During 2012/2013, JACEI has once again advised the CFB on a wide range of ethical issues. This short report focuses on how we have worked to raise questions around ethical banking standards, but amongst other things we have also:

- developed a position paper and policy on human rights in areas of the world where there is a risk of conflict, and begun to look at how to tackle issues of tax justice, exploring tax avoidance and practices that enable companies that operate profitably in the UK to pay little or no corporation tax
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A full report in the agenda of the Methodist Conference is available from www.methodist.org.uk/jacei. Position papers and ethical policies are available from www.cfbmethodistchurch.org.uk/ethics. We very much welcome comments and feedback on the work of JACEI, and I encourage you to contact me if you have questions or concerns about ethical investment.

The Revd John Howard, Chair, Joint Advisory Committee on the Ethics of Investment (JACEI)

The Central Finance Board of the Methodist Church

The Central Finance Board of the Methodist Church is responsible for managing and investing over £1 billion of Methodist assets. Its challenge is to make good financial returns, whilst acting within the teachings of the Methodist Church. Its mission statement affirms that "we aim to construct investment portfolios which are consistent with the moral stance and teaching of the Christian faith [and] to be a Christian witness in the investment community."

Central Finance Board of the Methodist Church

Banking on the Banks

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From the chair of the Joint Advisory Committee on the Ethics of Investment (JACEI):
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banking is at the heart of the financial system and an essential part of a modern economy. When banks work as intended, they enable people to save and borrow, and help businesses to invest, channelling money to where it is most needed. However, they have failed to do this in recent years and 2012 saw several banking scandals. The CFB met with the banks involved in recent scandals.

In 2012 Barclays was fined a record £290 million for repeatedly distorting banking ethics. In addition, HSBC was fined a record amount by the US authorities for failing to prevent money laundering, and Standard Chartered was fined for non-compliance with the US sanctions policy against Iran.

The banking industry is based on trust, yet it has clearly allowed significant moral failings over recent years. The Parliamentary Commission on Banking Standards, for instance, called the downfall of HBOS “a cautionary tale [that] provides a manual of bad banking”. How can we make clear, as investors as well as customers, that our banks require leadership which does not short-term profit ahead of the needs of their customers? JACEI considered these ethical questions in a paper available on the CFB website.

In January, Justin Welby, Bishop of Canterbury, said “There are no simple answers to the current crisis in banking, but there are simple principles. They come down to saying that financial services must serve society, and not rule it … it isn’t regulations, but virtue and leadership embedded within corporate cultures, that stops people from stumbling when under pressure.”

Responding to the banking crisis

During the year, JACEI has endorsed the engagement by the CFB with the banks involved in recent scandals.

The CFB, as part of a Church Investors Group delegation, met with the senior non-executive director of Barclays to express serious concerns about the bank’s corporate governance and business culture. This was followed by a meeting with the new chairman, Sir David Walker, to stress the need for cultural and behavioural change to restore trust and ethical probity and a further meeting with company executives to monitor progress.

The CFB engaged with Standard Chartered following a $340 million fine by a New York regulator in respect of ‘rogue’ transactions that fell foul of US sanctions governance. The bank outlined its progress towards compliance. In contrast, it has been disappointed by the response of Lloyds Banking Group, which lags behind its peers in resisting adoption of the Living Wage.

Excessive remuneration of bankers has rarely been out of the headlines. JACEI was pleased to note the robust position taken by the CFB in voting against excessive payments. However, in its discussions with banks, the CFB has also focused on the injustice of low pay. It participates in the campaign to encourage companies to become Living Wage employers. The CFB met with HSBC and was encouraged by its progress towards compliance.

JACEI was pleased to note the conformity of insights expressed by the London Interbank Offered Rate (LIBOR), financial data used to calculate the £290 million for repeatedly distorting banking scandals. However, they have failed to do this in recent years and 2012 saw several banking scandals.

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The CFB engaged with Standard Chartered following a $340 million fine by a New York regulator in respect of ‘rogue’ transactions that fell foul of US sanctions governance. The bank presented a very full and candid account of the circumstances that led to the fine. JACEI welcomed the clarity and openness with which the bank discussed the issues.

The CFB met with HSBC in the light of revelations of money laundering at its Mexican subsidiary which resulted in a $1.9 billion fine. The bank outlined some of the fundamental changes enacted to prevent similar events being repeated.

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