

Controlling Conduct Risk

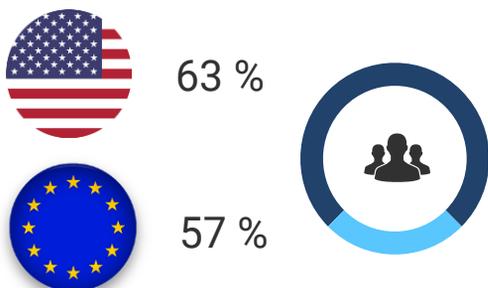
Conduct risk is the risk that arises from firm behavior that negatively impacts customers. It is closely associated with the culture of the firm and financial mis-selling. It is forecast that fines imposed on banks for misconduct are to exceed \$400 billion by 2020.

The cost to banks has meant conduct risk is at the top of the board agenda. This is also an area of increased regulatory scrutiny. Mr Dudley, President and CEO of the Federal Reserve Bank of New York (FRBNY), has put conduct and behavior into the spotlight. Directors and executive committee members need to examine risk management practices to ensure the bank reduces conduct risk.

CORPORATE CODE OF CONDUCT

The publication of a code of conduct or ethics is one way banks can reduce conduct risk. Where a code is implemented it should set out clearly defined parameters of acceptable behaviors and be shared amongst all employees. Directors ought to subject the code to periodic review to ensure that it is fit for purpose and is in alignment with the risk appetite statement of the institution. Barclays Plc has gone so far as to give employees an ultimatum to sign up to the new ethical code of conduct or leave. In the United States, banks across the country have introduced self-imposed codes of conduct over the last decade.

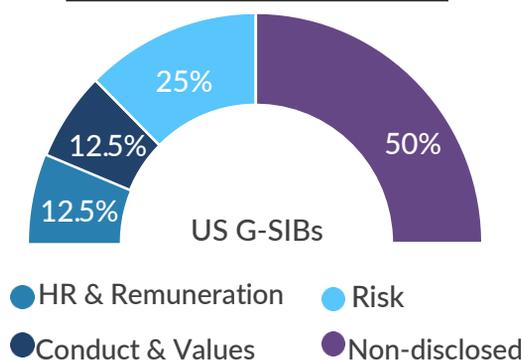
BOARD REVIEW CODE OF CONDUCT*



*US & European G-SIBs, data valid as of 31st December 2017

This image shows the percentage of boards who disclose they regularly review the code of conduct/ethics and its implementation. Among the US global systemically important banks (G-SIBs) 63% state that the code of conduct is frequently reviewed by the board, compared to 57% of European G-SIBs.

BOARD COMMITTEE OVERSEEING CONDUCT RISK



The graph above illustrates that for 2017 oversight of conduct risk was distributed across several committees among the US G-SIBs. For two banks there was no clear line of responsibility, whereas for another two banks it fell under the remit of a management level committee.

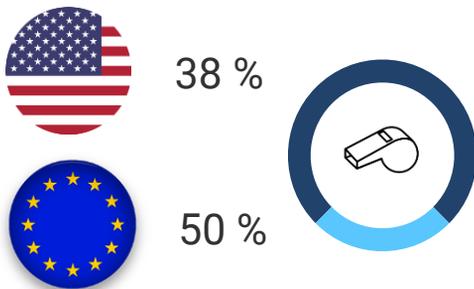
REGULATOR ACTION

Following the financial crisis several jurisdictions have changed their approach to the assessment of conduct risk or have raised it as an area of concern. This includes the Financial Conduct Authority of the UK and the Hong Kong Monetary Authority. In the United States the Federal Reserve has welcomed feedback on their proposed guidance on supervisory expectations for board of directors. Their proposals represent a step toward depicting what an 'effective' board is. This will be discussed again in late June when leading American banks are to meet with the aim of 'Reforming Culture and Behavior in the Financial Services Industry.'

WHISTLEBLOWING POLICY

Banks now frequently publish their code of conduct online as well as internally distributing it amongst employees. This ensures that the values and principles the bank is to adhere to are publicly accessible. Board members and management are also encouraged to take steps to ensure 'escalation procedures' are in place, so employees are confident wrong-doing will be reviewed and action taken. These steps can help address the concerns of both employees and the wider public. This should coincide with the whistleblowing policy adopted by the bank. With legislative protections in place, it is crucial that managers and individuals are aware of the appropriate treatment of whistleblowers.

WHISTLEBLOWING REPORTING*



% of US G-SIBs and European G-SIBs respectively that disclose the Board Audit Committee receive whistleblowing reports.

**US & European G-SIBs, data valid as of 31st. December 2017*

ABOUT AKTIS

Aktis is the first and only bank governance data platform. The Aktis data universe provides accurate and trustworthy insight to levels previously unavailable for bank governance data.

www.aktisintel.com

info@aktisintel.com

+44 20 37 510 513

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