

PART I

LEARNING OBJECTIVES, SUMMARY OVERVIEW, AND PROBLEMS

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PROFESSIONALISM IN THE INVESTMENT MANAGEMENT

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.

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 judgement. 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.

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.