structures and delegations from the Board.

Inconsistent Committee Terms of Reference, membership and/or alignment to individual responsibilities.

Lack of clarity around roles and responsibilities and matrix management. Potential redesign of governance/organisational arrangements.

Silo'ed rather than 'end to end' focus on risks and controls.

Absence of suitable MI to support oversight, challenge and decision making.

Lack of clarity on how to determine reasonable steps.

Lack of awareness and demonstration of good conduct standards by all staff.

Inconsistent identification of conduct breaches and evidence of action.

Inadequate measurement and monitoring processes for assessing fitness and propriety of staff.

Inconsistent documentation and inadequate record keeping across the firm.

How ready are you?

To prepare for the Individual Accountability Framework and SEAR, you should be able to answer the following questions:

1 Are you fully meeting the CBI's expectations on Fitness and Probity compliance, as outlined in its *Dear CEO* letter of April 2019

2 Have the CBI Individual Accountability /SEAR proposals been communicated appropriately? Have you identified your steering committee and created a project plan?

3 Have you conducted an impact assessment on how the Individual Accountability requirements will affect your business? Have you identified potentially impacted documentation?

4 Are you aware of the weaknesses or deficiencies in your underlying control environment? Are you satisfied with your outsourcing control environment and third party risk management?

5 Do you understand your governance structures, are these clearly documented (including any overseas entities where significant influence exists)? Have you started to look at roles and responsibilities of Senior Managers?

6 Do you understand the concept of 'reasonable steps' and have you the appropriate frameworks and governance in place to demonstrate that reasonable steps are taken in the event of a potential regulatory breach?
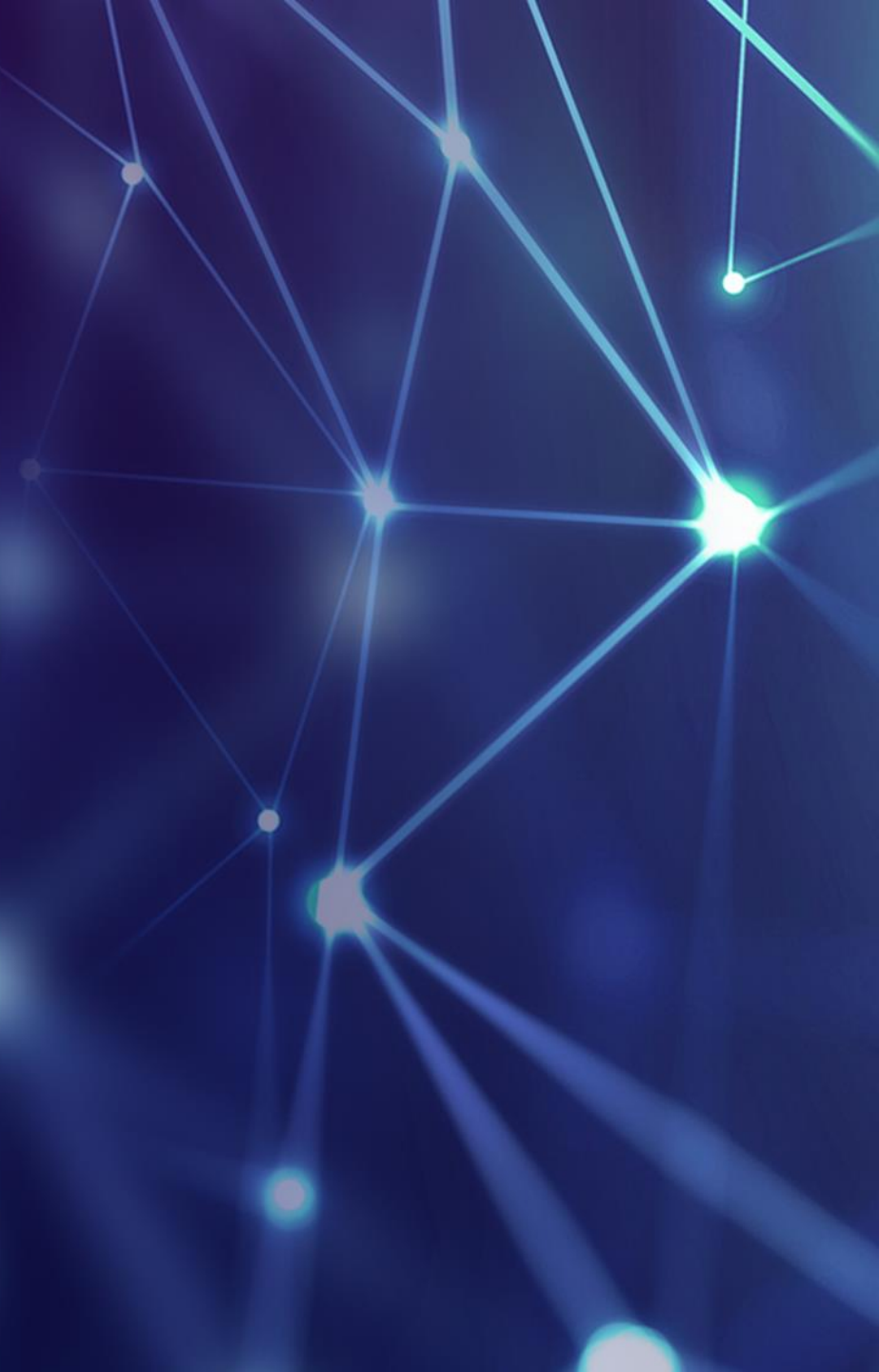.

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Group entity dynamics

Group Entity Dynamics

Individual accountability poses particular challenges for international organisations/group entities with more complex structures, such as asset managers and insurers. In addition, the UK SM&CR allows for extra territorial application. The CBI is unlikely to apply extra territoriality in the same manner. Nevertheless, group entities regulated in Ireland will face significant challenges in defining the individual accountabilities applicable to each legal entity and governing it appropriately.

Local autonomy vs. group strategy	Business vs. legal entity structure	Outsourcing and delegated responsibility	Governance
▪ Role of group vs. role of subsidiary	▪ Individual accountability application at legal entity level	▪ A key area of focus for Irish, UK and European regulators	▪ Management Responsibilities Map
▪ Setting vs. implementing strategy	▪ Challenges around double hatting/time commitments	▪ Intra group outsourcing given the same level of focus as to external third parties	▪ Local entity autonomy maintained,
▪ Political implications of stating who is in charge	▪ Potential conflicts of interest.	▪ Oversight of delegated responsibilities	▪ Interaction with and membership of group committees
▪ Location of senior executives		▪ MI production.	▪ Independence of directors

3

Covid 19 impacts

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Covid 19 impacts and operational resilience

Covid 19 has renewed business focus on **operational risk and resilience, and business continuity planning (BCP).** These activities require defined accountabilities for and effective control of key functions, clear and effective delegation of tasks, and oversight of responsibilities and key risks across the organisation. These concepts also are central to the Central Bank of Ireland's proposed Individual Accountability Framework and Senior Executive Accountability Regime (SEAR).

In February this year **the CBI proposed introducing new PCF roles focussing on individuals responsible for key areas of business risk**, such as IT resilience, as well as significant business areas. These proposed roles include the Chief Information Officer and Head of Material Business Line.

Recent publications by the Association of Financial Markets in Europe (AFME), the UK PRA and FCA have reiterated the need for senior executives to focus on operational resilience and business risk and centre around some common themes:

It is essential that *senior executive responsibilities remain clear.*	*Reporting lines above and below senior executives must be clear*. Permanent and/or temporary changes must be appropriately reflected in governance documents (Management responsibilities map, structure charts).	Senior executives need to identify *key dependencies* and be comfortable with their level of resource (for example, the business continuity plans of critical service providers).
Senior executives should *consider the relevant risks and controls within their areas of responsibility;* including how Covid 19 may have impacted these and what changes have resulted.	Appropriate *Management Information* should be maintained, produced and scrutinised especially in the light of any changes to risks or controls. Any *new data trends* should be analysed.	Senior executives should consider *the impact of Covid 19 on decision making.* They should also *evidence the decisions they have made* especially if these have taken place within more informal settings.

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Legal Implications

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Legal Implications

SEAR will result in changes to the culture and approach of an organisation at a macro level, but at a micro level this will most likely mean updates to individual contracts and a revamp of current F&P policies and procedures

Employees

Indemnities, Insurance and Support

HR Implications

Non-Executive Directors (NEDs)

Non-Compliance

Outsourcing

Policy and Procedures

Defence of Regulatory Breach

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Digitally-enabled regulatory compliance
KPMG Accountability Manager

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Product Pillars

Document Repository

One convenient place for all mandatory documents, including 'live' management responsibility maps and statements of responsibility. Robust audit trails generated by the workflows.

Workflows

The entire employee lifecycle is built into workflows, enabling you to seamlessly embed Individual Accountability obligations into your existing framework, linking multiple functions and data sources.
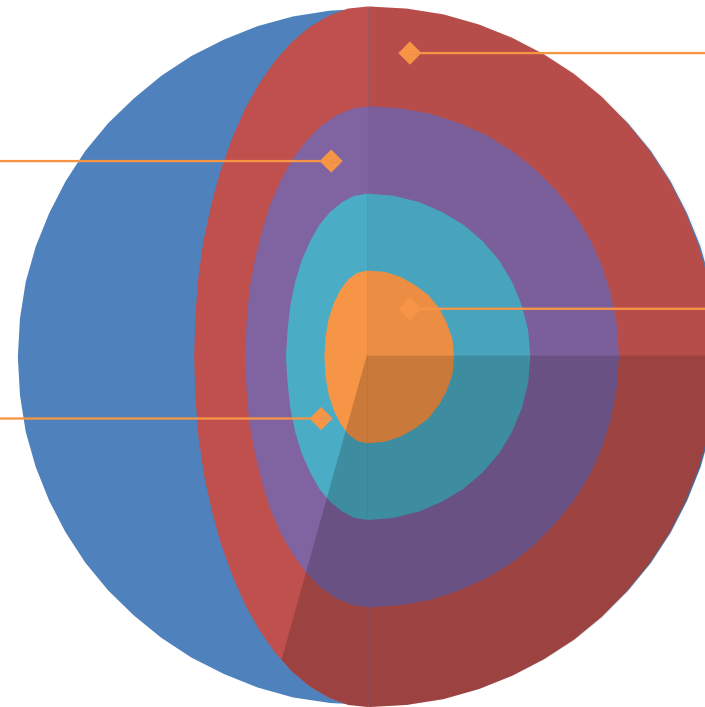
Population mapping

Our tool manages resignations, changes in responsibility and new SEFs or certified staff appointments seamlessly and tailored to the regime applicable to your firm.

Data & Reporting

Enabling effective communication and collaboration via automated and user-generated reporting. Ability to design bespoke dashboards to monitor ongoing compliance as well as track employee and organisational change.

Designed from the ground up with regulatory requirements in mind, our tool enables you to easily achieve compliance on day one and demonstrate your obligation on an ongoing basis.

Overview Key Features

- Identifies gaps against the regulatory requirements triggering alerts
- Monitors Fitness and Proprietary with auditable evidential trail
- Allows for customised user interfaces and workflows.

- Helps you control your Individual Accountability risk exposure and improve strategic planning and decision making
- Manages resignations, changes in responsibility, and new appointments seamlessly
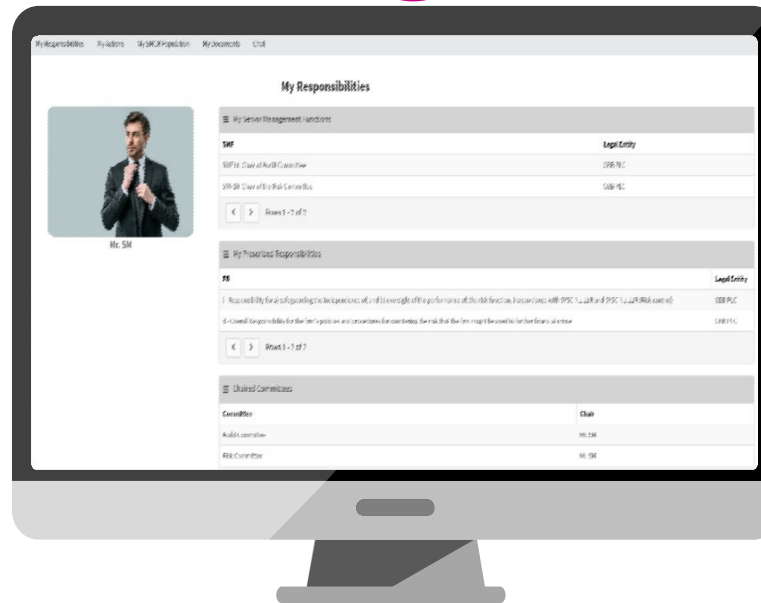
- Leverage the power of self-service to help you focus on tasks
- Hierarchical access rights help you manage conflicts
- Task management flows and MI dashboards enable monitoring of progress relating to new appointments and certifications
- Stores draft and annotated documents (e.g. Management Responsibility Maps) alongside the 'live' version

Our capability is single source of truth to manage and track all relevant Individual Accountability requirements. Each user's access levels are predetermined based on their role within the organisation and their responsibilities associated with the regime

Business Benefits

User-based design
- Designed with you in mind - moulds itself to your existing operating model

Control
- You retain full control over the solution via a perpetual licence and can modify it in the future should your requirements change – not dependable on KPMG

Adaptable
- Our tool uses Service now workflow, however our solution is adaptable to other workflows like Apian

Auditable
- Full audit capabilities and smart reporting with ability to tailor to your specific needs

Flexible
- Not an off the shelf solution – configured to your specific requirements. We work with you.

Compliant
- Not just another piece of software but an enabler for compliance anchored in regulatory requirements

Seamless
- Integrated with existing systems and data platforms allowing for a single repository whilst leveraging golden sources
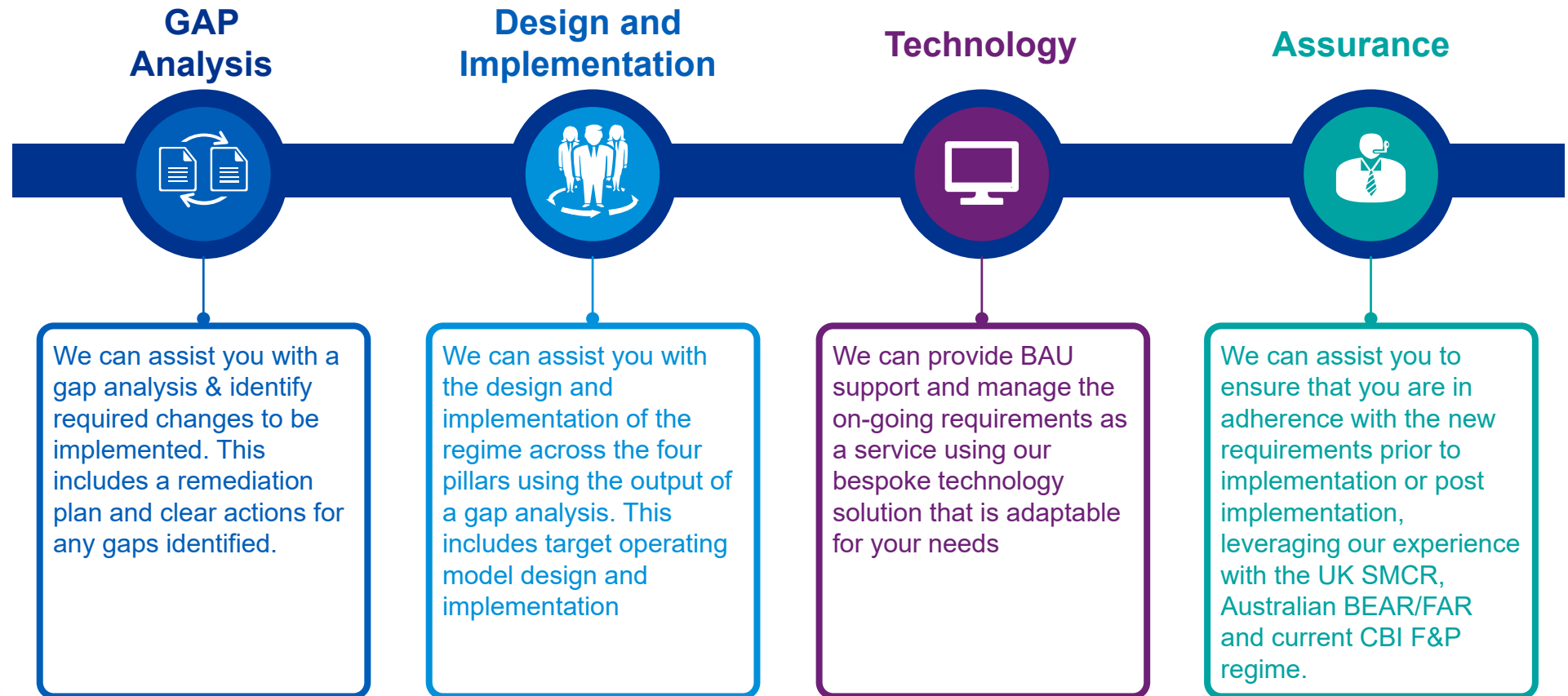
Smart
- Controls embedded within the workflows triggering notifications and automatically cross-populating documentation

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How KPMG can help

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How can KPMG help you?

GAP Analysis

We can assist you with a gap analysis & identify required changes to be implemented. This includes a remediation plan and clear actions for any gaps identified.

Design and Implementation

We can assist you with the design and implementation of the regime across the four pillars using the output of a gap analysis. This includes target operating model design and implementation

Technology

We can provide BAU support and manage the on-going requirements as a service using our bespoke technology solution that is adaptable for your needs

Assurance

We can assist you to ensure that you are in adherence with the new requirements prior to implementation or post implementation, leveraging our experience with the UK SMCR, Australian BEAR/FAR and current CBI F&P regime.
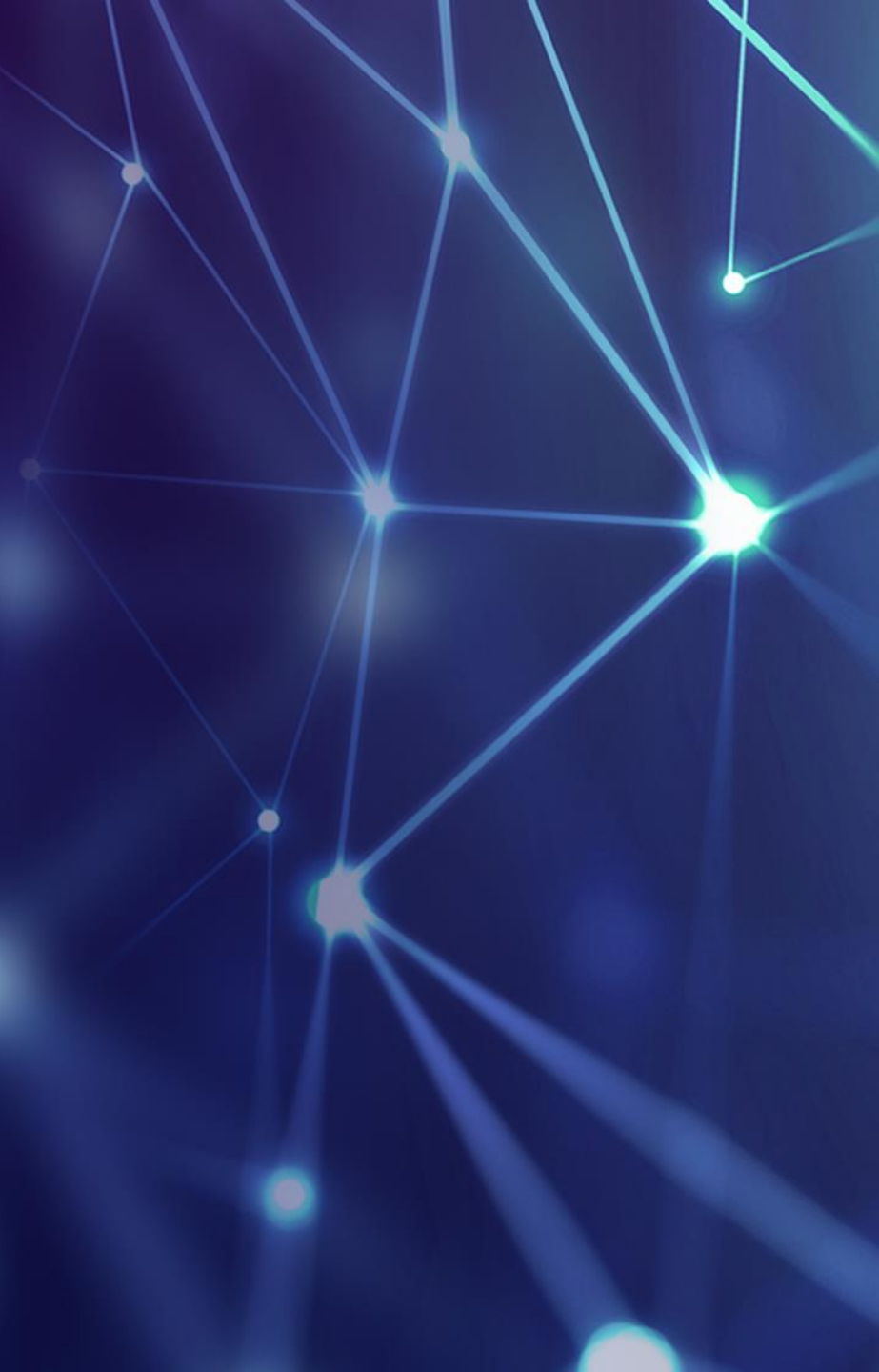
Multi-disciplinary Team

We have a multi-disciplinary and experienced team, made up of Regulatory, Risk, Legal, IT, People and Change personnel to assist clients manage this large scale programme of work in a seamless manner

Thank You!

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