



10 March 2014

Our ref: ICAEW Rep 41/14

Banking Standards Review
1st Floor
60 Gresham Street
London EC2V 7BB

Dear Sir Richard

Banking Standards Review

ICAEW is pleased to respond to your request for comments on your *Banking Standards Review* consultation paper issued on 10 February 2014.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

BANKING STANDARDS REVIEW

ICAEW response to Banking Standards Review consultation paper published in February 2014

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the [Banking Standards Review](#) consultation paper issued on 10 February 2014.

WHO WE ARE

2. ICAEW is a world leading professional membership organisation that promotes, develops and supports over 142,000 chartered accountants worldwide. We provide qualifications and professional development, share our knowledge, insight and technical expertise, and protect the quality and integrity of the accountancy and finance profession. As leaders in accountancy, finance and business our members have the knowledge, skills and commitment to maintain the highest professional standards and integrity. Together we contribute to the success of individuals, organisations, communities and economies around the world.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
4. The ICAEW Financial Services Faculty is a leading global centre for thought leadership on financial services that brings together different interest groups. It is responsible for making representations on behalf ICAEW on governance, regulation, risk management, auditing and reporting issues facing the sector, drawing expertise from more than 25,000 ICAEW industry specialists and a wider group of fellow professionals. The faculty and ICAEW provides a range of services including technical guidance, updates, leadership development and training to support members' continuing professional development..
5. ICAEW is a regulator of the accountancy profession. It is responsible for developing, maintaining and supporting high standards of practice and professional conduct. ICAEW's Professional Standards department authorises members and firms to undertake work in the areas of accountancy regulated by law (audit, investment business and insolvency), operating under powers delegated by statute. It also operates a Practice Assurance scheme for members in practice covering their unregulated accountancy activities and investigates complaints about ICAEW members and firms.
6. ICAEW's Learning and Professional Development department is responsible for promoting and delivering ICAEW's premier branded ACA qualification in the UK and internationally to prospective ICAEW chartered accountants working in practice, financial services, business and industry, the public sector and not-for-profit organisations. It supports ICAEW's royal charter obligations to work in the public interest by creating learning and development programmes for ICAEW chartered accountants and non-members which are designed to enhance individuals' careers and benefit society and the profession. The ACA qualification is currently being delivered in countries including China, Cyprus, Greece, the Gulf States, Malta, Malaysia, Pakistan, Romania, Russia, Singapore and the UK. We also work jointly with CISI on the Corporate Finance Qualification.

MAJOR POINTS

Market solutions are needed to restore trust in banking

7. ICAEW supports the initiative to establish a new body to promote higher standards in banking. The financial crisis and subsequent scandals have damaged trust in both banks and bankers. Regulation alone cannot restore that trust and too much emphasis on strengthening regulation may reinforce public perception that banks and bankers are incapable of acting responsibly

without being regulated. In our 2012 report [*Market failures, market solutions*](#)¹ ICAEW's Financial Services Faculty called for the banking sector to undertake its own initiatives to restore trust, including developing new (or strengthening existing) professional communities, working harder to ensure that business models promote integrity and raising standards of competence.

Banking must become more like a profession

- 8.** We believe that the professional model is needed to restore public trust in banking and is a realistic ambition, but that banking has become more aggressively commercial and as a result, professionalism has been eroded. The professional model recognises that there is a public interest in high standards of competence and behaviour in certain activities, particularly those involving services based on specialist expertise. Although banking has not been seen as a profession for some time, it shares these characteristics. Furthermore it should be in the enlightened self-interest of professions to strive for the highest standards, because that leads to better long-term decisions and more sustainable businesses due to better customer satisfaction even if it reduces short term profitability. To achieve this in banking will require collective action.

The public interest, not customer interests, should be the test

- 9.** We believe that behaviour should be judged in terms of the public interest rather than the customer perspective. While often the public interest will support taking a customer perspective in judging behaviour the information asymmetry between banks and their customers means that this will not always be the case. A customer perspective may be pushing the balance of responsibilities for financial decision-making too far away from customers. Behaviour should be judged on a more neutral test.

Bankers must be involved, not just banks

- 10.** There is a balance that needs to be struck between the responsibilities of individuals and banks. The proposals have swung too far in favour of oversight of the banks. Professions are based upon professional people who share common standards which they follow in all aspects of their working lives. Many professions and their professional bodies recognise firms as firms have significant influence over their behaviour but at their hearts are the individuals. Personal responsibility is important in this. In order to re-establish a more professional model in banking, it will therefore be important to engage with individual bankers, and have some accountability to, individual bankers either directly through a membership model, or indirectly through other banking professional bodies (though the existing bodies will need to take on enhanced roles and expand their reach for this to be effective). We recognise the challenge of trying to establish a new body in a limited time frame and also trying to build up a membership of individuals, particularly from a base where there is not an established profession and where there is no expectation that membership is critical to a successful career. However, we believe that as the new body should seek to raise standards of behaviour, both banks and individuals must be involved.

The need for adequate resources

- 11.** The new organisation has a potentially crucial role to play not only in raising standards but also in addressing political pressures and meeting public expectations. In order to do so, it will need to be properly resourced. We are concerned that the review may envision a small, lightly resourced body with most of the work undertaken by banks and building societies themselves using internal resources. Without wishing to create a large bureaucracy, a lightly resourced body is unlikely to be sufficient to meet the challenge of restoring public trust.

¹ icaew.com/en/technical/financial-services/inspiring-confidence-in-financial-services/market-failures-market-solutions

Restricted timeframe for consultation

12. We recognise the desire to make progress on establishing the new body but the consultation has had a very short time for responses on what are difficult issues. Furthermore, notwithstanding the commendable efforts of Sir Richard and the review team at outreach events and stakeholder engagement, the intention to issue a final report by the end of March suggests there will be little time to consider responses to the consultation. While there may be examples from elsewhere, there are no easy answers to how to raise standards. Proper consultation and consideration of responses will be needed. Professions emerge over generations and the mechanisms for oversight of the existing professions have been developed over time to meet user demands, and not over a four week consultation period. It will therefore be important to allow the new organisation time to consult and evolve further.

RESPONSES TO QUESTIONS

Q1: Do you agree with the objective to establish a new independent organisation with the aim of defining and raising standards of conduct and competence in banking?

13. We fully support the aim of raising standards of conduct and competence in banking. The new organisation should focus on broader questions of conduct, behaviour and ethics, rather than technical competence. Professional ethics and competence should be the two strands running through the DNA of banking. This needs a commitment not only from banks but from the individuals working in banks throughout their careers.
14. While there are a number of long-established professional bodies focused on banking and financial services, none has taken on, or been given, a similar role to the professional bodies in other professions such as chartered accountancy, actuarial sciences, law or medicine. In particular, the banking professional bodies have taken on a limited role in monitoring or enforcing professional standards. They focus on technical competence and providing a range of qualifications, include requirements for continuing professional development of members. While most have established codes of ethics they do not actively monitor professional behaviour. Membership of these professional bodies is not seen as being essential, or even particularly important, to having a successful career in banking and their combined membership only covers a small proportion of bankers. Furthermore, the professional standards that these bodies set tend to have been limited in scope for fear of overlapping with regulators.
15. If these professional bodies had taken on a wider and stronger role in raising standards and monitoring the activities of their members, built their memberships so that they collectively represented the majority of bankers and banks themselves committed to adhering to the professional standards being set, it would not be necessary to set up a new independent organisation.
16. We are concerned that the role suggested for the new organisation, and its plans to start off small, will not give it adequate resources to properly monitor and enforce higher professional standards. It is important that the new organisation is adequately resourced from the outset, given the scale and importance of the challenges the new organisation is seeking to address. Notwithstanding our comments on the need for individual membership of the organisation, the banks need to commit to funding this properly, both directly and indirectly through reimbursing the membership fees paid by their staff.
17. We note that the consultation paper refers on a number of occasions to a responsibility to the public interest but suggests that good behaviour should be defined at all times from the customers' perspective. We disagree with this. Instead, we believe that the frame of reference for judging behaviour should be the public interest rather than the customers' perspective. While often the public interest and customers' perspectives will be aligned, there may also be occasions where they differ and in these cases, the public interest should prevail. For example, a customer might apply for a product that was unsuitable to their needs and feel unfairly

treated if they were turned down when a public interest perspective might say that banks should not provide unsuitable products. There might also be occasions when the perspective of one set of customers differs from another set of customers, when a public interest perspective may help to balance these competing perspectives. It is also important to remember that customers also have responsibilities for their own financial decision making and if the balance swings too far towards putting responsibility for this on banks, it may lead to worse customer outcomes either because of the moral hazard that customers take less interest as a result of added protections or because banks reduce their product ranges meaning they meet customer needs less well.

18. It may be necessary to develop a standard on how to assess the public interest in this context as it is a subjective concept but customers' perspective may need to be similarly defined. The ICAEW report [*Acting in the public interest: a framework for analysis*](#)² considers the sometimes complex and conflicting issues that need to be addressed when taking a public interest perspective.

Q2: Do you agree that there is a case for a collective approach calling for the participation of all banks doing business in the UK?

19. A collective approach is needed to change cultures and behaviours. While this will need the support of all banks doing business in the UK, it also needs the participation of individuals working within banking.
20. The most important issue for the new organisation to address is raising standards of behaviour around conduct and professional ethics. These are individual characteristics. Individuals need to be empowered to be able to maintain their professional standards, particularly when faced with conflicts of interest. If collective action is left to banks alone, there is a risk that when it comes to individual action, this becomes seen as another compliance exercise. This contrasts to the approach of established professions, where the professional ethos is seen as being owned by the professionals within it, with firms agreeing to hold themselves to that ethos.
21. We believe that it is important that all parts of banks are covered by the organisation. In chartered accountant firms, for example, although not all partners and staff may be chartered accountants, partners who are not chartered accountants are required to become affiliate members of ICAEW and formally agree to comply with our rules while all staff are expected to apply the same professional ethics including support, secretarial and marketing staff.
22. Foreign branches and subsidiaries of foreign banks should be expected and encouraged to participate. Many non-banks also undertake bank-like activities, whether lending or providing credit advice, and these should also be encouraged to participate and adopt high professional ethics. It should be in these organisations interests to participate and be seen to be responsible service providers. However, the new organisation will need effective monitoring and enforcement mechanisms.

Q3: Do you agree with the proposed role of the new organisation to set standards of behaviour and competence for banks and building societies, and to define metrics against which they could benchmark?

23. Benchmarking may have an important role to play in raising standards, and being able to measure and demonstrate improvements. It will also be important for the new organisation to monitor whether the benchmarks being used are appropriate and represent real improvements in standards, rather than simply drive behaviour to move up a league table without actually leading to better outcomes.

²icaew.com/publicinterest

Q4: Do you agree with the proposed scope of the new organisation to include all British banks and building societies, and foreign banks doing business in the UK?

24. We support wide adoption. It will be essential for the new organisation to also involve individuals if banking is to become more like a profession as noted in our response to Q6.

Q5: Do these proposals go far enough to ensure the body has credibility?

25. The proposals as set out are fine as far as they go but, as previously noted, we are concerned that the new organisation may not have a sufficiently clear scope, have its ambitions diluted by seeking not to duplicate the responsibilities of regulators (or management) and be given insufficient resources to properly monitor and raise standards.

26. Banking standards have become a politicised issue. These proposals have an important role in determining whether the banking sector is able to take the debate back out of the political arena and into a professional or industry discussion it leads. In order to do so, it is important that the proposals are not only credible within the banking sector and with leaders of banks, but among rank and file bankers and with the public at large.

27. The new body needs to have an effective and well-resourced monitoring system to achieve this. It is also likely to be judged by its public pronouncements, not only in encouraging higher standards but its willingness to hold banks to account where standards could be improved.

28. While recognising that banks might not wish to be subjected to overlapping disciplinary systems from the regulator and a new professional body, bank auditors are subject to such a system. After post-crisis reforms to the regulatory structure for auditors, FRC, the Recognised Supervisory Bodies for audit in the UK (RSBs) such as ICAEW and, for regulated financial services firms, the FCA and PRA now have potentially overlapping powers of sanctions over auditors. While this will require co-ordination, it is not unworkable. ICAEW believes it is important to retain our own disciplinary powers over our members as this is important in maintaining the reputation of the profession. This is supported by our member firms. It should be possible to create a workable disciplinary role for the new body in banking, particularly given that bank auditors face such a system. In addition, many individuals working in banks, including ICAEW members, are individually still subject to ICAEW's professional standards and our disciplinary processes, which potentially overlap but are separate to any internal and regulatory disciplinary regimes.

Q6: Do you agree that the new body should initially work with banks and building societies rather than individuals? What are the pros and cons of aspiring to build individual membership over time?

29. The membership model could have a significant impact upon the new organisation's effectiveness. It should not be considered in terms of what works best for banks and building societies, or indeed for their directors and staff, but which model will best achieve the goal of raising standards.

30. Behaviour and competence are personal characteristics so are better suited to an individual membership model. A further benefit of individual membership is that it creates accountability and membership to a wider community that extends beyond the employer and gives a reference point against which pressures from their institution can be resisted, while complementing moves by the institution to raise standards. The downside of this is that, in the absence of compulsion and without the support of either senior managers or the institution, the new body may not have a full reach.

31. We recognise the challenge of trying to establish a new body in a limited time frame and also trying to build up a membership of individuals, particularly from a base where there is not an established profession where there is no expectation that membership is critical to a

successful career. However, as noted above we believe that as the new body should seek to raise standards of individual behaviour, the engagement of individuals is vital.

- 32.** It is unusual to start to build a professional approach based upon firms or institutions, then looking to bring in individuals later. If the intention is for individual membership to be introduced, this should be made clear from the start and the new body to be designed as such. Many professional bodies, such as ICAEW, recognise member firms but are ultimately accountable to individuals for meeting the obligations of their Royal Charters or articles of association as appropriate.
- 33.** The net benefits of banks and building society membership are harder to establish, aside from that it is less organisationally challenging to set up, particularly if they are the only members. Employment contracts, incentive structures, management and remuneration already give firms significant power to influence behaviour. If membership is limited to banks and building societies, it will not empower individuals to stand up for the standards in the same way as individual membership would. It is easier for someone to say ‘this is against my professional ethics’ than ‘this is against your professional ethics’. It may also risk the new body of looking too much like an industry body with pressures from bank shareholders over how to run the most profitable business rather than a professional body based upon what people within the sector believes is the right way to conduct business.
- 34.** Empowering individuals to stand up for higher standards may be challenging for banks, their senior management and line-managers. Management may fear reducing their control over staff. This may be a particular concern given both how heavily regulated the banking sector is and how aggressively commercial it has become. Personal empowerment can also come with personal responsibilities which can be more challenging to the individuals who need to apply their own judgement and not simply follow internal processes. However, this is the approach taken in the established professions, including accountancy and law which are also both regulated and commercial. These professions recognised that, while based on individual membership, member firms have an important role to play in ensuring that professional standards are widely applied and that individual duties and the firms’ own requirements are aligned. They also recognise that lapses often happen when people don’t apply judgement and rely too much on tick-box or compliance led approaches.
- 35.** While we believe that the initial funding for the new body should come from banks, and that banks and building societies should be encouraged to become members, the model design from the outset should be based around the professional model of having both individuals and banks as members as both are important in driving high standards and ethical behaviour.

Q7: In the section titled ‘Ethics’, a case is made for a more pro-active approach to managing ethical issues. Do you agree with this, and if so how should it be done?

- 36.** The challenge around ethics is not in agreeing codes or ethics but in the execution of those ethical codes. An ethical framework is needed that works across institutions but it must recognise that conflicts of interest are almost inevitable and, consequently, should look at ways of tackling those conflicts and providing safeguards against threats to integrity.
- 37.** It is also important to examine how individual banks’ own organisational structures support ethical decision making, including how incentive structures are aligned to this objective. Academic research *Real Integrity*³, issued in 2012 and funded by ICAEW’s charitable trusts, examined the challenges of instilling integrity in their organisations. Individuals need to have the importance of integrity ingrained into them throughout their careers. Ethics, for example, is covered in the examination and practical training arrangements for chartered accountants and in many other financial services qualifications. However a deeper understanding is needed of what drives ethical decision making.

³ icaew.com/~media/Files/Technical/Ethics/real-integrity-full-report.pdf

- 38.** Much work has been done on behavioural finance around why people make investment decisions. We believe that behavioural science can also inform us about the psychology of decision making. Our work has identified that individuals have a number of in-built and sub-conscious obstacles and biases to behaving with integrity, and that organisational structures create further obstacles. Individual obstacles are that people often: self-justify their own bad behaviour as being good; don't spot small incremental changes so they are vulnerable to slippery slopes towards bad behaviour; can become so focused on their own tasks that they miss even big lapses going on around them; and give themselves credit for good behaviour to offset their own lapses. Organisational obstacles include the fact that people: are easily influenced by others; conform to business norms, cultures and practices; obey authority; and focus heavily on goals. A deeper understanding is needed of what leads to lapses in integrity, and the ways to mitigate this risk.
- 39.** Decision makers need to be aware of the cognitive biases they face and learn how to adjust their responses. Individuals also need mechanisms to raise and discuss ethical concerns as part of their normal working lives, which can allow better ways of managing threats to integrity. This should be separate to whistle-blowing arrangement which are also important but can carry personal risks to the whistle-blower.
- 40.** An example of a way to normalise discussions of ethical matters is through ethical mentoring. ICAEW developed a professional development programme for creating ethical based culture change in banking, the [Valuing Integrity Programme](#)⁴. A key component of this to develop internal networks of ethical mentors in firms who are available to discuss ethical dilemmas, and ways of resolving them, in a safe environment.
- 41.** ICAEW also operates an ethics advisory help-line, which ICAEW members are able to obtain advice or discuss ethical dilemmas and conflicts of interest. These calls are confidential and protected from the duty on the ICAEW advisors to report suspected misconduct which would otherwise apply. Such help-lines can be a useful way of getting an external perspective on an issue, particularly for smaller firms. The new body could consider this model.

Q8: Do you agree with the proposal to build on best practice as set out in the regulators' guiding principles?

- 42.** The new organisation should aspire to establishing the highest standards in banking. While the new body should not create principles that conflict with the regulators' statutory principles, they should not be constrained by them and should aspire higher.
- 43.** Getting the principles right requires further consideration and one of the first priorities for the new body after it is established should be to consult on these. The principles should also be allowed to evolve.
- 44.** There is a danger that the new body, in trying not to duplicate the work of regulators, sets its targets too low or in too limited a way. It should be possible to complement regulatory standards which set a minimum bar with standards of good practice which aspire much higher. The new body should also try to avoid using terminology like 'best practice', which suggests there is no room for improvement when in fact it should always be seeking improvements.

Q9: What would be the best way of assessing the implementation of a bank's code of conduct?

- 45.** As noted elsewhere in this response, we believe it is vital that, if the new body is to be effective, it has an effectively and properly resourced monitoring function. This should include implementation of banks' codes of conduct.

⁴ icaew.com/en/qualifications-and-programmes/leadership-development/valuing-integrity-programme

Q10: Do you agree with the agenda outlined in the ‘standards of competence’ section?

46. We support an approach based upon a combination of initial training and CPD. Both of which should cover a range of areas including a broader understanding of banking theory, more specialist technical issues, ethics and behavioural matters.

Q11: Would you support the proposed relationship with the existing professional bodies?

47. The Financial Reporting Council might provide an example. In addition to its statutory duties on audit monitoring described in our response to Q17, FRC also monitors the activities of the recognised supervisory bodies for audits (RSBs) and the activities of the recognised qualification body for audit qualifications (RQB) in the UK. This covers not only our audit monitoring but other activities, including issuing accreditations and qualifications and CPD monitoring. It issues a private report to the RSBs and RQB and a public report that covers all of the RSBs and RQB. This may provide a model for an alternative way to get individual participation in the new organisation, by the new body providing oversight of the existing banking professional bodies covering qualifications, CPD, disciplinary functions and professional standards monitoring.

48. This approach might help resolve the challenge of individual versus corporate membership for the new body. However, as noted in our response to Q1, we believe that the existing banking professional bodies would need to strengthen their own activities, particularly around the active monitoring of professional standards and their disciplinary functions for this to be credible. These banking professional bodies would also need to greatly increase their membership levels and to create a category of institutional members. Currently, only a small proportion of bankers are members of banking professional bodies and membership is not seen as being essential or even particularly important to a banking career.

49. If this oversight model is considered, it should not apply to professional bodies such as ICAEW who are already monitored by another independent oversight body but have significant numbers of members working in banks. Furthermore the new body should not seek, as part of its remit, to influence the content ICAEW’s ACA programme, and other highly respected professional qualifications that are already subject to independent oversight. While there are a large number of ICAEW chartered accountants working in the banking sector, it is a broadly based and highly respected finance qualification where we balance a number of different demands on our syllabus, not least the legal requirements for audit qualifications.

Q12: Is the proposal for assessing in-house training sensible and practical? Could the new organisation play a helpful role in the certification process?

50. The new body could have a useful role in monitoring the quality of in-house training within firms to ensure that it supports not only the minimum regulatory requirements but an aspiration to higher standards of competence and professionalism.

51. The new body needs to take care, in any work on accrediting training or setting standards, that it does not take an overly rigid approach. The focus should be on the learning needs and outcomes of the individuals rather than any input based system such as those based upon minimum CPD hours. It should also take care that in-house training does not become a tick box exercise and that training programmes address the deep seated ethical challenges in financial institutions that we discuss in our response to Q7 above.

52. The question of whether the new body attempts to help design new training programmes needs to be further considered. It may be something that could be taken on over time but should not be among the first priorities for the new organisation, given the number of other difficult challenges the new body will face in becoming established.

Q13: Do you think a benchmarking exercise, to help banks identify areas for improvement, would be of value?

- 53.** Benchmarking can be a powerful way of driving change and areas for improvements. However, any benchmark is only useful if it is measuring the right thing. The new body also needs to ensure that the creation of a benchmark does not lead to dysfunctional behaviour, whereby banks take action that improve their position on a league table without necessarily improving standards.

Q14: Are the groups of metrics outlined in the section titled 'Benchmarking' the correct ones? Would you propose others?

- 54.** While these headings for the metrics appear broadly reasonable, the new organisation should consult further on this area and keep the metrics under review. The benchmarks need to be used in a way compatible with following the spirit of the principles behind the new standards rather than compliance with the letters of them.

Q15: Would it make sense for banks to adopt a set of standard questions to add to their existing staff surveys?

- 55.** Staff surveys can provide useful information, although it is important that staff are confident that feedback is confidential.
- 56.** Standard questions can be useful for comparing different banks although such standard questions can be more effective in providing quantitative data than qualitative information. As such, it can be difficult to design standard questions that can identify how well underlying principles are met. It may also be that differences in customer profiles or product ranges could lead to expected differences in the results of the surveys, for example.
- 57.** In addition to staff surveys, customer research can play an important role in assessing performance. This customer research could be undertaken on behalf of individual banks by independent market research firms to add further credibility.

Q16: Is self-reporting appropriate? Might other methods deliver better results?

- 58.** A system based entirely on self-reporting is unlikely to be sufficient to restore public confidence in the standards of banks. The self-reporting might be strengthened by internal audit. However, the process by which the new body tests the robustness of self-reporting will be critical. This will require the new body to be sufficiently well resourced that it is able to effectively monitor performance and take action where necessary.

Q17: Are there non-bureaucratic alternatives to the approach outlined in the section titled 'discipline' that might work better? Is there a role for kite-marking?

- 59.** ICAEW is a statutory regulator of audits in the UK. It shares this role with the Financial Reporting Council (FRC). FRC is responsible for monitoring public interest audits (described by FRC as 'major audits'. FRC sets the definition of major audits, including for example listed companies. FRC monitors these audits at firms with more than ten major audits and has powers to sanction these firms. From 1 April 2013, for firms with less than ten major audits delegates monitoring of these audits to ICAEW and the other recognised supervisory bodies (RSBs). The RSBs also monitor the other (non-major) statutory audits undertaken by our respective member firms.
- 60.** FRC has a number of mechanisms around its monitoring, in addition to its disciplinary functions. FRC produces public individual reports for the nine firms it monitors. It also provides private reports to the firms and the RSBs' Audit Registration Committees which include additional detail, but all of the key findings are included in the individual firm public report. Where major issues are identified that may require further disciplinary action, these are

referred for investigation. In addition, the reports will seek to identify areas for improvement. FRC also now sends copies of individual audit file findings to the Audit Committee chair of the audit client. In addition, it publishes an annual summary report of the overall findings of its audit monitoring across all firms. ICAEW and the other RSBs produce private reports to individual firms, although the results of our disciplinary processes are published.

61. In addition to our statutory audit monitoring, ICAEW operates a voluntary *Practice Assurance* scheme for member firms. The objectives of this scheme are based on aspiring to the highest standards and quality control rather than regulatory and compliance based. *Practice Assurance* also applies to firms of all sizes, from the Big 4 firms to sole practitioners. As such, it may provide a useful model for the new body's monitoring approach. It involves a programme of monitoring visits, with the largest firms visited each year and smallest firms reviewed at least once every 8 years, which may be by desk top review or telephone visit, so does not use a one size fits all onsite visit for every firm. These include, for example, monitoring quality control procedures and continuing professional development processes (CPD).
62. The results of practice assurance are discussed with the senior management of the firms. While indications that rules may have been seriously breached are referred to our disciplinary functions, or referred to other relevant regulators such as the FRC or Financial Conduct Authority, often matters raised are about potential areas for improvement. Private discussion can allow a more frank exchange of views on these than is possible in a written report and progress can be assessed at subsequent visits. If progress is not subsequently made against agreed areas for improvements, we can then consider more formal or public measures.
63. Funding for monitoring over banks and disciplinary functions should be split from funding for general membership activities such as developing standards, thought leadership and any monitoring of individuals. Participating banks could be charged a monitoring fee and disciplinary costs could be charged against those cases where wrong-doing was found.

Q18: Do you agree with the proposition that the new body should aim to become, in time, a membership organisation for bankers to join?

64. As noted above in our response to Q6, we believe that the new body should aim to have individual members and, notwithstanding that it may take time to build this up, it should be design from the outset with individual membership in mind.

Q19: Should the new organisation aspire to a role as a thought leader in banking, sharing best practice and helping to propose solutions to challenges that arise in the future?

65. Yes. The new organisation should strive for the highest standards. Thought leadership is an important part of raising standards. Because the aim should be to aspire to the highest standards, rather than the role of regulators to enforce minimum requirements, the new organisation should be willing and able to ask hard questions of the banking profession it is seeking lead and to look to the future challenges without necessarily triggering regulatory penalties or legal precedents.
66. In undertaking thought leadership, the new body should also look to engage with a wider stakeholder group including consumers, not only participating banks and building societies, to give its output added credibility. It should be encouraged to set its own agenda in deciding topics to consider and empowered to not only share good practice but also to be critical and share examples of where practice might be improved.

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