

Regulating Culture – the carrot or the stick

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Aspects of culture

- Culture drives outcomes: it is how things get done
- Culture trumps compliance
- Regulation is a driver of culture; but participants must take ultimate responsibility
- Too much focus on structure, not enough on people
- $B = F (P, E)$

Aspects of culture

- Social Network Analysis
- Actions speak louder than words; what you walk past you accept
- White noise
- Culture is not monolithic
- Breaking Bad Effect

FMA: Our culture

- Created to solve problem of a generally inchoate regime with no certainty for either investors or participants
- Key aims:
 - Strengthen public trust in financial markets
 - Promote innovation
 - Support growth at NZ's capital markets
 - Balance costs and benefits of regulation
- Regulation must serve a purpose
- FMA and Participants must be able to have genuine dialogue about issues

The conduct lens



Communication

- Listen to customers
- Help customers understand products and services
- Ensure good communication across whole organisation.



Capability

- Have the skills and experience to provide the right products and services
- Meet professional standards of care
- Seek continuous improvements through training.



Conflict

- Serve business and customer interests
- Disclose and discuss conflicts
- Explain related party arrangements.



Control

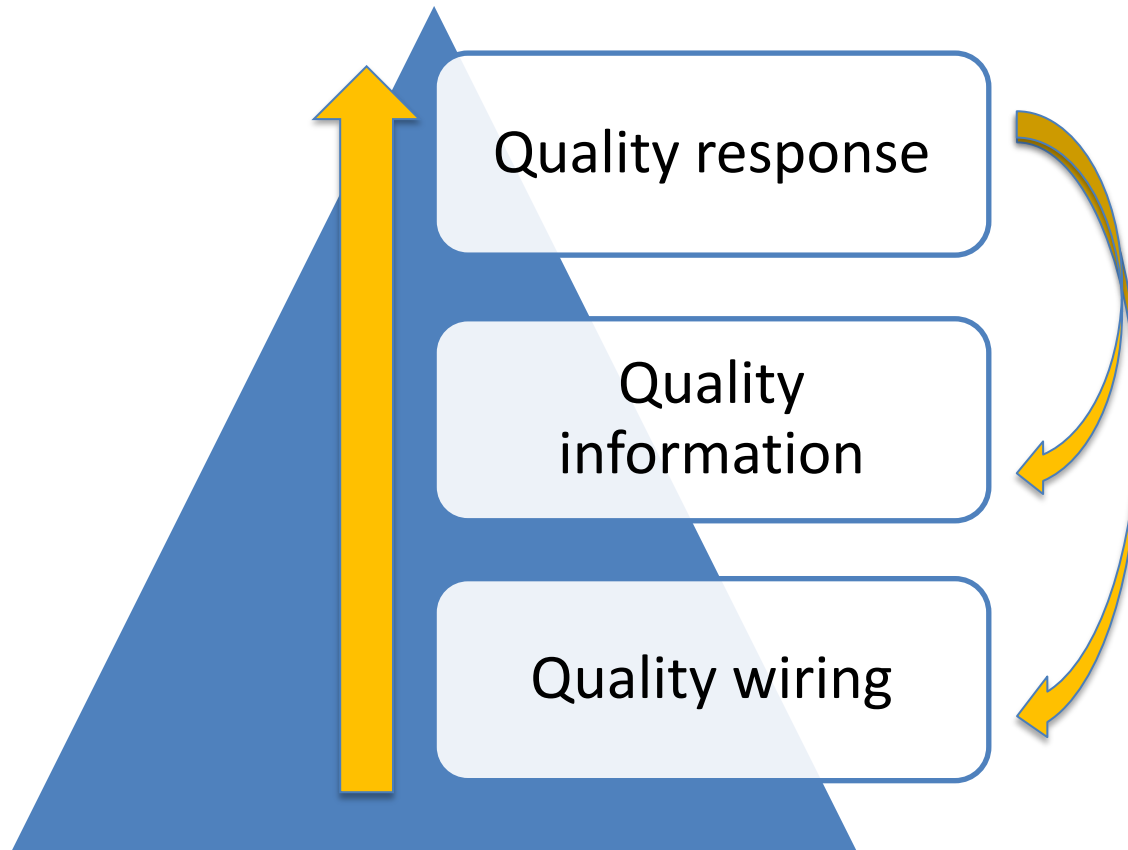
- Maintain systems to support good conduct
- Seek out continuous improvement
- Effectively manage complaints and disputes transparently.



Culture

- Act in the interests of customers
- Treat customers honestly and fairly
- Conduct expectations communicated clearly by leaders and understood by staff
- Address poor conduct; recognise and reward good conduct.

Our approach



- How does the board and senior management scale good results and not repeat bad ones? ('lessons learned')
- Who gets praised, promoted, \$?
- Who gets penalised, pushed out?

- What comes through the 'wiring'?
- Does the board and senior management see it?
- What do they do with it?
- Does it contribute to good outcomes (and avoid poor ones)?

- Licensing 'hygiene' (for licensed)
- Is there appropriate 'wiring' – processes, standards, systems, etc. – to show formal intent about good customer outcomes?

Where Culture Goes Wrong

Picking through the wreckage – how the Fletcher Building disaster unfolded

JENNY RUTH · FRIDAY AUGUST 18, 2017 · 4

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An eerie calm settled over Fletcher Building after it shocked the market with its profit downgrade in March – at least in public.

The \$110 million hole the company had just discovered in its annual earnings came less than a month after the company had reported its first-half results.

Fletcher Building had assured the investment community in February that the small problem in its construction division announced then was just a



Fletcher Building chairman Sir Ralph Norris with then-chief executive Mark Ardamann are now in a severed relationship

How to stay off the radar

Good conduct

- Comprehensive guidance in A guide to the FMA's view of conduct
- Key component – customer focus

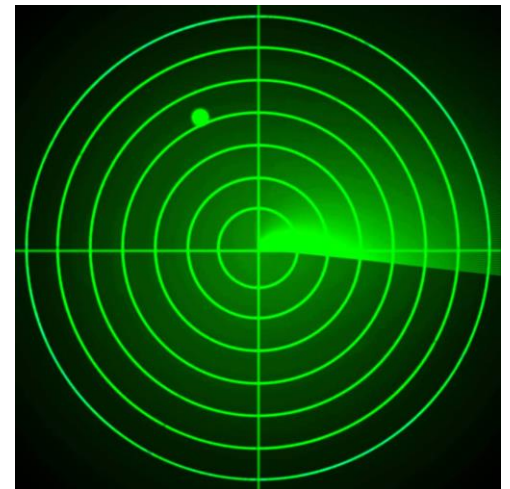
Pay heed to guidance that is available

- compliance advice
- warning letters
- judicial precedent
- FADC decisions

If things go wrong, consider self-reporting

Follow the trends

- Media releases
- FMA guidance



The Regulator and You

- Understand the Regulator's focus and priorities
- Explain yourself
- Be proactive
- Don't be fluffy
- Understand the consequences
- Be open and transparent
- Rage is a sub-optimal response to regulatory concern