



ICSA

INTERNATIONAL COUNCIL of SECURITIES ASSOCIATIONS

3 November 2016

Financial Stability Board Questionnaire for Industry Associations
*Stocktake of Efforts to Strengthen Governance Frameworks to
Mitigate Misconduct Risk*

The International Council of Securities Associations (ICSA) includes five members who received the FSB questionnaire.

ICSA believes that this collective response using the results of our April 2016 member conduct and culture survey may be of further assistance to the FSB.

Questionnaire

<p><i>Name of industry association</i></p>	<p>International Council of Securities Associations (ICSA)</p>
<p><i>Association's mandate</i></p>	<p>Founded in 1988, ICSA is the global organization of securities industry associations.</p> <p>ICSA provides a forum for member associations to understand developments, exchange views, and collaborate to work for better global capital markets.</p> <p>ICSA advocates appropriate regulatory policies, regulations, and initiatives across jurisdictions to promote efficient and well-functioning securities markets and the flow of cross-border capital (www.icsa.global).</p>
<p><i>Composition of membership (e.g. banks, insurers, investment firms, etc.)</i></p>	<p>ICSA consists of 18 member securities industry associations across Asia, Europe, and the Americas. Members receiving the FSB questionnaire directly are marked with an asterisk:</p> <p>Australia Australian Financial Markets Association (AFMA)*</p> <p>Canada Investment Industry Association of Canada (IIAC)*</p> <p>Denmark Danish Securities Dealers Association (DSDA)</p> <p>France Association française des marchés financiers (AMAFI)</p> <p>Germany Bundesverband der Wertpapierfirmen an den deutschen Börsen e.V. (bwf)</p> <p>India Bombay Stock Exchange Brokers' Forum</p> <p>Italy Association of Financial Intermediaries (Assosim)</p> <p>Japan Japan Securities Dealers Association (JSDA)</p> <p>Korea Korea Financial Investment Association (KOFIA)</p>

	<p>Mexico Asociación Mexicana de Instituciones Bursátiles, A.C. (AMIB)</p> <p>Sweden Swedish Securities Dealers Association (SSDA)</p> <p>Taiwan Chinese Taiwan Securities Association (CTSA)</p> <p>Turkey Turkish Capital Markets Association (TCMA)</p> <p>USA Securities Industry and Financial Markets Association (SIFMA)*</p> <p>Europe Association for Financial Markets in Europe (AFME)*</p> <p>International International Capital Market Association (ICMA)*</p> <p>Correspondent Members</p> <p>India Association of National Exchanges Members of India (ANMI)</p> <p>Thailand Association of Thai Securities Companies (ASCO)</p>
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1. Please describe your organisation’s efforts to mitigate misconduct risk in firms and in relation to ensuring high standards of corporate governance across the industry. This could include, for example, your role in representation/co-ordination of members’ engagement in national and international policy development, publication of any industry standards or best practice research, roundtables with members to discuss the root causes of misconduct, or any other initiatives undertaken by your organisation. For each initiative or policy/research document, please complete the table in Annex B.

Response:

(described in ICSA member survey results in the questions that follow)

2. For purposes of this survey, the WGGF has provided some definitions for ‘governance framework’ and ‘misconduct’. If available, please provide the definitions for these terms, as well as for ‘conduct’, used by your organisation. In addition, please describe the three features of a governance framework (building on your definition or the one provided by the WGGF) considered most important by your organisation in mitigating misconduct risk at firms, and explain why.

Response:

<i>Definition</i>	<p>The ICSA member survey focused on conduct and culture.</p> <p>While there is a clear relationship between culture and conduct, we use the term ‘culture’ to refer to “the mechanism that is designed to deliver the values and the behaviours that shape conduct and contribute to creating trust, and a positive reputation for those firms amongst key stakeholders, both internal and external”. In practice, initiatives revolving around statements of values and charters, policies and practices in relation to staff development and promotions, performance management/incentives, accountability and governance and effective three lines of defence are generally considered to fall under the heading of culture.</p> <p>When we use the term ‘conduct’, we refer to the behaviour exhibited by personnel within financial services firms that could more directly cause problems to consumer protection, market integrity and/or competition. Initiatives more directly relating to this will therefore be treated as falling under this definition. Good conduct includes treating the customer fairly, following the spirit as well as the letter of the law. Poor conduct includes not putting the customer first, market abuse, financial crime and the like. Individuals’ conduct is tested by such means as monitoring and surveillance of phone calls, chat, emails as well as staff surveys, exit interviews, whistleblowing etc.</p>
<i>Top 3 features of a governance framework, and please explain why</i>	<p>1. (not in the scope of the member survey)</p> <p>2.</p> <p>3.</p>

3. Has your organisation conducted a survey or gathered information relating to addressing misconduct risks through governance frameworks? If so, please share the key outcomes of that work, its summary and/or the raw input. Please tell us what conditions you might have, if any, for sharing this information with the FSB. In addition, if you have filled out a survey or participated in information gathering in this area, please grant us access to your response(s) and tell us under what conditions we may use it.

Response:

<i>Motivation for the survey/information gathering</i>	<p>Twelve of sixteen ICSA associations responded to an April 2016 member survey on Culture and Conduct.</p> <p>As the immediate challenges of the financial crisis have been addressed by the authorities, there has been an increasing focus on both culture and conduct issues. As such, members were surveyed to share their views on both their initiatives and those underway in their jurisdictions. The survey was designed to establish the degree to which ICSA Members are focusing on culture and conduct issues, and their priorities.</p>
<i>Key findings</i>	<p>Key findings include:</p> <ul style="list-style-type: none"> - Members can readily identify regulators with responsibility for conduct, but less so culture - Members do not believe that initiatives on culture and conduct are likely to reduce capital requirements, but that strong work on conduct could reduce the volume of new legislation - Most members view culture as a top ten issue, but are split on plans increase resources in the area <p>Currently, members focus most on codes of conduct/standard practices and awareness, but plan initiatives on training and qualifications, alignment of incentives, and regulatory references.</p> <p>Going forward, several members expressed the view that ICSA could help develop high level global principles and standards, working with regulators. ICSA would be eager to further develop its dialogue in considering such projects, and ensure coordination of agendas and other initiatives.</p>
<i>Conditions for usage</i>	<p>The FSB may use the survey findings for whatever purpose.</p>

4. Please describe your organisation's approach and strategy to discouraging misconduct at firms through governance frameworks, including any specific initiatives, and outline the reasons for your approach and for undertaking these initiatives, as well as their expected benefits, including:
- (a) policy initiatives (including but not limited to those relating to financial and non-

financial incentives)¹ implemented or planned such as rules, standards, procedures, codes of conduct, oaths etc.

(b) monitoring and review, surveys, reporting, etc.

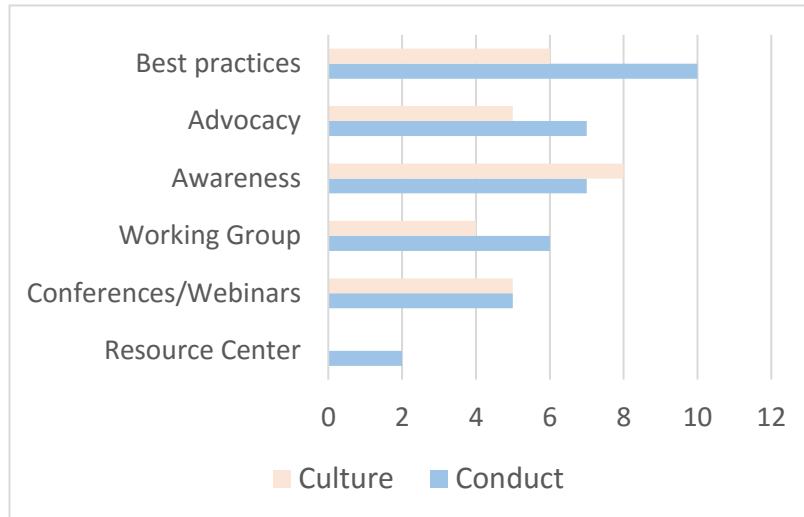
(c) other schemes

Response:

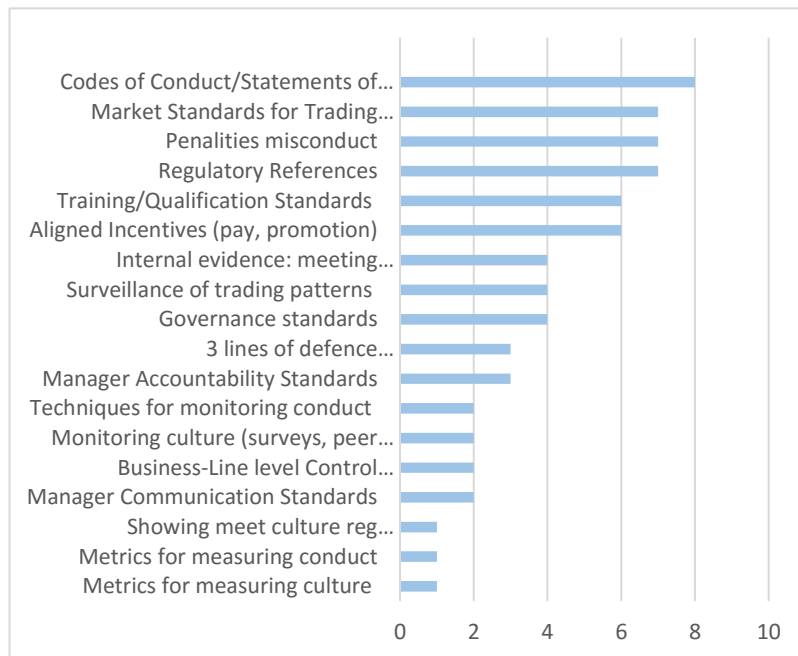
<p><i>Approach/ strategy</i></p>	<p>Member focus varies, with 58% viewing culture as one of their top ten issues. Some not planning to increase resources believe they are already highly engaged. Greater emphasis is placed on conduct over culture.</p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p><u>Priority Rank of Conduct</u></p> <p>(amongst all issues - # members)</p> <table border="1"> <caption>Priority Rank of Conduct</caption> <thead> <tr> <th>Rank</th> <th># members</th> </tr> </thead> <tbody> <tr> <td>Top 3</td> <td>2</td> </tr> <tr> <td>Top 10</td> <td>5</td> </tr> <tr> <td><Top Ten</td> <td>4</td> </tr> <tr> <td>Not on Agenda</td> <td>1</td> </tr> </tbody> </table> </div> <div style="text-align: center;"> <p><u>Have Full- / Part-Time Staff on</u></p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p>Culture?</p> <table border="1"> <caption>Have Full- / Part-Time Staff on Culture?</caption> <thead> <tr> <th>Response</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Yes</td> <td>33%</td> </tr> <tr> <td>No</td> <td>67%</td> </tr> </tbody> </table> </div> <div style="text-align: center;"> <p>Conduct?</p> <table border="1"> <caption>Have Full- / Part-Time Staff on Conduct?</caption> <thead> <tr> <th>Response</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Yes</td> <td>50%</td> </tr> <tr> <td>No</td> <td>50%</td> </tr> </tbody> </table> </div> </div> </div> </div> <div style="text-align: center; margin-top: 20px;"> <p><u>Plans to increase focus</u></p> <table border="1"> <caption>Plans to increase focus</caption> <thead> <tr> <th>Focus Level</th> <th>Culture (# members)</th> <th>Conduct (# members)</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>3</td> <td>2</td> </tr> <tr> <td>2</td> <td>2</td> <td>1</td> </tr> <tr> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td>4</td> <td>2</td> <td>2</td> </tr> <tr> <td>5 (greatest)</td> <td>1</td> <td>2</td> </tr> </tbody> </table> </div>	Rank	# members	Top 3	2	Top 10	5	<Top Ten	4	Not on Agenda	1	Response	Percentage	Yes	33%	No	67%	Response	Percentage	Yes	50%	No	50%	Focus Level	Culture (# members)	Conduct (# members)	1	3	2	2	2	1	3	4	5	4	2	2	5 (greatest)	1	2
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<p><i>(a) Policy initiatives</i></p>	<p>Analysis of member initiatives again demonstrates a stronger focus on conduct. Best practices (codes of conduct, market standards) lead the list of member initiatives. Member exchanges of ideas and information and increasing awareness are also a priority.</p>																																								

¹ Please indicate if you have previously responded to the FSB Compensation Monitoring Contact Group (CMCG) survey on financial incentives, and if so, then please only describe your work on non-financial incentives.

Current number of members with initiatives by type



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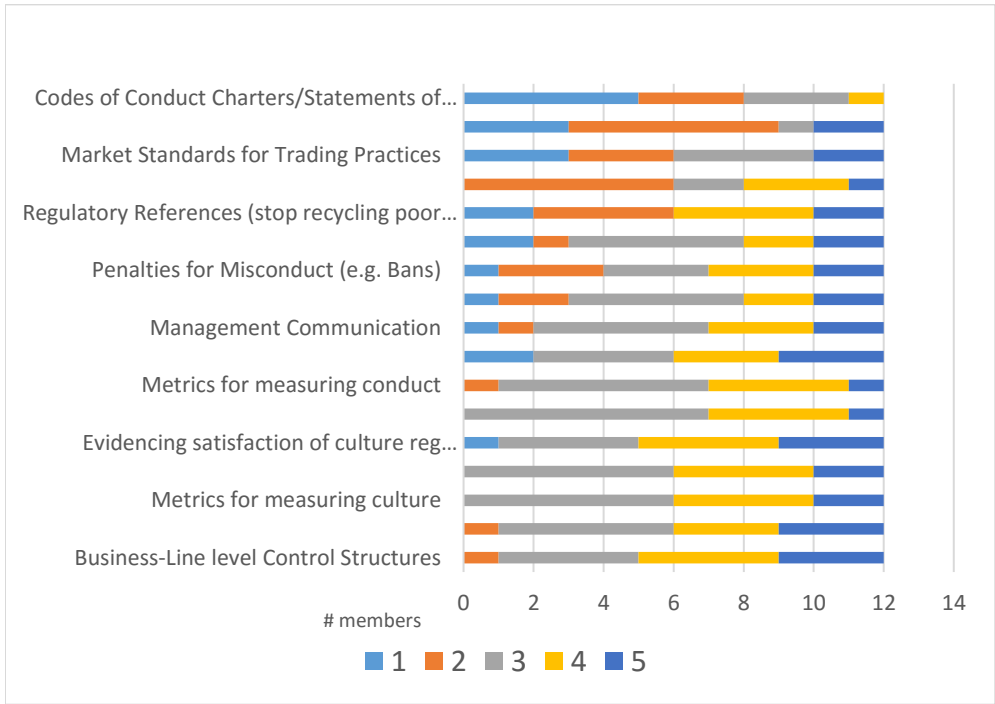


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(b)
Monitoring
and review

Going forward, members indicate increasing focus on training and qualifications, alignment of incentives, and regulatory references.

Member rankings of the Importance of initiatives going forward
(1 = highest importance)



(c) Other
schemes

What initiatives might ICSA undertake?

“Culture is a developing area and as such possible ideas could include: good practice guides, a report on different approaches adopted by firms and literature on the development of metrics or a report setting out how firms are separately approaching metrics. ICSA would have the benefit of being able to adopt a global approach to this area.”

“Potentially to develop high level global guidance on industry practice, especially if regulators adopt initiatives in this area.”

	<p>“We believe it is ICSA's remit to produce statements and tools on those issues but only if those ones are high standards, serious and credible. Those areas are particularly sensitive for the credibility of the industry so any potential ICSA's initiative would need to have ‘teeth’.”</p> <p>“ICSA could periodically conduct information exchanges to examine the similarities and differences on conduct issues among ICSA members as well as to make comparisons between banking and securities industries.”</p> <p>“In general our opinion is that principal based regulation is far better than detailed legislation for reaching the desired culture and conduct.”</p>
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5. Please describe how your organisation’s initiatives to address misconduct risk in firms interact with those of national authorities or of firms.

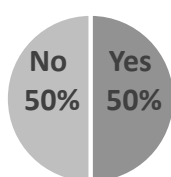
Response:

Members can identify almost universally specific regulators with responsibility for conduct, and published rules and guidance. However, responses are closer to evenly split when members are asked if there are regulators with responsibility for culture.

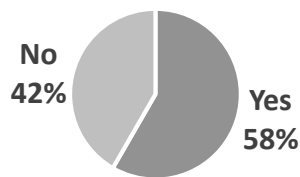
In explaining answers, members note that in some instances regulators have either no formal mandate on culture/conduct, or that responsibility is shared by one or more regulators. However, all report focus on the part of regulators. Most report the publications of codes of conduct and/or best practices.

Culture

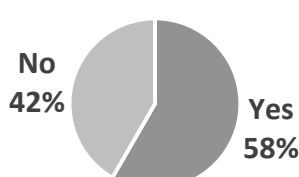
A regional/national regulator specifically responsible?



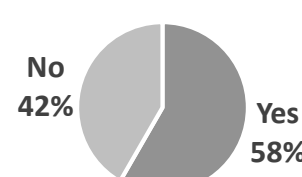
Rules/guidance/publications issued by regulator?



Regional/national private market bodies with some responsibility?

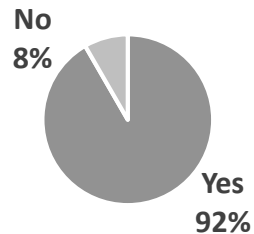


Private bodies issue guidance/publications

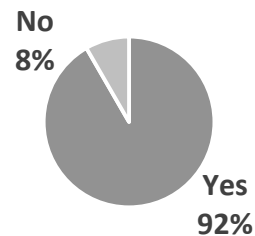


Conduct

A regional/national regulator specifically responsible?

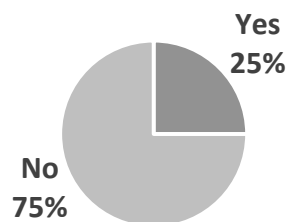


Rules/guidance/publications issued by regulator?



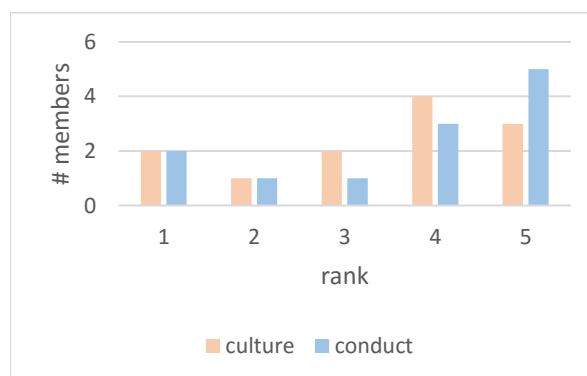
For the most part, members do not believe that strong procedures for embedding good culture reduce operational risk capital requirements or the levying of fines.

Does the regulator take into account a firm's procedures for embedding good culture in assessing capital or levying fines?

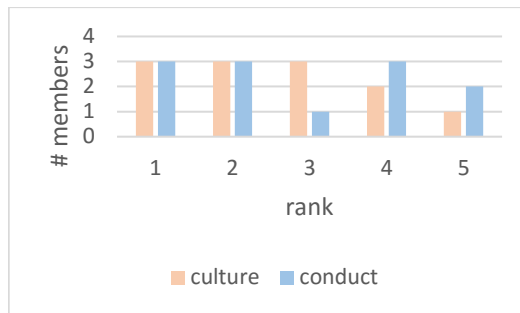


Despite indicating that they do not believe that culture and conduct initiatives reduce regulatory or capital requirements at present, members express the view that good work in the area of conduct could reduce the volume of new regulation.

Do you believe that initiatives can be effective in reducing the volume of new regulation?



Do you believe culture initiatives can be effective in reducing charges (for operational risk) under Capital Requirements rules?



6. What are the top three issues relating to governance frameworks to mitigate misconduct risk at firms that would most benefit from improved international standards or guidance? Why do you think these would be beneficial? In your response, please also consider cases where differences in approach between countries reduce the effectiveness of governance frameworks in mitigating misconduct or lead to increased cost and complexity.

Response:

<i>Top 3 issues that would benefit from improved guidance, and why</i>	1. (not within the scope of the member survey)
	2.
	3.

7. Has your organisation conducted any quantitative or qualitative assessment to measure the impact of misconduct on the financial performance of firms or on the vulnerability of the financial sector in the region your members are based? If so, please mention the main results. Please also elaborate on the methodology which was used for this study.

Response:

<i>Impact assessment on financial performance</i>	<i>Main results:</i> (not within the scope of the member survey)
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	<i>Description of methodology:</i>
<i>Impact assessment on the vulnerability of the financial sector</i>	<i>Main results:</i>
	<i>Description of methodology:</i>

8. In relation to the most significant misconduct events experienced by firms in the last eight years, please summarise what your organisation believes to be the most material root causes of these events. What were some of the lessons learnt? Did your organisation observe that these misconduct events triggered governance framework changes at firms?

Response:

<i>Principal root causes of recent misconduct events</i>	(not within the scope of the member survey)
<i>Misconduct event</i>	
<i>Was the misconduct detected through the governance framework? If so, how?</i>	

<i>Were prevailing policies sufficient to address or deter the misconduct?</i>	
<i>Lessons learnt</i>	
<i>Any reforms in response to the misconduct event</i>	