

The Individual Accountability Framework

Planning and preparing for increased accountability in financial services

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 Compliance
Institute

Foreword

Kian Caulwell and Michael Kavanagh

Mazars and the Compliance Institute are delighted to publish this follow-up to our first Individual Accountability Framework (IAF) readiness survey report in March 2022. Our November 2022 report is based on 160 survey responses received. July and October 2022 have witnessed further developments in the legislative journey of the Central Bank (Individual Accountability Framework) Bill.

As compliance professionals and their firms finalise their 2023 priorities and action plans, we thought now was the opportune time to re-assess the views of members with respect to their preparedness for IAF.

In addition to gauging readiness for the IAF, we have also sought to:

- Understand the key actions firms are planning to undertake in 2023 as part of their IAF implementation; and
- Understand member's perspectives surrounding the impact IAF may have on customer outcomes, business performance, resourcing and culture.

We hope you find the report insightful and supportive as you plan for 2023.

Among the tsunami of forthcoming regulations that the compliance professional will have to deal with, the proposed IAF regime is one of the most significant. It remains an area of key focus for the Compliance Institute as we continue to assess and report on the challenges and impacts that implementing the new regime will have for our members. It was with this in mind that we thought it would be beneficial to follow up on our initial survey and indeed expand on it as new challenges become known.

The survey of 160 Compliance Institute members with responsibility for compliance in a wide range of financial services organisations throughout the country looked at a range of areas in relation to IAF and SEAR. As borne out by the results, the Compliance function will be primarily tasked with implementing the regime within affected firms.

Therefore, the results of a survey of those with the most knowledge of how financial services firms will be impacted by IAF should be considered and analysed by the wider business community, regulators and government.



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Introduction

Welcome to our second Individual Accountability Framework awareness and readiness survey report

Following the publication of our first survey report in March 2022, further milestones were reached during Quarter 3 and 4 2022, which has seen the proposed regime develop momentum:

- In July 2022, we saw the publication of the Central Bank (Individual Accountability Framework) Bill 2022 (the 'Bill'), which provided a number of enhancements to the July 2021 General Scheme (the 'General Scheme'); and
- In October 2022, the Bill was further discussed at Second Stage in Dáil Éireann, and at the time of writing, the Bill is currently before Dáil Éireann (Third Stage).

The Bill follows a similar structure and focus as the General Scheme, such that the Individual Accountability Framework (IAF) will consist of four key pillars, specifically:

- I. The new Senior Accountability Executive Regime (SEAR);
- II. New conduct standards for regulated firms, their management and staff;
- III. Enhancements to the existing Fitness and Probity ('F&P') regime; and
- IV. Enhanced Central Bank of Ireland (CBI) enforcement powers.

Purpose

To support members and their firms as they finalise their annual compliance activity plans and regulatory change initiatives for 2023, we thought Quarter 4 2022 was the opportune moment to re-perform our IAF readiness survey. Following the developments in the legislative process through our survey of 160 respondents we sought to:

- Re-assess the level of readiness within the financial services industry for the IAF regime;
- Understand the key actions firms are planning to undertake in 2023 as part of their IAF implementation; and
- Understand their perspective surrounding the impact IAF may have on customer outcomes, business performance, resourcing and culture.

IAF readiness snapshot



The top five actions respondents have taken so far include:

- | | | | | | | | | | |
|---|--|---|---|---|--|---|---|---|---|
| 1 | Reviewed and/or enhanced their fitness and probity processes | 2 | Established a formal IAF implementation project | 3 | Reviewed and/or enhanced their corporate governance arrangements | 4 | Prepared an initial management responsibilities map | 5 | Reviewed and/or enhanced their culture, values and behaviours |
|---|--|---|---|---|--|---|---|---|---|

Key activities documented in IAF implementation plans?



81% Training

Other key activities:

- | | | | | |
|---|---|---|--|---|
| Review and/or enhance their fitness and probity processes | Review and update of employee job descriptions and employee contracts | Review and/or enhance their corporate governance arrangements | Designing and implementing a reasonable steps and/or a duty of responsibility policy | Review and/or enhance their conduct risk management framework or equivalent |
|---|---|---|--|---|

Will the IAF requirements bring about meaningful positive change in culture and behaviours in the financial services industry?

Yes **89%**

Who is the sponsor of firms' IAF project?

44%

Chief Compliance Officer (CCO)



Will the implementation of the IAF requirements result in financial services customers experiencing better customer outcomes?



76%
Yes

Will the implementation of the IAF make it difficult for firms to recruit individuals into

PCF roles?

84%
Yes

Key findings

Preparing and Planning for Implementing the IAF

Survey responses demonstrate that there has been a significant positive increase in the level of formal preparedness for IAF amongst respondents compared to March 2022.

As of October 2022, 49% of respondents now have in place a formal IAF implementation project plan, a significant improvement on the equivalent percentage in March 2022 of 32%. In addition, 40% or more of respondents noted that they have already completed some of the following actions:

- Reviewed and/or enhanced their fitness and probity processes.
- Reviewed and/or enhanced their corporate governance arrangements.
- Prepared an initial management responsibilities map.
- Reviewed and/or enhanced their culture, values and behaviours.

Of the respondents with a formal implementation project plan in place some of the most common planned actions include:

- Design and roll-out of IAF training and awareness material (81%).
- Review and/or enhance their fitness and probity processes (67%).
- Review and update of their job descriptions and employee contracts (62%).
- Review and/or enhance their corporate governance arrangements (60%).
- Designing and implementing a reasonable steps and/or a duty of responsibility policy (52%).
- Review and/or enhance their conduct risk management framework or equivalent (47%).

Expected Benefits of IAF

A key objective of introducing the IAF requirements is to encourage firms to improve their culture, behaviours, treatment of consumers and employees. Our survey results demonstrate that respondents believe that the IAF when implemented will enable the achievement of this objective. Specifically respondents noted that:

- 89% (79%, March 2022) believe the implementation of IAF will result in meaningful positive change in culture and behaviors in the financial services industry.
- 76% noted that they believe IAF will result in financial services customers experiencing better customer outcomes.
- 40% felt that the implementation of IAF would have a positive impact on business performance. A further 40% of respondents felt IAF would have no impact on business performance and only 20% of respondents were of the view IAF would have a negative impact on business performance.

Notwithstanding the above benefits, respondents clearly noted some concerns surrounding the potential negative impacts of the IAF on employees and resourcing, specifically:

- 86% (82%, March 2022) of respondents noted that they believe the IAF will result in increased personal risk for individuals appointed as Pre-Approved Controlled Functions (Pre-Approval Controlled Functions (PCFs), or Senior Executive Functions (SEFs)).
- 84% of respondents noted that they believe the IAF will make it more difficult to recruit PCFs/ SEFs in the future.

Where to from here?

Obligations are crystallising and momentum on the implementation of IAF is increasing

Compliance Institute members, their firms and other interested stakeholders will continue to speculate about the timetable of the IAF legislation and the regulation that will follow in due course.

However, the last three months alone have seen a demonstrable increase in activity surrounding the IAF legislative journey, which will undoubtedly continue a pace during Quarter 4 2022 and into early 2023. Alongside this, there is a clear message from respondents that their firms' level of preparedness is increasing and there is positivity surrounding the potential impacts of IAF.

Notwithstanding this there still remain concerns amongst respondents in relation to the:

- Potential impact of the IAF on current PCFs/SEFs and the ability of firms to recruit individuals into the senior most roles in financial services; and
- Expectations of the legislators and the CBI with respect to key aspects of the IAF, including but not limited to:
 - Management responsibilities mapping and allocation of prescribed responsibilities, 70%
 - Defining and allocating responsibilities, 61%
 - Documenting and evidencing reasonable steps, 59%.

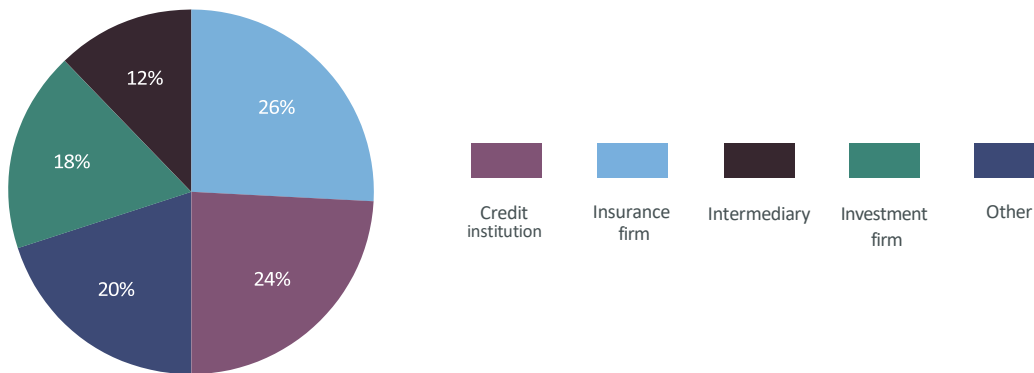
As we travel the IAF journey with members and their firms, we will continue to provide analysis and insights on the latest developments via our magazine the ICQ, our monthly newsletter, publications, CPD events and our podcast series – the Compliance Files. We are also working on an education programme which will be delivered when there is more certainty on what the regime will look like.



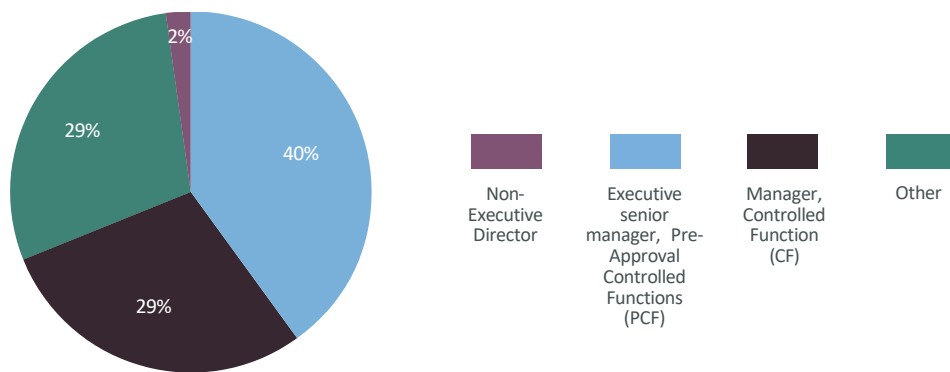


Detailed Survey Results

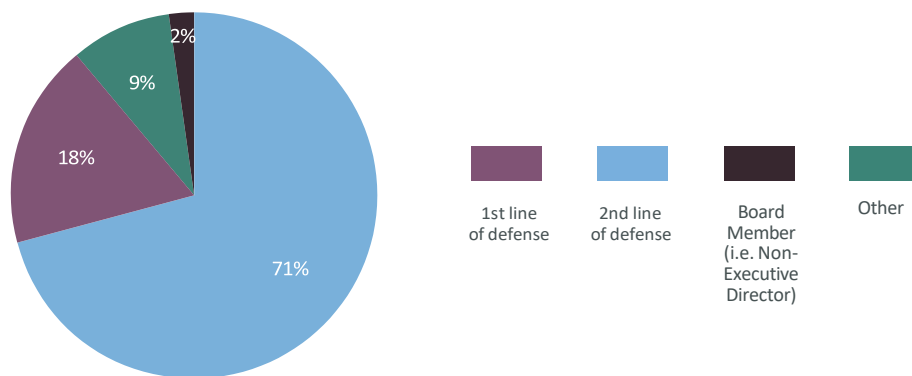
What type of firm do you work in?



What best describes your role in your firm?

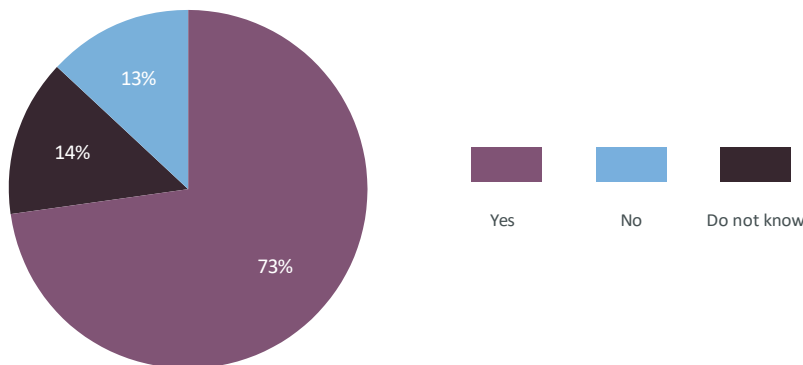


What section of your firm do you work in?

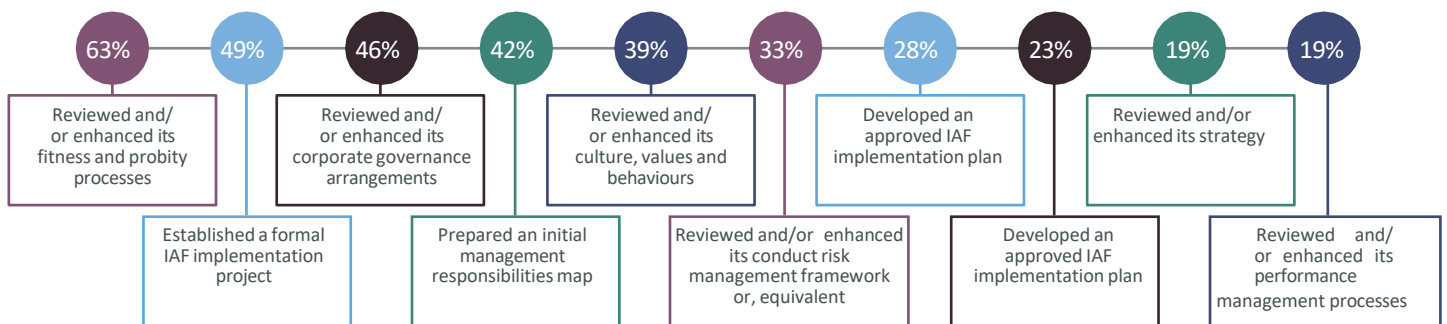


Detailed Survey Results

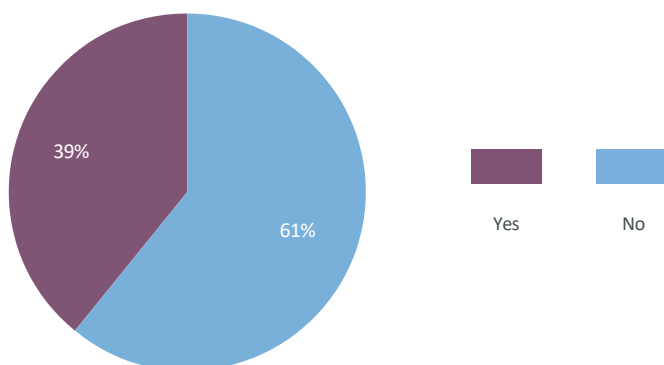
Has your Board and/or Executive Committee considered the impact of SEAR/IAF in the past 12 months?



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

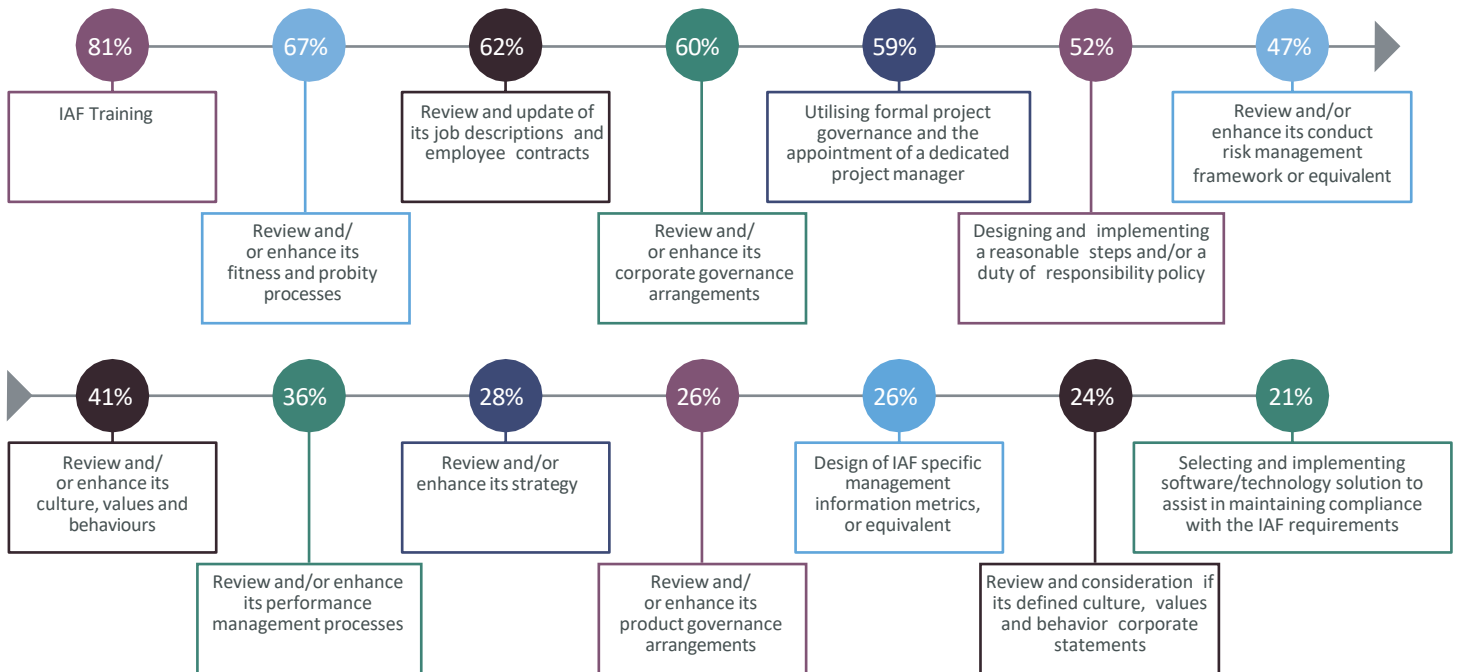


Where you noted above that your Firm HAS established an IAF implementation plan, do you have knowledge of the contents and actions documented in the IAF implementation plan?

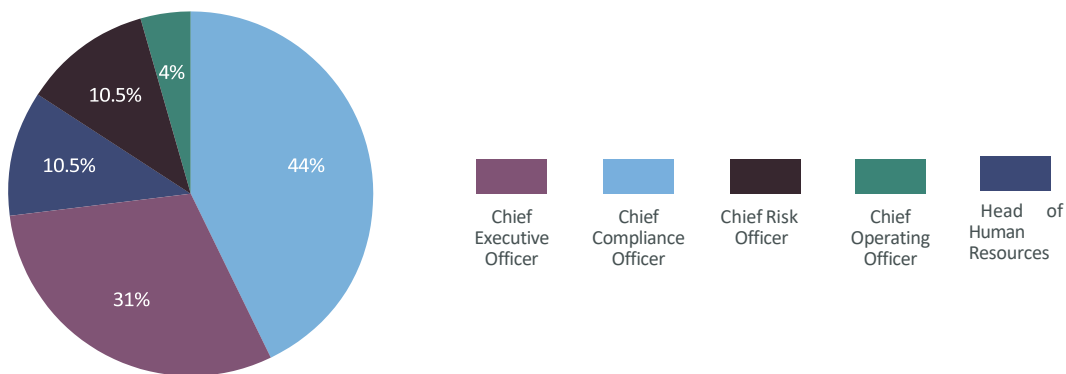


Detailed Survey Results

What are the key activities/actions documented in your IAF implementation plan?

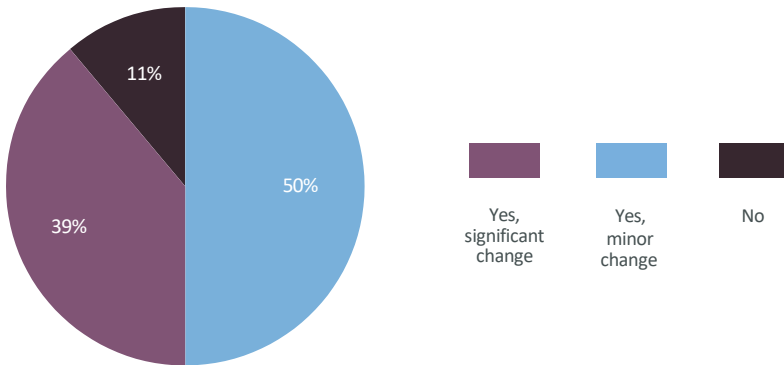


Where your Firm has established a formal project, who is the sponsor of the project?

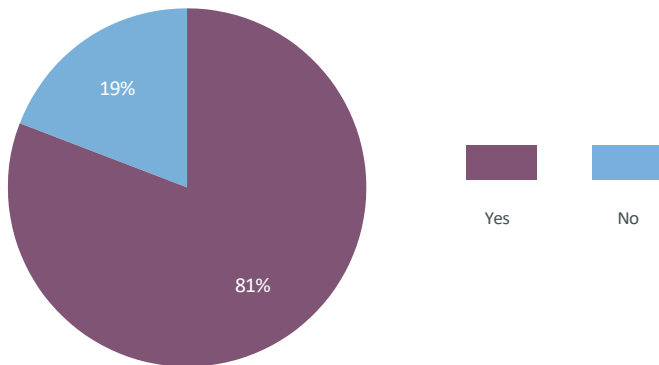


Detailed Survey Results

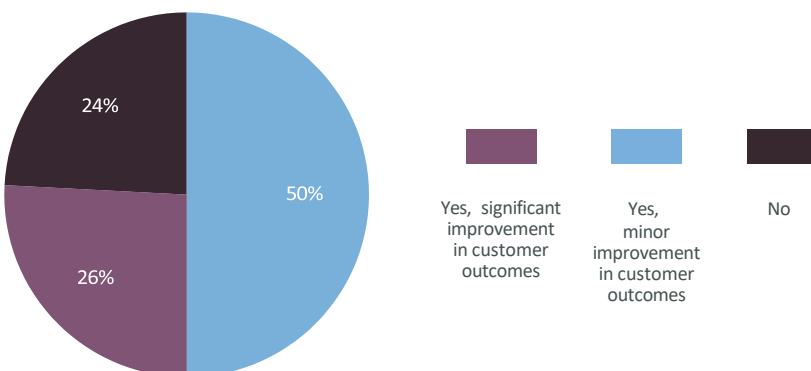
Do you think the IAF requirements will bring about meaningful positive change in culture and behaviours in the financial services industry?



Do you think the IAF requirements will lead to financial services professionals becoming more risk averse in their decision making?

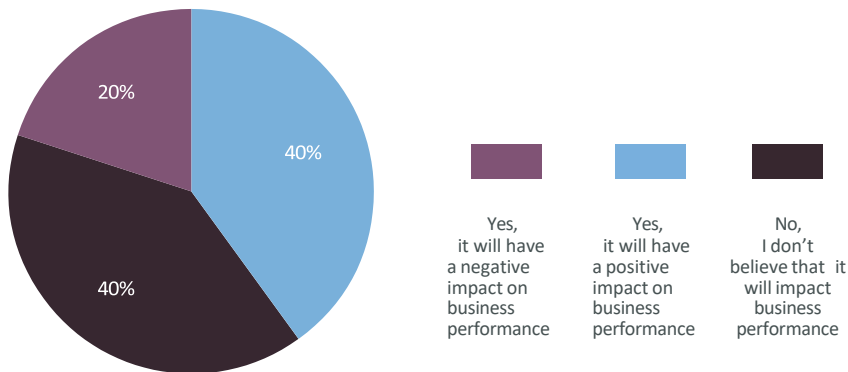


Do you think the implementation of the IAF requirements will result in financial services customers (i.e. corporate and retail) experiencing better customer outcomes?

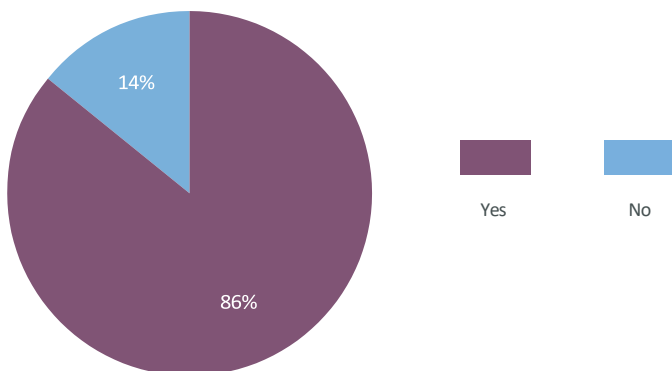


Detailed Survey Results

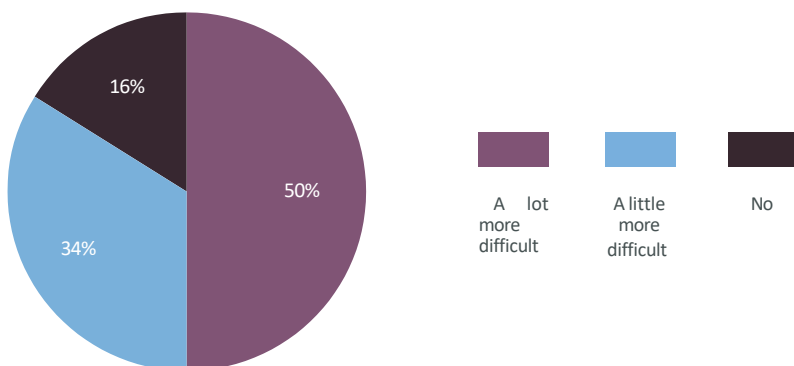
Do you think the IAF requirements will impact overall business performance?



Do you think that there is an increased personal risk for individuals taking a PCF (or Senior Executive Function) role in the future as a direct consequence of the IAF requirements?



Do you think the implementation of the IAF requirements will make it more difficult for impacted firms to recruit individuals into PCF (or Senior Executive Function) roles?



Detailed Survey Results

What aspects of the IAF requirements would you value greater clarity with respect to regulatory expectations and/or what good practice looks like?



Other aspects noted by respondents

- Impact of firms where CBI is not Home State regulator
- How the IAF will incorporate the protection of whistle-blowers



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