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# 5<sup>th</sup> International Biennial Business Banking & Finance Conference: Re-Engineering Growth, Doing Business in the New Global Environment

*Financial Crisis, The Call for Ethics and A Way Forward*

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St. Augustine, Trinidad and Tobago, 2 May 2013

# Disclaimer<sup>1</sup>



Gordon Gekko from Wall Street on YouTube

<http://www.youtube.com/watch?v=ONXpaBQnBvE>

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<sup>1</sup>Stone, 1987

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# 1. Finance Today: A Crisis of Trust

## Misconduct common and accepted?

Some results of a Labaton Sucharow survey of 500 senior financial services professionals across the United States and United Kingdom<sup>1</sup>

- 24% reported a belief that financial services professionals **may need to engage in unethical** or illegal conduct to be successful
- 26% indicated that they had observed or **first-hand knowledge** of wrongdoing in the workplace
- 16% percent reported that they **would commit a crime** (insider trading) if they **could get away** with it
- 39% reported that **their competitors are likely to have engaged in illegal or unethical** activity to be successful
- 30% reported their compensation or bonus plan created **pressure to compromise ethical standards** or violate the law, while 23 % reported other pressures that may lead to unethical or illegal conduct
- 20% weren't sure of, or had **serious doubts** about, how employers would handle a report of wrongdoing
- 94% **would report wrongdoing given the protections** and incentives such as those offered by the SEC whistleblower program

It seems that **misconduct is common and accepted**. According to Donaldson<sup>2</sup>, the **biggest problem** the fueling crisis is the **normalization and acceptance of questionable behavior**, which he related to the quote of a former-CEO of Citigroup: “as long as the music is playing, you’ve got to get up and dance” (herd behaviour)

# 1. Finance Today: A Crisis of Trust



## Misconduct common and accepted? (cont'd)

**The New York Times** Business Day

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### British Bank in \$340 Million Settlement for Laundering

By JESSICA SILVER-GREENBERG  
Published: August 14, 2012

**Standard Chartered**, the British bank, has agreed to pay New York's top banking regulator \$340 million to settle claims that it laundered hundreds of billions of dollars in tainted money for Iran and lied to regulators.

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**Agustino Fontevicchia**, Forbes Staff  
Bringing You The Bull And Bear Case From The Markets Desk  
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### HSBC Helped Terrorists, Iran, Mexican Drug Cartels Launder Money, Senate Report Says

MARKETS | 7/16/2012 @ 11:09PM | 7,389 Views

3 comments, 1 called-out | Comment now

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A Senate report released ahead of the embargo time revealed that HSBC's lax anti-money laundering policies allowed Mexican drug money, Iranian terrorist money, and even suspicious Russian money to enter the U.S. and gain access to U.S. dollar liquidity over the last couple of years.



Senator Levin grilling Goldman's Lloyd Blankfein; he's after a big bank again - Image credit: Getty Images North America via @daylife

### JERSEY FINANCIAL REGULATOR TO INVESTIGATE HSBC MONEY LAUNDERING SYSTEMS AND CONTROLS

By Dasha Afanasieva  
LONDON | Tue Nov 13, 2012 11:08am EST

Nov 13 (Reuters) - Jersey's financial services watchdog is launching a probe into anti-money laundering systems and controls at HSBC's business on the island, following newspaper allegations that the bank was harbouring money for convicted criminals.

**The Economist**

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Britain's price-fixing scandal and its global impact

### Libor Scandal

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### LIBOR SCANDAL

Regulators from around the world are probing alleged irregularities by U.S. and European banks of the London interbank offered rate and other key benchmark lending rates.

From **COINTEGRATE** Nov 14, 2012

### Judge orders Barclays to disclose minutes

Board meetings to come under scrutiny in High Court



### Bloomberg

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### JPMorgan Turned CIO Into Prop-Trading Desk, Pensions Say

By David McLaughlin and Dawn Kopacki - Nov 21, 2012 10:35 PM GMT+0100

JPMorgan Chase & Co. (JPM) turned its chief investment office into a "secret hedge fund" that caused more than \$6.2 billion in losses, pension funds said in a revised complaint in their lawsuit against the bank.

JPMorgan represented that the office's primary role was managing risk when in fact it was engaging in trades to generate profit for the New York-based bank, the funds said in an amended complaint filed yesterday in Manhattan federal court.

JPMorgan Chief Executive Officer **Jamie Dimon** "secretly transformed the CIO from a risk management unit into a proprietary trading desk whose principal purpose was to engage in speculative, high-risk bets designed to generate profits," the plaintiffs said.

### UBS: Rogue Trader Hit Firm

Swiss Bank Says It Lost \$2 Billion on London Employee's Unauthorized Bets

Article | Video | Interactive Graphics | Comments (205)

By DEBORAH BALL, PAUL SONNE and CARRICK MOLLENKAMP

UBS AG said a rogue trader racked up as much as \$2 billion in losses using the firm's own money, a dramatic admission that raised new questions about the ability of one of the world's largest banks to manage risk and global regulators' ability to monitor it.

### Bosch Stops Doing Business With Goldman Over Bonuses, Financial Times Says

By Ben Martin - Apr 22, 2010 3:21 AM GMT+0200

**Robert Bosch GmbH** has stopped doing business with Goldman Sachs Group Inc. because of concerns about its business model and bonus culture, the Financial Times reported, citing two people familiar with the situation.

Bosch made the decision to sever its business ties with the U.S. firm earlier this year, the newspaper said. Bosch spokesman Henrik Hanemann declined to comment when contacted by Bloomberg News. Goldman Sachs spokesman Michael DuVally declined to comment.

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Abercrombie Settles Pilot Lawsuit on CEO Testimony | View: Thanksgiving Myth Redeems and Obscures History Order

### Iran Sentences Four to Death in \$2.6 Billion Fraud Case

By Ladane Nasseri - Jul 30, 2012 5:08 PM GMT+0200

Iran sentenced to death four people it said were involved in a \$2.6 billion banking fraud, the official Islamic Republic News Agency reported, citing Prosecutor-General Gholamhossein Mohseni-Ejei.

Another two of the 39 suspects whose files were reviewed by the judiciary were sentenced to life imprisonment and the rest received prison terms of as much as 25 years, Mohseni-Ejei said without naming any of the individuals, according to IRNA. The convicts will also have to return the assets, it said.

## The Telegraph

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### Rogue trader Jerome Kerviel blames SocGen for €4.9bn loss

Jerome Kerviel, the rogue trader who cost Societe Generale €4.9bn (£4bn) four years ago, began his appeal on Monday by arguing that he was made a scapegoat by the bank and that it should take responsibility for the loss.

### Whistleblower Gets \$104 Million

Now a Felon, Former Banker Told U.S. About Tax-Evasion Tactics by UBS and Its Wealthy Clients

Article | Stock Quotes | Comments (163)

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BY LAURA SAUNDERS AND ROBIN SIDEL

A former UBS AG banker who helped the U.S. government unleash an international crackdown on tax evasion was awarded \$104 million in what is believed to be the largest-ever whistleblower payout to an individual.



# 1. Finance Today: A Crisis of Trust

## The breakdown of the invisible hand

As Jeffrey Sachs says: capitalism earns its keep through Adam Smith's famous paradox of the **invisible hand**: **self-interest**, operating through markets, **leads to common good**

However, **self-interest fails to support the common good** in four ways<sup>1</sup>:

1. It fails when **market competition breaks down**
2. It can turn into unacceptable **inequality**
3. It leaves **future generations** at the mercy of today's generation
4. Unless part of a larger **value system**, it is easily **transmuted** into an addictive form of consumerism

In his mind, in history, **successful capitalism has rested on the practice of self-interest, embedded in a larger set of values** and that currently, moral strictures have almost vanished and self-interest is no longer embedded in higher values. We need to regain our moral bearings....

# 1. Finance Today: A Crisis of Trust

## The relationship between ethics and finance

The role of ethics is **not** explicit<sup>2</sup>:

- In **finance** theory, ethical issues are **constraints, externalities** or market failures
- Examination of moral issues form the basis of financial regulation
- Ethics is often seen to be the responsibility of law makers and regulators

In general, **unethical behaviour** arises because **finance** is technical and quantitative and **not immediately comprehensible for everyone**, advantage of others is taken and money is made<sup>1</sup>

Finance ethics received little attention - **finance people not trained in ethics - ethics people not trained in finance**<sup>2</sup>....

But: ethical concerns have come to the forefront because of the sheer size and **economic impact**

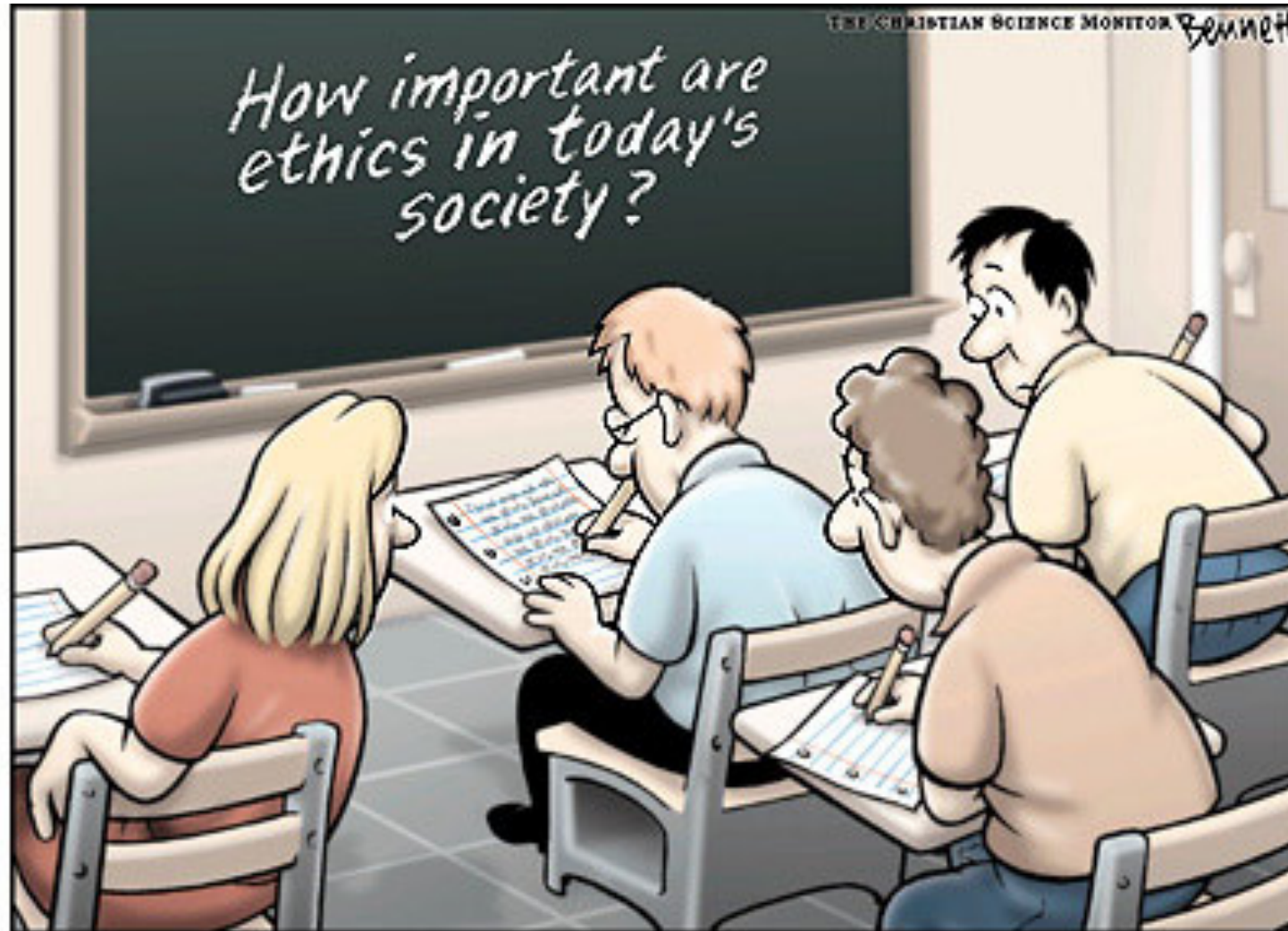


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## 2. Selected Concepts in Ethics



## 2. Selected Concepts in Ethics

### Four guiding concepts from moral philosophy

1. Aristotle described ethics as **good actions and virtues**, including intentions, which means **character is important**<sup>1</sup>. Moral judgment goes beyond following rules. **Ethical role models** play an important part in developing ethical judgment<sup>2</sup>
2. John Locke advocated the idea of rights: humans have rights, **ethics is about respecting those rights**
3. Immanuel Kant argued that intent and consequences are important and that **ethics is universal**. People cannot be used as a means to an end – **binding nature of abstract principles on a decision regardless of the consequences** (deontology)<sup>3</sup>. Difficulty arises when two valid principles are opposed<sup>4</sup>
4. John Stuart Mill espoused utilitarianism: **behavior is ethical as long as overall utility is increased for most people in society**. This sacrifices the interests of minorities and individuals in order to achieve the greatest good for the greatest number of people<sup>3</sup>

## 2. Selected Concepts in Ethics

### Ethics is about personal behaviour and needs to be practical

- In short<sup>1</sup>:
  - **Ethics is about how one treats others** and involves direct behaviour towards others as well as the indirect impact behaviour has on others
  - Ethics provide moral standards of behaviour that **guide the right and wrong** treatment of others
- **The normative approach of ethics has limited relevance for the actual world.** These ideals are viewed as independent from the psychological processes within the decision maker and from real-life situations and organizational factors finance professionals face. **Knowledge from the field of ethics needs to be practical<sup>2</sup>**
- The problem is the tension between making a reasonable profit and taking advantage – how to resolve the conflict...

## 2. Selected Concepts in Ethics

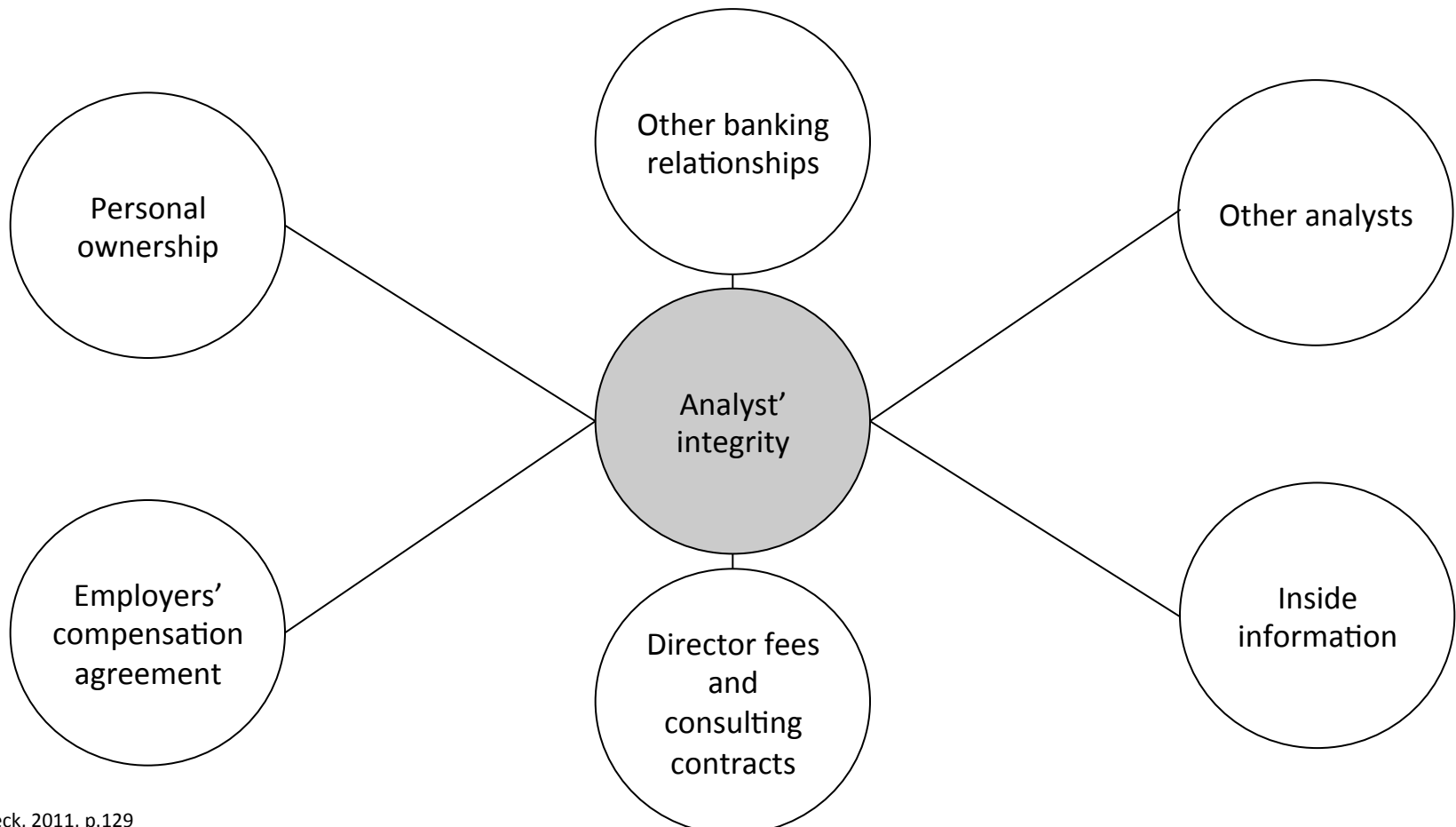
### Four ethical principles to be applied in finance

1. **Ethical understanding:** in dealing with others, the finance professional has an obligation to make sure that also **others sufficiently understand** the transaction
2. **Ethical use of information:** financial matters are information driven: the finance professional has an obligation to ensure that he/she and others have **access to relevant information** and that **information is not misused** or distorted in the transaction
3. **Responsible investing:** as investments provide financial resources to others, the finance professional has an obligation to ensure that he/she do **not knowingly make or recommend investments** that support activities that harm others
4. **Trust and fairness:** as **other people's money** (OPM) is involved, directly or indirectly, the finance professional has an obligation **not to abuse** the trust placed in him/her that others have placed in him/her to treat that fairly, explicitly or implicitly

## 2. Selected Concepts in Ethics

**Every role in finance has ethical challenges**

Look at a typical role of a finance professional: the financial analyst, undergoing many **pressures and conflicts**: disclosure is needed



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### 3. Selected Concepts in Finance

Are financial actors only rational and self-interested as finance theory assumes<sup>1</sup>?

- **Preferring more to less**, maximization of utility under a budget constraint, individual **pursuit of pecuniary wealth**. Everything is expressed in monetary terms
- Finance knows: this is **not realistic**, but using methodological simplifications of reality allows financial investigations and creates a useful heuristic
- Friedman: economics is **independent of ethical positions** and normative judgment
- Shiller: **finance** is technology that **works towards reducing inequality**



## 3. Selected Concepts in Finance

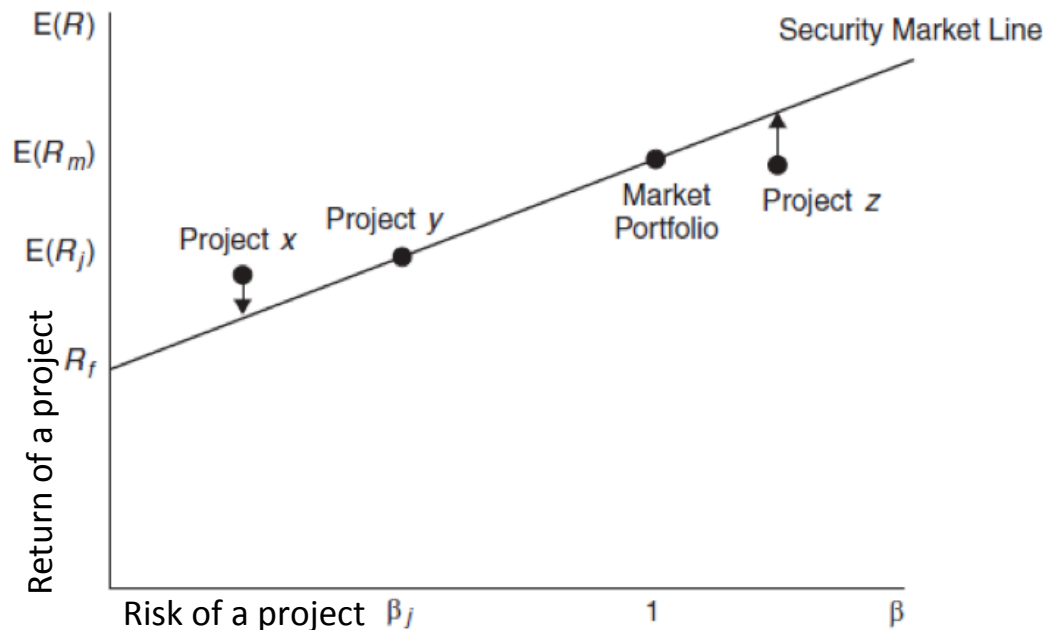
Is the concept of Time Value of Money (TVM)<sup>1</sup> unethical?

- **USD 1 received today is worth more than USD 1 received tomorrow** - in a formula:  $PV = FV / (1+r)^T$  with r depending on real **rate of return**, expected inflation, and the risk of the investment
- This relates directly to the concept of **usury**, the **unethical demand of interest** on a loan. Demanding and charging excessive or any interest for a loan is **unethical, based on Islamic, Jewish and Roman Catholic traditions**
- In finance, interest rates are **devoid of moral significance**

### 3. Selected Concepts in Finance

#### Is a positive net present value always best?

Net Present Value (NPV) and Corporate Financial Management<sup>1</sup>: in which project should be invested? CFO says: project x



- The question if projects **benefit society** is completely irrelevant in finance
- Project y, although hugely **beneficial to society**, could have been **skipped**
- **Other benefits**, could have been part of the analysis, making the NPV positive
- Project z was ignored, although maybe hugely **beneficial to society**

Do agency theory and stakeholder theory clash? Or are **shareholders served by taking stakeholder's interests into account**? E.g. job creation, tax revenues etc.

## 3. Selected Concepts in Finance

### Does option pricing theory have ethical components<sup>1</sup>?

- For every option there must be a seller and a buyer, it's a **zero-sum** game
- **Black-Scholes**: the value of a call option is  $C(S,t) = S N(d_1) - Ke^{-r(T-t)} N(d_2)$  and based on **put-call parity** the value of a put option is  $P(S,t) = Ke^{-r(T-t)} - S + C(S,t)$
- So the **option value** is a function of the stock price (S), the exercise price (K), time until expiration (T-t), risk-free rate of interest (r), and **the riskiness of the stock** (volatility feeds into  $d_1$  and  $d_2$ ) – **the higher the risk, the higher the option value**

## 3. Selected Concepts in Finance

### Does option pricing theory have ethical components<sup>1</sup>? (cont'd)

An example<sup>1</sup>:

- Assume a firm with **one stock** and **one debt security** in its capital structure
- A stockholder can be seen as holding a **call option on the value of the firm**
- Management can **increase the value of the stock** by **increasing the risk** of the firm
- This increase also makes the **bonds riskier** and **worth less**
- **Wealth gets transferred** from bondholders to stockholders

If the firm is operated solely for the benefit of shareholders, **managers have a strong incentive to posture as a low-risk firm, issue bonds, and then suddenly increase the risk of the firm**

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## 4. Finance and Ethics: Reputational Risk

### Reputational risk materialized in banking

The financial crisis: along with financial damage has come **substantial reputational damage** for the financial services industry, intermediaries and individuals<sup>1</sup>

- **CEO of Deutsche Bank and Chairman of the IIF:** the industry was guilty of poor risk management with serious overreliance on flawed models, inadequate stress-testing, **recurring conflicts of interest**, lack of common sense, as well as **irrational compensation practices** not linked to long-term profitability – with a growing perception by the public of “**clever crooks and greedy fools**” (April, 2008)
- **Chairman of UBS:** we can't pretend that there has been no reputational damage. UBS, the world's largest private bank, faced **enormous private client withdrawals** and lost it's no. 1 position (April, 2008)
- And many more...

<sup>1</sup>Walter, 2010

# 4. Finance and Ethics: Reputational Risk

## What influences the value of reputation?

Reputation is the opinion (social evaluation) of the public toward a person, a group or organization. Reputation helps drive the excess value of a firm<sup>1</sup>

**Reputational capital gains or losses when the following changes**

**Symptoms of loss of reputational capital include<sup>1</sup>**

Cumulative reputation

➔ Client flight and loss of market share

Economic performance

➔ Investor flight and increase of the cost of capital

Stakeholder interface

➔ Talent flight

Legal interface

➔ Increasing contracting cost

Reputation risk is related to the strategic positioning and execution of a firm, exploitation of **conflicts of interest, individual professional conduct, compliance and incentive systems, leadership** and the prevailing **corporate culture**

So it's much **more a focus on management processes** than on discrete risk events...

<sup>1</sup>Walter, 2010

## 4. Finance and Ethics: Reputational Risk

### Is valuation of reputational risk difficult?

Let's take a reputation-sensitive situation at a firm  $f$  involving **losses** from<sup>1</sup>:

1. Client defections and **revenue erosion** ( $E(R_t)$ )
2. Increases in **monetary costs** of an event (e.g. write-offs, compliance costs, regulatory fines, legal settlements, indirect costs such as opportunity costs) ( $E(C_t)$ )
3. **Increases in firm-specific risk** assigned by the market as a result of an event ( $\alpha_t$ )

Or, in a formula: 
$$NPV_f = \sum_{t=0}^n (E(R_t) - E(C_t)) / (1 + i_t + \alpha_t)^t$$

<sup>1</sup>Walter, 2010



## 4. Finance and Ethics: Reputational Risk

**How difficult is it to run into reputational risks?**

Example<sup>1</sup>:

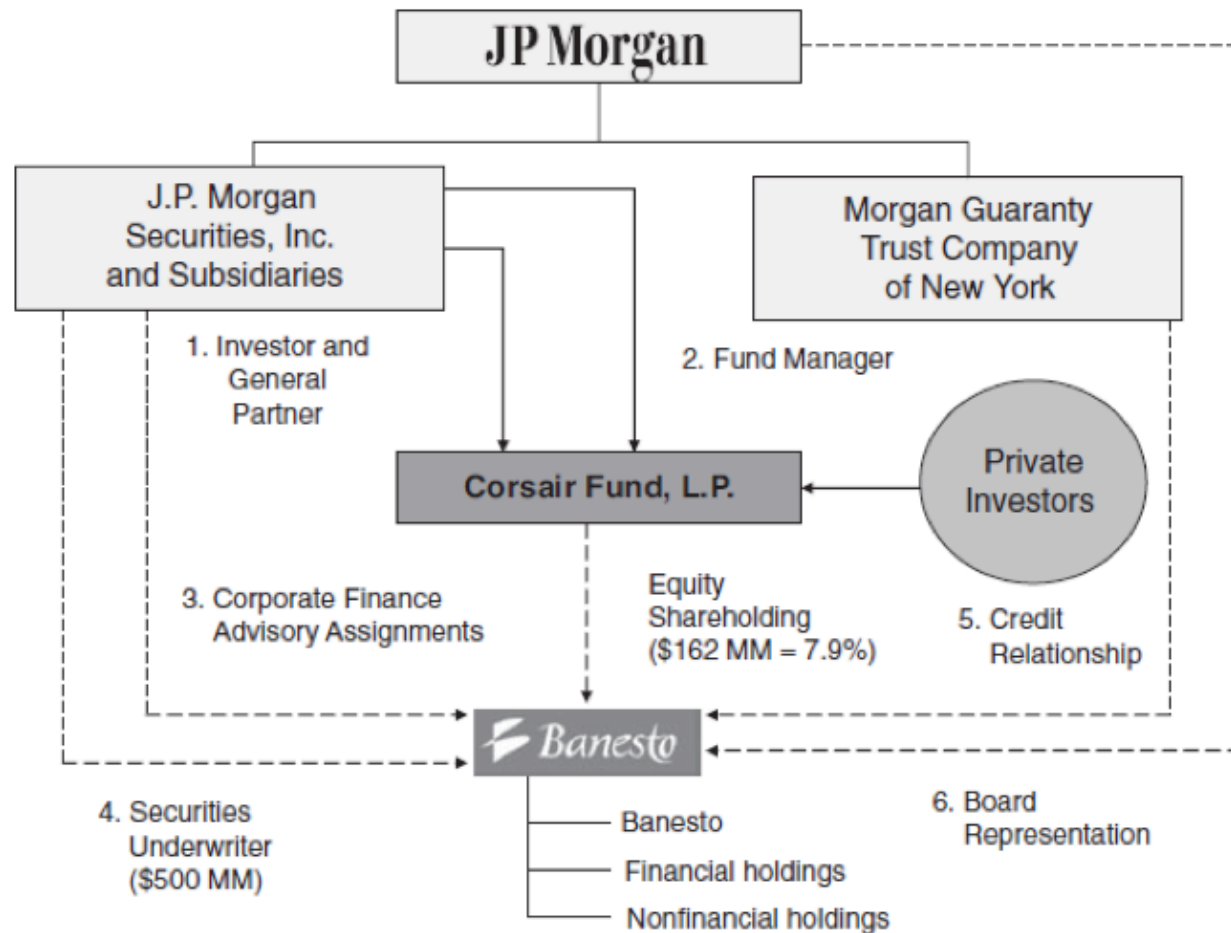
- In 1993, the **a central bank took control of a local bank** citing mismanagement and reckless lending
- **Shares of an investment bank**, which was closely involved with the local bank, **declined dramatically** (loss of market cap was USD 1,5 bn)
- This **reaction was inconsistent with market rationality**, given that the accounting loss for the investment bank was trivial (< USD 10 mn)

The investment bank was involved with the local bank in various ways, **in no way violating legal or regulatory constraints....**

<sup>1</sup>Walter, 2010

# 4. Finance and Ethics: Reputational Risk

Conflicts of interest damage trust and leads to reputational risk events

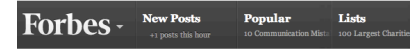


# 4. Finance and Ethics: Reputational Risk



The broader the range of activities<sup>1</sup>, the more difficult to manage

1. The **greater the likelihood** that the financial firm will encounter **exploitable conflicts of interest** and reputational risk exposure
2. The **higher** will be the potential **agency costs** facing its **clients**
3. The more **difficult and costly** will be the safeguards necessary to **protect the value** of the business



MARKETS | 7/25/2012 @ 9:47AM | 2,032 views

## Father Of The Financial Supermarket Sandy Weill Says Break Up The Big Banks

4 comments, 3 called-out [Comment now](#)

Talk about changing your tune.

Sandy Weill, the banking titan who built Citigroup into a gigantic financial supermarket only to see the bank nearly collapse during the 2008 crisis after his departure, told CNBC's Squawk Box Wednesday morning that he is in favor of breaking up the biggest banks, and would like to see the U.S. be a leader in the cause.

**Costs for reputational risk mitigation can easily offset the realization of economies of scope (revenue synergies) and scale (cost synergies)**

As a result of **conflict exploitation**, the **firm may win** and clients may lose in the **first instance**, but subsequent **reputational and regulatory consequences** and cost of complexity can be considered **diseconomies of scope** (incl. opportunity cost)

<sup>1</sup>Walter, 2010

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## 5. Implementation: A Way Forward

### Leadership is the key<sup>1</sup>

**Unethical or ethically neutral leadership facilitates an unethical business culture<sup>3</sup>** and it is ethically mature leaders which need to be in charge<sup>2</sup>

**Leaders**, on all levels, **play a central role** in establishing an ethical organizational culture

- Formally, e.g. by formulating **official codes of ethics**, and
- Informally, e.g. by **acting as a role model** or by the **ethics implicit in their decisions**

For leaders this means that an **understanding of the stages in ethical decision-making** needs to be developed<sup>1</sup>:

- 1. Identify an ethical dilemma:** this is easier for people at higher stages of individual cognitive moral development
- 2. Judge what is ethical:** what should be done to resolve a dilemma ethically
- 3. Intend to act ethically:** put **moral concerns ahead** of other concerns – or mitigate
- 4. Act ethically:** follow the intent

## 5. Implementation: A Way Forward

### Judging leaders on all levels<sup>1</sup>

**Criteria for judging existing or proposed leaders** would be how their **reputation and past actions compare with ethics**, e.g.:

- Do they have a **reputation for honesty**, fair dealing, openness, transparency, consideration for stakeholders and **leadership in ethical matters**
- Have they been **involved in any unethical** or questionable actions or activities
- Have they been **forthcoming** with past auditors and board audit committees
- Do they have an **understanding** of the approaches to **ethical analysis**

# 5. Implementation: A Way Forward

## Evidence of an ethical culture is needed<sup>1</sup>

The following types of **evidence** in the evaluation **of an ethical culture** should be shown

- Is there a comprehensive **code of ethics**, presented with repeated training
- Do senior executives **support ethical behavior** and the code of conduct visibly
- Is the **code integrated** in strategy and the operating model
- Is there a **credible champion** in senior management supported by a team
- Is **performance in accordance with the code monitored** (incl. rewards and penalties) and is this reported periodically
- Is there an effective **whistleblowing program** in place with regular reports to senior management and audit/governance committees
- Is there an **annual review by the board, of ethics policies** etc. as well as its leadership and resource framework

## 5. Implementation: A Way Forward

### Code of ethics is already standard in professional associations

Corporations, professional associations and educational institutions develop a **code of ethics**<sup>1</sup> to **guide the actions** of their members and to **formalize a set of standards** indicating the sort of **behavior expected** of their members



In many cases these ethical obligations become the **basis for a moral community** among finance professionals



# 5. Implementation: A Way Forward

## Code of ethics are obliging<sup>1</sup>

Professionals take on **moral duties** for two reasons:

1. They possess **expert knowledge**, which enables their clients to depend upon them for reliable guidance. The **professional** has a heightened **duty of care** on the basis of the **vulnerability of the client** and the **asymmetry of the information**
2. They undertake their **role as an expert advisor** on a **voluntary basis** (i.e. membership in the professional organization)

Most codes of ethics governing the various areas of the finance professions have **two elements**:

1. **Principles**: aspirational characteristics that lay out general principles professionals should follow
2. **Rules**: specifying principles, which promote or prohibit specific activities

## 5. Implementation: A Way Forward

**Seven principles are core to a code of ethics<sup>1</sup>**

- 1. Integrity:** moral self-governance, a **super virtue**, which includes individual autonomy, togetherness, loyalty, congeniality, cooperation, trustworthiness and the quality to be introspective and to be able to give **an honest reckoning of own strengths and weaknesses**
- 2. Objectivity:** the finance professional's obligation to **subordinate his own interests** to the needs of the client – this deals with perceptual biases and **conflicts of interest**
- 3. Competence:** professionalism starts with technical competence, a high level of **knowledge and skills, difficult to attain, not held by the general public**. It is however **information asymmetry** that creates the **conflicts of interest**. Also: is the client capable of assessing whether the **professional is acting in the client's best interest?**

## 5. Implementation: A Way Forward

### Seven principles are core to a code of ethics<sup>1</sup> (cont'd)

4. **Fairness:** revolves around principle of **equality** (treating like things alike), the **Golden Rule** (treat clients like finance professionals like to be treated themselves) and the **obligation** to give each person that which is due to them
5. **Confidentiality:** professionals possess sensitive information, warranting a **duty** of confidentiality for 4 reasons: **respect for personal autonomy** and for obligations entailed in relationships, clients' vulnerability, and serving the common good
6. **Professionalism:** code of ethics require finance professionals to treat all persons with **respect and consideration**, act in a way that brings **dignity to the profession**, and work toward **improving the quality of services** provided to the public
7. **Diligence:** services are delivered reasonably **prompt, thorough** and **with due care** (avoiding moral hazard). And with an obligation that their **support staff** conducts themselves professionally

# 5. Implementation: A Way Forward

## Action is easy: the integrity action list of the CFA-Institute<sup>1</sup>

The CFA Institute Integrity List is a collection of 50 tangible steps that investment professionals can take to restore trust in the industry. The list was inspired by “real-world” ideas from CFA charterholders and members.

- |   |   |
|---|---|
| <ol style="list-style-type: none"> <li>1. <b>Commit to a gold standard code of ethics and professional conduct [See CFA Institute Code of Ethics and Standards of Professional Conduct].</b></li> <li>2. <b>Require training on ethical decision-making for yourself and your firm.</b></li> <li>3. <b>Place the client's interests before your own.</b></li> <li>4. <b>Name and shame unethical behavior.</b></li> <li>5. <b>Recommend products with transparent payoffs, costs, and risks.</b></li> <li>6. <b>Help clients focus on risk as much as they do on performance.</b></li> <li>7. <b>Disclose your educational achievements and how you improve professional competence.</b></li> <li>8. <b>Strive for a conflict-free business model.</b></li> <li>9. <b>Advocate for stronger regulations that protect investors.</b></li> <li>10. <b>Act with integrity 24/7 – not just at the office.</b></li> <li>11. Encourage young professionals to have the courage to disagree.</li> <li>12. Keep client fees fair.</li> <li>13. Be transparent with clients when something goes wrong.</li> <li>14. Actively disclose all compensation arrangements to clients.</li> <li>15. Lead by example with your firm and colleagues.</li> <li>16. Write articles and speak publicly about ethics.</li> <li>17. Act with fairness and prudence with every decision.</li> <li>18. Present analysis based on facts and client needs.</li> <li>19. Always be honest with clients.</li> <li>20. Never overlook unethical behavior because you're better served by ignorance.</li> <li>21. Never engage in misleading sales promotions.</li> <li>22. Mentor future investment industry professionals.</li> <li>23. Vocally demand that your firm does what is right for clients.</li> <li>24. Tip the balance between competing interests in favor of clients.</li> <li>25. Outline exactly how you are managing a client's funds.</li> </ol> | <ul style="list-style-type: none"> <li>Disseminate transparent, accurate and timely information.</li> <li>Be clear about situational influences in your environment.</li> <li>Base investment recommendations on strong analysis.</li> <li>Adhere to high standards even if they are not required in your country.</li> <li>Elevate the importance of integrity in the hiring process.</li> <li>Disclose information in ways even novice investors can understand.</li> <li>Adopt Global Investment Performance Standards.</li> <li>Maintain regular contact with clients.</li> <li>Openly share bad news with all who are affected.</li> <li>Listen to clients' concerns and fears.</li> <li>Promote the concept of earning money rather than making money.</li> <li>Create an ethical work culture that allows constructive criticism.</li> <li>Bring an ethical dimension to discussions of business strategy.</li> <li>Adopt the CFA Institute Asset Manager Code of Professional Conduct.</li> <li>Remind junior associates that reputations are hard earned and easily lost.</li> <li>Take responsibility for the actions of your team.</li> <li>Use social media to comment about the values you uphold.</li> <li>Act as an expert resource for journalists.</li> <li>Refuse to associate with anyone who takes advantage of clients.</li> <li>Bring to justice those who take part in irresponsible and illegal activities.</li> <li>Recommend companies with fair practices and good corporate governance.</li> <li>Advocate for technology that makes the industry more transparent.</li> <li>Engage and build relationships with local regulators and policy makers.</li> <li>Serve on committees that advocate for regulatory reform.</li> <li>Become a member of CFA Institute and sign the required annual ethics statement.</li> </ul> |
|---|---|

<sup>1</sup>[http://www.cfainstitute.org/about/vision/serve/Pages/integrity\\_list.aspx](http://www.cfainstitute.org/about/vision/serve/Pages/integrity_list.aspx)

## 5. Implementation: A Way Forward

**Alternatively: men just leave it to women<sup>1</sup>....**

- In an experiment involving hypothetical job descriptions
- women showed **lower interest** in companies described as **choosing profits over ethics**
- **than in firms that favored ethics** (average of **3.56** versus **4.97** on a 1-to-7 scale), an effect that didn't show up in men
- **women also showed stronger implicit associations** between **business and immorality** than did men....

# Agenda



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2. Selected Concepts in Ethics . . . . .	9
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## 6. Conclusion

**Finance**, both academic and applied, is facing a **crisis of trust**, but, and with modesty, **we understand enough** of the fields of finance and ethics **conceptually**, and

Have **concrete analytical frameworks** and tools in terms of principles, leadership and actionability, to

Be able to **restore trust**, and continue to work on **developing our understanding**, so that **finance** can serve and remain the important and integral **part of society** it is

### **Barclays CEO: Employees To Be Paid In Part On Whether They Are Good Citizens**

Reuters | Posted: 09/24/2012 4:34 pm Updated: 09/24/2012 5:32 pm



\* Executives to be measured by "balanced scorecard"

\* Metrics may tie environmental goals to profit targets

\* "Citizenship" already part of scorecard in retail division

By Jed Horowitz

NEW YORK, Sept 24 (Reuters) - Barclays Plc's new chief executive said he will pay employees based in part on whether they are good citizens, as the British bank tries to restore its tarnished reputation.

# Agenda



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- After having held academic engagements in Banking and Finance in the past, Eelco currently holds a lectureship in Finance Ethics for the MSc in Finance-program at the University of Lausanne in Lausanne and is a member of the global exam council of the Chartered Alternative Investment Analyst Association in Amherst, MA. He also serves as a member of PhD- and MSc-graduation committees, is a regular speaker and has also served as a director and board member of various investment organizations
- Eelco completed his PhD in Economic Sciences (Corporate Governance in Banking) with the University of Basel. He holds a postgraduate diploma in Laws (Banking and Finance) from the University of London (UCL), an MSc in Business Administration (Innovation Management) from RSM Erasmus University and a BEng in Mechanical Engineering (Energy Technology) from Rotterdam University. Furthermore, a Lean Sigma Black Belt, Eelco holds the Chartered Financial Analyst (CFA)-, Chartered Alternative Investment Analyst (CAIA)-, Certified Financial Risk Manager (FRM)-, Certified Management Accountant (CMA)- and Certified Project Manager (SCPM)-designations and participated in executive education at a.o. AIF, Chicago Booth, INSEAD, SFI, Stanford and Wharton. Eelco is fluent in English, (Swiss) German and Dutch and has a base in French, Spanish and Mandarin

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