

SUPPORTING GUIDANCE
TO STATEMENT OF GOOD PRACTICE 1

CERTIFICATION REGIME:
FITNESS AND PROPRIETY DEFINITIONS, SOURCES OF INFORMATION
AND ASSESSMENT RECORD TEMPLATE

28 February 2017

About this guidance

This Supporting Guidance should be read in conjunction with the Banking Standards Board's (BSB's) *Statement of Good Practice 1 on the Certification Regime: Fitness and Propriety Assessment Principles*. It is intended to provide firms and those assessing fitness and propriety (F&P) with further information on what each element of F&P means and how it can be assessed. It contains:

- definitions of each element of F&P: honesty and integrity, reputation, competence and capability, and financial soundness (p. 3);
- an overview of different types of F&P assessment and potential sources of information for each (pp. 4 – 12); and
- an example of an F&P assessment record template (pp. 13 – 15).

Status of this document

This document provides Supporting Guidance to the BSB's *Statement of Good Practice 1 on the Certification Regime: Fitness and Propriety Assessment Principles*. It provides more detail on how these overarching principles on assessing F&P can be implemented in practice. It is a living document and is kept under review. Please contact certification@bankingstandardsboard.org.uk if you have any comments or queries regarding this Supporting Guidance.

BSB good practice guidance allows member firms and others in the sector to reference their own policies and procedures against a statement of what 'good' looks like. It is developed in partnership with BSB members and represents a pooling of knowledge and experience. It does not impose any legal or regulatory obligations on BSB members, nor does it replace regulation. In the event of inconsistency, applicable laws, rules and regulations prevail.

Terminology used in this guidance

Certification risks and issues

In this document, a 'certification risk' is defined as a situation which, should it materialise, could call into question an individual's F&P.

A 'certification issue' is defined as a situation that has materialised and is calling into question an individual's F&P.

Fitness and Propriety Definitions

The Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) consider that the most important factors in making a judgement about an individual's F&P are:

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

Individuals subject to the Certification Regime have a responsibility to discharge their role in a way consistent with the standards of behaviour and competence outlined in the Conduct Rules relating to each of these elements of F&P. Assessors need to consider a range of objective, subjective and observational evidence to reach an overall view of how a person meets this responsibility.

To help assessors reach this overall view, we have adopted definitions in this Supporting Guidance that provide a practical interpretation of each element of F&P. These definitions are for use by those assessing F&P for the purposes of the Certification Regime only. They may not be applicable in other contexts (such as considering F&P for the purposes of the Senior Managers Regime) where different factors or considerations may be important.

Honesty and integrity

Honesty and integrity are demonstrated by a person who consistently speaks and acts truthfully and fairly in his or her dealings with others, and who seeks to recognise and deal with ethical conflicts.

Reputation

Reputation is the assessment of how an individual's behaviour has affected the impressions or opinions held by others that may 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. This may include enhancing or bringing into disrepute the reputation of the individual, firm or industry as a whole. Such impressions 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 (e.g. the views of colleagues); and
- aspects of the individual's public activities outside the workplace or professional sphere.

Competence and capability

Competence and capability encompass two dimensions:

1. the professional experience and qualifications that an individual brings to a role; and
2. the performance of the individual in their role, developing and maintaining his or her knowledge and skills which are demonstrated over time.

Financial soundness

Financial soundness is demonstrated by an individual who behaves in a financially responsible way and whose financial circumstances do not create a risk of compromising his or her professional and/or ethical conduct.

Sources of Information

Types of assessment

In developing our F&P Assessment Principles, several different reasons for undertaking an assessment of F&P were identified. We have characterised these as:

- to enable an individual to take up a certified role either on joining the firm or following internal transfer ('New role assessment');
- annually for the purposes of reissuing a certificate ('Annual assessment');
- in response to another event such as the outcome of a disciplinary proceeding, that generates a certification issue ('Triggered assessment'); and
- in-year to monitor the F&P of an employee at a shorter interval than 12 months where a certification risk or issue has been identified ('In-year assessment').

Depending on which type of assessment is being undertaken, different sources of information may be available and/or relevant. The table below summarises the different types of information that may be required for different assessment purposes:

When to source information

Type of information required	Type of assessment being undertaken			
	New role	Annual	Triggered	In-year
Entry information	✓			
Annual appraisal		✓		
Screening checks	✓	✓*	(✓)	(✓)
Self-declarations	✓	✓	(✓)	(✓)
Outcome of other events			✓	(✓)
Individual portfolio of evidence		✓		(✓)

✓ Information likely to be relevant to assessment.

(✓) Information may be relevant to assessment depending on circumstances.

✓*The information generated by screening checks may be considered as part of the overall consideration of a person's F&P at the annual assessment but the checks themselves may be carried out less frequently in line with a firm's risk tolerance.

Entry information

Before starting a role, a range of information relevant to certification will be generated through the hiring, transfer or promotion process (e.g. application form, interview or any other assessment). Due diligence checks will confirm the individual holds the relevant qualifications, and a regulatory reference and/or any other types of reference will also be obtained. Generally, the information gathered at this stage does not change very frequently and can usually be relied on in subsequent F&P assessments. An exception to this is where a regulatory reference is updated by a previous employer. This would fall into the 'outcome of other events' category of information.

Annual appraisal

The annual appraisal documentation, potentially supplemented by self-declarations and current screening checks, will be a key source of information for most firms, in the assessment of F&P. Behavioural issues relevant to all the elements of F&P can be discussed and recorded in the annual F&P assessment. The annual appraisal also provides the opportunity to discuss an individual's progress over the past year and their development plans for the coming year.

Screening checks

Screening checks (sometimes referred to as 'vetting') refer to information obtained externally from the firm or individual, such as a credit reference check or a Disclosure and Barring Service (DBS) checks. Screening checks are carried out periodically by firms. Firms will need to decide how frequently they need to undertake these types of checks in order to have sufficient confidence in the accuracy of the information held and used. Screening checks are likely to be required when a person joins a firm, as part of their new role assessment, and periodically after that. Assessors should check that the screening checks have been undertaken recently enough to be valid, complete, accurate and up-to-date in line with the firm's policy on updating.

Self-declarations

Self-declarations are the responsibility of both the firm and the individual. It is good practice for the firm to decide what self-declarations it requires as a minimum assurance that individuals are fit and proper. It is also good practice for individuals to make an assessment of their own F&P and determine whether there is anything relevant that they think they ought to disclose.

Taking this approach will place the individual at the centre of the assessment process and allows them to focus on what it means to be fit and proper in the context of their role. It also creates the space for any certification risk or issue to be managed proportionately and recorded. If an individual fails to declare something that could reasonably be considered to be relevant to their F&P and something subsequently happens, the failure to make a self-declaration might also reflect poorly on that person's honesty and integrity.

It is important, however, that any disclosures by the individual are kept in perspective. An individual may self-declare that they have fallen short of the standards expected (e.g. they could disclose that they are in financial difficulty). This information does not necessarily mean the individual is not financially sound. They could, for example, be in financial difficulty while also having a plan in place to manage it, or the firm may trust the individual to manage any potential conflicts of interest that may arise. What is critical is the way that an individual behaves in response to an issue being raised, which may also attest to their honesty and integrity. Line managers and those making F&P assessments will need to exercise judgement and manage these types of situations in a fair and proportionate way.

Self-declarations are likely to be completed as part of any new role or annual assessment. Assessors may also require self-declarations to be completed when an in-year or triggered assessment takes place. This will depend on the circumstances under which these assessments are being made, and could be at the discretion of the assessor in line with firm policy.

Outcome of other events

There are a range of further circumstances in which a firm might need to consider an F&P assessment. For example, where a firm becomes aware that an individual has been through a disciplinary procedure; where performance management procedures are in place, or where a firm is contacted by a previous employer to notify them of misconduct identified after the individual had left. A triggered F&P assessment is needed where information emerges that calls into question a person's F&P in such a serious way that it may affect their certified status.

It is important that a firm's F&P processes are aligned with existing business as usual processes, so that the outcomes are consistent (e.g. avoiding a situation where an individual receives a written warning following a disciplinary hearing, but the F&P assessment concludes they are not fit and proper and their certificate is therefore removed).

Individual portfolio of evidence

Individuals may undertake a range of activities which go beyond their job-specific personal development plans, such as achieving professional qualifications that enhance their competence and capability. This type of information may provide positive evidence of a person's F&P.

Example sources of information for each type of assessment

The following pages provide a list of potential sources of information for each type of assessment. Self-declarations and screening checks are potentially relevant to all types of assessment and examples of these are provided separately.

New role assessment

Examples of sources of information that may be used when conducting a new role assessment; this list is not definitive or exhaustive.

Element of F&P	Source of information	Example information
Honesty and integrity	Regulatory reference	Information that the individual has been dishonest in their previous role Information that the person has demonstrated honesty and integrity in their previous role
Reputation	Regulatory reference	Information demonstrating that the person has brought themselves/the firm/the industry into disrepute Information demonstrating that the person has enhanced their firm's/the industry's reputation
	Pre-employment checks	Character references or professional references from a line manager, colleagues or other relevant parties (e.g. where a person is joining from an unregulated sector)
Competence and capability	Recruitment process	Application form Interview notes Other assessment outcomes (if any)
	Pre-employment checks	Postgraduate/professional qualification(s) required for the role (if any — may also be sourced from a Statement of Professional Standing where available) Undergraduate qualification(s) required for the role (if any) Educational attainment
	Individual portfolio of evidence	Other relevant qualifications
Financial soundness	N/A	<i>See screening checks</i>

Other sources of information

Screening checks are an important part of the pre-employment checks when a person is joining a firm for the first time (particularly with respect to financial soundness). As long as screening information remains valid, complete, accurate and up-to-date in line with the firm's policy on updating, additional screening checks do not need to form part of an internal transfer unless there is a specific reason to do so (see page 11 for examples of relevant sources).

Self-declarations are likely to be a part of the new to role assessment (see page 12 for examples of relevant sources).

Annual assessment

Examples of sources of information that may be used when conducting an annual assessment; this list is not definitive or exhaustive.

Element of F&P	Source of information	Example information
Honesty and integrity	Performance appraisal	Recorded observation of behaviour (positive or negative)
	Individual portfolio of achievement	Membership of/activity with professional bodies (in part may also be sourced from a Statement of Professional Standing where available)
Reputation	Performance appraisal	360-degree feedback Annual performance rating Customer/client feedback (compliments and complaints)
	Individual portfolio of achievement	Professional connection website (if any) Media profile (if any) External publications (if any)
	Performance appraisal	Attendance at mandatory internal or external training or events to remain up to date in role Annual performance evaluation Record of Continuous Professional Development (CPD) required to remain up to date in role (may also be sourced from a Statement of Professional Standing where available)
Competence and capability	Individual portfolio of achievement	Performance Improvement/Development Plan (if any) Attendance at additional internal or external training or events that are relevant to the role or to wider career development (if applicable) Additional CPD relevant to role (if applicable)
	Performance appraisal	Adherence to expenses policy
Financial soundness	Performance appraisal	

Other sources of information

Screening information must be valid, complete, accurate and up-to-date in line with the firm's policy on updating and relevant to the annual assessment (see page 11 for example sources).

Self-declarations are likely to be an important component of the annual assessment (see page 12 for example sources).

In-year assessment

In-year assessments will be bespoke to individual circumstances and may arise from:

- a gap in information;
- a development need being identified;
- a less serious certification risk or issue being identified which needs to be mitigated or remediated; or
- a more serious certification issue where disciplinary action (short of dismissal) triggers an assessment, and the assessor feels that a further in-year assessment is necessary. This would enable closer monitoring to ensure any residual F&P risks were being managed, ensure there was no repeat of the behaviour which led to the disciplinary and any development or remediation was progressing acceptably.

In-year assessments may be focused on those F&P elements where there is a gap, where information needs to be generated or where the assessor identifies a risk. The assessor will need to be clear as to what additional information will be required for the in-year assessment, and which element(s) of F&P the in-year assessment relates to. This may include additional screening or self-declarations depending on the circumstances and the firm's policy.

Example screening checks

Firms will need to determine what screening checks they want to undertake and how frequently in line with their risk tolerance. Examples of checks that might be undertaken are shown here; this list is not definitive or exhaustive.

Honesty and integrity	Disclosure and barring service (or overseas equivalent if available) Clearing House (e.g. LCH.Clearnet) Staff fraud checks Company searches Sanctions check
Reputation	Professional Body registers (where available)
Competence and capability	Professional Body registers (where available)
Financial soundness	Credit reference agency Country Court Judgment Bankruptcy order

Example self-declarations

Firms will need to determine what self-declarations they require an individual to make for each type of assessment in line with their risk tolerance. Examples of self-declarations that might be undertaken are shown here; this list is not definitive or exhaustive.

General	The individual understands how the conduct rules apply to their specific job role and commits to discharge their responsibilities professionally Based on their self-assessment, the individual discloses anything they feel is relevant to their F&P
Honesty and integrity	The individual is not subject to a criminal investigation/proceedings/caution/conviction which raises a concern about their F&P The individual is not involved/has not been involved in a civil dispute which raises a concern about their F&P The individual is not engaged in an internal relationship which could give rise to a real or perceived conflict of interest (in line with firm policy)
Reputation	The individual is not subject to disciplinary proceedings by a professional membership body (where relevant) The individual has not been responsible for/involved in anything that has or could bring the individual/firm/industry into disrepute
Competence and capability	The individual is competent and capable to undertake the role as specified in the job description
Financial soundness	The individual is not subject to any arrangements/judgments that could call into question their financial soundness (e.g. County Court Judgment or bankruptcy) The individual is not aware of any financial commitments which may call into question their financial soundness (e.g. inability to meet loans due) The individual is behaving in a financially responsible way

Fitness and Propriety Assessment Record Template

An example F&P assessment record template is provided overleaf. Some firms will already have systems in place which record F&P assessments and the example template should not be interpreted as recommending a switch from existing IT systems to a paper-based approach. Rather the template is intended as a useful reference for firms in considering what information they should record on their own systems.

In designing the assessment record template, we have borne in mind the requirements around regulatory references^{1,2}. If a firm is asked to provide a regulatory reference, it should be able to review the information contained in the previous six assessment records easily so that it can consolidate the necessary information quickly.

The assessment record template includes a record of who is being assessed, by whom and the outcome. It also allows the assessors to record whether there were gaps in the information, and when the next anticipated assessment might be. This may be important if there is an investigation ongoing at the time the annual assessment is due, with a triggered or in-year assessment therefore potentially being required shortly thereafter.

The template also contains a box to record the outcome of the F&P assessment. It is the key part of the record. Assessors may conclude that the person is, for example:

- fit and proper to perform the role outlined in the job description (recording any areas of good practice on the part of the individual);
- fit and proper to perform the role within limitations imposed by management (e.g. that the person has not met all the requirements within their job description but will be able to do so with additional supervision/support/development/remediation); or
- not fit and proper to perform the role.

It is important that assessors record their rationale for reaching their conclusion, particularly if there was any debate or discussion about whether the individual should be certified (and irrespective of whether the certificate is granted).

¹ FCA, 28 September 2016, Policy Statement PS16/22 Strengthening accountability in banking and insurance: regulatory references final rules: <https://www.fca.org.uk/publications/consultation-papers/strengthening-accountability-banking-insurance-reg-refs>

² PRA, 28 September 2016, Policy Statement PS27/16 Strengthening accountability in banking and insurance: PRA requirements on regulatory references (part II): <http://www.bankofengland.co.uk/prs/Pages/publications/ps/2016/ps2716.aspx>

Fitness and Propriety Assessment Record Template

Profile of assessed individual

Name of assessed individual		
Type of Certified role of assessed individual (✓)³	CASS oversight	
	Benchmark submission & administration	
	Proprietary trader	
	Significant management	
	Functions requiring qualifications	
	Managers of certification employees	
	Material risk taker	
	Client-dealing	
	Algorithmic trading	
Job title of assessed individual		
Name of F&P assessor(s)		
Role of F&P assessor(s)		
Completion date of assessment		
Is the role description up to date?		
Individual's certification/F&P history (e.g. previous years that the individual has been certified, the specific roles occupied, and any F&P issues raised in previous years)		

³ See FCA Handbook SYSC 5.2.30 for FCA-specified significant harm functions:
<https://www.handbook.fca.org.uk/handbook/SYSC/5/2.html?date=2016-04-27>

Purpose of assessment (complete relevant line)

	Specific assessment checks complete (✓)	Screening checks complete (✓)	Self-declarations complete (✓)
New role			
Annual certification			
Triggered assessment			
In-year assessment			

Information completeness

	Are there any gaps in the information that need to be filled?	Have actions been agreed as to how this information will be sourced and by when?
Honesty and integrity		
Reputation		
Competence and capability		
Financial soundness		

Overall assessment

Fit and proper declaration:

[The assessor(s) should record whether they are or are not satisfied that the individual is fit and proper, the reasons why they have reached this conclusion (including any relevant positive and negative information) and any limitations that have been imposed on the scope of the role to enable the person to meet their responsibilities]

Signature(s):

Expected date and type of next review

	Annual certification	In-year assessment	Triggered (if proceedings currently underway)
Expected type of assessment (✓)			
Expected date of assessment (approximate)			

