

# World Anti Corruption Forum



Anti Corruption in Public and  
Private Sectors

24-25 September 2012, Amman – Jordan



# PRIVATE SECTOR AND THE GOOD GOVERNANCE

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# Building A Culture of Compliance



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Michael Matossian  
EVP and Head of Group Regulatory Compliance



# Dangers of Corruption

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*Corruption is a cancer that steals from the poor, eats away at governance and moral fiber, and destroys trust*

Robert Zoellick -  
President of the World Bank (2007-2012)



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# Propensity for Misconduct

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$(\text{High Profits}) - (\text{Limited Penalties or Consequences}) - (\text{Ethics}) = \text{Contempt}$

$(\text{Power} + \text{Authority}) - (\text{Accountability}) - (\text{Ethics}) = \text{Corruption}$

$(\text{Opportunity} + \text{Rationalization}) - (\text{Ethics}) = \text{Fraud}$

*Are the Rich More Unethical and Greedy?*



# Code of Ethics

## ■ *Respect*

We treat others as we would like to be treated ourselves. We do not tolerate abusive or disrespectful treatment. Ruthlessness, callousness and arrogance don't belong here.

## ■ *Integrity*

We work with customers and prospects openly, honestly and sincerely. When we say we will do something, we will do it; when we say we cannot or will not do something, then we won't do it.

## ■ *Communication*

We have an obligation to communicate. Here, we take the time to talk with one another... and to listen. We believe that information is meant to move and that information moves people.

## ■ *Excellence*

We are satisfied with nothing less than the best in everything we do. We will continue to raise the bar for everyone. The great fun here will be for all of us to discover just how good we can really be.

*(Excerpt from **Enron's** Code of Ethics)*



# Breakdown of Governance, Risk, and Compliance (GRC)

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*“It is hard for us, without being flippant, to even see a scenario within any kind of realm of reason that would see us losing one dollar in any of those transactions.”*

-Joseph J. Cassano  
Former Head of AIG’s Financial Products Division  
New York Times, August ‘07

*\$170 Billion in Government aid to avert collapse,*

*Yet paid \$165 Million in bonuses to executives in the Financial Products Division;*



# In the Headlines: Greed & Poor Governance

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## BUSINESSREPORT

Standard Chartered unit accused of running a "rogue institution" that "schemed" with Iran's government to hide more than \$250 billion



Super rich hold \$32 trillion in offshore havens

## The Telegraph

Barclays Libor Scandal Sparks Congressional Probe



ING Paying a Record Amount of 619 Million for Sanctions Violations

*The fourth bank to settle over "wire stripping" activities*

## Los Angeles Times

JP Morgan Chase trading Loss Grows to \$4 Billion

## Bloomberg

HSBC Apologizes, Executive Resigns...

US Senate Hearing: Massive "Money Laundering, Drug Trafficking & Terrorist Financing"

*What Went Wrong?*



# A Key Risk Indicator – Conflict of Interest

## How Do We Best Ensure:

- Controls that ensure government officials, who were once bank executives, do not create laws convenient for their once and future employers
- Increased transparency to identify disclosure of financial and political ties and sourcing of financing in researches developed by professors, economists, consultants, etc.
- Rating agencies are able to provide reliable opinion of products offered by companies responsible for paying their fees?
- Bank executives' desire for profit does not hinder prudent risk-rating?
- Board decisions take into account not only the short-term interests of shareholders, but also the interests of customers, creditors, employees, and the community at large?



# Driving Change

- A clear set of ethical standards in business and politics
- Enhanced criteria for Board selection requiring independence and financial expertise necessary to challenge Senior Management
- Clarity of roles and responsibilities of the Board and Senior Management in managing risks
- Reformed incentive systems that are risk compatible and take into consideration the time horizon over which risks materialize
- Disclosure of compensation programs and risk information in a manner understandable by the public
- Enhanced legal regime that apply personally to bank officials where they fail to exercise duty of care or facilitate such acts



# Good Governance Prerequisites

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- A **Code of Conduct** that articulates values and acceptable behaviors including the timely escalation of policy violations with protection from reprisal (e.g. Whistle Blowing Policy etc); as well as unacceptable behaviors (e.g. improper/illegal activity, financial misreporting, money laundering, fraud or bribery).
- **Duty of Care:** the duty of a board member to act on an informed and prudent basis in bank decisions. To approach the affairs of the bank like their own affairs.
- **Duty of Loyalty:** the duty of the board member to act in the interest of the bank and shareholders (versus their own interest or others) at the expense of the bank.
- **Fit and Proper:** ability of supervisors to assess the fitness and propriety of significant bank owners as well as board members and senior managers in ensuring that they do not impede sound corporate governance.
- **Related Party Transactions** and **Conflict of Interest** policies and procedures supported by a compliance process to ensure transactions are conducted at arm's length.



# Driving an Ethical Governance Structure

- Does the tone at the top demonstrate to every employee that ethics is paramount in making choices?
- Is the code of ethics re-enforced through training and communication efforts?
- Is there a process for assessing ethics risks within the company?
- Is there a process that allows employees to raise ethics issues without fear of retribution?
- Are ethics issues as well as the actions taken to address those issues a regular Board agenda item?
- Is there an effective anti-corruption program in place that addresses gifts, dealing with third parties, travel and hospitality, doing business with PEPs, Board Members, or other related parties, and charitable giving ?



# Driving an **Ethical** Governance Structure (Cont.)



It's not success at all costs,  
but success only the right  
way and without ethical  
compromise!

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Michael Matossian  
EVP & Head of Group Regulatory Compliance  
Arab Bank Group  
Head Office, P.O. Box 950545, Amman 11195, Jordan  
E-mail: [Michael.matossian@arabbank.com.jo](mailto:Michael.matossian@arabbank.com.jo)  
Tel.: 962 6 5600000, Ext. 5822