



**INTEGRITY  
AT WORK**  
IN FINANCIAL SERVICES

A PRACTICAL GUIDE TO TRUST AND INTEGRITY DILEMMAS





CHARTERED INSTITUTE FOR  
SECURITIES & INVESTMENT

INTEGRITY AT WORK

IN FINANCIAL SERVICES

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# INTRODUCTION

During my tenure as Lord Mayor of the City of London, I have been very fortunate to travel to every part of the United Kingdom, as well as some 30 countries around the world, in order to represent the City and to make people aware of the attractions of the City, both as a place to do business and as an unparalleled source of skills and services, embracing all aspects of financial services.

What is heartening is that in discussions about financial services, when on my travels, the City and its practitioners still enjoy the highest level of respect for their skill, diligence and probity. Organisations such as the CISI and its members are a key driver in ensuring that this reputation is both earned and deserved.

Perhaps this is surprising when one considers the continuing flow of stories about wrongdoing in banking, which we had all expected would have diminished by now. I prefer to think that it is a recognition that the problems are, in the main, the action of a few bad apples and that the financial services industry as a whole has not been irredeemably contaminated by them. I hope we are at an inflection point and the hard work the Institute has put in will bear fruit.

When considering how the positive reputation of our industry has been earned over many generations and what we have to do to maintain it, the theme of professionalism is a central tenet and with professionalism comes conduct: how we behave. Accordingly, the dilemmas featured in this latest edition of “Integrity at Work in Financial Services”, through their helpful and thought-provoking real-life examples, provide a valuable stimulus to how we might think and react when faced with challenging situations.

Since the publication of *Integrity at Work in Financial Services 4*, and following the probing by the Parliamentary Commission on Banking Standards as to whether banking is a profession, we have seen the establishment of the Banking Standards Board which is examining ways of improving standards in banking; “professionalism” is accepted as being a significant ingredient in achieving this.

As I wrote in 2013, as members of a professional body we regard ourselves as professionals in terms of our standards of knowledge, skills and behaviour; our conduct. This book provides an excellent means of helping us to ensure that we continue to live up to those ideals.

**Alan Yarrow, Chartered FCSI (Hon), Chairman  
Chartered Institute for Securities & Investment**

# ACKNOWLEDGEMENTS

Thanks are due to all those who have provided the material on which the dilemmas in this book are based, together with the members of the CISI's Integrity & Ethics Committee, who have reviewed the dilemmas and proposed responses.

We have offered a view on the correct course of action in the situations illustrated, but do not claim that ours is the only solution, or necessarily the best, since readers may choose a different approach, based upon their perception of the situation. However, whatever, or whichever course of action you decide to take, the fact that you have thought about the matter sufficiently to consider the issues more widely, contributes to the raising of standards.

# FOREWORD

As the CISI publishes its fifth edition of *Integrity at Work in Financial Services* it is a good time to pause and reflect on the changes since publication of the first edition in May 2007. Indeed, at that time the Global Financial Crisis was still to come. On 9 August 2007 BNP Paribas froze three of their funds, indicating that they had no way of valuing the complex assets inside them, known as collateralised debt obligations, or packages of sub-prime loans. They were the first major bank to acknowledge the risk of exposure to the sub-prime mortgage markets and, as Adam Applegarth, Northern Rock's chief executive, later said, "it was the day the world changed".

The markets stumbled on until 15 September 2008 when, heavily exposed to the sub-prime mortgage market, the American bank Lehman Brothers filed for bankruptcy, prompting a sustained period of worldwide financial turmoil, leading to widespread public distrust of bankers.

At the time panic over-ruled any thoughts about how had this happened, but it wasn't long before questions were being asked and, germane to the work of this publication, and others, the behaviour of those working in the markets was found to be wanting. The issue of poor behaviour though, as has been shown in subsequent scandals in more recent years, such as industry wide mis-selling of PPI, the rigging of LIBOR and the Forex market, continued. The public rightly asked "do they not get it?" as the taxpayer held majority shareholdings in two large UK banks.

Trust, and "my word is my bond", long the mantra of the City, had seemingly flown the coop and those working in financial services were accused of being in it only for themselves and their wallets. Whilst this was good media, it was, of course, a gross exaggeration. The majority, of competent, qualified, well-intentioned and well-behaved individuals working in the market did and continue to do business in the right way, to meet the needs of their customers and clients.

With the subsequent realignment of the City regulators, conduct is now centre stage. Organisations have been looking to their values, embracing the meaning that the key words "what it means to work here" sum up and which help them make day-to-day decisions, as they face dilemmas in their business dealings. The first question has now moved from "*is it legal?*" to "*is this right?*"

Alongside this is the encouragement to Speak Up if anyone sees something not right, or if they are unsure on what to do and the CISI has introduced a valuable programme to provide guidance on this. It is important that firms empower their staff in this respect as the consequences of further widespread poor practice coming to the surface will do irreparable harm, both to the City and the firm concerned.

Every one working in the City is on notice, and will remain so for many years to come, as memories are long and a return to "business as usual" is not acceptable.

However I believe that there is a brighter dawn, as firms have embraced the need for change, and the benefits it brings. The most positive is the creation of a culture based on openness, embracing a dialogue on the ethical issues firms face, which is why this publication is so important. It can help firms discuss with staff the dilemmas in the industry, the grey areas and work out how they should be dealt with. Doing this without the real-time glare of publicity is a useful learning opportunity.

So the picture is different in 2015 from 2007 and is actually more positive as business in the City is now transacted more openly, based on better behavior, which gives rise to better outcomes for all.

**Philippa Foster Back CBE, Director,  
Institute of Business Ethics**

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# ETHICS AND THE CITY: HOW WILL WE KNOW THAT THE BANKING INDUSTRY HAS REFORMED ITSELF?

Jane Fuller, July 2015

## INTRODUCTION

The CISI's Integrity at Work in Financial Services series dates back to 2007, the year the financial crisis broke, so it is not surprising that each of the introductory essays has dealt with public concern about conduct at banks. My CSFI colleague, David Lascelles, in the first essay, noted such criticisms as greed, short-termism, bonuses and "the hard sell". Two years later, the City was truly "in the doghouse".

By 2011, the great re-regulation was under way and the bills had started to mount for mis-selling, notably of payment protection insurance (PPI). It looked as though things could not get any worse, but they did. The Libor scandal – the rigging of a benchmark number – put a final nail in the coffin of the industry's reputation.

It is arguable that 2012 – when bankers were being grilled by politicians – was the nadir, but that did not herald a recovery. As Anthony Salz predicted in his 2013 review of Barclays' business practices, improvements instigated by new managements might uncover more "historic conduct" issues. Coupled with a regulatory focus on enforcement, this has indeed happened. According to the CCP Research Foundation, the total cost of fines and other penalties borne by large banks globally from 2010 to 2014 exceeded \$300bn.

This begs the question: how will we know the industry has reformed itself? To try to answer it, this essay pulls together the views of ten experts on culture and incentives, business model, regulatory action and boards and management.

Most of the interviewees have seen no recovery yet in banks' reputation. One or two lights have, however, appeared at the end of the tunnel. The first is that fines by the Financial Conduct Authority (FCA) fell in 2014-15, as did complaints investigated by the Financial Ombudsman Service – the first drop since 2006-07.

Perhaps most important was the change of tone by George Osborne, Chancellor of the Exchequer, at the Mansion House in June 2015, when he declared "a new settlement" for the industry. A month later Martin Wheatley resigned as chief executive of the FCA after being told his contract would not be renewed. The Financial Times linked this to the Chancellor's speech, suggesting that his "tough approach to regulating the sector was no longer appreciated".

## CULTURE AND INCENTIVES

### **Has a service culture been rebuilt at banks?**

This is important since an emphasis on sales targets – with related cash incentives – was definitely part of the problem. Most of the interviewees thought progress had been made, with retail ahead of wholesale. One summed it up this way: “There has been progress – partly due to actions taken by the FCA to ban commission-driven sales at the retail level and a reduction in cross-selling of complex investment banking products to retail clients. By contrast, dealings with institutional clients retain the ‘buyer beware’ approach.”

Yet, as Dame Colette Bowe, chairman of the Banking Standards Board, said in a speech to IOSCO in June 2015, the challenge for boards is to move from “tone at the top” to “action in the middle”. One interviewee said: “There is a nagging doubt that no matter how well you train staff and do surveys, they say: ‘what they (management) really want to know is did I sell more of it?’”

It is easier to improve service with products such as current accounts and credit card payments that are demand led. With those that are actively sold, one said: “There’s much more concern to do it in an open and transparent manner.”

Some scepticism remains about turning words into deeds. “There has been a tremendous amount of talk from leaders of banks...but behaviour does not fit in and the next minute you find some awful thing has just happened. To think things are improving is a heroic assumption.”

The constraints of tight risk management and new regulation may be inhibiting staff in dealing with customers. “One of the difficulties [when you are running risks] is that it tends to be very regimented and that gets in the way of friendly service.”

### **Is there still pressure for short-term performance, via sales commissions or profit targets?**

The perception that pursuit of sales and profit targets is a priority is difficult to change. “Unofficial targets die slowly even when you change the official targets”, or, as another put it: “People at a certain level in the organisation feel pressure to protect the P&L.”

The positive view is: “There’s a realisation that banks need to reposition and produce an earnings stream that is more durable, based on customer service.” The question remains, however, as to what would be a sustainable target for the much-watched return on equity metric (ROE). One said: “People are no longer persuading themselves they can make 17% RoE.” Would something less than a number in the teens do?

What are the alternatives? One said customer satisfaction and customer retention should be the only targets. Another pointed out that you can overdo the message about being careful who you sell to. “There’s so much emphasis on avoiding mis-selling, or money laundering, and knowing your customer, that a good day is closing four accounts and declining ten requests for one.”

**Have incentives (pay/bonuses) been changed enough to ensure that the customer's interest is put first?**

The mix of answers to this question suggests not enough has been done. The main steps forward have been to remove sales-related cash bonuses; to make incentives more share-based and subject to deferral and clawback; and to introduce gates related to conduct and service levels. For instance: "The first gate is integrity and values in terms of the way they treat customers and colleagues; without that they don't even qualify for any incentive pay."

Customer views are taken into account through "net promoter scores" on loyalty and willingness to recommend the bank. Increasingly performance is appraised on a "balanced scorecard", taking into account "conduct, citizenship, colleagues".

An underlying concern is that executive pay levels remain high. "One of the reasons this [culture] is ultimately going to change is that the amount of money people get paid in banking, particularly investment banking, is going to get squeezed down." Another said that it was difficult to get "a leopard to change its spots" – the type of person attracted to investment banking "is incredibly competitive and personally ambitious".

In aggregate the pay issue is measured by the cost:income ratio, with banks "fighting to get the ratio under 50%," as one put it. He added that banks "could be tougher about a whole lot of people." Another interviewee explained the reluctance to cut pay in this way: "The first mover will get the most damage in investment banking" because some valuable people would leave. However, "some we don't care about, they are mercenaries".

**Is banking becoming more like a profession?**

The majority answered no to this question. Definitions matter. One said: "Professions usually require three things: 1) minimum educational standards, certification, continuing education; 2) a code of conduct punishable by decertification; and 3) putting the clients' interests ahead of those of the firm. On that definition banking is clearly not a profession."

"Some building blocks" were being put in place through renewed attention to qualifications and new rules on personal accountability. The creation of the Banking Standards Board and the "revival" of the Chartered Banker Institute were mentioned as part of this, as was the Fair and Effective Markets Review, published in June 2015 by HM Treasury, the Bank of England and the FCA. The extension of rules on fair conduct to the fixed income, currency and commodity markets is an important departure from the view that these activities are "peer-to-peer with big and ugly other institutions".

However, reform is far from simple because "within a bank you have all sorts of professions". And the act of taking risks, fundamental to banking, is bound to lead to some bad outcomes. "When it comes to taking risks, there are so many shades of grey that the idea that you could be struck off needs a lot of thinking through." Perhaps the best that can be hoped for is that the industry becomes "more professionalised".

## BUSINESS MODEL

### **Has product design improved so that it is less easy to mis-sell to unsophisticated customers?**

Most thought there had been an improvement in product design, but few were wholehearted about it. A couple commented that progress had been driven by regulators: “The regulator is putting pressure on to segment the customer base and make sure the product is appropriate.”

A positive view was that banks had started to take a “holistic view”, including looking for outliers in terms, conditions, price and profitability. “What’s my return on equity? 15-20%? If it’s 85%, do I need to push ‘pause’ and think ‘is there something else I’m delivering that means the simple metric is incomplete?’”

Another interviewee described how board committees were now looking at products and asking about the customer impact. He suggested that diversity had helped. “When a proposal is made to the board, the female members will ask first how it will impact the customer and then talk about profitability. Men talk about profitability first.”

Better disclosure is another theme. With packaged bank accounts, for instance, banks now check that customers remain eligible for different elements. But a few interviewees remained nervous about the sale of packaged or complex products. An overall view was that the simpler the product, the better. But one interviewee pointed out that sometimes “when you looked at [simple products] they were anything but”.

A key point is that “not only do customers find it easy to understand, but the sales people do too”. The emphasis on risk reduction has led many banks to withdraw from giving advice to the mass of customers. “That could be to the detriment of the customer (through an advice gap)”.

### **Are there still cross-subsidies between products or services that may create a risk of mis-selling?**

The short answer to this question was yes. The majority mentioned free-if-in-credit bank accounts as an example on the retail side. “How do you charge fairly for a bank account service? It feels like there is some cross-subsidy from other areas of the business.”

Others pointed to the wholesale side: “The FCA is doing a big inquiry into investment and corporate banking and there must be a high degree of cross-subsidy there, such as loans at wafer-thin margins in expectation of treasury, hedging, M&A advisory work.” Another said: “I don’t think any bank uses loans as a loss leader, but they do less remunerative business in order to get more remunerative business.”

Efforts to reduce the risk include removing the “extreme disparity” between the profitability of different products, as happened with mortgages and PPI. “Since PPI we have tried to identify and eliminate as many cross-subsidies as we can.”

Some pointed out that cross-subsidy did not necessarily lead to mis-selling, but was more of a business model issue. "if you are running something as an aggregate, there is a massive issue around cost allocation...you tend to run it as one and end up with some products subsidising others."

The complexity of this issue came through in references to the social role of banks. One interviewee said that with PPI, "everyone knew it was a cross-subsidy...then society decided it was not OK". Today, the basic bank account – something the government has forced banks to do – is "very cross-subsidised but socially supported".

In summary: "It requires a more sophisticated understanding at board level of the profit drivers and conduct implications, as well as the regulator thinking about how to police that."

### **Is the link between sales and sustainable profits better understood?**

Nearly all the interviewees said yes to this. The clear point is: "If all the profits go in penalties with interest, it's not a good sale." Others said: "It's better understood that you build sustainable profits by having satisfied customers" and that "profits are connected to managing conduct risk".

Similarly, but without crediting banks for instigating it, one respondent said "Probably yes, because of the fines and the regulatory pressure, so people understand that if you just go out with something superficially attractive or profitable, but not a great deal for the customer, it's likely to come back to bite you."

The difficulty lies in understanding the relationship with the customer. One said most banks were "quite confused" about whether they were in a commodity business or a relationship business. Another observed that bad behaviour was often linked to commoditised activities. "Economic theory would suggest there should be no abnormal returns from those areas and yet they (eg, foreign exchange trading) are producing a lot of profit and it's only years after the event that you discover how."

What if banks really want to put customers first at all times? "If client relationships were now key, remuneration should be based on developing long-term client relationships." Another said: "At what stage does a wholesale bank say to the client 'stop doing that, you have enough of this stuff'?"

Reforms to bonus structures are meant to focus attention on the ultimate outcome for both clients and the bank. But how long is long-term? One said ten-year deferrals would be better than three. Another recalled being told: "Any fool can make a lot of money for one year or even three; the trick is to make a decent profit over a long period of time."

## REGULATORY ACTION

### **Have high-profile exposure of wrongdoing and the big increase in penalties/compensation acted as a deterrent?**

Most said yes. "It reminds people that there's a cost to bad behaviour." Or, as another put it, the "exposure has got the attention of management, board and staff, who fear for their jobs; and the shareholders who bear the costs".

A doubter pointed to the lack of senior people who had "personally paid for the wrongdoing on [their] watch". Several mentioned that a few prison sentences would have had a greater impact on individual conduct. "It will only take one or two people to go to jail and there will be a thousand conversations saying 'don't come home and tell me you're going away for five years.'"

Limits to the deterrent effect of fines were described like this: "a) penalties are borne by the shareholder rather than the individual and b) there is something wrong with a structure in which the penalties seem to be fixed by capacity to pay rather than by the nature of the crime." There was a common view that the fines were arbitrary and some were cynical about political motives: "The concern now is...that politicians are funding various worthy activities from fines levied on banks."

A more subtle point was that the regulator was forgetting its duty to ensure that society has confidence in the financial system. "They are whacking people with large amounts for bad things done in the past but they are undermining confidence in the future."

### **Are financial penalties the best way to tackle ethical breaches?**

The view came across strongly that personal accountability was much more important. "Penalties should be levied on or paid by the perpetrators and their negligent supervisors and not by the shareholders." The problem has been accentuated by pressure on banks to retain earnings. "It's unhelpful because banks have to rebuild their capital position and they are being whacked with enormous financial penalties and it's a shareholder issue."

If personal accountability is the key, are law-makers/regulators taking the right approach to improving it through a) the new crime of reckless misconduct in the management of a bank; and b) the Senior Managers' Regime (SMR)?

Apart from support for the worst offenders being jailed, there was also a call for more "naming and shaming and firing" of those who commit ethical breaches. The public's desire for retribution had not disappeared. One said: "It still puzzles people why those in charge at the time of the crisis were not held to account." Another pointed to the internal message: "Those doing a good job would welcome punishment of wrong-doers."

The SMR, created by the Prudential Regulation Authority (PRA), and the FCA, was broadly welcomed. "I particularly approve of the requirement to have a hard-wired organogram whereby there is individual responsibility for specific products." While acknowledging that this was causing some nervousness within banks, another said: "It provides a framework to show that you are doing your job."

As for the crime of reckless misconduct in the management of a bank, which could lead to a jail term, some suggested it sounded good politically but would be hard to prove. After all, “a spectacular mistake is not criminal”.

Whatever the new rules, enforcement is key: “I am highly sceptical that the final rules will be sufficiently stringent or, if so, enforced. If the authorities were serious they would have used the powers they already possess.”

Some mentioned the risk that the threat of punitive action might deter people from joining bank boards as non-executive directors. If they did join, they might be “primarily concerned with protecting themselves, so they will be cautious in what they do”.

So, is it time for regulators to shift their stance? One interviewee said: “The regulators are beginning to ask themselves a philosophical question: are we there to punish or to improve standards? They have to have the means to punish but the Fair and Effective Markets Review, Banking Standards Board, FCA and PRA are all raising standards too.”

## BOARDS AND MANAGEMENT

### **Have the board and senior management got better at knowing what is happening down through the organisation?**

Most answered yes, but without much enthusiasm. “I think they have because they have seen what’s happened to peers who didn’t have a clue what was going on and how they have been humiliated.”

The perceived difficulty of the task in a large, complex organisation led to some scepticism. One said: “People leading banks have been out there saying culture has changed and now, two or three years on, we know it has not.” He added: “They would be better employed, rather than standing out at the front bleating about cultural values, if they spent time in-house talking to the people.”

The additional effort is visible. Most boards have committees dealing with risk and reputation. Non-executive directors (NEDs) are devoting more time to the job. “The new board members are very hands on, much more so than twenty or even five years ago.”

But boards and management are under pressure, notably “to strengthen the capital base and produce a sustainable P&L”. This pressure can be passed down the line via targets. If these are too difficult to execute, it can “lead to bad behaviour because people are in an impossible situation”.

One response has been to change the focus in recruitment towards “the right behaviour rather than the aggressive alpha male; [towards] empathy, social skills, knowledge of social purpose, rather than ‘I’ll make you a lot of money’”.

A common view was that it was too early to tell whether banks were fixing themselves from top to bottom.

### **Are staff more willing to “blow the whistle” on wrongdoing within their firm?**

Several said that staff should first be encouraged to report wrong-doing internally rather than blow the whistle to a regulator. One interviewee described bank workshops dealing with this issue: “Snitching is not supposed to be nice, but you have to have the threat that a colleague could talk about what you are doing wrong.” Another referred to training sessions where it was made “much clearer when to escalate within the organisation”.

Hotlines have also been installed to an independent party if there is reluctance to report a behavioural problem to a line manager. Once a complaint is made, “someone senior has to investigate and someone in Human Resources (HR) needs to know and protect the whistleblower, especially from fellow workers, who are either complicit or have sat there for years doing nothing about it”.

At least one bank has a committee, chaired by a NED, that looks at whistle blowing “and to what extent a whistleblower’s career, compared with expectations, has been harmed”.

### **Are investors applying pressure to deliver sustainable profitability and to mind the firm’s reputation?**

At best, investors are credited with some additional engagement with boards and with remaining patient. “The better ones recognise that the industry is in transition and if it comes out in the right place, the profits will be lower but less volatile.” At worst, “they have been the dogs that didn’t bark all the way through”.

Investors have also given mixed messages. “They are still pressing for short-term results and they don’t want the financial penalties – the best of both worlds.” Another said the quarterly reporting cycle directed attention towards short-term results, even when long-term sustainability was ostensibly being sought. “They may have expectations that people struggle with.”

Some investor questions remain unanswered, such as “what is the sustainable RoE for a bank and when do we get there?...It’s a moving target while waves of mis-selling costs have been coming through. Is it 10% or 15%?”

Perhaps a more awkward issue is whether the cost of being global is prohibitive. “There are no longer economies of scale; massive costs to each country and business; capital trapped to meet regulatory ratios locally.” Another said: “Some are too big to manage.”

The answers may not be straightforward. “Sometimes sales may be falling because we are eliminating things with a higher risk of bad consequences. It’s easy to find demand as a bank, but in five years’ time you don’t get your money back.” And investors may not be calling the tune: “Boards are beleaguered and more interested in getting the press and government off their backs.”

## CONCLUSION

### **When will we know it's over? Have the reforms helped to restore trust in the industry?**

The range of timeframes from those who hazarded a guess was 2016 to ten years' time. One expected that by the end of next year fines and litigation would either be petering out (PPI) or at least known, including the (huge) US Federal Housing Finance Agency's fine of RBS and any compensation for mis-selling packaged bank accounts in the UK. Another reckoned it would be when bad behaviour stops being "a headline thing – five to ten years".

There were plenty of suggestions as to what to look out for: when the customer feels they are getting a fair deal; when the media move on; when RoEs get to an acceptable level of, say, 10% in a low inflation environment; when there isn't a spate of accidents; when banks are boring again.

Some suggested evidence would be found by measuring customer satisfaction and through polls on trust and confidence. One suggested an intriguing metric: "Where a bank could say 'sales have increased by X% and, according to our customer information systems, 80% were unprompted.'"

A couple mentioned pay levels, which they did not think had fallen enough. "One of the key things will be restoring pay levels in financial services to be more consistent with those elsewhere in the economy."

The attitude of the regulator is important, which puts the focus on Martin Wheatley's successor at the FCA. One said that regulators and policymakers needed to have the courage to express confidence in the leadership of banks. "It's insulting to say 'if I'm not watching, you will misbehave.'"

Analysis from the new Banking Standards Board, which is supported by several banks but governed independently, might provide a helpful commentary on progress. But it is too early to see a change in the flow of information. "The evidence will build over two to three years, incident-free of bad behaviour."

On restoring trust, it clearly has to be earned from customers – and the public has to get over doubts about whether justice has been done. In other words, it is too early to say. The change of tone in the Chancellor's Mansion House speech perhaps provides the best piece of evidence that we will come to regard the summer of 2015 as the inflection point.

Whilst there is no magic bullet to restore trust and there are a number of areas where the industry is striving to persuade the public that it really has changed, the 14 year prison sentence handed down to Tom Hayes for his role in the LIBOR fixing affair should help concentrate the mind of anyone considering engaging in any activity which might contain even a hint of dishonesty.

*Jane Fuller is co-director of the Centre for the Study of Financial Innovation*

## INTERVIEWEES

### **Philip Augar**

Author; independent non-executive, KPMG; former non-executive director, TSB.

### **Sir Win Bischoff**

Chairman, Financial Reporting Council; Chairman, JP Morgan Securities; former Chairman, Lloyds Banking Group.

### **Douglas Flint**

Group Chairman, HSBC Holdings; Chairman, Institute of International Finance.

### **Mark Hoban**

Chairman, Flood Re; former financial secretary to the Treasury and MP for Fareham.

### **Robert Jenkins**

Adjunct professor of finance, London Business School; former member Financial Policy Committee, Bank of England.

### **Sir Richard Lambert**

Former Director General of the CBI, former Editor of the FT, led the Banking Standards Review; Chancellor, Warwick University.

### **Michael Roemer**

Group head of compliance, Barclays; former chief auditor, CIT Group.

### **Carol Sergeant**

Non-executive director, Danske Bank and Secure Trust Bank; Chair, Public Concern at Work.

### **Lindsay Tomlinson**

Non-executive director, Legal & General Investment Management, formerly at BlackRock and Barclays Global Investors.

### **Mike Trippitt**

Independent consultant; previously Director, equity research, banks, Numis Securities, and head of research at Oriel Securities.



# CASE STUDIES

1-6

MIXED MESSAGES

CENTRAL CASTING

PERSONAL FAVOURS

PUSHING THE ENVELOPE

ON EXPENSES

PILE OF PROBLEMS







Greg's older cousin, Bill, has been working at the firm for several years, in a different unit from that to which Greg has applied and is a valued employee. He has kept in regular touch with Greg, and other colleagues, both by email from his account at the firm and more recently via Facebook, which he has only recently started to use.

On more than one occasion, Bill has communicated, via Facebook, with Greg and a small circle of friends and colleagues, expressing frustration with senior management of the firm, in a negative manner. Bill did not realise that Sam, who is friendly with Bill's supervisor, Howard, is among the recipients of these communications. Sam felt strongly that Bill's messages were inappropriate and did not reflect well upon the firm, especially among potential recruits. Greg has also responded to Bill's messages with some dismay, wondering whether the firm is right for him. Accordingly, Sam felt obliged to report the nature of these messages to Howard and to the firm's human resources department.

In the meantime, Greg has spent a number of days going through a rigorous selection process and was pleased that he has been offered a job, in a different unit to Bill's, subject to satisfactory references and confirmation of his academic achievements.

The firm's recently instituted social media policy states that: "excessive use of company email for non-business purposes could result in limitations on the use of email by the individuals concerned." It further states that: "negative comments made publicly by an employee about the firm, whether in written, oral or electronic form, could result in disciplinary action being taken against the employee."

Having been informed of the content of Bill's negative messages, the human resources department contacted not only Howard, but also Pandora, who was about to confirm the job offer with Greg, whose references and academic achievements were exemplary. They also examined Bill's company emails and discovered numerous examples of internal and external communications, which were more of a social than a business nature. There were also some messages that were critical of the firm.

## THE DILEMMA

The next day, Howard asked Bill into his office to discuss the matter. Bill was taken aback. He admitted occasional use of company email for purposes that were not strictly corporate, but claimed this was by no means excessive; and he said that his critical comments of the firm were not indicative of his actual sentiments, but were delivered jokingly and, in retrospect, foolishly. He maintained that the Facebook communications were a private dialogue between him and a few close friends and did not contravene company policy in terms of any public derogatory remarks. He sought to minimise any potential damage that might have been done to the firm as a result of these remarks, saying that Greg seemed keen to join the firm. Bill expressed deep regret at what may have been perceived as malice or sarcasm in his Facebook communications, which like his emails were delivered in a tongue-in-cheek spirit. Howard listened, then reinforced the firm's policy with Bill, ending the meeting inconclusively.

Immediately following this conversation, Bill telephoned Greg outside of the office to seek further information on what the firm may have seen on Facebook and warned him that this could negatively impact them both. He also wondered whether it was within the firm's rights to delve into his personal communications.

## POSSIBLE OPTIONS

Both Howard and Pandora were uncertain about what to do next, with regard to Bill and Greg. On the one hand, Bill has appeared to act improperly in his use of the firm's email to make critical remarks about the firm, as well as sending quite a few messages of a non-business nature.

On the other hand, these appear to be relatively isolated instances on the part of an otherwise valued employee. More problematic, however, is the consideration of the external Facebook communication with Greg and a few others, which could be viewed as a private conversation, albeit electronically recorded.

Pandora also has to consider how this may affect Greg, who is poised to join the firm and is not in apparent contravention of policy. The firm must act fairly with regard to Bill and Greg and be seen to do by the outside world. This is particularly important as the social media policy has only just been instigated and this will be an initial test of it.

These thoughts led to Howard and Pandora considering four possible options:

- Bill should be let off with a warning and Greg should be hired, with reinforcement to both of them of the firm's policies.
- Disciplinary action should be taken against Bill (which could include termination of his employment) and Greg's recruitment should be terminated.
- Greg should be hired as planned, but Bill's employment should be terminated for his conduct.
- They feel unable to deal with it and decide to refer the matter to the compliance and legal department.

## RECOMMENDED OPTION

Bill should be let off with a warning and Greg should be hired and the importance of adherence to the firm's policies should be stressed to both of them.

Given that the firm's policy is still relatively new and untested and the private nature of the communication, this response is softer than is likely to be the case as the policy becomes more established.

## QUICK READ SUMMARY

### WHAT IS UNETHICAL?

In this instance, there are ethical considerations involved on both sides of the situation.

Posting unsubstantiated critical comments about your employer and, by implication, your colleagues, may be considered of dubious integrity.

At the same time, the firm, having only recently introduced a new policy governing such activities, has to respond proportionately and, in particular, must treat all those involved in an appropriate and proportionate manner.

### KEY POINTS SUMMARY

An established member of staff and a new recruit, who is about to start work, have breached a company's newly introduced social media policy, by sharing critical comments about the firm.

### ADVERSE CONSEQUENCES

Having introduced a new policy to guide staff in their social media activities, which may relate to their employer, the employer should react to initial breaches in a restrained manner, in order to avoid exacerbating the situation.

Staff must appreciate that social media is not as private as they might wish and negative postings about their employer may become public knowledge, leading to action being taken against them.

### OPTIMUM APPROACH

A restrained approach by the firm to the perpetrators is appropriate, with a reminder to staff of the significance of the policy and the potentially adverse consequences of breaching it.

### CISI CODE OF CONDUCT IMPACT

- Principle 2. To act with integrity in fulfilling the responsibilities of your appointment...
- Principle 8. To strive to observe the highest personal and professional standards at all times.

## CENTRAL CASTING

**Should a new recruit at an asset management firm allow his moral beliefs to influence his recommendation of an investment in a firm whose activities conflict with these beliefs?**



### BACKGROUND

John Tyndale is a young and recent recruit to asset management firm, Fleece Street. He grew up in a very devout family and considered becoming a priest before entering the world of finance. He joined Fleece Street, having been assured that he could help to make a difference to the firm's philosophy, which has been fairly traditional in its wide range of investments, but now has aspirations, John was told, to focus more on socially responsible funds, which shun enterprises seen to be socially damaging, such as alcohol and tobacco. Currently the firm's funds are invested in such assets, along with gambling enterprises and suppliers to arms manufacturers.

John researches and recommends suitable client investments for the firm's retail funds. This involves preparing presentations, compiling forecasts and spreadsheets and researching potential new clients, products and services. While the firm does not market any of its funds specifically as socially responsible investments, it does promote its reputation for maintaining a high standard of integrity in its investment practice, which was another attraction to John.

John's unit has a good track record, but recently the firm has been selective about new investments and the unit is under pressure to meet annual performance targets.

Accordingly, John and his colleagues are intensively researching client requests, under the supervision of senior managers, in an effort to meet unit targets, while allocating the firm's resources effectively.

John's manager, Nigel, enthusiastically recommends a potential bond investment, which he sees as very promising in yield and performance. Nigel, who recently met representatives of the issuers of the bond at a media conference, asks John to do further research on the company, Castingcouch, which John duly does.

He discovers, to his dismay, that one of the company's main (and most profitable) income streams stems from the distribution of adult films, produced by small independent companies. Castingcouch has been distributing this content to large and small hotel chains, for the entertainment of guests and has achieved a strong financial profile. Despite the attractive yield on the company's bonds, John has deep personal reservations about offering this investment to clients, believing that the core business of the company, while not illegal, is not the sort that either he or the firm would wish to cultivate from either a reputational or an ethical viewpoint.

John meets Nigel to discuss his findings and, although he accepts the good financial profile and track record of Castingcouch, he expresses concerns about its business. Nigel listens and is surprised at what he calls John's "naivety". Nigel sees nothing wrong with the Castingcouch investment and is thrilled at the prospect of being able to offer clients a bond with attractive yield, which will help the unit to meet its annual targets.

John tries to discuss the investment further with Nigel, asking him whether he believes that senior management will be pleased to have this company in the portfolio, especially if the media should find out. John sees this business as harmful, exploitative and socially irresponsible. He suggests that retail clients will object to this investment if they become aware of the type of business in which Castingcouch engages. Nigel responds by asking whether John would have the firm exclude a tobacco company or alcoholic drinks producer, in which the firm is already invested and, if not, why does he have reservations about this investment? What is the difference? Some of Fleece Street's most remunerative investments are in tobacco and alcohol, not to mention suppliers to arms manufacturers, as well as extractive, petroleum and chemical industries.

## THE DILEMMA

John knows this all too well, as much of his due diligence has been conducted investigating the impact of potential lawsuits and other complaints on new and existing company investments, ranging from class actions on treatment of employees to environmental damage claims. Nigel reminds John that there is nothing explicit in Fleece Street's investment policy to preclude Castingcouch from the portfolio, saying that John should view it simply as another entertainment company, distributing films no worse than those regularly released by the Hollywood majors, whose bonds and stock the firm also owns. John believes this is a bridge too far, noting that companies such as Time Warner have also come under fire from shareholders, objecting to an involvement in businesses which they regard as questionable.

The conversation ends with Nigel instructing John to write up the investment for review by the firm's investment committee and telling him to focus on the merits of the bond's yield and relative safety. He adds that, as the committee meets very soon, there is no time to re-visit the proposal, even if he was minded to do so, which he isn't. John accedes, but is nagged by doubt. He wonders whether he did the right thing in joining Fleece Street, now that Nigel has intimated that his analysis is expected to be "objective" and that he should keep his personal principles to himself. John prepares an analysis of the Castingcouch bond, featuring the relatively strong financials of the company, including its good cash flow, driven by a core business which has proved stable and even grown, over the years. He covers the dynamics of the core business in a somewhat superficial fashion, but leaving no doubt as to its actual nature. In his final recommendation he is torn between his own convictions and the pressure from Nigel and other colleagues.

The following Tuesday, the investment committee is meeting to review new proposals and John's analysis has been submitted. John and Nigel meet beforehand to discuss strategy for the meeting and Nigel remains a fervent supporter of Castingcouch, saying that he will extol its merits, emphasising the attractive yield, the good financial profile and track record of the company and the terms of the bond. He can compare it with other entertainment companies in which the firm has invested. He makes it clear that he expects John to support his view.

John, as preparer of the analysis, is likely to be asked explicitly for his recommendation and has already expressed his discomfort with the investment, which he views as inappropriate on ethical grounds, for Fleece Street's client base. It is certainly not something that he would consider for his personal portfolio. He also thinks it could taint Fleece Street's reputation. Nevertheless he considers the options that he believes that he has.

## POSSIBLE OPTIONS

- He could endorse the position of his manager and support the inclusion of Castingcouch in the firm's fund, based on its attractive yield and acceptable risk. By doing so, he is serving the best interests of the firm and its clients, in providing a competitive fund return.
- He could recommend to the committee that the investment be rejected outright on moral grounds, based on his own views and potential impact on the firm. If this creates difficulties with his manager or the firm, he may feel obliged to leave his employer.
- He could express his concerns to the committee about the appropriateness of this investment for Fleece Street and its clients, given the nature of Castingcouch's activities and the potential repercussions for the firm, without mentioning his personal views.
- He could privately approach the chair of the investment committee beforehand and ask to be excused from this exercise, as he recognises a conflict of interest between his personal views and his obligations to the firm.

### RECOMMENDED OPTION

John has valid concerns about the nature of the investment and how appropriate it is for Fleece's portfolio. He should make the committee aware of these, but on an objective basis, without allowing his personal views to intrude. To the extent that the committee share his views he will be able reassure himself that he has not been asked to do anything which conflicts with his personal beliefs.

### QUICK READ SUMMARY

#### WHAT IS UNETHICAL?

It would be unethical for John to put forward a partial view, whether based on his manager's opinion that all that matters is the financial performance of the investment or John's personal conviction that the investment should be avoided on moral grounds.

#### KEY POINTS SUMMARY

John researches investment opportunities for Fleece Street, an investment firm which is seeking to engage in more socially responsible activities. He researches Castingcouch, a firm with a sound financial track record, but whose activities conflict with John's personal beliefs.

John's business unit needs to make further investments to meet its performance targets and his manager tells John that, in his presentation to the investment committee, he must concentrate on the financial performance and not say anything about Castingcouch's wider activities, even if they may conflict with Fleece Street's social responsibility mandate.

#### ADVERSE CONSEQUENCES

Failure by John to alert the Fleece Street investment committee to activities undertaken by Castingcouch, which conflict with Fleece's social responsibility mandate, would be seriously embarrassing for the firm.

Conversely, concentration solely on the negative aspects of Castingcouch's activities is likely to result in John coming into conflict with his manager, as he has specifically been told not to do this.

#### OPTIMUM APPROACH

John should make the committee fully aware of both the positive aspects of the proposed investment and the possible negative consequences.

#### CISI CODE OF CONDUCT IMPACT

- Principle 2. To act with integrity in fulfilling the responsibilities of your appointment...
- Principle 5. To be alert to and manage fairly and effectively and to the best of your ability any relevant conflict of interest.
- Principle 8. To strive to observe the highest personal and professional standards at all times.

## PERSONAL FAVOURS

**A bank's non-executive director may have coerced an employee into providing off-the-record services for his own firm's benefit.**



### BACKGROUND

Fiona Reet is a director of Newclea, a private bank, employing over 250 people in various departments, including Jessica Adams, a highly regarded senior manager, who often works late, generally leaving well after her colleagues. When Fiona has checked that she is not under too much pressure, Jessica has cheerfully replied that she is just catching up and that all is fine.

Fiona has a great deal of professional respect for Jessica, as she has been with the bank for over 10 years and always makes a good impression on clients. Newclea has received more positive comments about her than about anyone else in the team.

After a board meeting, one of the non-executive directors, Michael Synthetic, asks to see Fiona privately.

Michael has been a director of Newclea for five years and a few months ago moved jobs to run a large finance company, LargeS, which specialises in providing point-of-sale finance for a group of consumer electronics stores.

LargeS has a reputation for providing fast service, financing expensive items at the top end of the retail market. Fiona is aware that some of Newclea's customers have financial dealings with LargeS.

Michael is uncharacteristically nervous, telling Fiona that he wants to formalise a private arrangement he has with Newclea. Seeing Fiona's concerned look, he quickly reassures her that it is a relatively small matter.

He explains that a few years ago, when he was working with his old firm, Acorns, a similar business to LargeS, they experienced delays in obtaining answers to routine status enquiries on the creditworthiness of Newclea's customers. Although Acorns had all the necessary authorisations signed by the mutual customers, the delay in receiving replies from Newclea, for which Acorns had paid a fee, meant that it was unable to complete the necessary credit checks in time and lost business as a result. Michael had raised this matter following a board meeting and understood that the chairman had asked Jessica Adams to resolve the problem.

Michael said that Jessica was so helpful that he wrote to the chairman praising her.

Some weeks later further delays arose in Acorns' credit check process with Newclea and Michael contacted Jessica. She was very helpful, explaining that she had been on holiday and offering to act as Acorns' point of contact, saying that he could rely on her to oversee the status enquiries.

Michael said that this was exactly the service which he felt he should have been receiving as a customer, irrespective of his being a director of the bank.

Michael explained to Fiona that he then arranged for his colleague Wendy, to be Acorns' point of contact with Jessica and his direct involvement ceased. Before leaving Acorns he became aware that Jessica and Wendy had struck up a friendship and were corresponding frequently, with Jessica almost always replying to Wendy's emails at the end of the day.

LargeS's requirement for status enquiries is significantly greater than Acorns' and Michael wants to negotiate a discounted rate for the express status enquiries service. He is also keen that the private arrangement between Wendy and Jessica should be formalised.

## THE DILEMMA

Concerned at Michael's revelations, Fiona asks Jessica about the arrangement. Jessica says that she has been helping Acorns for a couple of years, since being asked to do so by the chairman. When Fiona expresses surprise that the chairman made this request, Jessica admitted that he hadn't actually asked her specifically to provide Acorns with special arrangements, but that she had decided herself "to go the extra mile" to provide exemplary service to them.

Jessica said that, as a result of the initial problems with Acorns' status enquiries, she had built up a relationship with Wendy, which she then felt obliged to continue. She and Wendy met for lunch a few times and, as she felt more comfortable, she willingly continued with the arrangement. Jessica said that she knew Michael had left Acorns a few months ago and she hadn't spoken to or emailed him since the original problem occurred.

Becoming increasingly concerned at what she is hearing, Fiona asks Jessica to explain the exact arrangement with Wendy. Jessica tells her that typically she receives an email request entitled "Asset Allocation" to which she replies. Fiona asks to see an example but Jessica says that she always deletes both the inward email and the reply, on the grounds of client confidentiality. She is uncharacteristically quiet when asked why the emails are headed with such a misleading title.

Finally, Fiona asks whether Jessica appreciates that the income lost to the bank would have been more than sufficient to pay her salary, at which point which Jessica bursts into tears, saying that she was only following the chairman's instruction and that she was trying to be helpful to an important customer and non-executive director. She adds that she didn't receive any gifts or money from Michael, Wendy or Acorns, only an occasional and not very special lunch. In return, she frequently stayed late to deal with the volume of status enquiries.

## POSSIBLE OPTIONS

Fiona tells Jessica that she will consider what she has heard and discuss the matter with senior colleagues, before taking any action. She then reviews what she feels are the most appropriate responses to Jessica's actions.

- Respond sympathetically to Jessica, since she was clearly coerced by Michael, taking advantage of his position, but pursue Michael and Acorns.
- Dismiss Jessica and seek financial restitution from Acorns and Michael.
- Dismiss Jessica and involve the police.
- Allow Jessica to resign and sever the connection with Michael, but take no external action since it will be bad for the firm's reputation. Amend the firm's procedures.

## RECOMMENDED OPTION

Although there may be a natural feeling that Jessica has been taken advantage of, rather than seeking to act in a dishonest manner, it should be recognised that what has occurred is fraud, in that one party (the bank) has suffered a large loss of income, to the benefit of another party (Acorns). Consequently the most appropriate course of action is to dismiss Jessica and involve the police.

## QUICK READ SUMMARY

### WHAT IS UNETHICAL?

Jessica's behaviour, although understandable, became unethical when she sought to disguise what she was doing; this shows that she clearly had concerns about its probity.

If Michael was aware that the service given to Acorns was beyond that provided to other customers of Newclea, based solely on his connection as a non-executive director, he was also acting unethically.

### KEY POINTS SUMMARY

A non-executive director of your business reveals that his former employer has been receiving a possibly unapproved financial benefit from your firm. Investigation reveals the problem to be serious, although there is no apparent financial or other benefit to the member of staff concerned. Nevertheless, the loss of income is significant.

### ADVERSE CONSEQUENCES

The adverse consequences for Newclea of this arrangement continuing is an increasing financial loss. Jessica appears to be aware that what she is doing is wrong and must have been under increasing pressure lest she was found out. That could, in turn, have led to further such arrangements being entered into and for some tangible reward. Acorn appears to have suspected that what was happening was not above board and failing to disclose it to Newclea will damage their reputation.

### OPTIMUM APPROACH

Treat the matter as the fraud that it is and seek to recover any lost income from Acorn. Personal feelings towards long-serving colleagues should not be allowed to override what, in other industries, would be regarded as a significant crime.

### CISI CODE OF CONTACT IMPACT

- Principle 1. To act honestly and fairly...
- Principle 2. To act with integrity...
- Principle 3. To observe applicable law...
- Principle 8. To strive to observe the highest personal and professional standards.

## PUSHING THE ENVELOPE

**A trainer receives a cash gift for her contribution to a training conference. Should she accept the gift and should she tell her employer?**



### BACKGROUND

Sami is an experienced trainer for a well-known organisation and regularly hosts training sessions in London, which include delegates from overseas. As a result, she is invited to represent her firm and speak at a training conference, being hosted in the desirable location of Arcadia by Helix, a professional body representing the engineering industry.

Helix will pay for all flights, transfers and accommodation during the three days that she will be in Arcadia at the conference. Her manager agrees that it is an excellent opportunity for both her and the firm and that she should go. Sami also obtains agreement that she can add on two days' leave and so spend a week in Arcadia. She will be accompanied by her partner, Jan. The couple will pay the cost of the extra flights and hotel expenses connected with her extended stay.

Sami and Jan enjoy a relaxing few days before the start of the conference. This goes well; audience reaction to Sami's presentation is so positive that she is asked to contribute to a panel discussion, in place of a speaker who, at the last minute, is unable to attend.

The conference closes and Sami and Jan are checking out of their hotel, when Sami is approached by Vern, chief executive of Helix, who hands her an envelope saying: "This is a personal thank you, in recognition of your contribution" adding, with a knowing look at Jan: "I know that you have had extra expenses and we want you to think well of us."

Sami thanks Vern, and then she and Jan depart.

On the way to the airport, Sami opens the envelope and finds five \$100 bills and a note from Vern saying: "Thank you so much for making our conference a success; I look forward to working with you again." Sami is very surprised at this gesture and uncertain how she should respond.

Jan does not share Sami's hesitation, saying that the money is a personal gift from Vern to Sami and there is no reason why she should not keep and use it to cover their holiday expenses. They reach the airport and further discussion is halted, while they enter the terminal building. There they encounter a long line of passengers waiting to check in for their flight, which has been delayed by three hours.

### THE DILEMMA

At the prospect of a long delay, Sami's initial thought that she cannot keep the money and should return it to Vern begins to weaken. Perhaps she could use it to buy an upgrade to business class for herself and Jan. After all, company policy would have allowed business class travel if she was travelling alone. Upgrading now can be justified by using "her" \$500 to pay for Jan. The company cannot complain, as it is not being asked to pay any additional expense.

As she is wrestling with this dilemma Sami notices that Mervin, a fellow speaker, is noisily negotiating an upgrade to business class and she can see him waving in his hand what looks like \$500. At that point Sami's uncertainty is resolved and she steps in line behind Mervin to upgrade her tickets.

### POSSIBLE OPTIONS

Six hours later, high above the ocean and fortified by a meal and a glass of wine, Sami begins to reflect on what she has done, considering how she can justify it to her employer, if called upon to do so.

- She could have returned the money, with a polite note thanking Vern, but saying that as she was representing the company and not speaking in her personal capacity, she is not able to accept any form of payment. Perhaps she should do this when she gets home, but will Vern feel offended?
- What she has done is quite acceptable. She will declare her upgrade to her employer, but will not attempt to claim reimbursement for Jan's upgrade. She will declare the \$500 that she received, to the firm, and allow it to decide whether she can use it towards Jan's upgrade.
- She will claim for her own upgrade, but will say nothing about the \$500 which she used for Jan's fare. It was a personal gift from Vern and nothing to do with her employer.

- She has paid for both upgrades on her company credit card. It is possible that no one will query it and she may not be asked to pay anything. If she is, she can declare the \$500 to the firm. Why should anyone complain about that?

## RECOMMENDED OPTION

The most appropriate response would have been for Sami to have returned the money, with a polite note, thanking Vern but saying that, as she was representing the company and not speaking in her personal capacity, she is unable to accept any form of payment.

## QUICK READ SUMMARY

### WHAT IS UNETHICAL?

It is unethical to accept the cash as a personal gift for time spent representing your company.

It is unethical to use the cash for your personal benefit, without declaring it.

It is unethical to manipulate your firm's travel policy to your personal advantage, without your firm being aware.

### KEY POINTS SUMMARY

A trainer is invited to speak at a conference overseas and is accompanied by her partner. On departure, she is handed an envelope containing \$500 with a message that it is a personal gift from the conference organiser. Faced with a lengthy delay at the airport, she wonders whether she can use it towards upgraded air tickets and whether she needs to declare it.

### ADVERSE CONSEQUENCES

Failure to be honest, open, transparent and fair in how she reacts to the situation she faces could, if discovered by the firm, have negative consequences for Sami and quite possibly her partner, in that her actions will be deemed dishonest. This may affect her immediate employment and possibly have wider-reaching consequences.

### OPTIMUM APPROACH

Sami should seek to return the cash. However, if she decides to use it for upgraded air travel, she must declare that to her employer and let them decide whether or not this accords with their travel policy.

### CISI CODE OF CONTACT IMPACT

- Principle 1. To act honestly and fairly...
- Principle 2. To act with integrity...
- Principle 8. To strive to observe the highest personal and professional standards.

## ON EXPENSES

When a manager is embroiled in questionable expense claims, he considers whether speaking up is the right option.



### BACKGROUND

Gavin is a manager in the accounts department of Harmani, a self-contained subsidiary within Bettabank, a major banking group. The structure of the group means that Harmani has separate reporting lines to the main company within Bettabank, with whom it transacts large amounts of business. This business is obtained as a result of Harmani's reputation for providing a high level of service.

Matthew is a senior manager in Harmani and, besides overseeing the company's operations, is responsible for liaison with Bettabank and its clients. Consequently he is frequently involved in client meetings with his colleagues from Bettabank, who have a fairly expansive attitude towards the financing of hospitality, corporate or otherwise and who take every opportunity to entertain clients and sometimes just themselves.

Matthew is concerned about this attitude, but Hamish, his main contact in Bettabank, who is the equivalent of Matthew's own senior manager, tells him that Bettabank's expense and entertainment policy is now so restrictive that he is embarrassed to entertain the type of client whom he is seeking to attract. Accordingly, he asks Matthew to pick up the costs, since Harmani does not suffer the same restrictions as Bettabank and, as Hamish tells Matthew, Harmani will benefit from the business obtained.

Asked to process these expense claims, Gavin feels they are increasing in frequency and amount. He tells Matthew that he is uncomfortable about what he is being asked to do. Matthew agrees that the situation is difficult, but Harmani benefits from the business obtained and this is reflected in everyone's remuneration.

Matters come to a head one evening when Gavin is having a drink with a colleague. They are disturbed by a small, but noisy, group across the room, which seems to consist entirely of Bettabank employees. He recognises Matthew trying to quieten them down.

## THE DILEMMA

Two days later Gavin is asked to process a large claim for expenses, with a receipt from the bar where he was drinking when he saw Matthew. Gavin comments to Matthew on the ability of such a small group to spend so much money. He is now so concerned that he decides that he will review all the expense claims that he has been asked to pay over the preceding six months and he is appalled at the amount that has been spent, particularly since the same names keep appearing, which seem unrelated to the scale of business done with their firms. In some cases no business at all is being done.

Gavin says to Matthew that, while he accepts that it is not for him to tell a senior manager what to do, he really feels that something ought to be done to stop what appear to be entirely spurious entertainment expenses, incurred by Bettabank, being paid by Harmani.

Matthew thanks Gavin for sharing this information with him but says that, while he also finds it distasteful, it is a part of business life, whatever the Bribery Act may say and, in any case, his senior executive, Robert is aware of what is going on and appears tacitly to condone it.

Gavin is disappointed at this response but decides that he will continue to monitor the expense claims, which continue unabated and he wonders what action, if any, he can take. In the meantime, he receives an invitation from his professional body to attend a continuing professional development event on the topic of "speaking up" and he decides to attend.

At the event, Gavin hears about the growing emphasis being placed on whistleblowing by regulators in the USA and how the topic is now being raised increasingly in the UK by both the regulator and the government, following a series of financial scandals in the industry. This leads Gavin to wonder whether whistleblowing might be an appropriate response to the situation regarding expense claims, which he finds so troubling. If so, what should he do and to whom should he speak?

### POSSIBLE OPTIONS

On his way home, Gavin mentally reviews his possible courses of action, conscious of the warning from the evening's speaker that whistleblowers, however right they may be, often suffer retribution seemingly greater than the people on whom they are blowing the whistle. Against that background he considers a number of options:

- He has tried to persuade Matthew that something should be done, but without success, so he is unlikely to be very receptive to a further approach, particularly since Matthew's own boss apparently knows what is happening and seems disinclined to take any action. Accordingly Gavin concludes that he might simply ignore the matter, as not being his problem, hoping that someone else will pick it up.
- He might advise internal audit, but is concerned that he is involved in the chain of events himself, since he has authorised his team to process all the expenses claims. Although the books have been reviewed by internal audit, they may not be very happy to be told that they have missed matters that they should have picked up.
- He wonders whether it might be better to report the matter to compliance and whether he could insulate himself from any investigation but thinks that is unlikely and so is concerned as to what his position might be.
- He vaguely recalls that the Bettabank group has an external whistleblowing help line and he considers using that, but wonders how secure it is, or whether, as with his concerns about compliance, the whole matter may rebound on him?

### RECOMMENDED OPTION

Gavin has concerns about all of his proposed actions, but calling the whistleblowing line should provide some protection, which the other courses of action may not. However, investigation of the circumstances is likely to show that Gavin is involved in the authorisation chain and so, whichever course of action he takes, that is something he will have to face.

## QUICK READ SUMMARY

### WHAT IS UNETHICAL?

Staff abusing expenses is unethical, but Gavin is behaving properly, up to the point at which his suspicions are aroused about the nature of the expense claims that he is processing. It is then incumbent upon him to take some action to flag his concerns.

### KEY POINTS SUMMARY

As a result of observing colleagues socialising and being asked to process expense claims which cover the occasion in question, Gavin has concerns about what he is being asked to process.

He is unsure with whom he should raise his concerns, without becoming involved in any subsequent investigation. He attends an event highlighting the importance of whistleblowing and wonders whether he should contact the whistleblowing hotline.

### ADVERSE CONSEQUENCES

The adverse consequence of Gavin taking no action is that he will be further implicated in the payment of what are inappropriate entertainment expenses.

For Harmani and Bettabank, the consequences are economic, in that they are paying expenses which are being incurred outside policy; and in governance terms, bank policies are being regularly ignored, which suggests that other more significant policy breaches may also be being committed.

### OPTIMUM APPROACH

Gavin can no longer ignore matters and should bring his concerns to the attention of internal audit, if he is confident that he will be listened to or, if he is concerned about that and the extent of his involvement, then he should contact the whistleblowing hotline.

### CISI CODE OF CONDUCT IMPACT

- Principle 2. To act with integrity in fulfilling the responsibilities of your appointment...
- Principle 8. To strive to observe the highest personal and professional standards at all times.

## PILE OF PROBLEMS

**A junior manager faces a tough decision when his boss pressures him to bend the rules to speed up completion of a report.**



### BACKGROUND

Satish is an ambitious junior manager in the settlements team of a major international bank. The firm experienced a difficult period some years ago, when it struggled to keep up with a greatly increased flow of daily transactions, the consequences of which led to adverse comment by the regulator.

More staff were hired and a commitment was given to the regulator that appropriate processes would be put in place to monitor the firm's performance in the affected area. This led to the introduction of an internal reporting system, which is seen as increasingly onerous and somewhat irrelevant by those not involved in the firm's earlier problems. As a result, the requirement for signature by nominated position holders is not always followed to the letter.

Approaching year-end, Satish is asked by Eamonn, his manager, to ensure that the departmental management information (MI), which Satish co-ordinates and analyses, is up to date for discussion at the heads of division meeting. Bearing in mind the previous and well-documented difficulties of his team, Eamonn will be the focus of attention and, as the meeting is off-site, he has to depart the previous day.

Satish is feeling under some pressure but is determined to meet all his deadlines, conscious that his chances of promotion will be influenced by how well he performs at times like this. Consequently, he comes in early and stays late to ensure that he can keep on top of the daily routine, as well as meet Eamonn's needs.

The end of the reporting period approaches and Eamonn, anxious to get his figures as early as possible, begins to press Satish for them. Satish is also reminded by the firm's regulatory reporting unit that his department's report is due and that it needs to be signed off by Eamonn, as head of department. This requirement of the firm's operating procedures was introduced as a result of the commitment given to the regulator.

As his deadlines loom, Satish provides Eamonn with his MI and takes the opportunity to remind him that he will also need to sign off the regulatory report, which will be ready the next day. Sounding exasperated, Eamonn says that he is much too busy preparing for his meeting to be concerned about "that sort of stuff" and suggests to Satish that, if he is confident that it is correct, he should sign it on Eamonn's behalf. Satish is aware of the firm's procedures, but does not feel able to say anything to Eamonn at this particularly stressful time and is relieved simply to have completed the MI.

## THE DILEMMA

The following day, the regulatory report is completed and is given to Satish for him to obtain Eamonn's signature. Satish tells his colleague that he will see whether he can get Eamonn to sign it, but he is enormously busy and about to leave for the airport.

Satish waits until Eamonn appears to be free and goes into his office with the report, which he asks him to sign. "I told you yesterday that you could sign it" says Eamonn, heading for the door. "It's only a report and you know what it is all about. You have my complete confidence."

## POSSIBLE OPTIONS

Satish is torn between doing what his boss has told him to do and complying with the firm's procedures. He considers various options:

- If he signs the report, he will keep Eamonn happy, but he will be breaching company rules.
- If he does not sign but waits for Eamonn to return, the report will be late and the department will look bad again, which may affect his chances of promotion.
- If Eamonn has told him to sign the report, surely he can safely do so?
- Perhaps he should explain to the regulatory reporting unit why Eamonn's signature is missing and say that Eamonn authorised him to sign the report?

## RECOMMENDED OPTION

Satish should explain to the regulatory reporting unit why he has been unable to obtain Eamonn's signature and advise them that Eamonn has authorised him to sign the report.

## QUICK READ SUMMARY

### WHAT IS UNETHICAL?

It is unethical of Eamonn to tell Satish that he can sign a report, which he knows requires his signature. It would be unethical for Satish to sign the report, on behalf of Eamonn, without telling anyone and hoping that no-one will check.

### KEY POINTS SUMMARY

Satish is caught between trying to keep on side with his boss, for whom he must provide up-to-date and accurate management information and following a regulatory requirement, which requires a designated manager's signature on a report.

### ADVERSE CONSEQUENCES

There are potential adverse consequence for both Satish and Eamonn and also the bank through making poor choices. Satish is not authorised to sign the report, whatever unofficial encouragement he may receive from Eamonn. Accordingly he would be foolish to do so. Equally Eamonn has no authority to delegate the task to Satish. For both of them, exceeding their authority does them no favours, particularly bearing in mind the regulatory background to the process. This also makes this a situation where the observance of laid down procedures is of paramount importance.

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## OPTIMUM APPROACH

The optimum approach is to adhere to the mandatory procedures.

## CISI CODE OF CONTACT IMPACT

Principle 2. To act with integrity...

Principle 8. To strive to obtain the highest personal and professional standards.



# CASE STUDIES

7-12

ACTS OF CHARITY

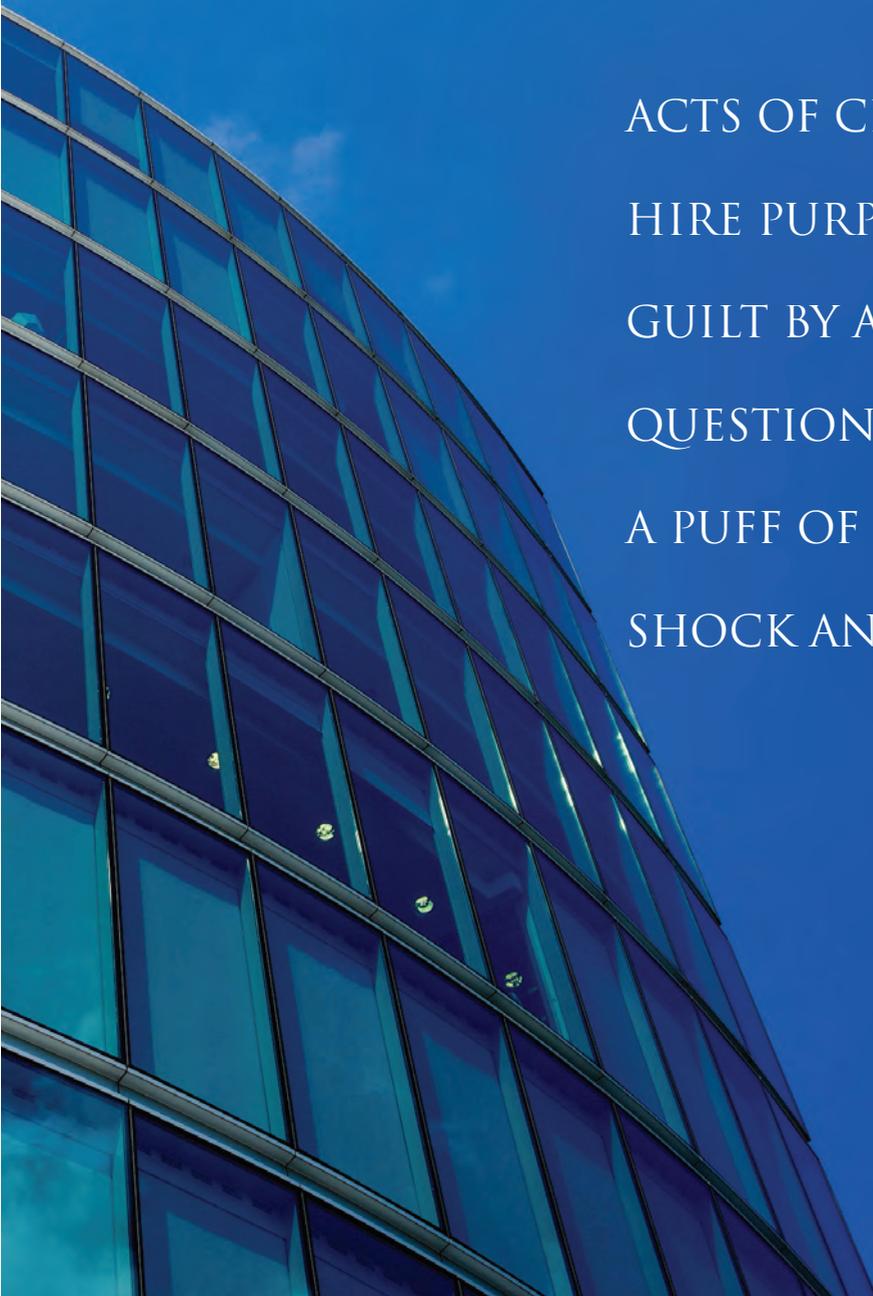
HIRE PURPOSE

GUILT BY ASSOCIATION

QUESTION TIME

A PUFF OF SMOKE

SHOCK AND AWE





## ACTS OF CHARITY

In order to honour its funding commitments, a charitable organisation must increase its income. A possible solution presents the charity and its advisers with a dilemma.



### BACKGROUND

Christopher has worked all his life for a major corporation and reached a senior level, as the head of marketing, from which position he is about to retire. He supports a charitable foundation, established in Victorian times by his wife's great-grandfather, to promote education in countries within what is now the Commonwealth.

Christopher's wife Harriet is a trustee of the charity, as a result of her family connection and, although highly engaged in its activities, she does not have a deep understanding of its finances, particularly the investment strategy, which is very important as the charity must generate income in order to fund its activities.

Harriet returns from a trustees' meeting looking rather concerned and tells Christopher that the meeting was quite difficult and concluded with a degree of acrimony. Jasper, the chairman of the trustees, who is "something in the city", told the meeting that if the charity continued to follow the conservative investment strategy recommended by its existing investment manager, Sphere, it would be unable to continue to generate sufficient income to meet existing funding commitments to its chosen projects.

This came as something of a bombshell to the trustees who asked what action, if any, they could take to restore the necessary levels of income. Jasper replied that he had spoken to some of his City contacts, who had suggested that they should change the charity's fund manager. However, before following that route, they should hear what Sphere had to say. Then he ushered Yvette, the fund manager responsible for the charity's funds, into the room.

Yvette told them that the investment climate was not good for delivering the returns necessary to fund the charity's commitments, some of which were entered into when returns were higher and easier to achieve. To achieve them in the current climate would require a change of strategy to investing in a broader and riskier spread of investments, including hedge funds and derivative-based investments, normally available only to investors whose experience and knowledge enables Sphere to classify them as professional customers.

The present classification of the trustees as retail customers restricts what investments Sphere can recommend to them. This talk of hedge funds, derivatives and customer classifications made Harriet feel that she was getting out of her depth.

Yvette left the meeting, and the chairman told the trustees that he strongly recommended that they should relet the mandate to manage the charity's funds urgently, as Sphere was clearly not up to the task. Sphere has been the charity's investment manager for many years and several of the trustees were unhappy that the chairman was effectively suggesting it should be sacked. Accordingly they had suggested that Harriet, as a representative of the founding family, should contact Yvette to suggest tactfully that Sphere would have to be more proactive if it wished to retain the charity's investment mandate.

Christopher listened sympathetically, saying that he would support Harriet, and that if she had been asked to contact Yvette, she must do so.

Harriet's news did not surprise Yvette, who had been wondering what she should do to try to retain the charity's business, to save Sphere and her own position; and she went discuss the matter with Malcolm, her director.

## THE DILEMMA

Malcolm responded bluntly, saying that the investment climate was challenging for everyone currently managing charitable funds. If Sphere wished to remain in business it must do whatever was necessary to retain the mandate and the revenue from it, including reclassifying the trustees as professional investors, so that they can be offered more diverse products. Moreover, if Yvette persuades the trustees to "opt up" in order to broaden their investment options, the reclassification will give them access to institutional share classes of funds which normally carry a far lower annual management charge than the retail class. The changes to the commission regime, resulting from the Retail Distribution Review, will accelerate the cost benefit to the charity and Yvette can sell this as a positive feature.

This apparent reduction in the fees will almost certainly sway the board, particularly those who, like Harriet, do not really understand the financial side of the charity. They are more likely to be attracted by lower fees and the possibility of higher returns, rather than focusing on the potential increase in risk arising from opting up.

## POSSIBLE OPTIONS

After her bruising encounter with Malcolm, Yvette reflected on what he had said and whether she felt comfortable with it. Clearly it is important to her and to Sphere to retain the charity's mandate, but is it reasonable to take the proposed course of action?

Although permissible in appropriate circumstances, reclassification is, she feels, stretching the definition of professional investor: although some of the trustees are professional men and women (to whom the classification probably could be applied) this cannot not be said of the board as a whole.

Moreover, is it appropriate for a charity to give up important protections in order to broaden its investment possibilities, increase its income or reduce its fees? The turnover in trustees may mean that the current expertise justifying the opt up could disappear at any stage.

Is a charity in a different position from an individual investor?

Is this really a solution creating winners all round, or is it unfair on, or unsuitable for, the charity?

Yvette remained in a quandary.

## RECOMMENDED OPTION

The proposal to suggest changing the investment mix to sell the trustees higher-risk investments, which may also generate higher commissions, is likely to be of greater benefit to Sphere than to the charity. The trustees should be made aware of this and should seek the adviser's justification for any such recommendations.

The charity is faced with a number of difficult courses of action, including:

- reducing expenditure by postponing or abandoning some commitments;
- increasing income by significantly changing the investment mandate;
- drawing on capital resources to fund a temporary income shortfall.

None of these are easy options and, accordingly, it is inappropriate to suggest that one is more suitable than another.

However, whichever course is chosen, it should be on the basis of a proper understanding of the position by the trustees, rather than by their being swayed by their financial adviser.

It is also suggested that trustees should take into account the expectations of donors, particularly in terms of risk, when determining how to proceed. This is an important consideration for charities.

## QUICK READ SUMMARY

### WHAT IS UNETHICAL?

It is unethical for the adviser to try to persuade the trustees to change their investment instructions, if she is aware that the decision is being made on the basis of imperfect understanding.

Equally it is unethical for the trustees to take decisions without being comfortable that they properly understand the risks arising from these decisions.

### KEY POINTS SUMMARY

The charity needs to generate increased income and a change of investment strategy is recommended.

It is apparent that the trustees are not aware of the potential increase in risk and the relative benefits accruing to the parties involved.

### ADVERSE CONSEQUENCES

A change in strategy by the trustees, without a full understanding of the possible implications, may be subjecting the charity to a large increase in risk, as well as potentially putting the trustees at risk for failing in their fiduciary responsibilities.

### OPTIMUM APPROACH

The optimum approach is for the trustees to take no action until they are confident that they fully understand the risks arising from any change of strategy.

### CISI CODE OF CONDUCT IMPACT

- Principle 1. To act honestly and fairly at all times when dealing with clients, customers and counterparties and to be a good steward of their interests...
- Principle 2. To act with integrity in fulfilling the responsibilities of your appointment...
- Principle 6. To attain and actively manage a level of professional competence appropriate to your responsibilities...
- Principle 7. To decline to act in any matter about which you are not competent...
- Principle 8. To strive to observe the highest personal and professional standards at all times.

## HIRE PURPOSE

A market-leading business allows a key member of staff to give pro bono advice to a small charity, only to find that she has been poached by it.



### BACKGROUND

Calliope is a small business which provides technical and educational support to the financial services industry. It is well regarded by its customers, who rate its products and services highly in helping them meet the increasingly stringent standards required by the industry regulator. Calliope is not the only business which undertakes these activities, but it is an industry leader.

Alex, the chief executive, is conscious of the need to maintain leadership in the sector, but is happy to share the firm's experience with other bodies, which do not compete directly with Calliope, believing that the promotion of a professional approach by the sector will benefit the industry generally. Accordingly, when he is approached by Terry, the head of Sorex, a small charity, which is seeking to follow the same path as Calliope, but lacks the resources to do so, he is happy to lend a member of staff to provide advice and guidance. Relying on Sorex's charitable status, Alex is confident that it will not act in any way that is commercially detrimental to Calliope.

Greta has a background in educational development and is experienced in introducing new systems, which was a major incentive for Calliope to hire her several years previously, a decision which it has never regretted. As head of educational development, Greta regularly attends industry conferences and events, where she networks with her peers in similar bodies, as well as product developers looking to penetrate the sector. Because of this, she is well known in the sphere in which Calliope operates. Her reputation and recent attendance at a conference, where she spoke with a Sorex delegate, resulted in Terry's call to Alex.

Greta spends two weeks helping Sorex to identify the processes that need to be revised to accommodate the new systems that it must adopt to be able to deploy its new technology successfully. She then returns to Calliope, where she resumes her regular work. Terry is full of praise for what she achieved at Sorex, telling Alex that the business would not have been able to make the necessary changes without her help.

### THE DILEMMA

Alex is delighted that his altruistic approach has been beneficial, but his positive feeling towards Sorex evaporates when, two weeks later, David, Calliope's head of development, tells him that Greta has given notice of her intention to resign, because she has been offered another job, which will allow her to lead her own division, reporting directly to the chief executive. This is a challenge which she eagerly anticipates, as she feels that she does not have the level of responsibility at Calliope which she really wants and which, she believes, her experience warrants. She will also receive a significant boost to her salary.

David tells Alex that Greta will not tell him the name of the potential new employer, saying that it is too early and that she is giving notice immediately, so that Calliope has as much time as possible to find a replacement. Alex is understandably dismayed by this news, saying that he hopes it is nothing to do with Sorex and David responds that he cannot imagine that any organisation which claims to be a charity would act in such a manner.

Greta is working her three-month notice period, without revealing the source of her new job, when Alex meets Terry at an industry event. Terry tells Alex that Sorex has embarked on its new product introduction, thanks largely to Greta's help, that he is extremely pleased that she has decided to join Sorex and that he is grateful that Calliope is not making her life difficult in the meantime.

Alex is flabbergasted by this news and considers how to reply.

## POSSIBLE OPTIONS

- Alex wonders whether he is being over-sensitive and should simply accept that people move on. On the other hand, perhaps he has cause to feel justifiably outraged that Sorex has stolen a key member of staff from Calliope, who acted charitably towards them and he should tell Terry and his chairman this.
- Alex also wonders whether he should try to block Greta's move, if possible, even to the extent of entering into litigation, but he is reluctant to consider offering Greta a substantial salary increase and restructuring the department to make her the head, in order to keep her.

## RECOMMENDED OPTION

Alex should tell Terry that he feels outraged at Sorex's actions and that he will also communicate this to the Sorex chairman.

## QUICK READ SUMMARY

### WHAT IS UNETHICAL?

Alex feels that it was unethical for Sorex to seek to poach an important member of Calliope's staff, who was lent to Sorex as a gesture of goodwill.

### KEY POINTS SUMMARY

As a goodwill gesture, a successful business lends an important member of staff to a smaller charity in the same area of work. The small business is impressed with the individual and offers them a job.

### ADVERSE CONSEQUENCES

Discord has been introduced into what was once a harmonious relationship between two businesses.

### OPTIMUM APPROACH

Alex should make the Sorex chief executive and chairman aware of his displeasure at their actions, which he does not feel meet the honest, open, transparent and fair test.

### CISI CODE OF CONDUCT IMPACT

- Principle 2. To act with integrity in fulfilling the responsibilities of your appointment...
- Principle 8. To strive to observe the highest personal and professional standards at all times.

## GUILT BY ASSOCIATION

**Should a non-executive director of a firm communicate its problems to the other businesses at which he is a non-executive director?**



### BACKGROUND

Bob is an experienced senior manager, who has spent his working life in the securities industry, during which time he has been an approved person and held board-level positions in regulated firms for many years. He has always enjoyed good relationships with other industry practitioners, as well as serving on a panel advising the regulator.

He is now semi-retired and holds a number of non-executive directorships, including one with Optimist, a small wealth manager. He is also on the board of trustees of Marmoset, a small but well-known and highly respected medical charity.

An internal review of Optimist's business practices resulted in Bob being asked to lead an informal review of how the firm meets customer due diligence obligations, such as "know your customer" when taking on new clients and subsequently monitoring their transactions.

Bob's findings were that Optimist's processes were not of the standard suggested by the industry guidance. This was accepted by Optimist's chairman, Kevin, but he did not feel it politic to pursue the matter in the face of open hostility from Adam, the chief executive, who was resolutely opposed to taking any action which might upset customers. Although Bob felt that Kevin should have pressed the point with Adam, as not doing so could have unfortunate consequences, as a non-executive he did not wish to make waves and so accepted the outcome and remained on Optimist's board.

Over a year after Bob presented his report, Optimist was the subject of an in depth regulatory visit. The regulator was heavily critical of Optimist's procedures, which it felt did not conform with industry norms and regulatory requirements and it levied a substantial fine on the firm.

Although the report was very critical, it did not publicly name any individual officer of Optimist as being responsible for the firm's failings and there was no pressure on Bob, or any other board member, to consider their position on the board. Indeed, Bob felt that, expensive though it was, the fine vindicated his report and he was diligent in ensuring that appropriate remedial action was instigated.

## THE DILEMMA

A few days after the regulator published the results of its review of Optimist and the consequent fine, Bob received an email from Steven, the chairman of the trustees of Marmoset. Steven said that he had seen the news about Optimist and, knowing that Bob was a director, wondered whether the report and the fine would or should have any impact on Bob's role as a trustee of Marmoset.

Until then, Bob had not thought about the Optimist matter having any wider consequences and, since no individual criticism was made, he felt comfortable remaining a non-executive there and a trustee of Marmoset, at least for the time being. However, he now feels that perhaps he should review his position in more depth and, in doing so, realises that there are a number of potential courses of action open to him.

## POSSIBLE OPTIONS

- He could advise Steven that the regulatory censure of Optimist was against the company, not him as an individual and, therefore, there is no reason why he should resign from Marmoset.
- He could review all of his non-executive directorships and make the various chairmen aware of his involvement in Optimist and its regulatory censure, but leave it to them to decide what action to take.
- He could resign his position at Marmoset, because its charitable status requires the trustees to be of absolutely unblemished reputation and, even if he was not named personally in the Optimist investigation, he was a director at the time and, therefore, guilty by association, with potential reputational damage to Marmoset as a result.

- He could resign from Marmoset, because it is a charity, but there is no need to resign his other directorships, because regulatory censure is an accepted cost of doing business. If every director involved in a business that was censured by the regulator resigned, firms would be unable to find sufficient directors.

### RECOMMENDED OPTION

Bob needs to be open with all of his contacts. He should review all of his non-executive directorships and make the various chairmen aware of his involvement in Optimist and its regulatory censure, but leave it to the individual chairman to decide what action to take. Depending upon the nature of their business, some may feel that Bob's resignation is appropriate.

### QUICK READ SUMMARY

#### WHAT IS UNETHICAL?

It would be unethical for Bob either to seek to suppress the information regarding Optimist or to fail to advise the chairmen of the organisations where he is a director, based on the argument that he was not the subject of the censure by the regulator.

#### KEY POINTS SUMMARY

Bob is a non-executive director of a number of organisations, including Optimist, a regulated firm. Bob is critical of some of the processes of Optimist and in due course the firm is visited by the regulator. As a result of a critical report, the firm is fined, but no individual is censured.

#### ADVERSE CONSEQUENCES

The principal danger is that the reputations of the organisations with which Bob is still associated are tarnished by his relationship with Optimist, notwithstanding that the regulatory sanction was against a firm where Bob is a non-executive, rather than against Bob himself.

#### OPTIMUM APPROACH

Bob should advise the chairmen of the various organisations, of which he is a director, of all the facts and allow them to decide whether or not they are comfortable with his continued involvement.

#### CISI CODE OF CONDUCT IMPACT

- Principle 2. To act with integrity in fulfilling the responsibilities of your appointment...
- Principle 8. To strive to observe the highest personal and professional standards at all times.

## QUESTION TIME

Gathering personal information can benefit customers and companies alike. But how far should a firm go to justify its pursuit of client data?



### BACKGROUND

You have recently joined the marketing department of the retail division of a large bank and are invited by your manager to a meeting of the division's product review committee, which meets quarterly to consider new products, before they are released onto the market. She does not think that anything particularly contentious is likely to be discussed and asks you simply to take notes.

There are representatives at the meeting from marketing, risk, line management and compliance, all of whom are senior to you and you feel pleased that you have been invited.

A number of relatively straightforward matters, which generate very little comment, are discussed, before the last item on the agenda, described as a fixed-income fund product replacement, is reached.

The sponsor introduces the product and stresses that it is really only a modification of a previous product, which was withdrawn a short while ago, so as not to confuse customers.

He stresses that, although the products are broadly similar, the new one does have a number of different features, but none that should alarm mainstream customers.

The line manager is keen to have something new to sell to assist his team to meet its sales target. He considers that the fact that it is evolutionary, rather than revolutionary, will be helpful; it is always a challenge to convince customers to buy something brand new, particularly if it contains more subtle features.

You listen to the discussion and make notes, stressing the replacement nature of the product and the fact that the risk department considers it no riskier than what it replaces, so that it can, therefore, be sold to customers with a similar risk appetite.

Your boss then says that she has been considering how the bank can most effectively identify those customers whom the product will attract, in order to improve the prospect of successful sales, since the mass mailing of customers is rather unscientific and historically has a very poor success rate.

She suggests that the bank should take advantage of the widespread publicity about the need to “know your customer” and introduce a pop-up questionnaire to the online banking screen, asking customers to provide information about their finances.

She says this will assist the bank to identify those customers who are likely to buy the product, whilst enabling it to dismiss the majority, for whom it will be unsuitable.

Another attendee, from the risk department, asks how branches should react if customers complain about this questionnaire. Your boss suggests that a question and answer sheet should accompany the branch marketing pack. This should stress the regulatory need to know your customer and can be supported by quoting customers’ financial protection, as well as the ongoing anti-money laundering requirements.

The compliance representative says that this is something of an exaggeration but, since it is not actually untrue he will not object, particularly since no customer is going to be disadvantaged by the proposal and it can be argued as being within the parameters of treating customers fairly.

## THE DILEMMA

Afterwards, your manager asks your opinion of the meeting. Not wishing to bring your career to an immediate halt, you hesitate before replying, whilst various thoughts run through your head and you determine some possible responses.

## POSSIBLE OPTIONS

- You are reassured that such matters are discussed, as the banks cannot afford another mis-selling scandal.
- You are concerned that the justification for asking customers questions, which they may find intrusive, is untrue.
- As a newcomer, you feel awkward commenting adversely, though you are appalled at what you regard as such cavalier behaviour towards customers.
- You feel that the proposed justification for the questionnaire is bogus and, if the team cannot come up with a valid reason for it, they should think of another way to approach customers.

## RECOMMENDED OPTION

You should express your view to your boss. However, you must strike a balance, so that you make your point in a considered, rather than an emotive, manner.

## QUICK READ SUMMARY

### WHAT IS UNETHICAL?

It is questionable whether the measures being discussed to gather customer data are honest, open, transparent and fair. However, when asked by your boss for your opinion, it is unethical to think one thing and say another.

### KEY POINTS SUMMARY

You attend a meeting with your boss to discuss the marketing of a new product. You are concerned by what you hear from other attendees, seeking to justify their proposals. Afterwards, your boss asks for your opinion. As a newcomer, you are uncertain how truthful you should be in expressing your opinion.

### ADVERSE CONSEQUENCES

Failure to speak up on something about which you feel strongly may be detrimental to your employer and to you.

However, making ill-considered remarks, in a negative manner, may adversely affect your boss's opinion of you.

### OPTIMUM APPROACH

Discuss what you observed, with your boss, in an objective and rational manner and put forward your views based on those criteria.

### CISI CODE OF CONTACT IMPACT

- |             |   |
|-------------|---|
| Principle 1 | To act honestly and fairly...                                   |
| Principle 2 | To act with integrity...  |
| Principle 3 | To observe applicable law...and professional conduct standards. |

## A PUFF OF SMOKE

**A chief executive faces a difficult recruitment decision regarding an urgent hire. Should he disregard the applicant's past, can he justify his decision and whom should he tell?**



### BACKGROUND

George is the CEO of a well-respected investment advisory firm, Haveago, which trades on its good, if unspectacular, reputation. It has a vacancy for an experienced, senior investment analyst, filling which is proving to be a problem for the firm. This is exacerbated by the imminent departure of a contractor who has been doing the job temporarily, which has not been a satisfactory solution to the firm's difficulties.

Haveago sets out to recruit a suitable candidate. Stacey, the head of HR, informs George that, after a lengthy search, she has managed to shortlist two applicants for his consideration. The first, Emma, is a post-graduate, with comparatively brief, but relevant, experience from a respected competitor firm, where she has progressed rapidly. Stacey reminds George that the board of Haveago has mandated that the firm must increase the number of female employees in senior positions since, apart from Stacey, there are no women in the firm, other than junior administrative staff. Achievement of this goal is a key objective for both Stacey and George.

The second candidate, Thomas, is an older man, has greater experience than Emma and has been employed for the last ten years as an analyst at one of the leading investment houses.

Stacey arranges for George to interview both candidates. Emma is very bright, with valuable, albeit comparatively brief, experience and she makes an immediate positive impact on George. He considers that her limited experience is more than made up for by her sharp intellect. The fact that she has progressed rapidly also strikes George as a positive point in her favour.

George is minded to hire her because she will be able to do the job and also, importantly, improve Haveago's female staffing ratio. As an added bonus, she appears to be very well-connected to a number of high-profile families, which may bring additional benefits to the firm.

Emma will be available very shortly because, she reveals, she is likely to be made redundant, following a reorganisation at her present employer, which is merging with another firm.

George also interviews Thomas, who presents well, with his greater experience being evident, albeit that he has a rather restrained manner. Because of his experience, hiring Thomas is likely to be significantly more expensive than hiring Emma and he is not available until the end of a three-month notice period.

Having weighed the relative pros and cons of the two candidates, George advises Stacey that he intends to employ Emma, but would like to see her once more before deciding.

At the end of the second interview, George asks whether there is anything further that Emma wishes to ask or to raise. Somewhat hesitantly, she says that there is a matter which she feels it is only fair that she should mention.

She reveals that, a few years ago, she received a "cannabis warning" from the police, when she was found smoking it at a music festival. Taken aback by this unexpected revelation, George asks why she did not mention this either in her application form, or at her first interview? And is her previous employer aware of it?

Rather sheepishly, Emma replies that if she had mentioned it, she seriously doubts that she would have been invited for even a first interview. She apologises to George and says that it was a one-off, in the heat of the moment, in the particular environment. She adds that a cannabis warning is not a recordable criminal offence and she only mentioned it because she wanted to be completely open and honest with George. Unsure how to respond, George tells Emma that he wishes to consider what he has just learned and that he will advise her of his decision in due course.

## THE DILEMMA

George discusses the matter with Stacey, who expresses surprise, but says that at least Emma has been honest: she could have chosen to say nothing and it is unlikely that the firm would have found out. Furthermore, Emma has good experience, is available immediately and is well-connected. Stacey enquires whether the firm would take such a strong line if an employee failed a breath test, but was not significantly over the drink-drive limit? She adds that Haveago does not have a specific drugs policy, relying instead on Criminal Records Bureau (CRB) checks to reveal any criminal convictions against new hires. George remains undecided and decides to speak to his senior independent director, Giles, who has considerable experience over many years in the industry.

Giles is adamant in his opinion that no-one with a criminal record should be employed by the firm but, like George, he is unsure how to respond to this situation. He says that there is a difference between drinking, which is legal and taking drugs, which is not, even if the penalty for the latter may sometimes be the equivalent of a slap on the wrist.

### POSSIBLE OPTIONS

Troubled by these conflicting views, George decides to consider the position further, telling Stacey that they will meet in the morning to make a decision. Overnight, Stacey reviews the various options, which she sets out as follows:

- Hire Emma. Although this may be a risk, because she has less experience than Thomas, she does have sufficient, she is available immediately and she meets the firm's need to hire more women. Against that is her admission of her brush with the police for smoking cannabis. But should that be a deciding factor? She did, after all, own up, when she need not have done so.
- Hire Thomas. This is the safer option, as he has the experience, although he is not available for another three months. However this will do nothing to meet the firm's diversity targets and, realistically, he would have been considered the second best choice, if Emma had not mentioned her caution.
- Do not hire either of them and carry on looking. However, the search has already gone on for some time and there is a dearth of suitable candidates.
- Consider alternative options such as hiring someone on contract, outsourcing or buying in research, while continuing the search for a permanent replacement.

### RECOMMENDED OPTION

Emma's warning is insufficient reason not to hire her, given that she appears to meet all the other requirements of the position. A cannabis warning is not a criminal offence and is not recordable, so it would not have been revealed by a CRB check. Owning up is a positive demonstration of her honesty and the action was a youthful indiscretion, which should not blight her subsequent life.

## QUICK READ SUMMARY

### WHAT IS UNETHICAL?

It would be unethical for the firm to decline to hire Emma, using the cannabis warning as a reason, if there are other technical reasons why she is not suitable. However, that is not the case.

There is no legal requirement for Emma to declare the warning and, had she not done so, she could not be held to have acted unethically. The purpose of the warning is to provide the recipient with a verbal reprimand, not a sanction.

### KEY POINTS SUMMARY

A firm needs to hire a new analyst and would prefer to engage a female. Two suitable candidates are interviewed and the firm prefers the female candidate.

At her second interview the candidate reveals that she received a cannabis warning some years previously.

The firm is unsure whether this revelation should cost her the job, or whether they should be pleased that she has been totally honest with them.

### ADVERSE CONSEQUENCES

Not hiring Emma, because of her revelation, will deprive the firm of their preferred candidate and make it more difficult to achieve their goal of increasing the proportion of female staff in the firm.

More significantly, it penalises the candidate for being open and honest in declaring an incident, which she was not required to reveal.

### OPTIMUM APPROACH

Hire Emma as she is the best candidate and thank her for being honest about her past.

### CISI CODE OF CONTACT IMPACT

Principle 2. To act with integrity...

Principle 8. To strive to obtain the highest personal and professional standards.

## SHOCK AND AWE

**A new manager is determined to improve the performance of his department. Should his wish to make an example of one errant employee be supported by the divisional head?**



### BACKGROUND

Richard is the newly appointed department head of the operations department, whose poor reputation has led senior management to focus on it. He has a reputation for being a demanding, some would say ruthless, manager and the department views his appointment with some trepidation.

On his first day, Richard tells the section heads that he is determined to improve the performance of the department by eliminating the unacceptable number of errors which occur. He says that section heads have a key role in driving the performance of their teams and his department, adding that he is aware of his reputation, which he admits is not undeserved.

A week later Richard sees the section heads again and draws their attention to the weekly errors report which, he tells them, far from showing an improving trend, contains more errors than ever before. He then reads a letter to them, which he intends to send to department staff, stating that if all work is not checked and the failure to do so results in unacceptable errors: "it is highly likely that the individual...will face disciplinary action, which could result in dismissal." The new regime will be enforced immediately.

The impact of the letter is a sepulchral hush in the office and the working of longer hours by many staff, especially the section heads.

A week later, unprompted by Richard's ultimatum, the internal audit team carries out a snap audit of the department, as a result of which they identify a number of errors, most of them historic. However Richard's attention is drawn to one specific item, which is still current and includes entries passed two days previously. An instruction to make automated dividend payments into a client's account has been set up wrongly, resulting in a series of duplicated payments being made. Although none of the amounts is more than £25 and a total of about £200 has been wrongly paid, it is the apparent failure of his letter to make any difference which really upsets Richard.

Exasperated that this should have occurred so recently, he asks who should have checked the entries and is told that it is Nadia, a long-serving section head, who has a mixed track record.

## THE DILEMMA

With a copy of his letter and the internal audit findings in his hand, Richard storms into the office of his divisional head. He demands that, following on from his warning, disciplinary action be taken, saying that he expects the divisional head's support, as crucial in achieving an effective department.

The divisional head is going to a meeting, so tells Richard that he will see him later on. Before doing so, he contemplates a number of key issues that he considers should be addressed before making a decision. It is essential that any action that is contemplated is fair and scrupulously follows the firm's procedures but, bearing this in mind:

- What sort of culture does the firm want?
- Is zero tolerance acceptable?
- Does this operational failure meet that criterion?
- Do you want people to own up when they have erred?
- If so, how do you incentivise and encourage them to do so?
- Do you want to reward appropriate behaviour? How can you do so in this case?
- How will Richard feel if his divisional head does not support him?
- Should you weigh the materiality of Nadia's failure against the potential impact on the authority of your new manager?
- If you think disciplinary action is warranted, which may lead to dismissal, what should Nadia have done to avoid being dismissed?
- Where do you draw the line and what message does this send to other colleagues?

### POSSIBLE OPTIONS

Having considered these questions, the divisional head sees that he has a number of potential courses of action, all of which have some merit and he wonders which he should choose. Should he:

- Support Richard in his proposed course of action, to the maximum extent that is permitted within the firm's employment policies, because he was selected to do a job and failure to support him at this stage will fatally undermine his authority?
- Support Richard in taking action, but ensure that it is proportionate to the actual incident, irrespective of the warning that he gave?
- Suggest that no action should be taken without involving HR, even if that results in losing the shock and awe impact for which Richard clearly hopes?
- Suggest that no action should be taken that may have unintended consequences?

Consideration must be given as to whether taking a hard line will improve or worsen the situation.

### RECOMMENDED OPTION

He should support Richard in taking action, but ensure that it is proportionate to the actual incident, irrespective of the warning that was given.

### QUICK READ SUMMARY

#### WHAT IS UNETHICAL?

It is unethical to take draconian action, simply because your manager has threatened it, without properly investigating the causes of the problem.

#### KEY POINTS SUMMARY

A new manager is tasked with restoring acceptable standards of performance in the operations department. He raises the possibility of disciplinary action, including dismissal, for those who fail to perform. Mistakes continue and, wishing to implement his disciplinary policy immediately, he calls for his boss's support.

#### ADVERSE CONSEQUENCES

The imposition of severe sanctions, irrespective of the circumstance, will undermine morale, and is likely to worsen, rather than improve, the performance it was intended to raise.

#### OPTIMUM APPROACH

Investigate the reasons for the continuation of the errors; take action to support staff where necessary; and instigate disciplinary procedures only if it can be shown that there are either deliberate or persistent breaches of policies and instruction.

## CISI CODE OF CONTACT IMPACT

- Principle 2. To act with integrity...
- Principle 3. To observe applicable law...and professional conduct standards.
- Principle 8. To strive to obtain the highest personal and professional standards.

# INVESTING IN INTEGRITY: HOW CAN I KNOW WHERE OUR WEAK SPOTS ARE?

Simon Webley, Research Director, Institute of Business Ethics (IBE)

## INTRODUCTION

Regular surveys of public opinion show that there is a high degree of mistrust among the general public about the way business is conducted. This is not confined to Western Europe: only in Asia does there seem to be a higher level of trust concerning the way business operates.

Where public trust has been eroded, as for instance in the financial services sector in recent years, its restoration is slow, expensive and time-consuming. The general public demands action. Business conduct regulations are issued; regulators investigate any deviation from what is considered lawful or even normal. Boards are increasingly preoccupied with compliance matters and re-establishing a culture of integrity to the extent that “my word will be considered by customers as my bond.”

One question that is often heard is: “how will I know that my culture change programme is having any effect?”

The *Investing in Integrity* (Iil) Chartermark was developed to enable organisations to demonstrate that their real commitment to act with integrity at all times was indeed working. The Iil assessment methodology, which was developed with GoodCorporation, tests an organisation’s ethical standards against its own statements of ethical values. GoodCorporation has over ten years’ experience working with businesses to help embed responsible management practices. The combined expertise of GoodCorporation, together with that of the IBE and CISI who jointly own Iil, has created a Chartermark that provides a robust means by which a company can identify whether or not it is truly living up to its values, from the boardroom to the shop floor.

Nearly ten years ago, the Institute of Business Ethics published, *Living Up To Our Values: developing ethical assurance*<sup>1</sup>. At the time it was a ground-breaking look at how organisations might put in place an ethical assurance framework with the help of internal audit. Where this differed at the time was that it was an internal look at how organisations could prove their ethical performance.

As organisations developed ethics policies and programmes, the IBE was increasingly asked if there was some way to prove these policies actually were embedded. We had noticed that, while companies used external standards to support and benchmark aspects of their ethical performance, these external benchmarks only went so far, as they tended to be self-reporting. What they really needed was a way to monitor whether the organisation carried out its business in line with its own codes of ethics, audited by a third party. There is little point in having a code of ethics unless there is some way of understanding whether or not the values that it represents are adopted internally.

<sup>1</sup> Dando N and Raven W (2006), *Living Up To Our Values: developing ethical assurance*, IBE

Fast forward a decade and we were still smarting from a global recession, brought about, some would argue, by the unethical behaviour of the financial services sector. The CISI was looking for ways both to rebuild lost trust in the City and to ensure that such a devastating reputational hit could not happen again. Trust in business was at an all-time low. Iil evolved out of discussions about how we might regain faith in the way that businesses behave. The IBE and the CISI began to discuss the establishment of a chartermark which could prove an organisation “practiced what they preached” in a bid to rebuild trust.

## ETHICAL ASSURANCE

It is often asked what metrics exist to test ethical behaviour. It is fairly obvious when there has been an ethical failure, but how do you measure good behaviour? In their performance appraisals and remuneration policies, companies are looking for ways to understand their employees’ contribution to fulfilling the company’s values. But what of the company or organisation itself?

Boards are asking, as part of their own evaluation process, “how do we know this organisation is living up to its values?” The responsibility for the ethical performance of organisations falls to those organisations themselves. Not only have they increasingly been realising its significance for business survival, but they are being progressively held to account for non-financial performance by shareholders and other stakeholders. Board members, therefore, need to be able to assure themselves that their organisation is operating in line with its ethical values and commitments. There is a growing requirement at board level to ensure that ethical values are embedded, that commitments are being met and that management processes are effective.

This ethical assurance has a business benefit. Ethical assurance helps boards to:

- know that their organisation is doing business in the right way;
- understand whether the organisation is doing all it reasonably can to live up to its values;
- prevent or identify early breaches of their ethics policies and commitments;
- reduce reputation, integrity and operational risks;
- test the ethical culture of their organisation;
- strengthen that culture by demonstrating top-level interest and commitment;
- recognise and manage dilemmas in business decisions;
- comply with legal and regulatory requirements for fuller reporting;
- answer the demands for non-financial disclosure from external stakeholders, such as investors and the need to foster their trust;
- build public confidence in their non-financial reporting and enhance their reputation for ethical business practice.

To understand the extent to which an organisation is living up to its values, those values need to be made explicit - along with commitments regarding business behaviour that give meaning to the values.

One way of translating values into a set of commitments to stakeholders is to establish an ethics policy which is then more tangibly expressed through a code of ethics. The code communicates publicly the commitments of an organisation, as well as providing practical guidance for staff at all levels (and others working for the organisation) on what is the right thing to do when carrying out their work. The simple existence of a code does not guarantee that values are being lived up to – hence the need for assurance on its implementation and embedding.

### INTERNAL TRUST

A trustworthy organisation can be defined as “one that operates effectively (ie ability), acts with due concern for the interests of its stakeholders (ie benevolence), and conducts itself according to principles of honesty and fairness (ie integrity)”<sup>2</sup>.

Employees are vital in the establishment of a trustworthy company. A strong and positive organisational culture is derived from, among other things, the organisation’s commitment to the careful development and maintenance of internal trustworthiness among its employees and the organisation’s system. This is founded on sound ethical business practices. An ethical culture nurtures trusting relationships at the personal and organisational levels and fosters a positive internal and external reputation amongst its key stakeholders. This strengthens the organisation and gives it resilience. A company based on a network of durable, well-founded trust-based relationships will better avoid failures in the first place and is more likely to survive intact and continue to be productive if they do occur.

In order to understand organisational trustworthiness, it is important first to identify the six system elements that make up an organisation. Four are internal to the organisation:

- The leadership and management practice of the organisation’s senior, divisional and line managers.
- The organisation’s strategies, including sub-strategies for finance, marketing, sales, operations and HR.
- The cultural norms, beliefs and values that the organisation espouses and enacts, as well as the sub-cultures that can exist inside workplaces and teams.
- The structures, policies and procedures the organisation deploys to achieve its objectives.

Two are external to the organisation:

- The external governance that regulates how the organisation can operate.
- The organisation’s public reputation.

<sup>2</sup>For a more in depth study of internal trust and trustworthy organisations, see Dieze, Graham and Gilespe, Nicole (2013) *Building and Restoring Organisational Trust*, IBE

The six elements that contribute to an organisation's reputation for trustworthiness



These elements work together as a 'system' to coordinate employees' activities, in order to produce the organisation's products and services. This means that the six system elements inform an organisation's reputation for trustworthiness.

lil seeks to identify the say/do gap; where an organisation says one thing, but actually in practice, does another. It is the employees, usually being the group most aware of what goes on in an organisation, who hold the key to identifying this gap, as well as the strengths and weaknesses in an ethics programme.

As organisations tend to place more importance on engagement meetings with external stakeholders such as investors, non-governmental organisations (NGO's) and customers, it is important that the views and experiences of the group most likely to be aware of whether a company is acting according to high ethical standards are not forgotten. By listening to what employees have to say about ethics in their workplace, a truer picture can be formed of whether an organisation is living up to its values.

Where other assurance methodologies may look at all of a company's stakeholders, IIL focuses on the employees' views. It is in testing levels of internal trust that one can truly take the ethical temperature of an organisation. This is why a key element of the IIL methodology is the employee survey.

### THE INVESTING IN INTEGRITY PROCESS

The IIL process is one of internal reflection; collating data from different parts of the business to indicate collective support of the organisation's ethical principles and the quality of the mechanisms and competencies it has in place to ensure this. There are two stages to the IIL accreditation process.

At stage 1, companies carry out a comprehensive "Management Self Assessment Survey" of their organisation's ethical policies, code, procedures and practices via an online submission. This generates a report showing how the company scores and also benchmarks the organisation against others registered with IIL.

On completion of stage 1, the organisation is invited to subscribe to IIL and progress to stage 2. This involves an external assessment by a trained assessor (provided by IIL's partner GoodCorporation) to verify that the responses given in the stage 1 survey are supported in practice. The assessment includes an onsite assessment, policy and system reviews, staff interviews and an employee survey.

The employee survey tests the employees' confidence in and the efficacy of ethical guidance and procedures and can provide evidence of the extent to which ethical values are understood by employees. The IIL assessment includes two surveys – one for white collar workers and a shorter one for blue collar workers. The aim is to gather evidence from throughout the organisation – not just those at head office.

The IIL process tests levels of internal trust, for example:

- Do you believe your managers would bend the rules to get the job done or for profit?
- Do you trust your manager to behave in the right way?

It also tests awareness of any speak-up mechanisms, as well as whether employees would be happy to use them. A corporate culture of integrity and openness - where ethical dilemmas arising from doing business are discussed and employees feel supported to do the right thing - is an indication that the organisation's values are being applied in practice. In contrast to an organisation's own survey, the fact that the survey is for an external provider increases confidence for employees in its anonymity.

Anecdotally, companies who have gone through the IIL process attest to the rigour of the assessment. Self-analysis – if it is done thoroughly - will highlight issues and problems which need to be dealt with, but it is that rigour which makes the IIL assessment worthwhile. IIL is about continuous improvement; it is not as simple as saying that a box has been ticked.

## CONCLUSION

There are many standards and methodologies available to test an organisation's non-financial performance but none would appear to start from the organisation's own code of ethics. A code of ethics provides guidance to staff on expected behaviours and responses to situations that they may encounter in the day-to-day business environment. It is the translation of the organisation's ethical values into day-to-day working practices. It is therefore valid for the organisation to test itself against the values by which it purports to live.

Board members need to assure themselves that their organisation is living up to its ethical values and commitments. Shareholders and stakeholders have high expectations of those running organisations. They expect companies and organisations to be run to high ethical standards. If not, they expect them to be held accountable. Trustworthy conduct and ethical practice are the foundation of organisational resilience and sustainability.

The aim of the IIL chartermark is to help companies demonstrate that they act with integrity, by helping them identify whether their ethics programme is properly embedded throughout the organisation. Its key tool is employee perception. By measuring levels of internal trust, IIL can establish whether the organisation is worthy of external trust.



## Code of Conduct: Lord George Principles

### Introduction

Professionals within the securities and investment industry owe important duties to their clients, the market, the industry and society at large. Where these duties are set out in law, or in regulation, the professional must always comply with the requirements in an open and transparent manner.

Members of the Chartered Institute for Securities & Investment (CISI) are required to meet the standards set out within the CISI's Principles. These Principles, which are also known as the Lord George Principles, in recognition of the contribution made to standards of integrity by the late Lord George FCSI(Hon), impose an obligation on members to act in a way beyond mere compliance and to support the underlying values of the Institute.

Material breach of the Code of Conduct would be incompatible with continuing membership of the CISI and may result in disciplinary action.

Members who find themselves in a position which might require them to act in a manner contrary to the Principles are encouraged to:

1. Discuss their concerns with their line manager.
2. Seek advice from their internal compliance department.
3. Approach their firm's non-executive directors or audit committee.
4. If unable to resolve their concerns, and having exhausted all internal avenues, contact the Chartered Institute for Securities & Investment for advice (email: [principles@cisi.org](mailto:principles@cisi.org)).

### The Principles

1. To act honestly and fairly at all times when dealing with clients, customers and counterparties and to be a good steward of their interests, taking into account the nature of the business relationship with each of them, the nature of the service to be provided to them and the individual mandates given by them.
2. To act with integrity in fulfilling the responsibilities of your appointment and to seek to avoid any acts, omissions or business practices which damage the reputation of your organisation or the financial services industry.
3. To observe applicable law, regulations and professional conduct standards when carrying out financial service activities, and to interpret and apply them to the best of your ability according to principles rooted in trust, honesty and integrity.
4. To observe the standards of market integrity, good practice and conduct required or expected of participants in markets when engaging in any form of market dealings.
5. To be alert to and manage fairly and effectively and to the best of your ability any relevant conflict of interest.
6. To attain and actively manage a level of professional competence appropriate to your responsibilities, to commit to continuing learning to ensure the currency of your knowledge, skills and expertise and to promote the development of others.
7. To decline to act in any matter about which you are not competent unless you have access to such advice and assistance as will enable you to carry out the work in a professional manner.
8. To strive to uphold the highest personal and professional standards at all times.

Being a CISI corporate supporter demonstrates a firm's commitment to ensuring its staff are amongst the most professional and best trained in the industry. The following firms seek to uphold the highest standards of integrity and support the CISI Code of Conduct:



ACPI Investments  
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 Bank of London & the Middle East  
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 CLA Investment Management  
 Cenkos Securities  
 Close Asset Management  
 Collins Sarri Stratham Investments  
 Credo Capital

Dart Capital  
 Duncan Lawrie Asset Management  
 Fogwill & Jones Asset Management  
 Global Reach Partners  
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