## Elements of Conduct Risk

### Components of conduct risk

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<th>Culture</th>
<th>Conduct risk framework</th>
<th>Strategy and business model</th>
<th>Conduct risk tools</th>
<th>MI and reporting</th>
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<tr>
<td>A firm’s culture must drive, enable and empower its employees if it is to avoid poor customer and market outcomes.</td>
<td>Firms should manage their conduct risk within an established risk management framework and target operating model that is embedded in the business.</td>
<td>The strategy and business model and its execution should reflect customer and market outcomes and should be assessed regularly to identify how conduct risk manifests.</td>
<td>Tools and approaches across the business lifecycle to support the delivery of the conduct risk framework and facilitate successful customer and market outcomes.</td>
<td>MI should provide a current and forward-looking perspective on conduct risk exposures to allow the business to proactively identify and manage conduct risks.</td>
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### Our views on how firms should approach conduct risk management

- Firms should have conduct-centric values and principles at the heart of their business.
- The right tone has to be set at the top and values should be cascaded throughout the firm.
- Individuals should be empowered to do the right thing and there should be real consequences for individuals that exhibit the wrong behaviours.
- Objectives, measures, training, reward and recognition arrangements should clearly reflect focus on good conduct.
- Control functions should be empowered to stop wrong behaviours.

- Firms should formally define conduct risk and establish a conduct risk appetite statement that includes qualitative and quantitative tolerances.
- Firms should implement a conduct risk framework, aligned with the wider risk management framework, that determines how conduct risk is managed by the business.
- Conduct risk governance should be established, either within or aligned to existing governance structures.
- The business should own the management of conduct risk.
- The second line should establish the risk management framework for conduct risk and provide oversight of it.

- Firms should have a clear understanding of the inherent conduct risks arising from their business model and strategy.
- The strategic planning process should explicitly take into account the potential impact on customer and market.
- The business model and strategy should be aligned to the firm’s conduct risk appetite.
- There should be a regular assessment of the inherent conduct risks arising from the business model and strategy.
- Where there are conduct risks inherent in the strategy and business model, firms need to take action in respect of these whether it be creating controls or refraining from activity.

- A range of conduct risk tools may be required to assess and manage conduct risk across the business lifecycle:
  - Business model and strategy
  - Governance and controls
  - Product design
  - Sales and transaction process
  - Post-sales handling
- Conduct risk tools may already exist within the business but should be refreshed to integrate with the conduct risk management framework.

- MI should identify emerging risks not just crystallised issues.
- Reporting should drive the Board and senior management to have meaningful discussions on the most material conduct risks.
- Conduct Risk MI should evolve over time, reflecting the changing risk profile of the business.
- Metrics should provide a view on the performance of the business against the risk appetite.
- MI should be provided in a usable format and at an appropriate level of detail.