

Ethical and Professional Standards

Ethics and Trust in the Investment Profession

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LOS a Describe

Ethics and Trust in the Investment Profession

Ethics

A set of shared beliefs about good (acceptable) or bad (unacceptable) behavior

In the investment profession:
Conduct that balances self-interest and impact on outcomes for stakeholders

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Role of a Code of Ethics

To communicate to the public that a profession's members will use their knowledge and skills to serve their clients in an honest and ethical manner

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Professions

Occupational groups that require specialized knowledge, focus on ethical behavior and service to community or society

May set and enforce standards for professional behavior, require continuing education, and require putting client interests first

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Need for High Ethical Standards in Investment Management

A lack of trust in investment professionals:

- Makes potential investors less likely to use investment industry services
- Increases perceived risk of providing capital; increases the cost of capital

Providing incomplete or false information leads to misallocation of capital and slower growth

Professionalism in Investment Management

Suitability standard: Match investment recommendations to clients' risk tolerances and return requirements

Fiduciary standard: Act in best interests of clients

Challenges to Ethical Behavior

Individuals overrate the ethical quality of their behavior

Importance of situational (external) influences:

- Social pressure
- Loyalty to employer, supervisor, or co-worker
- Money, power, or prestige

Ethical and Legal Standards

Some actions may be illegal but ethical

Example: Civil disobedience

Some actions may be legal but unethical

Example: Taking shares in oversubscribed IPO instead of allocating them to clients

In general, ethical principles set a higher standard than laws and regulations

Framework for Ethical Decision Making

1. Identify facts available or needed; ethical principles; stakeholders and conflicts
2. Consider alternatives and situational influences; seek guidance
3. Make a decision and act on it
4. Evaluate outcome: Intended results? Ethical principles considered adequately?