

THE  
**TRANSPARENCY**  
TASK FORCE

**Codes of Conduct & Codes of Ethics  
in Financial Services**

White Paper prepared by the  
Transparency Task Force  
**Market Integrity Team**

Executive Summary

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## Executive Summary

(Full White Paper available at: <https://www.transparencytaskforce.org/teams-of-volunteers/market-integrity-team/> )

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# Ideas to Raise Levels of Professionalism Across the Financial Services Industry

## Executive Summary

### Background

The Market Integrity Team (MIT) of the Transparency Taskforce (TTF) was set up with the idea of constructively critiquing existing codes of conduct (or ethics) to establish how they can be used more effectively to influence positive behaviours across the Financial Services industry, so helping to enhance the culture of professionalism in financial services and improve the industry's reputation.

This White Paper is the output of the MIT's survey of participating organisations' codes, and consists of three parts:

- Background and approach
- the findings of the Codes Review
- the Codes of Tomorrow

### Aims

The aim of the Code of Conduct survey/initiative is to have an honest conversation amongst participants about what an effective code looks like; what supporting documents and structures are needed; how the values within codes are supported within organisations; how adherence to values and standards is then monitored; and how breaches are dealt with.

By reviewing participants' codes through a process of assessment and self-assessment the intention is to get a deeper understanding of what an effective code contains, how it is presented to ensure that it acts as the foundation for positive behaviour, and how it is then embedded, monitored and enforced, and so to be able to offer suggestions of good (even best) practice.

The aim is that by going through this process participating organisations will take the opportunity to constructively critique their own codes against a common set of standards to identify gaps where/if they exist, relevant to their own organisation's approach.

The basic premise for the Codes initiative is that everyone who conducts financial transactions should behave more 'professionally' in the sense of aspiring to higher standards of behaviour and competence than required by regulation. The scope of this initiative is to look at ethics and standards of behaviour, rather than competence.

## Codes of Conduct or Ethics

An ethical culture is created by the organisation's leaders who manifest their ethical values in their attitudes, behaviours and the formal and informal systems of the organisation.

The International Federation of Accountants provides the following working definition of a code:

*"Principles, values, standards, or rules of behaviour that guide the decisions, procedures and systems of an organisation in a way that (a) contributes to the welfare of its key stakeholders, and (b) respects the rights of all constituents affected by its operations."*

The MIT is therefore reviewing the role professional bodies, trade associations and standards boards (the Code making bodies, referred to as 'organisations') can play in strengthening individual accountability through codes of conduct (as opposed to professional standards or rules), i.e., Codes. The MIT identified areas of the market where individuals are not covered by a Code of Conduct at all, and welcomed the consultation from the Financial Conduct Authority, to review voluntary written codes of conduct for unregulated financial market activity by FCA authorised firms (CP17-37).

While codes will be individual to sectors and organisations the aim is to create a common set of standards to judge their effectiveness against. The intention is that resulting ideas on best practice will be encapsulated within a Publicly Accessible Specification (PAS) to be developed with the British Standards Institute.

## Methodology

The initiative looked at voluntary codes which seek to raise the bar on standards over and above compulsory regulatory codes.

Seventy-four high-profile organisations were identified by MIT as being potential code-making bodies, with 88 percent contacted directly by the team and invited to participate in the Codes review over the period from July 2017 to February 2018.

The MIT identified thirty-one professional bodies, thirty-two trade bodies, five standards boards, and six observing bodies.

Over two-thirds (50) agreed to participate in the review.

In collaboration with participants a Question Bank was created to determine the elements that make up a good code, asking questions such as:

- Does a code exist?
  - If so does it apply at firm or individual level?
  - How is it constructed and used?
- What does the code cover?
  - Is it values or rules based?
- Do organisations act when things go wrong?

The MIT then requested that the participants self-assess their Code against the Question Bank via a secure and confidential internet connection. The questions and responses are shown in Appendix 2.

Ethical behaviour is the visible manifestation of underlying positive ethical values and beliefs that support the common good of society and best interests of individuals. Ethical behaviour is good for business and all stakeholders and involves demonstrating respect for key moral principles that include honesty, fairness, equality, dignity, diversity and individual rights.

## Outcomes

Twenty-eight of the fifty participating organisations make their Codes freely and publicly accessible on-line via their website. Twelve organisations are seeking support in producing their own code. The remaining organisations may or may not have a Code.

Organisations that self-assessed their codes included a cross section of sectors of the industry. Of the third of publicly accessible code-makers that self-assessed their code against the Question Bank:

- Most included the key provisions expected in a quality Code;
- Fewer had succinct values-based codes, with some still adopting a 50+ page rule book;
- Fewer still showed evidence of effective training, monitoring of observance to the Code and its review.

The MIT recognised the huge progress made in some sectors, most notably the Banking Sector in the wake of the global banking crisis. Exemplary Codes and guidance have been put in place through the efforts of organisations such as the Chartered Banker Institute and the Chartered Banker Professional Standards Board.

While compulsory codes provide standards or rules of behaviour that might be considered the bare minimum for professionals, opportunities remain for further raising the bar.

The MIT concludes, in support of the many studies on this subject, and judging from the prevalence and contents of Codes across the financial services industry, that:

- The use of Codes to define an ethical environment or culture, and their effective implementation, needs to be part of a broader learning process that requires inculcation, reinforcement and measurement.
- Codes are more effective when they are values-based with guidance than multi-page rules-based documents.

The survey showed varying approaches to the way:

- Codes are drafted: Values based versus Rules based
- Codes are presented: Succinct, well-articulated, regularly updated, easily accessed and easily remembered versus long and legalistic, giving the impression of sitting outside a wider culture of ethics
- Codes are focused on protecting the spectrum of stakeholders versus protecting the reputation of the organisation.

## Recommendations

This White Paper provides some insights into shortcomings on Codes but far more importantly, it goes on to consider solution-orientated ideas that may help to prevent unethical conduct in the financial services market; ideas include the need to:

- **Take a “whole system” approach to conduct risk, use the exemplary Codes and guidance recently developed in sectors such as banking, and apply the structures across the whole financial industry;**

- Focus on the importance of identifying the true core ethical values of the organisation in order to provide a foundation for an effective Code
- Use a Publicly Accessible Specification (PAS) developed with the British Standards Institute, setting out procedures for creating an effective code, and overseeing its development, implementation, monitoring adherence to the Code, and its review;
- Take a fresh look at people risk, culture risk and conduct risk; individually and collectively; properly incorporate the “human capital” element to market behaviour; defeat the damaging culture of short-termism;
- Develop far more effective values-based, rather than rules-based, Codes, that are consistently embedded and observed, holding people accountable for failing to do so;
- Consider inculcation via Oaths, the introduction of Fiduciary Oaths and Fiduciary Standards for the sector;
- Apply a reminder system on Codes of Conduct, e.g. at renewal sign up;
- Aim to engage and inspire adherence to codes rather than a compliance approach.

## Conclusions

A well-designed ethics code should inspire and promote ethical values, and not just consist of a set of constraints, rules, and violations. It should focus on all stakeholders who are affected by the company’s objectives (employees, customers, suppliers<sup>1</sup>, shareholders, as well as the community in which the organisation operates). It will also be supported by guidance, such as scenarios of common ethical dilemmas that employees may face, ethics training, and a system for feedback and questions.

Organisations that self-assessed their codes included a cross section of sectors of the industry. However the MIT would welcome more questionnaire responses on which to build its best practice recommendations, and this White Paper is a clarion call to all relevant organisations not yet included or actively participating.

Codes describe members’ responsibilities, based on a set of principles or values.  
Rules create obligations that members must follow.

*“Give Tools not Rules”*

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<sup>1</sup> Most companies outside the financial services industry have separate Codes for Suppliers.

## Questionnaire Responses

The purpose of the Codes Review was not to judge individual codes, but to identify good practice. The results were analysed to identify areas that scored highly, recognise trends, and areas within codes that are commonly overlooked in order to be able to highlight best practice.

Interestingly, where codes were both self-assessed and assessed by MIT, organisations tended to score their own codes more harshly.

The table in Appendix 2 shows the full breakdown of responses - strongly agreeing/ agreeing/ neither agreeing or disagreeing/ disagreeing/ strongly disagreeing - for each of the forty five questions. This in no way implies that a “disagree” or “strongly disagree” response indicated a shortfall within an individual Code, where that response may be wholly applicable to that organisation.

An extract is shown below:

<b>PART A - General</b>	<b>% Strongly Agree</b>	<b>% Agree</b>	<b>% Neither A nor D</b>	<b>% Disagree</b>	<b>% Strongly Disagree</b>
1. Does the Code apply to an individual, such as a member (i.e. not a firm)?	70	10		10	10
2. Does the Code confirm that the individual has a duty to comply with all legal and regulatory requirements?	78	11	11		
3. Does the Code focus on outcomes, rather than rules?	56	44			
9. Did your organisation engage with members in developing the Code?	55	45			
10. Does the organisation have a formal review mechanism for its Code?	55	33		11	
12. Does the organisation provide good practice guidance to support the Code and assist individuals in meeting their obligations under the Code?	33	56		11	
13. Is the Code produced in a format that is brief, clear, and easily understood?	56	22	22		
14. Is the Code readily accessible and/or regularly communicated to relevant parties?	45	55			
<b>PART B - Principles and Values</b>	<b>% Strongly Agree</b>	<b>% Agree</b>	<b>% Neither A nor D</b>	<b>% Disagree</b>	<b>% Strongly Disagree</b>
15. Does the Code clearly convey the organisation's underlying principles and values?	56	33	11		
16. Does the Code convey the process for determining these principles and values for the organisation?		22	56	11	11
23. Does the Code require the individual to be alert to any actual or perceived conflicts of interest?	50	30			20
24. Does the Code require the individual to declare any conflicts of interest at the earliest possible opportunity to all parties that may be effected?	10	40	30		20

29. Does the Code require the individual to treat all client/customer information confidentially, considering the principles and values and legal caveats?	67	11	22		
30. Does the Code require the individual to place the principles and values before self-interest?	44	44	12		
32. Does the Code require the individual to act diligently and in accordance with applicable technical and professional standards when providing professional services?	56	33	11		
33. Does the Code require the individual to undertake continuous learning appropriate to relevant responsibilities to ensure the currency of knowledge, skills and expertise?	62.5	25	12.5		
34. Does the Code require the individual to decline to act in any matter about which the individual is not professionally competent unless the individual is able to access such advice and assistance that will enable the individual to carry out the work in a professional manner?	45	33	22		
<b>PART C Disciplinary &amp; Reporting Procedures</b>	<b>% Strongly Agree</b>	<b>% Agree</b>	<b>% Neither A nor D</b>	<b>% Disagree</b>	<b>% Strongly Disagree</b>
35. Does the organisation have a policy on how it will deal with known breaches of its Code?	67	11	22		
36. Does the organisation have a practice for implementing the policy in a way that honours the principles and values of the organisation?	62.5	25	12.5		
37. Does the organisation have a policy that requires it to publicise known breaches of its Code in a proportionate manner depending on the severity of the breach?	25	12.5	50	12.5	
41. Does the organisation have a mechanism in its Code for 'whistle-blowing'?	12.5	12.5	25	25	25
42. Does the Code include a policy about non-retaliation for 'whistle-blowers'?		11	45	22	22
43. Has the organisation ever taken action against a member on the basis of a breach of code?	50	25	25		
44. Does the organisation have any monitoring in place to identify breaches?	25	37.5	12.5	25	