



Thematic assessment

Embedding an effective conduct-focused culture in wholesale market firms.





Introduction

In June 2023, the Central Bank published a thematic assessment examining the approach taken by firms’ Boards and their senior management to foster and embed an effective conduct-focused culture in Wholesale Market Firms. This follows the Central Bank’s increased focus on conduct risk and culture in recent years, with the 2019 Wholesale Market Conduct Risk Industry publication and the 2023 Securities Markets Risk Outlook Report outlining the importance of fully embedded effective wholesale market conduct risk frameworks.

The Central Bank’s thematic assessment evaluated firms’ market conduct risk management frameworks to support and enable firms’ Boards and senior management to deliver an effective conduct-focused culture, studying a cross sector cohort of firms engaged in Markets in Financial Instruments Directive (MiFID) activities.

Key Findings and Observations

The Central Bank identified a number of areas firms must work on to ensure that the desired culture is effectively embedded into their day-to-day operations, supporting governance arrangements and control frameworks. The key findings are set out below:

- 01.** Board and senior management discussion and challenge of conduct risk and culture requires improvement. This is compounded by often deficient Management Information (MI) and reporting, inhibiting the ability of the Board to manage market conduct risk and promote an effective conduct-focused culture.
- 02.** Responsibilities for managing and mitigating market conduct risk are not reliably conveyed in the role profiles and objectives for senior management, inhibiting accountability.
- 03.** The onset of hybrid working has required the review of governance and control frameworks to ensure these are sufficiently robust to manage emerging conduct risks.
- 04.** Boards and senior management should consider how they can enable an inclusive “speak-up” culture that fosters and promotes an environment where staff can raise concerns.

The report set out a number of considerations for firms within the scope of 5 main themes, as set out below:

Key area	Key considerations
Leadership and decision making	<ul style="list-style-type: none"> • The assessment observed that Boards have made positive efforts in setting their firm culture. • However, firms should develop a Board approved culture strategy to formalise how they will embed their own desired culture and in particular how it aligns with strategy, market conduct, risk management frameworks and processes. • A key driver of effective cultural and market conduct practices are leaders who act as “cultural carriers”, embodying a firm’s values and leading by example in their day-to-day work; this extends to all levels of management and Independent Non-Executive Directors (INEDs) • Conduct risk should be a key consideration when making strategic decisions. It is critical that Boards consider conduct risk when making strategic decisions and how these decisions integrate with the firms desired culture, values and risk appetite statements.
Governance structures	<ul style="list-style-type: none"> • Boards and senior management should take active ownership of the governance of market conduct risk; this includes ensuring that the firm has effective frameworks in place to identify and manage such risks
Identification, assessment and monitoring of conduct risk & culture	<ul style="list-style-type: none"> • Boards and senior management should be proactive and ensure that they are provided with appropriate, timely MI and reporting to ensure sufficient oversight of market conduct risk • Firms should consider practices such as extrapolating from existing MI information to provide better reporting. An example of this would be using the number of self-reported breaches as a cultural indicator of the willingness of staff to speak up • Firms should also consider consolidating MI and reporting into a dashboard style reporting mechanism to provide senior management with a clear single view on conduct and culture
Responsibilities and expected behaviours	<ul style="list-style-type: none"> • Firms should consider reframing their outlook on error management from prevention to instead exploiting errors as opportunities for improvement and communicating these learnings to staff • Firms should ensure that responsibilities for managing and mitigating market conduct risk are communicated in role profiles and objectives for senior management in order to prevent a lack of accountability • Conduct and culture should be considered in the composition of performance management frameworks
Speak-up culture	<ul style="list-style-type: none"> • Firms should avoid relying on group protected disclosure policies with no information on provisions specific to the local Irish entity, and ambiguous language in related communications • Firms should ensure that protected disclosure policies clearly call out obligations on Pre-approval Control Functions (PCFs) to disclose certain information to the Central Bank and to have in place protected disclosure policies and frameworks that clearly and comprehensively set out the mechanisms available for raising a concern • Boards should consider how they foster awareness and understanding of these frameworks and reinforce to staff a culture of psychological safety when speaking up
Hybrid working	<ul style="list-style-type: none"> • Firms should consider how they can adapt their market conduct risk management framework to manage the risks emanating from a hybrid-working model and specifically put in place sufficient arrangements to ensure it can continue to meet its regulatory obligations • Firms should consider enhanced market conduct risk identification exercises conducted on a regular basis to identify risks or issues that may impact the firm’s conduct risk profile



How can KPMG help?

Market misconduct has been a recurring theme in financial markets for many years. While the challenges of managing wholesale conduct are significant, firms are continuing to develop ways to mitigate the risk more effectively and to embed sustainable change in front office, oversight functions and key support teams.

KPMG's Risk & Regulatory Consulting team is at the forefront of this effort, working with the largest financial service firms supporting them to manage conduct risk. We have an in-depth understanding of regulations, industry standards and emerging good practice.

We incorporate the latest global thinking into the provision of our services in the financial services sector and provide best practice advice.

KPMG's conduct risk and culture professionals can help financial services organisations transform regulatory compliance and consumer / investor protection into a strategic business advantage.

We have significant experience across a wide variety of industries in the following:

- ✓ Provide guidance on regulatory expectations and industry practice in terms of what a comprehensive wholesale conduct risk framework looks like
- ✓ Assist with design and implementation of a wholesale conduct risk framework
- ✓ Provision of wholesale conduct risk training to Board, senior management teams or other teams within your organisation (using wholesale conduct risk scenarios as a basis of the training)
- ✓ Using KPMG's conduct risk framework (which is built on six core areas for successful conduct risk framework), assess the completeness and effectiveness of the organisations wholesale conduct risk framework and identify any gaps and make recommendations
- ✓ Assess a firm's Board dynamics and effectiveness
- ✓ Design wholesale conduct risk Management Information Dashboard which can feed into the firm's overall risk reporting (this includes triggers and early warnings)
- ✓ Advise firms on their Individual Accountability requirements and partner with firms in implementing this regime
- ✓ Assess how a firm manages errors from identification / classification to resolution and read across / root cause analysis
- ✓ Assessing a firm's culture and behaviours using our scientific culture model (which has been adopted by the Dutch National Bank). A key element of this framework is how firms identify, escalate and manage conduct risks
- ✓ Design a behaviours and culture framework for organisations to allow them to conduct regular reviews and assessments
- ✓ Raise awareness of risk culture at all levels (in-depth interviews, board dynamic scans)
- ✓ Identify culture and behaviour drivers and link to both qualitative and quantitative MI to aid assessment and triggers

Contact us

If you have any queries, please reach out to any of our team – we'd be delighted to hear from you.



Gillian Kelly
Head of Consulting
KPMG in Ireland
t: +353 87 744 1120
e: gillian.kelly@kpmg.ie



Jorge Fernandez Revilla
Head of Asset Management
KPMG in Ireland
t: +353 87 744 2776
e: jorge.revilla@kpmg.ie



Yvonne Kelleher
Managing Director
KPMG in Ireland
t: +353 87 050 4349
e: yvonne.kelleher@kpmg.ie



Áine MacDonnell
Director
KPMG in Ireland
t: +353 87 050 4234
e: aine.macdonnell@kpmg.ie



[kpmg.ie](https://www.kpmg.ie)

© 2023 KPMG, an Irish partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name and logo are registered trademarks of KPMG International Limited ("KPMG International"), a private English company limited by guarantee.

If you've received this communication directly from KPMG, it is because we hold your name and company details for the purpose of keeping you informed on a range of business issues and the services we provide. If you would like us to delete this information from our records and would prefer not to receive any further updates from us please contact unsubscribe@kpmg.ie.

Produced by: KPMG's Creative Services.
Publication Date: June 2023. (9426)