

BUILDING TRUST AS A MEANS TO CHANGE INVESTMENT BEHAVIOR

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CFA Institute

BUILDING A RELATIONSHIP BASED ON TRUST

Where do most people get investment advice from?

- Family
- Friends
- Referrals (from friends & family)

Why?

- Because they trust them
- Right or wrong, appropriate or not, they do not have ulterior motives or motivations



“Trust is the building block that enables capital markets to serve society’s needs.”

-CFA Institute

TRUST INFLUENCES BEHAVIOR

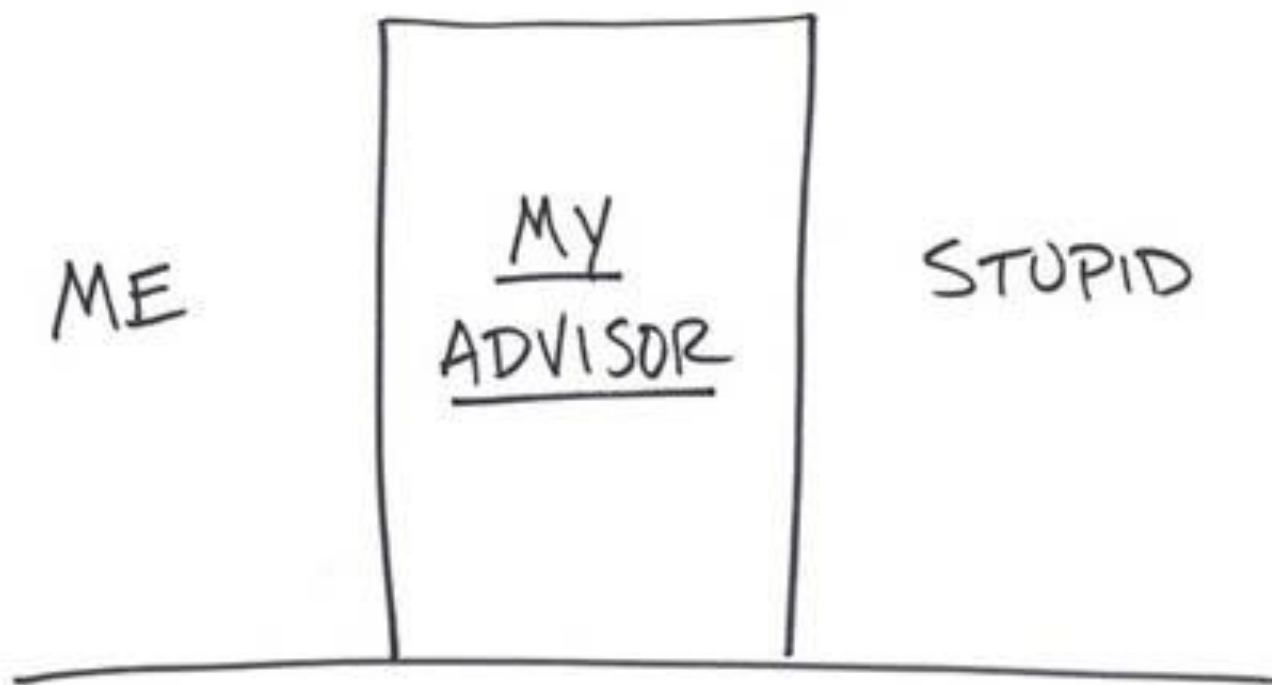


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INFLUENCING BEHAVIOR

Carl Richards, Director of Investor Education – BAM Alliance



ISSUES IN PROVIDING INVESTOR EDUCATION

- **Knowledge & Financial Literacy**
- **Trepidation about financial concerns**
- **Behavioral Issues**
 - Financial knowledge does not necessarily translate into action
 - Behavior biases preclude rational decision-making
 - Lack of conscientiousness and financial discipline
 - Nudging people to act correctly has had limited effectiveness
 - Traditionalism & lack of innovation- change requires a change in beliefs and norms

A RELATIONSHIP BASED ON TRUST (TO CHANGE BEHAVIOR)

Requirements :

- Appropriate education
- Investment acumen & skill
- Ethical Foundation
- Articulated codes and standards
- Focus on putting client's interest first
- Communicating appropriately (incl. Fees)
- Rapport

Credibility + Integrity ➔ **Trust**

- Industry
- Organization
- Professional

Not a panacea but required component



CFA INSTITUTE

A global federation of investment professionals

Our mission:

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

Facts

- Brainchild of Ben Graham, father of Security Analysis
- 128,583 members in 150 countries
- 140 local and national analyst societies in 62 countries
- Members at all levels and positions within Investment Mgt.
- Very senior—7% are CEOs

Occupations



Top Employers

Bank of America Merrill Lynch
Citigroup
Credit Suisse
Deutsche Bank
HSBC

JP Morgan Chase
Morgan Stanley Smith Barney
RBC
UBS
Wells Fargo

SIX PRIMARY THEMES, ONE GOAL

"Shape a trustworthy, forward-thinking financial industry that better serves society."

Financial Knowledge

Empowering investors to make better decisions.



Putting Investors First

The fiduciary duty to protect investor interests.



Retirement Security

Sensible solutions to protect pension systems worldwide.



Safeguarding the System

Promoting stability and minimizing systemic risk.



Regulation & Enforcement

Protecting investors and preserving capital market integrity.



Transparency & Fairness

Standards to promote an open and honest financial system.



CURRENT STATE OF INVESTOR TRUST (SINCE FINANCIAL CRISIS)

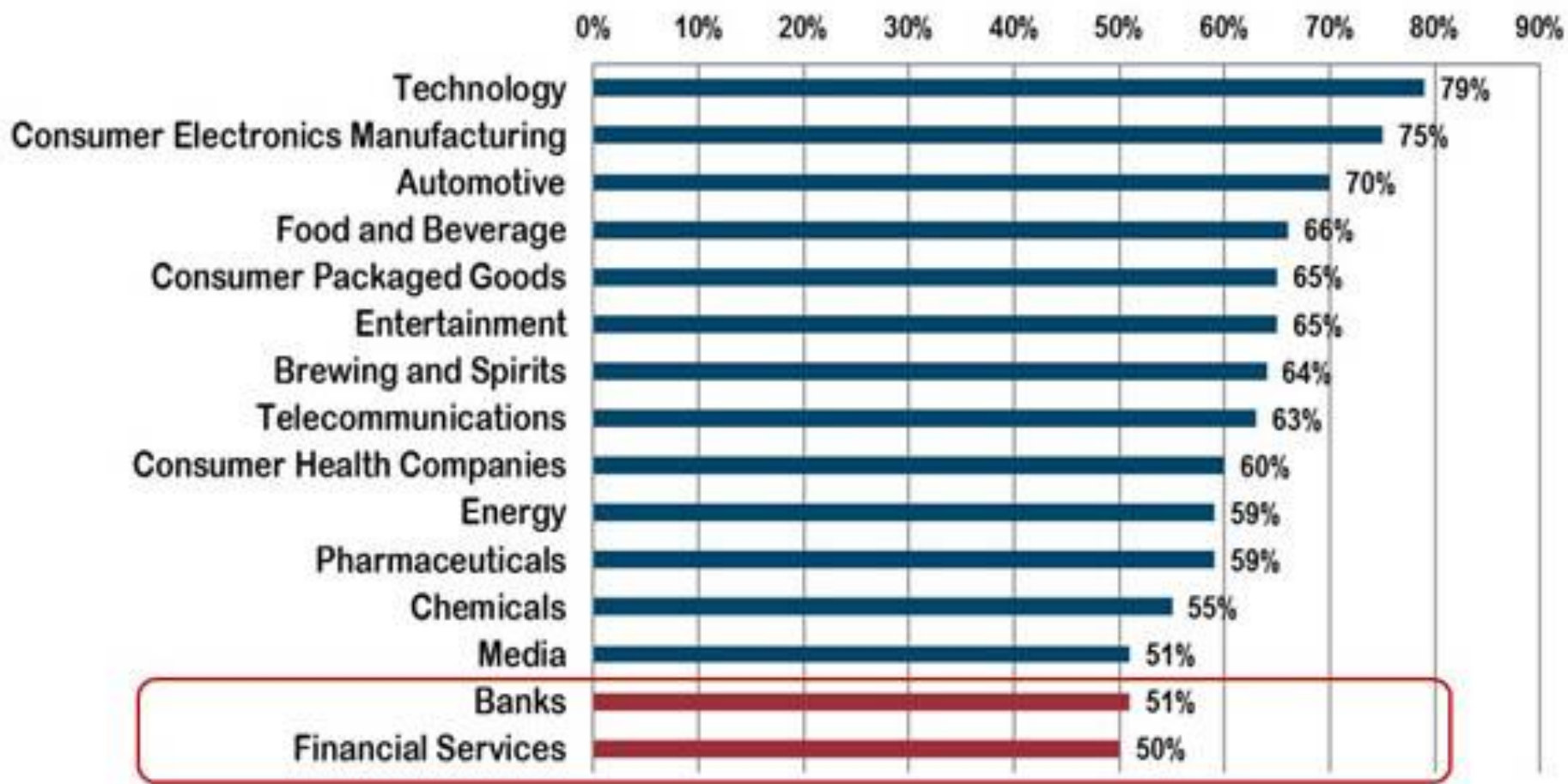


2012 CFA Institute Global Market Sentiment Survey (GMSS):

The majority of respondents (56%) believe that a lack of ethical culture was main factor contributing to the Global Financial Crisis)

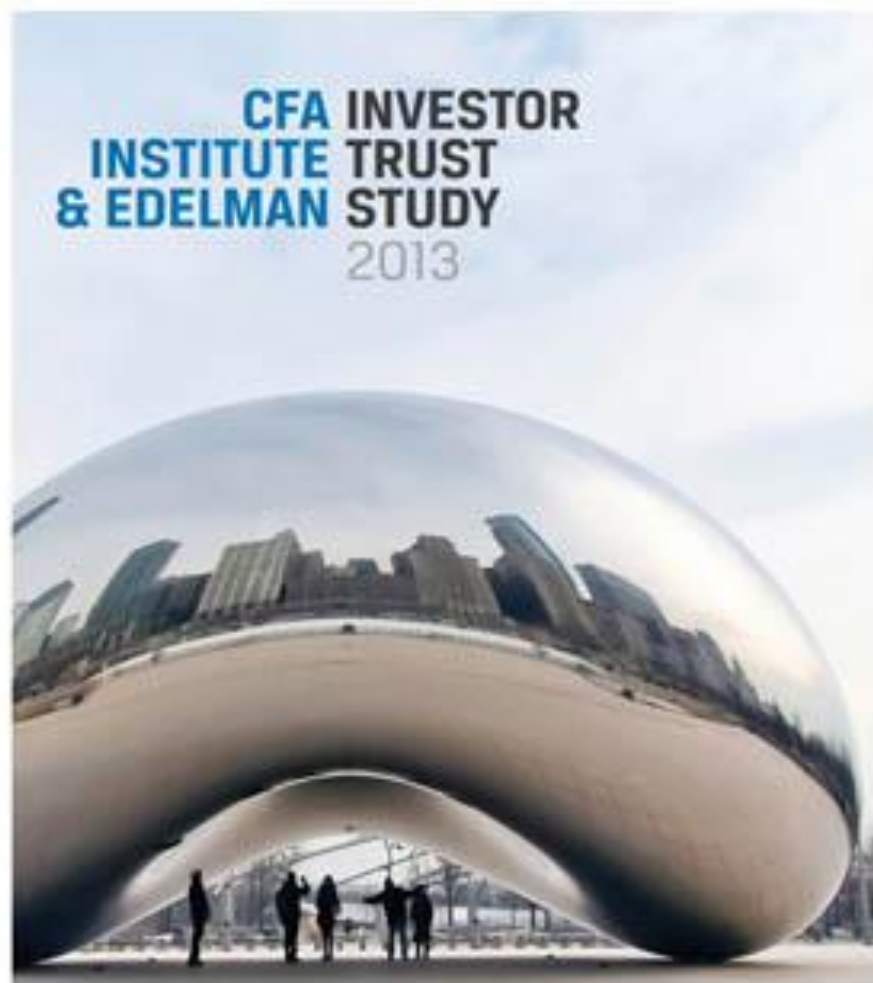
FINANCIAL SERVICES RATE LOWEST

TRUST IN INDUSTRIES - 2014



Source: 2014 Edelman Trust Barometer®

DETERMINING INVESTOR TRUST LEVELS



To better understand the dimensions that shape investor perceptions of trust in investment managers

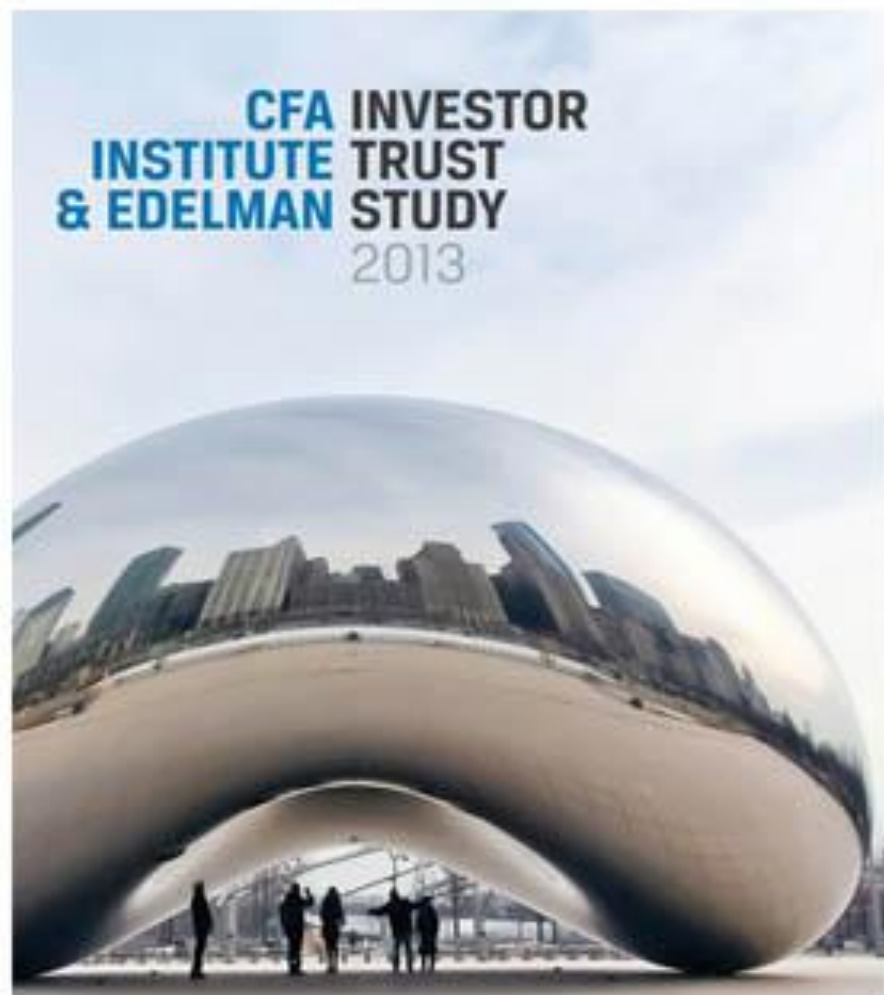


Examining the role of integrity and knowledge in restoring culture in the financial services industry

INVESTOR TRUST SURVEY

TRUST IN THE INVESTMENT COMMUNITY IS ON THE BRINK...

- 2,100 retail and institutional investors globally
- Aligned interests valued highly
- 73% agree they have fair opportunity to profit by investing in capital markets
- Only 52% of investors trust the financial services industry
- Largest response @ 35% cite "trusted to act in my best interest" as most important attribute in hiring an investment manager (above performance @ 17%)



TRUST ATTRIBUTES

The top attributes that build trust in an investment manager are behavior related and relate to integrity – not performance ----->

1. Transparent and open business practices
2. Responsible actions to address an issue or crisis
3. Ethical business practices / complies with voluntary code of ethics

Learning:

- Doing what's right matters
- Be transparent, open business practice
- Demonstrate integrity and focus on ethics
- Communicate early and often: Ambiguity is the enemy of trust



THE ECONOMIST INTELLIGENCE UNIT

Statistical Highlights: 380 Financial Service Execs Globally

Ethics

- 91% of survey respondents placed equal importance on ethical behavior and financial success.
- 67% of firms have raised awareness of the importance of ethical conduct by all employees
- 53% of financial services executives say strictly adhering to ethical standards inhibits career progression at their firm

Financial Knowledge

- 62% of financial executives don't know what is going on outside their department
- 60% of financial executives highlight gaps in employees' knowledge as a significant risk for their firm
- 59% of financial executives agree improving knowledge of the industry as a whole would help make their firm more resilient
- 12% say they are confident in their knowledge of the global regulatory environment



EIU RESULTS

What is CFA Institute doing about issues addressed in report:

The report reaffirms the need for strong global adoption of ethics and standards, which is at the heart of the CFA Institute mission. Actions taken by CFA Institute to address these issues include:

1. CFA Program and Claritas education programmes which include ethics and client service modules
2. The global code of professional conduct that CFA charterholders sign up to on an annual basis, alongside other codes of conduct such as the Asset Manager Code and Pension Trustee Code
3. Future of Finance content and tools
4. Freely available webinars and training tools focused on ethics education

THE CFA CHARTER

A CFA charterholder is:

Credible: Has demonstrated a mastery of a comprehensive body of knowledge, fulfilled four years of on-the-job experience, and adheres to a code of ethics. (codes & standards)

Committed: Has dedicated 300 hours of study to each of three levels of rigorous examinations.

Current: Has access to continuing education and lifelong learning resources.

Connected: Is a member of a network of more than 100,000 investment professionals in more than 100 countries

Access, Ability, Integrity and Experience



Described by The Economist as the “Gold Standard”, The Chartered Financial Analyst® (CFA) credential has become the most respected and recognized investment designation in the world

ETHICS AND STANDARDS

CFA Institute members and CFA Program candidates, are required to follow the Code and Standards.

- **The Code of Ethics maintains that you must:**
- Place the integrity of the profession and the interests of clients above your own interests
- Act with integrity, competence, and respect
- Maintain and develop your professional competence
- **The Standards of Professional Conduct cover:**
- Professionalism and integrity of the capital markets
- Duties to clients and employers
- Investment analysis and recommendations
- Conflicts of interest and responsibilities

The image shows the cover of the CFA Institute Code of Ethics and Standards of Professional Conduct. The top left features the CFA Institute logo. The title 'Code of Ethics and Standards of Professional Conduct' is prominently displayed in a dark banner. Below the title, the document is divided into sections: PREAMBLE, THE CODE OF ETHICS, and STANDARDS OF PROFESSIONAL CONDUCT. The PREAMBLE section discusses the CFA Institute's commitment to the highest standards of professional conduct. The CODE OF ETHICS section outlines the core principles of the profession. The STANDARDS OF PROFESSIONAL CONDUCT section is divided into six main areas: 1. INTRODUCTION, 2. KNOWLEDGE OF THE LAW, 3. INDEPENDENCE AND OBJECTIVITY, 4. INTEGRITY OF CAPITAL MARKETS, 5. DUTY TO EMPLOYERS AND CLIENTS, and 6. CONFlicts of Interest and Responsibilities.

EDUCATION & ETHICS FOR THE INDUSTRY

- A comprehensive global program designed to give all professional disciplines in financial services outside of investment roles a clear understanding of the investment industry and their professional responsibilities within it
- The Claritas Investment Certificate helps an organization stand out from the crowd by signaling an institutional commitment to ethics. It also helps employees to gain knowledge over and above their peers.
- The program sets a global standard of understanding grounded in ethical principles for participants across the profession.

The logo for the Claritas Investment Certificate is centered within a thin black rectangular border. It features the word "Claritas" in a bold, dark grey sans-serif font, with a trademark symbol (TM) to its upper right. Below "Claritas" is the phrase "Investment Certificate" in a smaller, lighter grey sans-serif font.

ClaritasTM
Investment Certificate

ASSET MANAGER CODE

Global standard and best practice code of conduct for firms

AMC states that managers have these responsibilities to their clients

- To act in a professional and ethical manner at all times
- To act for the benefit of clients
- To act with independence and objectivity
- To act with skill, competence, and diligence
- To communicate with clients in a timely and accurate manner
- To uphold the rules governing capital markets

- Credibility and reputation building for Asset Management Firms
- Demonstrates commitment to ethics and professional conduct



FUTURE OF FINANCE

Publications to help professionals communicate their integrity with clients

Advise users of financial service products of the conduct they are entitled to expect from financial service providers.



- Individuals can learn their rights
- Professionals can commit to preserve them
- Demonstrates commitment to fundamental ethical principles
- Initiates clear and honest communication

Global industry guidance to address the lack of transparency in investment reporting



- Transparent presentation of risks and results
- Client preferences are reflected in report
- Comprehensive fee disclosure
- Trust is built through clear and transparent reporting,

A RELATIONSHIP BASED ON TRUST (TO CHANGE BEHAVIOR)

Credibility + Integrity leads to Trust

Requirements :

- Do what is right
- Be transparent, display open business practices
- Demonstrate integrity
- Emphasize ethics
- Act in client's best interest
- Communicate early and often: Ambiguity is the enemy of trust
- Build Rapport

EVERYBODY HAS A ROLE (IN BUILDING TRUST)

Professional	Organization	Industry/ Jurisdiction
Designations and Certifications	New competencies – Investor Ed & Putting clients first	Training and Credentialing
Experience & continuing education	Organizational focus on problem solving	Comprehensive Curriculum (incl. ethics)
Develop ethical foundation Demonstrate integrity	Standards of practice – Asset Manager Code	Continual practice analysis
Communication & educational tools – SIR, PIR	Demonstration of ethical foundation	Ethical Framework/ Codes and Standards
Focus on behavior related attributes	Educate & train all employees	Rebuilding reputation

<http://www.cfainstitute.org/futurefinance>

THE FUTURE OF FINANCE STARTS WITH YOU

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The Future of Finance initiative is a long-term global effort to shape a trustworthy, forward-thinking financial industry that better serves society. It provides the tools to motivate and empower the world of finance to promote fairness, improved understanding, and personal integrity. Its success is driven by ongoing input from an advisory council of prominent global leaders and others in the financial community.

We invite you to learn more about current and upcoming Future of Finance initiatives, impact stories, and ways you can get involved.

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