

# Financial Market Integrity Index

*Canada*



Centre for  
Financial  
Market  
Integrity

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## MAJOR FINDINGS

- Canadian survey respondents show greatest concern about Canadian regulatory environment.
- Confidence in boards of directors and corporate executives higher than confidence in those in the United States.
- Survey participants in Canada more critical of Canadian markets than those who live and work outside Canada.

## INTRODUCTION

### Financial Market Integrity Index

**The Financial Market Integrity Index (the Index), developed by the CFA Institute Centre for Financial Market Integrity, reflects the views and opinions of CFA Institute members around the world.**

The Index measures the sentiment of a global cross-section of the CFA Institute membership concerning ethical standards in a number of markets. This report focuses on the Canadian market. For a more in-depth look at the methodology of the Index, please see the methodology section at the back of this report.

The CFA Institute Centre for Financial Market Integrity is the advocacy arm of CFA Institute. With headquarters in Charlottesville, Virginia, and regional offices in New York, Hong Kong, and London, CFA Institute (formerly the Association for Investment Management and Research®) is a not-for-profit professional association of more than 89,000 financial analysts, portfolio managers, and other investment professionals in 130 countries of which over 76,000 are holders of the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 134 member societies and chapters in 55 countries and territories.

The CFA charter is widely recognized as the designation of professional excellence within the global investment community. CFA charterholders must pass three rigorous examinations that test their understanding of a number of financial disciplines and ethics, and must complete at least four years of qualifying financial work experience to earn the CFA charter. All members must obey the rules of a principles-based ethical code in order to remain CFA Institute members. The CFA Institute Centre for Financial Market Integrity believes that the informed opinion of this survey group offers valuable insight into the current state of financial market integrity.

The CFA Institute members participating in this survey (survey participants) were asked to evaluate and rate a number of financial market participants (sell-side analysts, money managers, etc.) and market foundations (regulation, transparency, etc.) concerning how these individuals and market foundations contribute to financial market integrity. This survey asked survey participants to answer a number of questions by rating the ethical behavior of these market participants and market foundations on a scale of 1 (poor) to 5 (excellent).

The CFA Institute Centre provides the findings of this report to advance the cause of ethics and integrity in financial markets as reflected in the views of our professional members. This is an opinion-based survey, and CFA Institute makes no representations concerning accuracy or otherwise warrants use of the Index for any purposes by readers. The comments offered in the “Overall Perception” section of this report are those of CFA Institute individual members and do not necessarily represent the opinions of CFA Institute or the CFA Institute Centre. These opinions are identified in quotation marks and are followed by that individual’s job title.

#### *Analysis of in-market vs. out-of-market opinion*

Each market was rated by CFA Institute members who work and live inside that market as well as members who work and live outside that market. The survey explores the differences in perceptions in each group, using commentary from members to support such analysis where appropriate.

#### *Analysis of changes in the survey’s rating*

The frequency of future surveys will be at least annual, and these future reports will analyze the changes in a market’s overall Index rating and the reasons for that change in rating.

## EXECUTIVE SUMMARY

### Financial Market Integrity Index: Canada

Canadian survey participants rated the Canadian market as only less than adequate (a score below 3) in four areas (hedge fund and private equity professionals, regulatory protections, legal protections, and corporate governance). Survey participants outside Canada had a more favorable opinion of the ethical standards and integrity of the Canadian market in these areas.

#### Lack of Confidence in Regulatory Environment

The “in-market rating” concerning regulatory protections stands out among Canadian survey participant answers. The relatively low rating (2.81 of 5) in the area of regulatory protections is distinct to Canadian survey participants. This relative lack of confidence in the Canadian regulatory environment may stem partially from the lack of a strong central regulator in Canada; that is, Canadian provinces and territories have a stronger role in financial market regulation than any central authority. Note that this perception of the Canadian regulatory environment represents the opinions of the 113 Canadian CFA Institute survey participants.

#### Canadians Show Similar Confidence in Market Foundations and People

Survey participants showed a similar amount of confidence in the integrity of market foundations as they did in the ethical behavior of investment professionals. Canadian survey participants rated the ethical integrity of investment professionals, as represented by questions 2 through 6, at 3.07, and they gave an average overall rating of 2.97 to the financial market integrity of market foundations represented by survey questions 7 through 10. Those outside Canada rated the ethical behavior of investment professionals lower (3.21) than they rated their confidence in market foundations (3.39).

## SUMMARY OF SURVEY PERCEPTIONS

	Average Scores (Range 1–5)		
	Total Rating	In-Market Rating	Out-of-Market Rating
<b>1. Overall Ethical Behavior of Financial Services Professionals</b>	3.64	3.54	3.68
Confidence in the Ethical Behavior of:			
<b>2. Sell-Side Analysts</b>	3.32	3.24	3.35
<b>3. Money Managers</b>	3.56	3.50	3.58
<b>4. Private Equity/Hedge Fund Managers</b>	2.72	2.57	2.80
<b>5. Corporate Boards</b>	3.13	3.02	3.17
<b>6. Corporate Executives</b>	3.11	3.02	3.15
Confidence in Adequate Market Foundations:			
<b>7. Regulatory Protections</b>	3.23	2.81	3.40
<b>8. Legal Protections</b>	3.31	2.96	3.46
<b>9. Corporate Governance Standards</b>	3.18	2.93	3.28
<b>10. Financial Transparency</b>	3.37	3.19	3.43
Confidence in People (2–6)	3.17	3.07	3.21
Confidence in Market Foundations (7–10)	3.27	2.97	3.39
<b>Index Rating (average of questions 1–10)</b>	<b>3.26</b>	<b>3.08</b>	<b>3.33</b>

*Note:* Survey participants were given the option of answering “not applicable/don’t know” for a question if they felt they could not answer the question or did not have adequate knowledge to answer the question. Therefore, the actual number of responses for each question may be lower than the total number of survey respondents.

Note on ratings: The full versions of the questions asked can be found at the end of this report. The numbers in the columns above reflect the average answers of that group of survey participants for that question. Scores break down in the following manner:

- 1 = poor
- 2 = less than adequate
- 3 = adequate
- 4 = very good
- 5 = excellent

**Total Rating:** This rating reflects the answers of all survey participants.

**In-Market Rating:** This rating reflects the answers of all survey participants who live or work in Canada.

**Out-of-Market Rating:** This rating reflects the answers of all survey participants who live and work outside Canada and have indicated that they have experience dealing with the Canadian financial markets and the investment professionals who work in these markets.

## OVERALL PERCEPTION OF CANADIAN MARKET

The following analysis reviews the survey results for each of the 10 survey questions answered by 805 survey participants.

### 1. Overall Ethical Behavior of Financial Professionals

*Please rate the overall quality of ethical behavior by all of those who interact with and contribute to the financial integrity within this market.*

	Total	Inside Canada	Outside Canada
Poor	1%	3%	1%
Less than Adequate	8%	13%	7%
Adequate	27%	21%	30%
Very Good	52%	57%	50%
Excellent	11%	7%	13%
Rating	<b>3.64</b>	<b>3.54</b>	<b>3.68</b>
Total Respondents	<b>416</b>	<b>112</b>	<b>304</b>

*Note:* Percentages may not add up to 100 because of rounding.

Question 1 asked survey participants their overall impressions of those they interact with in the financial markets. Survey participants inside Canada tended to be more self-critical than those outside Canada; approximately 16 percent of those who live and work in Canada rated the ethical behavior of Canadian financial market professionals as poor or less than adequate. Those outside Canada gave comparable ratings of poor or less than adequate only 8 percent of the time.

This question garnered the highest rating from the survey group as a whole, with less than 10 percent of all survey participants giving a rating of poor or less than adequate. More than 60 percent of all survey participants thought the overall ethical behavior of financial professionals in Canada is very good or excellent.

#### Survey Participant Comments

##### *Positive Comments*

“Well regulated and integrity intact for the most part.”

—Chief Financial Officer

“Not as rules oriented as the U.S. but seems to work quite well overall.”

—Fund/Portfolio Manager

##### *Negative Comments*

“While seemingly very similar to the U.S., the companies and managements that I have followed in Canada have weaker controls and less concern for shareholders than in the U.S., for example.”

—Buy-Side Analyst

“Fiduciary duty is required. Fee disclosure needs to be mandatory. Education gap in ‘financial planning’ sector needs to be addressed.”

—Investment Consultant

“The prevalence of non-voting shares, poor disclosure, weak accounting regs still allow for conflict of interest issues.”

—Fund/Portfolio Manager

## 2. Overall Ethical Behavior of Sell-Side Analysts

Please rate the overall quality of ethical behavior exhibited by analysts (sell side) and the analyst community (sell side).

	Total	Inside Canada	Outside Canada
Poor	2%	1%	3%
Less than Adequate	10%	18%	7%
Adequate	46%	42%	47%
Very Good	38%	40%	40%
Excellent	4%	4%	4%
Rating	<b>3.32</b>	<b>3.24</b>	<b>3.35</b>
Total Respondents	<b>373</b>	<b>106</b>	<b>267</b>

Note: Percentages may not add up to 100 because of rounding.

Question 2 asked survey participants their overall impressions of the ethical behavior of sell-side analysts. Nearly 20 percent of Canadian survey participants thought the ethical behavior of sell-side analysts is poor or less than adequate. Those outside Canada gave such a low rating only 10 percent of the time.

Nearly 90 percent of all survey participants rated the ethical behavior of sell-side analysts as adequate or better, with only about 12 percent thinking that the ethical behavior of sell-side analysts is poor or less than adequate.

### Survey Participant Comments

#### Positive Comments

“Chinese walls between investment banking and analysts seem to [be] working.”

—Fund/Portfolio Manager

#### Negative Comments

“Analysts have a bias to move the product to the distribution channel.”

—Sell-Side Analyst

“Sell-side analysts tend to be driven by what clients (read hedge funds) want to hear and not by longer-term issues.”

—Fund/Portfolio Manager

“As always, human nature dictates that there are conflicts to manage in a typical full-service brokerage house.”

—Fund/Portfolio Manager

“Some participants on Vancouver exchange are too aggressive.”

—Fund/Portfolio Manager



### 3. Overall Ethical Behavior of Money Managers

Please rate the overall quality of ethical behavior exhibited by money managers (buy side) and mutual fund companies, collective fund schemes, or unit trusts.

	Total	Inside Canada	Outside Canada
Poor	1%	2%	0%
Less than Adequate	8%	12%	6%
Adequate	35%	31%	37%
Very Good	46%	45%	47%
Excellent	10%	10%	9%
Rating	<b>3.56</b>	<b>3.50</b>	<b>3.58</b>
Total Respondents	<b>376</b>	<b>110</b>	<b>266</b>

Note: Percentages may not add up to 100 because of rounding.

This question asked survey participants their overall impressions of the ethical behavior of money managers in Canada. The money manager community fared the best in questions concerning the ethical standards of a group of investment professionals. Only 14 percent of Canadians thought that money manager behavior is poor or inadequate.

Not 1 of the 266 survey participants outside Canada rated the ethical conduct of Canadian money managers as poor. Over 90 percent of all survey participants stated that the ethical conduct of money managers in Canada is adequate or better.

#### *Perceptions of Money Managers vs. Non-Money Managers*

	Money Managers	Non-Money Managers
Poor	2%	0%
Less than Adequate	6%	9%
Adequate	44%	30%
Very Good	38%	51%
Excellent	10%	10%
Rating	<b>3.47</b>	<b>3.61</b>
Total Respondents	<b>136</b>	<b>240</b>

Note: Percentages may not add up to 100 because of rounding.

Because a number of survey participants were money managers, it is informative to look at results for those who were and were not currently employed as money managers. The survey shows little difference in the overall answers given by those who listed themselves as money managers and those who did not. Non-money managers were more likely to label the ethical performance of Canadian money managers as very good or excellent; they did so 61 percent of the time. Money managers gave such high ratings to Canadian money managers only 48 percent of the time.

## Survey Participant Comments

### *Negative Comments*

“Overall, compensation is prime motive for money managers as opposed to client interest. Some managers are more ethical than others.”

—Sell-Side Analyst

“Possible conflicts of interest should have a brighter spotlight placed on them, instead of burying it in a list of 100 risks to the investment.”

—Fund/Portfolio Manager

## 4. Ethical Behavior of Private Equity and Hedge Fund Professionals

*Please rate the overall quality of ethical behavior exhibited by private equity and hedge fund professionals.*

	Total	Inside Canada	Outside Canada
Poor	10%	15%	5%
Less than Adequate	32%	34%	31%
Adequate	37%	33%	39%
Very Good	18%	16%	19%
Excellent	3%	2%	3%
Rating	<b>2.72</b>	<b>2.57</b>	<b>2.80</b>
Total Respondents	<b>279</b>	<b>92</b>	<b>187</b>

*Note:* Percentages may not add up to 100 because of rounding.

The survey participant population consistently expressed concern about the ethical behavior of hedge fund and private equity professionals across all markets. Survey participants inside Canada were the most critical of the hedge fund and private equity worlds; nearly 50 percent answered poor or less than adequate for this question, and only 18 percent gave a very good or excellent rating.

Roughly 36 percent of those outside Canada thought the ethical behavior of Canadian hedge fund and private equity practitioners is poor or less than adequate. Few survey participants were comfortable labeling the ethical conduct of Canadian hedge fund and private equity professionals very good or excellent; only about 21 percent of all survey participants did so.

## Survey Participant Comments

### *Negative Comments*

“Too many blow-ups and outright frauds. Buyer beware.”

—Fund/Portfolio Manager

“Fees are unconscionably high with emphasis on short term results at the expense of the risk involved.”

—Fund/Portfolio Manager

## Survey Participants Who Distinguished between Hedge Funds and Private Equity

“Hedge funds—less than adequate. Private Equity—very good.”

—Plan Sponsor

“Hedge funds and private equity are so different—your question cannot be answered.”

—Plan Sponsor

## 5. Ethical Behavior of Corporate Boards

Please rate the overall quality of ethical behavior exhibited by corporate boards of public companies.

	Total	Inside Canada	Outside Canada
Poor	5%	8%	3%
Less than Adequate	17%	23%	14%
Adequate	46%	37%	49%
Very Good	27%	23%	29%
Excellent	6%	9%	4%
Rating	<b>3.13</b>	<b>3.02</b>	<b>3.17</b>
Total Respondents	<b>391</b>	<b>110</b>	<b>281</b>

Note: Percentages may not add up to 100 because of rounding.

As is the case throughout much of the survey, Canadian survey participants proved more critical in this area than those outside Canada. More than 31 percent of Canadian survey participants thought that board ethical behavior is poor or less than adequate. Those outside Canada gave a rating below adequate 17 percent of the time.

Only 22 percent of all survey participants thought that the ethical performance of Canadian corporate boards is poor or less than adequate.

### Survey Participant Comments

#### Positive Comments

“Shareholder activism has caused boards to clean up their act somewhat in Canada and the United States, but more has to be done.”

—Investment Consultant

#### Negative Comments

“Too frequently interests of management are favored by boards constituted by peers of management.”

—Fund/Portfolio Manager

“Boards are still too cozy with management overall.”

—Fund/Portfolio Manager

“The same people are on most boards in the oil patch. Very small group and take a lot of cash away from shareholders. Also, the concept of dual ownership in Canada is a farce. How can you own 1 percent of the company and control 55 percent of the votes?”

—Manager of Business Development

## 6. Ethical Behavior of Executive Management

Please rate the overall quality of ethical behavior exhibited by the executive management of public companies.

	Total	Inside Canada	Outside Canada
Poor	5%	7%	4%
Less than Adequate	13%	20%	11%
Adequate	51%	41%	54%
Very Good	29%	27%	29%
Excellent	3%	5%	2%
Rating	<b>3.11</b>	<b>3.02</b>	<b>3.15</b>
Total Respondents	<b>394</b>	<b>110</b>	<b>284</b>

Note: Percentages may not add up to 100 because of rounding.

The answer to this question is highly correlated (0.7481) with the previous question concerning the ethical behavior of corporate boards. Survey participants graded the ethical behavior of executives much along the same lines as they did that of corporate boards.

Approximately 27 percent of survey participants inside Canada thought that the ethical behavior of corporate executives in Canada is poor or less than adequate. Just over 15 percent of survey participants outside Canada thought the ethical conduct of Canadian executives is poor or less than adequate.

Over 30 percent of survey participants worldwide saw the ethical behavior of Canadian corporate executives as very good or excellent, with the answers from those inside Canada nearly mirroring this result.

### Survey Participant Comments

#### Positive Comments

“I would say in line with U.S. experience. Of course there are bad apples, but overall, not bad.”

—Fund/Portfolio Manager

#### Negative Comments

“There is a short-term view that benefits individuals rather than a long-term view that benefits the corporation.”

—Fund/Portfolio Manager

“Stock option compensation is still too large a percentage of total compensation to ensure that manipulation does not occur—the longer the time frame the better the outcome.”

—Fund/Portfolio Manager

“Too many family members in the corporate talent pool.”

—Investment Product Developer

## 7. Effective Regulation

Please rate the extent to which this market has effective regulators in place.

	Total	Inside Canada	Outside Canada
Poor	6%	15%	2%
Less than Adequate	15%	29%	10%
Adequate	35%	25%	40%
Very Good	37%	21%	43%
Excellent	7%	10%	5%
Rating	<b>3.23</b>	<b>2.81</b>	<b>3.40</b>
Total Respondents	<b>394</b>	<b>113</b>	<b>281</b>

Note: Percentages may not add up to 100 because of rounding.

The story here is the lack of confidence Canadians show in the regulatory environment in their country. Nearly 45 percent of Canadian survey participants thought the current regulatory environment is poor or less than adequate. A number of survey participants referred to Canada's unique system of regulation in which every province has its own regulator, leading to an inefficient regulatory regime in the eyes of these survey participants.

The perception of Canada's regulatory regime outside the country is slightly better; only 12 percent of those outside the country rated the effectiveness of the regulator as poor or less than adequate.

### Survey Participant Comments

#### Negative Comments

"Canada has an inefficient patchwork of regulators that leaves investors vulnerable."

—Investment Consultant

"Canada lacks a national regulator; existing provincial regulators have not all demonstrated a willingness to enforce standards vigorously and consistently."

—Manager of Research

"Having worked for a year at a regulatory body, I can honestly say that the regulatory body is largely influenced by biased parties, such as lawyers. No one wants to take responsibility and ignorance is bliss."

—Fund/Portfolio Manager

"Too many regulators and not enough regulatory ability to convict criminals."

—Fund/Portfolio Manager

"What regulator?"

—Sell-Side Analyst

"Accounting and disclosure requirements are generally weak in comparison to the United States; examples would be income trusts where the market has been allowed to develop without any accounting guidelines/definition of distributable cash. Analysts and investors are handicapped."

—Fund/Portfolio Manager

## 8. Effective Legal Protections

Please rate the extent to which this market offers effective legal protections to investors.

	Total	Inside Canada	Outside Canada
Poor	5%	13%	2%
Less than Adequate	13%	25%	9%
Adequate	36%	29%	39%
Very Good	36%	22%	42%
Excellent	9%	12%	8%
Rating	<b>3.31</b>	<b>2.96</b>	<b>3.46</b>
Total Respondents	<b>380</b>	<b>112</b>	<b>268</b>

Note: Percentages may not add up to 100 because of rounding.

Those inside Canada rated the legal protections offered to investors as poor or less than adequate 38 percent of the time. Canadians still rated the legal protections offered to shareholders as adequate or better at a rate of 63 percent.

Survey participants outside Canada answered poor or less than adequate only 11 percent of the time.

Nearly 81 percent of all survey participants thought that the current level of legal protections in Canada is adequate or better.

### Survey Participant Comments

#### Negative Comments

“The system is overly in favor of the investor such that the investor has no responsibilities whatsoever. This gives the advisor little protection from frivolous actions by investors.”

—Investment Advisor

“Securities commissions and other SROs do not adequately protect the interest of individual investors.”

—Investment Consultant

“Non-voting or subordinate voting stock should be prohibited.”

—Fund/Portfolio Manager

“Very little of the fines or restitution gets back to the actual investors, the clients that we deal with daily.”

Fund/Portfolio Manager

## 9. Effective Corporate Governance

Please rate the strength of corporate governance standards in this market.

	Total	Inside Canada	Outside Canada
Poor	4%	8%	2%
Less than Adequate	18%	29%	13%
Adequate	41%	31%	44%
Very Good	32%	27%	33%
Excellent	6%	5%	6%
Rating	<b>3.18</b>	<b>2.93</b>	<b>3.28</b>
Total Respondents	<b>381</b>	<b>112</b>	<b>269</b>

Note: Percentages may not add up to 100 because of rounding.

Many surveys of corporate governance on a country-by-country basis often place Canada's system of corporate governance near the top of the list because proxy disclosures and financial transparency compare favorably with markets around the world. This did not stop Canadian survey participants from being critical of the governance controls in their market. Roughly 37 percent of survey participants in Canada rated corporate governance standards in their country as poor or less than adequate.

Those outside Canada had a more favorable view of the governance controls currently in place; approximately 83 percent of survey participants who live and work outside Canada thought the governance standards in place are adequate or better.

### Survey Participant Comments

#### Positive Comments

"Increased disclosure requirements in this area are helping."

—Fund/Portfolio Manager

"Still too many multiple voting shares."

—Fund/Portfolio Manager

"Non-voting shares should be prohibited."

—Fund/Portfolio Manager

"Need reform of multiple voting shares."

—Educational

"Changes to more independent boards and committees in Canadian corporations have been slow in my opinion, due to a seemingly greater concentration of 'family run' corporations (those with historical family ties . . . also have/had multi-voting share structures, etc.)."

—Investment Consultant

"Corporate boards are incestuous and ineffective. Many of the same corporate leaders are directors of numerous companies."

—Fund/Portfolio Manager

## 10. Financial Transparency

Please rate the overall level of financial transparency in this market.

	Total	Inside Canada	Outside Canada
Poor	3%	7%	1%
Less than Adequate	11%	17%	9%
Adequate	39%	33%	41%
Very Good	41%	37%	42%
Excellent	6%	6%	6%
Rating	<b>3.37</b>	<b>3.19</b>	<b>3.43</b>
Total Respondents	<b>438</b>	<b>113</b>	<b>325</b>

Note: Percentages may not add up to 100 because of rounding.

About 76 percent of survey participants in Canada thought the current level of financial transparency is adequate or better. Only about 10 percent of those outside Canada thought that the level of Canadian financial transparency is poor or less than adequate.

Approximately 86 percent of all survey participants thought that the financial transparency in the Canadian market is adequate or better.

### Survey Participant Comments

#### Positive Comments

“Corporate disclosure requirements are good in Canada and the United States.”

—Investment Consultant

“Good transparency, but some rules need to be tightened up.”

—Fund/Portfolio Manager

#### Negative Comments

“The disclosure requirements are weak—divisional performance is obscured, which makes it difficult to assess the fundamentals of larger enterprises.”

—Fund/Portfolio Manager

“Long-term defined benefit liabilities still do not appear in the capital structure. The banks, for example, write up the actuarial deficit on defined benefit plans as an asset in the pension note. The ‘asset’ is being written-off over a 15-year amortization.”

—Fund/Portfolio Manager



## CORRELATIONS

### Canadian Answer Correlations

	Overall Behavior	Sell-Side Analysts	Money Managers	Hedge Funds & Private Equity	Corporate Boards	Corporate Executives	Regulatory Protections	Legal Protections	Corporate Governance	Financial Transparency
Overall Behavior	1.0000	0.5726	0.6437	0.4556	0.5288	0.5458	0.5939	0.5152	0.5549	0.5713
Sell-Side Analysts	0.5726	1.0000	0.5831	0.5468	0.5093	0.5521	0.4775	0.3826	0.5015	0.4669
Money Managers	0.6437	0.5831	1.0000	0.5280	0.5621	0.5415	0.5219	0.4940	0.5576	0.5945
Hedge Funds & Private Equity	0.4556	0.5468	0.5280	1.0000	0.4398	0.4570	0.4090	0.3804	0.4377	0.4332
Corporate Boards	0.5288	0.5093	0.5621	0.4398	1.0000	0.7481	0.5680	0.5168	0.6783	0.5468
Corporate Executives	0.5458	0.5521	0.5415	0.4570	0.7481	1.0000	0.5375	0.5084	0.6531	0.5981
Regulatory Protections	0.5939	0.4775	0.5219	0.4090	0.5680	0.5375	1.0000	0.6727	0.6714	0.6142
Legal Protections	0.5152	0.3826	0.4940	0.3804	0.5168	0.5084	0.6727	1.0000	0.6533	0.6558
Corporate Governance	0.5549	0.5015	0.5576	0.4377	0.6783	0.6531	0.6714	0.6533	1.0000	0.7037
Financial Transparency	0.5713	0.4669	0.5945	0.4332	0.5468	0.5981	0.6142	0.6558	0.7037	1.0000

The correlation between the answers for the questions concerning the ethical behavior of boards and the ethical behavior of executives is higher than that of any other two questions in the survey for the Canadian market, at 0.7481.

The corporate governance protection answers also show relatively high correlations with answers for corporate boards (0.6783) and corporate executives (0.6531). The regulatory protections answers are also highly correlated with those for corporate governance (0.6714). Legal protections and regulatory environment also appear to be highly correlated (0.6727).

A perfect positive correlation of 1 would demonstrate that all survey participants answer these questions the same. A perfect negative correlation of  $-1$  would signal that all survey participants provide diametrically opposed answers to these questions.

## METHODOLOGY AND PARTICIPANT STATISTICS

### Methodology

The Financial Market Integrity Index is based on answers provided by our survey respondents to a questionnaire that yields an overall “market integrity” score for each of the markets surveyed. Participants answered 10 questions on a five-point scale (1 = Poor to 5 = Excellent) that were aggregated to arrive at an overall country score. Comments were also collected from survey participants to better communicate the insight of CFA Institute members. Because not all survey participants possess the expertise to answer every question, in addition to the five-point scale, survey participants were given the option to answer “don’t know/not applicable” if they thought they did not possess the requisite knowledge or expertise to answer a particular question.

The CFA Institute membership will participate in this survey on an ongoing basis. The population of each survey will change, however, as new members join CFA Institute and some survey participants fail to answer the survey or drop out of the survey pool.

Survey participants stated that, on average, the survey took approximately 15–20 minutes to complete. To encourage better comparability between answers among survey participants for each individual question, a short definition of what was being discussed in each question was given to survey participants before they answered each question. This more detailed example of these questions is what survey participants saw when they took the survey. For example, the question asking about effective legal protections in a market was followed by a brief definition of what is meant by “effective legal protections.” The full questions and question definitions as seen by survey participants are listed below.

**1. Please rate the overall quality of ethical behavior by all of those who interact with and contribute to the financial integrity within this market.**

A market characterized by ethical behavior has sufficient controls in place to guard against unethical behavior. In such a market, conflicts of interests are not tolerated if they could harm the interests of shareowners. Firms operating in a highly ethical marketplace expect ethical behavior from their employees and supply employees with the ethical training necessary to ensure a principled market.

**2. Please rate the overall level of ethical behavior exhibited by analysts (sell side) and the analyst community (sell side).**

Analysts with a high level of ethical integrity are independent, not letting potential conflicts of interest and outside influences other than their diligent research color their opinions. Such analysts put the interests of their clients above those of their firms and issue research reports unbiased by investment banking or any company relationships.

**3. Please rate the overall level of ethical behavior exhibited by money managers (the buy side) and mutual fund companies, collective fund schemes, or unit trusts.**

Buy-side money managers that exhibit a high level of ethical integrity act in the best interests of investors first and foremost and do not place other interests or incentives (compensation, internal firm conflicts) above those of producing returns for their shareholders. Mutual fund companies, collective fund schemes, or unit trusts that exhibit high ethical standards are structured so that money managers are chosen using “arms-length” transactions that are intended to best benefit shareowners first and foremost. A highly ethical money management industry provides shareholders and potential shareholders with enough information to make informed investment decisions.

**4. Please rate the overall level of ethical behavior exhibited by private equity and hedge fund professionals.**

Private equity and hedge fund professionals operate in environments that are generally less heavily regulated than those of their buy-side and sell-side compatriots. Private equity and hedge fund professionals that act in an ethical and professional manner do not use a lower level of regulatory oversight as a license to take advantage of their clients. Highly ethical private equity and hedge fund professionals do not break financial market rules or cross ethical lines in their attempts to earn higher returns.

**5. Please rate the overall level of ethical behavior exhibited by corporate boards of public companies.**

Boards that exhibit integrity are independent of management and do not engage in relationships with management that could compromise the independence of a board member. If such related-party relationships do exist, board members with high levels of integrity remove themselves from decisions in which a conflict of interest exists. Markets in which boards have the ability to act with high levels of integrity allow boards to act in the interests of shareowners and put controls in place to avoid the dominance of board members by management.

**6. Please rate the overall level of ethical behavior exhibited by the executive management of public companies.**

Executives with a high level of integrity work to build long-term value for shareowners and do not routinely engage in empire building or other self-serving endeavors that put their own interests above those of their shareowners. Such managers look to align their interests with those of the company's shareowners and do not look to manipulate a company's financial position to their own benefit if such action would be to the detriment of company shareowners.

**7. Please rate the extent to which this market has effective regulators in place.**

Regulators that champion integrity and look to foster ethical behavior protect the interests of shareholders by ensuring timely and transparent corporate disclosures. Such regulators do not tolerate market inefficiencies and conflicts of interest that may be harmful to shareowners. A strong regulatory body also vigorously enforces its regulatory standards in order to ensure compliance, and it does not allow those it regulates to work around regulation or flout the rules with little or no penalty.

**8. Please rate the extent to which this market offers effective legal protections to investors.**

A developed legal system gives investors the ability to protect their ownership rights; this may include the ability to bring a suit against the board or management or the corporation itself. A market with effective legal protections provides for the initiation and adjudication of claims and does not place onerous legal hurdles in the way of investors in order for them to have their ownership rights protected.

**9. Please rate the strength of corporate governance standards in this market.**

A market with strong corporate governance standards ensures that the interests of directors and management are sufficiently aligned with shareowners. This market does not allow the interests of management or another interested party to dominate those of shareowners. A market in which companies exhibit an appropriate level of governance controls also allows corporations to develop sustainable businesses that can reward shareowners over the long term while not allowing management or other parties to compromise the prospect of long-term shareowner wealth creation. Corporate governance best practices include independent boards and committees with adequate oversight over company management, adequate accounting and internal control oversight, and sufficient links between executive compensation and company performance.

## 10. Please rate the overall level of financial transparency in this market.

Financial disclosures should be complete, accurate, and relevant, providing shareowners with the sufficient and detailed information they need to make an informed investment decision. An adequately financially transparent market does not allow corporate enterprises to routinely obfuscate their true financial position, thus leaving shareowners or potential shareowners with a less than optimal understanding of a company's true financial position.

### Survey Participant Statistics

The survey population for these reports totaled 805 individuals. The demographic breakdown of this population is as follows:

#### Profession

Fund manager or portfolio manager	36%
Buy-side analyst	16%
Investment consultant	10%
Sell-side analyst	7%
Investment banker	4%
Risk officer or risk analyst	2%
CEO, CFO, or CIO	2%
Financial analyst	2%
Educational	1%
Credit manager or credit analyst	1%
Investment advisor	1%
Plan sponsor	1%
Other	17%

#### Types of Assets Analyzed or Purchased in Profession

Equity securities	30%
Both equity and fixed-income securities	29%
Fixed-income securities	16%
Alternative assets (derivatives, options, swaps)	5%
Hedge funds and/or fund of funds	4%
None of the above	4%
All of the above	2%
Other	10%

#### CFA Charterholders

CFA charterholder	85%
CFA Institute member—not charterholder	15%

#### Average Assets under Management of Those Survey Participants Who Manage Money

USD 50 Billion or more	8%
USD 20 Billion – USD 50 Billion	5%
USD 5 Billion – USD 20 Billion	13%
USD 1 Billion – USD 5 Billion	23%
USD 250 Million – USD 1 Billion	22%
Less than USD 250 Million	29%

#### Other Survey Participant Data

Inside Canada: 113
Outside Canada: 692
Average age: 41.06
Average years as charterholder: 7.6