ASIC

Australian Securities & Investments Commission

Outline of ASIC's approach to corporate culture

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CHECK AGAINST DELIVERY

Introduction

Thank you for inviting me to speak at this Corporate Culture event tonight.

It is good to have this opportunity to speak, together with the Australian Prudential Regulation Authority (APRA), about why culture matters. ASIC sees the influence of culture in the entities we regulate every day, and culture can drive either good or bad conduct within an organisation.

What is culture?

Culture is a set of shared values or assumptions. It can be described as the mindset of an organisation. This is not a new concept. It was actually captured in the Criminal Code over 20 years ago, where it is defined as including an organisation's attitude, policy, rule, course of conduct and practice.

In short, it's 'the way we do things around here'.

Risk culture, to be more particular, describes the norms of behaviour that determine how an organisation identifies, understands, discusses and acts on risks.

From an ASIC perspective, our regulatory interest in risk culture is linked to our mandate and primarily relates to conduct risk. This should not surprise anyone – ASIC is a conduct and disclosure regulator.

We focus on conduct risk through the lens of fair outcomes for consumers and investors, including:

- customers and investors being treated fairly
- financial products performing in the way that customers and investors have been led to believe they will
- financial services firms taking into account consumers' behavioural biases and information imbalances.

We do that because of our mandate. We are tasked with making sure there is an appropriate standard of transparency and appropriate regard for consumers as set through the laws we administer.

So, while we share an interest with APRA in looking at risk, we may each be looking at slightly different things, considering our respective mandates.

The lesson here is that culture, like beauty, can be in the eyes of the beholder.

Why culture matters to ASIC

ASIC is concerned about culture because it is a key driver of conduct.

Poor culture very often leads to poor outcomes for investors and consumers, impacts on the integrity of the Australian financial markets, and erodes investor and consumer trust and confidence.

Companies should also be interested in culture because many studies have found that good culture is good for business and generating long-term shareholder value. Good culture enhances brand loyalty and bolsters reputation, which has a very real financial impact.

Opportunities for influencing culture

We think culture is vitally important for the organisations we regulate; however, we are not going to dictate the kind of culture a company has.

So what then is ASIC doing about culture?

We have outlined in our four-year corporate plan that we are incorporating consideration of a firm's culture into our risk-based surveillance reviews of the entities we regulate. Culture is relevant to who we want to look at as part of regulatory work and how hard we look. It can also be relevant when we consider questions around enforcement.

We are particularly focused on things like remuneration structures, conflicts of interest, complaints handling, treatment of whistleblowers, and timeliness of breach reporting to ASIC and we are particularly interested in companies in the financial services and credit industries.

The role of the board

We think a company's board, senior executives and management play a critical role in relation to culture and conduct.

The board plays a role in setting the tone, influencing and overseeing culture, and ensuring the right governance framework and controls are in place.

Of course, for directors who are not involved in the daily operations of a company, monitoring culture can be challenging. Boards may consider the following questions to gain insights into a company's culture, raise issues and encourage a more positive corporate culture:

- Has the culture of the organisation been independently assessed? Do the firm's stated values match the actual experiences of customers, employees, suppliers etc.?
- Is culture is a regular feature on the board and audit committee agenda?
- Do directors have broader interaction across the organisation (e.g. not limiting themselves to the chief executive officer and executive management)?
- Do directors have relationships with key employees (e.g. line managers) to gather insights about the company's culture and issues?
- Does the board engage with external stakeholders such as customers, suppliers, and regulators?
- Is data captured on key indicators (e.g. employee feedback and surveys, customer complaints, progress on employee training on culture issues)? Is this data monitored to see how the various indicators change or move together?
- Is the information in internal and external audits being fully used?

Conclusion

Culture is not something we want to regulate with black letter law. We know it isn't feasible to check over every company's shoulder to test their culture, or dictate how a business should be run.

Culture is at the heart of how an organisation and its staff think and behave. It is an issue that companies themselves must address.

But as the corporate regulator, we see the very real impact of poor culture through misconduct, scandals and poor outcomes for investors and consumers. That is why we are talking about culture here today.