



TC Standards and Good Practice Guidance



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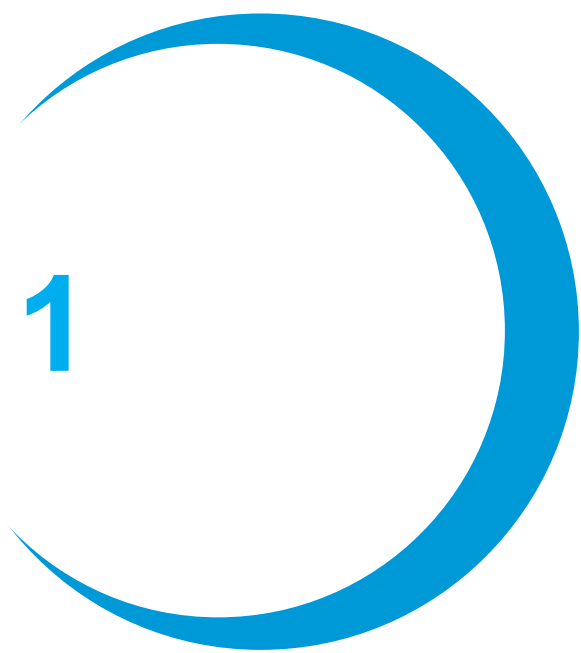
Redland Business Solutions – driving best practice in TC technology and sponsors of the FSP's new Standards and Guidance for Training and Competence in the financial services sector.

Outcome Standards

TC Standards and Good Practice Guidance
– Outcome Standards

Outcome Standards

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Disclaimer:

Whilst these standards and good practice have been developed to help firms implement and maintain effective TC arrangements, this guidance does not purport to be a definitive guide. They should not be relied upon for regulatory compliance purposes. Whilst every effort has been made to ensure the accuracy and completeness of the material the Financial Skills Partnership gives no warranty in that regard and accepts no liability for any subsequent loss or consequential damage, howsoever incurred, through the use of, or reliance upon the guidance or standards.

Background

The value to firms of having robust and effective Training and Competence arrangements and a culture that supports high standards of conduct and ethical behaviour has been brought into sharp focus by a combination of difficult market conditions and regulatory demands. The fallout from the financial crisis has further eroded the trust of consumers in financial services in general and the advice it provides to them, driving a commitment by firms towards higher levels of competence and professionalism. Regulatory interventions and rule changes over the period have all introduced a range of competence requirements, such as:

- Mortgage Market Review including extending the scope of Controlled Function Approved Persons roles and responsibilities, and the application of qualification requirements to all advice roles
- Trading in Securities and Derivatives with greater transparency and controls specific to trading of complex products and investment instruments, and the overall competence of firms active in these markets
- Corporate Governance, the competence of Senior Executives and their ability to carry out their CF appointments, their overall responsibility for ethics and organisational culture, and their accountability for the effective governance of competence arrangements
- Retail Distribution Review including the requirements for greater professionalism and higher professional standards, the conduct and ethics of Approved Persons, the role of professional qualifications and accredited bodies

Forward thinking firms will continue to embed, and rely on, a culture that seeks to improve and maintain quality standards through the provision of learning and development opportunities underpinned by reliable and compliant TC arrangements.

Looking ahead the regulator has confirmed it will increase its focus on firms TC arrangements, how these are operating in practice to successfully implement the necessary regulatory changes, and the effectiveness of the internal governance of these competence arrangements. To strengthen its own approach to TC and provide additional guidance for firms, the FSA has recently published an updated Training and Competence (TC) sourcebook* which includes new rules covering competence and supervision.

It was apparent that firms were finding the previous, simplified sourcebook was not clear about FSA expectations for regulatory TC compliance, and continually requested more specific and detailed guidance on matters of competence. These concerns have been partially, but not fully, addressed in the publishing of the updated TC rules.

This Guidance has been directly prepared to help firms that wish to implement or review their own internal arrangements in response to the requirements of the TC. This is a starting point for any TC scheme in that it helps firms assess and confirm compliance with TC rules.

It will also provide guidance for firms in applying the 'competent employees' rule included in the SYSC Sourcebook. It is strongly recommended that firms consider using this guidance in other areas of their business not directly falling within scope of TC.

* Links are provided throughout this document directly to the relevant sections of the FSA Handbook for ease of reference. FSP accepts no responsibility for the content of the FSA Handbook pages.

Overview

The guidance follows the natural cycle of most TC schemes, as shown below.



The 3 core elements within the cycle are then further defined to show the key **Indicators** that would apply from implementing the rules. They are:

Policy and Governance

- Regulatory Competence Requirements
- Role of Senior Management
- Establishment of Scheme and On-Going Effective Performance
- Quality Assurance
- Record Keeping

Managing Performance

- Supervision
- Supervision in Practice
- Supervisor Skills, Knowledge, Expertise and Ethics
- Quality Assurance
- Defining Key Performance Indicators

Achieving and Maintaining Competence

- Defining Competence
- Recruitment
- Achieving Competence
- Maintaining Competence

For each **Indicator** the relevant rules are translated into clear **Outcome Standards** which will be evidence that the TC arrangements are implemented and working effectively.

Referenced to each Indicator is the specific rule(s) from TC which this element of guidance applies, where this is practical to do so. Clearly in some instances the guidance will apply in principle across all rules, e.g. Regulatory Competence Requirements.

In addition some **Indicators** provide guidance for Senior Managers in respect of their responsibilities under the SYSC sourcebook* “competent employees rule” and these are referenced accordingly. This requirement applies to all authorised firms with TC providing supplementary detail for retail activities.

The TC rules are not intended to be considered in isolation of other rules and principles based guidance. The FSA have always promoted a complete, joined-up approach to the numerous strands of regulation and guidance as these are intended to work together in order to achieve the desired outcomes.

The FSA’s 11 Principles for Businesses* along with the relevant Statements of Principles within the APER Sourcebook* define the high level obligations that rest with senior managers and business owners in the way they conduct themselves and their businesses, and clarify their responsibility for competence and the governance of competence arrangements. A clearly defined and well managed TC scheme is a highly effective mechanism to put regulatory principles into practice.

Application

This **Guidance** has specific and detailed application for firms whose employees fall in scope of TC and who undertake or oversee specified retail activities for customers or clients. A cross section of this market sector will typically include sole traders, SMEs and large, multi site regional or national firms. The business model will also vary significantly, from specialised investment management services, provision of retail investment advice, administering policies and schemes, to providing financial and mortgage advice etc.

The **Guidance** will be particularly relevant for firms who are subject to the new professional standards and requirements of the FSA's Retail Distribution Review (RDR), and will want to rely on their TC arrangements to successfully implement these changes

The **Guidance** has specific relevance and application for executives and senior management levels across all regulated firms, including Non Executive Directors (NEDs) and Controlled Function (CF) roles with Significant Influence Function (SIF)* responsibilities.

The **Guidance** is also relevant for firms carrying out wholesale business, specifically in meeting the requirements of the competent employees rule whether or not they choose to implement a TC scheme to achieve this. Wholesale firms may want to follow the guidance in detail where this is seen to be the most appropriate way to comply with the rule, or they may want to reference existing performance development practice to the guidance, using this as a benchmark and driver of continuous improvement.



TC Standards and Good Practice Guidance – Indicators

Policy and Governance

Regulatory Competence Requirements

Understanding the outcomes the regulator expects a firm to achieve and how the competence of its employees underpins these outcomes.

TC – FSA TC Training and Competence*

Role and Responsibilities of Senior Management

Accepting their responsibility and accountability for policy and operational decisions which impact on Training and Competence whilst recognising that the associated tasks and functions are delegated and managed in the firm.

SYSC – competent employees rule

TC – 1.1.3 G

Establishment of Scheme and On-Going Effective Performance

There is considerable flexibility in the design of a TC scheme. Whether a simple or more detailed approach to TC is taken, Senior Managers will ensure it is properly implemented and delivers the desired outcomes.

TC 2.1.1 R
TC 2.1.2 R
TC 2.1.6 R

Quality Assurance

Taking steps to confirm and demonstrate the purpose and required outcomes and standards of any arrangement or scheme are being achieved on a continual basis.

TC 2.1.11 G

Record Keeping

Maintaining adequate records to show the arrangements are appropriate, have delivered the required outcomes and are given the appropriate level of priority within the firm.

TC 3.1.1 R



TC Standards and Good Practice Guidance – Indicators

Managing Performance Through TC

Supervision

Supervision is performance management in action. It is a way of developing and supporting an individual to show they can competently perform the role, whilst providing the appropriate level of quality control of the outputs.

TC 2.1.2 R
TC 2.1.3 G

Supervision in Practice

The approach to and delivery of supervision in a way that is appropriate for the firm and the individual, and is focused on enabling the required outcomes in the most efficient way by supporting and developing the individual.

TC 2.1.2 R
TC 2.1.3 G

Supervisor Skills, Knowledge, Expertise and Ethics

The generic and business specific skills, knowledge, experience and ethical behaviours required by a competent supervisor to perform the role and provide the intended benefits to the customer and the firm.

TC 2.1.5 R
TC 2.1.4 G

Quality Assurance

Good supervision provides an environment which promotes a commitment to the customer through the achievement and maintenance of competence standards producing the expected quality of outcomes.

TC 2.1.12 R
TC 2.1.11 G

Defining Key Performance Indicators

KPIs are used to monitor actual performance against key measures to provide those responsible for individual and business performance with a current picture of progress against customer and business objectives, competence standards and quality of outputs.

TC 2.1.2 R
TC 2.1.3 G



TC Standards and Good Practice Guidance – Indicators

Achieving and Maintaining Competence

Defining Competence

Articulating and documenting what competence means for any role and the standards that apply to achieve the required outcomes.

TC 1.1.4 G

Recruitment

Having clear standards that apply at selection for a role, including non-executive directors and senior executive level roles, and using the outputs from the interview process in the induction and training of new employees.

TC 2.1.11 G

Achieving Competence

Competence applies to the role and is achieved in different ways according to the role and the business it supports.

TC 2.1.1 R

Consideration is given to how it will be clear overall competence has been achieved and what support is required to achieve this.

TC 2.1.2 G

TC 2.1.8 R

Maintaining Competence

The ongoing development of employees is an essential part of business performance. One feature of this development is the requirement for maintaining the competence of role holders through access to learning and development, including any regulatory prescribed CPD requirement, and the significant impact this will have on the expected customer and business outcomes.

TC 2.1.12 R

TC 2.1.13 G

Maintaining Competence – RDR requirements

Requirements for:

Notifications
Reporting
Continuing professional development
Annual declaration
Independent verification

TC 2.1.31R/32G

TC 2.2B (all)

TC 2.1.15 to 2.1.25

TC 2.1.26R

TC2.1.27/28R/29/30G



Indicator

Regulatory Competence Requirements

Understanding the outcomes the regulator expects a firm to achieve and how the competence of its employees underpins these outcomes.

Outcome Standards

- The roles and role holders to be covered by the firm's TC arrangements are correctly identified and included
- Clear, measurable definitions and standards for achieving and maintaining competence are in place for all roles that fall within scope of TC
- The evidence to be provided to demonstrate competence is documented including the rationale for why the evidence is appropriate
- Measurable standards are in place for key outputs of relevant roles
- Potential people risks relevant to competence are identified and it is clear how these are managed and mitigated through the TC arrangements
- An appropriate supervision policy and structure has been decided and implemented
- Sufficient resources, including people, finance and IT systems are allocated by the firm to maintain an effective TC contribution to the firm's objectives
- The relationship and interaction between management, relevant departments such as Human Resources, Compliance and those responsible for TC arrangements is clearly defined and positive
- Competence standards are regularly reviewed against regulatory, legislative and market changes to confirm they remain appropriate
- There are regular reviews of the firm's TC scheme(s) to ensure it remains appropriate and is consistent with the firm's business model.



Indicator

Role and Responsibilities of Senior Management

Accepting their responsibility and accountability for policy and operational decisions which impact on Training and Competence whilst recognising that the associated tasks and functions are delegated and managed in the firm.

Outcome Standards

Comment:

Senior Managers are primarily, but not exclusively, identified as those who have Approved Person responsibilities with significant decision making authority, and potentially Significant Influence Controlled Function (SIF) responsibility, being individually accountable for competently fulfilling those responsibilities. Senior Managers collectively are responsible for the performance of the firm

- The culture, ethical framework and values of the firm are clearly established, documented and communicated to all staff
- Senior Managers consistently demonstrate in their own performance the standards, behaviours and conduct expected of Approved Persons as detailed in the APER sourcebook*
- Standards and ethical behaviours expected within the firm are clearly documented and communicated
- Senior Manager performance is assessed and managed in a way that consistently drives the standards and quality of performance required for the firm
- An appropriate risk framework is used to identify and manage risk and this includes competence requirements to mitigate people risks at all levels and across all roles
- Policies and procedures are documented and followed for performance reviews, which include assessment of skills, knowledge and overall competence, for all staff in key business areas
- These policies and procedures are reviewed by, or for, the SIF with responsibility for the business area to ensure they remain appropriate at all times
- The application of a firm's TC arrangements consistently delivers the required outcomes
- The establishment and timely provision of appropriate and relevant management information (MI) and reporting frameworks is overseen by Senior Managers
- Appropriate decision making structures are determined for the firm and implemented effectively
- Performance issues, or potential issues, are dealt with at an appropriate level with the appropriate action taken and the desired outcomes achieved.



Indicator

Establishment of Scheme and On-Going Effective Performance

There is considerable flexibility in the design of a TC scheme. Whether a simple or more detailed approach to TC is taken, Senior Managers will ensure it is properly implemented and delivers the desired outcomes.

Outcome Standards

Comment:

The scope, style and approach to TC will be determined appropriate to the nature, scale and complexity of the firm's business

- The firm's TC arrangements are documented, readily accessible by all staff and, at a high level, show how it affects them in their roles
- Responsibility for a scheme(s) or TC arrangement(s) is included in the job description and accountabilities of the appropriate individuals
- Responsibility includes a requirement to ensure the TC arrangements remain fit for purpose, up to date and effective at all times
- Those with specific responsibility for TC policy and practice within the firm are competent to perform these roles
- Operational delivery of TC is an integral part of day to day business performance management practice
- Appropriate competence standards are defined and measures put in place
- Decisions to determine structures, role responsibilities and spans of control appropriate for the firm are overseen by the Senior Management
- Senior Management have implemented appropriate supervision policies and structures to assist with their responsibility for on-going performance standards
- Appropriate controls have been determined and implemented to ensure the arrangements work effectively, are applied consistently and are delivering the required business outcomes
- TC arrangements are established in a way that ensures culture and behavioural standards permeate throughout the firm.



Indicator

Quality Assurance

Taking steps to confirm and demonstrate the purpose and required outcomes and standards of any arrangement or scheme are being achieved on a continual basis.

Outcome Standards

- A firm regularly reviews the performance and operational effectiveness of the TC arrangements.

This will include:

- The effectiveness of the implementation of the arrangements or scheme
- Whether all the requirements of the scheme have been met and it is delivering the required outcomes
- Are these still appropriate to the firm's business model, target market and risk appetite
- Are these still appropriate to the current market, regulatory and legislative environment

- The range of key performance indicators and management information used to evidence quality is appropriate and relevant to the size, shape and complexity of the firm's business
- The effectiveness of quality measures in the performance and reward framework are reviewed regularly and tested against the actual business outputs achieved
- How the TC scheme or arrangement is being applied by line managers is periodically reviewed and changes or improvements made based on the findings
- Action plans are used to develop and improve performance to attain and maintain competence standards
- Monitoring takes place of progress against the action plans, including the effectiveness of any remedial actions
- There is a periodic objective review of the TC arrangements, including a test of the underlying standards.



Indicator

Record Keeping

Maintaining adequate records to show the arrangements are appropriate, have delivered the required outcomes and are given the appropriate level of priority within the firm.

Outcome Standards

Comment:

Whilst there are explicit record-keeping rules, the necessity for accurate record keeping is integral to all elements of an effective TC policy and practice

- Specific records are maintained to show:
 - Why a firm's TC arrangements are considered appropriate for the firm
 - Why any qualifications selected from the appropriate qualification list and required for evidence of competence attainment are appropriate for the role
 - The audit trail for decisions taken relevant to the scheme
 - How any identified failings or short-comings have been effectively dealt with and what procedural changes have been implemented as a result
- Reviews of a firm's TC policy, frameworks and structures, standards and performance are routinely documented and retained
- The specific record keeping requirements that attach to roles directly in scope of TC are fully implemented
- A firm should refer to the regulator's rules and other relevant regulations to determine how long records should be retained and they must keep those records for at least the minimum required period
- A firm uses relevant records to provide evidence of progress towards the desired customer and business outcomes and, where appropriate, to inform future decision making.



Indicator

Supervision

Supervision is performance management in action. It is a way of developing and supporting an individual to show they can competently perform the role, whilst providing the appropriate level of quality control of the outputs.

Outcome Standards

Comment:

Supervision is a specific role with defined competence requirements which ensure TC related activities are carried out effectively. The function of supervision may be incorporated into other roles such as manager, overseer, team leader and supervisor. The references to supervisor in this guidance apply equally to a dedicated supervisor and where supervision is incorporated into these other roles

- Supervision is performance management in action providing:
 - Guidance and support to relevant role holders so that their role requirements are fully understood
 - Quality control and risk mitigation processes which cover the full breadth of activities being carried out
 - Coaching and development interventions to develop and maintain all aspects of competence including ethical behaviour and cultural alignment
 - Monitoring of outcomes to ensure the quality and suitability of work is maintained particularly where role holders are new to, and have not yet achieved competence in, the role.
- Supervision of role holders who have not yet achieved competence is significantly greater than that provided for competent role holders
- Supervisors benchmark performance against standards which are clearly defined and documented
- Supervision takes a holistic view of competence, developing an individual to competently perform the whole role
- Supervision provided within a firm is proportionate to the risk identified for the role or activity. The level of risk associated with the role/activity may not remain static and will need to be kept under review
- The level, nature and duration of supervision provided to role holders whilst progressing to competence is specified
- When reduced levels of supervision are provided a firm is able to demonstrate why these are appropriate and will be effective
- Firms are able to demonstrate they have considered and analysed all relevant factors in deciding the optimal number of role holders a supervisor may supervise
- Supervision is not solely delivered through remote desk based monitoring.



Indicator

Supervision in Practice

The approach to and delivery of supervision in a way that is appropriate for the firm and the individual, and is focused on enabling the required outcomes in the most efficient way by supporting and developing the individual.

Outcome Standards

Comment:

A firm will adequately monitor the activities of role holders against agreed competence standards. Supervision ensures that the quantity and quality of a person's key outputs are tracked and monitored, with records made and retained as required

- Supervision is flexible and tailored to address the specific needs of the individual being supervised
- The level of supervision applied is consistent with the individuals' current competence and the risk their role presents to the firm
- Evidence is provided which clearly shows why the level of supervision and supervisory activities have been selected
- Role holders who are not yet competent are supervised more closely than competent role holders, and significantly more closely for retail activities in scope of TC
- Clearly defined performance indicators are used to measure and assess all elements of competence and collectively this is used to determine overall competence in the role
- Evidence used is current with timely feedback provided to role holders appropriate to the level of their performance
- Performance gaps are managed through development plans that track and evidence progress of the role holder's performance improvement
- Development solutions are deployed which achieve the desired change in performance outputs
- Supervisors formally review a competent person's performance at least once a year, more frequently where KPIs indicate it is reasonable to do so or when the risk profile of the role requires more frequent review
- Supervision of competent individuals includes the monitoring of competence and development activities to embrace new requirements or retraining as necessary
- Supervision applies to the whole role, not just the regulated aspects, promoting the embedding of good practice across the firm
- The person performing the role of supervisor is competent to perform that role and will have sufficient and relevant experience for the role(s) they are supervising
- A firm's culture and policy drives common goals and outcomes that show how to identify and minimise any potential conflicts of interest in the supervision process
- Where a firm's structure involves split responsibilities e.g. sales manager and TC supervisor, the policy includes an agreed written process for managing conflicts of interest, and this is monitored by the person accountable for supervisor performance
- The effectiveness of supervisory interventions is monitored to ensure risks are mitigated and performance issues addressed appropriately
- Where supervisory activities are devolved to others, such as training departments or quality assurance units, the staff in these departments must be competent and appropriately supervised
- Supervisors regularly review and monitor performance data to ensure this is consistent with observed evidence and identify any trends showing deterioration or improvement in standards
- Any performance monitoring activities undertaken, including sampling, are targeted and representative of the person's role
- There is a process for dealing with role holders who are no longer deemed competent to perform their role and supervisors know how to implement this in accordance with the firm's procedures.

Indicator

Supervisor Skills, Knowledge, Expertise and Ethics

The generic and business specific skills, knowledge, experience and ethical behaviours required by a competent supervisor to perform the role and provide the intended benefits to the customer and the firm.

Outcome Standards

- The role of supervisor is described, usually in a role profile, which defines competence, key outputs and responsibilities
- The standards required for the role are defined, including any specific qualifications which must be held
- Training and development support is provided for new supervisors to achieve competence in their role
- Appropriate qualifications* are attained before undertaking supervision and assessment of non-competent role holders who advise retail clients on packaged products (retail investment products w.e.f. 31/12/2012)
- Specific arrangements for assessing continued competence of supervisors are in place as appropriate to the risks and responsibilities of the role
- The supervisor knows the desired competence outcomes for the processes being supervised
- There is specific evidence to confirm competence in the following areas where these are an essential requirement of the role:

Knowledge – professional qualifications, firm specific products and processes:

- Company goals and business objectives, values and culture
- Performance standards, sales process and controls
- Industry and firm specific technical and regulatory knowledge
- TC policy and firm specific scheme requirements
- Market, products and customer knowledge including company specific guidelines

- Industry standards and internal quality standards
- Training process and resources
- HR processes and resources

Skills – practical application of the range of technical and inter-personal skills:

- Coaching including observation, assessment and feedback
- Training methods and delivery
- Performance analysis
- Risk assessment and management
- File checking and audit
- Communication, written and verbal
- Conflict resolution
- Chairing and managing team meetings

Ethics – ability to promote ethical behaviours to improve customer perceptions and outcomes:

- Customer focus
- Honesty and integrity
- Applying the same standards at all times even when it is inconvenient to do so
- Taking ownership and responsibility for the role
- Challenge and confront performance that falls below the required standard

Expertise – ability to apply skills and knowledge appropriately in different circumstances:

- Establishing and maintaining the competence of all role holders supervised
- Dealing promptly and effectively with any issues of competence for all role holders supervised
- A role model of acceptable performance

N.B. This list of competence areas is not meant to be exhaustive

Indicator

Quality Assurance

Good supervision provides an environment which promotes a commitment to the customer through the achievement and maintenance of competence standards producing the expected quality of outcomes.

Outcome Standards

Comment:

A supervisor is primarily responsible for the quality of an individual's performance. They may also be responsible for performance against business plan/objectives although in some firms this is a separate role. However the two core responsibilities are clearly linked and impact on each other

- A supervisor gathers qualitative and quantitative evidence to demonstrate both the achievement and maintenance of competence for those being supervised
- A supervisor seeks, as a minimum, to maintain overall performance and support achievement of agreed standards by on-going monitoring, observation and feedback with individuals who have achieved competence
- Quality is confirmed through output checks such as client file reviews, business process and timescale compliance and for the accuracy of documentation and correspondence
- Customer feedback is obtained, where relevant, to evaluate the quality of outputs
- Planning and review of performance is undertaken sufficiently frequently to manage both the quality and quantity of performance outputs
- Performance improvement action is taken where standards are not being achieved or are slipping
- A supervisor knows how and when to take intervening action in circumstances where a customer is at risk of being disadvantaged
- Training solutions provided to help achieve, restore or maintain competence are periodically reviewed to confirm they are, and remain, appropriate and effective.



Indicator

Defining Key Performance Indicators

KPIs are used to monitor actual performance against key measures to provide those responsible for individual and business performance with a current picture of progress against customer and business objectives, competence standards and quality of outputs.

Outcome Standards

- Performance measures at an overall business level are defined by the Senior Managers
- KPIs are framed to drive the desired quality and standards as well as the quantity performance measures
- Measures specific to the expected customer outcomes form part of the KPI framework
- Individuals' KPIs are appropriate to their role
- Guidance is provided from Senior Managers on how they measure achievement of KPIs and this is adopted consistently at all levels
- Reviewing and reporting against KPIs is sufficiently frequent to be effective in measuring and monitoring performance
- The KPI report always triggers the appropriate supervisor action or response to negative trends or failure in any area
- Individual performance is reviewed with the role holder against the KPI data held and further coaching, training or assessment is agreed as appropriate to the findings
- Timely follow up takes place to ensure the actions are carried out effectively and produce the required outcome.



Achieving and Maintaining Competence

Indicator

Defining Competence

Articulating and documenting what competence means for any role and the standards that apply to achieve the required outcomes.

Outcome Standards

Comment:

SYSC imposes the requirement at all levels of a firm for employees to be competent, and maintain competence to perform their role. This includes and is driven by the Senior Management or business owners.

- Competence includes all 4 key elements:

Knowledge – appropriate qualification requirements and understanding of generic and firm specific products and processes, to fulfil the role

Skills – the range of technical and inter personal skills required to perform the role to the required standards

Ethics – personal commitment to demonstrate ethical behaviours which improve customer perception and outcomes

Expertise – the ability to apply knowledge and skills to achieve positive and fair outcomes and meet the performance standards required of the role

- The minimum standards for all these elements is defined for each relevant role and described in a way that is clear for both the role holder and his/her line manager
- Standards are documented and recorded with performance requirements mapped to them and evidenced appropriately
- Competence is defined for all roles from Board level down, including non-executive directors, appropriate to the nature and responsibilities for any role.



Indicator

Recruitment

Having clear standards that apply at selection for a role, including non-executive directors and senior executive level roles, and using the outputs from the interview process in the induction and training of new employees.

Outcome Standards

- There is a defined recruitment process implemented and followed
- The standards required for the role, what will be expected of the role holder and the performance outcomes to be achieved are made clear in any role profile
- Appropriate methods of assessment against these standards are used consistently throughout the interview process to determine a candidate's suitability for the role
- The training arrangements for new employees are aligned to and joined up with the outcomes of the recruitment process
- Where appropriate to the role, the performance of successful candidates against these recruitment requirements is documented and used to undertake a training gap analysis with outputs transferred to the induction training process
- Any gaps identified at recruitment are tracked and followed up to a satisfactory conclusion
- Appropriate recruitment records are maintained securely for all employees
- Recruitment standards apply equally to internal as well as external recruits although evidence of suitability and achievement may be obtained and assessed in different ways.

Note:

Relevant background checks and reference requirements, whilst just as essential, fall outside this guidance and should be determined as part of the HR recruitment policy.



Recruitment





Achieving and Maintaining Competence

Indicator

Achieving Competence

Competence applies to the role and is achieved in different ways according to the role and the business it supports. Consideration is given to how it will be clear overall competence has been achieved and what support is required to achieve this.

Outcome Standards

- Competence is defined for all roles
- A firm is able to demonstrate how they have determined an individual is competent, the standards required and why these are appropriate for the role or activities undertaken
- Any process describes the outcomes required as well as indicating the range of activities to undertake, the standards to achieve and the timescales determined appropriate to the firm or as required by regulation
- There is clear understanding of what makes for overall competence and how achievement of the competence elements throughout the process contribute to this
- Where the process is made up of a number of stages, the appropriate level of supervision is applied at each stage
- There is evidence to demonstrate the standards have been met before progress can be made to the next stage
- Where progress to competence includes an appropriate qualification requirement, this is documented and time tabled so that the regulatory time limit is met
- The focus is on the quality and consistency of outputs achieved by the trainee and how these provide evidence of overall competence
- Any assessment framework utilised to support competence decisions is implemented and managed by suitably qualified assessors/supervisors
- An appropriate record of progress and evidence of achievement is documented and maintained
- A review of the level of supervision required is undertaken on a regular basis and is determined appropriate to the level of risk
- Supervisors understand what constitutes unsuitability and requires exit from the role, including failure to achieve any qualification requirement within the regulatory time limit, and the procedures to follow
- Supervisors know how and are able to deal with any change in a role holder's circumstances and the impact this may have on progress to competence, e.g. long term absence.



Achieving Competence



Indicator

Maintaining Competence

The ongoing development of employees is an essential part of business performance. One feature of this development is the requirement to maintain the competence of role holders through access to learning and development, including any regulatory prescribed CPD requirement, and the significant impact this will have on the expected customer and business outcomes.

Outcome Standards

- All role holders, including supervisors, have access to the necessary support and development to remain competent to do their job to the required standards appropriate to the nature and responsibilities of the role
- Any KPIs established for a role are regularly monitored to provide evidence that outputs are at the right standard or indicate what action needs to be taken where issues arise
- Specific arrangements for assessing competence are implemented as appropriate to the risks and responsibilities associated with the role
- Regular reviews are carried out to identify training and development needs to improve performance and maintain overall competence
- Any gap(s) identified are transferred to the personal development plan with appropriate remedial action implemented and completed within an agreed timescale, and checks on the effectiveness of this action are made
- The TC arrangements provide ongoing updating of knowledge, skills and, where relevant, ethical behaviours
- The TC arrangements document requirements for CPD, structured and unstructured, to maintain the knowledge content of any appropriate qualification, including how this CPD will be accessed, verified and recorded
- Refresher training is also provided and this is particularly appropriate for circumstances where knowledge fade may be an issue
- The impact on competence of any significant change to a role or responsibilities is reviewed and further training provided as appropriate, which may require an individual moving back to the 'achieving competence' stage, with the level of supervision increased accordingly, until competence has been re-evidenced
- Records are maintained which show how any changes which may affect competence have been dealt with
- Procedures that apply for when competence has not been maintained along with any requirement to notify the regulator are documented, including restriction of certain activities which will stay in force until competence has been re-established
- Controls are in place to evidence relevant role holders have completed mandatory training which is required to be repeated on a regular basis and any appropriate qualification related CPD.



Maintaining Competence

Indicator

Maintaining Competence

The ongoing development of employees is an essential part of business performance. One feature of this development is the requirement to maintain the competence of role holders through access to learning and development, including any regulatory prescribed CPD requirement, and the significant impact this will have on the expected customer and business outcomes.

NB The following standards specifically apply to firms who provide retail investment advice

Notification (valid from 1st July 2011) and Reporting (valid from 31st December 2012) requirements

- Procedures are in place that ensure a firm is aware of and able to promptly notify the regulator of any relevant and significant event in respect of its retail investment advisers' competence and ethical behaviours
- The factors that a firm would consider to determine what constitutes a significant event are detailed and documented along with the process to follow
- Responsibility for the submission of quarterly professional standards data reports is allocated to an appropriate person and is overseen by the designated senior manager
- Controls are in place to ensure the accuracy of data collected and submitted by the firm

Continuing professional development requirements (valid from 31st December 2012)

- The TC arrangements define the regulatory CPD requirements for retail investment advisers, how CPD is determined relevant and appropriate for each adviser, the outcomes it will achieve and how this will be verified
- Monitoring and recording of CPD for all retail investment advisers is undertaken by the firm and includes details of the CPD completed, the type and duration of the learning, any assessment or test undertaken, and the outcomes achieved

- Supervisors know when and for what reasons they are allowed to suspend regulatory CPD requirements, and maintain a written record of the dates and reasons for any suspension implemented

Annual declaration (valid from 31st December 2012)

- A process and format is documented and implemented which enables a firm to obtain an annual written declaration from all their retail investment advisers which confirms their compliance with APER and CPD completion requirements
- Written procedures are available which detail how to deal with advisers who are unable to provide a written annual declaration and the supervision requirements this will impose

Independent verification (valid from 31st December 2012)

- A relationship agreement exists between the firm and the relevant accredited body which details
 - The verification process,
 - The management and recording of essential data,
 - The sampling of CPD records and overall compliance with professional standards,
 - The procedure and timescales for issuing of the necessary Statements of Professional Standing (SPSs)
- Controls are in place, and regularly reviewed, to ensure retail investment advisers meet all the professional standards and competence requirements including having a valid SPS.

NB For Guidance on this section please see the associated document 'TC Standards and Guidance – Good Practice Guidance for RDR Implementation'



Good Practice Guidance

TC Standards and Good Practice Guidance
– Outcome Standards with Good Practice Guidance

Outcome Standards with Good Practice Guidance:

- 3 Purpose of FSP Guidance
- 4 TC Framework
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Disclaimer:

Whilst these standards and good practice have been developed to help firms implement and maintain effective TC arrangements, this guidance does not purport to be a definitive guide. They should not be relied upon for regulatory compliance purposes. Whilst every effort has been made to ensure the accuracy and completeness of the material the Financial Skills Partnership gives no warranty in that regard and accepts no liability for any subsequent loss or consequential damage, howsoever incurred, through the use of, or reliance upon the guidance or standards.



Outcome Standards with Good Practice Guidance

Welcome to the Financial Skills Partnership's (FSP) Training and Competence Standards and Guidance. This material was produced by the industry for the industry to support the industry in raising standards in order to regain the confidence of both internal and external customers. The Financial Services sector already is an extremely valuable part of the economic success of UK plc and it can only be beneficial to society and the industry to continue to raise the standards of performance still further.

Purpose of the FSP Guidance

The competence of individuals at all levels is a high priority for firms if they are to compete in the current market, meet customer expectations and satisfy the range of regulatory requirements. This requires continued attention by Senior Managers to their competence arrangements to ensure they are appropriate for the business activities being undertaken, as well as oversight and governance of their effectiveness.

This is particularly pertinent as these arrangements come under increased scrutiny by the regulator, with Sheila Nicoll, FSA Director of Conduct Policy stating "We want to see firms operating robust training and competence schemes and individuals demonstrating good standards of ethical behaviour".

Due to the importance the regulator places on competence, the Training and Competence* sourcebook (TC Training and Competence) has been repositioned within the Handbook and is now included within the High Level Standards alongside other responsibilities such as the approved persons regime.

However, training and competence is a broad and complex area for firms, embracing many other regulatory obligations such as Culture, Ethics and Behaviours, TCF, Professionalism and Qualifications, Board and SIF level role appointments, as well as Governance and Reporting. Whilst there are some detailed rules specific to regulatory competence requirements for specified retail investment activities contained within TC Training and Competence (TC), relevant principles, rules and guidance are to be found throughout much of the Handbook.

Firms are obligated to interpret and apply these principles, rules and guidance appropriate to the type and complexity of their business and the outcomes they expect, and put in place competence arrangements to consistently achieve these outcomes.

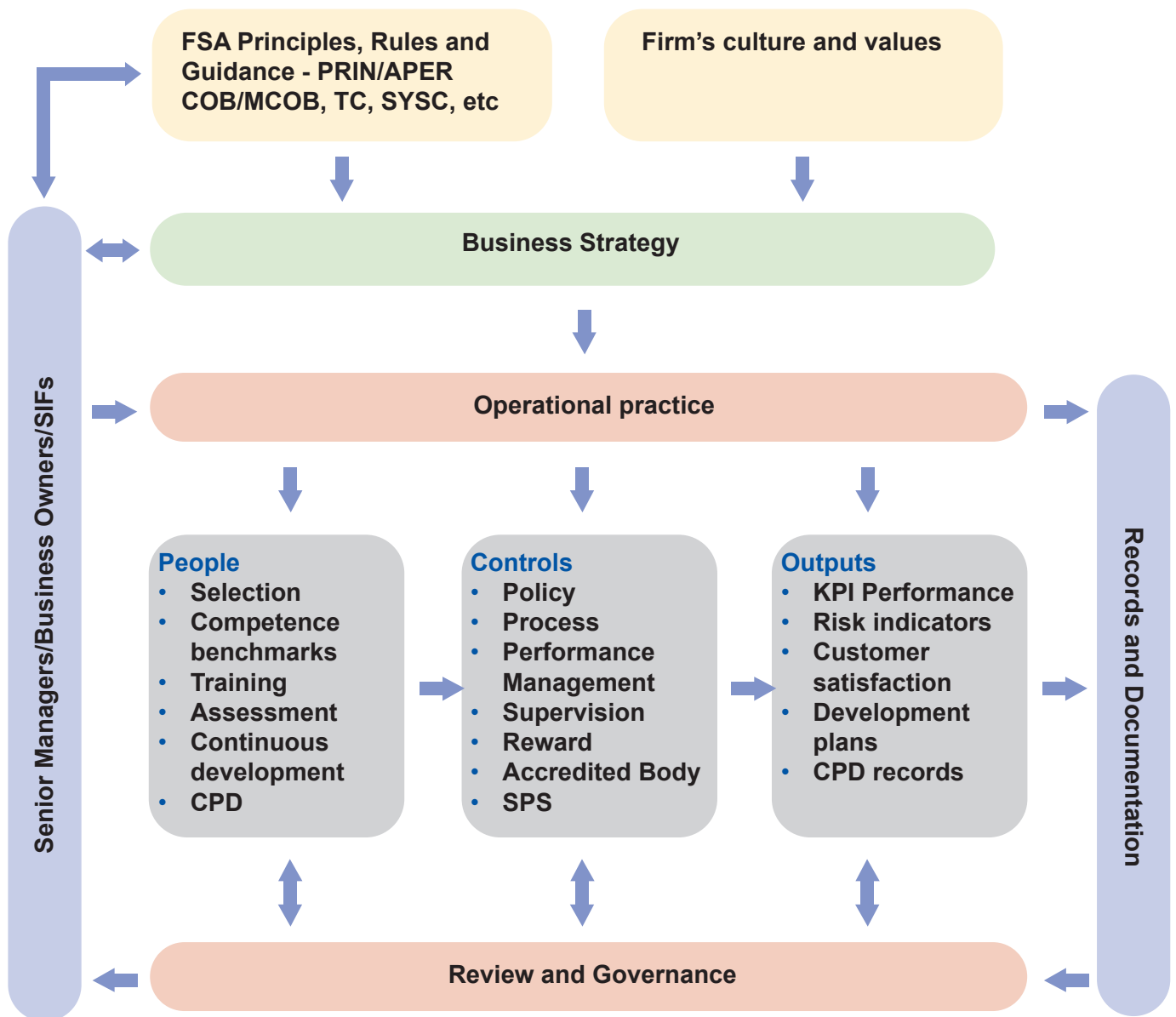
* Links are provided throughout this document directly to the relevant sections of the FSA Handbook for ease of reference. FSP accepts no responsibility for the content of the FSA Handbook pages.



Outcome Standards with Good Practice Guidance

TC Framework

The following framework shows how this is designed to work in practice and highlights some of the key areas for consideration:





Outcome Standards with Good Practice Guidance

The purpose of the Guidance is to provide consistent standards for the industry in the application of this framework relevant to their business, along with helpful guidance and examples of industry good practice to improve understanding and support decision making.

In an outcomes based environment, the application of the rules will be determined by the nature and requirements of the business and will, therefore, look very different in practice from one firm to the next. For instance, in large, complex firms there may be multiple TC schemes operating in various parts of the business. They may be centrally controlled by a Human Resource (HR) or Compliance function and may well be part of an organisation-wide performance management policy. Small firms may manage this requirement very differently, perhaps not using a formal scheme, but choosing to use simple and flexible tools with a minimum of detailed process.

Whatever approach to TC is considered appropriate, the owners or senior managers within the firm are expected to know what outcomes they want to achieve and be confident that the arrangements they put in place will enable employees to attain and maintain competence to deliver these. This guidance will help give firms this confidence by providing consistent industry standards against which they can assess their TC arrangements. It will benefit all firms regardless of size or market as it includes clear, up-to-date standards which underpin continuous improvement in business performance – an outcome intended from the requirement for competent employees.



Outcome



Standards



Culture

Culture is frequently referred to in this guidance and it is an important influencing factor on employee competence and performance.

The FSA view culture as a key influence on competence and ethical behaviour as well as a driver of fair outcomes for consumers. They produced a guidance paper entitled 'Treating Customers Fairly – Culture' (July 2007) which provides model culture frameworks for large and small businesses. Within this it identifies the key cultural drivers to be:

- Leadership
- Recruitment, Training and Competence
- Reward
- Controls
- Strategy
- Decision making

From this it can be seen that the drivers and indicators of good TC practice resemble closely those described for TCF strategy and practice. Clearly a lot of thought at all levels must go in to how a firm will meet its obligations for TCF and TC and, in practice, the commitment to deliver these outcomes should come as second nature to all employees as a result of having the right business culture.

These standards and guidance have therefore been developed to assist firms in the implementation and operation of their TC schemes by:

- Providing common standards with clear and consistent guidance
- Creating a closer fit between TC and Treating Customers Fairly (TCF)
- Embedding the principle that sound TC arrangements are key to achieving the cultural and ethical stance of the firm
- Enabling firms to take a proportionate risk-based, outcome-focused approach to TC

Outcome Standards



Outcome Standards with Good Practice Guidance

How to Use the TC Standards and Good Practice Guidance

The Guidance has been developed by industry practitioners across all sectors of the Financial Services market and therefore has its origin in current industry good practice. For each TC Indicator the relevant rules are translated into clear Outcome Standards which will be evidence that the TC arrangements are implemented and working effectively and provide an overall industry benchmark. Aligned to the TC Standards is the Good Practice Guidance, a combination of insights, prompts and questions which build on the rule based Indicators. This outlines a realistic expectation of what good TC practice looks like and can achieve.

Firms can use the Guidance in a number of ways:

- As a benchmark of current policy, procedures and performance management practice
- As a blueprint for a TC scheme or arrangement
- As a reference guide and source of external good practice
- As a means of improving the effectiveness of current TC arrangements and implementing new regulatory competence requirements
- For audit and compliance purposes
- As part of a firms approach to TCF and evidencing progress against key measures

For benchmarking, firms should determine which TC Standards are relevant to the firm, its business model and, where appropriate, the regulated activities being undertaken. Existing arrangements can then be benchmarked against the relevant TC Standards to determine:

- To what extent your TC arrangements meet these Standards
- Where there might be gaps or variance in current performance and why this might be the case
- What action needs to be taken to achieve the industry benchmark Standards

The Good Practice Guidance is designed to help firms in deciding what actions they may need to take as a result of this benchmarking process. The questions should prompt a response from the firm and ensure all relevant factors are considered and reviewed.



**Good
Practice
Guidance**



Outcome Standards with Good Practice Guidance

Benefits

The projected benefits for firms of applying these standards to their own TC arrangements include:

- Industry standards provide more certainty and will support firms as they exercise their judgement in how best to meet their regulatory obligations
- Up to date, transparent standards provide consumer protection and will help restore consumer confidence and trust
- Reducing the risk to the business
- Less likelihood of breaches of TC rules and/or not acting in a manner consistent with the stated principles
- Substantive evidence to show how the firm is meeting its responsibilities with regard to Treating Customers Fairly (TCF)
- Greater control of the costs associated with the provision of Training and Competence
- Sharing of industry good practice and access to examples of working frameworks and guidance

National Standards of Competence

Separate from, but closely related to, the development of this guidance are the National Standards of Competence. These specify standards of performance relevant to an occupation, and describe the skills, knowledge and understanding needed to perform competently in these roles.

There are National Standards of Competence* for a number of relevant occupational roles including:

- TC scheme development, management, audit and review
- Providing retail financial advice
- Providing retail advice on securities and derivatives

Conclusion

This Guidance describes the rules in terms of consistent industry standards supported by guidance and examples of good practice on their application and implementation. This will provide a significant reassurance for firms across the whole market that they are utilising recognised good practice.

We hope that you will find the Guidance beneficial and that it will allow you to benchmark the success of your firm in raising standards against your peers within the sector. We would welcome any feedback from you on whether or not this information has been helpful and any areas where you feel further support and guidance would be useful.

Benefits

National Standards of Competence

TC Standards and Good Practice Guidance – Indicators

Policy and Governance

Regulatory Competence Requirements

Understanding the outcomes the regulator expects a firm to achieve and how the competence of its employees underpins these outcomes.

TC – FSA TC Training and Competence*

Role and Responsibilities of Senior Management

Accepting their responsibility and accountability for policy and operational decisions which impact on Training and Competence whilst recognising that the associated tasks and functions are delegated and managed in the firm.

SYSC – competent employees rule

TC – 1.1.3 G

Establishment of Scheme and On-Going Effective Performance

There is considerable flexibility in the design of a TC scheme. Whether a simple or more detailed approach to TC is taken, Senior Managers will ensure it is properly implemented and delivers the desired outcomes.

TC 2.1.1 R
TC 2.1.2 R
TC 2.1.6 R

Quality Assurance

Taking steps to confirm and demonstrate the purpose and required outcomes and standards of any arrangement or scheme are being achieved on a continual basis.

TC 2.1.11 G

Record Keeping

Maintaining adequate records to show the arrangements are appropriate, have delivered the required outcomes and are given the appropriate level of priority within the firm.

TC 3.1.1 R



TC Standards and Good Practice Guidance – Indicators

Managing Performance Through TC

Supervision

Supervision is performance management in action. It is a way of developing and supporting an individual to show they can competently perform the role, whilst providing the appropriate level of quality control of the outputs.

TC 2.1.2 R
TC 2.1.3 G

Supervision in Practice

The approach to and delivery of supervision in a way that is appropriate for the firm and the individual, and is focused on enabling the required outcomes in the most efficient way by supporting and developing the individual.

TC 2.1.2 R
TC 2.1.3 G

Supervisor Skills, Knowledge, Expertise and Ethics

The generic and business specific skills, knowledge, experience and ethical behaviours required by a competent supervisor to perform the role and provide the intended benefits to the customer and the firm.

TC 2.1.5 R
TC 2.1.4 G

Quality Assurance

Good supervision provides an environment which promotes a commitment to the customer through the achievement and maintenance of competence standards producing the expected quality of outcomes.

TC 2.1.12 R
TC 2.1.11 G

Defining Key Performance Indicators

KPIs are used to monitor actual performance against key measures to provide those responsible for individual and business performance with a current picture of progress against customer and business objectives, competence standards and quality of outputs.

TC 2.1.2 R
TC 2.1.3 G



TC Standards and Good Practice Guidance – Indicators

Achieving and Maintaining Competence

Defining Competence

Articulating and documenting what competence means for any role and the standards that apply to achieve the required outcomes.

TC 1.1.4 G

Recruitment

Having clear standards that apply at selection for a role, including non-executive directors and senior executive level roles, and using the outputs from the interview process in the induction and training of new employees.

TC 2.1.11 G

Achieving Competence

Competence applies to the role and is achieved in different ways according to the role and the business it supports.

TC 2.1.1 R

Consideration is given to how it will be clear overall competence has been achieved and what support is required to achieve this.

TC 2.1.2 G

TC 2.1.8 R

Maintaining Competence

The ongoing development of employees is an essential part of business performance. One feature of this development is the requirement for maintaining the competence of role holders through access to learning and development, including any regulatory prescribed CPD requirement, and the significant impact this will have on the expected customer and business outcomes.

TC 2.1.12 R

TC 2.1.13 G

Maintaining Competence – RDR requirements

Requirements for:

Notifications
Reporting
Continuing professional development
Annual declaration
Independent verification

TC 2.1.31R/32G

TC 2.2B (all)

TC 2.1.15 to 2.1.25

TC 2.1.26R

TC2.1.27/28R/29/30G





Indicator

Regulatory Competence Requirements

Understanding the outcomes the regulator expects a firm to achieve and how the competence of its employees underpins these outcomes.

Outcome Standards

- The roles and role holders to be covered by the firm's TC arrangements are correctly identified and included
- Clear, measurable definitions and standards for achieving and maintaining competence are in place for all roles that fall within scope of TC
- The evidence to be provided to demonstrate competence is documented including the rationale for why the evidence is appropriate
- Measurable standards are in place for key outputs of relevant roles
- Potential people risks relevant to competence are identified and it is clear how these are managed and mitigated through the TC arrangements
- An appropriate supervision policy and structure has been decided and implemented
- Sufficient resources, including people, finance and IT systems are allocated by the firm to maintain an effective TC contribution to the firm's objectives
- The relationship and interaction between management, relevant departments such as Human Resources, Compliance and those responsible for TC arrangements is clearly defined and positive
- Competence standards are regularly reviewed against regulatory, legislative and market changes to confirm they remain appropriate
- There are regular reviews of the firm's TC scheme(s) to ensure it remains appropriate and is consistent with the firm's business model.



Guidance

The standards should be applied consistently across all businesses irrespective of size or sector. The scheme policy and detail reflects the different business models and regulatory requirements that apply.

The key differentiator between schemes is likely to be the depth of detail in the procedures and the monitoring against standards (KPIs) which takes place dependent on the nature of the firm, its business type and model and the staff being the subject of TC arrangements. For example, a scheme for a firm in the wholesale investment market may primarily be a set of guidelines within the broader performance development processes, with specific requirements picked up in the existing Systems and Controls framework. The arrangements for a retail advice business will likely be much more detailed, specific to the activities undertaken and standards to be achieved.

The inclusion of the 'competent employees' rule in the SYSC framework requires that all employees are included in a firm's TC arrangements. How has this been applied in the firm? For those in scope of the TC Sourcebook this is likely to be detailed and defined. For other roles it may be implicit within overall performance management arrangements. Nonetheless, it cannot be taken for granted that employees are competent.

Larger firms may well operate a number of TC schemes, appropriate to the risks and controls for each part of the business. Consideration should be given to how these can operate independently whilst remaining consistent with the overarching policy and values.

What controls are in place relevant to a firm's TC policy? Do these focus sufficiently on the outcomes to be achieved? Are they appropriate to the risk involved? How are competence elements managed to ensure they remain relevant?

The regulator expects departments such as Human Resources and Compliance to play a strong supporting role in assisting senior management to meet their responsibilities in general, not just in connection with the initial recruitment process. What procedures are in place to facilitate co-ordination between HR, operational management, the Compliance function and those responsible for a firm's TC arrangements? What input do they have to the TC process? How are they consulted or involved should an individual not meet competency requirements or if there is a disciplinary issue?

Have senior management established a clear business ethics framework that will apply consistently across the firm? And is it clear how the behaviours of competent employees help deliver the required TCF outcomes?

How does the TC scheme link to the business plan and objectives? How is the remuneration and reward model determined and does this drive the right behaviours consistent with TCF? Does it maintain quality as well as promote quantity? Who signs this off and how is it implemented?

Some organisations may wish to encompass all their TC arrangements within their Performance Management framework and not even refer to the term 'T&C'. This may have a desirable effect of aligning all normal TC activities as part of an organisation's business as usual performance management processes.

Are the TC requirements regularly communicated to all stakeholders within the firm?

Indicator

Role and Responsibilities of Senior Management

Accepting their responsibility and accountability for policy and operational decisions which impact on Training and Competence whilst recognising that the associated tasks and functions are delegated and managed in the firm.

Outcome Standards

Comment:

Senior Managers are primarily, but not exclusively, identified as those who have Approved Person responsibilities with significant decision making authority, and potentially Significant Influence Controlled Function (SIF) responsibility, being individually accountable for competently fulfilling those responsibilities. Senior Managers collectively are responsible for the performance of the firm

- The culture, ethical framework and values of the firm are clearly established, documented and communicated to all staff
- Senior Managers consistently demonstrate in their own performance the standards, behaviours and conduct expected of Approved Persons as detailed in the APER sourcebook*
- Standards and ethical behaviours expected within the firm are clearly documented and communicated
- Senior Manager performance is assessed and managed in a way that consistently drives the standards and quality of performance required for the firm
- An appropriate risk framework is used to identify and manage risk and this includes competence requirements to mitigate people risks at all levels and across all roles
- Policies and procedures are documented and followed for performance reviews, which include assessment of skills, knowledge and overall competence, for all staff in key business areas
- These policies and procedures are reviewed by, or for, the SIF with responsibility for the business area to ensure they remain appropriate at all times
- The application of a firm's TC arrangements consistently delivers the required outcomes
- The establishment and timely provision of appropriate and relevant management information (MI) and reporting frameworks is overseen by Senior Managers
- Appropriate decision making structures are determined for the firm and implemented effectively
- Performance issues, or potential issues, are dealt with at an appropriate level with the appropriate action taken and the desired outcomes achieved.





Guidance

Do all Senior Manager role profiles make clear the accountabilities and, where appropriate, the Approved Person and Significant Influence Function responsibilities attached to the role, and the risk profile for the role?

Approved Person responsibilities should be clearly apportioned and documented. How is this reviewed and performance managed? How are other responsibilities reviewed and managed alongside these?

Training will usually be provided for newly appointed Senior Managers, particularly for their regulatory responsibilities. This may also include training on culture and behaviours specific to the firm. What training is provided for non-executive directors and how is their performance managed?

In large firms, Senior Manager competencies, KPIs and objectives are usually set by a firm's remuneration committee. In small businesses they could be set by the principal or practice directors. Is there evidence to show how this is done? Senior Managers should provide clear evidence of their own competence.

The strength of Senior Management's commitment to TC should not be reduced by any downturn in financial resources.

Management structures should be appropriate for the size and complexity of the business. For Small to Medium Enterprises (SME) ownership and accountability may sit with just one or two individuals e.g. the business owners. For larger companies it may well be split across a range of functions and Senior Managers.

What MI is required and with what frequency? How is the information used to provide a clear and current picture of performance? Does the MI provided highlight trends and allow informed decisions to be made? Senior Managers should use the MI provided to review and monitor overall business performance on an ongoing basis. This may be undertaken formally, for example as a standing item at Board meetings or it may be an informal, highly frequent and hands-on approach adopted by a business owner or senior partners.

What records are required to be taken at Board or other Senior Manager meetings? Do these include the rationale for decisions made which impact or change the required competence standards? There should be evidence to show what actions have been taken to deal with issues and adverse trends evident from the analysis of the MI.

The timely and effective communication of relevant decisions and business standards to all parts of the business is essential. Is there an agreed internal communication policy? Who is responsible for implementing this? Is there an audit trail for relevant decisions and appropriate communications?

It is usual for Senior Managers to describe the ethical and behavioural framework they consider appropriate for their firm, and this is likely to be formally documented and made available to all employees e.g. at induction

Key Goal

- Senior Management are able to describe the TC regime within their firm and its impact on the customer and the culture of the organisation

Guidance

Indicator

Establishment of Scheme and On-Going Effective Performance

There is considerable flexibility in the design of a TC scheme. Whether a simple or more detailed approach to TC is taken, Senior Managers will ensure it is properly implemented and delivers the desired outcomes.

Outcome Standards

Comment:

The scope, style and approach to TC will be determined appropriate to the nature, scale and complexity of the firm's business

- The firm's TC arrangements are documented, readily accessible by all staff and, at a high level, show how it affects them in their roles
- Responsibility for a scheme(s) or TC arrangement(s) is included in the job description and accountabilities of the appropriate individuals
- Responsibility includes a requirement to ensure the TC arrangements remain fit for purpose, up to date and effective at all times
- Those with specific responsibility for TC policy and practice within the firm are competent to perform these roles
- Operational delivery of TC is an integral part of day to day business performance management practice
- Appropriate competence standards are defined and measures put in place
- Decisions to determine structures, role responsibilities and spans of control appropriate for the firm are overseen by the Senior Management
- Senior Management have implemented appropriate supervision policies and structures to assist with their responsibility for on-going performance standards
- Appropriate controls have been determined and implemented to ensure the arrangements work effectively, are applied consistently and are delivering the required business outcomes
- TC arrangements are established in a way that ensures culture and behavioural standards permeate throughout the firm.





Guidance

How easily can staff access the TC arrangements and any detailed elements that apply to them? It would be expected that the TC arrangements are published on any existing internal communication sites.

Accountable individual(s) will have a clear line of sight and access to the business principal or Senior Managers, wherever their role sits within the firm. Who is accountable for any TC scheme? Is this the same person if there is more than one scheme? Are their responsibilities clear and unambiguous? How are their responsibilities defined and managed? Who is responsible for communicating the scheme and changes to it?

How is an individual determined as competent to carry out these responsibilities? Has their performance been benchmarked against any internal or external standards for these roles e.g. National Standards of Competence?

How often are the arrangements reviewed or audited and who undertakes this? For smaller firms, where the range of specialist skills may not be available, it may be sensible to use an external audit to validate a firm's understanding and practice.

A TC scheme should be evaluated to identify differences in business performance resulting from the investment in training and development and to assess the value of the change(s) for the firm.

A governance structure should be established for the scheme and this should include a periodic objective review of the scheme. The scheme should have some form of governing body that will:

- Act as the change control for the TC arrangements
- Monitor the effectiveness of the arrangements
- Authorise exceptions to the arrangements

The governing body may be comprised of the following:

Senior Management, operational line management, Compliance, HR, Training.

How much of the scheme detail is available electronically and how much is paper based? What change control process is there? What back-ups and security arrangements are in place to maintain integrity and for data protection?

What controls have been adopted and implemented and is the range of controls sensitive enough to include culture and customer behaviours? It is good practice as the business model evolves and matures to review the controls relied upon – are they still necessary, appropriate, effective?

There is no model way of implementing and establishing TC arrangements. Each firm should determine what is appropriate for their business model and culture, taking into account what other performance management and development policies exist and how effective these are.

Key Goal

- Operational delivery of TC is embraced as part of day to day business performance management practice



Guidance

Indicator

Quality Assurance

Taking steps to confirm and demonstrate the purpose and required outcomes and standards of any arrangement or scheme are being achieved on a continual basis.

Outcome Standards

- A firm regularly reviews the performance and operational effectiveness of the TC arrangements.

This will include:

- The effectiveness of the implementation of the arrangements or scheme
 - Whether all the requirements of the scheme have been met and it is delivering the required outcomes
 - Are these still appropriate to the firm's business model, target market and risk appetite
 - Are these still appropriate to the current market, regulatory and legislative environment
- The range of key performance indicators and management information used to evidence quality is appropriate and relevant to the size, shape and complexity of the firm's business
 - The effectiveness of quality measures in the performance and reward framework are reviewed regularly and tested against the actual business outputs achieved
 - How the TC scheme or arrangement is being applied by line managers is periodically reviewed and changes or improvements made based on the findings
 - Action plans are used to develop and improve performance to attain and maintain competence standards
 - Monitoring takes place of progress against the action plans, including the effectiveness of any remedial actions
 - There is a periodic objective review of the TC arrangements, including a test of the underlying standards.





Guidance

Is the frequency of review and level of detail appropriate for the size of the firm and the levels of risk identified?

Does the application of the TC arrangements reduce risk within the firm and produce the desired outcomes? Are there more efficient ways of achieving the same result?

The review should seek to confirm that there is a commitment to continuous improvement.

Is the person(s) with responsibility for reviewing these arrangements competent to undertake this? How is this determined?

What risk indicators and KPIs have been identified that will specifically inform the firm of its effectiveness in respect of TCF outcomes? Is this independently verified e.g. through direct customer contact and feedback?

Do those with responsibility have the necessary skills to interpret the Management Information (MI), identify trends and spot emerging risks? What training have they received and how are their training needs assessed? Are standards still set at the right level or are there factors which indicate they should be changed?

For larger firms it may well be appropriate to establish a TC Governing Body with representation from key functions who have a direct interest in the effective operation of the scheme. The TC Governing Body responsibilities would likely include the requirement to review scheme effectiveness periodically.

Is there a documented programme of checks applicable to the maintenance of competence standards e.g. knowledge tests, CPD completion, skill assessments and quality measures? How frequently is this undertaken?

It is anticipated that Senior Managers would review the effectiveness of risk mitigation in the firm whilst ensuring that it remains proportionate to the risks identified. A small business would probably deal with risk in a more direct manner e.g. identify the specific risks, prioritise and manage these through the operational business plan.

Risk models are becoming very sophisticated and are usually employed within larger, complex businesses with multiple levels of risk. Is a risk model used within the business and is this reviewed on a regular basis? Are the risk factors still relevant? Where emerging risks and trends are identified are there appropriate processes in place to mitigate those risks?

There should be commitment to, and evidence, to show that managers down the line maintain the day to day quality and effectiveness of the TC arrangements. How frequently do Senior Managers engage with and obtain feedback from staff or from customers and suppliers?

Key Goal

- The MI established to evidence a firm is achieving specific TCF outcomes has high visibility across the business and is kept under continuous review

Policy and Governance



Indicator

Record Keeping

Maintaining adequate records to show the arrangements are appropriate, have delivered the required outcomes and are given the appropriate level of priority within the firm.

Outcome Standards

Comment:

Whilst there are explicit record-keeping rules, the necessity for accurate record keeping is integral to all elements of an effective TC policy and practice

- Specific records are maintained to show:
 - Why a firm's TC arrangements are considered appropriate for the firm
 - Why any qualifications selected from the appropriate qualification list and required for evidence of competence attainment are appropriate for the role
 - The audit trail for decisions taken relevant to the scheme
 - How any identified failings or short-comings have been effectively dealt with and what procedural changes have been implemented as a result
- Reviews of a firm's TC policy, frameworks and structures, standards and performance are routinely documented and retained
- The specific record keeping requirements that attach to roles directly in scope of TC are fully implemented
- A firm should refer to the regulator's rules and other relevant regulations to determine how long records should be retained and they must keep those records for at least the minimum required period
- A firm uses relevant records to provide evidence of progress towards the desired customer and business outcomes and, where appropriate, to inform future decision making.





Guidance

Firms should maintain the required employee records to show, as a minimum, basic details of employment, training, qualifications held, attainment and maintenance of competence, and overall performance. These records should satisfy most of the requirements of the firm's TC arrangements.

How are the records maintained? Are they held securely? Are they in good order and readily available if needed? Do the records form a part of the MI? If so, how are the records managed to ensure MI is always current and up to date?

The firm should periodically review its record systems and controls and how well these are working.

For more significant roles the records maintained will need to be more comprehensive and able to stand up to closer scrutiny. Also, for individuals who carry out higher risk activities, such as providing retail investment advice, there are specific record keeping requirements. Similarly, for individuals in high risk wholesale or investment management roles, e.g. derivatives traders and deal makers, there should be detailed record keeping relevant to the individual.

This record-keeping may include evidence obtained at recruitment, progress against training and qualification requirements, evidence to confirm competence, Approved Person documentation, authorisation levels etc. Has the record profile for each role been validated as sufficient to meet the appropriate requirements?

Records should also be maintained to show progress and evolution of the TC arrangements, as appropriate. Minutes of governance meetings, explanations and rationale for change, exceptions made and reasons why, should all be documented and recorded.

Good record keeping will avoid many of the censures applied by the regulator. They expect a firm to be able to show how the procedures, controls and processes meet the needs of the business and how they support the relevant outcomes. How effective are the records in enabling a firm to review the performance against these criteria?

There are many different regulations that will impact on what records are kept, for how long and how they can be used. It is good practice to seek expert advice where this expertise is not available within the firm.

Records should be clear and concise, follow good business practice for the individual and the firm and be maintained in a format that can be readily accessed as required. Electronic record keeping systems are preferred as they can be used to facilitate the production of MI for the oversight of the arrangements.

N.B. The standards and guidance for Record Keeping described in this section are equally applicable to the next two sections, Managing Performance through TC and Achieving and Maintaining Competence. Good record keeping is fundamental to all TC arrangements and is an evidence of good business practice.

Key Goal

- A robust record keeping system which meets regulatory requirements and provides evidence of progress towards customer and business outcomes



Managing Performance Through TC

Indicator

Supervision

Supervision is performance management in action. It is a way of developing and supporting an individual to show they can competently perform the role, whilst providing the appropriate level of quality control of the outputs.

Outcome Standards

Comment:

Supervision is a specific role with defined competence requirements which ensure TC related activities are carried out effectively. The function of supervision may be incorporated into other roles such as manager, overseer, team leader and supervisor. The references to supervisor in this guidance apply equally to a dedicated supervisor and where supervision is incorporated into these other roles

- Supervision is performance management in action providing:
 - Guidance and support to relevant role holders so that their role requirements are fully understood
 - Quality control and risk mitigation processes which cover the full breadth of activities being carried out
 - Coaching and development interventions to develop and maintain all aspects of competence including ethical behaviour and cultural alignment
 - Monitoring of outcomes to ensure the quality and suitability of work is maintained particularly where role holders are new to, and have not yet achieved competence in, the role.
- Supervision of role holders who have not yet achieved competence is significantly greater than that provided for competent role holders
- Supervisors benchmark performance against standards which are clearly defined and documented
- Supervision takes a holistic view of competence, developing an individual to competently perform the whole role
- Supervision provided within a firm is proportionate to the risk identified for the role or activity. The level of risk associated with the role/activity may not remain static and will need to be kept under review
- The level, nature and duration of supervision provided to role holders whilst progressing to competence is specified
- When reduced levels of supervision are provided a firm is able to demonstrate why these are appropriate and will be effective
- Firms are able to demonstrate they have considered and analysed all relevant factors in deciding the optimal number of role holders a supervisor may supervise
- Supervision is not solely delivered through remote desk based monitoring.





Managing Performance Through TC

Guidance

Do the TC arrangements adequately define the supervision policy, procedures and any appropriate timescales? Does this include, for example, optimal numbers to be supervised and why this is considered appropriate? The procedures should allow sufficient flexibility for supervision to be tailored to the specific needs of the individual whether they are a trainee or a competent role holder.

How are relevant standards described and communicated throughout the business? Does this enable an holistic view to be taken of the competence of an individual and an assessment of their overall standard of performance?

Is the authority of supervisors clearly defined? Do they know what decisions they are able to make? This is particularly relevant where management and supervision are split across more than one role.

If an audit were to be undertaken would it be clear what the purpose is and the expected outcomes are from the supervision being provided? How would you know progress was being achieved through the application of supervision?

Do you provide a clear development programme for all role holders covered by the TC arrangements? Where trainees are being supervised in retail advice roles there should be a defined training programme, including detail of the supervision process at each stage of development. The level of supervision should vary according to the progress made and evidence to support this should be recorded and maintained.

In many business models supervision structures cover a number of levels. How this works should be defined and documented so that effective supervision is provided at all levels.

Do you have a clear audit trail that tests the efficacy of the supervision arrangements? There should be a formal review process to ensure supervision is being provided effectively. In larger businesses this would probably be carried out by a compliance function. For small businesses this may be undertaken by one of the Senior Managers or the business owner. If sufficient resource or expertise is not available it may be advisable to undertake an independent or peer review.

It is appropriate for supervision in most business functions to take the form of sampling or periodic checking of work being carried out or completed. The appropriate level should be considered and determined by the Senior Management and documented.

Key Goal

- Supervision provides embedding of desired behaviours and ethics, and TC activity is aligned with the TCF framework.



Managing Performance



... through TC



Indicator

Supervision in Practice

The approach to and delivery of supervision in a way that is appropriate for the firm and the individual, and is focused on enabling the required outcomes in the most efficient way by supporting and developing the individual.

Outcome Standards

Comment:

A firm will adequately monitor the activities of role holders against agreed competence standards. Supervision ensures that the quantity and quality of a person's key outputs are tracked and monitored, with records made and retained as required

- Supervision is flexible and tailored to address the specific needs of the individual being supervised
- The level of supervision applied is consistent with the individuals' current competence and the risk their role presents to the firm
- Evidence is provided which clearly shows why the level of supervision and supervisory activities have been selected
- Role holders who are not yet competent are supervised more closely than competent role holders, and significantly more closely for retail activities in scope of TC
- Clearly defined performance indicators are used to measure and assess all elements of competence and collectively this is used to determine overall competence in the role
- Evidence used is current with timely feedback provided to role holders appropriate to the level of their performance
- Performance gaps are managed through development plans that track and evidence progress of the role holder's performance improvement
- Development solutions are deployed which achieve the desired change in performance outputs
- Supervisors formally review a competent person's performance at least once a year, more frequently where KPIs indicate it is reasonable to do so or when the risk profile of the role requires more frequent review
- Supervision of competent individuals includes the monitoring of competence and development activities to embrace new requirements or retraining as necessary
- Supervision applies to the whole role, not just the regulated aspects, promoting the embedding of good practice across the firm
- The person performing the role of supervisor is competent to perform that role and will have sufficient and relevant experience for the role(s) they are supervising
- A firm's culture and policy drives common goals and outcomes that show how to identify and minimise any potential conflicts of interest in the supervision process
- Where a firm's structure involves split responsibilities e.g. sales manager and TC supervisor, the policy includes an agreed written process for managing conflicts of interest, and this is monitored by the person accountable for supervisor performance
- The effectiveness of supervisory interventions is monitored to ensure risks are mitigated and performance issues addressed appropriately
- Where supervisory activities are devolved to others, such as training departments or quality assurance units, the staff in these departments must be competent and appropriately supervised
- Supervisors regularly review and monitor performance data to ensure this is consistent with observed evidence and identify any trends showing deterioration or improvement in standards
- Any performance monitoring activities undertaken, including sampling, are targeted and representative of the person's role
- There is a process for dealing with role holders who are no longer deemed competent to perform their role and supervisors know how to implement this in accordance with the firm's procedures



Guidance

What is the supervisory policy and structure within the firm? There should be an explanation of how the policy is applied in the firm, including any locum arrangements for small businesses. Self supervision is possible for sole traders and this would be expected to produce the same quality of outcome but with a less formal approach.

How is the number of role-holders a supervisor is to supervise arrived at? There should be a policy covering spans of control and this would normally relate to and be consistent with the risk model used within the firm.

Is there a standard structure to performance reviews? Is this included in the training provided for new supervisors? Documentation to support such activity should be devised using standard formats, to help maintain consistency.

How are competence standards assessed by supervisors? What tools are provided to maintain effectiveness of assessments e.g. observations and role plays? How is the evidence used to build an overall, holistic view of the individual's competence?

What records is a supervisor expected to create that provide an accurate record of a role-holders performance and development path? A supervisor should be able to progress individuals along an agreed development track at the appropriate pace, and collect sufficient evidence to confirm competence standards have been reached and overall competence has been achieved. How is this validated and confirmed?

How effective and competent is the supervisor in providing the appropriate development? The management and development of supervisors needs to be clear within the TC arrangements to ensure that supervision activities are being carried out effectively.

Does a supervision timetable exist? If so, does this provide sufficient flexibility for supervisors to tailor activities to meet individual needs? What range and balance of activities are required? How frequently are 1:1 meetings and observations held? Are the discussions and outcomes of these supervision interventions always documented? What resources and advice is provided for supervisors to help them perform their role? Supervisors should have access to a 'toolkit' to develop non competent staff and to help address emerging performance gaps. An effective toolkit should include some or all of the following:

- Framework and content for 1 : 1 performance progress reviews
- Cameos and scenarios for role plays
- Live observation tools
- Structured check lists and standards for quality checks e.g. files, process outputs
- Training and / or development plans
- Portfolio of assessments and tests
- Root cause analysis process

How competent is the supervisor in utilising the whole toolkit provided?

How competent is he/she in selecting the most appropriate solution for the need?

What training and guidance is provided for the supervisor?

A periodic formal review is typically held in addition to ongoing reviews of performance and should reinforce the feedback provided throughout the performance period being reviewed ensuring nothing comes as a surprise to the individual.

Are there clear rules of engagement between the supervisor and the line manager where these roles are undertaken by different individuals?

Are there any conflicts for supervisors/managers which may discourage documenting activity and outcomes? If so, how is this dealt with and managed?



Guidance

Where disciplinary issues arise, are Human Resources involved, at what stage and how?

Is there a risk model for supervisors? How does this deal with environmental issues, such as the geography of the supervisor and his/her team? Is there access to additional supervisory support or the potential to increase remote monitoring activity where environmental risks are higher than normal?

Are the requirements for outcomes based checking for each role-holder defined within the supervision procedures? Output checks are an essential component of supervision. The frequency and scale of checking will reflect the stage of development achieved by an individual, the risks posed by the activities undertaken and the profile of the individual. Is this fully documented in the supervision procedures?

What provision is made within your TC arrangements for the development of competent individuals and support for their continuous professional development (CPD)? Supervision of competent individuals should also be provided, focusing on the maintenance of competence, continued development or retraining as necessary. Ensuring role-holders adherence to CPD requirements as prescribed by the regulator is essential.

In some business models supervision can be flexible and informal in its application e.g. small businesses, or embraced as part of wider employee performance and development frameworks. Whatever approach is taken must be seen as appropriate, effective and achieves the desired outcomes.

Key Goal

- Supervision embeds good performance management process and application within the firm



Managing



Performance

Indicator

Supervisor Skills, Knowledge, Expertise and Ethics

The generic and business specific skills, knowledge, experience and ethical behaviours required by a competent supervisor to perform the role and provide the intended benefits to the customer and the firm.

Outcome Standards

- The role of supervisor is described, usually in a role profile, which defines competence, key outputs and responsibilities
- The standards required for the role are defined, including any specific qualifications which must be held
- Training and development support is provided for new supervisors to achieve competence in their role
- Appropriate qualifications are attained before undertaking supervision and assessment of non-competent role holders who advise retail clients on packaged products (retail investment products w.e.f. 31/12/2012)
- Specific arrangements for assessing continued competence of supervisors are in place as appropriate to the risks and responsibilities of the role
- The supervisor knows the desired competence outcomes for the processes being supervised
- There is specific evidence to confirm competence in the following areas where these are an essential requirement of the role:

Knowledge – professional qualifications, firm specific products and processes:

- Company goals and business objectives, values and culture
- Performance standards, sales process and controls
- Industry and firm specific technical and regulatory knowledge
- TC policy and firm specific scheme requirements
- Market, products and customer knowledge including company specific guidelines

- Industry standards and internal quality standards
- Training process and resources
- HR processes and resources

Skills – practical application of the range of technical and inter-personal skills:

- Coaching including observation, assessment and feedback
- Training methods and delivery
- Performance analysis
- Risk assessment and management
- File checking and audit
- Communication, written and verbal
- Conflict resolution
- Chairing and managing team meetings

Ethics – ability to promote ethical behaviours to improve customer perceptions and outcomes:

- Customer focus
- Honesty and integrity
- Applying the same standards at all times even when it is inconvenient to do so
- Taking ownership and responsibility for the role
- Challenge and confront performance that falls below the required standard

Expertise – ability to apply skills and knowledge appropriately in different circumstances:

- Establishing and maintaining the competence of all role holders supervised
- Dealing promptly and effectively with any issues of competence for all role holders supervised
- A role model of acceptable performance

N.B. This list of competence areas is not meant to be exhaustive

Guidance

What training is required for new supervisors? In many businesses the initial training and standards to be met mirrors that of the role to be supervised e.g. equity trader, retail sales adviser. Some firms require the supervisor to have actual experience of the role to be supervised. Whilst this is ideal it is not always practical, particularly where multiple roles are being supervised. The essential requirement is for firm's to ensure supervisors are competent and have sufficient and relevant experience for the role(s) they are supervising.

Supervision training may be required in addition to this core element and would have separate, clearly documented performance standards to be met before an individual could be classed as competent.

How are the ongoing training needs of supervisors identified and addressed?

What process is required to evidence the maintenance of competence for supervisors?

How frequently is this required to validate competence and who will do this?

What are the appropriate qualifications to be held by supervisors and the timescale in which these are to be achieved? What policy is there for how many attempts a supervisor is allowed to pass an examination and achieve a qualification?

Is there a specific requirement under the regulatory rules?

If not, how has the standard been reached and is it mandatory?

How do the TC arrangements deal with supervisor competence? Supervisors should be subject to their own performance reviews and progress against personal objectives and targets. Further training and development should be identified where there are perceived gaps or standards are falling. This should be documented in an individual performance improvement plan.

Where a supervisor has additional responsibilities to perform that are related to the TC requirements, are they provided with any development support? Where other responsibilities are required of the role, such as recruitment, training, budgeting and cost control, a supervisor should be provided with proper and effective training.

What provision is made to develop the supervisor's broader competence to perform their role? In addition to the core skills identified, there should be a range of personal skills deployed by a supervisor to enable effective people management, relationship building, time management and administration skills. It is good practice to provide support and development for these skill sets.

What criteria and processes are in place to ensure supervisors are competent to perform their role? Appropriate methods have been implemented for the assessment of supervisory competence with regard to relevant knowledge, skills, expertise and ethics. This could be by way of direct assessments, observations and the consideration of other evidence of performance.

Key Goals

- There is an active and effective supervision skills development programme for all supervisors
- Supervisors are role models of ethical business behaviours and champion the integrity and culture the firm seeks to promote



Guidance

Managing Performance Through TC

Indicator

Quality Assurance

Good supervision provides an environment which promotes a commitment to the customer through the achievement and maintenance of competence standards producing the expected quality of outcomes.

Outcome Standards

Comment:

A supervisor is primarily responsible for the quality of an individual's performance. They may also be responsible for performance against business plan/objectives although in some firms this is a separate role. However the two core responsibilities are clearly linked and impact on each other

- A supervisor gathers qualitative and quantitative evidence to demonstrate both the achievement and maintenance of competence for those being supervised
- A supervisor seeks, as a minimum, to maintain overall performance and support achievement of agreed standards by on-going monitoring, observation and feedback with individuals who have achieved competence
- Quality is confirmed through output checks such as client file reviews, business process and timescale compliance and for the accuracy of documentation and correspondence
- Customer feedback is obtained, where relevant, to evaluate the quality of outputs
- Planning and review of performance is undertaken sufficiently frequently to manage both the quality and quantity of performance outputs
- Performance improvement action is taken where standards are not being achieved or are slipping
- A supervisor knows how and when to take intervening action in circumstances where a customer is at risk of being disadvantaged
- Training solutions provided to help achieve, restore or maintain competence are periodically reviewed to confirm they are, and remain, appropriate and effective.





Guidance

What competence standards have been identified as appropriate for your business to ensure your customers are delighted with the service they receive? What training is provided for supervisors in these standards?

What timescales to achieve competence are appropriate?

What procedures are in place to ensure role-holder competence is adequately monitored and maintained? A robust and flexible process is needed to ensure individual competence is maintained once achieved. This may have elements common to large groups of role-holders, but should be sufficiently flexible to be tailored to the needs of individuals.

All quality checks required to be undertaken should be documented, including the volume and frequency of these checks. Supervisors should be trained in the application of those checks, how to analyse the outcomes and determine what follow up action is required. Key performance information in respect of an individual's performance will inform the supervision and monitoring activities and help identify what might need to happen to ensure competence is maintained.

What activities are expected of the supervisor in the maintaining of competence of those they supervise and are they competent themselves to do this?

How frequently is the individual's performance expected to be reviewed? What benchmarks and milestones are set for this?

What criteria are considered when looking to appoint a new supervisor? There should be clear standards applied to the recruiting and training of new supervisors, reflecting the different risks involved e.g. promoting up into the role or recruiting externally into the role.

How does the training and induction process address culture, values and TCF commitments to ensure the new supervisor is fully aligned with the business?

The culture promoted within a firm will influence the standards and quality of service a customer experiences. The supervisor role carries specific responsibilities for the achievement and maintenance of these standards within their areas of control and influence. Supervisors should be kept informed of all trends in customer feedback.

Key Goal

- Customer feedback is frequently obtained, where relevant, and used to confirm the quality of outputs

Quality Checks



Managing Performance Through TC

Indicator

Defining Key Performance Indicators

KPIs are used to monitor actual performance against key measures to provide those responsible for individual and business performance with a current picture of progress against customer and business objectives, competence standards and quality of outputs.

Outcome Standards

- Performance measures at an overall business level are defined by the Senior Managers
- KPIs are framed to drive the desired quality and standards as well as the quantity performance measures
- Measures specific to the expected customer outcomes form part of the KPI framework
- Individuals' KPIs are appropriate to their role
- Guidance is provided from Senior Managers on how they measure achievement of KPIs and this is adopted consistently at all levels
- Reviewing and reporting against KPIs is sufficiently frequent to be effective in measuring and monitoring performance
- The KPI report always triggers the appropriate supervisor action or response to negative trends or failure in any area
- Individual performance is reviewed with the role holder against the KPI data held and further coaching, training or assessment is agreed as appropriate to the findings
- Timely follow up takes place to ensure the actions are carried out effectively and produce the required outcome.



Guidance

How are the firm's Key Performance Indicators (KPIs) decided? KPIs should be shaped to reflect the customer and business outcomes to be achieved by the team, function or business. The KPIs should support fully the TCF outcomes and help to embed the expected behaviours towards customers in the business. For small businesses this may be set out in the business plan if this includes the appropriate targets and measures.

Does the firm apply any differentiating KPIs relative to specific roles? For roles which carry a higher risk there should be additional detailed and comprehensive KPIs applied. It should be clear from the job or role profile what the scope of the role includes and the risks associated with it. Examples of high risk roles would include derivatives traders, deal makers, and pension transfer specialists.

For retail advice roles KPIs would normally include:

- Product and business mix
- Product provider mix/bias (independent or multi tie firms)
- Persistency and cancellations
- Complaints
- Regulatory standards
- File checks/reject rates
- Activity levels
- Sales performance
- Fact find completions and conversion rates
- Execution only sales
- Results from customer surveys, feedback and mystery shopping outputs

Reporting should use the most appropriate format. This could be a traffic light review (RAG status) or specifically detail performance against each measure.

A business should always have a clear and current view of performance at all levels. A small business is likely to have a hands-on view, whereas larger businesses may rely more on the KPI reports.

Consideration should also be given to other evidence such as commitment to personal development and going the extra mile on behalf of the customer. Whilst these might not be captured as specific KPIs, they could be used to inform the supervisor on overall performance.

Key Goals

- The KPIs selected and used are quantifiable and are directly relevant to the function's goals and key to its success.
- Measures specific to TCF and the expected customer outcomes form part of the KPI framework



Quantifiable



KPIs



Achieving and Maintaining Competence

Indicator

Defining Competence

Articulating and documenting what competence means for any role and the standards that apply to achieve the required outcomes.

Outcome Standards

Comment:

SYSC imposes the requirement at all levels of a firm for employees to be competent, and maintain competence to perform their role. This includes and is driven by the Senior Management or business owners.

- Competence includes all 4 key elements:

Knowledge – appropriate qualification requirements and understanding of generic and firm specific products and processes, to fulfil the role

Skills – the range of technical and inter personal skills required to perform the role to the required standards

Ethics – personal commitment to demonstrate ethical behaviours which improve customer perception and outcomes

Expertise – the ability to apply knowledge and skills to achieve positive and fair outcomes and meet the performance standards required of the role

- The minimum standards for all these elements is defined for each relevant role and described in a way that is clear for both the role holder and his/her line manager
- Standards are documented and recorded with performance requirements mapped to them and evidenced appropriately
- Competence is defined for all roles from Board level down, including non-executive directors, appropriate to the nature and responsibilities for any role.





Achieving and Maintaining Competence

Guidance

Does a suitable performance management framework exist for all roles, including Senior Management and executive level roles? For instance, is there a framework to assess the competence of non-executive directors?

Competence may be defined in broad terms for some roles or groups of roles. Other roles may have specific definitions in view of their significance or potential impact on customers. Are standards clear for all roles? What measures are to be used and how will these be assessed?

Knowledge requirements could include technical, industry, market, regulatory and legislative elements. These will also include company specific elements, such as systems and processes, products and services, management culture and values towards customers, TCF, TC etc.

For retail advice activities a qualification must be selected from the list of appropriate qualifications* maintained by the regulator. For other roles a firm may choose to select a qualification from the FSP Recommended Exam List.*

What qualifications are appropriate for each role or activity? What qualifications would you expect to be held as a minimum for the role? The firm should be able to evidence why it has selected the examination that it has chosen and this will be documented and retained. This might be simply a statement held in the TC scheme manual or file, in the section on recruitment.

Is there a clearly documented policy on the action to be taken in the event that an individual fails an assessment? Skill requirements will include technical application, process and navigation skills, analysis and interpretation, interpersonal skills as well as customer facing skills such as building trust, communication and decision making.

What does your firm mean by ethical behaviour? How is this defined and assessed? TCF will be embedded within the business and this will influence the competence requirements for many roles. How visible is TCF within the competence standards and what specific evidence is required to support it?

Key Goal

- Individual role holders understand and are able to describe the competence requirements for their roles



**Suitable
Performance
Management**



Achieving and Maintaining Competence

Indicator

Recruitment

Having clear standards that apply at selection for a role, including non-executive directors and senior executive level roles, and using the outputs from the interview process in the induction and training of new employees.

Outcome Standards

- There is a defined recruitment process implemented and followed
- The standards required for the role, what will be expected of the role holder and the performance outcomes to be achieved are made clear in any role profile
- Appropriate methods of assessment against these standards are used consistently throughout the interview process to determine a candidate's suitability for the role
- The training arrangements for new employees are aligned to and joined up with the outcomes of the recruitment process
- Where appropriate to the role, the performance of successful candidates against these recruitment requirements is documented and used to undertake a training gap analysis with outputs transferred to the induction training process
- Any gaps identified at recruitment are tracked and followed up to a satisfactory conclusion
- Appropriate recruitment records are maintained securely for all employees
- Recruitment standards apply equally to internal as well as external recruits although evidence of suitability and achievement may be obtained and assessed in different ways.

Note:

Relevant background checks and reference requirements, whilst just as essential, fall outside this guidance and should be determined as part of the HR recruitment policy.



Recruitment





Guidance

What process has been agreed for how a vacancy is initially identified and confirmed?

Responsibility for recruitment will differ across firms. It may be carried out at a local level or through a centralised function. How competent are the recruiting personnel to undertake all elements of the recruitment process and how do you know this in instances where recruitment is very infrequent?

Do role profiles exist and, if so, are they generic or specific to the role? For instance, do they outline the responsibilities of the role, the scope and accountabilities, the qualifications, skills and competencies required?

What assessment methods will be used e.g. competency based interview, role plays, formal assessment and tests?

The firm's procedures may permit an element of flexibility in assessing an individual's overall performance, with any gaps identified being picked up in the training gap analysis. Is it clear how much flexibility can be allowed without compromising the minimum standards?

How will the interviewer assess attitude and behavioural traits?

The firm could consider using existing industry standards and role descriptors such as National Standards of Competence* which are available through the FSP.

What support is provided for the recruitment process? A recruitment toolkit is good practice. This can include information for candidates such as organisational performance, business strategy, company policy towards and expectations of staff.

Are the right people being recruited in to the role? An effective recruitment process provides candidates with the necessary information to gain an understanding of the firm and its values, helping them decide if the firm is right for them and vice versa.

Is it clear what each individual needs to do to reach the role standards on appointment? How is the line manager engaged in this process? How are gaps identified transferred to a training plan and effectively filled, including executive and non-executive level roles?

How is overall success determined and how is this communicated to the successful candidate?

Are appropriate records maintained and for how long?

It is good practice to review the recruitment process periodically to ensure that it is bringing the right people into the business or organisation.

Key Goal

- The recruitment process achieves a good match of new recruits to the role profiles being filled and retention of new recruits is high

Recruitment Toolkit



Achieving and Maintaining Competence

Indicator

Achieving Competence

Competence applies to the role and is achieved in different ways according to the role and the business it supports. Consideration is given to how it will be clear overall competence has been achieved and what support is required to achieve this.

Outcome Standards

- Competence is defined for all roles
- A firm is able to demonstrate how they have determined an individual is competent, the standards required and why these are appropriate for the role or activities undertaken
- Any process describes the outcomes required as well as indicating the range of activities to undertake, the standards to achieve and the timescales determined appropriate to the firm or as required by regulation
- There is clear understanding of what makes for overall competence and how achievement of the competence elements throughout the process contribute to this
- Where the process is made up of a number of stages, the appropriate level of supervision is applied at each stage
- There is evidence to demonstrate the standards have been met before progress can be made to the next stage
- Where progress to competence includes an appropriate qualification requirement, this is documented and time tabled so that the regulatory time limit is met
- The focus is on the quality and consistency of outputs achieved by the trainee and how these provide evidence of overall competence
- Any assessment framework utilised to support competence decisions is implemented and managed by suitably qualified assessors/supervisors
- An appropriate record of progress and evidence of achievement is documented and maintained
- A review of the level of supervision required is undertaken on a regular basis and is determined appropriate to the level of risk
- Supervisors understand what constitutes unsuitability and requires exit from the role, including failure to achieve any qualification requirement within the regulatory time limit, and the procedures to follow
- Supervisors know how and are able to deal with any change in a role holder's circumstances and the impact this may have on progress to competence, e.g. long term absence

Achieving Competence



Guidance

What induction and initial training is provided for new recruits and is this appropriate to the risks and responsibilities of the role? How do the outputs from the recruitment process and gap analysis map into this training?

What additional training and development is available to help an individual attain competence? How much of this is mandatory and what elements can be tailored to meet the individual needs of the trainee?

Is there a policy regarding completion of training? How are individuals advised of any timescales and monitored for compliance? It is good practice to maintain a comprehensive training record for all trainees, and essential for some roles such as those who provide retail advice. This should embrace the outputs from the selection process gap analysis. Who is responsible for maintaining this record? How will the trainee receive feedback and how often?

How will the assessor determine competent performance for any activity; and overall? Are the standards clearly defined and how will they be measured? This will normally link to the KPIs for the individual role.

Some firms may choose to assess competence through live observations. Others will prefer to use role plays as the primary assessment activity. Where role plays are used these should have written procedures and scenarios to ensure that consistency is maintained. The observer should not also be the “client” unless the observation is to be of a video recording at a later time.

What resources are available for the supervisor or trainee to use? Do they know how to access them? What training is available for the supervisors? How good are their coaching, training and assessing skills? How is this determined?

Who has authority to confirm competence? Procedures will exist and be documented to validate and confirm this is being undertaken appropriately. It is expected any procedures adopted will be reviewed from time to time to ensure they continue to be appropriate.

It will create many pitfalls as well as unnecessary risk for a business if shortcuts to competence are taken or individual discretion is allowed to circumvent established procedures or controls.

Where an individual is unable to meet any of the standards as they progress towards competence, consideration should be given to the level of additional support that would be appropriate. Supervisors should use their experience to tailor this support to the needs of each individual without compromising overall standards.

Where an individual fails to meet any of the standards, what procedures are in place to ensure that relevant employment legislation is complied with if an alternative job role or employment termination has to be considered?

Any training provided to support the achievement of competence should always be kept up to date reflecting the changes to regulation, legislation, the market place and internal corporate strategy. There should also be a periodic review of the training solutions provided and their effectiveness to deal with the areas of weakness intended.

Key Goal

- There is relevant evidence available which illustrates the competence of all key individual role holders within the firm



Achieving and Maintaining Competence

Indicator

Maintaining Competence

The ongoing development of employees is an essential part of business performance. One feature of this development is the requirement to maintain the competence of role holders through access to learning and development, including any regulatory prescribed CPD requirement, and the significant impact this will have on the expected customer and business outcomes.

Outcome Standards

- All role holders, including supervisors, have access to the necessary support and development to remain competent to do their job to the required standards appropriate to the nature and responsibilities of the role
- Any KPIs established for a role are regularly monitored to provide evidence that outputs are at the right standard or indicate what action needs to be taken where issues arise
- Specific arrangements for assessing competence are implemented as appropriate to the risks and responsibilities associated with the role
- Regular reviews are carried out to identify training and development needs to improve performance and maintain overall competence
- Any gap(s) identified are transferred to the personal development plan with appropriate remedial action implemented and completed within an agreed timescale, and checks on the effectiveness of this action are made
- The TC arrangements provide ongoing updating of knowledge, skills and, where relevant, ethical behaviours
- The TC arrangements document requirements for CPD, structured and unstructured, to maintain the knowledge content of any appropriate qualification, including how this CPD will be accessed, verified and recorded
- Refresher training is also provided and this is particularly appropriate for circumstances where knowledge fade may be an issue
- The impact on competence of any significant change to a role or responsibilities is reviewed and further training provided as appropriate, which may require an individual moving back to the 'achieving competence' stage, with the level of supervision increased accordingly, until competence has been re-evidenced
- Records are maintained which show how any changes which may affect competence have been dealt with
- Procedures that apply for when competence has not been maintained along with any requirement to notify the regulator are documented, including restriction of certain activities which will stay in force until competence has been re-established
- Controls are in place to evidence relevant role holders have completed mandatory training which is required to be repeated on a regular basis and any appropriate qualification related CPD.

Maintaining Competence



Achieving and Maintaining Competence

Guidance

How extensive and specific are the KPIs used to confirm continuing competence and do these continue to be appropriate? What elements of competence do they cover and what elements do they not cover?

The range of competence tools available could include compliance visits, file checks, case studies, knowledge tests, CBT programmes etc. In addition coaching and observations carried out by the manager/supervisor will also provide evidence of competence and training needs.

How often competence is assessed should be determined according to the nature of the role and the business model it supports, and be included in the TC policy requirements. It is good practice to have procedures in place to ensure this happens. However, the higher the risk associated with the role the more frequent and comprehensive the tracking of competence indicators and quality of outputs should be.

A firm should take a risk based approach to decide the frequency of any tests or assessments that need to be undertaken. Performance against the range of KPIs and trends highlighted from this would influence the scope and frequency of competency assessment and development.

Further training and development is often required as a result of changes which impact on the role. These may be driven by changes to legislation, regulation, the market place or internal corporate strategy. In addition it is good practice for employees to undertake refresher training particularly when dealing with complex processes or highly technical areas, or where an employee has little opportunity to practice a skill or activity.

A firm should also consider what refresher training may be required to ensure that employees returning to an activity after a period of long-term leave of absence (eg. maternity leave; sabbatical or illness) are competent to perform their role. This will also impact on mandatory CPD for retail investment advice roles, where this requirement may be suspended during periods of absence

It is common in many firms to provide a programme of Continuous Professional Development (CPD), which may or may not be compulsory, particularly for areas of technical knowledge and to maintain a regulatory qualification requirement. However there would still be a requirement to ensure the development available meets all the needs of any individual including skills and ethical behaviour.

There should be evidence to show the progress made against training plans and the effectiveness of agreed solutions. A simple first check could be to ensure everyone has an active development plan in place.

Whilst many of the resources provided to enable staff to maintain competence in the role will be common or generic, the performance and development plan should always be specific to the needs of each individual.

The requirements for individuals to achieve and maintain competence apply equally to supervisors as well as to those being supervised.

Key Goal

- Individuals know what is required to maintain competence in their role and are able to access the relevant development solutions



Achieving and Maintaining Competence

Indicator

Maintaining Competence

The ongoing development of employees is an essential part of business performance. One feature of this development is the requirement to maintain the competence of role holders through access to learning and development, including any regulatory prescribed CPD requirement, and the significant impact this will have on the expected customer and business outcomes.

NB The following standards specifically apply to firms who provide retail investment advice

Notification (valid from 1st July 2011) and Reporting (valid from 31st December 2012) requirements

- Procedures are in place that ensure a firm is aware of and able to promptly notify the regulator of any relevant and significant event in respect of its retail investment advisers' competence and ethical behaviours
- The factors that a firm would consider to determine what constitutes a significant event are detailed and documented along with the process to follow
- Responsibility for the submission of quarterly professional standards data reports is allocated to an appropriate person and is overseen by the designated senior manager
- Controls are in place to ensure the accuracy of data collected and submitted by the firm

Continuing professional development requirements (valid from 31st December 2012)

- The TC arrangements define the regulatory CPD requirements for retail investment advisers, how CPD is determined relevant and appropriate for each adviser, the outcomes it will achieve and how this will be verified
- Monitoring and recording of CPD for all retail investment advisers is undertaken by the firm and includes details of the CPD completed, the type and duration of the learning, any assessment or test undertaken, and the outcomes achieved

- Supervisors know when and for what reasons they are allowed to suspend regulatory CPD requirements, and maintain a written record of the dates and reasons for any suspension implemented

Annual declaration (valid from 31st December 2012)

- A process and format is documented and implemented which enables a firm to obtain an annual written declaration from all their retail investment advisers which confirms their compliance with APER and CPD completion requirements
- Written procedures are available which detail how to deal with advisers who are unable to provide a written annual declaration and the supervision requirements this will impose

Independent verification (valid from 31st December 2012)

- A relationship agreement exists between the firm and the relevant accredited body which details
 - The verification process,
 - The management and recording of essential data,
 - The sampling of CPD records and overall compliance with professional standards,
 - The procedure and timescales for issuing of the necessary Statements of Professional Standing (SPSs)
- Controls are in place, and regularly reviewed, to ensure retail investment advisers meet all the professional standards and competence requirements including having a valid SPS.

NB For Guidance on this section please see the associated document 'TC Standards and Guidance – Good Practice Guidance for RDR Implementation'



Achieving and Maintaining Competence

In conclusion

At the outset of the guide, we make reference to the fact that there is often no “right way” of meeting regulatory requirements. In the same token, there is no right or wrong way of using this guidance.

Whilst historically the creation of a TC scheme has been seen as a one off exercise, it is now universally acknowledged that an effective TC scheme should be able to flex and develop in line with the business and its operating requirements.

Some organisations may want to use these guidance notes to help them create their own TC scheme, whilst others will just want to refer to relevant sections that are most appropriate to their business, with a view to benchmarking and updating current standards.

The key success factor in respect of using this guidance is that businesses and individuals use the guidance as appropriate to their business model.

It is expected that regular review and updating of a firm’s TC arrangements will allow the organisation to benefit from a developing scheme framework.

Equally, this Guidance is not intended as a final statement of Good Practice. It will continue to evolve and develop alongside the market as standards continue to be raised and better ways emerge for achieving them. Your feedback based on your experience as users and practitioners will allow this Guidance to develop to meet these changing needs.

Please email your feedback to
info@financialskillspartnership.org.uk

Thank you





Good Practice Guidance for Retail SME Firms

TC Standards and Good Practice Guidance

– Good Practice Guidance for retail SME firms

Good Practice Guidance for Retail SME Firms

3	Introduction
4	TC scheme - Essential Considerations
5	TC scheme - Key Components:
6	- Recruitment
9	- Competence
11	- Supervision
18	- KPIs
21	- Record Keeping
23	- Continuing Professional Development (CPD)

3

Disclaimer:

Whilst these standards and good practice have been developed to help firms implement and maintain effective TC arrangements, this guidance does not purport to be a definitive guide. They should not be relied upon for regulatory compliance purposes. Whilst every effort has been made to ensure the accuracy and completeness of the material the Financial Skills Partnership gives no warranty in that regard and accepts no liability for any subsequent loss or consequential damage, howsoever incurred, through the use of, or reliance upon the guidance or standards.



Good Practice Guidance for Retail SME Firms

This Guidance will be particularly relevant for retail advice firms within the SME market segment. Typically this will include firms with c. 10 to 50 advisers who provide financial planning, advise on retail investment products or undertake mortgage sales.

This could include independent or tied advisory firms (or provide restricted advice), wealth managers, small to medium size networks, and regional Building Society branch advisers.

This Guidance includes:

- A summary of the essential considerations when establishing a TC scheme for retail advice roles
- More detailed considerations of the key components of the TC scheme
- Case study examples of current good practice relative to these key components

Please note: This Guidance and the examples of good practice are intended as a guide for firms to assist them with the development of TC arrangements directly appropriate for their own business and customer advice model. It is not intended to be a definitive guide to a firm's TC scheme.



**Essential
Considerations**



Scheme set up and context

Whatever approach to training and competence is considered appropriate, the owners or Senior Managers within the business are expected to know what outcomes they want to achieve and to be confident that the arrangements they put in place will enable employees to attain and maintain competence to deliver these

Senior Manager responsibility

- Identify the Senior Management - who are they, what are their objectives and what do they expect from the scheme?

Who does the scheme cover?

- Identify which roles fall under the TC scheme - supervisors, advisors, paraplanners, back-office staff.

What is competence – and for whom?

- Define what competence looks like for each role and regulated activity within the scheme.

Delegation of responsibilities

- Identify how the relevant responsibilities of Senior Management have been delegated.

Scheme implementation

- Describe and document how the scheme is to be implemented.

Record Keeping

- Maintain records that demonstrate compliance with all the relevant TC rules, including qualifications held, time to achieve and CPD data

Supervision

You will need to demonstrate how the firm is:

- Developing and supporting the individual
- Achieving and maintaining expected outcomes
- Assessing supervisor knowledge, skills and behaviour
- Providing appropriate levels and intensity of supervision consistent with the anticipated risks
- Effectively using the full range of supervision activities

Typical factors that influence supervision policy and need to be clearly documented in the scheme include:

- Spans of control
- Ratio of competent advisors to those who have not yet achieved competence
- Different advice permissions
- Internal and external changes

Recruitment

A clear description of your recruitment policy and process should feature in the TC scheme. Check that:

- Roles, responsibilities and required standards are clearly set out
- Appropriate methods of assessment are used to determine a candidate's suitability
- Gaps in competence that are identified during recruitment are documented and addressed through the initial training
- Appropriate records are maintained
- References include a questionnaire on the quality of business completed, competence status, complaints and disciplinary history
- Qualifications are checked and copies of certificates held on file
- Credit checks are completed on new recruits on appointment, and annually thereafter as one indicator of fitness and propriety



TC scheme – Essential Considerations

Competence

The scheme describes competence for each activity and how an individual will achieve and maintain that competence. Competence should include all four key elements

Knowledge

Skills

Ethics

Expertise

The minimum standards for all of these elements is defined and described in a way that is clear for both the role holder and his/her line manager.

Standards are documented and recorded with performance requirements mapped to them and evidenced appropriately.

Competence is defined for all roles appropriate to the nature and responsibilities for any role, and described in detail for roles undertaking advice activities.

Stages of Competence

- What are the stages of development to achieve competent status, including timeframes, supervision requirements, benchmarks, standards and behavioural indicators

Training and development

- Whilst there generally will be one scheme with an overall training plan, each individual will have a personal training and development plan appropriate to their specific needs and standards of performance

Key Performance Indicators (KPIs)

- KPIs should monitor actual performance against key measures to ensure that supervisors get a current view of progress against objectives, competence standards and quality of outputs

Maintaining Competence

What are the requirements, activities and timescales for maintaining on-going competence standards, how will these be monitored, assessed and signed off.

Examples might include:

- File checking – from 100% initially to sampling of files
- Annual Testing
- Observations and role plays
- CPD completion
- 1:1 reviews



Knowledge



Skills



**Ethics and
Expertise**

TC scheme – Key Components

RECRUITMENT

COMPETENCE

KPIs

SUPERVISION

- Structure
- Stages

CPD

RECORD KEEPING

Recruitment

Recruitment

Being clear what standards apply at selection into a role and how the outputs from the interview process will be used in the induction and training of new employees.

Questions to Identify Good Practice

- Who are the key stakeholders in your firm who need to be included within the recruitment process?
- Have you defined the type of roles for which you will recruit and which will be covered by your TC regime?
- What classification have you defined for experienced and inexperienced new entrants within your recruitment policy?
- Have you defined any pre-requisites for each role type e.g. full clean driving licence?
- What minimum experience, knowledge, skills and professional qualifications have you defined as acceptable for each role type that you will operate?
- If you have defined minimum time and experience for differing role types, what procedures do you have in place to ensure that these standards are met for any new recruits?
- Are there any minimum industry accreditations or qualifications that individuals need to hold to satisfy your recruitment policy? e.g. Consumer Credit Licence, Data Protection Licence
- What formal checks are in place to ensure that a potential recruit's financial situation is robust enough so as to not create undue pressure for inappropriate sales
- What process exists to ensure that development areas identified within the recruitment process are fed through into the individual's induction with the firm and their on-going training and supervision?
- What verification process exists to ensure that each new recruit's existing qualifications are checked and verified against the appropriate qualifications list?
- How will you map a potential recruit's previous product sales experience against your firm's product range to identify any knowledge gaps that will need to be filled via the induction programme?
- Once knowledge gaps have been mapped how will you ensure that this is transferred into induction and on-going developmental training to ensure that any gaps identified are acted upon?



Case Study Recruitment Checklist

This case study is derived from a small IFA business. For recruitment purposes the firm uses a number of tools to ensure that it manages its recruitment policy appropriately.

During the recruitment process a Recruitment Checklist is used by staff to ensure that all mandatory steps in the process are met. This is used in conjunction with the Recruitment Process Flow document that shows staff the steps in the process that need to be met and the communication flows that need to be undertaken.

Recruitment Checklist

Name:

Job Title:

Use this form as a means of checking that all new members of staff are being recruited in accordance with the firm's recruitment procedures. All documentation completed and/or obtained during the recruitment process should be attached to this document.

Item	Applicable Y or N?	Date Received/Completed/Issued
CV		
Medical Questionnaire		
Employment Application		
Testing of Knowledge/Skills		
Other Assessments/Tests		
First Interview		
Second Interview		
Credit Check		
CRB Check		
Reference – last employer		
Reference – other		
Proof of Qualifications		
Job Description		
Employment Contract		

Signed by:

Date:

Approved by:

Date:



Recruitment Workflow

Decision on Sourcing of Candidates

1. Firm decides on method for sourcing new candidates:
 - Internal/external
 - Agency
 - Direct advertising



Type of Recruit Decision

2. Firm decides on the type of candidate that they want to recruit. Consideration given to any of the following:
 - Industry experienced
 - New entrants to the industry
 - Graduate programme



Formal Assessment Process

3. Firm decides on methods to be used during interview process to assess competence. Consideration given to the following:
 - Role Play/Formal Test
 - Competency Based Questions
 - Group Activity
 - Case Study/KPI Analysis
 - 1 or 2 interview process



Decision Making Process

4. Firm to decide who is to be involved in the interview and selection process. Consideration to be given to the following:
 - Compliance Department, HR Department, Sales Operations, TC Team, Training Team, n.b. these may be individuals rather than departments, also some functions may be shared



References

5. Firm to decide whether the obtaining of references is in-sourced or out-sourced. Consideration to be given to the following:
 - Cost, timeframe, internal/external expertise



Information Sharing

6. Firm to decide what processes they will employ when a new starter is confirmed to transfer data collected at the recruitment stage across to the Training and TC Teams so that appropriate training and supervision can be undertaken



Training Team

7. Training team to be provided with the outcome of all recruitment assessment so that an individual TNA can be conducted for the new starter and fed into the induction programme



TC Team

8. Supervisory team to be provided with appropriate output from both the recruitment and induction process so that any outstanding training needs can be met whilst in the initial stages of competence

Competence

The ongoing development of employees is an essential part of business performance. One feature of this development is the requirement to maintain the competence of employees through access to learning and development, including any regulatory prescribed CPD requirement, and the significant impact this will have on the expected customer and business outcomes

Questions to Identify Good Practice

- Can you describe and have you documented what competence means for each role covered under your TC scheme?
- Have you defined the standard(s) that need to be achieved in order to maintain this status?
- Does your scheme clearly define the qualifications that are deemed appropriate to the role(s) within your firm?
- Have you detailed the levels of inter personal skills that may be required in order to carry out the role?
- Have you defined the minimum levels of qualifications that need to be held at each stage within your TC scheme?
- Are there levels of on-going training that need to be achieved to maintain competence?
- Have you defined the routes that individuals can take in order to achieve CPD for competence maintenance?
- What processes have you put in place to ensure that the annual declaration of compliance with APER is undertaken by each relevant individual?
- What reporting processes have been put into place in order to report significant events for advisers to the FSA?
- What controls are in place to ensure that all relevant individuals meet all of the professional and competence standards including having a valid SPS
- Has responsibility for quarterly professional standards reporting been defined and if so, has an appropriate overseer been appointed?



Access to

Learning and

Development

Case study – competence development

An example of current good practice which identifies typical indicators and benchmarks used to develop and assess competence

Indicators for development to competent status (examples of indicators used by small firms to assess competence)

- Appropriate qualifications and regulatory modules studied for and passed
- Relevant regulatory module to be passed before starting advising
- Firm undertakes formal testing for product and market knowledge, regulatory and other legal issues and firm-specific procedures
- Observed role-plays and accompanied client visits with appropriate frequency to assess skills in assessing client needs and presenting suitable recommendations
- File monitoring undertaken with appropriate frequency to assess quality of advice provided and the completeness of file documentation
- Management information obtained and analysed to identify progress
- Training plans implemented and assessed on a regular basis through one-to-ones
- Attendance at training events and self training with evidence of understanding of the areas trained to ensure effectiveness
- On-going fit and proper checks

Example benchmarks (good practice examples of minimum standards used to assess competence in small firms)

- One year time limit imposed for full appropriate qualification passes with documented action if not achieved by the adviser
- 75% pass rates for all formal testing undertaken at recruitment and on an annual basis
- Training needs identified from errors and put into action plan
- Minimum two role plays on recruitment and one month's accompanied client meetings where performance is assessed and graded
- 100% file checking for three months with 95% pass rate for development to next level
- Product type, lender spread, take-up rate, complaints, ratings on tests, file checks and sales role-plays reflect development
- One-to-one assessments on a monthly, quarterly, half-yearly or annual basis
- Testing undertaken on training and pass mark of over 70% required
- Training needs identified from errors and input to action plan
- Credit check on an annual basis and adviser declaration of fitness

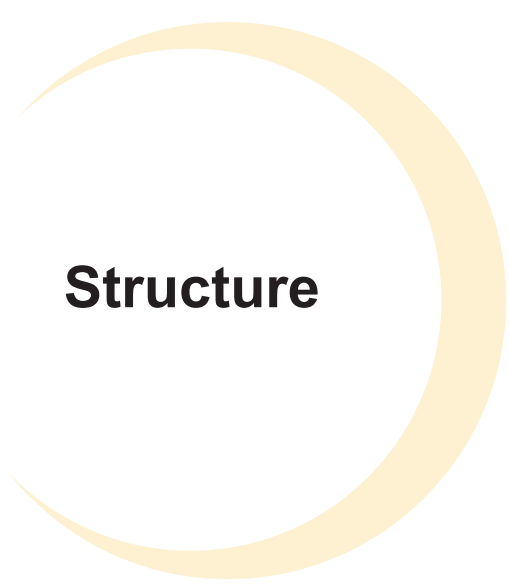


Supervision Framework and Structure

The approach to and delivery of supervision in a way that is appropriate for the business and the individual. Focused on enabling the required outcomes in the most efficient way by supporting and developing the individual.

Questions to Identify Good Practice

- What is the most effective supervisory structure for your business?
- What processes are in place to ensure that supervisors are fully trained and competent to act as supervisors before being allowed to do so?
- What processes are in place to ensure that spans of control for supervisors are appropriate, and what factors are they based on?
- Will your supervisors maintain line management responsibility in addition to their supervisory role, or will this be handled separately?
- If supervision is undertaken outside of the line, what procedures have you put in place to ensure that Supervisors/Line Management will meet regularly to ensure that learning and development actions from both areas are consolidated and managed effectively?
- If supervision and line management is undertaken within the line, do your senior managers have the appropriate knowledge and skills to oversee 2nd line supervision for your sales force?
- Where supervision takes place outside of the line what procedures do you have in place when non-competence is observed and remedial actions need to be taken?
- Have all advisers been allocated a dedicated supervisor and deputy, and is this information published and made available to all?
- Who is defined as being ultimately responsible for TC within your firm?
- Does their job description reflect this fact?
- Do you have an established forum to discuss and agree any changes to supervisory practices within your organisation? If not, what method do you employ? And is it documented appropriately?



Structure



**Supervision
Framework**



Supervision

Case Study – supervision structure

The sample supervisory structure shown is an example of how a medium sized network organisation that provides TC support to its members structures its supervisory resource. Firms covered within this network structure will range from very small IFA firms to larger regionally based firms.

The approach to regulatory compliance is to provide an umbrella TC scheme under which all registered partners will sit. They provide all partners with access to an industry developed TC workflow management solution that allows them to track their TC requirements including all elements

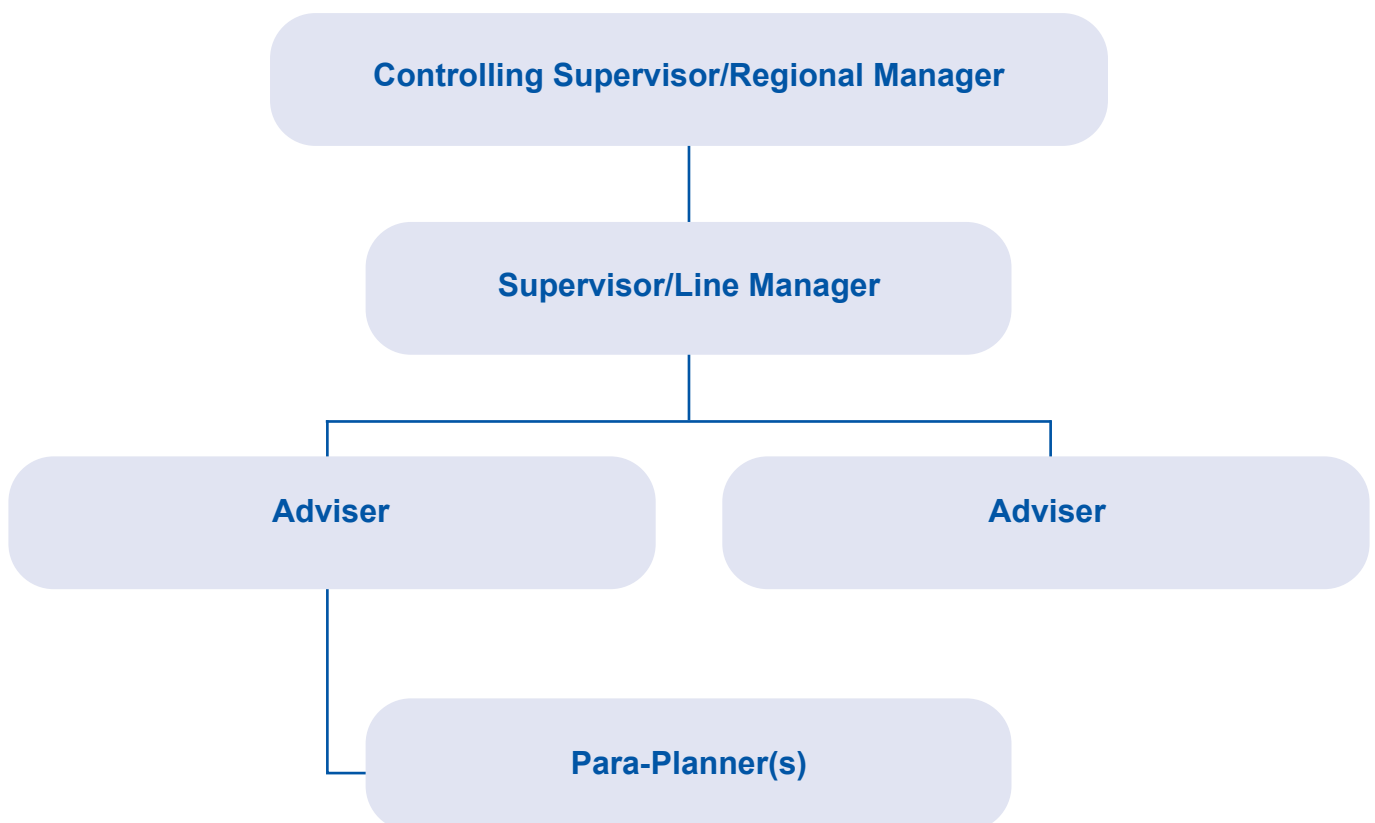
of CPD. In this way transparency of actions are provided from the supervising firm, and the member firm that is being supervised is clear at all times on what actions need to be taken per individual and by when.

Each partner is provided with a TC Supervisor who in turn reports to a “Controlling Supervisor”. In this way consistency of approach to supervision is maintained across the whole supervisory team.

Only one TC scheme is operated, and as this has been translated into the TC workflow system, it also ensures that all supervisors are consistently applying the same observation, checking and regular review standards.



Sample Supervisory Structure





Supervision Practice

The approach to and delivery of supervision in a way that is appropriate for the business and the individual. Focused on enabling the required outcomes in the most efficient way by supporting and developing the individual.

Questions to Identify Good Practice

- Whilst supervision needs to be flexible, can your firm evidence a supervision framework that is applied to all?
- Are your induction processes formally documented and clear and easy to follow?
- Do they clearly define the regulated nature of the role and the specialist training and testing that will be required as a result?
- Do your induction processes ensure that any shortfalls in knowledge and skills identified at recruitment are dealt with prior to live customer interaction?
- Does your scheme demonstrate that you have taken adequate steps to provide additional supervision support for those yet to attain competence?
- Does your scheme clearly define what goals need to be met to ensure that an individual can be classified as having achieved full competence?
- Where it becomes evident that an individual is no longer competent for the role that they perform, does your scheme evidence what actions a supervisor needs to take and what additional supervision needs to be applied?
- Does your scheme provide for the re-assessment of competence of individuals who are returning to work after an extended period of absence?
- Are individuals who are recruited into temporary positions subjected to the same competency requirements as permanent staff?
- Does your scheme demonstrate that the individual is observed and assessed across every part of the customer facing activities that they undertake?
- Does your scheme have a clear set of KPIs that are directly linked to relevant job role(s)?
- Does your scheme demonstrate the different levels of risk associated with different roles, and therefore differentiate supervision appropriately?
- Does your scheme specify the actions that should be taken when a supervisor observes a failure (either one-off or repeated) that constitutes a significant risk to the business, or its customers?
- Do you have mechanisms in place to ensure that any remedial or developmental actions arising from observations, file reviews or KPI assessments are captured and acted upon?
- Does your scheme define the product sets that apply to particular roles?
- How do you demonstrate that adverse KPI's are acted upon, development actions put in place and kept active until the KPI issues have been resolved?
- As call assessments need to cover not only best practice in sales, but also regulatory requirements, what mechanisms do you have in place to ensure that the assessment process is current and up to date in terms of regulatory matters?
- What processes do you have in place to ensure that all appropriate staff are kept up to date with regulatory matters relevant to their job role?
- How do you define the difference between supervision and monitoring within your scheme? And what measures need to be met before this step change can be achieved?
- What mechanisms do you have in place to ensure that individuals achieve competence within the timeframe defined within your TC scheme?
- What provisions are there in your scheme to deal with individuals who do not return to competent status within a reasonable time?
- What oversight procedures do you have in place to ensure that individuals are only signed off to competent status when it is appropriate to do so?

Case Study 1 – Supervision Practice

This organisation, a medium sized regional Building Society, uses an approach to TC which allows differing parts of the business to adapt the generic TC scheme to suit the needs of their business offering. There are a number of different business areas where the TC scheme rules are applied. The scheme itself is designed in such a way that it allows different parts of the business to only have the relevant measures and controls applied to it.

The supervisory structure operates so that each individual has a 1st line supervisor allocated to them, whether this is their direct line manager, who also operates as a supervisor, or whether it is a bespoke supervisory resource. All supervisors are overseen by the Group TC Manager for consistency of approach.

The TC scheme identifies the roles that are covered and what products and processes each role is allowed to undertake so it is clear for all what is permissible.

There are 3 stages to the supervision that is applied within this organisation, namely induction, attaining competence and maintaining competence. Within each of these stages there are defined activities that are required to be undertaken between the supervisor and the supervisee, and it is clear to supervisors that those in higher risk stages will have a greater level of supervision applied to them, which will in turn be given more attention by those involved in the oversight of supervisors.

The TC scheme sets out clear guidelines of the timeframe allowed for an individual to achieve competence, and also details what senior line management must consider if the timeline for competence is not achieved.



Supervision Practice

Example Supervision Template: Financial Advisor - Experienced New Entrant:

The following table provides, as an EXAMPLE for reference, the type and number of supervisory activities applied to the supervisee in differing stages of competence. The tasks and numbers

applied are for illustrative purposes and should not be taken as the definitive standard. It is the responsibility of each firm to decide what level of supervision is appropriate for the level of risks presented within their business.

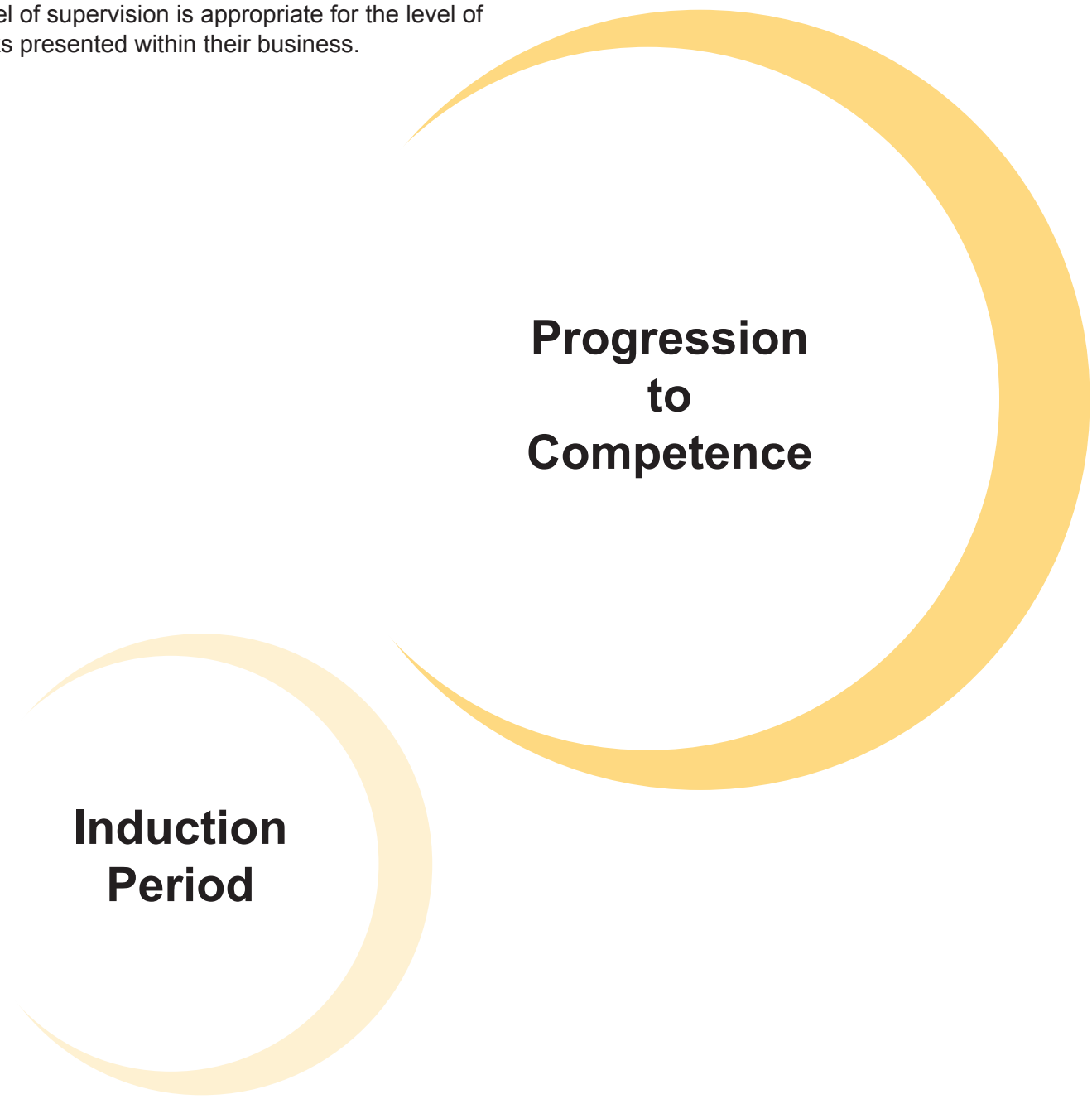
Supervisory Task or Observation	Induction Training	Attaining Competence - initial stage	Attaining Competence - progressive stage	Maintaining Competence (CAS)
Telephone Approaches	N/A	1 Monthly	1 Monthly	1 Monthly 1 on a 6 Monthly Basis
1st Meeting Observations	N/A	Fully Accompanied during this period	Monthly during this period	1 on a 6 monthly Basis
2nd Meeting Observations	N/A	Fully Accompanied during this period	Monthly during this period	1 on a 6 Monthly Basis
Business Vetting Activity – Pre Sale	N/A	All cases pre-vetted by Supervisor	A sample of 3 cases per month	None
Business Vetting Activity – Post Sale	N/A	All cases post-vetted by Quality Support	A sample of 3 cases per month	None
Monthly/Quarterly KPI Reviews	N/A	Monthly Review	Monthly Reviews	Quarterly Reviews
Developmental Planning	As Required	As Required	As Required	As Required
Action Planning	As Required	As Required	As Required	As Required
CPD	On-going	On-going	On-going	On-going



Case Study 2 – Supervision Practice

This firm operates a mortgage advice practice, directly employing a number of mortgage consultants. Supervision of advice staff is separated into an Induction period and a Progression to Competence period.

The table provides, as an EXAMPLE for reference, the type and number of supervisory activities applied to each category of supervisee. The tasks and numbers applied are for illustrative purposes and should not be taken as the definitive standard. It is the responsibility of each firm to decide what level of supervision is appropriate for the level of risks presented within their business.



**Progression
to
Competence**

**Induction
Period**



Supervision

	Role Type	Trainee	Inexperienced New Entrant	Experienced New Entrant	Competent Consultant
Induction activities	Qualifications	Minimum of Regulatory module	Minimum of Regulatory module	Full Appropriate Qualification	Full Appropriate Qualification
	Completion of TNA to identify the key knowledge and skills that require development	Yes	Yes	Yes	N/A
	Applicant observes a competent consultant	Minimum of 2 Fact finds and 2 Presentation meetings	Minimum of 2 Fact finds and 2 Presentation meetings	N/A	N/A
	Sales Process Training	Yes	Yes	Yes	N/A
	Role plays	Minimum of 1 fact find and 1 presentation meeting	Minimum of 1 fact find and 1 presentation meeting	Minimum of 1 fact find and 1 presentation meeting	N/A
	Knowledge Assessment (75% pass mark)	Generic mortgage and protection Protection Product knowledge AML and Data Protection	Generic mortgage and protection Protection Product knowledge AML and Data Protection	Generic mortgage and protection Protection Product knowledge AML and Data Protection	N/A
Ongoing Activities	Skills Assessment - Observations	The first 2 live fact finds and presentation meetings; thereafter what is appropriate (to be documented in development plan.	Minimum of two live fact finds and two presentation assessments before sign off	Minimum of two live fact finds and two presentation assessment before sign off	Minimum of two live fact finds and two presentation assessment annually
	Client File checks	100% file reviews until assessed as competent month	100% file reviews until assessed as competent	100% file reviews until assessed as competent	Minimum of 10% per month
	Generic and Product Knowledge assessment	Quarterly testing	Quarterly testing	Quarterly testing	Quarterly testing
	NTU Client File Checks	Minimum of 1 per month if available	Sample review	Sample review	Sample review annually
	Review of file feedback	Continuous	Continuous	Continuous	Continuous
	One to One Meetings	Minimum monthly	Minimum quarterly	Minimum quarterly	Quarterly
	Completion / review of Training Needs Analysis	Minimum monthly	Minimum quarterly	Minimum quarterly	Six monthly
	Review of KPIs	Minimum monthly	Minimum quarterly	Minimum quarterly	At each 1-2-1 meeting
	Range of advice evidence of at least 2 complete cases in each Product area, i.e. Mortgage/Protection.	Before sign off	Before sign off	Before sign off	N/A
	Development Plans	As completed after other activities	As completed after other activities	As completed after other activities	As completed after other activities
	CPD Records and Training Records	Monthly	Quarterly	Quarterly	Quarterly



Key Performance Indicators (KPI)

KPI

KPIs are used to monitor actual performance against key measures to provide those responsible for individual and business performance with a current picture of progress against customer and business objectives, competence standards and quality of outputs.

Questions to Identify Good Practice

- Have you defined a key set of KPIs for each role covered within your TC scheme
- What areas will your KPIs focus on within your business?
- Will your KPIs revolve around product related data, or will you extend your KPIs to take in performance measures?
- Are KPIs focused on measuring outcomes rather than processes?
- Have you set ratings (RAG or similar) that will apply to each of the KPIs that you are intending to measure?
- Do you have documented rationale for the KPIs and RAG ratings (or similar) that you have chosen and why others may have been discounted?
- What procedures do you have in place for a supervisor to follow when a KPI is failing?
- What risk reporting mechanism is in place to ensure failing KPIs are reported internally at the right time to the right people?
- Do individuals covered by the scheme understand the potential impact of failing KPI(s) and the responsibilities that exist for them to work to improve them?
- Are KPIs periodically reviewed to reflect changes both within the business and the trading environment?
- Are your supervisors managed in a way that promotes positive improvement of KPI ratings?

Typical KPI, whilst generic in use as a way of measuring and benchmarking individuals against pre-defined standards, are best employed when tailored in application to the focus and needs of the business and the customer.

The table below has been included to show a typical KPI spread that could be employed within a TC scheme to assist in managing the risk of advisers. Whilst it is expected that each firm will define their own preferred set of KPIs, and may well operate differing KPIs for differing roles, this should act as a reference point for firms to consider when defining KPIs that will be used within their TC arrangements.

Identifying Good Practice



Key Performance Indicators (KPI)

Typical KPI spread

KPI	Mortgage Adviser	Financial Adviser	Insurance Adviser
Product Spread	X	X	X
Lender Spread	X		
NTUs	X	X	X
Complaints	X	X	X
Mystery Shopper Results	X	X	X
Advised v Non-Advised Split	X		X
Testing Results	X	X	X
File Quality	X	X	X
Advice Quality and Suitability	X	X	
Sales Observations	X	X	X

Case study – KPI

This case study depicts a medium sized regional financial services firm and their approach to the recording, management and ongoing review of KPI performance. Individual's KPIs will be monitored by their appropriate supervisor as follows:

- Quality Assurance of submitted business
- Complaints
- Activity Levels
- Generic and Product specific knowledge
- Persistency and NTUs
- Product and provider spread



Key Performance Indicators (KPIs) RAG Ratings

Quality Assurance – monitored using a rolling 12 month measure based upon the number of cases failed against the number of cases checked. Case check levels will be set at 100% for Stages 1 and 2 of Training. Once CAS has been achieved this will reduce to 10%. If an individual subsequently has 3 consecutive ‘fail’ cases they will move to 100% checking until they achieve 3 consecutive ‘pass’ cases, when they will revert back to the 10% checking level

15% or below



Between 16% and 30%



More than 30%



Complaints – will be measured on a rolling 12 month basis taking into account the number of complaints that have been ‘upheld’. The complaints recorded will be those registered against individuals and will then be tracked as to outcome (both internal and external) either upheld or refuted

0 complaints



1 - 3 complaints



More than 3 complaints



Activity Levels – will be measured on the number of mortgage cases submitted and protection policies issued on a rolling 12 month basis

Mortgages

Protection

36 or more



12 or more



25 - 35



7 - 11



Less than 25



Less than 7



Generic and product specific knowledge – will be measured by the number of tests sat and rated on the basis of overall aggregated tests failed

2 fail



3 - 6 fails



More than 6 fails



Persistence – will be measured on a rolling 24 month period as follows

More than 75%



65% - 75%



Less than 65%



Provider/Product spread – although not a formal KPI, will be used by the Supervisor as an indication of the number of provider / products recommended (whole of market, panel and individuals).

Less than 15%



15% - 20%



More than 20%



Record Keeping

Maintaining adequate records to show the arrangements are appropriate, have delivered the required outcomes and are given the appropriate level of priority within the firm

Questions to Identify Good Practice

- Could you demonstrate to the FSA why your current TC arrangements are considered appropriate for your business?
- What evidence exists to demonstrate why you have selected certain qualifications as appropriate for your business from the appropriate qualifications list?
- How would you prove to the FSA that your TC scheme is regularly and effectively reviewed, and where necessary amended and updated?
- How would you demonstrate that actions agreed through TC scheme reviews are effectively implemented?
- Where issues are identified with the TC scheme and the implementation of it, can you clearly demonstrate the review(s) that were undertaken and the actions that were taken to resolve any identified problems?
- What documented procedures do you have that detail how, where and for how long records should be kept for those subject to a TC regime?
- What process exists to test and ensure that all individuals captured by the scheme are complying with the record keeping rules?
- Where automated TC management systems are employed, can you demonstrate that they are used effectively within your organisation?
- Does your induction and on-going training programme incorporate the effective use and management of any automated system?
- What training is put in place to ensure that all individuals are able to operate an automated system effectively?
- What review process is adhered to for the updating and development of any automated system in line with regulatory changes?
- What back up procedures are in place to ensure that regulatory records are maintained in the event of loss of the primary data?
- Where 3rd party automated systems are used for record keeping but are hosted by the software house, what procedures are in place to ensure the integrity of the data is not compromised?
- Where 3rd party automated systems are used for record keeping, what business continuity plans have been agreed to ensure the on-going access to data and ability to operate and record TC management systems in the event of a system failure?



**Record
Keeping**

Case Study – Record Keeping

Our case study focuses on a medium sized mortgage network which provides a variety of services to its members. The main area of focus is around training and compliance services to its members and record keeping is a key aspect of this.

In order to manage its record keeping responsibilities, this organisation has sourced an industry developed workflow tool that allows them to manage the following:-

- Training and Competence records for all individuals
- Individual CPD logs
- Training requested and training delivered
- All required field based observations
- All required regular review meetings
- All required file/business quality checks
- Manage and monitor appropriate spans of control for all supervisors
- MI and Reporting requirements
- Areas of authorisation and external qualifications achieved

The system operates in such a way that each supervisor has access to their supervisory team. Each individual to be supervised has access to their personal records only.

All activities within the TC scheme are timetabled within the system and alerts are used to remind the individual and the supervisor when an activity is nearing its target date.

The overarching TC Manager has access to the records for all individuals electronically and can therefore desk base monitor adherence to scheme tasks and timescales. Due to the electronic nature of the supervision it provides the TC manager with early warning of potential breaches to scheme requirements.



Record Keeping



Continuing Professional Development

CPD is personal development in action. It is a way that an individual can use a structured approach to supporting and developing their own knowledge and skills within a particular role. It will demonstrate their commitment to maintaining and improving their knowledge and skills whilst allowing a supervisor to manage and oversee the progress and process for each individual.

Questions to Identify Good Practice

- If asked, can you define what CPD means to you and your firm?
- Can you evidence your firm's policy on CPD and the management of it?
- What process have you designed that enables your workforce to capture all of their relevant CPD?
- How will you be able to evidence the split of CPD that your workforce undertakes between structured and unstructured activities?
- What reporting mechanisms does your organisation have in place to monitor and review the achievement of appropriate CPD on a regular basis?
- Have you provided your workforce with a list of acceptable CPD topics and have you made clear the split between structured and unstructured activities?
- Do you have a mechanism to allow centrally released training courses, e-learning and mandatory required reading to be allocated and counted for CPD purposes?
- Do you supply your whole workforce with the tools to be able to self record CPD or are they reliant upon a line manager?
- What sign off/approval process(es) have you instigated to ensure that only appropriate CPD is being counted towards any annual requirements?

**Questions
to
Identify**

**Good
Practice**



Case Study – CPD

This case study demonstrates the way in which a small network organisation that has direct RI's that are members of the network manage their CPD. These RI's will range from a one man operation through to the smaller IFA firms.

This organisation uses an approach to TC which allows each registered member/RI of the network to use a central TC scheme under which they register to control their regulatory needs and requirements. This avoids the need to set up individual TC schemes. As a result, there are a number of smaller firms that use this approach to CPD.

In the first instance, the individual firms are advised as to the types of activities that might be appropriate to consider in respect of CPD. Each firm is then provided with a standard CPD template which allows them to detail all activities that they would like to record against their CPD for that particular scheme year. Examples of the types of activities that could qualify are also provided so that individuals and supervisors are in no doubt as to the sort of activity that can be recorded here.

Descriptions of the type of activities that qualify as CPD might include as an example:

- General courses e.g. seminars, life office new product development courses
- Courses designed specifically for exam preparation e.g. Diploma courses or any formalised event that includes a validation test
- Attendance at conferences, exhibitions or other industry-related events
- Private study e.g. exam preparation, product research and improving knowledge generally plus technical or product training by broker consultants
- Skills development in-house with a trainer
- Work associated with trade/professional bodies e.g. committee work or distance learning; or
- Specialist reading e.g. journals and trade press for specific purposes (i.e. not just general reading)

Going forward, arrangements will be put in place with an Accredited Body to allow access to central CPD resources and enable verification of CPD undertaken.



CPD



Continuing Professional Development (CPD)

Sample Development Plan and CPD Record

Development Need	CPD Resource	Completion Outcome	Date	Verified by	Type	Hours	Record
Appropriate qualification update – investments and risk	PFS Workshop – advice considerations when using structured investment products	Updated knowledge of structured products and their risks	10/1/2011	Workshop assessment - 86%	S	3 hrs	Certificate - attend and assessment
Communication skills – improve the quality of client reports	XYZ distance learning – report writing module	Clearer and better structured client reports with less use of jargon	March	Completion assignment submitted	S	3½ hrs	Copy of assignment
2011 Budget changes and impact on personal clients	Tax and benefit changes 2011 - on-line budget summary guide and test	Updated detail knowledge of budget changes to tax and benefit rates	18/4/2011	On-line test - pass	S	2 hrs	Completion record
Market developments affecting critical illness protection products	Trade press supplement / on-line commentary and analysis	Aware of changes to definitions, illnesses typically covered and new underwriting requirements	May/June		U	1½ hrs	N/A
Appropriate qualification update – ethics and conduct	Professional body membership resource including case studies	Aware of a range of indicators of poor ethical practice, plus review of code of professional conduct	July		U	2 hrs	Completion record



RDR Implementation

TC Standards and Good Practice Guidance
– Good Practice Guidance for RDR Implementation

Good Practice Guidance for RDR Implementation:



Introduction



RDR Specific TC Guidance



4

Disclaimer:

Whilst these standards and good practice have been developed to help firms implement and maintain effective TC arrangements, this guidance does not purport to be a definitive guide. They should not be relied upon for regulatory compliance purposes. Whilst every effort has been made to ensure the accuracy and completeness of the material the Financial Skills Partnership gives no warranty in that regard and accepts no liability for any subsequent loss or consequential damage, howsoever incurred, through the use of, or reliance upon the guidance or standards.



Good Practice Guidance for RDR Implementation

This Guidance is relevant for all retail investment advice firms who are subject to the new TC rules and requirements finalised in the RDR Policy Statement PS11/1

The Guidance should be read in conjunction with the TC Standards and Guidance – Outcome Standards which describes the industry defined standards for implementation of these rules

The regulator has introduced a range of regulatory changes and new requirements under the 'Raising Professional Standards' programme within the Retail Distribution Review (RDR). Many of these will come into effect on the 31st December 2012, although some take effect in 2011 and others, such as the new qualification requirement, have been implemented through a 'no regrets' policy since early 2010. It is reasonable to expect further policy statements and rule changes from the regulator prior to the final implementation date.

This Guidance aims to assist firms consider how to implement the new rules and standards detailed in PS11/1 and support the outcomes it describes. Further Guidance will be developed should this be necessary as the final details emerge up to the implementation deadline of 31/12/2012.



RDR Implementation



This section of the guidance looks at the regulators requirements in Policy Statement 11/1 published in January 2011. The notification requirements come into force on 1st July 2011 and the rest on 31st December 2012. For those firms with advisers who fall within the scope of RDR it will be important to read this guidance alongside the updated TC Standards and Guidance – Outcome Standards in order to get a complete picture. Some of the practical application is still uncertain, for example we currently do not know which organisations will be (AB) Accredited Bodies* [a list is to be published in the Handbook in the second half of 2011].

In this section we have also focused on the wording contained within the regulator's TC Rules and Guidance rather than the text of the Policy Statement but reference will be made to it where appropriate.

The RDR rules introduce some new requirements relating to achievement, maintenance, tracking and recording of adviser competence, including the need for firms to obtain independent verification of key competence activities and status. This does not remove or reduce the responsibility of firms for the competence of their employees and/or regulated role holders. Whilst these requirements will contribute to the evidence required, and firms may rely on external verification for compliance with these competence requirements, they remain accountable for the competence arrangements operating within their business and must retain ownership of competence assessment and standards of performance.



RDR and Professionalism

* Links are provided throughout this document directly to the relevant sections of the FSA Handbook for ease of reference. FSP accepts no responsibility for the content of the FSA Handbook pages.

Notification and Reporting Requirements

Notification requirements - from 1st July

2011(2.1.31R, 2.1.32G, 2.1.33 G, Sch2 2.1G)

Reporting requirements - from 31st December 2012 (2.2B Appendix 8R Professional Standards Data Submission Form)

The purpose of these new requirements is to allow the regulator to monitor individual retail investment advisers, make a risk assessment of them and take appropriate action if required. Individuals will now be monitored by the regulator as they move around the industry. The text within the PS also looks to firms to provide information about former advisers, although the rule does not suggest this. (Further detailed RDR related data proposals will be consulted on in the first quarter of 2011 and any final rules coming out of this will apply from the end of 2012. Once this has been finalised the guidance will be updated to reflect the changes).

The regulator has identified 4 events which will trigger the notification requirement. They are:

- a) A competent adviser who is no longer competent
- b) An adviser who has not achieved the qualification within the 30 months of starting to carry out the activity
- c) An adviser has failed to comply with a Statement of Principle
- d) An adviser has carried out the activity before being assessed as competent and without appropriate supervision.

It is likely firms will have existing systems and controls which monitor these types of event, or will be implementing for the new qualification requirement. However, as a starting point, firms should check their existing systems and controls, including the range of risk indicators for retail investment advisers, against the identified events for monitoring and recording effectiveness.

Secondly, firms will need to consider whether they have the data systems in place to be able to supply this data to the regulator. The data and system analysis will need to be able to track changes to the individual adviser's competence status.

There is a notification form provided by the regulator for this purpose, The Retail Investment Adviser Competence Notification Form

www.fsa.gov.uk/Pages/Doing/Regulated/Notify/index.shtml.

In complying with this requirement, firms will also need to consider the significance of the event and whether it is necessary to notify the regulator. Guidance note 2.1.32 G identifies 3 factors to be considered in making this decision. Firms will also want to consider how quickly the breach can be resolved, whether it is an indication of any more serious issues or behaviour, the impact on others at the firm, and any level of customer interaction involved. It would be appropriate to make and retain records of the factors considered and the decision reached.

If it is considered a significant event, firms will need to have systems in place to submit notifications to the regulator in a timely manner. The firm will also need to state any steps it has taken or intends to take to deal with the issue.

Reporting requirements have also been increased, although much of the data required will already be collected and monitored by firms. Again, firms will need to check they have adequate systems to capture and submit the reporting requirements data, which will be a quarterly return. Rule 2.2B4 details the content of the report and TC Appendix 8R is the prescribed electronic format.

Firms will be able to access this form on-line when the requirement comes into force on the 31/12/12. Whilst the data is quite straightforward, firms must take care to correctly complete all the mandatory fields before submitting the report electronically and obtaining confirmation of acceptance, otherwise it will not be deemed to have been submitted.



Assessing Competence

Qualifications

The initial knowledge requirements to meet the technical competence standards is now set as a level 4 appropriate qualification, and this applies to existing retail investment advisers (those assessed as competent on or before 30th June 2009) and all new advisers. Existing advisers must attain this new requirement by 31/12/2012 to be able to advise customers from 1st January 2013, and there are two options open to them. These are:

- Continuing professional development gap fill route building on an existing level 4, or above, qualification
- Study for and attain a new RDR level 4 qualification.

Gap fill (Appendix 7G)

For those who have selected this route to technical competence the prime requirement is to identify the knowledge gap between their existing qualification and the RDR level 4 standards, and to evidence that this has been satisfactorily addressed. The regulator has published two gap fill templates (see PS11/1 and CP09/31) and is allowing either of these to be used. Awarding bodies have also undertaken gap analysis for individual advisers.

Advisers using this route need to ensure the following

- You hold one of the specified qualifications in TC Appendix 4
- You complete a gap analysis against the FSSC's new RDR examination standards published in March 2010 (Note: please remember the regulator now owns these standards and if there are any differences between the FSSC's(now FSP) standards and those detailed in Appendix 7G it would be sensible to follow the regulator's approach)
- You select and complete gap fill CPD to bridge all the gaps identified
- Completed gap fill is verified by an accredited body before 31 December 2012.

To help firms and advisers in determining how to comply with this requirement it should be noted that:

- There is no requirement for the CPD to be level 4
- Gap fill does not need to include the protection standards
- Gap fill CPD can have been completed at any time as long as it can be verified
- A firm's relevant internal training can also count towards the gap fill requirement although the selected accredited body will need final sign off.

Assessing Competence



There are no rules as to how verification will work in practice and charges for this service will be decided by each individual accredited body. Within the PS text some guidance is provided which says that the gap fill should be structured but if this is not available the gap can be covered by reading suitable material. Also, the accredited bodies are able to determine the basis on which they check that advisers have completed the gap fill, and this can be anything from self certification to reviewing all the supporting evidence.

Firms therefore need to ask themselves:

- Do your current CPD records provide the detail stipulated by the regulator and required by the AB
- Which gap fill template will you use
- How will you identify and source suitable gap fill solutions
- Will you validate your advisers gap fill CPD before it is sent to the AB
- If so, how is the learning to be validated and is there confirmation the gap has been bridged and the learning outcome achieved
- When will you send this information to the AB and what is their turnaround time for issuing the Statement of Professional Standing
- What process will be implemented to deal with any conflicting decisions or refusal to verify any part of the CPD undertaken
- Are your data systems compatible with those of the AB and who is responsible for data security
- How will the AB check the gap fill and will this be robust enough given that firms are still ultimately responsible for the competence of their staff.

For active advisers who had not been assessed as competent at the 30th June 2009 i.e. trainee advisers, and who were undertaking the activity of a retail investment adviser before 1/1/11, they will be deemed as having commenced the activity at 1/1/11 and will therefore have 30 months from that date to attain the appropriate qualification. Firms should ensure they make and retain records of the time taken to attain the appropriate qualification and of compliance with the time limit.

New entrants who have a relevant level 4 or above qualification can still select the gap fill route to technical competence.

Going forward, the only qualifications that will meet the regulator's requirements are those contained within the Handbook. This list will be updated on a regular basis. Firms will no longer be able to select alternatives, including in-house qualifications.



Statement of Professional Standing



Recruitment

When recruiting existing advisers, firms will be able to rely on an adviser's current SPS to confirm their technical competence, that they have complied with APER and met the CPD requirements. Firms should therefore consider:

- How this will impact if at all on their recruitment and induction training
- How robust is the verification process at the AB that issued the SPS
- Does the adviser have their CPD record and is the detail consistent with and relevant to the firm's business

Referencing procedures will need to be extended to include details of the adviser's qualification and CPD history and current status. Firms will need to obtain details of:

- The current SPS, who issued it and the date of issue
- The CPD record for the current period
- Any notification event relevant to the adviser
- Any suspension of the CPD requirement in the previous 12 months
- The qualification time line for advisers not yet competent who have previously commenced the regulated advice activity

Supervisors

For those supervising advisers who give advice on packaged products (retail investment products) and have not yet been assessed as competent, they also need to have attained an appropriate qualification.

Firms will need to consider:

- What option for attaining the RDR qualification will be used
- If choosing the gap fill option, how will the firm verify this
- What role the AB will perform in respect of supervisor competence
- Whether their supervisors will meet the 2012 deadline
- Will they have sufficient supervisors in post from January 2013 or will this have an impact on recruitment.



Recruitment



Supervisors



Competence and Accredited Bodies

In addition to the general TC requirements accredited bodies have a major role to play in an RDR environment. They will not only be involved in the initial assessment of competence but also the annual confirmation. Firms will need to ensure that their advisers have a SPS in order that they can carry out the activity post initial confirmation and annually thereafter.

Firms will need to choose their preferred AB carefully and have clear terms of reference in place to ensure regulatory requirements are fulfilled to the firm's satisfaction and misunderstandings are avoided. Points to consider include:

- The ethical code and values of the AB are consistent with the firm's culture
- The AB has the capacity to handle the level and volume of business from the firm
- System compatibility and data requirements
- Disaster recovery e.g. loss of data
- Turnaround times, service standards and reliability, and contingency plans
- Costs, both one off initial costs and annual costs
- Resources available within the AB including relationship management skills
- Procedures to implement if the AB has its accreditation withdrawn, or if there are conflicts of opinion e.g. in the issuing of, or refusal to issue, an SPS

It would be reasonable to schedule regular review meetings with the AB e.g. every 6 months, and to formally review internally the effectiveness of the arrangement at the end of the first year and every three years thereafter.

It is unlikely that firms would mandate a single AB for all advisers even though this may initially be seen as a practical and efficient decision, in view of the regulator's stated view in the PS which says “.. we are reluctant to allow firms to mandate only one accredited body for all of their advisers as we believe individuals should be allowed to make a choice.” There are no specific rules in this regard. Firms will, therefore, need to consider the implications of this in making decisions at a firm level, and balance the needs to allow choice with the constraints of operating multiple AB relationships.



Accredited Bodies



Maintaining Competence

In addition to the standard TC requirements, there are additional Rules and Guidance around continuing professional development. These include hours, type and relevance of CPD, independent verification and the issuing of SPSSs. Retail investment advisers cannot count CPD hours undertaken for other activities unless it is directly relevant to retail investment advice activity (2.1.23G)

In complying with these requirements, firms will need to consider and ensure:

- How advisers will access current CPD solutions which enable them to satisfy the regulatory requirements, how these solutions will be completed, how this will be evidenced and recorded
- There are sufficient solutions to enable advisers to complete a minimum of 35 hours of appropriate CPD in each 12 month period (2.1.15R, 2.1.22G) and that this is evidenced and recorded.
- There are sufficient solutions to enable advisers to meet the balance of structured and unstructured CPD activities i.e. 21 hours of the 35 must be structured and each activity must last at least thirty minutes (2.1.16G, 2.1.20G), and that this is evidenced and recorded
- That all CPD meets the guidance requirements detailed in 2.1.22G. Firms will need to decide how to address point (6) in relation to unstructured CPD and the specific detailed recording requirements this may entail.
- They follow the guidance on what counts as structured and unstructured CPD (2.1.20G, 2.1.21G)
- That procedures are in place and records kept of when the CPD rule is suspended by the firm (2.1.17R, 2.1.18G, 2.1.19G)
- That a CPD completion record is made and retained for all retail investment advisers and each adviser is able to obtain a copy of their CPD record (2.1.25R)
- Procedures for the adviser to confirm annually in writing that in the preceding 12 months they have complied with APER (Statements of Principle and Code of Conduct for Approved Persons) and completed the necessary CPD (2.1.26R)
- How, if at all, your advisers will explain the SPS to consumers.

Maintaining Competence



Annual declaration

An annual declaration requirement for each adviser of CPD completion, APER compliance and qualification requirement has been introduced which imposes responsibilities on the individual adviser, the firm and the AB. The firm has overall responsibility for compliance with this requirement and therefore will want to have clear and effective processes and controls in place to meet these responsibilities. Questions to consider in this respect include:

- How will firms obtain written declarations each year from their advisers, monitor this process and confirm the integrity of the declarations
- How will this requirement link to the adviser CPD and other performance records
- How will firms transfer this written declaration to the AB for independent verification
- What checks will the AB want to make of the declarations to be verified and how will the firm enable this
- How will the verification process and issue of SPS interface remotely and what oversight will the firm provide for this process
- How will exceptions be identified and managed

Please note, the issuing of an SPS does not confirm the competence of an adviser! A current and valid SPS will confirm that the adviser has complied with the CPD requirement and has self-certified their conduct and behaviour continues to meet the obligations under APER.

The accredited body will need to check the CPD records of a minimum of 10% of the advisers' who use its verification service (TC App 6.1.1G(12)) Firms will need to allow this and consider how they can make these records available to the AB as well as ensuring the security of any personal data.

There are no rules which:

- Limit the level of charge for the verification and issuing of the SPS
- Require the AB to offer the service to non members.

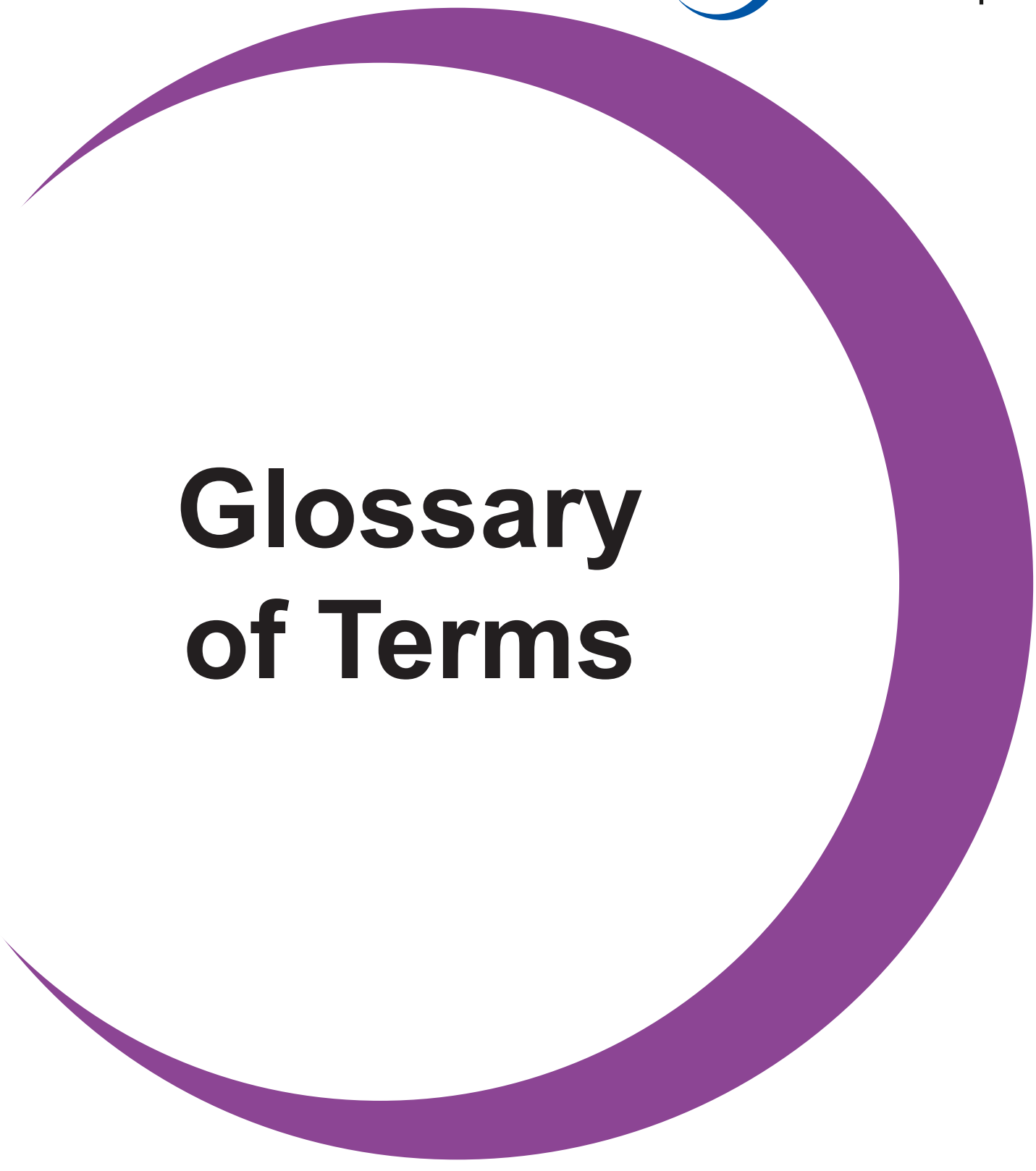
Where a regulated role holder at the firm chooses not to be a member of an AB/Professional Body, the firm will need to determine how this will be managed to avoid any breach of regulatory requirements, who will independently verify the adviser's qualification status, CPD completion and APER declaration, and issue a valid SPS.



**RDR
Specific**



**TC
Guidance**



Glossary of Terms

TC Standards and Good Practice Guidance
– Glossary

Glossary of Terms:



Glossary of Terms

5

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Glossary of Terms

Accredited body

A body accredited by the regulator to perform an independent verification service. An accredited body will ensure that its' members, or individual advisers who use their services, attain a regulatory qualification, complete CPD and comply with the principles and behaviours for approved persons (APER).

Annual declaration

A written declaration from each retail investment adviser to confirm in the preceding 12 months they have completed the CPD requirement and have complied with their approved person duties and responsibilities as detailed in APER.

APER – Statements of Principle and Code of Conduct for Approved Persons

There are 7 statements of principle which describe the standards of behaviour expected of approved persons, whilst the code outlines behaviours that would likely show compliance with the principle (or not).

Appropriate qualification

To be able to carry out certain specified retail activities, including advising on retail investment products, mortgages and equity release, pension transfers, long term care, administering investments and overseeing some administration functions, there is a regulatory requirement to pass a qualification relevant to the role and activity. An appropriate qualification is one that has been approved as meeting this regulatory requirement for a specific activity.

Assessment

A measurement of performance against an agreed set of standards for a specific role or activity. To cover the full breadth of competence, assessments will likely include tests and examinations (knowledge and understanding), observations and role plays (skills and expertise), output analysis and customer feedback (confirmed evidence and behaviours).

Competent status

The point at which an individual, as determined through assessment, is confirmed as meeting the competence standards for the role or activity being undertaken, after which a reduced level of supervision may be appropriate.

CPD – Continuous Professional Development requirement

A requirement to carry out a minimum of 35 hours CPD each year, with at least 21 hours structured CPD, to maintain the regulatory qualification status. All CPD carried out should meet these requirements:

- Be relevant to the retail investment adviser's current role and any anticipated changes to that role
- Maintain the retail investment adviser's knowledge by reference to current qualification standards relevant to the retail investment adviser's role
- Contribute to the retail investment adviser's professional skill and knowledge
- Address any identified gaps in the retail investment adviser's technical knowledge
- Have written objectives based on learning needs and a documented learning outcome
- Be measureable and capable of being independently verified by an accredited body.

CPD – Structured

This type of CPD involves activities which have been specifically designed to achieve the learning outcomes, require a minimum of 30 minutes participation, and would likely include some form of validation or assessment of learning. Examples would be training events and coursework, seminars and lectures, e-learning programmes and web based seminars.



Glossary of Terms

CPD – Unstructured

This type of CPD involves participation in activities which have not specifically been designed or provided as learning solutions, such as reading industry material or conducting research relevant to the adviser's role and knowledge requirement, coaching or mentoring of others. It would still need to meet the other requirements for CPD.

Gap fill

A transitional requirement to support the introduction of higher professional standards implemented under the Retail Distribution Review (RDR). Investment advisers who were assessed as fully competent on or before the 30th June 2009 are required to attain a new level 4 appropriate qualification by the 31st December 2012 if they wish to carry on advising retail customers after this date. Advisers who chose to achieve this through the 'no regrets' policy by attaining an existing, relevant level 4 qualification or above will be able to count this as meeting the requirement provided any gaps between the syllabus and the new qualification standards are filled by the same deadline.

Independent verification

An additional requirement for firms each year to obtain independent verification from an accredited body of their compliance with the minimum professional standards required for each of their retail investment advisers – specifically, the attainment of an appropriate qualification, the completion of 35 hours CPD within the 12 month period, compliance with APER and an annual declaration has been obtained in writing. This should then take the form of a SPS.

Key Performance Indicators (KPI)

A range of targets and measurable outputs used by a supervisor to monitor an individual's performance against the required standards which provide an indication of future risk in areas of competence, quality of advice and potential for customer detriment and trigger the appropriate remedial action(s).

Monitoring

A continual process of observation and review of performance against the range of competence standards in order to maintain the quality of outcomes and reduce the potential for risk. Monitoring activities may be undertaken remotely e.g. KPI analysis and file checks, or face to face in the workplace and with customers.

Personal Development Plan (PDP)

A template to plan, develop, review and record personal performance improvement. It is used to identify what needs to be developed, how and over what period this development will take place, and what improvement the development will achieve. Review takes place to confirm the success of the development activity, or requirement for further development, and how this will be transferred into the work place.

PRIN – Principles for Businesses

This sets out the essential obligations of firms under the regulatory system. There are 11 principles which provide a basis for the rules and guidance.

SIF – Significant Influence Controlled Function

Persons who are responsible for the control and direction, and other specified functions, of a regulated firm for which regulatory approval is required. Some are classified as SIF as they are seen as having significant influence by way of decisions, objectives and regulatory processes for the firm.

Statement of Professional Standing (SPS)

A durable document issued by an accredited body for each retail investment adviser as evidence of satisfactory independent verification.

**Supervisor**

An individual responsible for the maintenance of performance standards and quality of outcomes for individual role holders they are supervising, and the development of those individuals to attain and maintain competence. They will vary the level, intensity and type of supervisory activity according to the needs and competence development status of each individual.

SYSC – Senior Management Arrangements, Systems and Controls

Requirements for the way regulated firms are managed. Specifically outlines the responsibilities of directors and senior management in such matters as control and supervision, operational risk management, including competence, and record keeping.

TC scheme

A documented policy and process which describes how a firm will manage and control the development, assessment and maintenance of competence and professional standards required of its employees/role holders. It will show how application of the TC scheme will achieve the range of performance outcomes, including TCF and reducing the potential for mis-selling.

TNA – Training Needs Analysis

The process of identifying any gap in an individual's competence to carry out a role, or activity, and the training required to be undertaken to bridge the gap. Typically a TNA is completed when an individual is new to a role or there are significant changes being introduced.



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