

Business Ethics Education Through Case Analysis: A Study on Foreign Financial Institutions' Operations in Japan

David Nichols

1 Introduction

These cases have been developed for use in a corporate governance and ethics class and are intended to provide realistic issues managers face in the business world. The learning objectives for this teaching material will focus on how, taking into account practical considerations, ethical principles and values can be applied actual situations.

Almost all managers in the course of their careers will be faced with situations which will require them to exercise judgement on the ethical implications of their decisions. The included cases are situations that mid to senior level managers have had to address, though they are relevant for all students regardless of experience.

Some of these cases involve real ethical issues and others involve situations that may appear to have an ethical component which in the end may not be material. The mix is intended to allow students to hone their skills in identifying and addressing real ethical issues requiring a response in a practical and feasible manner.

It is not realistic for any company to give precise guidance to their managers for all potential ethical situations, so companies need to rely on their employees and managers to exercise good judgement to serve clients and protect the company from ethical lapses. Recognizing this some companies have developed tools for their managers to use to help them evaluate issues that arise in the normal course of business.

One example of this is State Street Corporation's "Ethical Decision Making Framework" published on page 10 of State Street's publicly available 2025 Standard of Conduct State Street Corporation 2025 Standard of Conduct

The framework (shown below) gives managers a set of key questions to ask when faced with a potential ethics situation. It is a framework that does not guarantee the right decision, but it does give a process that will result in a decision that is backed and evidenced with sincere intent to put clients and long term business interests as the highest priority.

It is recommended that the instructor assign the State Street code of conduct as a course pre-read and/or discuss the ethical decision making framework prior to case discussions. Depending on the level of experience of the students it may be advisable for the instructor to give an introductory lecture on ethics and approaches to dealing with ethical issues in a business environment.

Business Ethics Education Through Case Analysis: A Study on Foreign Financial Institutions' Operations in Japan



Figure 1: State Street Corporation's Ethical Decision Making Prism

It is also recommended that in the course of these cases the students gain an understanding of fiduciary duty, conflict of interest and the three lines of defense. Reference articles appear in the table below.

Table 1: Additional background reading

Subject	Link to articles
Fiduciary Duty	https://www.investopedia.com/ask/answers/042915/what-are-some-examples-fiduciary-duty.asp
Conflict of Interest	https://lawjournal.mcgill.ca/article/fiduciary-duties-conflict-of-interest-and-proper-exercise-of-judgment/
Three lines of defense	https://www.acrn-journals.eu/resources/jofrp10f.pdf

2 Summaries of Case Studies

This document is divided into two sections:

- A description of the goals and desired learning outcomes and instructor notes for each case
- An appendix consisting of the case materials to be distributed to students

The included cases are from the financial services industry, however all industries face similar situations. The cases included should be considered anecdotal examples, rather than a comprehensive and exhaustive group of ethical issues managers may face. In fact, one of the major learning points of these cases, is that no matter what a manager prepares for, in their work life they will almost certainly be presented with unique, unanticipated situations.

Those included are:

- Fiduciary Duty
 - o Potential violation of fiduciary duty (Appendix I)
 - This case involves a potential violation of an asset manager's fiduciary duty by

Business Ethics Education Through Case Analysis: A Study on Foreign Financial Institutions' Operations in Japan

putting the firm's interests ahead of the client's interest.

- Potential disclosure to client of conflict of interest with fiduciary duty (Appendix II)
 - This case involves the client giving the firm discretionary power to select investments. This created a conflict of interest since the manager responsible for recommendations could recommend investments which gave him more compensation than others.
- Conflict of Interest
 - Potential soft dollar commission abuse (Appendix III)
 - This case involves a business leader asking a more junior employee to assist in behavior with serious ethical, legal and regulatory implications.
 - Potential conflict of interest with an employee business referral program (Appendix IV)
 - This case involves an internal business referral program intended to foster inter-divisional cooperation, but also involved conflicts of interest, especially between the three lines of defense.
- Internal Policies
 - Appropriateness of gift giving policy (to customers) (Appendix V)
 - This case involves a compliance officer trying to bend fairly strict, US regulatory based policy to fit local customs
 - Appropriateness of gift receiving policy (from vendors / service providers) (Appendix VI)
 - This case involves a compliance officer trying to set up an impractical method to ensure compliance with the letter of local regulations, regardless of material impact.
 - Potential commuting allowance abuse (Appendix VII)
 - This intended to present a case that was originally raised as an ethical issue, but upon analysis, was determined not to be.

3 Instructor Notes for Each Case Study

- **Potential violation of fiduciary duty**

Ted had several concerns

What was the firm's fiduciary duty? Could his firm make a selection using the clients' money (fund expenses) with the idea of benefiting his firm (HK fund distribution)

Should the firm ignore the quality service quality difference between the original firm and the preferred custodian?

How could Ted manage the competing priorities of the Head of Asia vs. the needs of Japanese clients

In the end Ted's firm awarded the fund custody business to the preferred global custodian.

Business Ethics Education Through Case Analysis: A Study on Foreign Financial Institutions' Operations in Japan

Custody fees for the funds were reduced by 60%.

In order to facilitate the decision, Ted enlisted the support of the global head of operations and made sure to emphasize the importance of the firm's fiduciary duty. Because of fiduciary duty, the firm could not factor in the possibility of increased distribution in Hong Kong since it would not benefit the Japanese fund owners who were ultimately paying the custody fees. For a similar situation with a different result, please look at the Japan Financial Services Agency website for administrative guidance involving Eastspring Asset Management. Eastspring AM received administrative guidance (punishment) because it made some business decisions which put additional custody expenses on to funds when it should have taken those expenses on its own income statement in violation of its fiduciary duty. JFSA administrative Guidance for Eastspring Investments, LTD.

- **Potential disclosure to client of conflict of interest with fiduciary duty**

Ted thought through some of the issues

- Did the head of IM have a real or perceived conflict of interest in having the power to allocate a client's investments to a fund where he would receive extra compensation?
- Did anyone else in the firm have both of the two bits of information so that they could consider if a conflict existed?
- If a conflict exists, what should be done?

In the end, Ted decided that he did not have the regulatory knowledge to make the judgement call, so he contacted the Compliance Department.

The head of Compliance agreed that there was a conflict of interest and a potential violation of fiduciary duty. The sales team was required to explain to the client the situation so that the firm was acting with the utmost transparency.

In a complex business situation, not all conflicts of interest can be eliminated. However they must be identified and managed. One key management technique is to be very transparent with clients about conflicts which could impact them, explain how the firm will manage them and make sure the client is comfortable with the firm's management of the conflict.

- **Potential soft dollar commission abuse**

Ted thought through some of the issues

- The current accounting and inventory control systems were not set up to intake soft dollar equipment, so his team would have to develop an exception process involving monthly manual entries. Exception processing almost always involves additional opportunity for manual error – increased operational risk
- Even though the equipment received at no cost, ongoing maintenance would involve additional expenses. How could they be fairly allocated? Further discussion with the Technology Department was needed

Business Ethics Education Through Case Analysis: A Study on Foreign Financial Institutions' Operations in Japan

- This version of soft dollar commission was very odd. Ted was still not sure that it was acceptable.

In the end, Ted followed his intuition and called up the head of legal to confirm that this proposal was acceptable from a regulatory and firm policy point of view.

The head of legal said that, in fact, the proposal was clearly not acceptable from a legal / regulatory point of view. The head of legal said that when he told the head of IM that, "he said that he never needed to hear about it again" What he really said was, "Soft dollars commission for technology equipment is definitely not acceptable and I never want to hear about it again" The head of legal thanked Ted and said that he would take care of the issue directly with the head of IM, and the matter was closed as far as Ted was concerned.

- **Potential conflict of interest with an employee business referral program**

Norm thought about the program and had several thoughts and concerns.

- Giving explicit rewards for cross divisional business development could be good for the firm's overall business
- Funding would have to come from the Global Markets Division's bonus pool, therefore potentially reducing the bonuses of GM division employees, which could have a negative impact on GM employees' motivation. This could be mitigated if all other divisions had reciprocal programs, or if the firm funded an overall firm employee business referral bonus pool separate from each division's pool.
- It is not clear how managers outside of the GM division would react to losing a degree of control in determining their own division employees total compensation. It could give employees in other divisions to neglect their division's priorities in favor of pursuing a GM referral reward.
- By extending the reward to employees in the 2nd and 3rd lines of defense (legal, compliance, and internal audit) a conflict of interest would be created. Could a compliance officer enforce firm policies and regulations that might negatively impact the ability to receive a referral bonus? Would a legal officer prioritize speedy execution of client contracts over protecting the firm's interests if it could lead to a referral bonus?
- Norm felt that the conflict of interest created by the employee referral program was inconsistent with the firm's standard of conduct and should not be pursued. However, this was a high priority initiative of his direct manager.

Norm raised his concerns with his manager in a private meeting, but did not reach an agreement.

He subsequently started asking other managers outside of the GM division if they were comfortable with the business referral program. They were not, and made their concerns felt. The program was not pursued.

Business Ethics Education Through Case Analysis: A Study on Foreign Financial Institutions' Operations in Japan

Separately, the United Kingdom regulators made a judgement that employee business referral programs raised irresolvable conflict of interest issues. Given the importance of the UK market to the firm, the firm prohibited all employee business referral programs globally throughout the firm.

- **Appropriateness of gift giving policy (to customers)**

Fred has several concerns

- Was the proposed valuation methodology within SEC guidelines?
- What were other SEC regulated firms in Japan doing?
 - Other SEC regulated firms would face the same restrictions. Compliance officers in finance firms maintain an informal network to discuss these sort of issues and compare notes.
- If all SEC regulated firms are complying, does it really put Fred's firm at a disadvantage?
 - It does not put them at a disadvantage relative to other SEC regulated firms. Sales personnel have the opportunity to explain to clients about international regulatory restrictions, and while this may be an extra step, it should not materially impact the sales process or client relationships

In the end Fred refused to consider this change in valuation methodology unless the head of compliance could demonstrate that he had the approval of the US compliance team. Since that was not possible, the request was not pursued.

- **Appropriateness of gift receiving policy (from vendors / service providers)**

Fred thought through some of the issues

- This was a significant increase in work for the Compliance Department with no prospect of adding additional staff
- Such a complex set of company rules would be very difficult to follow consistently, and that even if the JFSA was comfortable with the rules, they would not be comfortable with the constant violation of the rules.
- The JFSA inspections focus on two major themes:
 - The firm has adequate and documented rules and procedures to be able to operate in a controlled manner that protects its clients and ensures compliance with local regulations
 - The firm actually follows its document rules and procedures in the normal course of business. The more complex the rules, the more likely a firm will fail to follow them consistently.
- How would the Compliance Department deal with practical concerns?
 - What would the Compliance Department do if there were not enough gifts to go around to everyone in the firm?

Business Ethics Education Through Case Analysis: A Study on Foreign Financial Institutions' Operations in Japan

- How would it make sure its distribution was equitable?
- What was equitable?
- Given that some of the gifts were perishable, how would the Compliance Department address storage issues
- Etc.
- Was the effort really worth minimizing the perceived risk?
- Has the JFSA ever given administrative guidance for this type of infraction? Administrative guidance for all inspections is posted on the JFSA web site, which the compliance officer regularly checked.

In the end, Fred decided that setting up such a complex process and codifying it in the rules would add more regulatory risk than it would mitigate. Particularly given that the JFSA has given no indication that internal distribution of immaterial gifts is a focus of its inspections. Instead, the company would continue to do what it was doing currently and document the reasoning and logic for this decision. When food and snacks are received, they would be placed in a public space for anyone who would like, to take. (In actual practice, the cleaning staff would eat most of the snacks after everyone else went home).

- **Potential commuting allowance abuse**

Ted had several concerns:

- Was this what the commuting allowance policy intended?
 - Did the policy intend to dictate how employees should be commuting?
- How could the policy be realistically enforced?
 - Did the firm have the resources to actually monitor?
 - What would be the penalty for any violations?
 - Is there any fair way to assess penalties?

In the end Ted took a close look at the commuting allowance policy. According to the wording of the policy, employees were entitled to receive a commuting allowance within the guidelines laid out (what type of transportation, etc.), but there was nothing in the policy mandating that the employees use that allowance for commuting. Further, the behavior of using alternative modes of commutation was not inconsistent with the firm's code of conduct. This was determined to be a non issue, and dropped.

4 Primary Learning Outcomes

After analyzing and discussing these cases students should be able to:

- Identify the ethical components of normal course of business decisions that managers are faced with

Business Ethics Education Through Case Analysis: A Study on Foreign Financial Institutions' Operations in Japan

- Diagnose whether a particular situation is an ethical issue or not
- Identify the implications for clients, the company and their own career of the decisions they need to make
- Develop and analyze approaches for addressing ethical issues, focusing on effectiveness and practicality of implementation of their approaches
- Develop an appreciation of the value of getting multiple points of view when addressing ethical issues.

5 Learning Approach

A good approach for covering these cases is to use small group discussion focused on answering the questions in the ethical decision making framework (shown above). Having students of different backgrounds work together will illustrate the point that there is no one “right” approach, and that no one can anticipate all aspects of an issue on their own.

To encourage full preparation submission of a brief 1 page preparatory report could be required prior to the class discussion.

Each mini-case consists of:

- The case – for distribution to the students for review and discussion
- Instructor notes - for the instructor to use during the debrief after the students have presented their conclusions.

Given time constraints and the professional experience of the students, the instructor can pick and choose which mini-cases to use at his or her discretion. For example, if the students would benefit from practicing diagnosing ethical issues that require attention, then it is highly recommended to include the gift receiving and the commuting allowance along with other cases that represent real need for action. If the instructor would like to focus on ethical decision making rather than diagnosis, then those two cases can be omitted.

Appendix I

The Case of Fiduciary Duty & Custody Fees (Fiduciary Duty)

Ted Danson, is the Chief Administrative Officer (CAO) of a Japanese asset management subsidiary of a global financial services firm. A major global custodian has come to him with a proposal to take over as the custody provider for Ted's firm's Japanese mutual funds in return for providing Ted's firm access to retail distribution in the Hong Kong market.

Business Ethics Education Through Case Analysis: A Study on Foreign Financial Institutions' Operations in Japan

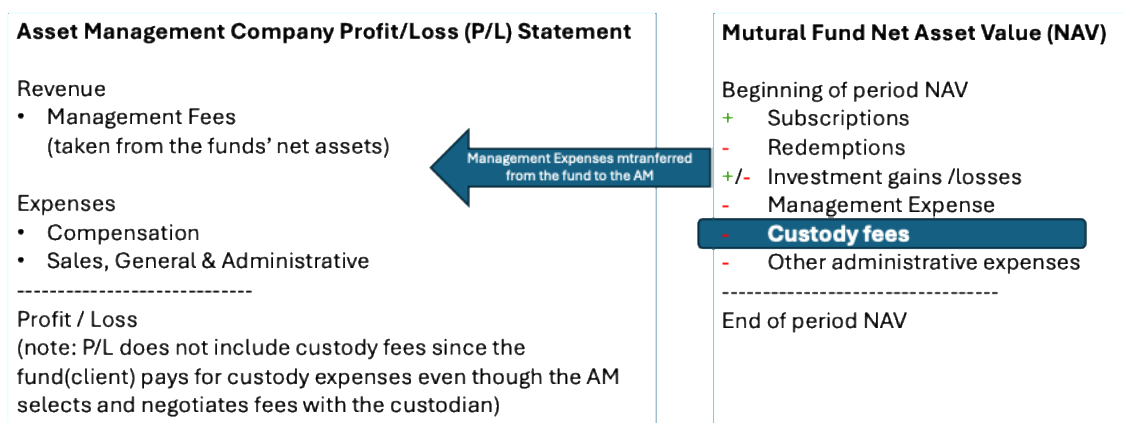
Firm Background

Ted, as CAO was responsible for Compliance, Legal, Operations, Finance, Technology, Trading, Risk/Performance Management and General Services. In short, he was responsible for making sure the firm ran smoothly so that the portfolio investment managers and sales team could do their jobs without unnecessary distractions.

As an asset manager, the firm has a fiduciary duty to its clients who are entrusting their funds to the firm's care. Fiduciary duty includes the responsibility to put the clients' interests ahead of the firm or personal interest. This is necessary since the firm is making investment decisions and safeguarding assets on behalf of the client.

When an asset manager operates a mutual fund it selects a global custodian to hold international assets on behalf of the fund. Custody expenses for that services are paid out of the fund assets, not the asset manager's income statement. See diagram below.

Asset Management (AM) Firms Economics: Who pays the custody fees? The AM firm or the client?



Appendix Figure 1 : Asset management firm expense allocation between the firm and the fund

Ted's firm managed around 150 mutual funds in Japan and global custody for the funds were spread among 6 different global custodians.

The Proposal

A Global custodian proposed to Ted that Ted's firm assign it as the global custodian for all 150 funds that it managed. In return it would give Ted's firm a pricing plan with volume discounts based on the total assets of all the fund, not on a per fund basis. This would give the funds a significant discount on their custody fees and improve the net investment performance.

Business Ethics Education Through Case Analysis: A Study on Foreign Financial Institutions' Operations in Japan

Also included in the deal was that the global custodian would provide fund distribution for Ted's firm's Hong Kong office to market their funds in the Hong Kong office. Ted's head of Asia Pacific was very much in favor of the deal.

Ted did not accept the proposal immediately. Instead, he issued a Request for Proposal (RFP) to 4 other global custodians asking for pricing including volume discounts for all of the firm's funds.

As a result of the competitive RFP response, comparing value and service offerings, Ted's firm evaluated another global custodian, not the custodian who would provide distribution access in Hong Kong, as the best fit for its business and value for its clients.

The head of Ted's Firm Asia Pacific division strongly expressed his desire to award the custody business to the original custodian in order to secure mutual fund distribution in the Hong Kong market.

Questions:

1. Are there any issues that Ted needs to consider?
2. What should Ted do?
3. Why?

Appendix II

The Case of Fiduciary Duty & Conflict of Interest (Fiduciary Duty)

Ted Danson, is the Chief Administrative Officer (CAO) of a Japanese asset management subsidiary of a global financial services firm. He has come across two bits of seemingly unrelated information that concern him.

Firm Background

Ted, as CAO was responsible for Compliance, Legal, Operations, Finance, Technology, Trading, Risk/Performance Management and General Services. In short, he was responsible for making sure the firm ran smoothly so that the portfolio investment managers and sales team could do their jobs without unnecessary distractions.

As an asset manager, the firm has a fiduciary duty to its clients who are entrusting their funds to the firm's care. Fiduciary duty includes the responsibility to put the clients' interests ahead of the firm or personal interest. This is necessary since the firm is making investment decision on behalf of the client.

Inevitably, conflict of interest will arise in the course of exercising fiduciary duty. These must be actively and transparently managed.

Business Ethics Education Through Case Analysis: A Study on Foreign Financial Institutions' Operations in Japan

The New Information

The first bit of information was that the head of institutional sales announced that one of its oldest pension clients, based on its long and trusted relationship, had decided to entrust 100% of its assets with Ted's firm and asked the head of the investment management department to decide the asset allocation that would be best for the client.

The head of investments allocated the pension clients funds into a broad array of asset classes – equity, fixed income and alternatives. The head of investments allocated part of the pension fund's assets to a Japanese equity alternative 70-30-30 fund (70% long, 30% short with the short funding an additional 30%) managed by himself.

The second bit of information was that there was a special compensation arrangement between the firm and the head of investment management where the head of investments received extra compensation.

The fund would charge clients the standard hedge fund fee of 2% per year of assets and 20% of the investment gains. (commonly referred to as 2 and 20). In this case the 20% investment gain fee would go directly to the head of IM. This would be in addition to his normal compensation.

Questions:

1. Are there any issues that Ted needs to consider?
2. What should Ted do?
3. Why?

Appendix III

The Case of the Soft Dollar Commissions (Conflict of Interest)

Ted Danson, a member of the corporate controllers team of a major, global securities firm's subsidiary in Japan received a call from the head of the asset management business asking him for special accounting treatment for some technology equipment the firm had received from one of its brokers in exchange for favorable treatment in the broker selection process

Firm Background

Ted was responsible for managing all of the firm's technology expenses. This included monitoring total technology expenses and allocating those expenses out to the business units who consumed the technology. Technology included everything from mainframe computers, telephony, network

Business Ethics Education Through Case Analysis: A Study on Foreign Financial Institutions' Operations in Japan

infrastructure, Unix workstations and personal computers.

The securities firm's Japanese subsidiary covered various aspects of the capital markets including capital markets trading, investment banking, security sales and asset management. The asset management division invests funds primarily for institutional clients including pension funds, insurance companies and other financial institutions.

Soft Dollar Commissions

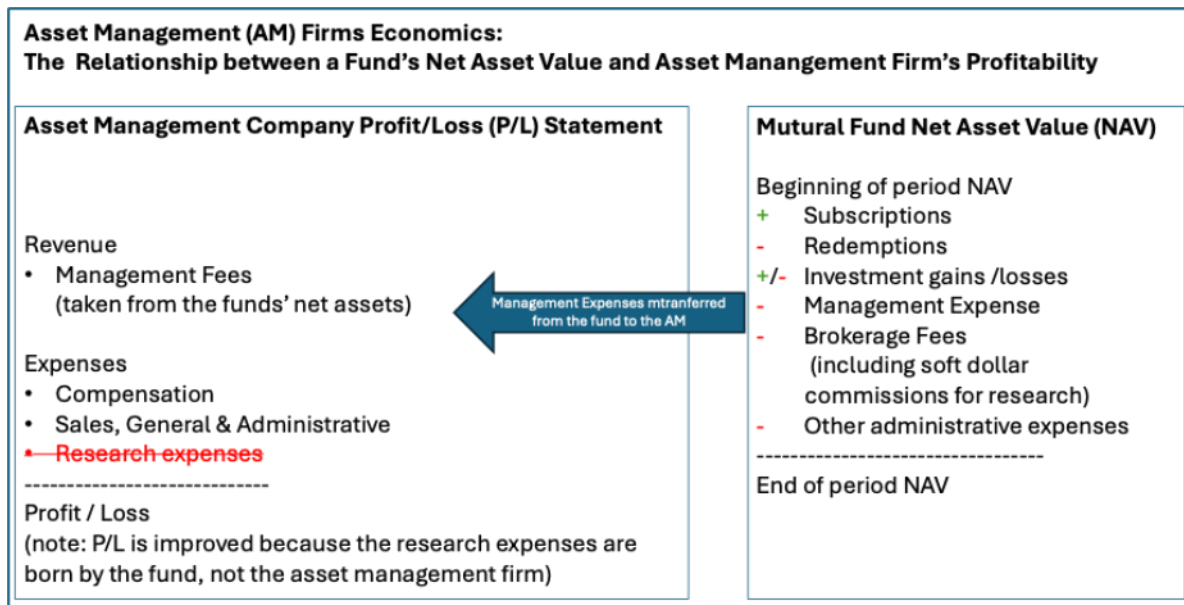
In the course of investing on clients' behalf, investment managers execute a large volume of transactions (buys and sells) of all types of securities. As such they are very attractive clients for broker dealers.

Broker dealers generate revenue largely based on the volume of trading activity they execute on behalf of their clients. Since buying and selling securities is largely a commodity type product (a lot of competition) brokers seek to protect their fees from erosion and generate increased volume by bundling additional services like equity research together with brokerage fees. This was an accepted business practice in Japan at the time.

This arrangement is called "soft dollar commissions", and works as follows:

- The broker charges the asset manager full commission
- In return, a portion of the full commission is credited to the asset manager to be used to purchase the broker's equity research, essentially giving the asset manager a discount on brokerage fees. (the discount being the amount that the asset manager would have had to pay for equity research if purchased separately)
- Since the brokerage fees are normally paid out of the asset management client's invested funds, the soft dollar commissions do not impact the asset manager's profitability, though they may have a minor impact on investment performance. (See diagram below)

Business Ethics Education Through Case Analysis: A Study on Foreign Financial Institutions' Operations in Japan



Appendix Figure 2 : Asset management firm expense allocation between the firm and fund

The Proposal

The head of the asset management business called Ted because he was approached by a global securities firm with a soft dollar commission proposal. The securities firm would offer a soft dollar arrangement, but instead of equity research, the securities firm would give the asset management firm Unix workstations out of its unused inventory. The asset management head wanted Ted's group to handle the accounting for this soft dollar arrangement, and since it involved technology, Ted's group would be responsible for entering the correct journal entries into the firm's accounting system.

Ted knew about soft dollar arrangements but had never heard of it used for anything except equity research. He asked the investment management (IM) head if this arrangement was acceptable under Japanese regulations. The IM head said that he had asked the head of the legal department about it, and it was ok because the head of legal said that he did not need to hear about it again.

Questions:

1. Are there any issues that Ted needs to consider?
2. What should Ted do?
3. Why?

Appendix IV

The Case of the Employee Referral Program (Conflict of Interest)

Business Ethics Education Through Case Analysis: A Study on Foreign Financial Institutions' Operations in Japan

Norm Peterson was the President of a Japanese securities company subsidiary of a global financial services firm. He was called to an Asia regional management meeting to discuss a new employee referral program which would encourage employees outside of the securities business to direct business to the securities division of the financial services firm.

A Brief Overview of a Global Asset Manager's Business Model

The Global Markets (GM) division is the market activity arm of a global financial services firm, a financial corporation designated by its primary regulator, the Boston Branch of the Federal Bank of Reserve, as a Globally Significant Financial Institution (GSIFI)

The primary business of the firm is to serve as a global custodian, sometimes called asset servicing. The asset servicing business supports asset managers and asset owners in the investment management function. As a custodian, it holds assets and executes cash and securities movements based on the instructions of its clients.

The asset servicing business is operated under a US Trust Bank and related subsidiaries. These subsidiaries include international branches of the trust bank, securities companies and others as the business needs and local regulations dictate.

The primary business of the asset servicing business is global custody, where the custodian holds assets in custody for institutional clients such as asset managers, global sovereign wealth funds, insurance companies and pension funds. The Global Markets division facilitates securities market activities for the firm's custody clients. Market activities include foreign exchange trading and platforms, securities lending, transition management, currency exposure management, etc.

Global Markets Division's Organizational Challenges

The Global Markets division is a group of independent business activities with little obvious overlap or opportunities for synergies or collaboration. And, in fact, sometimes local customer protection regulations prevent sharing of data that could facilitate such cooperation.

The Asia Pacific (APAC) head of Global Markets would like to encourage his multiple teams to cooperate with each other to expand the global markets business. Not only that, he would like to extend this cooperation past global markets and enhance cooperation with custody business as well as support functions in the second and third lines of defense such as Legal and Risk Management.

Business Ethics Education Through Case Analysis: A Study on Foreign Financial Institutions' Operations in Japan

Global Markets APAC Proposal

In order to promote cooperation, the head of Global Markets APAC would like to propose a business referral program. If any firm employee is able to introduce a client to a division in Global Markets, and business starts, he would like to use a portion of Global Markets APAC annual bonus pool to provide referral bonuses.

These bonuses would start at around \$5,000 and increase depending on the size of the business. Since much of Global Market's business is reoccurring, these bonuses would continue for a multi-year period.

Since the goal of the program is to generate as much business as possible, the referral program will be open to all company employees, including those in the first, second and third lines of defense.

Questions:

1. Is this a good idea from a cross divisional cooperation point of view? From a business management point of view?
2. Are there any potential issues?
3. How should any potential issues be addressed?
4. If this program is an issue, how should Norm raise the issue?

Appendix V

The Case of Gift Giving to Firm Clients (Internal Policy)

Fred Mertz, the Chief Operating Officer (COO) of a global asset manager's subsidiary in Japan received a call from the head of the Compliance Department regarding a restrictive global gift giving policy that was putting the sales department at a competitive disadvantage.

Firm Background

Fred, as COO was responsible for Compliance, Legal, Operations, Technology, Trading, Risk/Performance Management and General Services. In short, he was responsible for making sure the firm ran smoothly so that the portfolio investment managers and sales team could do their jobs without unnecessary distractions.

Business Ethics Education Through Case Analysis: A Study on Foreign Financial Institutions' Operations in Japan

Gift Giving

In the normal course of business investment management firms often give clients non-material gifts to recognize events and special occasions. Since the firm is a subsidiary of a US, Securities and Exchange Commission (SEC) regulated firm it follows SEC regulations that such gifts are limited to no more than \$200 per client per year.

One standard gift in Japan is to give lotus flowers to clients when a new office is opened or a new president is named. These lotus flower gifts typically cost around 30,000 yen which exceeds the SEC mandated \$200 threshold.

The Proposal

The Head of Compliance was concerned that the firm would be put at a disadvantage and that its public perception would be damaged if the firm could not follow the Japanese business practice of giving lotus flowers because those gifts exceeded firm guidelines.

So, he proposed that instead of valuing the goods at the purchase price, they should be valued at the re-sale price. Since lotus flower could not be resold, the value would be \$0 and the firm could follow Japanese business practice and remain compliant with SEC guidelines

Questions:

1. Are there any issues that Fred needs to consider?
2. What should Fred do?
3. Why?

Appendix VI

The Case of Gift Receiving From Vendors (Internal Policy)

Fred Mertz, the Chief Operating Officer (COO) of a global asset manager's subsidiary in Japan received a call from the head of the Compliance Department about a potential regulatory violation that the Japanese Financial Services Agency (JFSA) might observe during a regular inspection.

Firm Background

Fred, as COO was responsible for Compliance, Legal, Operations, Technology, Trading, Risk/Performance Management and General Services. In short, he was responsible for making sure

Business Ethics Education Through Case Analysis: A Study on Foreign Financial Institutions' Operations in Japan

the firm ran smoothly so that the portfolio investment managers and sales team could do their jobs without unnecessary distractions.

Gifts

In the course of investing on clients' behalf, investment managers execute a large volume of transactions (buys and sells) of all types of securities. As such they are very attractive clients for broker dealers.

While brokers are prohibited from giving material gifts to their asset management clients in return for increased business, they often gave seasonal gifts such as snacks and other food, the value of which falls below the materiality threshold. It was generally understood that these gifts could not be limited to only consumption by the investment management division, but needed to be made available to all members of the firm.

The Proposal

The Head of Compliance was concerned that if the Japanese Financial Services Agency (JFSA) during one of its periodic inspections could find that there was no documented process for fairly distributing gifts, it might result in administrative guidance (punishment)

The head of compliance called Fred and proposed that the Compliance department would take control of all gifts received from brokers. Compliance department staff would divide up the gifts and distribute them equitably to everyone in the firm. That way, they could ensure that all gifts were divided equally.

The Head of Compliance had drafted a set up company rules that he wanted to submit to the next board meeting for approval.

Questions:

1. Are there any issues that Fred needs to consider?
2. What should Fred do?
3. Why?

Appendix VII

The Case of Commuting Allowances (Internal Policy)

Ted Danson, the Chief Administrative Officer (CAO) of a global custodian's subsidiary in Japan received a call from the head of the Risk Management Department about a potential misuse of funds by employees receiving a commuting allowance.

Business Ethics Education Through Case Analysis: A Study on Foreign Financial Institutions' Operations in Japan

Firm Background

Ted, as CAO was responsible for Compliance, Legal, Corporate Secretary, Finance, Treasury, Technology, Risk Management and General Services. In short, he was responsible for making sure the firm ran smoothly so that the operations team and sales team could do their jobs without unnecessary distractions.

Commuting Allowance

Japanese companies' typical benefits include a pre-tax commuting allowance. Employees submit a document stating what the standard cost of commuting from home to the office is and the firm pays that amount pre-tax, therefor lowering the employees' taxable income.

The Proposal

The Head of Risk had heard that some staff were submitting the required documentation accurately, but were then choosing to avoid transportation expenses by taking alternative modes of transportation for their commute. (walking for example)

He was concerned that this was fraud since they were not using the commuting allowance for commuting. He proposed that the firm spot check compliance and penalize those who were not using their commuting allowance for commuting.

Questions:

1. Are there any issues that Ted needs to consider?
2. What should Ted do?
3. Why?