

Klaas Knot: Beyond the rules - promoting an ethical culture in central banks and supervisory authorities

Speech by Mr Klaas Knot, President of the Netherlands Bank, at the Netherlands Bank Ethics and Compliance Conference, Amsterdam, 7 November 2024.

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At the Eurovision Song Contest of 1980 – that was long before the time when artists were disqualified for alleged misconduct - the Dutch singer Maggie MacNeal came in fifth with the lyrics 'Amsterdam, Amsterdam, de stad waar alles kan'. In English, this means: 'Amsterdam, Amsterdam, the city where anything goes'. Now, especially for compliance officers this may sound like a particularly alarming statement. You may wonder: is this an appropriate venue for a conference on ethics and compliance? But I can reassure you, things have changed, and even in this city some degree of law and order has returned.

So when I became governor of the Dutch central bank 13 years ago, I could not have imagined that one day I would be confronted with the issue of a stolen coat. It was a white coat, a woman's coat that was stolen at our coffee bar sometime last year. With bicycle keys and all. Not very material in terms of value lost, but a serious breach of trust among colleagues. So our compliance officers investigated. Unfortunately, the coat was never recovered.

What this story is telling me, and why I am telling it to you, is that the people working in our institutions are just a cross-section of society.

At the same time, we work for organisations that perform a very special public task. Keeping the financial system safe and sound. People trust us. If we breach that trust, it not only damages our organisation, it affects the entire financial system. What's more, as a supervisory authority we impose all kinds of standards on the financial sector, including ethical ones. If we do not live up to the standards we impose on others, we lose all authority. This means that we have to set the bar on ethics and compliance in our own organisations very high.

At DNB we set up a professional department and integrity framework in 2008. The framework includes controlling the risk of fraud and corruption, insider trading, lobbying, and conflicts of interest. We also placed additional emphasis on inappropriate behaviour and its prevention.

Similarly, at the ECB I have witnessed the development of one of the most stringent ethical standards in the world. The ECB was among the first to establish an Ethics Committee for our high-level officials, in 2014. Since then, the Ethics Committee has turned into a truly independent advisory body. While in its first years it was comprised exclusively of former members of the Governing Council, today the Committee only has one former Governing Council member. The two other members have no previous roles at all at the ECB or in the Eurosystem. This outside perspective lends additional credibility to the Committee's work and bolsters trust in the Committee as an independent body.

Pretty much in the same vein, the ECB has a solid rules framework for its high-level officials. This rules framework – the Single Code of Conduct – not only establishes state-of-the-art conduct and integrity rules, but also comprises demanding governance standards and related transparency requirements, which ultimately ensure proper accountability.

And developments are still ongoing. For example at EU level where an EU Ethics Body is currently being set up, with the primary mandate to further refine the ethics standards for high-level EU officials. The ECB's ethics framework served as an example for the new Body.

So we have come a long way on building ethical organisations. As ethics and compliance officers, you perform an indispensable role in safeguarding an ethical culture. But of course, you cannot do it all by yourself. Maintaining an ethical culture is not only the job of the compliance officers, it is a task for the whole organisation.

It is a task for the whole organisation because ethics and compliance is more than setting up a rule book and monitoring whether everybody is following the rules. Because the rules cannot cover every single situation. First of all, the world in which we operate is constantly changing. Our organisations are constantly changing. Which means that our perceptions of what is OK and what is not OK are also changing. Take for example activist behaviour and posts on social media. Everyone has the right to voice their political opinion. Thank goodness we live in a democracy. But do we want our colleagues, identifying themselves as central bank employees, voicing controversial opinions online that are far removed from our mandates and official standpoints? Clearly, this could harm our reputation. Similarly, demonstrating against government policies is a democratic right. But we had colleagues who were involved in Extinction Rebellion activities and who were actively encouraging breaking the law. How should you deal with that? Where do you draw the line? Although this a very delicate matter, we decided to draw up guidelines, but we are aware that these are issues that require constant evaluation and dialogue.

Not only is the world around us changing, it is not black and white either. There are grey areas. Dilemmas. Ethical standards may clash with doing your job effectively. Let me give you an example from my own experience. As governor and as FSB Chair I regularly engage with people from the financial industry. It's a way for me to keep up with what's going on in the outside world. Inevitably, there is often a degree of lobbying involved in these conversations. So what to do? The only way of not exposing myself to lobbying would be to cut all contacts with industry leaders. But then I would miss out on an information flow that in my view is necessary to do my job effectively. So I take a well-considered middle road. I am transparent about who I meet, I am as non-discriminatory as my agenda allows, and I try to avoid situations in which there's too much one-way traffic.

In a world that is changing and where many shades of grey exist, adapting the rules is not the only solution. You need to have an ethical culture within your organisation. I believe that an ethical culture is one where people have a properly developed ethical compass. People who understand that, especially for our types of organisations, the ethical bar is set high. You need people who are able and willing to think for themselves, based on our organisational values. Moreover, in an ethical culture we

need people to speak up when they see or hear a colleague doing something that is not OK. That can be difficult for many, because we often wish to avoid conflict or feel awkward taking the moral high ground. So that's why we as a board decided to offer training on what to do as a bystander who observes undesirable behaviour. The training was mandatory for managers. Part of you will be taking this active bystander training this afternoon. In general, periodic training for all staff is important, not just to rehash what's right and what's wrong, but to boost awareness, to encourage people to ask the question: how would I deal with this situation?

It is also important to know the views within your organisation on ethical issues. At DNB we recently conducted a survey on the perception of integrity among our staff. This biennial measurement gives us a good insight into our ethical culture.

And last but certainly not least, we can only build an ethical culture if we as a board lead by example. That not only means being compliant at all times, it also means stimulating discussion, and being transparent about your mistakes. For example, some months ago we published an article on how homeowners can finance climate-friendly home improvements, which triggered a lot of public criticism. While the article provided a useful contribution on the highly contested affordability issue, its rather explicit policy conclusion was an error of judgement, and I took full responsibility for that. It's important to set a good example like this and show your staff that it's OK to report mistakes without fear of having their heads chopped off.

To sum up: if we are to live up to the high standards we set for ourselves, we need rules, but first and foremost we need an ethical culture. That requires effort from all of us, but your work as compliance officers is especially indispensable. You work hard every day to promote compliance in your organisations. It is not always easy being the voice of compliance in the room. So we need to support each other where we can, and conferences like these are an excellent opportunity to do so. And don't be afraid of Amsterdam. But nonetheless, watch your coat.