



'5 Conduct Questions'

Industry Feedback for 2019/20 Wholesale Banking Supervision

September 2020



The FCA published its latest annual report for its *5 Conduct Questions Programme* based on Conduct Roundtable sessions with front to back functional representatives across 18 wholesale banks. The key feedback areas of this report are set out below:

→ The 5 Conduct Questions

02 How do you encourage the individuals who work in the front, middle, back office, control and support functions to feel and be responsible for managing the conduct of their business?

03 What support (broadly defined) does the firm put in place to enable those who work for it to improve the conduct of their business or function?

04 How does the Board and ExCo (or appropriate senior management) gain oversight of the conduct of business within their organisation and, equally importantly, how does the Board or ExCo consider the conduct implications of the strategic decisions that they make?

01 What proactive steps do you take as a firm to identify the conduct risks inherent within your business?

05 Has the firm assessed whether there are any other activities that it undertakes that could undermine strategies



→ FCA Feedback and Considerations

Focus areas



FCA Feedback



Considerations for Senior Management



Identification & Awareness



- The overall ability to identify conduct risks remains weak.
- There is a high level understanding of topic areas such as conflicts of interest, material non-public information, suitability, fairness to customers, diversity and inclusion and non-financial misconduct.
- There is a lack of awareness of certain conduct topics including enabling client misbehaviour, failure to train or be trained, 'Know Your Client' gaps, new risks arising from automation (robots or artificial intelligence), the impact of Libor transition as well as new risks arising from remote working

- How does your firm's overall framework identify, raise awareness and mitigate existing and emerging conduct risks? For example; Libor transition, remote working, evolving technologies in the algorithmic space.
- What exercises does your firm's framework have in place to fully understand conduct risks?

Behavioural MI & Performance



- Leading firms are making good use of trend data on staff performance around behaviour. This enables the fine tuning of training and promotes selected cultural and behavioural aspirations.
- Promotions still seemed to be awarded solely on what was delivered, despite an individual's behaviour being described as far from perfect. For some, the actual promotion criteria and decision-making has been called into question.

- How is your firm currently using conduct as measure to assess performance?
- Can you firm demonstrate through behavioural MI that there is an improvement in conduct?

Training



- The importance of infrastructure and training initiatives should go beyond policy and process and mere adherence in order to make it clear to staff why such obligations matter.

- How does your firm ensure conduct training remains relevant to the firms business model and emerging conduct risks?

Purpose / Values



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- Are messages from the top aligned to specific individuals and businesses across the firm?
- Does your firm reward good conduct behaviour?

Whistleblowing



- Whistleblowing and other escalation channels remain largely unused and are reserved for the most serious cases.
- Speaking up varies significantly between firms as well as between different parts of the same firm.
- Significant lack of psychological safety when it comes to employees speaking up and providing challenge must be addressed.

- How is your firm identifying potential misconduct and providing support to employees in raising concerns?

→ How KPMG can help

Leveraging KPMG's 'Conduct Risk Framework' we can help you by undertaking the following:

Peer Benchmarking

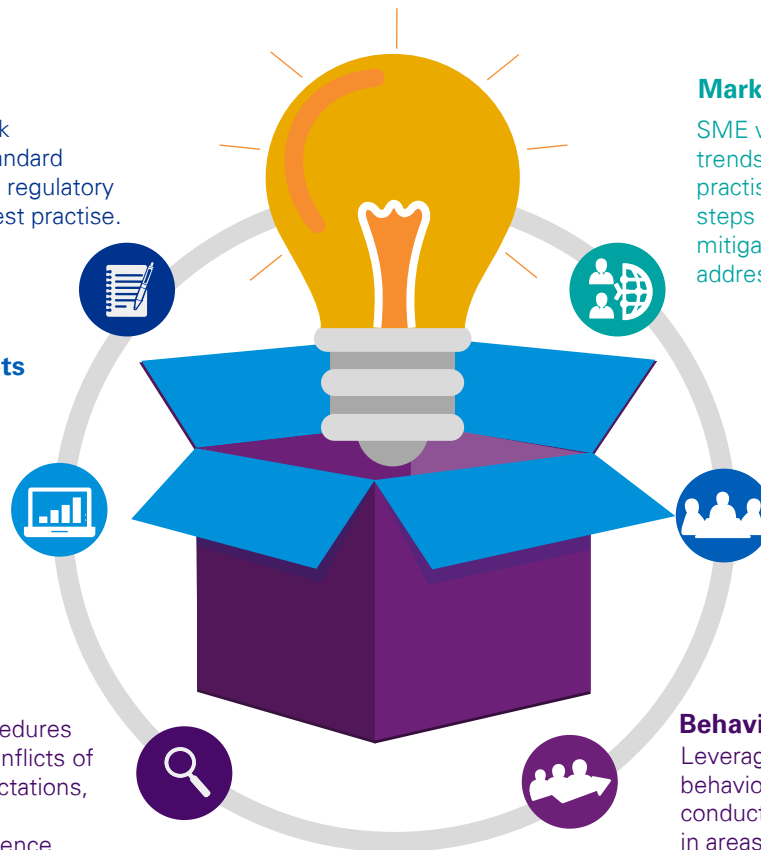
Review of your overall conduct risk frameworks against our KPMG standard maturity framework encapsulating regulatory expectations, peer and industry best practise.

Risk and Control Assessments

Execution of assessments of your existing controls and identification of conduct risk coverage gaps utilising KPMG's risk assessment methodology, risk and control libraries and extensive experience in regulatory driven control reviews

Documentation

Review of key policies and procedures including whistleblowing and conflicts of interest against regulatory expectations, industry best practise and peer benchmarking leveraging experience developed across a number of regulatory and best practise reviews.



Market Insights and Workplans

SME workshops covering conduct risk trends and emerging risks and practises. Recommendations for next steps including the consideration of mitigating tactical controls to help address inherent risks

Deep Dives

SME led targeted reviews, covering control expectations in relation to risks pertaining to automation such as algorithmic trading, Libor transition conduct risks as well as remote working risks.

Behavioural Change & Culture

Leveraging our extensive experience in behavioural change to develop or review conduct risk related programmes and training in areas such as identifying conduct risk or key thematic areas such as conflicts of interest.

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