FMSB

FINANCIAL MARKETS STANDARDS BOARD

Statement of Good Practice

Front Office Supervision of Wholesale Traded Markets

Transparency Draft

FMSB invites comments on this Statement of Good Practice by 15th November 2024. Please address any comments or enquiries to secretariat@fmsb.com.

Introduction

Financial Markets Standards Board

Financial Markets Standards Board ("FMSB") was established in 2015 in light of the recommendations of the Fair and Effective Markets Review in the UK with a mandate to issue Standards designed to improve conduct and raise standards in wholesale financial markets. FMSB has built up a body of Standards ("Standards") and Statements of Good Practice ("SoGPs") over time, prioritising those areas where FMSB member firms ("Member Firms") 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.

Applicability of FMSB Statements of Good Practice (SoGP)

SoGPs are issued by FMSB from time to time. SoGPs do not form part of FMSB Standards, and they are not subject to FMSB's adherence framework. Rather, they reflect FMSB's view of what constitutes good or best practice in the areas covered by the SoGPs in question. Member Firms are expected, and other firms are invited, to consider their own practices in light of the relevant SoGP and make any changes to such practices that they deem to 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.

Full details of the Member Firms are available at https://fmsb.com/. SoGPs will be shared with non-member firms and their affiliates, who are encouraged to consider them. Information on SoGPs will be made available to users of the wholesale markets (e.g., corporates and end investors) so that they may be made aware of their existence and FMSB's expectation of market conduct. FMSB will, as part of its normal course of business, periodically review the applicability of its published SoGPs to ensure they are relevant and up to date for market conditions.

Relationship with law and regulation

FMSB Standards and SoGPs do not impose legal or regulatory obligations on Member Firms, nor do they take the place of regulation. In the event of any inconsistency, applicable law, rules, and regulation will prevail. In developing Standards and SoGPs, certain regulators may have commented on their drafting, alongside Member Firms and other bodies, such that the Standards and SoGPs, once finalised and published, are intended to represent an authoritative statement of global good practices and processes. However, they are not normally endorsed by regulators. Where they are endorsed by a regulator, that will be made clear on the face of the Standard or SoGP in question.

Relationship with other codes

Other Codes already exist in relation to certain markets, such as the FX Global Code, while others are in the process of being produced. Some overlap exists between the work of FMSB and such other bodies and FMSB will seek to ensure it adopts a consistent approach in cases of overlap wherever possible and will seek to avoid issuing a Standard or SoGP where the subject matter is already covered adequately by existing regulation, or a Code issued by another body. It may draw attention to Member Firms of an existing code and request that Member Firms act in a manner consistent with it once appropriate steps have been taken to confirm its applicability.

I. Explanation

1. Purpose

1.1 The purpose of this SoGP is to support firms in their efforts to design and operate effective supervision frameworks for market and client-facing activity in wholesale markets.

2. Scope and applicability

2.1 This SoGP focuses on the supervision of market and client-facing activities.

2.2 Application of the good practice statements should be informed by the nature, scale and complexity of the trading business undertaken and the systems and controls in place to mitigate associated risks. Each firm should consider its own practices in light of this SoGP and the extent to which any changes might be appropriate.

2.3 While this document is focused on sell-side banks, it may also help to inform supervision activity across asset management firms, custodians, corporate trading functions, infrastructure providers and treasury.

II. Context

1. Regulatory context

1.1 Clear frameworks enable oversight and governance of the safety and soundness of an organisation's day-to-day wholesale market activities. A supervision framework for front office sales and trading or transactional activity is a core component of this approach. Supervisory discipline at the firm level serves to promote the fair and effective functioning of global wholesale markets.

1.2 However, the regulatory landscape for front office supervision can be challenging for firms to navigate as regulatory standards and expectations differ by regulator and across jurisdictions in both substance and in the way they are communicated. In seeking to understand and comply with their regulatory obligations, challenges that market participants may face include:

- Organisational complexity for firms with multiple products and services that are cross-jurisdictional and involve remote booking,
- Front office supervision itself that cuts across multiple products, risks and geographic areas and now includes hybrid working models,
- Divergences between rules-based and principles-based regulatory regimes that must be recognised and reconciled, and
- Regulatory expectations that may be communicated bilaterally through supervision or enforcement actions and may not be visible to the wider industry.

1.3 While the regulatory landscape remains fragmented and dynamic, a number of common themes have emerged including:

- Clarifying lines of accountability with a growing number of countries introducing formal accountability regimes,
- Regulators emphasising the key role of supervision frameworks leading to growth in related controls,
- Renewed scrutiny of a firm's supervisory need for accurate, complete, relevant and timely data presented in an informative, actionable context,
- Hybrid working arrangements where oversight challenges must be overcome, and
- Governing the growth in algorithmic or model driven trading activity.

1.4 Taken together, the complexity of markets, the evolution of organisations, wide-ranging changes across the regulatory landscape and recognition of the importance of behaviour draw attention to the need for a well-designed supervision framework.

2. Market, organisational and behavioural context

Global capital markets continuously evolve and new organisational structures, products or services, as well as business growth or contraction, give rise to new conduct risks. Supervisory effectiveness is dependent upon being vigilant and curious across a widening landscape of clients, counterparties and markets as well as how advanced technology is deployed.

Supervisors, while being responsible, should also encourage staff to help to identify and escalate potential errors or early signs of larger issues, help diagnose the underlying causes, and the implications enabling a proactive supervisory response to mitigate these challenges. Given the heightened complexity, volatility, and unpredictability of today's trading environments, a comprehensive approach such as collective sense-making[1] that involves analysis of a wide range of information and data while remaining vigilant for anomalies or indications of potential risks. It necessitates a deliberate effort to refrain from prematurely simplifying or drawing conclusions, while instead, striving to attain a comprehensive understanding of the situation at hand, including interdependencies with other contexts. This also applies to maintaining alertness to behaviour internally or with clients that gives cause for concern.

The contribution of a responsive supervisor is bounded more by their own curiosity and initiative than the detail of prescribed regulations, policies and procedures. Supervisory judgements, whether short or long-term, to address rapid or unexpected changes may determine whether the firm navigates successfully within risk tolerances and agreed operational constraints.

3. Key concepts

3.1 Supervision

The purpose of supervision is to contribute effectively to the conduct of business in accordance with strategies at board, divisional and/or business unit level, regulations, risk appetite and desired customer outcomes.

Supervision is a multi-faceted role that includes (a) the act of overseeing individuals and their work output, the processes they use, and their behaviour while doing so and (b) working with data, information and escalations from others (e.g. support service units) to assist with analysis, opine on possible breach or control issues and respond accordingly. This is intended to ensure the standards of the firm are met, markets are orderly and customers are treated fairly. A person who carries out this role is a supervisor even if the term supervisor is not included in their formal title[2]. It is a core component of oversight frameworks and may sit within or alongside a risk management framework, a control environment or their equivalents.

Front office supervision focuses on a subset of business staff whose activities could have direct adverse impact on the business and the fair and effective functioning of markets and also those staff who have mandates to take on primary business risks on behalf of their firms.

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[1] Organizational Sensemaking, Ravi S. Kudesia, Sense-making is the process by which individuals, teams, and organisations collectively engage in understanding complex information and navigating various new developments to improve the quality of their decisions and responses.

[2] This SoGP is not intended to address the wider context of generic employee supervision, or line management, across the wider or whole organisation.

Specific supervision activity involves monitoring adherence to internal policies, preventative and detective controls against errors, mistakes or abuse and procedures including those that reflect regulatory requirements. Areas of oversight include: client interaction, trade data capture, position valuation, trading within approved limits and parameters, post-trade processing, trade reporting, revenue recognition, resolution of trade failures or stakeholder disagreements and behaviour of individuals with staff, clients and third-parties or other stakeholders.

Effective supervision facilitates seamless communication between the client-facing front office and other departments within the firm. This enables the sensible navigation of risk and cultivates a culture of engagement, transparency, responsibility, and accountability in day-to-day operations. It serves as a protective measure against potential market misconduct and contributes to the overarching goal of upholding the integrity and stability of financial markets.

3.2 Accountability and Responsibility

Accountability is an over-arching concept reflecting wider ownership for business and operating model design, provision of the resources to enable it to function, and the oversight of its performance. Accordingly, senior business heads and supervisors are accountable for the performance and risk management of their business areas, and the people involved. The responsibility for specific controls, monitoring and other activity is a distinct matter that is separately assigned.

The concept of responsibility serves to clarify ownership of specific assigned tasks or duties to be performed. Front office supervisory responsibilities comprise a set of monitoring and proactive or responsive duties that are intended to preserve adherence to organisational policies and procedures, regulatory rules, transparency and appropriate standards of ethical conduct and behaviour.

Supervisory responsibilities entail continuous alertness to warning signs and extends to the timely investigation of actual or potential breaches along with the use of appropriate escalation procedures and reporting channels. They also involve responding to queries or escalations from other units about activity in the area of the business under their supervisory oversight. These responsibilities are best defined in the context of a supervision framework.

Exercising good judgement in the performance of their duties is a key expectation of a supervisor and this can include a decision to act or escalate, or not. While all staff are governed by firm-specific codes of conduct or stated principles and values, supervisors are expected additionally to contribute to the aspirational tone supporting good conduct.

For a supervisor, both accountability and responsibility are about being conscientious in their role, taking ownership of their individual performance in the role and accepting consequences for performance that falls below specified expectations.

Effective front office accountability is supported by robust oversight, regular performance evaluations, and habitual behaviour that encourages open communication and learning from both successes and mistakes including near misses. By cultivating a commitment to accountability, financial institutions are better able to enhance market integrity, mitigate risks, and promote an ethos of responsibility among staff. This includes respect for the supervisory and risk management frameworks, the control environment and the staff charged with their delivery and oversight.

3.3 Controls

In wholesale markets, controls arise from a desire to add additional strength or to buttress one or more perceived weaknesses which may manifest at the creation, delivery or later stages in the lifecycle of a financial product or service. A control acts as a preventative or responsive tool or intervention to reduce or mitigate unwanted risk or activity.

A supervisory control is a sub-set consisting of any control (a) performed by a designated supervisor with the objective of overseeing their area of responsibility and the relevant individuals; or (b) which aims to ensure that supervision is performed effectively. A supervisor may also review output from controls performed by support units or others on specific topics. Such outputs represent information provided to a supervisor rather than a supervisory control per se.

A control can take many forms for example: a monetary or volume limit to stop activity beyond a defined threshold; a permission to access a physical location, systems or tools; an automated report to draw attention to a trend; or a time limit for completion of a task. The focus of a control could be on containing exposure within risk appetite, regulations, a policy, a process or other construct or perhaps addressing common human errors.

Responsibility for design, implementation and oversight of the control itself (as opposed to what is being controlled) can range across a number of functions including risk, compliance, finance or human resources. To enhance efficiency, some controls may be automated. In aggregate, controls seek to strengthen the implementation and efficacy of the supervision framework. Controls that primarily seek to provide assurance should operate independently of the unit being assessed.

In response to an evolving risk and regulatory landscape or changes to policy or personnel, there is a continuing need for controls to be evaluated and adjusted. This involves the retirement of outdated, surplus, redundant or ineffective controls as well as appropriate and timely recalibration of existing controls and the creation of new controls. The priority, wherever practicable, is to address the weakness itself rather than update or refine the control that is intended to mitigate the risks arising from that weakness.

An effective and up-to-date front office controls environment can contribute strongly to the overall stability and resilience of financial institutions and markets.

III. Good practice statements

1. Organisation and responsibilities

Good practice statement 1:

Firms should clearly define what activities require supervision including those that directly impact the functioning of financial markets.

Commentary

1.1. Supervision is essential for the management of day-to-day operations of wholesale markets business. Examples of front office roles subject to supervision include, but are not limited, to:

- sell side firms: traders, sales, research analysts, investment bankers, structurers, quants and developers in charge of trading strategies or trading systems, business personnel monitoring performance of trading algorithms (i.e. e-traders), and
- buy-side firms: portfolio managers, traders, analysts, sales, quants and developers in charge of trading strategies or trading systems, business personnel monitoring performance of trading algorithms.

Good practice statement 2:

Firms should define the roles and responsibilities of supervisors, and the standards expected of them when discharging their duties, and document them in policies and supervisory procedures.

Commentary

2.1. Firms should establish both general and job-specific roles and responsibilities for supervisors in policies, associated procedures, or other firm records.

2.2. General responsibilities, which would apply to all supervisors, may include:

- promoting ethical behaviour and firms' Codes of Conduct,
- overseeing the performance of front office staff, and
- directing their day-to-day activities.

2.3. Role-specific responsibilities will vary according to the desks, markets, products and risks subject to supervision.

2.4. Firms should make sure that supervisors are aware of their roles and responsibilities and the expectations placed upon them. This may be evidenced by requiring supervisors to formally acknowledge their roles and responsibilities.

2.5. Firms should also establish clear standards for supervisors and embed these in policies and procedures. Indicative examples of minimum expectations for supervisors are:

- understanding the business activities they oversee and their associated risks,
- undertaking the activity of supervision as an ongoing responsibility and not something that can be separated from their day-to-day role,
- being proactive and curious in identifying and acting on warning signals rather than relying only on formal controls to surface issues or trigger response requirements, and
- setting the tone for conduct and behaviour among their supervisees, colleagues and peers. This includes creating an environment where front office staff are welcomed and encouraged to discuss matters openly and raise concerns when minded to do so.

2.6. Firms should provide training for new supervisors and periodic retraining for all supervisors on their roles and responsibilities and the standards expected of them.

Good practice statement 3:

Firms should ensure they are comfortable with the level of competence and experience of supervisors. Supervisors should have sufficient knowledge, experience and understanding of the business to be able to discharge their supervisory responsibilities.

Commentary

3.1. Firms should consider the knowledge and experience requirements for specific supervisory roles and responsibilities. The level of knowledge and experience to be expected of supervisors will vary depending on the activity being supervised (see GPS 5 for factors that may be considered).

3.2. Firms could consider the following attributes when setting their requirements:

- the nature and extent of prior relevant experience,
- experience of specific markets and/or client sectors,
- corporate grade (e.g. director, vice president),
- role (e.g. head of a desk, lead portfolio analyst),
- any relevant local registration requirement applicable to the location where supervision will occur,
- any required specialist skills (e.g. the ability to understand programming language), and
- any local regulatory requirement which may be applicable.

3.3. Firms should carry out internal assessments when appointing supervisors as well as ongoing assessments of their performance in the role. These assessments should consider input from the regular employee performance assessment cycle and any conduct or risk issues arising. When hiring external candidates into a supervisory role, the assessment against the minimum criteria should be part of the selection process.

3.4. Firms should provide supervisors with suitable competency training to ensure they understand their roles and responsibilities and have sufficient knowledge and abilities to perform their duties. In addition, firms should be mindful of the inter-personal skills and developmental needs of individual supervisors that would support the exercise of good judgement in their role.

3.5. Supervisors should take reasonable steps to understand risks involved in their business and the risk appetite of the organisation.

2. Supervisory hierarchy

Good practice statement 4:

Firms should have a defined control framework to demonstrate that they maintain complete supervisory coverage of all relevant employees and activities over time, including activities where there is limited or no human intervention.

Commentary

4.1. Firms should maintain accurate records of activities in scope for supervision and the firm's supervisory hierarchy. For example, trading businesses could use a complete population of trading books and ensure that every book is assigned to an owner and each owner has a supervisor. The extent of the records maintained should be proportionate to the extent and complexity of the activities in scope for supervision.

4.2. Firms should have in place controls to ensure the completeness of their supervisory coverage over time. This should include controls related to:

- individual new joiners, movers and leavers,
- initiation of new business which may include new markets, products, trading strategies, trading venues, or client sectors,
- cross-divisional and/or joint business initiatives,
- changes in the internal business hierarchy,
- changes to internal policies, and
- implementation of requirements due to changes in regulation.

4.3. Firms should ensure that their supervisory hierarchy covers all relevant supervisors up to the level of heads of businesses or entities.

4.4. Firms should have transition and handover procedures in place to ensure continuity of supervision, for example in case of new joiners, movers, leavers and changes to or establishment of new businesses.

4.5. Maintaining "complete supervisory coverage" should be understood to apply to both the supervision of front office employees and front office activities or services including use of models where there is limited or no human intervention.

4.6. Front office supervisors should have a firm understanding of the operation of such models, including the types of data ingested, the expected outputs, and any risks the system may pose to the fair and effective functioning of markets.

Good practice statement 5:

Firms should define the reasonable span of supervision for individuals to ensure that supervisors are able to effectively discharge their duties. The span of each supervisor's supervisory duty should be reasonable and supervisors should have sufficient time and capacity to perform their supervisory duties.

Commentary

5.1. The span of supervision refers to the number of individuals and range of activities that an individual supervisor oversees for a defined area. Firms should consider what the reasonable span of supervision is for the defined area to ensure that supervisors can be effective in their role. Some examples of factors to consider in defining the reasonable span are set out below:

- number of employees supervised,
- number of supervisors supervised (i.e. this could be applicable to more senior supervisors in the hierarchy),
- number of books, portfolios or desks supervised; size and complexity of the business activity supervised,
- quantitative measures such as Value at Risk ('VaR') and risk appetite thresholds,
- ease of use of supervisory tools,
- the extent of time-zone and geographical coverage,
- the levels between the organisational seniority level of a supervisor and their report (e.g. a Managing Director supervising a graduate level hire may be ineffective if the supervisor is many steps removed from the activities of their report),
- experience and competency of supervisors, and
- experience and competency of individuals supervised.

5.2. Supervisors should be able to identify and escalate situations in which the span of supervision may be already or may be becoming unreasonable for any reason, perhaps including any of the factors listed above. This can be supported by effective training on the matter and firms should consider whether periodic review and agreement on the span of supervision is required.

5.3. In determining what constitutes a reasonable span of supervision, firms should consider the increased expectations placed upon supervisors and the volume of tasks they are expected to perform. If supervisors are overburdened, both the quality of their supervision and their ability to discharge their other responsibilities may be impaired.

5.4. Considering the size and complexity of their business activities, and the expectations they have for supervisors, firms should consider measures to increase the efficiency of supervision and allow supervisors to focus on high-risk items that require further attention. Such measures may include reducing false positives of alert-based controls through better calibration, consolidating supervisory data into a single location such as dedicated supervisory dashboards, and, for larger organisations, delegating certain supervisory tasks to dedicated support functions (e.g. Level 1 reviews performed by a separate team with escalations to supervisors for Level 2 review).

Good practice statement 6:

Firms should put arrangements in place to ensure that it is clear and unambiguous to all employees who their supervisor is, and to all supervisors, whom they supervise. Where an individual has more than one supervisor, firms should clearly set out how multiple reporting lines are applied and define the scope and the responsibilities of each supervisor.

Commentary

6.1. Firms should maintain a clear record and evidence of their supervisory hierarchy. These records should be in such a form as to enable firms to check who in the past had supervisory responsibilities for a given person, for example, when responding to regulatory requests or performing internal look back reviews.

6.2. Firms should consider making current mappings available internally within their organisations to all employees.

6.3. There may be occasions when an employee has more than one supervisor. In such scenarios, the split of responsibilities between supervisors should be clearly defined and a process should be in place to ensure complete coverage of all in scope activities by supervisors in accordance with Good Practice Statement 4.

Good practice statement 7:

Firms should maintain supervisory delegation arrangements which ensure that delegates are in place when supervisors are not able to discharge their duties (for example, due to holidays), and which set out if and how supervisors can delegate certain tasks to others.

Commentary

7.1. Firms should have arrangements in place to maintain pre-determined delegates for supervisors where necessary to ensure coverage of supervision as noted in Good Practice Statement 4.

7.2. Identified delegates should be able to satisfy the requirements of Good Practice Statement 3 on competence and experience and Good Practice Statement 8 on conflicts of interest. Firms should consider whether in certain circumstances, for example when delegating ‘downwards’, additional arrangements, such as monitoring or controls, need to be put in place to support effective supervision by delegates.

7.3. Firms should put in place arrangements for handovers to and from delegates in relation to planned absences. The format of these handovers can vary depending on the complexity of the business and the anticipated length of absence. Firms should consider whether the handovers should be evidenced.

7.4. Delegating supervisors should retain accountability for the supervisory performance of their delegate and should make reasonable efforts to inform themselves of the activities that took place during the period of delegation, including the risks arising from those activities.

7.5. Firms should have in place clear arrangements setting out if and how supervisors can delegate certain tasks to other functions or personnel in the 1st Line (e.g. 1.5 or 1B) or elsewhere.

7.6. Supervisors may delegate specific tasks to others, provided they ensure that this process is sufficiently independent from the supervisees and is subject to procedural controls ensuring completeness, accuracy and integrity of output. While supervisors can delegate specific tasks to others, firms should ensure that accountability for supervision remains with the appointed supervisors.

7.7. Where tasks are delegated to other teams and functions, supervisors should continue to receive the information they require to provide oversight, including escalations of suspected concerns and periodic management information (MI) identifying trends and themes. The performance assessment and compensation for employees working in these teams and functions should not be tied to the revenue generation of the businesses they support. Rather, they should be incentivised to effectively perform their risk management responsibilities.

Good practice statement 8:

Firms should minimise conflicts of interest in their supervisory hierarchies. Where there are unavoidable potential conflicts of interest, these should be identified, approved and appropriate safeguards put in place.

Commentary

8.1. Conflicts of interest may arise within supervisory hierarchies in situations including, but not limited to, the following:

8.1.1. **Self-supervision** – Firms should have measures in place to identify and manage cases of self-supervision (e.g. supervisors reviewing their own activities or activities where they directed or influenced the activity). At smaller firms, for smaller desks or business units, it may be impossible to completely eliminate self-supervision, but where this is the case, appropriate safeguards should be put in place (e.g. the supervisor's supervisor provides additional review and oversight). Firms should apply judgment as to when it is appropriate for supervisors to review their own activity; for example, it would be inappropriate for a trading supervisor to review and sign-off on their own mandate breach, whereas it is established practice for trading supervisors to review and sign-off the P&L reports of their desk.

8.1.2. **Delegation** – Firms should assess whether conflicts of interest may be created or exacerbated by the selection of delegates. For example, situations should be avoided whereby a delegate is being asked to temporarily supervise parts of their own activity (for example, as may occur in 'downwards' delegation), or to supervise businesses or activity with clients that may have conflicting objectives to their own (for example, as may occur in 'horizontal' delegation). Approval of such cases should be recorded and periodically re-assessed.

3. Location of supervisors and staff

Good practice statement 9:

Where supervision from a different location is appropriate, firms should define and implement any specific additional arrangements required to support effective supervision.

Commentary

9.1. There are valid circumstances under which supervision from a location different to a supervisee is necessary and appropriate. These circumstances may include, for example:

- firms with several offices that manage risk in a single trading book via remote bookings,
- the operation of small offices with management oversight provided remotely,
- working-from-home (WFH) arrangements and/or hybrid working models,
- where trading risk is managed in a central book and overall supervision arrangements are split between central supervision of market risk and local supervision over behaviour of staff, and
- business continuity purposes.

9.2. Local supervision (i.e. in the same office and, in the context of a trading business, within physical proximity on a trading floor) may have benefits over supervision from a different location due to the proximity of the supervisor to supervisees. However, supervision from a different location may be preferable when considered in light of other Good Practice Statements (e.g. GPS 3 on knowledge and experience or GPS 10 on global processes).

9.3. There should be a clear split of responsibilities between supervisors in different locations and any local supervisors, and all activities in scope should be assigned to supervisors. Firms should develop a framework and provide guidelines to ensure complete and effective assignment of responsibilities to supervisors, when a supervisory arrangement involves remote supervision, so that the respective responsibilities of the remote and local supervisor are clear.

9.4. Supervisors in different locations should have adequate means and arrangements in place to support them in discharging their responsibilities and should be given the means to escalate situations in which concerns arise about the adequacy of those arrangements. Regular interaction with both co-supervisors and supervisees and periodic site visits should be considered as part of effective supervision.

9.5. To the extent that hybrid or remote working arrangements are in place, firms should ensure the standards of supervision remain the same as when supervisors and their supervisees are co-located. Supervisors should be familiar with any heightened or evolving risks relating to supervisees working remotely (e.g. leakage of confidential information, use of unapproved communications channels, technological failures of remote trading systems).

Good practice statement 10:

Firms should establish a clear supervisory framework over global processes. Global processes may result in certain risks being centralised in a hub for the activity, with other risks remaining in the respective locations of staff operating the global process. This split should be considered when allocating responsibility for supervising staff operating global processes.

Commentary

10.1. Global processes may be active across multiple locations at the same time and multiple time zones over the day. Examples of global processes include, but are not limited to, the following:

- global trading books operating a follow the sun model, such as FX trading books,
- funds or portfolios comprising of stock in multiple locations managed from different time zones, such as ETFs based on global indices which trade stocks in several countries, and
- trading platforms and trading algorithms running in multiple time zones and locations.

10.2. Firms should ensure that every global process in scope has appropriate supervision in place for the entire process.

4. Control environment

Good practice statement 11:

Firms should ensure that their supervisory framework gives adequate consideration to the frequency and triggers of required supervisory controls which should be based on the nature and risks of the supervised activities.

Commentary

11.1. Certain activities and risks occur, or are best supervised, on a daily basis. For example, books tend to be formally re-marked once a day to update official records and for limit monitoring purposes, and reporting of operational fails may be produced overnight to be reviewed the next day.

11.2. Other activities are more suited to intra-day oversight. For example, trading activity may require more frequent supervision in the immediate vicinity of significant market events.

11.3. Similarly, the conduct of sales and trading staff when interacting with counterparties and selling to customers is an activity that requires qualitative oversight. Whilst there should not be a need for supervisors to continuously monitor staff, the approach to supervision, and tools available to supervisors, should reflect how risks may arise.

Good practice statement 12

Firms should employ a range of measures to monitor the effectiveness of their supervisors and supervisory arrangements, including in relation to the Good Practice Statements contained within this document.

Commentary

12.1. Firms should employ a range of measures to monitor the effectiveness of supervision. Examples of relevant measures may include, but are not limited to:

- Setting up supervisory platforms which track and retain audit trails for daily signoffs, relevant supervisory reviews, closure of alerts, and escalation of breaches or exceptions through to resolution,
- Establishing metrics for supervisory effectiveness, such as supervisory tasks completion rates and timeliness, volume of supervisory alerts for their desk / remit, number of employee incidents, number of client complaints, policy breaches of supervisees (e.g. for personal account dealing, mandatory training breaches, information barrier breaches), and monitoring supervisors against those metrics,

- Periodic evaluation of supervisors carried out by suitably skilled and independent functions, who select a sample of supervisors to perform a 'deep dive' assessment of how effectively they performed their role over time. This may entail conducting interviews with supervisors and gathering feedback from their supervisees and other colleagues. The sampling should be risk-based considering factors including the inherent risks of the activities overseen by supervisors, the experience of supervisors, and any metrics which may indicate lower quality supervision (e.g. see indicative metrics above). Interviews could consider topics such as awareness of policies and conflicts of interest, quality and timeliness of control execution, and how task-load may be impacting supervision,
- Conducting Quality Assurance (QA) reviews of the performance of tasks and controls by supervisors. Such review may consider not just whether the correct procedural steps were followed, but also that the supervisor arrived at the appropriate decision,
- Transversal reviews of the execution of controls across supervisors to identify supervisory controls that are performed poorly and require additional training or guidance (e.g. low completion rates, untimely, poorly evidenced, or low value-add),
- Obtaining '360 degree' feedback on supervisory performance from direct reports and supervisor's supervisor, and
- Implementing the use of scorecards in the performance assessment of supervisors which bring together the output of the metrics, evaluations and reviews mentioned above.

12.2. Where firms identify areas of concern within their supervision framework, steps should be taken to rectify, including providing additional training and guidance to supervisors or updating tasks or procedures.

12.3. The assessment of supervisors' effectiveness should be considered in broader employee performance management and compensation of supervisors.

12.4. Firms should establish minimum standards and arrangements for retaining the evidence to demonstrate operating effectiveness of their supervisory controls.

12.5. To maximize their usefulness as assessment tools, supervisory controls should be designed, implemented and operated in a way which makes them auditable by independent reviewers, including the firm's own internal audit function. This may include requiring supervisors to provide supporting commentary or rationale to explain and justify their decisions, actions or approvals.

Good practice statement 13:

Firms should have in place general escalation procedures. These procedures should support the effective escalation by supervisors, or supervisees, including any circumstances in which individuals have concerns with the ability for supervisory responsibilities to be fully discharged.

Commentary

13.1. Firms should establish procedures for the escalation and resolution of financial and non-financial risk concerns relating to effective supervision and activities that are supervised. Firms should ensure that supervisors and supervisees are aware of the escalation process, including any nuances for escalations that may need to be made across division or location.

13.2. When supervisors are concerned with their ability to discharge effective supervision, they are responsible for following the escalation procedures. Supervisors should understand the outcome of their escalation and where relevant they should initiate appropriate action by the relevant function to resolve the problem.

13.3. For high-risk concerns that warrant the attention of senior management, firms should have additional procedures designed to ensure timely escalation.

13.4. Firms should also have arrangements for supervisees to escalate concerns outside of their supervisory chain of command, such as directly to Human Resources or via an anonymous 'Speak Up' channel.

5. Data and tooling

Good practice statement 14:

Firms should provide their supervisors with sufficient tools and meaningful, relevant information to enable them to carry out their supervisory duties, and supervisors should satisfy themselves that they have the right tools and information to discharge their duties.

Commentary

14.1. Firms should ensure that tools and information provided to supervisors are designed to consider the specific nature, complexity and risks of supervised businesses. Supervisory tools and information should allow supervisors to provide sufficient oversight of their supervisees' activities so that supervisors can exercise effective professional judgment and can assess relevant risks, conduct and behaviours of their supervisees.

14.2. Given the different risk profiles of buy-side and sell-side firms as well as the large diversity of business models and activities within these groups, there is a wide range of types of information which may be relevant to supervisors. Firms should periodically assess what information will sufficiently support their supervisors in the context of their specific businesses and associated risks.

Supervisors should provide input to define and tailor the information they require to perform supervisory tasks specific to their area, and how information is presented.

14.3. Supervisors may receive information through a variety of different channels, including MI reports received through email, a dashboard, or system interface, information received in an alert (e.g. a breach) requiring their review, and through governance forums. Information provided to supervisors through such channels should be curated and presented in a way that facilitates supervisory oversight and decision-making (e.g. is the information at the right level of granularity).

14.4. Depending on the channel, and the size and complexity of the firm and its business activities, oversight and decision-making can be achieved by:

14.4.1. Adopting supervisory dashboards that succinctly communicate a holistic view of the activity being supervised and items requiring attention (e.g. approval requests, informative MI).

14.4.2. Establishing key-risk indicators (KRIs) and key performance indicators (KPIs) for supervisory information to help supervisors focus on higher risk items. The logic for, and subsequent calibration of, KRIs and KPIs to be subject to periodic review. Examples of metrics include:

- P&L attribution,
- Risk limit utilisation and breaches,
- Unauthorised trading indicators (e.g. cancel, correct and amends data, mandatory time away breaches, trading in unusual hours),
- Execution quality metrics, and
- Number of electronic communications and trade surveillance escalations broken down according to risk type, theme, desk etc.

14.4.3. Identifying correlations between different datasets that may indicate risks and issues. For example, multiple policy breaches (e.g. failure to obtain required approvals, gifts/entertainment/expenses, PA dealing, annual leave taken, unexplained weekend attendance at the office, mandatory training etc) that might collectively indicate behavioural issues, and

14.4.4. Where information is provided to supervisors as part of an alert requiring their review, supervisors to be given the information they need to conduct their review.

14.5. Firms make clear to supervisors how they expect the information provided to supervisors to be used, including what actions are expected (e.g. acknowledge, approve, escalate, consult) and whether the action needs to be supported by a written rationale or commentary.

14.6. Where MI is provided to supervisors in governance forums, the terms of reference or similar documentation can clarify how the forum should use that information to support supervisory oversight (e.g. approve exceptions, review for trends and themes, escalate high risk items) in addition to any escalation channels.

14.7. When developing tools, supervisors should be consulted on how these could be designed to enhance user experience. Post-deployment, feedback from supervisors should be considered when making changes to tooling.

14.8. Firms stipulate minimum retention periods for supervisory control data.

Good practice statement 15:

Firms should define data ownership models for supervisory data that set out which personnel and teams are responsible for data quality. Proportionate measures should be implemented to support completeness, accuracy and timeliness of the data from the initial source to final use.

Commentary

15.1. In order to generate supervisory information across business activities, raw data is recorded and stored in source systems and then extracted, processed, transformed, and summarised into various metrics that are distributed to supervisors to review in supervisory tools and reporting. The quality of the data – i.e. its completeness, accuracy and timeliness – is critical for supervisors to discharge their responsibilities effectively, and the effectiveness of the overall supervision framework.

15.2. Firms should identify and define who is responsible for maintaining the quality of data used by supervisors. Data ownership models should consider the lineage and custody chains that develop as data is distributed, processed and transformed over the course of its lifecycle. For example, trade data is first generated by the Front Office and then enriched with additional attributes by support functions (e.g. Risk and Finance), who may assume partial responsibility for its quality.

15.3. Firms should consider implementing proportionate controls to help ensure the quality of the data used by supervisors. Where known data quality issues or gaps exist, firms should assess the impact they have on the effectiveness of supervision and implement compensating controls in line with the firm's risk appetite, while the data quality issues are remediated. Examples of data quality controls include:

- **Data completeness** – checks to detect instances where data points from source systems do not feed to downstream systems (e.g. automated reconciliations between records from source and downstream systems),

- **Data accuracy** – checks to detect instances where data from source systems is not represented accurately in downstream systems (e.g. checksum controls, Critical Data Element (CDE) matching), and
- **Data timeliness** – checks to detect instances where data does not feed from source systems to downstream systems on a timely basis (e.g. alerts for batch fails).

15.4. Where data used by supervisors is provided to the firm by third parties (e.g. market data vendors, reference data provided by clients), firms should make reasonable efforts to assess and gain comfort on the quality of the data received.

15.5. Even where data ownership is outside of the Front Office, supervisors have a role to play in improving the quality of the information, including supervisors:

- escalating any clear issues they identify with respect to the completeness, accuracy and timeliness of the data they use, and exercising judgement as to whether they are able to perform associated tasks when provided with deficient data, and
- providing feedback to data providers on what information is useful to them and where the efficiency and effectiveness of supervision is impaired by fragmented and hard to find information.