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CONDUCT RISK: MEETING REGULATORY EXPECTATIONS

True to its title, the Financial Conduct Authority (FCA) remains sharply focused on **conduct risk** – in all of its possible manifestations.

For many financial institutions, conduct risk will likely represent the single greatest specie of day-to-day operational risk. However, with relatively little regulatory guidance to date, many firms have struggled with the question of **what an appropriate conduct risk framework might look like, in practice**.

Helpfully, the FCA has recently published some **instructive supervisory feedback** on conduct risk identification and management. While, strictly, this feedback pertains to wholesale banks, given the generic nature of the FCA's observations, **the underlying import is no less relevant to <u>all</u> regulated firms across the financial services spectrum.**

This note summarises key aspects of the FCA's feedback; and overlays some pointed questions and commentary - intended as a practical guide by reference to which firms can gauge their conduct risk standing. The detachable table in the Appendix lists all of the questions posed.

A. Summary of FCA's observations

In summary, the FCA found that:

- Significant progress had been made in identifying and managing conduct risk
- Some initially UK-centric conduct and culture programmes are now being applied internationally
- Frontline businesses are taking greater ownership for conduct risk
- Firms should be aware that conduct risk may arise across the whole organisation and not just in the frontline business areas

B. Conduct risk supervision

As part of its conduct risk supervision strategy, the FCA will pose the following five questions:

1) What proactive steps do you take as a firm to identify the conduct risks inherent within your business?
2) How do you encourage the individuals who work in front, middle, back office, control and support functions to feel and be responsible for managing the conduct of their business?
3) 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?
4) 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 they consider the conduct implications of the strategic decisions that they make?
5) Has the firm assessed whether there are any other activities that it undertakes that could undermine strategies put in place to improve conduct?

More generally, the FCA will wish to understand what measures firms are taking to improve conduct.

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

Definition

As a key first step, most firms will seek to **define 'conduct risk'**. Definitions will typically refer to **client outcomes**, with some including factors such as sustainability of their business and market integrity. Other elements will include the danger of actions or behaviours that may: harm clients, cause the firm reputational damage and risk undermining financial market integrity.

❖ Has the firm defined 'conduct risk'? If so, where?

❖ Do customer/client outcomes feature prominently in any such definition?

Comment: Firms should ensure that both of these questions can be answered in the affirmative. In practice, it is difficult to conceive of a credible framework in which conduct risk is not defined; and in such a manner. Amongst other things (and importantly), an appropriate definition should guide the focus and direction of the firm's conduct risk programme.

❖ Is the definition of conduct risk referenced and utilised in practice?

Comment: It is clearly important that relevant elements of a firm's conduct risk framework are directly referenced back to the definition adopted.

Identification

Three main approaches to the **identification** of 'conduct risk' were identified:

1) A top-down model where centrally defined key risks were mapped to business activity, products and processes.
2) A bottom-up model where individual business units analysed their own business and processes end-to-end and identified risks (often at the desk level) that were then aggregated.
3) A reverse-engineered approach where the firm's processes are reviewed to identify threats to desired firm-level conduct outcomes and the design of controls that could mitigate the risks to these desired outcomes.

Most firms used a combination of approaches 1 and 2. Only a few firms used the third approach (and some of those firms subsequently supplemented this with approach 2).

❖ Does the firm employ both top-down and bottom-up approaches to the identification of 'conduct risk'? If not, is this readily explicable?

Comment: In our experience, it may well be difficult to justify any approach that does not involve both top-down and bottom-up methodologies – so as to ensure an appropriately comprehensive assessment.

Firms adopted different approaches to **collaboration and challenge** in the risk identification process. In some instances, the business alone would identify a set of risks before the 2nd line challenged the result. In other cases, the business and the wider 2nd line would work together to identify the risks.

Within some firms, risk identification work was driven primarily by control functions such as Compliance (as opposed to a business-led approach). These were found to have made less progress and/or needed to be repeated in order to be more effective.

- ❖ Is the 'conduct risk' identification process business-led; or at least is there meaningful business input from the outset?

Comment: In our experience, any other approach (in which the business does not have a substantive role) would be susceptible to challenge. At a more general level, the FCA has repeatedly affirmed its expectation that the first line of defence plays a more substantive role in the risk management context. Indeed, it would be decidedly unhelpful for the FCA to form an impression of a lack of engagement / interest by the front office in conduct risk management.

Firms also used **different levels of detail in their risk identification process**. Some firms used a desk-by-desk level, involving the individual desk heads and front office; others combined groups of desks, businesses or products.

- ❖ Has the firm made a conscious and cogent determination as to the appropriate level of detail in the conduct risk identification process?
- ❖ How comfortably could this be explained to the FCA?

Comment: Where conduct risks vary materially across desks, identification should ideally be at individual desk level. In this way (and in theory at least), there should be no material identification gaps across the firm.

Some firms held sessions led by senior business line staff where conduct risks and 'grey' areas or 'dilemmas' were discussed. Firms used these sessions to discuss difficult issues and reinforce expectations, uncover additional conduct risks and produce FAQs for the rest of their staff.

Firms found these sessions were useful for both raising awareness of risks and identifying them, and so the risk identification process itself also became a training session, including regarding the importance of prompt issue escalation.

- ❖ Would the firm benefit from such sessions led by senior business personnel?

Comment: While this should not be regarded as compulsory, the potential merits should at least be considered. Run well, sessions of this kind can prove to be powerful and very effective.

Most firms initially focused their identification effort on **front office activity**. Firms have generally made **less progress identifying conduct risks outside of specific business lines**, but conduct risks can also occur across both operational and control functions. There is **increasing awareness that risk assessments based on front-to-back process mapping require coordination with all the necessary support functions to be effective**.

- ❖ Is the firm's approach to conduct risk overly-focused on the front office?
- ❖ Does the firm need to rebalance its focus – so as to capture conduct risk across operational and control functions?

Comment: It is clear that there is (in certain quarters at least) a perceived over-focus on conduct risk arising within the front office; to the exclusion of potentially significant conduct risks related to operational and control functions. Conduct risks do not arise exclusively in the context of the front office; and this should be properly acknowledged and reflected (if not already).

Additionally, we have observed an **increasing number of firms considering how they can map their conduct risk frameworks into their Enterprise Wide Risk Management Frameworks under their Chief Risk Officers**.

- ❖ Have the potential benefits of such an approach been properly considered?

Comment: This finding certainly accords with our own observations – whereby firms are seeking, where possible, to incorporate (or 'dove-tail') conduct risk into enterprise-wide risk frameworks. Amongst other things, such an approach ought to bring the benefits of synergy, familiarity and consistency.

Approach and the cross-comparison of risks

Risks identified in one business may manifest, perhaps in a slightly different form, in other businesses. Some firms have highlighted the benefit of performing 'read-across' exercises around conduct risk incidents and comparing the conduct risks identified.

- ❖ Does the firm routinely consider the potential applicability of risks and issues from one area to other business areas?

Comment: All firms should ideally consider potential 'read-across' during risk assessments. This is an important discipline, which can often (and easily) be overlooked; and will require input from those with the requisite knowledge and awareness to make such determinations.

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

Cultural influence

This question is inextricably linked to **compliance culture**; and, unsurprisingly, culture is explicitly referenced in various of the FCA's observations.

For many firms, 'tone from the top' remains key. In practice, this might for example translate into senior management cascades, webcasts and 'town hall' meetings to highlight the firm's values and expectations around treatment of customers and market conduct.

- ❖ Is 'tone from the top' demonstrated effectively within the firm on a relatively frequent basis?

*Comment: This is a fundamental expectation of all firms; and has become all the more important in light of the heightened focus on senior individual accountability. All firms should therefore ensure that they are able to point to concrete evidence of 'tone from the top' – **and on a continuing (rather than one-off) basis**.*

Many firms have globally-applicable **Codes of Conduct**, coupled with a requirement for all relevant personnel to sign an annual declaration / attestation confirming due compliance. Some firms employ tailored Codes of Conduct for supervisors, reflecting their specific responsibilities.

- ❖ Is there a good reason why the firm has not implemented a Code of Conduct - assuming that one (or something equivalent) does not already exist?
- ❖ Has the firm expressly considered the potential merits of a tailored supervisors' Code of Conduct?
- ❖ Does the firm require annual individual declarations / attestations from all relevant staff?

Comment: In our experience, the vast majority of firms will at least have generic Codes of Conduct. We suspect that an increasing number of firms will also see fit to adopt supervisor-specific Codes. Such Codes, together with annual compliance declarations / attestations, constitute an important control and protection for firms; and serve to help focus minds and re-enforce and clarify expected conduct standards.

In many firms, **personal ownership of conduct risk** is both reinforced by management and **directly connected to individual objectives, remuneration, recruitment and promotion processes**.

- ❖ Does the firm explicitly link ownership of conduct to individual objectives, remuneration, recruitment and promotion processes?
- ❖ If not, is there a good (and persuasive) reason for this?

Comment: The absence of any such linkage is becoming increasingly difficult for firms to justify. Arguably, a firm cannot (credibly at least) claim to take conduct risk and culture *seriously if it does not at the same time directly link ownership of conduct risk with these appraisal processes.*

Some firms use actual (typically anonymised) instances of inappropriate staff behaviour and email traffic to encourage all staff to set the right example. *Comment: This can be a powerful and effective method of conveying important messages; and is being employed ever more commonly. For many, reality-based training and awareness is the optimal way in which to engage relevant personnel; by 'bringing to life' otherwise abstract topics.*

3) 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?

Supervision, procedures and management information

Most firms had developed **conduct risk management information at desk-head level**, produced centrally, with a set of metrics relating to individuals' conduct and policy breaches. The **'dashboards'** picked up items such as:

- missed or late training;
- PA dealing rule breaches;
- excessive hours worked;
- late for work;
- limit breaches;
- expense policy breaches;
- suspicious transaction reports;
- word and voice surveillance reports;
- customer complaint analysis;
- high client entertainment;
- compliance exceptions; and
- selected HR reports in the search for conduct risk indicators.

The intention being to collate disparate pieces of relevant information to provide supervisors with a clearer picture of the risk and compliance culture within their area – so that it can be managed more effectively.

Some firms have progressed further by instituting **risk tolerances** for such breaches, and the creation of limits with the dashboards indicating if the tolerances are breached.

❖ What conduct-related management information is generated; and at what level of granularity?

❖ Does the firm utilise a conduct risk dashboard, with similar indicators as above? If so, does the dashboard incorporate risk tolerances? If not, wouldn't this be useful?

Comment: The FCA has emphasised the importance of management information in this context (amongst others). In practice, such information will be essential to the proper oversight of conduct risk. As a result, conduct risk dashboards have become an increasingly prevalent *feature of late. The incorporation of tolerances supports a more meaningful and effective conduct risk framework.*

While some firms may utilise separate culture and conduct risk dashboards, others have sought to consolidate – given the obvious inter-connection.

Any such dashboards will be expected to evolve over time and should therefore be kept under periodic review.

Several firms will **reconsider metrics after a conduct incident has occurred** – to check whether changes needed to be made to ensure that such an event would be picked up if there was a recurrence.

- ❖ Does the firm routinely reconsider conduct risk metrics after a conduct incident has occurred?

Comment: This can be an effective way of ensuring that conduct risk metrics are kept relevant and up-to-date; thereby enhancing the overall effectiveness of the firm's conduct risk framework.

Governance

Some firms have introduced a new or **stronger conduct risk challenge** in their existing new product / business approval processes.

Several firms made considerable efforts to create **governance and oversight structures for conduct** in ways that might only have been applied to other risks in the past. For example, some firms have created specific committees to focus on conduct risk.

A number of firms use conduct and culture questions in staff surveys to determine how integrity and reputation are valued.

- ❖ Is there sufficient demonstrable focus within the firm's governance framework on conduct risk? How readily (and comfortably) could this be explained to the FCA?
- ❖ How does the firm assess' staff attitudes towards conduct? Is there room for improvement?

Comment: Conduct risk oversight is expected to feature prominently (and explicitly) within governance frameworks. For many firms, conduct risk represents arguably the single greatest area of operational risk; and focus / attention should be commensurate.

Several firms have recently undertaken detailed governance framework reviews – with a view to ensuring that conduct risk is appropriately (and explicitly) embedded.

Prudent firms will consider how confidently they could articulate their conduct risk framework to FCA supervisors. Any doubts or known weaknesses should be addressed – as this will undoubtedly remain a key area of regulatory focus (and potential vulnerability).

Risk appetite

Some firms have looked to set risk appetites for conduct risk; and put tolerances and usages against their risk appetites. The FCA acknowledged that setting risk appetite for conduct risk may be harder than for prudential risk; and, in the same vein, queried whether it is possible to move risk appetites to zero (as some firms have done) given the range of business firms undertake and the nature of conduct risk.

- ❖ Does the firm set risk appetites for conduct risk? By whom is this undertaken and overseen?
- ❖ If conduct risk appetite is set at zero, is this realistic?

Comment: Any firms with zero conduct risk appetites should re-consider whether this is realistic and justifiable – especially, in light of the FCA's observations.

Training

Firms are increasingly recognising that **conduct risk identification is a skill in itself**.

Some firms have developed **ethical decision-making training** to help staff identify the right thing to do and to facilitate decision-making in grey areas. Numerous firms have launched more leadership/manager-specific training focused on the firm's business, conduct and culture.

A number of firms have gone so far as to test staff on knowledge of procedures and discuss conduct scenarios.

- ❖ Do conduct and conduct risk feature sufficiently prominently in the firm's training and awareness programme?
- ❖ Are supervisors sufficiently well-equipped / knowledgeable to identify conduct-related issues?

Comment: Training is particularly important in this context – it is vital that relevant staff are aware of, and alert to, the different types of conduct risk; and their related responsibilities. Such training should be appropriately tailored and 'true-to-life'. More generally, we have observed a discernible trend towards interactive real-time training sessions; with attendees afforded the opportunity to pose questions and seek clarification of any areas of uncertainty.

Recruitment

Some firms consider **conduct and culture at the recruitment stage** – for example, using situational judgment tests or looking to assess a candidate against the firm's values.

- ❖ Does the recruitment (or 'gateway') process focus, amongst other things, on ethical/cultural values and mind-set – for example through the use of scenario-based moral dilemmas put to prospective candidates as a core part of the interview process?

Comment: This should be relatively straightforward (and painless) measure to implement. In our experience, more firms are starting to incorporate a distinct conduct and culture focus into the recruitment process. We expect this trend to continue over time – as this eventually becomes 'the norm'.

Escalation

Escalation will be a fundamental component of any credible conduct risk agenda.

- ❖ Is escalation emphasised in conduct-related training and internal protocols?
- ❖ Are escalation processes well-known internally?
- ❖ Have there been any recent instances of non-escalation? If so, what was the root cause; and have any issues identified now been resolved?

Comment: Escalation expectations and processes should feature prominently within relevant training, internal codes and policies. Any actual or perceived lack of clarity around escalation channels should be resolved at the earliest opportunity.

As and when issues arise, firms should specifically consider whether the particular matter was escalated in the correct way; and, if not (and importantly), address the underlying reasons. Any identified shortcomings concerning escalation processes and/or awareness should be remedied.

4) <u>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?</u>

Many firms have a Conduct and Culture Report as a standing agenda item for their Board or ExCo meetings. This may include reports of conduct incidents, strategic decisions that may cause increased conduct risk, an assessment of new and emerging conduct risks and conduct risk metrics for all businesses and functions.

- ❖ Do conduct and culture feature regularly on Board or ExCo agendas? If not, how do the Board and ExCo maintain appropriate visibility over these areas?

Comment: It has become increasingly common for conduct and culture to be regularly and explicitly considered at Board and/or ExCo meetings. Indeed, this is now effectively a regulatory expectation.

Board and ExCo members may also sit on (Conduct) Risk Committees, which may meet more frequently than the Board, to ensure that conduct and culture programmes are rolled out effectively.

- ❖ Would this represent a potentially effective enhancement for the firm?

Comment: It would appear that this is becoming a more common phenomenon – as the FCA continues to emphasise the importance of conduct risk and expectations continue to rise. While not an expectation per se, such an approach should at least be duly considered.

Many firms conduct internal surveys and some now ask conduct-related questions.

❖ Does the firm utilise such surveys; and, if so, do they include conduct-related questions?

❖ If not, why not?

Comment: Periodic internal staff surveys can be an effective way in which to gauge the ethical/cultural mind-set and attitude of employees. An increasing number of firms are now utilising such surveys, which are typically anonymous to encourage full and frank responses. A fear of negative survey responses does not, of itself, constitute a good reason not to roll-out a survey.

In a similar vein, exit interviews can serve as helpful barometers of values and culture; and represent a good opportunity to capture relevant (and often frank) insight.

Some Boards and ExCos require the internal audit function to routinely consider conduct and culture in business area audits. Internal audit sometimes undertake a stand-alone audit of the firm's conduct and culture programme.

❖ Are conduct and culture routinely considered by internal audit – whether on a standalone or other basis?

Comment: Internal audit can play a valuable role in the independent assessment of conduct and culture – as more firms now appear to be appreciating. Active consideration should therefore be given to the incorporation of conduct and culture into internal audit programmes.

Strategic considerations

Some firms **think broadly about conduct risks** when considering a business exit. For example, one firm recognised that exiting a business in line with the contractual notice period could generate negative customer outcomes. The firm gave customers what they believed was reasonable notice (much longer than the contractual terms) and made provision for a different supplier to take on the business if the customer wanted. The firm then worked proactively with the customers to move them to a new provider.

One firm, when making significant strategic change to the business, deliberately decided to downsize the front office before the control functions to ensure appropriate oversight during the process.

❖ Does the firm proactively address potential conduct risks when considering strategic initiatives (exits, acquisitions, new business lines, products etc)?

Comment: While a firm will invariably have a host of different considerations at times of prospective strategic change, conduct risk should certainly feature as an important factor. Further, conduct risk-related discussions should be appropriately captured in minutes and notes – to ensure that there is a good contemporaneous record, if ever challenged.

5) Has the firm assessed whether there are any other activities that it undertakes that could undermine strategies put in place to improve conduct?

Many firms have focused this question solely on appraisals, remuneration and promotion. However, the FCA views it as being **very much wider, including horizon scanning internally and externally with consideration given to root causes of live or potential conduct events**.

The vast majority of firms considered **both financial and non-financial factors** for setting variable remuneration. Several firms linked their own values and standards to the objective setting, appraisal and promotion process.

In many firms, promotion decisions now include a much **more overt assessment of the individual's conduct and cultural characteristics**; and firms are making a real effort to explain this to staff.

Firms are increasingly making **splitting their grading system into 'what' and 'how'**, and being explicit and transparent to staff that their performance grade and reward reflects not only the financial and non-financial performance achieved, but also their conduct.

Additionally, firms are generally gathering **feedback from control functions as well as 360° feedback on people's conduct and behaviour**, which is used in the remuneration and promotion process, particularly for more senior and risk-taking staff.

A number of firms have developed 'scorecards' of conduct-linked metrics such as those linked to promoting the firm's desired culture, strategy, values, reputation, quality of client relationships, stakeholder engagement and people. Those firms believed that this approach facilitated the measurement of performance against conduct objectives; and reward and incentivise incremental improvements in behaviours and conduct.

- To what extent (and how explicitly) does the firm take account of conduct characteristics within appraisal, remuneration and promotion processes? Is this well-known across the firm?
- Does the firm currently capture all relevant conduct-related feedback during such processes (including from control functions)? Is there scope for improvement?
- Can the firm point to specific instances where an individual was 'marked down' on account of conduct-related issues or concerns? Has this ever happened? If not, might that suggest that the focus on conduct and culture is more form over substance? How would the firm respond to any such challenge?

Comment: All firms should – as a matter of course – be factoring a demonstrable focus on conduct and culture into appraisal, promotion and remuneration processes. Needless to say, this must be substantive and followed in practice. Any firm perceived not to be taking conduct and culture sufficiently seriously during these processes runs a real risk of regulatory challenge and intervention.

C. Conduct risk programmes

Conduct risk programmes should be tailored to the needs of each firm, based on its: (a) size; (b) business model; and (c) geographic reach.

While there is no 'correct' approach, the following features are generally recognised by firms as effective:

- Highly visible CEO sponsorship, together with engagement and challenge by the Board
- Senior executives taking leading roles in programme design
- Programmes that cover both front office, control and operational functions
- Programmes integrated within strategic or operational risk management frameworks
- Use of a standardised conduct risk self-assessment process across the firm
- A firm-wide taxonomy for conduct risks across business lines and functions
- Regular discussion at Board level of conduct, culture and programme implementation
- Active engagement in the programme by internal audit
- Training, promotion, performance management and remuneration all linked to conduct and culture objectives
- Long-term conduct risk initiatives becoming fully embedded in business-as-usual

Conversely, programmes with the following features did not always generate the desired results:

- One-off or stand-alone projects with a short timeframe
- Compliance or COOs being the primary driver of the programme
- Top-down mapping of desired conduct outcomes that were not balanced by bottom-up efforts by business units to identify where conduct risks could arise
- Disjointed or uncoordinated efforts by different business units
- Significant business units, control or operational functions being excluded
- Not examining if conduct risk arising in one area could arise in another
- Programme focus being limited to front office senior personnel, with limited or no involvement from middle and back office, risk, control and support functions

D. Conclusion

For most (if not all) firms, conduct risk will represent one of the single greatest day-to-day operational risks. Regulatory expectations are clear: firms must maintain a concerted focus on the identification and management of conduct risk – including through on-going and evolving conduct risk and culture programmes.

This paper has drawn upon recent observations and insight to highlight a variety of practical measures which can be employed by firms to positive effect; and, in turn, go a long way to satisfying regulatory expectations.

The table contained in the Annex consolidates the questions posed into a self-standing checklist; which can be used as a means of self-assessment by firms wishing to gauge their relative conduct risk standing.

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APPENDIX

QUESTION	RESPONSE	ACTION POINTS & ACCOUNTABILITY
1) What proactive steps do you take as a firm to identify the conduct risks inherent within your business?		
Definition		
Has the firm defined ‘conduct risk'? If so, where?		
Do customer/client outcomes feature prominently in any such definition?		
Is the definition of conduct risk referenced and utilised in practice?		
Identification		
Does the firm employ both top-down and bottom-up approaches to the identification of ‘conduct risk’? If not, is this readily explicable?		
Is the ‘conduct risk’ identification process business-led; or at least is there meaningful business input from the outset?		
Has the firm made a conscious and cogent determination as to the appropriate level of detail in the conduct risk identification process?		

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QUESTION	RESPONSE	ACTION POINTS & ACCOUNTABILITY
How comfortably could this be explained to the FCA?		
Would the firm benefit from such sessions led by senior business personnel?		
Is the firm's approach to conduct risk overly-focused on the front office?		
Does the firm need to rebalance its focus – so as to capture conduct risk across operational and control functions?		
Have the potential benefits of such an approach been properly considered?		
Approach and the cross-comparison of risks		
Does the firm routinely consider the potential applicability of risks and issues from one area to other business areas?		
2) How do you encourage the individuals who work in front, middle, back office, control and support functions to feel and be responsible for managing the conduct of their business?		
Cultural influence		
Is 'tone from the top' demonstrated effectively within the firm on a relatively frequent basis?		

QUESTION	RESPONSE	ACTION POINTS & ACCOUNTABILITY
Is there a good reason why the firm has not implemented a Code of Conduct - assuming that one (or something equivalent) does not already exist?		
Has the firm expressly considered the potential merits of a tailored supervisors' Code of Conduct?		
Does the firm require annual individual declarations / attestations from all relevant staff?		
Does the firm explicitly link ownership of conduct to individual objectives, remuneration, recruitment and promotion processes?		
If not, is there a good (and persuasive) reason for this?		
3) 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?		
Supervision, procedures and management information		
What conduct-related management information is generated; and at what level of granularity?		

QUESTION	RESPONSE	ACTION POINTS & ACCOUNTABILITY
Does the firm utilise a conduct risk dashboard, with similar indicators as above? If so, does the dashboard incorporate risk tolerances? If not, wouldn't this be useful?		
Does the firm routinely reconsider conduct risk metrics after a conduct incident has occurred?		
Governance		
Is there sufficient demonstrable focus within the firm's governance framework on conduct risk? How readily (and comfortably) could this be explained to the FCA?		
How does the firm assess' staff attitudes towards conduct? Is there room for improvement?		
Risk appetite		
Does the firm set risk appetites for conduct risk? By whom is this undertaken and overseen?		
If conduct risk appetite is set at zero, is this realistic?		

QUESTION	RESPONSE	ACTION POINTS & ACCOUNTABILITY
Training		
Do conduct and conduct risk feature sufficiently prominently in the firm's training and awareness programme?		
Are supervisors sufficiently well-equipped / knowledgeable to identify conduct-related issues?		
Recruitment		
Does the recruitment (or 'gateway') process focus, amongst other things, on ethical/cultural values and mind-set – for example through the use of scenario-based moral dilemmas put to prospective candidates as a core part of the interview process?		
Escalation		
Is escalation emphasised in conduct-related training and internal protocols?		
Are escalation processes well-known internally?		

QUESTION	RESPONSE	ACTION POINTS & ACCOUNTABILITY
Have there been any recent instances of non-escalation? If so, what was the root cause; and have any issues identified now been resolved?		
4) 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?		
Do conduct and culture feature regularly on Board or ExCo agendas? If not, how do the Board and ExCo maintain appropriate visibility over these areas?		
Would this represent a potentially effective enhancement for the firm?		
Does the firm utilise such surveys; and, if so, do they include conduct-related questions?		
If not, why not?		
Are conduct and culture routinely considered by internal audit – whether on a standalone or other basis?		
Strategic considerations		
Does the firm proactively address potential conduct risks when considering strategic		

QUESTION	RESPONSE	ACTION POINTS & ACCOUNTABILITY
initiatives (exits, acquisitions, new business lines, products etc)?		
5) Has the firm assessed whether there are any other activities that it undertakes that could undermine strategies put in place to improve conduct?		
To what extent (and how explicitly) does the firm take account of conduct characteristics within appraisal, remuneration and promotion processes? Is this well-known across the firm?		
Does the firm currently capture all relevant conduct-related feedback during such processes (including from control functions)? Is there scope for improvement?		
Can the firm point to specific instances where an individual was 'marked down' on account of conduct-related issues or concerns? Has this ever happened? If not, might that suggest that the focus on conduct and culture is more form over substance? How would the firm respond to any such challenge?		