

Fit and Proper Test Framework

Template

Fit and Proper Test Framework – using the template

Documenting your analysis and findings

The Fit and Proper Test (FPT) Framework provides best practice guidance on using and designing these tests.

It can be used with a single FPT, or it can be used when designing and reviewing permissions more broadly.

Use this template to document analysis and key findings. Attach these to briefings and cabinet submissions.

Share a draft with stakeholders including Department of Treasury and Finance to support consultation.

Suggested approach

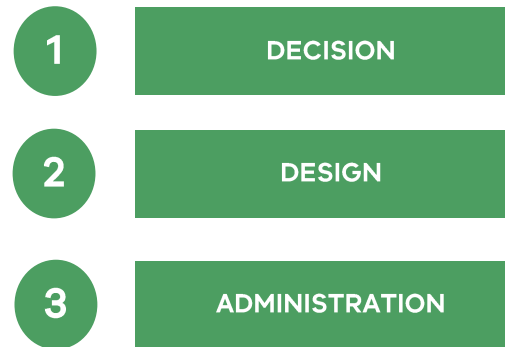
1. Scope reform context and gather background information
2. Hold workshop to work through the Guide with policy and regulatory teams
3. Capture key content from each stage on page 2
4. Complete the summary on page 1, and use one or both pages to support your further engagement and briefings.

Need help? Contact DTF Regulation Group

What is the FPT Framework?

- Principles and common terms
- Three-stage process
- Complements other guidance
 - Victorian Guide to Regulation
 - Victorian Permissions Framework
 - Permissions practices and digitisation

FPT Framework Stages



FPT Framework

Key concepts, objectives, rationale

FPT Guide

Steps and key questions

Applying the FPT Framework - Summary

Findings	Rationale
Stage 1 – Decide if a FPT is warranted <ul style="list-style-type: none">• [key finding/reform]• [key finding/reform]	<ul style="list-style-type: none">• XX• XX
Stage 2 – Design FPT <ul style="list-style-type: none">• [key finding/reform]• [key finding/reform]	<ul style="list-style-type: none">• XX• XX
Stage 3 – Implement FPT <ul style="list-style-type: none">• [key finding/reform]• [key finding/reform]	<ul style="list-style-type: none">• XX• XX

Fit and proper test framework

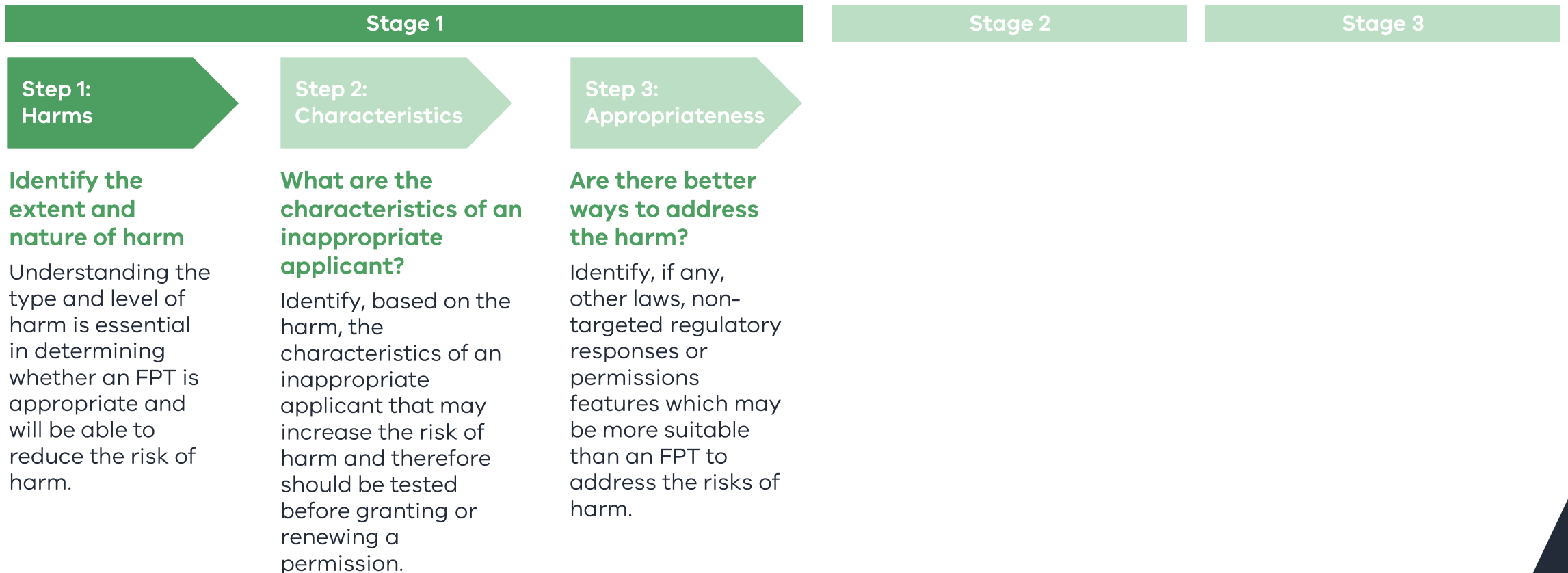
Summary assessment – [insert subject title]

What are the regulatory arrangements and problems prompting this review?

Stage 1: Decision

The purpose of Stage 1 is to determine if an FPT is an appropriate measure to reduce the risk of harm.

An FPT should only be considered if characteristics of applicants are closely connected to the risks of harm and the likelihood and consequence of harm from inappropriate applicants undertaking the activity are so high that applicants must be pre-screened to prevent this outcome.



1.1 Nature and extent of harm

Stage
1

Step 1:
Risks

What harm(s) are you seeking to manage?

Prompts

Who will the harm affect?

How does the harm affect them?

In what situations does it result in harm?

Why does the harm occur?

Is there more than one harm you are seeking to manage?

1.1 Nature and extent of harm

Stage
1

Step 1:
Risks

What is the likelihood and consequences of negative outcomes occurring?

Prompts

What is the likelihood of negative outcomes? (see next slide)

What is the reason for classifying the likelihood in the way stated?

What is the consequence if those outcomes occurred? (see next slide)

What is the reason for classifying the consequence in the way stated?

Likelihood and consequence of harm

Stage
1

Step 1:
Risks

Measuring risk of harm

The first step in Stage 1 is to assess the risk of harm requires assessing both the likelihood of negative outcomes and the scale of impact if those outcomes occurred. Using a risk matrix can help with this assessment, where risk = potential impact x likelihood of occurrence. Risk assessment is further discussed in the **Victorian Permissions Framework Guide 1** and the **Victorian Government Risk Management Framework**.

<div>Permanent or long-term serious harm with a large scale of impact e.g.,<ul style="list-style-type: none">impairment or loss of ecosystem system functionloss of human liveswidespread exposure to harmful substancesfinancial system failure</div> <div>Serious harm but limited duration or scale of impact e.g.,<ul style="list-style-type: none">security of significant food source threatenedsevere economic costs for small set of consumersworkplace injuries resulting in hospitalisation</div> <div>Medium level of harm over long period or with large scale of impact e.g.,<ul style="list-style-type: none">local environment damage requiring remediationconsumers unable to access essential servicesinnovation will not be rapid</div> <div>Low levels of harm imposed e.g.,<ul style="list-style-type: none">slight increase in wait times for some services</div>		<div>Consequence</div>	Severe	High	High	Significant	Significant
			Major	Medium	High	High	Significant
			Moderate	Medium	Medium	Medium	High
			Minor	Low	Low	Medium	High
<div>Risk level</div>	<div>Description</div>		Unlikely	Possible	Likely	Almost certain	
Significant			Likelihood				
High			Not likely to happen	May happen at some time	Expected to happen at some time	Expected to occur often	
Medium							
Low							

1.1 Nature and extent of harm

Stage
1

Step 1:
Risks

Do all applicants need to be pre-screened?

Prompts

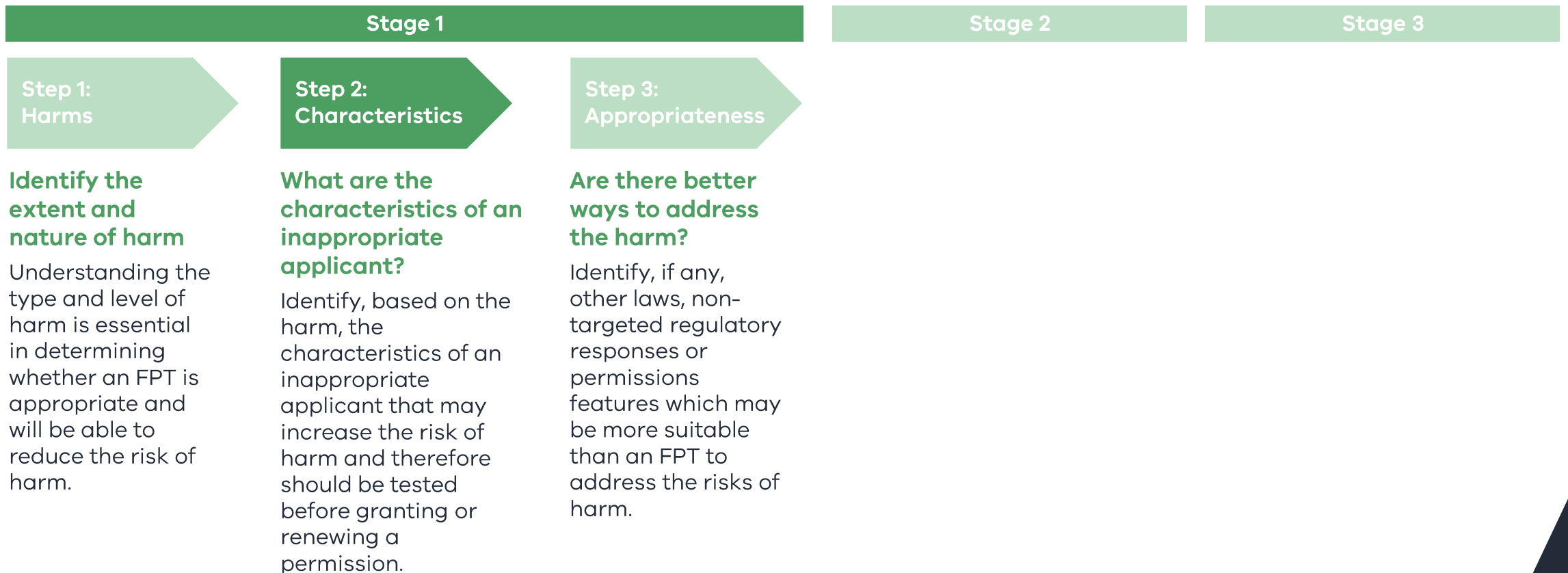
Is the harm classified as high risk? (see previous slide)

Based on this classification does it make sense that all applicants are pre-screened?

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1.2 (A) Identify characteristics

Stage
1

Step 2:
Characteristics

What are the characteristics of inappropriate applicants?

Identify relevant characteristics using the table below

Characteristic assessed	Relevant?	Why is this characteristic relevant?
Previous compliance with regulation.		
Disqualifications, bans or prohibition from undertaking an activity or holding a position.		
Suspensions or cancellations of previous permissions.		
Disciplinary action in response to misconduct.		
Prior and current criminal convictions or offences.		
Appropriate financial circumstances.		

1.2 (A) Identify characteristics

Stage
1

Step 2:
Characteristics

What are the characteristics of inappropriate applicants?

Identify relevant characteristics using the table below

Characteristic assessed	Relevant?	Why is this characteristic relevant?
Appropriate financial circumstances, including insurances.		
Past bankruptcy and current solvency.		
Information that identifies associates of an individual.		
Physical and mental capability to perform activity.		

1.2 (B) Characteristics analysis

Stage
1

Step 2:
Characteristics

Are relevant characteristics linked to increase risk of harm?

Please complete the table for the relevant characteristics

Characteristic assessed	Relevant?	How is the characteristic linked to the risk of harm?
Previous compliance with regulation.		
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Suspensions or cancellations of previous permissions.		
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Stage
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Stage
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Stage
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1.2 (C) Characteristics summary

Stage
1

Step 2:
Characteristics

Are relevant characteristics linked to increase risk of harm?

Please complete the table for the relevant characteristics.

Characteristic assessed	Objective and measurable? Yes/No	Can be assessed transparently? Yes/No
Previous compliance with regulation.		
Disqualifications, bans or prohibition from undertaking an activity or holding a position.		
Suspensions or cancellations of previous permissions.		
Disciplinary action in response to misconduct.		
Prior and current criminal convictions or offences.		
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1.2 (C) Characteristics summary

Stage
1

Step 2:
Characteristics

Are relevant characteristics linked to increase risk of harm?

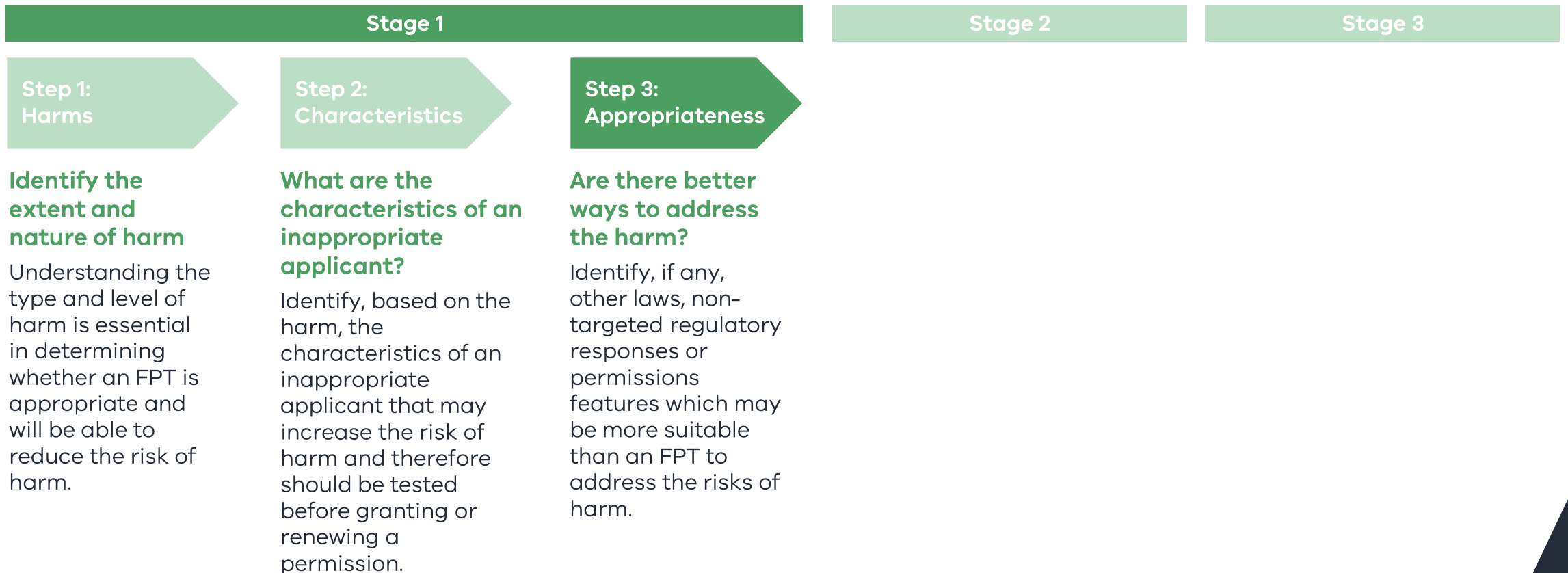
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Stage 1: Decision

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1.3 Alternative approaches

Stage
1

Step 3:
Appropriateness

Are there better ways to address the harm?

Prompts

Are there existing laws or targeted non-regulatory responses that address the risk of harm? If yes, specify.

Are there existing permission features that address the risk of harm? If yes, specify.

Are there other permissions features that may be developed to better address the risks of harm identified?

If FPT is the best option, why is FPT a more suitable option to address the harm compared to other mechanisms?

Fit and proper test framework

Summary assessment – [insert subject title]

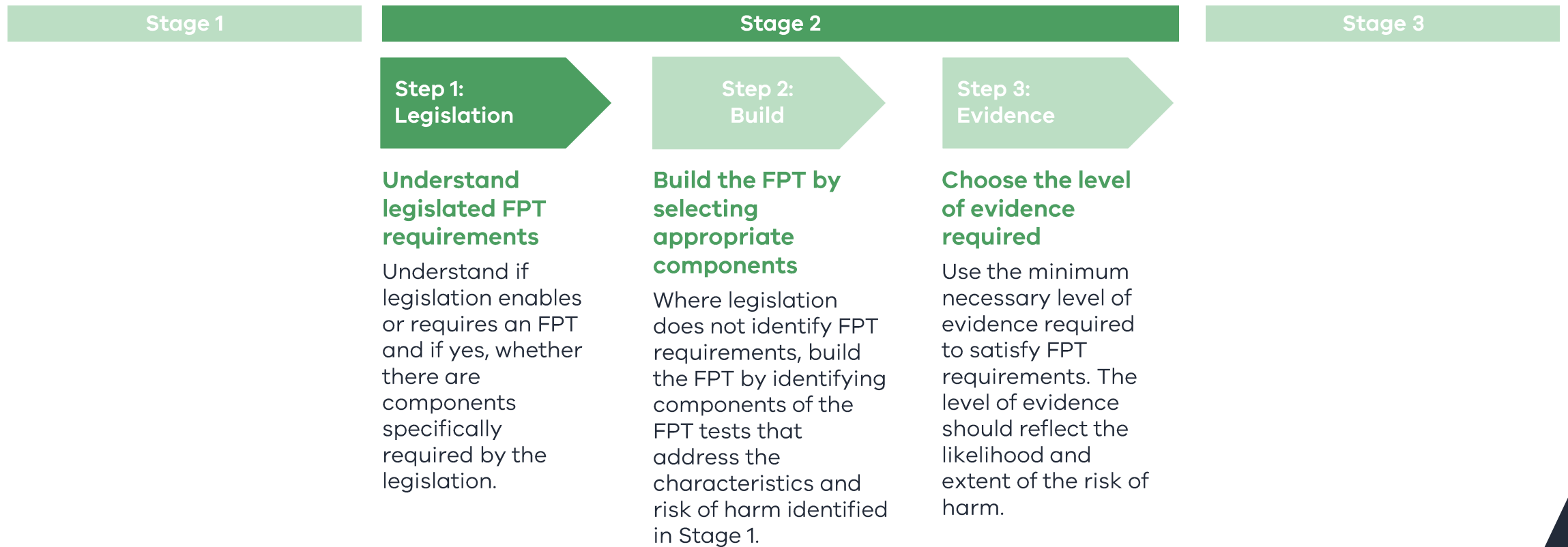
Conclusions and recommendation

Outline key findings and proposals for reform.

Stage 2: Design

The purpose of Stage 2 is to determine the optimal design of the FPT.

FPTs should be designed in legislation and should only test components which are directly related to the risk of harm. Evidentiary requirements should be minimal to satisfy the level of risk being managed.



2.1 Legislation

Stage
2

Step 1:
Legislation

What is your legislative environment?

Prompts

Does legislation enable an FPT for the permission?

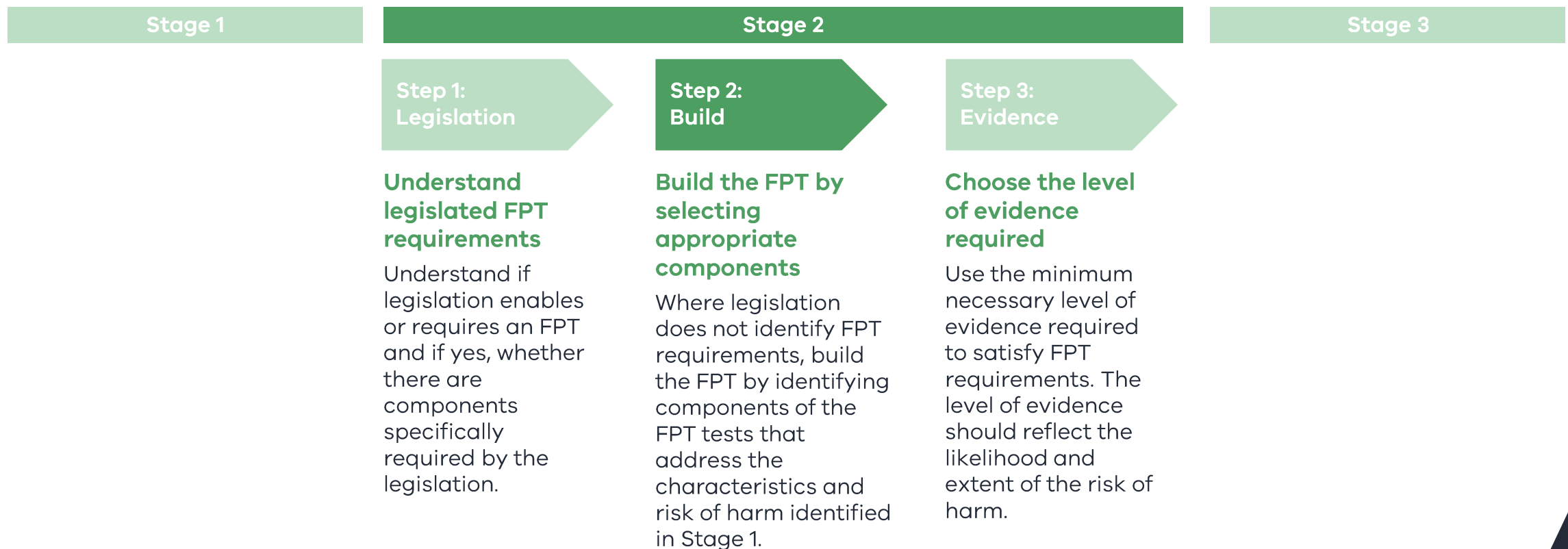
Does the legislation specify the requirements that the regulator should consider when conducting an FPT?

Is legislative reform underway or anticipated which may affect whether an FPT should be applied and how?

Stage 2: Design

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FPTs should be designed in legislation and should only test components which are directly related to the risk of harm. Evidentiary requirements should be minimal to satisfy the level of risk being managed.



2.2 Building your FPT

Stage
2

Step 2:
Build

Prompts

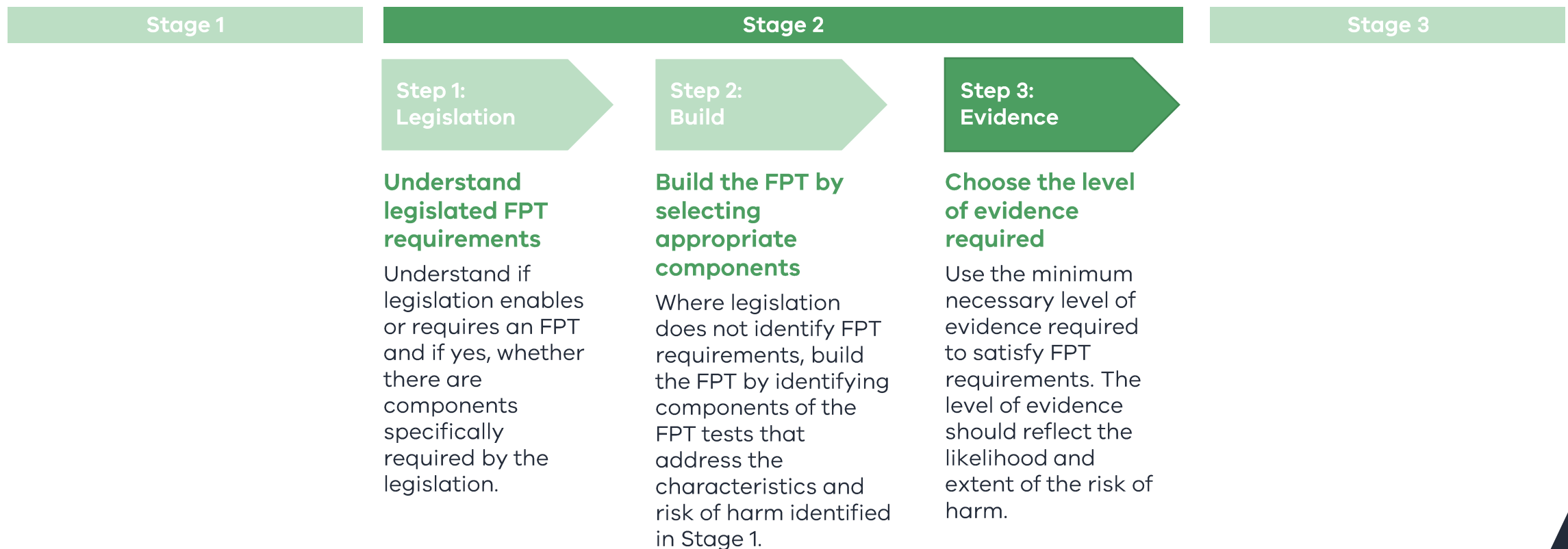
Key questions from framework

- *What characteristics are being managed by the permission?*
- *What components of an FPT may be selected to screen applicants for these characteristics?*
- *Are any of the components of the existing or proposed FPT not necessary to control the risk of harm?*

Stage 2: Design

The purpose of Stage 2 is to determine the optimal design of the FPT.

FPTs should be designed in legislation and should only test components which are directly related to the risk of harm. Evidentiary requirements should be minimal to satisfy the level of risk being managed.



2.3 Evidence

Stage
2

Step 3:
Evidence

What evidence is required to effectively prove Fit and Proper Status?

Prompts

What level of assurance do you need for applicant characteristics?

How far back in an applicants history do you need to go?

Is the level of evidence required for the FPT the minimum necessary required to satisfy each required element of the FPT and its level of assurance?

2.2 Build

Stage
2

Step 2:
Build

What components are required to effectively respond to harm?

Prompts

What characteristics are being managed by the permission?

What components of an FPT may be selected to screen applicants for these characteristics?

Are any of the components of the existing or proposed FPT not necessary to control the risk of harm?

Document version control

This Fit and Proper Test Template will be expanded and continuously improved over time.

Version	Date	Description of changes
1	July 2024	Initial publication