What is fiduciary duty?

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WHAT DOES IT MEAN?
A fiduciary duty is an ethical and legal relationship of trust between two people. Do note that a corporation is not a person and does not have a fiduciary duty.

The fiduciary duty consists of the duty of care, duty of loyalty, duty of good faith, duty of confidentiality, duty of prudence and duty of disclosure.

It is the highest standard of legal care that requires full disclosure of any potential conflicts of interest.

If a person violates his fiduciary duty, he is personally liable to account for the ill-gotten profits. However, a fiduciary duty does not imply that the person must place his clients' or investors' interests before his own.

In the financial context, it is most commonly applied to a corporate director’s relationship with shareholders. Non-profit organisations like charities may also involve a fiduciary duty relationship.

WHY IS IT IMPORTANT?
Understanding whether a party has a fiduciary duty determines the legal liability for the party's actions. Fiduciaries who are proven to violate their fiduciary duty in court may face legal consequences.

In Singapore, the Financial Advisers Act requires that investment advice is made on a "reasonable basis". This means that legally, financial advisers only have the duty to represent their firm's interests, not necessarily those of their clients.

Investors seeking investment advice from these advisers should be wary of how the advisers are compensated and their incentives for giving a certain type of advice.

IF YOU WANT TO USE THE TERM, JUST SAY: “A corporate director who falsifies a corporate report violates his fiduciary duty to his shareholders.”

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