



LEADING TREASURY
PROFESSIONALS

The Association of Corporate Treasurers

Comments in response to
***Consultation paper from
Lambert banking standards review***
February 2014

27 February 2014

The Association of Corporate Treasurers (ACT)

The ACT is a professional body for those working in corporate treasury, risk and corporate finance. Further information is provided at the back of these comments and on our website www.treasurers.org.

Contact details are also at the back of these comments.

We canvas the opinion of our members through seminars and conferences, our monthly e-newsletter to members and others, *The Treasurer magazine*, topic-specific working groups and our Policy and Technical Committee.

General

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The ACT very much welcomes the proposals set out in the Banking Standards Review consultation paper. There is clearly a need to restore confidence and trust in the banking industry (widely defined). Improving standards both real and perceived must help.

Professional bodies already exist in the industry so it makes sense to build on these rather than start again from nothing. As Richard Lambert says a “new body to allow recognition of company codes of practice and training schemes and qualifications issued by other bodies is practical and can be achieved in reasonable time by a system of benchmarking against standards the new body has set out.”



The Association of Corporate Treasurers, London, February 2014

The existing professional bodies teach and cater for different skills and levels of expertise but we believe it is possible through a new canopy body to set minimum standards for the individual bodies as regards their codes of conduct, delivery of training and qualifications and particularly their ethical standards. Starting with this form of benchmarking of existing bodies should allow rapid progress.

Participating bodies will benefit from public recognition of the overarching standards put forward. Additionally, that participation should prompt individual bodies to observe the practices and standards of the other bodies and for them to learn from and reinforce each other. Peer pressure will reduce backsliding and make the task of the canopy body easier.

As a second phase it would be good if the new canopy body is able to validate the training and professional development programmes of individual financial services firms as a way of embedding good practice and conduct that much closer to the individuals.

Turning the canopy body into a membership organisation that individuals can join may be one for the future so need not be contemplated just yet. We are uncertain how formal such a step might need to be in any case. Consideration after the first phases have settled down and are well accepted would be appropriate.

Specific questions

Question 1

Do you agree with the objective to establish a new independent organisation with the aim of defining and raising standards of conduct and competence in banking?

Yes.

We are concerned at the definition of boundaries and some definition of banks and of banking might be needed.

Question 2

Do you agree that there is a case for a collective approach calling for the participation of all banks doing business in the UK?

Yes. A more limited scope would cast doubt on the credibility of the enterprise given that, no doubt, staff transferring between the “ins” and the “outs” would be common and retail customers in particular would fail in practice to recognise the distinctions.

Question 3

Do you agree with the proposed role of the new organisation to set standards of behaviour and competence for banks and building societies, and to define metrics against which they could benchmark?

Yes. The distinction between codes of conduct and standards of competence is important but it should be a key part of a code of conduct for individuals that one should only work in areas for which one either has the necessary competences or is supported by others that have any lacking competences. An institution participating should take steps to ensure that this applies at all levels and, where the competence is provided as support, that that competency is not ignored by the individual(s) being supported.

We think it right, in terms of limiting the task to something achievable in a reasonable timescale and at reasonable cost, to exclude shadow banking, etc. as set out.



We have some concern about boundaries in the public mind, however.

Historically, in the UK, banking might normally have been defined as the taking of deposits and or the paying and collecting of cheques – the latter today being the operation of current accounts generally, perhaps. In UK statute, a bank is often taken as holding a permission under financial services and markets Act for the taking of deposits.

The public perception, and so its expectation of “bankers” is broader. Provision of services ancillary to or conveniently or habitually marketed with or alongside basic banking services mean that the public would probably expect ethical behaviour to be encouraged across all those activities. For bank having “ethical” and “unethical” divisions could be hard to market. The situation is complicated further in that a banking holding company might not actually carry out the activities of banking, but that of owning/controlling them, perhaps alongside non-banking subsidiaries.

We would expect the recommended canopy body to pay attention to achieving a working definition of its scope early in its life. This scope will doubtless require adjustment over time as events demonstrate the need.

Question 4

Do you agree with the proposed scope of the new organisation to include all British banks and building societies, and foreign banks doing business in the UK?

Yes.

A key objective is to restore public confidence in the industry as a whole. A material part of the industry operating in the UK is from overseas so non-UK institutions should be encouraged to be included. As commented in response to questions 1, we think to have a limited group of institutions included in the initiative would undermine its credibility.

Question 5

Do these proposals go far enough to ensure the body has credibility?

Yes.

Given the collective and voluntary nature of the enterprise, the proposals give as good a chance of credibility as can be expected. The features are recognisable from UK historical precedents but some care in explanation to overseas participants, especially to permit them to explain to their home-country colleagues, will doubtless be needed.

In particular, in many languages/countries the distinction between a professional body in the UK sense that operates (and if chartered is required to operate) in the public interest and a trade body promoting the interests directly of the practitioners is non-existent and can be difficult to comprehend.

Question 6

Do you agree that the new body should initially work with banks and building societies rather than individuals?

Yes. On grounds of practicality.

For the institutions to provide the driving force and encourage and facilitate among their people the achievement of the ethical and competency standards promoted by the new body is right.

The new body to allow recognition of company codes of practice and training schemes and qualifications issued by other bodies is practical and can be achieved in reasonable time by a system of benchmarking against standards the new body has set out. This must not be perfunctory validation however. Any new system is vulnerable to early discrediting by improper behaviour, but it should not be discredited by being manifestly cursory.

What are the pros and cons of aspiring to build individual membership over time?

Mutual trust within the industry – not just trust of the industry by the public – is important to reinforcing behaviour.

Individual membership may be a way of promoting this. Individual membership may help perception of transportability industry-wide of ethical practices and competency learnings from a particular employer where these are not provided by or validated by existing professional bodies' certification. This can help discourage the view, cited in the consultation paper, that "flexibility" on ethics and conduct may be needed for career progress.

The points in the paragraph above probably apply particularly to the most junior staff, particularly those dealing directly with the retail customer, many of whom will be unlikely to have aspiration to join a professional body in the normal sense.

In any case, eventual individual membership (at low cost) of the new body can improve within-the-industry respect between members of existing, higher cost, professional bodies, including legal and accountancy bodies (and including The Association of Corporate Treasurers). Individual membership is a project over generations, however.

Question 7

In the section titled 'Ethics', a case is made for a more pro-active approach to managing ethical issues. Do you agree with this, and if so how should it be done?

There can be a disjuncture between knowledge of ethical codes and an ability to respond to test questions or presented situations in controlled circumstances and realising what are the ethical issues arising in a real life job situation and how they might be dealt with.

Habits of mind and behaviour build up over long periods. What may have been ethically appropriate in the past may not be in a new situation, even if with only apparently small differences. Equally, changes in what people do and in the products, etc. they provide are often incremental – not clearly new, different and needing thinking about from an ethical point of view.

It is often difficult to cause people to pause and think about what they are doing from a wider perspective – ethics, external perception/reputational issues, and so on. But requiring such topics to be at least mentioned in proposals, reviews, evaluations, etc. can prompt (but does not guarantee) thought. This sort of prompting can be especially beneficial in an environment in which such issues are immediately dismissed as awkward, obstructive, or unhelpful. It is far better if staff can see serious consideration of matters raised. Thanking them for raising the issue to be thought about is important.

Equally, ensuring that staff watch for potential ethical/reputational issues arising in customer relations, complaints handling and so on can generate issues for follow up.

Finally, it must be recognised that staff may need help in thinking about ethical issues. A helpline – not a whistle blowing service – can help individuals in their

thinking if sympathetically conducted, possibly by a neutral external party. This can be especially helpful where there are only apparently less than acceptable courses of action open.

Question 8

Do you agree with the proposal to build on best practice as set out in the regulators' guiding principles?

Yes – as a starting point.

Question 9

What would be the best way of assessing the implementation of a bank's code of conduct?

The most “real” assessment will only be after future poor behaviour has come to light, and which should have been avoided by earlier consideration of the issues. Before that, all assessments are interim. It is hard to stop them being “box-ticking” or, perhaps, becoming box ticking after the initial managers making the assessment move on.

This is not a counsel of despair. Box-ticking questions such as “Did you consider the ethical and reputational aspects of this change?” or “have these older products been reviewed in the context of current-day society?” can stimulate thought and that is all one can hope for – the thoughts, at best, and with luck, giving rise to action in suitable cases.

It must also be realised that not all bank staff will fully understand all the products they are selling. Indeed for some products it may be difficult for well qualified staff – or even top academic financial economists – to realise how the product will turn out in the long run. However a key question to be asked in assessing implementation is “How well are junior staff supported in understanding ethical aspects of any products they are responsible for, especially for selling?” And that support should not be sophistry from seniors in defence of questionable practice.

Question 10

Do you agree with the agenda outlined in the ‘standards of competence’ section?

Broadly, yes. A sensible approach to a difficult task.

Question 11

Would you support the proposed relationship with the existing professional bodies?

Broadly, yes.

The new body will need to consult widely with both banking professional bodies and related professional bodies and patterns of mutual recognition and exemption/partial exemption, etc. will need to be built up.

Question 12

Is the proposal for assessing in-house training sensible and practical? Could the new organisation play a helpful role in the certification process?

It is essential. But it needs to extend to external training as well, so that firms can use it to supplement and to substitute for internal training if that suits them. Of course, “internal” training itself will often be provided by outside parties.

For staff, the certification by the new organisation can make internal training more easily recognised by other potential employers and avoid tying staff to the same employer for life. It goes without saying that this aspect is another important

reason why involvement of all banks and building societies is important (question 2 and others above).

Question 13

Do you think a benchmarking exercise, to help banks identify areas for improvement, would be of value?

The general approach is sensible.

We note that customer surveys about products would likely show satisfaction with a product until it failed. The numbers of individuals sold unsuitable PPI or of small firms apparently miss-sold interest-rate risk products over a long period illustrate how long it takes for customers to realise what is going on. That is to say such surveys can become just part of the box-ticking. Complacency is the risk.

Question 14

Are the groups of metrics outlined in the section titled 'Benchmarking' the correct ones? Would you propose others?

We generally make no comment on this question. However, we note that commercial firms already survey corporate treasurers about their experiences with and attitude to specific banks and banks that have such information might usefully add it to their internal information in this area.

Question 15

Would it make sense for banks to adopt a set of standard questions to add to their existing staff surveys?

Comparability over a sub-set of questions would seem advantageous. It is necessary to avoid exclusive use of standard questions as that might be confining and miss new issues that individual institutions might pick up - and lead to revision of the standard question set.

Question 16

Is self-reporting appropriate? Might other methods deliver better results?

No doubt institutions will have views on this but for cost reasons (and we are conscious that all costs are passed on to the clients) self-reporting may be advantageous.

Question 17

Are there non-bureaucratic alternatives to the approach outlined in the section titled 'discipline' that might work better? Is there a role for kite-marking?

Without a large bureaucracy, the new body can only focus attention on the area and rely on institutions behaving in good faith. The actions of the regulators over time will reveal if the good faith is real. So this seems a sensible proposal. As regards kite-marking, that seems to be high risk for the new body. The regulators fulfil the role of confidence giving that kite-marking might offer. Kite marking seems unnecessary. Publishing what it regards as good practice is the better role for the new body, especially while it does not have individual members.

Question 18

Do you agree with the proposition that the new body should aim to become in time a new a membership body for bankers to join?

We think that a lot of good things can be done by the proposed new body in the foreseeable future.



Creating a new professional body is a task that takes many years. The Association of Corporate Treasurers was formed in 1979 with the aim of supporting the profession and educating and qualifying new practitioners. We were granted our Royal Charter only recently. No doubt a banking body would be well financed and supported. But the distraction of it all – members and their needs and professional formation – would be significant.

It may be that existing banking professional bodies will develop in ways that support the objectives of the review and will be able to provide short-cuts in the aim this question discusses.

Question 19

Should the new organisation aspire to a role as a thought leader in banking, sharing best practice and helping to propose solutions to challenges that arise in the future?

We presume that this question refers to sharing best practice etc. in the field of banking ethics and conduct generally. We think that would be a very valuable role. We would have grave doubts about it working on product design and so on rather than on the ethical and conduct issues relevant.



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The Association of Corporate Treasurers

The Association of Corporate Treasurers (ACT) is established by Royal Charter. It is the leading professional body for international treasury providing the widest scope of benchmark qualifications for those working in treasury, risk and corporate finance. Membership is by examination. We define standards, promote best practice and support continuing professional development. We are the professional voice of corporate treasury, representing our members.

Our 4,300 members work widely in companies of all sizes through industry, commerce and professional service firms.

For further information visit www.treasurers.org

Guidelines about our approach to policy and technical matters are available at <http://www.treasurers.org/technical/manifesto>.

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The Association of Corporate Treasurers, established by Royal Charter



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