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The FCA's 5 Conduct Questions: senior managers of all firms required to consider their culture

The FCA recently published a feedback report on its 5 Conduct Questions programme.

Although the 5 Conduct Questions programme (5CQ) has been running for some years, and was originally aimed at wholesale banks and subsequently extended to certain other wholesale firms, the FCA says that its feedback on 5CQ is **now relevant for all firms**.

Therefore, all firms should consider "if and how" they can effectively incorporate 5CQ into their own organisations. Firms should document their conclusions.

WHAT IS 5CQ?

5CQ consists of five questions which the FCA intends to be a coaching tool for firms to help them improve their conduct risk management and, ultimately, drive cultural and mindset change within firms.

The FCA hopes that firms will celebrate and encourage good conduct (such as staff designing new products and services which secure good customer outcomes) and that firms will find themselves rewarded by the market for doing so. They also want firms to weed out poor conduct. In that context, they should consider not just financial misconduct (such as market abuse) but also non-financial misconduct (such as discrimination, bullying or sexual misconduct).

The FCA's feedback report includes guidance and examples of how firms can assess and reflect the principles of 5CQ.

5 CONDUCT QUESTIONS

The five questions are as follows:

1. What proactive steps do you take as a firm to identify the conduct risks inherent within your business?

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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?

WHAT FIRMS NEED TO DO

To date, the only firms which have been asked to address 5CQ are wholesale banks and a small number of other wholesale firms, which are closely relationship-managed by the FCA.

In light of the recent report, the senior management of all other FCA authorised firms could be challenged on the topic. 5CQ is already embedded in the FCA supervisory framework for all firms. The conduct culture of a firm may be a mitigating or exacerbating factor (as relevant) in any enforcement action.

To the extent that they have not done so already, firms should consider the issues and principles raised by 5CQ and consider whether these require changes to be made to their governance arrangements, leadership approach, policies and practices. Firms should ensure that they have recorded their assessments and conclusions.

Given the abstract and cross-cutting nature of the programme, the FCA encourages firms to address the topic at a senior level. To be effective, the FCA suggests the work should be led by the Chief Executive Officer, or otherwise at board level. The FCA is interested in seeing substantive engagement with the issues (for example senior management meeting once or twice to brainstorm and come up with a short list of deliverable actions which are then followed up) as opposed to any tick-the-box exercise. A project responding to 5CQ might see a firm examining its corporate purpose and values as well as defining relevant conduct risks, before deciding whether to undertake additional work to improve conduct.

The link to the FCA's 2019 feedback report is here: [5 Conduct Questions](#).

FOR FURTHER INFORMATION, PLEASE CONTACT

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