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Lord Mayor of London backs reforms to restore trust in the City *Seven-point plan spelt out*

by **Michael Smith**

The Lord Mayor of London, Alderman David Wootton, whose one-year term of office began in November, is wholeheartedly backing his predecessor's commitment to restoring the public's trust in the City of London and the financial services that the City represents. This follows a conference held by the previous Lord Mayor, Alderman Sir Michael Bear, on trust and values, held in the Mansion House in November.

What is the Lord Mayor's 'Restoring trust in the City' initiative all about? Corporate governance adviser Richard Sermon, who was Chairman of the Advisory Board of the previous Lord Mayor of London's initiative, spells out a seven-point plan.

Central to delivery of the mayoral initiative is the creation of the City Values Forum as a 'clearing house' for ideas, promoting the exchange of views and information. 'People talking to each other, showing what they are doing,' Sermon says. Amongst organisations participating in the forum are the think-tank Tomorrow's Company, the Institute of Business Ethics and the Chartered Institute for Securities and Investment, which has over 40,000 members in 89 countries.

From this a working group will draft a City Obligation—a short phrase or promise that updates the notion of 'my word is my bond', the motto of the London Stock Exchange, 'a phrase often imbued with a wider meaning which I'm not sure ever really existed,' comments Sermon cryptically. He says that the phrase was always about reputation: 'I will carry out the transaction that I agreed to carry out.' But what is now needed, he says, is a commitment 'to operate to a standard' which is built into the management process. It will be a short phrase, not a longer Harvard MBA Oath, he says. It would allow staff to speak up and raise concerns where such an obligation is not been observed by their seniors. It would help to achieve 'goal congruence'.

Thirdly, Cass Business School is developing a City Values Personal Development Programme, towards achieving best practice. It will be accredited as part of continuous professional development programmes and Cass's management development courses and be made available to institutions across the City. Sermon says that this will help young people to 'determine their own moral compasses', not least in how to handle areas of moral dilemma.

Fourthly, an Integrity Resources website has been set up as a single point of access to ethical standards and advisory materials submitted by professional bodies. The aim is to help individuals, employers and organisations to adopt best practice. www.integrityresources.org.uk

Fifth, a critical element of the whole process, says Sermon, is a new approach to managing people's performance against values. A Human Resources Advisory Group has drafted white papers on best practice 'enabling businesses to ensure that ethical behaviours, as well as financial results, are part of the way individuals are evaluated.' Organisations will be encouraged to recruit staff 'not only for technical ability but also for their values,' Sermon says. 'Part of it will be a Dragons Den approach,' he says, referring to the popular TV series for budding entrepreneurs.

Sixth, there is a need to provide a 'clear line of sight' between the values espoused by the Board and 'how are they carried out throughout the whole organisation', Sermon says. The City Values Forum will work with Tomorrow's Company to develop new thinking on how to achieve this. It will include audit and appraisal techniques.

Finally, a 'gold standard' of shared best practice will be established as part of a wide-ranging package of HR policy. 'Buying into these initiatives has moved up the agenda,' comments Sermon. 'It didn't used to get the airtime. Now it does: how the City establishes a social component around this area of fairness and trust.'

The question remains, will it all be enough? When I asked two organisers of the Occupy London movement afterwards what they wanted to achieve, they said behavioural change in the City backed by legislative change.

The Lord Mayor's initiative addresses the first. And new regulations are already changing the way banks operate. The Financial Services Authority has already clamped down on 'self-assessment' mortgage loans, the so-called 'liar loans' to mortgage applicants who previously were able to inflate their incomes and assets, no questions asked. Banks will also be required to keep 10 per cent of their equity capital in reserve, higher than the Swiss Basle III accord for international banking, to offset against the possibility of any future banking collapse. George Osborne, the Chancellor of the Exchequer, has also indicated that the government will implement Sir John Vickers' Independent Commission on Banking recommendation to 'ring fence' banks' retail arms from their more risky investment banking. But there is concern that this may not come into effect till 2019.

Changes in corporate law may still be needed to tackle, for instance, gross management failures or the miss-selling of mortgage loans to those who patently can't afford them. There is still a great deal of public anger, for instance, over the way the former Royal Bank of Scotland board got off scot-free over its disastrous take-over of the Dutch bank ABN Amro, leading to a £45 billion bail-out of RBS by UK tax payers. There is also the issue of eye-watering pay differentials between the highest and lowest paid inside organisations. The OECD points out that the UK's rate of growth in pay differentials since 1975 has been the highest in the world. Remuneration committees need to get to grips with this. Prime Minister David Cameron and the Business Secretary, Vince Cable, have announced they want to tackle excessive boardroom pay, including reward for failure, among so-called 'fat cats'. This would include giving shareholders powers to vote on boardroom salaries. Finally there is a suspicion that governments are too soft on the City because they are too dependent on City firms for party funding. A case can be argued that political parties should be funded by tax payers and not by business or trade union interests. Such reforms, including the Lord Mayor's initiative, could lead to a renaissance in the culture and best practice of the City.