



CODE OF ETHICS FOR THE FINANCIAL SERVICES INDUSTRY

Response to feedback received on the Exposure Draft of the
FSPB Code of Ethics for the Financial Services Industry

December 2015

ABOUT THE FINANCIAL SERVICES PROFESSIONAL BOARD

The Financial Services Professional Board ("**FSPB**") is an industry-led voluntary initiative that was launched in Kuala Lumpur, Malaysia by Bank Negara Malaysia and Securities Commission Malaysia on 24 September 2014. It comprises a group of prominent individuals from the financial services industry ("**FSI**") and related industries. The aim of FSPB is to support a strong culture of professionalism and ethics across the FSI through the development and advocacy of professional and ethical standards that are applicable across the FSI, including banking, capital markets, insurance and Islamic finance.

RESPONSE TO COMMENTS RECEIVED ON EXPOSURE DRAFT

Code of Ethics for the Financial Services Industry

SECTION 1: INTRODUCTION

1. Background	3
2. Exposure Draft of the Proposed FSPB Code	4
3. Consultation Response	4
4. Acknowledgement	6

SECTION 2: BROAD SUPPORT FOR THE PROPOSED FSPB CODE 7

SECTION 3: GENERAL ISSUES SURROUNDING THE PROPOSED FSPB CODE

1. Concept of a Cohesive “Financial Services Industry”	
1.1 The Issues	9
1.2 FSPB Response	10
2. Value of the Proposed FSPB Code	
2.1 The Issues	11
2.2 FSPB Response	12
3. Overarching Guiding Principles of the Proposed FSPB Code	
3.1 The Issues	14
3.2 FSPB Response	15
4. The Five Principles in the Proposed FSPB Code	
4.1 The Issues	15
4.2 FSPB Response	16
5. Confinement of the Proposed FSPB Code to Business & Professional Ethics	
5.1 The Issue	16
5.2 FSPB Response	16
6. Adoption & Implementation of the Proposed FSPB Code	
6.1 The Issues	17
6.2 FSPB Response	18
7. Extension of the Proposed FSPB Code to Third Parties	
7.1 The Issues	19
7.2 FSPB Response	20

8. Effective Date of the Proposed FSPB Code	
8.1 The Issues	21
8.2 FSPB Response	21
9. Additional Guidance on the Application & Implementation of the Proposed FSPB Code	
9.1 The Issues	21
9.2 FSPB Response	21
10. Gaining International Acceptance of the FSPB Code	
10.1 The Issue	22
10.2 FSPB Response	22

SECTION 1

INTRODUCTION

1. Background

At the inaugural meeting of the Financial Services Professional Board (“**FSPB**”) on 24 September 2014, FSPB members agreed to develop an internationally acceptable code that sets out the core ethical principles that are applicable to organisations across the entire spectrum of the financial services industry (“**FSPB Code**”). It is envisaged that the FSPB Code will be voluntarily adopted by organisations across the financial services industry (“**FSI**”) to benchmark their own respective codes of ethics as well as the implementation of their own codes within their respective organisations against internationally acceptable standards.

Subsequent to the decision of FSPB members, a Working Group (“**WG**”) was established to develop the FSPB Code. The WG is comprised of leaders in the industry in Malaysia as well as individual subject matter experts from domestic and abroad.

Between January and March 2015, the WG deliberated on four drafts of the FSPB Code at two meetings in Kuala Lumpur, Malaysia and through two rounds of circulations. To assist the WG in its deliberations, the FSPB Secretariat conducted four benchmarking exercises which are as follows:

- A comparative analysis of 30 publicly available codes of ethics of various organisations operating across the spectrum of the FSI as well as other industries in selected jurisdictions;
- A survey on the ethical principles that were important to financial institutions in Malaysia;
- A desktop research on observations made by experts in finance-related organisations on ethical principles that are viewed as important in the delivery of financial services; and
- Discussions with various standards-setting and financial bodies in the United Kingdom.

The main objective of the benchmarking exercises was to identify the core ethical principles that apply across the entire spectrum of the FSI.

In April 2015, FSPB members deliberated on a further two drafts of the FSPB Code, first at the FSPB’s second meeting on 1 April 2015 and subsequently through a circulation process.

2. Exposure Draft of the Proposed FSPB Code

On 5 May 2015, the FSPB issued an Exposure Draft of the Proposed Code of Ethics for the Financial Services Industry (“**Proposed FSPB Code**”). Organisations, including institutions, and individuals across the FSI were invited to submit written comments on the Proposed FSPB Code. Comments sought included:

- The ethical principles in the Proposed FSPB Code;
- The recommended steps on the adoption and implementation of the Proposed FSPB Code by organisations across the FSI;
- Challenges in implementing the steps outlined in the Proposed FSPB Code by organisations across the FSI;
- Whether any of the steps outlined in the Proposed FSPB Code ought to be expanded;
- Any parts of the Proposed FSPB Code that may be in conflict with the market, such as local regulations; and
- Any other comments on the Proposed FSPB Code and its adoption by organisations across the FSI.

Following the issuance of the Exposure Draft of the Proposed FSPB Code, the FSPB Secretariat reached out to a total of 280 domestic, regional and international finance-related organisations, including financial organisations/institutions, industry associations, professional bodies and regulators to comment on the Proposed FSPB Code.

In addition, a series of industry engagement sessions with the banking, insurance, capital markets and Islamic finance sectors in Malaysia were conducted to publicise the Exposure Draft of the Proposed FSPB Code in May and June 2015.

3. Consultation Response

The FSPB received 43 written submissions from the following organisations and individual in response to the Exposure Draft of the Proposed FSPB Code:

(a) Financial Organisations

- Aberdeen Asset Management Asia Limited (Singapore)
- Aberdeen Islamic Asset Management Sdn Bhd (Malaysia)
- Affin Bank Group (Malaysia)
- AgroBank (Malaysia)
- Alkhair International Islamic Bank (Malaysia)

- AmBank Islamic Berhad (Malaysia)
- Asian Finance Bank Berhad (Malaysia)
- Bank Islam Malaysia Berhad (Malaysia)
- Bank Kerjasama Rakyat Malaysia Berhad (Malaysia)
- Bank Muamalat Malaysia Berhad (Malaysia)
- Bank Pembangunan Malaysia Berhad (Malaysia)
- Deutsche Bank (M) Bhd (Malaysia)
- Hong Leong Bank Berhad (Malaysia)
- HSBC Amanah Malaysia (Malaysia)
- HSBC Bank Malaysia Berhad (Malaysia)
- Malayan Banking Berhad (Malaysia)
- MIDF Amanah Investment Bank Berhad (Malaysia)
- Okashi (M) Sdn Bhd (Malaysia)
- Public Bank Berhad (Malaysia)
- QBE Insurance (Malaysia) Berhad (Malaysia)
- RHB Banking Group (Malaysia)
- United Overseas Bank (Malaysia) Bhd (Malaysia)

(b) Industry Associations

- Association of Stockbroking Companies Malaysia (Malaysia)
- Chartered Institute of Islamic Finance Professionals (Malaysia)
- Federation of Investment Managers Malaysia (Malaysia)
- Financial Planning Association of Malaysia (Malaysia)
- General Insurance Association of Malaysia (Malaysia)
- Hong Kong Association of Banks (Hong Kong)
- International Capital Market Association (Switzerland / Hong Kong)
- Life Insurance Association of Malaysia (Malaysia)
- Malaysian Financial Planning Council (Malaysia)
- Malaysian Investment Banking Association (Malaysia)
- National Federation of Urban Cooperative Banks and Credit Societies Ltd (India)

(c) Professional Bodies/Institutes

- Asian Institute of Chartered Bankers (Malaysia)
- Chartered Financial Analyst (CFA) Institute (United States / Hong Kong)
- Hong Kong Institute of Bankers (Hong Kong)
- International Ethics Standards Board for Accountants (United States)
- Islamic Banking and Finance Institute of Malaysia (Malaysia)
- Retail Banking Academy (United Kingdom)

(d) Regulator

- Securities Commission Malaysia (Malaysia)

(e) Others

- Asia Capital Markets Institute (Hong Kong)
- Environmental Resource Management (Malaysia)
- Michel Girodo, Retired Professor of Psychology

In addition, on 1 July 2015, a 16-member team from various divisions in Bank Negara Malaysia provided their feedback on the Exposure Draft of the Proposed FSPB Code through an in-depth discussion session with the FSPB Secretariat.

A concern was raised that the FSPB has allowed for an exposure period of only a little over 60 days. The FSPB was urged not to put speed ahead of the robustness and quality of the final product, which in turn will depend on securing broad and diverse input from stakeholders and the international financial community.

The FSPB believes that the written submissions received are of the highest quality, thereby indicating that it is possible to obtain vigorous and robust input from respondents despite the allocated “time-window” given to respond. In addition, the FSPB continued to accept and consider written comments that were submitted after the submission deadline for comments. Nevertheless, the FSPB recognises that there is a trade-off between time and the breadth of response and will propose increasing the length of the exposure period for future comments from the industry on professional standards.

4. Acknowledgement

This document seeks to summarise and discuss the comments received on the Exposure Draft of the Proposed FSPB Code, which relate directly to the Proposed FSPB Code as well as the FSPB as an initiative.

The FSPB would like to thank all respondents for the comments received. They are not only invaluable in the formulation of the final version of the FSPB Code (“**Final FSPB Code**”) but also in providing high quality input for the development of a more prescriptive code of conduct which the FSPB is already embarking on, as well as providing a roadmap for the future work of the FSPB.

The FSPB would also like to stress that the FSPB Code is a living document and will be subject to review from time to time. In this regard, as industry participants begin their journey to adopt and internalise the principles in the FSPB Code in their governance, policies and everyday practices and conduct, the FSPB welcomes their feedback.

Finally, the FSPB also looks forward to the continued support of all participants across the entire spectrum of the FSI to enable it to achieve the highly ambitious aim of supporting a strong culture of professionalism and ethics throughout the industry in the public interest.

SECTION 2

BROAD SUPPORT FOR THE PROPOSED FSPB CODE

There is overwhelming support for the Proposed FSPB Code. This is because of its primary objective i.e. to support a strong culture of professionalism and ethics, across the FSI. High professional and ethical standards across the industry are viewed as a key enabler in enhancing the quality and consistency of financial services across the FSI. This, in turn, strengthens financial consumer protection throughout the industry. High professional and ethical standards are also viewed as vital in facilitating business across the FSI. Finally, in a wider context, a strong culture of professionalism and ethics, is viewed as an important contributor to the enhancement of corporate governance across the FSI.

There is also broad endorsement for the way in which the Proposed FSPB Code has been structured and presented as follows:

- **Principles-based approach:** The first aspect of the Proposed FSPB Code that is broadly endorsed is the principles-based approach that the code embraces. This is based on the acknowledgement that no code of ethics can fully anticipate or cover the range of circumstances and ethical issues that might arise in practice. This is especially so in an industry as diverse as the FSI. At the same time, a rules-based code of ethics will always run the risk of potentially unscrupulous organisations and individuals finding ways to skirt the rules, justifying their unethical actions on the basis that there is no rule in the code of ethics prohibiting such actions;
- **Simplicity:** The second aspect is the apparent simplicity of the Proposed FSPB Code. The importance of writing the Proposed FSPB Code in clear and simple language is recognised as important to enhance its usability and accessibility. The International Ethics Standards Board for Accountants (IESBA), for instance, has launched a project to restructure its own code of ethics that is applicable to accountants around the world in order to enhance the usability and accessibility of the IESBA Code in response to stakeholder feedback. Clarifying and simplifying the language used is an important part of the project;

Both these aspects of the Proposed FSPB Code are viewed as vital because of the FSPB's highly ambitious aim of developing an internationally acceptable Proposed FSPB Code that applies to all organisations and individuals operating across the FSI. Thus, the Proposed FSPB Code needs to be applicable to:

- A wide range of organisations across the FSI that are not only diverse in terms of the financial services that they provide but also in terms of their organisational structure (e.g. ownership, governance, size, etc.) as well as the customers and clients whom they serve (ranging from relatively unsophisticated retail customers to sophisticated clients who are just as well-equipped with product and industry knowledge as the financial service providers);
 - Individuals from all hierarchical levels, ranging from junior staff up to top management, who not only carry out different job functions but who also come from various educational and professional backgrounds (e.g. accountants, actuaries, economists, lawyers, etc.); and
 - Organisations and individuals across the FSI operating under differing geographic locations and circumstances (e.g. local laws and regulations, national language, culture, etc.).
- **Consistency of the Code's principles:** The third aspect of the Proposed FSPB Code that received broad endorsement is the consistency of the principles in the Proposed FSPB Code with those in the codes of ethics of the various respondents and their applicability to both organisations and individuals across the FSI. This was viewed as important to avoid confusion and conflicts among participants across the FSI who have to adhere to codes of ethics imposed by others, including employers, professional bodies and regulators. Consequently, most respondents do not anticipate any substantive issues in adopting and implementing the Proposed FSPB Code. A couple of respondents, however, stated that since their codes of ethics as well as internal policies and procedures already contained the principles in the Proposed FSPB Code, they will not be formally adopting the FSPB Code;
 - **Recommended Steps:** Finally, while the recommended steps for the adoption and implementation of the Proposed FSPB Code is acknowledged as challenging in many ways, there is broad endorsement for them. Firstly, there is a common understanding that the mere existence of a code of ethics is insufficient to change behaviour and make ethical practice second nature to members of the FSI. The principles in the Proposed FSPB Code must be accepted by industry leaders and embedded in policies and procedures of institutions operating across the FSI. Secondly, the steps are viewed as vital in lending cohesiveness to the primary objective of the Proposed FSPB Code.

The FSPB appreciates and welcomes the broad support it has received with regards to Proposed FSPB Code. The general reservations highlighted by respondents in relation to it are discussed in Section 3 of this document.

SECTION 3

GENERAL ISSUES SURROUNDING THE PROPOSED FSPB CODE AND FSPB RESPONSE

The general issues surrounding the Proposed FSPB Code that the consultation process highlighted may be divided into the following 10 categories:

- Concept of a Cohesive “Financial Services Industry”;
- Value of the Proposed FSPB Code;
- Overarching Guiding Principles of the Proposed FSPB Code;
- The Five Principles in the Proposed FSPB Code;
- Confinement of the Proposed FSPB Code to Business & Professional Ethics;
- Adoption & Implementation of the Proposed FSPB Code;
- Extension of the Proposed FSPB Code to Third Parties;
- Effective Date of the Proposed FSPB Code;
- Additional Guidance on the Application & Implementation of the Proposed FSPB Code; and
- Gaining International Acceptance of the FSPB Code.

1. Concept of a Cohesive “Financial Services Industry”

1.1 The Issues

There is some debate among respondents on the general concept of a cohesive FSI. This may be viewed from three perspectives as follows:

- The first set of comments relates to the types of organisations that the FSPB views as making up the FSI ecosystem.
- The second set of comments relates to the individuals across the FSI who fall within the scope of the Proposed FSPB Code.
- The third set of comments relates to reservations expressed on whether a common code of ethics that cuts across the entire spectrum of the FSI can be truly effective in achieving its stated primary objective, which is to raise the bar of professionalism and ethics across the industry. This is because such a code would necessarily have to be high-level and generic in nature in order for it to be applicable to a wide spectrum of industry participants.

To address these issues, respondents made several recommendations to the FSPB including:

- Revising the Proposed FSPB Code to provide greater clarity on the views of the FSPB on the terms “financial services industry” and “organisations and individuals across the FSI”;
- Engaging as widely as possible with the different types of financial services providers to enhance the acceptability of the FSPB Code throughout the FSI; and
- Collaborating with leading organisations around the world from the various sectors of the FSI, including banking, insurance, capital markets and Islamic finance, with regards to adopting specific sets of standards in each sector of the FSI.

1.2 FSPB Response

The FSPB recognises that developing and advocating professional and ethical standards across the FSI is not an easy task. As discussed in Section 2 of this document, not only is the FSI diverse in terms of its sectors, it is also diverse in terms of the organisations and individuals that operate within it. The FSPB will thus be confronted with the constant challenge of finding the right balance between developing a standard that is high-level and generic enough to be applicable across a very varied industry and at the same time, sufficiently detailed so as to ensure the practicality and usefulness of the standard as an internationally acceptable benchmark.

Despite this challenge, however, as stated in Paragraph 2, Part A of the Proposed FSPB Code, the FSPB firmly believes that a cross-sector initiative that has the primary objective of raising the bar of professionalism and ethics within the industry is necessary because of the industry’s interconnected nature. Furthermore, the FSPB firmly believes that such a cross-sector initiative that is driven by the industry on a voluntary and collaborative basis would go a long way towards strengthening the internalisation of a strong culture of professionalism and ethics among participants across the entire industry. Such a culture would in turn greatly enhance the overall reputation of the industry and at the same time contribute towards a more resilient financial system and strengthen public trust.

In recognition of the diverse and the constantly evolving nature of the “financial services industry”, the FSPB proposes not to adopt a specific definition of the term. This is to avoid being too prescriptive in the scope and applicability of the FSPB Code, thus potentially limiting its reach to certain organisations and individuals across the industry, for example, regulated organisations and individuals operating within such organisations. Nevertheless, as the FSPB is an initiative that is jointly launched by Bank Negara Malaysia and Securities Commission Malaysia, the FSPB has been

engaging and will continue to engage as widely as possible with the sectors and organisations that fall under both regulators including the Capital Markets and Services Act, Financial Services Act and Islamic Financial Services Act.

To provide greater clarity on the scope and applicability of the FSPB Code, the Proposed FSPB Code has been revised to include a paragraph that acknowledges the diversity of the “financial services industry” – see Paragraph 5, Part A of the Final FSPB Code.

The recommendation for collaboration with leading organisations around the world from various sectors of the FSI is in line with one of the main activities of the FSPB, which is to facilitate the sharing of global good practices relating to FSI.

2. Value of the Proposed FSPB Code

2.1 The Issues

There are enquiries on the value of the Proposed FSPB Code, which is viewed as duplicating existing legislative as well as industry and corporate codes and standards. In the context of laws and regulations in Malaysia, the Bank Negara Guidelines on Codes of Ethics (BNM/GP7) as well as the Securities Commissions Malaysia’s Code of Corporate Governance and Guidelines on Market Conduct and Business Practices for Stockbroking Companies and Licensed Representatives were highlighted by respondents.

To address these issues, respondents made several recommendations to the FSPB including:

- Revising the Proposed FSPB Code to highlight that the FSPB acknowledges that most financial organisations already have their own codes of ethics, that the Proposed FSPB Code further complements existing codes and that financial organisations have the flexibility of adopting their own codes of ethics in addition to the FSPB Code;
- Stating in all codes and standards of the FSPB and incorporate in processes and procedures of the FSPB the following:
 - All codes and standards of the FSPB are subject to continuous review by the regulators to ensure consistency with existing laws and regulations;
 - If there is any inconsistency between codes and standards of the FSPB and existing laws and regulations, the latter will prevail;

- FSPB shall have no enforcement and supervision functions over their codes and standards. Supervision and enforcement should come from the respective regulators and associations (e.g. for capital markets intermediaries in Malaysia, it is the Securities Commission Malaysia or the industry association determined by the Securities Commission Malaysia); and
- Codes and standards of the FSPB are not meant to replace existing laws issued by the regulators; and
- Encouraging financial organisations to translate the FSPB Code into a more prescriptive code at the organisational level to ensure that pertinent issues specific to the organisation are addressed.

2.2 FSPB Response

The FSPB is a voluntary initiative “by the industry, for the industry, in the public interest.” It is tasked with the highly ambitious goal of supporting a strong culture of professionalism and ethics across the entire spectrum of the FSI through the development of professional and ethical standards that would serve as internationally acceptable benchmarks to which participants across the FSI should aspire to on a voluntary basis. It is a pioneering initiative – the first of its kind.

Being a voluntary initiative, the FSPB promotes the professional and ethical standards developed by it through an advocacy approach. The FSPB does not have any enforcement power or supervisory functions over any of the standards that it develops. It is up to the industry participants’ volition whether to adopt or adapt the standards developed by the FSPB.

In arriving at the decision to develop the FSPB Code, FSPB members took two principles into account. In light of the pioneering and ambitious nature of FSPB as an initiative, FSPB members felt it prudent to go back to basics. A code of ethics is generally considered as an anchor of any ethics framework or policy. As such, FSPB members decided to begin its standards development journey with the development of a code of ethics that sets out the core ethical principles to which participants across the FSI should adhere to regardless of sector, hierarchy, background or geography. In line with the standards development process of the FSPB, the FSPB Code is to be developed in consultation with a wide range of industry participants. Consequently, FSPB members believed that the FSPB Code would serve as a credible reference tool for the future standards development initiatives of the FSPB, which may include developing standards in certain areas that at present do not have established standards.

The second is the intention “not to reinvent the wheel” where the FSPB Code is concerned. The FSPB acknowledges that while a code of ethics that cuts across the entire spectrum of the industry may be unique and

novel, there already exists legislation that relate to codes of ethics and standards of practice in various sectors of the FSI. In addition, many industry participants including financial organisations, industry associations and professional bodies have issued their own codes of ethics that take into account the unique nature and requirements of the sector in which they operate and the financial services that they provide. Based on the survey on the ethical principles that are important to financial organisations in Malaysia that the FSPB conducted between December 2014 and January 2015 in conjunction with the development of the FSPB Code, 96% out of the 81 financial organisations who responded to the survey stated that they had codes of ethics of their own.

It is in recognition of the fact that codes of ethics are fairly well established documents in the various specific sectors of the FSI that FSPB members decided – as a first step – to develop a clear and simple principles-based code of ethics that outlines the core ethical principles that are applicable across the entire spectrum of the FSI and to produce that code in a relatively short period of time i.e. within the first year of the launch of the FSPB.

Based on the above discussion, the FSPB believes that the value of the FSPB Code is two-fold. Firstly, just as it would serve as a credible reference tool for the future standards development initiatives of the FSPB, it is hoped that the FSPB Code would serve as a practical and useful tool for organisations operating across the entire spectrum of the FSI. The FSI can benchmark its own respective codes of ethics as well as the implementation of its own codes within its respective organisations against an internationally acceptable standard that has been developed primarily by the industry for the industry.

Secondly, the FSPB believes that the consultative nature of the development of the FSPB Code that brought together industry participants not only from various backgrounds (e.g. industry captains, persons-in-charge of ethical conduct in their respective institutions, representatives from industry associations and professional bodies, regulators and subject matter experts) but also from a wide range of sectors across the FSI (e.g. banking, insurance, capital markets, Islamic finance) has contributed towards the:

- Fostering of a greater sense of common purpose among participants across the FSI to raise the bar of professionalism and ethics, throughout the industry; and
- Creation of greater awareness of the core ethical principles against which participants across the FSI could be benchmarked against by various stakeholders, including customers/clients, employees, peers, regulators, shareholders and the general public.

The positive impact of the consultation process is evidenced through the genuine commitment demonstrated by the high-level WG that is tasked with the development of the FSPB Code, the vibrant discussions that took

place at the series of industry engagements that the FSPB Secretariat held to publicise the Exposure Draft of the Proposed FSPB Code and the high quality of comments received. The FSPB hopes to continue to build on this momentum and help propel professionalism and ethics towards the forefront of the agenda of participants across FSI.

The FSPB believes that Paragraph 5, Part A of the Proposed FSPB Code sufficiently reflects that the FSPB Code does not replace any relevant laws and regulations and that it is to be adopted by organisations and institutions across the FSI on a voluntary basis. In addition, Paragraph 2, Part D of the Proposed FSPB Code already states that the FSPB Code is subject to review from time to time. However, this paragraph has been slightly amended for consistency of language – see Paragraph 2, Part D of the Final FSPB Code.

Step 1: Adoption, Part C of the Proposed FSPB Code has been revised to further clarify that the FSPB Code complements existing codes and that financial organisations are in fact encouraged to adopt their own specific and customised codes of ethics in addition to the FSPB Code so long as their own codes are in full alignment with the principles in the FSPB Code – see Step 1: Adoption, Part C of the Final FSPB Code.

3. Overarching Guiding Principles in the Proposed FSPB Code

3.1 The Issues

There are requests for greater clarity on the overarching guiding principles of the Proposed FSPB Code from two perspectives which are as follows:

- The first set of comments relate to the view that the Proposed FSPB Code seems to be written more from a perspective of protecting the reputation of the FSI and less from the perspective of protecting the interest of the general public, including financial consumers. The latter perspective is viewed to be more in line with the “public interest” focus of the FSPB.
- The second set of comments relate to the view that there should be greater clarity on the priority of interests that organisations and individuals across the FSI seek to serve. The Proposed FSPB Code seems to require organisations and individuals across the FSI to serve all interests at all times, which may not be practical because the market is often a “zero sum” game.

To address these issues, respondents made several recommendations to the FSPB including revising the Proposed FSPB Code to:

- Incorporate public interest based guiding principles such as “corporate social responsibility” and “financial consumer protection” to make it easier for the public to relate to and support it; and
- Prioritise the legitimate interest of customers and clients whilst at the same time upholding and promoting the interest of the industry as a whole.

3.2 FSPB Response

The FSPB agrees with the recommendations made by the respondents on the need for the FSPB Code to be drafted from the perspective of the general public and to prioritise the legitimate interest of customers and clients whilst ensuring that at the same time the public interest is protected. Paragraphs 1 and 3 of Part A as well as Principle 3: Fairness, Part B of the Final FSPB Code reflects this.

4. The Five Principles in the Proposed FSPB Code

4.1 The Issues

Whilst there is broad agreement that the five principles highlighted in the Proposed FSPB Code are applicable to all financial services activities that are carried out across the FSI, there are mixed views on the sufficiency or otherwise of the five principles, based on the following three sets of comments:

- Some respondents agree that the five core principles in the Proposed FSPB Code are sufficiently comprehensive and thus recommend that the status quo be maintained;
- Some respondents are of the opinion that in light of the focus of the FSPB, which is to support a strong culture of professionalism and ethics in the FSI, “professionalism” should be elevated as the primary objective of FSPB Code, and in its place, principles such as “competence”, “diligence or reasonable care”, “harmony, co-operation or teamwork”, “justice” and “prudence” be considered for inclusion in the FSPB Code. In this regard, there are mixed views on whether the FSPB Code should maintain five core principles or be expanded to include additional core principles;
- Some respondents recommend that the five principles in the Proposed FSPB Code be reduced to three i.e. “professionalism”, “confidentiality” and “objectivity” on the basis that “professionalism” already entails acting with “integrity” and “fairness”.

4.2 FSPB Response

The FSPB agrees with the recommendation that in light of its overarching focus, “professionalism” should be elevated as the primary objective of the FSPB Code. As reflected in Paragraph 2, Part A of the Final FSPB Code, from the perspective of the FSPB, a high standard of professionalism and ethics entails organisations and individuals across the FSI serving the legitimate interest of their clients customers and clients in an open and transparent manner, with the highest standards of professional and ethical behaviour, whilst upholding and promoting the interest of the industry as a whole for the benefit of society and the environment.

Furthermore, the FSPB agrees with the recommendation that “competence”, which forms part of “professionalism” in the Proposed FSPB, be a standalone principle. Competency, defined as skills, knowledge and behaviour, is an important aspect of decision-making and the running of businesses. Principle 1: Competence, Part B of the Final FSPB Code reflects this.

The other remaining four principles in the Proposed FSPB Code – Integrity, Fairness, Confidentiality and Objectivity – have been slightly amended to take into account comments by respondents. The amendments made either tightened the language or better clarify the principles – see Principles 2 to 5 of the Final FSPB Code.

5. Confinement of the Proposed FSPB Code to Business & Professional Ethics

5. The Issue

There is a query as to whether the Proposed FSPB Code should broaden its scope in certain circumstances to include personal traits, for instance, good conduct in public places and events.

5.2 FSPB Response

The FSPB Code aims to satisfy the broader public interest in the provision of financial services. Therefore, the FSPB is of the view that industry participants should commit to uphold both the highest professional standards and personal integrity at all times in order not to bring disrepute upon the FSI. Consequently, the integrity principle has also been revised to reinforce the message that acting with integrity is a 24/7 obligation on the part of participants across the FSI – see Principle 2: Integrity, Part B of the Final FSPB Code.

6. Adoption & Implementation of the Proposed FSPB Code

6.1 The Issues

There are requests for greater clarity on the adoption and implementation of the Proposed FSPB Code from three perspectives which are as follows:

- The first set of comments relates to the monitoring of the overall adoption and implementation of the Proposed FSPB Code and the governing body that regulates the Proposed FSPB Code to ensure compliance by industry participants.
- The second set of comments relates to the applicability of the FSPB Code to both organisations and individuals across the FSI. Clarification is sought on how the principles in the Proposed FSPB Code may be enforced on individuals in particular. In this regard, a number of respondents are of the view that having too many codes of ethics could potentially lead to confusion among employees of financial organisations that already have their own codes of ethics. This is especially the case if an employee is required to sign a commitment to abide by the FSPB Code as recommended in Step 3: Implementation, Part C of the Proposed FSPB Code and is also required to sign a similar commitment to adhere to the financial organisation's own code of ethics that forms part of the employee's terms of employment.
- The third set of comments relates to how the FSPB intends to secure the commitment of Board of Directors and Senior Management to ensure sustained internalisation of the desired ethical behaviours consistently across an organisation and ultimately throughout the industry given that a strong ethical culture within any organisation begins with the "tone from the top".

To address these issues, respondents made several recommendations to the FSPB including:

- Revising the Proposed FSPB Code to better clarify who are the facilitators, sponsors, champions and monitors of the FSPB Code;
- Limiting the scope of the FSPB Code only to organisations. The acceptance of the FSPB Code by organisations is believed to have the greatest impact on promoting ethical behaviour. Just as professional bodies that are membership based and have the power to compel their individual members to comply with their respective codes of ethics, organisations can compel employees to comply with the FSPB Code as a condition of employment. In this way, the FSPB can reach individuals more effectively through the organisation's adoption of the FSPB Code. Respondents note that this already appears to be the intended adoption

and implementation mechanism of the FSPB Code based on Part C of the Proposed FSPB Code; and

- Strengthen the cooperation and coordination between FSPB and a wide range of stakeholders within the FSI including financial organisations, industry associations, professional bodies, trade unions and national regulators and externally, including institutes that specialise in ethics and related national regulators (e.g. companies commission, anti-corruption commission, etc.) to garner support for the adherence of the FSPB Code by both organisational and individual participants.

6.2 FSPB Response

Legitimate concerns have been raised on the effectiveness of the adoption and implementation of the FSPB Code in practice since it is neither mandatory nor is it supported by any enforcement mechanism. However, the FSPB firmly believes that while challenging, an advocacy approach to encouraging the voluntary adoption and implementation of the FSPB Code among industry participants can be effective if carried out with strong industry support. Furthermore, as indicated in Paragraph 5, Part A of the Proposed FSPB Code, the FSPB equally believes that a voluntary approach to raising the bar of professionalism and ethics, across the FSI is a vital complement to a strong regulatory framework in this regard as it facilitates the internalisation of high professional and ethical standards among industry participants. Consequently, FSPB members have deliberated in detail on this issue on a number of occasions and are heartened to note that a number of the recommendations by respondents are very much in line with the advocacy approach that the FSPB has been adopting and upon which the FSPB will continue to implement.

It is the intention of the FSPB for the principles in the FSPB Code to apply to both organisations and individuals operating across the FSI. However, it is also the intention of the FSPB for financial organisations to be the main driver of the adoption and implementation of the FSPB Code.

It is on this basis that Step 1: Adoption, Part C of the Proposed FSPB Code states that financial organisations should have their own codes of ethics so long as they are in full alignment with the FSPB Code. Such an adoption mechanism not only provides a financial organisation with the ability to adopt its own code of ethics that are both in alignment with the principles in the FSPB Code and ensures pertinent issues specific to the organisation are addressed as discussed above, it also enables the financial organisation to rely on its own internal policies and procedures to monitor adherence to the principles in the FSPB Code by relevant stakeholders. This would include the financial organisation relying on its own disciplinary policies and procedures to address cases of alleged breach of the principles in the FSPB Code by the relevant stakeholders.

The Proposed FSPB Code has been revised to better reflect the intentions of the FSPB on who are the facilitators, sponsors, champions and monitors of the FSPB Code – see Paragraphs 3 and 6 of Part A and Paragraphs 2 and 3 of Part C of the Final FSPB Code.

While financial organisations are the main driver for the adoption and implementation of the FSPB Code, the FSPB agrees that it is equally important for it to continuously strengthen the cooperation and coordination between the FSPB and relevant stakeholders to garner support for the adherence to the FSPB Code by both organisations and individuals across the FSI.

Finally, the FSPB will be conducting a baseline survey on the FSPB Code to provide it with a basis upon which to monitor the impact of the FSPB Code in the future.

7. Extension of the Proposed FSPB Code to Third Parties

7.1 The Issues

A specific issue that cuts across Part C of the Proposed FSPB Code is the applicability of the FSPB Code to third parties such as vendors, suppliers, contract workers or outsourced parties.

There is support for the FSPB Code to be extended to third parties on the basis that those who have dealings with the FSI should also adhere to the same or similar high professional and ethical standards adopted by the FSI. However, reservations are expressed on the practicality, both from a legal standpoint as well as an implementation perspective, of the blanket extension of the FSPB Code to such parties. Such an extension is viewed as unduly onerous on financial organisations and may impose undue costs both on the financial organisations and third parties concerned.

To address these issues, respondents made several recommendations to the FSPB including:

- Revising the Proposed FSPB Code to provide greater clarity on the third parties who are to be covered by the FSPB Code given that financial organisations deal with a wide range of third parties in the normal course of business. In particular, there are requests for greater clarification on the definition of “outsourced parties” and “contract workers”;
- Restricting the requirement to sign the commitment to uphold the FSPB Code as well as conduct formal training and evaluate the understanding of the FSPB Code to employees (permanent/contract) and agents; and

- Adopting alternative steps to encourage the adherence to the principles of the FSPB Code by third parties such as outsourced parties and contract workers. These may include:
 - Highlighting that the financial organisations are responsible for the selection of outsourced arrangements and contract workers;
 - Incorporating the principles in the FSPB Code into internal policies and procedures of organisations that relate to third party arrangements e.g. vendor management, gifts and hospitality policies, etc.; and
 - Encouraging outsourced parties and contract workers to understand the FSPB Code but implementation and enforcement of the principles in the FSPB Code to be left to the organisation concerned.

7.2 FSPB Response

Based on desktop research conducted by the FSPB Secretariat¹, many leading companies around the world require third parties that have business dealings with them such as agents, distributors, consultants, contract workers, outsourced parties, vendors and suppliers, to abide by the compliance and ethical framework of the respective companies. Some companies have specific code of ethics for third parties whilst contracts between some of these companies and third parties explicitly binds and requires third parties to obey relevant national and international laws and regulations whilst at the same time commits them to comply with and uphold the company's ethical policies. Third parties are viewed as an extension of the company's own business and brand and requiring them to abide by the company's ethical and compliance framework helps the company to better manage third party risks and send a clear message that ethical standards must be met on a continuous basis. Consequently, the FSPB is of the view that the FSPB Code should be extended to third parties that have dealings with the FSI.

The FSPB has taken on board the concerns of the respondents i.e. the blanket extension of the FSPB Code may be unduly onerous on both the financial organisation and third party concerned. Step 2: Commitment and Step 3: Implementation of Part C of the Final FSPB Code extends the FSPB Code to relevant third parties and financial organisations are encouraged to cover third parties.

¹ See for example Ernst & Young, Knowing Your Third Party: Asia-Pacific Fraud Survey 2013

8. Effective Date of the FSPB Code

8.1 The Issue

Some respondents urge the FSPB to provide financial organisations with an appropriate timeline for the adoption and implementation of the FSPB Code due to the anticipated amount of resources that will need to be expended in this regard. This would enable them to conduct the necessary in-depth review of their codes of ethics as well as internal policies and procedures, including obtaining the necessary approvals from their headquarters.

8.2 FSPB Response

The FSPB acknowledges that financial organisations will require time to adopt and implement the FSPB Code. Consequently, Parts A, B, C and D of the FSPB Code shall come into effect on the date of issuance.

9. Additional Guidance on the Application and Implementation of the Proposed FSPB Code

9.1 The Issues

Due to the high-level and generic nature of the Proposed FSPB Code, there are many requests by respondents for it to be supplemented with a more prescriptive-based standard of professional conduct that addresses issues that cut across the entire FSI such as mis-selling of financial products and financial crime. In addition, there are requests for more detailed guidance notes on the following:

- The principles in the FSPB Code. Respondents suggest that the guidance notes should: (a) have a more detailed explanation of each principle; (b) provide real life examples of ethical dilemmas that may arise in relation to each principle; and (c) good practices in handling specific but common ethical dilemmas; and
- The recommended steps on the adoption and implementation of the FSPB Code. Respondents suggest that the guidance notes should share standards of good practice by established organisations around the world. Guidance notes would be particularly useful in the following areas: (a) whistle-blowing mechanism; (b) sales processes and materials; (c) customer feedback and complaints handling; (d) set of indicators to measure the impact of the FSPB Code and the codes of ethics of financial organisations.

9.2 FSPB Response

The FSPB is already embarking on the development of a more prescriptive code of conduct that would be based on the Final FSPB Code. In addition,

as indicated in Paragraph 1, Part D of the Proposed FSPB Code, it is the FSPB's intention to periodically provide additional guidance on the application, adoption and implementation of the FSPB Code.

10. Gaining International Acceptance of the FSPB Code

10.1 The Issue

There are some requests for more information on the FSPB's strategy to gain international acceptance of the FSPB Code. The IESBA in particular, shared its insights on this issue based on its experience in developing internationally acceptable standards and encouraged the FSPB to:

- Broaden the participation in the Working Groups of the FSPB and other initiatives it may undertake in future to include, to the extent practicable, representatives from all regions of the world, with a particular focus on the G-20 jurisdictions. Diverse international participation in the development of the standards helps garner support for their global recognition and universal acceptance; and
- Consult a wider range of relevant stakeholders in the development of FSPB codes and standards to include the international regulatory community, governments and legislators, international and regional organisations, FSI organisations, the corporate governance community, investors, consumers and consumer groups, relevant national standard setters, and the academic community. Holding a consultation with as wide a range of stakeholders as possible lends support to the credibility of the standards and facilitates their global acceptance.

10.2 FSPB Response

The FSPB hopes to gain international and universal acceptance of its standards. In this regard, at its second meeting on 1 April 2015, FSPB members agreed with the recommendation of the WG to act on this intention to go global right from the beginning of the initiative. Consequently, the Proposed FSPB Code is drafted in a manner that would ease its usability and accessibility. Furthermore, the FSPB Secretariat reached out to a total of 280 organisations consisting of financial institutions, industry associations and professional bodies in Malaysia, key industry associations and professional bodies in the Asian region as well as major international regulatory organisations, industry associations and professional bodies inviting comments on the Exposure Draft of the Proposed FSPB Code. The FSPB will endeavour to continuously improve on its strategy to gain international and universal acceptance of its standards.



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