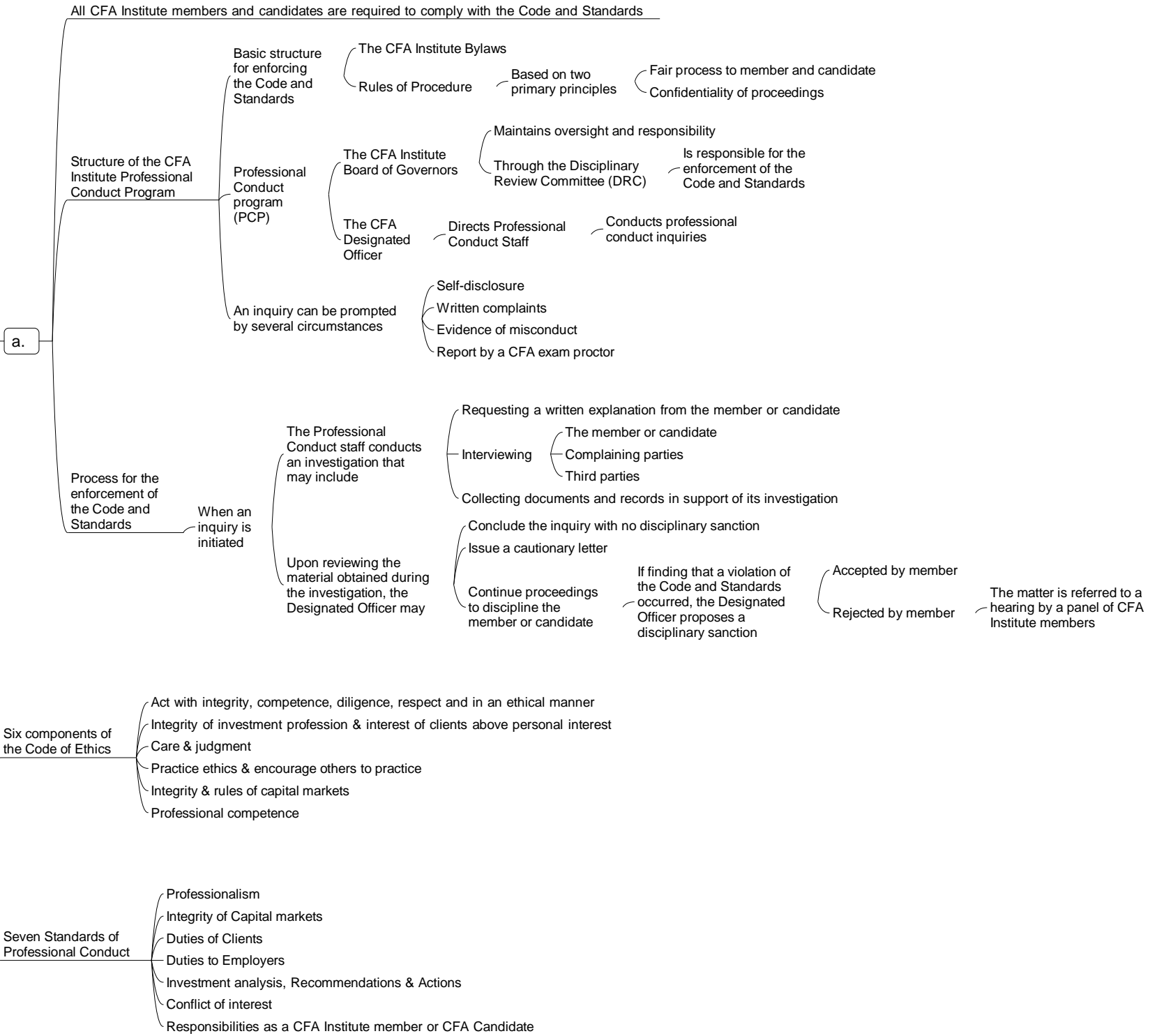


CFA LEVEL 1

STUDY SESSION 01

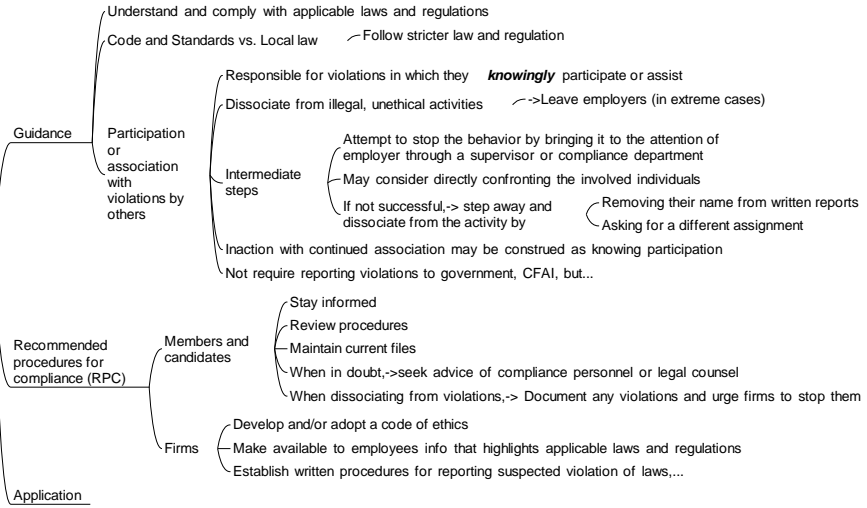
**ETHICAL &  
PROFESSIONAL  
STANDARDS**

# 1. Code Of Ethics And Standards Of Professional Conduct

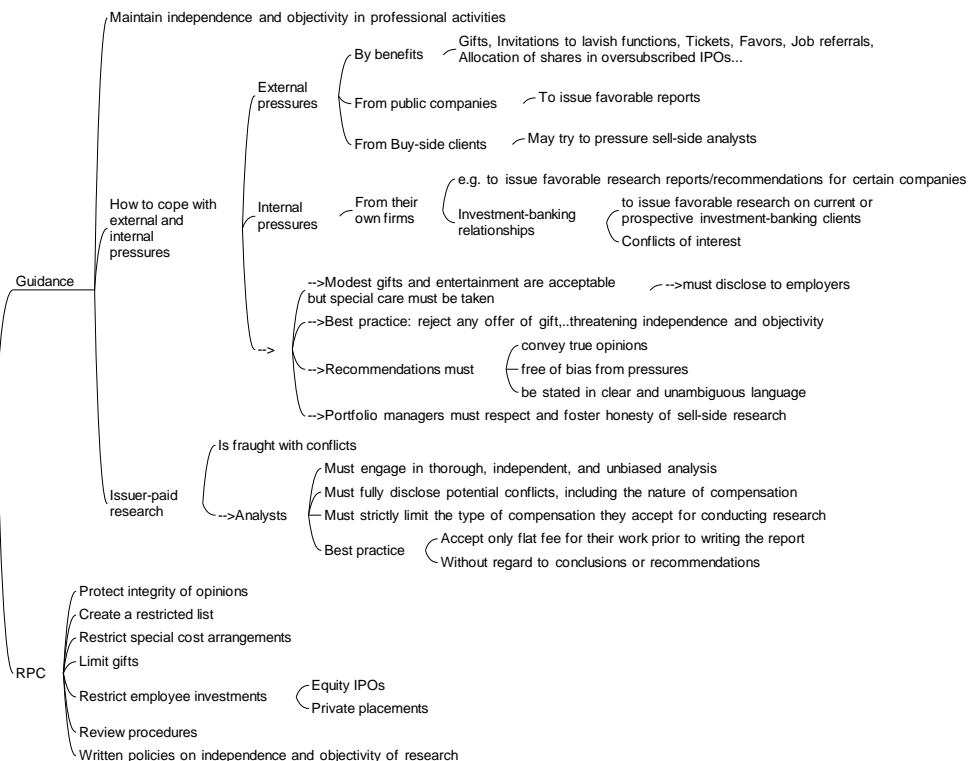


# 2.1 Standard I PROFESSIONALISM

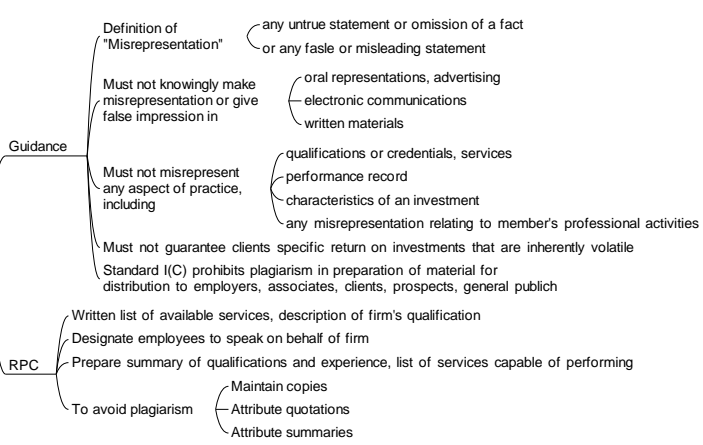
## A. Knowledge of the law



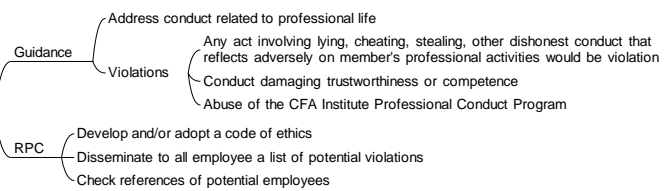
## B. Independence and objectivity



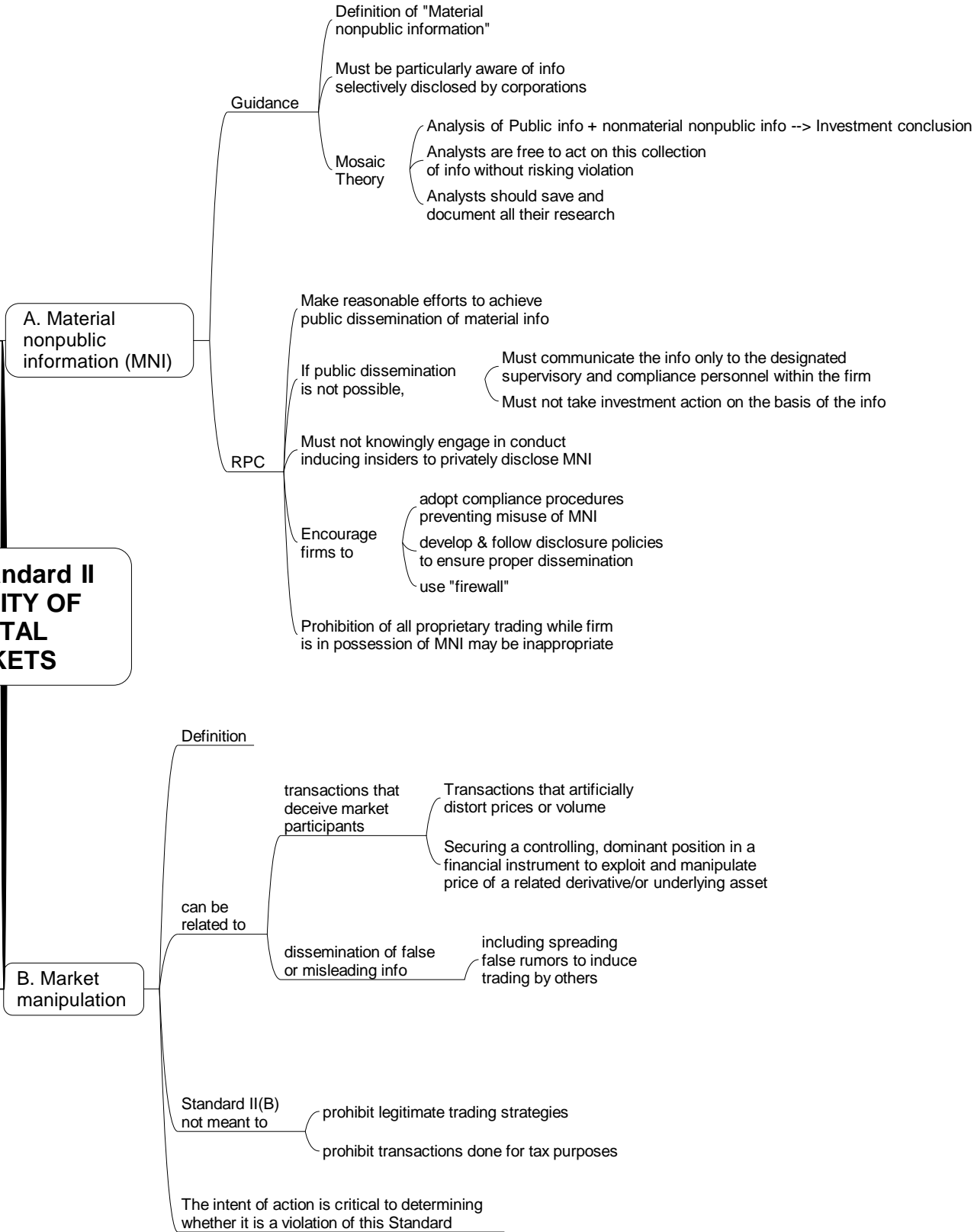
## C. Misrepresentation



## D. Misconduct



## 2.2 Standard II INTEGRITY OF CAPITAL MARKETS



**2.3 Standard III DUTIES TO CLIENTS**

**A. Loyalty, prudence, and care**

- Guidance
    - Responsibility to a client includes
      - duty to exercise reasonable care
        - Prudence
          - require cautions and discretion
          - act with care, skill, and diligence
          - follow the investment parameters set forth by clients & balancing risk & return
      - duty of loyalty
        - Understand & adhere to fiduciary duties
          - Determine identity of "client"
          - Must be aware of whether they have "custody" or effective control of client assets
        - Manage pool of assets in accordance with terms of governing documents
        - Put their obligation to client first in all dealings
        - Avoid all real or potential conflicts of interest
        - Forgo using opportunities for their own benefit at the expense of client
        - Follow any guidelines set out by client for the management of assets
        - Judge investment decisions in context of total portfolio
        - Vote proxies in an informed & responsible manner
  - "Soft dollars"
- RPC
  - Submit to clients at least quarterly itemized statements
  - Separate assets
  - Review investments periodically
  - Establish policies & procedures with respect to proxy voting and the use of client brokerage
  - Encourage firms to address some topics (p. )

**B. Fair dealing**

- Guidance
  - Do not discriminate against any clients
  - "Fairly" vs "equally"
    - Standard III(B) addresses the manner of disseminating investment recommendations or changes in prior recommendations to clients
    - Ensure fair opportunity to act on
    - Encourage firms to design equitable system to prevent selective, discriminatory disclosure
  - Investment recommendations
    - Material changes should be communicated to all current clients
      - particularly clients may have acted on or been affected by earlier advise
    - Clients who don't know changes and therefore place orders contrary to a current recommendation
      - should be advised of the changed recommendation before the order is accepted
  - Investment actions
    - Treat all clients fairly in light of their investment objectives & circumstances
    - Disclose to clients & prospects written allocation procedures
      - duty of fairness and loyalty to clients can never be overridden by client consent to patently unfair allocation procedures
    - Should not take advantage of their position in the industry to the detriment of clients
- RPC (p. )

**C. Suitability**

- Guidance
  - In investment advisory relationships
    - Be sure to gather client info in the form of an IPS and make suitability analysis prior to making recommendation/taking investment action
    - Inquiry should be repeated at least annually/prior to material changes
    - If clients withhold info
      - > suitability analysis must be done based on info provided
    - Risk analysis
    - Fund managers
      - > Be sure investments are consistent with the stated mandate
  - In case of unsolicited trade requests unsuitable for client
    - > refrain from making trade or seek affirmative statement from client that suitability is not a consideration
- RPC
  - Written IPS
  - Investors' objectives and constraints should be maintained and reviewed periodically to reflect any changes in clients' circumstances

**D. Performance presentation**

- Guidance
  - Standard III(D) prohibits misrepresentations of past performance or reasonably expected performance
    - > Provide credible performance info
    - > Should not state or imply that clients will obtain or benefit from rate of return generated in the past
  - Research analysts promoting the success of accuracy of their recommendations
    - > ensure that their claims are fair, accurate, and complete
  - If the presentation is brief, must make available to clients and prospects the detailed info upon request
- RPC
  - GIPS

**E. Preservation of confidentiality**

- Guidance
  - Standard III(E) is applicable when members receive info
    - on the basis of their special ability to conduct a portion of clients' business or personal affairs arising from or is relevant to that portion of clients' business that is the subject of special or confidential relationship
  - Comply with applicable laws
  - When in doubt
    - > consult with compliance department/ outside counsel before disclosing
  - Standard III(E) does not prevent cooperating with an investigation by CFAI PCP
- RPC

## 2.4 Standard IV DUTIES TO EMPLOYERS

### A. Loyalty

Guidance

Employer-employee relationship

- In matters related to their employment, members and candidates must not engage in conduct that harms the interests of the employer
- >Comply with policies and procedures established by employers that govern employer-employee relationship
- Standard IV(A) does not require to place employer interests ahead of personal interests in all matters
- The relationship imposes duties and responsibilities on both parties

Independent practice

- Abstain from independent competitive activity that could conflict with employer's interests
- Provide notification to employer, obtain consent from employer in advance

Leaving an employer

- Must
  - Planning to leave, must continue to act in employer's best interest
  - Firm records or work performed on behalf of firm stored on a home computer should be erased or returned to employer
- Must not
  - engage in activities conflicting with duty until resignation effective
  - contact existing clients/potential clients prior to leaving for soliciting
  - take records of files to a new employer without written permission
- Free to make arrangements/preparations provided that not breaching duty of loyalty
- Applicable non-compete agreement

Whistle blowing

Nature of employment

### B. Additional compensation arrangements

Guidance

Obtain written consent from employer before accepting compensation or other benefits from third parties...

RPC

Should make an immediate written report to their employers

### C. Responsibilities of supervisors

Guidance

Must have in-depth knowledge of the Code & Standards

Apply knowledge in discharging supervisory responsibilities

Delegation of supervisory duties does not relieve members of supervisory responsibility

-->Instruct subordinates methods to prevent and detect violations

Make reasonable efforts to detect violation of laws, rules, regulations, and Code & Standards

-->Establish and implementing Compliance procedures

Must understand what constitutes an adequate compliance system

Make reasonable efforts to see that appropriate compliance procedures are established, documented, communicated to covered personnel and followed

Bring an inadequate compliance system to senior managers's attention & recommend corrective action

If clearly cannot discharge responsibilities 'cos of absence of compliance system,

-->decline in writing to accept responsibilities

In case of employee's violation,

promptly initiate investigation  
take steps to ensure no repetition

Recommend employer to adopt a code of ethics

RPC

If there is a violation

Respond promptly

Conduct a thorough investigation

Increase supervision or place appropriate limitations on the wrongdoer pending the outcome of the investigation

# 2.5 Standard V INVESTMENT ANALYSIS, RECOMMENDATIONS & ACTIONS

## A. Diligence and reasonable basis

### Guidance

- The application of Standard V(A) depends on
  - investment philosophy followed
  - role of member in the investment decision-making process
  - support and resources provided by employer
- Must make reasonable efforts to cover all pertinent issues when arriving at recommendation
- Provide or offer to provide supporting info to clients when making recommendations/changing recommendations
- Using secondary or third-party research
  - > must make reasonable & diligent efforts to determine whether 2nd/3rd party research is sound
- Group research and decision making
  - If member does not agree with the independent and objective view of the group
    - > Not necessarily have to decline to be identified if believing consensus opinion has reasonable & adequate basis
    - > Should document member's difference of opinion with group

RPC (p. )

## B. Communication with clients and prospective clients

### Guidance

- Standard V(B) addresses conduct with respect to communicating with clients
- Communication is not confined to written form but via any means of communication
- Developing and maintaining clear, frequent, and thorough communication practices is critical
- Must
  - distinguish clearly between facts & opinions
  - present basic characteristics of the analyzed security in preparing research report
  - adequately illustrate to clients & prospective clients the manner of conducting investment decision-making process
  - keep them informed with respect to changes to the chosen investment process
- Brief communications
  - > must be supported by background report or data on request
- Capsule form recommendations
  - > should notify clients that additional info and analyses are available from the producer of the report
- Investment advice based on quantitative research and analysis
  - > must be supported by readily available reference material
  - > in a manner consistent with previously applied methodology or with changes highlighted
- Should outline known limitations, consider principal risks in investment analysis, report

RPC

## C. Record retention

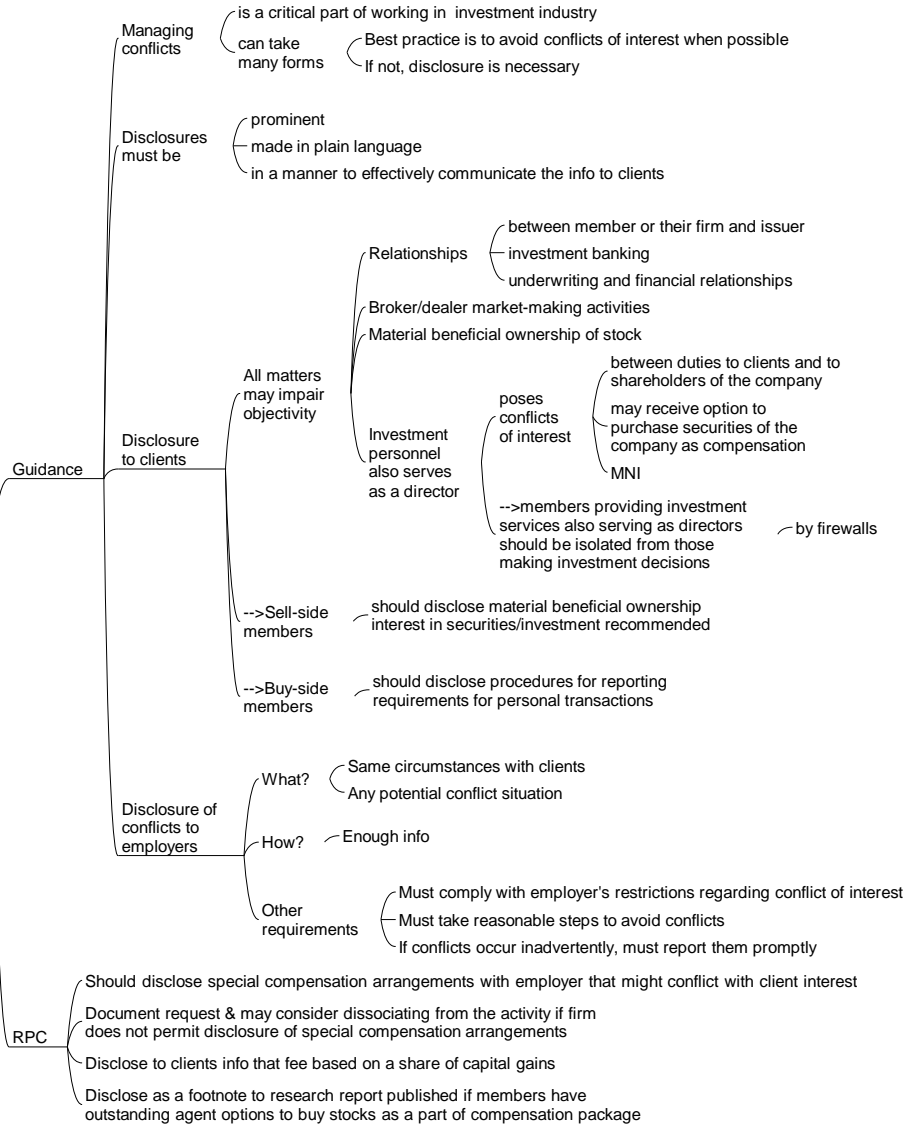
### Guidance

- In hard copy or electric form
- Fulfilling regulatory requirements may satisfy the requirements of this Standard
  - Must explicitly determine whether it does
- Absence of regulatory guidance
  - CFAI recommends maintaining records for at least 7 yrs

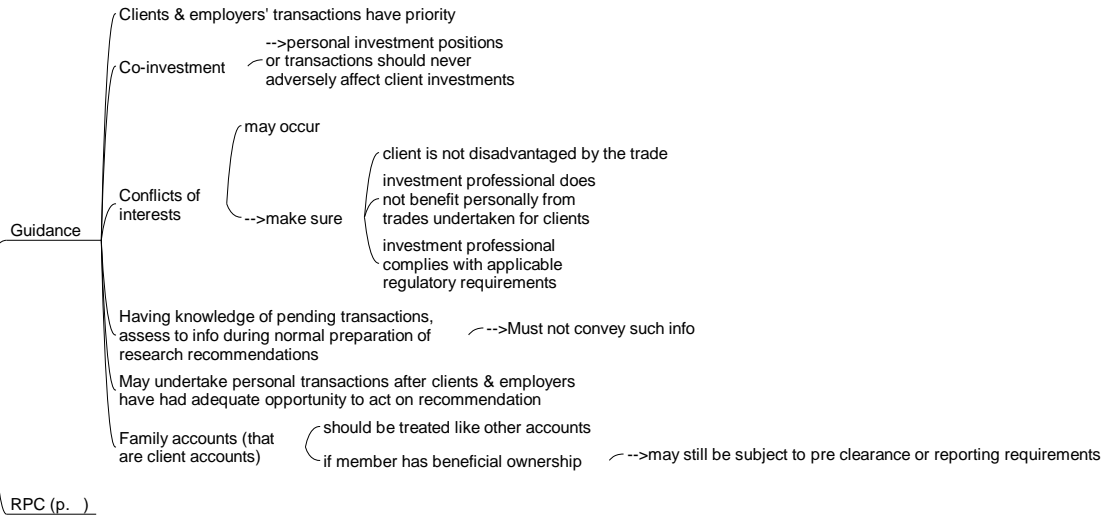
RPC

## 2.6 Standard VI CONFLICTS OF INTEREST

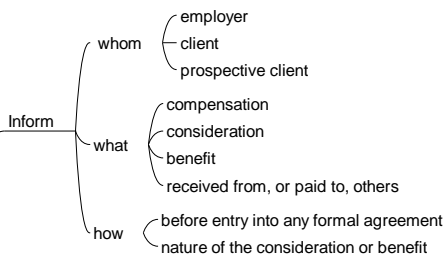
### A. Disclosure of conflicts



### B. Priority of transactions



### C. Referral fees



## 2.7 Standard VII RESPONSIBILITIES AS CFA MEMBER / CANDIDATE

A.  
Conduct  
as  
members  
and  
candidates  
in the CFA  
program

Prohibiting any conduct  
that undermines the  
integrity of the CFA  
charter (p. )

Cheating on CFA exam or any exam

Not following rules and  
policies of the CFA program

Giving confidential info on the CFA  
Program to candidates or the public

.....

Not precluded from expressing opinion  
regarding the CFA Program or CFAI

B.  
Reference to  
CFA  
Institute, the  
CFA  
Designation  
and the CFA  
program

Preventing promotional  
efforts that make promises  
or guarantees tied to the  
CFA designation

Over-promise the  
competence of an individual

Over-promise future  
investment results

Applies to any form of  
communication

To maintain  
CFAI  
membership

Remit annually to CFAI a completed  
Professional Conduct Statement

Pay applicable CFAI membership dues  
on an annual basis

Using the CFA designation  
(p. Curriculum)

Referencing candidacy in the CFA program  
(p. Curriculum)

Proper using of the CFA marks  
(p. Curriculum)

### 3. Introduction to Global Investment Performance Standards (GIPS)

a1. Why were the GIPS Standards created?

a2. Who can claim compliance?

a3. Who benefit from Compliance?

b. Construction & purpose of Composites

c. Verification

The Structure of the GIPS Standards

4a. Key characteristics of the GIPS standards & fundamentals of compliance

GIPS Objectives

Key characteristics

Fundamentals of compliance

Requirements

Recommendations

### 3+4 GIPS

b. The scope of the GIPS

Investment firm definition

Historical performance record

c1. How are GIPS standards implemented in countries with existing standards for performance reporting

c2. Appropriate response when the GIPS standards & local regulations conflict

d. Major sections of GIPS standards