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ETHICS AND FINANCE: CAREER UP- OR DOWNHILL

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In the recent years we all have been witnessing a great number (that seems continually increasing with time) of cases of young men being under the spotlight of financial regulators and along with the regulators under the spotlight of all the world for some actions they have done at their workplace to manipulate the market, to conceal their losses, to trade on insider information or to forge documents.

The purpose of this article is neither to blame them for doing so, nor to shed away their blame, nor to blame the system. The purpose of this article is to take a look further and dig into the educational background of the problem.

I myself am a financial professional with fifteen years of experience in the markets, having completed all my university curriculum specializing in Finance. I have began studying finance as early as 16 years old, and over the course of my undergraduate and graduate / Master of Business Administration studies on two different continents I have studied a very long and exhaustive list of finance and economics related disciplines.

And I really thought it was as complete of a financial education as one gets. However, with the hindsight of my market experience as well as of the recent events, I just came to understand that there was something missing. Did I have even one class in Ethics as a part of my university and graduate studies? The answer is no.

And I do not think that my case is an exception. Of course, I cannot say that none of the students graduating around the world with specialization in Finance have studied Ethics as a part of their curriculum but I do believe that the vast majority of them have not.

Then, we also have quite a number of young boys with educational background in engineering or mathematics who aspire for a bright career in Finance, for all the correct reasons of course! They can process formulas in their head in a split of a second and understand the mechanics of a trading system. They can calculate the risks and the probabilities of gains or losses using non-standard distribution of returns. They can do quite a lot of financial operations straight out of school, and they are highly in demand by the financial institutions hungry for young talents to increase their profits. However, without a formal training in Ethics can they understand what they are doing? Can they grasp the enormity of the impact they can have on the

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markets? Do they really understand *precisely* what a “market manipulation” is? Or what an “insider trading” is?

When they arrive at a bank or a financial institution they get a compliance training, a risk training and a money laundering training and straight after that they are given keys to manage millions of clients' or bank's money. But is such caution sufficient? And most importantly, do they understand the full impact of their actions and the dire consequences if they “step over the line”? - The line that they do not even know where *exactly* it is drawn as they did not have a formal training in Ethics? In my view this would be equivalent to giving a key of a Lamborgini to an 18 year old after telling him to “drive carefully”. After all, he holds a driving license and we did warn him not to speed!

Money seems to be easy, everyone around them “is doing the same thing”, company's profits and young men's bonuses are at stake... Their career flies uphill along with their confidence. Everything is great until, for a few of them, “something happens”, and then it is a nightmare. From one day to another, they lose their jobs, they lose a possibility of a further career in finance, their employer usually writes a letter in which their wrongdoing is publicized, therefore employer's responsibility in the case is washed when on the contrary their name is on the front pages of newspapers and financial press, their deferred bonuses are cancelled, the bank closes their current and saving accounts, and they lose most of their friends. The road downhill is sudden and awfully scary.

After an initial brutal shock, they are dragged into (it seems never ending) procedure of questioning, court hearings and dealings with lawyers, prosecutors and financial authorities.

Their lives are destroyed at the moment they are accused, long before the final verdict.

Then what? Their education was in finance and usually it is in finance where also lies their passion. They live to trade, to smell the markets, yet the road back into financial career is barred forever.

It is a dire price to pay for a lack of education in Ethics...

Of course, I cannot not to mention CFA Institute and their drive to spread Ethical behaviour in financial markets. Ethics is not only a part of their curriculum but also a vital part. CFA candidates have to analyse different complicated case studies to identify if there is a wrongdoing going on in that case and if yes, which type of misbehaviour it is. And it is really helpful. One thing is to know that generally ethical behaviour is expected of all market

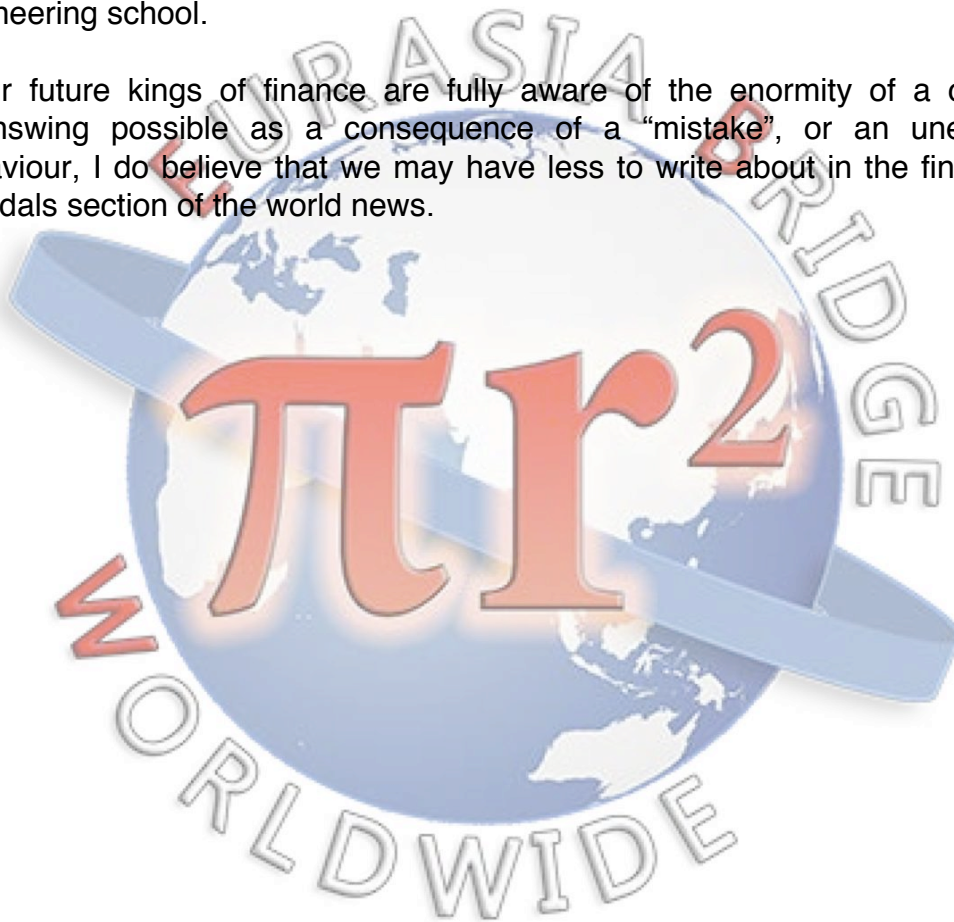
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players. Quite another thing is to be aware that in this particular case or situation, this particular action may be wrong. Just like in any other discipline, one needs to go through an extensive training to fully understand the subject.

CFA certification is getting more and more wide spread in the financial profession, yet it does not cover everyone. It is encouraged but it is not compulsory to be a CFA Charterholder in order to become a trader or to hold any other position in finance. Therefore, I believe that it would be appropriate to include, if it is not yet included, Ethics and Ethical case studies into curriculum of future finance professionals, be it at a business school or an engineering school.

If our future kings of finance are fully aware of the enormity of a career downswing possible as a consequence of a “mistake”, or an unethical behaviour, I do believe that we may have less to write about in the financial scandals section of the world news.



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