

CONDUCT RISK

Significant Influence Functions – congratulations or commiserations?

Holding a Board member or senior executive position in a financial services firm used to be something to aspire to, but with stories of bans and public humiliation in the news, and both firms and individuals facing record fines, you would have thought that these roles would be and less attractive. Fortunately, there are many people undeterred by the challenges even though the “Senior Persons” and “Licensing” regimes proposed by the Parliamentary Commission on Banking Standards will increase pressure even further. In whatever form the proposals go ahead, what is certain is that the personal responsibility of Significant Influence Function (“SIF”) holders is set to increase. Many SIF holders will not be fazed - they are assertive and proactive, working hard to “do the right thing.” Others however will continue to be reactive, waiting for events to unfold, or passive in their participation in running a firm.

Aimed at new and experienced SIFs, and senior Human Resources and other support functions involved in appointing and supporting SIFs, this paper is designed to provide a clearer understanding of regulatory expectations. It contains insights gained from our work preparing SIFs for regulatory interviews, advising and mentoring SIFs following regulatory approval, conducting governance reviews and leading Board and SIF education programmes.

SIFs: Do you know what you need to know and what you don't know?

In our experience, when individuals are appointed to SIF positions, including the “sought after” first Non-Executive position, they often fail to conduct a thorough due diligence process. That is a huge missed opportunity as that is the ideal time to dig deeper and find out what they are getting involved in, particularly anything that may fall into the “more work to be done” category.

1 New SIFs: Your role and responsibilities

Make sure you fully understand your responsibilities ensuring that you:

- Understand all aspects of your role and your sphere of influence;
- Agree with your team and all relevant colleagues the scope of your role;
- Are given a job description that documents your role and that it is updated as necessary;
- Understand how your division/firm makes its money;

- Develop a detailed understanding of the risks in your division, both prudential and conduct risks, and how they are managed and monitored;
- Are comfortable with the risk types and levels, and the level of mitigation and monitoring; and
- Understand relevant current and emerging regulatory expectations

2 Firm strategy

The regulators will ask probing questions about your firm's sources of revenue and many clients are surprised by the depth of the questioning as they explore how a firm makes its money on a product, division and geographical basis. SIFs are expected to be able to talk comfortably about how the business model delivers the expectations of customers. This judgement-based oversight is forward looking and will require the regulator to develop, with your help, a deeper understanding of the sectors they regulate and what customers are experiencing. Consideration should be given to:

- Whether the firm's stated strategy is matched in reality, including whether the cultures and practices in the firm reflect the mission and values;
- The conflicts of interest that may arise as a result of having more profitable products / services cross-subsidise others;
- How the strategy of your division, aligns with the firm's overall strategy; and
- How customers are considered in setting the firm/division's strategy and how your customers perceive your firm based on their experience of it.

3 Decision making

SIFs need to understand, and be able to explain, the decision making processes within a firm and their role in the process, not simply engaging on matters within their specific area(s) of expertise. SIFs are responsible for engaging in a wide range of discussions and decisions – a Board and/or Executive Committee are collectively accountable for decisions, and for being knowledgeable about all information contained in discussion and Board papers. Claiming ignorance or non-participation is no defence, particularly if and when attestations are requested. We suggest SIFs carefully consider the following:

- Where are key decisions made?
- In committee and Board meetings are debate and differences of opinions encouraged?
- Is there any sense that only 'good news' is reported at meetings?
- What types of decisions are currently being faced which could result in serious consequences, or even failure of the firm? How are you engaged in those decisions?
- Who are the Non-Executive Directors (NEDs) and how often do they attend meetings and work from the office in general?
- How confident are you regarding the composition of the Board? Are all the required competencies represented?
- How diverse is the composition? Is there any possibility that a culture of 'group think' exists

4 Management information

The provision of relevant, timely management information that facilitates decision making remains an area where regulators frequently require firms to do additional work. Without good

information a SIF is unable to be effective or be certain that the most pressing issues are being considered. Important questions to consider when reviewing information include:

- How well does the information support you in your decision making?
- What is missing from the management information you receive? What change in the information pack would make the greatest difference to you?
- Are 'reputational' and 'licence to operate' risks included in management information?
- How could customer and customer outcome data be better presented?
- How are risks arising from excessive complexity reported?
- How does management information address the difficult issue of reporting on qualitative and subjective risks originating from higher levels of the organisation, i.e. the Board?

5 What about yourself?

Evidence suggests that the root causes of the global financial crisis lie in ineffective Boards, poor cultures and poor leadership. Therefore, SIF roles are not for the fainthearted, think carefully and honestly about the skills and experience required for the role. Taking a realistic view of how strong your management and leadership skills are, how well you understand that firm, and who will support you in the transition into the new role and organisations.

6 Final thoughts

If you want to avoid repeating the mistakes of the past, as Albert Einstein said, 'if you keep doing what you're doing, you'll keep getting the results you've been getting' we suggest you use the information above to properly prepare yourself for the SIF requirements of the future.



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