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Regulatory Newsflash
FSB toolkit to mitigate the risk of misconduct

On 20 April, the Financial Stability Board (FSB) published a toolkit for firms and supervisors on how to mitigate the risk of misconduct, and forms part of a wider initiative to reduce misconduct risks in the financial sector and to promote incentives for good behaviour. The report is an important component of the workplan introduced by the FSB in 2015.

Aim of the toolkit

The toolkit is aimed at firms and national authorities to help them strengthen governance frameworks to tackle the causes and consequences of misconduct. It provides a useful reference point for firms and authorities globally in applying practical approaches for mitigating misconduct.

19 tools to mitigate conduct risk

The toolkit contains 19 tools to mitigate the risk of misconduct, both for firms and authorities. The tools are grouped into three overarching categories that were identified by the FSB as particularly important from a financial stability perspective. The techniques provided by the toolkit can be applied separately or in combination.

Tools for firms

- **Mitigating cultural drivers of misconduct**

  To develop and communicate misconduct reducing strategies effectively, the FSB suggests that a firm's senior leadership could:

  - Articulate a clear cultural vision to guide the right behaviour
  - Identify significant cultural drivers of misconduct by reviewing a broad set of information using multidisciplinary techniques
  - Take actions to shift behavioural norms to mitigate cultural drivers of misconduct attitudes

- **Strengthening individual responsibility and accountability**

  To promote accountability and transparency, firms could:

  - Identify and clearly assign key responsibilities, including for mitigation of misconduct risks
  - Hold individuals accountable for their actions
  - Assess the suitability of individuals holding key responsibilities (including e.g. integrity and professional competency)

- **Addressing the 'rolling bad apples' phenomenon**

  This refers to individuals who engage in misconduct but are able to obtain subsequent employment elsewhere, without disclosing their earlier misbehaviour. With this in mind firms could:

- Communicate conduct expectations early and consistently in the recruitment processes
- Enhance interviewing techniques
- Take into account multiple sources of information before hiring
- Regularly re-assess employee conduct
- Conduct exit reviews

Tools for supervisory authorities

- **Mitigating cultural drivers of misconduct**

  To effectively supervise firms' misconduct mitigation strategies supervisors could:

  - Build a supervision programme focused on culture to reduce misconduct
  - Use a risk-based approach to prioritise review of firms with significant cultural drivers of misconduct
  - Use a broad range of information and techniques to assess cultural misconduct drivers
  - Engage firms' leadership regarding observations on culture and misconduct

- **Strengthening individual responsibility and accountability**

  In addition to the tools listed under this category for firms (see above), the FSB suggested some supervisor-specific actions:

  - Develop and monitor a responsibility and accountability framework
  - Coordinate with other authorities

- **Addressing the 'rolling bad apples' phenomenon**

To address the 'rolling bad apples' phenomenon, national authorities could:

- Supervise firms' practices for screening prospective employees and monitoring current ones
- Promote compliance with legal or regulatory rules regarding conduct-related information about applicable employees, where these exist

Contact

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