Conflicts of Interest Risk

Challenges, impact, and effective management strategies

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Agenda

- Why conflicts of interests (COI) matter
- Typical conflicts of interest and impact
- Case study and lessons learned
- Best practices and effective management strategies

Conflicts of interest matter
What is a conflict of interest?

A situation where the goals or concerns of the involved parties are at odds with one another

| Personal conflict of interest | Employees’ personal finances, investments, relationships, or outside activities may affect their ability to perform their work duties |
| Business conflict of interest | A company engages in an activity where its interests are incompatible with a customer’s interests |

Why conflicts of interest matter

An actual or potential conflict of interest (or even the appearance of one) can:

- Increase the risk of bias or poor judgment
- Tarnish public image and erode trust
- Violate U.S. or international criminal law

The human side of conflicts of interest

- The appearance of a COI can be just as damaging as an actual COI.
- It’s increasingly common for people to be involved in multiple roles.
- The higher up and better connected someone is, the more opportunities for conflicts exist.
- We are often a poor judge of our own conflicts.
Key COI concepts

<table>
<thead>
<tr>
<th>Primary interest</th>
<th>Principal goals of the profession or activity</th>
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</thead>
<tbody>
<tr>
<td>Secondary interest</td>
<td>Secondary goals, including personal interests</td>
</tr>
<tr>
<td>Duty of loyalty</td>
<td>Obligation to uphold the best interests of the company</td>
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<tr>
<td>Duty of care</td>
<td>To act in good faith, with the care of a reasonably prudent person</td>
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Typical conflicts of interest

Common organizational conflicts of interest

<table>
<thead>
<tr>
<th>Use of company information</th>
<th>Moonlighting</th>
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<tbody>
<tr>
<td>Board service</td>
<td>Personal relationships</td>
</tr>
<tr>
<td>Vendor relationships</td>
<td>Gifts</td>
</tr>
<tr>
<td>Use of company assets</td>
<td>Variety of financial interests</td>
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</tbody>
</table>
Gifts: Can be well-intentioned and problematic

How do you define what is and is not acceptable?
- Assess your company's needs.
- Benchmark with industry and marketplace peers.
- Take relevant laws and regulations into account.
- Identify anything that should specifically be prohibited.
- Use common sense, discretion, and moderation.

How do you communicate and reinforce the thresholds?
- Provide a resource for questions and approvals.
- Implement a register to capture gifts given/received.
- Provide periodic reminders (e.g., holiday season).

A closer look at kickbacks

The giving or receiving of any "thing of value" to influence a business decision without the employer's knowledge and consent

- Cash & gratuities
- Gifts
- Travel & entertainment
- Debt forgiveness
- Loans at less than market interest
- Jewelry
- Medical treatment
- Cars
- Sexual favors
- Payment of personal expenses

Wells Fargo ethical decision making tool
A case of divided loyalties

_Fool me once, shame on you._
_Fool me twice, shame on me._
-Anonymous

The situation

- Develops proofs of concept
- Hires partner without explicitly giving the person’s name
- Sets up $500K in investment purchase orders (POs) via a third party payment provider
- Tells manager the payment provider is doing the work
- Labels the work “project management” and avoids providing measurable details

The discovery

- Sees an odd name on a PO that references the true company performing work
- Visits the company’s site; sees contact info similar to the Program Manager’s name
- Escalates to HR, who contacts the company’s investigations team
- Finds the Program Manager was calling the payment provider to arrange payment to his own company
How did this happen?

Original manager was “rubber-stamping” the PO approvals.

Many small POs to the third party payment provider did not raise red flags.

Purchase orders did not clearly define deliverables or tangible milestones.

Best practices and effective management strategies

The effective management of COI is critical

- Best-in-class practices can make a difference in detection, prevention, and mitigation.
- Evaluate and enhance policies and procedures before ethical issues or misconduct occurs.
- Stay current and keep vigilant.
Be purposeful about your messaging

- Balance specificity with flexibility.
- Base on principles versus rules.
- Maintain a “living document.”
- Keep the language simple – no “legalese.”
- Provide FAQs.
- Be clear the policy applies to everyone.

Set the tone at the top

Executives/senior managers should:
- Communicate the importance of the policy
- Complete required Code/ethics training
- Model how to handle issues
- Give the big picture

Reinforce the message in the middle

Mid/first-level managers should:
- Promote an ethical and fair workplace
- Talk about ethics with their teams
- Handle issues appropriately

Provide an easy way to report concerns

Ethics hotline: Build it right and they will call!
- Communicate about the hotline frequently and in multiple venues.
- Let people know what to expect.
- Operate the hotline 24/7 with live third-party operators.
- Make it available in different forms.
- Make it available to employees in every country…in their language
Create ongoing, company-wide training

What makes effective COI training?
- Paints the bigger picture of why COI matters
- Encourages asking proactive questions and seeking advance guidance
- Is scenario-based so people can see COI "in action"
- Describes the process for getting potential conflicts reviewed
- Includes periodic refreshers
- Is built into the employee lifecycle

Make it simple to request pre-clearance

- Design an employee-friendly channel.
- Give employees examples of when pre-clearance could be required.
- Ensure employees know where to go to submit the request.
- Require a new request if circumstances change.
- Continually monitor and assess the process.

Affirm employees' commitment to their responsibilities

☐ I have read and agree to comply with the organization's Code of Conduct.
☐ I have read and agree to comply with the Conflicts of Interest Policy.
☐ I am not currently aware of any COI on my part or that of another employee or third party.
☐ I agree to immediately report any potential COI, whether mine or that of another employee or third party.
☒ To my knowledge, I attest the information provided in this form is true and accurate.
Provide a thorough, independent review of each potential COI

- Use independent, objective reviewers.
- Set criteria for recusal.
- Document approvals in a way that satisfies audit requirements.
- Periodically evaluate the process:
  - Interview people involved in the process.
  - Look for trends.
  - Step up promotional efforts as needed.
  - Check training materials.

Consider automating the pre-clearance process

Benefits
- Efficient, direct communication
- Reliable tracking
- Clear audit trail
- Easy for employees
- Time saver

Example: Wells Fargo’s Global Pre-Clearance System
Perform regular COI risk assessments

Goals

- Identify key areas of potential risk
- Integrate processes
- Gather information for policy decisions
- Design effective controls and procedures
- Review trends

Take advantage of benchmarking

- Benchmark against industry peers for a comparative analysis of:
  - COI policies and procedures
  - Investigations
  - Risk assessments
  - Training and communication
  - Overall best practices
- Facilitate a compliance summit
- Contact people one-on-one

Thank you!

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