

# Ethical Lens to F&P Regime



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The Fitness and Probity (F&P) regime is considered a cornerstone in maintaining integrity within the wide and varied financial services sector here. It was very welcome, post the financial crisis failures and lessons learnt, when brought into operation.

The primary objective of F&P is to ensure that those individuals appointed to key decision-making positions - designated as Controlled Functions (CFs) and Pre-Approval Controlled Functions (PCFs) - are competent, capable, and financially sound, but also that they can be expected and likely to act in their decision-making role in an honest and ethical manner.

This paper was written during a time when the Central Bank are consulting on amendments to the F&P Regime with CP160, with a closing date of 10 July 2025. The CBI have also invited industry representatives to a F&P event, including roundtable discussions, on the PCF Assessment process Consultation Paper on Friday 30 May.

## Ethical Underpinnings of the Fitness and Probity Regime

At the core of the F&P regime are ethical principles that are intended to safeguard the public interest and maintain trust in the financial system. The regime requires that individuals performing CFs and PCFs must evidence their:

- **Competence and Capability:** The role holder must possess the necessary skills, knowledge, and experience to perform their roles effectively.
- **Financial Soundness:** They must maintain personal financial stability, in order to avoid conflicts of interest or undue influence in their senior role holding.
- **Honesty, Ethics, and Integrity:** They must demonstrate honesty, an ethical approach, and

integrity and soundness in their professional conduct.

The Fitness and Probity Standards, enacted in 2014, are not intended to be aspirational; they are enforceable requirements designed to promote ethical behaviour and accountability within financial institutions.

The Individual Accountability Framework (IAF)

In March 2023, the Central Bank of Ireland (CBI) introduced the Individual Accountability Framework (IAF). It aims to enhance governance and promote and ensure a culture of ethical behaviour, by clarifying individual responsibilities within regulated firms.

The IAF comprises four key components:

1. **Senior Executive Accountability Regime (SEAR):** Assigns clear responsibilities to senior executives, ensuring they are accountable for their areas within the firm.
2. **Conduct Standards:** Establishes common standards for all individuals in CF roles, with additional standards for senior role holders, considering further ethical conduct and integrity.
3. **Enhancements to the Fitness & Probity Regime:** Requires firms to certify annually that individuals in CF/PCF roles meet the necessary standards of fitness and probity.
4. **Enhancements to the Administrative Sanctions Procedure (ASP):** Empowers the CBI to take enforcement action directly against individuals breaching their legal obligations, including conduct standards.

Collectively, these components are intended to reinforce ethical standards, ensuring that

individuals are not only fit and proper at the time of their appointment, but it is designed to consider that their F&P remains and continues throughout their approved role holding.

### The Individuality Account Framework

The IAF emphasises individual accountability. By assigning specific responsibilities and conduct standards, the framework ensures that ethical considerations are personalised and owned, requiring individuals within an organisation to be accountable for their actions. This approach is intended to foster a culture where ethical behaviour is normal and expected, and deviations are not tolerated and are properly addressed.

#### Ethical Implications and Enforcement

The ethical lens of the F&P regime and the IAF extends beyond compliance; it transcends the different areas to include the full culture of financial institutions. By holding individuals accountable, the CBI aims to:

- **Promote Ethical Decision-Making:** Encourage individuals to make decisions that are not only legally compliant, but also ethically sound and proper.
- **Enhance Public Trust:** Build confidence among consumers, investors and all stakeholders that financial institutions operate with integrity.
- **Deter Misconduct:** Establish clear consequences for unethical behaviour, deterring potential misconduct.

To enforce these ethical standards, the CBI has established a dedicated F&P unit responsible for assessing role holder applications, to conduct interviews, and develop transparent service standards. This unit is aimed to ensure that the assessment process is both objective and subjective, incorporating supervisory judgment to evaluate an individual's ethical disposition effectively. There are decision review layers in place under the new structure. Improvements continue within the Central Bank to this aim.

### Industry Collaboration and Continuous Improvement

Recognising the dynamic and cross-sectoral nature of the financial sector here, the Central Bank engages in continuous dialogue with industry stakeholders to refine the F&P regime, including the aforementioned event occurring on 30 May. Recent reviews, some resulting from previous concerning approaches, including the Recommendations arising from the independent F&P review in July 2024, have led to Recommendations aimed at enhancing the transparency, efficiency, and fairness of the F&P regime. These include:

- **Clearer Standards:** Developing more objective criteria, such as specific qualifications and experience requirements, to assess proposed role holders' fitness and probity.
- **Enhanced Guidance:** Providing detailed guidance on the roles of executive and non-executive directors, as well as expectations for independent directors.
- **Improved Assessment Processes:** Establishing protocols for interviewing and assessing PCF applications, ensuring a comprehensive evaluation of an individual's ethical standards and agreeing to fair timeframes on this.

These enhancements continue, reflecting the CBI's commitment to fostering a culture of ethical behaviour and accountability cross-sectorally. Individual engagement measures continue in some sectors bilaterally with the CBI, as well as collective discussions via senior cross-sectoral representation on the CBI's Financial Forum and subgroups.

### Conclusion

The ethical foundation of Ireland's Fitness and Probity regime, supported by the IAF, underscores the importance of integrity and accountability in the financial sector. By setting clear ethical standards and holding individuals responsible for their conduct, the CBI aim to cultivate a financial environment here that not only complies with regulatory and legislative requirements, but also embodies the highest ethical principles, providing considered additional safety for all stakeholders.

This approach aims to maintain trust in the financial system, which is essential for the financial sector's stability and growth in Ireland. The CBI must instil appropriate and risk-based expectations based on mistakes of the past in financial services decision making, but in a much-changed financial services environment. As the financial services sector continues its development in innovative ways here, more can and will surely be done to keep the ethical lens in focus. F&P processes must be fully transparent and appropriate to properly serve all involved, particularly ultimately the consumers.

More to be seen in fitness and probity developments over coming months and years.