

A&O decision insight: Former Chief Executive of bank fined for failing to take “reasonable steps”

This decision insight considers the final notice issued by the Prudential Regulation Authority (PRA) in January 2024 to Iain Mark Hunter, the former Chief Executive Officer of Wyelands Bank plc.

The PRA fined Mr Hunter £118,808, having found that, during the relevant period (7 March 2016 to 28 May 2020), he breached the following PRA requirements:

- Individual Conduct Rule 2 (to act with due skill, care and diligence).
- Senior Manager Conduct Rule 1 (to take reasonable steps to ensure that the business of the firm for which the individual is responsible is controlled effectively).
- Senior Manager Conduct Rule 2 (to take reasonable steps to ensure that the business of the firm for which the individual is responsible complies with the relevant requirements of the regulatory system).

As part of the settlement reached, Mr Hunter undertook not to apply for or perform any function relating to any regulated activity.

The PRA’s action against Mr Hunter is only the third enforcement action concluded successfully by the FCA or the PRA against a senior manager for breaching the Individual or Senior Manager Conduct Rules since the senior managers regime (SMR) came into force in March 2016. It is the second enforcement action to tackle the issue of “reasonable steps” for the purposes of the Senior Manager Conduct Rules.

Background

Wyelands’ business

Wyelands Bank plc (Wyelands) was a Category 4 UK deposit-taker, authorised by the FCA and the PRA. In December 2016, Wyelands was acquired by a new shareholder (Shareholder) which owned a group of global businesses (Group).

Wyelands’ regulatory business plan said that it would offer short-term trade, receivable and supply chain financing options to small and medium-sized businesses with a focus on UK and global trade. Wyelands said that it would originate business from entities introduced by the Group, with a view to developing an independent origination function to expand into third party business. However, in practice, Wyelands’ business remained heavily reliant on the Group and entities introduced to it by the Group. In addition, Wyelands was reliant on the Shareholder and the Group for the supply of capital, including in relation to specific transactions that were introduced by the Group.

Structured transactions entered into by Wyelands

The large exposures regime under the Capital Requirements Regulation (575/2013) (CRR) (Large Exposures Regime) seeks to avoid risks to a firm’s financial stability by preventing concentration of a firm’s exposures to an individual third party or group of connected parties. As part of the large exposures regime, firms must monitor and control their large exposures and report them to the PRA. It also requires firms to avoid having a total exposure to an individual third party, a group of third parties or connected parties equal to or greater than 25% of their capital.

Between May 2017 and December 2018, Wyelands entered four sets of complex structured finance transactions (Structured Transactions). The value of each set of Structured Transactions represented a material portion of Wyelands’ loan book and a significant proportion of its capital. They also constituted material exposures to counterparties who were connected to the Group. Considering Wyelands’ size and experience, the PRA considered the Structured Transactions to be unusual in terms of their nature and scale.

PRA enforcement action against Wyelands

In April 2019, the PRA informed Wyelands that it had added Wyelands to the PRA Watchlist, as it had concluded there were several issues of potentially material concern at Wyelands which could present a risk to the PRA's objectives and required prompt remedial action. Shortly afterwards, the PRA imposed own initiative requirements (OIREQs) on Wyelands under section 55M of the Financial Services and Markets Act 2000 (FSMA) to prevent it from transacting with, and making further payments to, the Group and certain third parties introduced to it by the Group, and to also restrict it from accepting deposits from third parties.

A few months later, in December 2019, the PRA opened an enforcement investigation into Wyelands.

The PRA concluded its enforcement investigation into Wyelands in April 2023, finding that the Structured Transactions significantly exceeded and breached Wyelands' regulatory limits on large exposures and that Wyelands had not identified or reported this fact to the PRA.

The PRA issued a final notice in April 2023, censuring Wyelands for breaching Rules 3 (acting in a prudent manner), 5 (effective risk strategies and risk management systems), and 6 (organising and controlling affairs responsibly and effectively) of the PRA's Fundamental Rules, as well as various PRA rules relating to general organisational requirements, record keeping, risk control and related party transaction risk. The following findings gave rise to these breaches:

Systems and controls.

Wyelands failed to have in place sound administrative and accounting procedures, or adequate internal control mechanisms for the purposes of identifying, managing and reporting large exposures, including in relation to the Structured Transactions. Wyelands also failed to have in place adequate systems and controls to support its capital arrangements, resulting in it failing to identify that it had indirectly funded certain amounts it had received and treated as capital.

Sound judgement.

Wyelands failed to demonstrate sound judgement, exercise sufficient caution or take due account of all risks and possible consequences before entering into the Structured Transactions.

Inadequate resources.

Wyelands failed to ensure that it had appropriate resources to identify, monitor and take action to mitigate the risks associated with the Structured Transactions and to value its assets and liabilities.

Risk management.

Wyelands failed to put in place effective risk management strategies and systems to identify, assess and manage the risks presented by its business model, in particular connected party and related party risks in relation to large exposures which were demonstrated by the Structured Transactions.

Compliance with policies.

Wyelands failed to comply with internal policies which had been created to mitigate potential conflicts of interest arising from its connection to the Group, which were demonstrated by the Structured Transactions.

Compliance with OIREQs.

Wyelands failed to comply with the OIREQs on several occasions.

Document retention and record keeping.

Wyelands failed to put in place effective document retention and record keeping policies or procedures for its business that considered points such as the use of instant messaging applications (which Wyelands' senior management team used extensively for business-related communications, including in relation to the Structured Transactions).





Before the PRA concluded its enforcement investigation, Wyelands' board of directors (Board) resolved that Wyelands should commence a solvent wind down of its business with a view to repaying all amounts owing to depositors, which was completed successfully.

Facts

Mr Hunter was the Chief Executive Officer (CEO) of Wyelands Bank during the period 7 March 2016 and 28 May 2020 (Relevant Period), with responsibility for carrying out the management of the conduct of Wyelands' whole business. He was approved by the PRA to perform the SMF1 (Chief Executive) role. For some of the Relevant Period, Mr Hunter also performed other responsibilities:

- He performed the Chief Risk Officer (CRO) role for part of the Relevant Period and, between 7 March 2016 to 6 July 2017, and was approved by the PRA to perform the SMF4 (Chief Risk Officer) role. From 7 July 2017 to 5 November 2017, Wyelands did not have a CRO, meaning that Mr Hunter also retained responsibility for this function during that period.
- Following the resignation of Wyelands' Chief Financial Officer (CFO) on 24 July 2019, Mr Hunter assumed responsibility to the PRA for preparing and submitting accurate regulatory returns, although he was not approved by the PRA to perform the SMF2 (Chief Finance Officer) role.

Breaches

To determine whether Mr Hunter performed his CEO, CRO and CFO responsibilities to the standard to be expected of a person in his position and with his responsibilities and knowledge, the PRA considered:

- Mr Hunter's skills and experience, including that he was an "experienced financial services professional who had recently held CRO and CEO roles in another bank" and his familiarity with the systems and controls within Wyelands' Risk function.

- Mr Hunter's personal knowledge of and involvement in the Structured Transactions, as he was personally and closely involved in the negotiation and operation of the Structured Transactions.

The PRA found that Mr Hunter's conduct fell below the standard which would be reasonable in the circumstances for a person in his position to achieve and that he had breached the following requirements:

- Individual Conduct Rule 2: "You must act with due skill, care and diligence".
- Senior Manager Conduct Rule 1: "You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively".
- Senior Manager Conduct Rule 2: "You must take reasonable steps to ensure that the business of the firm for which you are responsible complies with the relevant requirements and standards of the regulatory system".

Each of these breaches is considered in more detail in the sections that follow.

Individual Conduct Rule 2: due skill care and diligence

The PRA found that Mr Hunter breached Individual Conduct Rule 2 because he failed to act with due skill, care and diligence in performing his roles at Wyelands in the following ways.

Compliance with relevant policy

In April 2017, Wyelands introduced a policy to manage potential risks of conflicts of interest between Wyelands and the Group (Engagement Policy). The Engagement Policy required requests by the Group for Wyelands to enter new business to be reported to the Board by Mr Hunter or another specific Wyelands employee, along with an outline of the rationale for the proposed transaction so Wyelands could assess its merits. It also required Wyelands to satisfy itself that it had the necessary skills, expertise and time to undertake the relevant transaction. However, Mr Hunter failed to comply with the Engagement Policy as he did not forward most of the requests received from the Group for Wyelands to embark on new business to the Board. The PRA identified what they described as “a significant number of... email chains” between Mr Hunter and Group representatives regarding transactions that Wyelands had entered into or was considering, none of which were shared with the Board, in breach of the Engagement Policy.

The PRA found that, partly because of Mr Hunter’s failure to comply with the Engagement Policy, the level of Group-related or introduced business that Wyelands was undertaking was less well documented, and therefore less clear, than would have been the case had Mr Hunter complied with the Engagement Policy. In addition, the PRA stated that, had Mr Hunter complied with the Engagement Policy, Wyelands would have been more likely to implement clear criteria to distinguish between business that involved or had been introduced by the Group and other third-party business. These points impacted certain statements that Mr Hunter made to the PRA about Wyelands’ business.

Adherence to governance arrangements

In relation to one of the Structured Transactions, Mr Hunter allowed Wyelands to acquire certain special purpose vehicles from the Group that were involved in the construction of power plants (SPVs) without Board approval, despite such approval being required by the Board’s terms of reference. There was no record of Wyelands’ non-executive directors even being aware of the SPVs until shortly before they were sold back to the Group and Board approval was also not sought for the sale of the SPVs (as was also required by the Board’s terms of reference).

The PRA stated that this failing was made more serious by the fact that Mr Hunter had become a director of the SPVs, meaning he had personal involvement in them. Before becoming a director of the SPVs, the PRA said that Mr Hunter should have established that Wyelands had obtained the required internal approvals to acquire the SPVs.

Accuracy of statements made to the PRA

The PRA found that Mr Hunter had failed adequately to verify the accuracy of statements he made about Wyelands in two letters he was responsible for sending to the PRA:

- On 27 April 2018, Mr Hunter wrote a letter to the PRA about the proportion of Wyelands’ business from its first year of operations which had comprised external lending, or business not introduced by the Group. He told the PRA that between 20% and 25% of Wyelands’ business had not been introduced by the Group. However, at this time, Wyelands did not clearly distinguish between transactions that were introduced by the Group and third-party business, meaning that Wyelands did not have a clear record of how much third party business it was conducting. Wyelands subsequently told the PRA that nearly all its business at this time involved the Group or entities introduced to it by the Group (which was consistent with the PRA’s own analysis), meaning that what Mr Hunter told the PRA in April 2018 was incorrect. The PRA found that Mr Hunter was aware that nearly all Wyelands’ business was with, or originally introduced to it by, the Group through his involvement in and awareness in that business. His failure to comply with the Engagement Policy contributed to others, including the wider Board, not having this level of awareness.
- In December 2018, the PRA raised queries with Wyelands about whether its exposures flowing from one of the Structured Transactions were “connected” for the purpose of the Large Exposures Regime. Following email exchanges and discussions between Wyelands and the PRA, on 7 January 2019, Mr Hunter wrote a letter to the PRA. In that letter, Mr Hunter stated that Wyelands had implemented systems and controls within its transaction approval processes to allow it to consider whether its counterparties were connected parties and that Wyelands had concluded that the Structured Transaction in question did not involve connected parties, meaning that it was not in breach of its large exposures limit. However, these statements were inaccurate. At this time, Wyelands did not have any formal systems or procedures in place to assess by reference to requirements of the Large Exposures Regime whether clients or potential clients were connected parties. In addition, in the same letter Mr Hunter referred to meetings with what he described as one of Wyelands’ regulatory compliance advisers. However, he failed to mention that this adviser was engaged by and paid for by the Group as opposed to Wyelands itself.



Senior Manager Conduct Rule 1: effective control

The PRA found that Mr Hunter breached Senior Manager Conduct Rule 1 because he failed to take reasonable steps to ensure that the management and conduct of Wyelands' business was controlled effectively, by failing to ensure that responsibility for conducting analysis of Wyelands' connected parties for the purposes of the Large Exposures Regime was clearly apportioned during the period prior to March 2019 when Wyelands entered the Structured Transactions.

Resources

Wyelands entered the Structured Transactions at an early stage in its development and they were unusual, in terms of their nature and scale, for a bank of Wyelands' size and experience. The PRA found that Wyelands lacked the appropriate resources or sufficient experience and expertise to ensure the proper identification and management of transaction counterparty risks (including connected parties' risks and related parties' risks for the purposes of the Large Exposures Regime) in relation to the Structured Transactions.

From Mr Hunter's perspective, the PRA found that, although he was involved in the negotiation and operation of the

Structured Transactions, he failed to adequately consider whether Wyelands had appropriate resources to competently undertake a large exposures analysis in relation to them. The PRA highlighted that Mr Hunter was responsible for doing so as CEO and CRO and that this analysis was also required by the Engagement Policy.

The PRA noted that Mr Hunter's failing in this respect was exacerbated by the fact that, in July 2018 and before Wyelands had entered into two of the Structured Transactions, the PRA wrote to Wyelands to highlight weaknesses in its risk management framework. In addition, Mr Hunter was aware of the limited number of Wyelands' employees whom he considered had sufficient expertise to undertake the Structured Transactions. Given the complexity of the Structured Transactions and the significant proportion of Wyelands' capital each represented, the PRA stated that it would have expected Mr Hunter to have taken particular care to assess the ability of Wyelands to competently undertake a large exposures analysis in respect of each Structured Transaction, especially after it wrote to Wyelands in July 2018 to express concerns.

Risk management: general responsibilities

Wyelands' overall strategy of relying on the Group and Group-introduced business meant that large exposures risks were inherent in its business model, meaning that it was important for these risks to be appropriately identified, mitigated and controlled.

The PRA distinguished between Mr Hunter's CEO and CRO responsibilities when describing its expectations of him in relation to risk management.

The PRA stated that Mr Hunter was required to oversee (as CEO) and manage (during the periods when he was CRO and held the CRO responsibilities) how in practice the large exposures risks to which Wyelands was subject were being appropriately identified, mitigated and controlled. The PRA concluded that Mr Hunter "applied insufficient focus" to these points.

Risk management: responsibilities as CRO

During the period when Mr Hunter was the CRO or held the CRO responsibilities, the PRA considered him to be directly responsible for the large exposures analysis that Wyelands conducted before entering into the Structured Transactions. As this analysis was flawed, the PRA found that Mr Hunter failed to:

- Take reasonable steps to ensure that Wyelands carried out an adequate large exposures analysis before entering into two of the Structured Transactions.

- Consider whether developments of which he was aware relating to two of the Structured Transactions should cause Wyelands to revisit its large exposures analysis and how those exposures were reported to the PRA.

The PRA described these failings as “particularly serious” given Mr Hunter’s personal involvement in the Structured Transactions and the size of those transactions considering Wyelands’ overall capital position.

Risk management: responsibilities as CEO

Throughout the Relevant Period, the PRA stated that Mr Hunter’s role as CEO meant that he was “required... to maintain appropriate oversight of a suitable risk management framework, provide general oversight of all [Wyelands’] activities and manage its day-to-day operations” as well as being required to take “reasonable steps to ensure [Wyelands’] compliance with regulatory filings and regulatory and capital requirements”. The PRA added that Mr Hunter’s familiarity with Wyelands’ systems and controls (both from his previous experience as a CRO of another bank and his personal knowledge of the Structured Transactions) “should have informed the level and intensity of oversight he was required to undertake in relation to the Structured Transactions”, which the PRA found was deficient. As evidence for these findings, the PRA referred to multiple

examples of where it felt Mr Hunter should have considered and discussed with Wyelands’ Risk function whether its large exposures analysis in relation to the Structured Transactions was correct, whether that analysis should be reconsidered and whether Wyelands may need to correct reports submitted to the PRA about its large exposures.

After Mr Hunter ceased to be the CRO, or hold the CRO responsibilities, the PRA stated that he was still required in his capacity as CEO to “continually and actively challenge [Wyelands’] Risk and Finance functions whether they had adequate systems and controls in place and whether those systems and controls were operating effectively”. The PRA noted that there was no evidence to suggest that Mr Hunter “was ever more than reactive to the problems that arose”.

Senior Manager Conduct Rule 2: compliance with regulatory requirements and standards

The PRA found that Mr Hunter breached Senior Manager Conduct Rule 2 because he failed to take reasonable steps to ensure that Wyelands complied with relevant requirements and standards of the regulatory system, namely those under the Large Exposures Regime and under the Record Keeping and Related Party Transaction Risk parts of the PRA Rulebook. To inform the standard of conduct expected of Mr Hunter under Senior Manager Conduct Rule 2, the PRA noted the following points:

- Mr Hunter was familiar with the Structured Transactions and was, or should have been, aware of the size of each Structured Transaction relative to Wyelands’ capital.
- Mr Hunter was aware of the size of Wyelands’ direct exposures to the Group and, therefore, that the Group had very limited ‘headroom’ before it breached the 25% large exposures limit in respect of its exposures to, or connected to, the Group.

- Mr Hunter was, or should have been, aware of weaknesses in Wyelands’ regulatory reporting processes and controls as these were identified in an internal audit report issued in January 2019.

Against this backdrop, the PRA described the effectiveness of Wyelands’ systems and controls in respect of identifying, analysing and monitoring connected and related party issues in respect of the Structured Transactions as “particularly important” given there was “limited scope for error before [Wyelands] would breach” its large exposures limit. Similar to its analysis in relation to Senior Manager Conduct Rule 1, the PRA distinguished between how Mr Hunter should have discharged his responsibilities under Senior Manager Conduct Rule 2 in his capacity as CEO and CRO, as well as when he assumed the responsibility previously held by the CFO for preparing and submitting accurate regulatory reports to the PRA.

Compliance: CFO responsibilities

Wyelands' CFO resigned on 24 July 2019, after which Mr Hunter assumed their responsibility for preparing and submitting accurate regulatory returns to the PRA. This responsibility involved Mr Hunter overseeing a process whereby Wyelands' Finance function prepared the returns and then verified them with an external professional firm. The returns were then signed off internally, ultimately by Mr Hunter. However, the external professional firm relied on how Wyelands had grouped connected parties for the purpose of its large exposures review and they were not asked to

separately validate this approach. As a result, Wyelands continued to submit large exposures returns to the PRA that failed to aggregate its exposures to the Group.

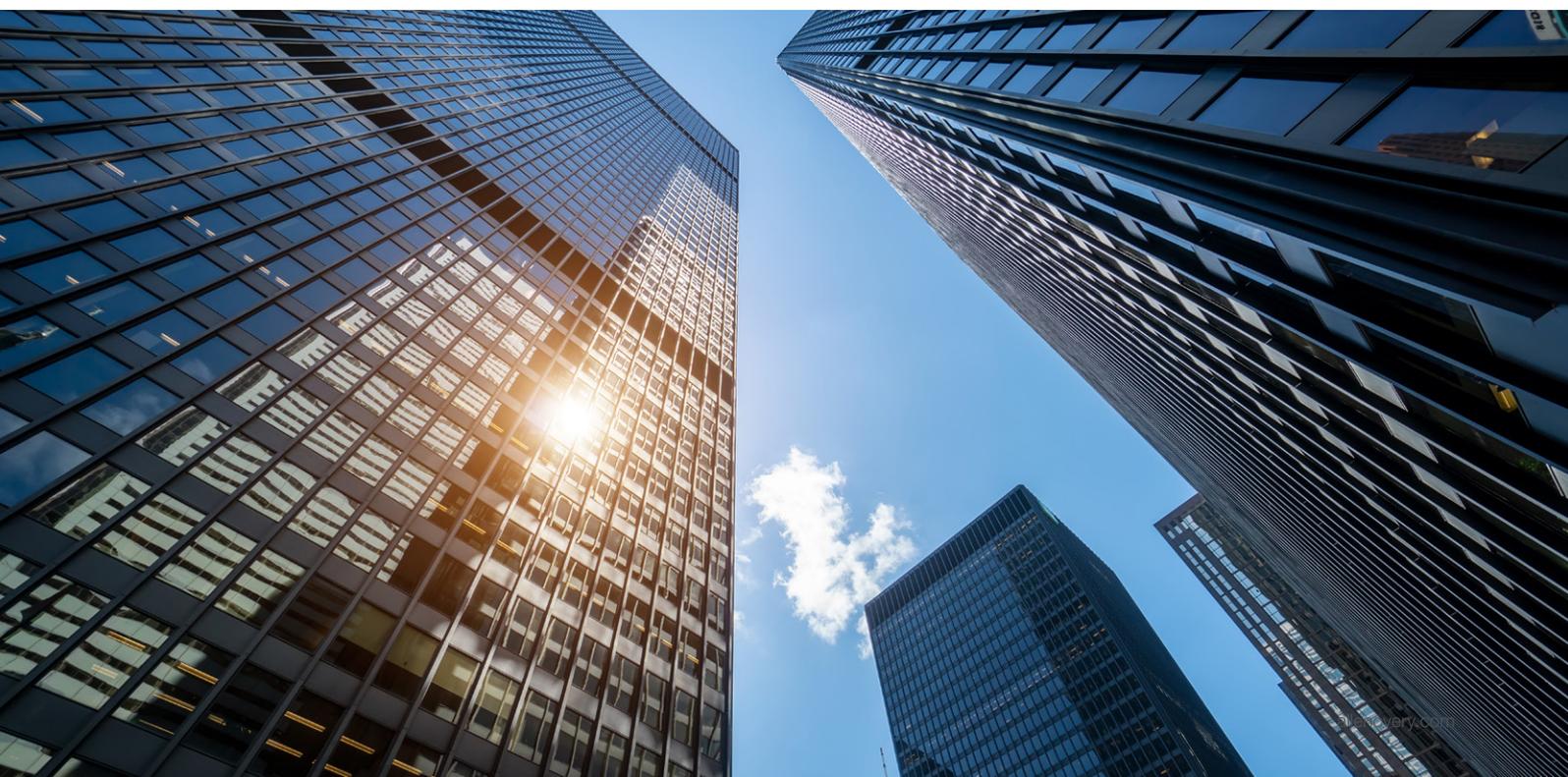
The PRA found that, during the period when Mr Hunter assumed responsibility to the PRA for preparing and submitting accurate regulatory returns, he failed to take reasonable steps to ensure that Wyelands submitted large exposures returns to the PRA in a way that aggregated properly its exposures to the Group.

Compliance: CRO responsibilities

During the period when he was the CRO and performed the CRO responsibilities, Mr Hunter was responsible for the overall management of Wyelands' risk controls, including the setting and management of its risk exposures and reporting directly to the Board in relation to its risk management arrangements. He also held the Prescribed Responsibilities for implementation and management of Wyelands' risk management policies and, together with Wyelands' CFO, managing Wyelands' systems and controls (including risk management systems and controls). In addition, as CRO Mr Hunter was responsible for advising on regulatory and capital requirements.

The PRA found that Mr Hunter failed to take reasonable steps to ensure that Wyelands had adequate systems and controls (including an appropriate connected parties policy) to identify, assess and manage connected parties risks in relation to large exposures and related parties risks, despite this issue being pointed out to him in writing by another employee in September 2017. This failure led to Wyelands breaching the 25% large exposures limit under the Large

Exposures Regime, failing to identify those breaches and failing to report them to the PRA. Following the PRA raising queries with Wyelands in December 2018 about possible connections between one of the Structured Transactions and the Group, Mr Hunter commissioned an external law firm to review Wyelands' policies procedures and practices relating to the assessment of connected parties. Following this review, Mr Hunter took steps to put in place formal policies and procedures on connected parties, to involve the Compliance function in connected parties' assessments and to strengthen the Compliance function. He also arranged for employees to receive training about connected party requirements and for there to be a retrospective review for potential unidentified connected parties across Wyelands' loan book. However, the PRA found that "as a result of the weakness in [Wyelands'] non-financial resources, the connected party tests it undertook... did not identify all the connections between the various parties to the Structured Transactions".



Compliance: CEO responsibilities

When describing its views on whether Mr Hunter discharged his obligations under Senior Manager Conduct Rule 2 as CEO, the PRA focused on Mr Hunter's responsibility for overseeing Wyelands' business, including overseeing it having a suitable risk management framework and taking reasonable steps to ensure that Wyelands complied with regulatory reporting and capital requirements.

In his capacity as CEO, the PRA found that Mr Hunter failed to take reasonable steps to ensure that Wyelands (and in particular its Risk and Finance functions) had adequate systems and controls to identify, assess, manage and report to the PRA, connected parties risks in relation to large exposures and related parties risks. This failure contributed to Wyelands breaching the 25% large exposures limit under the Large Exposures Regime in relation to at least some of the Structured Transactions. The PRA noted that for one of the Structured Transactions, Wyelands' due diligence, monitoring and recording keeping failures meant that neither Wyelands nor the PRA were unable to definitively conclude whether Wyelands complied with the 25% large exposures limit. The PRA classified this failing as "particularly serious" on the basis that another Wyelands employee had raised the issue in writing with Mr Hunter in September 2017. The PRA added that, given the scale of Wyelands' exposure to the Structured Transactions, Mr Hunter should have engaged

in close dialogue with the Risk function about whether its approach to large exposures analysis was correct.

In addition to his oversight responsibilities relating to compliance with the Large Exposures Regime, as CEO Mr Hunter was responsible for taking reasonable steps to comply with Wyelands' obligations in the Record Keeping part of the PRA Rulebook, which required Wyelands to have adequate systems, controls and policies for record keeping, as well as the retention and filing of all relevant correspondence and documents including client and transaction files. However, the PRA identified no evidence during the Relevant Period of Mr Hunter taking "any steps to consider or oversee the introduction of a formal and appropriate document retention policy".

The PRA repeated multiple times in its findings that Mr Hunter's role as CEO "did not extend to close oversight of [Wyelands' large exposures] analysis". However, the PRA said that Mr Hunter's responsibilities as CEO "did extend to a requirement for him to consider whether [Wyelands] had adequate systems and controls (including an appropriate connected parties' policy) to identify, assess and manage connected parties risks in relation to large exposures and related parties risks" but that there was no evidence to suggest that Mr Hunter did so.

Sanctions

The PRA fined Mr Hunter £118,808. When detailing its financial penalty calculation, the PRA noted that Mr Hunter had co-operated with its investigation (including flying from overseas to attend an interview in person with the PRA) and that he had no previously disciplinary or compliance record with the PRA. However, the PRA did not consider that these factors warranted a discount to Mr Hunter's financial penalty. Instead, the PRA decided to increase Mr Hunter's financial penalty by 10% "to achieve an effective deterrent to

senior managers of firms and to the regulated community more widely as to the high standards of regulatory behaviour required". Mr Hunter also received no early settlement discount. As part of the settlement with the PRA, Mr Hunter undertook to the PRA that he will not apply for or perform any function in relation to any regulated activity carried on by any authorised person, exempt person or exempt professional firm.

Comment

This is only the third enforcement action concluded successfully by the FCA or the PRA against a senior manager since the Senior Managers Regime (SMR) came into force in March 2016.

It is the second enforcement action to tackle the issue of "reasonable steps" for the purposes of the Senior Manager Conduct Rules.



Role of the CEO

In its findings about Mr Hunter, the PRA highlighted the particular importance of the CEO role. It described the CEO role as “crucial... in ensuring their firm meets the standards expected of it” and involving an individual who needed to “exercise sound judgement” being responsible for overseeing a firm’s entire UK business. When making these comments, the PRA expressly acknowledged that the standard of conduct it required of a CEO was “more exacting” than for other senior managers and employees.

Although these comments serve as a helpful reminder of the PRA’s view of the CEO role, they are not new. Similar points were made over a decade ago in *John Pottage v Financial Services Authority* (FS/2010/33), when the Upper Tribunal described a CEO as having a “unique position of oversight” who is “expected to assess the wider implications” of an issue for “the business as a whole” (paragraph 150).

A dual subjective and objective test for “reasonable steps”

To assess whether Mr Hunter discharged his regulatory obligations, the PRA adopted both subjective and objective tests to assess whether his conduct was reasonable. For example, the PRA considered Mr Hunter’s actual skills and experience and his familiarity with Wyelands’ systems and controls, as well as his personal knowledge of and involvement in the Structured Transactions. However, the PRA also considered what Mr Hunter should have known or could reasonably be expected to know.

This included what level of understanding it was reasonable to assume Mr Hunter had of the Large Exposures Regime and the Structured Transactions (even if he did not in fact possess that level of understanding), as well as what conclusions Mr Hunter should have drawn or warning signs he should have identified from specific facts (even if he did not in fact draw those conclusions).

Oversight vs management

Mr Hunter's failings cover how he performed his role as CEO throughout the Relevant Period, as well as how he performed his CRO and CFO responsibilities for parts of the Relevant Period. His range of responsibilities, especially those associated with the CEO and CRO aspects of his role, highlights the PRA's different expectations of individuals performing those roles:

Oversight

When discussing its expectations of Mr Hunter as CEO, the PRA focused on oversight. In particular, the PRA highlighted Mr Hunter's responsibility as CEO to:

- maintain general oversight of Wyelands' business activities and to manage its day-to-day operations; and
- tailor the level and intensity of his oversight between different business areas and types, according to their risk profiles.

Importantly, the PRA acknowledged that Mr Hunter's responsibilities as CEO did not extend to him being required to exercise "close oversight" of specific processes that fell within the remit of others (in this case, principally the technical large exposures analysis process that the Risk function was responsible for). Rather, the PRA said that, in his capacity as CEO, Mr Hunter was expected to consider and actively challenge whether teams (in this case, the Risk and Finance functions) had adequate systems and controls in place and whether those systems and controls were operating effectively.

Multiple relevant roles

Mr Hunter is the only individual at Wyelands against whom the PRA has taken enforcement action. This case is perhaps unusual as Mr Hunter performed some or all of the responsibilities of the CEO, CRO and CFO roles at various points during the Relevant Period, as opposed to different individuals performing those responsibilities throughout the Relevant Period.



Sarah Hitchin

Partner – London

Tel +44 20 3088 3948

sarah.hitchins@allenoverly.com

Management

When discussing its expectations of Mr Hunter when he was the CRO or during the period when he was performing CRO responsibilities, the PRA focused on active management. In particular, the PRA focused on Mr Hunter's responsibility to:

- manage whether and how Wyelands' large exposures risks were being appropriately identified, mitigated and controlled, including through the implementation of adequate systems, controls, policies and procedures; and
- take reasonable steps to ensure that Wyelands carried out adequate large exposures analysis before entering into the Structured Transactions and to take reasonable steps to ensure that analysis (and how it had been presented to the PRA) was revisited as and when required.

This distinction that the PRA drew between Mr Hunter's oversight (as CEO) and management responsibilities (as CRO) helps to clarify the regulatory expectations of an individual (such as the individual performing the SMF1 (Chief Executive) or SMF19 (Head of Overseas Branch) role) who holds a management position at or close to the apex of a local management structure, which involves them covering a broad range of business areas and functions, versus the regulatory expectations of an individual who holds a business area or function-specific role.

However, the way in which the PRA delineated its expectations of, and findings about, Mr Hunter's performance of these responsibilities demonstrates how in certain cases (especially those involving issues relating to systems and controls) responsibility for those issues is unlikely to rest with a single senior manager.