COO MAGAZINE

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WELCOME

To the **third issue** of the COO Magazine

Maurice Evlyn-Bufton, CEO
Armstrong Wolfe

The reinvention of Armstrong Wolfe

In February we had a programme of 52 COO and Chief Control Officer forums booked in Toronto, New York, London, Singapore and Hong Kong. All with a confirmed host, being a principal bank or asset manager. Our communities had been established by this stage to be 21 global banks and 23 asset managers. The arrival of COVID-19, like most businesses, quickly unravelled our plans for 2020 and we were faced with an exponential crisis. With the commitment and fortitude of all those within the Company and a faith in our innovation and determination to change, we met this challenge by reinventing our business.

Since March we have run over 90 virtual forums, webinars and what we have defined as COO Cluster calls. Over 900 COOs, CAOs, Chief of Staff and members of business management have attended. In doing so we aimed to support the global COO community as they navigated their companies through the unique circumstances presented by the pandemic. With the support of the industry and a pool of COO advocates we established the International COO Community (iCOOC), our worldwide membership scheme for the Banking and Markets COO communities. With this invention we moved our COO representation from 21 banks to 41, the high percentage joining iCOOC as corporate or affiliate members. We will deliver the same platform for asset management by Q1 2021.

Aligned to establishing the central pillar of our business, we extended our commitment to diversity and inclusion, already embodied in our Women in the COO Community led by Armstrong Wolfe COO Gwen Wilcox, by establishing The Black Heritage COO Scholarship Scheme, supported by a number of global banks. This falls under The COO Academy, run by Gordon Grant, joining us in the U.K. from Morgan Stanley. The Conduct Academy has also moved to be under Gordon's leadership as a component part of The COO Academy, which offers leadership training and has developed bespoke training courses for entrants into business management to the executive COO.

To bolster our ability to add value in all we do, Armstrong Wolfe was delighted with the arrival of Larry List and Jeff Fernandez in NYC, formally BNP Paribas and Barclays respectively and Simon Longden in London, joning from Standard Chartered Bank. These 3 former CCOs and COOs lead Armstrong Wolfe Partners, our project management and advisory business with a principal focus on supporting our clients within threat management.

This has been the evolution of Armstrong Wolfe in the circa 200 days since the pandemic impacted worldwide commerce and industry and the daily lives of all of us.

Collectively, as the leadership team at Armstrong Wolfe, we have taken a breath and asked ourselves: who are we and to what purpose do we serve? Below is how we define our value and it is with thanks to all within Armstrong Wolfe and all those within our ecosystem that support us that our reinvention has taken us to a new beginning.

Armstrong Wolfe

We provide the centre of excellence for business management to address market wide, non-proprietary challenges, to meet today's tests and trials, to develop talent, inspire tomorrow's leadership and by working together play a key role in supporting the industry's commitment to good conduct and its social responsibilities.

Our Purpose

To empower the COO community to influence and lead their industry into an era of worldwide respect. Achieved by the provision of our services and support network designed to create a COO standard and commitment to conduct and ethical behaviour, employee development, equality, sustainability and to exceeding customer expectations.

Our Mission

To establish a worldwide network of COOs, one degree of separation from each other, empowered to work together to realise individual and collective benefit.

Our Corporate and Social Responsibilities

To establish a worldwide network of COOs, one degree of separation from each other, empowered to work together to realise individual and collective benefit.

- Equality of opportunity through Armstrong Wolfe's Women in the COO Community and Black Heritage Scholarship Scheme
- Promoting the cause of sustainability through industry dialogue
- Supporting the under privileged through our charitable foundation GCF Bosnia
- Committed to being a carbon-neutral company by the end of 2021

ARMSTRONG WOLFE

Empowering the Financial Services COO community

iCOOC

Facilitating industry dialogue and solutions development

Armstrong Wolfe Partners

Project execution and advisory services for the COO

The COO Academy

Leadership and management training

WCOOC

Inspiring tomorrow's leadership

Black Heritage COO Scholarship Scheme

Providing career opportunities in Financial Services

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JOIN THE ARMSTRONG WOLFE **COO & CCO COVID-19** RESPONSE GROUP

The Armstrong Wolfe COVID-19 Response Group gives the banking and asset management COOs and CCOs direct access to their industry peers and allows them to discuss how the industry is meeting the unique operational challenges presented by the COVID-19 crisis.

> **"Thank you to Armstrong Wolfe for setting up these most important calls, true industry leadership."**
>
> COO, Markets

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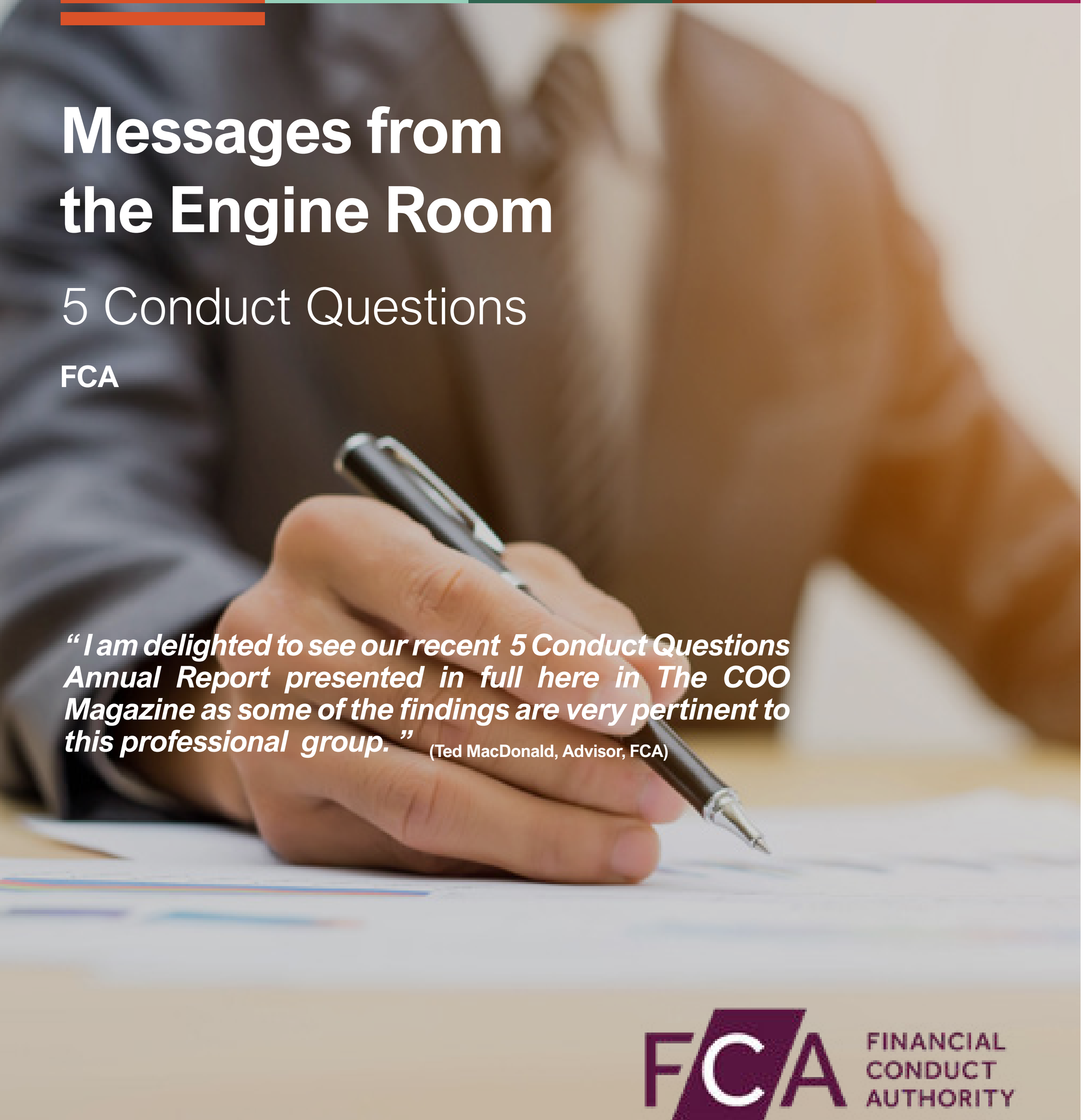

Messages from the Engine Room

5 Conduct Questions

FCA

"I am delighted to see our recent 5 Conduct Questions Annual Report presented in full here in The COO Magazine as some of the findings are very pertinent to this professional group." (Ted MacDonald, Advisor, FCA)

FINANCIAL CONDUCT AUTHORITY

Introduction

We are pleased to release this report on our 2019/20 engagement work for the 5 Conduct Questions Programme. Due to prioritising Covid-19 work, we are publishing later in the year than usual.

The coronavirus pandemic has created new risks, and heightened existing ones, across customers, markets and competition. Almost overnight, operating models shifted dramatically to working predominantly from home. Despite the heavy toll on staff from bereavement, self-isolation and lockdown, Business Continuity Planning and the wide availability of computers, connectivity and well-organised communication and organisational links quickly enabled the financial services industry to continue to function. The scale of these operational changes creates new conduct risk challenges with most staff unused to working remotely for a prolonged period without the immediacy of their peers, support infrastructure and attendant oversight. Technical infrastructure was stretched to enable trading, settlement, reporting and basic surveillance. Oversight may not yet be sufficiently robust for an extended period of operation in this sort of environment. Employee's emotional wellbeing came under immediate strain and may increase and be demonstrated in different ways over time as some return to the office, some stay at home and split teams suffer loss of cohesion and perhaps shared goodwill.

The highly stressed market conditions also meant that some well-known and generally well-managed conduct risks became more acute, as traded markets sometimes operated in unexpected ways or sophisticated clients became newly vulnerable. We aimed to respond quickly, particularly where we saw the risk that emerging conflicts of interest were not promptly identified or appropriately managed.

This report notes that staff were more skilled at identifying conduct risk in hindsight than in a rapidly unfolding situation. Training staff to identify conduct risk as situations emerge or changes to infrastructure evolve would be helpful. We also note in this report that staff already felt underused in identifying and managing conduct risks in the office. They are now well placed to assist, as subject matter experts in understanding their individual home environments.

We have seen some but not all firms launch proactive initiatives to identify the changing shape of conduct risk and to directly focus staff attention on this. It is important that firms take adequate steps to stay up to date or ahead of conduct risks as they evolve. It is encouraging to see that many firms are actively choosing to be part of the solution by engaging with their customers and problem-solving collaboratively.

Conduct and culture will remain a key focus of our engagement activity.

The 5 Conduct Questions

1. **What proactive steps do you take as a firm to identify the conduct risks inherent within your business?**
2. **How do you encourage the individuals who work in front, middle, back office, control and support functions to feel and be responsible for managing the conduct of their business?**
3. **What support (broadly defined) does the firm put in place to enable those who work for it to improve the conduct of their business or function?**
4. **How does the Board and ExCo (or appropriate senior management) gain oversight of the conduct of business within their organisation and, equally importantly, how does the Board or ExCo consider the conduct implications of the strategic decisions that they make?**
5. **Has the firm assessed whether there are any other activities that it undertakes that could undermine strategies put in place to improve conduct?**

Executive summary

Wholesale banks have been investing substantial time, effort and financial resources in developing and delivering global change programmes to improve conduct risk management and, ultimately, culture. The FCA introduced the 5 Conduct Questions (5CQ) to assist in this effort. A fair question to ask now is how effective have firms been at embedding the desired changes among staff. This was the focus of some of our engagement this past year.

In 2019, we hosted Conduct Roundtable sessions with 18 wholesale banks. Each was represented by a group of 10 staff at a 'Vice President' (VP) level of seniority or similar. This typically reflected about 10 years of industry experience, possibly including some direct responsibility for the performance of their unit but not necessarily team management. We came to refer to this group as 'the Engine Room', acknowledging their importance to firms. This group is pivotal in revenue generation, control, support infrastructure and other key areas and its members are often seen as emerging leaders for the firm.

Each of the sessions included completing a short, written survey and a 90-minute discussion of organisational, operational, regulatory and personal topics. These subjects all connect firmly to conduct and culture and have a direct bearing on the risk of poor conduct events happening. Written survey responses go some way toward adding to our store of knowledge, while freewheeling conversation provided further insight on how conduct risk was embedding within firms and across the sector. We note that some generously positive responses given in the written survey were quickly challenged during discussion where participants aired a wide range of views.

We are grateful for the contribution of the Roundtable participants and this report is addressed, in part, to this group and their colleagues. As usual, this report remains relevant to Boards, Executive Management, staff at all levels, clients and other stakeholders in the financial services sector.

Identification of conduct risk remains weak

Firms have a clear regulatory obligation to identify, assess and manage risks that could harm their customers, markets or competition. Conduct risk has risen in profile over the past decade as one of the most serious risks a firm can face, driving substantial efforts to address it.

We saw a generally positive impact of the training rolled out over the past few years. There has been a significant improvement in awareness and engagement with the conduct agenda by the larger wholesale banks that we supervise in the UK. However, this work remains incomplete, as the depth of understanding and the ability to identify conduct risk in day-to-day working life remains unacceptably weak.

Roundtable participants understood topic areas such as conflicts of interest, material non-public information, suitability, fairness to customers, diversity and inclusion and non-financial misconduct, but we saw a worrying lack of awareness or depth in the wider range of conduct issues. Deeper, wider topics might include: enabling client mis- behaviour, failure to train or be trained, glossing over 'Know Your Client' gaps, new risks arising from automation (robots or artificial intelligence), the impact of Libor transition or, more recently, new risks arising as a result of so many if not all staff working from home. Some firms seemed to latch on to one or two areas of conduct risk to the exclusion of all others. It is important to ensure that the wider context of conduct risk does not become obscured or lost.

These firms can make further progress by promoting a more comprehensive 'front of mind' understanding of conduct risk and improving the ability to identify new sources of conduct risk as they emerge. Better identification skills also need to be accompanied by good mitigation decisions, especially under time and other pressures.

Firms have taken good steps to make training in conduct risk topics engaging through face-to-face training and using real-life scenarios from their work. However, almost all Roundtable participants said staff had little subsequent engagement on the topic either in discussion among themselves or through invitations to help identify and assess conduct risk in their own units or contribute to a wider firm effort.

Because of this lack of understanding and impaired ability to identify conduct risks, firm's overall exposure to adverse conduct outcomes has not reduced as much as it could.

Remuneration and performance assessments

It is encouraging that many firms have taken steps to ensure the contribution of personal conduct and behaviour in achieving objectives is a prominent factor along with what is achieved. However, some firms have taken insufficient steps to ensure substantive feedback discussions with staff, keep future-oriented records, analyse trends and develop a governance feedback loop. Leading firms are making good use of trend data on staff performance around behaviour, for example, by noting common shortfalls in behaviour expectations. This can enable them to fine-tune training and to help promote selected cultural and behavioural aspirations.

Roundtable participants considered excellent conduct and behaviour to be a key part of everyone's role and responsibilities and a significant criterion for promotion. They spoke strongly about the importance of getting focused and constructive feedback, including about their own conduct, especially at this pivotal stage in their careers.

Staff consistently felt that outstanding behaviour was worthy of quick, recognition, not necessarily monetary, and not a key factor for determining a year-end bonus. Conversely, bad behaviour was expected to attract immediate and possibly dire consequences.

They were uncomfortable that some promotions still seemed to be awarded solely on what was delivered, as peers might describe the promoted individual's behaviour as far from perfect. For some, this called actual promotion criteria and decision-making into question.

Culture, Safety and Leadership

The importance of culture

Culture can be defined as the habitual mindsets and behaviours that characterise an organisation. Drivers of culture that we focus on include Purpose, Leadership, Governance and People policies. A firm typically has several different cultures active across various businesses, professional disciplines, diversity segments and geographic regions. There was lively engagement on this topic and evidence that participants clearly understood its importance. They expressed an earnest appetite for progress and looked to their immediate line managers for cultural leadership. They also expressed disappointment at having to deal with persistent pockets of resistance to cultural change which they often attributed to differences between regions, business areas or professional disciplines.

Speaking-up is sometimes still unsafe

How easily staff can safely challenge day-to-day business decision-making exposes the health of the corporate culture or environment. We are pleased to see clear official whistleblowing and other escalation channels in place as this is an important regulatory requirement. However, participants described them as largely unused and reserved for the most serious cases. We saw a persistent and significant lack of psychological safety in day-to-day speak up and challenge. Firms need to address this.

The need for strong middle management

Participants were generally positive about their line managers, top management and CEOs. They greatly appreciated the direct support from their managers especially when speaking up about issues. They said the impact when this support is lacking is deeply problematic. They described areas of disappointment in their management teams as exceptions rather than endemic. One common reason for disappointment was having to deal with an unhelpful number of layers of management or decision-makers. Some middle managers were seen to have difficulty in cascading organisational purpose, values and strategic objectives down the line. There was strong demand for consistent solid performance from immediate line managers as individuals and as a joined-up group at the firm.

Purpose, Principles and Values

Staff need clarity on purpose, principles & values

A firm's purpose sits at the heart of its business model, strategy and culture and can play a fundamental role in reducing potential harm to consumers and markets. Participants approached this topic with enthusiasm but were confused about the distinctions between terms such as purpose, principles, values, mission statements, mottos and short-term goals.

Staff were often unclear about their firm's corporate purpose statements and how their own roles and responsibilities contribute to that purpose. Staff were emphatic that better understanding of the purpose and how their roles fit into it would be very helpful. Improving clarity is essential, as these concepts often feature in important conversations both internally and externally with clients and other stakeholders.

Participants made it clear that alignment of a personal sense of purpose and core values with those of the firm was also very important, but rarely discussed. Lack of alignment may result in unhealthy culture, perhaps manifesting as a lack of commitment and, as a consequence, lead to adverse behavioural outcomes.

Tone from within

In the earlier stages of change efforts around conduct and culture, we underlined the importance of 'Tone from the Top'. Board Chair, CEOs and Global Business Heads are hugely influential in terms of what they say and do - or don't. The contagion impact, both positive and negative, has been comprehensively covered in academic and commercial commentary. Over time, this mantra has evolved to reflect the influence of one's immediate line manager. This gave rise to the label 'Tone from Above'. The G30 noted this change last year in its report titled *Banking Conduct & Culture, A Permanent Mindset Change.*

The tone from the CEO, policies and procedures and regulatory rules, among others, are clearly meant to influence individual behaviours across the entire firm. We introduce 'Tone from within' as an important new operative phrase to consider when issues of conduct arise.

This represents one's individual mindset, preferences, beliefs, habits and pre-dispositions. It is one thing to have an idea about how your CEO or line manager might respond in a situation, it is another to be clear about how you might respond on your own and why. Whether stated directly or not, the development of Tone from Within via training, self-reflection and self-challenge is a precursor to wider corporate change.

Our direct engagement with Engine Room staff, their peers and their colleagues has helped them to nurture a stronger sense of understanding and belief in their individual capabilities to contribute to conduct risk management within their teams but also firm- wide. The exercise to broaden the base of our engagement should positively impact behaviour and conduct outcomes.

Some Thoughts for Consideration

Many issues were raised during the conduct roundtable sessions that warranted follow-up. Some of these are best addressed by staff directly, some by line managers and some by executives. Here are some key points worth considering.

1. Have staff had sufficient training to be able to identify conduct risk in their day-to-day roles beyond general awareness?

2. Does the firm's overall framework for identifying and mitigating conduct risk reflect adequate, bottom-up exercises to understand those risks?

3. Do staff understand how their own roles and responsibilities can potentially create conduct risk or harm for the customers, the firm or markets?

4. Are messages from the top, including corporate purpose and values, translated in a meaningful way to the specific roles and responsibilities, targets and objectives at the individual and unit level across the firm?

5. Is enough being done to support line managers in their efforts to enable their teams to perform at their best?

Next steps

Culture and governance is one of our priority areas and a key consideration in our Approach to Supervision. We want to encourage open discussion on this broad topic and initiatives to address it. Our aim is for such engagement to support sustainable cultural transformations in financial services and better outcomes for businesses, consumers and markets.

Firms have clear regulatory obligations around culture and conduct as discussed in this report. It is important that infrastructure and training initiatives go beyond policy and process and mere adherence in order to make it clear to staff why such obligations matter. Poor culture and conduct can lead to harm. While avoidance of harm can be thought of as a regulatory imperative, these broad improvement initiatives are clearly good for business.

We will continue our supervision of conduct including our outreach efforts across industry and the academic community. This may include hosting further Roundtable sessions that may influence and inspire more innovative thinking and action. We welcome face-to-face engagement with a wide range of wholesale financial services firms of all sizes.

1. The conduct roundtables

The 5 Conduct Questions programme (5CQ) was designed to assess and support the numerous conduct and culture change programmes already planned or underway in the banking sector. We met with Chairs and CEOs of firms to get initial support and buy-in to a collaborative approach for the sector. If firms were to candidly tell us what worked well and what didn't, we would collate and publish this information for everyone's benefit. We then embarked on what has become a productive, longer-term initiative currently in its fourth year.

In the first 3 years, our engagement with firms centred around a forum created to receive progress reports and deliver feedback - the Annual Conduct Meeting (ACM). ACMs typically involved top management executives at the firm. Over this period, we broadened our engagement with firms to include Global Business and Support Services Heads. We reported on our findings to industry in our annual reports and provided some confidential feedback to each participating firm. While staff will have completed conduct training programmes, participated in surveys and attended Town Hall meetings on conduct and culture, they may not have known about this 5CQ initiative in the background.

By year 4, how well these change initiatives were embedding was becoming a primary question. Some firms had launched internal reviews, audits or engaged consultants to provide a peer review. To get further insight, we invited groups of ten employees from each firm to visit the FCA, one firm at a time, and share with us their views on purpose, conduct, culture and related topics.

5 Conduct Question Programme Evolution

Our main objective for this horizontal exercise was to assess how well staff understood conduct risk and their ability to identify and manage it in their day-to-day work. We also wanted to observe how staff absorbed management messages about purpose, principles and values, conduct and culture and the healthiness of speak up culture. And we wanted to assess how conduct and behaviour was progressing as part of individual performance assessments. These features all play an important supportive role in conduct risk management.

Conduct roundtable participants were generally made up of staff at the same level of seniority, with about 10 years of industry experience, including at least 2 years at their current firm. We sought a reasonably diverse group of individuals representing a variety of businesses and functions front-to-back. Participants completed an anonymous short-answer survey followed by an open and free-wheeling discussion.

We present here our findings from the survey results and our ensuing discussions with the roundtable participants. The results mostly reflect the participants' comments as we understood them. Some individuals might recognise their own input here but this report is otherwise anonymous. A few survey questions also asked for numerical rankings and we report on these where relevant.

The Behaviour Curve

For the benefit of new readers, we briefly mention here our description of the Behaviour Curve from [last year's report.](#) Imagine a distribution curve or a line depicting the range of individual behaviour from bad (on the left) to good (on the right). The key point is that regulators are interested in behaviour across the whole curve, not just the bad or left part of it.

We also introduced the term 'Behaviour at Risk' to emphasise the point that conduct risk is dynamic, arising anywhere in the firm at any time and the overall risk level can rise and fall quickly. It is one thing to have awareness training of what conduct risk is about. It is quite another to take a very close look at your own unit and activity and to consider how conduct risk might come from anywhere in the organisation and affect your unit. Conduct risk is not something that reduces simply because a firm has introduced an approach to assessing and managing it.

Our review, observations and emerging best practice

In the following sections, we provide summaries of what we heard during discussions or learned from survey responses. We also give some of our thoughts on this and list emerging points of best practice or suggestions made by participants directly in the Roundtable sessions.

2. Identifying conduct risk

Why this is relevant

Adverse outcomes from poor conduct and the scale of harm to clients and markets, the resulting punitive fines and negative press are all highly visible. Good conduct can create and sustain competitive advantage rather than just reduce the risk of rule breaches. An active approach to identifying conduct risk is an essential first step for firms, given that a risk that has not been identified cannot be managed or reduced.

Firms have a clear obligation to develop and maintain fit and proper infrastructure, policy and processes designed to identify and manage conduct risk. All firms have generally made significant investment in training and development and senior management have been highly engaged in promoting key messages to staff. Conduct risk is a primary regulatory focus and was naturally a key topic in our roundtable sessions.

3. Remuneration as a key driver

Why this is relevant

Remuneration is one of the most influential drivers of behaviour and, if pay systems are badly structured, they can encourage or create harmful consequences. Firms have an obligation to follow the FCA's Systems and Controls regarding Remuneration. The design, management and outcomes from remuneration, promotion and related performance assessment processes are emotive. They can cause significant ill feeling, resentment or anger if misunderstood, which itself leads to an increased risk of poor behaviour.

Here, we summarise the results of our information request to firms on how they include conduct and behaviour in their staff performance assessments. We then give a summary of our Roundtable discussions on the issue. The two pictures align but not fully.

The impact of performance assessments

We examined how banks are beginning to link performance assessments - including personal behaviour - with decisions about remuneration and promotion. For example, larger wholesale banks have begun to incorporate separate ratings for 'what' annual results have been achieved and 'how' they have been achieved in terms of personal behaviour and conduct. Many firms said that conduct now formed up to 50% of performance appraisals. This would represent a significant change.

We wanted to explore how strongly the appraisal process and remuneration decisions were linked and the impact for good or poor behaviour. We asked 18 of the larger wholesale banks for information, and most also subsequently participated in the Conduct Roundtables. We specifically requested:

a. statistics on the number of staff where remuneration was affected plus or minus 10% as a direct result of conduct and behaviour ratings or assessments and

b. copies of records related to a sample of the assessment process where a significant remuneration change had occurred and any follow-on reporting including to executive or board level

Observations

The quality of the information provided differed widely. Many firms had to piece information together from disparate systems. Most firms provided supplementary information about their process, data capture and analysis of assessment results. The weakest response simply provided statements declaring that dedicated and high-quality processes were in place but provided no corroborating evidence.

The number of staff captured in this exercise totalled 55,004. It was reported to us that 5,287 staff had received a remuneration increase of 10% or more specifically due to their conduct and behaviour or 'How' rating. This number is significantly overstated as:

a. some firms applied very liberal criteria for inclusion in the uplift results, and

b. not all firms normalised their underlying results for changes in the staff bonus pool in 2018 versus 2017 (significant changes should be neutralised as a starting point)

As presented, about 9.8% of staff received a remuneration uplift. The impact reduces to 5% of the population when the results are normalised for the bonus pool increase in the second year.

Similarly, it was reported that 750 staff had their remuneration reduced by 10% or more because of conduct, which would include personal misbehaviour, policy or process breaches, limit violations or other factors. This represented 1.4% of the population.

We noted significant differences in firms' approaches and level of sophistication in deciding final remuneration outcomes. Most firms have implemented some form of new infrastructure but at least 5 firms undermine their process by making totally ad hoc, isolated remuneration decisions. While firms often cited systems and data access as common constraints, some are making increasingly good use of what they are learning.

The Learning Organisation as a reference point

The hallmarks of a learning organisation include forward thinking about current performance and how it could improve. This directly affects what it might measure, how it could use the data it collects and, importantly, the priority it gives to various initiatives that might emerge.

We created the scale below to reflect the cumulative degree of value-add based on how a firm handled the assessment and remuneration data it collected. The criteria in each row attract progressively more points for using the data collected to good effect. On this scale 5 points reflects the highest level of value-add. Only two firms collected the full score. We would caveat the results of this analysis as it reflects a limited and narrow data sample.

Organisational Learning Analysis

Value points	Score criteria (5 is best, 1 is worst)	Firms
5	forward analysis considered, training considered, board feedback evidenced	2
4	weighted impact of how vs what, data kept, backward analysis done	2
3	conduct measured, actively considered in a scorecard approach, data kept	2
2	conduct scored but value lost in single unweighted ad hoc final score	7
1	no conduct score, data not kept, no back-check possible	5

So far 6 out of 18 firms are already demonstrating a proactive, higher value-added approach to measurement and using the data in a manner indicative of a learning organisation as we have simply defined it for this exercise.

The link between exemplary levels of positive behaviour and remuneration uplift reflects a weak heartbeat, but it is a heartbeat nonetheless. This picture is not improved when it becomes clear that many firms are not or are not yet easily able to aggregate data in a way that can be used for management purposes.

As a whole, firms reported that behaviour is having a significant impact on remuneration. During the subsequent Conduct Roundtable discussions, staff suggested that:

a. exemplary performance is more likely to be rewarded with small awards or recognition on the spot rather than an upward impact on salary during the annual performance assessment process suggesting that the corporate surveys overstated the impact, or were at least optimistic.

b. bad behaviour had an immediate, sometimes dire impact and

c. behaviour was expected to have a very significant influence on promotion decisions and staff displayed concern or annoyance when those exhibiting poor behaviour were still being promoted.

Roundtable Discussion

What we heard during roundtable discussions

We asked participants if they felt that their personal conduct was adequately addressed in performance assessment discussions. We also asked them what impact, if any, their conduct or behaviour had on pay or promotion.

Some groups said that the character of their year-end discussions had significantly changed for the better as a result of the additional emphasis on behavioural feedback.

Some noted that while behavioural feedback was being provided during the year, little or no specific discussion had taken place as part of the year-end assessment.

However, many described the actual discussion experience on conduct as perfunctory.

Some firms referred explicitly to its principles in the annual performance assessment process and participants noted the difficulty of trying to think of practical examples of feedback for each principle for every staff member as part of this process.

They described the effort as potentially counter-productive if time to consider other thoughtful feedback is lost.

While 78% of respondents scored their conduct as being adequately assessed only 55% thought that the impact of their conduct on their remuneration was fair.

Participants consistently noted the difficulty in rewarding good or exemplary conduct as part of a year-end salary review or bonus programme. They cited the problems of calibrating behaviour to a bonus amount, the difficulty of comparing one person to another, the relative importance or impact for one particular role or unit versus another, and so on.

Participants consistently stated that exemplary behaviour could and should be recognised as quickly as possible via public recognition, small prizes or awards (eg gift vouchers). Only a few could see their behaviour resulting in increased annual remuneration.

Staff generally understood promotion criteria but not the rationale for promoting some specific individuals so decisions could sometimes be better explained.

Participants were categoric that conduct and behaviour should figure consistently and prominently in promotion decisions and it was disheartening when there was evidence of sub-standard behaviour among those promoted.

Only 15% of respondents felt strongly that promotion criteria were very clear at their firm. The process at many firms was described as too opaque.

What we think

Significant strides have been taken in elevating 'how' versus 'what' but closer scrutiny reveals that this welcome progress is at an early stage and much remains to be done.

While 'how' versus 'what' was often presented by firms as a 50:50 balance for individual performance assessments, the impact on remuneration of exemplary or even good behaviour was minimal. This may reflect lack of demand as much as the difficulty of creating a scale for behaviour. It also aligns with the clear preference expressed in the Roundtables for other forms of appreciation or recognition.

Weak practice was displayed by some firms that seemed to make remuneration decisions on a completely ad hoc basis. This was despite the internal emphasis on the importance of the feedback process and the creation of, for example, a new scorecard for use within the firm.

Roundtable participants were keen to have regular and well-considered feedback, particularly at this stage of their careers. This was encouraging and of course it deserves to be supported.

The range and depth of discussions varies significantly both by firm and by managers within a firm. Feedback was often given during the year as well as at year-end. While not consistent or uniform across the sector, this is a very welcome change compared to previous practices where 'what' represented almost all of a performance assessment.

One key element is the need for a manager to be balanced on areas for praise versus areas for improvement. Assessments that are wholly positive or wholly negative in content or tone are equally unsatisfactory, both reflecting a lost opportunity to support career progression.

Discussions delivered in a formulaic assessment approach were less appealing than simple heart-to-heart exchanges on how an individual could improve.

This topic is of primary importance for influencing culture and conduct. We applaud the initial start but would expect firms to further develop both the follow-through on the assessment process as well trying to ensure better quality discussions on conduct and behaviour.

Remuneration and its potential impact on conduct remains a major focus of attention for all firms. The conduct and behaviour component of performance assessments needs to be meaningful, which may require regular review and attention. Progressive learning organisations are actively using behavioural performance data to inform their staff's future training and career path development.

Staff have come to appreciate the importance of being alert to conduct and behaviour for their own career success, as well as that of the firm. Line managers that invest in providing thoughtful and balanced feedback both during the year and at formal assessment points play a key role in building and sustaining healthy cultures. Staff welcome fast recognition of exemplary behaviour. Maximum transparency about promotion decisions has become a clear staff expectation.

What we think

Our survey found that higher value-add elements for effective organisational learning around conduct and behaviour in performance assessments include:

1. carefully conducting assessments including peer review
2. formally weighting conduct (the how) versus other factors (the what) for impact
3. actively collecting and analysing the data generated across the whole firm
4. analysing data and reporting any trends at board level
5. using the benefit of all this analysis in future assessment planning, and ensuring a feedback loop for management that includes training and career development

Some positive examples that we heard about from Roundtable participants include:

6. most firms seek feedback on 'how' as a key component of annual performance assessments some firms are providing conduct feedback on the spot or during the year rather than waiting solely for year-end assessment
7. some firms seek to prompt discussion using an agenda or a pre-designed grid, but care is needed to ensure that they maintain flexibility
8. leading firms are demonstrating attributes of a learning organisation by collecting data related to 'how', analysing trends, refining approaches and reviewing results at board level
9. most firms consider good conduct and behaviour to be an essential criterion for promotion
10. quick but moderate recognition of excellent performance is becoming an established pattern rather than year-end bonus or salary impacts

4. Culture, Safety and Leadership

Why this is relevant

Culture can be defined as the habitual mindsets and behaviours that characterise an organisation. It is at the heart of how we authorise and supervise firms, as well as where we may look for improvement. Healthy culture supports efforts to act with good intent, so reducing the risk of harm. The approach to conduct, speaking up and psychological safety as well as leadership are each very important features of creating and maintaining a healthy culture.

The healthiness of the environment for speaking up is crucial to the development of a positive culture. Firms are required to comply with a specific [regulatory regime on Whistleblowing], maintaining a clear and accessible process with independent oversight. Weakness in speaking up or unresponsiveness to matters raised rapidly erodes health and is an unacceptable risk. Cultivating psychological safety is vital for a healthy speak up environment, and leadership undoubtedly plays a key part in facilitating this.

Leadership can be described as a disposition to lead rather than a formal leadership position. Staff at any level can demonstrate principled, leadership behaviour or take decisions that inspire others. Consistently leading by example and adopting a personable, approachable style contributes positively to psychological safety which in turn supports a positive culture. These elements all serve to reduce the risk of negative outcomes from unwanted conduct and behaviour.

Culture

What we heard during roundtable discussions

We asked participants how they would describe the culture of their firm. Overall, participants identified many positive features but also some faults.

Participants described their culture variously as: collaborative, entrepreneurial, friendly, professional, collegial, flexible, supportive, approachable, safe, fair, open and socially responsible. But they also described it as: bureaucratic, slow, siloed, blame culture, not transparent and hampered by managers or colleagues who did not demonstrate accountability.

Most firms described how there had been a significant evolution of culture and attitude over the past few years. Across the board, participants acknowledged how important this was, particularly given their firms' multi-cultural staff base or wide geographic footprint.

Imbalances in IT infrastructure investment between front and back office was often mentioned as undermining culture. It was highlighted as a source of conduct risk because dealing with inefficient or ineffective systems leads to frustration and eventual lack of commitment to quality.

Participants noted how cultural considerations are often described as of higher importance for millennials. They felt this prioritising of culture was not actually unique to this generation, just that they were perhaps more prepared to be vocal about it.

A few firms noted that staff who had been in role for 10-20 years or more (ie not necessarily just older) may find it harder to buy-in to a cultural shift.

Collaboration within the firms was described as improved or improving.

Some staff in middle office functions said that the culture had evolved to more of a partnership model with the front office without negative implications for the independence of controls.

Another positive observation was that diversity and inclusion have improved, particularly in the UK. Some staff with multi-country experience noticed the significant benefits of diversity and inclusion in those locations where it was evidently stronger, compared to others around the world where it was not.

But some participants also felt that cultural differences outside of the firm with clients or other stakeholders can pose difficulties.

Wellbeing is now seen as a far more prominent consideration among employees (and employers). Although, in general, participants said flexibility has improved with current working from home and other options, work/life balance was still described as a concern and a reason for junior staff leaving.

What we think

We found comments about positive cultural shift over the past few years encouraging. Aggressive behaviour was being toned down as unacceptable and the protection of high performers from any challenge was now being addressed. However, there are still differences in management style which can hinder new culture initiatives from being consistently applied. A fundamentally supportive manager might undermine this stance with a blasé attitude on some transgressions or fail to appreciate the importance of a speak up topic.

More recently, culture has evolved to take account of broader factors rather than just focusing on shareholders' needs. This is leading towards a closer alignment of shareholder, client and employee interests as well as other stakeholders.

Participants raised concerns about cultural differences with clients. Firms may need to address this by training their staff on how to deal with difficult clients but also support a staff member's good behaviour in the individual circumstances. This could also serve to positively influence wider industry as well as the firm itself.

To promote a good culture some firms have designed specific award programmes to highlight and reward 'culture carriers', a term now commonly used to describe individuals displaying exemplary attitude and behaviour. We note in the Remuneration section that that the idea of direct financial reward for demonstrating good culture was not common among participants, but they firmly acknowledged the effectiveness of softer benefits in encouraging good behaviour.

It was evident that firm-wide culture is clearly shaped by those individuals who actively promote high standards in their day-to-day working lives. To have an impact on culture, staff can actively engage in various initiatives and demonstrate leadership by consistently providing feedback, breaking silos, considering culture in other parts of the firm, and in other firms as well, with the intention of promoting best practice. Regular displays of humanity, civility and diplomacy are helpful.

For line managers, having the right culture in a business or service unit can be very beneficial to achieving goals while reducing conduct risk. To enable good culture, astute managers consider what their team needs for top performance, individually and as a unit. It is clearly beneficial when line managers lead by example.

Safety, Speak Up and Listen Up

What we heard during roundtable discussions

Participants spoke with detailed knowledge of the speak up channels available at their firm and how to access them. Only a few had felt the need to access channels beyond speaking to their direct line manager.

The main issue that emerged in our discussion was the lack of psychological safety for speaking-up day-to-day. For some, speaking up seemed completely natural and well embedded within the organisation. For others, a fear of consequences, shyness and insecurity still prevailed.

Only 44% of respondents felt strongly that staff at all levels were always able to raise concerns.

Participants described higher levels of anxiety in dealing with challenging cases that are of borderline significance (should I, shouldn't I?), cross functional units (do I fully understand the issue or drivers?) and sometimes the channel itself (can I really trust HR, a direct manager or a 3rd party channel?).

Some mentioned that the subject matter alone can add pressure. They said it might be easier to highlight the inappropriate behaviour of a colleague than challenge a business decision with immediate revenue implications. The reverse was true for other staff.

Live or real-time issues where quick reaction is required were also described as hard to navigate.

Many groups pointed out that junior staff may find it harder to speak up, take longer to feel comfortable in doing so and often worried that their concerns were not valid. Participants described various helpful initiatives including tailored training on how to speak-up, mentoring and buddying. It was also noted that it may be easier for junior people to escalate issues as a group rather than individually.

The motivation for speaking up also matters. One group described that where speaking-up is embedded in the culture, the motivation is more likely to be driven by the desire to do the right thing rather than escalate with the intention of shifting responsibility to the line manager or to another unit.

Participants consistently emphasised the role of their direct line manager in establishing the degree of psychological safety necessary for a healthy speak up environment and had empathy and concern for colleagues who did not have sufficiently supportive managers.

They said it was helpful to have easy access to Compliance staff, but more often at the pre-escalation stage (eg checking what is the right thing to do) rather than as an ultimate escalation channel of choice.

Contacting Human Resources or triggering a Whistleblowing event were considered by many to be more radical or 'nuclear' options and an unappealing if not dangerous prospect.

What we think?

The overall health check on speak up gets a pass for basic infrastructure, but not with flying colours for overall healthiness in the day-to-day environment. Participants displayed a very wide range of opinion and experience. We found that speaking up varies significantly between firms as well as between different parts of the same firm.

Participants described day-to-day issues as more of a challenge than more serious cases of misbehaviour or policy breaches that justified using a Whistleblowing channel. This is worrying because day-to-day activity generates a steady flow of debatable alternatives that are best discussed, understood and resolved quickly.

Most participants preferred to speak directly with their line manager even though other channels were widely available and easily accessible. In such instances, the psychological safety of speaking-up depends on an individual manager and may leave employees exposed to bias, subjective judgement or even retaliation. It is vital that managers have a willingness to actively listen and hear what others are trying to say, follow up and be supportive.

Staff may need more guidance in navigating borderline or cross-functional cases. Different approaches to speaking-up in a firm may be due to cultural differences between regions or simple differences in perspective and priorities between front and back office or specialist units. Firms need to address the difficulty and perceived risks in challenging across unit or functional lines. For example, a difficult judgement on a complex trade might involve the technical complexity of using one or more valuation models and the possible implications for local laws, capital treatment or revenue recognition for different stakeholders. This would mix specialist expertise in law, calculation methodology, accounting rules, regulatory capital rules and compliance with a host of internal policies.

Addressing cross-functional cases may be straightforward in a formal and documented process, such as a New Product Approval Process. However, it is likely to be more difficult in cases that fall outside of such processes. It may be useful to establish visible discussion channels and provide more positive examples of speaking up or collaborative engagement in such situations. This could also evolve into targeted training for cross-functional issues.

In some cases, employees who would not normally hesitate to speak-up may become less inclined to do so. Some participants said this was especially the case with promotions, whether it was their own or others. Lack of clarity around promotion criteria and an ambiguous or subjective promotion process may have an impact on employee attitudes toward speaking up.

Reluctance to speak up may be further exacerbated when there is a culture of perfectionism. A display of zero tolerance for mistakes or errors creates a very unhealthy environment and discourages speaking up.

Staff who champion open collegial challenge and discussions are increasingly recognised as team players vital for healthy conduct and culture. In organisations with good speak up culture, line managers play a central part by ensuring that a speaker is not ignored, the messages come across as intended and speakers are updated on progress.

Finally, it was clear that staff need assurance that escalated points are being listened to. An absence of action or of regular updates is likely to discourage future escalation.

Leadership (incl. Line Management, Tone from the Top and from Above)

What we heard during roundtable discussions

We asked participants if management at their firm lead by example. The answer was largely yes.

Participants consistently raised the point that they are more likely to connect and feel motivated when senior management is more visible and messages are immediately relevant.

CEO messages were most welcome when further tailored to specific regions or business units. If staff see messages as not very relevant to the audience or local subsidiary, they said they were less inclined to pay attention.

Participants regularly stated that Tone from the Top or Tone from Above was very clear when presented by the CEO or top managers. However, messages did not always reach the target audience as intended, especially for the large firms headquartered outside the UK.

Some participants suggested that middle management were currently less confident in delivering consistent messages about a firm's strategy/direction or in promoting the firm's values and principles.

CEO message content was said to have varied significantly when cascaded by middle management. Discrepancies were usually discovered later and were a source of confusion and annoyance.

Line manager skill or leadership style varied widely. Participants commented on how significant the negative impact of weaker managers can be on an organisation.

What we think

We certainly took note of the consistency of comment about CEO messages and Tone from the Top which often seemed to fail to reach the target audience either consistently or correctly.

When senior management is more remote, it increasingly falls to the middle management layers to deliver key messages. Some feedback indicated that middle management is somewhat less efficient or lacked confidence in delivering messages about the firm's strategy or direction or in promoting the firm's values and principles. Content was often inconsistent. Senior executives might consider this when devising their communication strategy.

It was clear that the role of middle management is hugely important, reflecting the significant influence they have on and the support they provide for the 'engine room'. Staff usually listen carefully to their immediate line managers. They are acutely aware that managers observe their day to day behaviour and inform, if not decide, compensation and promotions. It is important to note that perceived weakness in the middle management layers appeared to be scattered or infrequent rather than endemic.

Participants identified that middle management needs to display good leadership to exercise their influence effectively and appropriately. Management style and consistency is important. Training may address differences in management style and the impact various style can have. Although there is inevitably a wide variety of management styles in any large organisation, it should not affect the objectivity of the staff appraisal/promotion process. Given the rapid pace of change, individual managers may need to adapt to cultural norms that differ markedly from their own earlier work experience.

Senior management's engagement with employees and the availability of feedback channels is very important. Staff do appreciate regular employee surveys and Town Hall sessions that address issues they have raised. However, value is quickly eroded if employees cannot see regular evidence that their feedback is being heard and acted on.

Striving to set an example and doing so repeatedly, at all levels not just managerial, can be hugely impactful on culture.

Emerging best practice

Culture, psychological safety and leadership all interconnect to contribute to the overall health of the working environment. We would characterise our findings as a need for continuing focus for many of the participant firms.

Some positive examples that we heard about include:

1. Firms have widely prioritised culture as a management focus for improving conduct. In many if not most firms, CEOs, executives and managers have generally become more visible as leaders of culture and more proactive in ensuring all levels in the firm have a psychologically safe environment.

2. Staff at lower levels also becoming more proactive in driving good culture. They generally recognise the importance of supporting healthy challenge as part day-to-day activity and actively seek support from line management to ensure they have it.

3. Some staff took the step of offering to partner with their line manager to address and resolve a specific problem rather than just escalating the matter or withdrawing it.

4. Some firms are appointing conduct ambassadors. Formally appointed, trained and supported individuals for such roles are proving to be more effective than volunteers.

5. Some firms have also designed awards to highlight positive culture initiatives and highlight culture carriers.

6. Some firms actively participate in industry initiatives to improve culture such as FCA Culture Sprints.

7. Some firms have reframed 'zero tolerance' language as zero tolerance for 'unmanaged' risks or risks 'beyond set limits'.

8. Most firms are now gradually formally assessing how goals are achieved, as well as what is achieved.

9. Some firms have set up support groups for newer staff who may not feel comfortable raising day-to-day challenges or speaking up on more serious matters. One firm introduced a new committee which gathers issues raised by junior staff and then escalates them to senior management.

10. Some firms assign a formal buddy to all new employees, partly to ensure a speak up voice is heard and understood. Often a buddy can be from a different unit rather than the adjacent desk.

11. Some firms provide specific training on listening skills to ensure that when messages are raised as a challenge or speak up point, managers remain alert to the sensitivities that may apply for an individual to step forward.

12. Good leadership practices in some firms include open informal access to senior management, managers carefully considering the wellbeing of the team as a whole, effective cross-unit cooperation and extra care by middle management when cascading CEO messages.

5. Purpose, Principles and Values

Why this is Relevant

A firm's purpose is central to its business model, strategy and culture. It provides an overarching focal point for what the firm seeks to achieve. The power of a corporate purpose statement increases dramatically if it is meaningful, well understood and actively applied by staff as the backdrop for day-to-day business activity. Personal purpose also has a direct bearing on how individuals assess the potential risk of harm and whether it's acceptable to take a particular risk. Corporate principles and values underpin how a firm wants to conduct its affairs. These aspirational statements can provide context when addressing matters where it is hard to decide which is the right decision where avoiding harm is a key objective.

Corporate Purpose

What we heard during roundtable discussions

About 90% of respondents said that their firm's corporate purpose was clear or very clear. However, a different story emerged during discussions.

Most groups could remember some aspect of the corporate purpose promoted by their firm but often not very well. Even though their recollection was patchy, we noted that confidence and enthusiasm for expounding on the topic was very high.

The most common elements mentioned by nearly every group were: client focus, sustainability, and social or community contribution for which there was earnest enthusiasm.

Staff believed that an understanding of corporate purpose and how individual roles and responsibilities fit into the wider picture was very helpful, energising and motivating for them.

Staff at a number of firms admitted they had 'no idea' what the firm's corporate purpose was. They struggled to make sense of what the implied or desired purpose might be based on statements of principle, values or general mission statements as this was all they had to go on.

Staff generally emphasised how a clear and shared purpose had been helpful in bridging the gap with offices in faraway countries, or head office.

Some described their involvement in exercises to 'discover' the firm's purpose and how thoroughly energising this was.

They also noted that some statements target a larger social purpose and, while this is commendable, it may require extra effort to ensure that staff really understand the firm-specific context.

Some participants described corporate purpose as being mainly about avoiding personal misbehaviour.
Many referred to principles, values and corporate mottos as a purpose.

What we think

In our roundtable discussions, we often started by asking participants about corporate purpose. Although most thought their firm's corporate purpose was clear, in many cases they could not clearly explain it or, without realising it, started describing the promoted purpose statements of a firm other than their own.

There was apparent confusion between the concepts of Purpose, Principles and Values. Heartfelt statements by a CEO of highly desired behaviour e.g. 'customers first' which is a laudable statement, was mistaken as the de facto corporate purpose rather than as a standard of behaviour to emulate.

Discussion also showed confusion between corporate purpose and short-to-medium term business goals. Purpose was sometimes expressed as the goals of the firm's regional business model or geographic footprint.

There is clearly a gap to be addressed where staff expressed frustration at being unable to make clear links between the purpose of their firm and their own roles and responsibilities.

The discussion about purpose sometimes became one about personal behaviour, as though better behaviour was the firm's main objective. While this is a widely-shared and worthy goal it is perhaps better described as an important aspect of the firm's culture rather than its corporate purpose.

While it may have been a limited exercise, the initiative of one firm to engage staff in a series of sessions to explore and develop a purpose statement that would serve the firm is exemplary. It is one thing to have a statement crafted by public relations experts and corporate strategists and quite another to build it inclusive of bottom-up discussions with staff.

We were pleased to note that some felt the purpose of a firm could evolve as the firm matured. This was emotively expressed by participants for one firm which was in the middle of significant organisational change.

Comments during the sessions showed a growing sense of legitimacy of the importance of the wider stakeholder community. Participants felt that, while shareholder value remained important, the interests of other stakeholders deserved to be elevated to a similar level.

We heard that clarity of a corporate purpose statement is important to staff. The purpose itself needs to be distinguishable from corporate goals or operating principles. Employees also keenly want the purpose to be relevant to individual day-to-day roles and responsibilities.

Participants felt that managers' ability to explain the contribution of various business units to wider corporate purpose was helpful and can serve to manage some of the challenges that staff face day-to-day. While for some it may be a small thing, making a connection between big-picture statements of purpose and day-to-day activity can enable a greater sense of personal ownership and responsibility for outcomes with which you are associated. It can help in addressing problems by fostering a more sustained effort toward their resolution, perhaps by way of a more innovative solution.

Personal purpose

Why this is Relevant

We asked participants to describe their own personal sense of purpose and whether it aligned with their firm's corporate purpose as they understood it.

Participants said the subject of personal purpose and its alignment with corporate purpose was the most notable and interesting question in the survey.

93% of them felt a sense of personal purpose or a clear set of personal values was important or very important. Aligning personal purpose or values with those of the firm was considered equally important.

All participants deemed alignment with corporate purpose as essential. Misalignment was highlighted as a reason for losing staff.

Staff described how it was important to have high standards in both their personal and business life. This was often expressed as being socially responsible, maintaining high ethical standards and ensuring a healthy work-life balance.

Some noted that alignment of personal and corporate values was more important than alignment of purpose.

What we think

This topic generated particularly engaged discussion. Participants clearly demonstrated that the sense of purpose and alignment with corporate purpose have an important role to play in how positively individuals approach their roles and responsibilities. It also underpinned the rationale for wanting to be part of the organisation they worked for, or a decision to leave a previous firm.

Many participants were making their first-ever effort to explain a personal sense of purpose, despite their strength of conviction regarding its importance. They often used corporate language, borrowing from their job description, the firm's stated purpose or principles and values language from its website.

Participants understood that self-reflection would be needed to better understand and clarify their own sense of purpose or key values. Assessing alignment may then require the firm to better explain what lies behind its statement of purpose.

We would characterise wide-ranging self-reflection and, most importantly, seeking to understand and challenge what you discover as a key aspect of adult human development. It helps to look closely at influences that may pull you off the track on which you think you firmly reside. The insight gained is helpful for performance as a team member, as a leader, and a key skill for progressing to increasingly senior corporate leadership roles. Some commented that this may be a helpful area for training support.

A few participants said that they could get on in their role without demonstrating full alignment of purpose or principles. They drew on a sense of detachment or very strong self-identity as a starting point but it was also important that corporate activity did not openly violate their values.

A personal sense of purpose can of course take many shapes. This emerged as a potentially important and useful dimension of diversity that to-date has been relatively unexplored. For example, participants discussed whether commitment to community- focused sustainability should always supersede corporate commitments to serve client needs, or if a commitment to public transparency should always supersede client confidentiality. The level of challenge that these issues could create could potentially contribute to diverse and healthy debate.

Principles & Values

What we heard during roundtable discussions

When we asked participants to identify the key principles and values espoused by their firm.

They provided a wide range of descriptors including: "fairness (externally and internally), togetherness, good ethical behaviour, doing the right thing, respect, integrity, excellence, stewardship, challenge, proactive, service integrity, challenge, collaboration, transparency, excellence, professionalism, diversity, accountability, curiosity, deliver together, teamwork, honour, client focus for responsible, sustainable performance"

Participants in some firms gave more than a dozen principles that were promoted internally. They generally observed that this was far too many to be practical. Another firm had recently reduced the number of principles from 5 to 3, which staff had greeted with some relief.

Staff across many firms were often unconvinced by the authenticity of stated values and principles. They described the statements or word choices as seeming somewhat historic, tired and less relevant and in need of a fundamental refresh.

The lists of principles were described as overlapping heavily between firms.

Participants said that applying abstract principles and doing the right thing was much easier in a training session than in real life where facts were less clear and pressure can be high. It was described as 'actually quite challenging'.

Some firms described values as something one needed to 'comply with' rather than as an attitude or aspirational point.

Integrity was described as a hard principle to demonstrate day-to-day, partly because it is difficult to do so but more because it is not well understood as a concept. It is also the most commonly stated value across industry in general, not just banking.

What we think

Here again there seemed to be much room for improvement at the individual and corporate level. The discussion also reflected a mix of corporate vision, mission and values statements. Some staff may not fully understand individual principles and had not explored how they could arise in day-to-day business.

It was clear that promoted principles and values can have a strong influence on staff, both positive and negative. Nearly all participants scored having personal purpose and values, along with alignment with corporate purpose and values, as very important.

The discussion showed that principles and values provide a strong foundation for what we referred to earlier as Tone from Within. The comment about needing merely to comply with a principle was worrying in that it suggests there may be little or no need for a sense of belief or aspiration. This would not engender trust.

Some staff had actively considered the alignment of their personal and corporate principles as a factor for joining, remaining with or leaving an organisation. However, they did not see the importance of principles and values as differentiating factors or as a competitive advantage. They observed that most firms looked similar.

As a side point, it was also evident that participants were not very aware of their competitors and how they compare or contrast with each other on business models, purpose, principles and values.

Emerging best practice for Purpose, Principles and Values

A well-crafted statement of purpose and aspirational values to which staff feel personal commitment can play a fundamental role in reducing potential harm to consumers and markets. Line managers are well-placed to provide clarity on how the firm's principles and values apply to their respective units and to their employees' overall responsibilities.

Some positive examples that we heard about include:

1. Firms have generally been trying to make purpose statements more meaningful, concise and appealing to a wide range of stakeholders. Several firms have done or plan a substantial reworking of their corporate purpose and values statements.

2. Some firms have directly engaged staff in developing an overall corporate purpose statement and how it is adopted in their own organisational unit exploring 'Tone from Within.' Staff responded with great enthusiasm.

3. Some line managers have convened team-level discussions to ensure that staff understand how their roles and responsibilities fit into the wider corporate purpose.

4. Some firms have taken steps to clarify the distinction between terms such as purpose, principles, values, corporate goals and mottos.

5. Some firms have refreshed or reduced the number of their principles and staff welcomed this.

6. Individual purpose was described during the Roundtables as an emerging and potentially important dimension of diversity, that has not yet been tapped.

7. Staff emphatically declared that a sense of alignment between a personal sense of purpose and that of the firm is essential for supporting a healthy culture and well- being.

8. Some staff had taken the time individually to consider their own values carefully and relied on this as a foundation for speaking up.

9. Some line managers had stepped in to identify and correct root causes of misalignment typically manifesting as disillusionment with one's role.

"The 5 Conduct Questions Industry Feedback for 2019/20" published by the Financial Conduct Authority, September 2020.

iCOOC

Empowering the International COO Community armstrongwolfe.com

International Chief Operating Officer Community

The only group membership dedicated to supporting global business management professionals

- Our membership is **one degree of separation** from the key decision makers
- They are the **ambassadors of conduct** with ‘COO’ a trademark for ethical behaviour
- This executive community is **uniquely positioned to transform** financial services
- ICOOC’s mission is to help them meet this challenge by **working better together**

We are the focal point for the COO communities of Markets, Banking and Asset Management.

The membership’s objective is to play a significant role in shaping the industry of tomorrow by helping its members maximise the value they can offer their employers, whilst we will support all members throughout their careers ensuring they fulfil their potential.

Since 2014 Armstrong Wolfe has been serving the COO community. At the outset our aim was to create a fraternity, a global community whose members worked within business management, be this the COO, CAO, Chief of Staff or Chief Control Officer. We have remained committed to this task and have run over 250 forums in 5 financial services centres in the 6 years that have passed, almost all of these were hosted by the banks and asset managers themselves. These forums were established to enable COOs to discuss market wide, non-proprietary challenges in a Chatham House Rule environment. The benefit for each attendee, articulated by our advocates, has been the on-going exposure to the exchange of ideas, participation in solutions development and being able to validate their position on common challenges with their peers.

In 2018 we launched Women in the COO community, to support the industry’s commitment to equal opportunities, diversity and inclusion and more recently launched the world’s first and only magazine committed to the COO. As we entered 2020 we enjoyed the engagement, support and participation of all the world’s leading banks and since 2018, asset managers and have over 1500 COOs in our virtual community. With the advent of the COVID-19 crisis, we pivoted quickly to support our COO and CCO communities and since March 2020 have run over 70 webinars, virtual forums and conference calls to assist the COOs as they sought to navigate their organisations through uniquely challenging times.

Our mid-term aim is the professionalization of the COO role with a commitment to establishing the Institute of COO Professionals (ICOOP). The first step to achieving this aim is to found a membership and form an affiliate community. To this end we have created corporate and individual memberships that accommodate the size and scope of all the banks, asset managers and companies that we have supported since 2014.

North America

October

Global CCO FCA Dinner
8th October 2020

Global COO & CCO Webinar
9th October 2020
Partnered with Starling Trust

Global CCO Call
14th October 2020

Global COO & CCO Webinar
30th October 2020
Partnered with Ivey Business School

November

Global CCO Call
10th November 2020

Global COO Call
17th November 2020

Europe

October

Asset Management COO Virtual Forum
6th October 2020
Partnered with BCS

Global CCO FCA Dinner
8th October 2020

Global Global COO & CCO Webinar
9th October 2020
Partnered with Starling Trust

Global CCO Call
14th October 2020

Global COO & CCO Webinar
30th October 2020
Partnered with Ivey Business School

November

CCO Conduct Forum
4th November 2020
Partnered with PWC

WCOOC Leadership Evening
5th November 2020

Global CCO Call
10th November 2020

Global COO Call
17th November 2020

Asia

October

Global CCO FCA Dinner
8th October 2020

Global Global COO & CCO Webinar
9th October 2020
Partnered with Starling Trust

WCOOC Leadership Evening
13th October 2020

Global CCO Call
14th October 2020

Global COO & CCO Webinar
30th October 2020
Partnered with Ivey Business School

November

Global CCO Call
10th November 2020

Global COO Call
17th November 2020

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Armstrong Wolfe will be running the first global and virtual conduct and culture conference for Markets, Banking and Asset Management.

Its focus on culture, the importance of cultural cohesion, the changing demands of conduct have never been more important and complex than now. The COVID-19 crisis has placed the industry into a uniquely challenging place but with every test there exists opportunity to embrace change and meet this contest with innovation and courage.

- **Leadership** is the cornerstone of organisational and institutional stability married irrevocably to the establishment of individual and collective **purpose.** With purpose, you establish the unseen control framework that betters any technological solution, that occupies a higher ground than deterrent and punishment and breeds productivity and profitability from a position of unassailable strength.

- **Emerging risks** and the broadening of the control and conduct lens to encompass a more esoteric examination of what constitutes **threat**. The industry has been exposed to the invisible danger and intimidation of a pandemic, where the need to think more creatively about what constitutes threat is now an organisational imperative. Putting it simply, the industry cannot afford to allow a failure of the imagination to be a reason for failure.

- **Organisational design and governance** have defined the industry's efforts to meet the structural and regulatory demands captured within the 3 lines of defence that have defined the operating mantra of the functions that own and manage risk; oversee risk and provide independent assurance. We ask the question 'Is it time to reassess this model, allowing for technological innovation and the industry's investment in this areas since the 2008 crisis or has the industry missed an opportunity in failing to ask the question repeatedly 'what problem am I seeking to address and how best do I align my resources to tackle this issue', whilst meeting regulatory interpretation, to succeed?

  Is it time for a change in thought and execution?

- **Technology** and the **art of the possible** has permanent residency within the Conduct agenda, where the capture and use of data enabling you to move to a predicative, forward looking line of attack **(as opposed to defence)** and therefore being on the front foot, is seen as the fundamental adaptation needed to reposition the industry's efforts to help it grapple with and meet the challenge of Conduct. In doing so, enabling companies to undertake material, as opposed to judgemental, horizon scanning and identify and evaluate emerging risks more effectively. We will investigate emerging technologies and how they can effectively partner human observation and what we define as, **cultural supervision.**

Speakers

The conference will give the stage to a myriad of entities, all with the shared and common purpose to make the industry a safe haven for clients, investors and employees; to heighten its reliability; to help further rebuild trust and its reputation and make it the magnet to attract and retain the most talented people worldwide.

These will include invites to the regulators; industry bodies; leading firms and academics within leadership and behavioural analytics; technological companies both small and large and leading voices from the world's consulting and advisory sector.

Attendees

Armstrong Wolfe has been the focal point for the global COO and Chief Control Officer Markets community since 2014 and for asset management since 2018.

Within our global community we have 35 world's leading banks and 30 asset managers, representing all continents.

The target audience:

- the managing directorate responsible for executing the conduct and cultural agendas on behalf of the executive.
- those directly accountable for conduct as business leaders, charged with the ambassadorial role of defining a Company's culture and meeting the structural demands of conduct.
- specific focus groups and webinars aligned to tomorrow's leadership at VP to Director level.

For more information email: **info@armstrongwolfe.com**

www.armstrongwolfe.com

ARMSTRONG WOLFE

POV: Fraud

To What Extent Has This Internal Threat Increased?

POV provided by Simon Longden, Armstrong Wolfe Partners

The scale and disruption caused by Covid-19 has tested the rehearsed and documented contingency plans of most organisations. Established models of reliance on nearshore, x-border and offshore BCP arrangements will have been put under strain as Covid-19 did not respect geographic boundaries and would have impacted many of those markets also.

While economies and businesses slowed, the wheels across financial services continued to turn, adapting to the challenges that had been presented. Organisations will no doubt have their own stories to tell on where things have gone wrong and the lessons that have been learnt, though on the face of it, the sector appears to have been resilient and had met this unique challenge well.

This is correct, perhaps, on the face of it, but there is one question that must be asked:

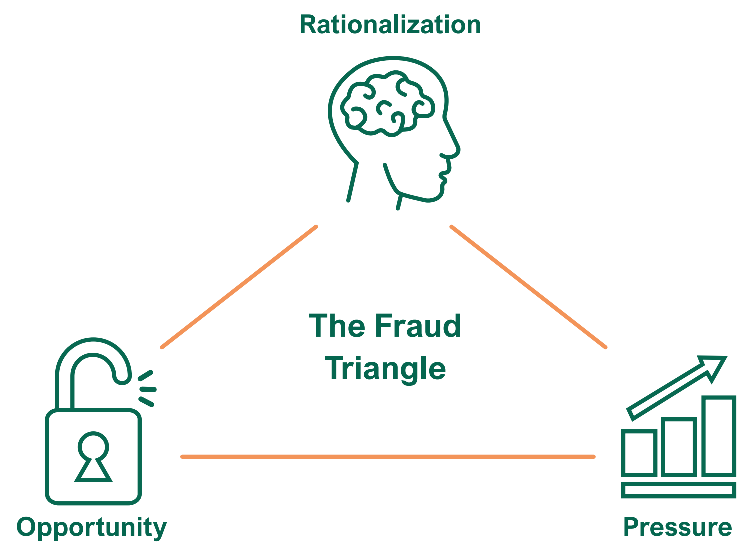
> " What might be lying in wait that is currently undetected? "

One should not put a dampener on things or be seen as having a glass half empty – but all recognise most organisational models and control environments weren't designed to support a largely dislocated workforce in the short term let alone an extended period of time.

Through many of the industry discussions and the forums that have been run since the pandemic began, I have an appreciation of some of the great work that has been done and the challenges that have been overcome. All to the good but one aspect I keep reflecting upon is the unique and very different set of pressures that will have been exerted on the workforce, impacting both their personal and professional life, as they have had to adapt during the crisis.

The risk, compliance and fraud practitioners of the industry might recognise pressure as one of the cornerstones of the Fraud Theory developed by Donald Cressey, in the 1950s, the others being Opportunity and Rationalisation:

Pressure + Opportunity + Rationalisation = Fraud



Cressey developed this theory based on multiple, in-depth interviews with people that had been convicted of trust violations. His research suggested that individuals are motivated to commit a violation when three elements converge:

- some form of perceived pressure
- a perceived opportunity
- a way to justify in their own mind that the act is appropriate given the situation.

Cressy claimed that all the cases he studied conformed to this process and that none of these elements alone would be sufficient to result in fraud, all three must be present. Let us consider each of these elements through the lens of the Covid-19 crisis:

Pressure

I read many posts on LinkedIn extolling the benefits of being able to work from home. The benefit of being able to spend more time with family, of not having to endure a long and often crowded and costly commute, nor having to pay exorbitant city fees for a coffee or lunch, but has it all been plain sailing ?

You see posts of people working from a comfortable home office or study, yet not everyone will have had such luxuries. For every well-equipped home office, how many people have been working at the kitchen table, huddled over a laptop, perhaps with other family members, or their partner, also working from home.

Initially that might have been a novelty, but at what point did the lack of personal private space to think or take calls become an issue?

You consider other obligations that might have been imposed on people working from home, perhaps having to attend to the needs of family members, children that have required home schooling or elderly parents they might still live with.

In the West we take the provision of electricity and WiFi for granted, yet in many markets this may have been a problem and presented an additional challenge for people to complete their work and meet performance targets or deadlines.

While in the early part of the crisis we saw governments step up and offer support to companies that were struggling and some commitments from organisations not to lay people off, these schemes are coming to an end, and some of the commitments not to lay off staff appear to be unwinding. Job security will have been a concern for a lot of people during the crisis, and unfortunately for some, or members of their family, that risk is now materialising.

The easing of lockdown in many markets, countered by a sudden reintroduction of localised lockdowns or quarantine restrictions being imposed on previously noted safe travel corridors, adds to the uncertainty. At the sharpest end of this crisis is the human tragedy of loss that many would have experienced, be this a loved one or friend.

In 30 years of international banking, I worked through multiple difficult situations, including the SARs outbreak in Hong Kong in 2003, the collapse of the markets in 2008, and many more, but I cannot recall anything of the scale and impact on people and the banking industry that the present crisis and the unique set of challenges and pressures has imposed.

Opportunity

Even the best prepared organisations will have been surprised by the speed in which they had to implement a work from home model, in many markets it felt more like an evacuation, than a smooth disciplined process.

Many companies might not have materially adjusted process flows during this rapid evacuation, rather staff would have executed existing tasks on pre-Covid processes, albeit now remotely. I would expect, therefore, that control testing would still provide basic assurance that tasks were being executed effectively but what about the situation where the process has become more fractured or where new tasks have been introduced, or where there has been an emergency relaxation of BAU standards, e.g. dispensing with wet signatures in favour of digital, where printer access has been granted for remote working, where access rights, privileges and approval levels have been changed?

In times of stress, identifying, documenting, and testing controls around such matters may not have been a primary consideration and may have been completed later, when time permitted. The question arises, has a master log been maintained of all changes that may have been introduced so back testing can be conducted?

When I reflect on the findings coming out of the most recent Report To The Nations on occupational fraud, produced by the Association of Certified Fraud Examiners (ACFE), it's striking to look at the primary internal control weaknesses that contributed to fraud that were identified from this research.

While the ACFE review several thousand cases and it cuts across a diverse set of industries and geographies, approximately 19% of the cases that formed this research were from Banking and Insurance.

The three primary control weakness that the research identified as contributing to an internal fraud were:

- the lack of an internal control (32%)
- override of an existing internal control (18%)
- lack of management review (18%)

When you further consider the ACFE findings on the top 4 deceits used to conceal fraud, they revolve around:

- the creation of false physical or electronic documents / files
- the amendment of existing ones

Therefore, how robust are the industry's processes and tests to be able to detect such instances?

The lack of management review as a control weakness is also worth reflection and is important, when you consider the supervisory challenges that Covid-19 crisis has presented in terms of the dislocated workforce, and staying current on how effectively people are working, and more importantly how they are feeling.

When considering how best to have dealt with this situation, one of the most impressive traits of some I have worked with over the years, was the way that they were able to filter the noise around them, and connect signals across the key functions that they regularly networked and sense where there might be a potential problem. Conversely the current environment inhibits the ability for such a dialogue, or an informal chat at the water-cooler, and presents a challenge for those on top of the all the potential internal risks, can we rely on all the normal MI for this qualitative insight?

Rationalisation

This is the cognitive part of the fraud equation, and one where an individual will make the decision, in their own mind, that they can justify the potential benefit that could be gained from committing a violation of trust, outweighing the risk of detection.

I suspect for most people this is a very high bar, but it will be depleted to an extent by the pressure that might have built up and could be more pronounced in the event they believe they have a perceived injustice that needs correcting.

In the present scenario, I look at the continuation of the engagement with staff still working from home and the upcoming performance assessment cycle that will commence for the industry the next couple of months. There are potentially several factors to consider:

- the extent to which employees retain job satisfaction
- perceived pressure to return to the office
- concerns they might have with line managers
- whether they feel they might have been ignored
- ill-treated during the crisis
- perhaps a feeling of not been enough focus on the individual but too much on productivity
- line managers with a preference for presenteeism and favouritism of others
- a perceived entitlement to a bonus or promotion in the next performance round

Companies will of course have been planning the year end performance cycle and whilst it does not need to be that different, difficult or complex, it is probably the most important one in a generation in terms of communication to the whole workforce. A workforce that has supported them during an unprecedented time.

Closing Remarks

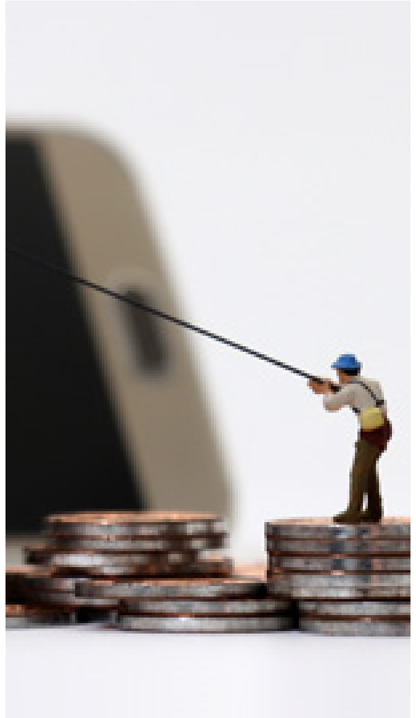
The extent to which the internal threat of fraud poses an increased risk in your own organisation, over and above what it would normally represent, is a point of individual reflection.

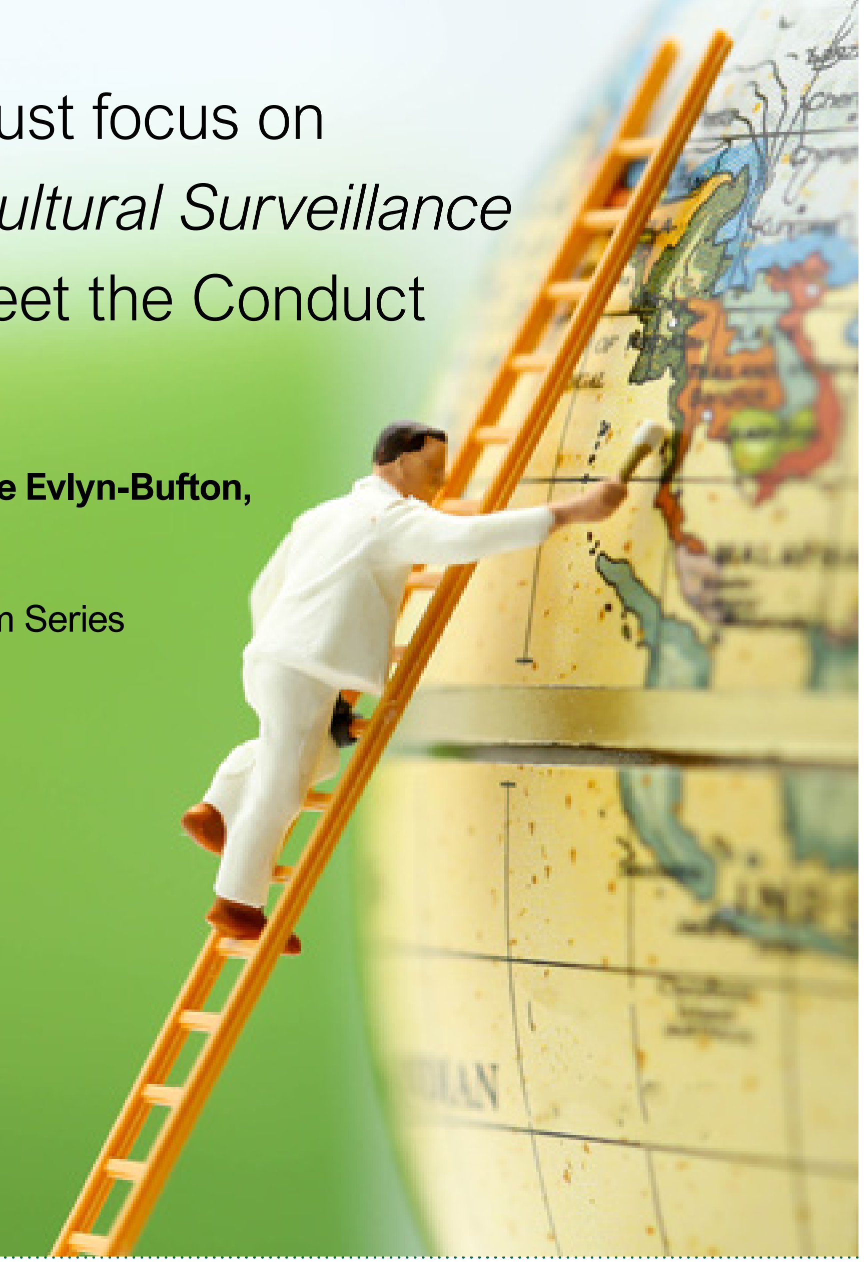
To what extent do the internal control weaknesses identified from the ACFE be exploited in the current environment? Even with subtle changes to workflow process, policy, or rules, it is easy to argue the opportunity to do so increased.

Clearly the pressure point has been enhanced, increased, and dialled up during the crisis. It could all boil down to the extent to which an individual rationalises in their own mind that committing a violation of trust is a risk worth taking, weighed against the chances of detection.

ACFE's research suggests that the typical time for a fraud to be detected from when it began is 14 months, which allows a return to the question proposed:

> " What might be lying in wait that is currently undetected? "





POV

The industry must focus on developing a *Cultural Surveillance* capability to meet the Conduct challenge

POV provided by Maurice Evlyn-Bufton, CEO, Armstrong Wolfe

Part 1 Asia Conduct Forum Series
September 3rd 2020.

By revisiting the evolution of the industry's approach to conduct over the years, the Asia COO Conduct Forum's aim, held recently, was tasked to identify specific areas for deep-dive discussions to be held within subsequent forums. These more specifically known as AW COO Cluster Calls (6 – 8 COOs attending), to be undertaken before year end, all held under Chatham House Rule. To drive the conversation to this end objective, the following questions were asked:

> " How do you marry technology, process, and training to deliver an effective Conduct Framework? "

> " How do you best protect your organisation against insider threat? "

It was not surprisingly concluded it is a multi-faceted reliance on technology, well defined processes, and procedures, which must be married to leadership (at all levels), culture and purpose, that will deliver a robust, reliable, working and value-add Conduct Framework. Easily said, not so easily done.

Technology and the art of the possible opened the debate, where the capture and use of data enabling you to move to a predicative, forward looking line of attack (as opposed to defence) and therefore being on the front foot, was seen as the fundamental adaptation needed to reposition the industry's efforts in grappling with Conduct. In doing so enabling you to undertake material, as opposed to judgemental, horizon scanning and to evaluating emerging risks more effectively. This falling under what we classify as **threat management.**

The aging debate over in-house as opposed to vendor selection appears to be moving strongly in favour of external innovation and product development, as opposed to the historical reliance to design and build internally, *'there is an irreversible move to accepting that banks are not technology houses and can no longer compete on cost or within innovation with the open (technology) market'* one COO commented. The challenge of sourcing and engaging with the FinTech community remains, although this area we believe presents opportunities for cross industry collaboration (within controls and conduct).

The conversation moved from the technical domain to the human, one participant and leading Conduct executive noting 'increasingly our focus is shifting from the technical to the human sphere of influence to meet the challenges presented by Conduct'.

Prompted by this contribution, we outlined our evolving thoughts, to be captured within an academic study, on the concept we have classified as Cultural Surveillance. This is explained at the highest and simplest level as being (literally) the ears and eyes of the business that make up the invisible control and defensive framework of a company, where MI5 was noted as an organisational example where its very existence relies on this cultural necessity being present.

It is our opinion that this invisible supervisory capability is roused and energised by purpose, effecting a heightened level of intuition and is intricately linked to a philosophy that offers all employees the stage to speak up - speak out on any matter that they, as an emotional stakeholder in the franchise, perceive as being a institutional or material threat to the running of their company.

This sense of doing right, of protecting the business and therefore also your colleagues, is a cultural aspiration for many but is achievable and if attained will deliver highly effective Cultural Surveillance.

Supported by technology, process, and procedures (and none in isolation), it was argued it acts (or could act if present) as the primary tool to defend a company against **insider threat**. Statistics and industry COO and Chief Control Officer opinions strongly support this notion, that colleague disclosure is a far more prolific at detection and uncovering misdemeanour than technological surveillance. The latter, some argue, acts more effectively as a deterrent than as a proven or equal participant in detection or as a discovery capability to human intuition and observation.

This supposition does not account for the potential of evolving technologies that focus on behavioural analysis and predictive analytics, but even with such advancements, such technologies will at best be able to more effectively partner human observation as opposed to replace it. This especially so where human observation has been heightened and become a cultural norm, manifesting itself as a Cultural Surveillance capability.

With conversation flowing, we moved quickly to summarising where the industry is today and that despite the monumental effort and investment of the industry over the last decade, such misdemeanours, poor practices and deceits sadly and almost unbelievably continue.

The question arose therefore, not so much to 'why invest in the conduct agenda, in developmental and leadership training and technologies' but how do you build a commercial case for doing so, that will enable the industry to continue to invest in, grapple with and resolve its sickness?

This sickness has been controlled via a regulatory lockdown but still requires a preventative vaccine. This vaccine many believe is to be born from a continued evaluation and investment in individual company's and by extension the industry's culture. Ironically, extending the medicinal metaphor, the term 'culture' is extraordinarily relevant*.

It was concluded that you must ask yourself repeatedly, why should we do this?

A point of future debate perhaps:

- It is not because you must do it through regulatory necessity
- It is not to deliver a commercial return on this investment
- **It is because it the right thing to do**

The right thing to do, why? Simply because the banking industry is the steward of the world's finances, where ethical behaviour is the basic assumption those that entrust this stewardship set their expectations. Therefore, the industry has an obligation to meet these expectations.

Such an investment would liberate the possibility of a working environment where Cultural Surveillance becomes the unseen control framework that enables businesses to operate safely, efficiently and with their employees working to and within a purpose that delivers:

- enhanced productivity and profitabilit
- meets, exceeds the regulatory requirements

By doing the right thing, you may well, more than likely deliver upon the commercial and regulatory imperatives that have to date have shaped and driven actions undertaken to address the challenge of conduct. However, a decade of investment has shown that whilst the industry's undoubted efforts and accomplishments have taken the patient from ICU into a recovery ward, this patient has not yet been let go from the hospital on the basis of good health and all symptoms cured.

* Culture : In microbiology, the propagation of microorganisms in a growth medium. Any body tissue or fluid can be evaluated in the laboratory by using culture techniques to detect and identify infectious processes. Culture techniques can be used to determine sensitivity to antibiotics.

Actions: It was agreed that Simon Longden and Gordon Grant (Armstrong Wolfe Partners) would engage in 221 follow up conversations with attendees to define the subjects for subsequent debate, oriented to technologies, leadership and reviewing the governance and 3 lines of defence model.

For detailed conversations contact s.longden@armstrongwolfe.com or g.grant@armstrongwolfe.com

For more information and/or to participate in the future debates and COO Cluster Calls (at managing director level)

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From controls to purpose

Conduct in a COVID-19 world

PWC

Larry Fink's sentiment below had echoes in PwC's industry supported paper, developed November 2019, in which we examined the linkages between clear purpose, good conduct and higher business performance.

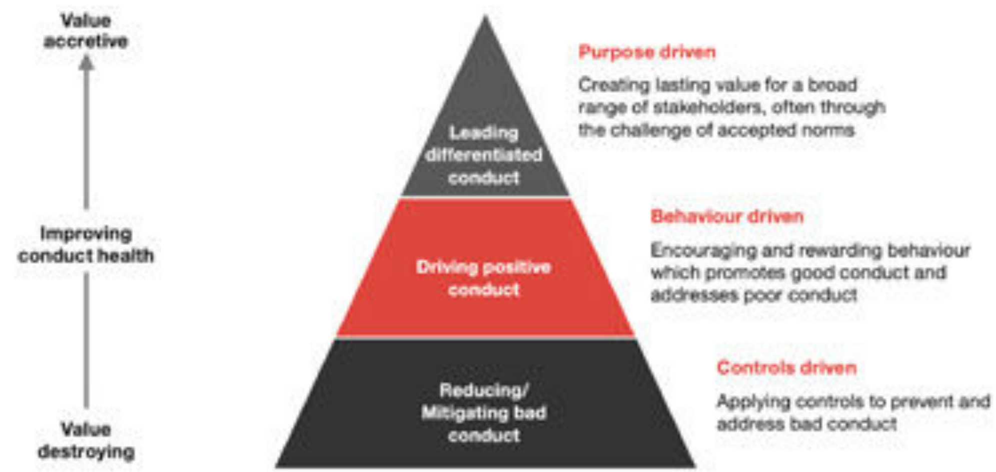
- We developed this as a conduct hierarchy, which we believe holds true in the working environment created by COVID-19 and can be developed further to consider and measure conduct health.

The COVID-19 pandemic has necessitated a profound shift in working patterns for business, controls and operational staff. Crisis response typically occurs in three waves; mobilise, stabilise and strategise. Having mobilised quickly, banks are rapidly stabilising around new working practices. Through mobilisation, banks have been exposed to the full range of non-financial risks and have generally found that technology, processes and controls have stood up well in maintaining the operational risk control environment.

Whilst operational risk will continue to be reviewed and controls developed, other non-financial risk aspects of the emerging business and operating models should be re-visited. Cyber risk, fraud risk and conduct risk must all be considered in the context of a multi-location environment. Here we explore conduct risk from a controls, behaviour and purpose perspective and outline some key considerations for banks.

The Conduct Health Pyramid

The Conduct Health Pyramid outlines the core elements required to create a culture of good conduct. Failure to address the bottom layer is value destroying and achieving an organisation's full health potential is increasingly value accretive. In The Conduct Health Pyramid we have used the



terms 'bad conduct/misconduct' and 'poor' conduct.

- Bad conduct/misconduct represents a breaking of defined rules, be they criminal, contractual or policy driven. In the markets/trading controls sense, this frequently results from deliberate attempts to exploit asymmetry of information to the disadvantage of the counterparty or customer
- Poor conduct refers to behaviour that undermines performance as a whole but does not break specific rules, examples may include; failure to collaborate and/ or share, opting out, bias, providing no or poor feedback

Preventing misconduct – A refreshed controls environment

In their transition to remote working, banks had to consider the availability and resilience of local infrastructure as well as cybersecurity. As a whole, the pivot from 90% office to 90% home working in sales and trading has been remarkably successful. Technology has been resilient. Since much of the conduct control environment depends on technology, and sales and trading continues to be executed on bank infrastructure, core conduct controls have held up.

As we move through stabilisation, and the probable emergence of a mixed core/ secondary/home working model, certain conduct control areas are getting greater focus. These include:

- Adapting supervisory frameworks and policies to take account of on-site/ off-site working and management (and determining how supervisors and compliance can 'observe' sales staff and traders)
- Extending delegated supervisory models, which can relieve the supervisor of some required tasks by carrying them out centrally. Documentation is essential to clearly define each participant's responsibilities and scheduled touch points
- Enhancing supervisory tools e.g. those with supervisory control portals have anecdotally found it far easier to adjust together with increased frequency of attestation
- Formally governed updates to policies and procedures to align to the new normal (rather than temporary dispensations)
- Team wellbeing practices e.g. buddying of traders on-site and off-site, use of collaborative tools e.g. jam boards, additional one-to-one interactions
- Enhancing and/or increasing frequency of risk and control assessment practices to take account of the rapidly changing situation as well as potential changes in risk appetite and tolerance

The most challenging elements to address are the informal mechanisms that contribute to an overall view of behaviour and conduct. Physical proximity, being able to see day-to-day activity, unusual behaviour, indications of stress are all harder to assess when 100% remote. Traditional methods, such as daily one-to-one check-ins, have been one avenue of response. Additionally, many banks have already explored emerging technologies to address some of these issues:

- Scripting software, capable of capturing conversations, analysing text, detecting sentiment and prompting next steps
- Proximity software, tracking location and connectivity with other devices and individuals
- Active video monitoring, allowing adhoc 'check-in's'

Under consideration is effectively a new working contract with staff, as the balance between privacy, security and control are reconsidered. Whilst technology and new controls and processes may address some

emerging conduct concerns, banks will need to decide strategically what their locational balance looks like. Will home working be confined to certain people, products, tasks or indeed time periods? If so, how will a 'them vs. us' culture be avoided? Could there be mandatory periods when people are required to be on-site (a kind of reverse block leave), so that in-person interaction and observation can occur? The strategic answers to these questions will not only be based on risk and control; health and safety, functional effectiveness, productivity, cost and employee preferences, among other factors, will play their part.

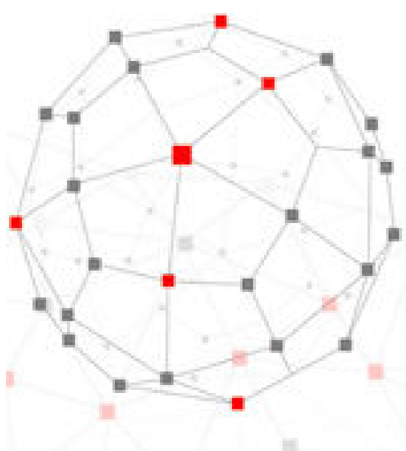
Driving good conduct and high performance

Despite the applied controls addressing bad conduct, key aspects of good conduct can degrade in a remote working environment. Even if the immediate stresses of the emergent pandemic have passed, working remotely creates different pressure points.

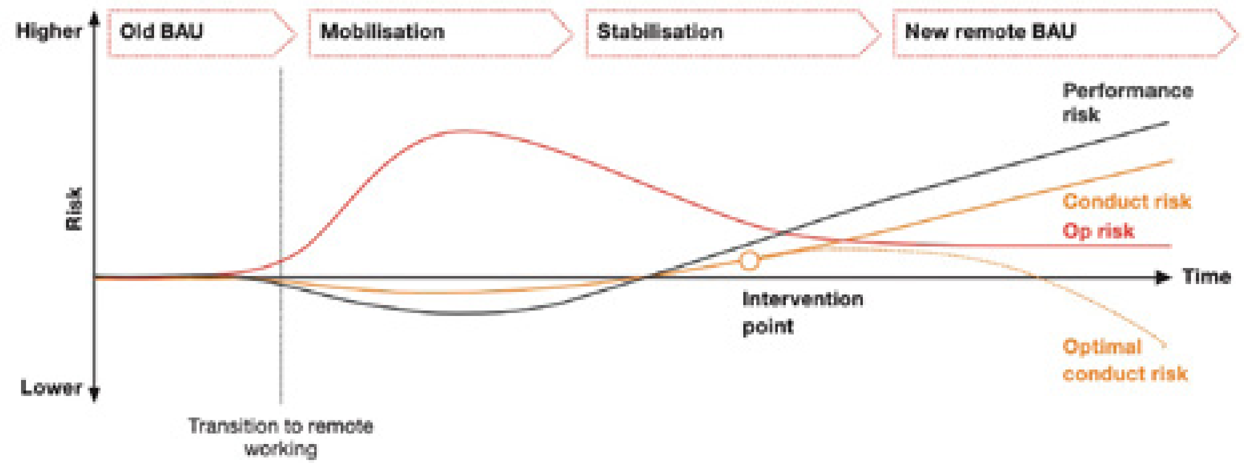
As one banker put it:

> **'There are concerns around the fact that the informal questions someone would ask a colleague or supervisor aren't happening as they don't merit a phone call or email, which in the old world would make it more of an issue than it is'.**

The natural sharing, the testing of ideas, the learning from others, the buzz of the team, the sharing of a win and the consolation after a loss, can all degrade rapidly when remote or fragmented.



Preventing misconduct – A refreshed controls environment



COVID-19 had an immediate impact on non-financial risk profiles and employee performance. In the short-term, as organisations mobilised their transition to remote working, the following outcomes were observed:

- Operational Risk increased initially given the lack of controls and infrastructure to handle mass remote working. Heavy focus on this by banks meant that operational risk decreased as the pandemic response stabilised. As 'remote' shifts to 'distributed', continued intervention will lead to a long-term reduction
- Employee performance in most organisations increased during mobilisation given a 'call to arms' attitude and a strong team spirit 'we're in it together' to do what it took to make remote working effective
- This team spirit, together with a concerted effort by organisations to focus on ways of working and operational risk, helped contain conduct risk through the mobilisation period

As banks prepare for a more distributed working model, intervention is necessary in the form of tools, technologies and ways of working to contain conduct risk as well as maintain performance. A reduction in conduct risk is likely to be positively associated with an increase in performance as motivated, engaged employees are less likely to engage in poor behaviour.

To drive and reinforce good conduct, supervisors need to:

- Align behaviours supporting virtual working and set new standards in behaviour e.g. setting a clear operating routine, being disciplined about it, encouraging participation, making it personal
- Establish remote working practices, bringing emphasis to often neglected practices and routines when in the office e.g. goal setting, feedback and development
- Renew focus on training for conduct, maintaining and developing scenario-based training delivered through a virtual classroom
- Maintain focus on personal conduct and conflicts of interest e.g. personal account dealing
- Deploy enabling tools that support collaboration and participation, leveraging what is available and selecting additional tools where needed, from aligned/single CRM systems to regular use of collaboration tools

In terms of technology, the sophistication of tools that start to capture mood and sentiment will develop rapidly e.g. through conversation analytics. Bringing these elements into the natural performance metrics of the organisation will be a key part of tracking and measuring conduct health.

Good leadership behaviours from supervisors in the physical environment – think inclusion, setting clear goals, regular and timely feedback, active interest and participation, regular formal and informal communication – will not change in a mixed location working model, but their importance is being amplified. Deprioritising or paying lip service to these activities, something that may have been tolerated historically, will have an increasingly adverse impact on the performance of a fragmented workforce. Understanding the differences between a good trader or sales person and a good supervisor and manager is increasingly important.

Remote and distributed teams can be high performing and productive. Both technology and management behaviour help drive this. However, if remote working is to become embedded and fully optimised in the operating model, individuals need an increasingly strong understanding of where they fit and why they are doing the things they are doing. They need to have a clear understanding and alignment to the purpose of the organisation.

Doubling down on purpose

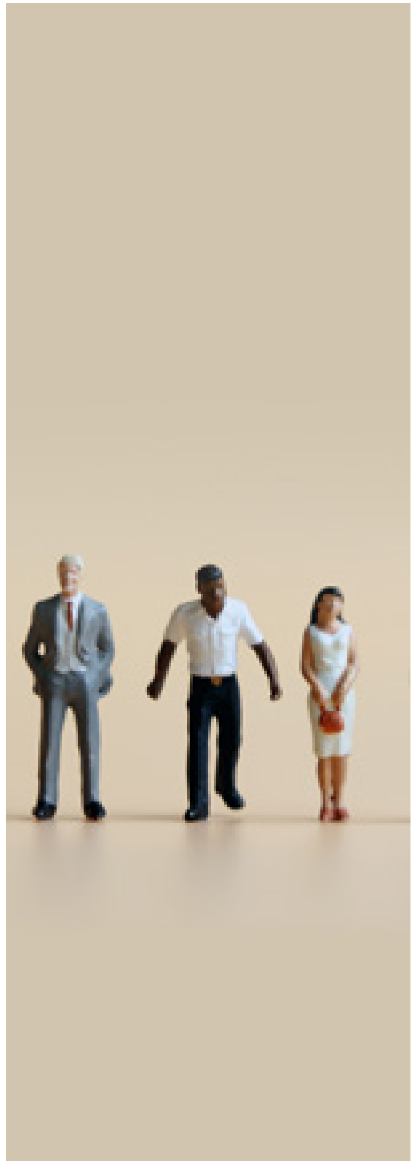
Many organisations have recognised the way they behave through this crisis will determine the way they are perceived by a broad range of stakeholders long afterwards. Many firms have responded with strong messaging and some consistent themes;

- Messages are direct from the top and frequent. Everyone has a clear understanding of management intent
- They explain a higher purpose, linking organisational intent with staff roles
- They are balanced with respect to the desired outcomes for a wide group of stakeholders
- This messaging has played a key role in helping banks respond, largely successfully, to Covid-19 and remote working. In terms of conduct and overall performance banks must now consider:
- How do they keep the intimacy and frequency of messaging from the top?
- How do they make sure individual objectives, feedback and reward are aligned to the organisational purpose?
- How do they maintain balance in stakeholder outcomes, protecting, not sweating the organisational assets and their performance?

Pulling it all together

From a strategic perspective, it is already clear that institutions will not return to historical ways of working. The implications of pandemic risk are now better understood and operating models will be expected to cope with those risks. It is likely that remote and distributed working will be a significant feature of the organisation, and conduct – both control over misconduct and the support and drive of 'good' conduct, will need to be addressed.

Leading organisations will measure 'conduct health' and consider controls, behaviour and purpose as part of that measurement. Coming back to Mr Fink's annual letter we feel the reporting of conduct health will become a central part of improved disclosure to a wide group of stakeholders.



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The Perfect Virtual Leader

Andrew Mawson, MD of Advanced Workplace Associates, and founder of the Advanced Workplace Institute

The Perfect Virtual Leader

Organisations flourish when the atmosphere is right, when teams can meet and network informally, and when leaders have the opportunity to build relationships and innovate. For a long period, being present was seen as a vital aspect of management – and while it has great benefits, those relying on it have encountered a tremendous shock in recent months.

Teams and managers alike are adapting to new situations, challenges, and stressors. Some of the key elements which made the office a community have vanished, replaced by an online alternative. Is it the same? Probably not. But is it good enough to enable people and organisations to work? Pre-COVID-19, were organisations over-egging the physical thing? Wasn't the manager communicating by Teams or email from the first floor to a colleague on the 30th floor already working virtually?

The things task-focussed leaders could get away with in the old office world don't wash when people are working away. The best leaders – those that communicate well, get to know people as people, give clear direction and let people deliver their value – will flourish in the virtual world. Those that micro-manage and distrust will struggle.

Maintaining a virtualised model going forward will require a wholesale upskilling of leaders and managers, teams and individual employees.

In 2013, The Advanced Workplace Institute began researching the factors that determine exceptional virtual leadership with its research partner, the Center for Evidence Based Management as agility in the workforce was exploding. Now, with so many people around the globe suddenly thrown into virtual working, we viewed it as the perfect time to revisit the research and produce a comprehensive review on the subject to help organisations adapting to this new world. AWI's analysis of more than 750 academic papers has highlighted a series of key factors that make for highly successful virtual management.

Six central factors encompass the main changes felt by teams and it is the role of the managers to work toward recreating the ideal environment, even when they can't see much of what's behind each employee's screen.

Social cohesion

Social Cohesion is about creating and maintaining trusting relationships both within a team, across communities (teams of teams) and up and down the organisation. It's business friendliness - people pro-actively getting to know one another, getting to understand what they know, and who they are. When employees work 'away', leaders have to work harder to create the conditions under which social cohesion flourishes. This can be as simple as organising opportunities and excuses for people to meet, such as online training events and group coffee sessions on online socials. It's also about creating the time for social chat at the start of more formal meetings, giving people a few minutes to share an update on their lives.

In knowledge-based organisations, social cohesion is no longer a nice-to-have; it's fundamental to effectiveness and organisations need to invest in it. When a team shows mutual trust, there is less risk for an individual to speak up; they trust their opinion will be heard, respected and valued. Trust and social cohesion are linked and create the conditions for psychological safety. As a whole, the team will feel more confident about bringing new ideas to the table and criticising issues without appearing censorious. This increases the value of an interdependent team exponentially as independent skills and knowledge can be accessed and utilised by all.

Information sharing

As described, trust and cohesion facilitate the third element of an effective virtual team: information sharing. The confidence to share ideas is important but managers must also ensure there are opportunities to do so. It is up to a virtual manager to create virtual 'watercooler moments' where thoughts can be shared, be these in group catch-ups or during one-on-one training sessions.

Perceived supervisory support

In virtual work, some of the minutiae of management can be lost, whether it's asking how an employee is doing or thanking them for exceptional work. While a manager might feel they are just as open to provide support. The added complication of needing to set up video calls or send emails to be able to talk to a manager can make them seem far less accessible. Employees who perceive greater support show significantly higher productivity and lower turnover. Managers need to consciously and consistently provide feedback, support and praise.

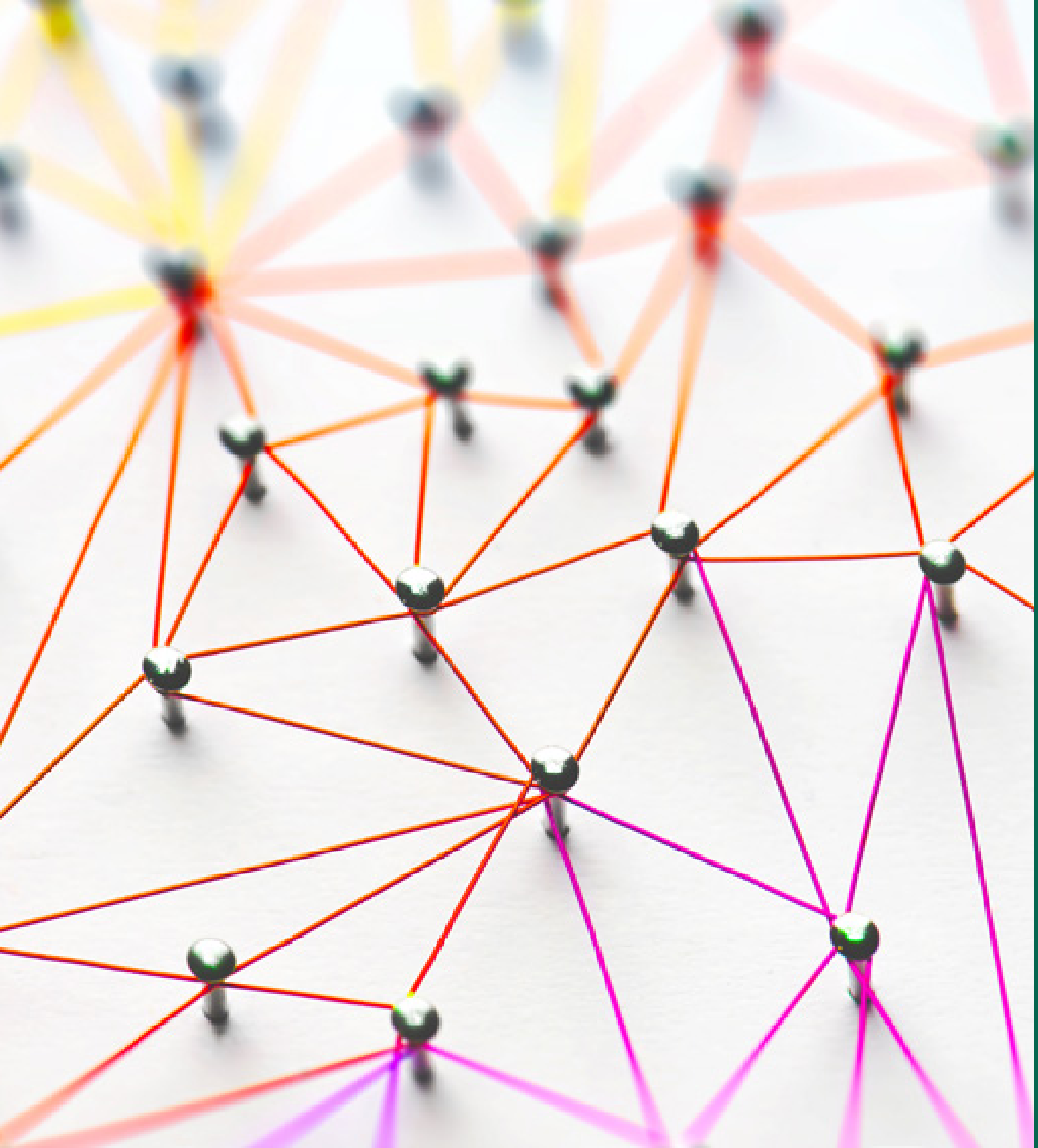
ANDREW MAWSON
MD of Advanced Workplace Associates, and founder of the Advanced Workplace Institute

Vision and goal clarity

To galvanise the teams' emotional energy, it's vital that leaders explain the organisation's vision and goals. Vision provides the team with a united purpose and each member of the team should see how their work contributes to it. Goal clarity ensures each individual has their own steps through which to best contribute to this vision.

Finally, that team should feel as much a part of the broader organisation and the wider world as ever. Working from the same place every day without a change of environment that comes with a commute can shrink the world to a bubble of one room and a laptop. Keep the team engaged and inspired by looking beyond the day-to-day. Bring in new ideas and information to spark creativity and encourage continuous learning and innovation.

2020 has brought with it challenges to the workplace that few were ready for, but the principles of great management haven't changed. Flexibility may be pushed to its limits but, as organisations settle into this new approach for the long-haul, it's crucial that managers work smartly with whatever environment they are faced with.



ARMSTRONG WOLFE

Armstrong Wolfe is developing its global presence in MENA (Middle East and North Africa) and are pleased to be partnering with the COO network in the region.

COO NETWORK

The Emerging COO

A MENA perspective

The COO Network

Whilst transformation and innovation have been a strategic priority for many Chief Operating Officers (COOs) prior to the pandemic, leaders have been compelled to swiftly activate implementation plans in order to facilitate remote working for its employees, whilst remaining connected and engaged with clients.

Culturally, the notion of virtual working has not been a widely endorsed or accepted working model, particularly given the MENA region operates on a relationship driven and people first approach. However, it has been pivotal for COOs to adapt and realign their operational models in order to manage continuity. The rapid evolution to virtual working has provided both new transformation opportunities, along with challenges for MENA based COOs, which include:

Growth beyond borders

Rapid digital evolution has enabled COOs to consider new areas of growth, which include borderless markets through embracing virtual collaboration and connections, therefore the notion of local versus global growth will remain front-of-mind during the current period. This will require a new directional strategy which will support organisational growth in new markets with new services/ products. To achieve success the COO must think and act differently in order to adapt to geographic and consumer needs.

Changing consumer and employee preferences

Consumer preferences and confidence have been impacted during the pandemic; therefore COOs are considering service/product diversification, whilst ensuring they remain connected and adapt their communication style to keep customers engaged, particularly as the share of consumer spend continues to remain challenged globally. Likewise, we are experiencing an increase in conscious citizenship, where employees are concerned of future challenges which may arise and are therefore contributing to wider societal issues such as food and water security and climate change. Such challenges will need to be considered in the wider context of sustainable growth across organisations to both keep employees engaged and committed, whilst gearing up to attract future workforces, whilst taking a leading position on building a business with a purpose which goes beyond profits alone.

" COVID-19 presented challenges for many businesses, which required us all to think fast and act differently. Clients of Omnia wanted us to be more specific and to offer bespoke services which would support organic growth for our clients. This led to our firm expanding its service solutions into new markets through the introduction of consulting, which complemented our brand creation and marketing technology solutions. This has ultimately led to Omnia repositioning itself and extending our service solution, entering new markets, and engaging in an innovative way beyond our traditional offering."

STEVE HAYSOM
CEO of Omnia

" We are delighted to share our MENA views with the Armstrong Wolfe COO Community through the dedicated COO magazine " (The COO Network)

A new set of skills and EQ required to lead

The COO is contending with the ever-connected employee who requires emotionally connected leadership and constant clear communication in order to remain engaged and reassured.

"Several organisations have empowered its people to work from their home countries, which has led to COOs needing to elevate the leadership skills and styles of its management team in order to ensure employees remain engaged and connected to the firms culture. Communication has become an increasingly important aspect of a COOs role, ensuring internal communication is as authentic and engaging as possible in remote and partial workforce scenarios. Whilst ensuring PR and media strategies are adapted to appeal to a more conscious consumer."

MANDIP DULAY
Founder of the COO Network

The COO is contending with the ever-connected employee who requires emotionally connected leadership and constant clear communication in order to remain engaged and reassured.

Evolution and transformation becoming a strategic priority

"Before the Pandemic, both the COO and the CIO roles were slowly evolving into their future, digital-leaning versions. For the CIO, the evolution was leading from a typical "Systems Provider" to a "Modernizer". For the COO, similarly, the evolution was taking the "Business Service Provider" profile towards that of a "Productizer" in the modern world. The pace and path of this metamorphosis has now been disrupted by the Pandemic and both these leaders are finding themselves under the spotlight with the same goal: how to grow the business and revenues digitally.

While the CIO might have a leg-up in the digital realm, the COO has a history with business operations that they can lean on heavily for what will be required of the role in this new age. For one thing, business operations would need to become agile, working at a rapid pace via digital platforms, to produce results in smaller chunks more frequently. This would of course also impact the operational models of the business; with widespread remote work a reality, the organization's technologies, and tools, along with policies and procedures, would need to be strengthened immensely to support the human capital. Lastly, the focus will be shifting from investing in physical corporate structure and assets towards their digital counterparts, with a heavy emphasis on digital products and commerce specifically. And this will only be possible when all other factors mentioned above have been aligned under a leader who understands both, the digital and the business worlds."

SAAD CHAUDRY
Executive Partner of Gartner MENA

"As the last six months have clearly shown, it is critical that companies embrace and develop digital strategies if they want to survive and thrive in the current market. How companies operate internally and externally and interact with their customers and suppliers has undergone a significant change over the pandemic and those that have adapted have proven very successful.
It is important that the digital evolution undertaken to date is developed further and becomes the new operating philosophy to allow them to grow in their local territory and overseas."

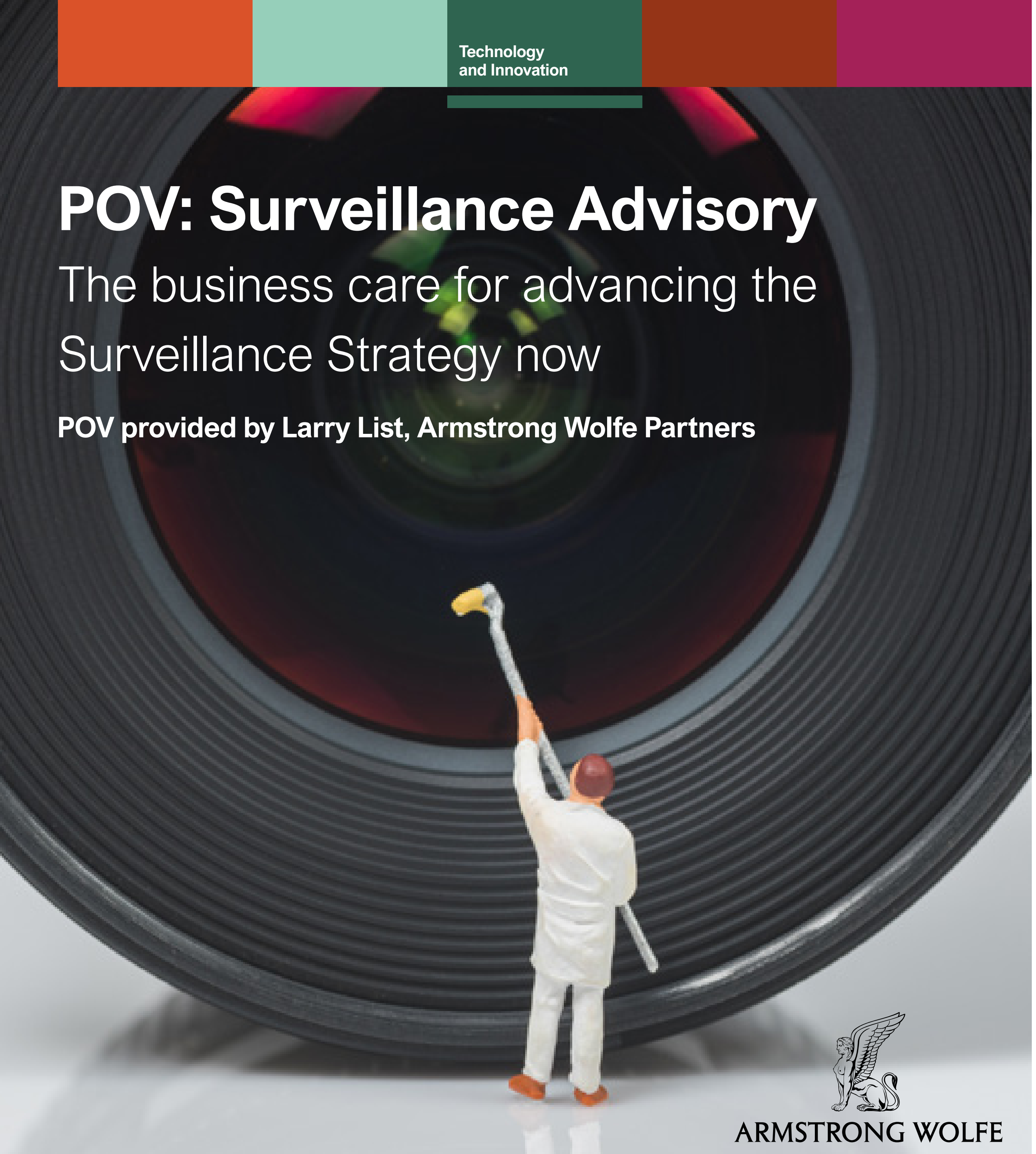
PETER TAVENER
CFO & COO of Beehive Fintech and Board Member of COO Network

The shifting boardroom

The boardroom composition will continue to shift to embrace the emerging business trends, with Chief Technology and Innovation Officers (CTO) taking the lead on driving digital-enabled growth, whilst considering other agile elements which increase organisational revenue. Furthermore, the Chief Finance Officer (CFO), is now challenged to look beyond finance into business operations, with a view to identifying cost saving strategies which will enable agile operations. Such roles were previously under the remit of the COO; and will now drive additional challenge for the COO to continue remaining the second-in-command.

The COO Network is a global not-for-profit institute, with our core purpose built around creating a vibrant eco-system for aspiring COOs to shape their profession further. We support the most ambitious COOs to access professional development in the form of receiving insights, mentoring and growth initiatives, whilst providing a platform which stimulates innovative thinking and collaborative connections amongst global professionals.

For further details visit: **www.coonetwork.me**



POV: Surveillance Advisory

The business care for advancing the Surveillance Strategy now

POV provided by Larry List, Armstrong Wolfe Partners

" ...this call is being recorded for quality control purposes "

" ...don't worry about the 'beep' you hear - it is required to let you know the call is recorded "

We have become used to these messages as standard operating procedure. But for various reasons institutional financial services businesses have not yet adopted automated voice surveillance and the risk management advantages it provides. Why are calls being recorded in the first place, but then not surveilled? Verbal interactions (internally and externally) are still key to markets and banking businesses, and now remote working and associated risks become the main drivers.

A minimalist set of regulatory and legal requirements, combined with a developing technology landscape, have resulted in passive approaches to voice surveillance. Firms will take some comfort in a sampling approach, one-off trade reconstruction exercises, and also accessing recordings for playback if a specific issue arises, such as addressing client complaints. This is a reactionary set of processes, and unlikely to be able to meet the conduct risk management challenges going forward.

Considering the topics of written electronic communications and trades surveillance, regulations are clearer as FINRA, the CFTC, and the UK/EU (via Mfid/MAR), have more precisely defined the surveillance and retention requirements. But even with these rule-sets, firms have implemented a wide range and depth of surveillance strategies, under the umbrella of being "risk-based". Generally, the approaches deployed remain aimed at the core regulatory requirements in the first instance, and addressing specific supervisory needs follow, but usually fall short due to lack of budget. In fact, most firms are increasing the cost pressure on surveillance functions as remediation programs wind down and BAU takes over.

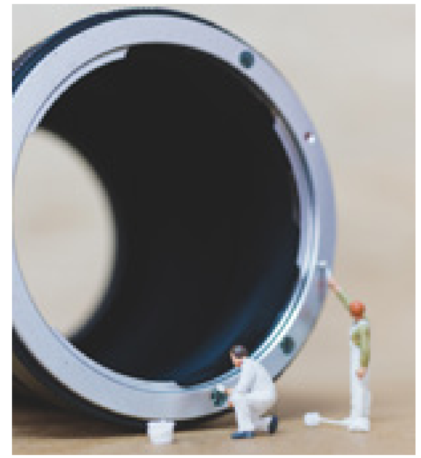
Lastly, the overall effectiveness of the surveillance frameworks in operation varies greatly across the industry. In many cases, the data is simply not well-structured to allow for efficient processing. With too much noise generated via excessive, low risk alerts, little management benefit is realized. To add, older technology is ingrained into firm's overall IT eco-systems, dramatically inhibiting inter-operability and change/advancement opportunities.

Advanced technologies are now available in the market, but leveraging these technologies needs a clear commitment from Management to be successful, which up to now has only been supported marginally – committing a skilled user base to design and operate, developing clean data structures, and executing integration projects into the core IT eco-systems. Another headwind is that AI/Machine Learning models are not yet fully reconciled with regulatory acceptance, although this process is developing.

To the industry's credit, firms have effectively managed through the initial crisis, and surveillance functions have provided the "safety net" for identifying questionable market practices or behaviours. In general surveillance seems to have worked to Management's satisfaction, but it is too early to reflect on lessons learned as issues will likely be uncovered going forward.

The industry is at a key inflection point for surveillance and supervision. Regulatory and Governmental authorities are focused on how leaders are managing the new dimensions of risks and threats, as well as how conduct, control and all the non-financial risk management programs can continue to be effective in remote working. At the same time, there are increasing cost pressures on COOs, CCOs especially with any new proposals. Investments in conduct and control programs are increasingly requiring explicit commercial benefits and/or returns on investment to be approved.

What does seem clear at this point is that a dispersed workforce will continue for some time. Certain functions such as Trading may return to the office more quickly (Q1 2021?), but there is no doubt that key functions, including many which are client-facing, will remain remote. This raises the questions of what new tools, technologies and policies will be needed to work remotely in a safe, sustainable way, and how should the surveillance architecture adapt to the new risks and ways of working? Supervisors will ask themselves if their risk lens and tools are sufficiently wide and robust to detect emerging issues? How can surveillance be expanded to better understand patterns and cause/effects beyond traditional communications and trade surveillance? And is it all worth the cost?



The business case is clear. A progressive surveillance function is foundational to strong supervision and conduct programs, and has moved beyond specific regulatory rules compliance. In these volatile times, the surveillance strategy should be continuously evaluated to ensure it is risk-adjusted, relevant and sustainable. Key to this evaluation is also bringing commercial benefits and advanced risk management capabilities to the fore. From an investment perspective, it is likely that investing in advanced surveillance capabilities and developing these commercial opportunities, can be achieved through well-planned resource optimization and reallocations, with limited net spend increase in the short term, and likely cost savings in the medium term.

Supervision and Conduct Management is more complex and inter-connected than ever, especially with a remote workforce, and increased personal accountability. External threats are heightened, global recoveries will be uneven, market dislocations will continue, and performance pressures are increasing. An effective surveillance function leverages the supervisor to enable closer, proactive management of conduct and behaviours, as well as managing aspects such as new joiners and staff turnover. This proactivity enables a supervisor to take timely action and potentially head off problems before they escalate. Finally, well-developed surveillance creates evidence of supervision through the generation of MIS and metrics.

Shareholders need to be protected. Massive fines and operational losses have challenged shareholder confidence in Boards and Management in being able to supervise staff effectively, and eliminate collusive and fraudulent actions (codified through the SMR). Surveillance is a key, promoted response and demonstrates (in part) executive commitment to improved conduct, controls and non-financial risk management. To add, regional regulatory and legal rules across the globe will actively develop (i.e. the HK National Security Law and its potential extraterritorial impact), and strong surveillance capabilities are directly responsive to managing supervisory and conduct risks during these evolutions.

ROI and Client opportunities.

One of the most pressing client concerns relates to confidential data protection. Client RFPs are more commonplace asking firms to document and continuously update its client protection mechanisms including surveillancefor data leakage, inappropriate information sharing monitoring, and systems access controls. Customizing surveillance methods towards protecting client interests is accretive in building stronger relationships and developing more business. Surveillance also will add insight to communications and trading patterns. For client interactions, the topic of "communication density" is relevant, as firms are constantly optimizing client tiering and coverages. Surveillance can quickly provide a holistic analysis on communication trends, which can directly inform resource allocations. Another key area of surveillance that contributes to value creation/ preservation concerns data loss protections. Quickly identifying data breaches such as sending out client lists or proprietary code represents clear value preservation, allowing for fast reaction. Advanced fraud detection in the first line is also possible. Examples will include special monitoring of T&E, or the tracking of holidays/business trips/client events. Using AI in the 1LOD will further enhance pattern development for payments to help protect against anomalous or potentially fraudulent activities.

The good news is that designing and delivering an effective surveillance program is achievable, and can be implemented in a way that minimizes operational risks, allows for component inter-operability into a larger eco-system, and is customized in a risk-based fashion.

Armstrong Wolfe Partners understands the key components of a best-in-class surveillance and threat detection function, which allows for a rapid assessment of a firm's current capabilities, and then directly focus on actionable initiatives. A typical assessment would require 4-6 weeks depending upon the complexity of the current operating environment, and includes an industry benchmark to other programs. AWP closely collaborates with Management in each stage of the process and provides clear progress reporting throughout.

To get started please contact AWP for an initial discussion on surveillance and threat assessment, and see how AWP can add value to your strategy and execution.

POV: Trade Expense

Inviting Cognizant to present their POV

POV presented by Maurice Evlyn-Bufton, CEO, Armstrong Wolfe and Alex Duggan, Platform Head of Brokerage, Fees and Billing, Cognizant

Cognizant | ARMSTRONG WOLFE

With the establishment of the International COO Community (iCOOC), Armstrong Wolfe created an obligation to support the COO community in their business efforts.

Our purpose is to empower the COO community to lead the banking and asset management sectors into a new era of global influence and respect. This is to be achieved by providing our services designed to establish a COO standard and commitment to conduct and embody ethical behaviour, bolster employee care and development, support the causes of equality and sustainability, and to exceed customer expectations.

Adopting this role, we became the de facto close stewards of the COO community and were mandated as gatekeeper through iCOOC's membership. To this end, we court the opinions and listen to observations and requests from the COO community on areas they wish to discuss and investigate. Areas that are invariably a problem for all, a challenge for all, and to address them would benefit all. The role we adopt aligns to our purpose to help the industry exceed customer expectations.

Amidst the pandemic crisis, we sought to draw attention beyond present challenges born from COVID-19. Several COOs asked for us to return to the ever-present necessity of cost and efficiencies, but to make it targeted and solution based. More specifically, we were directed to the matter of Trade Expense.

An email was sent to half a dozen COOs within iCOOC to validate interest:

"Trade Expense: our view is it is the second largest expense to a bank after people and yet remains in places an archaic process utilising complex bilateral rate agreements and calculations supported through manual monthly invoicing processes

As a result, banks struggle at a macro and micro level to understand cost drivers and how to optimise them.

Our conversations with various technology houses and consulting firms suggest that through the central digitalisation/normalisation of data and trade expense calculation, there is an opportunity to drive operational efficiency, whilst providing businesses with holistic analytical spend transparency to make significant contra revenue savings/business decisions and demonstrating compliance to regulation.

Is this a correct assumption, and would this be a good subject for debate?"

The first two replies were representative of those that followed, with a NYC-based GBM COO commenting:

"Expenses in general would be a topic of interest, and trade expenses as a specific deep dive – especially if there are interesting solutions in the space — would be of interest for sure."

This was echoed by a London-based markets COO:

"Thanks for reaching out. I think by 'Trade expense,' we mean brokerage costs/execution fees. Trade expense will of course mean Brokerage and Execution to people in the FICC business, but other things to people in the cash securities markets, e.g., Execution fees, Agent bank fees, etc.

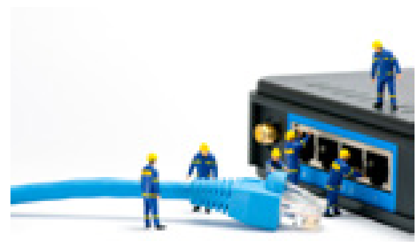
As you suggest, however, there is value in the standardisation of broker billing for transparency and comparison. We have outsourced broker management but with mixed results. I'd be interested in hearing from one or two of these firms and hearing how others view the challenge."

Once validated, usual practice is to revert to the COOs engaged in the ratification process to request introductions to a third party, which may have a perspective or solution that would add content to the planned debate and COO Cluster Call. In this case, I was already aware of Cognizant's potential broader capability in areas such as Capital Market solutions via an old friend, whose career I had followed from Goldman Sachs, through Morgan Stanley to Credit Suisse — Alex Duggan.

Our paths had crossed accidentally at Paddington one morning last summer. "I've moved to Cognizant," he informed me, and over an opportunist coffee I established that his area of expertise and current focus was in building solutions, more specifically in the Brokerage, Fees and Billing area. Cognizant may not have been an expected voice to bring into the in-business COO community's consideration, but in some ways, this is what makes such an introduction more compelling, as bringing new views and voices to the community is the responsibility we embrace.

"I recall from your previous roles that Trade Expense and cost management is something you have always been involved with, Alex?" I asked inquisitively.

"Yes indeed," he quipped. "It is now my primary area of focus when delivering solutions to clients. As you know, other industries understand the cost of everything, from the basic cost of materials, the cost of a basic widget, and the impact of any bespoke or additional requirements.



Through the art of logistics, they understood the cost of defects in their front-to-back process and the impact of funding where clients and vendors were late in paying the bill. As a result, they can:

- Focus on opportunities to optimise the cost of different components of their product
- Drive investment decisions and operational efficiency through analytical data
- Understand pricing and profitability of current clients, allowing future business to be modelled

For investments banks, Trade Expense is typically the second largest cost after people. Banks, however, have historically struggled to effectively manage the front-to-back Trade Expense life cycle or understand their cost drivers at a macro or micro level, limiting their ability to make informed strategic or business decisions."

This prompted me to ask,

" So what has the impact of the last decade's wave of regulations had on trade expense? "

"More than one person could have been heard saying, 'there goes our discretionary project budget!' In fact, 10 years ago I was asked how much contra revenue can be saved, how much budget would you need to achieve it, and how quickly could you do it? Twelve months later, the same conversation followed a different path. 'Can you ensure the bank will not be fined $100m, that we do not end up in the papers or stop me from losing my house and going to jail'? If not, it is not a priority."

Alex went on to explain that regulation and legislation have homogenised and centralised much of the derivative markets to reduce market risk but increased the complexity of brokerage calculations that remain OTC. Rate agreements remain complex bilateral, bespoke contracts that are difficult to interpret or validate. Banks must deal within the region of 1,000 nuanced invoices as part of the archaic monthly manual invoicing process, which is challenging.

"It is interesting to look at the knock-on effects of the swathe of regulation we have seen. Aside from consuming discretionary budget and capacity, it has also continued to challenge business profitability, but in an indirect way," Alex added. These are summarised as follows:

- Payables and receivable cash compensation process on the back of Brokerage, Coupons and Dividends, Research, CSDR, etc. has a material impact on the balance sheet and funding optimisation.
- FTT tax is expected to expand across Europe whilst derivative-related taxes such as 871m are other taxes to contend with.
- CSDR in Europe will have a material impact to contra revenue cost in the form of fines and penalties and buy- ins for cash securities fails."

I was similarly interested to ascertain the other key challenges facing banks in relation to this dilemma, my understanding being that **banks typically use multiple legacy platforms or spreadsheets to validate trade expense at an invoice level:**

- Rate agreements are often out of date
- Typically, there is no centralised rate repository or referential data store
- Systems are not equipped to support complex calculations or strategy trading prevalent today.
- Reconciliation and exception management is on a best-effort basis
- Claims management processing is manual

Alex added more detail:

"**Data quality and Lineage** - There are several trade data attributes required to support the appropriate calculation of trade expense and the majority are stored in the bank's front-office systems.

However, data lineage is a real challenge, so by the time trade data is received through the different architectural layers of the bank, much of the data is missing.

Analytical output or transparency - Given the above disparate legacy processes and trade/referential data challenges, banks are unable to generate data analytics that drive transparency into cost drivers or opportunities to optimise spend.

What is the Budget and Transformation paradox? Where, discretionary budget constraints aside, expenses such as Brokerage have been and remain an enigma.

They are the second largest expense, a consensus that there is money to be saved, overcharges to be avoided, and more transparency in reporting, but that is never the top priority.

Add to the conundrum the cost of support is with Operations but any identified savings in contra revenue go directly to the businesses. With no discretionary budget, operational budgets are continually squeezed, where focus on managing the day to day and being compliant to the regulation are the priorities.

The cost of support is already significant and there is typically a lack of SME knowledge in this area to understand what would need to be done to renovate the different complex parts of the process.

My view is that businesses do not have the upfront budget for potential operational saves and cost transparency in 18 months' time. They have cost-saving pressures today; they should not need to wait on multiyear projects to realise such savings, especially when they are wary of realising such savings based on previous experiences."

"So why Cognizant and how do you believe you are in a position to work with the banks in overcoming their challenges?" I asked pointedly, conscious of my obligation to validate and prequalify any party we present to the COO community.

"Having been involved in this area extensively whilst working for banks, it has been exciting to join a company like Cognizant and be part of their solutions team. I believe that our core offering, and broader Cognizant capabilities, help us to partner with clients to move to an optimal solution in a cost-effective manner.

At a high level, the key elements of our service are:

Central Digitized Solution

- Digitized rate agreements, counterparty, and client referential data to normalise across entity and product
- Complex calculation, reconciliation, and exception management workflow in a centralised tool
- Centralised digital platform provides data analytics and transparency into the underlying spend it supports, which can be used for optimisation, regulatory compliance, or risk management purposes
- Automated invoice management process from invoice upload through to automated market interoperability and counterparty communication to drive operational efficiency and reduced ageing profile in payables and receivables"

"That's interesting," I added. "Send me a summary for consideration." We parted on good terms and 24 hours later, the following arrived in response to my request:

- **Cognizant has the product and operational expertise to design, implement, and manage the front -to-back digital invoice management process for trade expense.** We are an industry leader in cloud- based design, implementation, and support, as well as intelligent process automation incorporating the decommission of legacy platforms and processes
- **We offer flexible pricing models that reduce upfront investment and are tailored to match the client's needs.** We believe that our full offering drives operational and technology cost efficiencies and an opportunity to reduce contra revenue spend.
- **Our core platform can support all facets of Trade Expense from Brokerage, Clearing, and Exchange cost to Tax, Claims management, CSA and research, and the CSDR regime.** We believe that this will subsequently allow banks to understand the holistic cost of doing existing and future business, making informed optimisation and investment decisions, just like the other industries I mentioned at the beginning.

I responded in kind, "What do you think are the hurdles to making progress or indeed what do you believe may frustrate or thwart our efforts to report positive developments in a quarter's time?"

Alex stated, "Access to the right people who understand the complexity of the problem and are charged with managing trade expense. Upon reflection, we could have had more detailed conversations with the individual banks about their specific pain points (problems tend to be generally the same but different pressing needs based on history and business setup). The key is breaking down solutions to drive immediate value whilst demonstrating you have the capability to deliver on the broader solution and that needs to be done on a client-by-client basis."

From Alex's previous career experience, "the in-business COO would be the best person for us to speak to, to work with you and them to move the dial on this problem." Like many such issues, such projects only work with business sponsorship and involvement as they are the ultimate beneficiaries of much of the service benefits, the experts on the nuances of the products traded, and changes generally need to be made in front-office systems, so having someone who can pull the relevant people together is key.

A number of months later and with an agreement in place to work toward a COO Cluster Call in NYC and London (6 to 8 COOs with a specific interest in the agenda), Cognizant have been working with Armstrong Wolfe Partners to help frame the problem from a COO's perspective, to ensure exact relevance of content and presentation, ensuring the outlay in time by all parties has the best chances of a return on this investment.

With upfront investment in time by all participants in preparation for these calls, hopes ride high of enlightenment, but the complexity of the challenge proposed lends itself to us managing expectations accordingly.

The collective aim of Armstrong Wolfe, the attending COOs, and Cognizant is to move the dial in addressing the issue presented. In doing so, benefit for all would be secured and our purpose fulfilled in this case.

We will summarise the key notes and output from the two Cluster Calls in the next quarterly COO Magazine. In the interim, if you require further information and/or would like to contribute to the debate related to Trade Expense,

please contact: info@armstrongwolfe.com

The role of crypto-assets in the digitisation of financial services

Madeline Taylor, AFME

"Thank you to Armstrong Wolfe for the opportunity to provide AFME's perspective on crypto-assets, which we believe can drive greater efficiencies and resiliency in capital markets." (AFME)

The global response to the recent COVID19 pandemic has illustrated the importance of technology to increase the resilience of financial infrastructures. Technology has played a key role in enabling remote working and allowing financial markets to continue to function during the crisis.

In April 2020 the European Commission published its 'Digital Finance Strategy', which set out an ambitious vision for the transformation of financial services through increased digitisation. Technologies such as Cloud, Artificial Intelligence, Distributed Ledger Technology (DLT), and a growing focus on the value of data-sharing, will play a central role in transforming financial services.

The role of crypto-assets, types of digital financial assets, is consequently expected to accelerate in importance as financial services become increasingly digital. It is therefore essential to recognise the various use-cases, features, benefits, and risks of different types of crypto-assets in order to clarify their regulatory treatment. By bringing crypto-assets within the regulatory perimeter, regulators can further support innovation in this area.

What are crypto-assets and how are they different from traditional financial assets?

Crypto-assets are financial assets that are represented digitally using Distributed Ledger Technology (DLT) and cryptography. It is the use of these technologies that differentiates them from traditional financial assets:

- Distributed Ledger Technology (DLT), such as blockchain, is used to create a decentralised network for recording and storing information in multiple locations, without the need for a central administrator (such as a financial intermediary).
- Cryptography is a method of encryption that is used to create 'digital keys' to manage ownership or control of a crypto-asset, providing security for the recorded information to prevent tampering or theft.

Crypto-assets have a wide range of current and potential use-cases in financial services, such as securities trading (as shares or bonds) or improving post trade processes (such as settlement and recording ownership).

Crypto-assets also have a wide range of features. For example, some crypto-assets, often referred to as 'stablecoins', have built-in price stabilisation mechanisms that link them to other financial assets or algorithms (a programmed sequence of executable instructions). Other crypto-assets are programmed to automate key functions like dividend pay-outs, or contain smart contracts that automatically execute all or part of a legal agreement when programmed to.

It is important to understand the various use-cases and features of different crypto-assets because they are associated with different levels of risk. For instance, some crypto-assets (e.g. tokenised securities) are issued by regulated financial institutions and are essentially digital, cryptographically secured versions, of traditional financial assets and subject to existing regulations. However, other crypto-assets (e.g. cryptocurrencies) currently fall outside of existing regulations and may contain features (such as anonymity and unrestricted access) that may make it difficult, or even impossible, to conduct the controls necessary to protect investors, consumers and financial markets.

There are multiple benefits that crypto-assets can provide compared to traditional financial assets, such as:

- Allowing for increased efficiency and cost-savings by reducing the need for financial intermediaries;
- Increasing investor access to asset classes through fractional ownership (where an asset is split into smaller investments);
- Providing a more secure and accurate store of information (by creating tamper-resistant records);
- Distributing information between multiple participants in real or near-real time (to mitigate risks such as single points of failure); and
- Increasing the speed and efficiency at which capital can be provided (for instance by allowing for faster post trade settlement).

It is important to understand the various use-cases and features of different crypto-assets because they are associated with different levels of risk. For instance, some crypto-assets (e.g. tokenised securities) are issued by regulated financial institutions and are essentially digital, cryptographically secured versions, of traditional financial assets and subject to existing regulations. However, other crypto-assets (e.g. cryptocurrencies) currently fall outside of existing regulations and may contain features (such as anonymity and unrestricted access) that may make it difficult, or even impossible, to conduct the controls necessary to protect investors, consumers and financial markets.

There are multiple benefits that crypto-assets can provide compared to traditional financial assets, such as:

- Allowing for increased efficiency and cost-savings by reducing the need for financial intermediaries;
- Increasing investor access to asset classes through fractional ownership (where an asset is split into smaller investments);
- Providing a more secure and accurate store of information (by creating tamper-resistant records);
- Distributing information between multiple participants in real or near-real time (to mitigate risks such as single points of failure); and
- Increasing the speed and efficiency at which capital can be provided (for instance by allowing for faster post trade settlement).

The potential benefits of crypto-assets can be understood in the context of the recent COVID19 pandemic, where European capital markets have played a vital role in supporting the economic response, and recovery, required. The benefits of crypto-assets (such as increased efficiencies and improved resilience of financial services) will become more pronounced as their adoption continues to increase and where other disruptive events, such as the current crisis, occur.

Even so, increased adoption and further innovation for crypto-assets remains hampered by a lack of clarity on their exact regulatory treatment. This lack of clarity stems from two main factors:

1. Crypto-assets have a variety of features and use cases: There are many different types of crypto-assets that are used to conduct a wide range of activities, with varying features and risks; and
2. There is no commonly used global taxonomy: There is no globally accepted taxonomy for classifying crypto-assets, to take account of these variations and to help identify the appropriate regulatory treatment.

It is therefore essential to establish a global taxonomy, that distinguishes these different activities and features, to encourage innovation, realise the potential benefits and appropriately manage any associated risks.

Why are crypto-assets so difficult to define and classify?

Crypto-assets, whilst evolving at pace, remain at an early stage in their development and use within financial markets.

Therefore, identifying the appropriate regulatory treatment has proven difficult as current regulations were not developed with crypto-assets in mind.

For example, existing regulations are generally built on the basis of 'bilateral relationships' (a linear relationship between the seller, intermediaries, and buyer respectively), whereas crypto-assets are able to facilitate multiple interactions between decentralised parties.

This has resulted in a fragmented approach to crypto-assets regulation across EU Member States (and globally). This creates uncertainty for market participants as to which rules will apply to the issuers of crypto-assets and related service providers (such as those providing exchange or custody services). Clarity on what rules will apply is necessary for encouraging crypto-asset adoption and innovation.

Business Operating Models in the New Paradigm

Rob Cranmer, Managing Partner, Sionic

" At Sionic we believe thought leadership is an active, not a passive exercise. Armstrong Wolfe's blend of curated 'content' with COO events that discuss complex challenges is authentic thought leadership in action. "

How can firms make good change happen?

The Coronavirus COVID-19 pandemic is the catalyst for organizations to reassess their operational effectiveness while dealing with the new risks and challenges that the remote working environment has created. Firms should review all aspects of their operating model as the technological advances and the proliferation of technologies creates previously inconceivable opportunities.

For once, 'paradigm shift' is no overstatement: the events of 2020 have shown financial markets and institutions several things:

- the surprising ability of business operations to continue, despite concerns around staff working remotely;
- the significant acceleration of technological advances, with new solutions emerging in a short timeframe;
- and the emergence of new, and variations to existing risks, which will continue to need to be managed.

New working arrangements caused institutions to take a hard look at their operating models, to ensure their suitability in a fragmented working environment and to incorporate controls to counter the changing risks of this environment.

Remote working and accelerated technological advancements and risk are all here to stay. This paper outlines the key priorities firms should address in response, across the business. And while this paper is not technology-focused, there is no doubt that technology will be an integral part of many solutions.

Vision and goal clarity

We may all agree that business operations should be as efficient and cost-effective as possible. But under-investment in infrastructure and the 'layering' of fixes, rather than substantive change, has created a modern-day Rubik's cube: new and emerging 'workplace of the future' risks and challenges are resurfacing and adding to the already extant need to review business processes and controls. The puzzle is perhaps best solved by grouping the processes into three categories:

- **Break/fix** – repair specific aspects of a process that are identified and contained. These should be simple to identify and quick to resolve
- **Facelift** – overhaul an entire process end-to-end. This is typically where the existing process is fundamentally sound, but the scope of coverage and the controls in place need review.
- **Rebuild** – complete replacement of an existing process or creation of a new process. This will be where a process or controls are not functioning, are duplicative, or where the need to incorporate new thinking and requirements forces a complete rebuild.

There are opportunities across business operations, with some more critical to address than others. All opportunities should be catalogued and prioritized, with a clear focus on how to achieve as many as possible in the shortest timeframe and at least cost. These are the four priority areas we believe all firms should consider.

1. Resources, organizational design and culture

Before looking at business processes, it is important to consider the impact that the pandemic has had on the workforce. The adage that a company's most valuable asset is its people has never been more apt. Many firms owe the successful conversion to a remote working environment to the hard work and long hours that their teams put in to make it happen. The collective power of people once again proved that anything is possible. But there are challenges: the protracted work-from-home environment has brought with it a list of considerations that all employers should take seriously.

Employee wellness

The progressive impact on personnel has become a key consideration for all employers. Loneliness and a sense of isolation in working remotely has impacted many, with mental health issues rising. This aspect of the new paradigm has been recognized and requires constant monitoring.

Culture and ethos

Culture and ethos are specific to organizations; indeed there are often micro-cultures within organizations. But both culture and ethos evolve from working in groups, on-the-job

Mentoring, training and team building

Remote working has a significant impact on more junior staff, who rely on real-time training and mentoring from colleagues in their immediate vicinity. Organizations need to take additional steps to ensure junior staff receive additional focus and attention in these areas.

Online training has been around for many years and organizations have subscribed to these services for some time. As roles change through reorganizations, re-training of resources is key to ensuring that people are equipped to take on new roles. This includes supporting managers with remote teams.

Remarkably in the last months, several companies have emerged offering virtual team building, ranging from two-hour sessions with a maximum number of employees, to themed sessions involving much wider participation. Team building is an essential part of creating a sense of belonging and should not be forgotten as the more operational aspects are addressed.

Top talent retention

Several of the areas noted above will impact the firm's ability to attract and retain top talent. Surveys among younger employees suggest that there is a preference for increased work

flexibility, including location and work hours. Firms need to be aware of this need and the need to establish robust remote working tools to retain younger talent.

The transition from management to leadership

In a changing workplace there is a need for business managers to evolve alongside operational models. In a fragmented work environment, there is a need for trust, focus on outcomes not tasks, embracing flexibility of working hours and utilizing collaboration tools to build and manage teams. Managers with global and remote teams are currently operating in this manner, but those less familiar will need to learn remote management. Close management of teams needs to shift to leadership of teams.

2. Compliance with regulation

At the time of writing (approx. six months into the pandemic) regulators are considering how to shift their requirements to accommodate the new model. FINRA published Regulatory Notice 20-16 in May which outlined some of the changes that are being implemented to combat new challenges, and specifically state that "…..firms must memorialize in

writing any adjustments made to their policies and supervisory procedures as a result of the COVID-19 pandemic".

Delays to previously published regulations

An unintended consequence of the pandemic is that several regulatory changes have been delayed. When these delayed regulations are published alongside other scheduled releases, there will be a logjam of regulatory change with which firms will need to contend.

New regulatory requirements

The other topics that regulators will likely reassess, aligned with the new and emerging risks that are covered in the next section, include:

- 3rd Party risk management
- Know Your Client (KYC) and Anti Money Laundering (AML)
- Cyber risk
- Privacy

Regulatory libraries, controls mapping and testing

With a changing regulatory environment, it is imperative that firms ensure their regulatory obligations are well documented, and their libraries kept up to date. It is these libraries that determine the controls and controls testing required to satisfy regulators that a robust regulatory environment exists. Operating models must remain aligned with these obligations to avoid sanction.

Surveillance and conduct

This is a topic that was hot before the lock-down and with traders and salespeople

working remotely and outside the controlled environment of an office, regulators will want increased monitoring of activities.

3. Assessing and addressing new and emerging risks

New operating environments bring with them new risks and changes in existing risks which need to be understood and controlled. The list below is a high-level overview and by no means exhaustive.

Operational risk, including third party risk management

Firms' risk assessment framework should be revisited to include the new and changed risks. With the reliance on external parties (and a potential for this reliance to increase) to perform functions previously done in-house, and with personnel (permanent and contract) working remotely, risk-assessments must be modified accordingly. Aspects that should be specifically included are data protection, customer privacy and preventing the use of insecure network connections.

Operational risk, including third party risk management

Ransomware demands have increased significantly . Additional controls are required to avoid a potential denial of access and to protect customer information.

Client Lifecycle Management (CLM) & Anti Money Laundering (AML)

Actors are taking advantage of weakened controls and/or diminished monitoring with new scams appearing almost daily.

If CLM and/or AML services are performed by an external provider, risk assessments should be reviewed as the ultimate responsibility for the management of these risks resides with the organization.

Conduct risk

In trading businesses, conduct issues were managed through implicit monitoring of behaviors by colleagues and managers. In a dispersed model, this implied controls do not exist, and additional measures will be required. The use of new tools to 'scrape' video, voice, text and email are available to increase oversight of at-risk activities,

but more immediate controls can be put in place to bridge the gap to automation.

Business continuity

Pre-COVID plans (BCPs) were mostly unusable as the event was unlike anything planned previously. All BCPs will need to be updated and should consider all changes to business processes. The distribution of key personnel should be considered to ensure there is no concentrated dependency in any location or on any one utility.

Assessing and addressing new and emerging risks

Every financial institution has, at some point in the last decade, undergone an exercise to review the cost of running the business and address operational inefficiencies. These initiatives had varying degrees of success and most will need to be revisited to factor in new considerations.

Low-hanging fruit

Most firms have lists of 'projects' that address efficiency issues, many of which never get funded. Many are low-hanging and could be addressed quickly, generating small, but collectively substantive improvements.

Automation/Straight-through-processing (STP) opportunities

There are multiple functional areas where technology can improve efficiency and increase accuracy. Firms are encouraged to invest in technologies that automate workflows, provide real-time dashboards and document handshakes. The use of digital documentation and signatures (to replace wet signatures) is essential.

4. Organizational design

Two aspects need to be reviewed here:

a. Functional and departmental structure, looking for overlaps and synergies and realigning accordingly, and

b. Identifying the roles required considering the future state of the organization.

In any process redesign that involves people, change management is essential to increase the likelihood of the changes being successfully implemented.

Shared services and centres of excellence

Often shunned by businesses as not having the specific knowledge required, these services will harmonize processes and work effort and remove duplication.

To be successful however, they require shared ownership, a common set of goals, and shared funding. The processes must be reimagined to coexist with, not replace, business-as-usual, as continuing the old process will yield no benefits.

E-trading platforms

In capital markets/trading, clients have gradually shifted from trading over the phone to self-service using e-trading platforms. There are still many opportunities to leverage self-service technologies, either bespoke or generic, to address operational risk issues and avoid potential conduct concerns.

Leverage technology for liquidity management, risk management and internal funding

Recent advances in the use of technology, specifically bots, allows the opportunity to automate the management of these intra- and end-of-day considerations.

Technology modernization and consolidation

Technologies have changed significantly over the years and many organizations have not kept abreast of these changes. Consolidation, upgrade and/or replacement with newer and cheaper solutions should be considered, as well as how/where these can be hosted.

Outsourcing, co-sourcing, offshoring and near-shoring

Trends in this area have varied from avoiding, to offloading as many functions as possible, although organizations now prefer near shore to offshore. Many activities performed by FIs are non-competitive and commoditized, and there is an increasing choice of providers who can deliver these services efficiently and cost-effectively. Opportunities extends into technology infrastructure with Cloud and software-as-a-service (SaaS).

Real Estate, including business recovery sites

As work-from-home has proven to have a minimal impact on operational efficiency, real estate portfolios can be revisited to determine requirements. There is a long lead-time to realize savings in this area, so this should be considered sooner than later.

Physical trading rooms are arguably, the most expensive infrastructure within the banks and the configuration and location

should be considered. Business recovery sites typically stand empty but fully functional. Now that staff can work remotely, this space is no longer required, the equipment can be repurposed, and the sites decommissioned.

Above all, mindset matters

Each of the items outlined has different requirements which will vary by organization, but there are some fundamentals that all organizations require to truly achieve the desired outcomes.

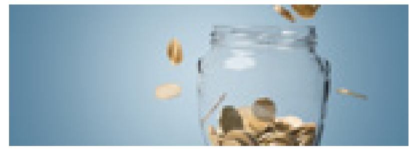
- **Mindset** – the willingness to invest the time and effort to understand the opportunities and to make changes to ensure the ongoing relevance of the business and the organization.
- **Strategy** – consistent and aligned view of the future state and the priorities to get there. This includes answering tough questions around topics such as outsourcing.
- **Architecture** – agreed business architecture and an aligned operating model and technology architecture to support the business.
- **Data** – mastering, taxonomizing, identification of golden sources and books of record with all necessary governance and controls to ensure completeness and accuracy.

One thing remains certain, which is that without the willingness to make change happen, none will.

How to accelerate FI transformation in the post-pandemic world

Yang Shim, Adam Girling, EY Capital Markets

Reimagine the path to long-term growth and increased stakeholder value while supporting the economic recovery in a socially responsible manner.



The financial services industry is undergoing a profound transformation, rooted in data and powered by emerging technologies. The COVID-19 pandemic and its fallout provide an opportunity to accelerate the customer-centric strategies and efficient business models that will define future success, while also leading today's economic recovery efforts in ways that reflect a sincere sense of social responsibility.

Quickly adopting new technologies is more crucial than ever to creating long-term stakeholder value and fulfilling social responsibilities.

The S-curve that defines technology's path from idea to strategic adoption has been compressing rapidly in recent years, and the changes inspired by the pandemic will shorten it even more.

To generate long-term growth and value in this environment, financial institutions (FIs) must embrace a "future-back" approach to planning that identifies a variety of potential futures and works backward to create a sense of shared strategic purpose and buy-in among stakeholders.

That means harnessing large volumes of real-time data to better understand customers' needs and using those insights to forge deeper emotional connections. At the same time, FIs must improve financial performance by elevating enterprise efficiency and resiliency and effectively managing risk, while supporting the economic recovery.

Emerging technologies are key to achieving these and other data-driven objectives. Moving forward, cloud-by-design architectures and connected platform ecosystems will be strategic necessities for managing data volumes and costs, strengthening security and improving the employee experience.

Reimagining how to achieve long-term growth and increase stakeholder value, while also supporting the economic recovery in a socially responsible manner, will require FIs to concentrate their efforts in five areas:

- Adapting to changing customer preferences and needs
- Elevating enterprise efficiency and resilience
- Driving differential business performance
- Redefining the sustainable workplace
- Managing risk effectively through the cycle

Accelerating digital enterprise transformation is not without challenges. But now more than ever, the path to growth and long-term value creation lies in making critical decisions in the current economic cycle.

Provide personalized customer experiences

The world has shifted dramatically for most customers. Being attuned to those changes and acting proactively to meet their emerging needs is more important than ever.

Our NextWave (pdf) consumer research, compiled in the first quarter of 2020, identified three profound changes that will impact how FIs interact with and serve customers:

- Customer trust is more important than ever. Customers will leave if the information they share with their FIs isn't secure, and if they don't receive value in exchange for sharing it
- Customers are hungry for financial advice. FIs that provide AI-driven financial health platforms to satisfy that appetite will hold a central place in customers' lives
- Customers are ready for subscription-based models. The platform economy is transforming consumers from owners and buyers into renters and users

The pandemic and its by-products – the greater customer use of digital channels, the economic insecurity and financial confusion it inspires – have made it even more important for institutions to understand customer needs and shift from product-driven engagement to customer experiences.

Elevate enterprise efficiency and resilience

The stress of recent months strengthens the rationale for boosting investments in digital technologies that can enable more flexible operating models and reduce the dependence on manual processes and legacy systems. FIs must strive to be "resilient by design."

The stress also creates greater momentum to redesign approaches to worker locations and third-party relationships and create more resilient contingency solutions.

Going forward, FIs must rethink business strategies and operating models with an eye for efficiency and a myriad of new "what-ifs," devise new KPIs to support the vision and make hard investment choices. The means might be different today, but improving efficiency has always been central to delivering value.

Differentiate business performance

As FIs seek new sources of growth and value creation, they must re-evaluate business models and metrics, and invest in emerging technologies to create more differentiated and sustainable value propositions.

For many, these investments have been slow to take root.

Consider that the typical FI today devotes 20%–40% of its budget to transformative technologies, while the rest goes to maintaining older, less efficient legacy systems. The lasting effects of the pandemic on society and the economy mandate that FIs redirect more capital to transformation. For some, that might mean using M&A to bolster scale, distribution capabilities or digital technology portfolios. For others, it could be about prioritizing investments in digital and cloud-based applications over old legacy systems to enable more effective data use.

Institutions must also look to spur organic growth by creating more agile earnings models through improved operating leverage and enhanced dynamic planning and stress-testing tools. In the end, FIs must accelerate their own strategic transformations to improve performance.

Reimagine the work experience

The wholesale shift to remote work has gone more smoothly than anyone could have expected, inspiring changes in how we think about where and how people work. But what are the long-term implications for talent management and its role in the broader theme of strategic transformation?

Going forward, institutions must reimagine their facilities, with an eye for both safety and sustainability. Look for workspaces to leverage everything from nanocenters, worker badging and parallel analytics to contact tracing. They also must envision operating models that provide workers with the flexibility to select the workplaces that most effectively enable them to fulfill their roles.

New ways of working will likely upend the entire talent lifecycle, from recruiting and onboarding through performance management, learning, coaching and career pathing. Matching practices with the desires and aspirations of today's workforce will become a competitive differentiator. Now is the time to modernize and become the employer of choice.

Manage risk effectively through the cycle

COVID-19 has exposed FIs to a variety of new operational and credit risks that must be managed with refined risk appetites, controls, processes and models.

The risks of government stimulus and lending programs must be managed carefully, with an eye for compliance through the full lifecycle of the pandemic.

As the financial stress of customers evolves, FIs should tailor early warning indicators to the unique economic impacts of the pandemic across sectors, regions and stimulus effects. They also must develop decision tools and processes to accommodate new and more compassionate collections practices.

Finally, enhancing operational resiliency will require paying greater attention to non-financial risk triggers and frameworks. In the coming months and years, managing emerging risks will be more important than ever.

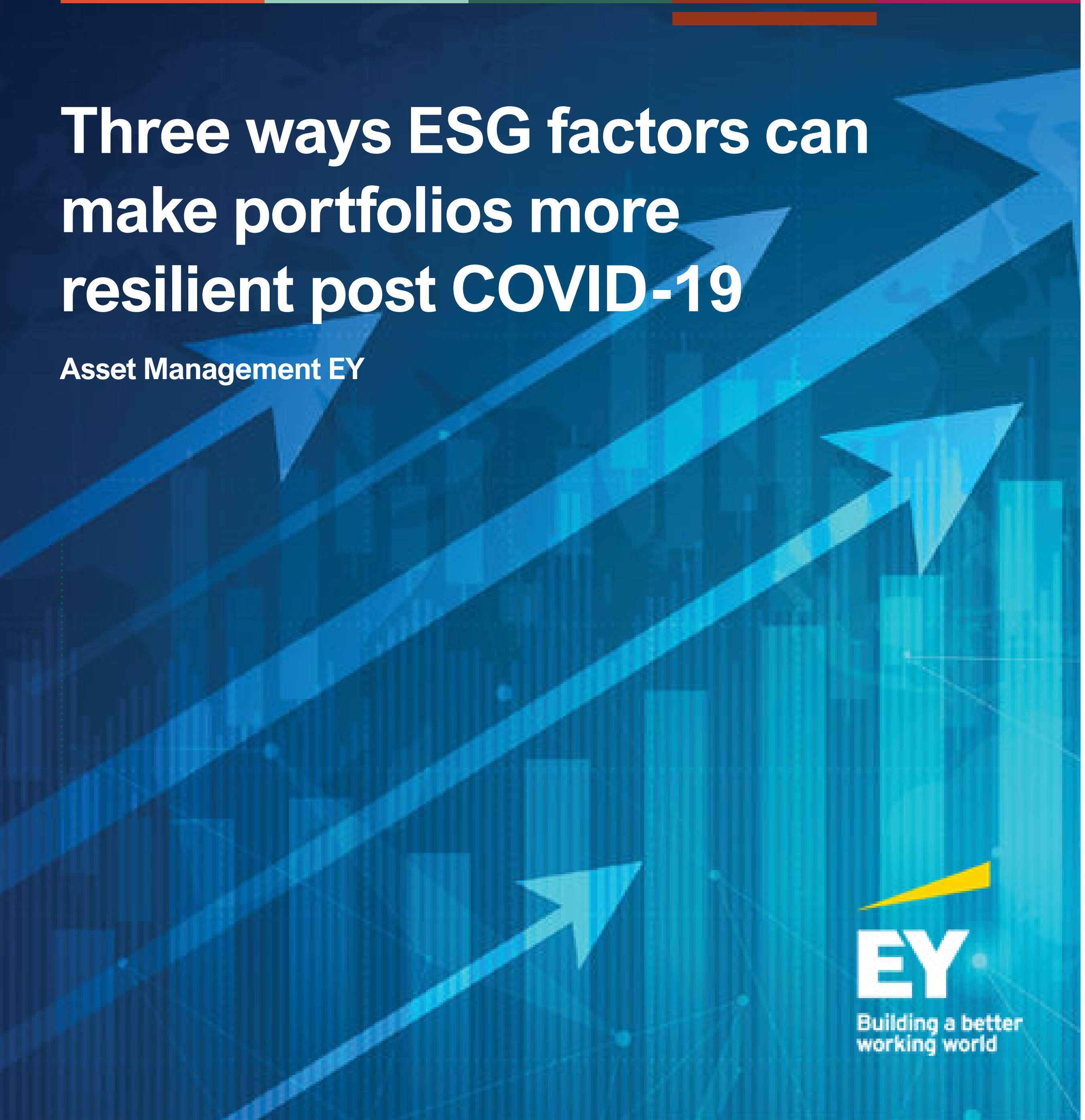
Future-back thinking

FIs have a social responsibility to support economic recovery efforts and their customers. They also must protect and enhance their brands by managing capital with agility in the face of uncertainty. The way they interact with stakeholders is changing and demands a new, more dynamic, future-back approach to developing strategies and business models. FIs have a social responsibility to support economic recovery efforts and their customers. They also must protect and enhance their brands by managing capital with agility in the face of uncertainty. The way they interact with stakeholders is changing and demands a new, more dynamic, future-back approach to developing strategies and business models.

> FIs must embrace a "future-back" approach to planning as they evaluate their resilience, growth and key business objectives in the effort to generate long-term growth and value. This requires FIs to concentrate on adapting to changing customer preferences and needs, elevating enterprise efficiency and resilience, driving differential business performance, redefining the sustainable workplace and managing risk effectively through the cycle.

Three ways ESG factors can make portfolios more resilient post COVID-19

Asset Management EY



The COVID-19 pandemic showed that a company's ability to circumnavigate economic and market disruptions is closely related to the degree of sustainability within said company. Wealth and asset managers are well advised to further integrate ESG factors within their investment due diligence process and to enhance their ESG strategy, methodology, and stress tests.

The COVID-19 pandemic acted as an ESG stress-test for the global economy. High social standards and good company governance emerged as key resilience indicators, and we believe that going forward, both investors and regulators will demand asset managers implement enhanced stress tests which include related ESG factors.

As the global COVID-19 pandemic spread, it initially appeared that environmental and sustainable finance topics might fade into the background while a looming recession cast long shadows. Yet major environmental, social and governance (ESG) funds outperformed classic indices like the S&P 500 during the first weeks of the crisis, and several ESG funds were able to soften the blow to loss in value compared to standard non-ESG benchmarks. This revealed that there were opportunities to utilize ESG to circumnavigate the COVID-19 situation and better protect asset managers and their clients from future turmoil.

When supply chains came under stress due to COVID-19 lockdowns, operational resilience and business continuity measures of issuers – as well as their suppliers – directly impacted revenues and share prices. Companies with an agile business culture proved to be more resilient during the shutdowns as they were better able to absorb the shock, and such "soft" social and governance factors emerged as the key indicators for the resilience of investments. By magnifying the effects of interrupted business operations, COVID-19 also foreshadowed stress scenarios to be anticipated by climate change. Effective climate risk mitigation measures will be crucial to circumnavigate future business disruptions and supply chain failures.

As we start to learn the lessons of the pandemic, we believe wealth and asset managers should consider employing ESG factors in three different ways to make their investments more resilient:

1. **Enhancing ESG strategy and methodologies to further strengthen social and governance factors**
2. **Implementing further ESG factors and enhanced climate risk methods within the investment due diligence process, risk management processes, and stress tests**
3. **Ensuring their own good governance, operational resilience and business continuity measures, high digital standards, and an agile business culture are in line with their own sustainability standards**

In addition, wealth and asset managers need to consider how they are communicating with their clients and analyze how they have acted during the COVID-19 situation. Client care, transparency, and fairness are the critical factors. Financial reports and annual investment fund reporting will need to describe the impact and actions taken during this time.

Continuously increasing regulatory pressure

Regulatory pressure continues to intensify. The European Union continued to expedite the implementation of the EU Taxonomy, Disclosure regulation and Benchmark regulation as well as enhancements of all financial market regulations and directives during the COVID-19 pandemic.

The EU Recovery Funds that are proposed to restore the COVID-19-affected EU economy are designed with an emphasis on long-term projects that meet specific climate and energy plan criteria. Significantly, some 25% of the €750bn will be allocated to the EU climate action program, adding additional pressure to the implementation of the sustainable finance regulations.

Wealth and asset managers are challenged to stay ahead of the regulatory tide and prepare for upcoming application deadlines – while critical technical standards and specifications are still under discussion and not yet finalized.

The current framework for sustainable finance is hard to completely understand and navigate. Overlapping initiatives and requirements need to be streamlined in order to identify the opportunities and challenges ahead.

In line with the European Commission's direction from its consultation on Sustainable Finance, EY teams share the view that it will be critical to leverage the private sector, and in particular, the financial sector to support the transition to a sustainable economy, which should be complemented by government action which supports industry efforts.

Challenges and opportunities for ESG investments

While the COVID-19 pandemic provided different challenges and opportunities for the different asset classes, all investments might profit from the further inclusion of ESG factors. By considering additional ESG factors within the investment due diligence process, more information can be gained on a company's culture, operational resilience, and risk mitigations. An enhanced ESG investment process as well as climate risk and stress test modeling might also improve protection against tail risks.

Accessing the additional data and information on social and governance factors might prove challenging. Considering the "S" and "G" factors within stress tests requires quantitative and comparable input data, but unlike environmental data, social and governance data are often hard to obtain.

Wealth and asset managers must prepare for upcoming sustainable finance regulations, implementing the EU taxonomy as well as disclosure requirements that will support a comparability of ESG investments.

Further opportunities may also arise for new categories of impact funds. As discussed, social impact, health and wellbeing, and access to digital infrastructure appear to be key aspects of a successful pandemic response. Therefore, EY believe that impact funds focusing on these topics can provide further the next opportunity for product innovation in wealth and asset management.

Finally, given that several governments have already announced recovery plans connected with sustainability requirements, new ESG infrastructure investment opportunities are to be expected, thus paving the way for more ESG integration within the alternative investment fund sector.

EY teams are already working with leading asset managers to help with:

- Regulatory gap and impact analysis and implementation support
- Stress test and modeling including ESG risks
- Enhancement and implementation of ESG strategy and methodology
- End-to-end product design including impact funds
- Fund structuring and implementation of new processes and interfaces to administer the new products

What's next?

Looking further ahead, asset and wealth managers will be expected to enhance their ESG strategy to include additional social and governance factors which cover the supply chains of their investments: Having oversight of downstream third-party service providers will help ensure sound operational resilience and stable business continuity.

Major issues faced by wealth and asset managers during the pandemic were fund liquidity risks and asset valuation difficulties. EY believe that going forward, both investors and regulators will demand enhanced climate risk and stress tests which include ESG factors related to liquidity and valuations in order to navigate through potential tail risk events and improve overall future resilience, and upcoming regulation is likely to require the disclosure of utilized models and scenarios.

With the application dates of the EU sustainable finance regulations approaching, wealth and asset managers need to prepare for regulatory compliance, and implement taxonomy and disclosure requirements.

New opportunities will arise for new categories of impact funds on further sustainable development goals, including social standards, health and wellbeing, or access to digital infrastructure. Government recovery plans provide opportunities for new ESG infrastructure investment.

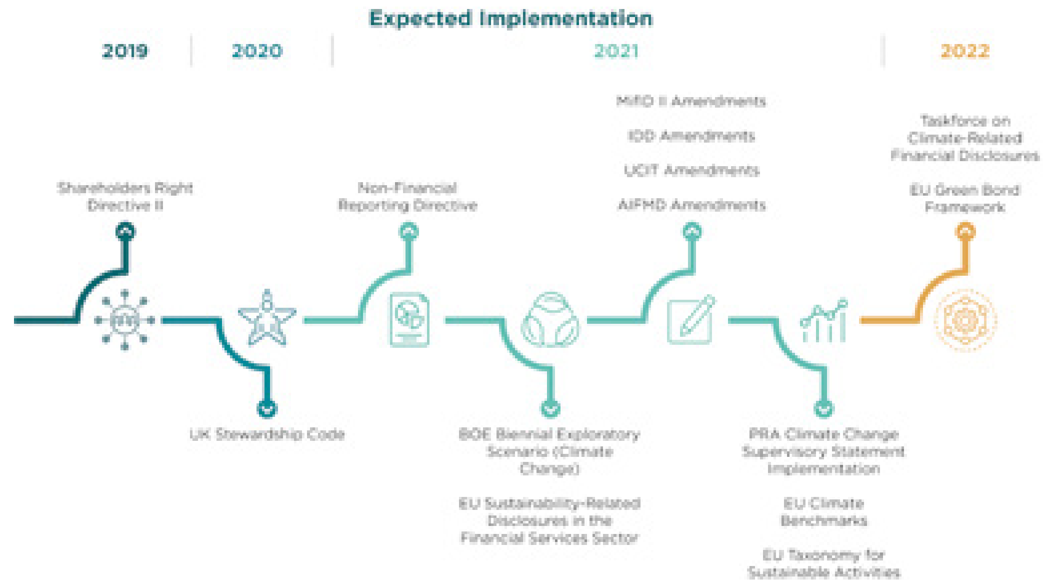
Prior to COVID-19, ESG investing was often considered a compromise between returns and sustainable investing goals – you might not achieve one without compromising on the other. Now, we know that during a major global pandemic, ESG funds actually outperformed classic indices, and ESG factors emerged as major indicators of resilience in this crisis. The opportunity offered by this crisis is for asset managers to make the integration of ESG factors across their portfolios the "new normal", because COVID-19 has shown that ESG investing is the key to sustainable, crisis-resilient long-term value creation. While the challenge may be big, the opportunity is greater – and it may not linger.

The Accelerating ESG Regulatory Landscape

Gearing Up for Change

BCS Consulting

The concept of ESG (environmental, social and governance considerations) is not new to financial services, but the ESG landscape has changed dramatically in recent years. From the launch of the UN's Principles for Responsible Investment in 2006, the focus has evolved beyond voluntary codes to significant regulation at a national and international level. With increased regulatory focus on ESG, the UK financial services industry is expected to comply with several new pieces of legislation in the next few years:



This new wave of legislation will require significant enhancement of internal capabilities, and UK firms should expect all legislation to be upheld regardless of Brexit, with both the PRA and FCA reinforcing the need for increased ESG focus. However, despite the complexity of upcoming legislation, common themes can be identified across a firm's operating model. Applying a holistic lens to managing ESG change will ensure a cohesive and effective ESG framework.

Strategy

Firms need to demonstrate a well-defined ESG strategy as well as integration of ESG considerations into overall business objectives. To do so, firms will need to fully identify and assess ESG related risks and opportunities, at firm, business unit, product level and considering different time horizons. Once assessed, clear and measurable targets should be set and publicly disclosed.

A common challenge in defining ESG strategy is translating high level ESG ambitions into tangible business activity. Engaging with external initiatives, cross industry working groups as well as internal cross department collaboration can provide structure and guidance for developing an effective ESG plan. Senior engagement and sponsorship are critical to support the development of capabilities across the firm. The ESG strategy should be embedded into the overall goals of the organisation and not be treated as a siloed plan exclusively for certain products or services.

Governance

Pro-active demonstration of effective ESG governance is expected by multiple upcoming legislative items. At board and executive committee level, firms should ensure that terms of reference clearly document roles and responsibilities for managing ESG risk and stewardship. All participants, including NEDs should be provided with appropriate ESG and climate risk training, and committees should have regular access to specialist ESG expertise. Individual accountability is also expected, clear allocation of senior management responsibility for climate risk and wider ESG risk management should be defined.

Sustainability should also be factored into product governance, with clear objectives and monitoring approaches, providing a significant challenge for firms with complex product portfolios. The need to demonstrate appropriate stewardship of assets under management via voting patterns, as well as monitoring the range of ESG factors requires a sophisticated product governance approach. Responsible Investment funds also trigger additional governance requirements, including monitoring investee company behaviour for negative ESG impact. At present, there is significant variance within the financial services industry in classification of products with positive ESG impacts, but adoption of frameworks such as the Investment Association's Responsible Investment framework and the Loan Market Association's Green Loan Principles, in addition to the EU Taxonomy for Sustainable Activities, should increase transparency and effectiveness of product governance.

Significant changes are required to fully integrate ESG factors into risk management frameworks, as highlighted by the Climate Financial Risk Forum, climate risk should be considered a "cross-cutting" risk type that will translate into increased traditional risk exposure in risks such as operational, liquidity, credit or market risk. Consequently, firms should ensure integration into overall risk management framework, including a review of processes across all three lines of defence to assess adequacy for ESG management. A key change in upcoming legislation is the expectation that firms demonstrate active review of all policies to ensure integration of climate and wider ESG risk. It should also be noted that disclosure of the risk management approach will be expected under TCFD, so firms should be mindful of the need to clearly communicate climate risk management frameworks and explain their alignment to wider strategy.

ESG factors also need to be integrated into product level risk management, with clear disclosure of sustainability risk and impact during the client advisory process and throughout the product lifecycle, in order to ensure that client ESG preferences are fully considered. It should be noted that disclosure approaches should be tailored to product objectives; for example, if a product has carbon emission reduction as its objective, ongoing disclosure of carbon emission impact should be provided.

As highlighted by the PRA in their recent thematic review, development of a scenario analysis capability has proved challenging for the financial industry, but it is a key component for climate risk stress testing and will form a key component of effective climate risk frameworks. With the upcoming Biennial Exploratory Exercise focusing on climate change in 2021, firms should ensure a thorough understanding of their climate exposures, considering both physical and transition risk, data enhancements and suitable stress testing methodologies.

Metrics & Reporting

Upcoming requirements for reporting and disclosure arguably provide one of the greatest challenges, with expectations for disclosure of ESG policy, activity and impact at business and product level. Due to the volume of public disclosure required, it is recommended that firms develop an overall policy for ESG disclosure, including allocation of responsibility to ensure accurate disclosure, and demonstration of board level oversight.

Disclosure of ESG policy itself will need to consider stewardship, renumeration, social impact and climate risk to inform shareholders and other stakeholders. In addition, asset managers need to report on how their purpose and investment beliefs have guided their stewardship, investment strategy and decision-making; and an assessment of how effective they have been in serving the best interests of clients and beneficiaries. Qualitative reporting on investment activity is also required, as well as disclosure of voting records, transactions between issuers and director renumeration.

On a quantitative level, firms are expected to disclose climate-related metrics such as carbon intensity of the portfolio, asset value at risk from simulated stress tests, and operational GHG emissions. Alongside actual metrics, firms should also look to disclose methodologies utilised, and provide baseline comparison data where appropriate.

Policy & Progress

As well as development of specific policies on sustainability, stewardship, voting rights and principle adverse impact, firms need to fully integrate ESG considerations into policies and processes. Significant process change will be required, impacting customer journeys, investment management activity and third-party management. Client advisory processes should be formally re-engineered to ensure appropriate assessment and communication of ESG factors. Internal process change is also required, with creation of formal disclosure processes and integration of sustainability risk into due diligence standards required by multiple items of legislation. In addition, requirements to integrate ESG evaluation into investment or financing screening and ongoing monitoring will necessitate the introduction of new tools into existing processes, requiring sophisticated use of technology and development of data capabilities. Firms should also be aware of expected changes to HR policy and processes, with renumeration frameworks and training strategies expected to reinforce firms' wider approach to sustainability risk management.

Developing a cohesive ESG framework

The sheer volume of change outlined illustrates the potential complexity of implementing an ESG framework; without careful co-ordination between multiple functions, contradictory policies and processes can be implemented, and delivery costs can quickly spiral. However, by deploying combined ESG change programmes, firms can efficiently ensure compliance and the development of an ESG strategy that aligns to wider business objectives.

BCS Consulting can leverage our significance ESG expertise to provide targeted support, including maturity diagnostic services, specific governance reviews and tailored senior management training. In addition, our extensive TCFD research and disclosure experience can provide sophisticated support in developing disclosure strategy and enabling supporting capabilities.

Three Lines of Defense

Failed Promises & What Comes Next

Erich Hoefer, Mark Cooke & Thomas Curry, Starling Trust

Failed Promises & What Comes Next

The financial industry trade group for operational risk leaders, ORX, reported a sharp decline in non-financial risk related loss incidents, based on reporting by its member banks over the past three months. While it may be possible that bank employees have universally embraced higher business standards during one of the most challenging business environments in history, alternative explanations may be more convincing. These range from the benign (e.g., a reduction in business volumes), to the more worrisome: that existing risk reporting systems are simply failing to cope with "the new normal" and that risk events are going unreported or worse undetected altogether. Late last year it was discovered that Westpac, one of Australia's largest banks, had failed to implement adequate money laundering controls for at least the past ten years. In the United States, the CEO of Wells Fargo was forced to step down after failing to implement sufficient non-financial risk management reforms following a series of high-profile misconduct scandals. In Europe, nearly a dozen national banks were implicated in a wide-ranging money laundering probe focusing on illicit flows of Russian money.

All this, *before* the COVID-19 pandemic upended normal business practices worldwide.

Management Model

For the past decade, spending on systems and processes to manage non-financial risk has exploded. Much of this was driven by legislative and regulatory changes implemented in the wake of the Financial Crisis and earlier scandals at firms like Enron. Banks have invested billions into processes and systems for governance, risk and compliance (GRC) and intrusive surveillance and monitoring tools have become de rigeur. The motivating desire here was to manage risk by removing human error from decision making loops through restrictive policies, processes and systems, supported by good record-keeping.

The risk management paradigm that supports and structures these expenditures is known as the Three Lines of Defense (3LoD) model. The 3LoD has evolved over nearly 20 years but was defined in its current form in 2013 by the Institute of Internal Auditors (IIA). At its core, the 3LoD rests on the principles of personal accountability within roles. This is coupled with active engagement by and among internal stakeholders to provide assurance that bank operations are consistent with established risk appetites.

First Line of Defense accountabilities sit with key executives in customer-facing business units who must adopt risk related roles and responsibilities. As such executives are ultimately the ones taking risk on behalf of the firm and, operating "at the coal seam," they are believed to be best positioned to manage related risks. The 1st Line is accountable for establishing and maintaining an appropriate system of controls to manage risk effectively.

The Second Line typically resides within compliance and risk functions. Leaders at the 2nd Line are meant to offer expertise and support to those on the 1st Line, serving as a resource, yet while also posing an appropriate degree of "challenge" to encourage 1st Line accountability. Finally, Internal Audit represents the Third Line of Defense and oversees both the 1st and 2nd Lines, in an effort to provide assurance that all parties are playing their respective risk management roles properly and adequately – and that non-financial risk management is, in the parlance, "fit for purpose."

Its simplicity and intuitive structure made the 3LoD framework the quickly-adopted standard for non- financial risk governance. As the IIA's asserts, "The current model has the benefit of being simple, easy to communicate, and easy to understand. It describes the respective roles of the board/ governing body, senior and operational management, risk and compliance functions, and internal auditing. It helps organizations avoid confusion, gaps, and overlaps when they assign responsibilities for risk management and control activities."

Global regulators and banks have found value in the 3LoD model. For regulators, the 3LoD offers a roadmap of the key decision making within highly complex organizations and provides clarity around questions of responsibility and accountability. And firms benefit by the 3LoD as it offers an industry-standard structure by which to organize and to evidence their efforts to manage non-financial risk when facing questions from their Board of Directors, regulators, and other stakeholders.

And yet the 3LoD has failed to fully deliver on this promise.

Just two years after the IIA formalized the current 3LoD model, the Bank for International Settlements (BIS), one of the key influencer organizations behind the 3LoD model, observed that, "Despite the enthusiastic embrace of the three-lines-of-defense model (...) the series of banking scandals that have occurred, and in which failures of internal control systems have played a role, have led to substantial financial losses and near-bankruptcies."

Management Muddle

Industry observers have pointed out various problems with the 3LoD model – not least the management consultancies that are regularly called upon to help implement the model and to support those same clients when problems inevitably occur.

Most such critiques focus on a general state of confusion regarding roles and responsibilities across the 3 Lines. This confusion leads to coordination challenges, broken processes, and inaccurate reporting. But because the 3LoD is often narrowly viewed as a structural framework, solutions too often end up focusing on structural tweaks. All too often, this amounts to little more than rearranging the deck chairs on the *Titanic*, leaving fundamental problems unacknowledged and unsolved.

Some have proposed adding additional lines as a potential solution to this habitual incrementalism. Suggestions include subdividing the 1st Line, or adding a 4th or 5th Line (or more). The BIS, for example, once proposed that external audit and regulatory supervisors should be recognized as a 4th Line.

The hope is that defining the lines more precisely will permit greater clarity regarding the purpose of each.

Other critiques focus on specific roles and responsibilities, and where these should reside within the different Lines. Rapidly expanding oversight, coordination challenges, and internal conflicts have led many banks to shift compliance and risk responsibilities from the 2nd Line to the 1st Line, for instance. One recent survey found that 90% of respondents in 1st Line risk roles reported an increase in the responsibilities assigned to them in the previous year, with nearly half reporting a 'significant' increase. (Notably, that same survey found no areas where the 2nd Line had seen a year-on-year increase in its own responsibilities.)

Others, particularly global audit and advisory firms such as Deloitte and PWC, have urged a wider adoption of automation and digital technologies. They argue that streamlined processes and automated data-capture, enhanced by AI, may reduce tedious, manual exercises and generate a more accurate and timely view of the firm's risk condition. That is, they urge reduced reliance on human judgement.

Yet billions of dollars and millions of staff hours invested in such proposed fixes have not produced the desired impact. In a sign of growing frustration, a number of banks have made a point of reducing their reliance on outside advisors for compliance spend. When he took over NAB last year, Ross McEwan announced the cancellation over 100 consulting projects. Just recently, Wells Fargo's Charlie Scharf announced a dramatic pullback on spending on consultants that had reached $1.5 billion annually. [10]

In response to these reactions from the marketplace, the IIA launched a Working Group early last year to review the current state of the 3LoD and to offer recommendations for improvements. In July, the Working Group announced a broad update to the 3LoD framework, along with a name change.

Rearranging deckchairs on the Titanic

The new "Three Lines Model" proposed by the Working Group responds to many of the above critiques. By dropping "Defense" from the title, the IIA aims to signal that risk management should not be a mere reactive constraint on activity but, rather, that the risk function should serve as a key partner in overall firm governance. Further, while not explicitly labeling it as such, in the reconceived Model, the Board becomes a de facto 4th Line, serving as an overarching Governing Body. The firm's C-suite is also given greater attention and is positioned as distinct from, yet closely linked to, both the 1st and 2nd Lines.

The change to the Model that is likely to have greatest impact involves an increased degree of flexibility around assignment of roles and responsibilities, pursuant to adopting a "principles-based approach." With this iteration, the IIA formally recognizes that 1st and 2nd Line roles and responsibilities are not rigidly bound to organizational structures. "Functions, teams, and even individuals may have responsibilities that include both first and second line roles."

Helpfully, the IIA emphasizes that, "... all activities need to be aligned with the objectives of the organization. The basis for successful coherence is regular and effective coordination, collaboration, and communication." And it is this final point that gets to the root of the challenge with the 3LoD – a challenge that remains unaddressed in the revised Three Lines Model.

Formal accountability structures and reporting systems are ill-suited to processing and reacting to *dynamic organizational systems and their associated behaviors.* Employees operate within a social context, one that works by *informal* social norms and peer pressures. While important, formal processes, systems and incentive structures hold far less sway than many business leaders (and regulators) would like to believe. If the promise of the 3LoD model is to be realized, new approaches and tools for managing the *informal* drivers of behavior must be adopted.

Ignoring insights from the behavioral sciences, both the IIA and its critics have failed to recognize that formal systems and processes that are intended to put practice to the 3LoD model are, themselves, fundamentally reliant upon countless personal interactions along collaborative networks of risk staff. Each such network will have its own rules for membership: behavioral norms that must be adopted, with violators facing peer ostracism. These informal yet profound drivers of decision and action play out among the multitude of peer-connections that effectively constitute the Three Lines.

When these networks fall out of alignment with one another or with management, the result is poor coordination, organizational friction, and conflicting priorities. Without explicit appreciation of this, the Three Lines Model is not just impoverished, it is effectively inoperable.

The Basel Committee on Banking Supervision (BCBS) has defined Operational Risk as the risk of loss resulting from inadequate or failed processes, systems, **and people** (emphasis added), or by external events. Firms have focused their attention and resources on processes, systems and guarding against external threats (e.g., cybersecurity). They have been far less successful at addressing the people element – though perhaps not for lack of trying.

Banks have recognized the importance of accountability, collaboration, challenge, and corporate cultures that sustain and reinforce such priorities. They have thus invested heavily in things like employee surveys, online training, townhall meetings, and other culture-building exercises. However, while perhaps representing "good hygiene," such typically HR-led initiatives have not been demonstrably successful in reducing risk. Process and system changes are easier than meaningful culture change initiatives.

Culture change is perceived to require wooly qualitative measures that don't scale well, leaving firms with the worst of all worlds: expanded budgets, high management overhead, and broad-based skepticism as to whether any of this 'soft stuff' is ultimately worthwhile. But as some amount of "window-dressing" is seen as a necessary "cost of doing business," anemic levels of investment in ineffective traditional measures persists, with little to show for it.

"At Starling, we believe that the current approach to operational risk management is needlessly backward looking and that firms, and their regulators, need to adopt a proactive stance. When scandal erupts, this often becomes a problem for the COO rather than the risk and compliance function. Effective risk management is therefore a business concern, and Armstrong Wolfe has done well to assemble a community of COOs who may learn from one another about new capabilities and evolving best practices."

Uncrossing the Lines

"When you change the way you look at things," Max Plank once said, "the things you look at change." Strategically targeted management interventions, along key behavioral fault lines, are necessary if the Three Lines framework is to achieve its potential. Fortunately, advances in behavioral science and data technology have now enabled the creations of tools that make this easier.

With this development, there are three main areas where we see opportunity.

First, a properly resourced and functioning 2nd and 3rd Line are necessary to provide counterbalance, broad stakeholder perspective, and challenge. By their nature, these Lines face inherent disadvantage. As the BIS observed, "Even if functions in the second line of defence are organisationally independent, they may lack sufficient skills and expertise to challenge effectively practices and controls in the first line." As a result, the 2nd Line can be too deferential, or too restrictive, depending on the prevailing influence from the C-suite and – critically – the levels of trust at work between the Lines.

This disconnect typically extends to the 3rd Line as well which, the BIS notes, is typically too far removed from the rest of the business to provide appropriate guidance and support. This has been a major driver behind the increasing shift of responsibilities from the 2nd to the 1st Line, with the 2nd line taking on more of a "consultative" function rather than acting as an equal partner to 1st Line peers.

What is lost in de-emphasizing the 2nd Line is the robust interaction, challenge, and collaboration between the Lines that may lead to better outcomes.

An effective solution would work to foster stronger linkages and more robust engagement between the 1st and 2nd Lines. Trust is critical to – and supported by – such peer exchange. Shifting responsibilities to the 1st Line without attending to trust dynamics compromises a critical enabling element of the Three Lines model.

Secondly, the 1st Line faces inherent conflicts of interest between short term pursuit of profit and the risk of nebulous things that may well not occur. Moreover, much of the calculus around operational risk is necessarily based on subjective judgement. When pressed, such *qualitative* assessments simply cannot compete against *quantitative* metrics: e.g., those at the bottom line. Confronted by pressure to close a deal, sign a contract, or execute a trade, potential future risk exposures are far less compelling to 1st Line leadership than projection of immediate financial returns. Co-option of the bank's assurance function by the 1st Line thus becomes a constant risk. (An internal version of "regulatory capture.")

This environment allows conduct risks to spread, contagion-like and undetected, throughout a firm. Surveillance and monitoring systems may catch conduct violations, once they take place, but by then damage has been done. More meaningful safeguards may be achieved through cultivation of a culture that encourages challenge and speak-up behavior, and within which staff feels encouraged to push back the moment they perceive that risky behaviors threaten to take hold. Such a self-correction mechanism is all the more important amidst the COVID-19 pandemic, when staff are primarily working from home.

In a recent interview with *Bloomberg*, Gary Cohn, past-COO of Goldman Sachs and an advisor to Starling, was quoted as saying: "Banks need people to be working together in a cooperative fashion and watching and listening to each other," adding, "That is what the Fed would call a first line of defense: overhearing conversations, looking at presentations, or looking at the way you talk to a client. [...] When people are sitting in their bedrooms, there is no one there to look over their shoulder."

Rather than backward-looking surveillance systems designed to catch bad actors after- the-fact, now more than ever, we need real-time, data-driven metrics that provide leading indicators of misconduct before it takes hold, and insight into the relational pathways by which misconduct is most likely to spread. Identifying such predilection for misconduct permits proactive management interventions that can be targeted more precisely and applied in a more timely, efficient, and effective manner. Such capabilities would empower 1st Line executives to manage their risk exposure from the front-foot and, importantly, they may be devoted towards discouraging misconduct as well as towards unlocking improved business performance.

Third, to date most 3LoD-related investments have focused on creating a "system of record" by which to track tick-box rote and process driven exercises that create a false sense of security. Risk mitigation becomes a Kabuki theater in which pantomime is valued over demonstrable efficacy, and managers resort to journaling and email archiving so as to create "paper trails" they hope may absolve them of liability for risk management failures. When process becomes the end goal, the purpose behind such process is abandoned. Alas, this is the current state of affairs at many firms.

COVID-related challenges will not obviate senior manager accountability and these broken or inadequate processes will ultimately expose managers to personal liability.

Consider: even as the UK's Financial Conduct Authority (FCA) announced certain extensions to technical requirements to the UK's Senior Managers & Certification Regime (SM&CR), the FCA emphasized that "Firms should not wait to remove staff who are not fit and proper from certified roles", and that "Senior Managers and Certified Persons are already subject to the Conduct Rules and we will hold them accountable for any misconduct arising during and after the pandemic."

By failing to contemplate "the company behind the chart," 3LoD models produce false comfort and immense frustration, all at a huge cost. As we wrote in the 2019 edition of our annual report on *Culture and Conduct Risk in the Banking* Sector, "Operational risk management frameworks based on the 3LoD may produce adequate systems of record, useful for assigning accountability, recording risk events, and conducting forensic inquiries after risk management failures become evident. But because they fail to account for the dynamics of social influence ('culture'), they do little to permit for proactive insight into the likelihood of such events."

One solution is to complement process- based reporting protocols with a cultural lens that reveals when those processes may be compromised by certain behavioral risk propensities. These solutions may seem out of reach, but recent advances in behavioral science, network theory, and machine learning now make this possible.

In our own work, we have demonstrated an ability to anticipate risk related process failures several months before they were detected by traditional reporting systems. Rather than continuing to rely on traditional approaches, bank leaders can now (1) monitor the quality of collaboration across the Lines, (2) spot risk process breakdowns proactively, and (3) detect misconduct propensities proactively. Moreover, this can be done while preserving privacy and only minimal intrusion into day-to-day operations.

In an article appearing in Risk Management, David Fischer of Guidehouse highlights the challenges that CROs will face post-COVID. "Risks will likely manifest across the whole organization, including operations, compliance, financial, human capital and even the very essence of the enterprise."

Rather than waiting for these risks to materialize and suffering through the inevitable backlash from regulators and an aggrieved public, forward-leaning firms will invest in predictive behavioral analytics to drive proactive risk mitigation and meaningful operational resiliency.

ERICH HOEFER is the COO of Starling, a leading US-based Regtech firm

THOMAS CURRY was Comptroller of the Currency, the U.S. agency that regulates and supervises national banks. He is a Senior Regulatory Advisor to Starling.

MARK COOKE is former Group Head of Operational Risk at HSBC and former Chairman of ORX, now serving on the Risk & Governance Advisory Board at Starling

About Starling

A globally recognized RegTech pioneer, Starling is an applied behavioral sciences company that helps customers to create, preserve, and restore value.

Combining machine learning and network science, Starling's Predictive Behavioral Analytics platform allows managers to anticipate the behavior of employees and teams, and to shape it proactively.

Starling reveals how relational trust dynamics within an organization impact business performance— predictably. Its proprietary algorithms generate actionable insights that allow leaders to optimize performance and to identify and mitigate culture and conduct related risks before they cascade into crises.

Serving on Starling's board of Senior Regulatory Advisors are Tom Curry, past US Comptroller of the Currency (OCC); Rick Ketchum, the former CEO of the Financial Industry Regulatory Authority (FINRA), and Martin Wheatley, inaugural CEO of the UK's Financial Conduct Authority and past CEO of the Hong Kong Securities & Futures Commission.

Starling's Risk & Governance Advisory team includes Gary Cohn, former Director of the US National Economic Council and COO of Goldman Sachs; Siew Kai Choy, former Managing Director of GIC (Singapore's sovereign wealth fund), where he served as head of Enterprise Data & Analytics and founded GIC Innovation Labs; and Mark Cooke, past group- level head of Operational Risk for HSBC and Chairman of ORX, the industry association of OpRisk officers.

Starling's Scientific & Academic Advisory Board includes John Seely Brown (former director of the Xerox PARC Research Lab), Nicholas Christakis (director of Yale's Human Nature Lab), Karen Cook (director of Stanford's Institute for Research in the Social Sciences), and Thomas Malone (director of MIT's Center for Collective Intelligence).

INSPIRING WOMEN IN FINANCIAL SERVICES

Women in the COO Community

armstrongwolfe.com/wcooc

ARMSTRONG WOLFE

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WOMEN IN THE COO COMMUNITY

WCOOC

Armstrong Wolfe's Women in the COO Community initiative (WCOOC) has been running since 2017 and is now well-established in London, New York and Hong Kong with members from over 30 different organisations.

Led by Armstrong Wolfe, a series of cross-bank events focused on female leadership will take place throughout 2020.

- To inspire women in Financial Services to have no limitations to their professional aspirations.
- To educate 'early stage career women' on business management and the COO role as career destinations.
- To establish an exclusive and confidential networking opportunity with like-minded peers.
- To enable a cross-industry business dialogue to address common challenges.

Lunch Webinars

We hold regular lunch webinars at a different bank every quarter. Attendees are Managing Director-level females in COO, CAO, CCO, business management or COO office roles, including functional allies of the COO, such as technology, operations and compliance.

At each event, a conversation is facilitated around a pre-agreed agenda. Occasionally subjects are gender-specific, but predominantly a space in which wider industry issues and challenges can be discussed with peers in similar roles at different banks. It's about cross-bank sharing of information and experiences to the benefit of all. Chatham House Rule is followed, so anything said at these events is kept confidential and in line with Competition Law.

Our recent topics include client onboarding, GDPR, Brexit, technology and innovation, data management and strategy, managing the gender pay gap, IBOR, and the COO's role in managing operational risk.

Virtual Forums

Our virtual forums encourage more women into senior positions in banking.

Large-scale and cross-bank, each event is sponsored and hosted by a different bank in a different location. At these exclusive events, nominated 'rising female stars' from each bank come together to learn from leading senior females in and out of industry.

An excellent networking opportunity, these events are focused on AVP, VP and junior Director-level females from any banking discipline.

For more information please visit:

armstrongwolfe.com/wcooc

Gwen Wilcox
MD, COO, WCOOC Global Lead

Gwen joined Armstrong Wolfe in 2019. In her role, Gwen leads the Armstrong Wolfe team globally, from Executive Search, Executive Coaching, COO Executive Networks to Women in the COO Community. Gwen spent the early part of her career in the Banking industry as SVP of Strategic Partnerships at Lehman Brothers.

Since 2009, as well as raising a family, Gwen spent the last ten years in the technology and engineering industries as a business transformation lead, building enterprise sales tools and techniques, influencing thought leadership and go-to-market activities in the USA and EMEA.

Miia Lankinen
MD, WCOOC Head & Career Management Asia

Miia is the APAC Practice Head for Armstrong Wolfe's career management service and its Women in the COO Community initiative in Asia. She is based in Singapore. In this role, Miia leverages her corporate experience which she has acquired over multiple business cycles to relate to clients in different career stages and situations.

Miia has 20 years' of experience in the financial services industry, both in the Wholesale Banking business and in Human Resources.

Experienced in professional coaching, talent management and leadership development, Miia is comfortable engaging with clients at all levels, from technical specialists to C-suite leaders. She also brings with her an understanding of competencies needed and the challenges

Julia Bunyatov
MD, WCOOC Head Americas

Julia joined Armstrong Wolfe in 2018 to lead and develop its Women in the COO Community initiative in New York, alongside supporting the Company's executive search and advisory efforts born from its quarterly COO and CCO 1LOD forums.

Julia has had a successful 25-year Financial Services industry career, with leadership roles spanning Equities Trading, Risk Management, and Finance divisions; also holding positions as Global Equities Trading COO at Lehman Brothers, Global COO of Equity & Funds Structured Markets, and Global Head of Derivatives Infrastructure at Barclays Capital.

Julia serves as a Treasurer on the Make-A-Wish Metro-NY chapter Board of Directors, chairing Finance and Audit Committees; as well as Treasurer on the Board of Directors of the International Dyslexia Association, Long Island Branch. Julia has a BS in Finance & Information Systems from NYU Stern School of Business.

Ursula Schliessler
WCOOC Ambassador London

Ursula is a senior financial services professional, who has led global teams across multiple functional areas within asset management.

Ursula was a member of Legg Mason's Executive Committee and the Executive Sponsor of Legg Mason's LGBTQ Employee Resource Group and Legg Mason's Global CSR Network.

Ursula has also held leadership positions with Citibank and Citigroup Asset Management in Distribution and Product Development in a number of countries and was Head of International Product Development and Management for Morgan Stanley Investment Management.

Erica Benjamin
MD, Chief Administrative Officer, BMO and WCOOC Ambassador

Erica Benjamin is a Managing Director and Chief Administrative Officer at BMO Capital Markets. She is responsible for Client Services, Professional Development, Real Estate, Business Operations and Administration. She joined BMO Capital Markets in 2013. In addition, Erica is an active member in the Women's Bond Club, Financial Women's Association, Women in Capital Markets and various internal Employee Resource Groups such as Alliance for Women, Black Professionals Network, and LBGTQ+. Outside of work, Erica holds various board and chair positions within the Girl Scouts of America and Parent Teacher Association organizations.

Prior to joining BMO Capital Markets, Erica was Executive Vice President at Nomura Securities where she was responsible globally for the Client Onboarding and regulatory reform teams. She began her career at Lehman where she held various roles within Operations and Client Data support functions.

Erica received an MBE from New York University and a Bachelor's degree from State University at Stonybrook.

The Impact of Technology on the Continued Evolution of the COO's Mandate

Monel Amin, CEO, DiligenceVault
Tracy Springer, Corporate Counsel, Yield Street
Gordon Grant, Partner, Armstrong Wolfe Partners and WCOOC Ambassador

Technology has been a constant driver in the evolution of the COO mandate, changing not only the way that COO's have approached and performed legacy functions but also through innovating those very functions by creating new platforms and products, generating opportunities, while leveraging business models and analytics.

COVID-19 only accelerated this front with the role of tech quickly becoming a necessity, in addition to being a strategic enabler. This resulted in an emphasis on the existing technologies within processes pushing them deeper into these organizations. The COO is and will continue to be integral in corralling the organization and defining technology solutions to ensure success throughout this period.

Examples of where the COO drove change leveraging technology include:

1. Definition and implementation of surveillance software either an Agile in-house response or acquiring third party vendor solutions.

2. Concerted effort both internal and external to enable automation and digitization. As working from home has increased, banks and other large financial institutions have implemented electronic signature solutions as part of business continuity planning to keep deals flowing.

3. Increased adoption of external technology, due to the availability of integration ready and purpose-built solutions designed to quickly unlock business silos and free data that had once been hidden in multiple in-house systems (as well as in Excel, PDF and shared drives). Our clients have come to adopt DiligenceVault to not only digitize their future, but also to centralize historical data to make it analysable.

4. Application of business modelling and data analytics to real-time staffing needs and response management.

5. Organizational transformation to further integrate technology with line (Agile) to accelerate product delivery, eliminate wasted cycles and to maximise creativity. At DiligenceVault, we have seen adoption across various due diligence verticals where the need for a digital solution was present because of the manual, offline, and document heavy nature of the business process, which has become even more acute with the newfound needs for collaboration;

Scanning the horizon, the COO role mandate will:

1. Continue to drive Agile at scale deployment. Speed with quality are key considerations in a market where consolidations and client mobility are set to rise.

2. Provide visionary leadership for large scale transformation projects which will require further awareness of new tech offerings. As already noted, the COO is integral to the organization and plays a pivotal role in vertical and horizontal process including tech evolution. The COO must understand available technology offerings and ensure the appropriate solution is sourced and implemented.

3. Promote adoption of cloud, e-signature and alternative product offerings; to drive collaboration between teams in a remote-first future.

4. Require direct and clear leadership on cross product business priorities to ensure that the right investment is made, at the right time, in line with the full suite of business objectives inclusive of regulatory needs and operational resiliency.

5. Question whether benefits from legacy IT and operating models have been fully extracted or whether money is being left on the table. A trend observed in implementing DiligenceVault at leading bank platforms, asset management firms, and insurance companies, there's been a significant shift away from the approach of using proprietary technology, when an integration-friendly solution exists which leverages the collective intelligence of the ecosystem.

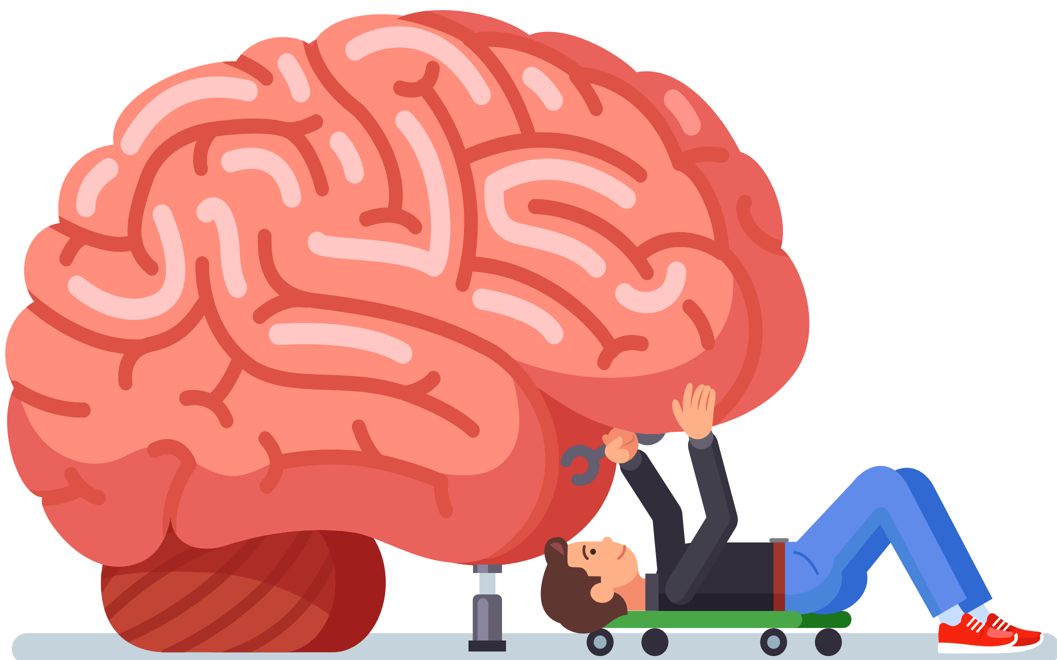
6. Work to ensure the right balance is found between in-office vs. remote vs. vendor / other resourcing models.

7. Ensure that HR and people structures are in place to support talent, leveraging technology plus policy and personal engagement.

8. Strive for increased levels of talent integration and global connectivity - using technology to engineer creative, collaborative workspaces and optimizing the generation of new ideas and solutions on behalf of the firm and the underlying client.

Mental Health Support

Kate Hutchins, Career Coach, Armstrong Wolfe



For the last six months, there has been much focus on the impact of COVID-19 as executives make difficult decisions about restructuring, strategy and budget cuts. With so much attention on the bottom line, the mental health of employees could be overlooked. We talk about it, but when is the last time you checked in—really checked in—with your colleagues?

As we adapt to new ways of working and conducting our interactions, there is concern around how COVID – 19 is disconnecting us further from our human relationships. Former US Surgeon General Vivak Murhty has noted that this could cause a "social recession, with profound consequences for our health, for our productivity in the workplace." Experts have found that social isolation can have a profound effect on people's physical, as well as mental health. Many are now struggling with the impact of working away from their colleagues, they miss the spontaneous conversations that spark ideas and creativity, the social aspects of work that we enjoy as human beings.

Dhruv Khullar, a physician and researcher at Weill Cornell Medicine in New York, said short periods of isolation can quickly cause increased anxiety or depression

"We have evolved to be social creatures. For all the history of humanity, people have been in family structures, people have been in groups, we're evolved to kind of crave and rely on that interaction with other human beings," Khullar said. "So when we don't have that it's a huge void in the way that we go about being human. This is something that has been kind of hard-wired into who we are as beings."

Personal relationships help us cope with stress, research conducted by Julianne Holt-Lunstad, a professor of psychology and neuroscience at Brigham Young University recognises "People who are more socially connected show less inflammation, conversely people who are more isolated and lonely show increased chronic inflammation. Chronic inflammation has been implicated in a variety of chronic diseases," In other words, helping to protect mental health is vital for the maintenance of the physical health of employees and their well being.

In July's newsletter we explored how this provides the opportunity for employers to be viewed as the employer of choice, a way of actively demonstrating empathetic leadership and providing reassurance that employee welfare is at the heart of decision making.

To combat social recession, it's critical for organizational leaders to prioritize the mental health of their employees.

What might this look like in practice?

Requiring daily check-in meetings and virtual happy hours, while well-intentioned, can have the opposite effect, leading to "Zoom fatigue" and employee disengagement, it might not be appropriate for all team members and can actually increase feelings of isolation. Instead of assuming what's best for your employees, ask them what they need and listen to them.

They may need a mental health day, or a regular few hours off each week, or they may just need uninterrupted time to work, without the constant interruptions of technology. They may also benefit from company-sponsored counselling or coaching support to help them through the challenges of the new normal. Help them understand that it's ok to say it's not ok. There might be struggles with children frustrated with home schooling, relationships challenges, or anxiety rooted in caring for other family members or parents isolating with health issues. The opportunity to speak with an independent, impartial coach will help them feel valued and connected.

Employers who maintain a duty of care towards their employees will be the ones to prosper in the long term.

A professional career management coach can help you by providing independent, impartial support to your team members enabling them to

- Talk frankly and confidentially about their concerns
- Identify helpful coping strategies, be it approaching a difficult conversation with a manager or addressing the need for extra support at home
- Establish boundaries between their domestic and working lives.

Ongoing communication and trust are vital to ensuring employee wellbeing and will help in managing the transition back to the office. Behavioural integrity is under scrutiny and ongoing communication and commitment is key. Nothing will change much in the next 18 months but in two years? Leading organisational psychologist John Amaechi predicts Linked in being aflame with excellent employees looking to moe from leadership they can no longer tolerate.

To find out more about the Armstrong Wolfe session details and pricing, please contact:

info@armstrongwolfe.com

Kate Hutchins, Career Coach
Armstrong Wolfe

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The Black Heritage COO Scholarship Scheme

The COO Academy

Providing career opportunities in financial services

The COO Academy (Armstrong Wolfe) Ltd will launch the Black Heritage COO Scholarship Scheme at the end of 2020.
The Scholarship Scheme is an initiative to address the significant under representation of black heritage individuals in the financial services community.

To get involved and for more information **info@armstrongwolfe.com**

GCF BOSNIA
ARMSTRONG WOLFE'S OFFICIAL COO CHARITY

GCFBOSNIA
FOR THE CHILDREN OF GORAŽDE

GCF Bosnia is a UK-based charity founded by Maurice, which is committed to helping rejuvenate the previously war-torn town of Goražde in Bosnia. The charity specifically supports Goražde Primary School and seeks to provide a brighter future for its students.

To date, an English Language teaching centre has been established and the school's previously battle-scarred playground has been refurbished into an all-purpose astro-turf for the children to play sport on. We also regularly send books and educational materials.

Our next project is to build the school its first fully-equipped science classroom and refurbish a further six classrooms which are in dire need of modernisation.

Maurice was previously a captain in The 1st Battalion The Royal Gloucestershire, Berkshire and Wiltshire Regiment (1RGBW) in the Bosnian conflict (1992 - 1995). He set up GCF Bosnia in memory of four of his comrades who were killed whilst on United Nations' duty in the eastern enclave of Goražde.

Your kind donations are vital for the development of the children's academic and personal well-being.

To donate, please visit:
gcfbosnia.org

Updates from Goražde primary school

"There has been two weeks now how we got the warning of Corona virus spreading through our country, and the first patients with the symptoms of the virus appeared in our town.

It was 12th of March when we as employees got the official notice that the teaching process is going to be stopped, in order to avoid the virus. Our students did not have classes on Friday 13th and that continued until Tuesday 17th of March. During that time teacher organized the teaching process following the instructions of the headmistress and our Ministry of Education. From the Wednesday, March 18th , consultative teaching has been established. This type of teaching is being held through Viber and Messenger groups.

We tried to find the easiest and the most understandable way for both students and their parents. Teachers and parents were not prepared for this type of teaching. So, we are still trying to find out the best solution for everybody.
We send reports every day to school management. These reports consist of the materials student get for each subject on daily basis. That is, we follow the school schedule for particular class, and we send the materials for the subjects they have on that day. It functions for now. In addition to the materials, we send the parents' notice, that is, what they think about this type of teaching, and do their children find it hard to understand. We did not have problems so far.

In the beginning, a lot of our students did not have proper equipment for this type of teaching, that is, computers or tablets. And some of them did not have the Internet access. Thanks to our school management and local companies, all of the students now have the proper equipment and the access to Internet. So, they can follow this type of teaching process.

Our school is still closed for children, and we do not know until when it is going to be like that. School management works every day four hours, because they have to make everything possible regarding the process. And they are doing great job every day."

Dženana B

The COO Charity, is providing basic food and essentials to the families affected the most by the pandemic, September 2020

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https://www.gcfbosnia.org/

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