

Ethics

- **Ethics**
 - A set of shared **beliefs** about what is good or acceptable **behaviour** and what is bad or unacceptable behaviour. The study of good and bad behaviour.
- **Ethics Conduct**
 - Behaviours that **follows** moral **principles**
 - Consistent with ethical **expectation**
 - Conducts that **improves** outcomes for **stakeholders**
 - **Balance** your self-interest with the impact on others
- **Code of Ethics**
 - A **written set** of moral **principles** that can guide behaviours by describing what is considered acceptable behaviour.
 - Can communicate the organization's value, principle, and expectation.
- **Profession**
 - A group of people
 - with specialized **skills** and **knowledge**
 - who **serves** others
 - and agree to behave in **accordance** with a code of ethics
- **Standards of Conduct**
 - Explicit rules or standards that identify specific behaviours
 - **Benchmarks** for minimally acceptable behaviour
- **Challenge (Personal Traits / Situational Influences)**
 - **Overconfidence**
 - Tend to believe they are ethical people and higher than average
 - **Overemphasize** the importance of their own **personal traits**
 - **External/Situational Influences**
 - Fail to recognize or significantly **underestimate** the effects of situational influences.
 - Focus more on **self-interest** and **short-term** than on **long-term** and ethical quality.
 - **Factors**: money, promotion, prestige, loyalty, compliance culture
 - **Strict Rule-based Compliance**
 - Ask themselves what they can do.
 - What behaviour they should **engage** in is not addressed
- **Importance of High Ethical Standards**
 - Investment industry is based on **trust**
 - Effects of ethical behaviour
 - **Broader** participation in the market
 - **Protection** of client's interests and asset
 - Lower relative **costs**
 - More **opportunities** for investment professional and their firms
 - **Effects of Unethical behaviour**
 - Negative effects for society as a whole
 - Investor: reduce funds and increase costs to company
 - Investor: more risk, increase required rate of return
 - **Misallocation** of capital to reduce social benefit and well-being

- **Ethical and Legal Standards Difference**
 - Not always the same.
 - Not all illegal actions are unethical, and not all unethical actions are illegal.
 - Share private company information with authorities
 - Illegal but ethical (whistleblowing)
 - Acts of civil disobedience
 - Illegal but ethical
 - Recommend Investment in relative's firm
 - Unethical but may not be illegal
- **Ethical > Legal Standards**
 - Ethical principles often set a **higher** standard than laws and regulations
 - Ethical decision requires **more judgment** and considerations
 - Regulators **slowly** design and implement laws
 - Unethical behaviour -> new laws and regulations
 - 2008 financial crisis -> Dodd-Frank Act
 - New laws and regulations -> create opportunities for different unethical behaviour
- **Decision-Making Frameworks**
 - Ethical should be **incorporated** into decision making process
 - Advantages
 - Identify important issues involved
 - Examine issues from multiple perspectives
 - Develop necessary judgment and decision-making skills
 - Avoid unanticipated ethical consequences
- **Decision-Making Frameworks**
 - **Identify**
 - Identify the facts
 - stakeholders and duties to each stakeholder
 - potential conflicts of interests among stakeholders
 - ethical principles, conflicts of interests
 - **Consider**
 - Situational influence
 - Additional guidance
 - From a mentor, colleagues who have good judgment
 - Legal and compliance departments
 - Alternative actions
 - Consider both short-term and long-term of each action
 - Decide & Act
 - **Reflect**
 - Evaluate the outcome. Was the outcome anticipated?

Firms can declare compliance with CFA standards

- ensured that their code and ethics meets the principles of the Code and Standards.

Professional Conduct Program (PCP)

- **Principles**
 - Fairness

- confidentiality
- **board of governors**
 - **oversight**
- **Disciplinary Review Committee (DRC)**
 - Enforcement of the Code and Standards
- **Circumstances** - Professional Conduct Inquiries
 - Self-disclosure
 - Written complaints
 - Evidence of misconduct in Public sources
 - Report by CFA exam proctor
 - Analysis of exam materials and monitoring of social media
- **Investigation** – Professional Conduct Staff
 - request explanation and/or
 - interview the candidate or member
 - interview the complainant or other third parties
 - collect documents & records
- **Decide** - Designed Officer
 - No disciplinary
 - Issue a cautionary letter
 - Discipline the member
- **Panel** Hearing If the member or candidate reject it
 - Review materials and presentations
 - Determine whether a violation
- **Sanctions**
 - Public censure
 - Suspension of membership and use of CFA designation
 - Revocation of CFA charter

CFA Code of Ethics

- **Integrity, competence, diligence, respect**, and in an **ethical** manner with the public, clients, prospective clients, employers, employees, colleagues in the **investment profession**, and other participants in the global capital markets.
- Place the **integrity** of the investment profession and the **interests** of **clients** above their own personal interests.
- Use reasonable care and exercise **independent** professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- **Practice** and **encourage** others to practice in a professional and ethical manner that will reflect credit on themselves and the profession
- **Promote** the **integrity** and **viability** of the global capital markets for the ultimate benefit of society
- **Maintain** and **improve** their professional **competence** and strive to maintain and improve the competence of other investment professionals

Standards of Professional Conduct

- **Professionalism**

- **Integrity** of capital markets
- Duties to **clients**
- Duties to **employers**
- Investment analysis, **recommendations**, and actions
- **Conflicts** of interests
- **Responsibilities** as a CFA Institute member or CFA candidate

Professionalism

- **Objectivity and Independence**
- **Knowledge of information**
 - Comply with more strict law, rule, or regulation
 - Must not knowingly participate or assist in
 - Must dissociate from any violation
- **Misconduct**
 - Drink in office hour
 - Dishonesty, fraud, deceit
 - No: Reputation, integrity, competence
 - Guidance
 - Focus on **Professional** life
 - Do not seek the standards as a method of settling personal, political, or other disputes **unrelated** to professional **ethics**
 - Any acts that involves **lying**, stealing, or other **dishonest** conduct is a violation
 - Conduct that, although not illegal, but **negative** affect a member's **trustworthiness** or **competence**, is a violation
 - The lack of **diligence** in providing professional services may be a violation
 - Personal **bankruptcy** may violate the standard if it involves fraudulent or deceitful business conduct.
 - Bankrupt 破产
 - 需要：个人失职
 - 不需要：健康，助学贷款
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- **Misrepresentation**

Integrity of Capital Market

- **Material Non-public Information**
 - Cannot use, cannot share it.
 - Material
 - Its disclosure will **impact** the security price
 - Investors want to know the information before making **decisions**
 - The sources of the information is **reliable**
 - Material Information Examples
 - M&A, earning, innovation products, change in management, disputes
 - **Non-public**
 - Information is non-public until it has been **disseminated** to public

- Information is available to a **selected** people remains non-public
- **Mosaic Theory**
 - Reach a material conclusion through public information and nonmaterial non-public information-> do not violate
- Charge a flat fee

Duties to Clients

- **Loyalty, Prudence, and Care**
- **Fair Dealing**
 - **Fair does not equal**
 - Communicate with all clients on a **uniform** basis presents **practical** problems due to differences in **timing** and **methods** of communications with clients
 - Each client has **unique** needs and objectivity
 - Firms may **differentiate** their services to clients, but different levels of service should be disclosed, and must not disadvantage any client.
 - **Investment recommendations**
 - No **discrimination** against any client when disseminating investment recommendations
 - Must notify customers timely, not according to transaction size.
 - Particular **care** should be taken that **updated** recommendation reaches those clients who have **acted** on their earlier advice
 - Clients who place orders **contrary** to a current recommendation should be **advised** before the order is accepted
 - **Investment actions**
 - Treating all clients fairly in light of their investment objectives and circumstances
 - If security issues are **oversubscribed**, the issue should be **prorated** to all subscribers.
 - Members/candidates should be **prohibited** from participating in “**hot issue**”
 - Family-member accounts are treated similar to accounts of their **clients**.
 - Based on orders not size
- **Suitability**
 - Advisory relationship
 - Make a reasonable **inquiry** into a client or prospective client and must reassess and **update** this information regularly.
 - Determine that an investment is suitable to the client’s **financial situation** and consistent to the client’s **written** objectives, mandates, and constraints.
 - Judge the suitability of investments in the context of client’s total **portfolio**.
 - Manage a **portfolio** to a specific mandate, strategy style, they must make only investment recommendations or take only investment actions that are consistent with the **stated objectives** and **constraints** of the portfolio

- **Investment Policy Statement (IPS)** 投资计划书
 - Risk tolerance, return requirements, investment constraints, roles and responsibilities of the parties
 - Strategic asset allocation
 - Update IPS annually
- Understanding the client's risk profile
 - Leverage and derivative product is suitable for clients
- The need for **diversification**
 - An investment with **high relative** risk may be a suitable investment in the context of the entire portfolio
- Addressing Unsolicited 主动提出 trading requests
 - When a client makes an **unsuitable** trade request
 - It has only **minimum** impact on the entire portfolio, first **educating** clients on the **effects** of request, then may execute the trade
 - If it has a **material** impact on the portfolio, updating client's **IPS** may be necessary
 - If clients decline to modify their IPS insisting the trade be made, determining whether to continue the advisory relationship.
- Managing **pooled** assets to an **index** or mandate
 - Investing in a manner consistent with the **mandate**
 - Are **not** responsible for **determining** the suitability of the fund for investors
 - Determining **suitability** for clients applies to situations whether members have an advisory relationship with clients
- Performance Presentation
 - Fair, accurate, and complete
- **Preservation of Confidentiality**
 - To current, former, and prospective clients
 - Unless
 - Concerns illegal activities
 - Disclosure is required by law
 - Client or prospective client permits disclosure of the information
 - Exception
 - Members may provide confidential information to **CFA Institute** for an investment under professional conduct program
 - If applicable **law** requires to maintain confidentiality, members should **not** disclose a client's information, even if the information concerns illegal activities of the client.
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Duties to Employers

- **Loyalty**
 - 离职，有敬业报告，规定 2 年内不能从事相关的工作。但是猎头找到他，能否接受？不能

- **Independent practice**
 - If planning to engage in independent practice, notifying employer the types of services provided the **duration** of the services, and the **compensation**
 - Do not proceed without **consent** from **written** approval
- **Leaving an employer**
 - Act in the best interest of employer until the resignation is effective.
 - Employee is free to make **predation** to leave as such predations do not breach his duty of loyalty.
 - No prohibition on use of **experiences** or **knowledge** gained at the former employer
 - No prohibition on engaging in competitive conduct unless applicable “**non-compete agreement**” with former employer has been signed
- **Leaving an employer – violation**
 - Misappropriation of trade **secrets**
 - Misuse of **confidential** information
 - Solicitation of employer’s **clients** prior to cessation of employment
 - Self-dealing
 - Misappropriation of **clients** lists
 - Misappropriation of **records** or work perform on behalf of the firm
- **Use of social media**
 - Firm-approved business related social median accounts would be considered the firm’s assets, **transfer or delete** these accounts upon resignation
 - Best practice is to maintain **separate** account for personal and professional social media
- **Whistleblowing**
 - Members may act **contrary** to employer’s interests in order to comply with **duties** to the **market and clients** (illegal or unethical)
 - Such action is permitted only if the interest is aimed at protecting **clients** or **integrity** of the markets or integrity not person **gain**
- Additional Compensation Arrangements
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- Responsibilities of Supervisors
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Investment Analysis, Recommendations, and Actions

- **Diligence and Reasonable Basis**
 - Diligence, independent, thoroughness 谨慎、独立、全面
 - Have a reasonable and adequate basis, supported by appropriate research and investigation
 - **Reasonable Basis** 合理依据
 - A firm’s **financial** results, operating **history**, and business **cycle** stage
 - **Fees** and historical **results** for a mutual fund
 - **Limitations** of any quantitative models
 - A determination of whether peer group comparisons for valuation are appropriate

- **Using secondary or third-party research 三方调研**
 - Review **assumptions** used
 - Determine how **rigorous** the analysis was
 - Identify how **timely** how the research is
 - Evaluate the **objectively and independent** of the recommendations
- **External Advisors 外部顾问**
 - Have adequate **compliance** and **internal** controls
 - Present returns information that is **correct**
 - Do not deviate from their stated **strategy**
- **Group Research and Decision Making 小组研究决定**
 - Even if a member does **not agree** with the independent and objective view of the group, he **does not** necessary have to decline to be identified with the report, as long as there is a reasonable and adequate basis.
- **Communication with clients and prospective clients**
 - Basic **format** and general **principles** of the process they use to analyse investment, select securities, and construct portfolios and must **promptly** disclose any **changes** that might materially affect those processes
 - Significant **limitations** and **risks** with the investment process
 - Reasonable judgement in identifying which **factors** are important to their investment analyses, recommendations, or actions and include those factors in communications with clients and prospective clients.
 - Distinguish between **facts** and **opinions**
- **Record Retention**
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Conflicts of Interests

- **Disclosure of conflicts**
 - Members must make **full** and **fair** disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and employers
 - Members must ensure that such a disclosure are **prominent**, are delivered in **plain** language, and communicate the relevant information **effectively**. 显著、简洁、有效.
 - **Disclosure to employers 向雇主披露**
 - Conflicts that would interfere with rendering **unbiased** investment advice.
 - Conflicts that would cause a member or to act not in the employer's best interest
 - Any potential conflict situation
 - **Disclosure to clients 向客户披露**
 - Members obtains or assists in obtaining **fees** for services
 - Members own **stock** in the company that is the subject of an **investment**.

- Member has a close personal **relationship** with the company manager.
- Priority of transactions
- Referral fees

Responsibilities as a CFA Institute member or CFA candidate

- **Violates**
 - Provide **confidential** program or exam information to candidates or public
 - All aspects of the exams, including questions, board topic areas, formulas, tested or non-tested are considered confidential
 - The standard does **not prohibit** candidates from **discussing non-confidential** information or curriculum material with others.
 - Violating any rules and testing **policies** of CFA institute programs, such as calculator policy, personal belongings policy, or candidate pledge
 - Giving or receiving **assistance** (cheating) on the exam
 - Improperly **using** an association with CFA Institute to further personal or professional **goals**
 - Misrepresenting information on **professional conduct statement (PCS)** 职业行为声明, 支付年费
 - Does not cover expressing **opinions** regarding CFA Institute, the CFA program, or other CFA programs
 - Wrong: CFA level1 -> passed level 1 of CFA exam, level 1 candidate in CFA program
 - CFA 只能大写缩写或者英文全称, 表述不能比名字突出
- **CFA Designation**
 - Completion of CFA program.
 - Required years of acceptable work experience (≥ 4 years)
 - Satisfy CFA institute membership requirements to maintain the right to use the designation
 - Do not misrepresent or exaggerate the meaning of implications of holding the CFA designation.
- **Referring to candidacy in the CFA**
 - A candidate in the CFA if
 - Application for registration in the CFA program has been accepted by CFA institute
 - Has sat for the exam but results have not yet been received
 - Do not imply achievement of any type of designation
 - Okay to say "passed all levels on first attempt" do not imply superior ability
- **CFA marks**
 - Use CFA or Chartered Financial Analyst
 - Use it as an **adjectives** 形容词 not noun
 - Cannot use a pseudonym 假名、笔名 to hide the identify
 - Wrong
 - He is the one of the two **CFAs** in the company
 - Jane Smith, C.F.A

- Jane Smith, cfa
- Jane Smith, **CFA**
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Global Investment Performance Standards (GIPS)

- **Composition**
 - must include all **actual, fee-paying, discretionary** portfolios managed in accordance with the **same** investment mandate, objective, or strategy.
- Gross or net fees can be disclosed
- use of simulated results is permitted as long as it is disclosed.
-