ETHICS TRAINING: HOW TO DO THE RIGHT THING EVEN WHEN NO ONE IS WATCHING

WELCOME REMARKS:

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Good morning and thank you for the introduction, Ms. Rolle-Beneby:

It is my pleasure to bring remarks this morning as we embark on this special ethics training session under the theme: How to do the Right Thing Even When No One is Watching. The theme cuts to the heart of what ethics is all about: those moral principles that have become a part of who we are and how we perceive and interact with the world around us—that dictate our actions and behaviour, irrespective of the audience, the reward, or even the consequence. These *moral* principles do more than guide us in making legal or illegal decisions, or expedient or inexpedient ones. Rather, they speak to doing what is "right".

I note this seminar is being presented a decade from the collapse of Lehman Brothers in September 2008, which marked the start of the greatest financial crisis since the great depression of the 1930s. Excessive debt, flawed compensation schemes, weak regulation and some fundamental mismatches between who reaps the rewards of an endeavour and who actually bears its risk – also known as *moral hazard* – came together to crash the financial system[i].

The cost of the crisis was phenomenal and Governments, on behalf of their taxpayers, paid big, stepping in to bail out "too big to fail" financial institutions. The cost for the US Government alone was $700 billion in the immediate aftermath of the crash, and trillions of dollars when you consider the money spent by the Troubled Asset Relief Program to address the situation in the years since.[ii] Of course, the financial losses in the US are only a fraction of the story of the fallout. Some would argue that economies, like ours, have still not fully bounced back from the financial disaster.

Each of the underlying factors I mentioned earlier--excessive debt, flawed compensation schemes, weak regulation and moral hazard, spoke to a pattern of continuous unethical behaviour. Decision makers at supposedly responsible financial institutions, regulators and policy makers, sales staffs selling financial products they didn't understand or that were unsuitable for their clients, and even everyday consumers of financial products pursing *too-good-to-be-true* deals, failed to do what was 'right', regardless as to whether their intentions were malignant or benign.

More than ten years out, while regulation and some other areas may have improved, whether or not people are any more 'ethical' is debatable, and some would argue that in many ways the underlying ethical issues that strained the system are even more significant now than they were pre-crisis.[iii]

On paper, perhaps ethics is simple and straightforward—just do the right thing all the time. Easy, right? In reality, making the "right" decision is sometimes neither instinctual nor easy. Unfortunately, this is even truer when people do not believe that anyone is "watching", or that there will be no accountability, or consequences accruing to them for their actions.

Let me put a quick pin in here to say, I hope you all know that your regulator *is* 'watching'! Through our various onsite and offsite surveillance programs, and now harnessing the power of risk-based supervision, financial regulators are doing their best to watch and to let industry know it is being watched and that there are consequences for bad behaviour. At the Securities Commission of The Bahamas, for example, last year we implemented risk-based supervision across our regulatory scope. To support this endeavour, in May the Commission established a Risk Analytics and Examinations Department, which will help to focus our efforts to areas, firms, practices, products, where we deem the risk so-warrants.

Beyond 'watching', there are structural and systemic initiatives that help people to make the right choices. Corporations and firms need sound, transparent standards and principles governing ethical conduct, including a reinforcing 'tone from the top', replete with proper training programs for their staff to ensure they understand and adhere to the organisation's ethical standards. To this end, the Commission released the Securities Industry (Corporate Governance) Rules, 2019 for public consultation on 29th October 2018. The draft Rules were crafted to capture public issuers, state owned enterprises and private companies seeking to raise funds in the capital markets or seeking a listing by introduction. They principally address–

- the composition, appointment, qualification, duties, training and remuneration of a company's Board;

- the company's relationship with shareholders and how shareholders' rights, specifically minority shareholder rights, are to be protected;
- the company's obligations to implement a risk management and internal control protocol; and
- the accountability and reporting obligations of the Board.

The Commission is also continuing its work to develop a suitable whistle-blower framework for investment funds, securities and the capital markets. Once developed and implemented, such a framework will go a long way to supporting an ethical culture across the industries under our regulatory remit, as co-workers and clients can help the regulator to understand the risks in the system.

These are all a part of what we do to encourage legal, and ethical, behaviour – to protect the markets we oversee and the consumers of their products. Certainly, every measure we undertake is geared towards facilitating a more ethical environment generally—whether it be developing new legislation for Cabinet's consideration, developing guidelines and policies, taking enforcement action, onsite and offsite conduct monitoring, even informing investors about their rights.

However, no regulator can be watching everything and everyone all the time. Even with risk-based supervision, the regulator's eyes will not always be focused exactly where, and when, they are most needed. For all our efforts, where there is free will, individuals may choose to be ethical, or not. For all of our enhanced supervision and improved policies, better data gathering and processing, ethics is very much a day-to-day, every-person-in- an-organisation sort of thing.

We are very appreciative to the CFA Society The Bahamas for presenting this event and sourcing Dr. McMillan to present on this topic. It is a vitally practical subject for everyone in the financial services industry. I believe that the vast majority of professionals in our industry want to make *good* decisions—decisions they can be proud of -- that leave us, our families, our work colleagues and employers, our clients, our industry and our jurisdiction unsullied by the stain of unethical behaviour.

I welcome you all to today's session. I look forward to it and hope that afterwards, we have greater knowledge, greater incentive, and greater courage to do the right thing, regardless as to whether or not anyone is watching.

Good morning.

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[i] "What has changed since Lehman failed", John Cassidy, *The New Yorker*, August 28, 2013
[ii] "The big bank bailout" Mike Collins, *Forbes*, July 14, 2015.
[iii] 'Ten years after Lehman—Lessons learned and challenges ahead", Christine Lagarde, IMFBlog, September 5, 2018.