



# FRAMEWORK FOR INDUSTRY CONDUCT TRAINING

Australian Financial Markets Association  
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# Framework for Industry Conduct Training

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## Professionalism Practice Guide

### PG 01 - FRAMEWORK FOR INDUSTRY CONDUCT TRAINING

#### 1. Purpose of this Practice Guide

The objective of this Practice Guide is to assist participants in Australia's wholesale banking and financial markets to enhance the professionalism of staff through designing and implementing effective conduct employee training programs. AFMA members are encouraged to consider the Guide.

##### 1.1. Scope

The information in this Guide applies to industry participant firms and covers conduct training for their employees involved in wholesale banking and financial markets business, including in the creation, execution or post trade handling of transactions. The guidance should be considered in with the context of the scale and complexity of the firm's business.

This Guide sets out the principles that underpin an effective training program for employees in relation to conduct. The Guide does not directly address the other factors that are relevant to the conduct of a financial markets business in a professional manner (e.g. incentive structures to support professional behaviours).

##### 1.2. Cultivating professionalism in the organisation through its employees

Government and other stakeholders are focussed on the professionalism of those working in financial markets. Professionalism is considered the key to building successful businesses based on public trust and confidence in the fairness and efficiency of financial markets.

Two critical requirements for professionalism in an employee are:

1. *Proficient application of the specialised technical knowledge and skills required to effectively undertake the responsibilities of their job (for example, how to price a bond, use a trading system and knowledge of market regulation); and*
2. *Knowledge of the values and operating policies of their employer, the relevant industry standards/norms and the applicable law and the ability to make the judgments necessary to perform their job responsibilities in accordance with them.*

Professionalism requires attention to both the above critical requirements and, in this context, the integration of conduct-related issues into the delivery of all employee training may in many instances provide efficient and effective learning outcomes for employees.<sup>1</sup>

### 1.3. What is conduct training?

Conduct training is training in ethics and compliance-related topics that is designed to minimise the risk for an organisation of becoming involved in practices that contravene laws, industry standards and organisational values. Hence, the purpose of conduct training is to influence and guide the behaviour of staff.

Research has identified a four-step process that determines whether an individual will act responsibly in a given ethical or compliance dilemma situation. The four steps are:

1. Becoming aware of the ethical or compliance implications of a given situation
2. Making the ethical or compliance judgement
3. Developing intent to respond responsibly to the ethical or compliance dilemma
4. Engaging in ethical and compliant behaviour.

Findings from behavioural research suggest that it is unsafe to assume that individuals will adopt responsible behaviour based solely on having acquired knowledge of regulatory requirements and ethical issues. Instead, training must also strengthen individuals' ethics and compliance judgement and intention if they are to behave responsibly when confronted with an ethical or compliance issue in the workplace.<sup>2</sup>

The market participant should have a clear purpose for any conduct training, and this purpose should be embedded in the learning outcomes. Best practice is to, where possible, assess whether the behavioural learning outcomes of the training course have been achieved. For example, if the learning outcome is to ensure that traders treat confidential information about client orders in compliance with regulatory requirements, then the effectiveness of the training should be assessed using metrics on reporting breaches of requirements protecting the confidentiality of client information.

- **Annex A** provides information on conduct training objectives, methodologies and evaluation. The content is drawn in part from AFMA's experience as developer and trainer for its accreditation business ethics course.
- **Annex B** provides information on topics for conduct training that is pertinent to individuals involved in financial markets, having regard to both the regulatory framework and historical compliance issues.

AFMA Professionalism Practice Guides are not a substitute for official regulation but they may serve as a useful point of reference in the design of related compliance processes.

<sup>1</sup> The FICC Market Standards Board *Statement of Good Practice: Conduct Training* has influenced the approach taken in this Practice Guide in several areas.

<sup>2</sup> Christian Hauser, 'From preaching to behavioral change: fostering ethics and compliance learning in the workplace', *Journal of Business Ethics*, 162, 835–855 (2020).

## 2. Guidance on Conduct Training

Objectives for a financial institution’s conduct training and education of its staff include:

- A **sustainable business model** and **client relationships that support a profitable enterprise**;
- **Employees** who are **proficient in technical knowledge and skills**, and the **ability to make judgments** that exhibit a **commitment to good practice and professionalism**;
- A **business (and industry)** that exhibits **strong professionalism attributes**.

### *Learning Strategy*

1. Each financial institution should have a documented Learning Strategy for its employees that, in addition to other matters, gives specific consideration to their conduct education and training needs.
2. The Learning Strategy should have an objective to develop and maintain the competencies that will support a professional approach to the conduct of the firm’s business in an evolving regulatory and business environment.

### *Governance*

1. The Board of a financial institution has ultimate responsibility for oversight of the management of its resources and associated risks, so the Learning Strategy should be placed within this framework.
2. The operational governance arrangements for the Learning Strategy should include provisions for review and updating of the Strategy and allocate responsibility at the leadership level in business divisions for the appropriate prioritisation and resourcing of implementation.
3. The manager(s) responsible for implementing the Learning Strategy should have the authority required to ensure it is implemented effectively and clearly allocate ownership of critical tasks.
4. The stakeholders in the firm, including business lines, compliance, legal and risk management, should have a role in the design and implementation of the learning program.
5. Participation in conduct education and training programs should form part of staff ‘business as usual’ activities and be considered in the ongoing assessment of employees and their manager.<sup>3</sup>

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<sup>3</sup> For example, employment contracts for new employees and performance assessment for existing staff may contain commitments and key performance indicators, respectively, pertaining to the objectives of the strategy.

### Learning Strategy Features

1. The Learning Strategy should deliver a risk-based learning program that is appropriate to the firm, taking account of its business model, product range, geographic presence, scale and complexity.
2. The firm's Learning Strategy should incorporate a learning plan or arrangements for each substantial business division or enterprise within its business.
3. The Learning Strategy should be designed to enable staff to gain, and then maintain, a working knowledge of the firm's values and a professional approach to the conduct of business.<sup>4</sup>
4. The Learning Strategy should confirm individual employee's own independent responsibility and personal motivation, including career progression, to participate in learning programs and support employees through the provision of a firm level framework for conduct training.
5. The Learning Strategy should give specific consideration to the firm's regulatory compliance obligations and the mechanisms to meet them.<sup>5</sup>

### Delivery

1. The content of a Learning Strategy program should distinguish between different categories of staff positions and reflect the specific character of the conduct risk present in each position. Staff positions that present the most conduct risk should be given the highest priority and attention.
2. The Learning Strategy program should take account of the relative business and management experience and responsibilities of employees, as well as relevant prior learning.
3. The education process should serve the learning objectives, including by explaining:
  - The firm's values, codes and policies in a manner that can be reliably acted on by its employees;
  - The escalation process to deal with uncertainty about the ethical response to an issue.<sup>6</sup>
4. The firm's conduct education and training for staff may be conducted internally, or by using an external program, or some combination of both.
5. The learning program should build awareness of industry standards pertinent to the firm's business and incorporate information on their content and proper application into the learning process.
6. Consideration should be given to the integration of conduct-related issues into the delivery of general employee competency training programs.

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<sup>4</sup> Annex A provides summary information on training methodologies and evaluation techniques that could be considered.

<sup>5</sup> Annex B provides suggested topics for conduct training.

<sup>6</sup> For example, face-to-face workshops, use of realistic case studies, experiential learning and other methods required to meet the learning objective.

7. The firm should consider industry accreditation programs as a means to support staff competency and promote knowledge and observance of industry regulation and conduct standards.

#### Review

1. The effectiveness of the Learning Strategy (and its substantive sub-components) should be reviewed periodically to ensure it is being implemented properly, its priorities remain appropriate, areas of improvement are being identified and it is achieving its objectives.
2. Firms should develop measures (e.g. by survey, collection of statistics) against which the effectiveness of the Learning Strategy can be assessed by reference to the firm's values and culture, regulatory compliance and professional behaviour.<sup>7</sup>
3. In evaluating the effectiveness of the Learning Strategy, particular regard should be given to recent conduct breaches and 'near misses', both as an aid to assessing the current strategy and for potential guidance on how it should be revised.
4. The review of the Learning Strategy should identify any performance gaps that may exist and also any potential improvements to its design and means of delivery.

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<sup>7</sup> Evidence should be sought that employees have received suitable conduct training, have understood it, and continue to understand it on an ongoing basis. For example, one indicator might be consistent application of the firm's policies by employees.

## Annex A: Training objectives, methodologies and evaluation

The table below summarises appropriate training methodologies and evaluation techniques for the four categories of training objectives, i.e. awareness, making ethical and compliance judgements, developing intent to respond responsibly to the ethical or compliance dilemma, and engaging in ethical and compliant behaviour. This information is provided for illustrative purposes and it may assist firms in the design and implementation of training programs, and the evaluation of training offered by third party providers.

<b>Training objective</b>	<b>Awareness</b> <i>Awareness of ethical and compliance norms</i> <ul style="list-style-type: none"> <li><i>Raising awareness of ethical and legal issues staff may be confronted with in day-to-day business operations<sup>1</sup></i></li> <li><i>Informing staff of regulatory requirements, compliance policies and ethical norms</i></li> <li><i>Inhouse tools and processes for dealing with ethical and compliance issues</i></li> </ul>	<b>Judgements</b> <i>Making ethical and compliance judgements</i> <ul style="list-style-type: none"> <li><i>Fostering ethical and compliance judgement</i></li> <li><i>Using ethical decision-making models</i></li> <li><i>Recognising ethical and compliance dilemmas</i></li> <li><i>Identify and select appropriate courses of action</i></li> <li><i>Consider consequences of courses of action</i></li> </ul>	<b>Intentions</b> <i>Developing ethics and compliance intentions</i> <ul style="list-style-type: none"> <li><i>Create a portfolio of responsible courses of action</i></li> <li><i>Rehearse to act on responsible courses of action</i></li> <li><i>Reflect critically upon one's decision making</i></li> <li><i>Reflect critically upon the impact of decisions on oneself, the organisation and society</i></li> </ul>	<b>Behaviours</b> <i>Engaging in ethical and compliant behaviour</i> <ul style="list-style-type: none"> <li><i>Act responsibly under pressure</i></li> <li><i>Learn from mistakes</i></li> <li><i>Reflect critically on one's behaviour</i></li> </ul>
<b>Training methodologies</b>	<b>Content oriented (knowledge transfer)</b> <ul style="list-style-type: none"> <li>Face-to face lecture</li> <li>Online training</li> <li>Training videos</li> <li>Textbooks</li> </ul>	<b>Learning oriented, with the trainer as a guide</b> <ul style="list-style-type: none"> <li>Group discussions</li> <li>Case study analysis</li> </ul>	<b>Learning oriented, with the trainer as a guide and coach</b> <ul style="list-style-type: none"> <li>Role play</li> <li>Computer simulations</li> <li>Developing scripts to deal with dilemmas, both real life and scenario-based</li> </ul>	<b>Practice oriented, with trainer as a coach</b> <ul style="list-style-type: none"> <li>Individual coaching on particular ethical of compliance related dilemmas employee is confronting in the workplace</li> </ul>

<p><b>Evaluating training effectiveness</b></p>	<ul style="list-style-type: none"> <li>• Pre and post testing</li> </ul>	<ul style="list-style-type: none"> <li>• Pre and post testing</li> <li>• Reporting by staff of ethical or compliance issues</li> <li>• Willingness of staff to report bad news</li> </ul>	<ul style="list-style-type: none"> <li>• Incidences of illegal/unethical behaviour</li> <li>• Willingness of staff to report bad news<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Incidences of illegal/unethical behaviour</li> <li>• Review of responses to market events</li> </ul>
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**Comments**

<sup>1</sup>Although awareness training is typically delivered across all parts of the organisation, it is important that it is contextualised for the group to whom it is delivered, as staff in different parts of the organisation may have to deal with different ethical and compliance challenges. A focus should be on how to apply regulation and high-level policies on confidentiality, conflicts of interest etc. to the day-to-day activities of staff.

<sup>2</sup>Evaluation should address whether the behavioural learning outcomes for the training have been achieved.

## Annex B: Suggested topics for conduct training

This annex lists a selection of possible topics for conduct training – it is not intended to be exhaustive.

When developing conduct training, it is important to bear in mind that if any training is to be effective, it must address specific needs of participants. Needs can be determined in numerous ways, including:

- Asking the participants;
- Asking line managers;
- Asking compliance and risk managers;
- Testing the participants;
- Reviewing AFMA commentary and activities concerning market professionalism; and
- Reviewing regulator commentary and observations on conduct and compliance.

Participants, line managers and other managers can be interviewed or, alternatively, be asked to complete a survey.

Once needs have been determined, then learning outcomes must be written. Learning outcomes should articulate:

- Any changes in behaviour to be accomplished; and
- The knowledge, skills and attitudes necessary in order to achieve the desired behaviours.

### Regulatory framework

Regulatory compliance covers the relevant laws, policies and regulations for financial markets and financial services and protect the reputation of the financial services profession and relevant providers. As much as possible, the training should be contextualised for the specific audience, and focus on how to apply the regulation, industry standards and codes in the workplace.

- **Legislation:**
  - *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*
  - *Competition and Consumer Act 2010*
  - *Corporations Act 2001 - Section 961 (Best Interest Duty)*
  - *Privacy Act 1988*
- **Organisational policies and procedures:**
  - Diversity and inclusion in the workplace
  - Documented risk management systems/processes
  - Information Security Management (Cyber Security)
  - Responsible manager obligations

- **Relevant industry codes and standards:**
  - AFMA Market Conventions and Conduct Standards
  - FX Global Code
  - FICC Markets Standards Board Standards

### Behavioural issues for trading and client sales

- Collusion and information sharing
- Improper order handling
- Price manipulation
- Inside information
- Misleading customers
- Circular trading
- Reference price influences
- Trade mark-ups charged to clients
- Last look
- Handling confidential client order information
- Staff personal trading

### Professionalism and ethics

Professionalism and ethics cover the skills, values and principles to ensure business is conducted in a way that serves the broader community interest in having financial markets that are stable, trusted and efficient.

- Proactive risk management and compliance
- Ethical decision making
- Giving voice to values
- Managing ethical dilemmas
- Overcoming biases and stereotypes
- Building trust and legitimacy
- Accountability and ownership
- Managing risk