

ETHICS EDUCATION TOOLKIT

SCENARIO ONE
WHAT A PLAN

IAESB

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SCENARIO ONE: WHAT A PLAN

Participants

Dollar Planning Pty Limited
Martin Top
Sally Wise
Mary Cappella

Financial Advisers
Authorized Representative
Authorized Representative and trainee planner
Client

Setting the Scene

(Use this paragraph as an introduction before the video is shown)

Dollar Planning has been operating for 10 years in the financial advising industry. Dollar Planning holds a Dealer's License and operates through a network of 100 Authorized Representatives. Martin Top and Sally Wise are two of these representatives. Martin Top is a good marketer and salesman, whereas Sally Wise, not being as outgoing as Martin, mainly concentrates on preparing financial plans for a number of the other Authorized Representatives, including Martin, for presentation by them to their clients. Martin's income is derived solely from commissions and brokerage, while Sally is a salaried employee.

Facts of the Case

Martin has asked Sally to prepare a financial report for Mary Cappella, a retired librarian, and one of Martin's clients. The information which Sally has received about Miss Cappella tells her that her assets include a \$200,000 Insurance Bond purchased the previous year. Martin has told Sally that Miss Cappella needs income and wishes to withdraw from the Insurance Bond to invest instead in an Immediate Annuity. Martin's briefing sets out a plausible reasoning for this strategy.

Sally does not believe that the Insurance Bond was an appropriate investment for someone like Miss Cappella due to her age and small income. She suspects that Martin is giving inappropriate investment advice and is recommending clients restructure their portfolios unnecessarily. Sally knows of at least six other cases where similar recommendations were made.

Sally takes her suspicions to the General Manager Operations and is told "Martin was our biggest writer of business last year. He generated brokerage and fees of over \$500,000. We want to encourage him". He says he is happy to transfer Sally if she doesn't like working with Martin.

Sally Wise is concerned that her suspicions are correct and that she may be regarded as a party to Martin's actions. Furthermore, should these practices be encouraged by Dollar Planning, Sally is worried that Dollar Planning could lose its Dealer's License.

Suggested Discussion Points

1. What are the relevant facts?
2. What are the ethical issues?
3. Who are the primary stakeholders?
4. What are the possible alternatives?
5. What ethical issues arise from these alternatives?
6. What are the practical constraints?
7. What actions could be taken?
8. Could the situation have been approached differently? If so, how?

Discussion

This scenario is designed to generate discussion of the following points:

- The issue of the client's interest versus brokerage fees;
 - The issue of suspicion versus hard facts; and
 - Dealing with ethical issues outside the framework of a code of ethics, or other established company procedures.
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Application of American Accounting Association 7 Step Model

1. DETERMINE THE FACTS

What? Who? Where? When? How?

What do we know or need to know, if possible, that will help define the problem?

- Martin Top and Sally Wise are Authorized Representatives of Dollar Planning, a financial planning business holding a Dealer's License.
- Sally is a salaried employee who prepares financial plans for Authorized Representatives, including Martin.
- Martin, one of the biggest writers of business of Dollar Planning, earns his income purely on a commission basis.
- Martin asks Sally to prepare a financial report for Mary Cappella.
- Sally is concerned that Martin has given inappropriate advice to Mary in the past, and possibly other clients.
- Sally raises the issue with Martin who says he knows best.
- Sally decides to raise the issue with the General Manager Operations. He stresses the financial contribution that Martin makes to Dollar Planning. He suggests that Sally drop the issue, or consider an internal transfer.

2. DEFINE ETHICAL ISSUES

List the significant stakeholders. Define the ethical issues.

Make sure what precisely the ethical issue is (for example, conflict involving rights, self-interest, questions over limits of an obligation, etc).

a) List all stakeholders

- Sally Wise
- Martin Top
- Mary Cappella
- General Manager Operations
- Dollar Planning Pty Limited Other clients of Dollar
- Planning Regulators

b) Identify the ethical issues

- Sally's responsibility to Mary and other clients versus Loyalty to Martin and Dollar Planning.
- Sally's personal integrity versus Personal career interests.
- Martin and Dollar Planning's short term performance versus the company's long term integrity and competence.

- The General Manager's integrity versus the company's reputation, responsibility to stakeholders and regulators.

c) Discuss the ethical threats

- Sally is faced with a self-interest threat that her career opportunity is being threatened;
- Martin also has a self-interest threat which led to the compromise of objectivity in giving his advice in order to maintain his commission;
- The General Manager is also faced with the self-interest threats that may put the company's profits at risk and thus his own performance.

3. IDENTIFY THE MAJOR PRINCIPLES, RULES, VALUES

(For example: integrity, quality, respect for persons, profit)

- Integrity (Sally, Martin, General Manager)
- Objectivity (Martin's remuneration is commission based)
- Competence (Martin's changing of investment strategies)
- Self-interest (Sally - career, Martin - remuneration, General Manager - Dollar Planning profit)

4. SPECIFY THE ALTERNATIVES

List the major alternative courses of action, including those that represent some form of compromise or point between simply doing or not doing something.

- Sally can prepare a financial plan for Mary on the basis of Martin's revised strategy.
- Sally can refuse to do the plan for Martin.
- Sally could discuss Mary's situation and that of other clients with company management, other than the General Manager.
- Sally can report her concerns to the regulators, or her professional body.
- Sally can resign.

5. COMPARE VALUES AND ALTERNATIVES - SEE IF CLEAR DECISION

Determine if there is one principle or value, or combination, which is so compelling that the proper alternative is clear. (For example, correcting a defect that is almost certain to cause loss of life).

Note: See how many of the group will move to a decision at this point based on the force or strength of a norm or principle. Regardless of whether a decision is reached, work through **steps 6 and 7**.

6. ASSESS THE CONSEQUENCES

Identify the short and long run, positive and negative consequences for the major alternatives. The common short run focus on gain or loss needs to be measured against the long run considerations. This step will often reveal an unanticipated result of major importance.

Sally prepares the plan

- maintains loyalty to Martin and Dollar Planning
- ensures future career aspirations
- financial reward to Martin and Dollar Planning
- depending on revised plan can be positive/detrimental to Mary's financial future
- if detrimental, may lead to litigation or loss of the Dealer's License for Dollar Planning

Sally refuses to do plan

- may be prepared by another Planner
- Sally may be transferred within the company, effectively receiving a demotion
- may highlight a problem within the organization and draw attention to Martin's other client cases

Discuss matter with other management

- cause problems for the General Manager likely to have an impact on Sally's career
- could cause unjustified problems for Martin
- could highlight a problem that exists for Dollar Planning and result in changes that protect clients and the company's future

Report concerns to the regulators

- cause problems for General Manager
- likely to have an impact on Sally's career
- could result in loss of Dealer's License for Dollar Planning
- Sally can resign
- may be detrimental to client's and Dollar Planning's future in the longer term
- preserves her professional integrity

7. MAKE YOUR DECISION

Balance the consequences against your primary principles or values and select the alternative that best fits.

Note: Participants should refer to the IESBA Code of Ethics for Professional Accountants in respect of the ethical threats for self-interest. Identify the safeguards which exist in the procedures of the accounting body you belong to, or within the firm's procedures, which assist individuals like Sally so that her professional values are maintained.

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