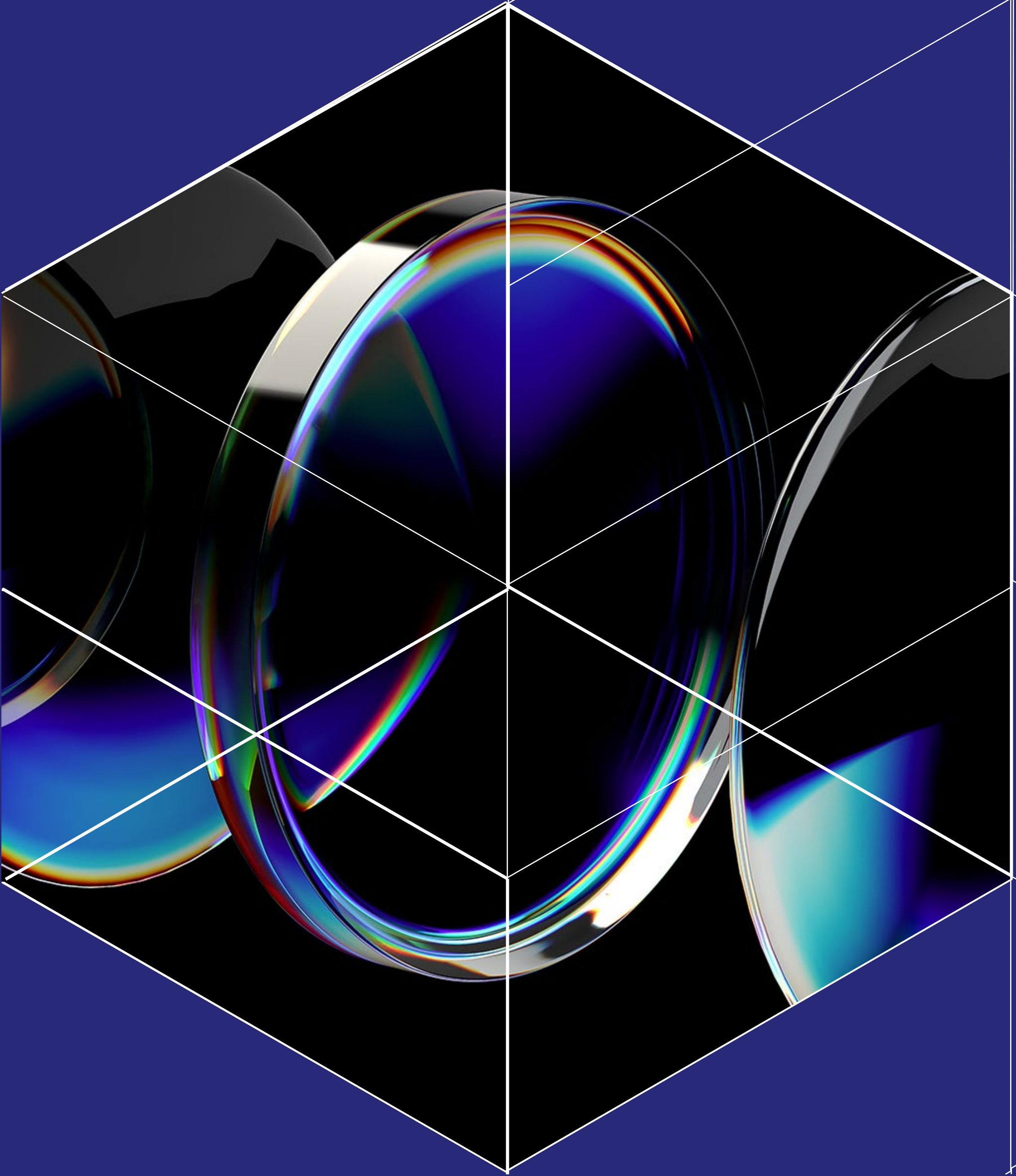
FMSB
FINANCIAL MARKETS STANDARDS BOARD

The 3 Lines Model: A lens on risk management frameworks



Spotlight Review

June 2023

About us

Financial Markets Standards Board

Financial Markets Standards Board Limited (FMSB) is a private sector, market-led organisation created in light of the recommendations in the Fair and Effective Markets Review (FEMR) Final Report in 2015.

One of the central recommendations of FEMR was that participants in the wholesale markets should take more responsibility for raising standards of behaviour and improving the quality, clarity and market-wide understanding of trading practices. Producing guidelines, practical case studies and other materials that promote the delivery of transparent, fair and effective trading practices will help increase trust in wholesale markets.

FMSB brings together people at senior levels from a broad cross-section of global and domestic market participants and end-users.

In committees and working groups, industry experts debate issues and develop FMSB Standards and Statements of Good Practice and undertake Spotlight Reviews - like this one - that are made available to the global community of financial market participants and regulatory authorities.

Spotlight Reviews

Spotlight Reviews encompass a broad range of publications used by FMSB to illuminate important emerging issues in financial markets. Drawing on the insight of Members and industry experts, they provide a way for FMSB to surface challenges market participants face and may inform topics for future work.

Spotlight Reviews will often include references to existing law, regulation and business practices. However, they are not intended to set or define any new precedents or standards of business practice applicable to market participants.

Find out more about the Financial Markets Standards Board at **fmsb.com**

1. Purpose of this Review

The 3 Lines of Defence ('3 Lines Model' or the 'Model'), as it was originally labelled, has been a force for good, focusing attention on risk management frameworks, infrastructure, checks and balances as well as assurance.

However, the Model has also contributed to difficulties such as siloed knowledge, disputed accountabilities, excessive duplication and expertise concerns as well as being thwarted by human misbehaviour.

This Spotlight Review is intended to assist firms in assessing aspects of their holistic risk management frameworks by using the 3 Lines Model as a lens. The scope of the Review is therefore wider than the traditional concept of the 3 Lines of Defence might suggest.

The accompanying Risk Register may prompt considerations for further development of risk management frameworks and infrastructure. The risks and potential mitigants identified are non-exhaustive and may not be relevant to all firms.

This is not a set of Standards. While the Register uses the term 'should' or its equivalent, it is not anticipated that firms will implement all the mitigants listed, and any steps taken should be proportionate to the risks posed[1].

Business models and firm culture vary across the financial services industry and risk management frameworks differ accordingly. The nature of risks, and the speed with which they can manifest, has also fundamentally changed.

The 3 Lines Model is best deployed as a lens to examine risk frameworks rather than as a thing in itself. Using this lens, the Review seeks to identify key risks and practical issues that arise in the design and implementation of risk frameworks and supporting infrastructure more generally, as well as the cultural context in which they operate. This is accompanied by a range of observations as to how firms may seek to mitigate such risks.

The Risk Register is a topical compilation of things that can, and do, go wrong. It is a source of ideas rather than as a recommended 'To Do' list. The potential mitigants for each risk derive from observations made by market participants as well as relevant regulatory commentary.

Firms might consider if the mitigants outlined could help address existing or emerging risks in their own organisations.

The Risk Register, which forms part of this Spotlight Review, can be downloaded in Excel format or read directly in this document.

Download the **Risk Register** spreadsheet

Go to the **Risk Register** in this document

[1] FMSB can/may update or make changes to the Risk Register over time.

2. Key messages

1 It is important for all staff to understand the 3 Lines Model, how it works and how it is reflected in their own units as well as the organisation as a whole.

2 High quality design of risk management frameworks, policies and procedures is undermined by poor culture.

3 Clear operating mandates are needed within each line, and these should be developed and reviewed in a collaborative manner across the lines to ensure efficiency and effectiveness.

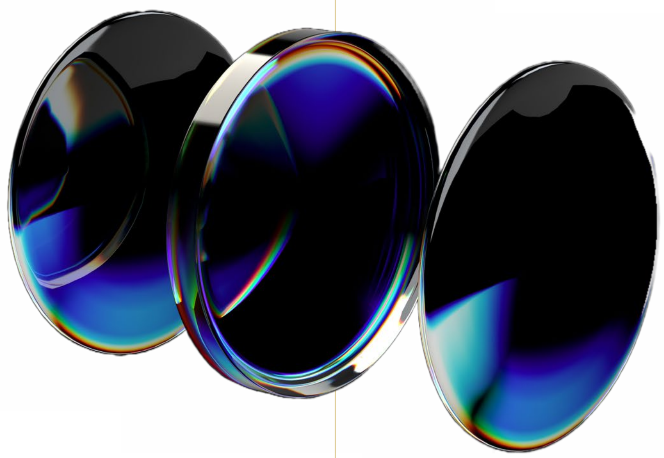
4 Care is needed on the introduction of split lines (e.g., 1.5 or 1B) as it can dilute or fragment responsibility and raise issues around mandates, purpose, duplication and efficiency.

5 Effectiveness of the 3 Lines Model requires accountability for behaviour and full ownership of the attendant risks.

6 Thoughtful engagement at the right time in pursuit of common, organisation-level outcomes is better approached by ensuring early diversity of thought from across the lines than by later-stage challenge.

7 The metrics and tools supporting the effective implementation of the Model warrant additional focus and development.

Ultimate accountability for the effective working of the 3 Lines Model rests at the Board level. It should use the Model as a lens to assess the organisation's risk management framework and conduct appropriate, regular oversight of its effectiveness.



3. Background

The commonly described "3 Lines of Defence" approach began to be seen in firms in the early 2000s. It proliferated after the 2008 Financial Crisis and was codified in 2013 by the Institute of Internal Auditors (IIA)[1]. The approach was, by then, being widely, and later almost universally, adopted by the global financial services community and its regulators. It was seen as a helpful development for risk management especially in organisations with large trading and other businesses that were becoming increasingly complex, fast-paced and technologically driven.

When examining wholesale financial markets in 2015, in the aftermath of industry misbehaviour, the model was summarised in the Fair and Effective Markets Review as follows[2]:

> "The 'Three Lines of Defence' model of management is widely used within firms operating in fixed income instruments, currencies, and commodities (FICC) markets. The **'First Line of Defence'** refers to the risk mitigation and control exercised by front-line staff within business units, including line managers and desk heads. The **'Second Line of Defence'** includes support functions, such as Risk Management and Compliance, and the **'Third Line of Defence'** is the Internal Audit function that independently assesses the effectiveness of the processes created in the first two lines of defence and provides assurance on those processes."
>
> *Source:*
> *Fair and Effective Markets Review, 2015*

While firms have continuously addressed aspects of their risk management and infrastructure, including specific issues related to the 3 Lines Model, issues large and small continued to occur such that the model was periodically seen as improperly designed, poorly implemented or both. The adequacy of model governance and oversight at Board and senior management level was also questioned. Furthermore, effort has not always resulted in the appropriate change in behaviour within and between the three lines, resulting in tensions and cultural disconnects.

There have been earnest attempts to improve on the design and implementation of risk infrastructure including specific consideration of the 3 Lines Model. This paper provides practical benchmarking information and proposals to support effective and outcome-focused design and implementation of risk management frameworks.

1 Three Lines of Defence Model, IIA, 2013
2 Fair and Effective Markets Review, 2015 pp. 75 https://www.bankofengland.co.uk/report/2015/fair-and-effective-markets-review---final-report

4. Model evolution

In its early years of adoption, the 3 Lines Model placed leadership and responsibility for controls in the 1st Line and separated responsibility for independent oversight into separate units such as Risk, Compliance or Controllers, in the 2nd Line – although actual ownership and execution of the various controls was sometimes contentious. The 3rd Line, Internal Audit, was responsible for providing assurance. While the Board had an oversight role it focused on reports from the 3rd Line and maintained open access to 2nd Line unit heads independently of the CEO who also maintained independent channels for Risk.

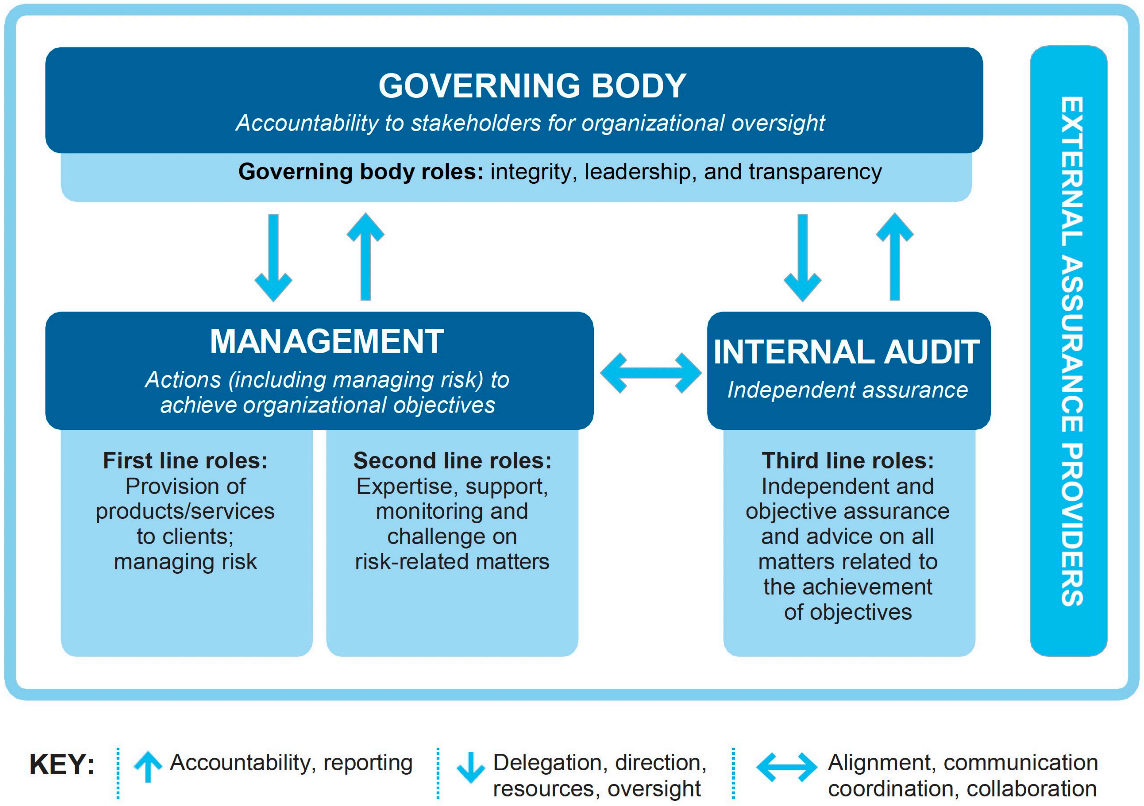
In 2020, the Institute of Internal Auditors (IIA) completed an industry consultation and update releasing a refocused "**3 Lines Model**" dropping the word "Defence" and introducing a more principle-based approach. It emphasised the role of the Board and its engagement with the 3 Lines infrastructure in the firm as well as its fundamental accountability for considering the efficacy of the Model. It also emphasised the need for coordination, communication and collaboration across the organisation in pursuit of a clear corporate purpose.

Clarity of purpose elevates resolution of disagreements or conflicts among stakeholder groups and serves the organisation as a whole in a principled manner.

The schematic in Figure 1 is the IIA's illustration of its revised, more nuanced Model. Earlier public suggestions included the creation of a fourth line to reflect the roles of external auditors and the regulators. This is noted in the updated schematic but not in a formal manner given the lack of industry support.

In this Report we use the term '3 Lines Model' to reference the schematic in Figure 1.

Figure 1
The IIA's 3 Lines Model



[1] The Financial Stability Institute Occasional Paper No 11 'The four lines of defence model' for financial institutions - December 2015

5. Regulatory context

Financial services regulators have not published at length on the 3 Lines Model. What regulators do is articulate more directly the need for firms to strengthen their risk management frameworks, notably, in response to the 2008 Financial Crisis as well as after more recent cases of adverse conduct. In particular, they have expressed the wider-ranging need for firms to establish conduct risk management frameworks which would support greater accountability of business heads, enhanced transparency and access for control functions and a clearer definition of the role of control, oversight and assurance functions.

While there is general agreement on the existence and usefulness of three distinct lines, regulators typically leave implementation matters to the firm and would therefore not provide much direction on the boundaries or responsibilities of each line. Individual accountability regimes have been introduced in some jurisdictions for senior managers and these have become woven into the governance fabric at firms.

Risk management frameworks may require some flexibility at the implementation stage across multiple regulatory jurisdictions with differing requirements.

Regulators rarely make direct mention of the behavioural elements required of the staff to animate effectively the 3 Lines Model while noting that behaviour itself has become a wide-ranging and growing thematic topic.

The design and implementation of the 3 Lines Model may not typically be cited as a root cause in enforcement cases by regulators. However, a review of case particulars or fact patterns would often show that infrastructure that demonstrated a weak approach to the efficacy of the Model might be expected to attract adverse regulatory consequences.

Accountability

From March 2016, UK banks, building societies, credit unions and PRA-designated investment firms became subject to new Senior Managers and Certification Regimes. These regimes allocate responsibilities to specific senior individuals, including those at the very top of firms, and hold them directly accountable for failures in their areas of responsibility.

6. Industry context

This Review summarises here a number of topics that have arisen over the past decade which can serve as useful inputs to a re-examination of the 3 Lines Model and how it can be used to improve risk management frameworks.

The 3 Lines Model as a lens

Financial services firms have adapted the 3 Lines Model to suit their individual organisations and business models giving rise to wide variations around implementation. However, the 3 Lines Model has gradually taken on the attributes of a separate organisational construct existing in parallel with the enterprise-wide framework for the management of risks. Viewing it in this light diverts focus to the structure, independence and even ownership of the Model rather than the degree to which it operates to support the pre-emption of actual conduct and control issues. The ideal application of the lens would mean that a firm prioritises outcome above ownership.

Using the Model as a lens is a useful approach for assessing organisational infrastructure around risk of all kinds, the relevant checks and balances, timely value-add as well as providing assurance. No organisational unit is immune to risks or mistakes. This lens can be of use in assessing individual functions as well as the organisation as a whole.

Behaviour

Sometimes, when the work environment has lots of rules and steps to follow, management and staff might think they have everything under control, but really it is an "illusion of control“. Often more important than the formal rules is being observant about people's behaviour and how they feel about their work.

The COVID-19 pandemic underlined that people's behaviour and wellbeing (how they feel) are vital to how they set about doing their work. If people don't behave well, even in small ways, this can cause problems for the whole organisation. Because of that, there has been a higher focus on training and development around inter-personal behaviour and thinking about how to make good decisions. This is important for everyone, whatever their job level. When people understand more about how behaviour is a type of risk for the whole organisation, it is evident that just having well-crafted rules is not enough.

Corporate purpose

A clear and well understood corporate purpose can help ensure strong 3 Lines infrastructure. It provides commonality around purpose, objectives and activity, and supports both engagement of staff and resolution of conflict. A personal sense of purpose is also important and valuable for staff engagement and wellbeing. Developing alignment individually can be encouraged and spread by articulating how a team or an individual role contributes to the organisational purpose. Board oversight and risk infrastructure are ultimately intended to support achievement of the corporate purpose.

Reflection and Assurance

Internal auditors are poised to make stronger contributions to overall organisational management. While their function is one or more steps removed from front line business activity, it can harness improved data flows to provide stronger assurance coverage based on analysis of all activity rather than expeditious sampling given available computing power. Internal Audit structurally has a more detached point of view, and given its relationship with the Board (through, for example, the Audit Committee) can provide a suitably reflective and long-term view of risk/reward.

6. Industry context continued

Risk frameworks

Prior to 1990, risk management was dominated by a credit department, asset liability management and controls related to spending. The introduction of options theory and value-at-risk methodology led to rapid growth and ever-widening horizons for market risk and then operational, liquidity, resiliency and, more recently, non-financial risk. Framework elements now include risk identification, measurement, monitoring, mitigation, reporting and governance. To widen the horizon further, the term risk has been paired with, if not substituted by, 'threats' which incorporates scenario analyses and an array of low probability high-impact outcomes. The 3 Lines Model can serve as a useful lens to assess issues arising from these frameworks but is not a viable substitute or parallel construct.

The Control Office

Increased infrastructure has emerged in some larger firms to support the 1st Line in its discharge of risk management responsibilities. This initiative has sometimes taken the form of a separate Control Office increasingly referred to as Line 1.5 or 1B. This structure itself, quasi-independent reporting lines as well as the labelling comes with pros and cons around accountability, cost, duplication and efficacy.

Risk appetite

All financial services firms must ensure adherence to regulatory requirements.

An essential success factor for firms is defining the nature and level of business risks undertaken or avoided and having effective risk management to ensure this. However, the difference in framing risk appetite as between the 1st and 2nd Lines can be a frequent source of friction. Business units in the 1st Line may more naturally embrace risk as a necessary step toward generating revenue and earning profits, while a control function would reflexively focus on limiting downside possibilities.

Both sides need to assess the degree of risk taken to earn a particular level of profit and the avoidance of excess risk beyond approved appetite. This requires a collaborative discussion around commonality of purpose and the development of strategies, limits and controls around risk taking. A fully functioning and balanced 3 Line structure helps to progress discussions of this kind.

Diversity of thought and inclusiveness

Diversity and inclusion often trigger thoughts about gender, race, educational backgrounds, thinking styles and other social and human factors. It is also helpful to apply these concepts to risk infrastructure.

The 3 Lines Model was fundamentally designed to encourage diversity and inclusiveness as an outcome long before these terms became top-of-mind considerations. It is an approach that helpfully prompts questions such as:

- Is decision-making sufficiently inclusive, in terms of 1st, 2nd and 3rd Line contributions, including different perspectives within each line itself?
- Is risk/reward reasonably and consistently balanced as measured by both the 1st and 2nd Line?
- Can Lines 1 and 2 easily call on each other and receive the contribution, challenge or advice they need in a timely manner?

7. The 3 Lines Model – structure of the Risk Register

This Spotlight Review includes a Risk Register divided into six broad themes. The Register reflects discussions and choices by the FMSB membership on selected topics of current, practical interest rather than seeking to be a comprehensive, all-inclusive list. The numbering in the table matches that in the Risk Register below and in the accompanying spreadsheet.

From the boardroom to the trading floor, whatever your role in the organisation, the 3 Lines Model can help draw attention to how and where things could go wrong across the risk management framework.

1 Governance

1. Board awareness & understanding
2. Design reviews
3. Legal entity complexity
4. Business changes
5. Escalation
6. Tone from above
7. Conduct & Culture MI
8. Regulatory engagement

2 Design & process

9. Firmwide framework completeness
10. Policy & process gaps
11. Alignment of purpose and outcomes
12. Mandate clarity
13. Mission creep
14. Split Lines: complexity impact
15. Split Lines: capabilities' impact
16. Drift or deference
17. Materiality
18. Design input lacks diversity
19. Review timing & prioritisation

3 Staffing & expertise

20. Skills & experience
21. Personal accountability
22. Secondary impacts of changes
23. Strained capabilities
24. Competence
25. Behavioural development
26. Career path mobility
27. Juniorisation
28. Structural independence
29. Power balancing
30. Compensation

4 Behaviour & escalation

31. Purpose
32. Policy & process adherence
33. Cooperation
34. Policy effectiveness
35. Abuse of discretion
36. Personal accountability
37. Tolerating misbehaviour
38. Character strength
39. Diversity & inclusiveness
40. Psychological safety
41. Audit transparency
42. Reward & incentives

5 Tools, analytics & monitoring

43. Data sourcing
44. Efficacy of controls
45. Point of control
46. Risk identification
47. Technical competency
48. Experience & familiarity
49. Duplication
50. Obsolescence

6 Near misses & failures

51. Framework gaps
52. Policy responsiveness
53. Risk relevance
54. Risk accountability
55. Metrics

7. The 3 Lines Model – structure of the Risk Register continued

Thematic summaries

- The Model has made a positive contribution since its inception. However, in a dynamic industry such as financial services, the Model is essential to a periodic evaluation to refine and maintain the operational integrity of risk management frameworks.
- Financial institutions are predicated on trust both internally and externally. Weaknesses in the degree of trust between and among organisational units and lines can undermine or even thwart effective risk frameworks. The trust factor deserves to be prioritised in remediation programmes.
- Key success factors include a clear corporate purpose together with alignment across the 3 Lines, tone from above that reflects low tolerance for misbehaviour and accountability of staff in fulfilling their team and individual roles and responsibilities.
- Behavioural considerations merit greater attention. Metrics could be further developed in this area as well as placing enhanced focus on personal character and behaviour ("tone from within")[1].

Governance

- Boards often review and follow up on Internal Audit reports putting the assurance process into action, but this has focused mostly on incidents within or between the lines and less so on the efficacy of risk management frameworks as a whole viewed through the 3 Lines lens.
- Behavioural issues may go unaddressed and may not be escalated sufficiently often.
- Resourcing may have become unbalanced versus needs or effectiveness.
- Over-reliance on past performance can lead to over-confidence and under-management of emerging risks.

Design & process

- Failure to be fully aligned on purpose and desired corporate outcomes is a key foundation stone for an effective risk infrastructure that reflects the ideals of the 3 Lines Model.
- Written mandates provide essential transparency, clarify roles and responsibilities, channel issues to those with actual authority to resolve them and stifle mission creep.
- Split lines can raise significant issues around mandates, duplication and efficiency.

Staffing & expertise

- Major deficiencies in skills and experience are hard to address and typically require a longer timeframe. Recruitment, training and career-pathing timeframes need to reflect this and to provide opportunities to seed capabilities into and between all 3 Lines.
- The distinction between competence and experience is brought into sharp relief under stress scenarios where chaotic circumstances may mislead as to the degree of potential risk.
- Cost cutting exercises have often focused on reducing more expensive, more experienced staff leading to unhelpful juniorisation.
- Firms need to identify how their skills-base will need to evolve as newer data-focused roles get more emphasis compared to other areas which are open to automation.

1. "Messages from The Engine Room" 5 Conduct Questions Industry Feedback for 2019/20, Financial Conduct Authority, Sept 2020, pp. 7.

7. The 3 Lines Model – structure of the Risk Register continued

Behaviour & escalation

- Purpose reaches deep into the organisation and is a critical success factor.
- Tolerance for misbehaviour may be rationalised in ways that trivialise its actual impact and this can be contagious.
- Excessive use of discretionary authority, overrides and authorisation of work-arounds can undermine the balance or effectiveness of a 3 Lines Model with adverse consequences.
- Trust, psychological safety and diversity & inclusion all have key supporting roles to play in the design, implementation and operation of risk infrastructure and effectiveness from a 3 Lines Model perspective.

Tools, analytics & monitoring

- Controls need to be measured at the most tactically sensible point so that action can be taken on a timely basis.
- Technical competency is increasingly needed to understand and work complex monitoring tools.
- Firms should be alert to duplication and obsolescence in ever-changing technical environments and rapidly evolving business models.

Near misses & failures

- Failures within a firm or externally typically trigger a gap analysis to assess wider vulnerability. A similar approach would be welcome for near misses.
- Responsiveness is ideally fast, automatic and earnest so that a complete 3 Line review can be coordinated, completed and implemented.

Conduct & Culture MI

FMSB is working concurrently on a separate Spotlight Review examining Conduct & Culture Management Information, how it is created and how it is utilised, including what actions might arise from its usage.

8. Concluding comments

Business models evolve rapidly in this dynamic geo-political, economic and technical environment; existing risks change size and shape, new risks emerge, and serious adverse events can be triggered by staff across levels and functions. Organisations need to respond with right-sized infrastructure that addresses risks or threats in a timely manner.

The 3 Lines Model is a tool that assists in the analysis of risk infrastructure rather than being parallel to or a substitute thereof. It can be thought of as a lens through which to examine whether checks and balances are working and if the inter-personal dynamics are sufficiently healthy for engendering trust and collaborative work that supports intended outcomes.

Well-designed policy and processes are important but quickly undermined by misbehaviour. Industry, regulators and academia are generally aligned on the contribution of purpose, psychological safety and diversity and inclusion to the cultural context of an organisation. This applies to those using the 3 Lines Model lens to assess not only the risk infrastructure but also the staff who comprise that infrastructure and the cultural context in which they operate.

In time, markets and business models will change as will the practicalities of applying the 3 Lines Model. FMSB may choose to update or make changes to the Risk Register to reflect this.

Note to non-executive directors

Risk management frameworks evolve at pace. The 3 Lines Model offers a useful lens to understand and challenge live reporting and proposals related to risk management frameworks or supporting technical infrastructure.

The Model is helpful to Boards and especially to non-executive directors who may naturally be less familiar with the intricacies of an organisation. For example, controversies about where controls should be placed can appear in a different light when more emphasis is placed on the relative efficacy among the choices with organisational outcomes as the objective. This is more readily apparent using the 3 Lines Model as a lens versus thinking of it as a unique, stand-alone organisational structure with ownership rights of some kind.

Download the **Risk Register** spreadsheet

Go to the **Risk Register** in this document

9. 3 Lines Model - Risk Register

This Risk Register was published as part of FMSB's Spotlight Review on the 3 Lines Model. Any future iterations of the Spotlight Review will be made available on the Standards & Publications section of the FMSB website.

As set out above, the Risk Register is intended to share the experience and observations of the FMSB Working Group for market practitioners to use when conducting their own assessments of risk infrastructure using the 3 Lines Model as a lens or point of reference.

Risk categories: To support firms in their assessments, this Spotlight Review uses six thematic risk categories.

Governance
Design & process
Staffing & expertise
Behaviour & escalation
Tools, analytics & monitoring
Near misses & failures

The Risk Register and this cover note do not constitute advice or guidance and are not intended to be a comprehensive assessment of all potential risks, nor do they consider the full range of potential responses to each risk.

Individual firms should consider the specific risks which impact their business and the full range of potential actions that they could take in mitigation, taking into account the context of the nature, scale and operational structure of their own organisations. Member Firms are under no obligation to take action of any kind in response to this Review.

The FMSB Working Group may decide to issue subsequent iterations of this Register when it considers there are substantive changes that would be helpful to share. Longer term, FMSB Members may consider whether this topic may benefit from further consideration, and whether in due course FMSB Standards or Statements of Good Practice would be of value.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Governance		
1	**Board awareness & understanding** The firm's overall risk management frameworks, including use of the 3 Lines Model overview, may not be well or consistently understood at senior levels.	Boards and senior management are responsible for but may not be sufficiently aware of specific problems thereby allowing unwanted risks to persist or propagate.	• 3 Lines Model reviews could be a standing agenda item with regular presentations to board and senior management on efficacy, completeness and other matters. • Risk agenda items could include 3 Lines Model considerations (e.g., metrics on escalations, overrides, process complaints). • Firms could consider inclusion of a periodic review of the 3 Line responsibilities in allocated SM&CR responsibilities. • An external Audit perspective could be sought on the effectiveness of the Model as a whole rather than current issues between lines or the speed of resolution of past issues raised. • The Board could ensure that staff at all levels in all functions have a basic working knowledge of the 3 Lines Model. Without it, risk management may be ineffectively implemented or 2nd Line staff doing 1st Line work.
2	**Design reviews** Risk framework design or proposed changes may be inefficient or ineffective.	Insufficient consideration and challenge on proposals may allow weaknesses to remain undetected or under-managed.	• Periodic and rigorous analysis of risk infrastructure using the 3 Lines Model as a helpful reference may highlight areas of actual or potential weakness. • Thorough reviews could include deep-dive analyses of a selected number of business units and operational processes. • Design decisions can be actively challenged by Boards and/or senior management. • Practical examples could include efforts to understand the rationale for decisions driven by historical preferences ("we have always done things this way") or bias ("this is what our infrastructure can deliver"). • Ensure continuing alignment with business strategies supported by a potentially flexible operating model. • Escalation can help resolve areas of outstanding and especially prolonged disagreement between units within and/or between the 1st and 2nd Line. • Significant changes in the 3 Lines Model deserve high visibility/transparency as well as senior management oversight. • Engage the 3rd Line in design and implementation of significant changes to infrastructure and/or the Model.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Governance continued		
3	**Legal entity complexity** Complex organisational design may overlook or de-emphasise structural weaknesses in checks, balance and assurance.	Complex, multiple entity legal structures or geographic jurisdictions can compromise independence and oversight directly or via multi-dimensional reporting matrices.	• Risks arising from initiatives owned by two or more legal entities should be specifically addressed to ensure direct, non-duplicative oversight is in place and understood. • Risks by definition must reside in one legal entity where the ultimate loss would be booked; but attention must also be paid to the role and risks in inter-affiliate service provision to the booking entity. • Senior governance structures that can undermine the desired checks and balances of a 3 Lines Model should be specifically identified and addressed (e.g., where 1st and 2nd Line staff could both report to the same regional head, two or three-dimensional reporting matrices). • Take care to note that a governance structure is not the same as a reporting line. • Awareness of local requirements at group HQ may not match the local legal entity expectations/needs. Escalate to resolve. • Adaptation of the Model to meet local large exposure rules may undercut the efficient or consistent application of the Model. [e.g., French 'Permanent Controls' construct].
4	**Business changes** Risks are treated as static or at least insufficiently dynamic and evolving.	Business expansion can give rise to new or increased levels of risk.	• Proposals to expand/grow the business should be specifically reviewed to ensure resourcing in each line is adequate. • Growth can lead to unwanted duplication. Consider periodic reviews of resourcing decisions line by line and/or layer by layer including the creation of new roles and cessation of unwanted duplicate roles, processes or reporting. • Assumptions around risks being consistent between locations/activities or over time may mean that new risks are not properly calibrated in a business growth scenario.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Governance continued		
5	**Escalation** Material issues are not escalated to board or senior management level or become lost in the noise of excessive escalation.	A lack of clear, working escalation channels may delay or obviate senior awareness and timely action.	• Policies for escalation must be clear, understood, followed and monitored for use or lack of use. • Caution is needed where senior forums are heavily represented by 1st Line executives which can thereby introduce an unwanted bias. • Clear escalation from internal stakeholders, if additionally framed in a 3 Lines Model context, can provide useful insight into Model effectiveness. • Clear and common awareness of official escalation and challenge processes is necessary, particularly as the business grows in scale, scope and complexity. Notwithstanding that risks, issues and losses are owned by the 1st Line, escalation can be via 2nd or 3rd Line staff or channels.
6	**Tone from above** Boards and senior management may not consistently display high standards in their roles.	Poor 'Tone from the Top/Above' in words or behaviour can undermine culture at all levels.	• Boards and senior managers should be mindful of their actions as well as what they espouse in terms of values and behaviours in their roles as it can undermine the effectiveness of 3 Lines Model objectives as well as the risk management framework more generally. • Frequent, clear and consistent messaging should support the organisation's approach to risk management including the important contribution of the 3 Lines approach. • Top managers could proactively identify areas of weakness or specific improvement needs and then speak out in support of positive change.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Governance continued		
7	**Conduct & culture MI** Assessment of the efficacy of risk management frameworks and infrastructure and the 3 Lines Model itself may be misinformed or ill-judged due to weaknesses in Conduct & culture MI.	Boards, management and staff can be or remain misinformed on the effectiveness of the 3 Lines Model across the organisation if not provided with robust and effective MI.	• Specific information addressing the health and effectiveness of the risk management framework as examined using the 3 Lines Model lens, particularly during periods of change, should be developed and provided to senior level assessment. • MI metrics could include excessive use of overrides, escalations activity on positive and negative outcomes, complaints and whistle-blowing information, delays in agreement over severity or requirements of Audit-raised issues, staff evaluation/feedback surveys on the 3 Lines.
8	**Regulatory engagement** Regulators could be misinformed if preliminary reports and assessments are not adequately challenged.	Regulators can be misinformed about the conclusions regarding the 3 Lines Model and the effectiveness of risk management framework and infrastructure across the organisation.	• Regulatory engagement should be proactive and based upon an accurate 3 Lines assessment of the risk management framework in place and/or proposed and should include regular updates on the evolution and advancement of the framework using the 3 Lines Model as a reference.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Design & process		
9	**Firmwide framework completeness** Risk, controls and assurance do not cover all businesses, products, risks or locations in an effective or efficient manner or at all.	Adverse events can occur or go unrecognised due to incomplete oversight and application of the 3 Lines Model or divergence from risk appetite across businesses, products, legal entities or geographies.	• Risk management frameworks need to cover all activities of an organisation where risk in some form can arise and using the 3 Lines Model can help identify gaps. • Consistent data management, taxonomy, processing and formatting is essential for enabling sensible aggregation across the framework. • Enterprise-wide reporting of risks can support the reporting of risk on a like-for-like basis (per risk type) and provide global profiles against risk appetite. • Controls are generally a 1st Line responsibility and the presence of adequate controls should be cross checked against a live and comprehensive risk register. This review can be undertaken within each of the 1st and 2nd Line as well as between them. • Alignment with risk appetite and how it is measured and monitored is essential. • It is important to ensure that individual responsibilities are fully defined and that the 2nd Line is widely inclusive of supporting units (Compliance, Risk Management, Legal, HR, Information Security, Finance, etc.) • Some large firms note that organising the 2nd Line by risk type can be very effective; others suggest alignment by business type, knowledge and/or expertise.
10	**Policy & process gaps** Policy & process design is incomplete or lacks clarity.	Gaps in documented policies, procedures and controls can lead to higher levels of unwanted risk and adverse outcomes.	• Using the 3 Lines Model as a lens can help identify gaps or flaws where further risks can be identified and controls implemented in the appropriate place across the full range of businesses and products and their life-cycles. • Clear change management protocols should be in place to ensure proper handovers and continued coverage as changes occur over time. • Regular reviews of the policy library and associated procedures and controls are necessary as is good hygiene to identify any gaps as the activities covered are dynamic. • The 3rd Line can play a useful role in policy design and implementation.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Design & process continued		
11	**Alignment of purpose and outcomes** Failure of the 1st and 2nd Lines to be fully aligned on purpose and intended outcomes will result in sub-optimal firm performance if not adverse consequences.	Above and beyond their separate mandates, the 1st and 2nd Line need to share a commonality of purpose, culture and organisational goals that inform behaviour and decision-making.	• Consider joint sessions to articulate the commonality of purpose between the lines. • Actively discuss how organisational purpose manifests in the activity of teams and individuals in Lines 1 and 2. • Collaborate on the development of operating mandates for their respective teams and activities. • Seek leadership engagement from team members who exercise influence due to experience and/or high income generation. • Alignment should fully extend across strategy and risk appetite.
12	**Mandate clarity** Operating mandates across functional units or lines are unclear or dysfunctional.	Mandates may become incomplete or unclear leading to gaps in coverage and clarity about responsibilities.	• Establishing and promoting a common organisational purpose and the achievement of clear outcomes can drive better coordinated engagement, communication and hybrid working models across and within lines but also with external parties including regulators. • A well-embedded statement of purpose can serve as a useful foundation for mandates at all levels across an organisation. • Staff in each line should have a clear and consistent statement of their collective and individual roles and responsibilities, ideally reflecting the values that underpin them. • Ways of working (in office vs remote) should be noted so as to reduce strain or eliminate gaps. • Beware of overly narrow mandates or prioritisation that can curtail the provision of essential services (e.g., the shift away from provision of advice by the 2nd Line to the 1st Line is a recent example of unhelpful constraint).
13	**Mission creep** Operating mandates shift without adequate cross-functional or managerial transparency and/or approval.	Mission creep can result in over or under-stepping responsibilities, for example, in intervening or reporting on controls, leading to unwanted risk or duplication of activity.	• Roles and responsibilities should be agreed and periodically reviewed and reaffirmed across lines and functions. • There should be formal governance where monitoring or oversight of a risk is relinquished by one line or unit thereof to ensure (a) it is appropriate to do so and (b) that responsibility is picked up by another unit where necessary to ensure no unwanted gap in coverage.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Design & process continued		
14	**Split lines: complexity impact** Implementation of split lines (e.g. 1.5 or 1B) or application of such labels can introduce additional organisational complexities sometimes with adverse consequences.	Changes to ensure role segregation and independence within a line may lead to confusion of responsibilities.	• Tone from the top should be aligned to the 3 Lines Model as implemented and reinforce specific mandates. • Clear mandates are equally important for staff in 1.5/1B units so that responsibilities are not deferred, appropriated or over-stepped. • A step-by-step process review should identify the controls needed, address where in the overall process they sit and then determine and document who takes responsibility for them. • Mediated remuneration processes for 1.5/1B units should reflect independence from but responsibility to 1st Line leadership. • Creation of 1.5/1B units can affect design, implementation and headcount but not the continuing need for investment and refinement in 2nd Line infrastructure, skills and abilities.
15	**Split lines: capabilities' impact** Significant reallocation of responsibilities to the 1st Line can lead to loss or degradation of responsibilities or effectiveness elsewhere.	The shift in overall accountability to the 1st Line can result in reduced ability or capacity of the 2nd Line to act as advisor to the 1st Line who would value more direction (i.e. the opposite of what would naturally be expected).	• 1st Line functions should ensure that their own staff step up to their accountabilities. • 1st Line committee structures can be helpful in ensuring adherence to strategy and risk appetite. • 1st Line units should take up accountability for processes such as operational risk, scenario analyses, RCSA, loss event management to ensure that 2nd Line staff do not lean in beyond 'oversight' and start 'doing'. • 2nd Line functions should staff and train with the intent of satisfying broad organisational needs including specific requirements of the 1st Line (e.g., the need for advice and second opinions) and peer 2nd Line functions (e.g., Model selection in accordance with internal Risk policy).

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Design & process continued		
16	**Drift or deference** Extra authority is ascribed to individuals based on tenure, reputation or bias rather than formal authority with potentially adverse consequences.	1st Line staff may over rely on individuals in 1.5 or 1B units for advice or feedback roles while excluding others in Compliance, Legal or Risk functions, potentially resulting in higher levels of unwanted risk and significant adverse outcomes.	• The creation of a compliance-like function in the 1st Line, and transfer of roles and responsibilities from 2nd to 1st Line, poses a threat to adequate challenge, oversight and control. This can be addressed, at least in part, by: o clear job roles and descriptions including clarity on the boundary between Lines 1 and 2 and other units, o flags in policy and process documentation on the limitations to roles and responsibilities, o detailed training which sets out clear expectations around understanding and adhering to responsibilities, o ensuring that responsibilities of individuals or units dovetail with those set out for the senior management thereof, and o continuing development of experience and expertise among 2nd Line staff.
17	**Materiality** Control infrastructure can become burdensome without material benefit.	Controls may become excessive, duplicative and/or repetitive which is inefficient and costly while possibly lacking significant benefit.	• Independent oversight within a line or by another is not required for all activities. • Downside risks and control benefits should be carefully weighed across risk infrastructure. • Team heads should be accorded reasonable discretion to ensure that basic procedural steps are understood and followed. • Investment in oversight and attendant costs should reflect due consideration of the impact both positive and negative of its effectiveness as a check and balance or as a control.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Design & process continued		
18	**Design input lacks diversity** Risk framework design or implementation changes may not draw on a sufficiently wide range of expertise	Choices made or decisions taken on redesign and implementation changes to infrastructure from a 3 Lines standpoint would be incomplete without engagement across lines, processes, functions and/or disciplines.	• Full periodic reviews should be a collaborative effort with the involvement of all lines including intensive engagement where appropriate. • As it is often the 2nd Line (Risk or Compliance) that designs or redesigns risk frameworks and infrastructure, there is a danger that the results may fit more closely with policy or broader control structures than with the business models or products and the attendant risks which is a key success factor.
19	**Review timing and prioritisation** The frequency of reviews and process updates fail to keep pace with changes in markets and the operating environment.	Infrastructure may become less effective over time due to changes in business models, legal entities, products, staffing or culture leading to unwanted or unrecognised risk.	• Process reviews together with horizon scanning on potential new risks are key elements of a design and process review. However, review efforts should then be prioritised to address key risks and target material changes: - Changes to design and processes should more often be driven by a periodic, principles-based strategic review rather than just by external events and reactive gap analyses. - Specific roles in identifying, calibrating and preparing for new risks need to be coordinated across Lines to avoid inconsistency, duplication or gaps. - Deteriorating functionality or obsolescence of technical infrastructure should also drive priority considerations.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Staffing & expertise		
20	**Skills & experience** Skills & experience may be or become inadequate for the intended responsibilities.	Evolving responsibilities can lead to unwanted risks arising from gaps in technical skills and expertise in identification, calibration and management of risks.	• People resourcing plans should align closely with the role and responsibility of the position or the team. • Attention in the 1st Line can be given to ensuring seamless aggregation of local outputs with firmwide results. • Attention in the 2nd Line can be given to strengthening advisory skills as well as market, business model, product and other technical knowledge. • Career pathing could include a period of time in cross-over roles between the 1st and 2nd Line functions. • Career pathing could include cross-training within the 2nd Line between advisory versus monitoring and testing roles. • Cross-training should be encouraged and perhaps incentivised. • Recruitment should seek to attract those open to cross-over roles and activity and have an aptitude for it.
21	**Personal accountability** Individual roles and responsibilities may not be fully captured in model design or understood and adhered to.	The full spectrum of responsibilities may not be understood or embedded in day-to-day activity with some controls ignored or overlooked by key individuals.	The post-2008 dramatic growth in 1st Line knowledge, capability, infrastructure and attendant changes in roles and responsibilities may not be fully embraced by all staff including those in managerial or influential roles. • Prior to committing to a transaction, consideration should be given, in the round, to the wide range of possible outcomes for each of the parties involved where practically possible - including explicit indications of where responsibilities and accountabilities lie in various scenarios. • Vigilance from all staff and a willingness to speak up is needed where behaviour from any line falls below expectations and risks arise or remain unaddressed.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Staffing & expertise continued		
22	**Secondary impacts of changes** The impact of change, design or implementation decisions in one area may not be adequately reflected in related changes needed elsewhere.	The shift in responsibilities to 1st Line staff can lead to gaps, duplication and/or overstaffing in the 2nd Line.	• Changes made in one line should routinely be examined for knock-on effects elsewhere. • Conduct timely end-to-end reviews of processes to consider design, efficacy, systems, data, timeliness, staff skills, experience and overall sufficiency of checks and balances across functions and lines. • Oversight of the Model overall can help identify inefficiencies and lost opportunities as well as rationalise the combined costs across the lines, especially where accountability has shifted. • Defined RACI (Responsible, Accountable, Communicated, Informed) should be clearly set out over processes that cover 1st Line and 2nd Line.
23	**Strained capabilities** Individuals or teams may be or become incapable of adequately fulfilling evolving 3 Line roles or responsibilities.	Organisational changes may exceed the ability of staff in role to keep pace or otherwise develop the necessary new skills needed.	• Managers in each line should be transparent about how evolving changes in role, objectives and accountability within their line can exceed the skills, experience and/or resources immediately available. • Shortfalls should be addressed expeditiously, ideally by way of training, or alternatively via staffing changes.
24	**Competence** Lack of technical knowledge in key roles may reduce abilities to manage risk.	Risk assessment processes can be undermined by lack of familiarity or competence of the staff performing the activity.	• Enhanced competence can help avoid adoption of overly conservative approaches and/or missed opportunities for improvements. • Inadequate levels of competence or experience at more senior levels can make this risk harder to identify.
25	**Behavioural development** Failure to invest adequately in behavioural aspects of conduct can undermine a healthy culture.	Tone from the top, training and change initiatives can over focus on organisational matters ignoring the importance of factors affecting behaviour or the support needed for behavioural change.	• Excess exercise of influence can be considered a positive manifestation of drive even when it may be bullying. Staff training to target such unwelcome behaviour. • Training could focus on developing judgement rather than just collating and assessing facts. • Proactive training on foresight capabilities rather than just reactive training on past events/incidents. • Support understanding and management of cultural and organisational dynamics as drivers of behaviour and outcomes.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Staffing & expertise continued		
26	**Career path mobility** Lack of experience in more than one role may reduce abilities to manage risk.	Lack of mobility between the lines can inhibit the development of cross-disciplinary expertise resulting in ineffective challenge.	• Firms can seek to ensure that career paths enable movement between the lines through exchange programmes or secondments. • Suitable available positions could be broadcast internally across all three lines. • Consider some experience in a Control function as an emerging pre-requisite for more senior 1st Line managerial roles.
27	**Juniorisation** Loss of experienced, senior staff may inhibit the abilities of less senior staff to perform or grow in their roles.	Cost control efforts can lead to juniorisation of staff where senior but more expensive staff are disproportionally reduced.	• Rationalisation initiatives need to ensure continuing efficiency and effectiveness of processes across all three lines. • Overall efficacy is improved by ensuring experienced managerial oversight in a 1st and 2nd Line review of proposed rationalisation plans. • An area sometimes overlooked is the skill for manual scrutiny of data - is the data correct? - who can assess the data before action is taken?
28	**Structural independence** Prioritising independence over all other considerations can compromise the ultimate effectiveness of the control.	The desire to ensure independence may result in responsibility residing with teams or individuals that lack the knowledge, experience or skills to identify potential problems quickly and accurately.	• The decisions to establish the process point for key controls, responsibility for monitoring, the escalation process and periodic testing should be undertaken in a fully collaborative forum across lines and functions. • Priority should reflect efficacy of the control in the proposed location and the overall outcome desired for the firm.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Staffing & expertise continued		
29	**Power balancing** Real or perceived imbalances in power adversely affect process outcomes between the 1st and 2nd Line.	Regardless of how well processes are designed and promulgated, imbalances in power or influence can undermine their effectiveness.	• While expertise is the more critical factor, working titles and seniority levels should be evenly weighted to ensure that one line does not over-rule the other to a disruptive level. • While, in the first instance, managers are more likely to rely on their own observation of the working effectiveness of challenge, discussion and information sharing, effective mitigants can include: formal escalation to management or relevant unit or committee, periodic reviews undertaken by management or relevant unit/committee or escalation to management one or two levels higher. • Significant and repetitive occurrences of one line exercising senior discretion or over-ruling another should lead to a deeper examination of the root causes by management one or two levels higher.
30	**Compensation** Compensation disparities can de-motivate and undermine effectiveness of staff.	Disparities in value attribution between 1st and 2nd Line roles that utilise similar technical skills can make compensation parity difficult to attain.	• Compensation reviews and market testing/benchmarking can clarify value of 1st Line technical competence and skills when required in other lines. • Career path mobility can also help alleviate the disparity as differences in roles and context are better understood.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Behaviour & escalation		
31	**Purpose** Management and staff may lack a clear understanding of organisational purpose and how it manifests in 1st or 2nd Line functions.	Poor understanding and commitment to organisational purpose can lead to sub-optimal if not adverse consequences.	• Establishing and promoting a clear organisational purpose and the achievement of clear outcomes can drive better coordinated engagement across and within lines. • Translating broad statements into practical applications at team and individual level (e.g. how exactly does my team, process, service contribute to the organisation's purpose).
32	**Policy & process adherence** Failure to adhere to the spirit of organisational policy and process can undermine culture and lead to sub-optimal if not adverse consequences.	Risk behaviours may focus solely on avoidance of breaches rather than achievement of the broader positive outcomes intended.	• Actual or potential events should be monitored from a reputational risk perspective. • Process shortcuts or workarounds that can become an additional source of risk should be identified. • Exemplary behaviour should be recognised, acknowledged and promoted.
33	**Cooperation** Inappropriate, unprofessional or uncooperative behaviour can undermine the most robust framework and infrastructure and infect firm-wide culture.	Unidentified or undermanaged weaknesses in culture or misbehaviour can undermine good conduct outcomes.	• Individual misbehaviour, if ignored or unchallenged, can be interpreted as an acceptable norm. Robust, highly visible action should be taken to identify and address misbehaviour. • Senior oversight helps to detect imbalances in risk vs reward which can lead to adverse behaviour as can accountability not being adequately understood and lived day-to-day by key stakeholders. • Attitude/behaviour should be an additional focus/report area of all line reviews. • The 3 Lines Model can support locating and responding to marginal voices and surface misbehaviour such as bullying or suppression of dissent.
34	**Policy effectiveness** Policies may be poorly framed and fail to deter misbehaviour.	Policies should be clear, thorough and unambiguous and include a responsibility to seek guidance whenever there is doubt. Misbehaviour can not be justified by lack of clarity.	• Well documented policies, controls and procedures support a well-functioning organisation and gaps or poor quality can lead to adverse outcomes. • A healthy feedback loop on loss events, breaches, near misses or changes to risk appetite are essential for continuing policy effectiveness.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Behaviour & escalation continued		
35	**Abuse of discretion** Decision-making should follow agreed processes for escalation and resolution with excessive use of overrides also requiring escalation and resolution.	Frequent exercise of managerial discretion to override policy and process can lead to weakening of adherence and self-discipline among staff.	• Policy and process should be reviewed regularly to update and reaffirm the limits to discretion. • The use of discretionary override authority should be escalated one level higher for each event and two levels higher as a periodic (weekly or monthly) summary or when overrides are occurring repeatedly. • It is important that the training on escalation and speaking up becomes or remains effective rather than being considered as noise.
36	**Personal accountability** Individuals, however capable, are perfunctory in their performance of assigned 1st or 2nd Line roles.	Failure to hold staff to account for their individual process responsibilities can result in unwanted risk exposure and process failures.	• Relevant staff should be held accountable for their oversight roles as part of standard performance management. • Significant failings in oversight, even in the absence of adverse events, should result in a reassessment of the capability of the individuals involved. • Periodic assessments should include the overall context staff operate within and the process infrastructure upon which they rely. • Staff training and support initiatives, including behavioural aspects, should be undertaken where needed with the support of all three lines.
37	**Tolerating misbehaviour** Policy and process breaches or adherence failures may not be escalated on a timely basis or at all.	Unwillingness to adhere to a particular policy or process can give rise to any or all of the risks they were designed to prevent. Escalation is essential.	• It is important to ensure that policies and related intentions or objectives are clearly explained and understood. • Escalate adverse events related to misbehaviour one or two managerial levels higher. • Recognise, acknowledge and promote exemplary behaviour. • Respond to - and highlight the response to - culturally inappropriate behaviour. • Bridge building between silos within or across lines can strengthen understanding of why certain rules are in place. • Develop 'safe-space' mechanisms (e.g., confidential mentorship or wellbeing partners) to discuss bullying and abusive behaviour.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Behaviour & escalation continued		
38	**Character strength** Staff may fall short in the skills, experience and character disposition needed for their specific role.	Inability to mount adequate challenge can arise due to personal character elements (easily intimidated, deferential) rather than just a lack of knowledge or expertise.	• Ensure that challenge is delivered in teams of two rather than by an individual alone. • Recruit, train and coach with this downside risk in mind. • Provide coaching and mentoring so that individuals grow in their positions.
39	**Diversity & inclusiveness** Forums for discussion and decision-making on risk topics can lack diversity rendering them ineffective.	Discussions in risk committees may miss important observations that a more diverse group of attendees might identify.	• Apply a 3 Lines lens in conduct risk forums by always including all three lines as well as wider, rotating or guest representation to add diversity of thought and input. • Effective cooperation, collaboration and communication generally between the Lines displays key elements of diversity & inclusion.
40	**Psychological safety** Insufficient psychological safety can lead to individual and organisational underperformance.	A fearful culture works against problem identification or escalation.	• Strengthen the approach to addressing breaches by recognizing (acknowledging or even rewarding) staff who own up to a breach proactively and contribute to future prevention measures. • Encourage a culture of identification and mitigation rather than avoidance.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Behaviour & escalation continued		
41	**Audit transparency** Lack of open communication with or by Internal Audit can undermine a collaborative, outcome-focused culture.	Lack of communication or timely discussion of audit findings can undermine timely resolution.	• Communicate Audit findings as soon as practically possible enabling maximum transparency, problem refinement and faster resolution (i.e., more than just a fast response with statements of intent to address the findings). • All three lines to apply 'read across' from Audit findings to other business activities and locations. • Potentially include observations on organisational or cultural drivers for adverse outcomes, rather than just procedural or systematic ones. Examples could be over-use of workarounds that become the accepted norm, or behavioural points.
42	**Reward & incentives** Insufficient reward, recognition or incentive for good behaviour discourages it.	Lack of visibility of or reward for good practice undervalues that behaviour and fails to encourage more.	• Align reward programmes to good practice metrics around risk culture and outcomes. • Make recognition of good practice a key feature of performance assessment discussions. • Challenge the mindset that good conduct is expected and so is not required to be additionally called out or rewarded.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Tools, analytics & monitoring		
43	**Data sourcing** Lack of or inconsistent use of agreed 'golden source' data in analytics and reporting can lead to unwanted or unaddressed risk and/or to inefficiencies.	The use of different data, taxonomies, models or parameters by individual lines or teams can lead to inconsistent understanding of risks/issues or wasted time explaining/ reconciling items. Duplication of reporting can also to lead to more costs with little or no additional benefit.	• Single golden source data (including reference data) for risk analytics should be shared by all three lines for basic reporting. • Reporting of KRIs should be the responsibility of the 1st Line. Key aspects of reporting (e.g., data sources, methodologies and thresholds) should be subject to review and challenge from the 2nd Line. • Consistency of taxonomy and formatting is important to ensure accurate aggregation for reporting and to enable read across. • Calculations based on independently sourced or generated data should be disclosed as supplemental and reasonably reconcilable to golden source data. • Alignment of business strategy with risk appetite is very important. • Where possible, new or additional requirements (e.g., ESG, financial crime, sanctions) should be incorporated into existing primary golden source infrastructure quickly rather than being maintained long-term as separate, non-integrated data. • Data usage should be supported by common data models.
44	**Efficacy of controls** Functional independence is compromised by organisational structures and/or expertise.	Validity and effectiveness of controls can be undermined due to lack of independence or expertise, real or perceived.	• Validity and effectiveness of controls can be undermined if the design compromises the independence between users and testers. • Either the 2nd or 3rd Line to have access and authority to test 1st Line controls and assess and report on their accuracy. However, assessment priorities should have a clear and shared rationale. • Designating separate 'operators' and 'testers' within a single line (e.g., within 1.5 or 1B) may not be sufficient where the downside risks are significant. Testing of 1st Line controls for significant risks can best be done by the 2nd Line subject to appropriate business/process understanding. • The 3rd Line can play a useful role as arbiter on questions of design.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Tools, analytics & monitoring continued		
45	**Point of control** The choice of location of controls and/or monitoring does not take full consideration of the risk being managed.	The effectiveness of controls or monitoring may be compromised.	• Firms should consider the location of controls or monitoring in the context of the risk being managed, the expertise required to do so, the likely outcome or effectiveness of the control at that point as well as the costs. • Staff performing the testing must have the knowledge, skills, experience and alertness to conduct the test and fully understand the results.
46	**Risk identification** Teams that design or maintain tools or analytics, especially if done remotely from the business, may lack adequate business knowledge to do so effectively.	Tools or analytics may be overly generic or may not adequately consider how numerous risks can arise in a particular business.	• Tools or analytics should be developed in conjunction with the 1st Line risk owner or an appropriate delegate. • Where a degree of separation is needed to manage specific risks (e.g. surveillance), individuals with adequate business understanding should be involved.
47	**Technical competency** Skills and experience may be technically inadequate for the operation of complex analytical tools and the related responsibilities of individuals.	Staff may lack understanding of the tools they work with and the relative meaning of the signals they generate or observe, including false positives.	• The design of monitoring tools needs to be a collaborative effort across the lines and areas of functional and technical expertise with a goal of clear, end-to-end understanding. • Regular training should be provided on the tools themselves to ensure mastery. • Explanatory notes on monitoring results should be expressed in jargon-free language and context.
48	**Experience and familiarity** Skills and experience may lack the breadth and depth for the specific oversight responsibilities of individuals.	Unwanted risk exposure can arise directly from the failure to assess risk events contextually and the potential for read-across to other products or businesses.	• Risk committee sessions should be convened across lines and functions so that individuals gain first-hand knowledge of a wide range of business models and risks that can arise. • Cross-training should be undertaken between the 2nd and 3rd Lines on assessment approaches and skillsets. • Training and support should include development of judgement skills, including under duress.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Tools, analytics & monitoring continued		
49	**Duplication** Duplication of infrastructure, process or reporting may not add to understanding or management of the risks.	Duplication can be ineffective where understanding of business models and behaviours is low, e.g., surveillance of complex products and markets.	• Effective testing should ideally be done once rather than be undertaken multiple times by different 'independent' parties. • 1st or 2nd Line managers should ensure that the outcome of reporting is validated for the use intended within their lines. • Testing should be placed at a key stage or stages in a business or product cycle for testing to be effective. • Duplicate reporting with weakly framed uninsightful commentary is a common failing that can undermine accurate commentary elsewhere.
50	**Obsolescence** Continued reliance is placed on infrastructure retained beyond its useful life in terms of accuracy, effectiveness, completeness or relevance.	Risk monitoring infrastructure is sometimes retained beyond its useful life and/or supplemented with an array of "workarounds'.	• Infrastructure should be updated to accommodate the data flows, analytics and reporting needs of evolving businesses across the lines. • Principal Risk Type (PRT) effectiveness reviews should be performed on an annual basis. • Investment spend for related risk types should be coordinated across the lines.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Near misses & failures		
51	**Framework gaps** Risk registers are not updated thoroughly and quickly in reflecting a 3 Lines model assessment.	Failure to take steps to identify and learn from external or internal adverse events or near misses results in unrecognised or undermanaged risks in similar products or services on offer.	• Escalate ineffective tools rather than rely on them as a source of blame. • Oversight of an organisational level exercise to review effectiveness of controls and MI can help ensure appropriate prioritisation.
52	**Policy responsiveness** Policy and process updates arising from new risk register entries are not completed in a timely or effective manner.	Failure to explore read-across of external or internal adverse events to other products or business lines can result in avoidable breaches or mishaps.	• Ensure that remediation plans extend across all products and, where applicable, to other geographies. • Read across checks should be incorporated into reviews of procedures • Membership of review teams should be cross-product and/or inter-disciplinary to enhance diversity of views.
53	**Risk relevance** Near miss events that are not elevated and addressed can later lead to losses.	Additional or exacerbated losses could result from a failure to treat significant near-miss events as seriously as actual loss events (selection bias).	• Near-miss events should be reviewed and escalated to similar levels as crystalised events.

9. 3 Lines Model - Risk Register continued

	Risk management framework issue	Potential impact	Discussion of control & mitigation measures
	Near misses & failures		
54	**Risk Accountability** Ownership and accountability for risk is weak.	Avoidance of responsibility or accountability by not dealing directly with issues arising (e.g., "not my fault", "not my problem") leads to persistence of undermanaged and unwanted risks.	• Senior 1st Line management and staff should act consistently in a manner that reflects full ownership of risks. • Senior management should ensure that finding and preventing misses is rewarded and celebrated (to ensure they are surfaced). • Senior management should ensure an equitable apportionment of responsibility and accountability for remedial work that benefits the organisation as a whole. • Allowing an excessive degree of mitigation responses via delegation or escalation to others (not my fault, not my problem) undermines the culture of accountability more generally. • Reward and recognition for identifying and resolving near misses should be emphasised as part of a culture of ongoing learning and awareness.
55	**Metrics** Near misses are not identified or escalated.	Lack of awareness of near misses leads to more of them as well as repetition.	• Where possible, separately captured 1st and 2nd Line interventions to stop adverse events can be useful as comparable metrics.

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