

Ethics in Finance

by Clare Payne, November 2018

Ethics - But, is it right?

At the heart of ethical leadership is asking the question, 'But, is it right?' Legalities, usual practice and competitor behaviour aside, is it right? Asking and seeking to answer this question is, I believe, the task of an ethical leader.

We have seen through the **Banking Royal Commission** that legal minimums are not always enough, and can be an inadequate justification for poor behaviour and practices (*Hayne Commission shows banks must reintegrate law and morality* - www.afr.com/business/banking-and-finance/financial-services/hayne-commission-shows-banks-must-reintegrate-law-and-morality-justin-obrien-20181025-h172xy).

Concurrently we are seeing the continued evolution of the concept of **fiduciary duty**, moving from a definition where 'best interests' was interpreted narrowly, to that of incorporation of environmental, social and governance factors (UN PRI *Fiduciary Duty in the 21st Century Report*: <https://www.unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century/244.article>).

Social Licence to operate

What we have seen throughout 2018 is an increased focus on the 'Social Licence' of business. What might seem small or isolated issues of misconduct or poor practice are quickly linked to the bigger social issues of the day.

Integrity – Matching words with practice

We have seen the rise of **legal action** against companies and directors. Whilst the claim against CBA Directors for misleading shareholders over the risks climate change posed to their business practices was dropped, on the 24th of October, New York's Attorney General commenced proceedings to sue Exxon Mobil for misleading investors about the risks of climate change regulations on its business. It seems likely that legal actions will continue, putting business and Directors on notice to ensure that their public statements match business practices.

Trust – Turning from rebuilding trust to deserving it

The other issue of concern for many in the business community is that of trust. We should be careful that the pursuit of trust is not just a thin cloak for the continued pursuit of self-interest, and more specifically, that of profit. Instead, we should remain mindful of the merit of being 'trustworthy' and why this matters to business and society more broadly.

It's important to note that trust has not been lost completely from society, instead it has shifted, largely to the individual (**Edelman Global Trust Report**: <https://cms.edelman.com/sites/default/files/2018-01/2018%20Edelman%20Trust%20Barometer%20Global%20Report.pdf>). Therefore, it matters now more than ever to be trustworthy.

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