WELLS FARGO

# Conflicts of Interest Risk

**Challenges, impact, and effective management strategies**

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Together we'll go far



## Agenda

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

2

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

4

## 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 |

5

## 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

| | |
|---|---|
| Primary interest | Principal goals of the profession or activity |
| Secondary interest | Secondary goals, including personal interests |

| | |
|---|---|
| Duty of loyalty | Obligation to uphold the best interests of the company |
| Duty of care | To act in good faith, with the care of a reasonably prudent person |

7

# Typical conflicts of interest

## Common organizational conflicts of interest

| | |
|---|---|
| Use of company information | Moonlighting |
| Board service | Personal relationships |
| Vendor relationships | Gifts |
| Use of company assets | Variety of financial interests |

9

## 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).

10

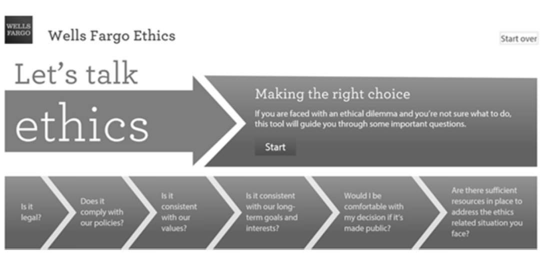
## A closer look at kickbacks

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

11

## Wells Fargo ethical decision making tool



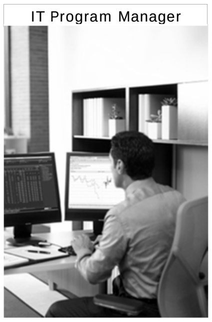

12

## A case of divided loyalties

*Fool me once, shame on you.*
*Fool me twice, shame on me.*
- Anonymous

## The situation

IT Program Manager



- 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 measureable details

14

## The discovery

New Manager

- 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

15

## How did this happen?

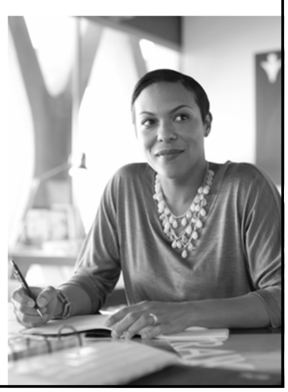
| | |
|---|---|
| | Original manager was "rubber-stamping" the PO approvals. |
| | Many small POs to the third party payment provider did not raise red flags. |
| | Purchase orders did not clearly define deliverables or tangible milestones. |

16

## 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.”

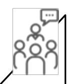
☑ Keep the language simple – no “legalese.”

☑ Provide FAQs.

☑ Be clear the policy applies to **everyone**.

19

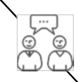
## Set the tone at the top



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

20

## 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

21

## 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

22

## 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.

24

## 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.

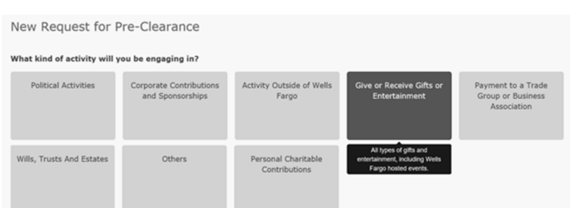
25

## Consider automating the pre-clearance process

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

26

## Example: Wells Fargo's Global Pre-Clearance System




27

## 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

28

## 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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