

# Financial Market Integrity Outlook: 2011

Market Intelligence  
January 2011



# Global Results with Regional Breakouts

# About the Survey

The CFA Institute Financial Market Integrity Outlook Survey was created to seek input from CFA Institute members on the outlook for ethical markets in 2011. The results will be used to offer regulators and the financial media commentary on how our members view the prospects for ethical practice and markets in 2011, and will help CFA Institute assess the ethical framework of our profession and note any ethical “hot spots” facing the financial services industry that need to be addressed in the coming year.

The survey, sent to all CFA Institute members (98,079 members with valid emails), was distributed via email on 10 January 2011. 5,735 members participated in the survey, for a response rate of 6%, and a margin of error of  $\pm 1\%$ . The survey closed 21 January 2011.

# Executive Summary

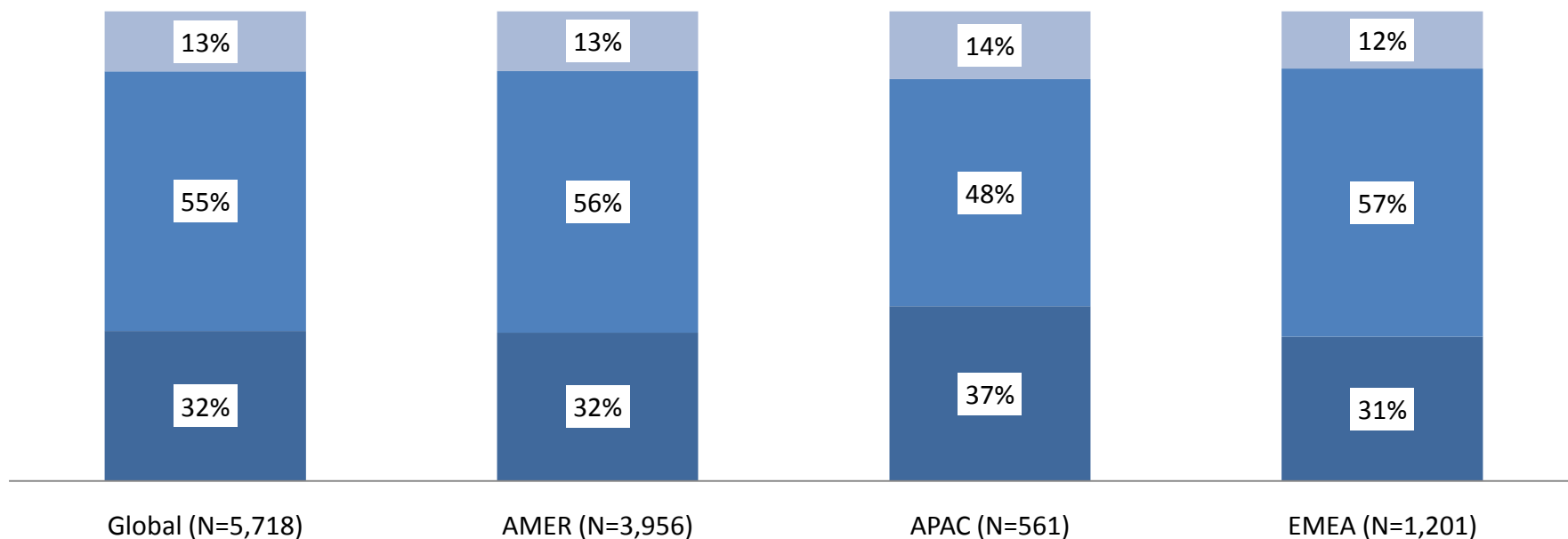
- **32% of members think the integrity of global capital markets will be better than 2010 and 13% think it will be worse (55% said about the same). A higher proportion of members in APAC (37%) than AMER and EMEA (32% and 31%, respectively) think integrity will be better.**
- **Over half of members think the impact of the credit crisis will last 5 years or less, with approximately one-third believing it will last more than 5 years. Members in AMER think it will last the longest (34% longer than 5 years), whereas members in APAC believe the impact will be shorter (26% said 1-2 years).**
- **When asked to rank six ethical issues facing their local market from most serious to least serious, the issues with the lowest average rank (most serious) is *financial advisers (mis-selling of products by financial advisers)* and *market fraud (such as insider trading)*.**
- **When asked to rank six ethical issues facing global markets from most serious to least serious, three issues tied with the lowest average rank (most serious): *market fraud*, *financial reporting (honesty and integrity of financial reporting generally)*, and *derivatives (disclosure and use of financial derivatives by financial firms)*, though derivatives emerged as having the highest proportion of members rank it as most serious, with 23% ranking it as #1 (compared to 20% of members ranking the other two as most serious).**
- **Members feel that *improved enforcement of existing laws & regulation* (31%) and *improved regulation & oversight of global systemic risk* (23%) are the most needed regulatory/industry actions needed in the coming year to help improve market trust and integrity.**

# Integrity of Global Capital Markets in 2011

**32% of members think the integrity of global capital markets will be better than 2010 and 13% think it will be worse (55% said about the same). A higher proportion of members in APAC than AMER and EMEA think integrity will be better.**

**Do you think the integrity of global capital markets in 2011 will be better or worse than 2010?**

■ Better ■ About the same ■ Worse

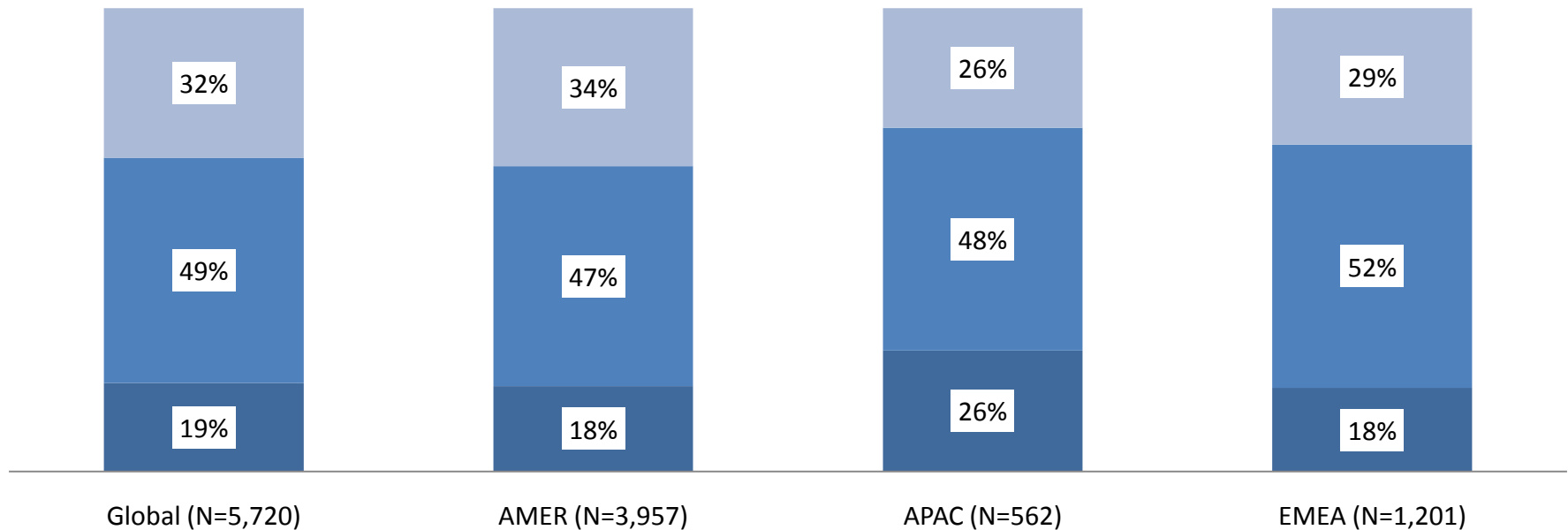


# Length of Impact of Credit Crisis

Over half of members think the impact of the credit crisis will last 5 years or less, with approximately one-third believing it will last more than 5 years. Members in AMER think it will last the longest, whereas members in APAC believe the impact will be shorter.

The current global credit crisis has severely impacted market trust and confidence. Approximately how long do you believe the impact of the credit crisis will last?

■ 1-2 years ■ 3-5 years ■ More than 5 years



# Key Ethical Issues for 2011

- When asked to rank six ethical issues facing their local market from most serious to least serious, the issues with the lowest average rank (most serious) are *financial advisers (mis-selling of products by financial advisers)* and *market fraud (such as insider trading)*.
  - Globally, 26% of members ranked mis-selling of products by financial advisers as #1 (most serious)
    - 25% in AMER (most serious issue), 26% in APAC (2<sup>nd</sup> most serious), and 31% in EMEA (most serious)
  - 20% of members globally ranked market fraud as #1
    - 20% in AMER (2<sup>nd</sup> most serious), 30% in APAC (most serious), and 19% in EMEA (2<sup>nd</sup> most serious)
- When asked to rank six ethical issues facing global markets from most serious to least serious, three issues tied with the lowest average rank (most serious): *market fraud*, *financial reporting (honesty and integrity of financial reporting generally)*, and *derivatives (disclosure and use of financial derivatives by financial firms)*
  - Globally, derivatives emerged as having the highest proportion of members rank it as most serious, with 23% ranking it as #1 (compared to 20% of members ranking the other two as most serious).
    - In all regions, derivatives was ranked as most serious (#1) by the highest proportion of members.

# Ranking of Ethical Issues Facing Local Markets

Rank the following in order of the most serious (1) to least serious (6) ethical issue facing your local market in the coming year (average rank displayed)

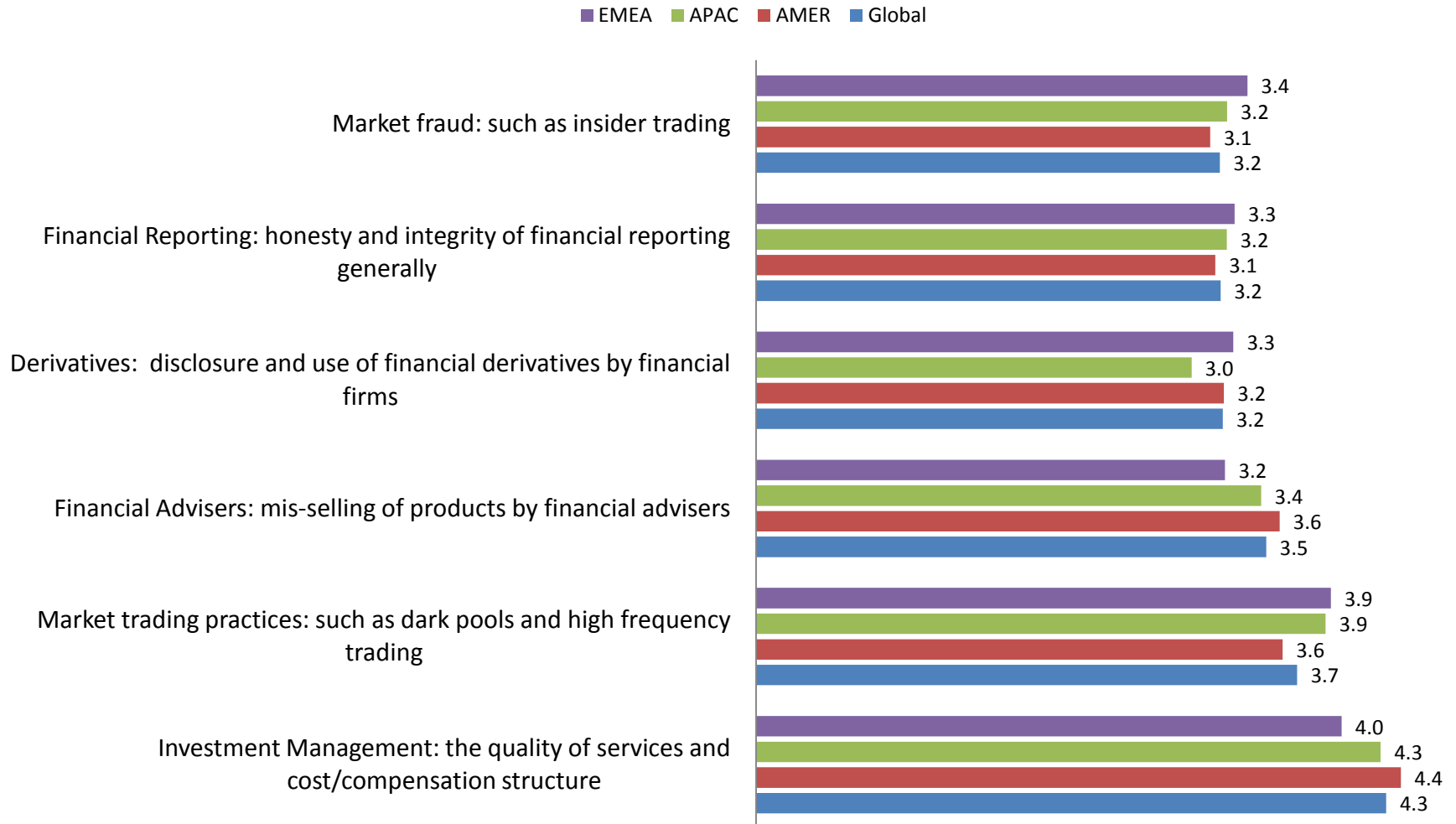
■ EMEA ■ APAC ■ AMER ■ Global





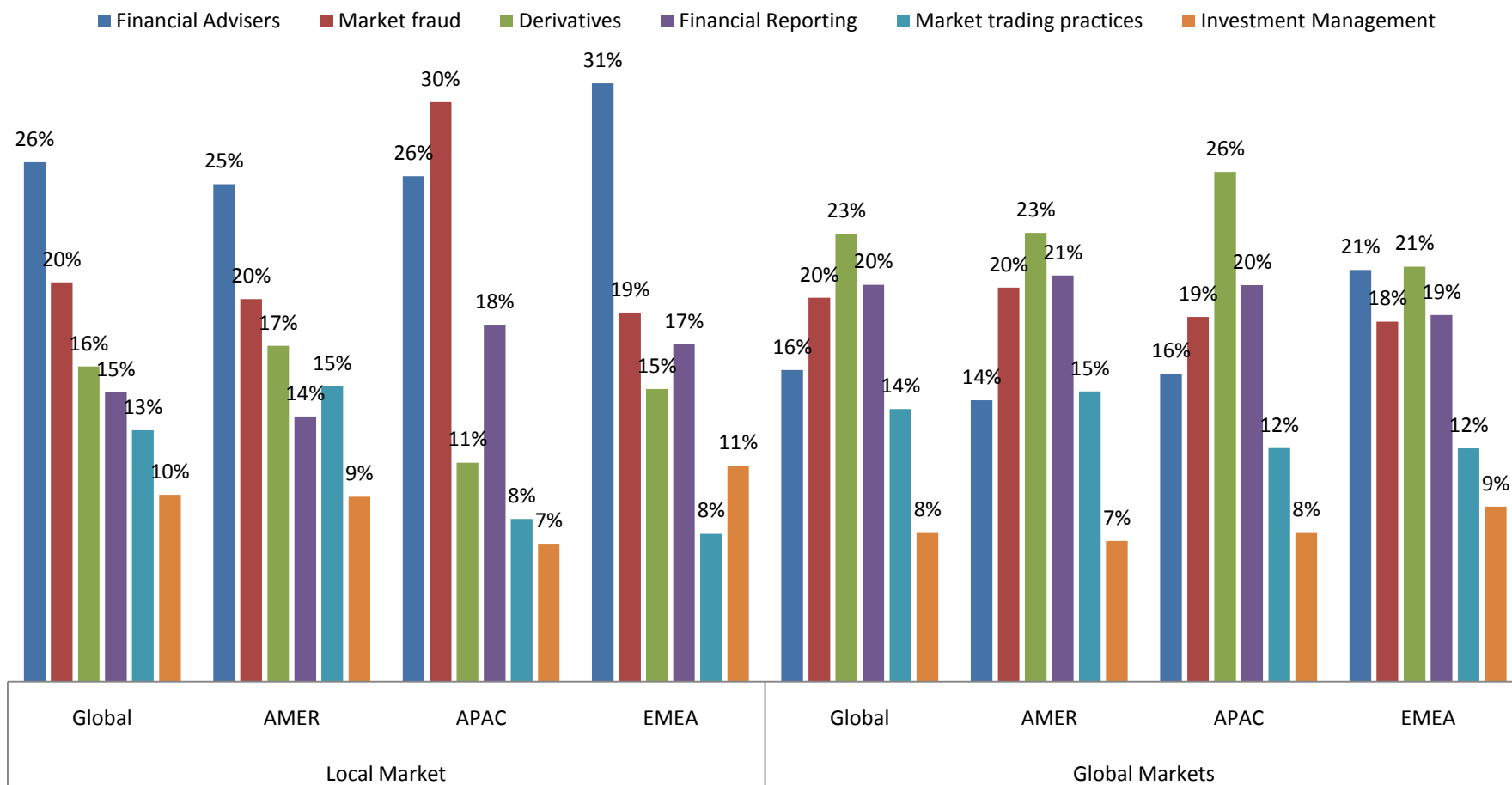
# Ranking of Ethical Issues Facing Global Markets

Rank the following in order of the most serious (1) to least serious (6) ethical issue facing global markets in the coming year (average rank displayed)



# Most Serious Ethical Issues Facing Local and Global Markets

## Most Serious<sup>1</sup> Ethical Issue Facing Your Local Market and Global Markets in the Coming Year



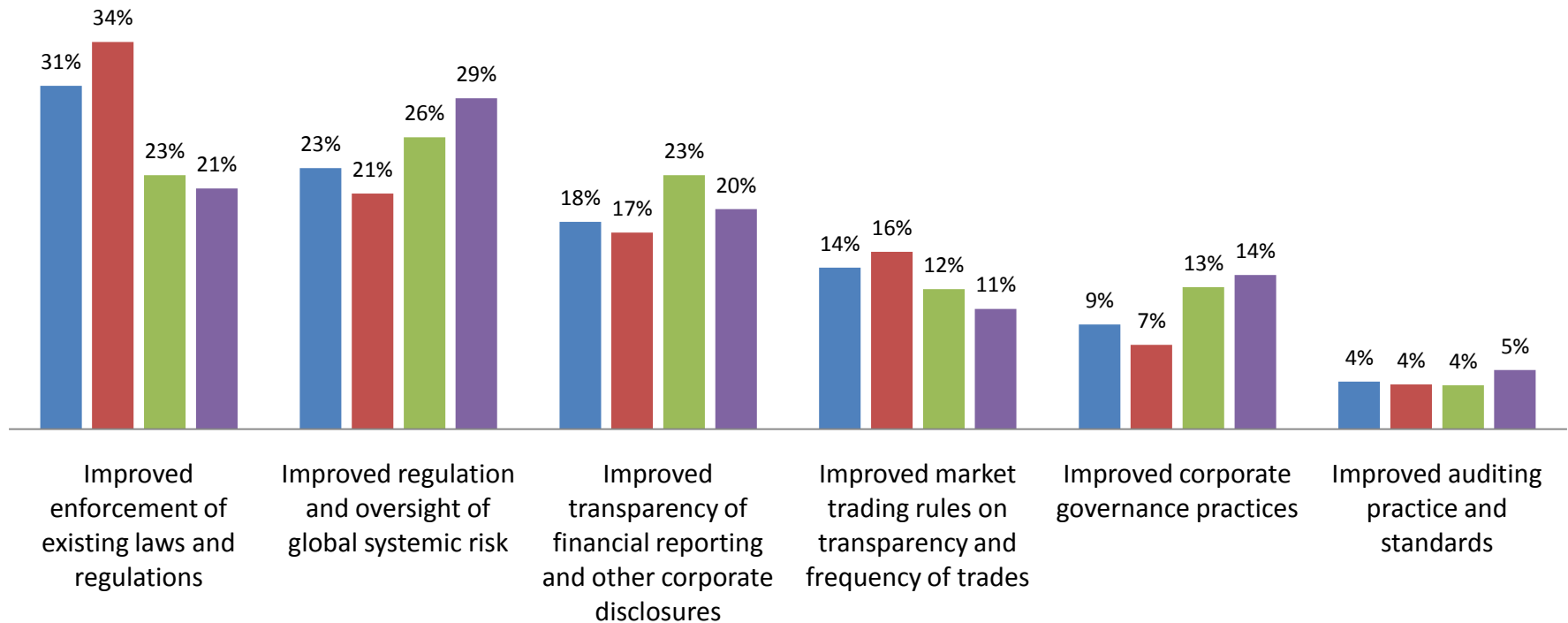
<sup>1</sup> Represents the proportion of members indicating the ethical issue is most important out of all six issues; that is, the % of members ranking #1 (most serious)

# Regulatory/Industry Actions

Members feel that improved enforcement of existing laws & regulation and improved regulation & oversight of global systemic risk are the most needed actions in the coming year to help improve market trust and integrity.

Which one of the following regulatory or industry actions is most needed in the coming year to help improve market trust and integrity?

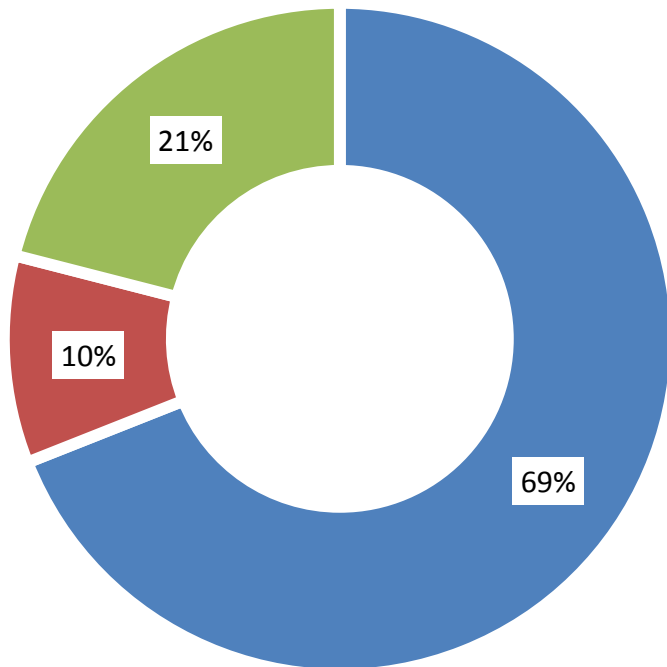
■ Global (N=5,698) ■ AMER (N=3,938) ■ APAC (N=563) ■ EMEA (N=1,197)



# About the Respondents

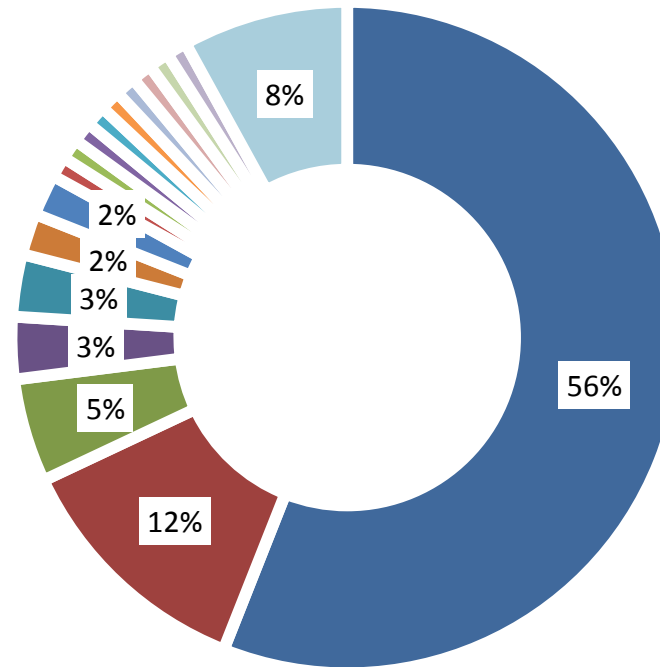
## Region

- AMER
- APAC
- EMEA



## Country

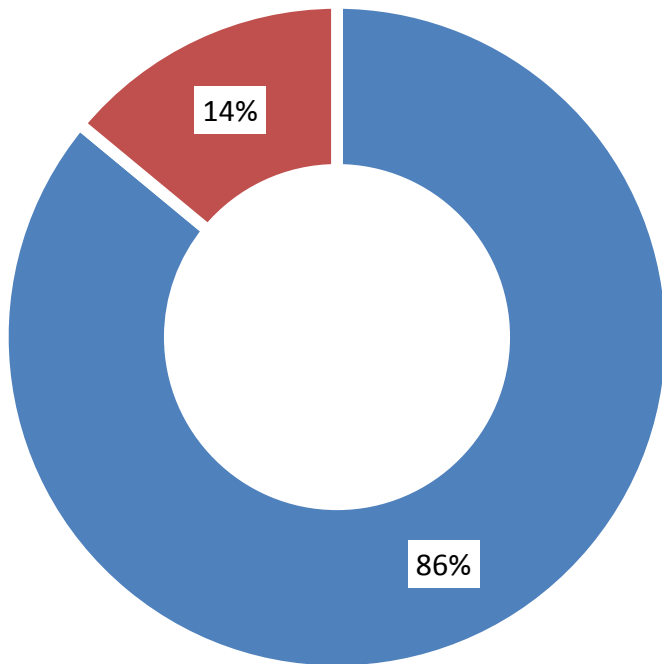
- USA
- CANADA
- UNITED KINGDOM
- SWITZERLAND
- GERMANY
- AUSTRALIA
- HONG KONG
- CHINA
- SOUTH AFRICA
- SINGAPORE
- JAPAN
- INDIA
- BRAZIL
- FRANCE
- NETHERLANDS
- RUSSIAN FEDERATION
- ALL OTHER



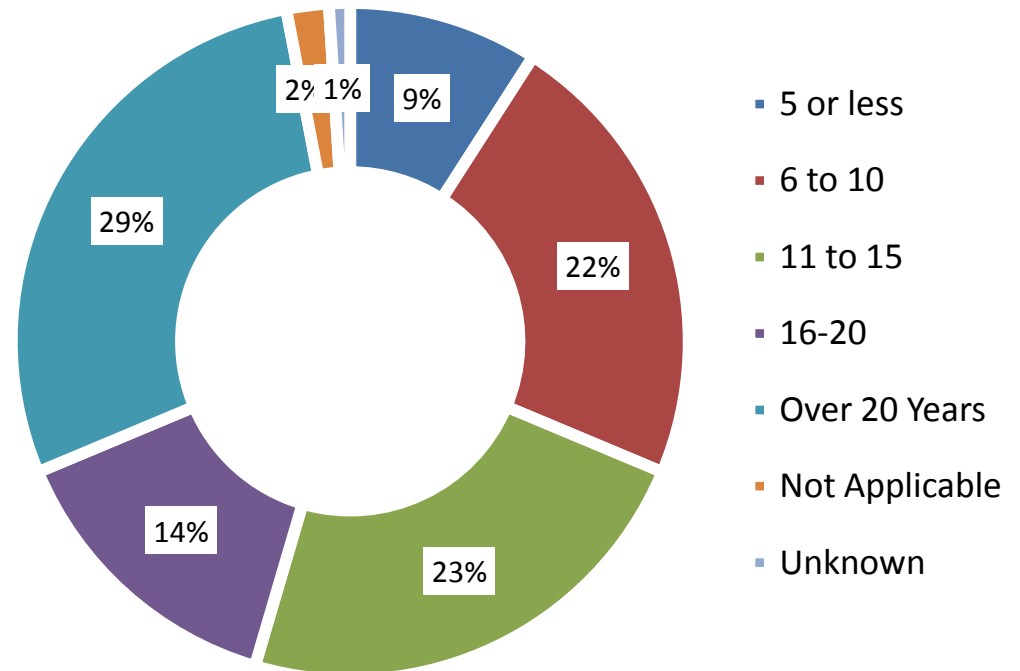
# About the Respondents

## CFA Charterholder Status

■ CFA ■ Non-CFA



## Years Working in the Investment Industry



# Country Breakouts

**Countries included in the country breakouts are those that have been identified as CFA Institute priority markets through the regional strategic work plans and had at least 30 respondents to this survey.**

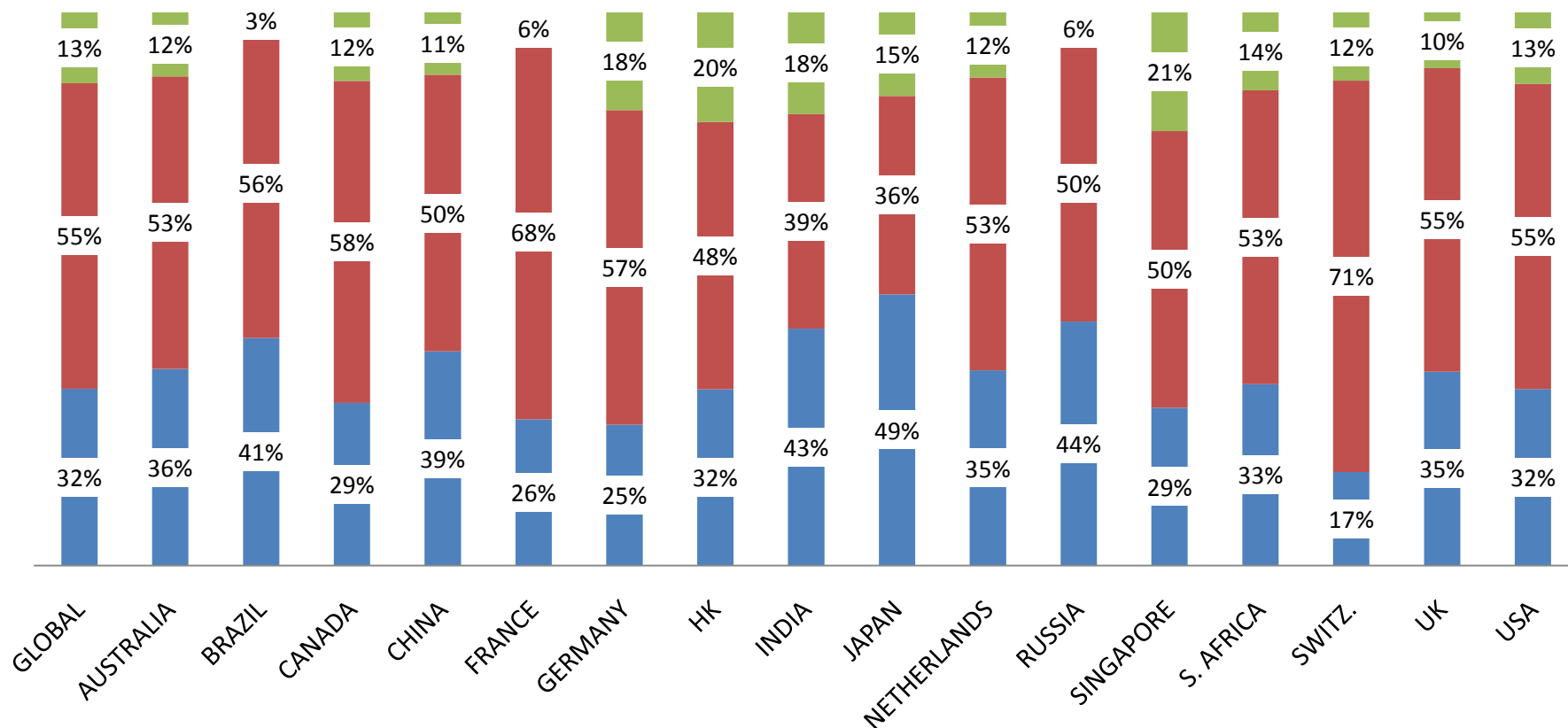
# Executive Summary (Country-Specific)

- Japan, Russia, and India are most optimistic that the integrity of the global capital markets in 2011 will be better than 2010, while Singapore, Hong Kong, Germany, and India have the highest proportions of members indicating the integrity of the markets will be worse.
- Those countries with the highest proportions of members believing the impact of the credit crisis will last more than 5 years are: South Africa, the UK, Japan, and the USA. Those with the highest proportion of members believing the impact will last 1-2 years are: India, China, France, and Singapore.
- 9 of the 16 priority markets in this survey said financial advisers is the most serious issue facing their local market in the coming year. Six markets (China, Japan, Russia, India, Brazil, and the UK) said market fraud is the most serious issue. France said market trading practices is the most serious.
- 8 of the 16 priority markets in this survey said derivatives is the most serious issue facing global markets in the coming year. Two markets (Japan and UK) said market fraud is the most serious issue, while two other markets (Netherlands and Switzerland) said financial advisers, and France and Singapore said market trading practices. One market (Australia) says financial reporting is the most serious ethical issue.
- 8 of the 16 priority markets in this survey said improved regulation and oversight of global systemic risk is the most needed action to help improve market trust and integrity, though globally (and in six priority markets) improved enforcement of existing laws and regulations is selected as the most needed regulatory action. Only two priority markets picked an action aside from these two: Brazil and China both had the highest proportion of members selecting improved transparency of financial reporting and other corporate disclosures.

# Integrity of Global Capital Markets in 2011

Do you think the integrity of global capital markets in 2011 will be better or worse [or about the same] than 2010?

■ % Better   ■ % About the Same   ■ % Worse

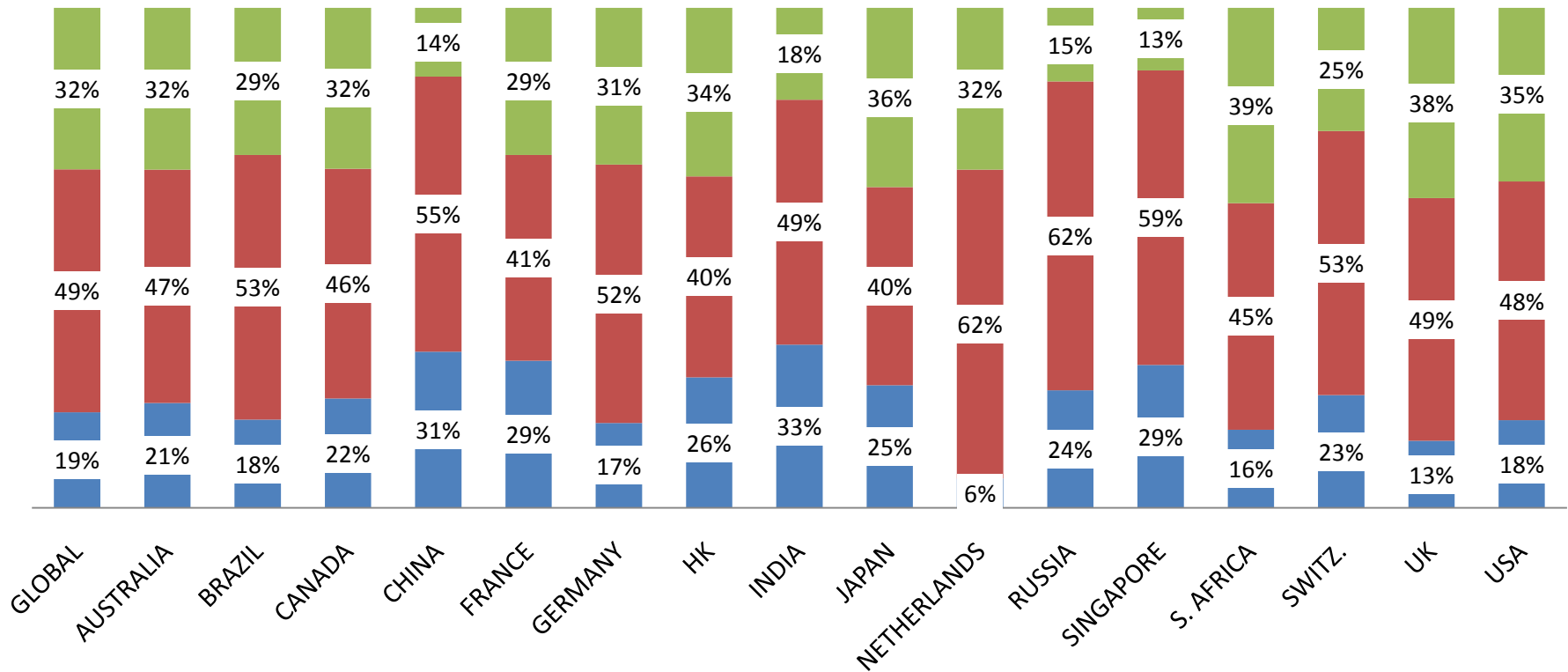




# Length of Impact of Credit Crisis

The current global credit crisis has severely impacted market trust and confidence. Approximately how long do you believe the impact of the credit crisis will last?

■ 1-2 years ■ 3-5 years ■ More than 5 years



# Most Serious Ethical Issues Facing Local Markets

9 of the 16 priority markets in this survey said *financial advisers* is the most serious issue facing their local market in the coming year. Six markets (China, Japan, Russia, India, Brazil, and the UK) said *market fraud* is the most serious issue. France said *market trading practices* is the most serious.

LOCAL MARKET	Financial Advisers	Market fraud	Derivatives	Financial Reporting	Market trading practices	Investment Management
GLOBAL	26%	20%	16%	15%	13%	10%
AUSTRALIA	40%	13%	10%	20%	6%	12%
BRAZIL	30%	33%	3%	21%	9%	3%
CANADA	32%	16%	16%	14%	12%	9%
CHINA	8%	55%	10%	18%	5%	4%
FRANCE	21%	15%	21%	6%	26%	12%
GERMANY	39%	15%	21%	12%	5%	8%
HK	33%	15%	19%	10%	13%	10%
INDIA	29%	40%	10%	19%	2%	0%
JAPAN	17%	51%	13%	13%	0%	6%
NETHERLANDS	35%	6%	18%	21%	9%	12%
RUSSIA	9%	44%	6%	28%	0%	13%
SINGAPORE	30%	13%	11%	19%	22%	6%
S. AFRICA	56%	13%	6%	6%	3%	16%
SWITZ.	34%	12%	13%	14%	7%	19%
UK	19%	24%	19%	15%	13%	11%
USA	24%	20%	17%	13%	16%	9%

Data displayed represents the proportion of members in each country indicating the ethical issue is most important out of all six issues; that is, the % of members ranking the issue #1 (most serious).

# Most Serious Ethical Issues Facing Global Markets

8 of the 16 priority markets in this survey said *derivatives* is the most serious issue facing global markets in the coming year. Two markets (Japan and UK) said *market fraud* is the most serious issue, while two other markets (Netherlands and Switzerland) said *financial advisers*, and France and Singapore said *market trading practices*. One market (Australia) says *financial reporting* is the most serious ethical issue.

GLOBAL MARKETS	Derivatives	Financial Reporting	Market fraud	Financial Advisers	Market trading practices	Investment Management
GLOBAL	<b>23%</b>	20%	20%	16%	14%	8%
AUSTRALIA	21%	<b>27%</b>	17%	17%	10%	9%
BRAZIL	<b>31%</b>	16%	22%	19%	9%	3%
CANADA	<b>26%</b>	20%	18%	17%	13%	7%
CHINA	<b>37%</b>	13%	28%	13%	5%	4%
FRANCE	15%	3%	18%	24%	<b>32%</b>	9%
GERMANY	<b>26%</b>	17%	19%	19%	10%	9%
HK	<b>32%</b>	15%	11%	11%	20%	11%
INDIA	<b>29%</b>	18%	14%	24%	12%	2%
JAPAN	21%	19%	<b>42%</b>	9%	4%	6%
NETHERLANDS	21%	18%	9%	<b>32%</b>	12%	9%
RUSSIA	<b>44%</b>	22%	3%	22%	3%	6%
SINGAPORE	18%	18%	13%	20%	<b>24%</b>	7%
S. AFRICA	22%	8%	11%	33%	14%	13%
SWITZ.	14%	21%	16%	<b>26%</b>	12%	11%
UK	20%	17%	<b>27%</b>	16%	10%	9%
USA	<b>22%</b>	21%	21%	14%	15%	7%

Data displayed represents the proportion of members in each country indicating the ethical issue is most important out of all six issues; that is, the % of members ranking the issue #1 (most serious).

# Regulatory/Industry Actions

8 of the 16 priority markets in this survey said *improved regulation and oversight of global systemic risk* is the most needed action to help improve market trust and integrity, though globally (and in six priority markets) *improved enforcement of existing laws and regulations* is selected as the most needed regulatory action. Only two priority markets picked an action aside from these two: Brazil and China both had the highest proportion of members selecting *improved transparency of financial reporting and other corporate disclosures*.

	Improved enforcement of existing laws and regulations	Improved regulation and oversight of global systemic risk	Improved transparency of financial reporting and other corporate disclosures	Improved market trading rules on transparency and frequency of trades	Improved corporate governance practices	Improved auditing practice and standards
GLOBAL	31%	23%	18%	14%	9%	4%
AUSTRALIA	28%	26%	23%	7%	14%	3%
BRAZIL	26%	18%	29%	9%	9%	9%
CANADA	30%	23%	20%	14%	8%	4%
CHINA	24%	24%	29%	18%	5%	1%
FRANCE	26%	35%	3%	24%	9%	3%
GERMANY	22%	39%	12%	11%	12%	4%
HK	13%	28%	15%	20%	18%	5%
INDIA	24%	39%	20%	2%	8%	6%
JAPAN	21%	26%	15%	15%	17%	6%
NETHERLANDS	3%	38%	24%	15%	15%	6%
RUSSIA	36%	21%	18%	6%	15%	3%
SINGAPORE	25%	23%	16%	16%	16%	4%
S. AFRICA	28%	14%	25%	6%	23%	3%
SWITZ.	18%	24%	21%	13%	20%	5%
UK	25%	31%	22%	9%	9%	4%
USA	36%	20%	17%	16%	7%	4%