



CFA Institute

Creating an Ethical Culture in an Investment Firm & Ethics Case Studies

Jon Stokes

Director

Professional Standards

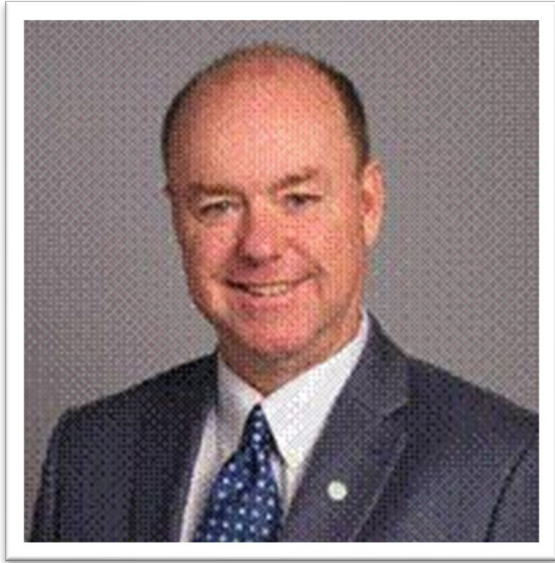
CFA Institute

Andrew Crain

Director

Professional Standards

CFA Institute

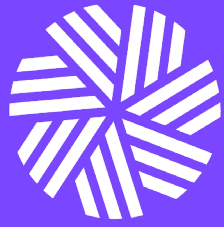


Jon Stokes is Director of Professional Standards at CFA Institute, overseeing the development and interpretation of its ethics codes and standards. He designs and delivers ethics education programs, leads ethics training for investment professionals, and contributes to the CFA Program curriculum.



Andrew Crain is Director of Professional Standards at CFA Institute. Based in London, he leads the development, interpretation and promotion of codes and standards across EMEA and APAC. Andrew brings over 30 years of global experience across financial markets, compliance, and regulatory leadership. He holds a Masters in Applied Finance.





CFA Institute
**Research &
Policy Center**

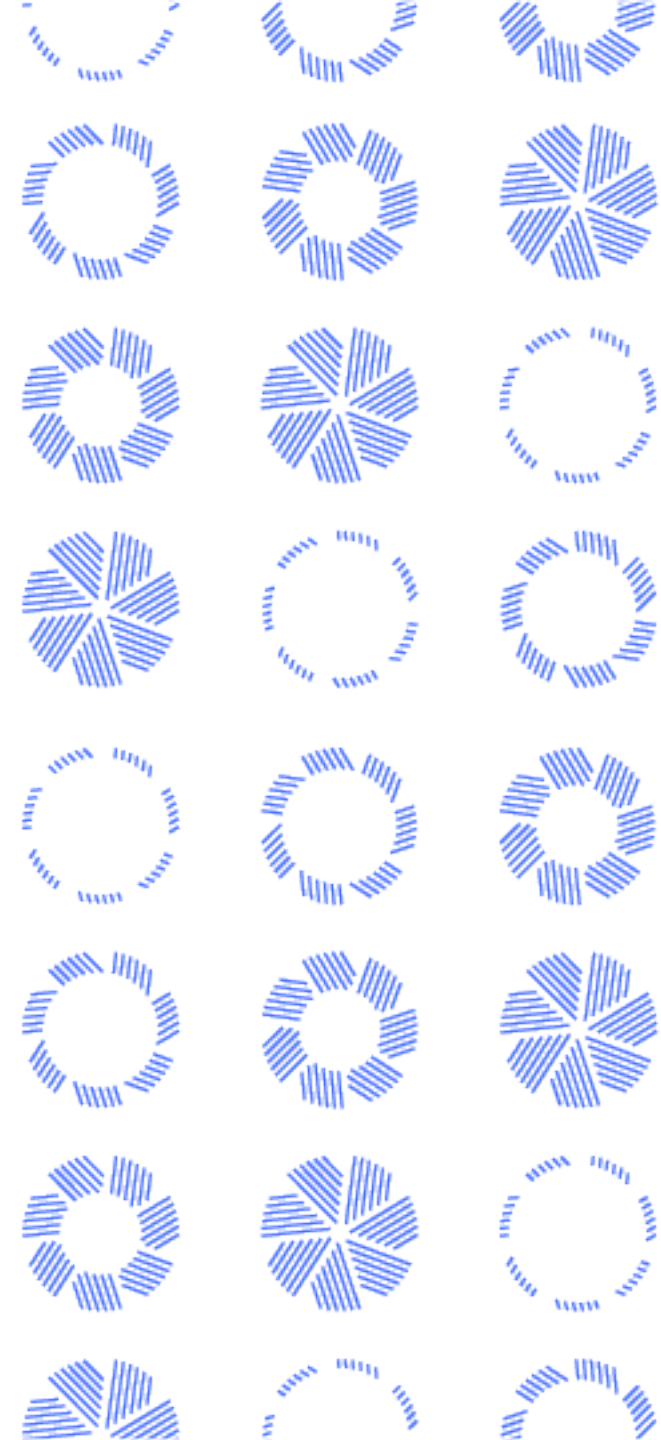
Policy, Advocacy,
and Standards on:

Capital Markets: Strengthening the Structural Resilience
of global capital markets

Industry Future: Providing New Insights into the Future
of the Profession

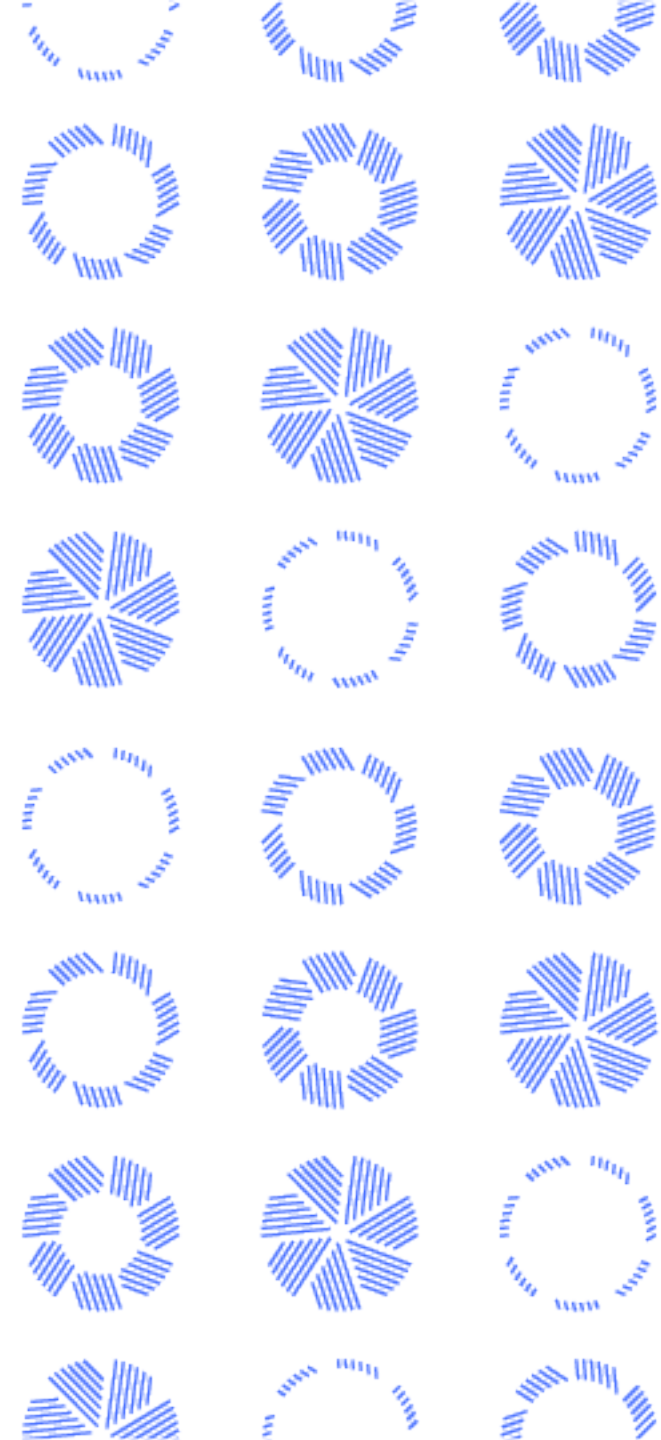
Sustainability: Advancing the Industry's Thinking on
Sustainability Challenges

Investors First: Setting the standards for ethics and
professionalism



Agenda

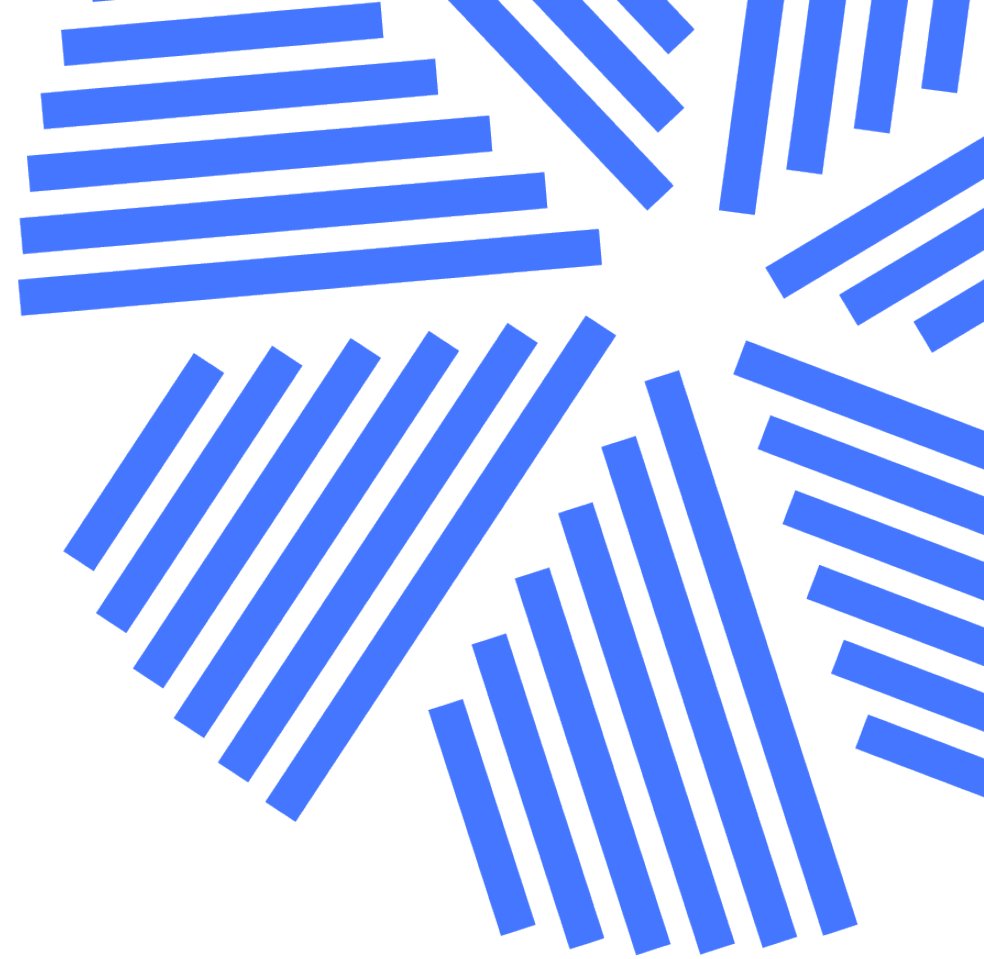
- › Building a Culture of Ethics
- › Encouraging Ethical Conduct
- › Implementing an Ethical-Decision Making Framework
- › Case Exercises



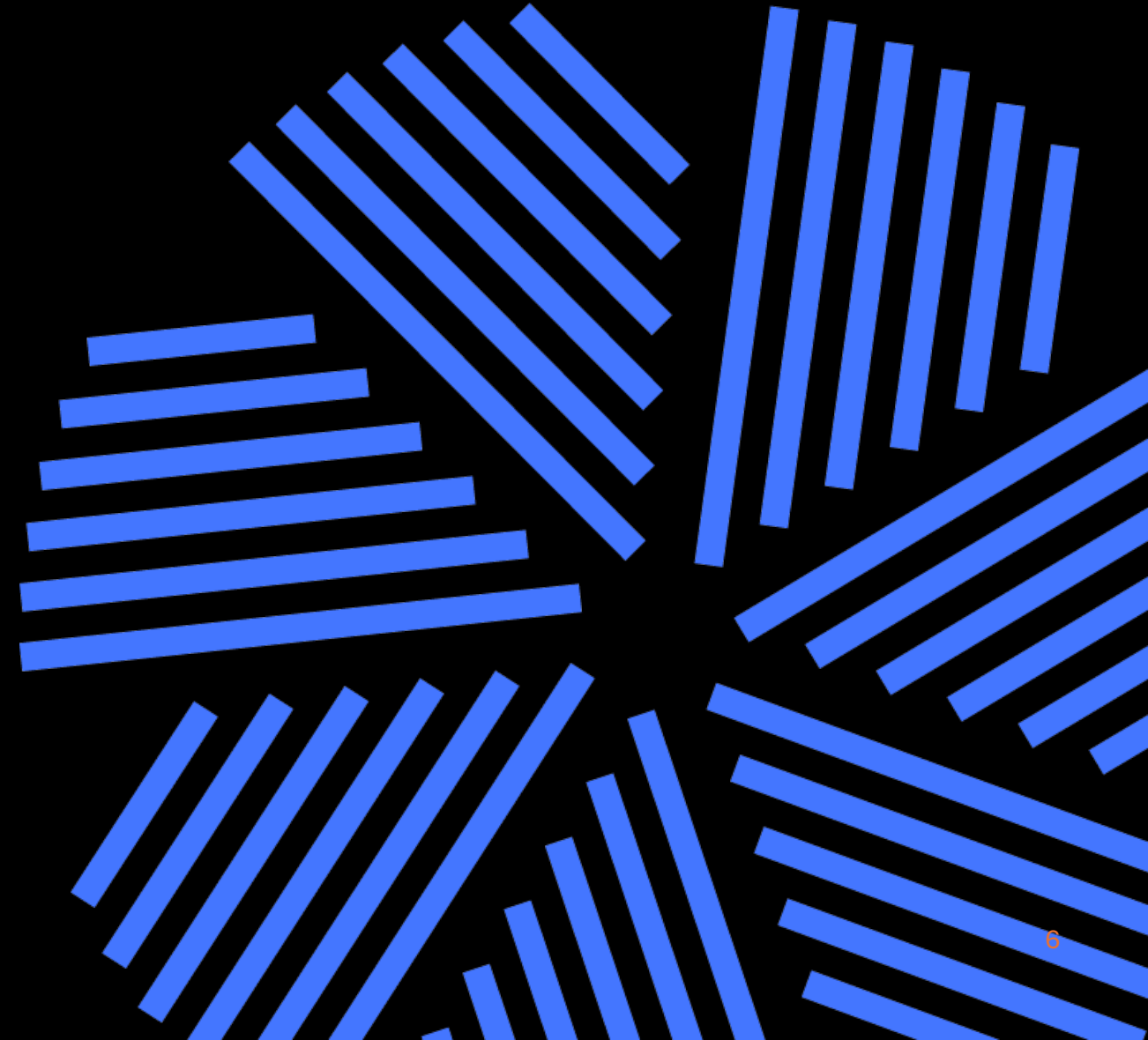
“Culture is irrelevant. Clients just care about returns.”

“You can’t teach ethics, You are an ethical person or you’re not”

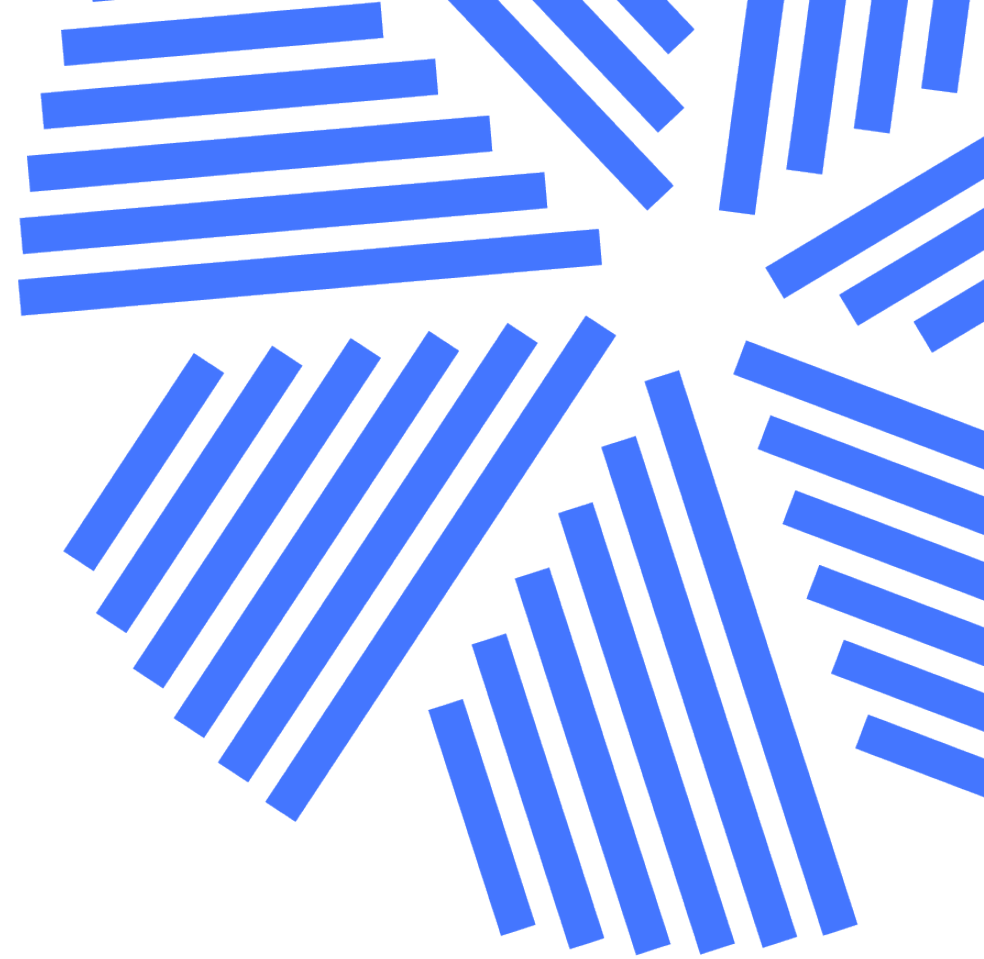
“I’m an ethical person, I don’t need training.”



Establishing an Ethical Culture

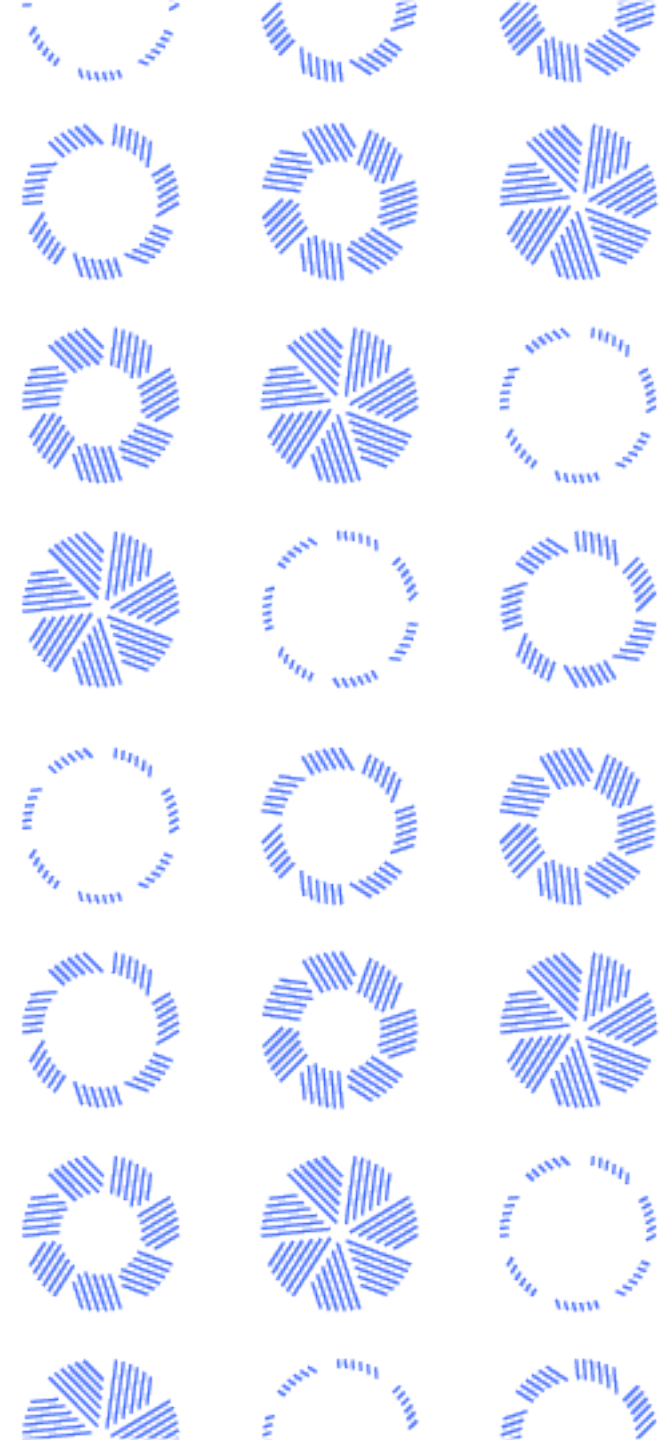


“Why is it important
to establish an
ethical culture at an
investment firm?”



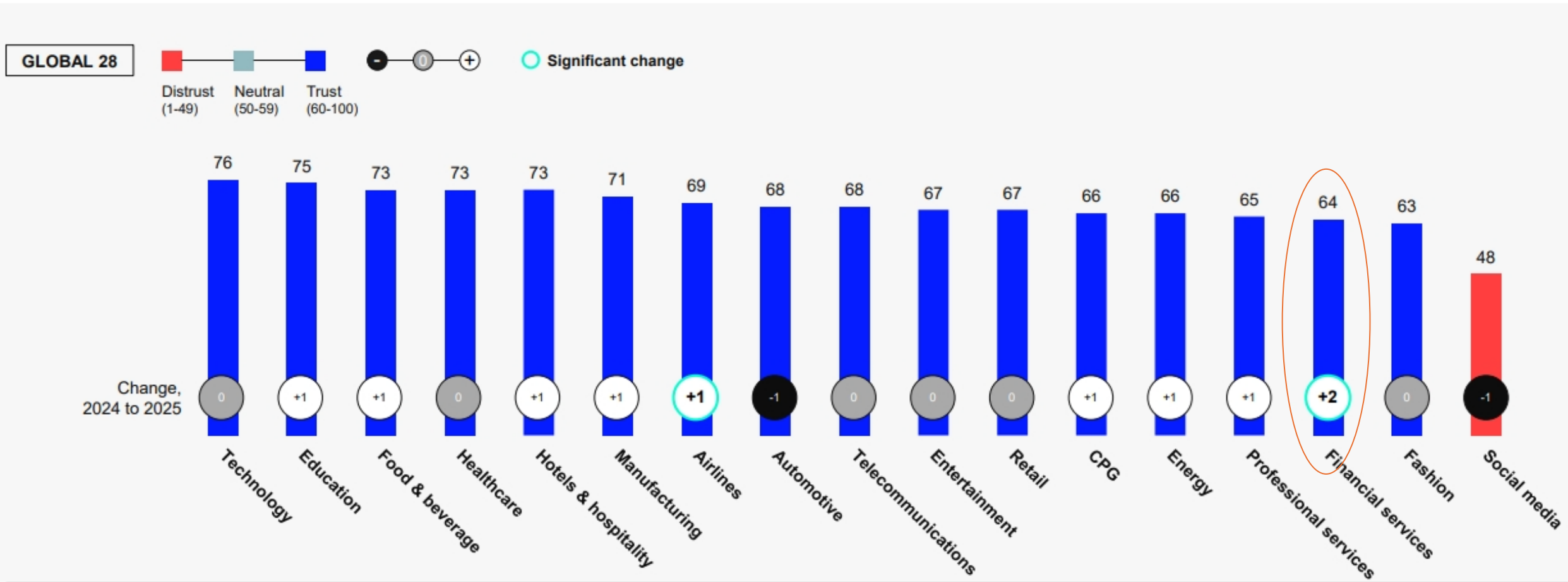
Outcomes of Ethical Culture

- › Trust and Reputation
- › Risk Management
- › Regulatory Compliance
- › Employee Morale and Behavior
- › Long-Term Value Creation



Most Industry Sectors Remain Trusted

Percent trust



2025 Edelman Trust Barometer. TRU_IND. Please indicate how much you trust businesses in each of the following industries to do what is right. 9-point scale; top 4 box, trust. Question asked of half the sample. General population, 28-mkt avg. Year-over-year changes were tested for significance using a t-test set at the 99%+ confidence level.



Investors rank the attribute “trusted to act in my best interest” as most important when making a decision to hire an investment manager

FIGURE 3: Investors were asked to indicate which attribute is most important when making a decision to hire an investment manager

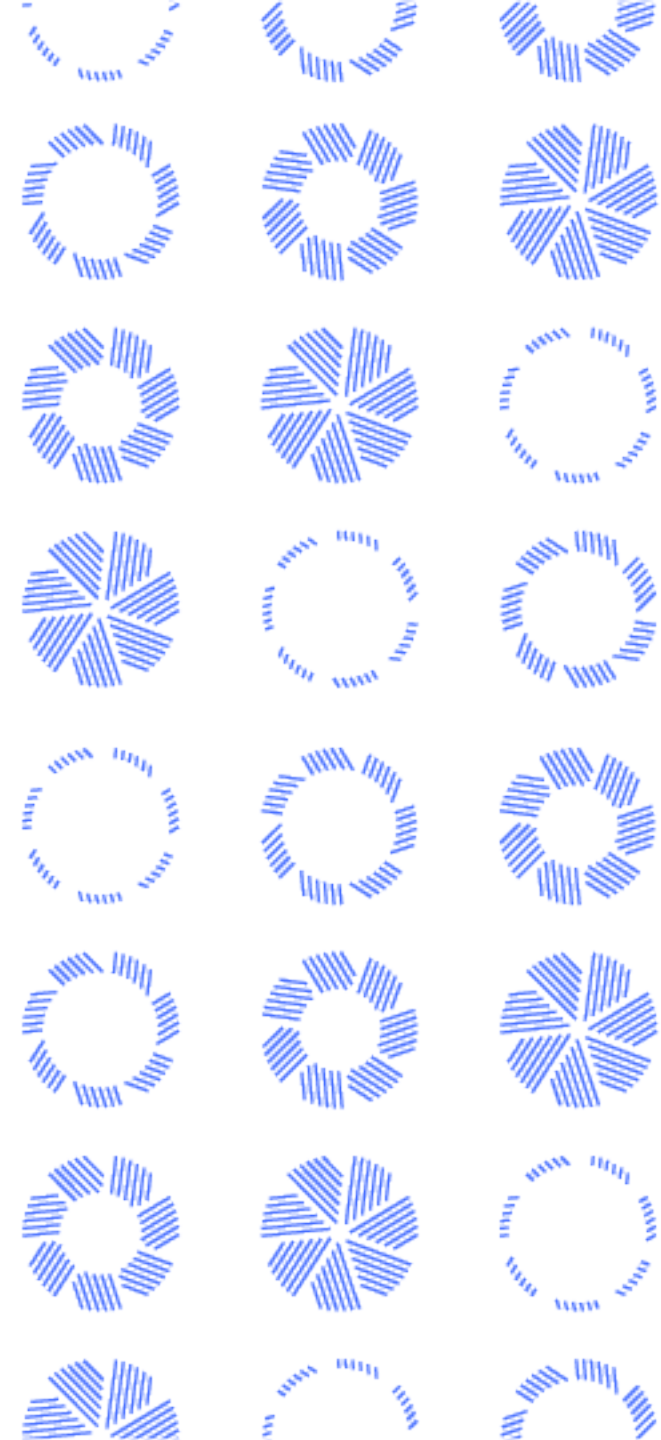


Question: Investors were asked to indicate which attribute in the above is most important when making a decision to hire an asset or investment manager.

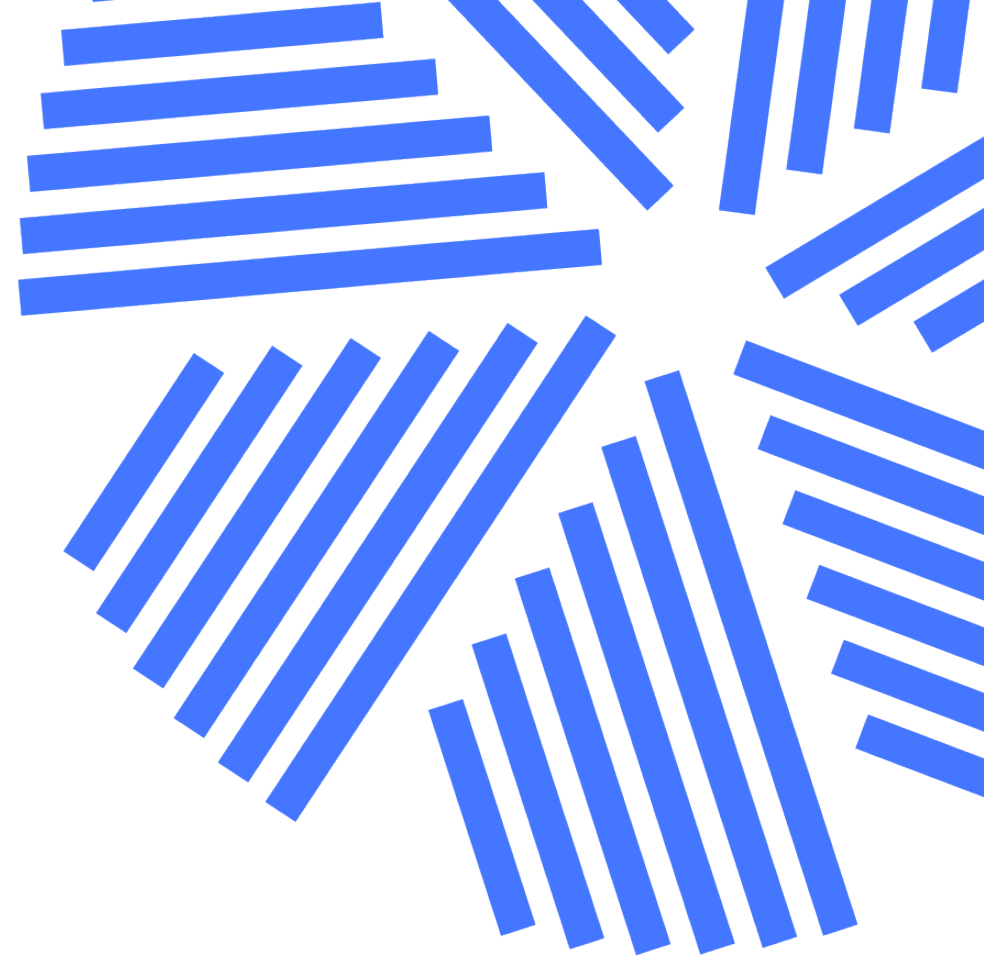


Importance of Ethical Culture

- › Functioning capital markets depend on trust
- › Trust is earned through ethical conduct
- › Clients demand ethical conduct from managers – not just good performance
- › Ethics are fundamental to market integrity

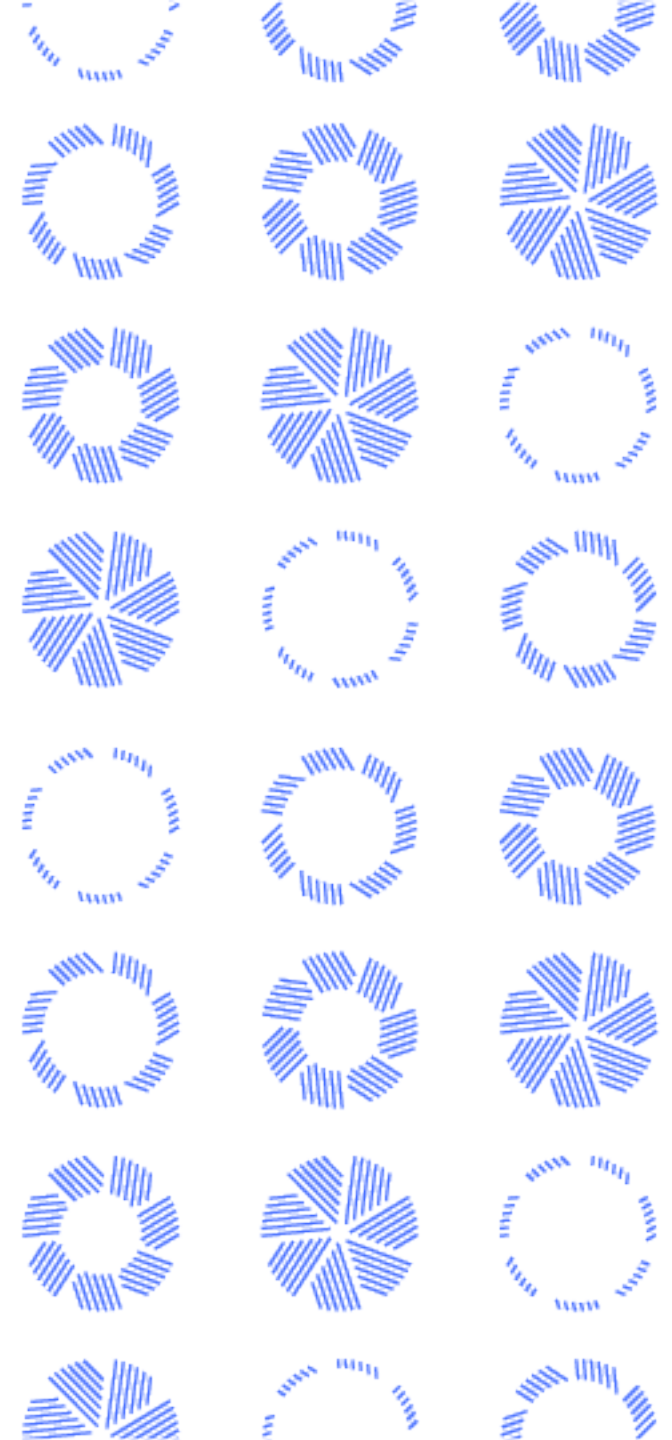


“How do you build an
ethical culture at an
investment firm?”



Setting an Ethical Culture

- › Leadership Commitment
- › Incentives Aligned with Ethics
- › Hiring, Compensation, Promotion practices
- › Clear and Open Communication/Reporting Channels
- › **Code of Ethics**
- › **Education and Training**
- › Oversight and Monitoring
- › Respond to Misconduct



CFA Institute

Code of Ethics and Standards of Professional Conduct

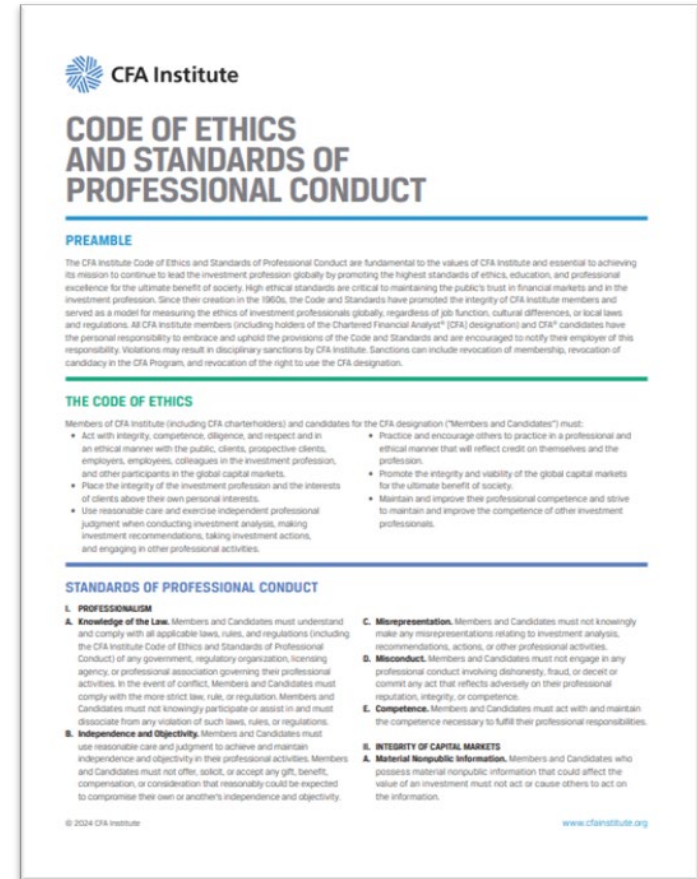
Updated Effective 2024

1 new standard, 2 revised standards

- Competence
- Communication
- Conflicts

New Guidance/Handbook

Glossary



CFA Institute

Asset Manager Code of Professional Conduct (AMC)

- › Principle-based, Investor-focused
- › Global
- › Developed by investment professionals
- › Based on the CFA Institute Code & Standards for individuals

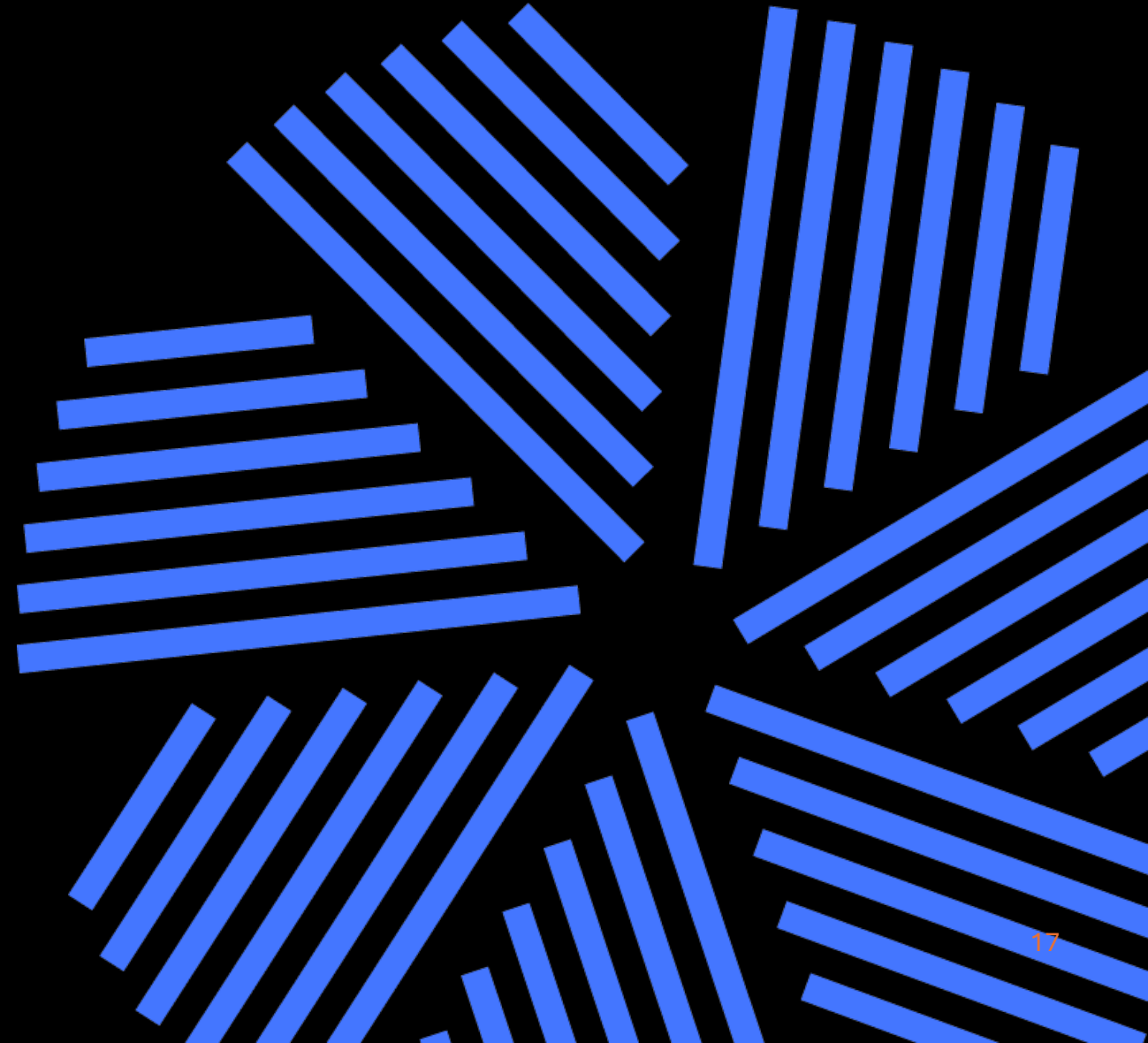


Compliance with the AMC

- › Enhances investor trust
- › Improves client and stakeholder relationships
- › Signals a commitment to professional excellence and a culture of integrity
- › Distinguishes those committed to the highest standards
- › Establishes sound governance and corporate responsibility leading to better outcomes
- › Attracts investment professionals who want to work for organizations that share their values of skill, competence, and diligence
- › Sets the right expectations
- › Allows firms to retain talent
- › Demonstrates to regulators that a firm is fulfilling its responsibilities

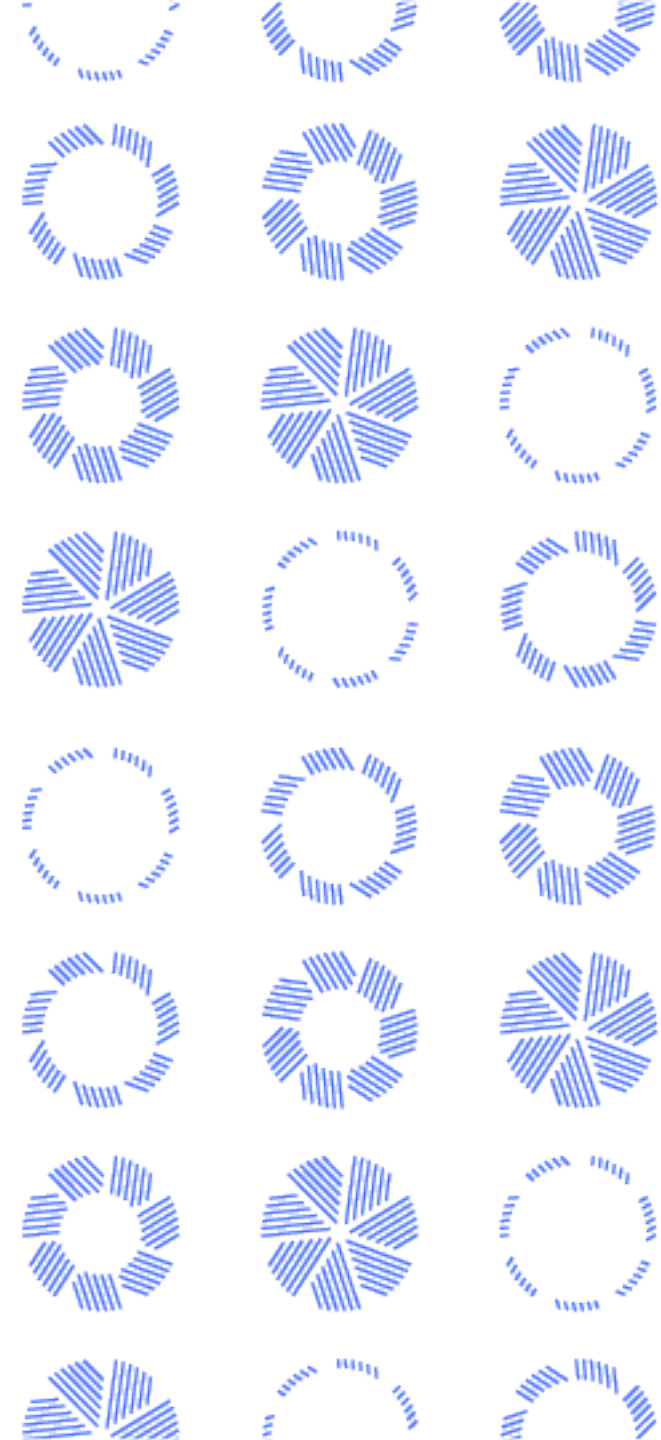


Encouraging Ethical Conduct



Rationalizations

Strategy	Rationalization
Deny Responsibility	“What can I do? I have no choice”
Deny Injury	“No one was really hurt.”
Deny Victim	“They deserved it.”
Social Weighting	“They have no right to criticize us. They are worse than we are.”
The Ledger	“I’m entitled to do this because of all the good things I’ve done.”

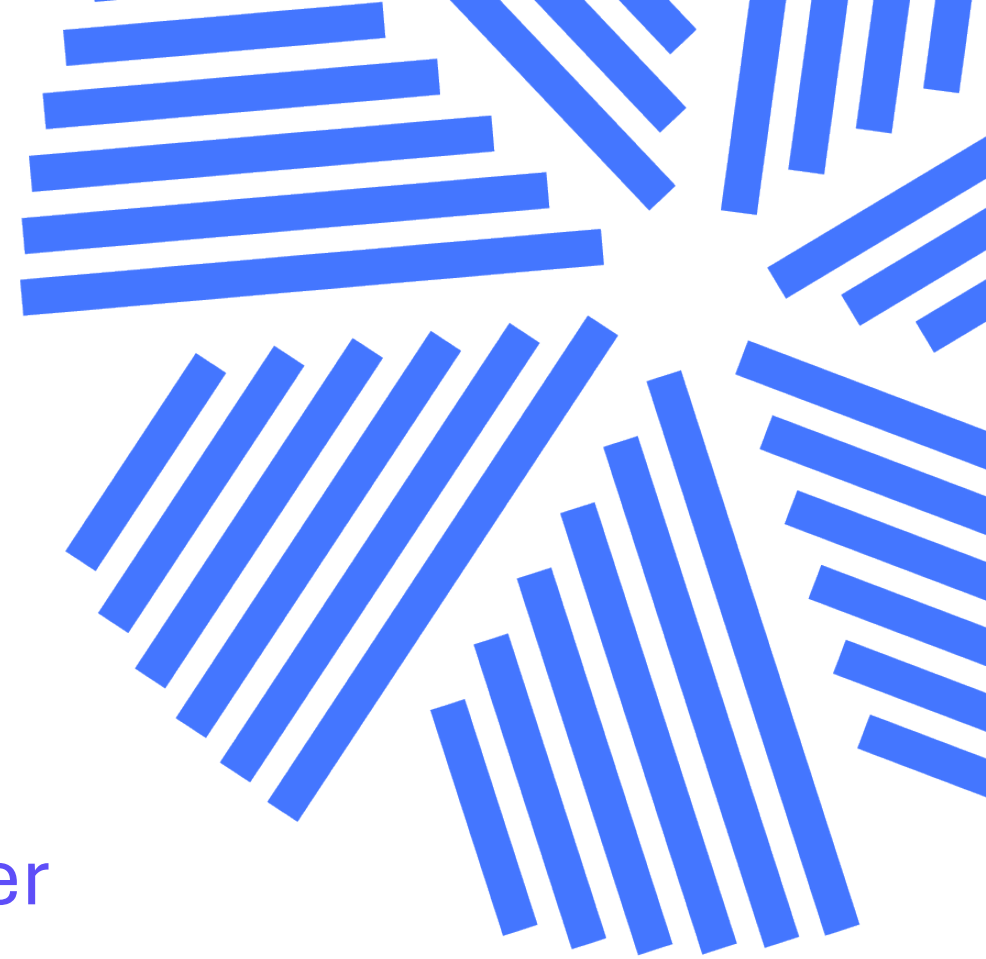


What has more influence on whether a person will engage in unethical conduct?

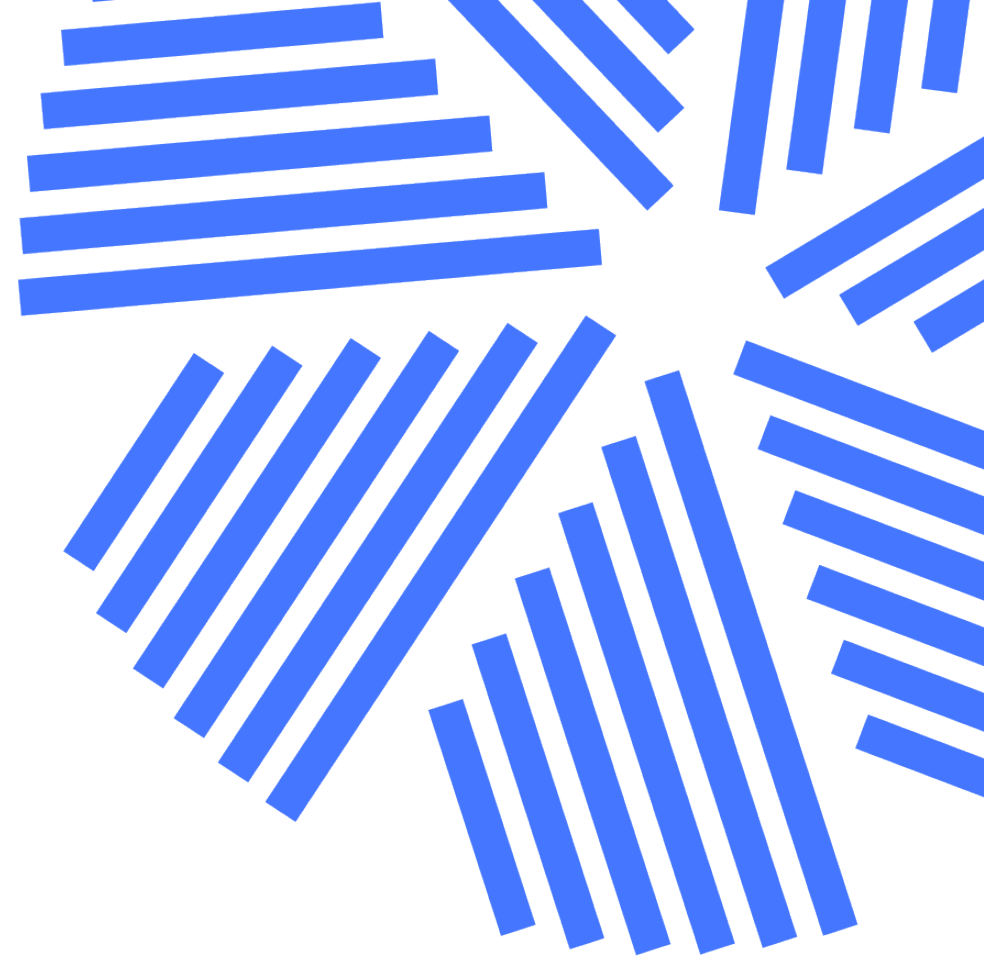
Disposition ~ A person's moral character

OR

Situation ~ Outside circumstances

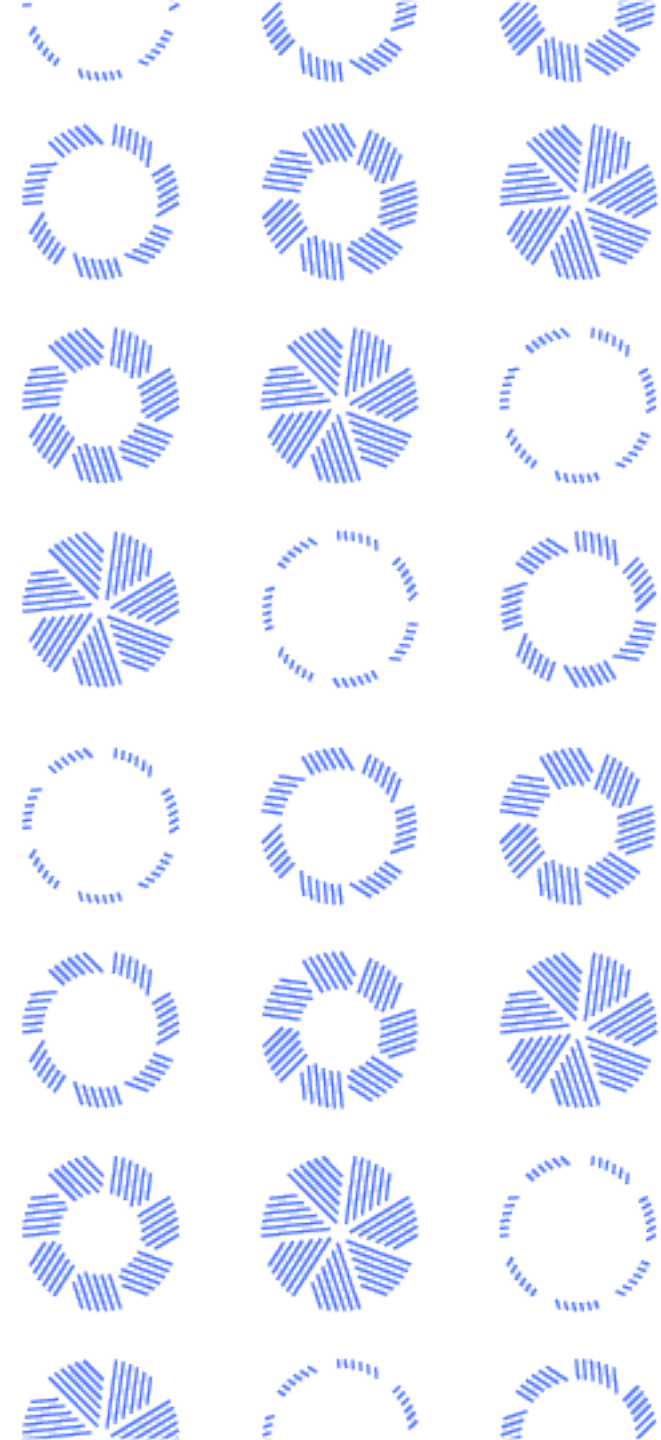


What are some
Situational Influences
that can influence a person to engage
in unethical behavior ?

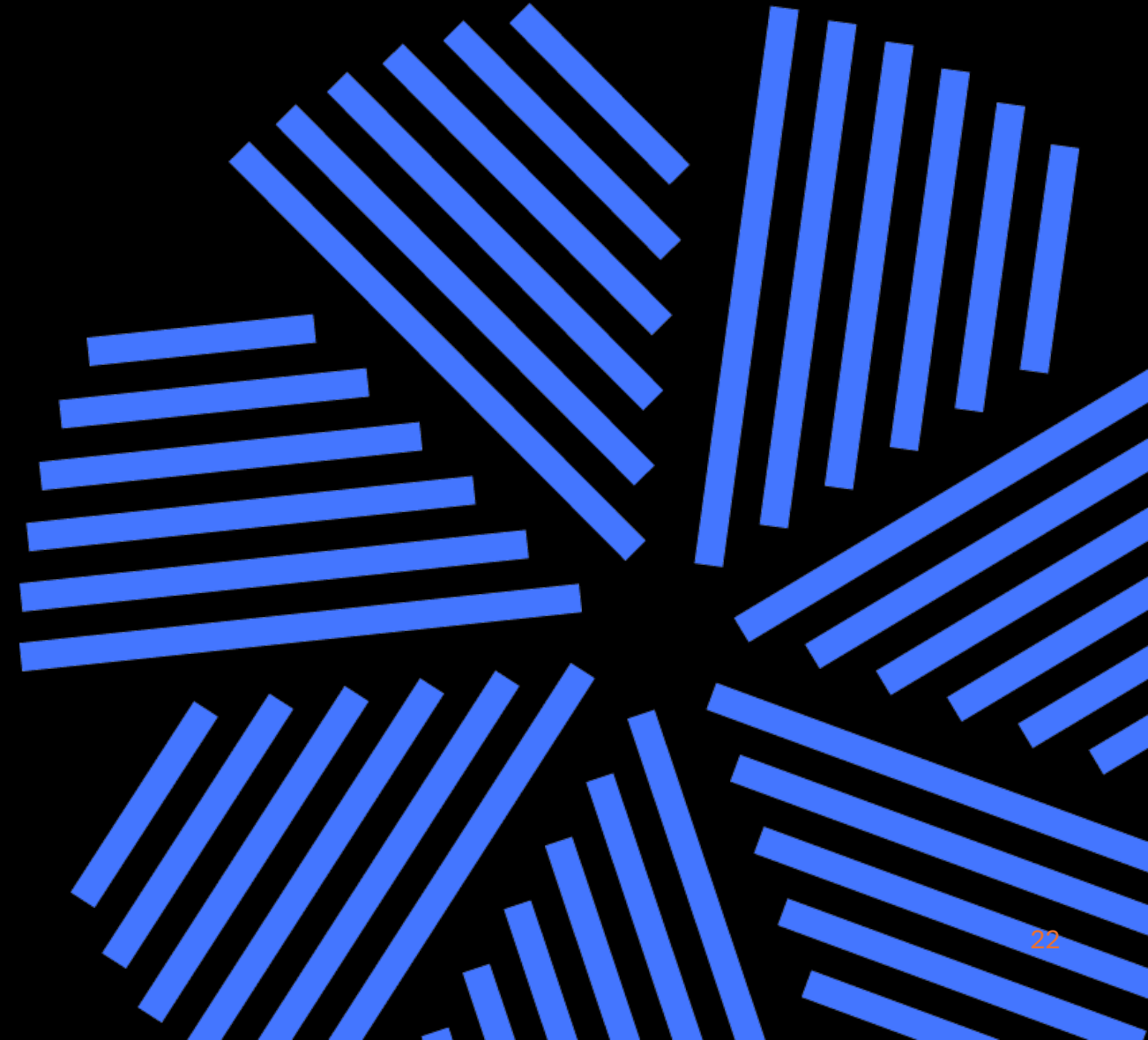


Situational Influences

- › Obedience to authority
- › Conformity with others
- › Following group decisions
- › “Incrementalism”
- › Overconfidence
- › Responding to incentives



Developing an Ethical Decision-Making Framework



IDENTIFY

- **ETHICAL PRINCIPLES:** Which fundamental investment profession principles are at issue?
- **DUTIES TO OTHERS:** To whom do you owe a duty?
- **IMPORTANT FACTS:** What facts or additional information do you need to make an informed decision?
- **CONFLICTS OF INTEREST:** Are there any incentives or relationships influencing your actions?



CONSIDER

- **SITUATIONAL INFLUENCES:** Are outside pressures or internal biases affecting your decision making?
- **ALTERNATIVE ACTIONS:** Have you brainstormed multiple solutions and avoided a particular preconceived path?
- **ADDITIONAL GUIDANCE:** Have you sought the objective assessment of other parties to gain additional perspective?



THE CFA INSTITUTE ETHICAL DECISION- MAKING FRAMEWORK

IDENTIFY

CONSIDER

REFLECT

ACT

This framework provides a lens for situations where the answer is not simply 'right' or 'wrong'. Neither a linear model nor checklist, it presents four key elements of ethical decision-making.

REFLECT

- **ON WHAT YOU'VE LEARNED:** Once you have taken action, take the time to review the path taken. The lessons learnt will make future ethical decision-making quicker.
- **ON STRENGTHS AND WEAKNESSES:** Regardless of positive or negative consequences, understand strengths and weaknesses for better future decisions.



ACT

- **BY MAKING A DECISION:** The specific action varies depending on the situation. Some decisions may require multiple actions or none at all.
- **BY ELEVATING THE ISSUE TO A HIGHER AUTHORITY:** The best course of action may be to elevate your concerns to a more appropriate party.



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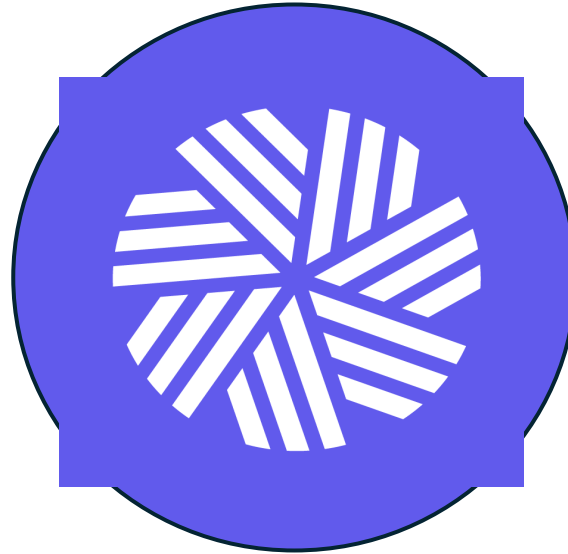
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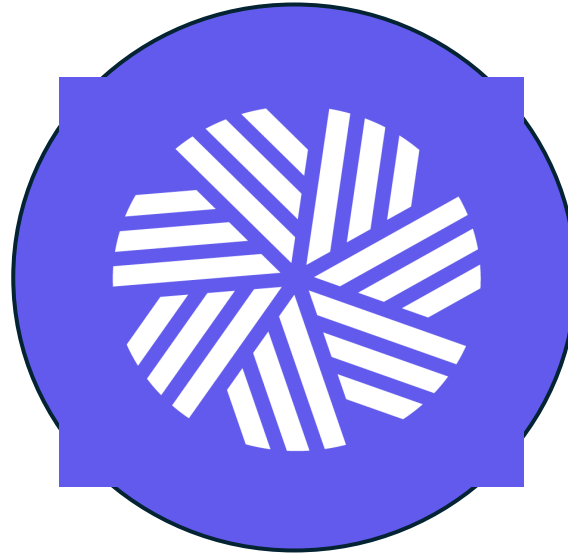
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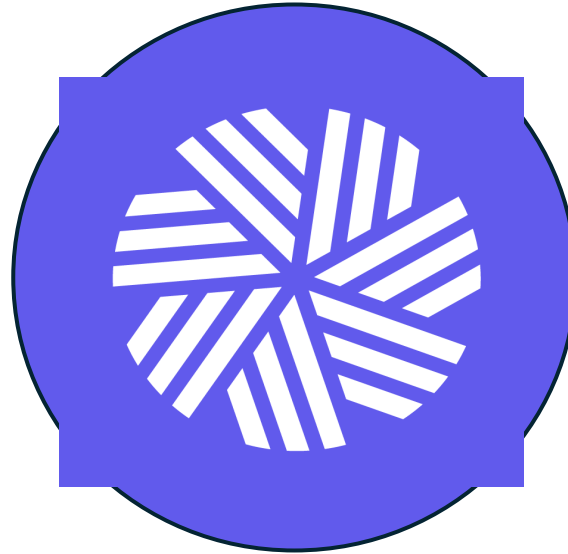
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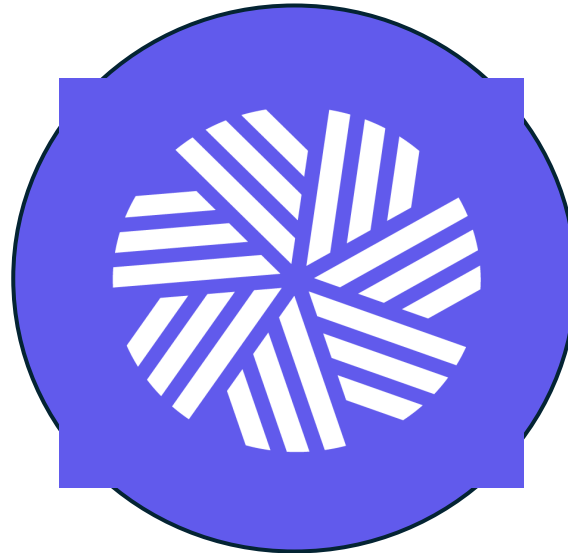
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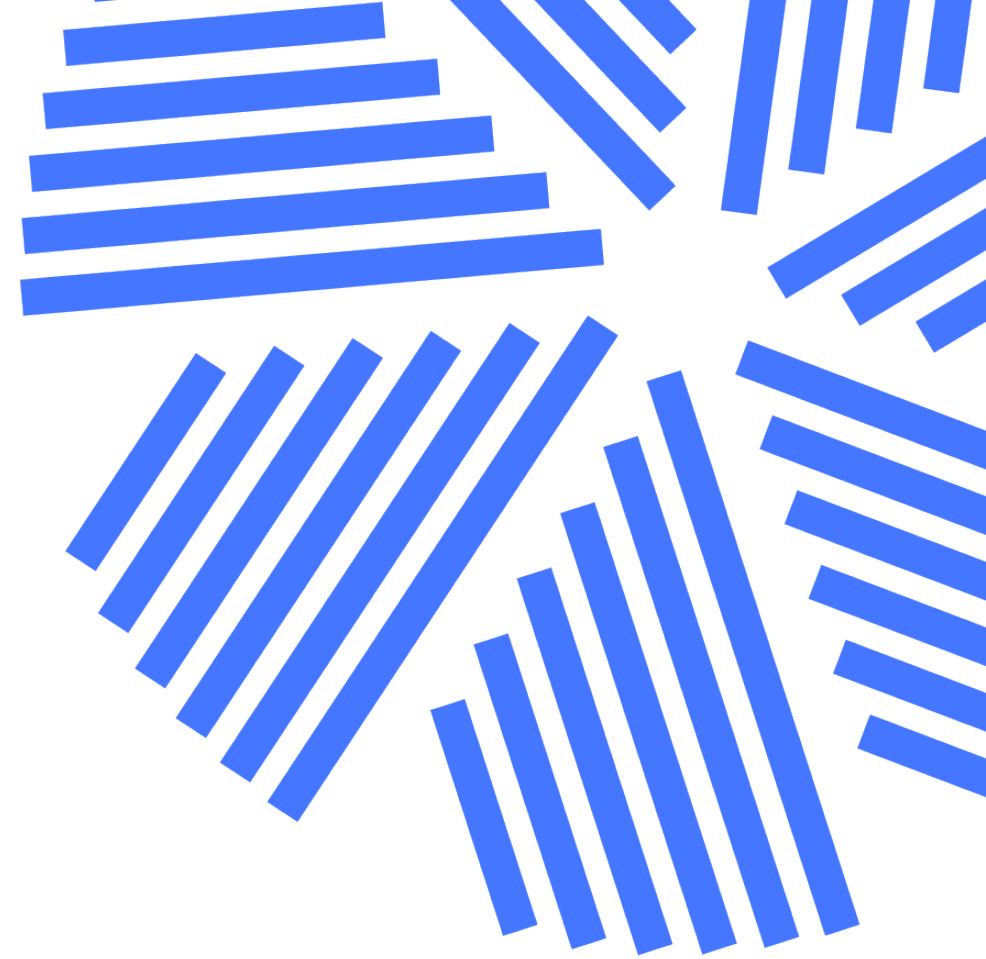
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Application of the Ethical
Decision-Making Framework

CASE EXERCISES



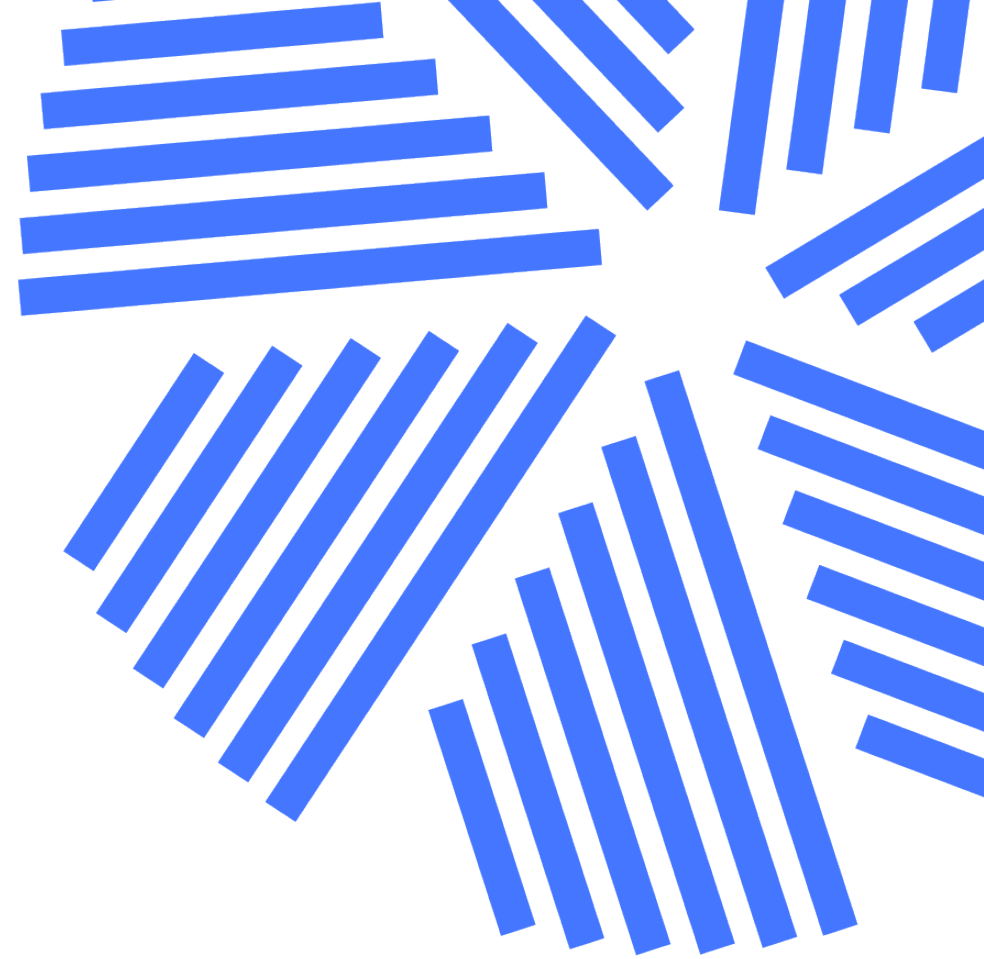
Fundamental Ethical Principles

- › Client interests come first
- › Avoid/manage conflicts of interest
- › Full and fair disclosure
- › Fair dealing
- › Reasonable care and prudent judgment
- › Independence and objectivity
- › Diligence
- › Suitability
- › Confidentiality
- › Competence
- › Prohibition on Material Nonpublic Information



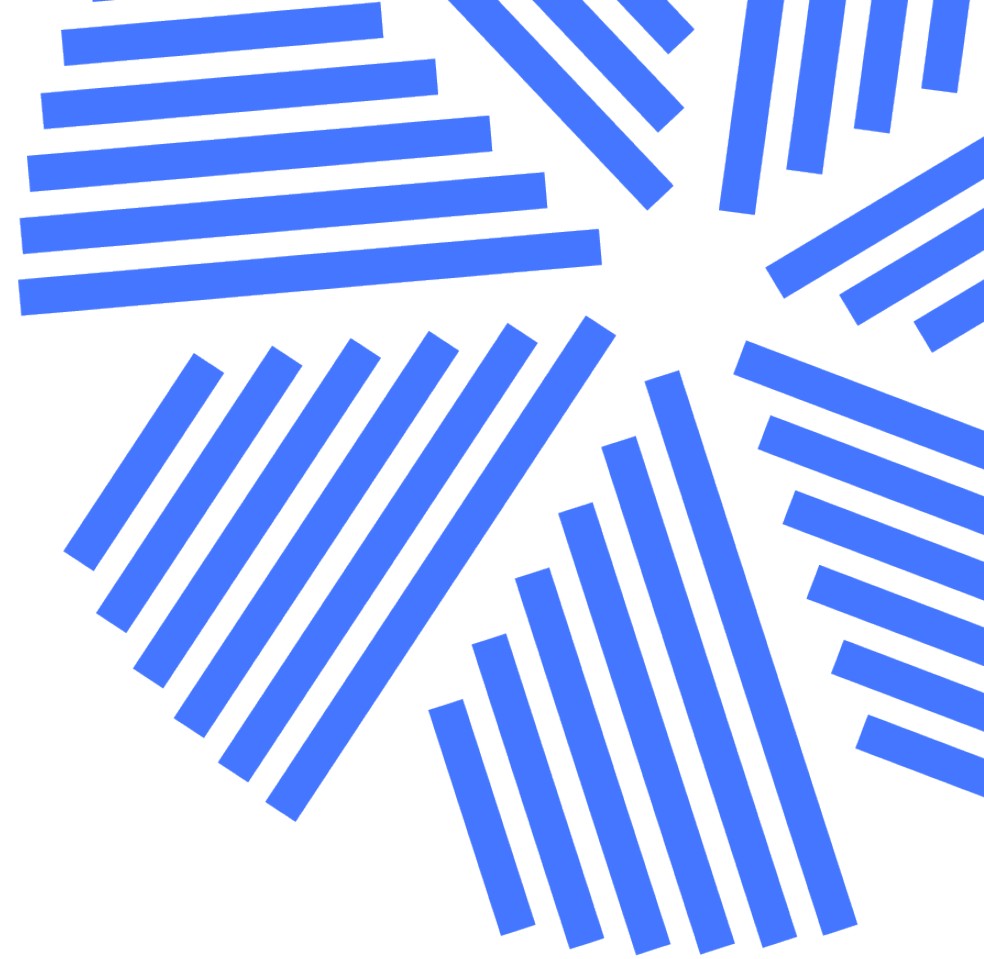
Case 1

Snead, an investment manager for a large pension fund, sits on the investment board for the endowment of his church. Believing the other board members would benefit from the pension fund's experiences, he gives them some general economic research produced for the pension fund. Snead also gives them a list of the pension fund's investments and recommends that the church endowment follow the same investment strategy as the pension fund.



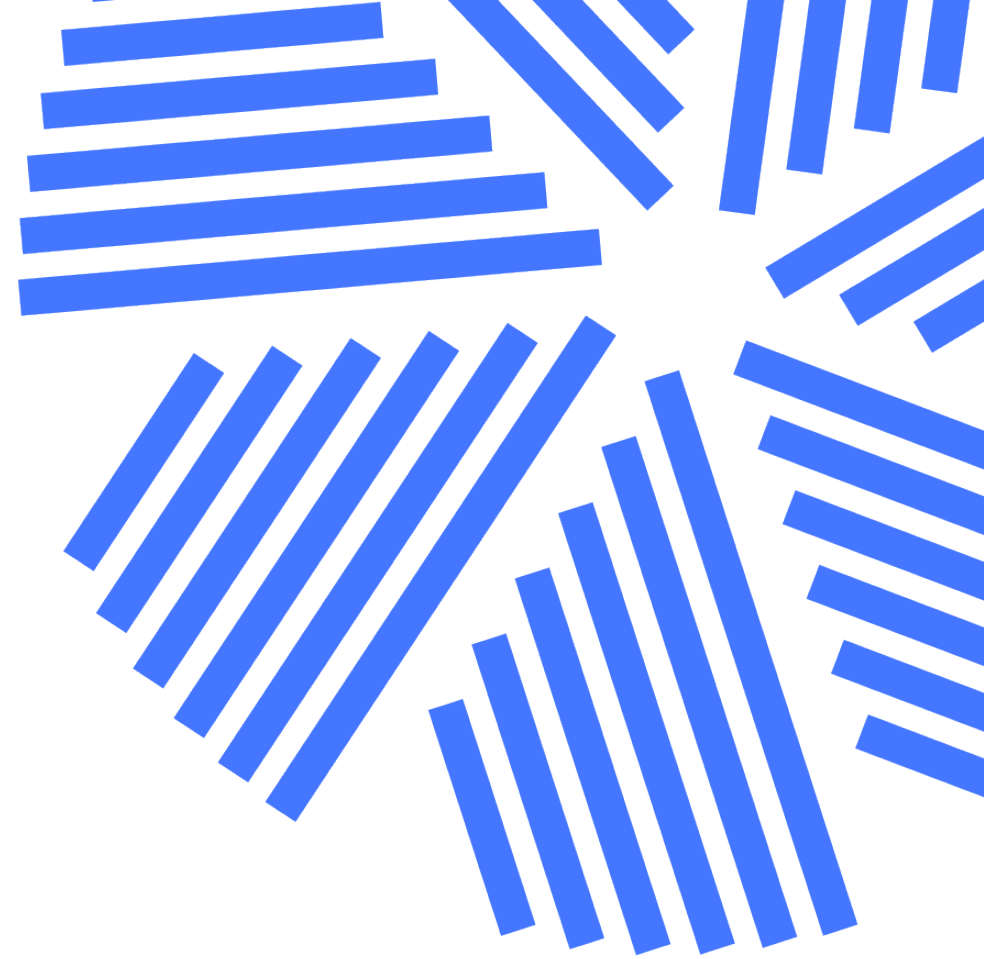
Case 2

Jenks, an analyst for an asset management firm, attends a presentation for securities analysts at the headquarters of a manufacturing company. During management's presentation, the CFO discloses information that Jenks believes will likely have a negative effect on the company's stock price. Seeking to protect his firm's clients, Jenks immediately provides the new information and his updated analysis to the fund's portfolio managers. Jenks also sells his stock in the company.



Case 3

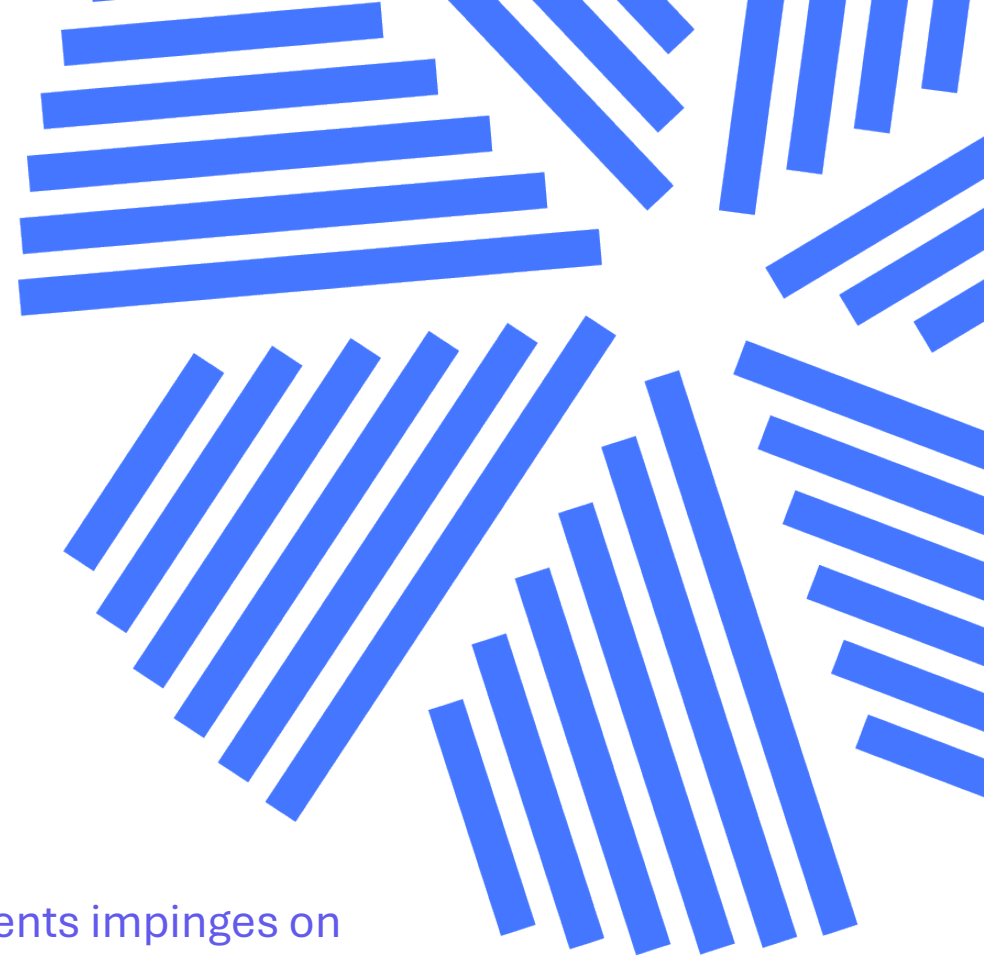
Nash is hired as an investment adviser for a regional investment advisory firm. Shortly after starting work, Nash realizes that the advisers at the firm are under pressure to churn investments in client accounts to generate fees. He brings his concerns to his immediate manager, the chief compliance officer, and ultimately to the senior managers of the firm. After handing in his resignation, but prior to leaving his current employer, at the employer's direction he sends notice to clients he worked with that he will be leaving the firm and informs them that their accounts will be transferred to other portfolio managers within the firm. When one of his clients inquires more about the circumstances of his departure, Nash describes in detail the unethical practices of his firm, gives the client information about his new employer, and encourages the client to transfer her account and follow Nash to his new firm.



Case 4

Salazar is a portfolio manager for a financial advisor with discretionary and non-discretionary clients. Salazar's employer has placed restrictions on a particular type of investment (Bitcoin ETFs) which severely limits investment in this asset on behalf of clients. The firm believes that, while a legitimate legal investment, this asset is not appropriate for client accounts for a number of reasons. Salazar believes some her clients could greatly benefit from investing in Bitcoin ETFs and wants the freedom, as a portfolio manager, to invest in this asset for those accounts.

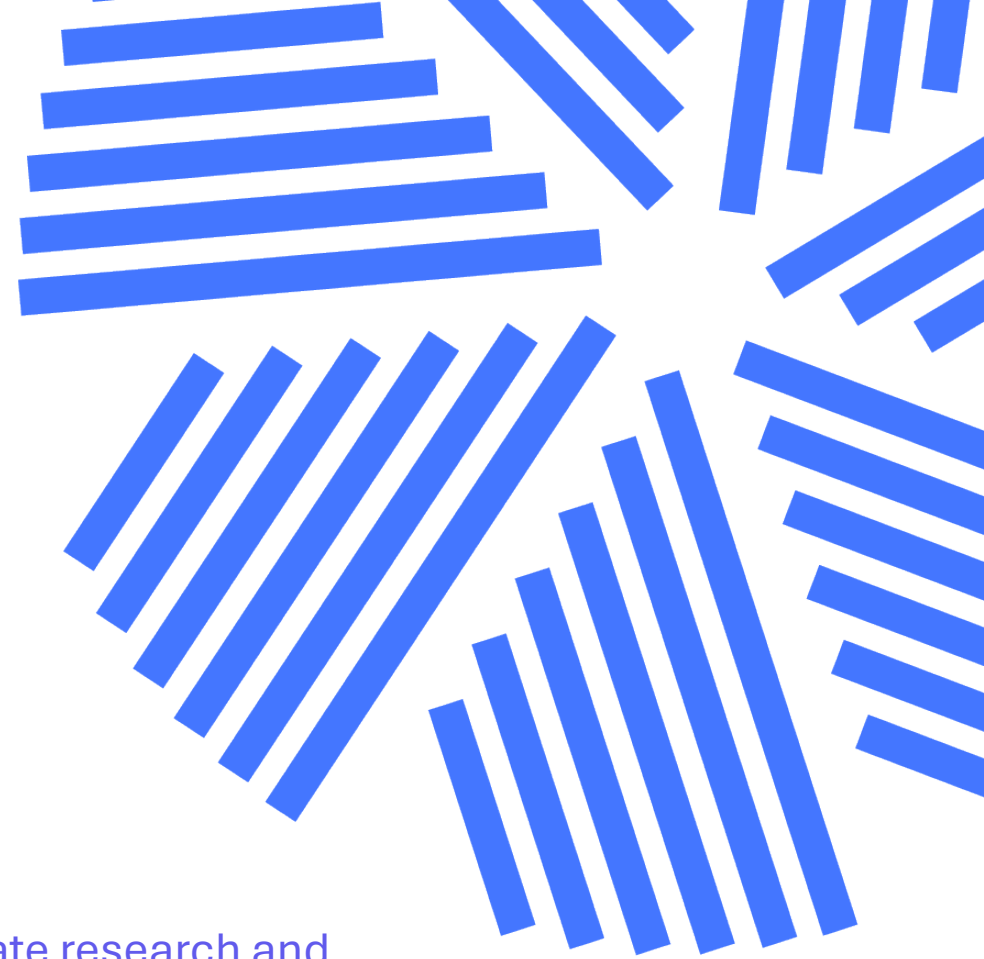
Salazar believes that being restricted from investing in this asset for clients impinges on her duty to clients, independence and objectivity, diligence, and other provisions of the CFA Institute Code and Standards. She believes her employer is increasingly and regularly putting its own policies and opinions ahead of client interests as well as her own professional work, research and opinion to the point of telling her she can't act on, or share, her own professional opinions with clients.



Case 5

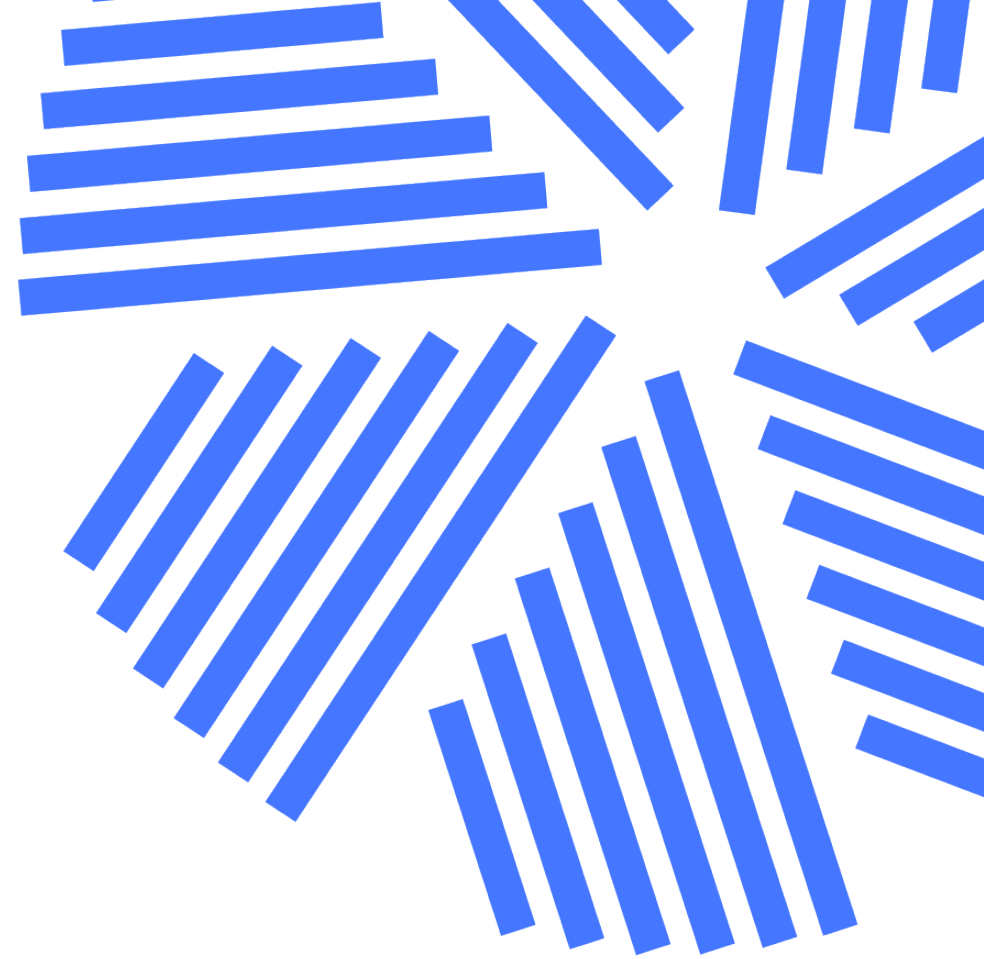
Simmons, an investment manager, is eager to take advantage of AI technology and capabilities to enhance his advisory services. He engages the services of a big data provider who promises comprehensive data for all regions. The provider uses formulas and algorithms to create model data for those regions in which data is incomplete. Simmons relies on the consultant to analyze the data and make investment recommendations. He invests in recommended companies for all clients who have given him discretionary authority, regardless of their investment mandate. He then sends the research and recommendations to his remaining clients who retain investment approval.

Simmons is not enthusiastic about sharing his firm's use of AI to generate research and recommendations because he knows that many of his clients are reluctant to incorporate AI into their investment decision-making process. Simmons is also concerned that disclosure of the role of AI in firm research will cause his clients to question the firm's robust fee structure as he promotes "tailored, hands on" investment advice provided by experienced investment managers, all of whom hold the CFA designation.



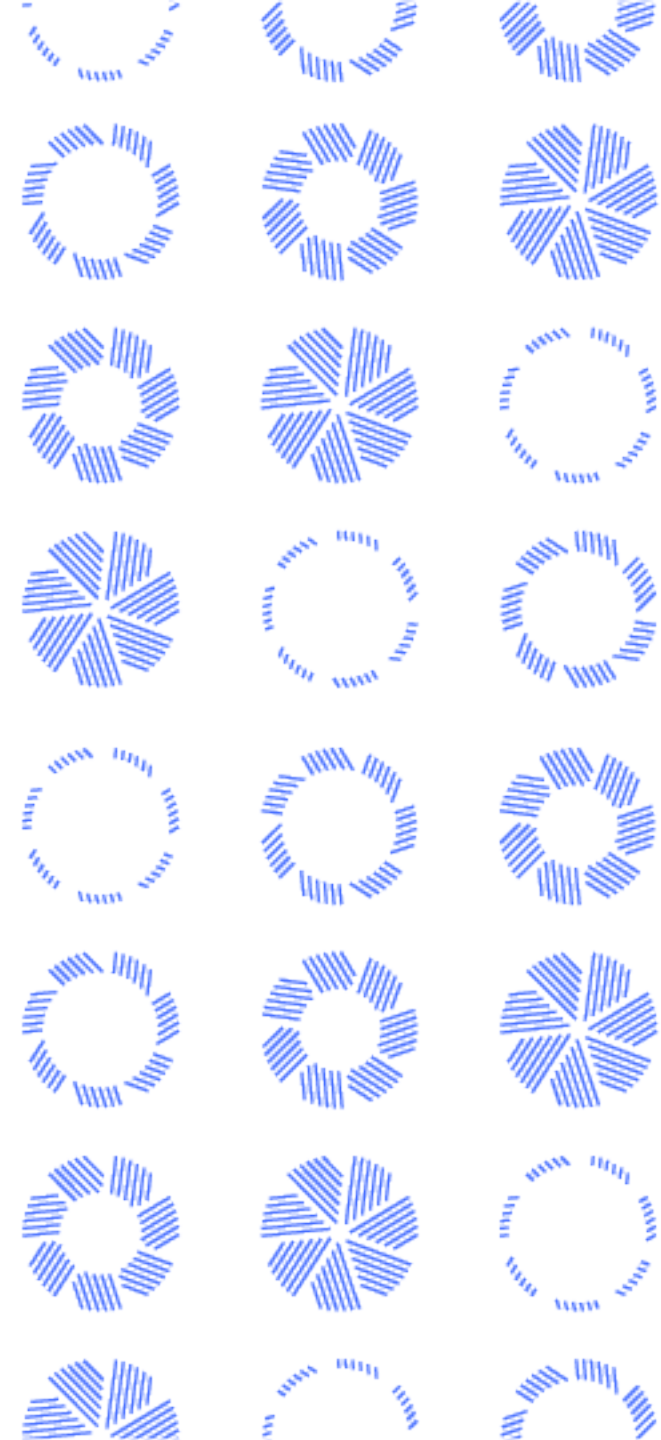
Case 5a

Simmons also leverages AI technology through an online “chatbox” function to keep overhead costs low and improve communication with clients. Simmons’s goal is to provide more timely, frequent, and focused client- specific interactions through AI technology. It is the first line of communication for clients seeking basic information about their accounts or who have questions about the firm’s investment recommendations. The chatbox function distributes new investment recommendations to clients. For client inquiries about research and recommendations on investment opportunities, the AI responses reflect Simmons’s enthusiasm for particular investments. He programs the chatbox to guide conversations toward promoting these securities, invariably recommending these investments to clients.



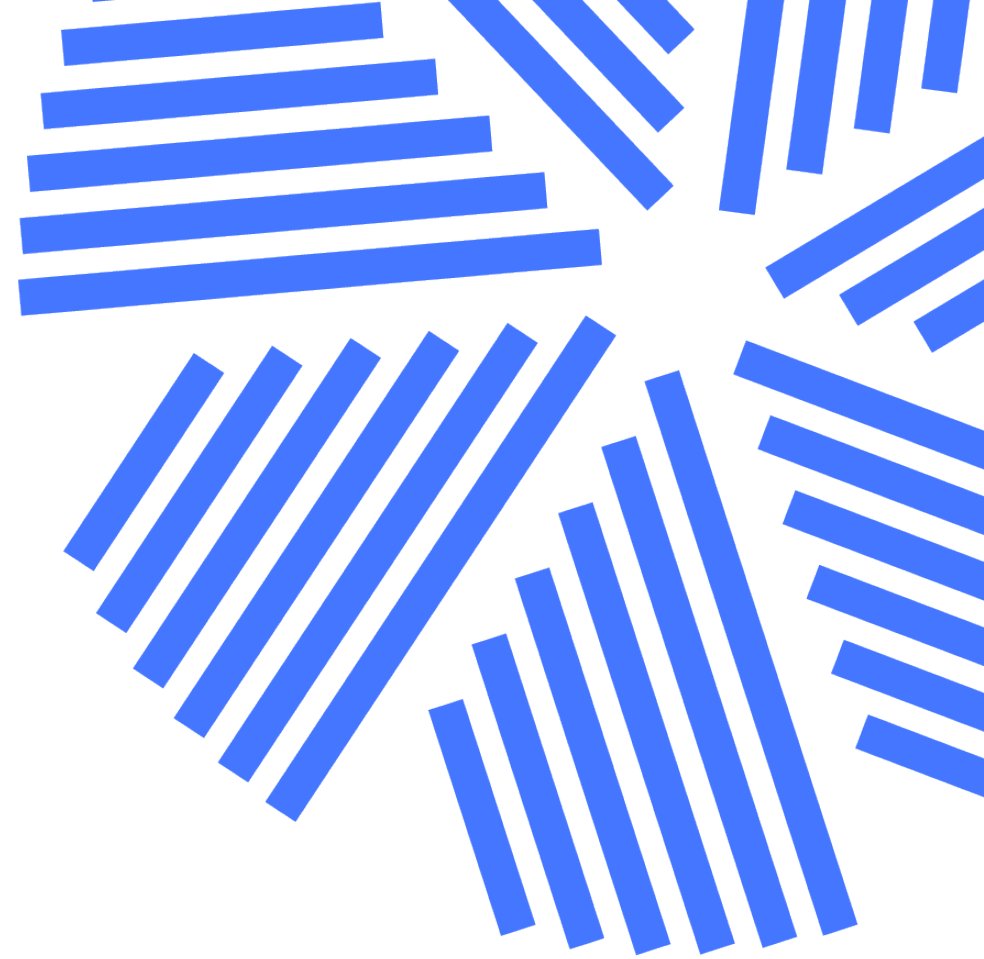
Principles for Ethical Design, Development, and deployment of AI

- › **Data integrity:** Data need to be checked. Adhere to data privacy laws.
- › **Accuracy:** Produce accurate and reliable data with good out-of-sample performance so that the results are robust and generalizable. Model accuracy is essential to ensure that the AI application delivers the best possible outcome for clients.
- › **Transparency and interpretability:** The AI model should be comprehensible and explainable to clients. Essential for confidence and trust.
- › **Accountability:** Sufficient human oversight, governance, and accountability mechanisms to manage risks.



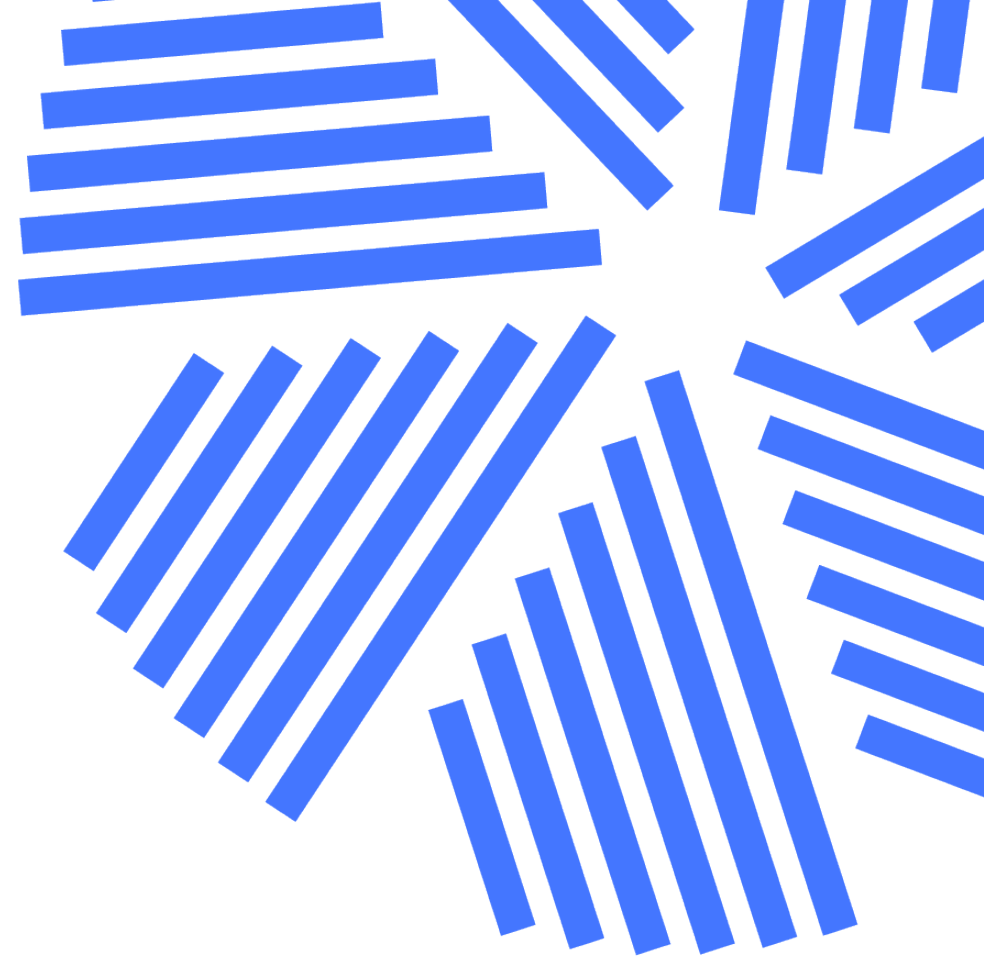
Case 6

Favreau seeks to increase his investment clients by engaging social media celebrities to post content promoting his firm. He instructs influencers to include a unique hyperlink to his firm's website that potential new customers can use to open a brokerage account. Favreau also provides graphics and a "Welcome Guide" that describes specific services and features available through Favreau's firm to help make media posts more effective. Favreau pays a flat fee to the 1,700 social media personalities he hires for every new account that is opened. The posts include general statements about the accounts that are inaccurate. Favreau directs his influencers not to discuss specific investment recommendations or strategies. Favreau does not establish a system for reviewing the communications, approve the content in the social media posts, or retain records of those communications.



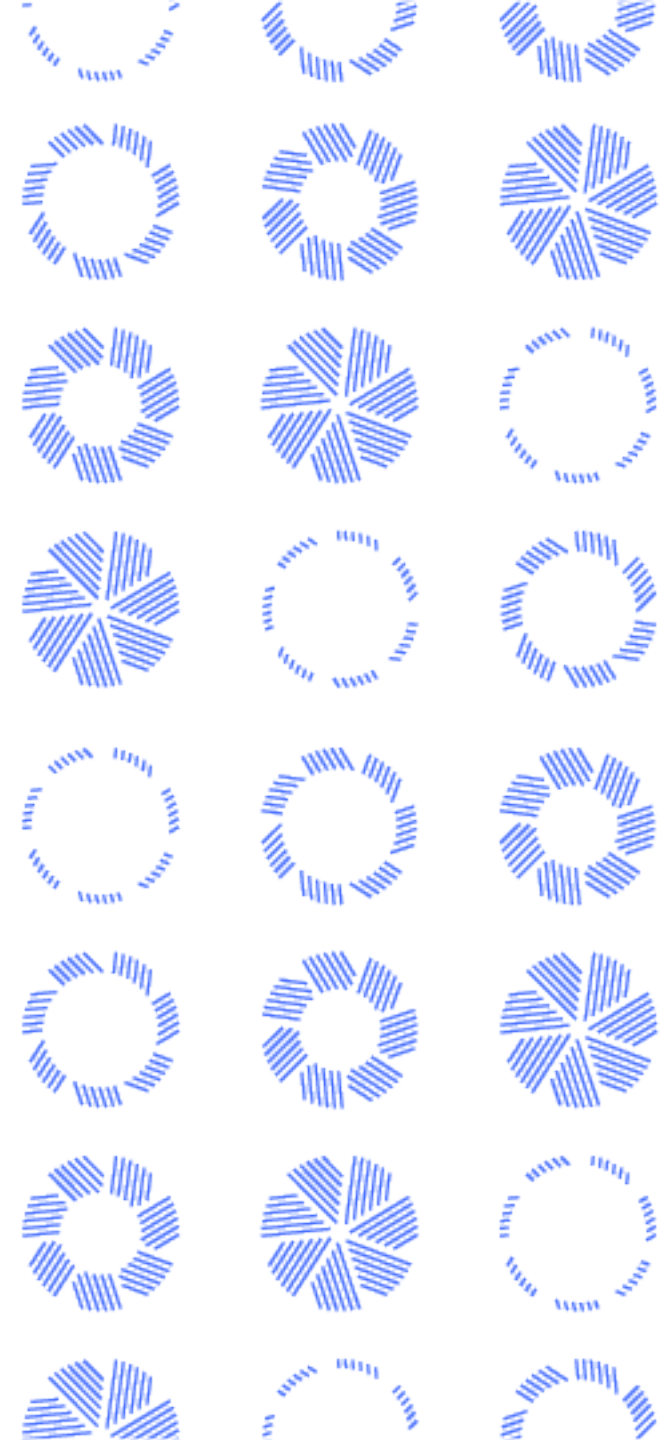
Case 6

Craig manages money for an investment fund. Since his personal investments always track closely with his clients' investments (e.g., he sells his stock when he sells the stock for his clients) he believes he does not need to disclose his investments to his clients or his employer. Craig now must liquidate a large portion of his holdings to pay university expenses for his twin daughters.



Key Take Aways

- › Capital Markets depend on trust
- › Trust is established through ethical conduct/culture
- › Establishing an ethical culture through
 - Adopt a Code of Ethics
 - Implementing Ethics Education
 - Utilizing an Ethical Decision-Making Framework
 - *Identify*: Principles, Facts, Duties, Conflicts
 - *Consider*: Situational Influences, Alternatives, Guidance
 - Act, Reflect



Additional Resources at:

<https://www.cfainstitute.org/insights/professional-learning/ethics-resources>

<https://www.cfainstitute.org/standards/professionals/code-ethics-standards>

Thank you

