Transition of the EthicsCentre Newsletter

BY SALLY GUNZ

The EthicsCentre.ca Newsletter is going through a transition period. After producing several fine issues and supervising a major new ‘look’, editor Flip Oberth was compelled to step down because of the overwhelming pressures of work at her day job. On behalf of all of us associated with the Centre, we thank Flip for her fine work and her graciousness throughout her time as editor.

In keeping with the sense of transition, the next two issues of the Newsletter will be produced in partnership with the Centre for Accounting Ethics at the University of Waterloo and I will be taking the lead as editor. This is a role I held for some time a few years ago. The relationship between EthicsCentre CA and the Centre for Accounting Ethics is a long-standing one. Morley Lemon was a director for many years of the Ethics Centre as well as being the founding Director of the Centre for Accounting Ethics. When he assumed the role of Director of the School of Accounting at Waterloo, I was invited to replace him in both capacities with each Centre.

The mandates of the two Centres differ but complement each other. Readers will be aware of the purpose and goals of the EthicsCentre CA. The Centre for Accounting Ethics was formed in 1991 with a broad mandate to support and encourage the teaching of ethics in accounting programs across Canada. We look forward to representing the best of both Centres in this and the following newsletter.

We are pleased that our lead article this month explores a much debated issue arising out of the current economic crisis: what was the role of sophisticated mathematical modeling and its applications in steering the financial industry and markets into a course that far exceeded prudent risk management? We are most fortunate to have as our lead authors two of Canada’s real experts in this regard, both originally mathematicians, one still working in the academic arena and the other in the investment industry.

Diane Urquhart will be known to many as a gifted investment analyst and today, something of a crusader for better practices and more effective regulation. She is a fine speaker delivering her message as effectively to business – she was part of the EthicsCentre CA 2009 luncheon Speaker Series – as to student audiences. Phelim Boyle is one of Canada’s finest academics in both the actuarial science and finance disciplines, and is the recipient of major international awards over his career. Both Diane and Phelim were provided a series of questions and what you read here are their responses. We trust you will find these informative, challenging and enjoyable. Efrim Boritz provides his perspective on the issues raised by our two contributors as a senior academic auditor and sometime expert witness in Canada.

I conclude by raising an issue that continues to trouble many of us working in the ethics field both as academics and as practitioners. The present economic conditions and the scandals that preceded them have led to more hand-wringing about ethics than perhaps in any other period in our business history. Indeed it is hard to find an ethics article that does not commence by referencing in some fashion the events from early this century. Yet as we approach the end of this decade, there is some sense of unease that both the professions and business are ‘moving on’ to other issues and the debate about ethics is not considered of sufficient importance any longer. Are ethics officers an affectation for good economic times only? Are firms satisfied that the implementation of a code of ethics alone is an adequate move in the ‘right’ direction? Do the professions feel that their response to SOX-type reforms is all that needs to be done and the public now can be satisfied by the assurances that trust is once more enough? And finally, are educational institutions still reluctant to place the discussion of ethics as prominently in their curricula as, say, finance or marketing?

These are difficult questions. In part, they will be considered in the winter 2010 newsletter. In the meantime, all those who consider the role of good ethics in business to be pivotal should question if all that could be done is being done today. And if not, why not?
We have invited you both to offer your thoughts to the EthicsCentre CA Newsletter, as you both are uniquely positioned to provide expert opinion. Specifically, both of you have first hand understanding of the financial services sector and the complex financial products that have often been assigned blame for the current economic crisis. You both were educated in complex mathematics and econometrics although you have observed the world of finance from different vantage points. Phelim, you are one of the premier academics internationally in finance and actuarial science. Diane, you have had a highly successful career as a financial analyst and advisor both with large investment houses and independently and have advised regulators, governments and consumer groups.

COMMENTARY ON THE FAILURES IN THE FINANCIAL SECTOR:

Bad Math, Bad Ethics, or Something Else?

OUR EXPERTS

PHELIM BOYLE
Phelim is Professor of Finance, Wilfrid Laurier University, Distinguished Professor Emeritus, Finance and Actuarial Science, University of Waterloo. His outstanding career as a scholar in quantitative finance has led to numerous international awards including the Centennial Gold Medal of the International Actuarial Association (2008) and the IAFE/SunGard Financial Engineer of the Year (2005). He is a graduate of Trinity College, Dublin and is the author, with his son Feidhlim Boyle, of Derivatives: the Tools that Changed Finance.

DIANE URQUHART
Diane is an investment analyst with many years of experience with Burns Fry Limited, Scotia Capital Markets, and most recently with her own, independent firm. She is a graduate of McMaster University and the University of Toronto with degrees in mathematics and economics. Her present interest is in promoting investor protection laws and enforcement and adjudication in Canada. She is advisor to a range of consumer groups and was the court appointed advisor to retail ABCP owners.
Boyle: Blaming mathematicians for the financial crisis distracts us from a discussion of the real causes which have more to do with unbridled greed, reckless risk taking and lots of unethical behaviour. We are still trying to understand the causes of the crises. Many financial institutions took on too much leverage and did not appreciate the risks. I totally agree with Diane on this point (see below).

However it is unfair to single out David Li and his paper on the Gaussian copula model as being responsible for the financial crisis. In my opinion the Wired article was unbalanced and quite misleading. It is true that some of the models used would now be regarded as naïve and mechanical with the benefit of hindsight but it is grossly unfair to single out mathematicians as being responsible for the crisis. In the interests of full disclosure I should state that David Li was a student of mine.

David Li himself had clearly pointed out before the crisis began that there could be dangers in using the Gaussian copula model blindly. In a Wall Street Journal article on September 12, 2005 well before the crisis imploded David Li stated:

The problem: The scale’s calibration isn’t foolproof. “The most dangerous part,” Mr. Li himself says of the model, “is when people believe everything coming out of it.” Investors who put too much trust in it or don’t understand all its subtleties may think they’ve eliminated their risks when they haven’t.

In connection with modeling of financial phenomena those models which are calibrated to fit the current market price data often provide limited guidance as to the future dynamics of the price processes. It is preferable to have models that take a wider view and take note of the feedback mechanisms in current markets.

Urquhart: Credit default swaps (CDSs) were invented with collateralised debt obligations in 1995 by Blythe Masters, a young Cambridge graduate who was then the head of JP Morgan’s Global Credit Derivatives group. CDSs were designed to have third parties pay for credit default on loans and bonds, in exchange for premiums paid to these third parties. This new insurance-like product was supposed to improve global economic growth by enabling higher credit issuance to riskier borrowers, while spreading the risk amongst a larger number of parties throughout the world. CDSs quickly evolved into an unregulated casino attended by speculators making bets amongst themselves. The intended risk dispersion of CDSs mutated into systemic risk within the financial industry.

One of the most common approaches to modeling the expected loss and valuation of CDSs is the Gaussian copula approach as described by David Li in a paper published in The Journal of Fixed Income titled “On Default Correlation: A Copula Function Approach.” Mr. Li published this paper in 2000, while working at JPMorgan in New York.

Blythe Masters and David Li must take some responsibility for the global financial crisis as the inventor and the pricing mathematical model builder for CDSs, while both were employed at JP Morgan. Inventors must take great care to ensure that their innovations are positive developments for society. However, the investment banking industry, credit rating agencies and the securities regulators must bear the majority of the responsibility, since it is their institutional role to conduct due diligence and to ensure the suitability and safety of new investment products and the provision of marketing materials for investors that are without omissions or misrepresentations.

Boyle: I think this is true. A number of the new products are quite obscure and it is hard to see what economic function they serve. On the other hand it is not a good idea to stifle innovation. Clearly education and sensible intelligent regulation play a role here. In terms of controlling systemic risks there are advantages in having securities like Credit Default Swaps traded on an exchange. Furthermore, regulators/regulations are generally not sufficiently equipped to deal with new models and financial innovations, as regulation tends to develop as a reaction to crises rather than in anticipation of crises. For example, the Commodity Futures Modernization Act of 2000 excluded Credit Default Swaps from regulation and it is likely that any effort to regulate CDSs would have been met with widespread opposition – at least until CDSs started causing serious problems.

Urquhart: The financial crisis was caused by investment bankers who were able to put toxic ingredients into structured credit conduits, financed by different tranches of debt, where investors were told the super senior and senior tranches had top credit ratings and very low risk. The structured credit conduits were sold with limited transparency on their contents. The super senior and senior tranches were labelled low risk by the investment banks and credit rating agencies, using the Gaussian copula approach to do so. Once the structured credit products were labelled low risk, Wall Street simply added leverage to make more profit for itself and the conduit financial agents.
In many conduits, the credit buyers were given a share of the incremental risk premium from the underlying high risk credit securities held within the structured credit conduits. But in the asset backed commercial paper market, the short term creditors generally received less than 0.50% improved returns over treasury bills.

Bank executives were willing to own billions of dollars of US subprime mortgages since they were able to purchase bond insurance and CDSs from counter-parties at very low premiums. These executives were getting large short term bonuses from the incremental US subprime mortgages, while telling their bank bosses their positions were hedged and had nominal risk. Hedged US subprime mortgage portfolios required little capital under the international BIS Capital Standards. The bank executives had incentive plans without clawbacks for future losses, so there was limited effort to ensure the bond insurance and credit default swap counterparties were creditworthy.

CDS counterparties are in most cases not insurance companies. They are generally public investors who put up their money through hedge funds, Asset Backed Commercial Paper and other Structured Investment Vehicles. The conduit financial agents, who sold the “CDS insurance,” made profits without putting up capital, without taking the risk and while neglecting to tell their investors that they were bearing all the risk. They sold the insurance at premiums that were far too low for the risk, but they did not care because it was someone else’s money at risk. The CDS sellers could also have been banks, where the executives making the decisions to sell the CDSs made large bonuses for taking on huge risks, while knowing they would not be asked to pay these bonuses back when the credit defaults occurred in the future.

Q: It is sometimes said that there is little formal role for ethics in finance since market forces control for unethical behaviour.

Boyle: Market forces do not always control for unethical behaviour. Although being ethical is often good business since it establishes a good reputation there are many instances where unethical practices persist undetected for long periods. Fraud is a feature of the financial landscape and is often hard to detect. Enron had an impressive accounting firm auditing its financial statements. The firm’s common stock was widely traded and was followed by leading Wall Street analysts. Bernie Madoff’s Ponzi scheme was missed by the SEC and by many fund of fund hedge funds who claim to be experts in due diligence. There are many possible conflicts of interest in the financial sector. It is impossible to design laws to cover all the possibilities. Trust and integrity are critically important in the investment business. Also just squeezing through some legal loophole is not a good idea. As Warren Buffet says, you should always play in the middle of the field because if you play too near the edge, suddenly it is easier to cross the touchline.

In a firm the culture comes from the top so good corporate governance is an essential first step along with continuing education and reinforcement of sound ethical principles.

Urquhart: The CDS market has been rife with abuses that are at the center of this financial crisis. The behaviour of the conduit CDS sellers has not been prudent because they have been unregulated (insurance companies are heavily regulated) and the conduit financial agents were making profits without putting up their own money, all the while putting the public investors’ money at great risk. The banks who sold CDSs got themselves into financial difficulty and began dropping like dominoes in the financial crisis.

Q: Do you believe that the financial services sector has ‘learned from past mistakes’ or do you foresee a continuing cycle of crisis/response/crisis?

Boyle: It will fade from memory as time passes. As Goethe says the only thing we learn from history is that we do not learn from history.

Urquhart: I am concerned that the individuals and financial industry firms will not learn any lessons from this financial crisis, if they do not receive securities regulatory and securities criminal penalties for their misconduct.

Q: Do you have any other thoughts on this topic?

Boyle: In business it is preferable to do business with someone you trust and it is difficult to trust someone who does not behave ethically. If all parties had acted ethically the subprime crisis would have been averted. It was not caused by mathematicians.

Urquhart: These persons and firms [see above] must be required to pay the costs of their damages to savers and investors. Executive compensation plans need to be revamped, with substantial amounts of compensation escrowed for up to ten years for claw back when the damages of high risk investing become known. For Canada, we must move expeditiously to create the single national securities commission and a new Federal/Provincial Securities Crime Unit, which is described at www.ismymoneysafe.org.
About 15 years ago I was consulted by the lawyers for a U.S.-based insurance company that had purchased several hundred million dollars’ worth of debentures of a Canadian merchant bank several years before.

The apparent issue at hand was whether the merchant bank had properly disclosed in its financial statements the purchaser’s right to “put” the debentures to the merchant bank under certain conditions. Improper disclosure would be grounds for a breach of the bank’s covenant to the debenture holder and could cause a liquidity crisis for the bank. Improper disclosure could also give the insurance company grounds to sue the auditors and avail themselves of their deep pockets.

After digging into the information provided to me I concluded that the insurance company was playing a sophisticated, but possibly unscrupulous, game of chicken with the merchant bank. It seems that the insurance company had entered into an interest swap agreement with a counterparty that was a subsidiary of the merchant bank. The rates had moved against it and the insurance company stood to lose many millions of dollars on the deal and was seeking to unwind it. One way of unwinding the deal was to create a financial crisis for the merchant bank; so the insurance company announced that it was going to take advantage of its right to force the merchant bank to repurchase its debentures, hoping to create a liquidity crisis for the bank which in turn would force it to unwind its subsidiary’s swap agreement and mitigate the loss that the insurance company would otherwise ultimately incur. A liquidity crisis could also occur if the bank was found to be in breach of its covenants by having failed to provide proper disclosure of its debt obligations and their maturities.

The insurance company was known for having a somewhat cocky group of math wizards on staff. Apparently, the math wizards placed large bets that sometimes didn’t work out in their favour. However, they were not content to lose their bets but resorted to using what appeared to be financial blackmail and intimidation to try to get out of their bad bets. They would even drive their own client into
financial distress if need be! This was a long time ago, but the chickens did come home to roost eventually during the recent financial crisis.

My point in telling the above story is that business practices involving large bets by financial wizards are not a recent phenomenon. They go back a long time. The gamblers often seem to have free rein in more than just betting. They are given freedom to engage in questionable business practices as well, including pushing around their counterparties and attempting to renege on commitments with apparent impunity. In the story I told, not only did the whiz kids try to push the merchant bank into financial crisis but they also tried to find grounds for attacking their auditors for failing to force certain disclosures that would probably not have been necessary if they themselves did not create the potentially disclosable event.

My story is but one of many similar stories whispered about or reported in the financial press over the years. How could such practices go unchecked for so long? When millions of dollars are at stake one might suppose it would be too much to expect good sportsmanship, ethics and fair play to rule the day. On Wall St./Bay St. millions or even billions of dollars are frequently at stake. Does this mean that anything goes? Any tactics to avoid losing a bet?

Some commentators highlight the importance of ethics in reining in unscrupulous behaviour such as the game of chicken in the story I told. But I wonder whether the high stakes involved in the risky gambles that are routinely made as part of the financial dealings on Wall St./Bay St. would permit ethics alone to fetter the baser impulses of those involved. Perhaps it is cynical of me to suggest that the call for ethics in some quarters is merely a ploy to forestall the imposition of a strengthened regulatory regime. We should be cautious in joining that chorus lest we divert attention towards a high-minded but toothless solution and away from a sharper attack on the unscrupulous. It seems to me that if we are to rein in behaviour that can wreck entire economies, then we must give at least as much emphasis to requiring close managerial and regulatory oversight and to severe consequences for transgression as we do to reliance on personal ethics. Although we often hear that honesty cannot be legislated, over-relying on personal ethics when the bets are so big, the stakes are so high and the players are so well inoculated against ethical behaviour seems to be naïve.
Slowly but surely the pressure for Say-on-Pay is growing in Canada. But whether giving shareholders a voice will have a measurable impact on the compensation practices of Canadian public companies remains an open question. Much depends on how compensation questions will be framed for shareholders and, more importantly, on whether a Say-on-Pay vote will ever become more than gentle advice to management and compensation committees.
RECENT CHANGES IN THE CANADIAN LANDSCAPE
In early 2009, hard on the heels of shareholder proposals submitted for consideration at their annual meetings, Royal Bank of Canada, Bank of Montreal, Scotiabank, Canadian Imperial Bank of Commerce, and The Toronto-Dominion Bank announced that they will give shareholders a Say-on-Pay vote in 2010. This brings to eleven the total number of large reporting issuers in Canada that will hold a Say-on-Pay vote next year. Consistent with the practice in other major jurisdictions, each of these Say-on-Pay votes will likely take the form of a non-binding advisory vote, whereby shareholders are asked to approve the compensation, compensation policies and/or compensation disclosure for the previous fiscal year.

INTERNATIONAL IMPLEMENTATION OF SAY-ON-PAY
Say-on-Pay has already been implemented in various forms in a number of different countries. The U.K. (2003) and Australia (2005) have enacted legislation that requires companies to give shareholders a non-binding advisory vote on the prior year’s executive compensation. In contrast, the Netherlands (2004), Sweden (2006) and Norway (2007) require that shareholders have a binding vote on the future compensation policies of the company. In the United States, Say-on-Pay has so far only been implemented by a limited number of major companies on a non-binding advisory basis. The only instance of a compulsory advisory vote in the United States was implemented in February 2009 under the Troubled Asset Relief Program (TARP). Any recipient of TARP funds, during the period for which the financial assistance remains outstanding, is required to give its shareholders a non-binding vote on the disclosed executive compensation of the company.

WHERE IS CANADA HEADED?
At the moment, there are no Canadian laws requiring Say-on-Pay, no provincial securities commission is proposing that it be required, and no explicit Say-on-Pay votes have been voluntarily implemented. The eleven votes that will occur in 2010 are the first of their kind.

At the same time, it is becoming less clear what shareholders will vote on. Reports to shareholders from a company’s compensation committee are no longer required as a result of the recent amendments to Form 51-102F6 – Statement of Executive Compensation of National Instrument 51-102 – Continuous Disclosure Obligations. Absent such detailed statutory reporting requirements, shareholders may be hard pressed to gather sufficient information on a company’s compensation practices to give themselves a meaningful say. Much will depend on how management goes about the process of soliciting advice from shareholders.

But still the underlying pressure for effective Say-on-Pay remains. In an April 2009 release, the Canadian Coalition for Good Governance (CCGG) recommended that all boards adopt a Say-on-Pay vote as best practice. The CCGG intends to produce a model form of Say-on-Pay policy and shareholder resolution, and has recommended that the vote be an advisory shareholder resolution on the compensation plan, past compensation, and any other compensation report of the company.

Other industry players are pushing in a similar direction. Among them is RiskMetrics Group (RMG) (formerly ISS Shareholder Services), an influential service organization that provides voting recommendations to its predominantly institutional investor clients. In its update on Canadian corporate governance policy for 2009, RMG changed its recommendations to favour proposals for advisory Say-on-Pay voting (though it advised against proposals for binding Say-on-Pay). In doing so, RMG also laid out its five guiding global principles that it will use when assessing compensation plans in the context of a proposed Say-on-Pay vote. These principles require that a company: (1) maintain appropriate pay-for-performance alignment with emphasis on long-term shareholder value, (2) avoid arrangements that risk “pay for failure”, (3) maintain an independent and effective compensation committee, (4) provide shareholders with clear, comprehensive compensation disclosures, and (5) avoid inappropriate pay to non-executive directors.

REAL CHANGE OR A PAPER TIGER?
Notwithstanding these developments, there are many sceptics of the Say-on-Pay phenomenon. They assert, on the basis of recent experience with legislated Say-on-Pay in Europe, that Say-on-Pay votes, whether advisory or binding, have little or no effect on compensation policies. Many question whether shareholders are even equipped to give useful advice on compensation policies, and express doubts – overtly or covertly – about the willingness of management to give shareholders the necessary tools.

In the longer term, though, we anticipate that reality will confound these sceptics, and that Say-on-Pay – most likely on an advisory basis – will become increasingly common within the Canadian corporate context.

“IN AN APRIL 2009 RELEASE, THE CANADIAN COALITION FOR GOOD GOVERNANCE RECOMMENDED THAT ALL BOARDS ADOPT A SAY-ON-PAY VOTE AS BEST PRACTICE.”
MAKING DOUBLE BOTTOM LINE COMPANIES SUCCESSFUL: LESSONS LEARNED  
February 24, 2009 Bill Young, President, Social Capital Partners

Bill Young introduced the audience to the concept behind Social Capital Partners, a not for profit social financing organization begun in 2001 with the belief: “that market forces can be utilized more effectively to solve structural social challenges in Canada. In support of this belief, SCP arranges for growth financing and provides advisory services to successful businesses that integrate a social mission into their HR model and expand career opportunities for disadvantaged populations.”

Social Capital Partners has three primary portfolios: Franchise, Social Enterprise, and Small and Medium Business. One example of the Social Enterprise Portfolio is TurnAround Couriers, “a Toronto-based bicycle courier business that began October 2002. TurnAround exclusively recruits youth-at-risk from shelters and agencies to be both the bicycle couriers and the back office staff. TurnAround has employed more than 100 at-risk youth, approximately 80% of whom have moved into stable housing, next-step employment and/or furthering their education.” The President of TurnAround Couriers was present at the talk and expressly acknowledged and thanked Social Capital Partners for its assistance.

THE CANADIAN ASSET BACKED COMMERCIAL PAPER CRISIS - THE CAUSE AND THE CURE  
March 26, 2009, Diane Urquhart, Independent Investment Analyst

Diane Urquhart has a long career as an investment analyst in Canada. Since creating her own independent business she has become involved advising investors and promoting better investor protection laws, enforcement and adjudication in Canada. She was the court appointed financial advisor under the Legal Representation Order for the Ad Hoc Committee of Retail ABCP Owners and the primary focus of her speech was the events surrounding this role.

Ms. Urquhart’s speech is posted on the Centre’s website (on the Past Events page). She discussed the events surrounding the crisis in detail and concluded with recommendations. Specifically, she said “every senior person in a corporation needs to determine whether products being sold are safe through due diligence, stress testing, and the acceptance that regulation has in the past proven to be effective for similar products. Further, corporations have to make decisions on the long-term profits of products sold. There should be no immunity from lawsuits for damages from toxic products and executive compensation should be designed so as to allow for reserves in the good years and for clawback in the bad ones. Executives must pay for the toxicity in company assets or products sold.”

ETHICS AND CANADIAN CAPITAL MARKETS: THE FEDERAL EXPERT PANEL'S RECOMMENDATIONS  
April 24, 2009, Hon. Tom Hockin, Chair, Expert Panel on Securities Regulation

The Hon. Tom Hockin presented the key elements of the report of the Expert Panel on Securities Regulation that was presented to the federal Minister of Finance, the Honourable Jim Flaherty, in January 2009. The Panel identified as its goal the recommendation of “nimble, cost-effective, and proportionate regulation and enforcement of securities markets.” The report recommended four broad changes:

- ‘Principles-based’ rather than ‘outcome-based’ regulation
- Having regulation and inspection proportionate to risk
- Allocating adjudication and enforcement to the appropriate agency keeping adjudication tribunals independent from the securities commission and criminal charges going to a criminal division of a national enforcement division
- Voluntary participation by provinces in a federal securities commission

This approach was passed by Parliament and included in the Federal Parliamentary estimates of June 2009. A transition team was announced June 22nd 2009 to carry this complete project to reality.

Continued on page 12...
At the Centre’s annual general meeting in May, we expressed our thanks to retiring directors Christina Donely (former Chair), Roman Kosyma (former Treasurer), Lisa Gressel and Seymour Trachimovsky. At that time we were pleased to welcome the following new members to the Board:

**Thomas A. Bogart** – Tom Bogart is Executive Vice President & General Counsel, Sun Life Financial Inc. He has overall responsibility for the company’s international legal and compliance, public affairs and corporate secretarial functions. Tom is a director of Sun Life Global Investments Inc. and a member of the Corporate Counsel Forum Advisory Board of the International Bar Association. Prior to joining Sun Life, he was a partner at the Toronto law firm, Torys LLP. Tom Bogart is also Chairman and President of the Tafelmusik Baroque Orchestra & Chamber Choir Board of Directors.

**Hilary Randall-Grace** – Hilary Randall-Grace is Director of Ethics & Risk Management, National Quality & Risk Management, Deloitte & Touche LLP. As Chief Ethics Officer, Hilary has responsibility for the organization’s National Ethics Program, a program which she developed. Hilary also works closely with firm leaders in the implementation of risk intelligence within Deloitte. Prior to this position, Hilary was with Deloitte’s Enterprise Risk Services – Risk Management Consulting and Regulatory Services where she provided internal audit, risk management and governance consulting services to a portfolio of large and mid-size clients in all industries.

**Robert Timberg** – Rob Timberg heads the Ethics organization at Nortel where he is responsible for the company’s global ethics program including its Code of Business Conduct, its worldwide ethics and compliance training and communications programs and its whistleblower hotlines. He has a B.A.Sc. (Engineering Science, Nuclear Engineering) and an LL.B. from the University of Toronto, and has completed advanced studies in ethics. He has taught both law and engineering.

We also welcomed **Richard Lococo** who at that time was Senior Vice President & Deputy General Counsel, Manulife Financial. Prior to joining Manulife, he was a partner with Osler, Hoskin & Harcourt where he practised corporate and securities law. Previously he had been legal counsel with the Ontario Securities Commission. So distinguished, in fact, was Mr. Lococo’s legal career, that he has since been appointed to the Ontario Superior Court of Justice and will be serving in Hamilton. On behalf of all of us at the EthicsCentre, I extend sincere congratulations to Mr. Justice Lococo. We wish him every success and thank him for his willingness to serve – albeit for only a short time – as a Director of the Centre.

At that same meeting in May, the role of Chair passed from Derek Hayes, for many years the General Counsel at CIBC, to myself, an academic, with a PhD in English Literature specializing in the work of modern writers of satirical fiction. Had I been present, I would have felt quite daunted by my predecessor’s credentials, by his outstanding contribution to the EthicsCentre, and by the very impressive profiles of the Directors – returning and new – on the Board that I was being elected to chair.

Spring being conference season in university circles, however, I could not be at the AGM, but was, in fact, in Vancouver, presenting a paper on the role of the moral imagination and the power of stories in the resolution of ethical dilemmas. Though I lay no claim to the expertise in ethics, law or compliance that distinguishes my colleagues on the Board, my role as Director of Continuing Education has included the design, development and delivery of a broad range of courses, including a Certificate Program in Corporate Social Responsibility which is offered by the University of St. Michael’s College in collaboration with the Conference Board of Canada.

The EthicsCentre has figured significantly in recent additions to the curriculum by providing resources, guest speakers and especially the excellent publication, Ethics & Governance: Developing and Maintaining an Ethical Corporate Culture, which we now use as the core text for the Ethics component of the program. As part of its ongoing contribution to ethics education, the Centre has agreed to be a sponsor for this year’s student run CSR Case Competition hosted by the Rotman School of Management at the University of Toronto.

As noted by our interim editor, Sally Gunz, the newsletter, like so much in the lives of academic and business members of the Centre, has seen a number of changes in recent months.

I echo Sally’s appreciation to our previous editor Flip Oberth. In welcoming Sally back to a role in which she demonstrated both skill and leadership in the past, I would also like to express our thanks to her colleagues at the University of Waterloo’s Centre for Accounting Ethics who will be partnering with us in the production of the next two issues of the Newsletter. I look forward to working with them, with the other Directors of the Centre and with all of our members and Newsletter readers as we begin a new program year.
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Speakers’ Corner

THE ROLE OF JOURNALISM IN ETHICS AND ACCOUNTABILITY:
WHY ASKING THE QUESTION IS SO IMPORTANT
March 20, 2009 Anna Maria Tremonti, Host, The Current, CBC Radio One

Ms Tremonti provided a very interesting and entertaining analysis of the significance of ethics and accountability to journalism today. She built her presentation around her extensive experience working as a journalist in foreign countries. This exposed her to encounters with government officials and other sources who considered it to be ‘normal practice’ to receive bribes before providing information, access, or other “favours”. She addressed her responses to such encounters and the risks in general these attitudes give rise to for the practice of journalism today.

MANAGEMENT ETHICS
is published seasonally by EthicsCentre CA.

We welcome appropriate announcements, letters to the editors, short articles of 300 to 1,000 words (which will be subject to usual editorial processes) and suggestions from readers.

Management Ethics is edited by Sally Gunz.

Back issues of Management Ethics are on-line at the Centre’s web site. The opinions expressed in Management Ethics do not necessarily represent the opinions of EthicsCentre CA.

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CALENDAR OF EVENTS

LUNCH WITH FIONA CREAN
Dec. 3 - Fiona Crean,
Ombudsman, City of Toronto

AFTERNOON WORKSHOP
Jan. 12 - Ann-Louise Howard,
Company Ethics Officer, Lockheed Martin Canada - Lockheed Martin’s Ethics Communications: Using Multiple Vehicles to Engage Employees

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