A Study of Ethical Issues in Financial Markets

Sonu Dalal

Abstract: In this paper our aim is studied about Ethical Issues in Financial Markets. We saw that main Ethical Issues in Financial Markets is Municipal Bond Trading, Institutional Investing, Moral Leadership etc. Ethical issues sometimes occur not because people are evil or even greedy, but because the way in which their view a situation belies its ethical import.

Keywords: Banking Issue, Frauds, Municipal Bond Trading.

I. INTRODUCTION

Broad term describing any marketplace where buyers and sellers participate in the trade of assets such as equities, bonds, currencies and derivatives. Financial markets are typically defined by having transparent pricing, basic regulations on trading, costs and fees and market forces determining the prices of securities that trade. A financial market is a broad term describing any marketplace where buyers and sellers participate in the trade of assets such as equities, bonds, currencies and derivatives. Financial markets are typically defined by having transparent pricing, basic regulations on trading, costs and fees, and market forces determining the prices of securities that trade.

Some of the salient features of financial market are:

- Transparent pricing
- Basic regulations on trading
- Low transaction costs
- Market determined prices of traded securities


Ethics in finance can be developed around three broad themes:

- In financial markets
- In financial services industry (including banking and insurance)
- By financial people in organizations

II. INSTITUTIONAL INVESTING

Entity with large amounts to invest, such as investment companies, mutual funds, brokerages, insurance companies, pension funds, investment banks and endowment funds. Institutional investors are covered by fewer protective regulations because it is assumed that they are more knowledgeable and better able to protect themselves. They account for a majority of overall volume.

The importance of institutional investment may vary. An insurance company, a bank, a business development company, a small business investment company or a registered investment company (usually, a mutual fund institution). Sovereign wealth funds in oil-exporting countries are quite significant and on the other hand, pension funds are highly popular in developed economies.

III. MUNICIPAL BOND TRADING

If your primary investing objective is to preserve your capital while generating a tax-free income stream, municipal bonds are worth considering. Municipal bonds (munis) are debt obligations issued by government entities. When you buy a municipal bond, you are loaning money to the issuer in exchange for a set number of interest payments over a predetermined period. At the end of that period, the bond reaches its maturity date, and the full amount of your original investment is returned to you.

A municipal bond is a bond issued by a local government, or their agencies. The term municipal bond is commonly used in the United States, which has the largest market of such tradeable securities in the world estimated at $3.7 Trillion in 2011. Potential issuers of municipal bonds include states, cities, counties, redevelopment agencies, special-purpose districts, school districts, public utility districts, publicly owned airports and seaports, and any other governmental entity (or group of governments) at or below the state level. Municipal bonds may be general obligations of the issuer or secured by specified revenues.

IV. MORAL LEADERSHIP

Moral Leadership is a very different kind of leadership. Rather than aspiring to being followed, Moral Leaders aim to serve. Instead of showcasing their own skills, Moral Leaders tend to develop the capacities of others. Moral Leadership is not about rank – any person holding any position can be a Moral Leader, but such individuals are always characterized by a deep sense of ethics, are driven by core ideals (such as
justice) and are motivated by the pursuit of a higher purpose. Moral leaders also play an important role in communicating an organization’s values. They do this as role models of ethical behavior and in how they speak about the moral dimension of their decisions and actions.

V. INSIDER TRADING

Insider trading is defined as a malpractice wherein trade of a company's securities is undertaken by people who by virtue of their work have access to the otherwise non public information which can be crucial for making investment decisions. Insider trading is an unfair practice, wherein the other stock holders are at a great disadvantage due to lack of important insider non-public information. However, in certain cases if the information has been made public, in a way that all concerned investors have access to it, that will not be a case of illegal insider trading. Trading by specific insiders, such as employees, is commonly permitted as long as it does not rely on material information not in the public domain.

The rules around insider trading are complex and vary significantly from country to country and enforcement is mixed. The definition of insider can be broad and may not only cover insiders themselves but also any person related to them, such as brokers, associates and even family members. Any person who becomes aware of non-public information and trades on that basis may be guilty.

VI. CONCLUSION

In above discussion we studied about How some issue are raising in Financial Markets. Moral Leadership, Insider Trading. The ethical issues that financial professionals face are no different from the ethical issues in any profession—or, indeed, the day-to-day dilemmas we all face. In addition to the company specific codes of ethics, companies and professionals are also bound by ethical codes of conduct of numerous professional organizations and institutions.

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