

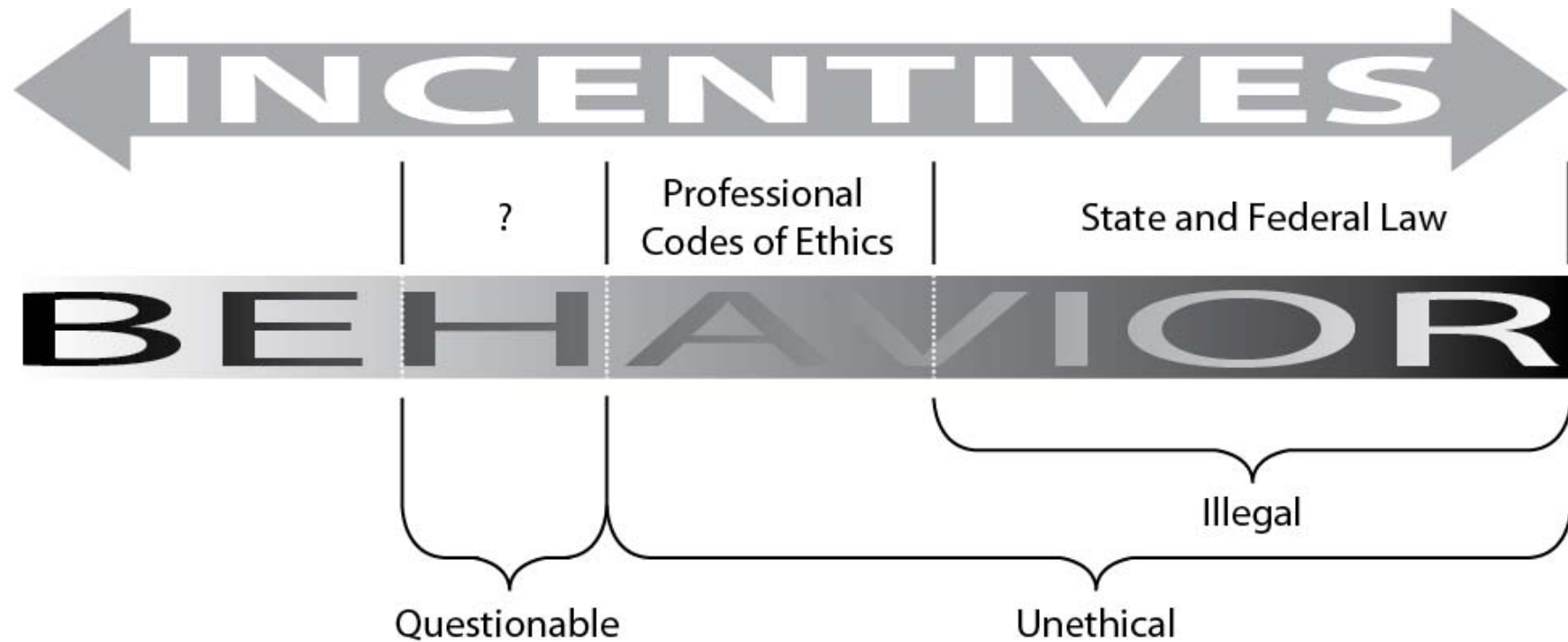


## Ethical Considerations

May 2012

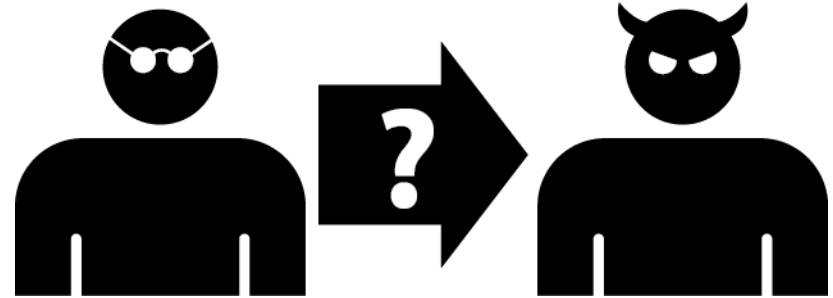
# Ethics Overview

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# Good People Doing Bad Things

Most people acting in a professional capacity don't intend to act unethically. Instead, unethical choices are often made in an effort to avoid a painful circumstance (e.g., owning up to large financial losses).



Painful Event

Avoidance

Assistance

# Business Decision or Ethical Choice

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Research shows that people make radically different decisions depending on their “frame of mind.” Individuals looking at something as a “business” issue will lean towards less ethical choices than if it is re-framed as an “ethical” issue.

# The Good and Bad of Boundaries

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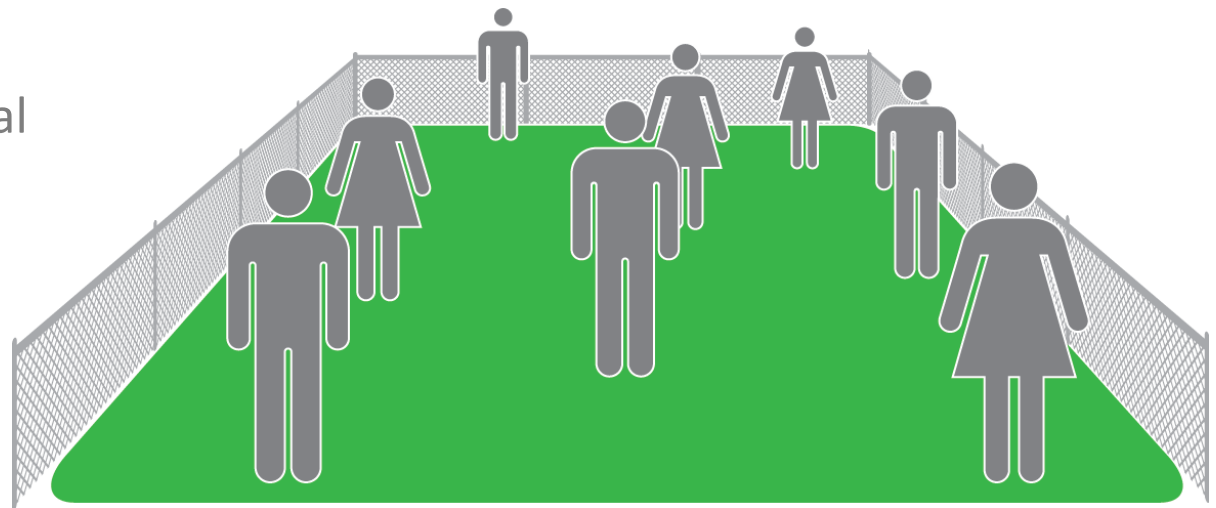
- Conceptual boundaries

- Encourage conceptual thinking
- Constrain operation creativity
- Adaptable to new circumstances



- Concrete boundaries

- Discourage conceptual thinking
- Allow operational creativity
- New circumstances pose problems

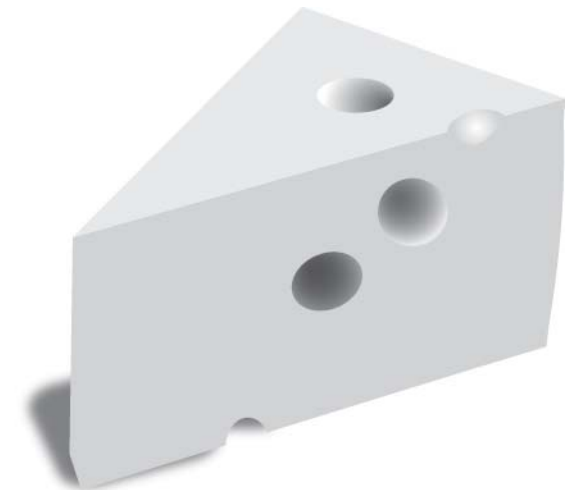


# Proper Incentives

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Incentives work to both ways. Poorly conceived incentives can actually encourage unethical behavior. Even if well constructed they may be prove ineffective if the incentive for unethical behavior proves even stronger.

Strong Incentive	Weak Incentive
<b>Concrete:</b> \$\$	<b>Abstract:</b> “Doing the right thing”
<b>Personal:</b> Helping Joe	<b>Impersonal:</b> Helping the company
<b>Simple:</b> Directly tied to a behavior	<b>Complex:</b> Difficult to associate to specific actions
<b>Certain:</b> Always happens	<b>Uncertain:</b> May or may not happen



# Ethics Should Be Top-Down

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- Communicated by Upper Management
- Consistent Message
- Continuously Reinforced
- Transparency
- Safe Violation Reporting Mechanisms
  - Anonymous
  - Easily accessed (web based)
  - Third Party



# Broken Windows Theory

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Refusal to deal with small and seemingly insignificant violations sends signals regarding the organization's priorities and what is normal, acceptable behavior.

Intentional or not, these signals give tacit approval to larger violations where incentives exist to commit them.



## Other Resources

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- CFA Institute Website  
(<http://www.cfainstitute.org/ethics/codes/Pages/index.aspx>)
  - CFA Code of Ethics
  - Global Investment Performance Standards (GIPS)
  - Sample Codes
    - Asset Managers
    - Pension Trustees
    - Endowments
- Investment Advisor Code of Ethics Requirement:  
<http://www.sec.gov/rules/final/ia-2256.htm>
- Ethics in the news: <http://tinyurl.com/cqts4t6>