Mr Andrew Tyrie MP  
Chairman of the Treasury Committee  
14 Tothill Street  
London  
SW1H 9NB

Andrew Bailey  
Deputy Governor, Prudential Regulation  
CEO, Prudential Regulation Authority

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Dear Andrew,

Thank you for your letter of 6 January relating to the transitional arrangements for those individuals moving into the Senior Managers Regime.

As your letter notes, there is a balance to be struck between ensuring the new regime represents a genuine improvement on the old Approved Persons regime operated by the Financial Services Authority, and avoiding a large administrative exercise which, given the number of firms and individuals involved, would inevitably be costly for both firms and regulators, and would delay the full implementation of the new regime.

It is important to note that the transitional arrangements to the new regime will not be decided solely, or even primarily, by the PRA (or FCA). As we explained in our recent consultation, CP28/14 Strengthening accountability in banking: forms, consequential and transitional aspects, to which you refer in your letter, the transitional arrangements and requirements will be set out in Treasury secondary legislation, as well as in PRA and FCA rules. Our current understanding, which forms the basis for the approach set out in CP28/14, is that the Treasury Order will provide for grandfathering to be automatic; that is to say that provided an individual currently approved under the existing regime will be performing a broadly similar role under the Senior Managers Regime (as specified by the regulators), and they submit the necessary notification information by the deadline set in the legislation, then they will be grandfathered, with no mechanism for re-assessment by the regulators.

Given the benefits of bringing the new regime into force as early as practicable, and costs of a major reassessment exercise, the PRA supports this automatic grandfathering. An important consideration here is the way the new regime deals with individuals after they have been approved. One of the criticisms made of the old Approved Persons regime was that it functioned primarily as a ‘gateway’, with insufficient thought given to whether individuals continued to be fit and proper for their role – which may well change over time – once they were in the regime. The Senior Managers regime is intended to address that in a number of ways. For example:

- firms to which the regime applies will have to formally consider at least once a year whether there are any grounds for deciding that a Senior Manager is no longer fit and proper for their role, and to notify the regulator of any concerns;
- a Senior Manager's 'statement of responsibilities' will need to be updated and re-submitted to the regulators if there is a significant change in his or her responsibilities – this will mean there is always a clear record of what senior individuals are responsible for at any given time, and will reduce the risk of someone taking on a new responsibility after approval that they are not suitable to hold; and
- more specific Senior Management functions mean that a change of role is now much more likely to involve moving to a new Senior Management function, which will require separate approval by the PRA.

Therefore, the PRA does not intend to review every Senior Manager against their responsibilities at the point of transition. Rather we expect to carry out a risk-based review for the larger and more complex firms who pose greatest risk to our statutory objectives. As noted above, we do not expect to have the power to stop any individual grandfathering, but we will continue to be able to use our 'business as usual' powers either to withdraw an individual's approval to perform the Senior Manager function concerned if we consider that he or she has ceased to be fit and proper, or to impose a condition on their approval if we consider it desirable to do so to advance any our statutory objectives. As you would expect, the exercise of these powers would be subject to the standard FSMA processes and rights of appeal.

Once the new regime is live, supervisors will need to formally evaluate each firm's governance arrangements and confirm that the individuals managing the firm have the appropriate skills and experience; this will form part of the annual assessment to which every PRA-regulated firm is subject.

I hope this information answers the questions you raised in your letter.

Yours Sincerely,

Andrew Bailey