

Interview

Interview with Barbara Petitt about the Future of Finance Initiative

Barbara S. Petitt, PhD, CFA is the Director of Curriculum Projects, EMEA at CFA Institute. Prior to joining CFA Institute, she worked as a finance consultant and held academic positions in the U.S., France and the U.K. Her areas of expertise are in equity investments, mergers, acquisitions and corporate restructurings. She co-authored a book on valuation for mergers and acquisitions, and published several articles in both finance and management journals.

A native of the Rhône Valley in France, Barbara holds a Ph.D. in Finance from the University of Grenoble and a Master in Management from EDHEC Business School. She is also a CFA charterholder. She serves as an active member of the CFA Society of the UK's Financial Reporting and Analysis Committee.

Michal Stupavský, Newsletter Manager, carried out the interview with Barbara Petitt during CFA Charter Awarding Ceremony 2013 in Prague on 28 November.

Dear Barbara, CFA Institute launched a new global initiative called the [Future of Finance](#) this spring. Could you please explain to us what this big project is actually about?

The Future of Finance initiative is a long-term global effort to shape a trustworthy, forward-thinking financial industry that better serves society. The project aims to provide the tools to motivate and empower the world of finance to commit to fairness, improved understanding, and personal integrity. The CFA Institute Board of Governors initiated the Future of Finance project as a way to bring CFA Institute into the global discourse about the important issues our industry faces. It is evidence to our members, the clients we serve, and the public that we are more than a membership organization of competent and ethical professionals—we are also a leadership organization for the industry. Finance has an important function in society, and as our mission statement has expanded to note that our efforts are “for the ultimate benefit of society,” the Future of Finance initiative gives us a way to encourage our members to individually and collectively create change.

Only slightly more than half of investors trust investment firms to do what is right. That's according to the [CFA Institute/Edelman Investor Trust Study](#) conducted this June in several key markets. This is not a result to cheer and celebrate. It has been five years since the financial meltdown uncovered some spectacular cases of abuse and fraud. However, not much has been done to restore the industry's reputation. How are the results of the study connected to the Future of Finance project?

The Future of Finance project is intended to change behaviors. The CFA Institute/Edelman Investor Trust Study helps to explain why trust really matters. It showed that investors worldwide say that trusting an investment manager to act in their best interest is the single most important factor in making a hiring decision. Achieving high returns was cited only half as often, and fee amounts or structure only one fifth. This implies that having a good

ethical foundation is a competitive advantage for firms and for individuals like CFA charterholders, who uphold a professional code and standards. While rebuilding trust in the industry will take time, individuals can begin to make a difference in their own relationships.

CFA Charter Awarding Ceremony 2013 in Prague on 28 November



Marek Jindra, CFA – President
Barbara S. Petitt, CFA
Michal Stupavský, CFA – Newsletter Manager

As the Future of Finance project aims at restoring the general public's trust in the investment industry, the [CFA Institute Integrity List](#) mentions 50 ways to achieve this. What are the most important ones? Could you also briefly summarize all of them? What is the key point?

The CFA Institute Integrity List is a collection of 50 tangible steps that investment professionals can take to restore trust in the industry. The list was inspired by “real-world” ideas from CFA charterholders and members. These ideas are not in a priority order and are not a checklist of items that you can set out to do and then move on. These 50 ways represent shifts in mindset and attitude, and they call on investment professionals to have the courage to do the right thing on an ongoing basis.

Several of the ways focus on two of the Future of Finance themes: Putting Investors First—place the client's interests before your own; strive for a conflict-free business model—and Transparency and Fairness—recommend products with transparent payoffs, costs, and risks; keep client fees fair; actively disclose all compensation arrangements. With of course a strong ethical emphasis—create an ethical work culture that allows constructive criticism; require training on ethical decision-making for yourself and your firm; never overlook unethical behavior because you're better served by ignorance.

Overall, the Future of Finance project focuses on six primary topics of interest. Could you elaborate a bit on them?

Interview (continuation)

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We have indeed identified six themes:

1. Putting Investors First—The fiduciary duty to protect investor interests.
2. Financial knowledge—Empowering investors to make better decisions.
3. Transparency and Fairness—Standards to promote an open and honest financial system.
4. Regulation and Enforcement—Protecting investors and preserving capital market integrity.
5. Safeguarding the System—Promoting stability and minimizing systemic risk.
6. Retirement Security—Sensible solutions to protect pension systems worldwide.

Does CFA Institute plan rigorous research and recommendations in each primary topic of interest? Could you be more specific about these plans?

We do have a rigorous research plan, and we benefit from the independent and strategic advice of the Future of Finance Advisory Council, a global group of experts from finance, education, and media led by the British economist John Kay. We have already released quite a few outputs using different media. To name only a few of them:

1. Putting Investor First: The Statement of Investor Rights, and a literature review about Ethics and Financial Markets.
2. Financial Knowledge: The video of a roundtable about Financial Market History that took place in London in June, and the branch.com discussion What is the Difference between Investing and Speculation? that was held in July.
3. Transparency and Fairness: The first edition of the Principles for Investment Reporting, and a report about Packaged Retail Investment Products.
4. Retirement Security: A monograph about Life Annuities and the branch.com discussion Should Retirement Savings Be Mandatory? held in October.

These outputs (and many more to come) can be found on the Future of Finance webpage.

You mentioned the [Statement of Investor Rights](#). What kind of investors is the statement focused on? What rights should be investors entitled to according to the statement?

The Statement of Investor Rights was developed by CFA Institute to advise buyers of financial service products of the conduct they are entitled to expect from financial service providers. Investors are encouraged to present the Statement to their financial professionals, whether they are opening a bank account, buying a home, establishing an investment plan, or working with a broker. Here is what the Statement says:

When engaging the services of financial professionals and organizations, I have the right to...

1. Honest, competent, and ethical conduct that complies with applicable law;
2. Independent and objective advice and assistance based on informed analysis, prudent judgment, and diligent effort;
3. My financial interests taking precedence over those of the professional and the organization;
4. Fair treatment with respect to other clients;
5. Disclosure of any existing or potential conflicts of interest in providing products or services to me;
6. Understanding of my circumstances, so that any advice provided is suitable and based on my financial objectives and constraints;
7. Clear, accurate, complete and timely communications that use plain language and are presented in a format that conveys the information effectively;
8. An explanation of all fees and costs charged to me, and information showing these expenses to be fair and reasonable;
9. Confidentiality of my information;
10. Appropriate and complete records to support the work done on my behalf.

The whole title of this initiative is “The Future of Finance Starts with You”. How should CFA charterholders and candidates get involved and proactively help to shape the investment industry in a positive direction?

First of all, everybody can contribute to the Future of Finance initiative without going out of their way. Acting with integrity, behaving and requiring others to behave in an ethical and professional manner, and serving your clients' needs are steps in the right direction. But you can of course do more—and we hope you do. For example, you can guide us to existing research related to the Future of Finance themes, share your ideas on new research topics that can have a positive influence on restoring trust in our industry, recommend thought leaders you know who may wish to support our effort, or share information about the Future of Finance project with your network. And get involved locally—help the Czech society plan events and activities that align with the Future of Finance project. Visit the Future of Finance website regularly at <http://www.cfainstitute.org/FutureFinance>, and reach out to us at futurefinance@cfainstitute.org.

Thanks much Barbara for this very interesting interview. I do hope that it will help to make our Society's charterholders and candidates more involved.

[Download Barbara Petitt's presentation from Charter Awarding Ceremony in Prague on 28 November about the Future of Finance project](#)

[Watch the Future of Finance Video](#)