# World Knowledge Forum 2012

**Tuesday, October 9, 2012—CFA: Developing Financial Integrity**

Four investment experts and business leaders in South-East Asia and Australia today discussed the ethical questions of financial markets in the "CFA: Developing Financial Integrity" panel discussion at the World Knowledge Forum.

Panelists included Mr. James Kruger, General Counsel of Macquarie Group Limited, Mr. John Rogers, President and CEO of CFA Institute, Mr. Young Chin, Chief Investment Officer of Pryamis Global Advisors, and Dr. Shin Sunghwan, Professor at Hongik University's College of Business.

The panelists discussed reasons for the unethical actions of financial advisors and various methods for solving these dilemmas.

All four panelists agreed that consumers, unlike the financial experts with whom they deal, are not properly educated on the financial products they purchase. "Those who have information are trading with those who don't have information," said Dr. Shin. Speaking about Korea in particular, Dr. Shin said that Korean financial markets are experiencing a "huge asymmetry of knowledge. A majority of people in our economy are almost financially illiterate."

Mr. Chin brought to light the issue that investors are emotional by nature and that their poor investment choices are not prevented by their advisors. Mr. Rogers agreed, saying, "As humans, we buy something when it's popular, and we sell it at the worst possible time and we do this over and over again."

A third reason for ethical problems in the investment world is the nature of for-profit business. Mr. Kruger pointed out that the fundamental purpose of investments is to make money. However, investment advisors and their firms may be making their money in the wrong places. "If they're making money from trading and not from capital formation, that's an alarm bell," said Mr. Kruger.

Among the panelists, there was a strong consensus about how to address the problem of unethical business practices in investment banking. Mr. Chin claimed, "You can create all the rules and policies that you can think of… but more crucially, you need an organization from the top down that shows there's no tolerance for unethical behavior."

Mr. Rogers called for a specific corporate environment. "An effective culture requires firms to have a culture of integrity, a regulatory structure that is designed on principles," he said. He and the other panelists stressed the significance of ethical standards embodied by firms.

Lastly, Mr. Rogers talked about the need for financial products that take into account the uneducated nature of investors. "There are sophisticated firms preying on unsophisticated individuals," he explained. This, the panelists agreed, needs to change. Mr. Rogers suggested that regulators and institutions need to design products that stop people from their behavioral weaknesses.

Two examples were given to explain current offers by financial institutions that demonstrate this principle in action. First, Mr. Rogers cited retirement savings products with automatic balancing. Second, he discussed the mandatory retirement savings programs in both Australia and Chile. According to Mr. Rogers, because people "spend today and forget to save for tomorrow," these products are almost necessary.