

Professional ethics of financial intermediaries

1. Preamble

The CFB has always maintained that the subject of investment ethics includes monitoring the standards of the brokers and banks with which it deals, as well as the companies in which it invests. A paper produced in November 2001 identified areas of concern relating to breaches of professional ethics by financial intermediaries used by the CFB.

Improprieties may range in severity from breaches of generally accepted standards of good practice to transgressions of regulatory codes and ultimately criminal acts. In evaluating its response to an impropriety the CFB will take into account any actual or potential damage to its reputation resulting from doing business with such an organisation.

The CFB will also take into consideration whether a company code of conduct exists. Remedial action will be evaluated such as the use of external consultants to advise on improved procedures or co-operation with regulatory bodies investigating misconduct.

2. Areas of ethical concern

2.1 Financial

Whether the impropriety has resulted in financial loss to clients or third parties.

2.2 Corporate culture

It is individuals acting either alone or in groups who carry out acts of misconduct. However, an assessment of the corporate culture in which they take place is crucial. Regulatory breaches resulting from inadequate management control systems might be considered less serious, and presumably could be more easily rectified, than those resulting from serious corruption. Anecdotal evidence indicating a questionable corporate culture often emerges well in advance of accusations of corruption.

2.3 Responsibility

Ultimate responsibility for activities carried out in the name of a financial intermediary rests with its senior management. Denial of appropriate responsibility may indicate a refusal to take procedural breaches seriously.

2.4 Disciplinary action

The imposition of disciplinary procedures against staff implicated in improprieties is an important sign of management determination to improve behaviour. Failure to take appropriate disciplinary action suggests that management does not regard the improprieties as important.

2.5 Persistence of breaches

Further examples of misconduct, after claims of management action taken to prevent them, would suggest that either the problems are deep-seated, or that remedial action is ineffective.

3. Policy statement

3.1 Minor impropriety

In this case it will be sufficient to write to the company concerned expressing CFB concerns.

3.2 Significant impropriety

In this case it will be appropriate for the CFB to write to the company concerned and to suspend dealing with it for a period of time. The length of the suspension period should take into account the seriousness of the alleged impropriety or regulatory breaches, the speed of the company's response and whether the response seems satisfactory.

3.3 Major misconduct

In this case the CFB should remove the bank or broker from the authorised list.

3.4 Company contact

It may be appropriate for the CFB to take legal advice before considering the disclosure of any action taken in response to impropriety or misconduct.

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