



2024 WICPA FINANCIAL INSTITUTIONS CONFERENCE

YOUR SOURCE FOR KEY UPDATES & INSIGHTS ON TIMELY ISSUES

HIGHLIGHTED TOPICS:



REGULATORY UPDATE

Get the current perspectives from FDIC examiners on a variety of financial reporting topics and policy developments



TAX UPDATE FOR FINANCIAL INSTITUTIONS

Learn about the most recent tax law changes that impact you and your financial institution



ECONOMIC OUTLOOK

Find out how to make sense out of and maneuver through the mixed 2024 economic data

TUESDAY, MAY 14 | WICPA OFFICE & WICPA CPE LIVESTREAM

MATERIALS AT A GLANCE

The following materials are from the afternoon sessions of the 2024 WICPA Financial Institutions Conference held on Tuesday, May 14, including:

- Cybersecurity
- Regulatory Update: FDIC Examiners Share Their Perspectives
- Managing Your Balance Sheet Through Uncertainty
- Current Issues in Business Ethics

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STRENGTH



Perspective changes everything.

WIPFLI

2024 WICPA GOLF OUTING

FRIDAY, SEPT. 20 – Ironwood Golf Course, Sussex



4-PERSON SCRAMBLE

\$95 per Golfer
\$380 per Foursome

REGISTRATION INCLUDES

18 Holes of Golf With Cart
Practice Greens & Driving Range
Continental Breakfast & Lunch
Beverage Vouchers
Hole & Event Contests
Entry in Prize Drawings

SCHEDULE

8:30 a.m.
Registration & Breakfast

9:00 a.m.
Practice Greens
& Driving Range

10:00 a.m.
Shotgun Start

4:00 p.m.
Reception & Appetizers

HOLE & EVENT PRIZES

\$1,000+ in Drawing Prizes
\$500+ in Individual Prizes
\$500+ in Team Prizes
\$500 Inside the Circle Contest



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3:40 – 4:55 p.m.

Current Issues in Business Ethics

Boz Bostrom, CPA, MBT, *Associate Professor of Accounting & Finance, College of Saint Benedict & Saint John's University*

Current Issues in Business Ethics – 2024

Boz Bostrom, CPA
Professor of Accounting and Finance
College of Saint Benedict and Saint John's University
bbostrom@csbsju.edu (612) 414-9629
<https://www.linkedin.com/in/bozbostrom/>

May 14, 2024

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Learning Objectives

- Understand the attitudes of other related to ethics
- Understand laws, rules and regulations which apply to CPAs and finance professionals
- Understand consequences of violating the laws, rules and regulations
- Understand and learn from current ethical violations
- Understand principles of ethical leadership

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Ethical Attitudes and Perspectives

3

Introduction to Ethics

- What are ethics?
 - Moral principles
 - Rules of conduct followed by an individual or group

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Gallup Survey Each May: How would you rate the overall state of moral values in this country today?

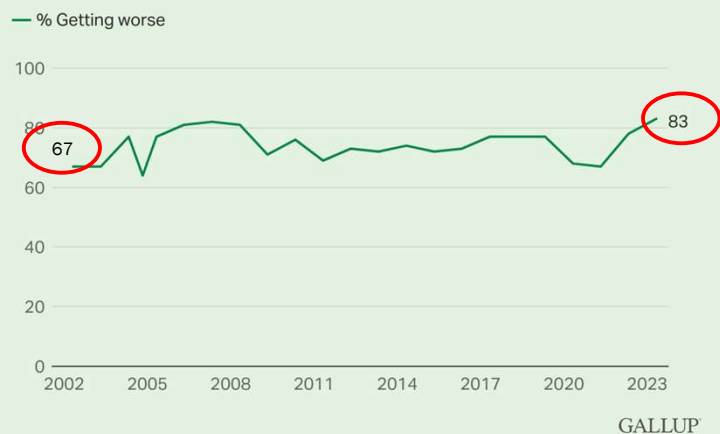
Year	Excellent/Good	Only fair	Poor
2003			
2011			
2023			

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Right now, do you think the state of moral values in the country as a whole is getting better or getting worse?

Americans' Outlook for the State of Moral Values in the U.S.

Right now, do you think the state of moral values in the country as a whole is getting better or getting worse?



AICPA and CIMA Survey

- Polled about 1,800 people in the US and UK in December 2022
- Report released in June 2023
- Categorized people into 3 groups. We will focus on these two:
 - Business leaders
 - Future talent

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What do you think: When asked if it is more important for companies to have ethical business practices than it was 5 years ago, business leaders most commonly said:

- a. Much less important
- b. Somewhat less important
- c. Just as important
- d. Somewhat more important
- e. Much more important

Is it more important for companies to have ethical business practices than it was 5 years ago?

	Business Leaders	Future Talent
• Much less important	<input type="text"/>	<input type="text"/>
• Somewhat less important	<input type="text"/>	<input type="text"/>
• Just as important	<input type="text"/>	<input type="text"/>
• Somewhat more important	<input type="text"/>	<input type="text"/>
• Much more important	<input type="text"/>	<input type="text"/>

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Why be ethical?

- Compliance with rules, regulations, codes
- Stakeholder confidence, trust and loyalty
- Social acceptance / respect of peers
- Personal pride

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Qualities in a new hire most commonly rated as “Very important” by business leaders

- | | |
|--------------------------------------|--------------------------------------|
| • Ability to communicate effectively | • Trustworthy |
| • Ability to lead | • Ethical |
| • Ethical | • Ability to communicate effectively |
| • Job specific technical skills | • Problem-solving skills |
| • Problem-solving skills | • Willingness to learn/ask questions |
| • Team player | • Team player |
| • Trustworthy | • Job specific technical skills |
| • Willingness to learn/ask questions | • Ability to lead |

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Percent that feel prepared to handle ethical dilemmas

	Business Leaders	Future Talent
• Very prepared	<input type="text"/>	<input type="text"/>
• Somewhat prepared	<input type="text"/>	<input type="text"/>
• Not very (or at all) prepared	<input type="text"/>	<input type="text"/>

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Essential Traits to being an ethical person

- Accountability
- Charitable
- Honesty
- Humility
- Kindness
- Nurturing
- Respectable
- Trustworthy
- Trustworthy – 81%
- Honesty – 81%
- Accountability – 62%
- Respectable – 54%
- Kindness – 53%
- Humility – 45%
- Charitable – 31%
- Nurturing – 23%

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Most important actions a company should take to foster more ethical behavior?

1. Be accountable for its actions
2. Operate with transparency
3. Follow all laws and regulations
4. Have a code of conduct
5. Respond immediately to violation of code of ethics

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Confidential information

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Discussion

- You work for a public company and would like to dispose of some shares
- What are some good principles to follow?
- What would be some clear violations?

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Date	Close	Volume
8/12/2021	27.15	86,300
8/11/2021	26.71	184,700
8/10/2021	27.16	158,500
8/9/2021	27.86	174,100
8/6/2021	27.35	277,800
8/5/2021	26.95	202,800

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Securities Exchange Act of 1934

- § 240.10b-5 Employment of manipulative and deceptive devices. It shall be unlawful for any person...
 - (a) To employ any device, scheme, or artifice to defraud.

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What do you think: Insider Trading involves trading on the basis of

- A. Any information
- B. Material and non-public information
- C. Material and public information

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SEC Rule 10b5-1

- § 240.10b5-1 Trading “on the basis of” material nonpublic information in insider trading cases.
- (a) *General.* The “manipulative and deceptive devices” prohibited by Section 10(b) of the Act (15 U.S.C. 78j) and § 240.10b-5 thereunder include, among other things, the purchase or sale of a security of any issuer, on the basis of material nonpublic information about that security or issuer, in breach of a duty of trust or confidence that is owed directly, indirectly, or derivatively, to the issuer of that security or the shareholders of that issuer, or to any other person who is the source of the material nonpublic information.

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SEC's Rule 10b5-1: Affirmative Defenses

- When is a purchase or sale is not on the basis of material nonpublic information?
- Before becoming aware of the information, the person had
 - Entered into a binding contract to purchase or sell the security
 - Instructed another person to purchase or sell the security
 - Adopted a written plan for trading securities
- What is a written plan?
 - Specifies the amount of securities to be purchased or sold and the price at which and the date on which the securities are to be purchased or sold
 - Must be entered into in good faith and not to avoid Insider Trading rules

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Cooling off periods after entering into the plan

- 90 days for directors and officers
- 30 days for others
- Directors and officers must represent that:
 - they are not aware of material nonpublic information about the issuer or its securities
 - they are adopting the plan in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b-5-1

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Case 1: Terren S. Peizer

- CEO and Chairman of Ontrak, a publicly traded health care company
 - Peaked in January 2021 at nearly \$80 per share. About \$0.50 per share today
- May 2021, learned of a serious risk Ontrak's biggest customer would terminate its contract. Is this material and non-public?
 - Entered into 10b5-1 plan shortly thereafter
 - Began selling shares the next day
- August 13, 2021, Ontrak's chief negotiator confirms contract would likely be terminated. Is this material and non-public?
 - Entered into 10b5-1 plan one hour later
 - Began selling shares the next day

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Terren S. Peizer

- August 19, 2021, Ontrak's stock falls 44% when it announces customer terminated contract
- Peizer saved \$12.5M in losses
- March 2023, indicted. Facing up to 45 years in prison
 - Trial scheduled for April 2024

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Case 2: A family affair

- From 2014 – 2021, Marc Perez was an accounting manager for General Finance Corporation, then a publicly traded company
 - At start of his employment, declared in writing that he would not engage in nor provide tips related to insider trading
 - Told he would have to pre-clear all trades with general counsel
- February 2021, United Rentals indicated an interest in acquiring General Finance
 - Perez learned of this interest through his role as accounting manager
 - Purpose of him learning about the acquisition was so that he could help compile financial information related to the acquisition
- March 2, 2021 United Rentals offered \$19 per share
 - Stock price was \$10.63 per share

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Marc Perez

- Perez learns of the offer and buys \$354,000 worth of shares in General Finance
- Over the next 2-3 weeks, transferred money to his mother's brokerage account and also used some of her funds to purchase another \$421,000 of shares
- Around this time, Perez told his brother and sister that he was "all in" on General Finance stock and that they should also purchase some
 - Early April, brother and sister purchase a combined \$277,000 of General Finance stock
- April 15, 2021 – acquisition is announced
 - Stock price increased about 55% to about \$19 per share
- By early May, almost all shares had been sold by Marc and his siblings, with total profits being about \$660,000

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Interesting terms used by the SEC

- Marc Perez acted with scienter
 - Intent or knowledge of wrongdoing
- Siblings knew or were “reckless in not knowing” they were trading on non-public information
- Marc Perez, “directly or indirectly, personally benefited from disclosing that material, non-public information to his siblings because giving a gift of trading information is the same as trading by the tipper followed by a gift of proceeds.”

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What's next for Perez?

- Disgorgement of profits
 - Civil penalties up to 3x the amount of illegal profits
 - October 2023 pled guilty to criminal charges
 - Prison time up to 20 years
 - Age 59...future employment?
-
- Could General Finance Corporation have prevented this?

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Bending the rules / ethical fading

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Discussion

- You have made a few mistakes at work and have been put on “final notice” by your manager
- Right around the time you make another (final?) mistake, your manager has asked you to do something you find questionable
- When you say you can’t do that, your manager responds, “You WILL do it or I will have you fired?”
- What do you do?

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What do you think: Bending the rules once makes it easier to bend them more times

- a. Agree
- b. Depends / Unsure
- c. Disagree

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The German Nino Case



PRESS RELEASE

Former Financial Advisor Sentenced to Prison for Defrauding Close to \$6 Million Dollars from Clients and Spending it on Extramarital Affairs

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Background

- Beginning in 2012, Nino managed \$11 million of funds which a wealthy couple had invested in UBS
- Nino had power to invest the funds, but not transfer them
- From 2014 to 2020, through a series of 62 unauthorized transfers, Nino stole \$5.8M from the couple.

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Usage of Funds

- Nino used \$4.6M on gifts for women he was romantically involved with:
 - Vacations
 - Cars
 - Apartment in Colombia
 - Private school tuition
- Who bailed him out of jail?
 - His wife!
- He used the other \$1.2M to repay funds taken from a different client

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Covering the fraud

- False information shared in client meetings
- Fictitious brokerage statements
- Eliminated e-mail notifications on wire transfers
- Forged signatures on larger letters of authorization

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Outcome

- The couple's son discovered the discrepancies
- Nino promised to pay the couple back with a signing bonus he would receive when joining a new firm
- In June 2022, Nino was sentenced to 78 months in federal prison

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Ethical Fading

- How do cases like these start?
- Often times, the ethical issue is prevalent the first time, but then fades into the background

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What do you think: What is the best way to stop ethical fading?

- a. Segregation of duties
- b. Sound hiring practices
- c. Tone at the top
- d. Trainings

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What is the best way to stop ethical fading?

- Tone at the top. Ethical leadership
- Unethical ideas can happen...but they can't be implemented
 - Shut them down immediately
 - "That's not the way we do things here!"

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Ethical role models and mentors

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Role Models and Mentors

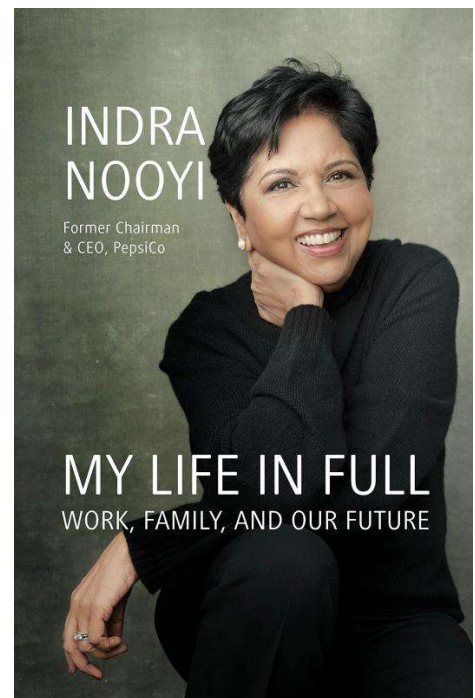
- Do you have a strong mentor or role model in your life?
- What do you admire about them?
- Does their influence help you make ethical decisions?
- Do you have a mentor or role model who is not a supervisor or family member?

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Indra Nooyi

- <https://www.youtube.com/watch?v=hKaoQpG29RQ>





Key Takeaways

- Understand the relevant rules
- Discuss your decision with others who don't have a stake in the outcome
 - Assume your decision will be discovered
 - Focus on the long-term
- Keep yourself and others out of situations where violations are more common
- "Have the courage to say no. Have the courage to face the truth. Do the right thing because it is right. These are the magic keys to living your life with integrity." – W. Clement Stone

Thank you!

- Questions, comments, or to stay in touch with Boz:
- bbostrom@csbsju.edu (612) 414-9629
- <https://www.linkedin.com/in/bozbostrom/>