

DECISION-MAKING BIASES AND HEURISTICS WHICH CONTRIBUTE TO UNETHICAL BEHAVIOR (1HR)



Overview

Despite taking all the right steps for creating an ethical environment – providing ethics training, developing a code of conduct, implementing a reporting hotline, etc. – investment managers are still not immune to inappropriate behavior. Why do seemingly honest, hard-working people who started out with the best of intentions commit unethical, or in some cases, illegal acts? What is it that leads them astray? The truth is that there is no one simple reason good employees turn bad – it is often the result of a combination of various cultural and personal factors.

Course instructor Tom Hardin was previously a young investment analyst working in the hedge fund industry in the United States. In 2008, as part of a cooperation agreement with the U.S. Department of Justice, Hardin assisted the U.S. government in understanding how insider trading occurred in the investment management industry. Known as “Tipper X,” Hardin became one of the most prolific informants in securities fraud history, helping to build over 20 of the 80+ individual criminal cases in “Operation Perfect Hedge,” a Wall Street house cleaning campaign that morphed into the largest insider trading investigation of a generation.

Overview

The kind of decision-making errors that Hardin made are the focus of a field of study known as behavioral ethics, which draws upon psychology, cognitive science, evolutionary biology and related disciplines to determine how and why people make the ethical and unethical decisions that they do. Much behavioral ethics research addresses the question of why good people do bad things.

Through vivid storytelling, Hardin shares his journey down the slippery slope into unethical and illegal activity, highlighting the psychological traps which pulled him into a spiral of rationalization. Throughout the course, Hardin introduces the behavioral ethics biases which impacted his decision-making, including cognitive errors, organizational pressures and situational factors. Hardin will also provide organizational solutions for preventing unethical behavior and a framework for recognizing its warning signs.

Hardin's course will help professionals understand why regulations and controls alone don't work. Culture, leadership and self-awareness can help us manage our behavior and act ethically as investment management professionals. The course can be applied to anyone in the investment management business, where there are rules to protect people, clients and other stakeholders.



Programme Structure

This e-Learning module is 1-hour long.

The training module covers topics that are identified to be relevant to fund management professionals and will include case studies to facilitate learning.

An appointed representative of a holder of CMS licence will earn 1 Core CPD hour upon successful completion of this module.

CPD Requirements

With effect from 1 January 2019, under the MAS' Notice on Minimum Entry and Examination Requirements for Representatives of Holders of Capital Markets Services Licence and Exempt Financial Institutions ("SFA04-N09"), an appointed representative of a holder of a capital markets services (CMS) licence must complete by the end of every calendar year:

- Core CPD hours: 6 hours in ethics or rules and regulations or both, which is relevant to the type or types of regulated activity he carries out; and
- Supplementary CPD hours: 3 hours of relevant training courses.

This module is tailored for investment management professionals in Singapore and designed to meet the MAS' requirement under SFA04-N09 where an appointed representative of a holder of a capital markets services licence is required to complete 6 hours of Core CPD training in ethics, rules or regulations or both, that is relevant to the type of regulated activity he conducts.

Learning Outcomes

By completing this programme, participants will be able to:

- Understand how well-intentioned people can make serious ethical errors—and even commit crimes—if they are not careful.
- Acquire a perspective useful to professionals as a framework for ethical conduct in the investment profession.
- Explain the decision-making biases, heuristics and organizational pressures which can contribute to unethical and illegal behaviour.
- Understand how to counteract the decision-making biases and heuristics and the organizational pressures one may face.
- Identify organizational solutions for preventing unethical behaviour and warning signs of such behaviour.

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Module 1: Overview of Tipper X / Tom Hardin Story

No amount of ethics education and awareness will deter someone bent on committing fraud for personal enrichment. Far more common are investment professionals who begin with a well-established moral compass that is overwhelmed by challenging circumstances and thorny conflicts of interest inherent in any agent relationship. Course instructor Tom Hardin summarizes his experience as Tipper X, the most prolific FBI informant in securities fraud history. Hardin discusses the pressures and rationalizations he faced as a young investment professional, previewing some of the concepts related to his story and setting the stage for the course material that follows.

Module 2: Introduction to Behavioral Ethics: Why Do Good People Do Bad Things?

Behavioural ethics is the study of how and why people make ethical and unethical decisions. Unconscious influences can limit our ethicality – our ability to act with integrity, honesty and transparency – as investment management professionals. Well-intentioned investment professionals can find themselves in circumstances that may tempt them to cut corners in their professional lives.

Here, Hardin discusses popular misconceptions such as:

- Good people vs bad people
- Is purely having knowledge of our ethics code the solution?
- Are we always rational?
- Ethical dilemma vs moral temptation

Module 3: Leading Influences on Poor Ethical Decision Making

Ethics in the investment management business often straddles an uneasy contradiction: We want those whom we choose to entrust our money to be honest, ethical actors who look out for our best interests. Yet we widely acknowledge, and often celebrate, the notion that investing is a competitive, zero-sum endeavour in which self-interest dominates. In this module, Hardin introduces desires, biases, heuristics and situational factors which can lead us to make an unethical decision:

- Desires, biases, heuristics (mental shortcuts)
- Situational factors and organizational pressures

Module 4: Desires, Biases and Heuristics

Ethical behavior in the investment management industry goes beyond simply following laws and established rules. It is about knowing how to navigate ambiguous ethical situations and put the interests of investors first when the rules are unclear. Professionals faced with making a decision with ethical implications are subject to a number of biases that influence how they behave. In this module, Hardin describes the most common that he sees in investment management along with examples pulled from regulatory enforcement actions from around the globe.

Module 5: Rationalization

In this module, Hardin talks in-detail about rationalizations; that is, the excuses we give ourselves for choosing not to live up to our own moral standards on particular occasions. We often invoke rationalizations to preserve our self-image as “good people” even as we do things that we wouldn’t want to appear to the public or our clients. They are hazardous and investment professionals must learn to guard against them in order to be our best selves as fiduciaries.

Module 6: Situational Factors

A number of situational factors, forces that go unnoticed, can affect our decision-making in all sorts of ways. These factors can sometimes override our good character. While many experts believe character is the dominant factor in determining whether an investment professional will make an ethical decision, Hardin presents evidence that situational factors can often dominate character.

Module 7: Defense Strategies: Fighting Ethical Blindness

There is often a huge gap between knowing the right thing to do and actually doing it. Like Hardin, many of us have probably seen something wrong in our careers and not spoken up to call attention to it. In the final module, Hardin presents strategies regarding how to speak up, how to push back on common rationalizations and a four-part ethical decision-making framework. An individual’s natural desire to “do the right thing” must be reinforced by building a culture of integrity in the workplace.



FTS - Eligible

Course Fee: SGD \$150.00 per individual

This programme is recognised under the Financial Training Scheme (FTS) and is eligible for FTS claims subject to all eligibility criteria being met.

Please note that in no way does this represent an endorsement of the quality of the training provider and programme. Participants are advised to assess the suitability of the programme and its relevance to participants' business activities or job roles.

The FTS is available to eligible entities based on the prevalent funding eligibility, quantum and caps. FTS claims may only be made for recognised programmes with specified validity period. Please refer to www.ibf.org.sg for more information.
