



TEXAS ASSOCIATION *of* COUNTIES

2018 Texas Public Funds Investment Conference

ETHICAL DECISION MAKING

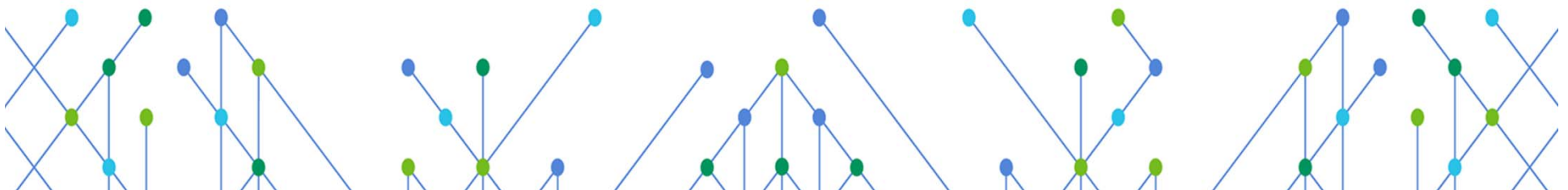
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CFA Institute

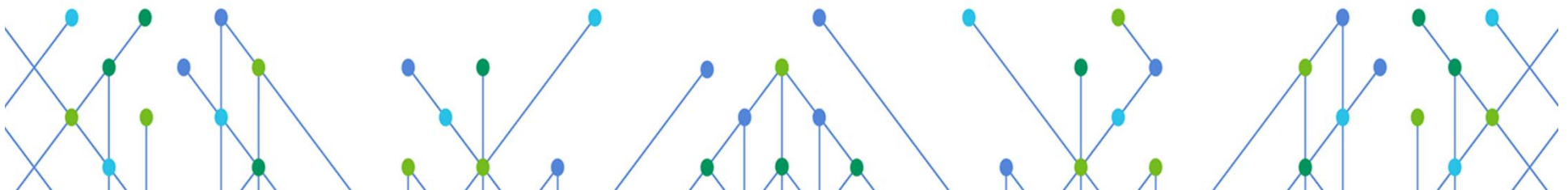
MISSION STATEMENT:

“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

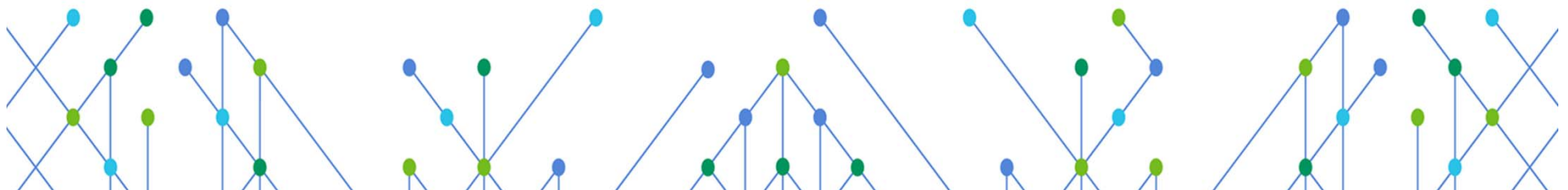
Thinking about:

Honesty

Integrity

Character

Stewardship

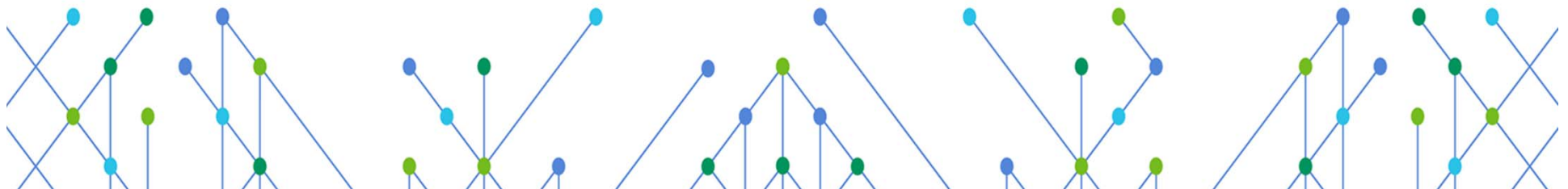


STEWARDSHIP

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: *Stewardship*, 2012



KEY POINTS

- **We make most of our decisions instantly and instinctively rather than rationally and using reason.**
- **We tend to believe that we are more ethical than we really are.**
- **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.**

FACTORS LEADING TO UNETHICAL BEHAVIOR

Obedience to Authority: the desire to please authority can cause people to suspend their own ethical judgments.

Conformity Bias: the tendency to “follow the crowd” and to conform their behavior to that of their peers.

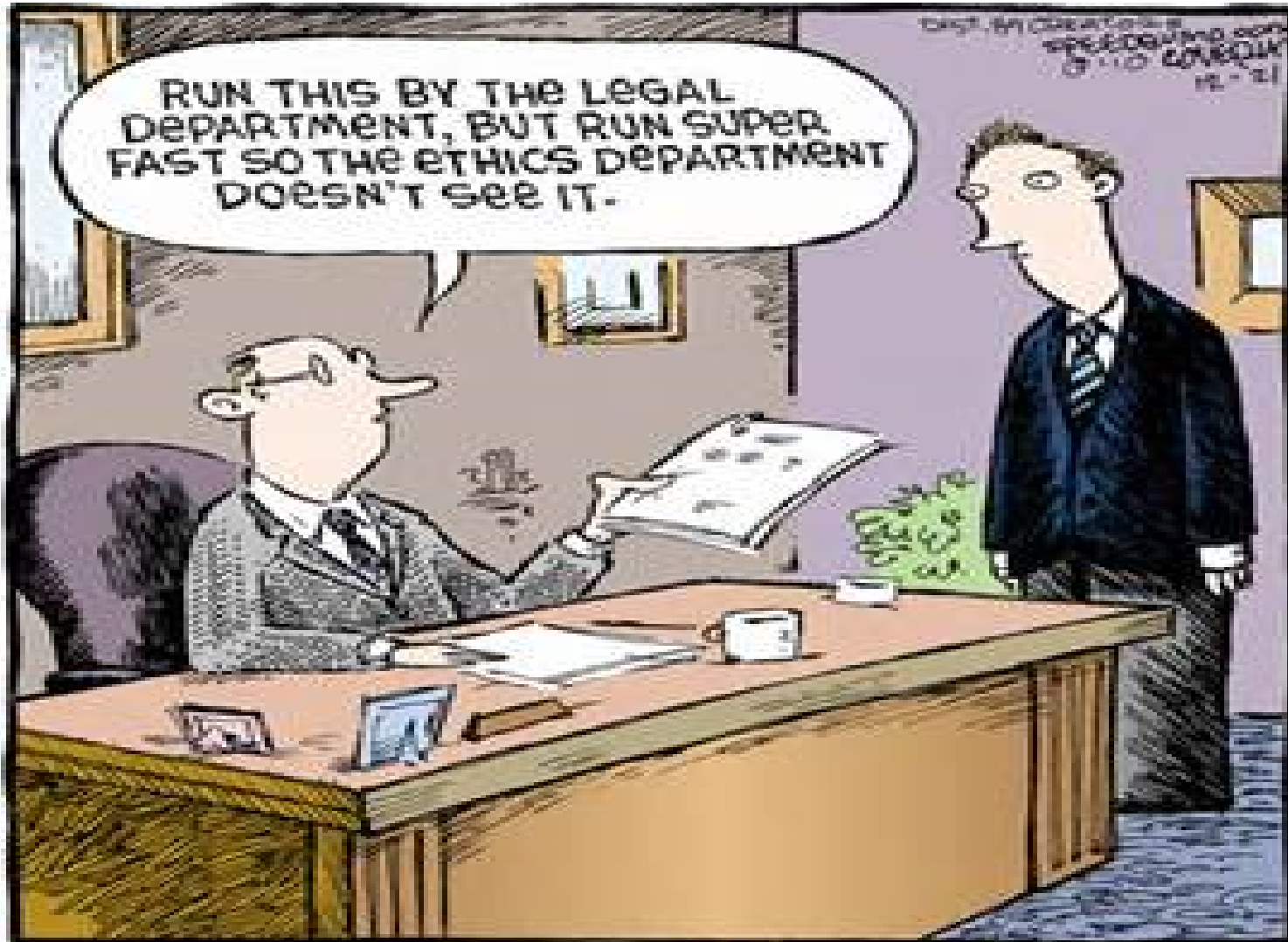
Incrementalism: gradual shift toward unethical behavior.

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 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.



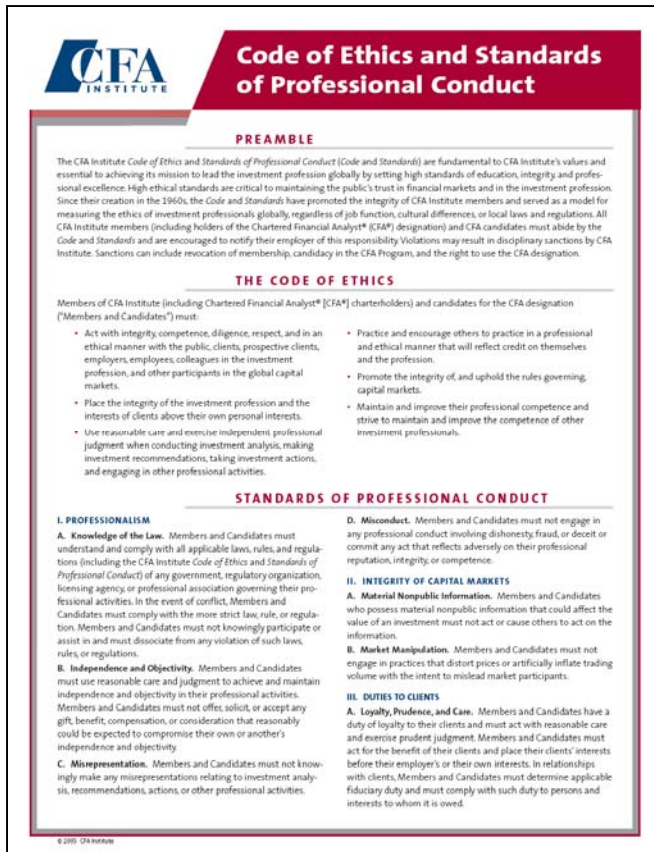
You should

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

SETTING PROFESSIONAL STANDARDS

CFA Institute Code & Standards



CFA INSTITUTE

Code of Ethics and Standards of Professional Conduct

PREAMBLE

The CFA Institute Code of Ethics and Standards of Professional Conduct (Code and Standards) are fundamental to CFA Institute's values and essential to achieving its mission to lead the investment profession globally by setting high standards of education, integrity and professional excellence. High ethical standards are critical to maintaining the public's trust in financial markets and in the investment profession. Since their creation in the 1960s, the Code and Standards have promoted the integrity of CFA Institute members and served as a model for measuring the ethics of investment professionals globally, regardless of job function, cultural differences, or local laws and regulations. All CFA Institute members (including holders of the Chartered Financial Analyst® (CFA®) designation) and CFA candidates must abide by the Code and Standards and are encouraged to notify their employer of this responsibility. Violations may result in disciplinary sanctions by CFA Institute. Sanctions can include revocation of membership, candidacy in the CFA Program, and the right to use the CFA designation.

THE CODE OF ETHICS

Members of CFA Institute (including Chartered Financial Analyst® (CFA®) charterholders) and candidates for the CFA designation ("Members and Candidates") must:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Place the integrity of the investment profession and the interests of clients above their own personal interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
- Promote the integrity of, and uphold the rules governing, capital markets.
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

STANDARDS OF PROFESSIONAL CONDUCT

I. PROFESSIONALISM

A. Knowledge of the Law. Members and Candidates must understand and comply with all applicable laws, rules, and regulations (including the CFA Institute Code of Ethics and Standards of Professional Conduct) of any government, regulatory organization, licensing agency, or professional association governing their professional activities. In the event of conflict, Members and Candidates must comply with the more strict law, rule, or regulation. Members and Candidates must not knowingly participate or assist in and must dissociate from any violation of such laws, rules, or regulations.

B. Independence and Objectivity. Members and Candidates must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. Members and Candidates must not offer, solicit, or accept any gift, benefit, compensation, or consideration that reasonably could be expected to compromise their own or another's independence and objectivity.

C. Misrepresentation. Members and Candidates must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.

D. Misconduct. Members and Candidates must not engage in any professional conduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence.

II. INTEGRITY OF CAPITAL MARKETS

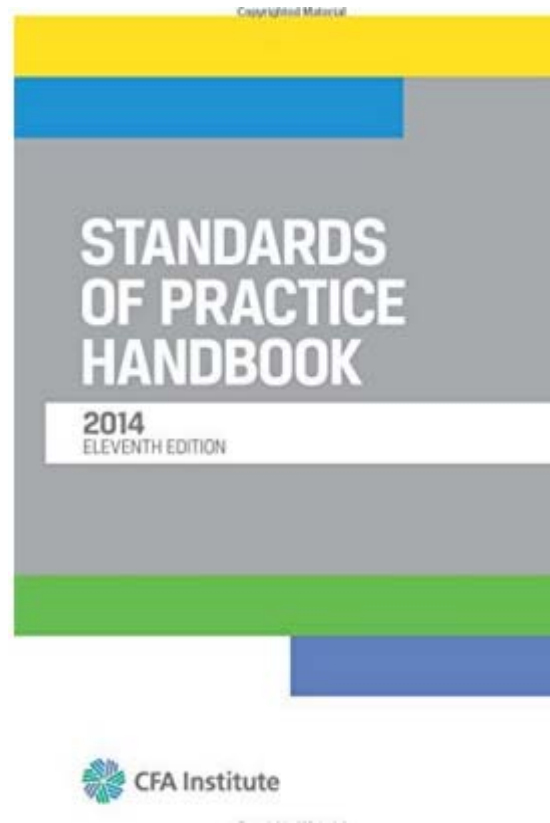
A. Material Nonpublic Information. Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information.

B. Market Manipulation. Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.

III. DUTIES TO CLIENTS

A. Loyalty, Prudence, and Care. Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests. In relationships with clients, Members and Candidates must determine applicable fiduciary duty and must comply with such duty to persons and interests to whom it is owed.

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STANDARDS OF PRACTICE HANDBOOK

2014
ELEVENTH EDITION

CFA Institute

Rationalizations

- Provide the justifications/reasons for not taking the right course of action.
- “Neutralize” ethical intent by reducing the negative affect that accompanies performing an unethical act.
- Justify behavior that is inconsistent with our own opinions of ourselves.
- Change our perception of a situation or social environment to defend/excuse our behavior.



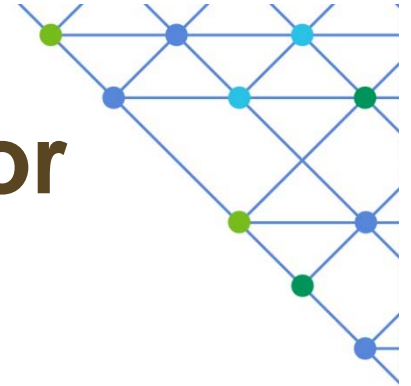
Rationalizations

“There's never been an act done since the beginning, from a kid stealing candy to a dictator committing genocide, that the person doing it didn't think he was fully justified. That's a mental trick called rationalizing, and it's done the human race more harm than anything else you can name.”

[Leigh Brackett](#), [The Long Tomorrow](#)



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.

PARTING THOUGHT

“I want employees to ask themselves whether they are willing to have any contemplated act appear the next day on the front page of their local paper—to be read by their spouses, children and friends—with the reporting done by an informed and critical reporter.”

Warren Buffett, Interim Chairman of the Board, Salomon Brothers



THANK YOU!