

# Conduct Rules Scenarios

## The NED With Concerns

### Scenario

James is a non-executive director and Chairman of Trusty Brokers Ltd.

Trusty Brokers Ltd is owed by a venture capital firm. Keen to see a return on its investment, over the past year, the venture capital firm has been increasing the pressure on Trusty Brokers Ltd to grow revenue.

Trusty Brokers Ltd is due to embark on a push to expand. As part of this push, it plans to introduce a new incentive plan for its salesforce. The plan involves paying salespeople 7 years' worth of sales credits upfront for sales of products to new customers. Sales credits are particularly high with respect to a new type of higher-risk product (on which Trusty Brokers Ltd receives a higher commission). There are no provisions allowing sales credits to be 'clawed-back' in the event that a customer redeems an investment early.

James is concerned about the new incentive plan for a number of reasons. Firstly, he believes that it will create bad incentives for salespeople generally and may result in the firm selling products to clients which are unsuitable to their financial requirements. Secondly, he is concerned that, whilst the salesforce will certainly be incentivised to assist with the expansion of Trusty Brokers Ltd, that expansion may be built on weak foundations which will ultimately come back to 'bite' the firm. Finally, he sees no evidence of additional controls having been put in place to support the expansion.

James raises his concerns with Christine, Head of Sales for Trust Brokers Ltd, an SMF 3 and the person who has developed the incentive plan. Christine is quite dismissive of James' concerns. She is adamant that her incentive plan is the only way to proceed and that James shouldn't be such a "worry wart".

Gary, the Chief Executive Officer and SMF 1, is noticeably quiet about the whole situation. James suspects that this is because his compensation from the venture capital firm is linked to revenue growth at Trusty Brokers Ltd.

**What conduct rules may have been breached? Why?**

**How should the firm respond?**

**What controls could have been implemented?**