

31 October 2016

Financial Markets Authority
PO Box 1179
Wellington 6140

By email: consultation@fma.govt.nz

Feedback: A guide to the FMA's view on conduct

The Institute of Directors (IoD) appreciates the opportunity to provide feedback on [A guide to the FMA's view on conduct](#) (the guide).

About the Institute of Directors

The IoD is a non-partisan voluntary membership organisation committed to driving excellence in governance in all areas of business and society in New Zealand. We represent a diverse membership of around 8,000 members drawn from NZX-listed corporations, private companies, small to medium enterprises, public sector organisations, not-for-profits and charities.

Our chartered membership pathway aims to raise the bar for director professionalism in New Zealand, including through continuing professional development to support good corporate governance.

General comment

Conduct has been gaining increasing global focus, especially in the financial services industry. Good conduct is vital to fair, efficient and transparent markets. In New Zealand, conduct is central to the Financial Markets Conduct Act and *governance and culture* is one of the FMA's seven strategic priorities.

The guide sets out what the FMA will focus on when examining how financial services providers demonstrate good conduct. It provides the conduct 'lens' the FMA will use to examine what providers do and how they do it.

We support the guide as a resource to help providers understand FMA's focus on and expectations about good conduct under its framework of *capability, conflict, culture, controls* and *communication*.

The board's role

We agree with the FMA that it does not, and should not, prescribe culture. It is the role of the board and senior managers to lead culture in the organisation and to 'set the tone'. It is the board's role to ensure that governance structures, control mechanisms and organisational culture support good conduct.

The IoD's [Code of Practice for Directors](#) provides guidance for directors to observe and foster high ethical standards. Directors 'set the tone' by demonstrating high ethical standards to positively influence the culture, behaviour and reputations of their companies.

Customer focus

The FMA states that good conduct, at its core, means focusing on customers and that the result is good customer outcomes.

We agree that customer focus is important, but behaviour and 'doing the right thing' is also at the core of good conduct.

We suggest FMA emphasise acting with integrity, honesty and fairness in the description of what good conduct is to help mitigate against the risk of a focus on customers that could include bad behaviours which still results in good customer outcomes.

Good conduct in practice - guidance only

The guide sets out a range of questions that FMA staff are likely to ask about the organisation's *capability, conflict, culture, controls* and *communication*. We agree with the FMA that these questions and the guide should not be seen as a checklist or manual.

It is important that organisations take responsibility for conduct and culture. This includes ensuring sound systems and controls, being disciplined about meeting compliance obligations, and good disclosure.

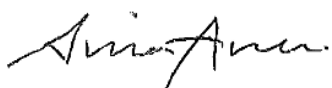
Conclusion

The IoD believes good corporate culture at board and management level is a critical foundation for ethical business and good conduct.

The guide should help directors and executives understand the framework (the 'lens') that FMA will use to examine conduct in financial services providers. This should also support boards to foster high ethical standards and lead an effective culture in their organisations.

We appreciate the opportunity to comment on behalf of our members and would be happy to discuss this with you.

Yours sincerely



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Chief Executive
Institute of Directors