



Senior Executive Accountability Regime

Preparing for the individual accountability framework 2022

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 Compliance
Institute

Foreword

Kian Caulwell and Michael Kavanagh

Mazars and the Compliance Institute are delighted to publish this unique insight into the views and expectations of financial services professionals and their preparedness for the impending individual accountability framework (IAF) and the senior executive accountability regime (SEAR).

While it is almost eight months since the Department of Finance published the General Scheme of the Central Bank (Individual Accountability Framework) Bill 2021, we know that many regulated firms are advanced in their preparations for the new framework. Now is the opportune time to gauge the awareness, preparedness, and concerns amongst compliance professionals and the financial services industry.

To facilitate and support Compliance Institute members through the implementation of the IAF and SEAR, there were a couple of key areas we wanted to focus on in this survey and report:

- I. The level of awareness and preparations for the IAF/SEAR amongst members; and
- II. Aspects of the IAF/SEAR proposals that are a cause for concern amongst members.

We hope you find the report insightful and supportive as you plan and prepare for the IAF and SEAR.



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CEO, Compliance Institute

The forthcoming IAF and SEAR is expected to significantly impact those entities and individuals that will come within its remit. It will require firms to review and overhaul their senior management arrangements, governance and HR processes. In many instances, the Compliance function will be tasked with implementing the regime, and the Compliance Institute is determined to support and guide our members through the process. We have already provided CPD workshops, articles, and podcasts on other jurisdictions' latest developments and experiences.

It is expected that the Bill published in July 2021 will be enacted into law during the months ahead, and the Central Bank is working in parallel on the regulations and guidance which will complete the new framework¹. In that context, our survey of members is timely and the results will allow us to tailor our deliverables to members.

It is understandable that the majority of firms have yet to commence formal planning for the implementation as we await the enabling legislation and guidance. However, it is positive to note that over three-quarters of respondents believe that the new regime will bring about meaningful change in behaviours within business.

¹ Gerry Cross, Director of Financial Regulation - Policy and Risk at the Central Bank address to Compliance Institute members, 21st February 2022. [Full speech.](#)

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Introduction

Welcome to our first individual accountability framework awareness and readiness survey report.

Post the publication of the Central Bank of Ireland's July 2018 report, *Behaviour and Culture of the Irish Retail Banks*, our members and their firms have been anticipating and planning for a new individual accountability framework (IAF) and a senior executive accountability regime (SEAR).

Following the Department of Finance's publication in July 2021 of the General Scheme of the Central Bank (Individual Accountability Framework) Bill 2021 (the Bill), the industry obtained an insight into draft legislation that will pave the way for the IAF/SEAR. Whilst there have been no formal deadlines when impacted firms must have implemented their own IAF, it is anticipated that this may occur in 2023.

In January, Compliance Institute issued a survey to members to obtain their views on a range of areas in relation to SEAR/IAF. The high response rate demonstrates the level of interest and engagement in this topic. 76% of responses represent firms impacted by the IAF/SEAR, with the remainder working within other types of firms. A significant number of respondents work in a controlled function role (including executive and non-executive roles) and the second line of defence², 80% and 72%, respectively.

Purpose

Through member engagement, we are aware of the potential impacts of the IAF/SEAR for our members and their firms and that this area continues to be a source of ongoing debate and uncertainty.

As a result, through the performance and publication of our IAF/SEAR survey report, we are seeking to provide our members and the financial services industry with a unique insight into:

- I. The level of awareness and preparedness within firms for the new IAF/SEAR; and
- II. Our member's views about the potential impacts of the IAF/SEAR on them and their firms.

As we progress through the legislative process concerning the IAF/SEAR, the consultation process, the publishing of the regulatory guidance and post-implementation, we will continue to assess and report on the challenges and impacts of implementing the IAF/SEAR amongst our members.

² The second line of defence is the firm's compliance and risk-related functions. They are responsible for providing guidance and oversight of the first line of defence.



Key findings

Awareness of an accountability framework

There is a high level of awareness of the IAF/SEAR and its potential impacts (70%) within Boards of Directors and Executive Committees of firms. Many firms have already taken some action to prepare for the IAF/SEAR, including:

65%

of respondents have reviewed their fitness and probity (F&P) or corporate governance arrangements.

76%

of respondents completed a formal assurance review of their F&P arrangements, performed by internal audit or compliance monitoring within the last three years.

These findings would indicate that firms are starting from a good place for reflecting the incremental F&P enhancements that will be required through IAF/SEAR.

Key findings

Preparedness for an accountability framework

The proposed IAF/SEAR will result in significant enhancements and changes to the system and control environments within impacted firms (firms). In terms of overall preparedness for an IAF/SEAR, it would appear that a majority (68%) of firms have yet to commence formal planning for the implementation of the IAF/SEAR. Less than one-third of respondents have initiated an IAF/SEAR readiness project. Given that the enabling legislation is not yet final, it is not surprising that the percentage is so low. Once there is further clarity surrounding the implementation dates, we expect this metric to improve in the months ahead.

It is anticipated that the IAF/SEAR will share several similarities with the regimes implemented in other jurisdictions, including that implemented by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) in the United Kingdom (UK). Using the learnings from those jurisdictions, it is advised that firms here should develop an initial implementation project to ensure they have sufficient time to address the requirements promptly.

Given the importance of the IAF/SEAR on enhancing the culture and behaviours within firms and its focus on senior management, it is expected that the CEO would sponsor this project. According to our survey, 20% of respondents noted that their CEO sponsors their IAF/SEAR project.

Over one-third (34%) of respondents noted that a representative from the second line of defence sponsors their IAF/SEAR project. Whilst our members and the second line of defence have a critical role in implementing their firm's IAF/SEAR project from an advice and oversight perspective. It would be unusual for the second line of defence to be charged with sponsoring a project to improve firmwide culture and accountability. As the legislation and supporting regulatory guidance are published, we expect to see a shift in the sponsor of the IAF/SEAR projects away from the second line of defence to the first line of defence ³.

Potential impacts of SEAR

A key objective of introducing the IAF/SEAR requirements is to encourage firms to improve their culture, behaviours, treatment of consumers and employees. Goals of this nature can often be welcomed with scepticism by stakeholders.

However, over three-quarters (79%) believe the IAF/SEAR will bring about meaningful change in behaviours within the financial services industry. This finding highlights the positive appetite for change within the industry, despite the requirements not yet being finalised. Indeed, based on research performed in the UK by the PRA, 94% of senior managers noted that the Senior Managers and Certification Regime (SMCR) had resulted in positive behavioural change.

In addition, 84% of Compliance Institute members believe that the IAF/SEAR will result in people becoming more risk-averse. At the same time, some would argue that excessive risk aversion could erode innovation and competition in our financial services ecosystem. It could also be viewed as a positive regarding safeguarding customers and employees.

While our respondents believe that the IAF/SEAR will positively impact behaviours, there is concern that the regime will increase the personal risk associated with a pre-approved controlled function (PCF) role. 41% are particularly concerned about how they should/will document and evidence reasonable steps related to their role.

These concerns surrounding risk aversion and personal risk were prevalent in the build-up to implementing similar regimes in other jurisdictions. However, through the timely implementation of the requirements, firms and individuals could address these concerns without the crystallising of additional resource and capacity risk. In many instances, the implementation resulted in employees having greater clarity surrounding their roles and responsibilities. It is clear that respondents are seeking clarity on what constitutes reasonable steps in the context of their role and how they manage their personal risk.

³ First line of defence refers to the front office (or the firm's primary revenue-generating functions).



Next steps for firms

Whilst the formal requirements of the IAF/SEAR are not finalised, there are several worthwhile steps that firms can take to assist their preparation and address some of the concerns highlighted by the survey results.

These include:

- Establish an IAF/SEAR Working Group, with an appropriately senior first line of defence sponsor.
- Develop an initial high-level implementation plan based on the detail outlined in the following:
 - General Scheme of the Central Bank (Individual Accountability Framework) Bill 2021;
 - Key requirements outlined in the UK's SMCR that are referenced in the aforementioned General Scheme, e.g. management responsibility map, regulatory responsibilities, statements of responsibilities, reasonable steps, code of conduct rule breaches etc.; and
 - Relevant publications from other jurisdictions evaluating the effectiveness and lessons learned from the implementation of their accountability frameworks.
- Assign ownership and target dates within the implementation plan for the preparation of key activities, including:
 - Assessing the design and operating effectiveness of your current systems and controls as they relate to relevant areas such as, but not limited to:
 - Governance and oversight arrangements; and
 - F&P and human resource management arrangements, including performance management, employee onboarding and exiting.

Your observations based on the above assessments should be utilised to identify areas that require enhancement, accompanied by the relevant actions and allocation of ownership.

- Developing business and employee-specific conduct standards that reflect the draft Bill and incorporate into your culture and performance management processes;
- Develop a draft responsibilities map working document that reflects and allocates prescribed responsibilities, key business areas and management functions as identified within other similar regimes (e.g. the PRA and FCA); and
- Developing your internal guidance for the documentation and evidencing of reasonable steps.

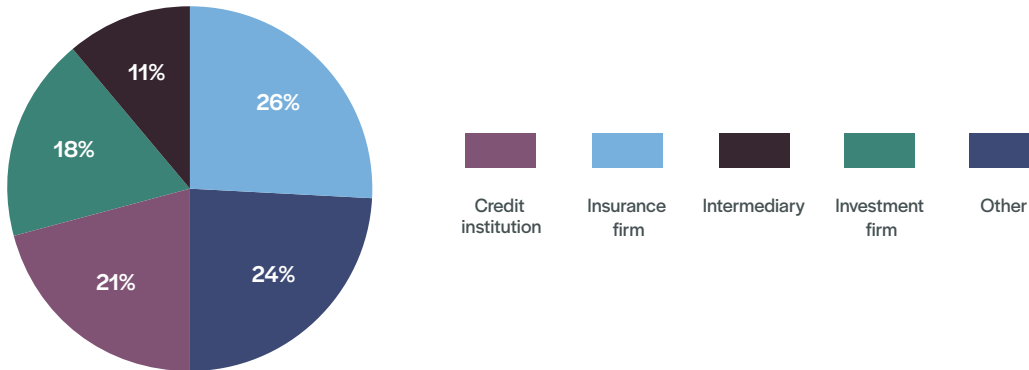
Conclusion

This topic will remain a key area of focus for the Compliance Institute as we journey through the legislative process. We will continue to provide analysis and insights on the latest developments via our magazine the ICQ, our monthly newsletter, publications, CPD events and our podcast series – the Compliance Files. We are also working on an education programme which will be delivered once there is more certainty on what the regime will look like.

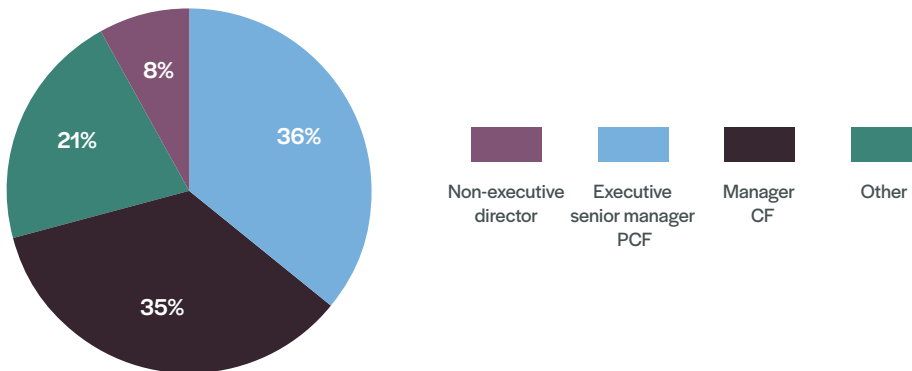


Detailed Survey Results

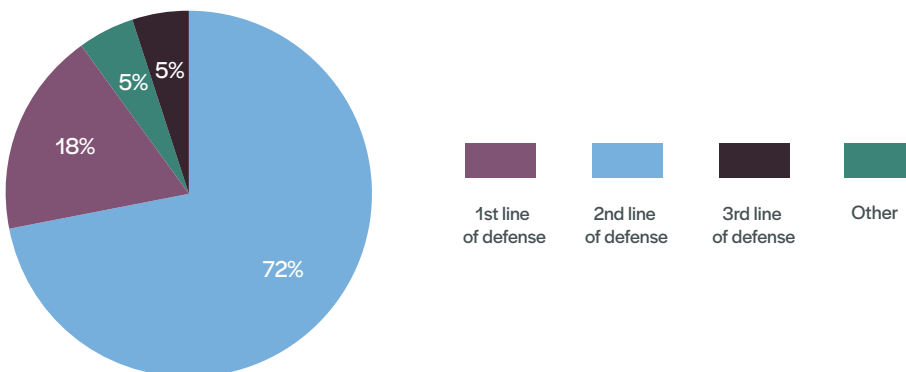
What type of firm do you work in?



What best describes your role in your firm?

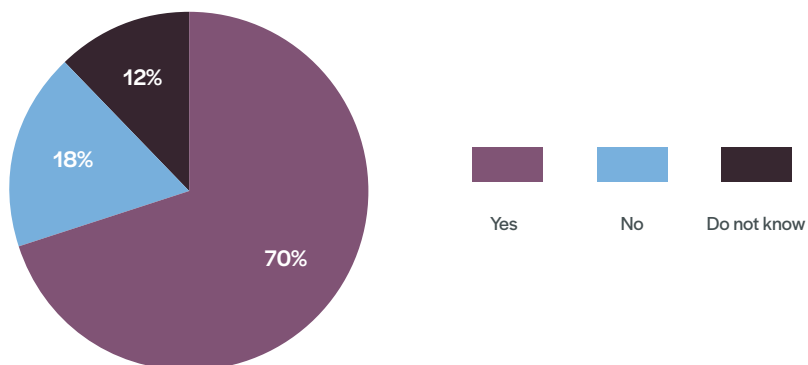


What section of your firm do you work in?

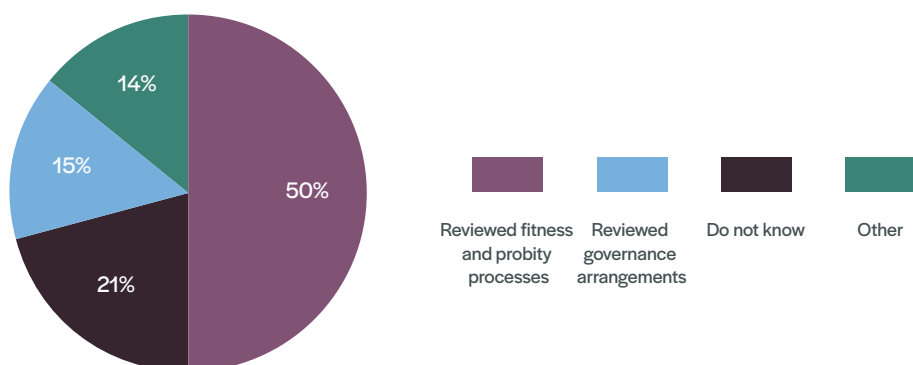


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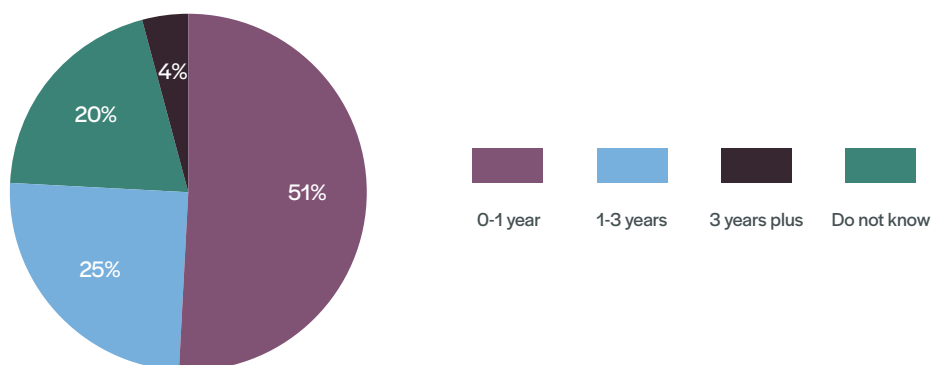
Has your Board and/or Executive Committee considered the impact of SEAR/IAF in the past 12 months?



What steps/actions has your firm taken in preparation for SEAR?

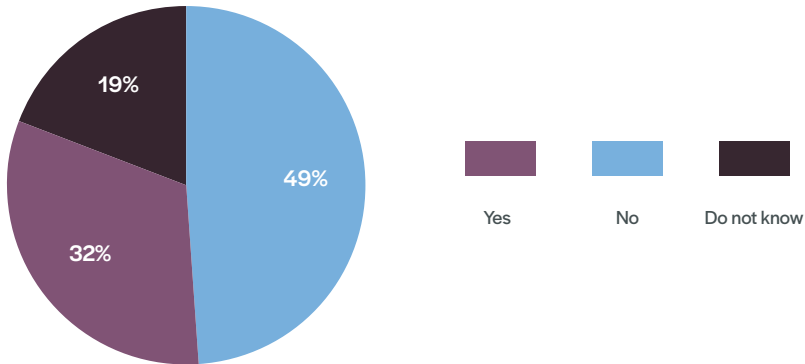


When was the last time your firm performed an internal audit or compliance monitoring review of its Fitness and Probity arrangements?

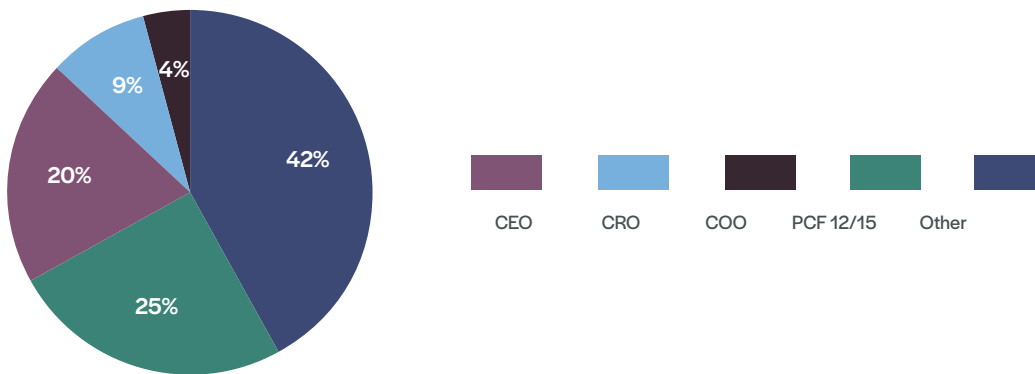


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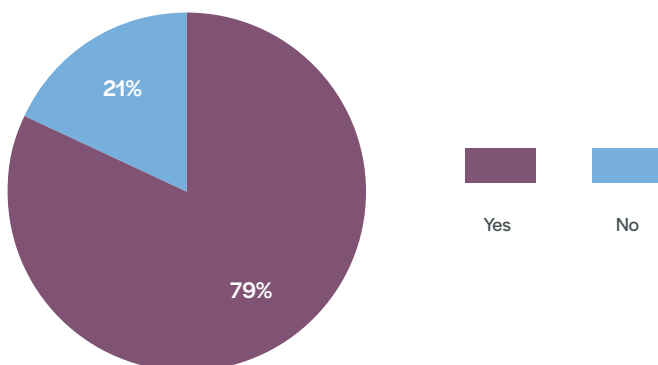
Has your firm initiated a SEAR/IAF readiness project?



If yes, who is the sponsor of the project?

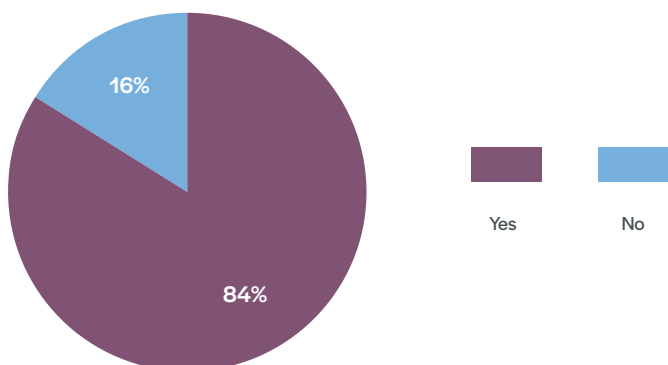


Do you think SEAR/IAF will bring about meaningful change in behaviours in the industry?

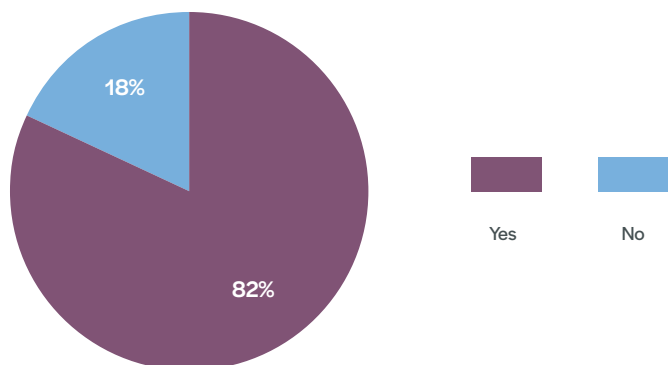


Detailed Survey Results

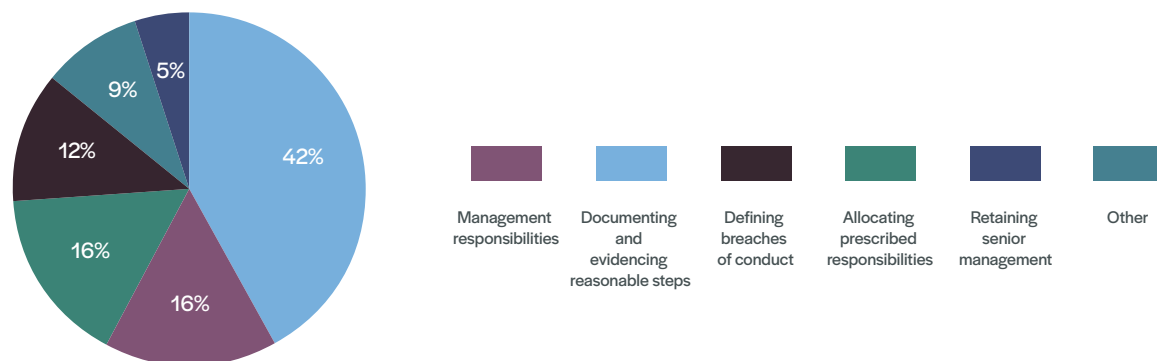
Do you think the SEAR/IAF regime will lead to people becoming more risk averse?



Do you think that there is an increased personal risk in you taking a PCF role in the future?



What aspects of the SEAR/IAF proposals are you most concerned about/want detailed guidance on?





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*Where permitted under applicable country laws

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