



# Conflicts of Interest Risk

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

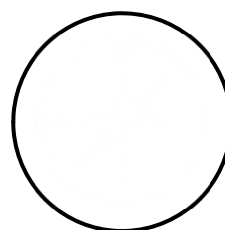
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## Agenda

- 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

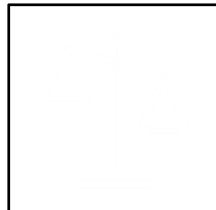
## What is a conflict of interest?

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

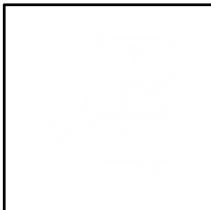
<b>Personal</b> conflict of interest	Employees' personal finances, investments, relationships, or outside activities may affect their ability to perform their work duties
<b>Business</b> conflict of interest	A company engages in an activity where its interests are incompatible with a customer's interests

## 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

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## 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

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## 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

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## Gifts: Can be well-intentioned **and** problematic

How do you define what is and is not acceptable?

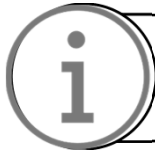
- Assess your company's needs.
- Benchmark with industry and marketplace peers.
- Take relevant laws and regulations into account.
- Identify anything that should specifically be prohibited.
- Use common sense, discretion, and moderation.

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).

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## 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

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## Wells Fargo ethical decision making tool



Wells Fargo Ethics

[Start over](#)

Let's talk  
ethics

### Making the right choice

If you are faced with an ethical dilemma and you're not sure what to do, this tool will guide you through some important questions.

[Start](#)

Is it legal?

Does it comply with our policies?

Is it consistent with our values?

Is it consistent with our long-term goals and interests?

Would I be comfortable with my decision if it's made public?

Are there sufficient resources in place to address the ethics related situation you face?

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## 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 measureable details

## 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

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## How did this happen?

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

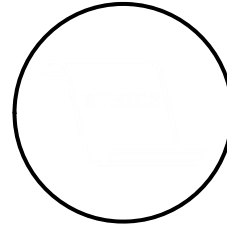
### The effective management of COI is critical

- 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**.



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## 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

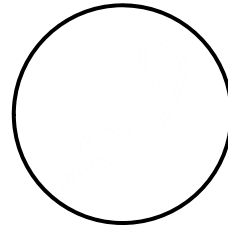


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## Provide an easy way to report concerns

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

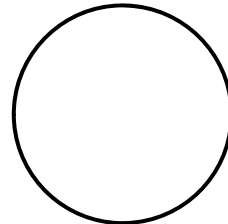


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## Create ongoing, company-wide training

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



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## 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.

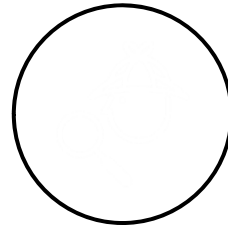


## Affirm employees' commitment to their responsibilities

- ☒ 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.



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## Consider automating the pre-clearance process

### Benefits

Efficient, direct  
communication

Reliable tracking

Clear audit trail

Easy for employees

Time saver

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

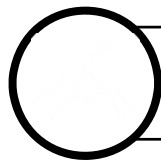
New Request for Pre-Clearance

What kind of activity will you be engaging in?

Political Activities	Corporate Contributions and Sponsorships	Activity Outside of Wells Fargo	<b>Give or Receive Gifts or Entertainment</b>	Payment to a Trade Group or Business Association
Wills, Trusts And Estates	Others	Personal Charitable Contributions	<b>All types of gifts and entertainment, including Wells Fargo hosted events.</b>	

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## 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

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## 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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