away from their intended culture often in destructive ways. He also warns that this slow drift often goes unnoticed unless direct and deliberate control is taken to guide that evolution.

Mandis points out something that I subscribe to and that is that the financial industry, both collectively and individually, has over the years surrendered an *ethical standard* for a legal one. Our industry's needs are better served by applying an *ethical standard* because it will go a long way to bridge the *trust deficit* facing the industry as well as to provide a "behavioural buffer" that will protect firms from both legal and reputational risks.

Why is this important?

In addressing why all of this is important I will again refrain from restating the arguments for getting better outcomes for investors and consumers as well as the need to minimise the conduct scandals that are a blight on our industry. Instead I would like to highlight that ensuring market integrity, and the related challenge of restoring trust in the entire system, is fundamental to both *market stability* and *economic growth*.

The point about market stability is echoed in a European Securities and Markets Authority (ESMA) report

In turn, deteriorating trust in the financial industry threatens market integrity. Again, benchmarking finance to other industries is instructive and an IMF report[10] recently showed that compared to other non-bank sectors (such as pharmaceuticals, utilities and food production), dissatisfaction with the financial sector is at an all-time high.

What next? Meeting the challenge

As I mentioned earlier we have been aware of the cultural challenge for some time and have applied energies and efforts to address it. The problem as I see it is that we need to turn the *rhetoric into reality*. I also believe we must acknowledge that there is a degree of what I call *regulatory fatigue* setting in and that some within the financial industry are just waiting to return to "business as usual" once regulators and policy makers tire of regulatory interventions.

To this end Daniel Tarullo, a Federal Reserve Governor, framed the issue very well in an aptly titled speech *Good compliance, not mere compliance*, in which he identified a "mere compliance" mentality and a hope by firms that regulators will move on swiftly after applying a "quick fix".

So we have to go deeper. We have to realise that it is not just a job for the board and senior executives and that "tone from the top" is a good start, but not enough. Indeed we have to realise that the task even goes further than recognising the importance of tone in the middle. We also have to realise that this challenge is relevant to each and every employee and requires attention throughout the entire life cycle of employment.

This point really came home to me when I was going over the SFC's mystery shopping programme findings report that we issued last December. It is still very clear that *at point of sale* the message has not yet gotten through to people actually doing the sales and we are a long way from the types of conduct required under the law, let alone by social norms. Sales people are still not demonstrating the qualities that we, and indeed their boards, expect of them. The rhetoric is not becoming a reality.

In particular there is not enough professionalism being exhibited—that is there is not enough of both *skill* and *conscientiousness*—the two qualities that define professionalism. This means that there is still a great fault line in our markets. And if we have a fault line we cannot have the *structural soundness* that, as I mentioned earlier, is a crucial component of integrity.

In the end I have concluded that we need to apply a well-used financial services sales mantra to the financial integrity challenge—namely that it will take *the delivery of the entire fir* [illegible]

This will take a renewal in thinking to achieve. For example we all use the expression “tone from the top” and now “tone from the middle”, with great frequency. We need to go deeper and articulate exactly what we mean by these expressions. For me it means that business leaders at *all levels* need to take *real ownership* and *real responsibility* for achieving market integrity. It is *not* someone else’s responsibility. Neither is it the sole responsibility of the board, or of the risk manager or the compliance teams. It is the responsibility of *each and every person in a position of authority* in a financial firm. And on this point I believe that

A virtuous cycle is crucial to achieving integrity in our markets. I genuinely hope, as Martin

Language reflects thought and thought reflects values and culture. So the language of

Here there is an important role for industry bodies like the HKSI to both set standards and values for market participants and also to deliver knowledge and training, like the Business Ethics Forum, to put those standards into effect.