

FICC Markets Standards Board

Statement of Good Practice for FICC Market Participants: Conduct Training

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I Introduction

1. The FICC Markets Standards Board

The FICC Markets Standards Board (“FMSB”) was established in 2015 in response to the Fair and Effective Markets Review in the UK with a mandate to issue Standards designed to improve conduct and raise standards in the wholesale Fixed Income, Commodity and Currency (“FICC”) markets. The FMSB will work to build up a body of Standards over time, prioritising those areas where its Members consider there is a lack of clarity in the standards of behaviour expected of market participants, or a lack of understanding of the issues relevant to a product or transaction type, or evidence of poor conduct.

2. Applicability of FMSB Statements of Good Practice

FMSB Statements of Good Practice (SGP) are issued by the FMSB from time to time. SGPs do not form part of the FMSB Standards and they are not binding on FMSB members; rather they reflect the FMSB’s view of what constitutes good or best practice in the areas covered by the SPG in question. FMSB members are expected, and other firms are invited, to consider their own practices in light of the SGP and any amendments that may be appropriate. Failing to do so will not, however, create any presumption or implication that a firm has failed to meet its regulatory or other obligations.

As at the date of the publication of this Statement of Good Practice, some 41 firms had become members of the FMSB. Full details of those firms are available at <http://www.fmsb.com>. Statements of Good Practice will be shared with Non-Member firms and their associations, who are encouraged to consider them. Information on Statements of Good Practice will be made available to users of the wholesale FICC markets (e.g. corporates and end investors) so that they may be made aware of their existence and FMSB expectations of market conduct.

3. Relationship with law and regulation

FMSB Statements of Good Practice do not impose legal or regulatory obligations on FMSB members, nor do they take the place of regulation. In the event of any inconsistency, applicable law, rules and regulation will prevail. In developing Statements of Good Practice, relevant regulators will in many cases have commented on their drafting, alongside FMSB member firms and other bodies, such that the Statements of Good Practice once finalised and published are intended to represent an authoritative statement of global good practices and processes.

4. Relationship with other codes

Other codes already exist in relation to certain FICC markets, or are in the process of being produced. There will be some overlap between the work of the FMSB and such other bodies and the FMSB will seek to ensure it adopts a consistent approach in cases of overlap wherever possible, and will seek to avoid issuing a Statement of Good Practice where the subject matter is already covered adequately by existing regulation or a code issued by another body. It may, however, draw attention to Members of an existing Code and request adoption, once appropriate steps have been taken to confirm its applicability.

5. Periodic review

The FMSB plans periodically to review its published Statements of Good Practice and any other materials it produces to ensure that they continue to be relevant and appropriate for the markets and products to which they apply.

II Conduct Training

1. Background

The Fair and Effective Markets Review recommended additional work, led by the FMSB, to evaluate training and qualifications needs for participants in the FICC markets. The FEMR report determined that the historic focus of training in firms had been on competence and technical skills, rather than behaviour and conduct. Also, that any training on conduct was typically based on high level principles that were difficult to apply to the specific conduct situations faced by FICC market participants. Accordingly, the review recommended that the FMSB should give guidance on expected minimum standards of training and qualifications for FICC market personnel in the United Kingdom, including a requirement for continuing professional development.

2. Scope and applicability

This SGP is written for the benefit of Member Firms, and designed to be relevant to all front-office personnel who are active participants in the FICC markets. As the core principles, and good practices, are high level in nature they are designed to be capable of being implemented by Member Firms, although - other than the Core Principles - Member Firms have full flexibility to determine if or how to adopt these practices, or indeed whether to extend these more broadly. As this SGP applies to Member Firms, it does not address the expectations of individuals operating in the FICC markets, but there is a strong consensus among Member Firms that individuals have a compelling ethical obligation to ensure that they take ownership for their own training needs, and escalate and respond where these needs are not being met.

3. Context

Training is one part of the wider conduct framework that needs to exist in a regulated financial services business. The recommendations in this paper cover a (critical) component of how firms should seek to manage conduct risk and help set the appropriate tone within their organisations. However, there are many additional processes that are not described in this paper that have a connection to conduct risk, including hiring practices, communications ('tone from the top'), fitness and propriety assessments, performance assessment and compensation practices, managerial/supervisory practices ('on the job' training), and broader awareness training in the form of written policies, procedures, manuals and compliance bulletins. These issues are not addressed in this paper, although clearly individual firms would want to consider the linkages between these processes and their formal training programs.

4. Qualifications

The FEMR report asked the FMSB to consider the role of professional qualifications (including continuing professional development) in improving standards of conduct. In the light of the global intent of the FMSB, and the existence of mandatory qualification regimes in many jurisdictions around the world, the FMSB has decided not to pursue a detailed review of good practices as they relate to qualifications. Moreover, the consensus amongst Member Firms is that the conduct issues experienced in FICC markets were generally not attributable to the absence of qualifications or technical competence, and therefore a higher priority for the market is to focus on conduct training within firms. The FMSB also notes that the Banking Standards Board is already undertaking work in relation to the role of qualifications in the UK banking market, and the FMSB would not wish to duplicate this work.

III Principles and Commentary

This Statement of Good Practice sets out a number of Core Principles relevant to conduct training, together with good practices that are currently used in Member Firms to achieve the outcomes specified in these Core Principles.

1. Organisational structure

Core Principle 1: Member firms should have a clear organisational structure for delivering a risk-based program of conduct training that is appropriate to their firm, taking into account their business model, scale and complexity; with clearly defined roles and responsibilities; appropriate allocation of resources; and a reasonable level of documentation to evidence the linkage between their conduct risk profile and training requirements.

Conduct training can take many different forms, and in the majority of Member Firms typically involves a blend of:

- Code of Conduct training (and affirmations)
- Compliance-led training on specific regulations relating to standards of conduct (e.g. market abuse)
- Embedded elements of conduct training in other modules (e.g. inclusion of business principles and ethical practices, into induction and/or leadership training,).

Additionally, and beyond the scope of this paper, conduct training can also take the form of broader awareness ('tone from top'), managerial/supervisory practices ('on the job' training), and other tools.

The consensus among Member Firms is that the formal training programs for conduct should be role and risk-based, and that it would be disproportionate and ineffective to seek to train all staff on all conduct topics on a routine or annual basis. In the majority of firms the identification of relevant employees and associated conduct training is a risk-based assessment that takes into account:

- **The conduct risk profile of the firm** - this is typically a function of the firm's geographic presence, products, and client base. It is widely recognised by Member Firms that conduct training should be dynamic, and should aim to reflect emerging conduct risks in the market, as well as addressing each firm's primary, structural conduct risks that have been identified through formal risk assessment processes such as a compliance risk assessment or conduct risk assessment. Aspirationally, Member Firms also expect the conduct risk assessment to factor in future changes in strategy and business model that may result in changes to the firm's conduct risk profile.
- **Stages of the employee lifecycle and employee role within the organisation** - the majority of firms aim to ensure that conduct standards are reinforced at different, key, points in the employee cycle including where they are new to FICC markets, have recently joined a new firm, or recently been promoted into a new role within that firm that could involve different conduct expectations (e.g. leadership roles).
- **Regulatory expectations** - in particular, where regulatory requirements or expectations change, whether through legislative actions, regulatory guidance or enforcement findings.

There is no clear consensus on which function within a firm (e.g. HR or Compliance) should 'own' the overall framework for determining conduct training needs, nor indeed does there appear to be a need for functional accountability to be uniformly allocated across the industry. There is, however, consensus amongst Member Firms that any such framework should involve:

- Clear roles and responsibilities, for example, responsibilities for administering the framework, decision-making, and documentation.

- A strong first line accountability for decision-making within the framework including assessing and monitoring the ongoing adequacy of conduct training programs.
 - In some Member Firms, this accountability is reinforced through policies or procedures specifying this accountability, and/or through formal attestation processes. In many firms, this first line accountability is also underscored by requiring the first line to undertake, or approve, a conduct risk assessment that helps to determine the priorities for conduct training.
- Appropriate allocation of resources, with recognition amongst member firms that adoption of this SGP will likely require additional investment by firms to meet the outcomes specified in the Core Principles.
- A reasonable level of documentation to link the firm's conduct risk assessments to conduct training.

2. Effectiveness of Training

Core Principle 2: Member firms should have mechanisms that are reasonably designed to evidence that employees have received relevant conduct training, have understood it, and continue to understand it on an ongoing basis.

The majority of Member Firms rely, to some degree, on online training modules to deliver conduct and compliance training, which has the benefit of creating a clear audit trail that each employee has received the training and, ordinarily, has received and passed an online comprehension test. Online training is better suited to particular circumstances, for example where the training is in relation to straightforward, factual regulatory obligations; and/or where there is a legal or regulatory requirement to demonstrate that training has been delivered. Recently firms have been seeking to improve the effectiveness of online training programs by introducing a wider range of more tailored case studies to draw the linkage between high level ethical principles and how these should operate in practice. In the light of the increasing volume of online training, an emerging trend is also for Member Firms to allow employees to 'test out' of the training by passing a harder test prior to taking the module, and thus maintain a sensible balance between the burden of compliance and effectiveness.

Member firms recognise that in areas of subjectivity, such as conduct risk, various mechanisms are available to firms (including compensation, incentives, etc.) to influence conduct. Face-to-face training has become more important (see Core Principle 4 below). This introduces challenges in measuring the effectiveness of training. Whilst firms can measure attendance at training events, e.g. through keeping attendance records or employee attestations, measuring employee comprehension is difficult. Firms place a high degree of reliance on line managers to make assessments of employee fitness and propriety, taking into account their knowledge of employee behaviour and, de facto, how well employees have understood and implemented the conduct training they have received. Firms acknowledged that these fit/proper assessments, and formal employee evaluation mechanisms, are an important element of assessing employee understanding of conduct standards in their day-to-day roles. Whilst important, Member Firms acknowledged these mechanisms are imperfect, and an emerging good practice is to link conduct metrics and conduct training programs. This can take many forms, but typically involves using information on conduct breaches, disciplinary events, and/or employee survey results to identify specific conduct issues that require additional training, or to identify specific teams, business units or locations that may require additional training. Whilst this currently takes place in an iterative and informal way in many firms, Member Firms acknowledged that a good practice is to develop a clearer evidence trail for this process.

3. Industry Codes and Standards

Core Principle 3: Where Member Firms believe they are required, or have agreed, to adhere to, industry codes or standards covering FICC markets, the firm should have training programs that encapsulate the content of these codes, and be able to evidence that they have mapped these industry codes into their training programs (where relevant).

Industry codes typically involve a mix of high level principles and detailed requirements, including expectations in relation to behaviour, trading practices, internal controls and governance. Successful embedding of these codes therefore involves enhancements to training, but also implementation of other internal controls, including policies and procedures.

Member firms generally do not explicitly reference these industry codes in their training programs because the codes generally include duplicative provisions, and in many cases Member Firms may wish to set higher standards than industry codes. Moreover, the codes typically cover issues that are not directly relevant to each and every market participant. For these reasons, Member Firms agree that it is important that they can evidence they have an inventory of industry codes applicable to their firm, and that relevant content has been mapped to (rather than directly referenced in) their internal training programs.

Member firms intend that as the FMSB itself publishes further standards, they will incorporate the substance of these into internal training programs as appropriate.

4. Practical Application of Conduct Training

Core Principle 4: Member firms should have training delivered to ensure, within reason, that employees understand how the behaviours in the firm's Code of Conduct apply to their individual roles. This training should also include the opportunity to explore areas where judgement is required in application of the firm's Code of Conduct. Member firms should ensure that there is a strong first line accountability for the design and delivery of conduct training relevant to their business.

In all Member Firms, there is recognition that conduct issues may be subjective, and the practical application of regulatory requirements or internal Code of Conduct requirements may be difficult.

Member firms have sought to address these difficulties in a variety of ways, including:

- Better usage of real-case scenarios to translate high level principles into actionable guidance for their employees.
- Training aimed at developing better decision-making skills for employees, including helping employees recognise where a situation presents conduct issues and what factors or questions they should consider when determining the right way to proceed.
- Training aimed at reinforcing general ethical standards, with a focus on treating customers fairly, behaving with integrity, and observing proper standards of market conduct.
- Training aimed at highlighting the need for escalation in areas of uncertainty, in particular the need for dialogue with senior managers or Compliance professionals.

In practice, the majority of Member Firms believe a blend of these techniques is required, as case scenarios cannot anticipate every circumstance, and escalation may not be practical in every situation.

These training programs have typically addressed both *personal* conduct issues (e.g. Personal Account Dealing, expense violations) and *business* conduct issues (trading practices, information barriers, etc.). Appendix A is a list of conduct topics that have been covered in Member Firm's

conduct training programs, and Member Firms would expect to operate training programs that address each of the 'Core Areas' in Appendix A on an annual basis¹.

Whilst some components of conduct training can be delivered by Compliance professionals, and can be delivered via online modules, there is a growing recognition within the industry that this should be reinforced by more face-to-face training, led by the first line. Senior leaders in the first line have more experience and familiarity of the conduct issues that are faced by their business and, as owners of those issues, are best placed to lead face-to-face training. Use of face-to-face training is likely to be more impactful than online training, and also provides greater opportunity for discussion and escalation of issues, which is important in the context where many conduct issues are not straightforward to resolve and require considerable judgement.

In some firms, this first line training has a number of key attributes:

- Materials are developed by the first line, based on their assessment of the conduct risks applicable to their business, desk or team, and are written in language designed to be understood by front-office staff
- Materials are refreshed each year to capture new and emerging conduct risks
- Training aims to address areas requiring judgement in conduct, and not replicate existing Compliance-led training on specific regulations
- Training is delivered by senior leaders, managers and supervisors to their own teams, in small groups, face-to-face, allowing for discussion and for training to be customised to the unique circumstances of their product and market
- Training draws upon real and hypothetical case scenarios from the individual firm and its sector to illustrate practical examples of conduct issues
- Training is tracked to ensure all relevant personnel receive it
- As the subject matter requires judgement there may be no one right or wrong answer to many questions, and therefore there is no testing of employee comprehension
- Whilst Legal, Compliance and other control personnel may review materials or participate in training sessions, the training is intended to be business-led

A separate, emerging area is the use of gaming technology to provide FICC market participants with the opportunity to explore real life scenarios. Key attributes are that they are based on real scenarios, and so relevant and easy to relate to; provides the opportunity for participants to weigh up different factors about the 'correct' way to behave in a given scenario and is a more engaging way to educate people. As this is a relatively new technique for delivering training, and take-up has been limited to date, its effectiveness remains unproven and Member Firms will no doubt keep it under review.

As with conduct risk, the application of competition and anti-trust laws to financial services requires judgement to be exercised. In some cases, certain types of behaviour will be a clear violation of these laws, but there may be other types of behaviour where the issues are more nuanced and where the analysis will depend on the surrounding context. Good practice is for Member Firms to ensure that employees understand their obligations under competition and anti-trust law, and can relate these to their day-to-day roles. This typically includes using case scenarios to illustrate how competition issues could arise, and reinforcing the need for escalation and advice when dealing with competitor firms, including through chatrooms.

¹ Note that Appendix A is provided for illustrative purposes only, and is not intended to be regarded as a 'syllabus' of mandatory topics. Indeed, many topics would not be relevant to certain types of firm, or would not be appropriate given their risk profile. Equally, the list of topics is not exhaustive and Member Firms are expected to dynamically update their conduct training as new conduct risks emerge and their conduct risk profile changes. The purpose of Appendix A is simply to highlight current trends and areas of focus in conduct training amongst Member Firms.

IV Appendix: Examples of Topics Included in Member Firm Conduct Training

Core Areas	Example Topics
Competition	<ul style="list-style-type: none"> • Collusion • Coordinated Trading • Cartels • Misuse of market power • Benchmarks manipulation
Client Conduct Risks	<ul style="list-style-type: none"> • Reputational Risk • Suitability and Appropriateness • Client/counterparty onboarding, due diligence and AML • Treating customers fairly
Information Handling	<ul style="list-style-type: none"> • MNPI/Conflicts • Market Sounding • Insider dealing • Market colour, rumours • Inappropriate sharing of information (Fund managers - Dealers/Brokers) • Principal vs Agency Disclosures • Transaction Related Communication/Need to Know • Selective dissemination • Information Barriers
Trading Practices	<ul style="list-style-type: none"> • Stop Loss - Last look and time stamping • Front Running • Barriers/Hedging • Trade allocation/ticket splitting • Mark-ups • Late Trading/Market Timing • Market manipulation • Spoofing and Layering
Personal Conduct	<ul style="list-style-type: none"> • Personal Account Dealing • Escalation • Whistleblowing • Social media usage • Code of Conduct
Conflicts of Interest (not already above)	<ul style="list-style-type: none"> • Sales to related parties • Commission/rebates • Payment for order flow • Inducements

Note: This Appendix is provided for illustrative purposes only, and is not intended to be regarded as a 'syllabus' of mandatory topics. Indeed, many topics would not be relevant to certain types of firm, or would not be appropriate given their risk profile. Equally, the list of topics is not exhaustive and Member Firms are expected to dynamically update their conduct training as new conduct risks emerge and their conduct risk profile changes. Its purpose is simply to highlight current trends and areas of focus in conduct training amongst Member Firms