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Ethics in the Investment Profession: A Survey

The Research Foundation of
The Institute of Chartered Financial Analysts

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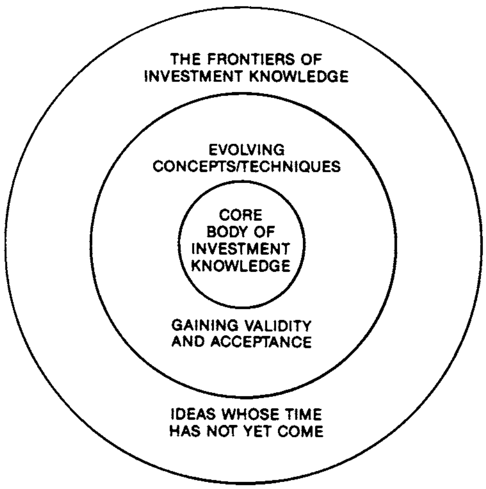
- expands the body of relevant and useful knowledge available to practitioners;
- assists practitioners in understanding and applying this knowledge; and
- enhances the investment management community's effectiveness in serving clients.



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Finally, we would like to thank the people who participated in the survey. Without their interest and willingness to spend time sharing their thoughts and experiences with us, this project could not have been completed. The excellent response rate is an indication that investment analysts are truly interested in improving the ethical behavior and enhancing the image of the investment profession.

E. Theodore Veit, CFA
Michael R. Murphy, CFA

Foreword

Pick up almost any major publication of the Association for Investment Management and Research—an annual report, a description of the CFA candidate program, promotional literature—and you cannot help but notice the prominence that ethics plays in the organization's mission and range of activities. Taken together, AIMR's Code of Ethics and Standards of Professional Conduct represent a cornerstone, a core of value imperatives, helpful allies in ordering the professional lives of nearly 23,000 members, a model for the industry. By promoting and enforcing a stringent code of ethics and a set of standards of conduct, AIMR serves its members and the investment community at large. The ultimate beneficiary, of course, is the investing public.

AIMR has proven itself a leader in professional ethics in the investment industry. Although an immediate goal is maintaining that leadership in a rapidly changing investment arena characterized by increasingly borderless financial markets, two more profound goals are understanding change and building a culture that not only adapts to today's world but also leads tomorrow's. It is a time of opportunity.

In the midst of such change, the public has been "treated" to the underside of the industry by the financial press, causing many to wonder if greed has displaced reason and fair play. Has the moral bottom dropped out of the investment profession? Very little empirical research has been done that attempts to measure the ethical state of the industry, the level of compliance with governing rules and regulations, or the effectiveness of educational programs and published standards of conduct.

The monograph before you brings the academic and business backgrounds of the authors, E. Theodore Veit and Michael R. Murphy, into a well-researched study of ethical behavior in the investment profession. It is an inward look at our industry, a sobering look in some respects, but also one with many encouraging aspects. It represents a rich vein of research, largely untapped until now.

The survey covers a wide canvas but makes no pretensions about being all-encompassing; it is based on the responses of 400 financial analysts working in the United States and Canada. As with most surveys, many of the facts described are open to a variety of interpretations, but the authors draw many of the strands together in a most convincing and valuable way. You may take issue with some conclusions or points of emphasis, yet you still will come away admiring the overall product. Veit and Murphy are on to something very important: Their message rings true.

You might begin your reading with the Appendix—that is, with the actual survey questionnaire. Ask the questions of yourself, then look at the survey results. What is said about your co-workers and your profession—and *you*? Have you observed unethical behavior by a colleague in the recent past? Have you been asked to do something unethical? On what do you base your ethical behavior—senior management example and edicts, the threat of government sanctions, moral or religious beliefs, AIMR's Code of Ethics and Standards of Professional Conduct? Is the management of your firm providing the requisite emphasis and training in legal and ethical issues? Is AIMR doing enough? As you connect the survey results with your own experience, I suspect you will find parts of the exercise surprising and illuminating.

In addition to examining the level of compliance with securities laws and ethical standards of professional organizations, an important area of the survey deals with the specific nature of legal and ethical violations that most often occur among analysts. Also examined is the effectiveness of the ethical guidance provided by a variety of sources. The results provide encouragement based on the respondents' view that ethics within the investment profession is high relative to other professions; moreover, most analysts see a trend of improving ethical behavior in the future.

Success and failure really turn on personal judgment. To be effective, knowledge of the rules and a willingness to follow them must be congruent. At the core is the key issue of integrity—a personal discipline based on rigid adherence to a code of values. Moral discretion, either unused or misused, is a road map to public mistrust. At the end of the day, one must protect oneself from oneself, being accountable to the values inherent in one's own choices.

The lesson here is simple: It says we are all going to have to get more involved with ethics. Many of the issues are resolvable with common sense, and although many get into intricacies of the law, they are at the very heart of the profession. Enhanced knowledge alone obviously will not make for a no-fault profession, but the better we describe the standards of conduct, the more promising our prescriptions for the future. The authors have done us a service by asking the right questions and providing an intelligent appraisal of the responses.

Veit and Murphy state that more research is needed. They are, of course, correct. More flesh needs to be put on these and other statistical bones, but this piece alone stands as a vital and practical contribution to the knowledge of ethics in the investment profession. The need exists to wake people up—and this is a strong nudge.

The Research Foundation is pleased to bring it to you.

Douglas R. Hughes, CFA

1. Introduction

Ethics has always been an important consideration in business, politics, medicine, law, and almost every other area of our society. Recently, such factors as increased consumer awareness, better communications, and more aggressive news reporting about violations of acceptable professional conduct have led to heightened interest in professional ethics issues. This is particularly true in the investment profession, in which individuals frequently assume fiduciary responsibilities.

Several investment professionals have recently been convicted of crimes related to insider trading. This is a notable example of the type of activity that heightens public concern about the behavior of the entire finance community (Ring 1989, Sender 1986). A *Wall Street Journal* survey found that of 22 institutions considered, insurance companies, brokerage firms, and banks are among the 5 most mistrusted. A *Money* magazine/ABC poll found that more than two-thirds of Americans think that people providing financial advice put their self-interest ahead of client interests (Rock 1989). Further evidence of the mistrust surrounding the investment profession is found in the results of a survey of members of the Financial Executives Institute. Out of 14 economic conditions and investment trends considered, that group's greatest concern was "ethics in the securities markets" (Deitsch 1990). Beyond the borders of North America, concern about business ethics is increasing in many industrialized nations of the world (see, for example, Mahoney 1990).

Previous Studies

The number of cases and criminal convictions is seen by some people as an indication that the incidence of insider trading and other ethics violations is rising. An increase in the number of reported cases, however, may reflect a higher level of vigor in the enforcement efforts of the Securities and Exchange Commission (SEC) and local district attorneys rather than an actual increase in the number of ethics violations. Few academic studies have addressed the subject of ethics in the investment profession in any breadth or depth. Several studies have examined the issue of insider trading by corporate officials, an activity that investment professionals, investors, and legal experts perceive to be a problem. Some of these studies have attempted to quantify the amount of insider trading activity to see how widespread it really is. Rozeff and Jacobs (1989) reviewed studies conducted by Finnerty (1976), Seyhun (1986), Dooley (1980), Scott (1980), Rozeff and Zaman (1988), and Lin and Howe (1989) and concluded, "The Boeski case, the Levine case, the Winans case make us think that the practice [of insider trading] is widespread and very profitable. Yet the available evidence on corporate officials suggests that it is neither."

Similar studies of insider trading by investment professionals are difficult to conduct because of a general lack of data. Studies of other possible ethics violations committed by investment professionals have been similarly limited. Unlike corporate officials, who must report stock holdings and trades to the SEC, investment professionals are unlikely to document such activities as using inside information or plagiarizing another's work.

The bulk of the available literature on ethics violations in the investment profession is confined to documentation of past ethics violations or presentation of ethical guidelines to be followed by investment professionals (see, for example, Casey 1988, Frankhauser and Frye 1988, Gillis and Kern 1986, and Morley 1987). Although this information is useful, it does little to define the current state of ethical behavior in the investment profession.

To our knowledge, only one other study reports on a survey of investment professionals (Bauman 1980). The purposes of that study were to (1) learn the status of standards of professional practice as promulgated by the Financial Analysts Federation (FAF) and the Institute of Chartered Financial Analysts (ICFA), (2) identify which standards were being met, (3) determine what additional standards were needed, and (4) pinpoint which practices needed to be improved. There are several major differences between the Bauman study and the current study. First, the Bauman study informed the respondents, all of whom were members of FAF/ICFA, that the study was being conducted on behalf of that organization. The current study attempted to avoid any response bias that may result from such knowledge by avoiding any mention of the affiliation of the study with the Association for Investment Management and Research (AIMR). The questionnaire was generic in that it could have been completed by any analyst regardless of his or her affiliation with AIMR. Second, the Bauman study asked respondents what they would do under various hypothetical circumstances, and the current study asked respondents to describe their actual experiences. Third, the central theme of the Bauman study was to determine if FAF/ICFA members were in compliance with the joint

Standards of Professional Conduct. The current study addressed the broader issues of how investment professionals view ethical behavior in the profession, how frequent various ethical violations take place in the profession, and how the ethical conduct of investment professionals can be enhanced. The level of compliance with AIMR Standards of Professional Conduct is only a secondary issue in this study. Fourth, the population of the Bauman study included investment professionals having a variety of job titles, including portfolio managers, supervisors of portfolio managers, and supervisors of securities research analysts. The current study focused on a population that included only securities analysts.

The popular press usually presents a picture of low and declining ethical standards in the investment business (see, for example, Rock 1989). In contrast, the Bauman study found that financial analysts generally are committed to the professionalization of their practice, to the maintenance of high standards of conduct, and to the protection of the public interest. The current study revealed nothing to dispute those findings.

The Current Study

If the investment profession does have an ethics problem, we must learn as much as possible about it before we can hope to resolve it. This study reports the results of a survey of investment professionals who list their occupation as analyst.[1] The study has several objectives:

- to determine the level of analysts' compliance with the standards of practice required by law and the ethical standards promoted by professional organizations;
- to identify the nature of violations of legal and ethical standards that may occur among analysts;
- to document the attitudes of analysts about the ethical behavior of investment professionals relative to that of other professionals;
- to report the opinions of analysts about the appropriate source of ethics education;
- to report the opinions of analysts about past and future trends in ethical behavior in the investment profession; and
- to present evidence regarding the ethical guidance provided to investment professionals by senior management and by the policies of firms.

[1]The survey questionnaire and the number of responses to each question are contained in the appendix to this study.

The survey responses lead to several interesting observations about the state of ethics in the investment profession. In brief:

- Almost one-quarter of the respondents had observed unethical behavior by a colleague during the previous 12 months.
- The three most frequent violations (in descending order) were failing to use diligence and thoroughness in making recommendations, writing reports with predetermined conclusions, and communicating inside information.
- Most frequently, an analyst observing unethical behavior within his or her firm made the activity known to a supervisor. More than one-third, however, did nothing.
- More than one-fifth of the respondents had at some time in their careers been asked to do something unethical.
- A large majority believe that senior managements seek high ethical standards for their firms.

A large and diverse sample of analysts participated in this survey. The authors are pleased with the genuine interest and concern the participants expressed, as evidenced by the high ratio of survey completions, the care so many individuals took in completing a difficult questionnaire, and the large number of requests from participants for a copy of the survey results. We hope this study will represent a valuable addition to the available information about ethical behavior in the investment profession, thereby leading to increased awareness and improved understanding of the subject.

2. The Survey

The survey sample for this study was randomly drawn from a population consisting of the 3,600 members of AIMR who identify themselves as investment analysts. AIMR's total membership worldwide is approximately 21,500, most of whom are investment professionals. Although not all analysts and other investment professionals belong to AIMR, no other investment organization has more investment professionals associated with it.

The questionnaire was pretested by a select group of analysts and other investment professionals during October 1990. After appropriate adjustments, it was mailed to U.S. and Canadian survey participants in November 1990. Of 910 questionnaires mailed, 400 usable responses were received. After subtracting questionnaires returned because of employment changes and deaths, the number of potential responses was reduced to 894, so the response rate overall was 44.7 percent. Not all of the 400 respondents answered every question, however, so the response rate on specific questions is slightly lower. The number responding to each question is shown in the appendix.

As with all survey studies, this one has a potential for nonresponse bias, if only because it addresses a sensitive subject. Nevertheless, the results of the study are likely to be valid, at least for AIMR analysts, because of the assurance of anonymity for respondents and the high percentage of returned questionnaires.

3. Survey Results

The responses of each survey participant were entered into the data base by the identification number and all of the personal characteristics of the participant. To ensure the anonymity of the participants, individual respondents and their employers could not be identified by name.

Respondent Attributes

A thorough understanding of the characteristics of the survey participants and of the relationships among those characteristics is important in interpreting their responses. Table 1 presents some attributes of the respondents and their firms:

- The most common age group is 26 to 35 years old, followed by age group 36 to 45 years.
- The largest group of respondents had been employed in the investment business for five to nine years; the next most common term of employment was fewer than five years.
- The most common "highest academic degree earned" is a master's degree, followed by a bachelor's degree.
- More than half the respondents operate on the buy-side of investment transactions.
- The most common employer category is brokerage firms and investment banks.
- Firms having fewer than 10 analysts and portfolio managers employ more than a third of the respondents.
- Most respondents have earned the Chartered Financial Analyst (CFA) designation.

These respondent characteristics were analyzed to determine whether relationships exist among them. Chi-square tests were used for independent

TABLE 1. Attributes of Survey Respondents

Attribute	Number	Percent
Sex		
Male	300	75.0%
Female	100	25.0
	400	100.0
Employment location		
Canada	40	10.1
U.S.	358	89.9
	398	100.0
Age		
25 or younger	5	1.3
26 to 35	192	48.0
36 to 45	102	25.5
46 to 55	62	15.5
56 to 65	33	8.3
Older than 65	6	1.5
	400	100.0
Number of years employed in the investment business		
Fewer than 5	80	20.1
5 to 9	138	34.6
10 to 14	59	14.8
15 to 19	34	8.5
20 to 24	44	11.0
25 to 29	18	4.5
30 or more	26	6.5
	399	100.0
Highest academic degree earned		
High school diploma	3	0.8
Bachelor's degree	123	30.8
Master's degree	258	64.7
Doctorate	10	2.5
Other	5	1.3
	399	100.0
Nature of respondent's investment activity		
Buy-side	218	54.8
Sell-side	161	40.5
Other	19	4.8
	398	100.0

TABLE 1—Continued

Attribute	Number	Percent
Employer		
Broker or investment bank	154	38.6
Investment counseling and management	99	24.8
Commercial bank, including trust department	45	11.3
Insurance	39	9.8
Investment company/mutual fund	33	8.3
Other	29	7.3
	399	100.0
Number of analysts and portfolio managers employed by the respondent's firm		
Fewer than 10	143	36.3
10 to 19	91	23.1
20 to 29	48	12.2
30 to 39	24	6.1
40 or more	88	22.3
	394	100.0
Professional designations earned[a]		
CFA	280	70.0
CPA	23	5.6
ChFC	2	0.5
Others	32	8.0
	337	

[a]These percentages represent the percentage of total respondents who have earned each professional designation. Thus, they do not sum to 100 percent.

samples. When the sample size was small, the Fisher test was used. These nonparametric tests are particularly well suited to nominal data and ordinal data. Where necessary, various groups were combined to generate two-by-two tables to permit identification of the differences between two groups.[2]

The null hypothesis for each test is that the responses of individuals in different groups are not different. For the purposes of this study, the null hypothesis is rejected when the probability that it is correct is 5 percent or less ($p \leq 0.05$). Under these circumstances, the alternate hypothesis is accepted—that the responses of the individuals in the different groupings are different. The

[2]When using more than two groups, the chi-square test can be used to determine whether the samples are from the same population, but it does not specify the nature of the relationship.

same procedures were used to test for relationships between respondent characteristics and responses to ethics questions.

Some relationships between attributes were obvious. For example, the length of time analysts have been employed in the investment business is directly related to their age. Using the chi-square test and grouping analysts by age (35 and younger and 36 and older) and by length of time employed in the investment business (9 years or fewer and 10 years or more), the probability that the two samples were drawn from the same group is zero (p = 0.0000).

Several other attributes also are related to age. A smaller proportion of young analysts (35 and younger) than of older analysts have a master's degree or higher (63.5 percent and 73.4 percent, respectively; p = 0.0350). One possible explanation for this relationship is that analysts tend to pursue advanced degrees only after being employed for several years. Another is that having an advanced degree provides analysts with staying power in the investment profession.

In contrast, younger analysts are more likely than older analysts to have earned the CFA designation (76.6 percent as opposed to 63.0 percent, respectively; p = 0.0043). One likely explanation is that older analysts may have entered the investment profession before the CFA education and testing program became widely accepted. Once they became experienced and successful, the incentive to participate in the program may not have been present.

Two other attributes related to age are the nature of the analyst's investment activity (buy-side or sell-side) and the type of firm employing the analyst. First, 62.7 percent of the analysts employed on the sell-side of investment transactions are older than 35, compared with 43.6 percent of those employed on the buy-side (p = 0.0002). Second, a higher percentage of analysts employed by brokerage and investment banking firms than analysts working in commercial banks are older than 35 (67.3 percent compared with 40.0 percent, respectively; p = 0.0077).

By country of employment, three significant relationships were found. First, a higher proportion of Canadian analysts are employed by smaller firms (those employing fewer than 10 analysts and portfolio managers) compared with U.S. analysts (p = 0.0085). Second, a higher percentage of analysts in the United States (70.2 percent) than in Canada (46.2 percent) hold advanced degrees (p = 0.0023). Third, the types of firms employing the analysts is significantly related to country of employment. Numerically, the largest employer of responding U.S. analysts is brokerage and investment banking firms (36.8 percent), followed by investment counseling and management firms (25.6 percent). In Canada, the largest employer is also brokerage and investment banking firms (52.5 percent), but the second is insurance companies (20.0 percent).

Professional Comparisons and Ethical Trends

As previously suggested, the public perception of the ethics of finance professionals is not flattering. To see how investment professionals view themselves relative to other professionals, the survey participants were asked for their opinions about the ethical behavior of five other professional groups—attorneys, commercial bankers, corporate managers, politicians, and engineers—in addition to their own. In each case, the respondents were asked to categorize their perceptions of the ethical behavior of individuals engaged in these professions as "not ethical," "somewhat ethical," "moderately ethical," or "highly ethical." A value of 1 was assigned to "not ethical," 2 to "somewhat ethical," and so forth. A weighted average response was determined for each profession.

Table 2 displays these responses, along with their weighted average rating for each profession. Investment professionals gave their own profession a rating of 2.85, which falls between "somewhat ethical" and "moderately ethical." That rating is well below the rating given to engineers, which falls between "moderately ethical" and "highly ethical." Investment professionals gave their colleagues about the same rating as they gave commercial bankers and corporate managers, and they ranked attorneys below corporate managers. Politicians were ranked well below attorneys and were the only group to receive a rating falling between "not ethical" and "somewhat ethical."

These rankings represent perceptions only and offer no evidence of actual ethical behavior. The responses suggest, however, that analysts think invest-

TABLE 2. Opinions on the Ethical Behavior of Various Professionals
(percent of respondents, except as noted)

Profession	Not Ethical (1)	Somewhat Ethical (2)	Moderately Ethical (3)	Highly Ethical (4)	Weighted Average of Ratings
Engineers	0.0%	4.1%	55.2%	40.7%	3.37
Investment professionals	1.3	23.3	64.8	10.6	2.85*
Commercial bankers	2.0	25.3	62.1	10.6	2.81*
Corporate managers	1.5	23.0	69.6	5.8	2.80*
Attorneys	10.6	41.2	41.2	7.0	2.45
Politicians	41.4	48.1	9.3	1.3	1.70

*Not significantly different at the 5 percent level.

ment professionals are at least as ethical as individuals in commercial banking and corporate management and more ethical than individuals in law and politics. Although only about 1 percent of responding analysts think investment professionals are not ethical, almost a fourth believe they are only somewhat ethical. About 10 percent of the respondents think investment professionals are highly ethical, and only engineers earned a higher percentage.

Other survey questions involved past and future trends in ethical behavior of investment professionals. In the opinions of some observers, business ethics has deteriorated in recent years (see, for example, Feinburg and Serlen 1988). Others suggest that ethical behavior has shown signs of improving, reversing a recent downward trend (Araskog 1988). Table 3 indicates that more than a third of responding analysts believe that the ethical behavior of investment professionals has deteriorated during the past 10 years. About 28 percent think it has not changed, and 24 percent think it has improved. Although these results seem to suggest that the ethical behavior of investment professionals deteriorated during the 1980s, they might also indicate a greater awareness of unethical behavior arising from several highly publicized cases of insider trading late in the decade.

TABLE 3. Perceived Trends in Ethical Behavior of Investment Professionals

Trend	Number	Percent
During the past 10 years		
It has improved	96	24.3%
It has remained unchanged	109	27.6
It has deteriorated	138	34.9
No opinion	52	13.2
		100.0
During the next 10 years		
Expect it to improve	247	63.0
Expect it to remain unchanged	108	27.6
Expect it to deteriorate	21	5.4
No opinion	16	4.1
		100.0

The responses to the previous questions are related to the respondent's age, length of employment in the investment profession, and country. Of the 184 older analysts (those older than 35), 37.5 percent think ethical standards have not changed, compared with 25.2 percent of the 159 younger analysts. Among those responses indicating ethical standards have either improved or deteriorated during the past 10 years, older analysts are more likely than younger analysts to say that standards have deteriorated ($p = 0.0046$). Analysts with 10 or more years of experience in the investment profession are more likely than less-experienced analysts to believe that the ethical standards of investment professionals have deteriorated. After eliminating the "no opinion" responses, the percentage of less-experienced analysts indicating that ethical standards have deteriorated is 33.1 percent, compared with 47.1 percent for the analysts with more experience in the profession ($p = 0.0005$).

Nearly a third of Canadian analysts (32.7 percent) indicated that the ethical standards of investment professionals have remained unchanged, compared with 29.4 percent of U.S. analysts. The percentage of Canadian analysts indicating that ethics have improved during the past 10 years is substantially higher than the percentage among U.S. analysts (50.0 percent as opposed to 25.8 percent, respectively; $p = 0.0023$).

Most analysts expect future ethical behavior of investment professionals to improve. Only 5 percent expect it to deteriorate, and another 28 percent expect it to remain unchanged. Responses to this question differ significantly by age group: Younger respondents are more likely to expect improvement than are older analysts ($p = 0.0086$).

Learning About Ethics

Opinions differ about how people learn ethical behavior. Some think ethics should be taught in a formal educational setting (high school or college), and others think it should be taught in the home or on the job. Kenneth Andrews (1989) argues that, try as they may, colleges and business schools are less effective in teaching ethics than are employing firms, because people are continuously exposed to their employers during the course of their business lives. Robert Belleville (1990) agrees, suggesting that the organization is probably the only place that can make an immediate change in ethical behavior and that the greatest influence on employees is a firm's senior management. Yet some evidence indicates that including ethics as part of the curriculum in MBA programs is beneficial (see, for example, Dunfee and Robertson 1988).

Participating analysts were asked to indicate how much ethics training and education about ethics should come from various sources. Based on the weighted averages, shown in Table 4, analysts think the example set by senior management should be the single most important source of ethical training and education, followed closely by the home environment. Of lesser importance are

TABLE 4. Opinions about Appropriate Sources of Ethics Training
(percent of respondents, except as noted)

Source	None (1)	Small Amount (2)	Moderate Amount (3)	Substantial Amount (4)	Weighted Average of Ratings
Senior management (by example)	0.0%	7.5%	40.3%	52.3%	3.45[a]
Home environment	1.3	8.0	41.4	49.4	3.39[a]
Employing firm (training programs)	2.8	19.1	49.2	28.9	3.04[b]
Professional organizations	3.8	23.2	49.7	23.2	2.92[b]
School or college	4.5	44.4	44.1	7.0	2.54[c]
Religious education	20.4	25.3	33.9	20.4	2.54[c]

[a,b,c]Sources with matching letters are not significantly different from each other at the 5 percent level.

training programs of the employing firm and professional organizations. Even farther back in importance are school or college and religious education.

The responses to this question differ by the age of the respondents and by the country of employment. More older analysts (57.6 percent) than younger analysts (40.5 percent) think the home environment should be a major source of ethics education and training (p = 0.0022). A possible explanation for this observed relationship is that those older than 35 are more likely to have a family and may regard the family unit more highly than do people younger than 35. More older analysts than younger analysts think religious education should be an important source of ethics training (p = 0.0502). Among the Canadian analysts, 92.3 percent indicated that professional organizations should provide either a moderate amount or a substantial amount of ethics education; this compares with 70.9 percent of U.S. analysts (p = 0.0043).

Opinions about how effective each of these sources of ethics education has actually been are shown in Table 5. An individual's home environment ranks as potentially the most effective source by a considerable margin, with nearly 75 percent of respondents rating the home a very effective source. Ranked next in importance are "senior management (by example)," "professional organizations," and "religious education." Farther down the list are "school or college" and "employing firm (training programs)," which ranked nearly the same.

Two statistically significant relationships exist between the responses and the attributes of the analysts. First, 62.2 percent of respondents older than 35, compared with 78.2 percent of younger analysts, rated professional organiza-

TABLE 5. Opinions about Effectiveness of Various Sources of Ethics Training
(percent of respondents, except as noted)

Source	Not Effective (1)	Slightly Effective (2)	Moderately Effective (3)	Very Effective (4)	Weighted Average of Ratings
Home environment	1.8%	5.0%	18.4%	74.8%	3.66
Senior management (by example)	12.1	28.9	34.4	24.6	2.92
Professional organizations	6.0	23.8	43.4	26.8	2.91
Religious education	20.7	21.2	29.4	28.6	2.66
School or college	19.1	41.5	29.1	10.3	2.31*
Employing firm (training programs)	22.4	34.4	32.7	10.6	2.31*

*Not significantly different at the 5 percent level.

tions as either moderately effective or very effective in providing ethics education ($p = 0.0005$). Second, 59.1 percent of responding U.S. analysts indicated that formal religious education has been either moderately effective or very effective, but just 30.8 percent of Canadian analysts indicated the same opinion ($p = 0.0002$).

The amount of ethics training and education that analysts think *should* come from various sources differs from their assessment of the actual effectiveness of

TABLE 6. Appropriate Sources of Ethical Education Compared With Effectiveness of Those Sources
(percentage point difference in weighted average responses)

Source	Difference[a]
Home environment	+0.27
Senior management (by example)	−0.53
Professional organizations	−0.01
Religious education	+0.12
School or college	−0.23
Employing firm (training programs)	−0.73

[a]A plus sign indicates the source has been a more effective source of training and education than respondents think it should be; a minus sign indicates the source has been a less effective source than respondents think it should be.

those same sources. Table 6 displays the size of the gap between the weighted average responses for each source appearing in Tables 4 and 5.

The evidence in Table 6 suggests that, although analysts as a group think senior management should be the most important source of ethics training and education, this is not the case in practice. Senior management received a lower rating than the home environment. Additionally, the weighted average of the responses for senior management is 2.92 for effectiveness as opposed to 3.39 for how important it should be. An even greater difference exists for training programs of employing firms. By a considerable margin, respondents indicated that employing firms should provide more ethics training than they currently provide. The same holds for schools or colleges, although the difference is not as great. In contrast, analysts rated the home environment as being a more effective source of training and education about ethics than they think it should be.

Motivations for Ethical Behavior

Different people have different reasons for acting ethically. For example, some people think ethical behavior results from the desire to avoid the legal consequences of unethical or illegal behavior (*Chief Executive* 1989); others think people are motivated to act ethically by written codes of ethics (Belleville 1990, Pengelley 1990). Table 7 displays the opinions of participating analysts regarding the importance of various factors that may deter unethical behavior of investment professionals.

The greatest perceived deterrent to unethical behavior is concern about sanctions from government organizations such as the SEC and state and provincial governments. More than 80 percent of responding analysts believe that this concern is either a moderately important or very important deterrent. The next most important deterrent is moral or religious beliefs.

The responses of Canadian analysts to the question of deterrents differ significantly in one respect from those of U.S. analysts. Whereas 72.7 percent of U.S. analysts indicated that moral or religious beliefs are either moderately important or very important deterrents, just 52.5 percent of Canadian analysts agreed ($p = 0.0079$). This result is consistent with earlier responses suggesting that more U.S. analysts than Canadian analysts think formal religious education is an effective source of training and education about ethical behavior.

Concern that family or friends will find out about ethics violations was identified as the third strongest deterrent, followed by concern about sanctions from self-regulatory organizations such as AIMR, the American Institute of Certified Public Accountants, or the Canadian Institute of Chartered Accountants. Although more than half of the analysts think that such organizations are

TABLE 7. Importance of Various Deterrents to Unethical Behavior
(percent of respondents, except as noted)

Deterrent	Not Important (1)	Slightly Important (2)	Moderately Important (3)	Very Important (4)	Weighted Average of Ratings
Concern about sanctions from the SEC or state or provincial agencies	2.5%	14.9%	43.1%	39.5%	3.20
Moral or religious beliefs	9.0	20.4	25.4	45.2	3.07
Concern that family or friends will find out	7.3	28.9	34.7	29.1	2.86
Concern about sanctions from self-regulatory organizations	12.6	34.7	33.4	19.3	2.60
Having a published code of ethics	21.0	40.2	25.8	13.1	2.31

either moderately important or very important deterrents, 13 percent indicated that they are not important. The responses to this question by CFAs did not differ significantly from those by non-CFAs. Of the 277 CFAs responding to this question, 55.6 percent believe that sanctions from self-regulatory organizations are either moderately important or very important, compared with 52.3 percent of non-CFAs. Of the responding analysts with advanced degrees, 49.1 percent think self-regulatory organizations are either a moderately important or a very important deterrent; the percentage for analysts without advanced degrees was 64.7 percent ($p = 0.0431$).

Few analysts perceive the existence of a published code of ethics to be a very important deterrent, and about 20 percent indicated that such codes are not important. To the surveyed analysts, concern about possible government sanctions and personal moral standards are more important in motivating ethical behavior than are published codes of ethics or concern about sanctions from self-regulatory organizations.

Framework for Ethical Behavior

Survey participants were asked to respond to several questions regarding ethics practices in their firms. The objectives of these questions were to determine (1) whether the firms have their own codes of ethics and (2) how firms encourage compliance with codes of ethics they endorse. More than half of the participants reported that their firms publish their own codes of ethics separate from those published by professional organizations (Table 8). The responses differ sharply depending on the size of the firm (p = 0.0000). Of analysts working at small firms, 25.9 percent indicated that their firms publish their own codes of ethics; the corresponding figure for analysts employed by larger firms is 66.0 percent. Brokerage and investment banking firms, as well as investment companies and mutual funds, are more likely to have their own codes than are investment counseling and management firms (p = 0.0277 and p = 0.0270, respectively). Another difference is that only 33.3 percent of Canadian analysts indicated that their firms publish their own codes of ethics; the corresponding proportion of U.S. analysts is 53.9 percent (p = 0.0145).

TABLE 8. Employers' Codes of Ethics

Item	Number	Percent
Firm publishes its own code of ethics separate from that of a professional organization		
Yes	205	51.6%
No	193	48.4
Total	399	100.0
Firm requires investment professionals periodically to read the code of ethics it endorses		
Yes	202	58.9
No	141	41.1
Total	343	100.0
If yes, required frequency with which this code of ethics must be read		
One time only, when employment begins	29	14.7
Once each year	151	76.6
Once every two years	5	2.5
Other	12	6.1
Total	197	100.0
Firm requires written verification of compliance with reading requirement		
Yes	165	82.5
No	35	17.5
Total	200	100.0

The relationship between firm type and size may explain the relationship between firm type and the existence of a customized code of ethics. Investment operations at brokerage and investment banking firms are, on average, larger than investment operations at investment counseling and management firms. Investment companies and mutual funds represented in the survey also tended to be larger than the investment counseling and management firms.

A code of ethics is not worth much if the people who are subject to its provisions are unaware of its contents. Therefore, most firms that subscribe to, endorse, or publish a code of ethics also require their employees to read it periodically. The participants in this survey who said their firms endorse a code of ethics were asked if their firms require investment professionals to read the code periodically. Of the 343 respondents whose firms endorse a code of ethics, almost 60 percent indicated their firms require investment professionals to read it periodically.

Whether firms require their analysts to read their code of ethics differs significantly depending on the size of the firm. Of the analysts employed by smaller firms, 38.7 percent reported that their employers require investment professionals to read the code of ethics periodically, compared with 68.0 percent of those employed by larger firms ($p = 0.0000$).

The responses also differ according to type of firm. Fewer than half the analysts (42.4 percent) employed by insurance companies reported that their firm's investment professionals are required to read the firm's code of ethics periodically. This result differs significantly from that for investment counseling and management firms, for which the proportion is 62.5 percent ($p = 0.0470$). The highest percentage of analysts indicating they are required to read the firm's code of ethics periodically are those employed by investment companies and mutual funds (80.6 percent); this differs significantly from the responses of analysts at brokers and investment banks ($p = 0.0019$), commercial banks ($p = 0.0179$), and investment counseling and management firms ($p = 0.0173$). Among U.S. analysts, 60.8 percent indicated their firms require investment professionals to read the code of ethics; this was the response of 41.4 percent of Canadian analysts ($p = 0.0422$).

Those analysts who said that they are required to read the code of ethics their firms endorse were asked how frequently they must do so. More than three-fourths of the analysts responding to this question reported that they are required to read their employer's code of ethics annually. The next most frequent response was "one time only, when employment begins." Twelve respondents provided handwritten responses; five of those responses suggested irregular review intervals, and two said review is required whenever the code is revised.

Of the 200 analysts who indicated they are required to read their firm's code of ethics, more than 80 percent said they must provide written verification. The proportion of analysts employed by commercial banks who are required to provide written verification (62.5 percent) is significantly lower than the proportion at investment counseling and management firms (90.7 percent; $p = 0.0047$) and investment companies and mutual funds (88.0 percent; $p = 0.0429$).

Most firms employing investment professionals have a compliance officer who is responsible for the firm's adherence to applicable legal and ethical standards and who consults with employees confronted with difficult legal or ethical situations. Three-fourths of the analysts answering this question said their firms do have a compliance officer (Table 9). Significant differences exist among the responses of analysts based on (1) the type of employer, (2) whether the analysts are on the buy-side or the sell-side of transactions, and (3) the number of years the analysts have been employed in the investment profession.

Of the analysts employed by brokerage and investment banking firms, 92.1 percent reported their firms have compliance officers. The figure is 66.7

TABLE 9. Compliance Officers

Item	Number	Percent
Firm has a compliance officer		
Yes	298	75.3%
No	98	24.7
Total	396	100.0
Position of compliance officer		
Chairman of the board	6	2.4
Director	16	6.3
President	13	5.1
Executive or senior vice president	89	34.9
Vice president	111	43.5
Below vice president	20	7.8
Total[a]	255	100.0
Respondent knows the name of the compliance officer		
Yes	256	85.9
No	42	14.1
Total	298	100.0

[a]Forty-one respondents indicated they did not know the position title of their firm's compliance officer.

percent for investment counseling and management firms, 64.4 percent for commercial banks, and 51.3 percent for insurance companies. The differences between the responses of analysts employed by brokerage and investment banking firms and analysts at the other types of organizations are statistically significant ($p = 0.0000$ for each). The high percentage of analysts at investment companies and mutual funds indicating their firms have compliance officers (87.9 percent) also differs significantly from the percentages for commercial banks, investment counseling firms, and insurance companies ($p = 0.0192$, $p = 0.0188$, and $p = 0.0009$, respectively).

Of the analysts who work largely on the sell-side of transactions, 89.2 percent stated that their firms have compliance officers, compared with 68.7 percent of the analysts on the buy-side ($p = 0.0000$). Firm size is also important. Of the analysts employed by small firms, 59.2 percent indicated their firms have compliance officers, significantly below the 84.7 percent for analysts employed by larger firms ($p = 0.0000$). Analysts employed in the investment profession for 10 or more years also are more likely to indicate that their firms have compliance officers ($p = 0.0005$). This result may be explained by the relationship between age and type of employer (the average age of analysts tends to be higher at brokerage and investment banking firms) and between type of employer and the existence of a compliance officer.

A related question asked for the rank of the compliance officer in the firm. The most frequently cited rank is vice president, followed by executive or senior vice president. No other rank accounts for more than 8 percent of the responses. The responses were then grouped into two categories: executive or senior vice president or above (the higher group) and vice president or below (the lower group). At investment management and counseling firms, 66.1 percent of the compliance officers are in the higher group, compared with 47.5 percent at brokerage or investment banking firms ($p = 0.0060$), 18.2 percent at commercial banks ($p = 0.0000$), and 38.5 percent at investment companies and mutual funds ($p = 0.0074$). The observed differences in responses, however, might also result from the use of different hierarchical terminology to describe ranks in different types of firms.

To determine the degree to which analysts are familiar with their firms' compliance officers, they were asked if they knew that person's name. Almost 86 percent of the analysts who reported that their firms have a compliance officer knew that officer's name. For analysts employed by commercial banks, the percentage knowing their compliance officer's name is 69.0 percent, which is significantly lower than the percentages for brokerage and for investment banking firms (89.3 percent and 90.9 percent; $p = 0.0043$ and $p = 0.0069$, respectively).

Frequency of Ethics Violations

An important question this study addressed was the extent to which ethics violations occur in the investment profession. Seeing the ethical behavior of finance professionals portrayed negatively is not uncommon. A survey of financial executives conducted by the Financial Executives Institute showed that ethics is a major concern, particularly insider trading, program trading, and the ethics of certain investment professionals (Deitsch 1990). Another survey reported that some observers think fraud, insider trading, and general moral bankruptcy are common at some Wall Street companies (Zetlin 1990).

The analysts participating in this survey were asked to indicate how frequently certain ethics or legal violations occur *based on their own experiences or observations*. Although the responses were expected to represent firsthand knowledge, some analysts might have responded on the basis of indirect knowledge. The questionnaire listed nine different ethics violations and provided space for analysts to add others. All nine violations received weighted average scores falling between "rarely" and "periodically" (see Table 10).

The violation most frequently cited is "failure to use diligence and thoroughness in making recommendations." Almost 18 percent of the respondents reported this occurs frequently, another 49 percent said it occurs periodically, and the remaining analysts indicated it rarely or never occurs. Analysis of the responses based on various attributes revealed no significant relationships.

The second most commonly cited ethics violation involves writing reports that support predetermined conclusions. Sixteen percent of the surveyed analysts indicated that this occurs frequently, and 40 percent indicated it occurs periodically. Once again, differences in the responses of analysts with different attributes are not significant.

The frequency of communication of inside information is very close to that of the previously discussed violation—16 percent of responding analysts indicated it is a frequent violation, and another 39 percent indicated it occurs periodically. The responses differ significantly based on whether the analysts work primarily on the buy-side or the sell-side of transactions. Of the buy-side analysts, 50.2 percent indicated that they have personally experienced or observed this violation frequently or periodically; the corresponding proportion for sell-side analysts is 62.3 percent ($p = 0.0231$).

The responses of participating analysts suggest that trading based on inside information is a less common violation than that of communicating inside information. Almost 13 percent of the responding analysts said such trading occurs frequently; another 35 percent indicated it occurs periodically. A larger proportion of analysts on the sell-side of transactions (55.0 percent) than

TABLE 10. Perceived Frequency of Various Ethical or Legal Violations
(percent of respondents, except as noted)

Violation	Never (1)	Rarely (2)	Periodically (3)	Frequently (4)	Weighted Average Frequency[a]
Failure to use diligence and thoroughness in making recommendations	7.4%	26.1%	48.8%	17.6%	2.77
Writing reports that support predetermined conclusions	11.9	32.5	39.9	15.7	2.60[a]
Communicating inside information	11.9	33.2	39.1	15.7	2.59[a]
Trading based on inside information	17.0	35.0	35.3	12.7	2.44[b]
Not dealing fairly with all clients when taking investment action	18.7	38.9	32.5	10.0	2.34[b,c]
Plagiarizing another's work	17.3	45.7	31.6	5.4	2.25[c]
Misrepresenting a firm's past or expected future performance	19.5	43.3	31.8	5.4	2.23[c]
Front running (making personal trades before client trades)	25.8	38.9	27.1	8.2	2.18
Failure to disclose conflicts of interest to clients and/or employer	23.6	44.9	26.4	5.1	2.13

[a,b,c] Violations with matching letters are not significantly different from each other at the 5 percent level.

analysts on the buy-side (42.8 percent) reported frequent or periodic occurrence. The responses of these two groups are significantly different ($p = 0.0163$).

A larger proportion of analysts employed in the investment business fewer than 10 years than of analysts employed longer indicated that insider trading occurs either frequently or periodically (58.1 percent and 45.2 percent, respectively; $p = 0.0107$).

The ethical violation rated fifth most common by the analysts is "not dealing fairly with all clients when taking investment action." Most analysts have never or only rarely experienced or observed this type of violation, but 10 percent said they experienced or observed it frequently. Only 5 percent of the analysts have experienced or observed frequent plagiarism in their firms; most said they never or only rarely experienced or observed it. Responses to these questions did not differ significantly based on analyst attributes.

The last three ethical violations listed in Table 10 are the least frequently reported. Still, more than 30 percent of responding analysts have experienced or observed each of them either frequently or periodically. More than 5 percent of responding analysts indicated that misrepresenting a firm's past or expected future performance occurs frequently, and another 32 percent reported that misrepresentation happens periodically. Just 29.6 percent of analysts at brokerage and investment banking firms said they have experienced or observed the misrepresentation violation frequently or periodically; the comparable figure for analysts employed by investment counseling and management firms is 46.9 percent (p = 0.0390).

Other evidence suggests that front running (making personal trades before client trades) is fairly common (Marton 1987). In the present survey, 35 percent of responding analysts have experienced or observed this violation frequently or periodically. A larger proportion of analysts at brokerage and investment banking firms (42.7) than those at commercial banks (20.9 percent) reported observing front running (p = 0.0122). Additionally, a larger percentage of sell-side analysts (46.8 percent) than buy-side analysts (26.3 percent) indicated that this occurs frequently or periodically (p = 0.0001).

The remaining ethical violation on which we gathered information involves the failure to disclose conflicts of interest to clients or employers. Despite being identified as the least-frequent ethics violation of the nine considered here, more than 31 percent of the responding analysts reported experiencing or observing it either frequently or periodically. No significant differences exist between the responses and the attributes of the analysts.

Seven respondents described other ethics violations they have experienced or observed. Only one was listed more than once: spreading rumors to support short positions. This violation was identified by two analysts.

Personal Experiences With Unethical Behavior

The survey participants were asked several questions about recent personal experiences with perceived unethical behavior of others. One question asked whether the respondents had observed any unethical behavior by employees of their firms during the prior year, and if so, what action they took. Table 11 presents the responses to both questions. Almost a fourth of the 395 responding analysts had witnessed unethical behavior by a colleague during the previous 12 months.

Analysis of the responses revealed several significant relationships. First, the proportion of affirmative responses of analysts employed by brokerage and investment banking firms (34.4 percent) is significantly higher than the proportions of analysts at commercial banks (17.8 percent), investment counseling and

TABLE 11. Personal Observation of Unethical Behavior

Item	Number	Percent
In the past 12 months, an employee of the firm has acted in an unethical manner		
Yes	95	24.1%
No	300	75.9
Total	395	100.0
If yes, respondent's action[a]		
Made the activity known to a superior or other person in the chain of command	39	41.1
Took no action	34	35.8
Discussed it with the person who made the infraction	30	31.6
Made the activity known to the ethics compliance officer	11	11.6
Total	114	

[a]Respondents could indicate more than one action. Percentages are of the 95 individuals indicating they had witnessed unethical behavior.

management firms (20.2 percent), and insurance companies (10.3 percent) (p = 0.0333, p = 0.0151, and p = 0.0031, respectively).

A second significant difference in responses was between analysts operating principally on the sell-side of transactions and those on the buy-side. Although 34.6 percent of sell-side analysts witnessed violations during the prior 12 months, the corresponding percentage of buy-side analysts was just 16.7 percent (p = 0.0001). This is among the strongest relationships found in the study. At least two possibilities might explain this relationship: (1) Sell-side analysts may be confronted with more temptations for ethics violations; and (2) although the number of ethics violations on the sell-side of transactions is not larger, for some reason they are more easily observed by others.

Those analysts reporting that they have witnessed an employee of their firm acting unethically were asked what action they took. The most common action was to make the activity known to their superiors or other persons in the chain of command. The next most common response was to take no action at all. Others discussed it with the person who committed the infraction, and a few made the violation known to the ethics compliance officer.

When asked if they had ever been requested by someone in a firm where they worked to do something they consider unethical, 23 percent of the analysts indicated that they had (Table 12). Although 29.4 percent of analysts at brokerage and investment banking firms have been asked to do something unethical, the corresponding percentages are just 12.8 percent for those at

TABLE 12. Requests to Do Something Unethical

Item	Number	Percent
Respondent has been asked by someone in the firm to do something considered unethical		
Yes	91	22.9
No	307	77.1
Total	398	100.0
If yes, organizational level of person making request[a]		
Senior	81	89.0
Junior	3	3.3
Same level	8	9.6
Total	92	

[a]Respondents could indicate more than one action.

insurance companies and 9.1 percent for those at investment companies and mutual funds ($p = 0.0351$ and $p = 0.0155$, respectively). Also, 19.4 percent of buy-side analysts reported they have been asked to act unethically, compared with 28.9 percent of analysts operating on the sell-side ($p = 0.0303$).

Those analysts indicating they had been asked to do something unethical were asked if the request came from a person senior, junior, or at the same level within the organization. For the overwhelming majority of the respondents, the person was their superior. Despite the responses to this question, 86.6 percent of all analysts participating in the survey believe that the senior managements of their respective firms seek high ethical standards for all employees.

When the responses to this question were compared by respondent attributes, two significant relationships were found. First, all of the analysts employed by investment companies and mutual funds stated that the senior managements of their firms seek high ethical standards for all employees, and 85.0 percent of analysts employed by brokerage and investment banking firms ($p = 0.0191$), 84.4 percent of those at commercial banks ($p = 1.193$), 85.9 percent of those at investment counseling and management firms ($p = 0.0244$), and 86.8 percent at insurance companies ($p = 0.0332$) so indicated.

A second significant relationship is that analysts employed by smaller firms are less likely than those at larger firms to think senior management genuinely seeks high ethical standards. Of analysts at firms employing fewer than 10 analysts and portfolio managers, 81.6 percent think senior management seeks high ethical standards; 89.6 percent of analysts at larger operations responded similarly ($p = 0.0246$).

4. Summary and Conclusions

The results of this survey are broadly reflective of the opinions of North American analysts actively engaged in the investment profession. We believe that the following conclusions are significant and point the way toward more action by self-regulatory bodies such as AIMR. More extensive study of ethics in the investment profession also is warranted.

The key findings of the survey are:

- Almost one-quarter of the analysts in the survey either experienced or observed unethical behavior by a colleague during the previous 12 months. Significantly more such observations came from the sell-side than from the buy-side analysts. The three most frequent violations in descending order are failing to use diligence and thoroughness in making recommendations, writing reports with predetermined conclusions, and communicating inside information (as opposed to trading on inside information). The weighted average of responses suggests these violations are not frequent, although they do occur periodically.
- Knowledge of unethical behavior often is treated as an internal matter. Most frequently, an analyst observing unethical behavior in the firm makes the violation known to a supervisor or other person in the chain of command. More than one-third of those observing unethical behavior did nothing, however.
- At some time during their employment in the investment profession, more than one-fifth of the responding analysts had been asked to do something unethical, usually by a more senior colleague.
- An overwhelming majority of analysts think that senior management genuinely seeks high ethical standards for all employees of the firm.

With respect to learning and motivation of ethical behavior:

- Respondents believe that the home environment is the most important source of education and training about ethical behavior but that senior management leadership and company training programs *should* be more important than they currently are. Religious education, school or college, and professional organizations rank as less important sources of ethics education and training than the home and management leadership.
- The threat of government sanctions and moral/religious beliefs are significantly more important deterrents to unethical behavior than are self-regulatory sanctions or published codes of ethics. This would suggest that programs sponsored by professional organizations, such as AIMR, to promote their codes of ethics should be more actively pursued directly among firms employing investment professionals.
- Most analysts' firms publish their own codes of ethics separate from those of professional organizations. Most firms that endorse a code of ethics require investment professionals to read it periodically (most of them annually). Additionally, most analysts are required to provide written evidence that they have read it.

Finally, within a broader social context:

- The surveyed analysts recognize that their ethical behavior is less than perfect. Nevertheless, they rank the ethical behavior of investment professionals as highly as that of other major occupational groups, except for engineers, and significantly above that of lawyers and politicians.

Appendix:
Ethics In the Investment Profession Survey

Definitions:

Ethical means abiding by accepted standards of professional conduct.

Standards of professional conduct are standards described and encouraged by professional organizations such as the Association for Investment Management and Research (AIMR), American Institute of Certified Public Accountants (AICPA), Canadian Institute of Chartered Accountants (CICA), and so forth.

Investment professionals refers to all professionals who work in the investment field including, but not limited to, securities analysts, portfolio managers, and officers of companies specializing in the management of financial assets and/or the selling of advice or research relating to the management of financial assets.

Q-1 In your opinion, how have the ethical standards of investment professionals changed over the *past 10 years*?

They have improved	96
They have deteriorated	138
They have remained unchanged	109
No opinion	52
Total	395

Q-2 In your opinion, how are the ethical standards of investment professionals likely to change over the *next 10 years*?

I expect them to improve	247
I expect them to deteriorate	21
I expect them to remain unchanged	108
No opinion	16
Total	373

Q-3 How do you perceive the *actual ethical behavior* of the majority of people in the following professional groups?

	Not Ethical	Somewhat Ethical	Moderately Ethical	Highly Ethical	Total
Attorneys	42	164	164	28	398
Commercial bankers	8	100	246	42	396
Corporate managers	6	91	275	23	395
Investment professionals	5	92	256	42	395
Politicians	165	192	37	5	399
Engineers	0	16	216	159	391

Q-4 In your opinion, how much of an investment professional's training and education about ethical behavior *should* come from each of the following sources?

	None	Small Amount	Moderate Amount	Substantial Amount	Total
School or college	18	177	176	28	399
Home environment	5	32	165	197	399
Professional organizations	15	92	197	92	396
Employing firm (training programs)	11	76	196	115	398
Senior management (by example)	0	30	161	209	400
Religious education	80	99	133	80	392
Other	5	3	8	12	28

Q-5 In your opinion, *how effective has each of the following been* in providing you with useful training and education about ethical behavior?

	Not Effective	Slightly Effective	Moderately Effective	Very Effective	Total
School or college	76	165	116	41	398
Home environment	7	20	73	297	397
Professional organizations	24	95	173	107	399
Employing firm (training programs)	89	137	130	42	398
Senior management (by example)	48	115	137	98	398
Formal religious education	81	83	115	112	391
Other (specified in Q-4)	7	5	5	8	25

Q-6 In your opinion, how important is each of the following in deterring the unethical behavior of investment professionals?

	Not Important	Slightly Important	Moderately Important	Very Important	Total
Moral or religious beliefs	36	81	101	180	398
Concern about sanctions from the SEC or state or provincial agencies	10	59	171	157	397
Concern about sanctions from self-regulatory agencies such as AIMR, AICPA, or CICA	50	138	133	77	398
Concern that family or friends will find out	29	115	138	116	398
Having a published code of ethics	83	159	102	52	396

Q-7 Does your firm publish its own code of ethics separate from that of any professional organization's?

Yes	206
No	193
Total	399

Q-8 If your firm endorses a code of ethics (either its own or that of a professional organization), does it require its investment professionals to periodically read the code of ethics?

Yes	202
No	141
Not Applicable	38
Total	381

(If "No" or "Not Applicable," skip to Q-11.)

Q-9 How frequently does your firm require investment professionals to read the code of ethics it endorses?

One time only, when employment begins	29
Once each year	151
Once every two years	5
Other	16
Total	201

Q-10 Are the investment professionals in your firm required to provide written verification that they have read and will comply with the code of ethics it endorses?

Yes	165
No	35
Total	200

Q-11 Does your firm have a compliance officer to ensure legal and ethical standards are maintained?

Yes	298
No	98
Total	396

(If "No," skip to Q-14.)

Q-12 Do you know the name of your firm's compliance officer?

Yes	256
No	42
Total	298

Q-13 How senior is your firm's compliance officer?

Chairman of the board	6
Director	16
President	13
Executive or senior vice president	89
Vice president	111
Below the vice president level	20
Not certain	39
Total	294

Q-14 Listed below are several types of behavior that are considered unethical and/or illegal in the investment profession. *Based on your personal experience and/or observation,* indicate how frequently these ethical or legal violations occur.

	Never	Rarely	Periodically	Frequently	Total
Trading based on inside information	67	138	139	50	394
Communicating inside information	47	131	154	62	394
Front running (making personal trades before client trades)	100	151	105	32	388
Writing reports that support predetermined conclusions	46	126	155	61	388
Plagiarizing another's work	68	179	124	21	392
Failure to use diligence and thoroughness in making recommendations	29	102	191	69	391
Misrepresenting a firm's past or expected future performance	76	169	124	21	390
Not dealing fairly with all clients when taking investment action	73	152	127	39	391
Failure to disclose conflicts of interest to clients and/or employer	92	175	103	20	390
Other	3	0	2	5	10

Q-15 In the past 12 months, have you witnessed an employee of your firm acting in a manner you feel is unethical?

Yes	95
No	300
Total	395

(If "No," skip to Q-17.)

Q-16 What action did you take? (Choose *all* that apply)

Discussed it with the person who made the infraction	30
Made the activity known to my supervisor or other person in the chain of command	39
Made the activity known to the ethics compliance officer	11
Took no action	34
Other	3

Q-17 Have you ever been asked to do anything you considered to be unethical by someone in a firm where you worked?

Yes	91
No	307
Total	398

(If "No," skip to Q-19.)

Q-18 Was this person (or persons) senior to you, junior to you, or at the same level as you in the organization? (Choose *all* that apply)

Senior to you	84
Junior to you	3
Same level as you	8

Q-19 In your opinion, does the senior management of your firm genuinely seek high ethical standards for all employees?

Yes	343
No	53
Total	396

Q-20 With what type of firm are you currently employed?

Broker or investment bank	154
Commercial bank including trust departments	45
Investment counseling & management	99
Insurance	39
Investment company/mutual fund	33
Other	29
Total	399

Q-21 On which side of financial transactions is the majority of your professional activity involved, the buy-side activities (managing portfolios) or sell-side activities (marketing securities or research)?

Buy-side	218
Sell-side	161
Other	19
Total	398

Q-22 Approximately how many analysts and portfolio managers are employed by your firm?

Fewer than 10	143
From 10 to 19	91
From 20 to 29	48
From 30 to 39	24
40 or more	88
Total	394

Q-23 How many years have you been employed in the investment business?

Fewer than 5 years	80
5 to 9 years	138
10 to 14 years	59
15 to 19 years	34
20 to 24 years	44
25 to 29 years	18
30 years or more	26
Total	399

Q-24 What is the highest academic degree you have earned?

High school diploma	3
Bachelor's degree	123
Master's degree	258
Doctorate	10
Other	5
Total	399

Q-25 Which of the following professional designations have you earned? (Choose *all* that apply)

CFA	280
CFP	0
CHFC	2
CLU	0
CPA	23
Other	32

Q-26 What is your sex?

Male	300
Female	100
Total	400

Q-27 What is your present age?

25 or younger	5
26 to 35	192
36 to 45	102
46 to 55	62
56 to 65	33
65 or older	6
Total	400

Q-28 If you have read the *Standards of Practice Handbook* published by the AIMR, what is the most recent edition you read?

I have not read it	38
1988 edition	287
1986 edition	42
1984 edition	7
1982 edition	17
Total	391

Q-29 If you have read the *AICPA Code of Professional Conduct,* what is the most recent copy you read?

I have not read it	178
Copy dated June 1990	70
Copy dated October 1989	51
Copy dated June 1988	38
Other	22
Total	357

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