

ETHICAL DECISION-MAKING WORKSHOP

Trainer Name

Trainer Title



CFA Institute

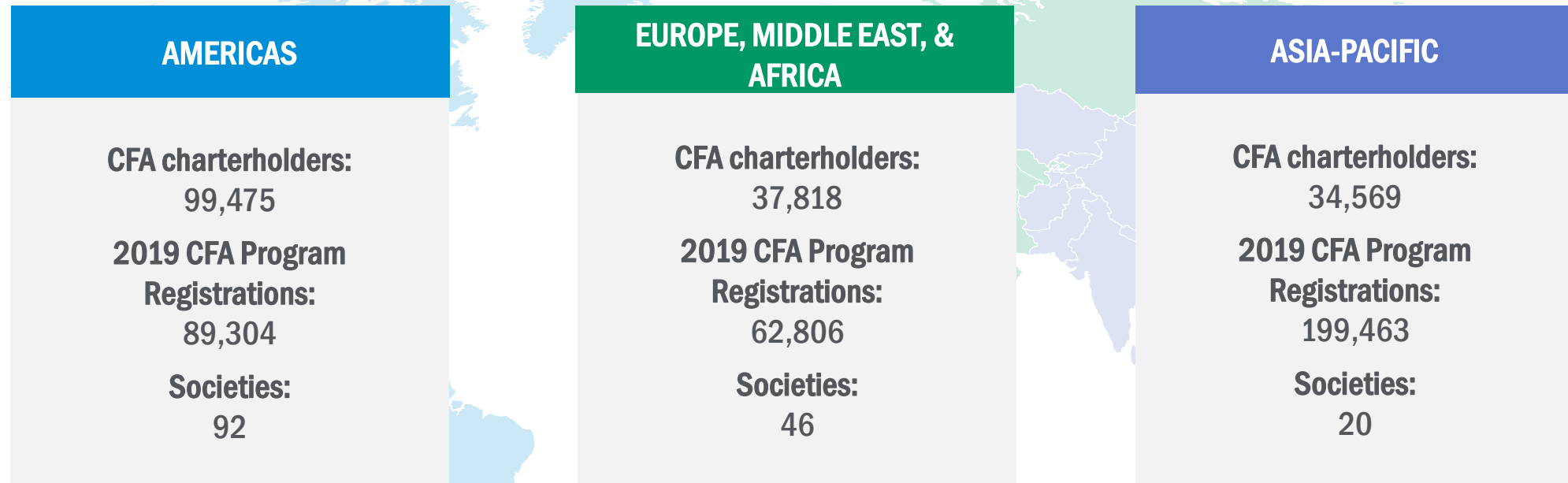
CFA INSTITUTE FACTS

- First awarded in 1963, the CFA charter has become the designation of professional excellence within the global investment community.
- In its first year, 284 candidates from the United States and Canada sat for the CFA exam and the pass rate was 94%.
- The pass rates for June 2019 exam were 41% for Level I, 44% for Level II, and 56% for Level III.
- In 2019, there were 351,575 candidates and 56% of those were in the Asia-Pacific region.

CFA PROGRAM EXAMS

- Level I exams consist of basic knowledge and comprehension questions that focus on investment tools; some questions will require analysis.
- Level II exams emphasise more complex analysis, along with a focus on valuing assets.
- Level III exams require synthesis of all the concepts and analytical methods in a variety of applications for effective portfolio management and wealth planning.

MEMBERSHIP, CANDIDATES, AND SOCIETIES



There are 178,900 CFA Institute members (charterholders and candidates) in 162 markets and 158 societies in 77 markets.

“Ethical behavior is doing the right thing when no one else is watching – even when doing the wrong thing is legal.”

--Aldo Leopold



WHY SHOULD YOU ACT ETHICALLY?

“When I do good, I feel good;
When I do bad, I feel bad.
That is my religion.”

--Abraham Lincoln

ETHICS REQUIRES:

Education

Thinking about:

Honesty

Integrity

Character

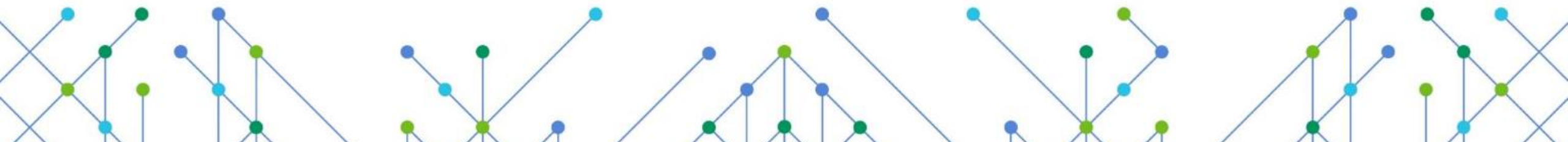
Stewardship

STEWARDSHIP

The careful and responsible management of money that is entrusted to one's care.

“[T]he financial services industry is at its very core all about the concept of stewardship and all about stewardship values and responsibilities. After all, the foundation of financial markets is public trust and confidence.”

--John Taft, CEO of RBC Wealth Management U.S. in Stewardship, 2012



THE GOAL OF ETHICS WORKSHOPS

- To encourage you to become more conscious of your thoughts and behaviors so that you are more likely to notice and act on ethical issues before they become a problem.
- To recognize that ethical dilemmas are a normal and predictable part of most jobs.
- To discuss approaches for dealing with ethical issues.

TO CONNECT:

Take out your electronic device and go to [slido.com](https://www.slido.com)

Enter the event code: **#XXX**

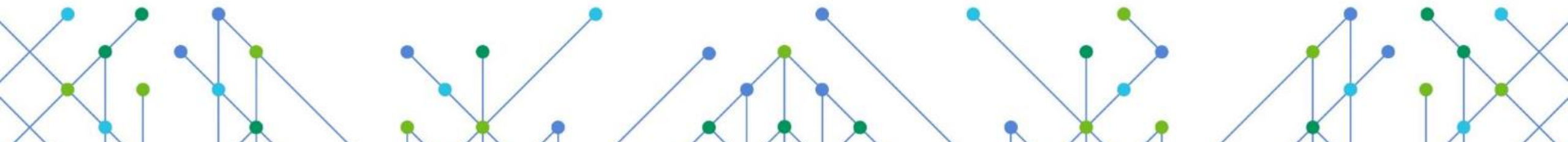
THE FILES

Your boss, who hired you and has mentored you for the past three years, is being unfairly 'let go' because of office politics. As the sole support of her family, she is concerned about finding another job. A week before she is scheduled to leave, she places a stack of files on your desk and asks you to copy them because she will need them in her job search. The files contain research reports that she wrote, marketing presentations containing her performance record, and spreadsheets that she created. What would you do?

- A. Copy the files.**
- B. Refuse to copy the files.**
- C. Only copy the research reports she wrote.**
- D. Only copy the spread sheets she created.**

KEY POINT

- We often make unethical decisions not because we are “bad people,” but because psychological biases, social and organizational factors, and situational influences affect our decision making.
- These biases, organizational factors, and situational influences lead to weaknesses in how we process information and make decisions, which can lead to unethical behavior.

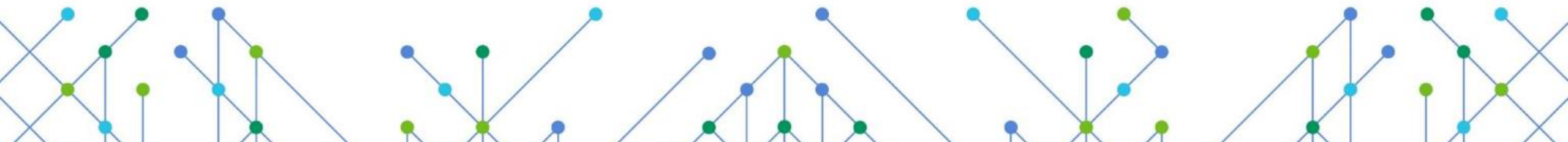


SITUATIONAL VS. DISPOSITIONAL

Situational influences have more to do with unethical behavior than a person's character.

“Under the right conditions good people can be induced, seduced, and initiated to act unethically.”

*--Philip Zimbardo, Professor Emeritus
Stanford University*

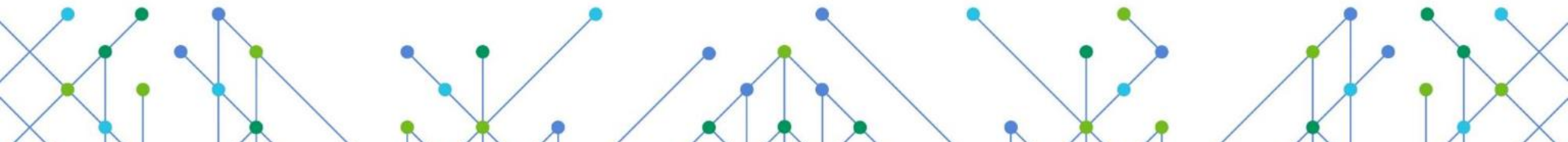


FACTORS LEADING TO UNETHICAL BEHAVIOR

- **Obedience to Authority:** The desire to please authority can cause people to suspend their own ethical judgements.
- **Conformity Bias:** The tendency to “follow the crowd” and to conform their behavior to that of their peers.
- **Incrementalism:** The gradual shift toward unethical behavior.
- **Overconfidence:** The tendency to make decisions without proper reflection under the assumption: “I am more ethical than they are, it won’t happen to me.”

ETHICS IN THE WORKPLACE

- A **Harvard University** study found that many graduates “received explicit instructions from their middle manager bosses or felt strong organization pressures to do things that they believed were sleazy, unethical or sometimes illegal.”
- A **Columbia University** study found that “40 percent of graduates had been rewarded for taking some action they considered to be ‘ethically troubling,’ and 31 percent of those who refused to act in ways they considered to be unethical believed that they were penalized for their choice, compared to less than 20 percent who felt they had been rewarded.”





FABRICE TOURRE (29)

- Found liable on 6 of 7 counts for defrauding investors.
- On his role in the Abacus 2007-AC1 security deal:
 - **“I was a big team player. If there was something wrong with this transaction, wouldn’t people have told me?”**

Image Credits: Durable.com



TOM HAYES (31)

- Only trader cited by name in the Libor investigation.
- On manipulating Libor:
 - **“Who was I to question what they were doing? I thought it was weird, but that’s how they did it.”**
- Within a few months, based on practices at the bank and feedback from his bosses, **Mr. Hayes “considered it part of his job.”**

Image Credits: Raconteur.net



KWEKU ADOBOLI (32)

- UBS Trader, who lost \$2.2 billion.
- Told jury at his trial “senior managers were aware of his actions and encouraged him to take risks.”
- **“Circumventing the bank’s rules was common practice and I only got in trouble because I lost money.”**

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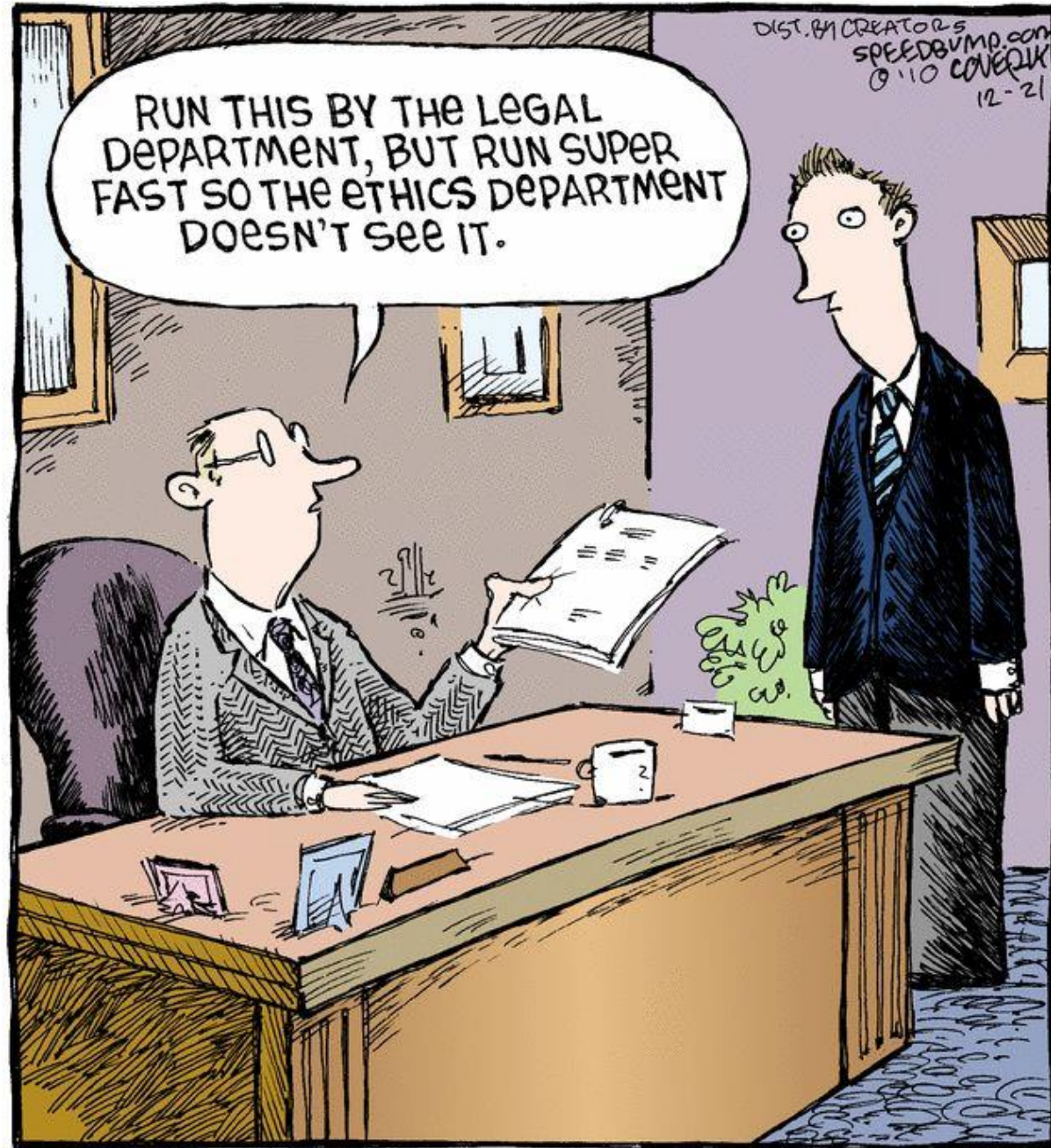
FROM RESPECTED EMPLOYEE TO ROGUE TRADER

- **Fabrice Tourre (29)**: Found liable on 6 of 7 counts for defrauding investors.
 - *“I was a big team player. If there was something wrong with this transaction, wouldn’t people have told me?”*
- **Tom Hayes (31)**: Only trader cited by name in the LIBOR investigation.
 - *“Who was I to question what they were doing? I thought it was weird, but that’s how they did it.”*
- **Kweku Adoboli (32)**: UBS trader, who lost \$2.2 billion.
 - *“Circumventing the bank’s rules was common practice and I only got in trouble because I lost money.”*

THE GIFT

You are a portfolio manager in the international sector who travels to a foreign country to investigate investment opportunities for your institutional clients. The management of a large company you visit (and a potentially attractive investment opportunity) gives you a very expensive gift. Refusing the gift would be considered an insult in this country and harm the good relations that you have developed with the company's management. Accepting the gift is:

- A. Okay because refusal in this instance would jeopardize an investment opportunity for your clients.**
- B. Probably okay if you give the gift to charity.**
- C. Probably not okay, unless you tell your supervisor that you accepted the gift.**
- D. Not okay.**



LAW VS. ETHICS

Law: A clearly defined set of enforceable rules that applies to everyone. It represents a minimum level of expected conduct that everyone must observe.



Can You?

Ethics: Address situations not covered by the law (relations with competitors, interpersonal relations at work) and also contributes to the creation of laws.



Should You?

MISSION STATEMENT



CFA Institute

To lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.

CFA INSTITUTE CODE AND STANDARDS



CODE OF ETHICS AND STANDARDS OF PROFESSIONAL CONDUCT

PREAMBLE

The CFA Institute Code of Ethics and Standards of Professional Conduct are fundamental to the values of CFA Institute and essential to achieving its mission to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. High ethical standards are critical to maintaining the public's trust in financial markets and in the investment profession. Since their creation in the 1960s, the Code and Standards have promoted the integrity of CFA Institute members and served as a model for measuring the ethics of investment professionals globally, regardless of job function, cultural differences, or local laws and regulations. All CFA Institute members (including holders of the Chartered Financial Analyst® (CFA®) designation) and CFA candidates must abide by the Code and Standards and are encouraged to notify their employer of this responsibility. Violations may result in disciplinary sanctions by CFA Institute. Sanctions can include revocation of membership, revocation of candidacy in the CFA Program, and revocation of the right to use the CFA designation.

THE CODE OF ETHICS

Members of CFA Institute (including CFA charterholders) and candidates for the CFA designation ("Members and Candidates") must:

- Act with integrity, competence, diligence, respect and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Place the integrity of the investment profession and the interests of clients above their own personal interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
- Promote the integrity and viability of the global capital markets for the ultimate benefit of society.
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

STANDARDS OF PROFESSIONAL CONDUCT

I. PROFESSIONALISM

- A. Knowledge of the Law.** Members and Candidates must understand and comply with all applicable laws, rules, and regulations (including the CFA Institute Code of Ethics and Standards of Professional Conduct) of any government, regulatory organization, licensing agency, or professional association governing their professional activities. In the event of conflict, Members and Candidates must comply with the more strict law, rule, or regulation. Members and Candidates must not knowingly participate or assist in and must dissociate from any violation of such laws, rules, or regulations.
- B. Independence and Objectivity.** Members and Candidates must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. Members and Candidates must not offer, solicit, or accept any gift, benefit, compensation, or consideration that reasonably could be expected to compromise their own or another's independence and objectivity.

- C. Misrepresentation.** Members and Candidates must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.
- D. Misconduct.** Members and Candidates must not engage in any professional conduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence.

II. INTEGRITY OF CAPITAL MARKETS

- A. Material Nonpublic Information.** Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information.
- B. Market Manipulation.** Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.

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STANDARDS OF PRACTICE HANDBOOK

2014
ELEVENTH EDITION



FUNDAMENTAL ETHICAL PRINCIPLES

- Client interests come first
- Maintain independence and objectivity
- Avoid/manage conflicts of interest
- Full and fair disclosure
- Preservation of confidentiality
- Fair dealing
- Reasonable care and prudent judgment
- Diligence

DUNN

You are responsible for submitting the travel and entertainment expense reports for your boss, Dunn, who is a portfolio manager of a mutual fund. Recently you have encountered problems collecting receipts from Dunn to support some of his expenses. Because the missing receipts are for small amounts, you have learned how to “override” the accounting system and submit his expense report without the receipts. Recently, Dunn returned from a business trip with large expenses that he does not have receipts for. When you inquire about the receipts, Dunn responds, “I paid cash for these expenses and I don’t know where I put the receipts. Just override the system, like you usually do.” So, you submit Dunn’s expense report without the missing receipts. Your actions are:

- A. Okay because you are following Dunn’s instructions.**
- B. Probably okay because Dunn has often lost his receipts before.**
- C. Probably not okay because you are overriding the accounting system.**
- D. Not okay.**

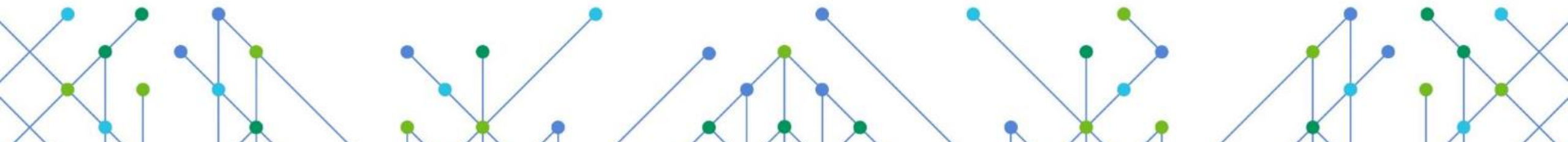
RATIONALIZATIONS

“There's never been an act done since the beginning, from a kid stealing candy to a dictator committing genocide, that the person doing it didn't think he was fully justified. That's a mental trick called rationalizing, and it's done the human race more harm than anything else you can name.”

--[*Leigh Brackett, The Long Tomorrow*](#)

RATIONALIZATIONS

- Avoid or reduce the negative affect that accompanies performing an unethical act.
- Justify behavior that is inconsistent with one's opinion.
- Change one's perception of a situation or social environment to justify their behavior.



RATIONALIZING UNETHICAL BEHAVIOR

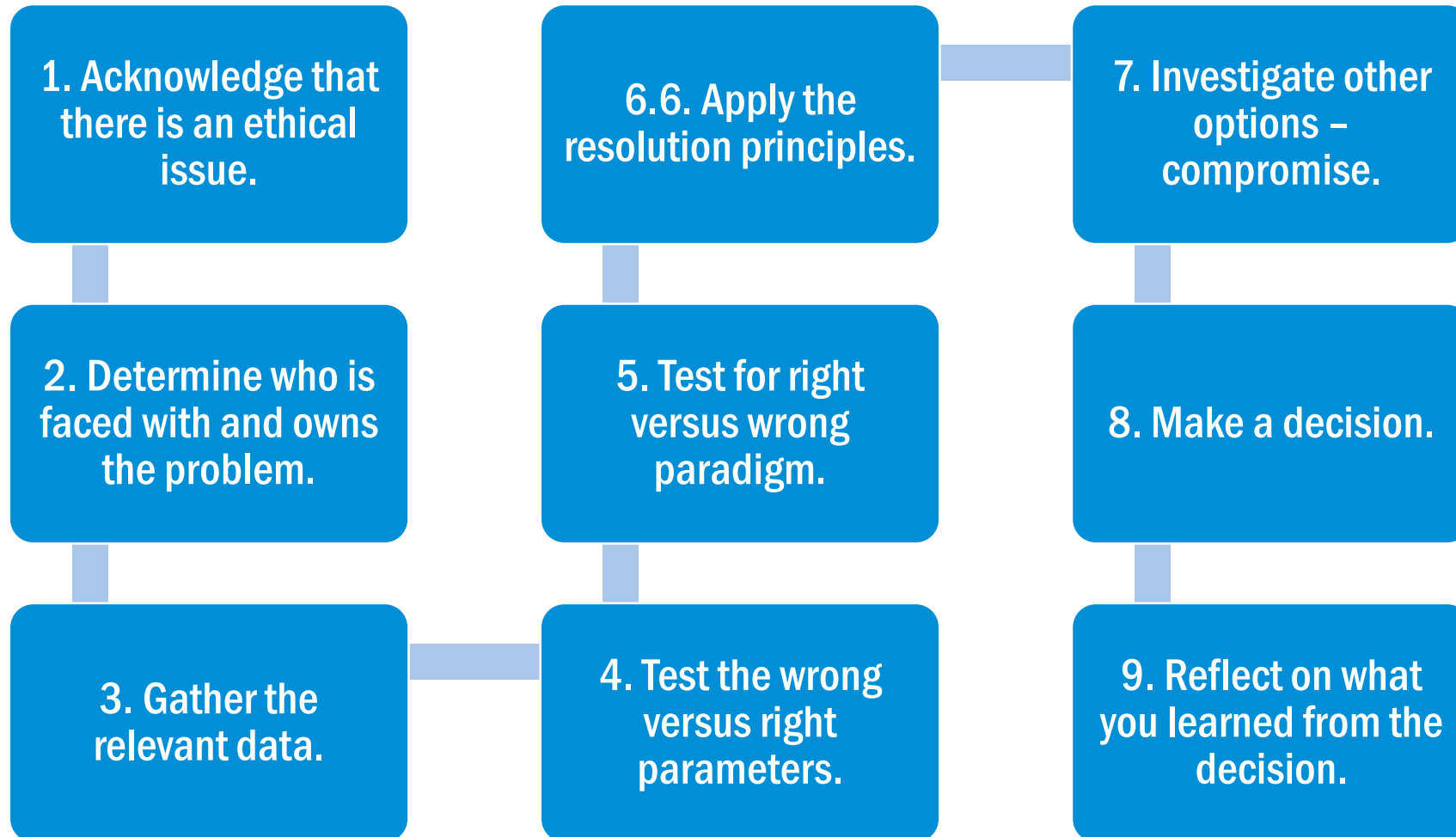
- Everybody else does it, so it must be okay.
- It does not really hurt anyone.
- That is the way they do it at Firm X.
- It is not a big deal.
- If we do not do it, someone else will.
- It is not my responsibility.
- This is the way it has always been done.
- I want to be a team player.

THE ANALYST

After graduating from university in June, you became the newest member of the analyst team at MGM Capital. Your supervisor, the Director of Research, supports and pays for all analysts to obtain the CFA designation. In December, you sat for the Level I exam. This morning you receive a letter from CFA Institute stating that you are under investigation for cheating on the exam. You believe that there is no evidence to support this allegation. Your firm's policies state that employees must not engage in any professional misconduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence. What would you do?

- A. Say nothing.**
- B. Tell your supervisor what happened.**
- C. Wait until the charges have been dropped, then tell your supervisor.**
- D. Only tell your supervisor if you are found guilty.**

RESOLVING ETHICAL DILEMMAS



START LOOKING FOR A NEW JOB IF:

Your boss asks you to do something and then says one of the following:

- “No one will ever know.”
- “This conversation never happened.”
- “It doesn’t matter how it gets done as long as it gets done.”

“After they obey all rules, I then want my employees to ask themselves whether they are willing to have any contemplated act appear the next day on the front page of their local paper to be read by their spouses, children & friends, with the reporting done by an informed and critical reporter.”

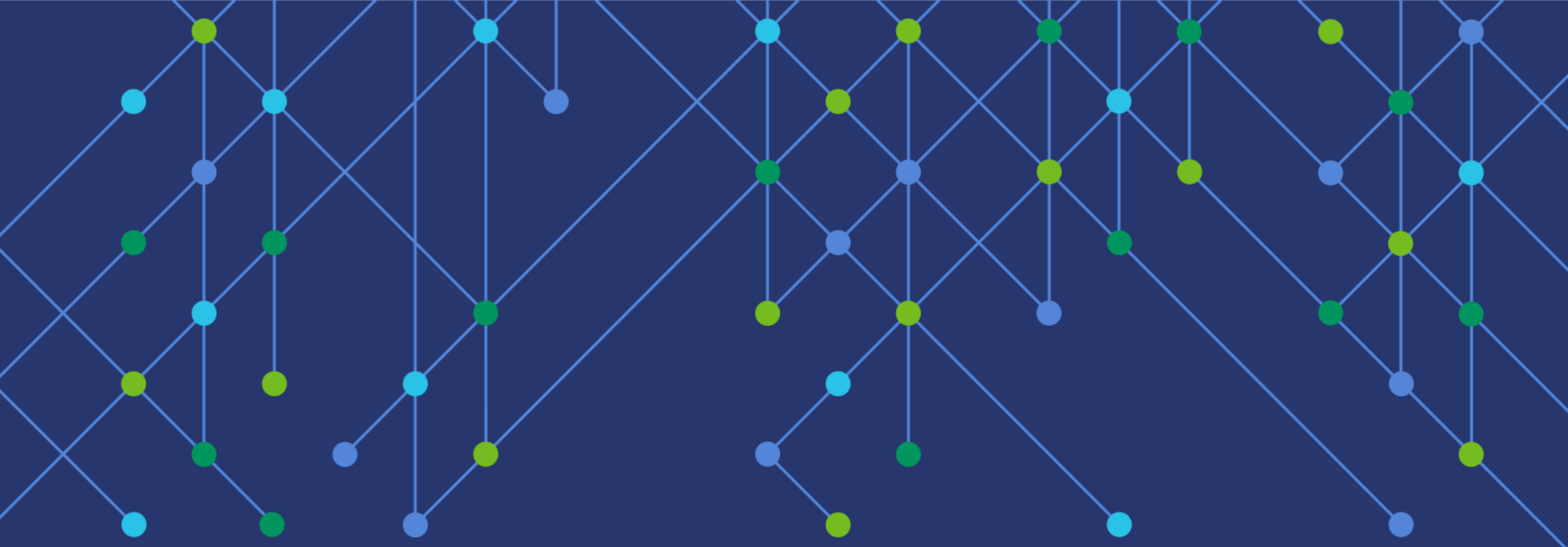
-- Warren Buffett

GIVE US YOUR FEEDBACK!

Tell us your thoughts on this live training by taking just two minutes to answer three questions

Survey answers are anonymous





THANK YOU FOR PARTICIPATING!