FMSB
FICC MARKETS STANDARDS BOARD

Spotlight Review

Hybrid working in FICC markets
Future risk management frameworks

September 2021

About FMSB

FICC Markets Standards Board Limited (FMSB) is a private sector, market-led organisation created as a result 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 fixed income, currencies and commodities (FICC) markets should take more responsibility for raising standards of behaviour and improving the quality, clarity and market-wide understanding of FICC 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 FICC markets.

FMSB brings together people at the most senior levels from a broad cross-section of global and domestic market participants and end-users. In specialist committees, sub-committees and working groups, industry experts debate issues and develop FMSB Standards and Statements of Good Practice, and undertake Spotlight Reviews that are made available to the global community of FICC market participants and regulatory authorities.

Spotlight Reviews

Spotlight Reviews encompass a broad range of publications used by FMSB to illuminate important emerging issues in FICC 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 FICC Markets Standards Board on our website fmsb.com

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Introduction

Prior to the onset of the pandemic in March 2020, the vast majority of front office activities in FICC markets were conducted from secure office environments. This preference for office-based working has been driven by a number of factors including work cultures, the design of control environments, technology capabilities and regulatory expectations. However, government restrictions in response to COVID-19 necessitated a significant short-term shift to homeworking across many industries[1] including in the financial services sector.

The flexible working practices that emerged as a result of this shift have given rise to a number of benefits for FICC market participants and there is a desire to harness some of these benefits and allow some flexibility for front office practitioners to carry out their activities from non-office locations longer term. The extent of this flexibility will vary by firm and role and the intention of the Spotlight Review is not to prescribe what such a model will or should look like. Instead, the purpose of this Spotlight Review is to help support the adoption of hybrid working models in FICC markets, in a controlled way, through identifying key conduct risks associated with such models and considering steps that firms can take to mitigate these risks.

From early in the pandemic, regulators have been clear that regulatory obligations have not changed as a result of the shift to hybrid working – as the FCA has noted: 'the how may be changing, but the what remains the same'[2]. Furthermore, the FCA has emphasised that, from a conduct outcomes perspective, 'office and working from home arrangements should be equivalent'[3]. This Spotlight Review therefore outlines certain steps that firms can take to promote equivalent conduct outcomes in a hybrid environment.

Financial markets 'showed remarkable resilience to transition to new ways of operating'[4] in 2020 and there does not appear to have been a 'significant increase in operational, fraud or cyber risk incidents because of remote working'[5]. However, associated risks may emerge over time and this Spotlight Review seeks to highlight these potential risks and consider how firms may look to adapt their existing risk management frameworks in light of such risks.

What is hybrid working?

Hybrid working entails any combination of remote working with office working. This Spotlight Review adopts the Monetary Authority of Singapore's (MAS)[6] two-pronged definition of remote working which captures (i) when staff are working in locations that are outside [the firm's] offices or premises; and (ii) when staff are not connected directly to office networks and applications, but through residential or public broadband networks, or mobile data networks.

There is likely to be considerable variability in the extent of remote working (whether a prescribed office-remote split, intra-day flexibility, ability to work from home in the evening etc) across firms and according to the activity being conducted and seniority of the staff member concerned.

Benefits of hybrid working

There are a number of benefits to a hybrid working model, both from the perspective of individual FICC market practitioners as well as firms and the market more widely. Certain of these are consistent with longer-term industry objectives, for example to attract a more diverse pool of people to FICC markets and improve staff wellbeing, and their realisation may be accelerated or supported through hybrid working. The key benefits observed by market practitioners are set out below:

i Diversity, inclusion and staff retention

- Front office roles may become more attractive to a broader, more diverse pool of people. This is a key focus for regulators with Nikhil Rathi, CEO of the FCA, stating that 'improving diversity and inclusion is…a crucial way to strengthen consumer outcomes'[7]

- Helping FICC market participants to compete for, and retain, talent against other sectors

- Reducing expectation of office presence where it is not necessary to perform functions effectively

ii Wellbeing

- More flexible hybrid working arrangements may support mental health of existing employees

- Improving work-life balance due to less commuting time

- Increasing productivity for certain tasks resulting from fewer distractions, reduced time spent commuting etc

- Sense of staff empowerment

iii Management and oversight innovations

- Facilitating proactive oversight of employees and closer line management engagement with direct reports

- More frequent communications with senior leadership

- Improved access to sales and trading for other functions

- Increased privacy for confidential conversations where not speaking in an open plan environment

- Accelerated enhancements in international communication channels (where firms have invested the necessary resources)

iv Cost savings/fosters more robust business continuity planning ('BCP')

- Real estate cost savings if office footprints can be reduced

- Changes to existing crisis management / BCP – potential cost savings on alternative BCP sites if core coverage can be provided from dispersed remote locations

- Fosters stronger BCP environment – strengthens the global coverage model and allows staff to cover different markets / timezones
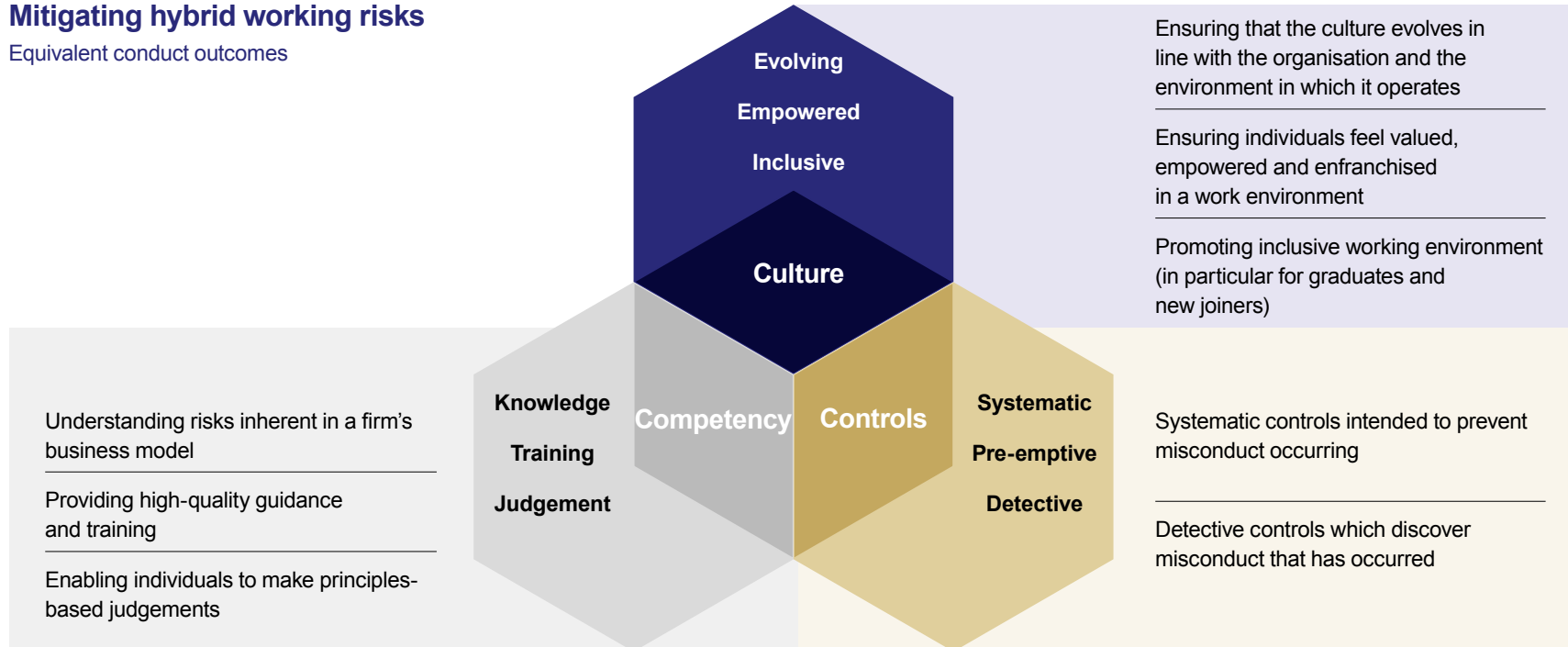
Hybrid working risks – context

Many of the conduct-related risks observed in Section 4 that firms face in a hybrid working environment, and the means of managing such risks, are not novel. This section considers how the application of existing FMSB principles can help inform the management of such risks. These existing FMSB principles are shown alongside relevant regulatory commentary issued by a number of global regulators both specifically in the context of hybrid working as well as more generally applicable regulatory principles.

The Spotlight Review groups these principles and regulatory commentary under the themes of controls, competency and culture which are key drivers of conduct in financial markets. Assessing conduct outcomes through these different lenses helps facilitate a holistic approach to the potential existing and emerging risks which derive from hybrid working models.

The FMSB principles quoted in this section do not impose obligations on firms. Rather, they demonstrate that the application of existing principles can be helpful in informing and promoting equivalent conduct outcomes in a hybrid working environment. A number of the mitigants outlined in Section 4 are therefore informed by, and build on, the relevant commentary in this Section.

Mitigating hybrid working risks
Equivalent conduct outcomes

Evolving

Empowered

Inclusive

Culture

Ensuring that the culture evolves in line with the organisation and the environment in which it operates

Ensuring individuals feel valued, empowered and enfranchised in a work environment

Promoting inclusive working environment (in particular for graduates and new joiners)

Knowledge

Training

Judgement

Competency

Controls

Systematic

Pre-emptive

Detective

Understanding risks inherent in a firm's business model

Providing high-quality guidance and training

Enabling individuals to make principles-based judgements

Systematic controls intended to prevent misconduct occurring

Detective controls which discover misconduct that has occurred

Theme	FMSB principles	Regulatory commentary
i Controls: frameworks which define responsibilities and control functions, intended to have a mitigating impact on the risk profile.	• **Control framework** – 'Firms should have a defined control framework to demonstrate that they maintain complete supervisory coverage of all relevant employees and activities over time.'[8] • **Effective supervision** – 'Where supervision from a different location is appropriate, firms should define and implement any specific additional arrangements required to support effective supervision.'[9] • **Electronic communications** – 'Firms should have in place appropriate preventative measures such as policies or structural controls, to reduce the risk of inappropriate written electronic communications on business communication channels on firm owned devices and to deter the use of un-monitored personal devices or unmonitored applications and software on bring your own devices for business purposes.'[10] • **Identifying trends** – 'On an on-going basis, firms should review the combined outputs of their different surveillance activities to identify trends and abnormal behaviour, considering relevant market data.'[11]	• **Supervision** – Use of 'new communication tools in an attempt to replicate traditional "line of sight" supervision in a remote work environment, such as keeping cameras, chat rooms, other collaboration tools and conference calls on during the day and scheduling daily rollcalls and multiple check-ins per day.'[12] • **Unrecorded communication mechanisms** – Firms should be alert to the increased use of unmonitored and/or encrypted communication applications such as WhatsApp for sharing potentially sensitive information connected with work (both in remote or office locations).[13] • **Adapting control environments** – 'Firms [...should] amend their control environment where necessary to respond to new threats. This should include the timely reporting of Suspicious Activity Reports (SARs) of any new threats.'[14] • **Lessons learned** – 'Share lessons learned from operational lapses and misconduct incidents as reminders'.[15] • **Evolution of surveillance** – 'The nature of internal surveillance will need to evolve to reflect how firms conduct assurance tasks when video conferencing becomes more and more accepted and some offshore capabilities are no longer as effective.'[16] • **Information loss and inside information** – 'Assess the risks and implications of information loss when determining which activities can be performed remotely'.[17] Focus on ensuring inside information continues to be appropriately identified and handled in a remote working environment.[18] • **Policies and training** – Expectation that firms will have updated their policies, refreshed their training and put in place rigorous oversight reflecting the new hybrid working environment. Firms to 'proactively review their recording policies and procedures every time the context and environment they operate in changes.'[19]

Theme	FMSB principles	Regulatory commentary
ii Competency: ensuring individuals have the skills, knowledge and expertise necessary to discharge the responsibilities of their role which includes achieving a good standard of ethical behaviour.	• **Competence** – 'Firms should ensure they are comfortable with the level of competence and experience of supervisors.'[20] • **Training** – 'Staff should receive formal training on the conduct risks of market transactions and the behavioural patterns that can lead to misconduct.'[21]	• **Knowledge** – 'As firms are increasingly using remote and flexible working, it is critically important for firms to understand the services they provide, how change activity can impact those services and invest in their resilience to protect themselves, consumers and the market'.[22] • **Training** – Providing personnel with 'additional trainings and reminders, and otherwise spotlighting issues, related to: (1) phishing and other targeted cyberattacks; (2) sharing information while using certain remote systems (e.g., unsecure web-based video chat); (3) encrypting documents and using password-protected systems; and (4) destroying physical records at remote locations.'[23]

Theme	FMSB principles	Regulatory commentary
iii Culture: typical, habitual behaviours and mindsets which characterise an organisation.	• **Governance** – 'Effective governance and management of conduct and culture require an understanding of risks inherent in a firm's business model, good real-time information, and effective escalation of areas of concern.'[24]	• **Cultural expectations** – 'Important factor here is the role that good culture plays within firms….management and leaders throughout firms should consider how they can reiterate, and reinforce their expectations…staff should be in no doubt about the standards expected of them.'[25] • **Corporate culture** – Explore ways to build strong corporate culture and conduct in a remote / hybrid working environment.[26] 'Having a culture that minimises the risk of poor conduct taking place in the first place remains critical'.[27] • **Tone-from-the-top** – Senior management to set tone-from-the-top on culture and core values.[28] • **New joiners / graduates** – 'Teams have their own identities, they know their purpose, they know the way things are done, even at a distance. But as staff turnover increases, and firms attempt to onboard new joiners virtually, firms should consider how this changes. Formal processes and objectives cannot entirely substitute for the sense of direction and ethical foundation that a healthy culture can provide.'[29] • **Incentive structures** – Adopt and communicate appropriate incentive structures and consequence management frameworks to drive the right behaviour even when staff are working remotely.[30] • **Engagement** – Encourage supervisors to regularly engage staff.[31]

Hybrid working – conduct risks and mitigants

As regulators have made clear, it is important that firms identify new, heightened or evolving risks inherent in hybrid working operating models. This section is intended to support firms in identifying conduct-related risks associated with such models. The Spotlight Review groups these risks under a number of key themes identified by market practitioners. These themes cover cultural change, supervision and control impairments, execution risks, sharing of confidential information and threats to market effectiveness. Under each of these themes a number of specific risks are identified.

The register does not represent a comprehensive inventory of all conduct risks associated with a hybrid working model and does not seek to explore potential operational, technological and legal risks. The materiality of individual risks identified will vary considerably depending on factors including how firms calibrate their hybrid working models, pre-existing control environments, the extent to which firms already embed cultural expectations across multiple locations, the nature of the activities and roles that are permitted to be conducted remotely and the extent of time staff spend away from the office. Market participants should therefore assess which of the highlighted risks apply to their FICC businesses and, where risk profiles change as a result of hybrid working, adapt their risk management frameworks with a view to producing 'equivalent' conduct outcomes in office and home working environments.

The Spotlight Review also lists a non-exhaustive set of potential mitigants for each identified risk. These mitigants derive from observations made by market participants as well as relevant regulatory commentary. Firms should, in light of their existing risk management frameworks, consider if the mitigants outlined could help address increased risks deriving from a hybrid working model. It is not anticipated that firms will implement all of the mitigants listed and that any steps taken will be proportionate to the risks posed.

(i) Cultural change

Risk description	Risk mitigants
Cultural change: ● Loss of certain positive aspects of company culture as team members spend less time in the office / same physical location ● Risk of fragmented or sub-cultures developing e.g., between workers in home and office environments ● Deterioration in individual behaviours which are moderated to a lesser extent by team dynamics when working remotely ● Reduced self-policing and difficulties in spotting red flags in employee behaviour when working outside office environment ● Erosion of existing bonds over time due to lack of face-to-face interactions potentially negatively impacting collegiality / collaboration and client relationships ● Perception of lack of fairness as to extent of permitted hybrid working across roles or tenures potentially leading to resentment and driving conduct risk; differential treatment of staff in context of promotions depending on office presence ● Harder for management to model desired ethical behaviours and conduct remotely potentially negatively impacting company culture	**Staff engagement and treatment** ● Transparency and clarity around the proposed firm operating model and permissibility of hybrid working across roles. Seek to apply rules consistently to staff in comparable roles ● Monitor patterns in the adoption of hybrid working across teams and functions and escalate / challenge areas of concern, including the differential treatment of staff depending on their working arrangements e.g., with regard to remuneration or career evolution. Ensure senior management provided with requisite MI ● Consider opportunities to promote cross-team engagement and discussions / sharing of best practices ● Regular use of engagement surveys ● Pay attention to staff morale and welfare, and provide resources for their emotional and mental support. Place particular focus on welfare of graduates and new joiners **Communications** ● Frequent communications through different channels e.g., team meeting and town halls; focus on interactive sessions targeting areas of key concern for staff (e.g., by focusing on topic areas raised by staff in advance) ● Improve open communication channels such that firm-wide culture and norms are discussed and shared across teams in different locations. Examples cited by FINRA include holding firmwide 'all hands' calls and videoconferences for all staff so that firm leadership could provide updates on firm operations ● Strengthen communications about behavioural standards and importance of collaborating in an open and productive way ● Consider opportunities to promote cross-team engagement and discussions / sharing of best practices ● Intranet site dedicated to hybrid working as opposed to email outreaches to mitigate communication fatigue **Location management** ● Teams may already be spread across multiple locations and therefore have adopted practices to promote collaboration and cultural expectations virtually and across sites ● Careful management of hybrid working registers to enable opportunities for periodic on-premises collaboration ● Review opportunities for rotation between locations and dedicated office time for team building

(i) Cultural change continued

Risk description	Risk mitigants
	Role of senior management
	• More frequent communication from senior management on key expectations and policy via email and meetings
	• Management setting cultural tone
	• Consider risk of communication fatigue – and ensure demonstrable action is taken by senior management in response to employee feedback
	• Interactive sessions; senior management responding to specific anonymised questions/concerns from staff
	• Open door / line sessions with senior management

(i) Cultural change continued

Risk description	Risk mitigants
Integration of new joiners/ graduates: • Lack of interaction with senior leadership and / or management preventing new joiners from engaging fully in the firm's culture and embracing its strategy • Reduced engagement with training, potentially leading to gaps in understanding of conduct expectations or control processes • Lack of inclusion, furthering cultural fragmentation, whereby individuals feel as though they are 'slipping through the net' • Limitations of virtual team-building leading to a lack of engagement with sub-cultures, inclusion and contribution to team projects • Inherent challenges of working from home (e.g., installing software, setting up hardware, workspace etc.) potentially leading to lower productivity, new staff being slower to 'get up the curve' and integrated into teams • Potentially increased risks in this population of using inappropriate communication channels e.g., WhatsApp and Snapchat due to familiarity and frequency of usage • Challenges of cohabitation with friends and family more prevalent among graduate populations	**Graduate and new joiner induction** • Consider lessons learned from existing adaptations to inductions and onboarding of new joiners / graduates; ensure induction days for new joiners are in the office • Optionality for new joiners with challenging remote working environments to minimise time spent working outside the office **Training** • Additional guidelines and training around what constitutes an appropriate working environment, how to handle confidential calls when co-habiting with non-authorised personnel; accompanying monitoring / controls to test appropriateness of working environment e.g., video check-ins • Additional training and mentoring for new joiners including in relation to conduct expectations in a hybrid environment **Organisational Connectivity** • Virtual and in-person events to encourage networking within teams or throughout the company • More formalised 'check ins' with line managers as well as more senior management • Stakeholder mapping for new joiners to promote understanding of organisational structure and assist in building peer relationships • Collaboration days for new joiners / graduates to build relationships across broader teams and outside of their regular interactions

(i) Cultural change continued

Risk description	Risk mitigants
Training effectiveness: **Formal training** ● Risk of staff having learning gaps as a result of training being less effective. Difficulties in co-ordinating sessions when attendees are in the office ● Reduced staff engagement in screen-based training, potentially leading to greater risks of breaches and reduced cultural cohesion ● Harder to facilitate nuanced discussion of grey areas when not discussing face to face leaving potential for inadvertent misconduct ● Risk of divisions emerging between office and non-office based staff **'On the job' training** ● Limitations of 'on the job' training when working remotely, notably for juniors and new hires – potentially leading to staff development and retention issues ● Challenges in adapting to market developments (e.g., asset class evolution) and changes in the regulatory landscape where the effectiveness of 'on the job' training is blunted through non-office based working, potentially leading to inadvertent misconduct	**Training format and attendance** ● Consider lessons learned from pre-existing adaptations to training materials and delivery to promote training effectiveness across multiple locations ● Ensuring appropriate balance between different training types including classroom based training, eLearning and 'on the job' training ● Providing opportunities for interaction/participation e.g., through Q&As, virtual whiteboards, live exercises using polls and questions ● Senior management emails to encourage training attendance and re-assigning training to those who miss a session / do not attend in full ● Consider <1 hour sessions to improve engagement and concentration ● Retain attendance and participation records ● Staff attestations confirming completion and understanding of key modules to underline individual responsibilities in carrying out their roles in a hybrid working environment ● Propose options to attend sessions across a number of weeks to avoid holiday issues and improve attendance across offices and time zones **Training design, content and frequency** ● Senior level engagement and / or delivery of training in order to encourage participation ● Training design involving business leaders and tailored to service / business in question ● Providing personnel with additional trainings and reminders, and otherwise spotlighting issues. Examples cited by the SEC include training relating to: (1) phishing and other targeted cyberattacks; (2) sharing information while using certain remote systems (e.g., unsecure web-based video chat); (3) encrypting documents and using password-protected systems; and (4) destroying physical records at remote locations[32] ● Providing opportunities for structured collaboration time, including on- and off-sites in order to promote collegiality ● Need for additional training for management who face new challenges in a hybrid working environment e.g., risk of divisions emerging between office and non-office based staff ● Consider need for more regular 'on the job' training for staff spending less time in the office

(ii) Supervision and control impairments

Risk description	Risk mitigants
Co-location control and supervision: ● Compliance and supervision models that relied on co-location and 'line of sight' difficult to replicate potentially increasing misconduct risks when operating remotely	**General supervision** ● Additional support and communications to supervisors underlining importance of supervision in a remote work environment ● Assessment of, and adequate investment in, supervisory tools and adequate MI to enable supervisors to effectively conduct and discharge their supervisory responsibilities in a hybrid environment ● Clearly stated behavioural expectations and re-iterated messages at key stages in the return to work / adoption of a hybrid working model ● Review any operational lapses and misconduct incidents and identify, assess and address any supervisory shortcomings highlighted by such incidents. Share any lessons learned from such incidents across functions, as appropriate ● Analysis of emerging trends – regular reviews of relevant data to determine whether (i) the firm is able to collect the same control and supervision data in remote and office environments; and (ii) there are any control or supervision trends associated with either remote or office working e.g., increase in conduct breaches or customer complaints
Arbitraging supervisory control environments: ● Traders seek to arbitrage home and office control and supervision environments e.g., through working remotely when seeking to engage in poor conduct	● Consider whether any additional steps can be taken to mitigate any data discrepancies or weaknesses identified by the above analysis **Trading and communications supervision** ● Use of trading tools that replicate or access traders' office trading systems when working remotely to ensure supervisors have comprehensive remote supervision capabilities ● Implementation of screening processes or other additional supervisory requirements before permitting trading activities remotely (see for example FINRA Regulatory Notice 20-16) ● Use of new communication tools to compensate for loss of traditional 'line of sight' supervision e.g., open VC calls and chatrooms or ad-hoc video calls from supervisors ● Restrictions on use of certain apps or video conferencing functionalities that firms may not otherwise be able to adequately monitor and record ● Location agnostic access to firm systems (e.g., cloud-based login and multi-factor authentication)

(ii) Supervision and control impairments continued

Hybrid working – conduct risks and mitigants

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Risk description	Risk mitigants
Flagging errors or escalating concerns: ● Physical separation and associated challenges in discussing concerns with colleagues may lead to staff being less forthcoming in flagging errors or under/over-escalating concerns when operating remotely ● Slower resolution of operating incidents/events when operating remotely	**Governance** ● Encourage staff and supervisors to 'over-escalate' potential issues and concerns when working remotely ● Promote a 'speak up' and collective responsibility culture ● Encourage supervisors to regularly engage staff and create forums where concerns can be raised ● Replicate whistleblowing and other escalation mechanisms across office and remote environments ● Adopt and communicate appropriate incentive structures and consequence management frameworks to drive the right behaviour when staff are working remotely ● Share lessons learned from operational lapses and misconduct incidents as reminders **Monitoring** ● Monitor whistleblowing and incident reporting to determine if there are distinct trends associated with remote or office working. Consider if any adaptations need to be made to applicable policies and procedures in light of such trends

(ii) Supervision and control impairments continued

Risk description	Risk mitigants
Inappropriate communication channels: ● Regulatory breaches or reduced effectiveness of surveillance as a result of use of unapproved, non-recorded voice or electronic communications either internally or with clients ● Existence of multiple remote communication tools/mechanisms (e.g., Zoom, Teams, Webex etc) presenting compliance challenges with the capacity/ability to record varying across mediums leading to potential regulatory breaches or reducing the effectiveness of existing surveillance ● Shift from oral to written electronic communications resulting in increasing volume of materials to surveil and more challenging to convey nuanced perspectives in short form written exchanges ● Individuals exhibiting different behaviours when operating in an observed office environment versus unobserved remote environment leading to regulatory or other consquences for the firm / individual	**Policies and procedures** ● Determine and communicate policy to all relevant staff members, setting out all approved means of communication (whether temporary or permanent) and making clear any penalties for breaching policy. Introduce appropriate controls to monitor for breaches ● Increased communication on applicable prohibitions **Monitoring** ● Potentially limited efficacy of historic 'line of sight' supervisory mechanisms in preventing the use of inappropriate communication channels ● Increased monitoring via approved communication media controls ● Monitor the percentage usage of communication channels during periods of remote working against normal usage of such communication channels; investigate emerging trends where appropriate ● Analysis of data to identify whether regulatory or internal policy breaches associated with the use of inappropriate communication channels are more prevalent in different working environments ● Consider how internal surveillance needs to evolve in light of changes brought about by hybrid working e.g., prevalence of video conferencing tools **Staff engagement** ● Behavioural nudges e.g., staff members signing a document in which they acknowledge a set of rules applicable in the home working environment ● Additional training for staff on how to manage risks associated with the use of inappropriate communication channels ● Provision of additional approved equipment where necessary (e.g., virtual dealerboards and firm mobiles) ● Clearly stated behavioural expectations with respect to the use of different communication channels **Recordkeeping** ● Integration of new media into recording and retention framework. Restrictions on media or functionalities where supervisors may be unable to adequately fulfil recordkeeping obligations in a hybrid environment

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(iii) Execution risks

Hybrid working – conduct risks and mitigants

Risk description	Risk mitigants
Trader location: ● Breach of licencing requirements as a result of regulated activities being conducted from non-approved locations ● Risk of triggering branch establishment requirements if regulated activities are undertaken outside the domestic supervisor's jurisdiction ● Perception that for certain roles, clients can be more effectively serviced by office-based teams	**Policies and procedures** ● Clear policy on working from other jurisdictions with exceptions for staff performing regulated activities to be considered on a case-by-case basis. Imposition of minimum standards/guidelines before deeming an alternative workplace suitable for use e.g., in respect of information, cyber security and privacy. Controls to monitor compliance with policy e.g., through verification of IP address ● Appropriate policies and procedures governing special approvals to work from non-home based location. Approvals may be granted on a case-by-case basis, logged and approved for a period of time. Such policies may take into account factors such as whether: the person in question is performing a regulated activity, the firm has a branch presence in the alternate location, tax considerations and the personal situation of the individual
Loss of connectivity/risks to market integrity: ● Loss of connectivity delaying critical time sensitive operations such as algo kill switch/circuit breaker functions **Macro or micro latency issues:** ● Changes in the rate at which market conditions can be shared and acted upon impacting ability to meet best execution or other relevant regulatory obligations ● Delays in pricing and delays in hitting bid/offer leading to poorer trading outcomes/impacting ability to meet best execution or other relevant regulatory obligations	**Risk limits** ● Likely that time critical functions / low latency activities will be performed from office locations ● Imposition of trade limits on traders when working from remote locations with other business being re-directed to office-based traders **Connectivity assessments** ● For material risk-takers, assess robustness of internet connections and consider dedicated connections into homes where appropriate ● Assess the extent to which material-risk takers can perform their roles from a non-office location, differentiated approaches may be appropriate depending on the frequency and latency of the trading activities being undertaken ● Ensure collaboration tools and remote working solutions have sufficient capacity to cope with expected usage

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(iv) Sharing of confidential information

Risk description	Risk mitigants
Non-secure/shared remote working space: • Risk of information leakage, sharing of MNPI or other regulatory breaches as a result of insufficient privacy in remote working location including shared accommodation with non-staff or working from non-secure remote location (e.g., outside of home)	**Policies and procedures** • Appropriate policies and procedures governing special approvals to work for non-home based location. Approvals may be granted on a case-by-case basis, logged and approved for a period of time. Such policies may take into account factors such as whether: the person in question is performing a regulated activity, the firm has a branch presence in the alternate location, tax considerations and the personal situation of the individual • Clear guidelines determining whether a role can be performed remotely and characteristics of a suitable remote working environment **Remote working assessments** • Office settings do not guarantee privacy e.g., confidential conversations may be overheard in a dealing room environment • Assessment of non-office work environment and appropriateness in light of role being conducted by employee. Option for employees with challenging home environments to minimise the time they spend working outside the office • Provision of necessary devices and relevant IT security to ensure connections appropriately secured and access to printing controlled • Run pilots to assess risks in controlled environment • Ongoing assessments of potential conflicts of interest and providing channels to raise issues should they materialise

Hybrid working – conduct risks and mitigants

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(iv) Sharing of confidential information continued

Hybrid working – conduct risks and mitigants

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Risk description	Risk mitigants
Controlling the flow of inside information and confidential information both within and leaving a firm: • Where staff are transitioning between remote and office environments there may be increased risks of inadvertent information leakages in transit • Changes to the control environment make monitoring and controlling inside information more challenging e.g., due to increased uses of unmonitored or encrypted communications leading to potential sharing of MNPI or other regulatory breaches • Potentially heightened risks of non-approved personal account dealing when staff in remote location • Non-secure storage or non-secure disposal of hard copy confidential information • Risk of existing resources being insufficienct to monitor increase in communications to surveil because of shift to electronic communications (which previously took place face-to-face) resulting in surveillance being less effective • Potentially increased risk of information leakage where firms implement 'hot desking' as part of their hybrid working strategy	**Remote working assessments** • Pre-assess the risks and implications of information loss when determining which activities can be performed remotely. In particular, determine whether an employee's role means that they are likely to be privy to inside information and ensure that existing controls to guard against insider dealing or the unlawful disclosure of such information are adequate in a remote environment. Ensure employees continue to be aware of the legal and regulatory requirements around the use of inside information and the consequences for breaches of such requirements • For material risk-takers, where the implications of information loss may be greater, consider case-by-case assessment of remote working requests • Where a flexible working model includes hot-desking, consider desk allocation and application of clear desk policies • Where businesses are operating remotely or in a hot-desking environment, ensure maintenance of information barriers and public / private-side separation **Supervision and controls** • Grant remote access to confidential information only on a need-to-basis • Targeted supervision where there is greater potential risk of inappropriate information sharing in home environment • Consider feasibility / desirability of VC surveillance for remote environment • Printing and paperless controls to reduce risk of inadvertent information loss in transit or non-office environment; disable Bluetooth and USB ports on work devices to prevent transfer of information • Replication of technology devices and permissions across home and office environments • Recorded lines in home locations; when using new means of electronic communication (e.g., VC technologies) ensure there is a capacity to record e.g., through logging-in via separate recorded lines • Consider approach to recorded lines including when to begin and end recordings and what qualifies as a conversation that necessitates being recorded • Disallow storage of corporate data on personal devices, if device not managed by corporate policies **Training** • Training on the capabilities of different communication platforms and steps that can be taken to manage inadvertent information sharing (e.g., blurring backgrounds)

(v) Threats to market effectiveness

Risk description	Risk mitigants
Increased reliance on critical technology: ● Risk to business continuity as a result of remote or non-office working may create new points of critical dependence on specific systems or put pressure on bandwidth and scalability	**Operational resilience** ● Cyber security breaches have been, and continue to be, a key threat to FICC markets and the platforms it leverages both in an office and hybrid setting ● Pre-pandemic there was a focus on decentralisation and building capabilities outside of client-facing locations – the pandemic may have fast-tracked this trend but it is not entirely novel. Furthermore the pandemic has highlighted areas that require amelioration such as robust video conferencing tools that are recordable and usable with clients, suppliers and collaborators ● Increasing reliance on, and use of, cloud technologies pre-dates the broader shift to remote or hybrid working models ● Continued focus on cyber security and resilience of key elements of firm infrastructure ● Review dependency on cloud arrangements and critical service providers and diversify providers if necessary ● Consider how a hybrid working model could impact services provided to clients or the market more generally and enhance resilience of such service provision where possible ● Consider ways to enhance staff vigilance of phishing, impersonation and social engineering scams e.g., through regular security awareness programmes and guidance around accessibility of, and detail in, online staff profiles ● Core numbers remain in firm office where resilience can be fully controlled **Systems and controls** ● List of approved systems in different jurisdictions ● Risk assessments on new technology including recording capabilities prior to approving new platforms ● Security checks for remote access e.g., multi-factor authentication ● Monitor system performance and identify, evaluate and record failures in systems or controls to determine appropriate responses ● Continue to monitor and elicit feedback on system and technological risks that could arise in a hybrid environment and address such risks as necessary

(v) Threats to market effectiveness continued

Risk description	Risk mitigants
Reduced innovation: ● Hybrid working environment impacting innovation where people cannot collaborate in shared space ● Potentially slower approval processes for new practices when operating in a remote or hybrid environment	**Promoting collaborative working** ● Consider and adopt best practices from existing multiple location models ● Encouragement by managers of virtual discussions, brainstorming sessions and break-out rooms ● Workshops to facilitate innovation ● Proactively manage virtual meetings e.g., through being thoughtful about agenda items and meeting planning when groups come together ● For collaborative sessions perceived difficult to conduct in a hybrid setting, seek to identify specific times where teams can meet together in same space ● Review of technology platforms that best support collaborative and/or hybrid working (e.g., Slack); consider improvements to connectivity tools on an ongoing basis ● Consider approach to recorded lines including when to begin and end recordings and what qualifies as a conversation that necessitates being recorded – striking appropriate balance between recording interactions where necessary and not inhibiting collaboration and innovation

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Hybrid working – conduct risks and mitigants

End notes

1. Pre-pandemic American workers spent 5% of their working time at home and by spring 2020 this had increased to 60% (See The rise of working from home | The Economist).

2. Julia Hoggett FCA (2020) – Market abuse in a time of coronavirus

3. ibid 2.

4. Risk management and operational resilience in a remote working environment, Monetary Authority of Singapore and the Association of Banks in Singapore, March 2021

5. See for example Market Watch 63, 66 and relevant FCA speeches

6. ibid 4.

7. 'Why diversity and inclusion are regulatory issues', Nikhil Rathi, FCA, 17 March 2021

8. Good Practice Statement 5: Front office Supervision Statement of Good Practice for FICC Market Participants

9. Good Practice Statement 9: Front office Supervision Statement of Good Practice for FICC Market Participants

10. Good Practice Statement 4: Monitoring of Written Electronic Communications Statement of Good Practice for FICC Market Participants

11. Core Principle 10: Surveillance Core Principles for FICC Market Participants:Statement of Good Practice for Surveillance in Foreign Exchange Markets

12. 'Regulatory Notice 20-16', FINRA

13. Market Watch 66, 'Newsletter on market conduct and transaction reporting issues', FCA, January 2021

14. Financial crime systems and controls during coronavirus situation, FCA, 8 January 2021 (Note that this statement has ceased to apply from 7 February 2021)

15. Risk management and operational resilience in a remote working environment, Monetary Authority of Singapore and the Association of Banks in Singapore, March 2021

16. Initial findings and observations about the impact of COVID-19 on retail market conduct, International Organisation of Securities Commissions, December 2020

17. 'Risk management and operational resilience in a remote working environment', Monetary Authority of Singapore and the Association of Banks in Singapore, March 2021

18. Market Watch 63, 'Newsletter on market conduct and transaction reporting issues', FCA, May 2020

19. Market Watch 66, 'Newsletter on market conduct and transaction reporting issues', FCA, January 2021

20. Good Practice Statement 3: Front office Supervision Statement of Good Practice for FICC Market Participants

21. Good Practice Statement 4: Conduct Risk in Market Transactions Statement of Good Practice for FICC Market participants

22. Implementing Technology Change, FCA, 5 February, FCA, 5 February

23. Risk Alert – COVID-19 Compliance: Select COVID-19 Compliance Risks and Considerations for Broker-Dealers and Investment Advisers, SEC, 12 August 2020,

24. Fair and Effective Markets Review

25. Market abuse in a time of coronavirus, Speech by Julia Hoggett, Director, Market Oversight, at the City Financial Global event, FCA, 12 October 2020

26. ibid 15.

27. ibid 25.

28. ibid 15.

29. Insight: Conduct, culture and Covid-19, FCA, 10 June 2020

30. ibid 15.

31. ibid 15.

32. ibid 23.