

FINANCIAL MARKET INTEGRITY INDEX™

UNITED KINGDOM

2010



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 rigour 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.

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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

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

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.

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

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.

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 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 Kingdom. This Report was specifically designed to gather the perceptions of only the U.K. 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 'market systems', such as market regulation and investor protections, including 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 behaviour 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 behaviour exhibited by the following groups in the United Kingdom.



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



Figure 1

The ethical behaviour 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.

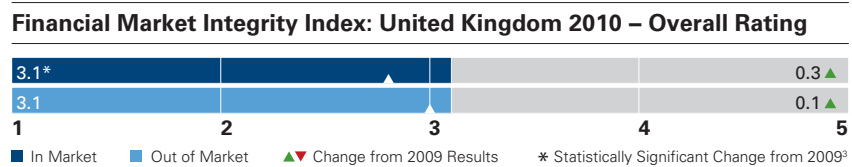
¹ One question dealing with severity of unethical behaviour or ethical lapses was an exception and listed a score of 1 as not severe at all and 5 as extremely severe. This question did not figure in the final calculations of the Financial Market Integrity rating.

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

Executive Summary

Figure 2

In 2010, in-market respondents gave the U.K. market a significantly higher overall Financial Market Integrity rating (3.1) than they did in 2009 (2.8).



Survey respondents in the United Kingdom appear to have regained some of the faith they had lost in the integrity of the U.K. financial system since the global financial crisis and the lows reached in U.K. equity markets in early 2009 (see **Figure 2**)⁴, as the overall rating given to the market is up significantly from 2009. The confidence level expressed by respondents outside the United Kingdom has rebounded somewhat, but not to levels seen two years ago.

Since the 2008 survey, out-of-market respondents have had a somewhat more negative perception of U.K. financial professionals, while the sentiment level of in-market respondents has increased.⁵ Prior to the global financial crisis, the United Kingdom was traditionally perceived as a country with high regulatory and investor protection standards. It seems as though those inside and outside the United Kingdom may have been caught off guard when many of these capital market systems failed to provide an anticipated higher level of investor protection.

The overall 2010 Financial Market Integrity Index ratings given by both groups of respondents indicate there is room for improvement in the integrity and effectiveness of the U.K. financial system. Of the 15 survey categories that survey respondents rated, one-third received a below-average rating (below 3.0 on a scale from 1 to 5) from those both inside the U.K. and those outside the country. Although sentiment increased across the board for market participants, nearly half of the professional groups rated are perceived as being less than 'somewhat ethical' by both those inside and outside the U.K. market.

In the 2009 survey, respondents expressed the greatest loss of trust in corporate boards and public company executives. Based on ratings for these categories in the 2010 survey, both groups have been able to repair much of the damage to their reputations in the past year.

Respondents inside the United Kingdom think that substantial improvements have been made in

capital market systems over the past year, with only the category of regulatory systems receiving a below-average rating. This relatively low rating for the U.K. regulatory system reflects a broad dissatisfaction with a 'light touch' regulatory model that survey respondents believe exacerbated the effects of the global financial crisis.

Conclusions

- Ratings in nearly all categories are higher than they were in the previous year, indicating most survey participants perceive overall improvement in the ethical behaviour of market participants and effectiveness of market systems in the United Kingdom. Overall, however, respondents appear to regard the level of integrity and the degree of investor protection in the U.K. financial system as about 'average'.
- Ratings for most capital market systems were significantly higher in 2010 than in the prior year. But survey respondents are still concerned about the U.K. regulatory environment, which received the lowest score among market system ratings in each of the 2008, 2009, and 2010 surveys.
- Based on their perceptions of market ethics and integrity alone, approximately 68 percent of survey respondents in the United Kingdom said they are likely or very likely to recommend investing in U.K. markets. This percentage was 58 percent in 2009 and 76 percent in 2008.
- Among the comments provided by survey respondents, the integrity of financial advisers was the most frequently raised issue of concern. The state of the United Kingdom's regulatory system is also a primary concern, eliciting nearly as many comments.

Survey **respondents** are **still concerned** about the U.K. regulatory environment, which received the **lowest score** among market system ratings in each of the 2008, 2009, and 2010 surveys.

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.

Key Findings

Ethical Behaviour of Individuals

The first group of Financial Market Integrity Index questions gauged attitudes concerning the ethical behaviour 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 (see **Figure 3**). This rating is not simply an average of the nine

ratings linked to the ethical behaviour of specific professions; it is based on a separately asked control question. (The average of the ratings of the nine professions is 3.1.)

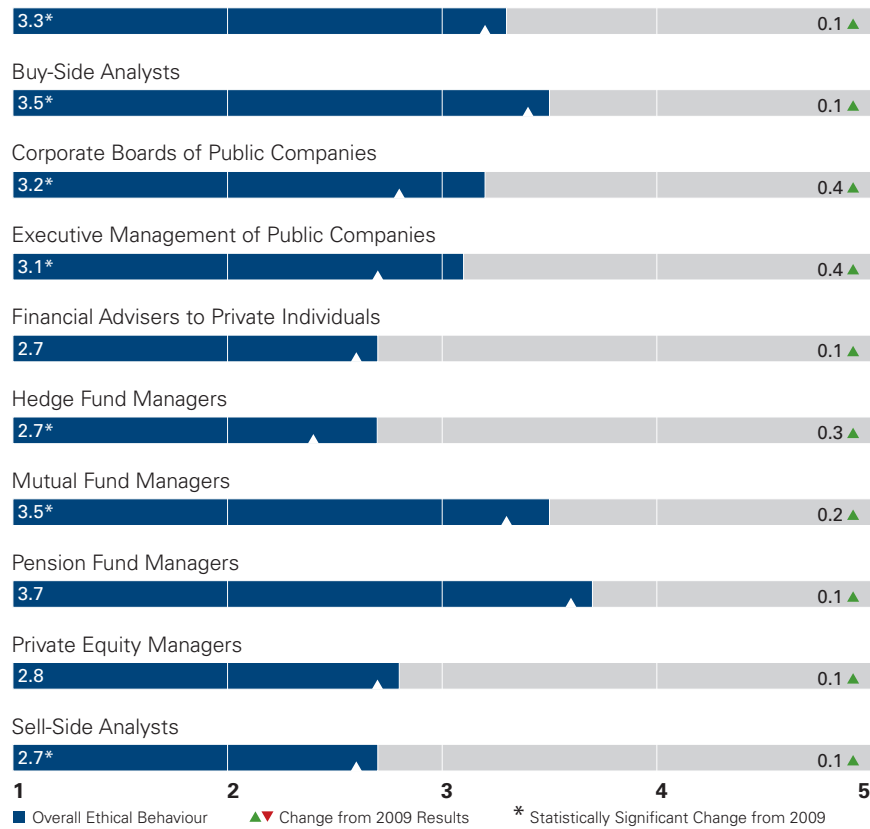
The ethical reputation of corporate boards and corporate executives garnered the largest improvement in sentiment, with each increasing 0.4.

Figure 3

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

Ethical Behaviour of Individual Market Participants

All Financial Professionals



The perception of hedge fund managers earned similarly improved marks, up 0.3 from 2009. Still, four of the nine professional groups earned a rating of below 3.0, or below 'somewhat ethical', on the survey scale.

Respondents assigned the lowest rating in the survey (2.7) to the ethical behaviour of financial advisers and hedge fund managers. The highest rating was awarded to pension fund managers, at 3.7.

When asked to provide comments about the ethical behaviour of financial professionals in the United Kingdom, survey respondents most often cited financial advisers as an area of concern.

Indeed, financial advisers are among the three groups of market professionals earning the lowest ranking

“
Personal financial advisers tend to forget their fiduciary duty with their clients.

— Portfolio Manager
INSIDE THE UNITED KINGDOM

”
in the 2010 survey. Respondents overwhelmingly voiced concern that the objectivity and integrity of advisers are compromised by the profession's commission-based incentive structure.

This finding is consistent with a European survey that CFA Institute conducted in 2009 showing that approximately 72 percent of respondents thought that fees, as opposed to suitability, drove product sales.⁶

“
Some advisers do not understand the investment solutions that they are promoting to clients and, under pressure from their firms, are pushed to sell unsuitable solutions.

— Financial Adviser
INSIDE THE UNITED KINGDOM

”

⁶The press release of survey results can be found at www.cfainstitute.org/about/press/release/Pages/04212009_16370.aspx.

Ethical Behaviour of Individuals

(continued)

The Financial Services Authority (FSA) in the United Kingdom is looking to raise professional standards and reform compensation practices in the sector. The FSA's 'Retail Distribution Review' has proposed replacing the current commission-based structure with one based more on transparent up-front fees. The regulator also has proposed new professional standards and minimum qualification requirements.

Survey respondents also commented frequently on corporate boards and executives despite the much higher marks given to these groups in 2010 compared with the previous year. A number of respondents thought that corporate boards continue to fall short of their fiduciary duty to shareholders. Comments aimed at executives were critical of advancing self-interests and excessive remuneration.

“
Corporate boards are still struggling to get to grips with their responsibilities and are not sufficiently robust in holding management to account. Some of this responsibility must be shared by the shareholders who are not fulfilling their fiduciary duties.

— Director of Research
INSIDE THE UNITED KINGDOM

”

“
Management of public companies [is] managing for their own self-interest rather than shareholder value.

— Investment Officer
INSIDE THE UNITED KINGDOM

Survey respondents also commented on a number of issues that applied to more than one group of financial professionals operating in the U.K. market. Chief among their concerns was the prevalence of conflicts of interest among various financial professionals as well as the need to better police insider trading.

One of the main priorities of European Union regulators is to harmonize enforcement of market abuse rules. The FSA has made it a priority to identify and prosecute more market abuse cases, and this is starting to happen. Survey respondents will be glad to

hear such news; throughout the history of the Financial Market Integrity survey, a number of respondents in the United Kingdom have expressed concern with the enforcement arm of the FSA.

“
Company management and boards [are] not acting in the investors’ interests.

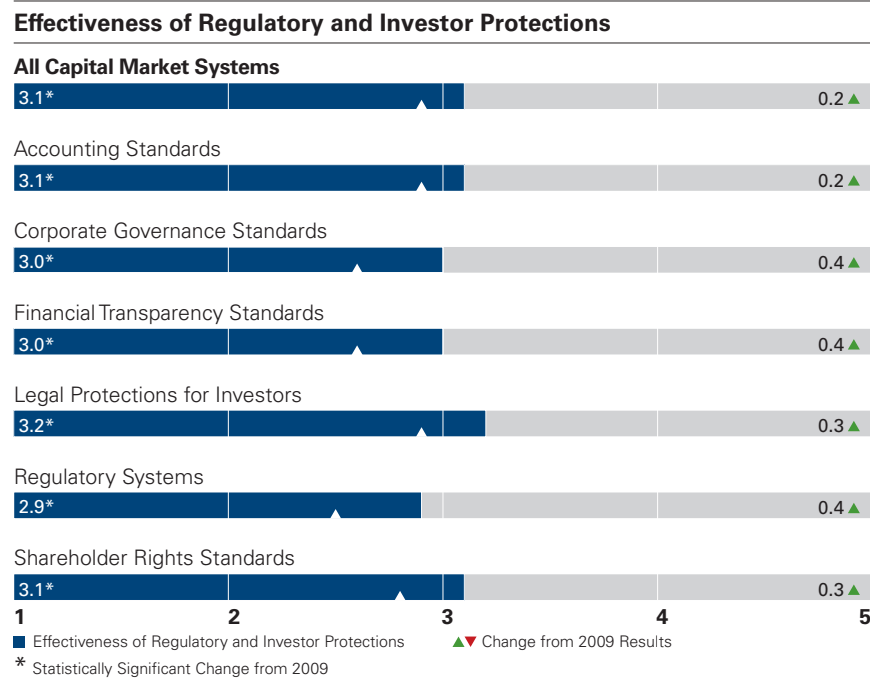
— CEO
OUTSIDE THE UNITED KINGDOM

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. In the control question seeking ratings of all capital market systems, this group of investor protections received a rating of 3.1 (see **Figure 4**). This control question rating was equivalent to the average rating of 3.1 earned by the group. In the 2009 survey, this control question earned a rating of 2.9 and the average of all the market systems ratings was 2.7.

During the course of the past year, survey respondents appear to have regained some of their lost faith in the effectiveness of regulatory systems and investor protections in the United Kingdom, as every rating showed significant improvement. All market systems ratings are slightly above the marks given in 2008. Despite the substantial improvement in the scores, the ratings indicate a system that is mainly regarded as 'somewhat effective'. Respondents continue to show concern about the state of the U.K. regulatory system, assigning it a below-average mark.

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.



“

The regulator talks a good game in terms of principles; the issue is their competence, willingness, and ability to tackle any of the major issues harming investors' interests. From my perspective, they either don't understand them or don't do anything about them.

— Portfolio Manager
INSIDE THE UNITED KINGDOM

”

When asked to provide comments on the main issues facing the U.K. financial system, survey respondents cited regulatory systems as their second highest area of concern. Of the 35 comments received on the regulatory landscape in the United Kingdom, comments were fairly evenly divided between those calling for greater effectiveness and those calling for greater enforcement of policies.

Financial transparency standards earned a 'somewhat effective' rating of 3.0, much higher than 2009's rating of 2.6, yet survey respondents showed a fair amount of concern regarding investor protections in this area as well. Transparency was the fifth most frequently raised issue; respondents' concerns mainly focused on transparency in financial statements and capital markets.

“

Many policies are good, but when it comes to enforcement, they are rarely strongly enforced.

— Portfolio Manager
INSIDE THE UNITED KINGDOM

”

Effectiveness of Regulatory and Investor Protections

(continued)

Respondents also were asked two subquestions about capital market systems to further illuminate some of the reasoning behind the individual 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. 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 3.0 out of 5.0 (this rating was 2.7 in 2009).

“
The disclosure rules are only effective where the quality of the disclosures is high. Many disclosures seem to lack accuracy/completeness, so they add to the volume of information but not to the value of information.

— Investment Associate and Legal Counsel
INSIDE THE UNITED KINGDOM

”

“
Less liquid investments are frequently valued wrongly, and some players in the market move those valuations up and down based on what is most profitable for them. The lack of transparency in trading is a serious issue in all but the most liquid markets.

— Portfolio Manager
INSIDE THE UNITED KINGDOM

”

The second subquestion focused on the effectiveness of implementation or enforcement of such regulations and policies. Respondents appear more concerned with the enforcement of regulation in the United Kingdom, as this score earned a rating of 2.8 in 2010. This rating is up from 2.4 in last year’s survey.

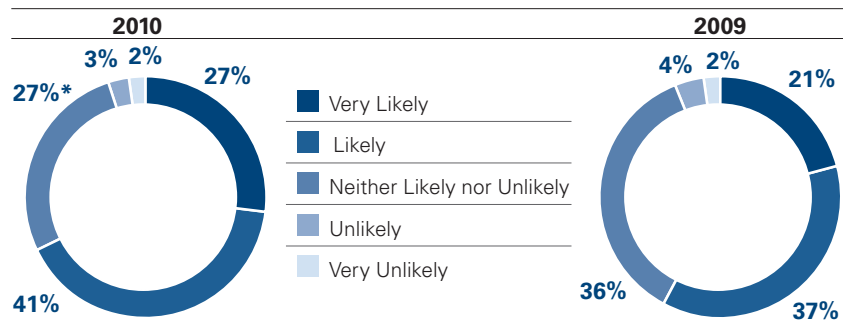
Willingness to Invest in the United Kingdom

In this section of the survey, respondents were asked the likelihood that they would recommend investing in the U.K. market based solely on their perception of the ethical behaviour of market participants and the effectiveness of capital market systems.

The 2009 Financial Market Integrity survey was conducted when confidence in global financial markets was at a low point and the U.K. equity markets

has yet to return to the level of confidence investors had two years earlier. In the 2010 survey, approximately 68 percent of respondents in the United Kingdom stated that they were likely or very likely to recommend investing in the United Kingdom based on the integrity of market participants and the effectiveness of market protections (see **Figure 5**). In 2009, this number was only 58 percent; in 2008, it was 76 percent.

Figure 5
Likelihood of in-market respondents to recommend investing in the United Kingdom based solely on the ethical behaviour of market participants and the effectiveness of capital market systems.



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

* Statistically Significant Change from 2009

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

had experienced a severe correction. With investor confidence recovering as the markets have begun to rebound, willingness to invest in the United Kingdom has improved somewhat, according to the 2010 survey.

Sentiment concerning the willingness to invest in the U.K. market, however,

Those outside the U.K. market are somewhat more hesitant. Only 60 percent of out-of-market respondents were likely or very likely to recommend investing in the U.K. market based on the same criteria. This number is up dramatically from 39 percent in 2009, yet it falls short of the 70 percent level seen in the 2008 survey.

Despite some of the promising rebound in ratings we have observed elsewhere in this survey, these 2010 results concerning the willingness to invest in the U.K. market have not fully rebounded to pre-crisis levels. Respondents inside the United Kingdom generally tend to express greater faith in the ethical behaviour of financial professionals and the effectiveness of market systems than they did a year ago, helping both market participants and market systems generally rebound to 2008 levels. But for some reason, those in the United Kingdom are not as willing to recommend investing in the U.K. market. In 2008, 39 percent of respondents stated that they were very likely to recommend investing in the United Kingdom based on the integrity of participants and market systems. After falling to only 21 percent in 2009, this number has rebounded only slightly, to 27 percent, still significantly below 2008 levels.

These data concerning a willingness to invest may reflect a bit of uncertainty over the current fiscal and regulatory environments in the United Kingdom, which may discourage investment activity in comparison with previous years. Relatively high levels of government debt and a weakening currency may have sapped the confidence of some survey respondents in 2010. In addition,

elections in the United Kingdom are scheduled for early May 2010, and if the Conservative Party wins, it has stated its intention to abolish the FSA, move prudential supervision to the Bank of England, and set up a new Consumer Protection Agency.

Compounding matters, the regulatory market in the United Kingdom will be influenced by various international regulatory initiatives to reform the global financial system. It is not yet clear how, or even if, reforms could be implemented in the United Kingdom in the same fashion as in other countries. The United Kingdom is also sensitive to the potential dilution of its power by the creation of the new pan-European supervisory authorities.

There is also uncertainty over the U.K. fiscal position and the imposition of higher taxes, which, although not directly affecting the integrity of the U.K. market or the effectiveness of capital market systems, may make the market less attractive in general. For example, some businesses have discussed relocating their operations to avoid higher taxes, and hedge fund managers are threatening to relocate to Switzerland to avoid being subjected to the European Union's Directive on Alternative Investment Fund Managers.

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.K. 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, respondents inside the United Kingdom gave a similar rating to the ethical behaviour of all market participants as did those outside the United Kingdom (see **Figure 6**). The effectiveness of all capital market systems received exactly identical ratings from respondents both inside and outside the United Kingdom (see **Figure 7**).

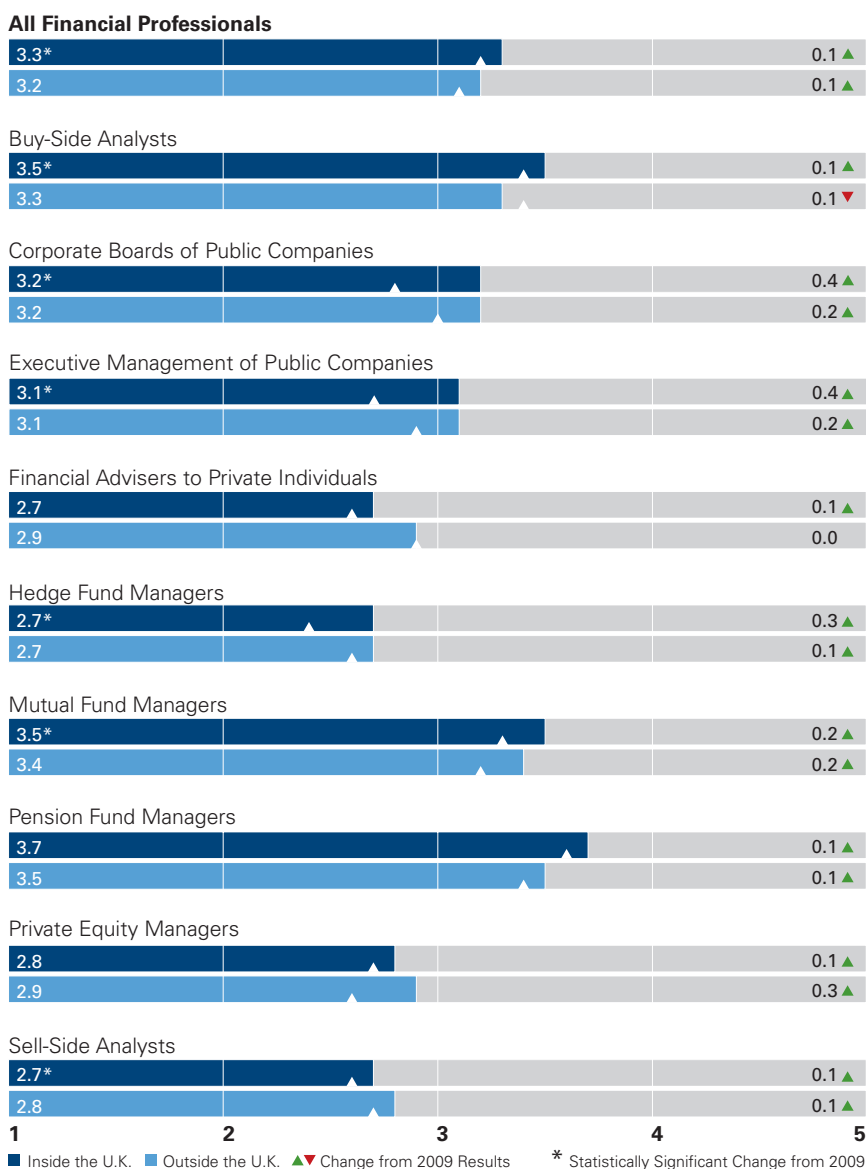
In-market respondents gave higher marks to U.K. buy-side analysts and pension fund managers than

out-of-market respondents gave, whereas out-of-market respondents gave higher marks than their in-market peers to financial advisers and private equity managers.

Respondents inside and outside the United Kingdom gave identical ratings to the capital market systems. Both those inside and outside the United Kingdom rated each system 'average' or 'above average' except for regulatory systems, which received a 2.9 rating by both sets of respondents. In the 2009 survey, each capital market system was rated higher by out-of-market respondents than by in-market respondents. Out-of-market respondents increased their ratings slightly in 2010, whereas in-market respondents tended to rate capital market systems significantly higher in 2010 than in 2009.

Ethical Behaviour of Individual Market Participants

Figure 6



In-Market vs. Out-of-Market Perceptions

(continued)

Figure 7 Effectiveness of Regulatory and Investor Protections

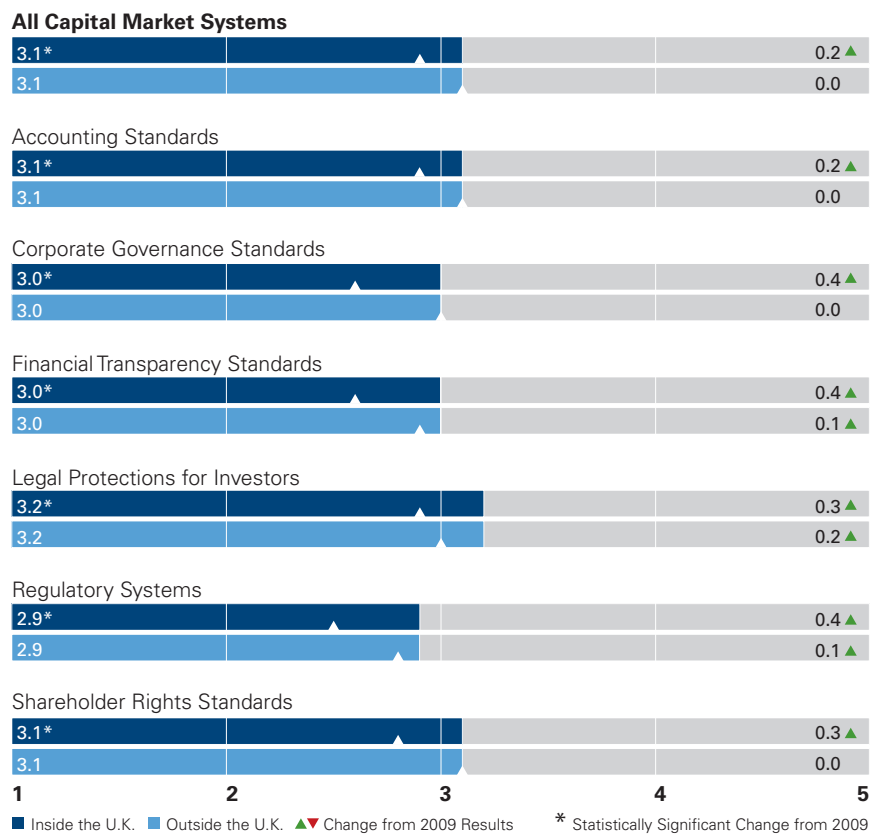


Figure 6 demonstrates that survey respondents outside the United Kingdom generally expressed greater faith in the ethical behaviour of the majority of market participants in 2010 than in 2009, although none of these changes rise to a statistically significant level. Private equity managers experienced the largest increase in sentiment. Still, four of the nine categories are rated 'below average' and many ratings remain below the marks given in 2008. Based on the survey, market participants still have a way to go to restore faith in the integrity of some U.K. financial professionals.

Comments of Survey Respondents

More than 300 respondents offered comments to expand on their opinions about the current state of financial market integrity in the United Kingdom. Respondents were given opportunities to provide written comments in response to several of the survey questions. In particular, 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 300 substantive comments were received; those responding with '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., regulatory systems, transparency, insider trading). The key areas of comment and the topics raised most often are highlighted in **Figure 8**. In instances in which an individual raised more than one concern, each separate concern was identified and counted.

Figure 8

Survey respondents commented most about financial advisers, regulation, and insider trading.

Issues Raised Most Frequently

Advisers	39 comments (31 inside U.K./8 outside U.K.)
Regulation/Regulatory Systems	35 comments (22 inside U.K./13 outside U.K.)
Insider Trading/Insider Dealing	24 comments (20 inside U.K./4 outside U.K.)
Conflicts of Interest	23 comments (16 inside U.K./7 outside U.K.)
Transparency	23 comments (13 inside U.K./10 outside U.K.)
Compensation/Incentives	19 comments (15 inside U.K./4 outside U.K.)

Advisers

Absent from comments received in 2009, financial advisers earned a prominent spot on the list in 2010, eliciting the most responses from survey respondents. This category was a major concern in 2008 and was most likely overshadowed by the global financial crisis last year. In this year's survey, however, advisers have replaced corporate boards as the financial profession drawing the most comments of concern from

survey respondents. Respondents overwhelmingly cited conflicts of interest when recommending investment products to clients because of the commission-based compensation structure of the profession as a primary point of concern. Many respondents simply wrote 'mis-selling', and several expressed the belief that investor protection in this area is limited.

“
Mis-selling of inappropriate investments to uneducated individuals [is a problem]. The FSA rarely does anything to protect retail investors.

— Foreign Exchange Analyst
INSIDE THE UNITED KINGDOM

”

Comments of Survey Respondents

(continued)

Regulation

The state of the U.K. regulatory environment generated nearly as many comments as financial advisers. Indeed, dissatisfaction with the effectiveness of the regulatory system and FSA policy enforcement dominated respondents' comments. This mirrors last year's survey, when regulation was the number one issue commented on regarding the U.K. financial system.

“
Penalties for poor practice are not tough enough to act as a deterrent. Policing of poor practice is not sufficiently robust to discourage participants.

— Director/Portfolio Manager of Treasury and Trading
INSIDE THE UNITED KINGDOM

“
There is very little will to tackle the issues of corporate governance and even less to make the hard decisions on policy making.

— Director of Research
INSIDE THE UNITED KINGDOM

Insider Trading

As with advisers, insider-trading issues took a backseat to dissatisfaction with corporate boards, corporate governance, and the U.K. government in the 2009 survey. In this year's survey, 24 comments dealt solely with insider trading or insider dealing. Most respondents simply noted insider trading, or unequal access to information, as a problem, although some respondents complained specifically about institutional investors receiving information before retail investors.

“
Timeliness of stock analyst recommendations [is a problem]. Although all clients are supposed to receive information at the same time, due to the nature of retail distribution channels, individual investors may not receive information before institutional investors.

— Broker
INSIDE THE UNITED KINGDOM

”

“
Preferential access to information in small- and mid-cap companies for large/institutional shareholders [is a problem].

— Hedge Fund Partner
INSIDE THE UNITED KINGDOM

”

Comments of Survey Respondents

(continued)

Conflicts of Interest

The majority of respondents who commented on this frequently raised issue did not elaborate, but those who did seemed to think the problem affects a broad swath of financial professionals.

“

[The] financial industry is self-serving, working principally for the benefit of the participants. The race for greater profits by the operators in the industry subverts the integrity of the industry.

— Managing Director
INSIDE THE UNITED KINGDOM

”

“

I would be concerned with transparency of operating results on the issuer side and with general market manipulation on the markets side.

— CEO and President
INSIDE THE UNITED KINGDOM

”

Transparency

Transparency issues earned just as many comments as conflicts of interest and virtually the same number of comments as in the 2009 survey. Based on the comments, most respondents are dissatisfied with opacity in financial statements and pricing in the capital markets; some call for greater transparency in the regulatory system.

Compensation/Incentives

Comments on compensation often echoed those on conflicts of interest. The top issues cited were misaligned incentives and excessive pay. Compensation and incentive issues surfaced in the 2009 survey as the fourth most frequently raised issue, although the overall number of comments received was somewhat lower last year.

“

Reinstate a greater focus on fiduciary responsibilities. I have a sense that the majority of investment professionals act primarily in their own or their firm's interest rather than in the client's interest. This has manifested itself in very short-term investment thinking more aligned with short-term remuneration targets.

— Vice-President
OUTSIDE THE UNITED KINGDOM

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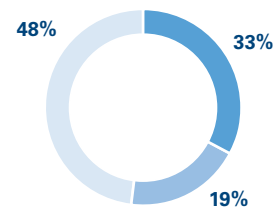
Demographics

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

- **33%** Americas
- **19%** Asia Pacific
- **48%** Europe/Middle East/Africa

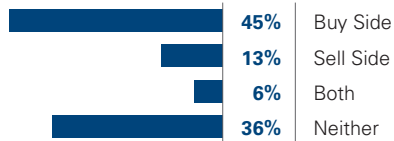


Respondent Profiles for U.K. Market

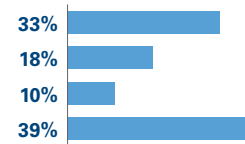
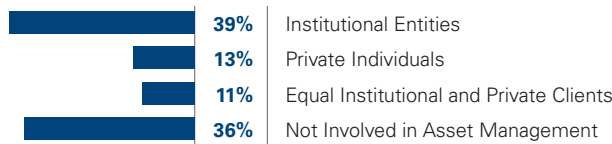
In Market (310 respondents)

Out of Market (474 respondents)

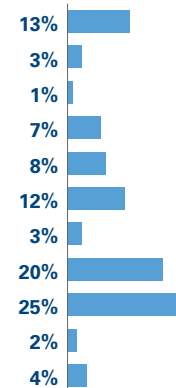
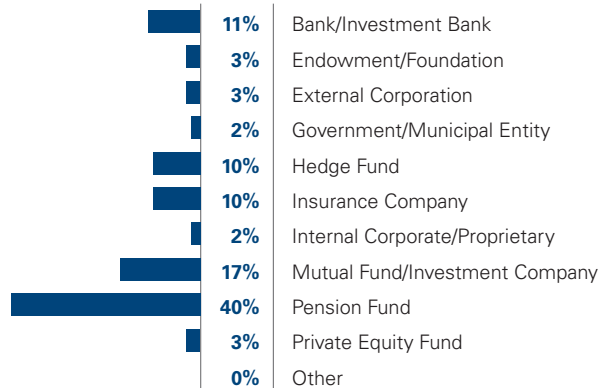
Buy/Sell Side



Client Asset Base



Institutional Asset Client Type

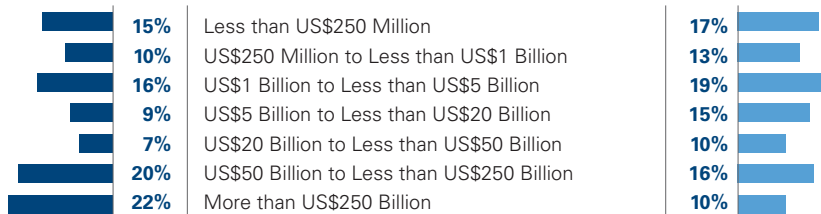


These results represent only those respondents identified as being in the "Institutional Entities" Client Asset Base category.

Respondent Profiles for U.K. Market (continued)

In Market (310 respondents) Out of Market (474 respondents)

Assets Under Management

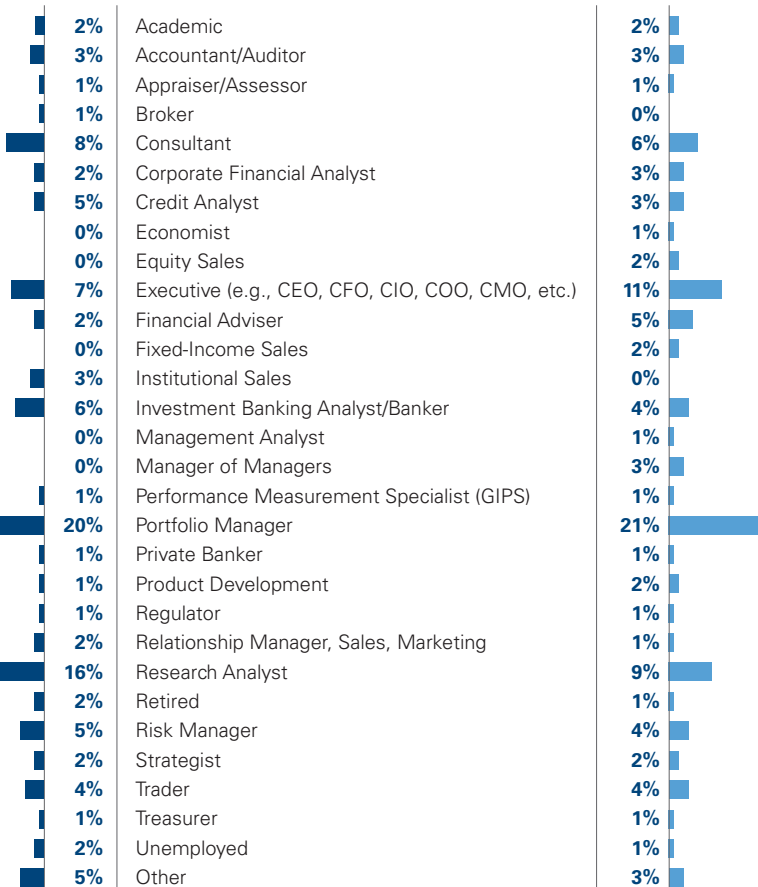


These results represent only those respondents identified as being in the "Institutional Entities" Client Asset Base category.

Years in the Investment Industry



Primary Job Function



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	3.1 B	2.8	3.0 B	3.1	3.0	3.2
All Financial Professionals	3.3 B	3.2	3.4 B	3.2	3.1	3.3
Buy-Side Analysts	3.5 B	3.4	3.5	3.3	3.4	3.4
Corporate Boards of Public Companies	3.2 B	2.8	3.2 B	3.2	3.0	3.3
Executive Management of Public Companies	3.1 B	2.7	3.2 B	3.1	2.9	3.3
Financial Advisers to Private Individuals	2.7	2.6	2.8	2.9	2.9	3.0
Hedge Fund Managers	2.7 B	2.4	2.6	2.7	2.6	2.6
Mutual Fund Managers	3.5 B	3.3	3.5	3.4	3.2	3.3
Pension Fund Managers	3.7	3.6	3.6	3.5	3.4	3.5
Private Equity Managers	2.8	2.7	2.8	2.9	2.6	3.0
Sell-Side Analysts	2.7 B	2.6	2.8 B	2.8	2.7	2.9
All Capital Market Systems	3.1 BC	2.9	2.9	3.1	3.1	3.2
Accounting Standards	3.1 B	2.9	3.0	3.1	3.1	3.3
Corporate Governance Standards	3.0 B	2.6	2.9	3.0	3.0	3.1
Financial Transparency Standards	3.0 BC	2.6	2.8	3.0	2.9	3.2
Legal Protections for Investors	3.2 B	2.9	3.1	3.2	3.0	3.3
Regulatory Systems	2.9 BC	2.5	2.8	2.9	2.8	3.2 E
Shareholder Rights Standards	3.1 B	2.8	3.0	3.1	3.1	3.1

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 Behaviour and Capital Market Systems, Would You Recommend Investing in the United Kingdom?

	In Market			Out of Market		
	2010	2009	2008	2010	2009	2008
Number of Respondents	310	282	245	474	110	111
	A	B	C	D	E	F
Very Unlikely	2% ^C	2% ^C	0%	3%	2%	0%
Unlikely	3%	4%	2%	6% ^F	9% ^F	1%
Neither Likely nor Unlikely	27%	36% ^{AC}	22%	30%	50% ^{DF}	29%
Likely	41%	37%	37%	43% ^E	28%	52% ^E
Very Likely	27%	21%	39% ^{AB}	17%	11%	18%

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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