



INSIGHTS FROM
 CFA SOCIETY SINGAPORE

By Oleksandr Biriuk
 and Olga Teteruk

War and ethics: What are the investment community's responsibilities?

The Russia-Ukraine conflict has changed the investment landscape at such a sheer scale and with such speed that investing rules must be adjusted to stay relevant

RUSSIA'S invasion of Ukraine has had ramifications throughout the global investment community. There are the obvious repercussions: the rising volatility in the equity and commodities markets as well as spiking inflation. But there are also more subtle effects: The war has forced investment professionals to navigate complex grey areas where their choices might be legal from a regulatory standpoint but questionable from an ethical perspective.

The Russia-Ukraine war is not the first conflict to affect the financial industry in these ways, but it has changed the reality on the ground for practitioners. The investment community needs to recognise this and act accordingly. The threat of such conflicts and their consequences raise important questions that we, as a community, must address.

Codes of professional standards like the CFA Institute Code of Ethics and Standards of Professional Conduct guide people facing real-world ethical dilemmas. Such dilemmas are like highway junctions with the particular code of conduct serving as a road map that tells us which lane to take. But a map is useful only as long as it accurately reflects reality. When reality changes, the map must be adjusted. Otherwise, those who take the wrong lane might encounter a more complex intersection further down the road.

Should portfolio managers hold stock in companies that play some role in military aggression even when it's perfectly legal to do so? Should an adviser cut ties with a client who is directly or indirectly involved in such conflicts? Where should the lines be drawn?

War-related issues are hardly unique to the investment profession, so the answers to these questions should be guided by general moral norms and principles. But there are few phenomena that do as much damage to capital markets or society as a whole.

War not only poses risks to the investment industry's profitability, but also to its reputation and credibility. Financial professionals or institutions that assist a government waging war to upend the rules-based world order can hardly bolster the public's confidence in the financial markets or the investment profession.

We need to be mindful of such risks. The Russian invasion of Ukraine has demonstrated that war has dramatic ripple effects that extend far beyond the frontline and are hard, if not impos-



A damaged residential building in Kherson, Ukraine. The Russia-Ukraine conflict has demonstrated that the consequences of major wars are impossible to anticipate and too big to ignore. PHOTO: AFP

sible, to model. What seemed rock solid can fall apart in a matter of days. Prior to the war, Russian equities traded on foreign exchanges. Many had "buy" ratings from major investment houses. Soon after the Russian attack, they were all worthless. Wealthy clients with established relationships found their accounts blocked. Lucrative deals had to be scrapped and businesses liquidated.

At one point, the market was left to wonder whether agent banks would wire through coupon payments from the Russian government to its creditors. A year ago, such concerns would have raised more than a few eyebrows. The conflict has changed the investment landscape at such a sheer scale and with such speed that the rules must be adjusted to stay relevant.

The question is: What should these new rules look like? Now is the time to begin that discussion. Should there be explicit rules requiring investors and institutions to dissociate themselves from war-related activities in certain circumstances? What about an exclusionary screening approach?

It is never easy to find a common denominator on complicated and divisive ethical questions. Indeed, there are no perfect solutions to these dilemmas, but that doesn't mean solutions

aren't possible. The investment industry could promote an ESG (environmental, social and governance)-like approach when it comes to military conflict. This could take the form of guidance on best practices or disclosures around war-related information to current and potential clients. These might include a list of portfolio companies that do business in the aggressor country, or a divestment strategy detailing how securities from such firms will be excluded in the future. There are no doubt other potential solutions that will emerge in the course of these conversations.

The Russia-Ukraine conflict has demonstrated that the consequences of major wars are impossible to anticipate and too big to ignore. Which is why the investment community needs to come together to develop common standards to apply when such conflicts break out, but with the ultimate goal of preventing them from breaking out in the first place.

Let's start the discussion.

Oleksandr Biriuk, CFA, is an investment professional with expertise in data analysis and quantitative methods. Olga Teteruk, CFA, is an investment professional with expertise in private equity.