CHAPTER 1

PROFESSIONALISM IN THE INVESTMENT INDUSTRY

Bidhan L. Parmar, PhD
Dorothy C. Kelly, CFA
Colin McLean, MBA, FIA, FSIP
Nitin M. Mehta, CFA
David B. Stevens, CIMC, CFA

LEARNING OUTCOMES

The candidate should be able to:

- describe how professions establish trust;
- explain professionalism in investment management;
- describe expectations of investment professionals;
- describe a framework for ethical decision-making.

1. INTRODUCTION

The sections covering ethics and professional standards demonstrate that ethical behavior is central to creating trust. Professional behavior is equally important. Professions help maintain trust by establishing codes and setting standards that establish a framework for ethical behavior and technical competence. Professions also set wider goals of gaining and maintaining the trust of society as a whole. In this regard, professions have a sense of purpose that society values.

This chapter explains attributes of professions and establishes what is expected of an investment professional. Professions are growing in size and number, partly as a result of government and regulator encouragement and requirement, but also owing to demand from clients. Practitioners in some new areas of expertise are also choosing to serve clients within the framework of a profession to protect standards and gain public trust. The concept of professionalism is based on cultural norms, and interpretation of these norms varies by region and country. Such variation is a challenge to defining professionalism globally, but some universal aspects are common to most professions.

Section 2 of this chapter describes professions in general and how they establish trust. Section 3 describes professionalism in investment management. Section 4 addresses expectations of investment professionals, and Section 5 provides a high-level review of the framework for ethical decision-making. The chapter concludes with Section 6, a summary of challenges for investment professionals. A listing of key points in Section 7 concludes the chapter.

2. PROFESSIONS

A **profession** is an occupational group that has specific education, expert knowledge, and a framework of practice and behavior that underpins community trust, respect, and recognition. Most professions emphasize an ethical approach, the importance of good service, and empathy with the client.

Professions have grown in size and number over the last century: the rise of new specialist areas of expertise has created new professions. Driving forces of a new profession include governments and regulators, which encourage the formation of an ethical relationship between professionals and society at large. There is also demand for professions from individuals who see an advantage in working as a professional and from clients who desire to work with professionals.

Professions have not developed in every country. But in most countries, those who work in specialized areas—such as doctors, lawyers, actuaries, accountants, architects, and engineers—are subject to some combination of licensed status and technical standards. These standards distinguish professions from the craft guilds and trade bodies that were established in many countries. One clear difference is the requirement for members of professions to uphold high ethical standards. Another difference is that trade bodies do not normally have a mission to serve society or to set and enforce professional conduct rules for practitioners.

2.1. How Professions Establish Trust

For a profession to be credible, a primary goal is to establish trust among clients and among society in general. In doing so, professions have a number of common characteristics that, when combined, greatly increase confidence and credibility in professionals and their organizations.

2.1.1. Professions normalize practitioner behavior

Professionalism is underpinned by a **code of ethics** and **standards of conduct** developed by professional bodies. Regulators typically support professional ethics and recognize the framework for ethics that professions can provide. Many regulators around the world have engaged closely with professional bodies to understand their codes of ethics (codes) and standards of conduct (standards), as well as how they are enforced. Codes and standards developed by practitioners can be complementary to regulations, codifying many more individual practices than the high-level principles set by regulation.

Many governments have recognized that a profession can develop a more sophisticated system of standards than a regulator can, via continuous practitioner input and a strong mutual interest within the profession to maintain good standards and adopt best practices. Government support of professions is attributable to the role of professions in helping the public and ensuring expert and principled performance of complex services.

2.1.2. Professions provide a service to society

There is an obligation for professionals to go beyond codes and standards. Professionals should advocate for higher educational and ethical standards in the industry, individually and through their companies. Professions can widen access to services and support economic activity by encouraging trust in the industries they serve. Professions have realized that earning community trust not only creates professional pride and acceptance but also delivers commercial benefits. A profession that earns trust may ultimately have greater flexibility and independence from government and regulators to manage its own affairs, which allows members of the profession to develop service models that are both useful to clients and beneficial to members.

2.1.3. Professions are client focused

An integral part of a profession's mission is to develop and administer codes, best practice guidelines, and standards that guide an industry. These codes, standards, and guidelines help ensure that all professionals place the integrity of their profession and the interests of clients above their own personal interests. At a minimum, professionals must act in the best interest of the client, exercising a reasonable level of care, skill, and diligence. The obligation to deliver a high standard of care when acting for the benefit of another party is called **fiduciary duty**. Other entities, including employers, regulators, trade associations, and not-for-profit organizations, may also support an industry but are not the same as professional bodies. Unlike professions, these other entities generally do not exist to set and maintain professional standards. Most employers encourage employees to be members of relevant professions, and many give financial support for this membership to ideally improve the quality of client service and reinforce ethical awareness.

2.1.4. Professions have high entry standards

Membership in a profession is a signal to the market that the professional will deliver high-quality service of a promised standard, going beyond simply academic credentials. Professions develop curricula that equip future professionals with competence, including knowledge, technical skills, and ethics.

2.1.5. Professions possess a body of expert knowledge

A repository of knowledge, developed by experienced and skilled practitioners, is made available to all members of a profession. This knowledge helps members work effectively and ethically and is based on best practice.

2.1.6. Professions encourage and facilitate professional development

Entry into a profession does not, on its own, guarantee that an individual will maintain competency and continue to uphold professional standards. After qualification and throughout the working life of a professional, there will be changes in knowledge and technical skills to perform certain jobs, in technology and standards of ethical behavior, in services that can be offered, and in the legal and business environment in which professional services are delivered. These all require the development of competence and ethical awareness. Most professional bodies make it a condition of membership that a specific amount of new learning is undertaken each year. Typically, such conditions specify a time commitment, which may be separated into different competencies and types of learning activity. This is often referred to as continuing professional development and is seen as an important part of maintaining professional standards. The training and education that professionals undertake increase the value of human capital, which can contribute to economic growth and social mobility.

2.1.7. Professions monitor professional conduct

Members of a profession must be held accountable for their conduct to maintain the integrity and reputation of an industry. Doing so often involves self-regulation by professional bodies through monitoring and imposition of sanctions on members.

2.1.8. Professions are collegial

Professionals should be respectful to each other, even when they are competing. At the very least, they must respect the rights, dignity, and autonomy of others.

2.1.9. Professions are recognized oversight bodies

Many professional bodies are not-for-profit organizations with a mission emphasizing excellence, integrity, and public service. Although it is the responsibility of individual professionals to remain competent, an oversight body typically monitors this responsibility. Such bodies provide individuals with ongoing educational resources and access to information about changes in standards and imposes a framework of discipline. Continuing membership indicates sustained competence in (and updating of) practical skills while maintaining ongoing compliance with a code of ethics and standards of conduct.

2.1.10. Professions encourage the engagement of members

Participation by members as volunteers is part of the essence of a profession. Professionals are more likely to refer to, use, and adhere to values that they have helped develop, and they typically have the power as members to revise these values. A good professional will want to mentor and inspire others who recently entered or wish to enter the profession. Professionals should be willing to volunteer to advance the profession and engage with peers to develop expertise and ethics. Professionals should volunteer to help educate new generations in ethical knowledge and ethical decision-making and to foster a productive debate about new areas of ethics. Most professionals find that the experience of volunteering within the profession enhances their skills and widens their contacts within the industry. Membership in a professional body fosters engagement with other professionals.

2.2. Professions Are Evolving

No profession stands still. Trends such as greater transparency and public accountability force professions to adapt to change. Meanwhile, technology opens up possibilities for new services and different ways of working. In addition, key processes of a profession's responsibilities may need to be reviewed by a government agency or independent public body. In general, professions often engage with non-member individuals. This can help a profession evaluate the viewpoints of the public, clients, or other stakeholders when determining policy and practice and can encourage public trust for a profession's conduct and disciplinary process.

Effective professions continue to develop their role to account for changing best practices. Some medical professional bodies, for instance, have been established for more than 500 years but may now have the same need to adapt as the much younger investment profession. This means that at any point in time, society may recognize an area of work as a profession even if it has not fully or universally implemented all the expectations. As the requirements for a profession evolve, gaps open up that may take time to remedy. Effective professions also actively learn from other professions, particularly in the area of ethics. For example, new standards of conduct in the accounting profession may influence standards considered in the investment profession.

3. PROFESSIONALISM IN INVESTMENT MANAGEMENT

> Successful investing professionals are disciplined and consistent and they think a great deal about what they do and how they do it.
>
> —Benjamin Graham,[1] *The Intelligent Investor* (1949)

Investment management is a relatively young profession, which means that public understanding of its practice, codes, and standards is still developing. Recognition by regulators and employers also lags established professions. Not everyone engaged in investment management is a professional; some practitioners have not undertaken specific investment training or are not members of a professional body. This creates a challenge for the investment profession to gain trust, because not all practitioners need to be committed to high ethical standards. However, key elements of the profession have been steadily established over several decades. For example, the publication of Graham and Dodd's *Security Analysis* in 1934 was an important step in establishing a body of knowledge for investment.

The investment profession meets most, but currently not all, of the expectations of a profession. In most countries, some form of certification or licensing is needed to practice, but there may not be a requirement to join a professional body. Globally, the trend is to require examined entry to practice investment management and to maintain competence. But few professions have perfect implementation of all the expected attributes. The investment profession, similar to other professions, is on a journey to improve implementation and keep up with changing demands.

The investment profession has become increasingly global as capital markets have opened up around the world. Investment professionals may seek cross-border opportunities or may need to relocate between offices within multinational asset management firms. Regulatory coordination across borders and the emergence of technology are contributing factors to this globalization of investment management. Various investment professional bodies have developed in individual countries, and several of these bodies have expanded internationally. In addition, several other professional bodies, including those focused on actuarial and accountancy services, have investment professionals as members.

[1]In the 1940s, Benjamin Graham recognized the need for a professional certification for financial analysts.

3.1. Trust in the Investment Industry

The investment professional today has similarities with professionals in longer-established professions, such as medicine and law. Like doctors and lawyers, investment professionals are trusted to draw on a body of formal knowledge and apply that knowledge with care and judgment. In comparison to clients, investment professionals are also expected to have superior financial expertise, technical knowledge, and knowledge of the applicable laws and regulations. There is a risk that clients may not be fully aware of the conflicts, risks, and fees involved, so investment professionals must always handle and fully disclose these issues in a way that serves the best interests of clients. Compliance with codes of ethics and professional standards is essential, and practice must be guided by care, transparency, and integrity.

The investment profession and investment firms must be interdependent to foster trust. Employers and regulators have their own standards and practices that may differ from regulations and standards set by professional bodies. The investment professional bodies typically direct professionals in how to resolve these differences.

In many countries, the investment profession affects many key aspects of the economy, including savings, retirement planning, and the pricing and allocation of capital. In most countries, skilled evaluation of securities leads to more efficient capital allocation and, combined with ethical corporate governance, can assist in attracting investment from international investors. The investment profession can deliver more value to society when higher levels of trust and better capital allocation reduce transaction costs and help meet client objectives. These reasons explain why practitioners, clients, regulators, and governments have supported the development of an investment management profession.

3.2. CFA Institute as an Investment Professional Body

CFA Institute is the largest global association of investment professionals. Created in the early 1960s, it moved beyond North America in the 1980s, reflecting the globalization of investment management. CFA Institute initiated a number of other changes in line with the growth of investment management. One significant change occurred in 2015, when CFA Institute decided to implement the highest standards of governance in the US not-for-profit sector. The Board of Governors resolved "to implement US Public Company Standards and US not-for-profit leading practices, unless the Board determines that it is not in the best interest of the membership or organization to do so."

The mission of CFA Institute is "to lead the investment profession globally, by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society." The CFA Institute Code of Ethics and Standards of Professional Conduct (Code and Standards) promote the integrity of members[2] and establish a model for ethical behavior. CFA Institute candidates and members must meet the highest standards among those established by CFA Institute, regulators, or the employer. Where client interests and market interests conflict, the Code and Standards set an investment professional's duty to market integrity as the overriding obligation. The advocacy efforts of CFA Institute aim to build market integrity by calling for regulations that align the interests of firms and clients.

As a professional body, CFA Institute gathers knowledge from practicing investment professionals, develops high-quality curricula, conducts rigorous examinations, and ensures

[2]Eligibility and requirements for becoming a member of CFA Institute vary by jurisdiction. Please consult https://www.cfainstitute.org for further details.

practitioner involvement in developing its codes and values. Through interactions with practicing investment professionals, CFA Institute has developed a body of knowledge for the investment profession. This body of knowledge is updated on an ongoing basis through a process known as practice analysis. Practice analysis helps ensure that the CFA Institute Global Body of Investment Knowledge (GBIK) and the CFA Program Candidates Body of Knowledge (CBOK) remain current and globally relevant. The CFA Program CBOK focuses on the core knowledge, skills, and abilities (competencies) that are generally accepted and applied by investment professionals. These competencies are used in practice in a generalist context and are expected to be demonstrated by a recently qualified CFA charterholder.

CFA Institute also contributes to the dissemination of new research and ideas in finance with the publication of the *Financial Analysts Journal* and CFA Institute Research Foundation monographs, research briefs, and literature reviews. In addition, Future of Finance develops CFA Institute thought leadership to help shape a more trustworthy, forward-thinking investment profession that better serves society

CFA Institute encourages members to engage in their professional communities and involves members in its initiatives, including through their local societies. CFA Institute assists local societies with providing continuing professional development that facilitate member engagement. In many jurisdictions, membership in a local society is an important route to maintaining professionalism, particularly for continuing professional development.

CFA charterholders and CFA Program candidates are required to adhere to the Code and Standards and to sign annually a statement attesting to that continued adherence. Charterholders and candidates must maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

4. EXPECTATIONS OF INVESTMENT PROFESSIONALS

> Thus, the issue faced by CFA charterholders and other financial industry participants is not choosing between professional values and business values. Rather, it is balancing that ever-competing pair in a way that places the best interests of consumers and clients above our own corporate and personal interests.
>
> All investment professionals . . . would do well to . . . develop a keener awareness of the "big picture" of our financial system, a profound introspection into how we can make it better, a knowledge of the long history of finance, and a deep involvement in fostering in our profession the highest character it requires if we are to serve investors effectively, honestly, and prudently in the years ahead.
>
> —John C. Bogle, "Balancing Professional Values and Business Values" (2017)

Characteristics and behavior expected of all professionals include honesty, integrity, altruism, continuous improvement, excellence, loyalty, and respect for colleagues, employers, and clients. Extremely high standards, but not perfection, are expected, including behavior in public. Professionals should, through their actions, uphold the reputation of their profession and be responsible, accountable, and reliable in their work. Professionals should reflect regularly about the cycle of self-improvement, starting with a self-assessment, identification of knowledge gaps, compiling a program of continuing professional development to fill those gaps, putting the new learning into practice, and then evaluating the results in order to inform the next cycle. Key duties of professionals are to provide independent advice, avoid or disclose conflicts of interest, and respect client information, objectivity, transparency, and confidentiality.

The behaviors expected will vary by profession, but some attributes are shared by most professions. These include the duty to be honest and open in dealings, which covers all aspects of professional practice, ranging from writing resumes, presenting advice, record keeping, and achieving—to the greatest extent possible—informed consent from clients. This means ensuring that clients understand the consequences of decisions, the range of outcomes, and risks. A client will not have the level of knowledge that the expert professional does, but the professional should not abuse this more specialized knowledge. There will at times be adverse outcomes for clients arising from errors in judgment and practice. Professionals should be prepared to acknowledge mistakes promptly, learn from them, and correct them, including making clients whole, where appropriate. Some professional codes state that professionals must disassociate themselves from any violation of laws or regulations. This means that individuals may need to act themselves in response to a concern even if they are unable to alter the conduct of others.

During their careers, investment professionals may encounter dilemmas, including those with ethical implications. How they choose to handle these can have important implications for clients, trust in their profession, their employer, and even their own career. The right balance between an employer's practice, codes, and standards may be unclear or nuanced. During these situations, investment professionals should not avoid responsibility for acting, but they do need to consider carefully how to determine the facts of the issue and assess the implications for clients, their employer, and their own career.

Investment professionals should understand how to apply judgment in relating the codes and standards of their professional body to their loyalty to their employer. Ethical behavior means that an investment professional must be able to balance competing interests and motivations even if that appears to create a personal disadvantage. At times, professionals may need courage to uphold the highest ethical standards. Utilizing a framework for ethical decision-making can help investment professionals analyze conduct in the case of conflicting interests. To prepare for dilemmas they may face, investment professionals should maintain and improve their ethical decision-making skills.

Professionals in general may opt to raise a concern with various parties, including the following:

- Colleagues or contemporaries
- Supervisors
- A firm's compliance or ethics officer
- A mentor outside the firm
- A professional body hotline
- Senior individuals in the firm
- A firm's whistleblowing (or "speak-up") line
- A regulator or law enforcement agency

When a dilemma occurs, raising an issue internally is often a good starting place and creates an opportunity for independent internal review. In seeking the advice of others, a professional should carefully consider confidentiality. An employer's compliance function may focus on protecting the firm from the risk or consequences of regulatory breaches. Protecting the client and the firm may take priority over the position of an individual professional raising a concern. It should be clear, however, that client interests supersede firm or individual interests in areas where there are regulatory consequences.

5. FRAMEWORK FOR ETHICAL DECISION-MAKING

Laws, regulations, codes of ethics, and professional standards of conduct can guide ethical behavior, but individual judgment is a critical ingredient in making principled choices and engaging in appropriate conduct. One strategy to increase trust in the investment profession is to increase the ability and motivation of market participants to act ethically and help them minimize the likelihood of unethical actions. Firms can enhance the ability and the motivation of their employees to act ethically by integrating ethics into all decision-making activities. An investment professional's natural desire to "do the right thing" can be reinforced by building a culture of integrity and accountability in the workplace. Development, maintenance, and demonstration of a strong culture of integrity within the firm by senior management may be the single most important factor in promoting ethical behavior among the firm's employees.

Adopting a code that clearly lays out the **ethical principles** that guide the thought processes and conduct the firm expects from its employees is a critical first step. But a code of ethics, although necessary, is insufficient. We need to exercise ethical decision-making skills to develop the ability necessary for fundamentally ethical people to make good decisions despite the reality of conflicts. A strong ethical culture built on a defined set of ethical principles that helps honest people engage in ethical behavior will foster the trust of investors, lead to robust global financial markets, and ultimately benefit society. That is why ethics matter.

5.1. Description of the Framework

When faced with decisions that can affect multiple stakeholders, investment professionals must have a well-developed set of principles. Otherwise, their thought processes can lead to, at best, indecision and, at worst, fraudulent conduct and destruction of the public trust. Establishing an ethical framework to guide an investment professional's internal thought process regarding how to act is a crucial step to engaging in ethical conduct.

Investment professionals are generally comfortable analyzing and making decisions from an economic (profit/loss) perspective. Given the importance of ethical behavior in carrying out professional responsibilities, it is also important to analyze decisions and their potential consequences from an ethical perspective. Using a framework for ethical decision-making will help investment professionals to effectively examine their choices in the context of conflicting interests common to their professional obligations (e.g., researching and gathering information, developing investment recommendations, and managing money for others). Such a framework provides investment professionals with a tool to help them adhere to a code of ethics and allows them to analyze and choose options to meet high standards of ethical behavior. By applying the framework and analyzing the particular circumstances of each available alternative, investment professionals are able to determine the best course of action to fulfill their responsibilities in an ethical manner.

An ethical decision-making framework helps a decision maker see the situation from multiple perspectives and pay attention to aspects of the situation that may be less evident with a short-term, self-focused perspective. The goal of getting a broader picture of a situation is to be able to create a plan of action that is less likely to harm stakeholders and more likely to benefit them. If a decision maker does not know or understand the effects of her or his actions on stakeholders, the likelihood of making a decision and taking action that harms stakeholders is more likely to occur, even if unintentionally. Finally, an ethical decision-making framework helps decision makers explain and justify their actions to a broader audience of stakeholders.

An ethical decision-making framework is designed to facilitate the decision-making process for all decisions. It helps people look at and evaluate a decision from multiple perspectives to identify important issues they might not otherwise consider. Using an ethical decision-making framework consistently helps develop sound judgment and decision-making skills and avoid making decisions that have unanticipated ethical consequences. Ethical decision-making frameworks come in many forms with varying degrees of detail. A general ethical decision-making framework is shown in **Exhibit 1**.

EXHIBIT 1 Ethical Decision-Making Framework

- Identify: Relevant facts, stakeholders and duties owed, relevant ethical principles and/or legal requirements, conflicts of interest
- Consider: Situational influences and behavioral biases, additional guidance, alternative actions
- Decide and act
- Reflect: Was the outcome as anticipated? Why or why not?

An ethical decision-making process includes multiple phases, each of which has multiple components. The process is often iterative, and the decision maker may move between phases in an order different from what is presented. For simplicity, we will discuss the phases sequentially.

In the first phase, you will want to identify the important facts that you have available to you, as well as information that you may not have but would like to have to give yourself a more complete understanding of the situation. It is helpful to distinguish between facts and personal opinions, judgments, and biases. You will also want to identify the stakeholders and the duties you have to each of them. You will then identify relevant ethical principles and/or legal requirements that might apply to the situation. You should also identify any potential conflicts of interest inherent in the situation or conflicts in the duties you hold to others. For example, your duty to your client may conflict with your duty to your employer.

In the second phase of ethical decision-making, you will take time to consider the **situational influences** as well as **behavioral biases** that could affect your thinking and thus decision-making. During this phase, you may seek additional guidance from trusted sources and you may turn to your compliance department for assistance or you may even consult outside legal counsel. Seeking additional guidance is a critical step in viewing the situation from different perspectives. You should seek guidance from someone, possibly external to the firm, who is not affected by the same situational influences and behavioral biases as you are and can, therefore, provide a fresh perspective. You should also seek guidance from your firm's policies and procedures and the CFA Institute Code and Standards. A helpful technique can be to imagine how an ethical peer or role model might act in the situation.

The third phase of ethical decision-making is to decide and act.

After you have acted on your decision, the fourth phase is to reflect on and assess your decision and its outcome. Was the outcome what you anticipated? Why or why not? Had you properly identified all the relevant facts, stakeholders and duties owed, relevant ethical principles and/or legal requirements, and conflicts of interest? Had you considered the situational influences? Did you identify behavioral biases that might affect your thinking? Had you sought additional guidance? Had you considered and properly evaluated a variety of alternative actions? You may want to reflect on the decision multiple times as the immediate and longer-term consequences of your decision and actions become apparent.

The ethical decision-making process is often iterative. After identifying the relevant facts and considering situational influences, you may, for example, decide that you cannot decide without more information. You may seek additional guidance on how to obtain the information you need. You may also begin considering alternative actions regarding how to proceed based on expectations of what the additional information will reveal, or you may wait until you have more information, reflect on what you have done and learned so far, and start the process over again. Sometimes cases can be complicated and multiple iterations may reveal that no totally acceptable solution can be created. Applying an ethical decision-making framework can help you evaluate the situation so you can make the best possible decision.

Using an ethical decision-making framework will help you evaluate situations from multiple perspectives, avoid poor decision-making, and avoid the consequences that can result from taking an ill-conceived course of action. Using an ethical decision-making framework is no guarantee of a positive outcome but may help you avoid making unethical decisions.

6. CHALLENGES FOR INVESTMENT PROFESSIONALS

New trends are reshaping the investment industry and the expectations of investment professionals. Such change is not new; the contracts between professions and society are constantly redefined. The erosion of trust in financial markets and institutions is shown in the "2017 Edelman Trust Barometer" (Edelman Intelligence 2017), which found "the largest-ever drop in trust across the institutions of government, business, media and NGOs [non-governmental organizations]." More specifically, the broad area of financial services ranked as the sector least trusted in both 2016 and 2017 when compared with the energy, consumer packaged goods, food and beverage, and technology sectors. The financial services industry is increasingly viewed as not managing conflicts of interest well.

Regulation has become increasingly commonplace across the world, in large part following the 2007–2008 global financial crisis, because of serious ethical breaches that occurred in financial markets and institutions. Some regulators now require investment advisers to belong to a professional body, adhere to an acceptable code of conduct, achieve a minimum level of relevant education, commit to continuing professional development, and comply with sanctions for any wrongdoing. Regulation has helped raise professional standards by making them a requirement for practice, although sometimes at the expense of the autonomy and flexibility required for professions to adapt and evolve.

Globalization has resulted in more common practice around the world and greater international harmonization of investment practices and regulation. This has, in turn, allowed global professional organizations, such as CFA Institute, to develop and expand their reach. Globalization may bring challenges, however, if large global investment firms seek to establish their own standards and practices that conflict with the codes of individual professional bodies.

Perhaps the greatest challenge for the investment profession comes from technology. Rapid advances in computing power, data storage, and internet connectivity threaten to alter the definition of professional expertise and how it is applied to serve investors. Already index replication, risk management, trade execution, asset allocation, algorithmic trading, and quantitative investment management are being automated, replacing or enhancing many of the functions of an investment professional. Developments in artificial intelligence are likely to accelerate this trend. The effects are many, from the need for evolved continuing education programs to new codes of practice and standards that recognize the growing intersection between human and artificial skill.

Making ethical decisions in an environment filled with challenges can be daunting. Practice with applying a framework for ethical decision-making can help prepare you for that.

7. SUMMARY

- A profession is an occupational group that has specific education, expert knowledge, and a framework of practice and behavior that underpins community trust, respect, and recognition.
- The requirement to uphold high ethical standards is one clear difference between professions and craft guilds or trade bodies.
- A primary goal of professions is to establish trust among clients and among society in general.
- Common characteristics of professions include normalization of practitioner behavior, service to society, client focus, high entry standards, a body of expert knowledge, encouragement and facilitation of continuing education, monitoring of professional conduct, collegiality, recognized overseeing bodies, and encouragement of member engagement.
- The investment profession has become increasingly global, driven by the opening of capital markets, coordination of regulation across borders, and the emergence of technology.
- Investment professionals are trusted to draw on a body of formal knowledge and apply that knowledge with care and judgment. In comparison to clients, investment professionals are also expected to have superior financial expertise, technical knowledge, and knowledge of the applicable laws and regulations.
- As a professional body, CFA Institute gathers knowledge from practicing investment professionals, develops high-quality curricula, conducts rigorous examinations, contributes to new research in finance, and ensures practitioner involvement in developing its codes and values.
- Legal standards are often rule based. Ethical conduct goes beyond legal standards, balancing self-interest with the direct and indirect consequences of behavior on others.
- Investment professionals are likely to encounter dilemmas, including those with ethical implications. Professionals should consider carefully how to determine the facts of the issue and assess the implications.
- A framework for ethical decision-making can help people look at and evaluate a decision from different perspectives, enabling them to identify important issues, make wise decisions, and limit unintended consequences.

- Regulation has helped raise professional standards by making them a requirement for practice, although sometimes at the expense of autonomy and flexibility.
- Perhaps the greatest challenge for the investment management profession comes from technology. Rapid advances in computing power, data storage, and internet connectivity are changing the definition of professional expertise and how it is applied to serve investors.

REFERENCES

Beaton, George Ramsay. 2010. "Why Professionalism is Still Relevant." University of Melbourne Legal Studies Research Paper No. 445. Available at SSRN: https://ssrn.com/abstract=1545509.

Bellis, C. S. 2000. "Professions in Society." *British Actuarial Journal* 6 (2): 317–64.

Bogle, John C. 2017. "Balancing Professional Values and Business Values." *Financial Analysts Journal* 73 (2): 14–23.

CFA Institute. 2017. "Future State of the Investment Profession." www.cfainstitute.org/learning/future/Documents/future_state_of_investment_profession.pdf

CFA Society UK. April 2016. "The Value of the Investment Profession: A Report on Stakeholders' Views." www.cfauk.org/-/media/files/pdf/professionalism/value-of-the-investment-profession-report.pdf

Edelman Intelligence. 2017. "2017 Edelman Trust Barometer" (17 January). https://www.edelman.com/trust2017/.

Graham, Benjamin. 1949. *The Intelligent Investor*. New York: HarperCollins.

Graham, Benjamin, and Dodd. 1934. *Security Analysis*. New York: McGraw-Hill.

Sanders, Deen, and Roberts. 2015. "Professionalisation of Financial Services." White Paper. https://www.psc.gov.au/sites/default/files/NEW-PSC%20Whitepaper_final.pdf.

PRACTICE PROBLEMS

1. High ethical standards are distinguishing features of which of the following bodies?
   A. Craft guilds
   B. Trade bodies
   C. Professional bodies

2. Fiduciary duty is a standard *most likely* to be upheld by members of a(n):
   A. employer.
   B. profession.
   C. not-for-profit body.

3. To maintain trust, the investment management profession must be interdependent with:
   A. regulators.
   B. employers.
   C. investment firms.

4. When an ethical dilemma occurs, an investment professional should *most likely* first raise the issue with a:
   A. mentor outside the firm.
   B. professional body's hotline.
   C. senior individual in the firm.