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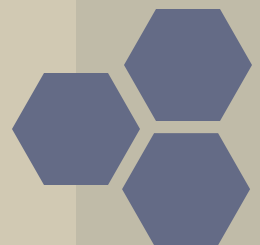
Academy of Professional Finance 专业金融学院

CFA Level I

SS 1 Ethical & Professional Standards

Lecture 25 Ethics and Trust in the Investment Profession

CFA Lecturer: Hongfeng Xu





Ethics and Trust in the Investment Profession

Course Content

Ethics and
Trust in the
Investment
Profession

Concepts related to ethics

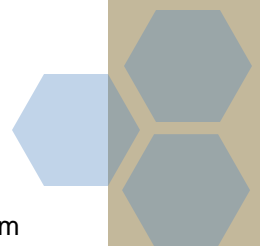
Ethics and professionalism

Challenges to ethical conduct

The importance of ethical conduct

Ethical VS. Legal Standards

Ethical decision-making frameworks





Ethics and Trust in the Investment Profession

Concepts related to ethics

- **Ethics** encompasses a set of moral principles and rules of conduct that provide guidance for our behavior. Or
- **Ethics** is the study of moral principles, which can be described as the study of good and bad behavior or the study of making good choices as opposed to bad choices.
- **Moral principles** or **ethical principles** are beliefs regarding what is good, acceptable, or obligatory behavior and what is bad, unacceptable, or forbidden behavior
- **Ethical actions** are those actions that are perceived as beneficial and conforming to the ethical expectations of society. An action may be considered beneficial if it improves the consequences for stakeholders affected by the action.



Ethics and Trust in the Investment Profession

Concepts related to ethics

- Specific communities or societal groups codify their beliefs about obligatory and forbidden conduct in a written set of principles, often called a **code of ethics**.
- Some communities will expand on their codes of ethics and adopt explicit rules or standards that identify specific behaviors required of community members, called **standard of conduct**. These standards of conduct serve as benchmarks for the minimally acceptable behavior of community members and can help clarify the code of ethics.
- CFA Institute is an example of a community with an established code of ethics and standards of conduct. **The Code of Ethics** communicates the organization's principles, values, and expectations. **The Standards of Professional Conduct** outline minimally acceptable behaviors expected of all CFA Institute members and candidates.



Ethics and Trust in the Investment Profession

Ethics and professionalism

Differences between job, vocation and profession

A **job** is very simply the work someone does to earn a living.

A **vocation** is a job or occupation to which someone is particularly well suited and is very dedicated.

A **profession** is the ultimate evolution of an occupation, resulting from the efforts of members practicing the occupation at a high level and creating a set of ethics and standards of conduct for the entire group.

A profession has several characteristics that distinguish it from ordinary occupations:

- based on specialized knowledge and skills;
- based on service to others;
- practiced by members who share and agree to adhere to a common code of ethics



Ethics and Trust in the Investment Profession

Challenges to ethical conduct

- People tend to believe that they are ethical people and that their ethical standards are higher than average.
- Decision makers often fail to recognize and/or significantly underestimate the effect of **situational influences**.
Situational influences are external factors, such as environmental or cultural elements, that shape our thinking, decision making, and behavior.



Ethics and Trust in the Investment Profession

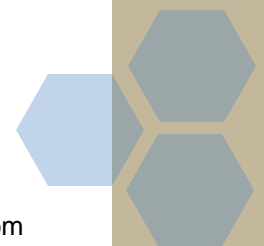
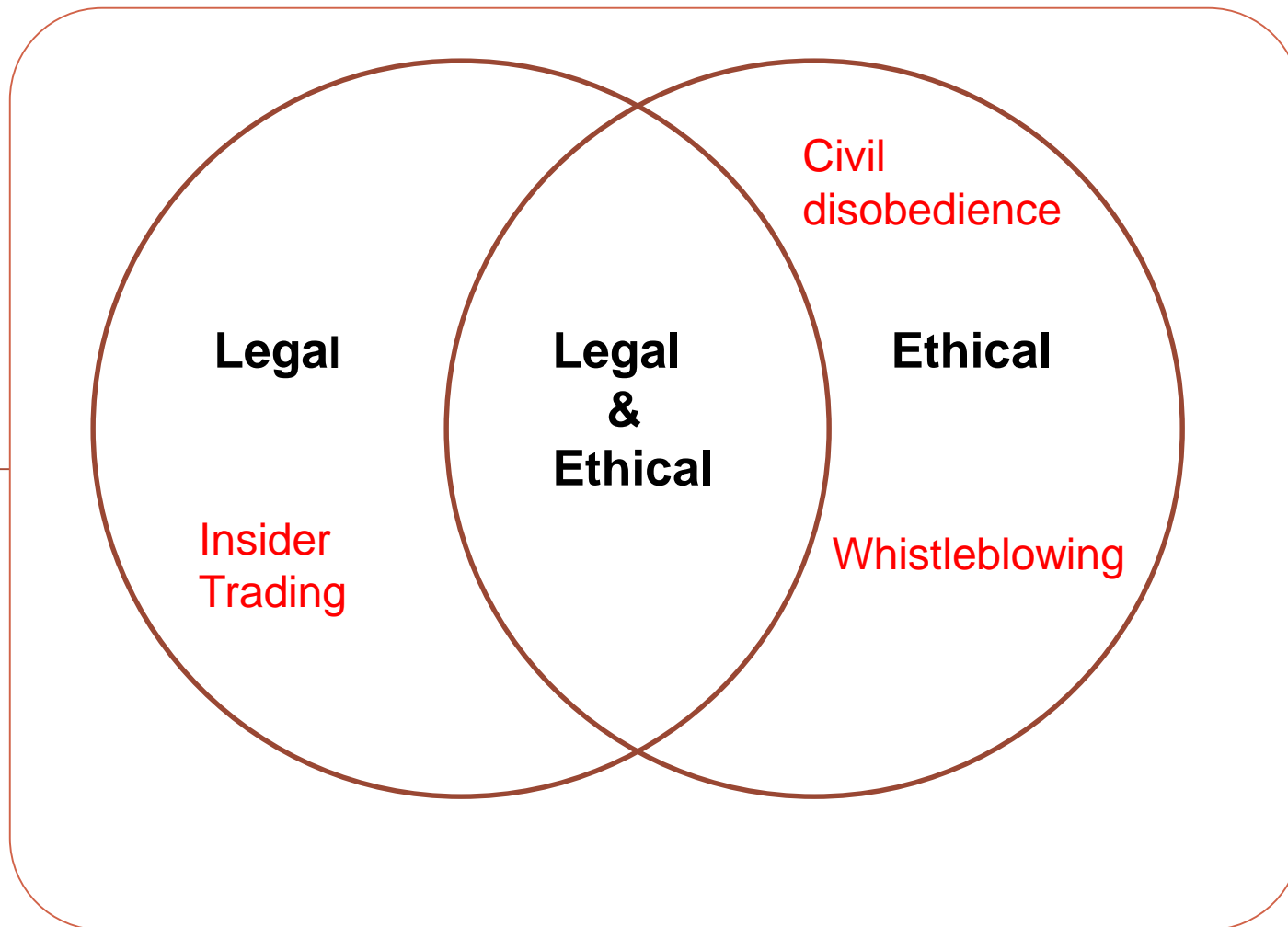
The importance of ethical conduct

- Unethical conduct does harm to the analysts personally.
- Unethical conduct ruins the firm's reputation.
- Unethical conduct hinders the development of investment industry.
- Unethical conduct constraints the prosperity of the national economy.



Ethics and Trust in the Investment Profession

Ethical VS. Legal Standards





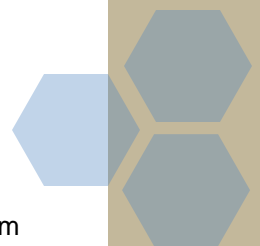
Ethics and Trust in the Investment Profession

Ethical decision-making frameworks

Ethical decision-making frameworks are designed to facilitate the decision-making process for all decisions. They help people look at and evaluate a decision from multiple perspectives, enabling them to identify important issues they might not otherwise consider.

Ethical decision-making framework

- Identify: Relevant facts, stakeholders and duties owed, ethical principles, conflicts of interest
- Consider: Situational influences, additional guidance, alternative actions
- Decide and act
- Reflect: Was the outcome as anticipated? Why or why not?





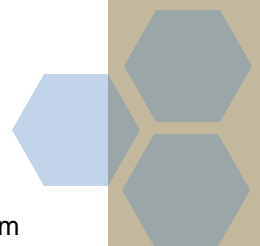
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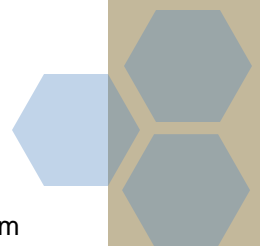


Case study (Textbook, edition of 2017, page 25-27)

A financial adviser has been saving a portion of his salary to purchase a new vehicle. He is on track to have enough saved within the next three months. His employer has offered a special bonus for this quarter, which will go to the team that attracts the most new investors into the firm's investment funds. In addition to the potential bonus, the firm pays a 5% commission to employees who sell shares in the firm's investment funds. Several of the funds are highly rated, including one designed to provide steady income to investors.

The financial adviser has added only a few new investors to the firm's funds, but his teammates have been very successful in their efforts. The end of the quarter is one week away, and his team is competing closely with another team for the bonus. One of his teammates informs the financial adviser that he really needs the bonus so his elderly mother can receive medical treatment.

Later that day, the financial adviser meets with an elderly client on a limited income who is seeking more income from his investment portfolio. The client is 89 years old and in poor health. According to the client's will, the client's investment portfolio will go to his favorite charity upon his death.





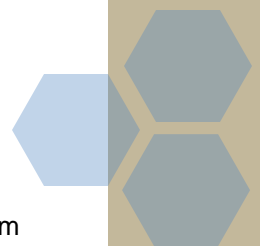
Case study (Textbook, edition of 2017, page 25-27)

- 1 Which of the following situational influences is likely to have the *most effect on the financial adviser's efforts to get new clients to invest in the funds? His relationship with his:*
 - A client.
 - B employer.
 - C teammates.

- 2 Which of the following statements is *most accurate? An ethical decision-making framework:*
 - A is only beneficial when a firm lacks a code of ethics.
 - B is used to improve compliance with laws and regulations.
 - C is a tool for analyzing the potential alternative actions and consequences of a decision.

- 3 Which of the following is *most accurate? Ethical decision-making frameworks:*
 - A raise awareness of different perspectives.
 - B focus attention on short-term consequences.
 - C allocate more weight to those who will directly benefit from the decision.

- 4 Which of the following is *most accurate? Ethical decision-making frameworks:*
 - A are not needed if behavior is legal.
 - B identify who gains the most from a decision.
 - C can help reduce unanticipated ethical lapses and unexpected consequences.





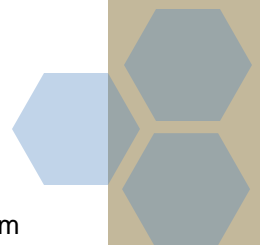
Case study (Textbook, edition of 2017, page 25-27)

5 Using an ethical decision-making framework, which of the following duties would *most likely take precedence in the scenario described? The financial adviser's duty to his:*

- A client.
- B employer.
- C colleagues.

6 Using an ethical decision-making framework, the financial adviser would *most likely:*

- A recommend that the elderly client invest at least some of his assets in the highly rated fund.
- B research other investments that can provide steady income before making a recommendation to his elderly client.
- C disclose the commission he would earn before recommending that the elderly client invest at least some of his assets in the highly rated fund.





Case study (Textbook, edition of 2017, page 25-27)

Solution to 1:

C is correct. The financial adviser's relationship with his teammates is likely to have the most effect on the financial adviser's efforts.

Solution to 2:

C is correct. An ethical decision-making framework is a tool for analyzing the potential alternative actions and consequences of a decision.

Solution to 3:

A is correct. Ethical decision-making frameworks raise awareness of different perspectives.

Solution to 4:

C is correct. Ethical decision-making frameworks can help avoid unanticipated ethical consequences.

Solution to 5:

A is correct. Using an ethical decision-making framework, the financial adviser's relationship with his client would most likely take precedence in this scenario. The adviser should put his client's interests first. The exception to client interests taking precedence occurs when market integrity effects take precedence.

Solution to 6:

B is correct. In this scenario, the financial adviser owes a duty to his client as well as his employer. His client's interests take precedence over all other interests. To navigate this situation, the financial adviser should seek additional information; he should research the risk and return parameters and fee structures of other investments that can provide steady income before making a recommendation to his client.





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Course Revision

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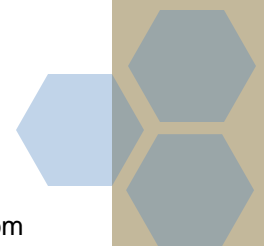
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Thank You!

