

# ETHICAL DECISION MAKING

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Executive Director  
CFA Society Emirates



**CFA Society  
Emirates**



**CFA Institute**

**LET'S PUT ETHICS  
AT THE HEART OF  
EVERYTHING WE DO.  
LET'S MEASURE UP.**



**CFA Society  
Emirates**  
LET'S MEASURE UP™

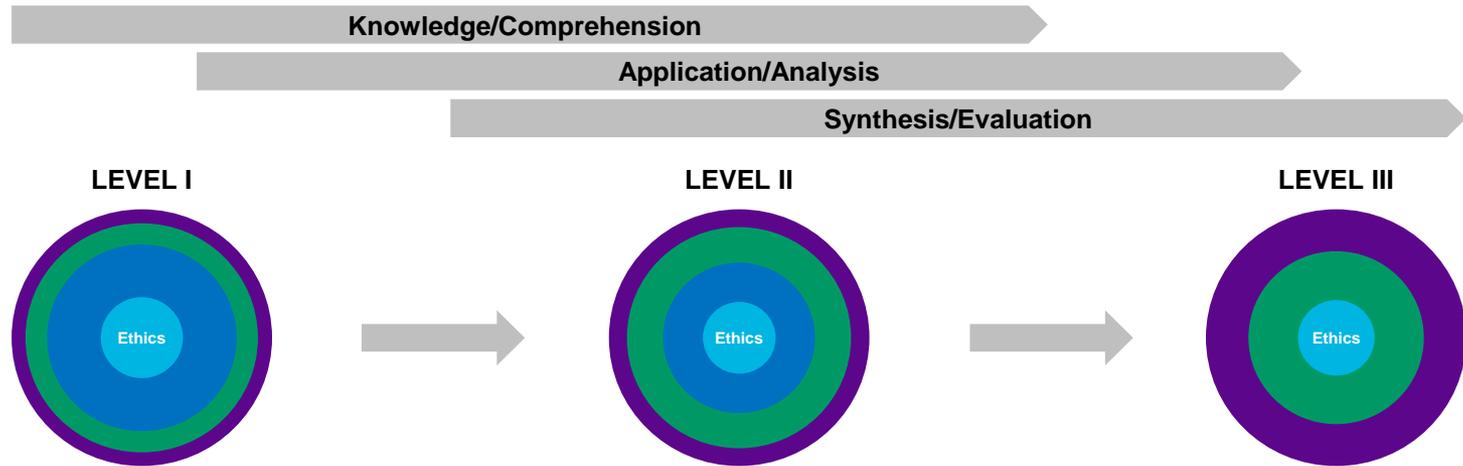


# CFA INSTITUTE CREDENTIALING PROGRAMS

<b>CFA® Program</b> Investment decision-making and strategy	<b>CIPM® Program</b> Investment performance and risk evaluation	<b>Investment Foundations™ Program</b> Industry essentials
<ul style="list-style-type: none"><li> Portfolio and wealth management</li><li> Institutional investing</li><li> Investment analysis</li></ul>	<ul style="list-style-type: none"><li> Risk management</li><li> Financial planning</li><li> Manager search and selection</li><li> Investment analysis</li><li> Client relations</li></ul>	<ul style="list-style-type: none"><li> Ethics</li><li> Investment roles</li><li> A clear understanding of the global investment industry</li></ul>
Three exams   Four years of professional experience	Two exams   Two years of professional experience	One exam   No experience required

See program details at [www.cfainstitute.org/programs](http://www.cfainstitute.org/programs)

# THE THREE LEVELS OF THE CFA EXAM



## 1. Ethics & Professional Standards

Investment Tools	Asset Classes	Portfolio Management & Wealth Planning
<ul style="list-style-type: none"> <li>2. Quantitative Methods</li> <li>3. Economics</li> <li>4. Financial Reporting &amp; Analysis</li> <li>5. Corporate Finance</li> </ul>	<ul style="list-style-type: none"> <li>6. Equity Investments</li> <li>7. Fixed Income</li> <li>8. Derivatives</li> <li>9. Alternative Investments</li> </ul>	<ul style="list-style-type: none"> <li>10. Portfolio Management</li> </ul>

# THE KEYS TO CFA PROGRAM SUCCESS



Average completion time is four years, with most candidates taking between two and five years



Successful candidates report dedicating more than 300 hours of study per level



The CFA program curriculum is the only source material for exam writers

## AVAILABLE STUDY TOOLS

- Curriculum eBook
- Interactive study planner
- Topic tests and mock exams
- Mobile study app

All three levels offered in June; Level I also offered in December

# 2018 CFA LEVEL I

Topic	Topic	Weight	Exam Qs	Study Sessions	Readings	LOS	% LOS	Reading Numbers
1	Ethical & Professional Standards	15.00%	36	1	5	19	3.60%	1,2,3,4,5
2	Quantitative Methods	11.67%	28	2,3	8	88	16.67%	6,7,8,9,10,11,12,13
3	Economics	10.00%	24	4,5	7	78	14.77%	14,15,16,17,18,19,20
4	Financial Reporting & Analysis	20.00%	48	6,7,8,9	13	123	23.30%	21,22,23,24,25,26,27,28,29,30,31,32,33
5	Corporate Finance	7.08%	17	10,11	5	41	7.77%	34,35,36,37,38
6	Portfolio Management	7.08%	17	12	5	36	6.82%	39,40,41,42,43
7	Equity Investments	10.00%	24	13,14	6	60	11.36%	44,45,46,47,48,49
8	Fixed Income Investments	10.00%	24	15,16	6	56	10.61%	50,51,52,53,54,55
9	Derivatives	5.00%	12	17	2	20	3.79%	56,57
10	Alternative Investments	4.17%	10	18	1	7	1.33%	58
		<b>100.00%</b>	<b>240</b>		<b>58</b>	<b>528</b>	100.00%	

# THE VALUE OF THE CHARTER

## CFA Program Benefits



### **GOLD STANDARD**

CFA equips you not only to enter the profession but also to excel



### **UNMATCHED EXPERTISE**

Our rigorous curriculum will equip you for complex investment decisions



### **STRONG ETHICAL FOUNDATION**

Gain confidence and clarity in navigating ethical issues



### **PRESTIGIOUS NETWORK**

Connect with an exclusive group of outstanding investment professionals



### **GLOBAL PASSPORT**

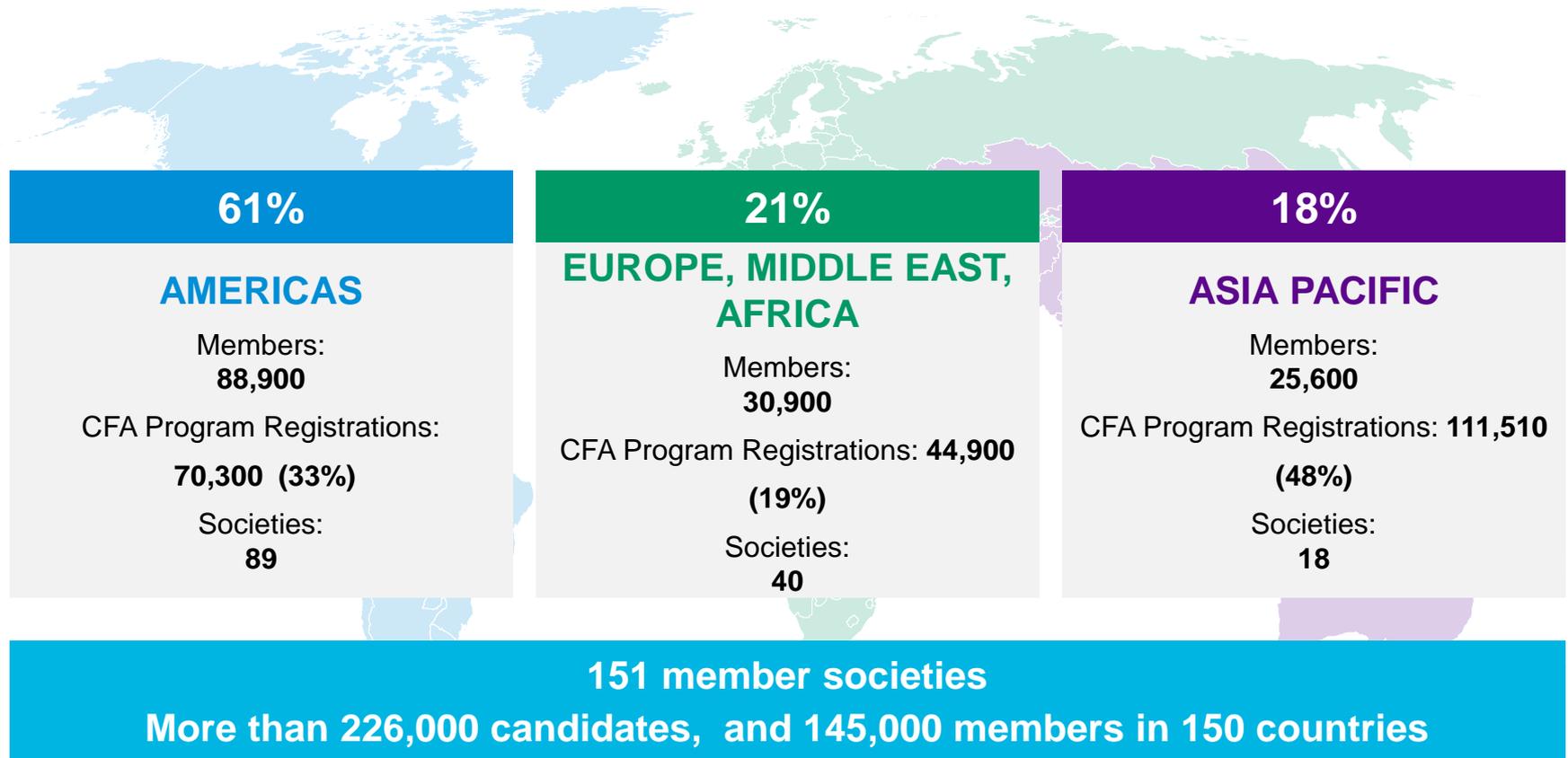
Earn waivers from regulatory agencies, graduate programs, and more



### **CAREER RESOURCES**

Gain access to career guides, thought leadership, and continuing education

# MEMBERSHIP, CANDIDATES AND SOCIETIES



As of 1 February 2017

# CFA SOCIETY EMIRATES



**CFA Society  
Emirates**

- Total Members: 750+
- 7<sup>th</sup> largest Society in EMEA
- 5<sup>th</sup> largest for candidates
- Passed Level III June 2017:  
174
- Average Age: 37.3
- Average Years in the Industry:  
12.72
- Average Years with the  
Charter: 5.2
- Male: 86%, Female 14%

## Top 10 Employers

1. Abu Dhabi Investment Authority
2. Abu Dhabi Commercial Bank
3. Emirates NBD Group
4. First Abu Dhabi Bank
5. Standard Chartered
6. HSBC
7. Abu Dhabi Investment Company
8. PwC
9. Abu Dhabi Investment Council
10. Mashreqbank plc

<https://cfaemirates.com/>

*As of 1 February 2017*



**Become a  
CFA<sup>®</sup>  
Charterholder**

CFA Institute Research  
Challenge

CFA Society Emirates Ethics  
Challenge

University Outreach

University Affiliation  
Program



- 2018 Joined University Affiliation Program
- Ethics Challenge in fall of 2018!
- Need to join CFA Institute Research Challenge!

جامعة زايد  
ZAYED UNIVERSITY

# MISSION STATEMENT:



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

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

Aldo Leopold

# ETHICS REQUIRES:

**Education**

**Thinking** about:

**Honesty**

**Integrity**

**Charity**

**Steewardship**

# 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**

# TO CONNECT:

Go to: [www.responseware.com](http://www.responseware.com)

Login: **CFAI**

# 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. Two weeks before she is scheduled to leave, she places a stack of files on your desk and asks you to copy them because she will use them in her job search. The files contain research reports that she wrote, marketing presentations containing her performance record, and spreadsheet models that she created. What do you do?

- A. Copy the files.**
- B. Refuse to copy the files.**
- C. Only copy the research reports that she wrote.**
- D. Only copy the spreadsheets 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.**

# 4 FACTORS LEADING TO UNETHICAL BEHAVIOR

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

# The Gift

You are 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 that 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:

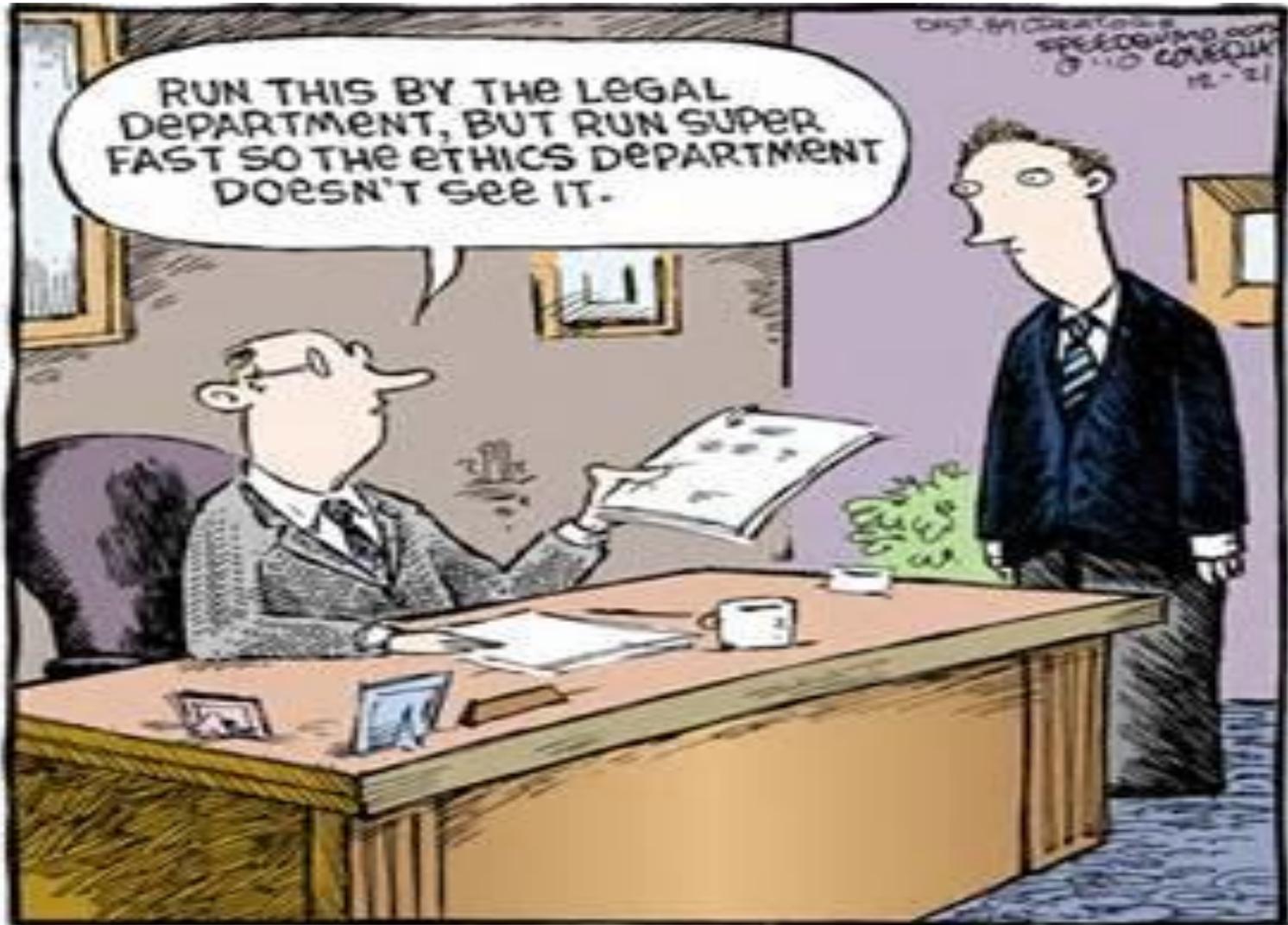
- A. Ok, because refusal in this instance would jeopardize an investment opportunity for your clients.**
- B. Probably ok, if you give the gift to charity.**
- C. Probably not ok, unless you tell your supervisor that you accepted the gift.**
- D. Not ok.**



# THE 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



# COMPLIANCE VERSUS ETHICS

Compliance: ensures that employees conform to a set of required behaviors.



You must

Ethics: encourages employees to behave in way that is consistent with the organization's values and mission.



You should

# Pambext Systems

You are a securities analyst at a hedge fund. One day you have lunch with a friend, who is the executive assistant to the President of Micro Technology. During lunch your friend tells you, that she has been working late because her boss has been meeting with the President of Pambext Systems. After returning to your office, you learn that Pambext is rumored to be a takeover target, so you purchase shares of the company for your personal portfolio. Later in the day, you tell your boss about the conversation that you had with your friend. Your boss observes that there has been heavy buying of Pambext shares recently, so he purchases shares of Pambext for the hedge fund. Should you or your boss have purchased shares in Pambext?

- A. You and your boss were free to purchase shares.**
- B. Only you should have purchased shares.**
- C. Only your boss should have purchased shares.**
- D. Neither you nor your boss should have purchased shares.**



# 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 & prudent judgment

## STANDARDS OF PRACTICE HANDBOOK

**2014**  
ELEVENTH EDITION

Free PDF:

<https://cfaemirates.com/cfa-society-emirates-ethics-challenge/>

<https://cfaemirates.com/wp-content/uploads/2018/02/CFASStandardsandPHandbook.pdf>

# UNETHICAL PEOPLE VS. UNETHICAL ACTIONS

**“The unethical actions of infamous wrongdoers who have recently populated the crime sections of the financial papers do not prove they are evil people. Instead they illustrate that the circumstances in which we find ourselves often (not always) have more to do with the decisions we make and actions we take than do our basic character traits.”**

Robert A. Prentice, Ed & Molly Smith Centennial Professor of Business Law, McCombs School of Business, University of Texas, Austin

## **RATIONALIZATIONS:**

- **Allow us to avoid or reduce the negative affect that accompanies performing an unethical act.**
- **Are used to justify behavior that is inconsistent with our own opinions of ourselves.**
- **Can change our perception of a situation or social environment to defend/excuse our behavior.**

# RATIONALIZING UNETHICAL BEHAVIOR

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

# RESOLVING ETHICAL DILEMMAS

- 1. Acknowledge that there is an ethical issue.**
- 2. Determine who is faced with and owns the problem.**
- 3. Gather the relevant data.**
- 4. Test the wrong vs. right parameters.**
- 5. Test for right vs. right paradigm.**
- 6. Apply the resolution principles.**
- 7. Investigate 3rd way options – compromise.**
- 8. Make a decision.**
- 9. Reflect on what you learn from the decision.**

# THE CFA INSTITUTE ETHICAL DECISION- MAKING FRAMEWORK

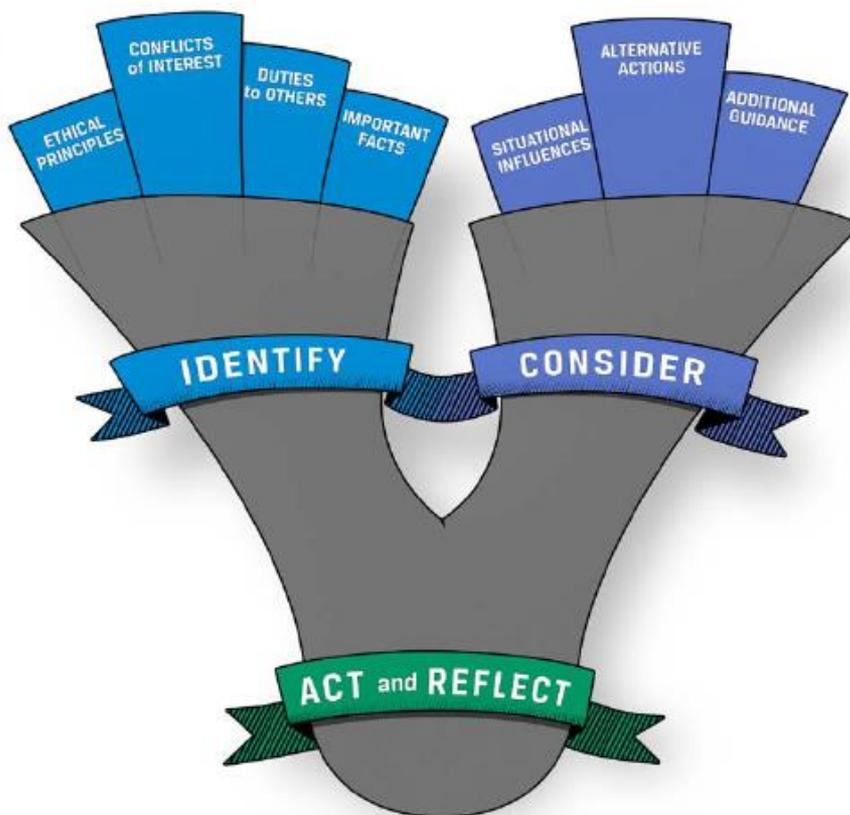
The CFA Institute Ethical Decision-Making Framework is a tool for analyzing and evaluating ethical scenarios in the investment profession. The Identify–Consider–Act–Reflect framework advances a decision-making structure for situations that often fall outside the clear confines of “right” and “wrong.” Neither a linear model nor checklist, the framework provides a summary of the key elements of making ethical decisions. The framework is offered with the understanding that there likely will be additional influences, conflicts, and actions unique to each ethical scenario and beyond those detailed below.

## IDENTIFY

- **ETHICAL PRINCIPLES:** Which fundamental investment profession principles—fair dealing, full disclosure, loyalty, or diligence (among others)—are at issue?
- **DUTIES TO OTHERS:** To whom do you owe a duty—your client(s), employer, colleagues, and/or others? Some duties, such as protecting the integrity of the capital markets, may be more important than others.
- **IMPORTANT FACTS:** What facts do you know and what additional information do you need to make an informed decision?
- **CONFLICTS OF INTEREST:** Are there any encumbrances, relationships, or incentives influencing your actions?

## ACT

- **BY MAKING A DECISION:** The specific action required may vary based on the individual aspects of the situation. Your decision may require multiple actions or steps, or none at all.
- **BY ELEVATING THE ISSUE TO A HIGHER AUTHORITY:** Alternatively, the best course of action may be to elevate your concerns to a more appropriate party. You may remain connected to the scenario, so you may need to follow up with the other individual to ensure appropriate action is taken.



## CONSIDER

- **SITUATIONAL INFLUENCES:** Are outside pressures (such as conformity to group opinion, obedience to authority) or internal biases (such as overconfidence) affecting your decision making?
- **ALTERNATIVE ACTIONS:** Have you brainstormed multiple solutions and avoided a particular preconceived path?
- **ADDITIONAL GUIDANCE:** Have you sought the independent, objective assessment of other parties to gain additional perspective?

## REFLECT

- **ON WHAT YOU'VE LEARNED:** Once you have taken action, take the time to review the path taken. The lessons you learn will help you reach ethical decisions more quickly in the future.
- **ON STRENGTHS AND WEAKNESSES:** Regardless of whether your decisions and actions bring about positive or negative consequences, understanding your strengths and weaknesses will help you make ethical decisions in the future.

# FINAL COMMENTS

- **It is important to actively keep ethics in our frame of reference so that we don't fall prey to the psychological tendencies which affect ethical awareness and decision making.**
- **Every day, those of us who desire to act ethically must remind ourselves of our ethical aspirations and of the need to constantly keep our "ethical antennae" extended.**

# THANK YOU!

