Introductions

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Background

- The Canadian Institute of Chartered Accountants, through the Risk Oversight and Governance Board (ROGB), develops guidance materials for boards of directors and senior officers.

- The *20 Questions* series addresses subjects important to directors by posing questions that directors may ask of management, advisors, or themselves.

- A brief summary of current thinking and some recommended practices are provided for each question.
20 Questions Series

- Topics covered by the *20 Questions Series* include:
  - Building a Board
  - Crisis Management
  - Directors’ and Officers’ Liability and Insurance
  - Executive Compensation
  - Governance Assessments
  - Internal Audit
  - Risk
  - Strategy
  - Human Resources and Compensation Committees
  - Governance Committees
20 Questions Directors Should Ask about Codes of Conduct (Second Edition)
Overview

• Why the need for a revision?

• Highlights from:
  
  “What Directors Need to Know about Codes of Conduct (Second Edition)”

• Question & Answer Session
Why the need for a revision?

New regulations for public companies introduced by the Canadian Securities Administrators in 2005.

The Board should:

• See that a culture of integrity pervades the organization

• Adopt a written Code of Conduct and monitor compliance with it

• Address the reporting of illegal or unethical behaviour and provide for anonymous reporting
Why the need for a revision? (continued)

The world has changed:

• Following the Enron era, and now the Wall Street era, the public will not tolerate egregious behaviour, particularly by executives

• More than ever, the media will surface and revel in instances of bad corporate behaviour

• Some companies have actually found that sound ethical practices build and sustain a more successful company

• Directors have become more aware of all of the above
Beyond compliance, what’s the upside?

A Code completes the picture of the organization’s aspirations and expectations

- It complements the Mission, Vision and Values statements by stating the boundaries of acceptable behaviour.
  - By setting boundaries, it frees people from feeling they might accidentally “stray offside”
  - It provides a vehicle for poignant discussions about real-life situations and dilemmas
What should be considered when developing or revising a Code?

Who will champion it?
• Someone (some people) actually have to “walk the talk”
• The Board is the ultimate champion and must “walk the talk”
• There needs to be a “Chief Ethics Officer” – in substance, if not in name

Stakeholder participation:
• Why?
• How?
Is the Code at the right level for the organization?

Appropriate but realistic standards
- Needs to go beyond legislative requirements
- Must be realistic
- Reflect the intended degree of individual discretion

Suitable time-frame
- Sometimes to mitigate vulnerability - but be careful!
Does the Code have the right tone?

Mix of aspirational, descriptive and proscriptive content

Use of everyday language, simple structure, pictures, examples

Supplementary code materials
Assessing actual ethical risks

Do this before developing or revising the Code

Use ERM output and past history

Don’t underestimate apparently technical or operational risks that might affect reputation
Foreign Operations

The following no longer work:

- “Don’t ask don’t tell”
- “When in Rome…….”

Beware of hubris
Communication & Education

Communication

• Reflect the company’s culture: hard-copy, web, etc.
• Consistency

Education

• Even if people sign-off, it doesn’t mean they read the Code
• Presentations, discussions, videos, workshop sessions
• Value of dilemmas
• Be prepared for apparent “over-corrections”
• Don’t forget sessions for the Board
Handling Criticism of the Code & Whistle-blowing

- An “open-door” approach may seem costly, but it’s not in the end.
- Receiving no criticism of the Code should suggest something’s wrong.
- Whistle-blowing (as normally understood) represents a corporate failure.
- Anonymity as a requirement……… and an issue.
Interpretations, Advice & Waivers

Seeking interpretations and advice

- Normally best handled within the normal structure
- Exceptions

Waivers

- Treat with extreme caution
- Carefully document and appropriately disclose
Re-affirming Commitment, Rewards & Violations

Re-affirming commitment to the Code

- Annual sign-offs – value and medium
- Allow for dissent – avoid institutionalized lying

Rewards systems and violations

- Look for ways to reward good behaviour
- Violations – a fair but firm process
Is the Code working?

Board reports

• Routine
• Exception reporting

Director observation

• “field visits”

Board “in camera” meetings
Contribution to Resilience & Survivability

A shared culture of integrity:

• Builds esprit de corps

• Attracts the best employees, customers and shareholders

• Makes it more likely that you’ll be the “first to know”

• Can mitigate the effects on reputation of inevitable indiscretions, accidents, whistle-blowing incidents, and the like
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What Directors Need to Know about Codes of Conduct

Questions & Answers
More information

- CICA resources are available at:
  www.cica.ca/rogb

- Contact Michael Gunns at:
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