Elements of Conduct Risk

Components of conduct risk

Culture	Conduct risk framework	Strategy and business model	Conduct risk tools	MI and reporting
A firm's culture must drive, enable and empower its employees if it is to avoid poor customer and market outcomes.	Firms should manage their conduct risk within an established risk management framework and target operating model that is embedded in the business	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	Tools and approaches across the business lifecycle to support the delivery of the conduct risk framework and facilitate successful customer and market outcomes.	MI should provide a current and forward-looking perspective on conduct risk exposures to allow the business to proactively identify and manage conduct risks

Our views on how firms should approach conduct risk management

Culture

- 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

Conduct risk framework

- 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

Strategy and business model

- 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

Conduct risk tools

- 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 and reporting

- 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 useable format and at an appropriate level of detail