Held to account

The competitive impact of enhanced senior management responsibilities in global financial services
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Ever since Nick Leeson brought down Barings Bank in 1995, regulators in the UK have been struggling to put in place an appropriate regime for holding senior managers to account. The UK’s first attempt, the Approved Persons Regime, which lasted ten years, was found wanting in the light of the financial crisis. Warren Buffett once said: “Only when the tide goes out do you discover who has been swimming naked”. The financial crisis exposed some shocking behaviour, from reckless decision making to outright illegality. The reputation of financial services nosedived as case after case of systemic failings was uncovered, all arguably caused by a lack of accountability of those at the top. The UK regulator’s response has been the Senior Managers and Certification Regime, which has been heralded as a gold standard. Only time will tell whether it can deliver what it aims to achieve.

Fast forward a decade from the start of the financial crisis, and a shift in regulatory focus from the institution to the individual is apparent. Scrutiny on the responsibilities and accountability of senior management within financial services is increasing across the globe, with particular parallels between what is happening in the UK and Asia. 89% of senior managers and compliance officers we spoke to worldwide for this report agreed that scrutiny has increased since the financial crisis. Encouragingly though, we’ve also found that the new rules are largely accepted, rather than challenged, driven by a belief that senior management accountability is good for business. In particular, there is a feeling that the increased scrutiny has improved governance and attitudes towards setting culture.

This report looks at the approach being taken by regulators across the world’s four leading financial jurisdictions - the UK, US, Hong Kong and Singapore. It examines the similarities and differences between the regimes, the reactions of those subject to the regimes, and highlights a number of potential unintended consequences of the increased emphasis on senior management.

Foreword
1. There is emerging evidence that, if left unchecked, a brain drain away from the top echelons of financial services will develop. Alongside the increased scrutiny, there is the potential for mistakes and errors to stay with individuals for the duration of their career. This fear of being punished could put future management candidates off taking senior roles within financial services firms.

2. Chief Compliance Officers are not typically risk-takers, but the best Chief Executives do tend to push boundaries. Without the right balance of personalities at the top of an organisation then firms could struggle to compete and may suffer as a result.

3. While this study does not specifically examine the approaches being taken to senior management responsibilities in all EU member states, it is worth noting the UK regime is home grown and goes way beyond the requirements of any EU directive or regulation. This is particularly relevant in the context of the UK’s competitive position arising from its planned departure from the EU. Will the UK regime be seen as a standard to be admired and emulated - or a step too far?

4. Differences between the approaches adopted by various regulators could significantly increase the burden on individuals charged with global responsibilities. A reluctance by individuals to be subject to more than one regulatory regime could drive businesses to manage their affairs more along jurisdictional lines rather than product or service lines. This may not be in the interests of those that they serve.

For regulators, our research reveals a need for powers to be used proportionately, to build confidence in the different regimes governing senior management responsibilities, and in how they are applied.

Nobody wants to see a repeat of the behaviours that led to the biggest global economic downturn since the Great Depression. So it is reassuring to see that leaders accept and understand why scrutiny of their responsibility and accountability is higher than ever. We must also be alert to unintended consequences that could put people off taking senior roles in future, or damage competition. The long-term impact on global financial services could be profound if we are not.

Ben Blackett-Ord, Chief Executive, Bovill
Overview of senior management responsibilities

Around the world, regulatory scrutiny on senior figures within financial services is increasing, and legislative steps are either being taken or considered in order to hold them to account. This is particularly notable in the jurisdictions which host the world’s four largest financial centres: the UK, the US, Singapore and Hong Kong. Regulators in three of these centres (the UK, Hong Kong and Singapore) have all taken significant steps to reinforce the rules governing senior management responsibilities. In the US, the rules have evolved to something which looks different to those in other jurisdictions, but are still driven by wider societal sentiment that bankers and other senior financiers should be more accountable.

Extraterritoriality - how far do rules reach?

In the UK, there is very little territorial limitation on the Senior Managers Regime - so an overseas based senior manager could still be caught by the regime. Although, according to Bovill Consultant Prem Griffith, just how effective is the FCA’s ability to take action against such a senior manager remains to be seen. It is also important to note that the UK’s regime only applies to individuals who are involved in the day-to-day running of the UK entity - so for instance, a senior manager of a UK bank’s overseas based parent (E.g. Group COO), would be in the scope of the UK regime where they have some day-to-day operational responsibility for the UK business.

In the US, the complex web of regulatory bodies and institutions operating at national and state levels means that there is no one-size-fits-all approach to extraterritoriality. For example, the Securities and Exchange Commission (SEC), which is responsible for overseeing public companies, investment advisers and broker/dealers, takes the approach that if someone who is subject to US rules falls foul of them, they can bring action regardless of whether that person is in the US or elsewhere. But with a multitude of acts including the Advisers Act, the Investment Company Act, Dodd Frank and Sarbanes Oxley, the extent to which extraterritoriality can be applied depends on the precise act and which regulator governs that individual or organisation.

In Hong Kong, the Securities and Futures Commission (SFC) has said that “an MIC (Manager in Charge) can be located in Hong Kong or outside Hong Kong. In either case, he or she should be properly accountable to the licensed corporation. It is the responsibility of the corporation’s Board of Directors to determine the proper delegation of authority and responsibilities among its senior management (including MICs)”. The MIC regime was only very recently introduced, so it is too early to have any evidence on the SFC’s level of scrutiny on MICs based outside of Hong Kong.

Singapore has general provisions that capture certain acts in breach of local regulatory laws committed in part or in full in other countries. Specifically, the Securities and Futures Act provides that if an offending act is partly committed in Singapore and partly outside, or an action outside Singapore may have a “substantially and reasonably foreseeable effect in Singapore”, the party may be prosecuted as if the offence were committed in Singapore. This provision in the Securities and Futures Act is not easy to apply in practice. The closest example of cross-border investigation in action is the Monetary Authority of Singapore’s (MAS) investigation surrounding the closing of BSI Bank’s Singapore branch in 2016. During this investigation, MAS referred members of BSI Bank’s senior management to the Singapore Public Prosecutor and also announced they were working closely with the Swiss regulator. This type of co-operation between international regulators is the way that extraterritoriality is likely to work in practice, but is a complex area likely to be the preserve of only the highest risk cases.
Country focus: UK

Following the financial crisis, the Parliamentary Commission on Banking Standards recommended a new ‘senior persons regime’ with much greater clarity as to which senior figures are responsible for what within their banks, and a framework to hold those individuals to account when things go wrong on their watch. Following these recommendations, the UK led the way in implementing a Senior Managers and Certification Regime.

Under this regime, the most senior individuals within banks must be pre-approved by the regulators to perform a relevant Senior Management Function. Individuals must adhere to a new code of conduct, focusing on culture, ethical behaviour and diligent management and oversight. They now face significant personal liability should they fail to do so.

The Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) require every bank to assess their business operations and ensure that each part of the business falls under the oversight of a senior manager. The bank must produce a Management Responsibilities Map and all senior managers must have an Individual Statement of Responsibility (i.e. a regulatory job description), which the regulator can then use to hold them to account.

Both senior managers and those in the certification regime are subject to conduct rules. Firms need to make sure staff are trained and know the conduct rules that apply to them, and notify the FCA when someone breaches such a rule. In light of such breaches, individuals are not only subject to the firm’s internal disciplinary procedures, but the regulators can also take enforcement action against them. Whilst the regime came into effect in March 2016, as of today, no one has been punished for a breach of the regime.

From March 2017, firms caught by the regime are required to obtain regulatory references when appointing senior managers or individuals within the certification regime. In essence, the regulators want a framework in which individuals are held to account and where those with bad records are excluded from the industry. Some have expressed concerns that this framework will be difficult to enforce in practice.

In July 2017, the FCA published a consultation paper setting out its plans to expand the Senior Managers and Certification Regime beyond banks to the rest of the financial services industry. It also proposes bringing the existing Senior Insurance Managers Regime closer to that of the remainder of the financial services industry. The FCA is proposing to apply the ‘banking approach’ to around 350 of the largest and most complex solo-regulated firms referred to as ‘Enhanced Senior Managers and Certification Regime firms’. The outcome of the consultation will be published in the summer of 2018. The remainder of the industry will get a ‘light’ approach, whereby the key elements still apply, but some of the more onerous requirements, such as producing a Management Responsibilities Map or the requirement to ensure that all aspects of the business are under the ultimate responsibility of an approved senior manager, do not.

“"" The level of scrutiny on senior managers is unquestionably higher in the UK than anywhere else.

David Clark, Chairman
The Wholesale Markets Brokers’ Association
Country focus: Singapore

MAS published new rules for Boards and senior management in 2013, setting out what it sees as the pivotal role they play in ensuring a robust risk management culture at financial services firms. Since then, several money laundering cases have pushed senior management responsibilities even higher up the regulatory agenda, and seen the focus shift to banks as opposed to non-banks (even though the rules apply to both).

While these rules are not especially granular, Bovill Consultant Hemali Mehta points out: “Do not be fooled into thinking Singapore is a soft touch jurisdiction. It is not”. Individuals found guilty of an offence can face a fine, up to three years imprisonment, or both.

In Singapore, senior management bear the general executive responsibility for the day-to-day conduct of business and affairs of the organisation. However, the Board holds the overall responsibility for ensuring that business operations comply with Board approved policies, applicable laws and regulations, and are consistent with the industry’s practices.

A recent speech by Lee Boon Ngiap, Assistant Managing Director, MAS, reflects the regulator’s focus on senior figures at financial institutions maintaining high standards of conduct and culture. “Close attention does not necessarily mean that MAS will introduce more rules. But financial institutions can expect MAS to engage them more regularly on what they are doing within their own organisations to shape the right culture… that incentivises their employees and agents to do the right thing, rather than just doing what’s legal.”

The regimes in Asia are less descriptive and rigid than in London, but it still has a knock-on effect.

Bank CFO

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2 There are significant differences in legislative and regulatory frameworks across countries between the functions of the Board of Directors and senior management. In some countries, the Board has the main, if not exclusive, function of supervising an executive body (comprising senior and general management) to ensure that the latter fulfils its duties. For this reason it is sometimes known as the Supervisory Board. In such cases, the Board has no executive powers. By contrast, in other countries, the Board has broader responsibilities but delegates many of them to Senior Management. Because of these differences, the terms “Board” and “senior management” are used in MAS’ guidelines to identify two decision making functions within an institution but not to identify legal constructs.
Country focus: Hong Kong

In Hong Kong, it is the non-bank regulator which has taken the lead when it comes to senior management responsibilities. In 2016, the Securities and Futures Commission (SFC) announced the MIC Regime, which became effective in April 2017.

In a keynote address to the AIMA APAC Annual Forum 2016, Julia Leung, Executive Director, Intermediaries of the SFC, highlighted the importance of fostering “a sense of genuine responsibility and clear accountability” in senior managers of licensed firms. The rules introduced by the SFC pay close attention to how senior managers demonstrate compliance, and are considered by many commentators to be directly inspired by the Senior Managers Regime in the UK.

Will the Hong Kong Monetary Authority (HKMA) follow suit in rolling out a similar regime for banks? It is thought that they are updating their Banking Ordinance rules which provide the legal framework for banking supervision in Hong Kong, so that its requirements are aligned with the SFC’s MIC programme.

“The regulators in Hong Kong are rigorous in their approach. This is understandable, because their job is to protect investors and to make sure regulated financial institutions understand the risk their operations pose to investors.”

Jessica Law, Managing Director, Hong Kong Saxo Capital Markets HK Limited
Country focus: US

The regulatory approach to senior management responsibilities in the US stands somewhat apart from that taken in the other jurisdictions we have considered. The US is not as centralised in its approach. It has not implemented a single regime, largely because of the many regulators with oversight of different parts of the financial services industry.

The SEC, Financial Industry Regulatory Authority (FINRA), Commodities Futures Trading Commission (CFTC) and National Futures Association (NFA) all operate at a national level, while some institutions may be registered at a state level with bodies such as the New York State Department of Financial Services. It is a supervision landscape which is often confusing for firms, according to Bovill consultant Ross Goffi.

Unlike the UK, US banking regulators do not require senior managers to be approved before they are appointed, except when the bank applies for its charter or in the case of failed banks. Sally Yates issued a memorandum in 2015 during her tenure as Deputy Attorney-General at the US Department of Justice, emphasising the requirement to hold individuals accountable for wrong-doing. However, introducing accountability for ‘on your watch’ offences in the US would require legislative change.

In August 2017, the Federal Reserve Board asked for comments on a proposal aimed at refocusing supervisory expectations and guidance for a proposed new ‘Large Financial Institution Rating System’. One of the attributes of this rating system states that a “Board should hold senior management accountable for implementing the firm’s strategy and risk tolerance and maintaining the firm’s risk management and control framework”.

The threat of shareholder action arguably keeps senior management in the US awake more than the threat of regulator action. The hope is that the Federal Reserve Board’s proposal to increase clarity on supervisory expectations will improve corporate governance, increase efficiency, support greater accountability, and promote compliance with laws and regulation.

Of the latest rules that have come into place globally, I would say that the US is more like an outlier.

Julian Sluyters, Chief Operating Officer
PineBridge Investments

Which senior management roles feel the most heat?

In the US, there is more focus on Chief Compliance Officers (CCOs) than the Board. In the UK, it is the other way around.

In the US, all investment adviser firms are required to have a CCO. And at a local level, the New York Department for Financial Services now requires CCOs in their state to attest annually to compliance with their company’s anti-money laundering programme. One interviewee in the US told us that while only a small percentage of regulatory actions name a CCO, they tend to make headlines.

However, there are rules in the US being brought in which target other senior management roles too. For example, a new series of rules to ensure firms are prepared for cyber-attacks includes a requirement that senior managers are cyber responsible and accountable.

In the UK, Executive Directors and Compliance Officers (amongst others) will continue to need to be approved as senior managers under the new regime. The treatment of Non-Executive Directors differs between Banks and Enhanced Firms (where the Chairs of the Board and the key Board Committee members will be senior managers) and other firms, where the only approved (Non-Executive) senior manager is the Chairman.

In Hong Kong and Singapore, there is little evidence of MAS, the SFC or HKMA specifically focusing more on any one senior management role.\

“A potential consequence of the regulatory scrutiny on CCOs in the US is that American businesses might have to pay more to recruit and retain top compliance staff.”

Ben Blackett-Ord, Chief Executive
Bovill

Held to account
The views of senior management

To understand the impact of the rules around senior management responsibilities, we conducted online research and in-depth qualitative interviews with Executive Directors, Senior Management and Heads of Compliance. This spanned the four countries under our spotlight: the UK, Singapore, Hong Kong and the US.

The overwhelming majority of respondents to our online research - 89% - agreed that the level of scrutiny on senior management in financial services has increased since the financial crisis. But for the most part, the new rules are accepted, driven by a belief that greater scrutiny was needed and is a good thing for businesses. Counter to expectations, our research has uncovered little evidence of outright aversion to the increased scrutiny.

That said, the positive response to the changes is not absolute. Many of the leaders we spoke to explained that with rules still evolving in many jurisdictions, there remain challenges as they are rolled out and adopted in boardrooms around the world. Here, we explore where senior management embrace their enhanced responsibilities, and where they identify challenges.

Senior management embrace the scrutiny

Nearly all the senior managers surveyed felt regulatory scrutiny on them had increased. Their awareness of the rules is extremely high. 88% of participants told us they are “aware” or “very aware” of the rules around senior management responsibilities in their primary jurisdiction.

It is also encouraging that 50% believe the level of regulatory scrutiny is about right. Another one in ten feel it is actually too low. There is a sizable portion - just over one in four - who think the level of scrutiny is too high, but on the whole this represents a positive reaction to the steps taken by regulators over the last decade.
Which of the following most closely matches your view of the level of regulatory scrutiny on senior management in financial services in your primary jurisdiction?

- Scrutiny is correct: 50%
- Slightly too high: 27%
- Slightly too low: 12%
- Far too high: 6%
- Far too low: 1%
- Don’t Know: 3%
Business leaders feel that the increased scrutiny on senior management has positive implications for corporate governance, setting a precedent for principled behaviour and an ethical culture within the workplace.

An example of this is the changing relationship between Compliance Officers and leadership teams, which according to business leaders has vastly improved. “The compliance framework and leadership is kept much closer than it has been in the past. Not only do we need to have it as part of a cultural change for the industry, but we need to show the audit trail in our discussions that we are reviewing all the aspects the regulator would require us to do” (Jonathan Polin, Sanlam UK). Across many jurisdictions, Compliance Officers are often required to take part in Board meetings. According to one interviewee this is particularly the case in the US, although it is worth noting that mutual fund Compliance Officers in the US report to the Board, not to management.

In the UK, under MiFID, Compliance Officers are required to report to the management body, on at least an annual basis, on the implementation and effectiveness of the overall control environment for investment services and activities, on the risks that have been identified. The compliance function must also report on an ad-hoc basis directly to the management body where it detects a significant risk of failure by the firm to comply with its obligations under MiFID.

“For years there was modest, if any, contact between the governing Boards, senior management and compliance officers. These days, most heads of compliance or senior compliance managers are in every Board or committee meeting. It’s just part and parcel of how their business works now.”

Anthony Dell, Financial Services Industry CCO and Lawyer
Well-defined rules reflect well on locations as a place to do business

There is evidence from our research that the clarity of rules governing senior management could reflect well on the jurisdiction as a whole.

59% of respondents to our online research agreed that clear and tightly enforced rules make a jurisdiction more attractive. Only one in ten disagreed with the statement, with the remaining third (31%) neutral.

Brian Golob at Greenwich Associates told us that clearer, more consistently applied regulations that focus on alignment with client interests are more attractive to investors. “The jurisdictions that hit the balance between principles-based regulation and keeping organisations in line with what they are meant to deliver seem like the right place for investment and for firms who want to grow their business.”

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The UK is in the lead in terms of strictness and responsibilities that come with being a Board member or senior manager.

David Clark, Chairman
Wholesale Markets Brokers’ Association

Among the senior individuals we surveyed who said they follow rules across more than one jurisdiction, 39% view the UK as the strictest jurisdiction in its approach.

The consequences of this sentiment are particularly pertinent against the backdrop of the fight for business between the world’s leading financial centres. The battle has been fierce for years but in Europe it has been galvanized recently by the UK’s decision to leave the EU. Many commentators have suggested that Brexit will weaken London’s appeal as a financial centre and businesses will base themselves elsewhere in Europe. But the prevailing mood we have uncovered among senior managers suggests that this may not be a given. This would be good news for UK businesses, regulators and policymakers alike.

Enforcement has a role, but proportionality is key

Senior management recognise the need for enforcement action. Nearly two in three (63%) respondents to our online research believe that enforcement action is effective either as a deterrent, or as a reminder of regulators’ positions on senior management responsibilities.
Interviews with senior individuals reinforced these findings. Jonathan Polin at Sanlam UK said that enforcement notices “are an important tool as they allow the compliance team to show us key areas the regulator is clamping down on to make sure we’re not making the same mistakes.”

There is also a widespread acceptance that enforcement will reflect the move to regulators focusing on individuals as well as institutions. In Singapore for example, following recent high-profile lapses in anti-money laundering controls, MAS has said it is intensifying supervision to include exploring whether Boards and senior management at financial firms have “effective oversight” of money laundering risk.  

Aside from the risk of receiving a fine or being criminally prosecuted, senior managers guilty of misconduct face their reputation being ruined. Kenneth Ho, Manager, Risk and Compliance at First State Investments Singapore, believes

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**How effective do you think enforcement action is as either a deterrent, or as a reminder of regulators’ positions on senior management responsibilities?**

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- **Effective**: 38%
- **Very effective**: 25%
- **Neither effective nor ineffective**: 22%
- **Ineffective**: 13%
- **Very ineffective**: 2%

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Principles-based versus prescriptive - debate or distraction?

We have uncovered mixed views over where rules are more principles-based or prescriptive, and the pros and cons of both sets of approaches. For example, in the UK, some see the approach taken by the FCA as principles-based but others interpret the rules as led by principles and supported by detail.

At the same time, some business leaders argue that rules are becoming increasingly prescriptive and will continue to do so as scrutiny rises. The view in Singapore is akin to that in the UK. According to one CFO, “regulators are better off with a principles-based approach… if you try to write everything down, you end up falling into laws of unintended consequences.”

In Hong Kong, interviewees felt that the regulators there have taken a more prescriptive approach. According to Stanley Yuen, Head of Compliance at Pictet Hong Kong Branch, this could be down to culture. Likewise, while value is seen in the principles-based approach, there is also a concern that a lack of prescriptive guidance can lead to wrong interpretation of the law (Kenneth Ho, First State Investments Singapore).

Business leaders view the US as a more rules-based regime on the whole. However, even there, there are concerns that values like “integrity” are difficult to measure, leaving room for inconsistency when it comes to enforcement.

There is often a difference between the rules as laid out, which are mostly prescriptive (look at the length of the FCA handbook) and supervision of firm’s compliance with the rules, which is principles based. The varying views we have uncovered could be interpreted as misunderstandings but other parts of our research suggest that is not the case. Instead, perhaps it reinforces the fact that people’s interpretation of regulations is different. Clearly it is a cause for concern if rules confuse rather than clarify. But with little evidence that is the case, a debate over how the rules are worded may be a sideshow.

naming and shaming “can be worse than other punishments”. For this reason, Jonathan Polin at Sanlam UK believes regulators must exercise their powers carefully “There can be honest human error and they’ll pay for it for the rest of their lives. It’s a serious thing. And like everything there has to be a balance.”

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There’s no doubt that being named in a government enforcement action can have career-impacting consequences for individuals, even when they have done absolutely nothing wrong.

David Woodcock, Partner
Jones Day
Increased senior management accountability threatens unintended consequences

Despite challenges posed by varying levels of scrutiny and enforcement around the world, for the most part, senior figures accept the need for greater accountability and embrace it. But our research has uncovered potential consequences that regulators did not intend, and that neither regulators nor business leaders would want to see become endemic.

Brain drain away from senior financial services roles

Senior managers today recognise that rules are necessary. But tomorrow’s senior managers may simply look at the responsibility and accountability they could be asked to shoulder, and the potential for mistakes and errors to stay with them for the duration of their career (as well as hitting them financially), and decide not to take those top jobs.

Our research reveals that 44% of senior managers and Compliance Officers globally agree that it will be hard to attract quality candidates to the next generation of senior roles, because personal liability will be so high. Less than one in four (23%) disagree, while a third (33%) are neutral.

I think there are younger people who are coming up into the industry who are scared. ‘These new regimes are applying to me personally and I’ve never seen that before. Why should I put myself into a situation with heavy personal liability?’

Julian Sluyters, Chief Operating Officer PineBridge Investments

Interviewees pointed out that greater personal accountability could have a negative impact on the diversity of senior management teams. In other words, if people who haven’t previously worked in financial services are put off, the same individuals may remain.

The individuals we spoke to confirmed that taking senior roles would continue to be attractive to many, but that even a small brain drain away from financial services coupled with reduced diversity would negatively impact future growth and innovation across the industry.
Thinking about the next generation of senior management in financial services, how far do you agree with the following statement: “It will be hard to attract quality candidates to senior roles because the personal liability on them will be so high”?
Ability to make decisions and take risks is diminished

Businesses must take risks in order to grow and succeed. But could regulators be creating moral hazard by setting the benchmark for accountability so high?

The relationship between compliance teams and Boards has always been critical to good management. At a time when accountability on senior individuals is increasing, the need for the right blend of personalities around the Board table has arguably never been greater.

Most organisations would not expect to hire a risk-taker as Chief Compliance Officer. However, the best Chief Executives do tend to take risks within their legal and regulatory boundaries.

If the increased individual scrutiny means Chief Executives dial their risk-taking instincts down and think more like their compliance colleagues, the balance around the Board table will be affected and this will impact decision-making. In a global marketplace, management teams that are risk averse will struggle to compete or achieve their commercial aims, to the detriment of consumers.

Senior Managers Regime offers the UK a calling card post-Brexit

The UK’s Senior Managers Regime is considered a trail blazing piece of regulation. Our evidence suggests that this could work in the UK’s favour when businesses consider whether to base themselves in the UK or elsewhere post-Brexit.

The development of the Senior Managers Regime has not been driven by Europe. It is pure UK thinking. There are rules in place in other jurisdictions, but nowhere in the EU is the regime as comprehensive.

Nearly six in ten respondents to our global research agreed that clear and tightly enforced rules around senior management responsibilities contribute to a location’s overall attractiveness as a place to do business. If the FCA can get the regime right and demonstrate that it is applied in a proportionate way, it could become a powerful marketing tool. Once Brexit is complete, and competing financial centres on the continent look to lure firms away from Britain, this could help the UK hold on to firms it already houses and attract others to relocate.

My concern is how to maintain the entrepreneurial spirit in the business when ultimately you’re not rewarded for taking risk.

Andy Steel, Chief Executive
James Hambro & Partners
How far do you agree with the following statement? Clear and tightly enforced rules around senior management responsibilities in a particular jurisdiction contribute to its overall attractiveness as a place to do business.

- 36% Agree
- 31% Neutral
- 23% Strongly Agree
- 10% Disagree
Dealing with unintended consequences

Business leaders accept that increasing levels of personal responsibility has been the right thing to do. But our research has exposed some potential side effects which, if left unchecked, could have significant consequences for firms to operate effectively and successfully. Because of the role financial services play in the wider economy, these risks could have broader impact.

There is no silver bullet solution to address these issues. But there are steps which senior management and regulators can consider to stop them overshadowing the many positive aspects of greater personal responsibility and accountability.

Plan now for tomorrow’s senior managers

Our research found evidence that some of tomorrow’s senior individuals will decide against taking senior roles, put off by the level of accountability on their shoulders. Businesses can start to mitigate this risk now by preparing for the issues that will likely make the next generation of leaders think twice. Effective succession planning for particular roles will be critical, but another consideration is investing in training and education for junior and middle managers. Demystifying some of the responsibilities that come with senior roles may reduce the proportion who think such jobs are not worth the potential risks.

Bring compliance and Boards closer together

Our research shows that the relationship between Boards and compliance has never been more important. A consideration for all firms is to bring compliance heads in to Board meetings, or go further and make the role a Board appointment. This will give the CCO insight into the way senior teams discuss and decide on critical issues which has to be good for effective governance. Ultimately, it should help compliance departments produce better management briefings that do more than simply provide the facts on updates from the regulator, and answer the question senior management want answered above all others: ‘what does this mean for me?’.

Use regimes as a calling card for businesses who see well established rules as a draw

Our research has found that for a significant cohort of business leaders, clearly defined and well-established rules around senior management responsibilities enhance a location’s attractiveness as a place to do business. Regulators should consider ways in which promoting their regimes can be a positive factor in attracting firms and investors to their jurisdiction, in order to reduce the risk that the perceived strength of the regime is a deterrent.
About Bovill

Bovill is an independent, specialist financial services regulatory consultancy with a global offering. We are committed to providing practical solutions that make life easier for our clients. We use our deep understanding of the market to help them thrive in today’s complex regulatory environment.

With offices in the UK, Asia and the Americas we can offer a globally integrated service. We have subject matter experts covering all aspects of the regulatory landscape. By combining our local market expertise and international perspective we can support clients that operate across the globe.

Our consultants come from backgrounds in law, compliance, and consulting. We employ a number of ex-regulators. We know what regulators expect from firms and we are on top of regulatory change. We take time to understand our clients’ businesses and our advice is pragmatic, proportionate and commercial.
Methodology

Interviews
Bovill interviewed senior management and chief compliance individuals in the UK, US, Hong Kong and Singapore between April and July 2017. Many thanks, to those who participated. Quotes used in this report are personal views.

Online research
Bovill surveyed senior management and chief compliance individuals in the UK, US, Hong Kong and Singapore between July and September 2017.