

Conduct, Culture & COVID Webinar

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McKenzie.**

Ted MacDonald (Advisor in Wholesale Bank Supervision) and Olivia Fahy (Lead Associate in the Conduct Specialists Department) from the FCA joined experts from Baker McKenzie to discuss the potential conduct and culture challenges of working in the current and post COVID-19 environments.

Note that observations expressed during the webinar by Mr MacDonald and Ms Fahy reflected only their individual views and not those of the FCA.

Evolution of the 5 Conduct Questions Programme

Launched in 2015 and aimed at wholesale banking firms, the FCA's 5 Conduct Questions programme seeks to help firms identify and manage conduct risks by posing a set of five simple questions on their conduct and culture programmes. This feedback is then reflected back to the industry, providing a useful benchmark.

In 2019, the FCA shifted its approach from CEOs and senior management to the Vice President level. In broadening its engagement, the FCA found that the VP level was particularly engaged and enthusiastic about conduct and behaviour initiatives at their firms and had a genuine desire to translate intentions into practice.

The resulting report, **Messages from the Engine Room**, was

published on 3 September 2020 and introduced an additional element in operationalising conduct and culture change beyond "tone from the top" to also include "tone from within". This approach represents one's individual mindset, preferences, beliefs, habits and predispositions, and is focused not on how senior management or line managers might respond to a particular situation but instead how the individual might respond him or herself. It includes reflecting on how, where and why their instincts might differ from their peers or senior management.

Supervisors across the FCA use the 5 Conduct Questions framework as part of their supervisory toolkit, and the programme has been rolled out in a less formal manner to wholesale markets, including broker-dealers, and asset management. Going forward, the FCA is keen to continue expanding the programme to further sectors and to engage with staff across a wide variety of levels as capacity allows.

The challenges of maintaining a strong culture

Operationalising and embedding good culture is a challenge for firms no matter what the environment or circumstances. One of the biggest challenges can be getting to grips with the nature of culture itself: the concept is amorphous and difficult to elucidate, and as a result the scale of the problem can seem too big to understand.

A key approach for firms to take is to identify the drivers of culture, and break culture change down into building blocks so it becomes accessible and achievable. Firms can achieve this by, for example, identifying a moment or interaction where poor behaviours are occurring, and then changing the mechanics of that moment or interaction. Small steps in this manner can achieve big changes.

Importantly, there is no one size fits all approach to culture and the FCA takes a flexible approach to its interactions with firms on culture change programmes.

The impact of COVID-19 on culture and conduct

The current pandemic environment has seen some stresses in relation to conduct and culture. While firms were very quickly able to make the large scale shift to remote working in a matter of days, the FCA has become aware of some issues particularly around technology failures and conduct controls. There has also been an impact on speak out culture. Although some staff members at firms have found that remote working and virtual meetings have had the effect of flattening the hierarchy and allowing them the space to speak out, there is also concern that opportunities for 'everyday challenge' have evaporated with the loss of informal social contact in the office environment (e.g., water cooler moments).

Additionally, the current arrangements in place were implemented by firms at pace as temporary measures, and may not be fit for purpose as the longer term solutions needed while dispersed working continues to be necessary. COOs will need to have

a comprehensive understanding of the arrangements that have been quickly patched together in order to industrialise those arrangements in a more stable way. The FCA has so far taken a flexible and pragmatic approach to these arrangements; however, if necessary and helpful, the FCA may take a view (whether by guidance or more informal measures).

Importantly, conduct and culture remain priority regulatory focus areas, and there is a danger that industry attention on conduct and culture, especially in smaller firms with more limited resources, could slip backward as the pandemic throws up new difficulties. In such a rapidly changing environment, firms must remember that conduct and culture programmes should be reviewed dynamically with the changing circumstances, and not just periodically.

Thinking beyond COVID-19

It is key that firms understand that maintaining good culture during and after the pandemic will require effort to be put into trying to make it work. For example, while some culture drivers and relationships that were built in pre-pandemic high contact social situations have been maintained, as employee turnover continues the

lack of social contact will require thought and engagement as to building cultures and relationships in a different way.

It is difficult to measure the impact of COVID-19 on organisational culture in the long term, because society has not yet settled into a "new normal". What is clear, however, is that in a dispersed working environment, the "tone from within" approach is increasingly important.

Moving forward and incorporating some of the learnings from the pandemic, firms have begun to think about the purpose and function of an office, and what the office space should be achieving for their employees. Some key themes on the purpose of the office have emerged, including the development of a sense of community, the opportunity for collaboration and learning, and the infrastructure for informal social contact and ideas generation. In rethinking their office arrangements, firms have been considering the balance between individual working space and more collaborate social space; for example, some firms are starting to convert their office space to hub and spoke arrangements allowing staff who live locally to use the office space as a social setting for business.

For more information speak to



Philip Annett
Partner
Financial Services & Regulatory Group
+44 20 7919 1776
philip.annett@bakermckenzie.com



Monica Kurnatowska
Partner
Employment
+44 20 7919 1870
monica.kurnatowska@bakermckenzie.com



Caitlin McErlane
Partner
Financial Services & Regulatory Group
+44 20 7919 1894
caitlin.mcerlane@bakermckenzie.com



Jonathan Peddie
Partner
Dispute Resolution
+44 20 7919 1222
jonathan.peddie@bakermckenzie.com



Mark Simpson
Partner
Financial Services & Regulatory Group
+44 20 7919 1403
mark.simpson@bakermckenzie.com

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