

APCC Culture Working Group Meeting

Wednesday 16th June 2021 – 12:00am

Attendees:

| | |
|-----------------|--------------------------------------|
| Julie Ampadu | Chameleon Compliance – Meeting Chair |
| Roger Miles | 19HC |
| Noreen Hussain | Kroll |
| Anthony Epstein | Business 360 |
| Andy Sutherland | Conduct Culture |
| Filipa Harvey | APCC |
| Ted McDonald | FCA |

Agenda:

1. Recap of our Current Position
2. Review of the Subgroup's progress to date, based on actions from the last meeting
3. Any Other Business
4. Next steps and date of next meeting

1. Recap of our Current Position

The working group discussed a set of actions for the Working Group from the previous meeting: The set of questions has been sent out to the membership and to the FCA via Peter Ewing who provided feedback. These are the basis of the 'Starting the Culture Conversation' Questions, which Roger will be looking to review in the upcoming weeks. He has had his book launch in the meantime. With the other actions, the working group will be holding fire on other things as the FCA has a D&I document that they will be publishing imminently.

Some members of the working group had been discussing the importance of collating a set of questions directed at smaller firms, as most of the current set of questions were geared to larger firms, which will require further discussion at a later point.

The Subgroup consisted of Anthony Epstein and Noreen Hussain. David Sims has been excused due to other commitments for the time being. Anthony & Noreen have been working on a set of questions that were distributed ahead of the meeting.

The discussion then provided some context for Anthony who is a relatively new member of this working group. The scope of the group is to provide a publication on the topic of Culture to give out to the Compliance Consultants that can be used as a resource.

The working group has previously discussed their purpose and has made a point of refocusing on their main objectives. Since the FCA has been clear to Compliance Consultants that Culture needs to remain separate and not become a Compliance exercise, the group must operate with caution and prudence to successfully produce something that can cater to both aspects. Anthony made a remark

with regards to the FCA, he feels it is important that the group is careful about how these questions are presented, to avoid the nuance of it being labeled as organisational culture and loses the conduct focus.

2. Review of the Subgroup's Progress

Anthony discusses the group effort on the questions with Noreen, having taken an initial look at the questions, reviewed them, and linked them to Compliance Culture. They have tailored the questions to be aimed at the senior management level, middle management level and a staff level perspective, for them to ask these questions of themselves in terms of activity and responsibility.

Identifying the key 'killer' questions has allowed them to create a minimum standard, which consists of 25 of the roughly 80 question framework and looking at those questions which can be moulded into a document for smaller firms. Anthony stated that there are around 20,000 very small companies, there are around 6000 companies consisting of 1-2 SMF's, and there are almost 2000 limited liability partner-owned companies, with directors driving the culture.

All of this information lead Anthony and Noreen to consider 3 things:

- The purpose of this document: This is a resource enabling senior management to self-assess their culture, providing an indication of the areas in their firm to improve upon. They do not want to make this a compliance toolkit, but to create an opportunity for a quantitative approach, using the indicators of good culture.
- The 'How' of the document: Utilising the qualitative approach and the quantitative approach to appropriately assess that firms are on the right track. Unless the management of a firm is willing to ask these questions and introspectively check their unconscious bias, many firms are not aware of the issues surrounding these points within their firms.
- The Driver of these questions: Anthony and Noreen have attempted to build in the 5 Conduct questions. The drivers of this were from Compliance expertise, using the framework from the regulator. With this, the questions can now be used to populate and create a summary of the questions under the framework and link them back to 5 Culture questions.

In terms of the document itself, they have made edits to it without removing any of the original content, created tags and identified some areas where there are two questions, and split them up. They have re-worded some of the questions to simplify them or to improve articulation. Some of the questions have been double counted, so they have moved them to another area of the spreadsheet.

The working group provided their feedback, discussing how this is a tool for Compliance Consultants, but an emphasis needs to be made to completely clarify this purpose. Compliance needs to inform this as a starting point, but it is worth considering some other aspects, such as looking for behavioural insight to see how people will respond to being asked these questions, also finding ways of making this a multi-subject matter input. Roger poses the thought of asking for further, interdisciplinary expertise to provide depth and make it less of a Compliance-focused document.

The group discusses Ted's feedback as being extremely valuable to this discussion, but Ted was absent at this point in time.

Roger discusses Ted's comments on the book which he found were helpful: "this is preparation that regulated firms should do, such that it is not a surprise when the regulator asks them these

questions". Roger believes that this comment frames it really well, the Conduct initiative and agenda is about the firms thinking about these things for themselves. It is designed to show that senior management is sentient, that good behaviour is a topic of conversation for them and that they are not taking this discussion in a defensive, personal way.

There is a pivotal global focus to make the financial services industry give a better account of its own behaviour. As an industry, we should be looking for firms to give accounts of exemplary conduct, instead of solely providing account after account of breaches. Putting Culture in the perspective of the positives will have a great impact in the way the industry changes.

Noreen mentions that a number of clients fall into mid-size categories who are very early on in the evolution of this process, currently fixated on the metrics and conduct. They are just starting to discuss culture. Noreen mentions the need to bring them along this journey. She gives an example of a firm that last year monitored their conduct behaviour and are putting in the effort this year to focus on culture, leveraging on last year's work. Culture cannot always be measured accurately, but helping firms to see the bigger picture allows them to shift their mentality into one of evolution; the road of progress.

Roger agrees with this and discusses that this is not a tick box exercise, but a discussion of progress and the rate of progress. The topic comes to the fundamental point that firms need to ask themselves: "have we given this any thought?"

Andy discusses that on this matter, there is a risk in culture that firms want to R.A.G rate or put a dial on these types of exercises for quantifiable results. He uses an example a large GI broking firm which took some positive steps towards building a conduct framework, bringing through culture measures into it and instead of using a 'good', 'better' and 'best' metric, just counted them instead, which was an overall positive experience. Most firms have not measured this long enough to know what the ideal should look like.

The group remarks on the current mentality in the Compliance sector when discussing breaches, as it is a very important aspect of Compliance and seen as a typical compliance-based indicator. It is not in the muscle memory of Compliance Consultants to discuss culture in terms of positives and negatives, which is why it is so important to include other specialists into this debate to provide their outlook.

Julie discusses how she thinks that Compliance is entering a different phase and the urgency is there to educate other Compliance Consultants within the membership about what this is all about. If they are handed a culture document, they must have a knowledge and awareness of what it is. Having an introductory, positioning piece is just as important as the questions themselves. Part of the purpose is to promote the 5 questions and make it 'come alive' for our compliance consultants.

Roger makes the comment that Compliance Consultants generally want to see the evidence that this is being discussed in the firms so that when the regulator, case officer or auditor is in the business they can talk with anyone in the firm and be provided with an intelligent understanding. There is also the hope that these firms see the benefit in having a positive culture, going beyond the product.

The working group discusses the social purpose in relation to culture. One of the tests used around the topic of personal culture is 'The Scrooge Test': if the brand imploded tomorrow, who would care

apart from the staff? Would people be delighted in their demise, or commiserate their loss? Roger remarks that it is a harsh but effective judgement of the value that a company provides outside of the remit of providing a product.

Ted has joined the conversation and is brought up to speed with the discussion so far. He provides some comments regarding separating conduct and culture, referencing Roger's extensive detail on this subject. He surmised Conduct and Culture in the following ways:

Conduct: relating to the risk, risk events, probability of risk events rising and what steps, processes, training and attitude can be developed to address those risks.

Culture: relating to the predisposition of the individual / organisation to respond positively, favourably and appropriately to a problem identified, risk emerging or the requirement to sit and think about where the risks might be coming from.

Ted also mentions that Culture is the healthy disposition to approach conduct risks in a proactive, positive way and to manage them now, not to just raise familiarity about conduct risks. A lot of people are familiar with them now, but there are not so many who know how apply their knowledge to address it and scale it, so instead they 'identify it in the rear-view mirror' rather than 'deal with it in the windshield'.

From these comments, Anthony feels that the work that he and Noreen had put into the questions is pushing them in the right direction that Ted had described.

A positioning piece might be the critical factor in the overall accomplishment of this document; Julie specifies she worries that this document goes out to Compliance Consultants, and they go in the wrong direction with it and firms take it in the wrong way. Julie mentions how Ted has spoken in the past about character being fundamental to the good culture of an organisation.

Ted speaks about changing the nature of the document into something resembling a Venn diagram, with three circles being Conduct Risk, Culture, Character & Behaviours, with the potential to add more if needed, but the document, however it is presented, needs to be part of a cohesive package, supported, driven and managed top down and lived bottom up in a firm.

Within the element of Conduct Risk, there would have a range of processes, policies and training and risk identification efforts, which would allow it to be more than just a checklist that gets ticked off periodically. If it is thought of dynamically, it must have a heartbeat and be supported by a firms' management and Compliance Consultants.

Julie mentions that when this is brought to firms, it needs to be introduced as something new. Firms have had TCF outcomes and Conduct Risks and other things, and they may think of this as more of the same. Julie showed great interest in the suggestion Venn diagram, discussing that would it be valuable to create a piece of guidance for firms about culture and have the conversation as to what it is and how the FCA would like for them to interpret it, as well as something to start their conversations on culture.

Noreen agrees that guidance is needed, it goes back to her earlier point about this process being a journey. Anthony and Noreen discussed the idea of gently encouraging firms along this continuum to more open, qualitative cultural debate and action, and the need for the APCC to have something

similar that can be provided by the Compliance Consultants to their firms to bring it all together. Noreen mentions that things have progressed since TCF and firms need to be made aware and brought up to speed. She mentions that perhaps some smaller firms have forgotten about the reason for SMCR, and that it could have become just another mechanism internally. For firms in this situation, maybe a summary would be useful for them.

Roger comments that it comes down to the purpose of the conduct regulator. He feels that their essential function is threefold: 1 - to ensure an orderly market with consumer protection, a given. 2 - the regulator has an expectation that firms demonstrate that they can think for themselves and finally, 3 - that firms must formally report that the people in charge are cognisant of their responsibilities. Roger feels that the second purpose is most important to Culture, that everyone is thinking for themselves. In a perfect world, every firm would be so well conducted that no one talks about conduct as they are so busy properly conducting themselves. However, these abusive behaviours do creep in, and it is the scope of this document to reveal these things.

Julie discusses that these starting conversations could initially be with the board of directors or sole owners / directors in smaller firms, to which Ted mentions that these discussions need to be had across all levels as well. Very soon, Compliance Consultants will be asking more than “do you have such and such a process?” and instead asking for more detail about what has changed and the thought process behind these changes. This will make firms realise that it is a living, changing topic and they will need to think about how their organisations are building and evolving, it will become a heartbeat and this is what regulators want to see. Ted comments on not only considering what ‘good’ looks like but what it feels like for the individuals of a firm, with Compliance Consultants asking the right kinds of questions to prompt a more personal response, getting some sense of their milestones and providing a completely different level of information.

Action 1: Julie to put together a draft on the positioning piece for the questions.

Action 2: Anthony & Noreen to make sure it all links together with the wider contexts of conduct, culture and social purpose. They are happy to continue with it and get it to the next stage.

Roger states that he will review the latest version of the questions when complete by Noreen and Anthony, as well as he approves of having a compact version for a smaller, 2 partner firm (as an example).

Anthony mentions a thought he has had – if the purpose of the positioning piece might be adequate for these smaller firms, and attaching a few questions onto the end for them to start to think for themselves might suffice. A member of the working group asks if the killer questions work as gateway questions to filter into qualifying or exploring into the main list? Noreen responds that yes, this will work out and they will look further into this.

ACTION 3: Roger to send the questions and regulatory thinking.

AOB: None

Next Meeting: TBC