PROFESSIONALISM AND PROFESSIONAL EDUCATION OF INVESTMENT ADVISERS:
PART II
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1. INTRODUCTION
The objective of this second paper is to outline an educational system and curriculum appropriate to the investment practitioner.

The issue of the educational requirement for investment practitioners is sufficiently important for the National Companies and Securities Commission (NCSC) to deal with it at some length in connection with the licensing of investment practitioners in the green paper (NCSC 1985: 84-103).

Rather than simply accepting the common tenets or assumptions about the types of education an investment practitioner should receive, one should relate the type of educational training to the nature of investment advisory work and the role investment practitioners play in the community.

In this paper it is argued that the questions of professionalism and education are inseparable. The degree of professionalism has an important bearing on the type of education practitioners should receive. It is also argued that an appropriate form of education must be developed systematically and objectively by asking what the objectives of the education are, and what the best methods are to achieve such objectives. The latter should be discussed in terms of the institutional arrangement to conduct such training, as well as the course structure and content.

2. WHAT ARE THE OBJECTIVES OF PROFESSIONAL EDUCATION?
It has been shown in the previous paper that the community has a high expectation of professionalism for investment practitioners. Investment dealing and advisory work must not be relegated to a level of quackery in the financial world, but to socially responsible and highly trained professionals. Therefore, professional education for investment practitioners should be of great importance not only to the regulatory body and the professional associations, but also to the community as a whole.

At present, there is no specific education requirements for licensing to practice under the Securities Industry Act and Codes, even though Section 48 of the Code stipulates that the Commission be satisfied, among other things, as to the educational qualifications of applicants. It is proposed in the green paper that specific educational requirements be evolved.

The objectives of a professional education have been analysed by a number of writers including Jarvis (1983) and Schein (1972). Jarvis (1983:35) aptly asserts that the objectives of the educational process are to
(a) produce graduates who have an ideology of good practice and service,
(b) provide graduates with sufficient knowledge and skills to enter the profession, and
(c) develop an increased sense of critical awareness in the graduates.

His cogent argument is best summarised in these words:
"Attitudes, knowledge and skill and a critical awareness to test, try, change and modify so that the professional may be abreast of all developments in order to serve his clients because less than the best is a denial of both the meaning of professionalism and, more ultimately, the meaning of humanity itself."

Schein (1972:39,59) identifies the common criticisms of professional education as overspecialisation of the curriculum, lack of responsiveness to the needs of society, and obsolescence of knowledge due to knowledge explosion. These problems may be relevant to the case of investment practitioners, in view of the increase in knowledge, as well as the broadening scope and functions of investment professionals.

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Consistent with the objectives of professional education, investment professionals should be educated to acquire a core of theoretical and practical knowledge, as well as analytical, interpersonal and communicative skill, to enable them to maintain and enhance their expertise in the discipline, and to fulfil their service obligations to clients.

3. WHICH ORGANISATIONS SHOULD PROVIDE THE PROFESSIONAL EDUCATION?

It is proposed in the green paper that several educational courses be provided by universities, self regulatory organisations (SRO’s), or both. The provision of such courses is not necessarily accompanied by the role of the licensing examiner (NCSC 1985:88). (A discussion of the role of SRO’s is beyond the scope of this paper, but it is possible that one or more of the professional associations are interested in being an SRO. Irrespective of that appointment, professional institutions may also be interested in being a course provider). It is recommended in the green paper that the courses be designed to prepare graduates for the proposed licensing examination, and “necessarily be at a level that would anticipate applicants holding tertiary degrees or having other relevant previous specialised training”. (NCSC 1985:90).

At present, there is no degree course with a major in securities industry studies conducted by any Australian tertiary institution. However, in the United States, many universities and colleges conduct educational courses in investment management or financial planning. Investment management courses are more oriented towards institutional fund management, whereas financial planning courses place more emphasis on personal investment planning. Some of these courses lead to the award of an undergraduate or postgraduate qualification, while others do not lead to the award of any degree. Courses on financial planning are relatively more recent than courses on investment/financial management. It is now possible to read for a degree in financial planning up to master’s or doctoral level in the United States. For instance, the Georgia State University offers a Master’s degree in financial planning, and a doctoral program in financial and estate planning.

In the Australian context, three alternative streams of training are feasible:

1. A graduate diploma in securities industry studies mounted by universities for graduates with an approved commerce/business degree.

2. A graduate diploma mounted by professional institutions for graduates with an approved commerce/business degree. (At present, the Securities Institute of Australia conducts similar courses, although Australian Investment Planners Association is interested in conducting some type of training programme).

3. A commerce/business degree course offered by universities which includes a sequence of subjects in securities industry studies similar to those in the diploma course in alternatives 1. and 2. above. This amounts to a degree with a full major in securities industry studies.

These various alternatives need not be mutually exclusive, and persons wishing to take up the training programme should be free to choose among the alternative training courses. In order to foster interaction between lecturers and students, and to derive maximum benefits of on campus facilities, these courses are best conducted on an internal rather than external basis, even though many tertiary institutions have considerable experience in conducting external courses.

It is proposed that both the first degrees and diplomas cited in each of the alternative training courses above, be accredited on the basis of educational standards, facilities, and the qualifications and experience of the teaching staff involved. Such accreditation should be subject to periodic review with a accreditation body or panel appointed by the NCSC. This panel should include representatives nominated by the professional institutions, tertiary institutions and the regulatory body.

Participation by professional institutions in the training programme should be encouraged. Many of the lecturing staff from the profession would have considerable practical experience in the industry, and would thereby enrich the learning experience of students in the course. On the other hand, universities are independent and impartial institutions, and have specialised expertise in education and training for various professions over many decades. There is a great deal to be gained through the joint participation of both the academic and professional institutions in conducting formal or informal educational programmes. Thus a significant level of co-operative effort between universities and the industry sector in the training programmes should be encouraged. Furthermore, staff exchange programmes between universities and the industry sector for cross fertilisation of ideas should be promoted.
Ultimately, input from various sectors of the community will have to be co-ordinated in developing an educational policy that utilises the strength of each sector to the fullest.

4. HOW SHOULD THE TRAINING COURSE BE STRUCTURED?

Selection of course content in professional education is a means by which the objectives of such an education is achieved. One of the aims of professional education discussed earlier is the acquisition of knowledge and skill to perform professional tasks competently. This requires an understanding of a broad range of theory and practice relevant to different facets of the profession.

There is a significant core of knowledge common to both securities industry study and commercial disciplines such as accounting, marketing and business management. These commercial disciplines share among themselves many common basic courses in a typical tertiary curriculum, including basic economics, mathematics, law, accounting and finance. In the proposed course, these subjects are essential to an understanding of such topics as financial analysis, fixed interest market and investment management.

Members of the professions are also increasingly aware of the need not only to acquire knowledge in their narrowly defined field, but also to have a broader base of knowledge in various other disciplines in order to function competently as professionals. Such disciplines are behavioural science for enhancing interpersonal skills, computer usage for improving clients service, quantitative techniques for understanding new approach and product, as well as ethical values for inculcating professional attitudes.

Highly differentiated subjects exclusively related to the securities industry practice may be taught as a sequence of subjects either within an existing commerce degree course majoring in accounting or management, or in the proposed graduate diploma course. (A few institutions offer courses with a major in finance, but none offers courses with a major specifically orientated to the securities industry. For example, there are courses in Macquarie University and University of New South Wales dealing with treasury management, and several other institutions also offer finance courses specialising in banking practices.)

Investment as an academic discipline over the last two decades have evolved from a purely descriptive study of investment instruments to an analytical and coherent body of theories. There is also a trend towards interdisciplinary approach, drawing upon such areas as mathematics and statistics. These areas include the portfolio theory, risk measurement and asset valuation. New theories and approaches are also evolving which may have interesting potential applications. Such training will also prove useful in the course of practice, when new developments and products require an innovative approach. A core of fundamental disciplines included in a tertiary degree curriculum as part of the professional education for investment practitioners would better equip them to fulfil his professional functions.

Although a professional curriculum must be designed in such a way as to achieve its educational objectives, there are realistic constraints. For instance, certain courses may be added to meet the demands for specific skills of the professional practice, or to take account of the interests and backgrounds of the students. In the final analysis, an optimal course design must balance various conflicting goals including the breadth as against depth of knowledge, and theory as against practice of investment.

The proposed content for a preparatory course for licensing examination outlined in the green paper does not satisfy the criteria discussed above. Details of the proposed educational courses are provided in the next section.

5. WHAT SUBJECTS ARE TO BE INCLUDED IN THE CURRICULUM?

Of the three alternative educational streams referred to in Section 3, the proposed graduate diploma in the first two alternatives would require a first degree with compulsory core subjects. These subjects are listed in the appendix under the headings of accounting, economics, finance, law and quantitative methods.

The proposed graduate diploma should then contain eight subjects, six of which are compulsory (see Table 1). Subjects in securities studies at an advanced level may be chosen as electives, e.g. fixed interest investment and money market. These subjects would have been dealt with at a more basic level within the compulsory subjects. For example, various topics covered in the subject, fixed interest investment and money market, would have been covered at a basic level in the compulsory subjects such as the securities market, investment analysis, portfolio management practice and financial planning strategy. Thus a graduate from the course would have acquired an overall appreciation of the industry, while achieving a certain level of specialisation in his or her area of interest.
Three subjects, the securities market, securities market regulation and investment analysis form the foundation for the graduate diploma course. They will be followed by two capstone subjects, portfolio management practice and financial planning strategy (see figure 1). The former is oriented towards institutional fund management. The latter involves an extensive study of personal financial planning strategy, including a treatment on personal insurance and risk management, as well as an in depth comparative study of the performance and other characteristics of various investment products currently available on the market.

The two capstone subjects are followed by a final subject called “topics in professional practice”. It provides a practical orientation to the professional practice. Some of the topics are codes of ethics, standards of professional conduct, obligations, moral values and role of investment practitioners vis a vis fellow practitioners, clients, employers, associates and the society as a whole, concept of self regulatory process, communication skills (including print media and newsletter production for clients) and interpersonal skills in an investment advisory firm and practice management. Various case studies drawn from practical situations may be included.

The subjects which involve studies of financial markets, e.g. money market, foreign exchange market, options and futures markets, are treated from an investment perspective, rather than a purely economic perspective.

In the third alternative arrangement for training investment practitioners, the proposed degree course should include all the compulsory subjects required in the first two alternative arrangements. Additional elective subjects are the same as those for the graduate diploma. A complete listing of all the subjects is given in the appendix. (Recommended contents and other details of the subjects may be obtained from the author).

Each of the subjects should be taught over a session of fourteen weeks with at least three class contact hours per week. A maximum of four subjects may normally be taken in any one session.

### Table 1
List of Subjects in the Proposed Graduate Diploma Course

**Compulsory Subjects:**
- The Securities Market
- Securities Industry Regulation
- Investment Analysis
- Portfolio Management Practice
- Financial Planning Strategy
- Topics in Professional Practice

**Electives (4):**
- Fixed Interest Investment and Money Market
- International Investment and Foreign Exchange Market
- Mining Investment Analysis
- Property Investment Analysis
- Venture Capital Investment Analysis
- Leveraged Investment Analysis and Options/Futures Market

Any two approved electives, from any discipline.

### 6. HOW SHOULD THE LICENSING EXAMINATION BE CONDUCTED?

According to the proposal in the green paper, passing of a uniform licensing examination will be required as a prerequisite to the granting of the securities industry licence. It will be based on the course content covered in the preparatory course for securities industry practice discussed earlier.

There are three advantages in conducting a uniform examination as distinct from those which the course provider may conduct. Firstly, all candidates would be assessed impartially and uniformly. Secondly, less students would be attracted to institutions providing substandard courses, due to probable poor performance record in the uniform examination. In this way, nonperforming institutions may be weeded out in the market through free competition. Thirdly, a uniform licensing examination ensures that all candidates have reached an equally satisfactory standard of understanding in professional investment practice. This is therefore some form of safeguard to protect the interests of the public against practitioners who are ill qualified for the task.

Although there is no alternative assessment method clearly superior to an examination, there are often
difficulties in establishing both the reliability and validity of an examination. For example, Hartog and Rhodes (1935:1936) have found that it was possible for the same candidates, who had failed on one day, to have passed on another day, even when assessed by the same examiner examining the same written work. These problems must be taken into account in the design of an examination. For an excellent overview on the problems of reliability, validity and other desirable characteristics of examination, see Gronlund (1985:57-116), and Hopkins (1985:215-316). Therefore it must not be assumed that a candidate has sufficient knowledge in the field if he or she has passed the licensing examination, but has not completed the accredited course. Therefore, it is proposed that candidature of the licensing examination be open to graduates of accredited education courses only, but no restrictions should apply on the grounds of age, sex or experience.

It is also proposed in the green paper that “the administration of the examination would be contracted to an appropriate organisation who would benefit from the fees charged” (NCSC 1985:88). However, there is no mention of the criteria for determining appropriateness.

Although the course providers may be qualified in theory to assume the role of the licensing examiner, there is a possibility of a conflict of interest. Institutions providing courses may be reluctant to enforce an acceptable standard for fear of a high failure rate among their candidates, in order not to deter prospective students from enrolling in their courses.

Thus, it is proposed that a panel of examiners be set up, which may be the accreditation panel referred to previously. Under such an arrangement, members nominated by the professional institutions, tertiary institutions and the regulatory body are represented, to ensure that all parties are satisfied with the level of impartiality and validity of the examination.

7. IS THERE “LIFE” AFTER LICENSING EXAMINATION?

In the heading for this section, we are referring to the “life” of education after the licensing examination. This is often called continuing education, which refers to all forms of learning opportunities after formal course attendance has ceased.

Based on our argument that a professional seeks to provide competent service to clients by continually updating his or her knowledge in a chosen field, the importance of continuing education is apparent. In fact, continuing education is likely to become a universal requirement for maintaining membership of many professions within the next few years.

At present, there is no active ongoing continuing education programme conducted by any organisation, which is available to licensed practitioners. It is therefore proposed that a formal method of monitoring continuing education activities of licensed practitioners be enforced. Under such a proposal, practitioners have to demonstrate evidence of attending a minimum number of hours per year in approved continuing education programme, before the application for renewal of licence can be approved.

The proposed system of education training course and examination can be summarised in the diagram in Figure 2.

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**Figure 2**

**Proposed Educational Structure for the Licensing of Investment Practitioners**

- **Academic Study**
  - Completion of accredited commerce/business degree eg accounting and finance or equivalent qualification.
  - Completion of postgraduate diploma by professional institution(s)
  - Completion of approved electives within accredited degree studies
  - Completion of accredited graduate diploma in securities industry studies at Universities

- **Licensing Exam**
  - Uniform licensing exam conducted by panel of examiners comprising representatives nominated by the professional institution(s), tertiary institutions and the regulatory agency.
  - 2 years of approved experience obtained any time after completion of academic study.

- **Licence Application**
  - Approval of licence application based on all criteria including education, experience and character.

- **Licence Renewal**
  - Licence renewal based on evidence of continuing education.
8. SUMMARY AND CONCLUSION

It is concluded in this paper that as investment practitioners are professional, professional education is best pitched at a tertiary level. It is proposed that formal professional education be undertaken as part of a tertiary degree, or a graduate diploma course for graduates in commerce or business oriented courses. Such graduate diploma courses can be conducted by well established professional institutions, or accredited tertiary institutions. Graduates from such courses are then eligible to sit for the uniform licensing examination, which is a prerequisite for the grant of a securities industry licence. Both the professional institutions and the universities have a valuable role to perform in the professional education of investment practitioners.

The design of the educational courses should be based on a systematic approach, rather than in an ad hoc fashion. One should consider first the aims of such professional education and the fundamental nature of the professional practiced. Consistent with these criteria, long term education policy could be developed. Such development should involve the participation of the industry, educational institutions and the regulatory body, to ensure that such education policy is viable and capable of coping with the dramatic change in the industry. If such an opportunity to co-ordinate the effort of various interested parties is passed up, future development of a coherent policy may be difficult and the community may suffer as a result.

While it is important to ensure that the course content provided by accredited institutions meet the stated objectives, the design of the course must be balanced, comprehensive and have sufficient depth. The ultimate consideration is that the expected costs of a more stringent and rigorous curriculum must be matched by the benefits accruing from it. In the wider context, the overall policy of planning and controlling the education system for practitioners in the securities industry must be the most cost-effective in the social sense.

It is also proposed that responsibility for both the accreditation of courses and the administration of licensing examination be vested in a panel consisting of members nominated by the professional associations, tertiary institutions and the regulatory body, to ensure fair representation of views across the industry.

Discussion of professional education for investment practitioners would be incomplete without looking at the process as a lifelong education to maintain mastery of this complex and dynamic discipline. A formal continuing education requirement is proposed for the renewal of a securities industry licence.

If the proposal in this paper is accepted, some transitional arrangement has to be worked out including appropriate “grandfather” clauses before this scheme is fully operational. Furthermore, in the transitional stage of say, the next two years, the proposal should be gradually phased in over that period.

The review of education qualifications for the investment practitioners is a timely one, as the investment advisory industry is undergoing a rapid growth in terms of the number of products and participants entering the market place. This phenomenon is accompanied by an increase in public awareness of new investment opportunities. The complexity of the task and the range of services to be provided clearly call for a more uniform method of monitoring the qualification of practitioners. Given the events in the past few years, the trend of further developments in the industry can be expected.

In the final analysis, a coherent and socially responsible educational policy that draws upon contributions from all sectors of the community must evolve in a systematic fashion. The simple choice of politically expedient options may not necessarily be the best in the long run.

See Appendix following.