FINANCIAL MARKET INTEGRITY INDEX™

UNITED STATES

2010

CFA INSTITUTE

CFA Charterholders and Professional Integrity

CFA Institute is the not-for-profit, professional association of 99,000 financial analysts, portfolio managers, and other investment professionals in more than 130 countries, of whom 87,000 hold the Chartered Financial Analyst® (CFA®) designation. The Standards and Financial Market Integrity Division is the research, policy, and advocacy arm of CFA Institute.

The CFA designation 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, including ethics and professional standards, and must complete several years of qualifying financial work experience to earn the charter. To retain the designation, CFA charterholders also must annually renew their pledge to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct.

In 2002, when CFA Institute and the United Kingdom Society of Investment Professionals partnered, UKSIP members were adopted into CFA Institute and holders of the corresponding FSIP and ASIP designations were accepted into CFA Institute membership based on the comparable level of rigor needed to obtain these designations. Although all CFA Institute members adhere to an ethical standard, only CFA, FSIP, and ASIP designees also have displayed a level of mastery in investment principles. Therefore, this research does not include responses from all CFA Institute members but, rather, only from those who are active members with CFA, FSIP, or ASIP designations; all will be referred to collectively as "CFA charterholders" throughout this report.

ISBN 978-0-938367-25-3

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Introduction
Concept of This Index

The Financial Market Integrity Index was developed by the Standards and Financial Market Integrity Division of CFA Institute (formerly known as the CFA Institute Centre for Financial Market Integrity) to gauge the perceptions investment professionals have about the state of ethics and integrity in six major financial services markets and how these perceptions evolve over time. Specifically, the index measures the level of integrity that investment practitioners experience in their respective markets—Canada, Germany, Hong Kong, Japan, the United Kingdom, or the United States—and the practitioners' beliefs in the effectiveness of regulation and investor protections to promote such integrity. This pragmatic input from working investment professionals will help raise awareness of leading issues in the capital markets and will inform the work of CFA Institute in conducting regulatory outreach and developing enhanced professional standards.

The Financial Market Integrity Index is distinguished from other market surveys and is proprietary in that it capitalizes on our exclusive access to seek the opinion and perspective of the CFA Institute membership (see inside cover for details). CFA charterholders are investment professionals who have earned the CFA designation and are required to adhere to a stringent code of ethics. The informed opinion of this particular respondent group offers valuable insight into the current state of ethical practices and standards in select global markets and will help to inform regulators and other financial industry thought leaders concerning potential areas for improving the investment profession.

The Financial Market Integrity Index was developed to gauge the perceptions investment professionals have about the state of ethics and integrity in financial services markets.

CFA Institute provides this report to advance the cause of ethics and integrity in financial markets.

CFA Institute provides this report on the findings of the survey (the Report) to advance the cause of ethics and integrity in financial markets through the views and opinions of trained investment professionals so as to:

- Inform investors and regulators of the perceived ethics and integrity of practitioners and the effectiveness of regulatory systems in the market;
- Encourage investors to consider whether they are likely to be treated fairly and ethically if they invest in the market;
- Help assess whether a particular country or market has specific integrity issues that need to be addressed by regulators; and
- Inform practitioners in the market about how others perceive their actions and honesty, in general, and to stimulate remedial actions on their part where appropriate.

Each Financial Market Integrity Index Report measures the sentiments expressed by a cross section of survey respondents concerning ethical standards and investor protections of a particular market. The ratings discussed in this Report represent the opinions of a distinct group of professionals, CFA charterholders, responding to a series of questions about their experiences with practitioners, regulations, and investor protections in the United States. This Report was specifically designed to gather the perceptions of only the U.S. market. Because respondent populations differ significantly between markets, we believe it will be more valid and informative to assess each country's report independently of the others rather than to try to make cross-country comparisons.

About the Index Methodology

The Financial Market Integrity Index is constructed to give equal weight to two dimensions of evaluation: (1) the ethics of market participants and (2) the effectiveness of market systems in ensuring market integrity.

The Standards and Financial Market Integrity Division of CFA Institute, in consultation with Harris Interactive, developed the Financial Market Integrity Index to specifically reflect the perspectives and opinions of investment professionals identified as being committed to the highest level of professional ethics. CFA charterholders and holders of the ASIP and FSIP designations were asked to evaluate and rate a number of financial "market participants," including sell-side analysts, hedge fund managers, board members, and others, as well as to rate "market systems," such as market regulation and investor protections, corporate governance, shareholder rights, and transparency. The questions relate to how market participants and market systems contribute to financial market integrity (see **Figure 1**). Respondents were asked to answer a number of questions that rate on a five-point scale the ethical behavior of these market participants and systems.[1]

More than 2,700 professionals in 80 countries who hold the CFA, FSIP, or ASIP designations participated in the research for the 2010 Financial Market Integrity Index by taking the survey either online or by scripted telephone interview between 1 February and 9 March 2010. For the first time, in 2010, the out-of-market ratings and comments for each Financial Market Integrity Index Report were extended to CFA charterholders from around the globe and not limited to the six markets

Financial Market Integrity Index Questions and Rating Scales

Please rate the overall ethical behavior exhibited by the following groups in the United States.

1 Not Ethical at All	2 Slightly Ethical	3 Somewhat Ethical	4 Very Ethical	5 Completely Ethical

For each of the following, please rate the overall effectiveness of market systems for ensuring market integrity in the United States.

1 Not Effective at All	2 Slightly Effective	3 Somewhat Effective	4 Very Effective	5 Completely Effective

Figure 1

The ethical behavior of market participants and the effectiveness of market systems are the two dimensions of evaluation that produce the final Financial Market Integrity rating.

covered by these Reports. CFA Institute believes that this will allow us to gather responses from a more diverse cross-section of our membership. An analysis of the 2010 ratings conducted by Harris Interactive suggests that ratings given by CFA charterholders from outside the six markets are not substantially different from those given by CFA charterholders within these markets, and therefore, out-of-market ratings comparisons can be made between 2010 and the surveys of previous years.

To provide the most statistically reliable opinions, this Report uses in-market ratings when referring to an index rating or score, unless otherwise noted.[2] Out-of-market ratings are used for discussion and comparisons only where noted.

The Financial Market Integrity Index is constructed to give equal weight to two dimensions of evaluation: (1) the ethics of market participants and (2) the effectiveness of a market's regulations and investor protections (referred to herein as "market systems") in promoting and upholding market integrity. Data gathered during phone interviews were adjusted to align them with online responses so that all responses could be accurately integrated into one pool of responses. For more comprehensive information regarding the overall Financial Market Integrity Index methodology, please refer to the separate report available on the CFA Institute website at www.cfainstitute.org/ethics.

This is an opinion-based survey, and CFA Institute makes no representations concerning accuracy or otherwise warrants use of the Financial Market Integrity Index for any purpose by readers.

[1] One question dealing with severity of unethical behavior or ethical lapses was an exception and listed a score of 1 as not severe at all and 5 as extremely severe. This question did not figure in the final calculations of the Financial Market Integrity rating.

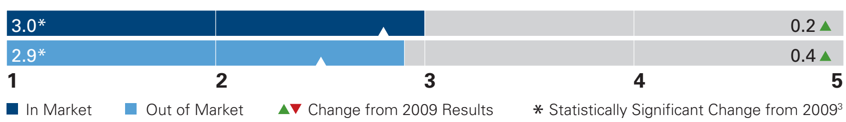
[2] In this Report, in-market ratings are those from respondents inside the United States and out-of-market ratings are those given by respondents outside the United States.

Executive Summary

Figure 2

In 2010, in-market respondents gave the U.S. market a significantly higher overall Financial Market Integrity rating (3.0) than they did in 2009 (2.8).

Financial Market Integrity Index: United States 2010 – Overall Rating



Overall, sentiment levels in 2010 significantly improved over the last year (see **Figure 2**).[4] Interpreting the meaning of this shift may be a challenge. Although some confidence has been restored in the integrity of the U.S. financial system since the market lows and fears of market collapse in early 2009, in written comments, survey respondents warn that this is no time for U.S. investors or regulators to become complacent. Stock market indices in the United States still remain well below their levels of two years ago, and survey respondents' comments still reflect the same level of dissatisfaction with the U.S. regulatory system that we saw just a year ago in the heart of the crisis.

Moreover, a return to the rating levels of 2008[5] only restores sentiment in the U.S. market to a confidence level that respondents overall may think is merely acceptable. In fact, 9 of the 15 categories rated by survey respondents still rate below an "average" rating of 3.0 (on a scale of 1.0 to 5.0). Although the overall 2010 rating for the U.S. market and supporting ratings in this Report rose from 2009 levels, sentiment about the effectiveness of market systems still reflects deep skepticism among survey respondents both inside and outside the United States.

The ratings concerning regulatory protections and comments received from survey respondents about the U.S. regulatory landscape signal that regulators and lawmakers still have much work to do to restore trust in the U.S. regulatory system. Respondents believe that reforms granting more resources to federal regulators, better systemic-risk tracking and management, and enhanced regulation for over-the-counter (OTC) derivatives should take precedence in the current regulatory reform debate.

These new 2010 Financial Market Integrity survey results mirror sentiments expressed in a separate survey of all CFA Institute members in January 2010, in which few thought the United States had made any meaningful progress on regulatory reform and generally supported proposals to limit proprietary trading at insured commercial banks and efforts to rein in banks in general.[6]

Conclusions

- Sentiment in most categories generally returned to 2008 levels, signaling some relief that a complete economic meltdown has been averted for now, with at least some improvement in the behavior of financial professionals and the effectiveness of capital market systems. Nevertheless, overall ratings still remain at relatively low levels.

- Based on their perceptions of market ethics and integrity alone, approximately 68 percent of survey respondents in the United States were likely or very likely to recommend investing in U.S. markets (49 percent in 2009, 70 percent in 2008).

- All regulatory and investor protection scores remain below the "somewhat effective" rating of 3.0, with survey respondents most concerned about corporate governance (2.6), shareholder rights (2.6), and the U.S. regulatory system (2.5).

- Perceptions of the ethical behavior of financial professionals improved from the previous year, with the perceptions of board members, executives, and hedge fund managers rebounding significantly from 2009 levels.

- When asked to prioritize regulatory reforms needed to restore integrity to the U.S. market, survey respondents were most interested in improved systemic-risk tracking and management, granting more resources to federal regulators, and enhanced regulation of OTC derivatives.

- The comments of survey respondents show the greatest concern for the unsatisfactory state and effectiveness of the U.S. regulatory landscape; this topic elicited nearly twice as many comments from survey respondents as did any other concern.

All regulatory and investor protection **scores remain below** the "somewhat effective" rating of **3.0**, with survey respondents most concerned about corporate governance, shareholder rights, and the U.S. regulatory system.

[3] For these purposes, a 95 percent confidence level means that if we were to replicate this study 100 times, we can be confident that 95 out of 100 times the differences between the two groups would be different from zero. There is still a chance that in 5 of those 100 replicated studies, there is no significant difference between those two groups. Five percent represents the level of uncertainty that a surveyor is willing to accept when conducting a study with a limited number of respondents.

[4] A market's overall rating is composed of the 10 factors that make up the financial professionals rating and the 7 factors that make up the market systems rating. The final, overall rating for this market was created by taking the average rating or score from two sets of questions. The first question set contained 10 equally weighted components from a set of questions pertaining to investment professionals (i.e., market participants). The second question set contained 7 equally weighted components of questions pertaining to the effectiveness of capital market systems in ensuring market integrity. These two sets of questions were averaged as a set, and then each set carried equal weighting in the final determination of the Financial Market Integrity Index rating for this market.

[5] See the appendix for ratings from 2008 to 2010.

[6] When asked, "Has the U.S. government made adequate progress on regulatory reforms aimed at preventing another crisis?" 67 percent of respondents said the government has made "little progress." Fifty-eight percent of respondents said that they support or strongly support President Obama's efforts to rein in U.S. banks that are considered too big to fail. Sixty-eight percent of those surveyed said that they support or strongly support separating proprietary trading and insured commercial banks. (*Advocacy Update*, January 2010)

Key Findings

Ethical Behavior of Individuals

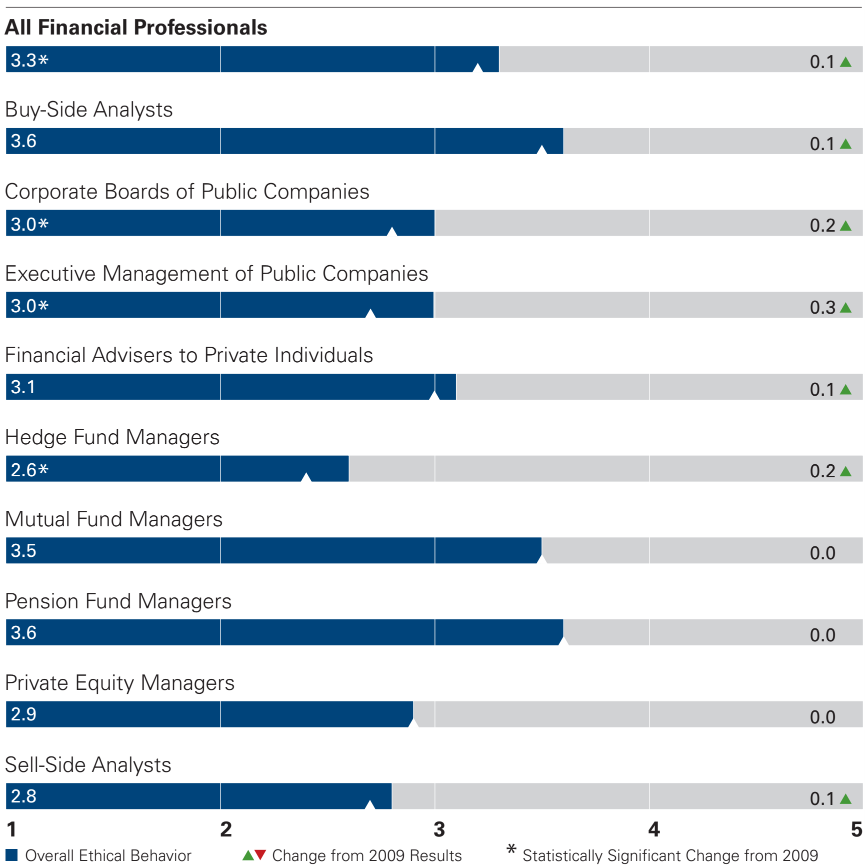
The first group of Financial Market Integrity Index questions gauged attitudes concerning the ethical behavior exhibited by various financial professionals—also referred to as "market participants"—in the market over the past year. Overall, "all financial professionals" received an above-average rating of 3.3. This rating is not simply an average of the nine ratings linked to the ethical behavior of specific professions; it is based on a separately asked control question. (The average of the ratings of the nine professions is 3.1.)

The ethical reputation of corporate executives earned the largest improvement in sentiment from 2009 to 2010, improving from 2.7 to 3.0. Perceptions of corporate boards and hedge fund

Figure 3

Respondents were asked to rate the ethical behavior of financial professionals as a whole as well as the ethical behavior of specific types of financial professionals.

Ethical Behavior of Individual Market Participants



> *Honest dealings with their advisers and transparency of adviser's investment process are a serious concern.*
>
> — Managing Director
> INSIDE THE UNITED STATES

managers earned similarly improved marks, each improving 0.2 from 2009. Although the reputation of corporate board members has been somewhat rehabilitated in the eyes of survey respondents, the rating still has some way to go to get back to the 3.2 rating corporate board members first enjoyed in 2008.

Of the nine professions listed in **Figure 3**, the perceived ethical behavior of hedge fund managers again rated lowest, at 2.6, although significantly improved from a 2.4 rating in 2009. By contrast, pension fund managers earned a rating of 3.6. This is the third consecutive year in which hedge fund managers earned the lowest rating and pension fund managers the highest.

When asked to provide comments about the ethical behavior of financial professionals in the United States, survey respondents most often cited the ethical behavior of financial advisers as cause for concern.

> *There needs to be a bright-line distinction between the services of an adviser and the services of a broker/salesperson.*
>
> — Director of Investments and Analysis
> INSIDE THE UNITED STATES

Ethical Behavior of Individuals
(continued)

Although financial advisers earned a rating of 3.1, this group elicited the most comments concerning financial professionals. Causes for concern generally focused on conflicts of interest, adviser incentive/compensation structures, and the suitability of investment advice given by advisers.

Survey respondent comments reflected some concern about the ethical behavior of corporate boards (40 comments) and executive management of public companies (38 comments) but more often touched on an issue related to both groups: executive compensation. Although survey respondents addressed all incentive structures that might cause concern among investors, their commentary focused mainly on executive compensation.

“*Wealth creation should be the ultimate objective guiding corporations, but that's not what sells. Not sure how this can be addressed other than by altering the compensation structure.*”

— Associate Director of Fund Research
OUTSIDE THE UNITED STATES

> *Pay for performance: If you don't perform, you should not get paid at either the corporate level or the financial institution level. Guarantees are fine as long as there is real risk-adjusted, strong performance.*
>
> — Analyst/Portfolio Manager
> INSIDE THE UNITED STATES

Survey respondents also noted a broad range of conflicts of interest as cause for concern. These conflicts primarily focused on potential conflicts of interest between financial advisers and their clients as well as the agency conflicts inherent in the relationship between shareholders and corporate management.

> *Conflicts of interest by vendors of financial advice are a concern, as are management interests that are not aligned with those of shareowners.*
>
> — Investment Adviser
> OUTSIDE THE UNITED STATES

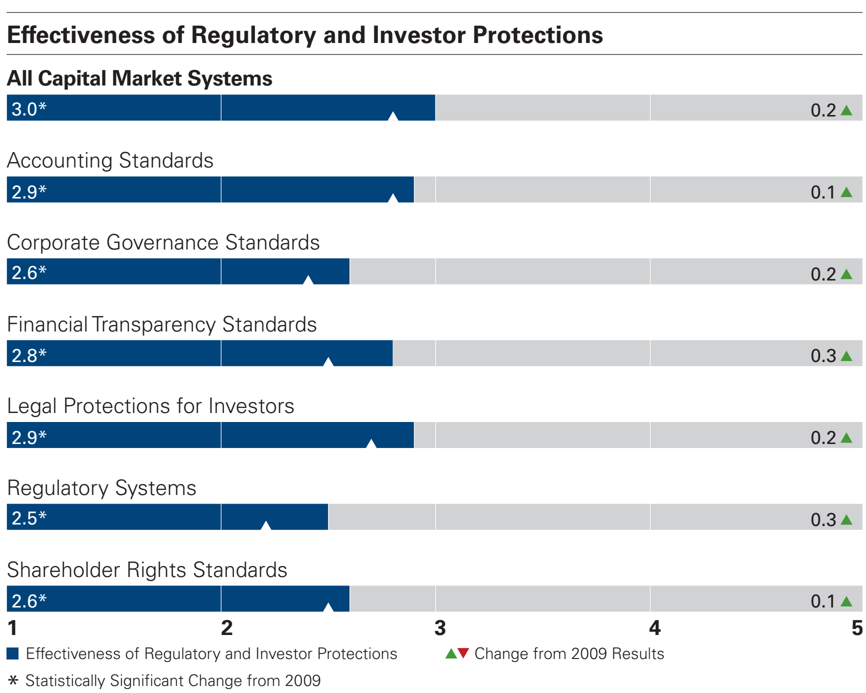
Effectiveness of Regulatory and Investor Protections

The second group of Financial Market Integrity Index questions asked respondents to rate the effectiveness of regulatory and investor protections in the market (referred to as "market systems") over the past year (see **Figure 4**). In the control question, respondents gave a 3.0 rating to "all capital market systems," which was higher than the average rating of 2.7 earned by the group. In 2009, this control question earned a rating of 2.8, whereas the average of all the market systems ratings was 2.5. This control question rating has been higher than the average rating of the six individual market system ratings every year we have conducted this survey. This result tells us that survey respondents are generally more satisfied with current regulatory and investor protections in the United States than they are with certain aspects of these systems.

Each rating concerning the effectiveness of regulatory and investor protections in the United States improved significantly from 2009 to

Figure 4

Respondents were asked to rate the overall effectiveness of capital market systems as a whole as well as the effectiveness of specific systems and standards.



> *Financial market integrity requires strict rules and governance with severe consequences for noncompliance. As long as there is no unbiased referee to set and monitor the rules, the unethical players will always take advantage of the ethical ones.*
>
> — Vice President, Chief Investment Officer
> OUTSIDE THE UNITED STATES

2010, with financial transparency standards and regulatory systems improving the most.

Regardless of this overall improvement in ratings, respondents continued to show concern in a number of areas. For example, the 2.6 ratings for corporate governance standards and shareholder rights standards are both improvements from 2009 but still well below where they should be in a market that offers investors adequate governance and shareholder rights standards. The rating for U.S. regulatory systems showed significant year-over-year improvement, moving from 2.2 in 2009 to a rating of 2.5 this year. This rating, however, also falls well below that of the kind of regulatory systems that investors in the United States should expect.

> *There has been a complete failure to enforce regulations designed to protect individual investors. These investors have been and are being taken advantage of by those fueled by greed.*
>
> — Individual Investor/Trader
> INSIDE THE UNITED STATES

Effectiveness of Regulatory and Investor Protections
(continued)

Survey respondents continue to exhibit a great deal of concern about the U.S. regulatory system; this topic garnered the most responses from survey respondents when they were asked to provide comments about the main issues facing the U.S. market. Nearly 140 survey participants commented on the state of the regulatory infrastructure of the United States, with most commenting on the need for stronger enforcement mechanisms.

Survey comments also reflect concern about the state of transparency in U.S. markets, particularly financial transparency. Nearly 70 survey respondents focused on the need for better disclosure and increased financial transparency in the markets.

Respondents also were asked two subquestions about capital market systems to further illuminate some of the reasoning behind the individual

“

The problem is not regulation per se—if everyone [had known] what stench was rotting on the bank balance sheets in a timely manner there would not have been a meltdown—timely, full disclosure is critical in my opinion as investors will punish those [who aren't transparent] more severely before things get out of hand.

— Vice President
OUTSIDE THE UNITED STATES

”

> *"There is cause for concern about the lack of transparency in financial markets. There is lack of knowledge about the true nature of many products in the financial markets."*
>
> — Senior Financial Analyst
> INSIDE THE UNITED STATES

scores given to the various market system components. These subquestions, however, do not figure in the final calculation of ratings.

The first subquestion asked about the effectiveness of capital market regulation policies themselves. Specifically, we sought respondents' perceptions on whether the regulations and investor protections available in the market represent industry standard or best practice and, if implemented correctly, would those market systems offer a solid framework for investor rights. Respondents gave these regulations and policies an average rating of 2.9 out of 5.0 (this rating was 2.6 in 2009).

The second subquestion focused on the effectiveness of implementation or enforcement of such regulations and policies. It is clear that respondents remain most concerned with the enforcement of regulation in the United States, as this score rose only slightly to 2.4 in 2010 from a rating of 2.2 in last year's survey.

Willingness to Invest in the United States

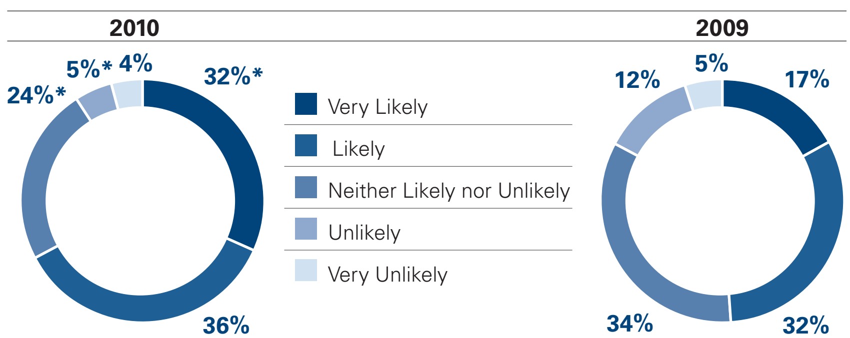
In this section of the survey, respondents were asked how likely they were to recommend investing in the U.S. market to a client, friend, or family member. The recommendation was to be based solely on their perception of the ethical behavior of market participants and the effectiveness of capital market systems.

The atmosphere under which the 2010 Financial Market Integrity survey was conducted was considerably different from that of a year ago. Whereas this year's survey occurred after a substantial recovery in U.S. capital markets, the 2009 Financial Market Integrity survey was conducted in February and March of 2009, at the height of fear about the global financial crisis and the lows of the U.S. stock market indices.

It is hardly surprising, then, that willingness to invest in the United States has improved over the past year (see **Figure 5**). Indeed, sentiment concerning the willingness to invest in the U.S. market returned nearly to the level of confidence investors had two years before. Specifically, approximately 68 percent of those in the United States this year stated that they were likely or very likely to recommend investing in the United States based on the integrity of market participants and the effectiveness of market protections. In 2009, this number was only 49 percent; it was 70 percent in 2008.

Figure 5

Likelihood of in-market respondents to recommend investing in the United States based solely on the ethical behavior of market participants and the effectiveness of capital market systems.



Based Solely on Ethical Behavior and Capital Market Systems, Would You Recommend Investing in the United States?

* Statistically Significant Change from 2009

NOTE: Percentages may not total 100 percent because of rounding.

Those outside the U.S. market are not so sanguine about the state of U.S. markets. Only about 60 percent of respondents outside the United States were likely or very likely to recommend investing in the U.S. market based on the same criteria. Although this number represents a substantial improvement from the 43 percent outside the United States who were likely or very likely to recommend investing in the United States last year, it still has not recovered to the 68 percent level seen in the 2008 survey.

The percentage of U.S. respondents who said they were unlikely or very unlikely to recommend investing in the United States fell from 17 percent in 2009 to about 9 percent in 2010. This change in "unwillingness" to invest is even more dramatic when approached from outside the United States. About 21 percent of survey respondents said they were either unlikely or very unlikely to recommend investing in the United States in 2009. This number dropped to 8 percent this year.

Based on the answers to this question and the results observed elsewhere in this survey, it appears that confidence in the integrity of the U.S. capital markets has reached a critical juncture. Indeed, these 2010 survey results generally show that sentiment concerning the integrity of markets has returned to the point it was two years ago, because many of the ratings in this year's survey mirror those of the 2008 report. Ratings of the ethical behavior of financial professionals, however, generally still hover around 3.0, or merely "average," and no rating of the effectiveness of market systems even rises to this average level.

Although the world has pulled back from the brink of financial Armageddon since last year's survey, much remains to be done to fully restore confidence in U.S. financial market systems and financial professionals.

Other Key Survey Considerations

In-Market vs. Out-of-Market Perceptions

For purposes of this Financial Market Integrity Index, charterholders from other markets around the world were given the opportunity to rate and comment on both their own and the U.S. market. (Survey respondents were given the option to skip questions pertaining to any market about which they did not think they were knowledgeable.)

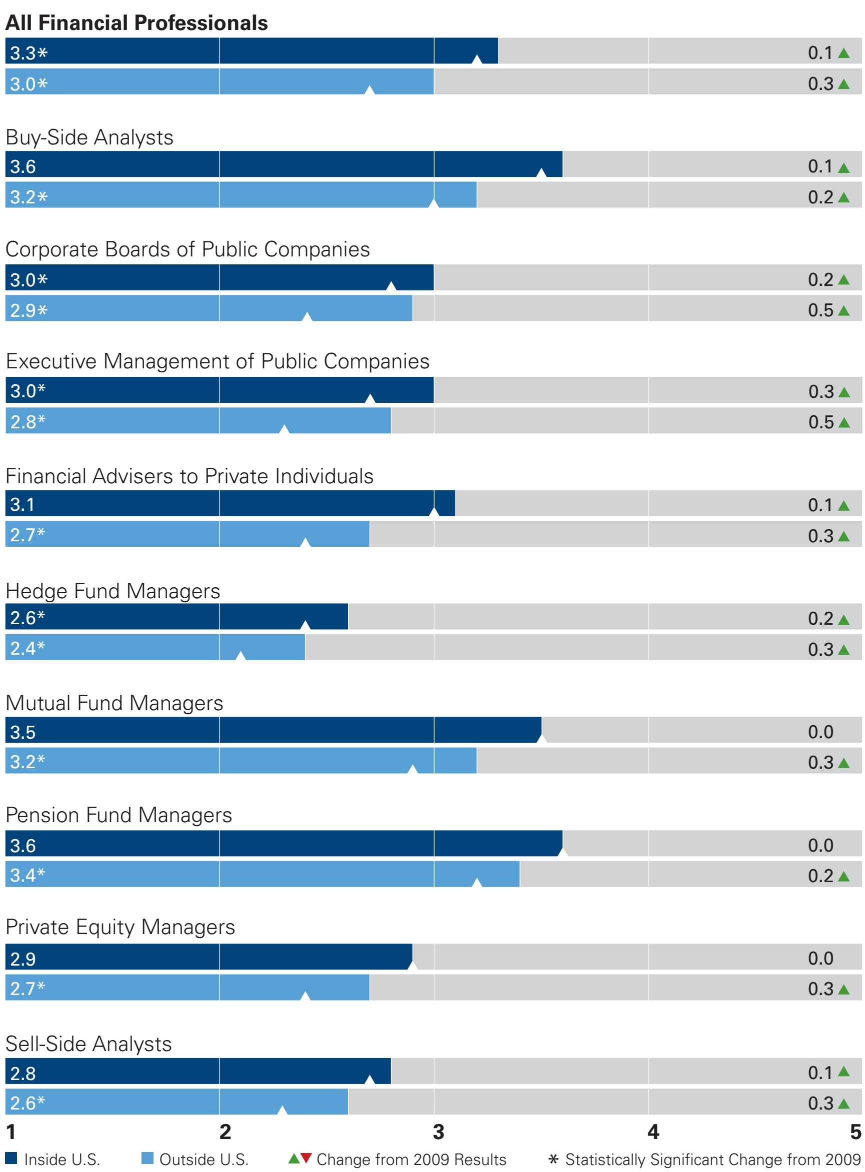
In 2010, those in the United States tended to rate the integrity of individual market participants higher than did respondents from outside the country (see **Figure 6**). At the same time, however, those inside the United States tended to rate the effectiveness of capital market systems lower than did those outside the United States (see **Figure 7**). The sentiment of non-U.S. survey respondents concerning the effectiveness of market systems is a reversal from what we saw in the 2009 survey. Last year, those outside the United States highlighted the role that the U.S. regulatory system played in the financial crisis, rating market systems lower than did in-market survey participants.

Figure 6 demonstrates that the confidence in the integrity of U.S. financial professionals held by those outside the U.S. market increased in every category, and drastically in a number of categories. Improvement was most pronounced in the perceptions of corporate boards and corporate executives, although confidence in each remains below the average rating of 3.0.

The biggest differences in perceptions of those inside the U.S. market versus those outside the market is found in the ratings of ethical behavior of buy-side analysts and financial advisers.

Ethical Behavior of Individual Market Participants

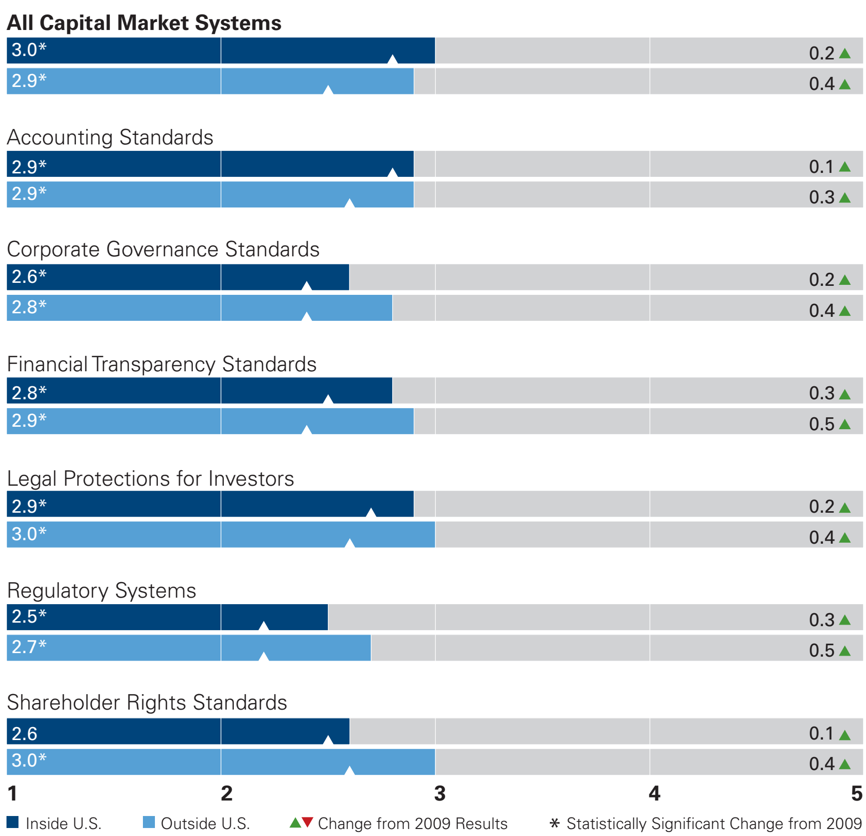
Figure 6



In-Market vs. Out-of-Market Perceptions

(continued)

Figure 7 **Effectiveness of Regulatory and Investor Protections**



In this year's survey, respondents outside the United States rated market systems slightly higher than did those who work and live in the market. Sentiment concerning shareholder rights showed the biggest divergence in opinion between the two groups. With a rating of 3.0, shareholder rights earned the highest rating among market systems from those outside the United States. Those in the U.S. market gave shareholder rights one of the lowest ratings afforded to any market system, at 2.6. This perception of shareholder rights has stayed fairly consistent in the United States through each iteration of this survey, whereas the out-of-market perception of shareholder rights in the United States is simply returning to 2008 levels (see the appendix).

Figure 7 shows that market systems in the United States earned back some trust from those outside the U.S. market over the past year. Improvement was most pronounced in the categories of financial transparency and regulatory systems, with each showing an improvement of 0.5. Caution should be taken, however, to note that although such improvement is significant, these ratings are improving from a substantially low base.

Market-Specific Questions

In the 2010 Financial Market Integrity Index survey, we offered survey respondents the opportunity to answer a market-specific question addressing an issue of particular importance to participants in a given market. Not all surveys included a market-specific question, but in- and out-of-market respondents to the U.S. Financial Market Integrity Index survey were asked to indicate how important certain proposed U.S. regulatory reforms would be for the future safety and integrity of U.S. financial markets.

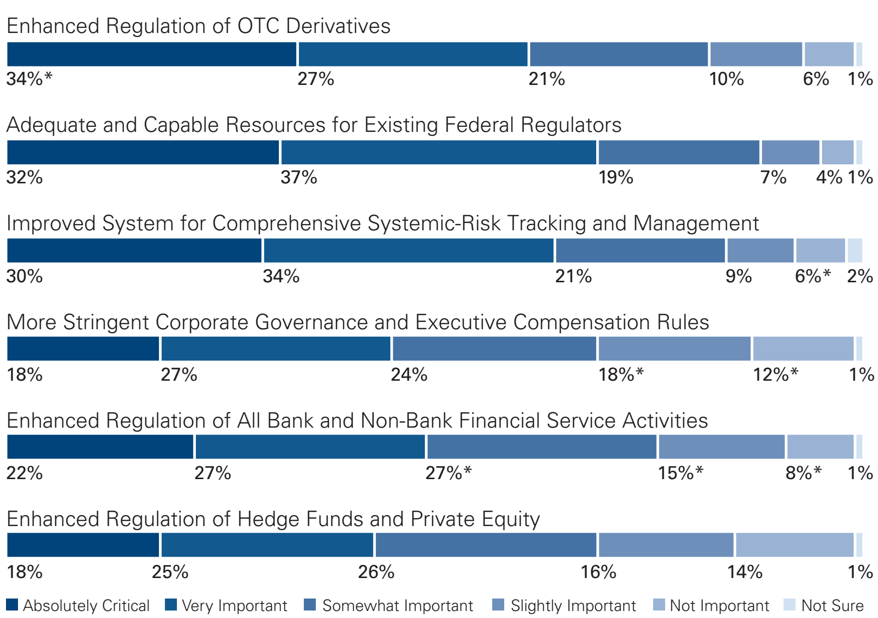
This question is based on the recommendations made by the report of the Investors' Working Group (IWG). In 2009, CFA Institute and the Council of Institutional Investors formed an independent panel—the IWG—that produced a report to give investors' perspectives in the ongoing national debate about overhauling the U.S. financial regulatory system. The group's report, published in July 2009, addressed the causes of the financial crisis and offered potential solutions.

The results of this question show that those in the United States believe that all the recommendations made in the IWG report deserve attention from regulators and lawmakers (see **Figure 8**).

Based on the answers of those who listed a reform as either "absolutely critical" or "very important," respondents in the United States think that granting regulators adequate resources is the most important recommendation. This is followed closely in order of importance by those who believe that an improved system for comprehensive systemic-risk tracking and management as well as enhanced regulation of OTC derivatives are important.

The results from those outside the United States are similar, although these respondents place greater importance on hedge fund and private

Please indicate how important you feel each of these is for ensuring the future safety and integrity of United States financial markets.



*Significantly higher than out-of-market answer only at 95 percent confidence level.

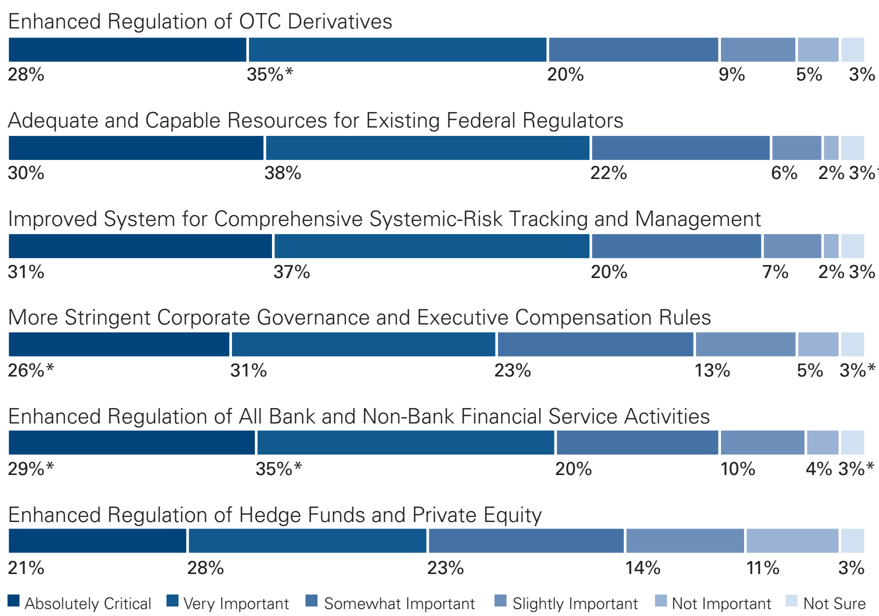
NOTE: Percentages may not total 100 percent because of rounding.

Figure 8
Inside U.S. Market

Market-Specific Questions
(continued)

Figure 9
Outside U.S. Market

Please indicate how important you feel each of these is for ensuring the future safety and integrity of United States financial markets.



*Significantly higher than in-market answer only at 95 percent confidence level.

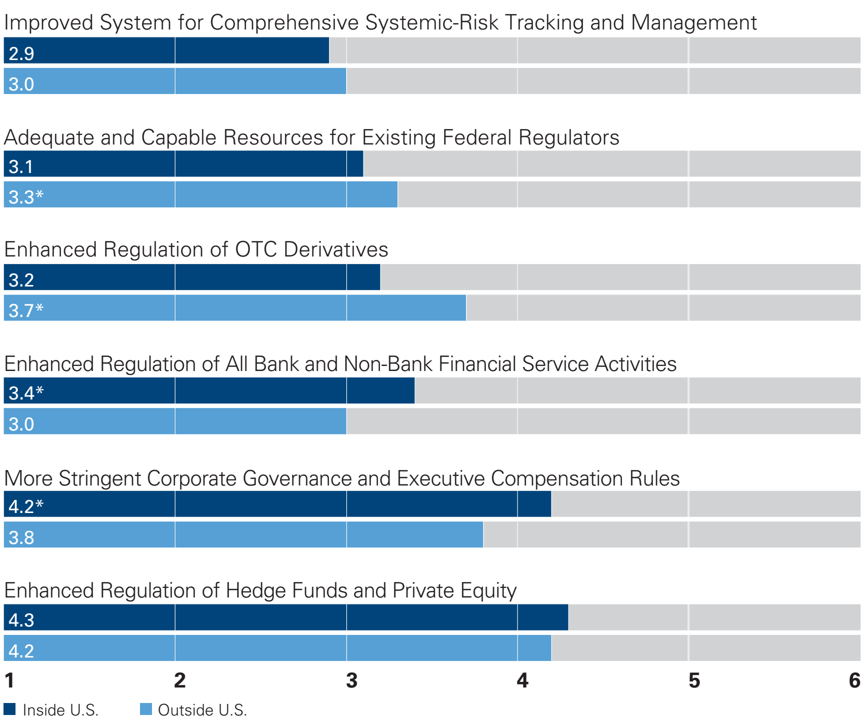
NOTE: Percentages may not total 100 percent because of rounding.

equity regulation, improved corporate governance standards, and enhanced regulation of bank and non-bank financial institutions (see **Figure 9**).

Survey respondents were then asked to rank these items in order of importance for the future safety and integrity of U.S. financial markets, with 1 being the most important and 6 being the least important (see **Figure 10**). When asked to rank these items in order of importance, both those inside and outside the United States agreed that an improved system for comprehensive systemic-risk tracking and measurement was the most important step for regulators to take. Respondents inside the United States stated that providing adequate resources for federal regulators was the next-most important reform followed by enhanced regulation of OTC derivatives.

Please RANK these items in order of importance for the future safety and integrity of United States financial markets.
(1 = most important, 6 = least important)

Figure 10



*Significantly higher than in/out of market only at 95 percent confidence level.

Comments of Survey Respondents

More than 550 respondents offered comments about the current state of financial market integrity in the United States. Respondents were given opportunities in connection with several of the survey questions to provide written comments about their thoughts and concerns. In particular, additional comments were solicited in the survey section concerning individual market participants and, again, after questions concerning market systems. At the completion of the survey, respondents also were asked for additional issues of concern and for any other comments.

More than 1,000 substantive comments were received; those responding with answers such as "no answer" or "nothing to add" were excluded.

The various responses were examined and then categorized based on the concerns addressed in each comment (e.g., advisers, transparency). The key areas of comment are highlighted in **Figure 11**. In instances in which an individual raised more than one concern, each separate concern was identified and counted.

Figure 11

Survey respondents commented most about regulation, incentives, and advisers.

Issues Raised Most Frequently

Regulation/Regulatory Systems	**139** comments (67 inside U.S./72 outside U.S.)
Compensation/Incentives	**74** comments (35 inside U.S./39 outside U.S.)
Advisers	**73** comments (50 inside U.S./23 outside U.S.)
Transparency	**69** comments (31 inside U.S./38 outside U.S.)
Government	**65** comments (50 inside U.S./15 outside U.S.)
Conflicts of Interest	**60** comments (29 inside U.S./31 outside U.S.)

Regulation

For the second year in a row, U.S. regulation and regulatory systems had the most comments from survey respondents. Enhancements to regulatory resources and improvements to regulatory enforcement in the United States continue to be the topics most highlighted by survey respondents in their comments. Other respondents focused on such regulatory reforms as the regulation of hedge funds, derivatives, and ratings agencies. About a half-dozen respondents for the first time in the life of the survey stated that the United States should revive the Depression-era Glass–Steagall Act, which separated the worlds of commercial and investment banking but was overturned in the late 1990s. Nearly an equal number of respondents, however, expressed concerns about overregulation, which is perhaps a trend to monitor in the future.

“*The track record of regulators empirically demonstrates an inability to proactively detect unethical behavior along with the failure and/or the lack of desire to take command of the unethical operations of money managers after regulations have broken. More regulation will not be effective if the government regulators are toothless.*

— Senior Analyst
INSIDE THE UNITED STATES”

Comments of Survey Respondents
(continued)

Compensation

For the second consecutive year, compensation and incentive structures proved a main cause for concern among survey respondents. Comments about incentive structures focused mainly on the question of executive compensation and the need for companies and their boards to do a better job ensuring that incentives foster a pay-for-performance environment and discourage a short-termism mindset.

> *If their compensation over the last few decades . . . had been tied to long-term change in return on equity, for example, instead of short-term measures that help them rationalize their overcompensation, many of them would earn far less than they do but would still be richly compensated.*
>
> — Retired
> INSIDE THE UNITED STATES

Advisers

Concerns about financial advisers returned to the list of top concerns this year. (Financial advisers were one of the groups most commented on in the 2008 survey but took a backseat to issues related to the global financial crisis in 2009.)

Those who showed concern about the ethical behavior of financial advisers most often cited potential conflicts of interest, adviser incentive structures, and the suitability of investment advice given by these advisers as their top concerns.

> *It is important that investment professionals ascertain suitability prior to investment purchases—[and] that there are clear presentations of risk in common English wording.*
>
> — Market/Liquidity Risk Specialist
> INSIDE THE UNITED STATES

Transparency

Once again, transparency ranks high on the list of investor concerns in the United States. Indeed, financial transparency topped the list of transparency concerns of survey respondents, who think that disclosure in a number of areas could have prevented, or at least seriously mitigated, the recent global financial crisis.

> *"Key thing for me is transparency. No one knew what the bets were, whether books were balanced, how leveraged investors were, and where the leverage was through both debt and low-margin requirements."*
>
> — Senior Research Analyst
> INSIDE THE UNITED STATES

> *"Lack of transparency and subsequent mistrust of the public regarding the emergency decisions made during the market crisis have made a permanent dent in the integrity of the system, real or imaginary."*
>
> — Investment Manager Group Pension
> INSIDE THE UNITED STATES

Comments of Survey Respondents
(continued)

Government

For the second year in a row, survey respondents cited the U.S. government as a major concern going forward. Most of these comments voicing concern about the role the U.S. government played during, and now after, the recent financial crisis come from survey respondents inside the United States.

> *The United States is being reviewed globally regarding its failures in not controlling market risk better. Unfortunately regulators, politicians, and financial institutions all were to blame for this collapse.*
>
> — Managing Director
> INSIDE THE UNITED STATES

> *The only change that will truly help bring integrity to the markets is to remove the safety net . . . and pass laws that will never allow government to bail out the banking industry ever again. We need to eliminate the moral hazard.*
>
> — Vice President
> INSIDE THE UNITED STATES

Conflicts of Interest

Conflicts of interest was the topic most commented upon by survey respondents as an area of concern in the 2008 survey, eventually giving way to concerns about the U.S. regulatory model and the other aftereffects of the global financial crisis in the 2009 survey. It appears that with the U.S. economy now on more solid footing, concerns over a broad range of conflicts of interests can retake center stage.

> *"Investors should be wary of conflicts of interest between banks and investors when banks are involved on both sides of the transactions, as for-profit traders and advisers."*
>
> — Portfolio Manager
> INSIDE THE UNITED STATES

> *"I am concerned about the misalignments of interest between public company boards/management and their shareholders."*
>
> — Director of Investments
> INSIDE THE UNITED STATES

These concerns covered a number of different areas—from conflicts of interest between boards of directors, management, and shareholders to conflicts at financial institutions, investment banks, financial advisers, and rating agencies.

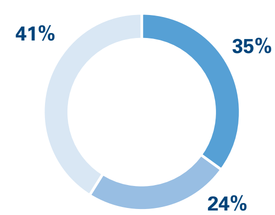
Demographics

The following figures indicate some of the key demographic information about the respondent base (please see the complete methodology report at www.cfainstitute.org/ethics for further details).

Overview of Out-of-Market Respondents

Market

35%	Americas
24%	Asia Pacific
41%	Europe/Middle East/Africa



Respondent Profiles for U.S. Market

In Market (576 respondents)		Out of Market (883 respondents)
	Buy/Sell Side	
51%	Buy Side	48%
10%	Sell Side	11%
4%	Both	6%
34%	Neither	35%
	Client Asset Base	
30%	Institutional Entities	32%
29%	Private Individuals	20%
8%	Equal Institutional and Private Clients	9%
33%	Not Involved in Asset Management	38%
	Institutional Asset Client Type	
14%	Bank/Investment Bank	13%
11%	Endowment/Foundation	4%
2%	External Corporation	3%
4%	Government/Municipal Entity	8%
9%	Hedge Fund	6%
14%	Insurance Company	11%
2%	Internal Corporate/Proprietary	3%
17%	Mutual Fund/Investment Company	20%
21%	Pension Fund	26%
2%	Private Equity Fund	3%
4%	Other	3%

These results represent only those respondents identified as being in the "Institutional Entities" Client Asset Base category.

Respondent Profiles for U.S. Market (continued)

Assets Under Management

In Market (576 respondents)		Out of Market (883 respondents)
22%	Less than US$250 Million	19%
13%	US$250 Million to Less than US$1 Billion	14%
13%	US$1 Billion to Less than US$5 Billion	19%
16%	US$5 Billion to Less than US$20 Billion	12%
9%	US$20 Billion to Less than US$50 Billion	10%
12%	US$50 Billion to Less than US$250 Billion	14%
14%	More than US$250 Billion	12%

These results represent only those respondents identified as being in the "Institutional Entities" Client Asset Base category.

Years in the Investment Industry

In Market (576 respondents)		Out of Market (883 respondents)
7%	5 Years or Less	8%
39%	6 to 15 Years	59%
42%	16 to 30 Years	29%
12%	31 Years or More	3%

Primary Job Function

In Market (576 respondents)		Out of Market (883 respondents)
3%	Academic	2%
1%	Accountant/Auditor	4%
1%	Actuary	0%
1%	Appraiser/Assessor	0%
1%	Broker	0%
6%	Consultant	6%
2%	Corporate Financial Analyst	3%
4%	Credit Analyst	2%
0%	Economist	1%
1%	Equity Sales	1%
8%	Executive (e.g., CEO, CFO, CIO, COO, CMO, etc.)	10%
8%	Financial Adviser	5%
1%	Fixed-Income Sales	1%
1%	Institutional Sales	1%
1%	Investment Banking Analyst/Banker	3%
0%	Management Analyst	1%
3%	Manager of Managers	3%
1%	Performance Measurement Specialist (GIPS)	1%
24%	Portfolio Manager	20%
1%	Private Banker	2%
0%	Private Client Sales	1%
1%	Product Development	1%
1%	Regulator	1%
1%	Relationship Manager, Sales, Marketing	2%
10%	Research Analyst	10%
3%	Retired	2%
3%	Risk Manager	5%
1%	Strategist	2%
1%	Student	0%
4%	Trader	2%
1%	Treasurer	2%
1%	Unemployed	1%
6%	Other	5%

NOTE: Percentages may not total 100 percent because of rounding.

Appendix
Results from 2008 to 2010

	In Market			Out of Market		
	2010	2009	2008	2010	2009	2008
	A	B	C	D	E	F
Overall Rating	**3.0 B**	**2.8**	**2.9 B**	**2.9 EF**	**2.5**	**2.6**
All Financial Professionals	3.3 B	3.2	3.4 AB	3.0 E	2.7	3.0 E
Buy-Side Analysts	3.6	3.5	3.6	3.2 E	3.0	3.3 E
Corporate Boards of Public Companies	3.0 B	2.8	3.2 AB	2.9 E	2.4	2.9 E
Executive Management of Public Companies	3.0 B	2.7	3.0 B	2.8 E	2.3	2.8 E
Financial Advisers to Private Individuals	3.1	3.0	3.2 B	2.7 E	2.4	2.7 E
Hedge Fund Managers	2.6 B	2.4	2.6 B	2.4 E	2.1	2.4 E
Mutual Fund Managers	3.5	3.5	3.5	3.2 E	2.9	3.1 E
Pension Fund Managers	3.6	3.6	3.7 B	3.4 E	3.2	3.5 E
Private Equity Managers	2.9	2.9	3.0 B	2.7 E	2.4	2.6 E
Sell-Side Analysts	2.8	2.7	2.8 B	2.6 E	2.3	2.5 E
All Capital Market Systems	3.0 B	2.8	2.9 B	2.9 E	2.5	2.9 E
Accounting Standards	2.9 BC	2.8	2.8	2.9 E	2.6	2.9 E
Corporate Governance Standards	2.6 B	2.4	2.6 B	2.8 E	2.4	2.8 E
Financial Transparency Standards	2.8 BC	2.5	2.6	2.9 EF	2.4	2.7 E
Legal Protections for Investors	2.9 B	2.7	2.8	3.0 E	2.6	3.0 E
Regulatory Systems	2.5 B	2.2	2.6 B	2.7 E	2.2	2.8 E
Shareholder Rights Standards	2.6	2.5	2.6	3.0 E	2.6	3.0 E

NOTE: Column letters are used to denote significant year-to-year differences at the 95 percent confidence level. For example, a letter "B" next to a rating in column "A" means that the rating in column A is statistically significantly higher than the rating in column B at a 95 percent confidence level.

Based Solely on Ethical Behavior and Capital Market Systems, Would You Recommend Investing in the United States?

	In Market			Out of Market		
	2010	2009	2008	2010	2009	2008
Number of Respondents	576	541	424	833	306	286
	A	B	C	D	E	F
Very Unlikely	4%	5%	5%	3%	7% DF	2%
Unlikely	5%	12% AC	4%	5%	14% DF	6%
Neither Likely nor Unlikely	24%	34% AC	21%	32% F	37% F	23%
Likely	36%	32%	34%	41% E	30%	39% E
Very Likely	32% B	17%	36% B	19% E	13%	29% DE

NOTE: Percentages may not total 100 percent because of rounding.

NOTE: Column letters are used to denote significant year-to-year differences at the 95 percent confidence level. For example, a letter "B" next to a rating in column "A" means that the rating in column A is statistically significantly higher than the rating in column B at a 95 percent confidence level.

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