CFA Societies Australia

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The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry
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To Whom It May Concern:

Re: CFA Societies Australia submission to the Hayne Royal Commission

On behalf of CFA Institute and CFA Societies Australia (which includes CFA Society Sydney, CFA Society Melbourne and CFA Society Perth), we welcome the opportunity to comment on The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry ("The Royal Commission").

CFA Institute ("CFA") represents investment professionals in the investment and financial services industry. We represent these professionals on issues that affect the integrity and accountability of global and local financial markets.

CFA and its member societies have a strong and credible voice and have been a constructive advocate globally for a strong culture of ethical practice and self-regulation. CFA's members are guided by a clearly defined Code of Ethics and Standards of Professional Conduct.

Out of more than 150,000 charterholders worldwide, about 3,000 charterholders in Australia hold professional positions across the financial services industry, ranging from fund managers and analysts to accountants and financial advisers. Our charterholders include some of the most highly-regarded members of the financial services industry in Australia and New Zealand.

As an association of like-minded individuals, we do not represent the interests of a single organisation or institution. Rather, we are an independent industry voice that is, by virtue of our defining mission, without conflicts of interest.

CFA seeks to build a stronger financial services industry in Australia by partnering with industry and regulators. Our aim is for members of the industry to be regarded by the community as highly competent and deserving guardians of their money and as trusted champions of their rights and interests.

This letter provides:

- Executive summary with CFA recommendations to the Royal Commission
- Introduction to CFA Code and Standards of Professional Conduct
- Background on the CFA Institute and CFA Societies of Australia
- Analysis of the environment which has led to misconduct, particularly relating to:
    1. Fiduciary duty in the investment management chain; and
    2. Organisational culture, governance and incentives
- Concluding remarks

CFA Societies Australia

Should you wish to discuss any aspects of this letter, the CFA Institute and the CFA Societies Australia would be very pleased to respond to any questions or to arrange a meeting with relevant local members and/or CFA Institute staff.

Please do not hesitate to contact us at exec@cfas.org.au.

Yours sincerely,

Mr. Nick Pollard Managing Director, Asia Pacific CFA Institute	Mr. Ganesh Suntharam, CFA President CFA Society Sydney
Mr. Graeme Bibby, CFA President CFA Society Melbourne	Mr. Robert Huth, CFA President CFA Society Perth

Executive Summary

Many factors have contributed to misconduct in the Australian financial services industry. Whether this has involved the compromise of financial advice or services by conflicts of interest or sales targets, or a lack of disclosure about investment risks or fees, much of the misconduct has been driven by organisations and employees within those organisations who have blatantly ignored their clients' best interests and their fiduciary duties to those clients.

Broadly speaking, across many financial service organisations, misconduct has stemmed from unethical conduct and an absence of organisational leadership on ethical matters.

In some cases, boards of companies and/or trustees of superannuation funds have collectively engaged in unethical behaviour to match that of some of their employees. For example, some institutions have allowed the practice of advisers charging fees for no service, even though it was broadly known that such conduct was illegal.

Furthermore, the structure of the industry has created an environment that promotes the interests of financial service organisations and some of their employees over those of consumers. This has been noted more commonly in organisations that own wealth management businesses and in advisory businesses offering advice on wealth management products.

In all instances, and independent of organisational structure, misconduct appears to persist unless organisations have clear policies and procedures in place for managing ethical challenges such as conflicts of interest, and regularly train staff in relation to their ethical and professional obligations.

In some cases, management of financial services organisations have allowed misconduct to continue by failing to implement ethical and professional conduct guidelines and/or turning a blind eye to the misconduct of their employees.

In this submission, CFA advocates that all Australian financial service organisations should be required to adopt standards and policies that promote professional and ethical behaviour by both individuals and management.

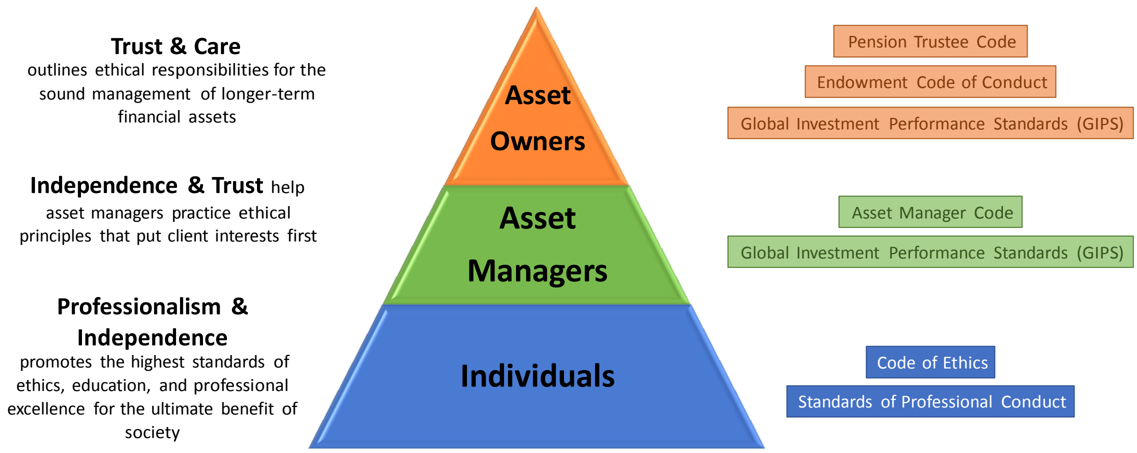
In particular, CFA recommends that financial services organisations:

- **Be required to adopt and implement a code of ethics and professional standards that embrace the fundamental ethical principles included in CFA Institute member and industry codes, outlined below.**
- **Require employees to sign a code of ethics and professional standards, which would increase the probability of the employees adhering to such guidelines.**
- **Provide relevant and ongoing ethics training to staff to ensure they are aware of expected ethical behaviour and are given tools to manage ethical challenges and to reinforce ethical standards.**
- **Adopt recruitment approaches that encourage diversity of their employees.**
- **Endorse the CFA Statement of Investor Rights and share Realize Your Rights with their clients**.
- **Provide consumers with an explanation of all fees and costs in relation to a financial product or service and the origin of those fees.**

Introduction to CFA codes and standards

In consultation with our member base and industry, CFA has created a set of codes, standards and guidelines that we believe form a comprehensive set of requirements for financial service organisations to move towards global best practice[1].

These codes, standards and guidelines span the investment management chain from individuals to asset managers to asset owners. A summary of this framework is shown schematically below:



These codes, standards and guidelines form an integral part of the CFA mission to develop and administer codes, best practice guidelines, and standards that guide the investment industry and help ensure all investment professionals place client interests first for the ultimate benefit of society.

As an example of our belief in the importance of ethical principles and rules to be implemented across all financial industry sectors, we have already provided comments to the Financial Adviser Standards and Ethics Authority's on their proposed Code of Ethics for Financial Advisers. In our letter dated 1 June 2018, we have expressed support for FASEA's introduction of a Code of Ethics, although we believe the Code would need to be further strengthened through the adoption of several of our recommendations set out in that letter (see Appendix IV).

<u>Background on the CFA Institute and CFA Societies of Australia</u>

CFA Institute is the leading global association of investment professionals and sets the standard for professional excellence and credentials. CFA administers the CFA® Program, CIPM® Program, and Investment Foundations™ certificate program and offers world-class education and professional development opportunities.

An acknowledged strength of CFA is that it has managed for many decades to establish and sustain the highest standards of technical, professional and ethical excellence within the global investment profession. Please see Appendix 1 for further details of local and global membership of the CFA Institute, the operation of the CFA Societies Australia and details of the CFA charter.

[1] CFA Institute: Codes, Standards & Guidelines (https://www.cfainstitute.org/en/ethics/codes)

The CFA Institute Code of Ethics and Standards of Professional Conduct
The CFA Institute Code and Standards (Appendix II of this letter) are fundamental to the values of CFA and essential to its mission of leading the investment profession globally by promoting the highest standards of ethics, education and professional excellence for the ultimate benefit of society.

The Code of Ethics is a set of six principles defining the overarching conduct that CFA expects from its members and CFA Program candidates. The Code of Ethics requires CFA members and candidates to do the following:

- Act with integrity, competence, diligence and respect, and in an ethical manner, when interacting with others as investment professionals.
- Protect the interests of clients as well as the integrity of the investment profession.
- Use reasonable care and prudent judgment when carrying out their responsibilities as investment professionals.
- Act in a professional and ethical manner when fulfilling their professional responsibilities and encourage other investment professionals to do the same.
- Work to promote the integrity and viability of global capital markets.
- Work to continuously maintain and improve their own professional competence and strive to improve the competence of other investment professionals, which can best be achieved by participating in continuing professional development activities.

In support of the principles-based Code of Ethics, the Standards of Professional Conduct are based on rules and require specific behaviour by CFA Institute members and candidates participating in the CFA Program. The Standards of Professional Conduct are organised into seven categories:

I. Professionalism
II. Integrity of Capital Markets
III. Duty to Clients
IV. Duty to Employers
V. Investment Analysis, Recommendations, and Actions
VI. Conflicts of Interest
VII. Responsibilities as a CFA Institute Member or CFA Candidate

The Asset Manager Code[2] applies the principles of the CFA Institute Code and Standards to the asset management industry, but does so *at the firm level* to strengthen a firm's ethical practices and compliance procedures.

Many asset management firms worldwide support the fundamental ethical principles of client loyalty, investment process, trading, compliance, performance and disclosure through compliance with the Asset Manager Code[3]. The Asset Manager Code can be used as a comprehensive starting point for newer and less established firms to clearly outline their obligations and expectations within their asset management organisations. For larger, more established firms, the Code provides a sound reference point for assessing internal policies against a globally recognised standard.

The CFA has a great deal of experience in working with global asset management firms on how the Asset Manager Code can help achieve a better outcome for all stakeholders. The CFA would be delighted to share our insights with the Royal Commission.

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[2] Please visit https://www.cfainstitute.org/ethics/codes/about-asset-manager-code
[3] Please visit https://www.cfainstitute.org/ethics/codes/about-asset-manager-code

In addition to the Asset Manager Code, CFA has developed several other codes and standards that could be used by a range of Australian financial service organisations.

The Pension Trustee Code[4] and the **Endowment Code of Conduct** outline the ethical responsibilities incumbent on the Trustee in relation to the sound management of longer-term financial assets. These codes highlight the imperative for trustees initially to establish a clear mission for the superannuation scheme and then to establish policies that support this mission. The establishment of a clear mission is one of 10 fundamental ethical principles which can be universally applied by fund trustees regardless of fund type.[5]

The codes advocate for trustees to meet obligations of best interests, reasonable care, competence, independence, scheme mission, confidentiality and transparency. By adopting these codes, trustees can establish an ethical framework for governing board members and showing their commitment to the best interests of pension participants and beneficiaries.

To support individuals and organisations in terms of the practical application of CFA codes and standards, CFA through its Research Foundation and well-regarded publications such as the Financial Analysts Journal (FAJ) has published numerous papers and books to inform and guide readers on ethics.

By example, the book *"A Primer For Investment Trustees: Understanding Investment Committee Responsibilities"*[6] (2017) provides a comprehensive discussion of the investment issues relevant to investment trustees. This book is designed to provide a step-by-step walk-through of the process of responsible trusteeship, with practical examples in areas such as governance structure, investment policy and ethics. These Research Foundation publications are offered free to all market participants to promote the highest standards of ethics within financial markets.

Finally, the **Global Investment Performance Standards (GIPS®)** was first established in 1987, making it one of the earliest standards of CFA. It is a globally recognised standard that outlines an industry-wide ethical framework to guide investment firms on how to calculate and present their investment results to prospective clients. This standard, which is applicable to both asset owners and asset managers, covers principles such as fair representation of performance, standardisation of performance calculation methodology, and treatment of composites, unlisted assets, wraps and separately managed accounts, as well as compliance and verification.

CFA's ongoing commitment to ethics and professionalism in the investment management profession is entrenched in these codes and standards. **The investment industry should work for the ultimate benefit of society, and this goal cannot be achieved without the highest possible standards of professional and ethical conduct.**

1. Fiduciary duty in the investment management chain

a. Current application of fiduciary duty in Australia

[4] Also referred to as the *Code of Conduct for Members of a Pension Scheme Governing Body*
[5] Please see https://www.cfainstitute.org/en/ethics/codes/pension-trustee-code
[6] Please see https://www.cfainstitute.org/en/research/foundation/2017/a-primer-for-investment-trustees

The investment industry's role is that of a fiduciary towards consumers who entrust their money to investment professionals. However, self-regulation and governance in the investment and banking industry, including current industry codes of conduct, are not always adequate to encourage financial service organisations and individuals within these organisations to carry out this duty.

While some professionals such as bankers have their own codes or forms of self-regulation, these codes either do not govern or guide ethical or fiduciary behaviour or are insufficient in governing these obligations.

For example, in the Code of Banking Practice 2013[7] of the Australian Banking Association, "ethics" is not mentioned, nor is "misconduct" or "inappropriate" or "best interests". That misconduct in the banking sector has been an ongoing concern is not helped by the lack of ethical guidelines in the Code of Banking Practice.

In the financial advice industry, the legislative duty to act in the best interests of clients in relation to the provision of personal advice to a retail client (the best interests duty) has been law for several years. Despite this, conflicts of interest and misconduct have been common. As noted above, this is in part due to the vertical integration of the large financial services companies and a sales-driven and inducements culture within those organisations. Combined with a lack of legislative or industry ethics and professional conduct guidelines, this has arguably exacerbated misconduct.

Given the diverse nature of many financial service firms and the increasing integration across business lines, it is important for all financial services organisations to remain vigilant in managing ethical and professional challenges within their businesses.

CFA believes the existing CFA codes, standards and guidelines, which span the investment management chain, provide a global benchmark for all financial services organisations and individuals in relation to expectations around professionalism and ethics.

While CFA has been a strong proponent of self-regulation, we recognise there are challenges, particularly in a climate of consumer distrust. As CFA analysis shows[8], the authority to create and enforce rules and policies, maintain effective surveillance, supervise, and exercise enforcement powers is key to a successful self-regulatory system.

b. International experiences

Ethical challenges are not limited to Australia. In the CFA paper, *Restricting Sales Inducements: Perspectives on the Availability and Quality of Financial Advice for Individual Investors*[9] (2013), it was noted:

> *Mis-selling, from the Lehman minibonds scandals in Hong Kong and Singapore at the height of the financial crisis, to the selling of payment protection insurance (PPI) in the United Kingdom, to the selling of hybrid products to retail investors in Spain, has often been driven by sales and distribution structures with inherent conflicts of interest. Such structures can incentivise advisers and other financial professionals to*

[7] Please see https://www.ausbanking.org.au/images/uploads/2013_ABA_CODE.pdf
[8] https://www.cfainstitute.org/en/advocacy/policy-positions/self-regulation-in-the-securities-markets-transitions
[9] https://www.cfainstitute.org/en/advocacy/policy-positions/restricting-sales-inducements-perspectives-on-the-availability-and-quality-of-financial-advice-for

put their own interests above the needs of their clients. In addition, many investors simply do not understand the complex series of costs and fees included in the financial products they purchase—costs that are not always disclosed in the most transparent manner.

Misconduct and unethical behaviour remain common. In March 2018, in collaboration with CFA Institute, CFA® Societies and member groups (CFA Societies) in Asia-Pacific (APAC) surveyed their members to uncover common ethical issues seen in the investment industry, and to identify what resources could support better ethical decision-making and a more ethical firm culture.

Of the 861 members who responded to the survey, 95% were CFA charterholders and 41% had more than 10 years of investment management industry experience.[10] A summary of the survey is shown in the following figure.

The survey found that the most common types of unethical conduct experienced in the APAC investment management industry were:

- not considering product suitability before selling to or investing for clients (41%);
- not disclosing conflicts of interest to clients and/or employers (33%); and
- not using reasonable care and prudent judgement to achieve or maintain independence and objectivity (31%).

More than one quarter of respondents (27%) noted that their firms have never provided ethics training to employees. In smaller firms (less than US$1 billion in assets under management (AUM)), the number was 37%, versus only 4% for firms with more than US$100 billion in AUM.

These statistics reinforce the value of the CFA Institute Asset Manager Code to asset management firms, regardless of their business nature, size or location.

New or small firms that do not have well-developed policies and procedures can use the Asset Manager Code as a model for establishing a rigorous code of conduct that meets

[10] The following countries participated in the survey: China, Hong Kong, Japan, Korea, Australia, New Zealand, Taiwan, Bangladesh, India, Indonesia, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka and Thailand.

global best practices. Larger firms can refine their compliance practices and procedures by comparing their policies with the requirements of the Asset Manager Code.

c. Informing customers of their rights

The CFA developed the “Statement of Investor Rights” (Appendix V) to advise buyers of financial service products about the conduct they are entitled to expect from financial service providers. These rights reflect the fundamental ethical principles that are critical to achieving confidence and trust in any professional relationship. The list applies to financial products and services such as investment management, research and advice, personal banking, stock broking, insurance and real estate.

Under the CFA Statement of Investor Rights, CFA has identified a list of 10 “investor rights” that any investor should expect from their financial services provider. These are:

1. Honest, competent, and ethical conduct that complies with applicable law;
2. Independent and objective advice and assistance based on informed analysis, prudent judgment, and diligent effort;
3. My financial interests taking precedence over those of the professional and the organisation;
4. Fair treatment with respect to other clients;
5. Disclosure of any existing or potential conflicts of interest in providing products or services to me;
6. Understanding of my circumstances, so that any advice provided is suitable and based on my financial objectives and constraints;
7. Clear, accurate, complete and timely communications that use plain language and are presented in a format that conveys the information effectively;
8. An explanation of all fees and costs charged to me, and information showing these expenses to be fair and reasonable;
9. Confidentiality of my information; and
10. Appropriate and complete records to support.

When financial professionals abide by these rights, all financial service organisations will be helped to build trust with consumers and thereby collectively to restore trust, respect and integrity in finance.

CFA Recommendation: **CFA recommends that all financial service professionals selling investment products endorse the Statement of Investor Rights (Appendix V) and share Realize Your Rights. (Appendix VI)**

d. Recommendations on ethics codes and standards

The CFA Institute Code and Standards (Appendix II) includes several important ethical standards that CFA believes are important for raising the standards of ethical behaviour and professionalism in the Australian investment management industry.

Several of our standards help to address consumer detriments that have arisen in financial advice and elsewhere in the investment industry. For example:

- *Standard I(B) Independence and Objectivity;*
- *Standard III(A) Loyalty, Prudence, and Care;*

- *Standard III(C) Suitability;*
- *Standard V(A) Diligence and Reasonable Basis; and*
- *Standard VI(C) Referral Fees*

The objective of these standards is to help professionals act professionally and ethically when they discharge their professional duties, to put their clients' interests first to avoid conflicts of interest, and to protect their clients' interests by using their professional knowledge and skills.

Importantly, the CFA system to ensure compliance with its Code and Standards works effectively; all CFA charterholders are held to the same high standards and the compliance and disciplinary procedures are clearly defined and communicated. Their importance is understood by all CFA members, who each year re-commit to the Code and Standards.

As a self-regulatory organisation, CFA has a Professional Conduct group that enforces its Code and Standards. The significant effort required to become a CFA charterholder – which includes passing three rigorous exam levels, with a reported combined preparation time of 1,000 hours – is a disincentive to professional misconduct. As a further disincentive to misconduct, CFA has an effective disciplinary process for investigating and sanctioning misconduct.

However, an industry code of conduct is only part of the process that is required to make the financial services industry more ethical. Regulations that entrench the obligation of individuals to act ethically and in the best interests of clients, combined with a code of ethics, would provide a solid foundation for a financial services industry that works for the benefit of the public. If subscribing and adhering to ethical codes is voluntary, the potential for misconduct is greater.

CFA Recommendations:

CFA recommends that financial services organisations be required to adopt and implement a code of ethics and professional standards that embrace the fundamental ethical principles included in CFA Institute member and industry codes. These codes and standards span the investment management chain, providing a minimum benchmark for organisations.

CFA recommends that financial service organisation should require employees to sign applicable codes of ethics and professional standards, which would improve the probability of employees adhering to such guidelines.

2. Organisational culture, governance and incentives

a. Adequacy of practitioner training and qualifications

Current practitioner training in many areas of financial services is insufficient in that ethics training is sometimes absent from professional training or voluntary, whether it is for bankers, fund managers, insurance professional or others.

As we recommend above, adherence to a code of ethics is essential to promoting ethical conduct in the financial services industry. Furthermore, education and professional training

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that reinforce ethical behaviour are also important. With this in mind, we support FASEA's efforts to introduce a Code of Ethics for financial advisers.

Research indicates, for example, that with the right tools employed, cognitive changes regarding ethical decision-making can be achieved in just a few weeks.[11] Another paper which examined the behaviour of bank employees found long lasting positive effects from formal ethics training – those effects persisted two years after a single ethics training session.[12]

Continuing professional development (CPD) is another means of ensuring industry professionals are competent, ethical and professional. Ethics should, therefore, be a component of the CPD programs offered by government agencies or industry associations. The CFA's CPD program includes ethics as a core component.

Continued reinforcement of ethics is a key area of work for CFA. As well as providing training and accreditation to future professionals through the CFA Program, CFA offers ongoing ethics education and support to existing members so that they can serve their clients better.[13]

CFA has developed an Ethical Decision-Making (EDM) Framework (Appendix III), which is a tool used by investment professionals globally to analyse and evaluate ethical scenarios in the investment profession. The Identify-Consider-Act-Reflect framework advances a decision-making structure for situations that often fall outside the clear definitions of "right" and "wrong". The framework provides a summary of the key elements involved in making ethical decisions and can be a useful practical guide for professional ethical decision-making.

To this end, CFA offers several solutions to ensure investment professionals remain aware of their ethical responsibilities.[14] Please see Appendix VII for further details.

CFA Recommendation:

CFA recommends that financial service organisations provide appropriate and ongoing ethics training opportunities to staff to ensure that they: i) are aware of expected ethical behaviour; (ii) are given tools to manage ethical challenges; and (iii) are given ongoing training to reinforce and encourage ethical standards of behaviour.

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[11] Jones, D.A., 2009. A novel approach to business ethics training: Improving moral reasoning in just a few weeks. *Journal of Business Ethics*, *88*(2), pp.367-379.

[12] Warren, D.E., Gaspar, J.P. and Laufer, W.S., 2014. Is formal ethics training merely cosmetic? A study of ethics training and ethical organizational culture. *Business Ethics Quarterly*, *24*(1), pp.85-117.

[13] CFA has created videos and other ethics resources, including the following:

- http://cfainstitute.gallery.video/cfaethics
- https://www.cfainstitute.org/en/ethics/ethical-decision-making
- https://info.cfainstitute.org/ethics-resource-center.html

[14] https://www.cfainstitute.org/ethics/ethical-decision-making

b. Diversity and recruitment

Diversity is a hallmark of an effective organisation but, too often, the investing profession fails to apply that approach to building its teams. It is very important that we reflect the societies that we represent. Moreover, having a diversity of opinion has been shown to result in better decisions. Diversity of gender or sexuality or culture are all critical elements to making a stronger industry and to avoiding a "mates club" culture such as that which encouraged some professionals and organisations to turn a blind eye to the unprofessional and unethical conduct of their colleagues.

Research indicates that the presence of women reduced the severity of fraud within our sample. The effect of women is stronger in male-dominated industries, with respect to reducing both the frequency of appearances in our fraud sample and the severity of the fraud.[15]

Through our Women in Investment Management initiative, scholarship programs, and other efforts, CFA advocates for diversity in the investment industry. CFA's "Let's Measure Up" campaign is part of its work to promote the highest possible standards in the investment industry. The global campaign, which was launched earlier this year, focuses on the areas of ethics, diversity, investor rights, transparency and expertise.

CFA Institute has taken several steps to promote diversity within its own organisation. It is a member of the 30% Club, which promotes the presence of women on boards. CFA set itself the target of making sure 30% of its own board is female, an aim it has achieved. A third of CFA Board of Governors members are women. CFA expects 50% of governors to be women within the next two board cycles.

CFA also has a diversity inclusion team that works with CFA Societies in various countries to help educate members about the importance of having a range of different voices. This can strengthen governance within organisations, promote diversity of opinion and talent, and support fairer outcomes, all of which work to reduce the risk of misconduct.

CFA Recommendation:

CFA recommends that financial service organisations adopt recruitment approaches that encourage diversity among their employees. Nurturing diverse talents to become leaders introduces different skills and ways of thinking and, importantly, can help prevent the development of a "mates club" culture that can encourage unethical ways of doing business and discourage alternative voices.

c. Alignment of incentives and consumer outcomess

The vertically integrated structure of financial service organisations, and the sales-driven culture of those organisations, including remuneration incentives and a lack of independence regarding which products can be recommended, has led to a misalignment between business and consumer outcomes. This has been conducive to the giving of financial advice and the provision of financial services more generally that have at times been driven by a profit incentive rather than the best interests of consumers.

[15] Cumming, D., Leung, T.Y. and Rui, O., 2015. Gender diversity and securities fraud. Academy of management Journal, 58(5), pp.1572-1593.

A code of ethical conduct would help to align organisations with their customers, to whom they owe a fiduciary duty, and would encourage the required change in attitudes and practices.

CFA believes that adherence to a strong code of ethics promotes the alignment of business outcomes with consumers' interests. When we make investing and the provision of financial services more client-focused, our society will reap the benefits and trust in the financial services industry will grow.

In addition, greater transparency should be part of any solution aimed at addressing mis-selling, because simplified disclosures that give investors the information they need to make informed decisions can only improve the investment experience. Investors need to be informed about all the fees that they are paying and about the origin of those fees, whether this origin is the adviser, the distributor or any other participant.

Such disclosure is addressed by CFA Standards I (B) and (C) (Independence and Objectivity and Misrepresentation, respectively), III (A) (Loyalty, Prudence and Care) and (B) (Fair Dealing) and Standard V (B) (Communication with Clients and Prospective and Clients). (See Appendix 1).

CFA Recommendation:

CFA recommends that transparency should start with financial service organisations providing consumers with an explanation of all fees and costs in relation to the financial product and the origin of those fees (whether they originate from the adviser, the distributor or any other participant).

Conclusion

Hearings at the Hayne Royal Commission have highlighted that much work needs to be done by the financial services industry to regain the community's trust and to be viewed as competent, deserving and trusted guardians of their retirement savings and investments and as advocates for their rights and interests.

In some instances, fundamental changes are required at many Australian financial service organisations to reduce the incidence of professional and ethical misconduct. The misconduct by some financial service organisations and individuals within those organisations has occurred because sales incentives, revenue targets and an organisation's interests have been promoted over those of consumers.

A code of ethical conduct will help to align organisations with their customers, to whom they owe a fiduciary duty.

To bring about this change, CFA recommends that financial service organisations:

1. **Be required to adopt and implement a code of ethics and professional standards;**
2. **Require employees to sign a code of ethics and professional standards;**
3. **Provide consumers with an explanation of all fees and costs in relation to a product or service and the origin of those fees;**
4. **Provide ethics training to staff to ensure they are aware of expected ethical behaviour and are given tools to manage ethical challenges; and**
5. **Adopt recruitment approaches that encourage diversity among their employees.**

APPENDIX I

Overview of CFA Institute and of CFA Society Australia

CFA Institute
CFA Institute is the leading global association of investment professionals and sets the standard for professional excellence and credentials. Our mission is to lead the investment profession globally by promoting the highest standards of ethics, education and professional excellence for the ultimate benefit of society.

CFA Institute champions ethical behaviour in investment markets and is a respected source of knowledge in the global financial community. Our end goal is to create an environment where investors' interests come first and markets function efficiently for the ultimate benefit of all members of society. The Institute is a non-profit organisation and the revenue required to fulfil our stated mission is sourced from membership and candidate fees.

CFA Institute has more than 150,000 members in 165+ countries and territories, and 150 member societies. The CFA Program is set at a very high standard where the pass rates typically average 50% at each level each year. For more information, please visit www.cfainstitute.org.

CFA Societies of Australia
CFA Societies Australia is a non-profit organisation representing the local member societies of Sydney, Melbourne and Perth, which are member societies of CFA Institute.

In Australia there are around 3,000 CFA charterholders in professional positions ranging from financial advisers and financial planners to fund managers and analysts to accountants. Our membership includes some of the most highly-regarded members of the financial services industry, including members employed by regulators in Australia.

Our aim is to help connect members to a global network of investment professionals and to promote fairness and integrity across the investment industry. Our CFA Societies Australia membership base includes portfolio managers, security analysts, financial advisers, financial planners and other financial professionals who:

- Promote ethical and professional standards within the investment industry;
- Encourage professional development through the CFA Program and continuing education;
- Facilitate the exchange of information and opinions among people within the local investment community and beyond; and
- Work to further the public's understanding of the CFA designation and investment industry.

For more information, please visit www.cfa-australia.com.au

CFA Societies Australia

The CFA charter

The CFA charter is a challenging and widely respected global post-graduate level investment management credential, with a recognised commitment to ethics and professionalism in the investment industry. Importantly, the comprehensive nature of the CFA program, through its three levels, prepares financial advisers to advise and service their clients in a competent, professional and ethical manner.

As well as meeting “professional conduct admission criteria”, entry into the CFA Program requires:

- Undergraduate education: Candidates much hold a bachelor's (or equivalent) degree or be in the final year of a bachelor's degree program. Candidates must complete their bachelor's degree program in order to register for the Level II exam;
- Work experience: Four years of professional work experience (does not have to be investment related); or
- A combination of professional work experience and education that totals at least four years. Part-time positions do not qualify, and the four-year total must be accrued prior to enrolment.

https://www.cfainstitute.org/programs/cfa/register/enrollment-requirements

Earning the CFA charter requires the passing of a series of three examinations and four years of professional work experience.

CFA Level I focuses on a knowledge of 10 topic areas as defined in the CFA Program Candidate Body of Knowledge (“CBOK”) and analysis using investment tools. This level can enhance advisers’ understanding of investment principles, including portfolio theory. The Body of Knowledge is revised each year, after the incorporation of results from worldwide member surveys.

CFA Level II emphasises the application of investment tools and concepts with a focus on the valuation of all types of assets. Level III of the CFA examination focuses on synthesising all the concepts and analytical methods in a variety of applications for effective portfolio management, wealth planning and financial advice.

In the past five years, more than 10,000 candidates have taken our CFA Program examination annually in Australia. As well, a growing number of university students have taken the exam.

Total number of candidates		**2013**	**2014**	**2015**	**2016**	**2017**
	Australia	5,713	5,251	5,376	6,074	10,513
	Global	212,129	210,378	225,014	270,152	320,221

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APPENDIX II – CFA Code and Standards of Professional Conduct

CFA Institute

CODE OF ETHICS AND STANDARDS OF PROFESSIONAL CONDUCT

PREAMBLE

The CFA Institute Code of Ethics and Standards of Professional Conduct are fundamental to the values of CFA Institute and essential to achieving its mission to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. 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, revocation of candidacy in the CFA Program, and revocation of the right to use the CFA designation.

THE CODE OF ETHICS

Members of CFA Institute (including 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 and viability of the global capital markets for the ultimate benefit of society.
- 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.

B. Fair Dealing. Members and Candidates must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities.

C. Suitability.

1. When Members and Candidates are in an advisory relationship with a client, they must:
    a. Make a reasonable inquiry into a client's or prospective client's investment experience, risk and return objectives, and financial constraints prior to making any investment recommendation or taking investment action and must reassess and update this information regularly.
    b. Determine that an investment is suitable to the client's financial situation and consistent with the client's written objectives, mandates, and constraints before making an investment recommendation or taking investment action.
    c. Judge the suitability of investments in the context of the client's total portfolio.
2. When Members and Candidates are responsible for managing a portfolio to a specific mandate, strategy, or style, they must make only investment recommendations or take only investment actions that are consistent with the stated objectives and constraints of the portfolio.

D. Performance Presentation. When communicating investment performance information, Members and Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete.

E. Preservation of Confidentiality. Members and Candidates must keep information about current, former, and prospective clients confidential unless:

1. The information concerns illegal activities on the part of the client or prospective client,
2. Disclosure is required by law, or
3. The client or prospective client permits disclosure of the information.

IV. DUTIES TO EMPLOYERS

A. Loyalty. In matters related to their employment, Members and Candidates must act for the benefit of their employer and not deprive their employer of the advantage of their skills and abilities, divulge confidential information, or otherwise cause harm to their employer.

B. Additional Compensation Arrangements. Members and Candidates must not accept gifts, benefits, compensation, or consideration that competes with or might reasonably be expected to create a conflict of interest with their employer's interest unless they obtain written consent from all parties involved.

C. Responsibilities of Supervisors. Members and Candidates must make reasonable efforts to ensure that anyone subject to their supervision or authority complies with applicable laws, rules, regulations, and the Code and Standards.

V. INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTIONS

A. Diligence and Reasonable Basis. Members and Candidates must:

1. Exercise diligence, independence, and thoroughness in analyzing investments, making investment recommendations, and taking investment actions.
2. Have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action.

B. Communication with Clients and Prospective Clients. Members and Candidates must:

1. Disclose to clients and prospective clients the basic format and general principles of the investment processes they use to analyze investments, select securities, and construct portfolios and must promptly disclose any changes that might materially affect those processes.
2. Disclose to clients and prospective clients significant limitations and risks associated with the investment process.
3. Use reasonable judgment in identifying which factors are important to their investment analyses, recommendations, or actions and include those factors in communications with clients and prospective clients.
4. Distinguish between fact and opinion in the presentation of investment analysis and recommendations.

C. Record Retention. Members and Candidates must develop and maintain appropriate records to support their investment analyses, recommendations, actions, and other investment-related communications with clients and prospective clients.

VI. CONFLICTS OF INTEREST

A. Disclosure of Conflicts. Members and Candidates must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and employer. Members and Candidates must ensure that such disclosures are prominent, are delivered in plain language, and communicate the relevant information effectively.

B. Priority of Transactions. Investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner.

C. Referral Fees. Members and Candidates must disclose to their employer, clients, and prospective clients, as appropriate, any compensation, consideration, or benefit received from or paid to others for the recommendation of products or services.

VII. RESPONSIBILITIES AS A CFA INSTITUTE MEMBER OR CFA CANDIDATE

A. Conduct as Participants in CFA Institute Programs. Members and Candidates must not engage in any conduct that compromises the reputation or integrity of CFA Institute or the CFA designation or the integrity, validity, or security of the CFA Institute programs.

B. Reference to CFA Institute, the CFA Designation, and the CFA Program. When referring to CFA Institute, CFA Institute membership, the CFA designation, or candidacy in the CFA Program, Members and Candidates must not misrepresent or exaggerate the meaning or implications of membership in CFA Institute, holding the CFA designation, or candidacy in the CFA program.

APPENDIX III – Ethical Decision-Making (EDM) Framework

THE CFA INSTITUTE ETHICAL DECISION-MAKING FRAMEWORK

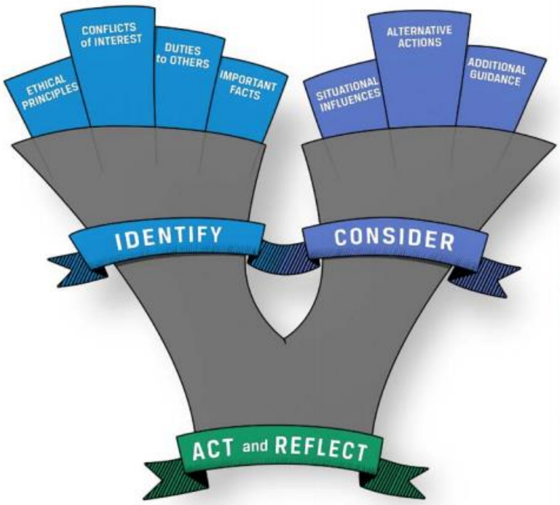
The CFA Institute Ethical Decision-Making Framework is a tool for analyzing and evaluating ethical scenarios in the investment profession. The Identify–Consider–Act–Reflect framework advances a decision-making structure for situations that often fall outside the clear confines of "right" and "wrong." Neither a linear model nor checklist, the framework provides a summary of the key elements of making ethical decisions. The framework is offered with the understanding that there likely will be additional influences, conflicts, and actions unique to each ethical scenario and beyond those detailed below.

IDENTIFY

- ETHICAL PRINCIPLES: Which fundamental investment profession principles—fair dealing, full disclosure, loyalty, or diligence (among others)—are at issue?
- DUTIES TO OTHERS: To whom do you owe a duty—your client(s), employer, colleagues, and/or others? Some duties, such as protecting the integrity of the capital markets, may be more important than others.
- IMPORTANT FACTS: What facts do you know and what additional information do you need to make an informed decision?
- CONFLICTS OF INTEREST: Are there any encumbrances, relationships, or incentives influencing your actions?

ACT

- BY MAKING A DECISION: The specific action required may vary based on the individual aspects of the situation. Your decision may require multiple actions or steps, or none at all.
- BY ELEVATING THE ISSUE TO A HIGHER AUTHORITY: Alternatively, the best course of action may be to elevate your concerns to a more appropriate party. You may remain connected to the scenario, so you may need to follow up with the other individual to ensure appropriate action is taken.



CONSIDER

- SITUATIONAL INFLUENCES: Are outside pressures (such as conformity to group opinion, obedience to authority) or internal biases (such as overconfidence) affecting your decision making?
- ALTERNATIVE ACTIONS: Have you brainstormed multiple solutions and avoided a particular preconceived path?
- ADDITIONAL GUIDANCE: Have you sought the independent, objective assessment of other parties to gain additional perspective?

REFLECT

- ON WHAT YOU'VE LEARNED: Once you have taken action, take the time to review the path taken. The lessons you learn will help you reach ethical decisions more quickly in the future.
- ON STRENGTHS AND WEAKNESSES: Regardless of whether your decisions and actions bring about positive or negative consequences, understanding your strengths and weaknesses will help you make ethical decisions in the future.

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APPENDIX IV – Letter to FASEA on its proposed Code of Ethics

Appendix V – CFA Institute Statement of Investor Rights

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CFA INSTITUTE STATEMENT OF INVESTOR RIGHTS

The "Statement of Investor Rights" was developed by CFA Institute to advise buyers of financial service products of the conduct they are entitled to expect from financial service providers. These rights reflect the fundamental ethical principles that are critical to achieving confidence and trust in any professional relationship. The list applies to financial products and services such as investment management, research and advice, personal banking, insurance and real estate. Whether you are establishing an investment plan, working with a broker, opening a bank account or buying a home, the Statement of Investor Rights is a tool to help you get the information you need and the service you expect and deserve. **Demanding that financial professionals abide by these rights helps you build trust in the person and/or firm you engage with, and thereby collectively restore trust, respect, and integrity in finance.**

WHEN ENGAGING THE SERVICES OF FINANCIAL PROFESSIONALS AND ORGANIZATIONS, I HAVE THE RIGHT TO...

1. **Honest**, competent, and ethical conduct that complies with applicable law;
2. Independent and **objective** advice and assistance based on informed analysis, prudent judgment, and diligent effort;
3. My financial **interests** taking precedence over those of the professional and the organization;
4. **Fair** treatment with respect to other clients;
5. Disclosure of any existing or potential **conflicts** of interest in providing products or services to me;
6. **Understanding** of my circumstances, so that any advice provided is suitable and based on my financial objectives and constraints;
7. Clear, accurate, complete and timely **communications** that use plain language and are presented in a format that conveys the information effectively;
8. An explanation of all **fees** and costs charged to me, and information showing these expenses to be fair and reasonable;
9. **Confidentiality** of my information;
10. Appropriate and complete **records** to support the work done on my behalf.

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Appendix VI – CFA Institute Realize Your Rights

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REALIZE YOUR RIGHTS

Using the Statement of Investor Rights to Find the Right Financial Professional

The Statement of Investor Rights is a tool to help investors clarify what to expect from a financial professional. The questions inside correspond to each of the investor rights and should help you determine whether the person or firm you hire is willing to put your interests first and is committed to the ethical principles critical to achieving your goals.

investorrights.cfainstitute.org

Ask These Questions	What This Means for You
1. ***Honest**, competent, and ethical conduct that complies with applicable law* • Is your practice governed by an ethical or professional code of standards, and may I have a copy? • Are you and your firm familiar with and willing to abide by the Statement of Investor Rights?	It is important that investors consider factors beyond historical performance when hiring a financial professional. Look for someone who demonstrates integrity and adheres to professional codes and ethical standards. One such code is the Asset Manager Code (AMC), a voluntary code of conduct developed by CFA Institute. The AMC was created to help investors easily identify asset managers who uphold an ethical foundation that promotes transparency and resolves conflicts of interest in favor of investors.
2. *Independent and **objective** advice and assistance based on informed analysis, prudent judgment, and diligent effort* • Who will be working on my portfolio, and what are their credentials and experience? • What happens to my portfolio if you or members of the team leave the firm? • Can you provide me with examples of the analysis and process you perform to arrive at investment decisions?	The key consideration is that the person or team you have identified is careful, judicious, and diligent. CFA® charterholders have proven their investment knowledge and annually attest to a code of ethics and professional standards. You should understand the firm's depth of expertise and what might happen if your main contact moves to another firm. It is important to understand the investment philosophy and the decision-making processes of the team that you are entrusting your money to.
3. *My financial **interests** taking precedence over those of the professional and the organization* • What regulatory standard, if any, governs our relationship? • Are you a fiduciary, and would our relationship be held to a fiduciary standard? • How do you decide which investments to recommend? Are you free to recommend investments sponsored or managed by other companies?	Though it may not be a legal requirement in all places, you should demand that all financial service providers put your interests before theirs and their organizations'. If your financial service provider is a fiduciary, generally speaking they have a legal duty to uphold your interests in decision making. Some financial professionals are only required to recommend or sell you financial products that are suitable for you, not necessarily ideal or even in your best interest. It is important to ensure that your interests supersede those of the financial service provider before you make a hiring decision.
4. ***Fair** treatment with respect to other clients* • What policies are in place to make sure clients receive fair treatment relative to each other? • How do you ensure clients have appropriate access to products and investment opportunities? • How do you make sure clients receive adequate support and customer service, especially during a crisis?	To ensure that you are treated fairly in relation to other clients, it is important to understand how the firm is structured to provide access to services and communication in different market or business scenarios. Clients' needs are often different, so fairness does not mean the same thing is equally relevant or appropriate for all. However, all firms should be willing to be transparent about any differences in client service levels while still maintaining confidentiality.

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Ask These Questions	What This Means for You
5. *Disclosure of any existing or potential **conflicts** of interest in providing products or services to me* • What is your process for identifying and communicating conflicts of interest? • How are conflicts of interest addressed and mitigated, and can you share an example?	It is important to realize that conflicts of interest do come up, but the important thing is that you trust the person you work with to handle them responsibly and with transparency. Some conflicts of interest arise from fee arrangements. Others result from the fact that professionals must serve two masters: their clients and their employer. Your finance service provider's professional standards and code of ethics should demand transparency in all things, including how potential conflicts are identified, communicated, and resolved.
6. *An **understanding** of my circumstances so that any advice provided is suitable and based on my financial objectives and constraints* • How do you get to know your clients and assess their financial needs and goals? • How do you determine whether recommended products and services are appropriate for my portfolio and can help me achieve my financial goals? • Will you provide me with a written personal financial plan designed to fulfil my financial needs and goals?	Your financial objectives should drive all decision making, including investment strategy, risk management, and security selection. It is important that you and your financial service provider understand your financial needs and any constraints that could affect strategy or tactics. Become familiar with the organization's services and how they match up with both your current needs and longer-term goals. Make sure that your service professional understands your financial ability and emotional willingness to take risk and how that is factored into your financial plan and investment strategy.
7. *Clear, accurate, complete, and timely **communications** that use plain language and are presented in a format that conveys the information effectively* • What means of communication (email, phone, etc.) do you use, and how often should I expect to hear from you? • How often will we meet in person? • Can you provide me with examples of reports, performance statements, and other types of communication I may receive from you?	The nature of your relationship and how clearly and frequently your provider communicates with you matters. Your provider should listen to your concerns and answer your questions—this is an important foundation. Be clear with your financial service provider about the type of contact you are most comfortable with and establish what you expect from them early on so there is no miscommunication.

CFA Societies Australia

Ask These Questions	What This Means for You
*8. An explanation of all **fees** and costs charged to me and information showing these expenses to be fair and reasonable* • On what basis are you compensated: fee only, fee based, commission, percentage of assets under management, fixed or flat fee? • How are the fees calculated, billed, and collected? • Could the proposed fee arrangements lead to conflicts of interest?	Clients should keep in mind that fees can (and should) be viewed as a tool to align the manager's and the client's interests. Whatever the goal or objective, the key is for clients to understand what they are paying and be comfortable with what they are receiving from their financial service professionals in return for those fees.
*9. **Confidentiality** of my information* • What is your privacy policy for client information? • How can you certify that my financial and personal information is secure? • Have you ever had information lost or stolen? If so, how was the situation resolved?	In addition to trusting your financial service provider to manage your portfolio appropriately, you must be confident that your provider can safeguard any sensitive information about you. Cybersecurity breaches are now happening with disturbing frequency. You want to be confident that your private information and money are secure.
*10. Appropriate and complete **records** to support any work done on my behalf* • How long will my records be retained at your firm, and can I request them at any time? • Does the firm claim compliance with the Global Investment Performance Standards (GIPS® standards)?	One of the ways that trust is built is through clear and transparent reporting that facilitates an open dialogue between report preparers and users. The GIPS standards are a voluntary set of standards developed by CFA Institute to establish global protocols for how companies should present their investment performance to help investors evaluate it.

The Future of Finance is a long-term, global effort to shape a trustworthy, forward-thinking investment profession that better serves society. To learn more, please visit www.cfainstitute.org/futurefinance.

Appendix VII – CFA Institute Ethics Training Programs

CFA offers several resources to ensure investment professionals remain aware of their ethical responsibilities.[16] Two are technology-based options that allow individuals to participate through their computers and at their convenience. The final resource is a live session for groups or firms. All provide participants with the knowledge to effectively apply the Ethical Decision-Making (EDM) Framework.

1. Ethical Decision-Making for Investment Professionals
   This self-paced, 90-minute online course presents the ethical decision-making framework and uses multi-media case studies to show the candidate how to apply the framework in the real world. The score is the number of clients earned as a result of the decisions made.

2. Interactive Webinars
   Introduction to Ethical Decision-Making
   This 60-minute webinar introduces the ethical decision-making framework and how to apply it.

   Exploring Additional Case Studies
   This 60-minute webinar builds on the introductory webinar, using additional case studies to practise applying the framework.

CFA can provide in-person Ethical Decision-Making Workshops. The objective of the workshop is to increase the individual's awareness of, and ability to analyse and act upon, common ethical dilemmas they may confront in the workplace.

Combining an ethical EDM framework with a commitment to adhere to the fundamental ethical principles of a code of ethics and standards of professional conduct would, in addition, allow financial services professionals to:

> 1. Continue building trust with their clients and exercising their fiduciary duty to clients; and
>
> 2. Implement cultural change, whereby ethical conduct becomes a normal expected behaviour, rather than a discretionary practice.

[16] These resources can be viewed here: https://www.cfainstitute.org/ethics/ethical-decision-making