

Conflicts of Interests

From the perspective of (one) institutional investment manager

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Agenda

- Understanding conflicts
- How conflicts can arise in the stewardship chain
- How conflicts can be managed
- Incentives as conflicts
- The code
- With thanks to ...

Understanding conflicts

- A conflict of interest situation:
 - *one party*
 - *is responsible for looking after the interests*
 - *of another*
 - *as well as his/her own interests*
 - *Wherever there is a relationship of legal trust*
- What are the issues that institutional investors might be thinking about?
- *At Prudential, we experience some of the conflicts I will discuss but not all. We have answers for some of them and grapple with others. This discussion is not a reflection of the situation at every asset manager but is my view of some of the questions we can discuss.*

How conflicts can arise in the stewardship chain

- The functionaries in a position of legal trust
- Duty of care by the asset manager to fund members
- Context is critical
- Contracting powers are critical
- Fee considerations are critical
- Inter-personal relationships and interests are critical
- Client mix is critical

Incentives as conflicts

- The double-edged sword
- Possible solutions
- Personal self dealing
- Corporate self dealing
- The governance community

How conflicts can be managed

- Avoidance
- Communication
- Arms length transacting
- Relationships of legal **trust**
- Knowledge
- Engagement

The code

- Principles
- Rules based approach
- Focus on defining and limiting a “financial interest”
- S3(1)(b) – mitigation where it is “impossible” to avoid the conflict
- Definition of financial interest includes ownership interest and a provider is prohibited from discounting or giving an ownership interest

With thanks to ...

The multitude of authors who contributed to:

“Conflicts of Interest: Corporate Governance and Financial Markets” 2007, Kluwer Law International