

Coronavirus Could Open Opportunities for Unethical Behaviour

CFA Institute publishes report and global member survey that analyses COVID-19 impact

[SYDNEY, AUSTRALIA], 4 August 2020: A new survey by CFA Institute, the global association of investment management professionals, reveals most Australian respondents think the coronavirus pandemic could trigger unethical actions and that regulators should educate the public about the risks of investor fraud during the pandemic.

The survey of CFA members analyses the effects of the economic crisis caused by the coronavirus pandemic on the global economy, the capital markets, the investment management industry, as well as assessing the responses from governments and central banks. The survey results are contained in CFA Institute report, [*Is the Coronavirus Rocking the Foundations of Capital Markets*](#).

With some evidence emerging that levels of insider trading has risen in global share markets during the COVID-19 pandemic,¹ the report's findings are timely. The survey reveals that 51% of Australian respondents believe that it is likely the current crisis will result in unethical actions in the investment management industry, compared to 45% globally.

"Among the most concerning findings is that most Australian respondents believe that the COVID-19 crisis could trigger unethical behaviour from finance and investment professionals, as opportunities to gain in volatile trading will undoubtedly present themselves," said Lisa Carroll, CEO of CFA Societies Australia.

"During times of crisis, all participants in the financial services industry need to ensure that they do not prioritise their personal financial interests ahead of those of the investing public or their companies or adopt illegal practices. This is something regulators will need to monitor closely as the pandemic leads to stressed market conditions, volatility and sharp changes in asset values," said Carroll.

"Investment professionals must live up to the level of standards expected of them as fiduciaries to clients and the wider public. This is where CFA Societies Australia has an important role to play, in using the CFA Institute's Code of Ethics and Standards of Professional Conduct to work with the finance services industry to improve standards," she said.

"Locally, we offer in-house ethics training to asset management firms to boost their education programs, and many organisations have seen this as a valuable resource. In addition, the CFA Societies Australia has developed policy recommendations to promote higher ethical standards in the financial services industry," said Carroll.

Notably, the survey revealed that almost all Australian respondents (98%) thought the regulator should educate the public about the risks of investor fraud and that the regulator should focus on

¹ Deloitte, Forensic Focus on COVID-19 Insider trading risk in the wake of COVID-19: An alert to boards and audit committees; Anginer, Deniz and Donmez, Anil and Seyhun, H. Nejat and Zhang, Ray, Global Economic Impact of COVID-19: Evidence from Insider Trades (May 20, 2020).

market surveillance. Most respondents thought that regulation of financial market not be relaxed in this crisis to promote liquidity in financial markets.

Other survey findings include the following:

- Respondents hold strong views on what regulators should and should not do:
 - 82% of Australian respondents believe that companies that receive emergency support during the crisis should not pay dividends or compensate executives with bonuses, compared to 75% globally.
 - 81% of Australian respondents thought that the regulator should focus on market surveillance, compared to 82% globally.
 - A ban on short-selling should not be considered (83% globally, 85% in Australia).
 - A review of ETFs activity during the crisis should be initiated to determine the nature of their potential systemic impact (87% of Australian respondents, 84% globally).
- **On the regulatory response:** 50% of respondents believe that conduct regulation should not be relaxed to encourage trading and liquidity (26% thought that it should be relaxed), with 69% of respondents suggesting that regulators should actively seek the appropriate response through consultation with industry.
- **The impact of the crisis on asset management:** Members are predicting large-scale bankruptcies (39% frequency of responses) and also an acceleration of automation to reduce costs (38%). Further consolidation was also a theme, as well as divergence between emerging and developed markets, and a potential reduction in the globalisation of financial markets.
- **On members' employment:** while it is too early to predict the longer-term effects on employment, 44% of Australian respondents see no change in their firm's hiring plans, compared to 54% globally, and 45% report a hiring freeze, compared to 36% globally, with only 10% reporting downsizing in Australia.
- **On the shape of a potential economic recovery:** 44% of respondents see a medium-term 'hockey stick' shaped recovery, which implies some level of stagnation for the next two to three years until signs of recovery are visible, with little evidence of variation among members across the Americas, EMEA, and Asia Pacific regions; 35% opted for a slow U-shaped recovery, which would indicate 3-5 years of moderate pick-up in activity before clearer signs of acceleration.
- **On interventionism of governments and central banks:** Most respondents indicated that this was a major stabilising factor, but with differences in regional opinion on whether this should continue. Equally supported (49%) are the views that the current state aid will be insufficient and will need to continue, as well as that this aid should be a short-term measure to allow a deleveraging accompanied by fiscal rigor.

About the survey

The survey was fielded to the global membership of CFA Institute across all regions and jurisdictions where the organisation has representation. The survey was sent on 14 April 2020 and closed on 24 April 2020 and 13,278 responded.

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About CFA Societies Australia

CFA Societies Australia is part of the worldwide network of CFA Institute member societies that lead the investment profession globally by promoting the highest standards of ethics, education and professional excellence for the ultimate benefit of society. CFA Societies Australia represents the interests of over 3000 investment professionals through advocacy, education, events, and professional development. For more information visit www.cfas.org.au, or follow us on Twitter at @CFASocietiesAus, Facebook at facebook.com/CFASocietiesAus or on LinkedIn.

About CFA Institute

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion of ethical behaviour in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow. There are more than 170,000 CFA charterholders worldwide in 162 markets. CFA Institute has nine offices worldwide and there are 158 local member societies. For more information, visit www.cfainstitute.org or follow us on Twitter at @CFAINstitute and on Facebook.com/CFAINstitute.