

**BANKING STANDARDS BOARD  
CONSULTATION PAPER**

**Certification Regime:  
(1) Fitness and Propriety definitions and sources of information**

**JUNE 2016**

## Introduction

*The proposals in this paper are intended to operate as voluntary good practice guidance and should not be considered as an exhaustive list of factors and practices that a firm should take into account when assessing Fitness and Propriety (F&P) in the context of the Certification Regime<sup>1</sup>. This paper should not be relied on as the basis for any decision or action.*

The Certification Regime requires firms to certify that relevant individuals are 'Fit and Proper' to perform their role. To help develop a common approach to Certification, over the course of 2016 the Banking Standards Board (BSB) has been working with a group of member firms through a Certification Regime Working Group. The Working Group agreed that the BSB should develop a common understanding of the meaning of the different elements of Fitness and Propriety (F&P) and the types of information that could be used in assessing each element of F&P.

## Definitions

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The paper outlines a set of working definitions that have been developed by the Working Group to help achieve a common understanding of what each of the following F&P elements mean:

- honesty and integrity;
- reputation;
- competence and capability; and
- financial soundness.

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<sup>1</sup> The Individual Accountabilities Regime (of which the Certification Regime is part) was introduced following changes set out in the Banking Reform Act 2013 to replace the approved persons regime, based on the Parliamentary Commission on Banking Standards' (PCBS) recommendations to improve professional standards and culture within the UK banking industry. For further details see: <https://www.the-fca.org.uk/improving-individual-accountability> or <http://www.bankofengland.co.uk/pru/Pages/supervision/strengtheningacc/default.aspx>.

## Sources of information

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The paper also focuses on the types of information that a firm may find useful in conducting an F&P assessment. It outlines suggestions categorised as follows, for each of the F&P elements:

- internal (the sources of information based on fact and those based on judgement);
- external;
- self-declaration; and
- potential future sources (the sources of information that either only partially exist or do not exist currently)<sup>2</sup>.

From the 'potential future sources' of information category, in certain areas, it may be appropriate for the BSB (and / or others) to develop what future good practice looks like. For example, the BSB has been considering how the broader issues of professionalism interact with the Certification Regime. Alongside the BSB's assessment exercise that it carries out with its members, as well as other work looking at what is being done internationally, the work on professionalism is ongoing and may help inform what future sources of information could be used when assessing F&P.<sup>3</sup>

This document should be read in conjunction with the following papers:

- BSB Consultation Paper – Certification Regime: Fitness and Propriety (June 2016)
- (2) Fitness and Propriety assessment principles (June 2016)
- (3) Fitness and Propriety assessment record template (June 2016)

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<sup>2</sup> This includes reference to draft rules on regulatory references on which the PRA and FCA have consulted.

<sup>3</sup> The BSB is conducting a project to look at the role of professional qualifications and professional bodies in the UK banking sector and how this might be changing and whether there is a case for a stronger professional body/bodies (Professionalism project). In addition, the BSB are conducting a project to examine what has been done in other jurisdictions in relation to raising or maintaining high standards of behaviour and competence (international work).

## Fitness and Propriety definitions and sources of information

### Honesty and integrity

**Working definition:** Honesty and integrity is demonstrated by an individual who is open in his or her dealings (inside and outside the workplace), who behaves in a way that is trustworthy, and fair, and who is responsible and accountable for his or her actions.

Internal (Fact)	Internal (Judgement)	External	Self-declaration	Potential future sources
<ul style="list-style-type: none"> <li>Internal disciplinary proceedings</li> <li>Recorded conduct rule breaches</li> </ul>	<ul style="list-style-type: none"> <li>Performance appraisal (e.g. on the basis of self-declaration / other evidence that an individual has conducted themselves with honesty and integrity)</li> </ul>	<ul style="list-style-type: none"> <li>Professional body (if appropriate)</li> <li>Disclosure and Barring Service (DBS)</li> <li>Overseas criminal records check</li> <li>Ministry of Justice / Court Tribunals judiciary</li> <li>Clearing house (e.g. LCH.Clearnet)</li> <li>Staff fraud checks</li> <li>Company searches (prior organisations the individual was involved with (investigations / liquidation))</li> <li>Sanctions check</li> </ul>	<ul style="list-style-type: none"> <li>Declaration of anything (i.e. content) that calls into question an individual's honesty and integrity (e.g. previous criminal convictions, civil proceedings, regulatory disciplinary proceedings, or disqualification from an authority, disclosure of any internal relationships, confirming whether an individual is currently subject to any criminal proceedings etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Commitment to uphold high professional / ethical standards</li> <li>Interviews (e.g. set of questions and evaluating behavioural indicators that demonstrate evidence of honesty and integrity)</li> <li>Ethical and / or psychometric tests to assist with the assessment of an individual's honesty and integrity</li> <li>Regulatory reference</li> </ul>

## Reputation

**Working definition:** The impressions or opinions held by others about an individual that reflect positively or negatively on the firm for which the individual works, or is about to work, and on the individual's ability to perform his or her role effectively. Such beliefs and opinions may be influenced by:

- external factors (e.g. the views of previous employers or peers in other firms);
- factors internal to the firm; and
- aspects of the individual's personal activities outside the professional sphere.

Internal (Fact)	Internal (Judgement)	External	Self-declaration	Potential future sources
<ul style="list-style-type: none"> <li>• N/A</li> </ul>	<ul style="list-style-type: none"> <li>• Performance appraisal (e.g. on the basis of 360-degree feedback received from an individual's colleagues and an annual performance rating attained)</li> <li>• Internal references (e.g. conducted prior to an internal move)</li> </ul>	<ul style="list-style-type: none"> <li>• Regulatory complaints / breaches</li> <li>• Professional body complaints / breaches</li> <li>• References (on joining a firm)</li> <li>• Social media (e.g. reviewing online activity and profile in line with a firm's formalised process for initial and ongoing screening and data protection legislation)</li> <li>• Professional connection websites</li> <li>• Media profile</li> <li>• External publications (e.g. has developed a track record / known as an opinion leader, an expert or innovator whose opinion is valued in a specific area)</li> </ul>	<ul style="list-style-type: none"> <li>• Declaration that the individual has not been responsible for / involved in anything that has or could bring the individual / firm / industry into disrepute</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews (e.g. through interview questions, behavioural indicators demonstrate that an individual considers the perception of external stakeholders towards their actions and the impact their own reputation may have on the firm)</li> <li>• Capturing and recording customer / client feedback</li> <li>• Regulatory reference</li> </ul>

## Competence and capability

**Working definition:** A term that can encompass two dimensions:

1. the 'stock' of professional experience and qualifications that an individual brings to a role at the outset; and
2. the performance of the individual in role – which can be evidenced through time – and which accumulates into the individual's 'stock'.

Internal (Fact)	Internal (Judgement)	External	Self-declaration	Potential future sources
<ul style="list-style-type: none"> <li>• Internal training / events (e.g. attendance levels)</li> </ul>	<ul style="list-style-type: none"> <li>• Application and interviews during the recruitment and selection process (e.g. interview notes, assessment results, rationale for hiring)</li> <li>• Performance appraisal (e.g. balanced scorecard criteria and performance rating including any performance issues or Performance Improvement Plans (PIPs))</li> </ul>	<ul style="list-style-type: none"> <li>• Professional qualifications (and overseas equivalents)</li> <li>• Education background</li> <li>• External training / events</li> </ul>	<ul style="list-style-type: none"> <li>• Declaration that the individual is fit and proper to carry out the requirements of their role that would be detailed in the specific job description</li> </ul>	<ul style="list-style-type: none"> <li>• 'Job families' (i.e. as a means of assessing the expected competencies / skills for certain roles in the industry to include consideration of non-banking backgrounds and international employees)</li> <li>• A mandatory, role-specific training and competence scheme as part of an employee's induction and progression</li> <li>• Industry / other sector body qualifications (i.e. a prior requirement for attainment of certain roles)</li> <li>• Continuous Professional Development (CPD) (e.g. firm could consider developing a CPD scheme whereby employees are required to complete a minimum number of hours of CPD within a 12 month period with a minimum number of hours for structured learning)</li> <li>• The annual review by an individual of the job descriptions for their roles, confirming they are a correct and accurate reflection of their roles and responsibilities</li> <li>• Evaluating training effectiveness (e.g. discussion with line manager, follow up surveys and calls)</li> <li>• Regulatory reference</li> </ul>

## Financial soundness

**Working definition:** Assessment that an individual is not in a financial position that might lead them to compromise their professional and ethical conduct.

Internal (Fact)	Internal (Judgement)	External	Self-declaration	Potential future sources
<ul style="list-style-type: none"> <li>Salary and overall remuneration</li> </ul>	<ul style="list-style-type: none"> <li>Indicators of financial irresponsibility</li> <li>Compliance with expenses policy</li> </ul>	<ul style="list-style-type: none"> <li>Credit reference agencies (e.g. Public and Credit Account Information Sharing (CAIS) check)</li> </ul>	<ul style="list-style-type: none"> <li>Declaration that the individual is not the subject of any arrangements / proceedings / judgements that could call into question their financial soundness</li> <li>Disclosure of a wider range of statements (e.g. demonstrate that the cost of meeting liabilities as they fall due, is adequately covered by salary and personal assets)</li> </ul>	<ul style="list-style-type: none"> <li>Wider culture / commitment a firm will make around openness (e.g. encourage an individual to disclose information regarding their financial soundness)</li> </ul>

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