

# Ethical and Professional Standards

## CFA二级培训项目

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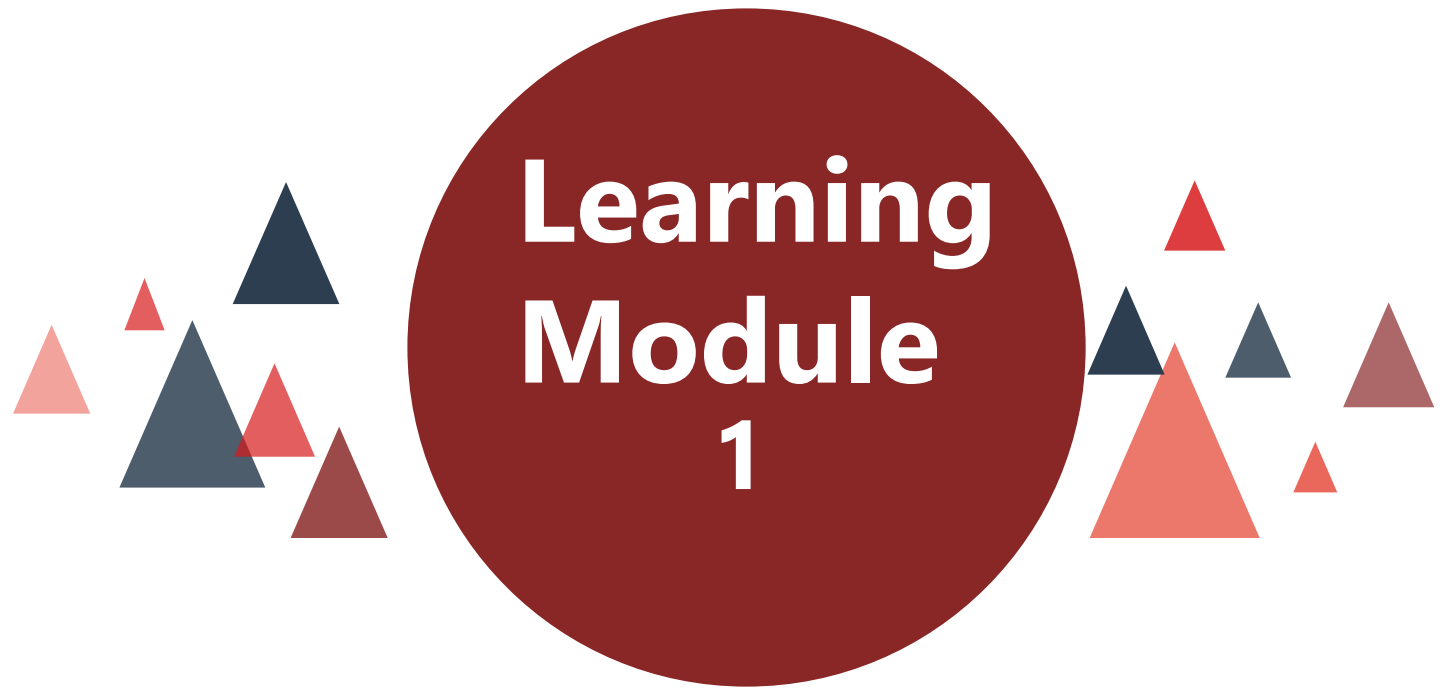
*101% Contribution Breeds Professionalism*

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# **Framework** **Ethical and Professional Standards**

## ➤ **Ethical and Professional Standards**

- LM1 Code of Ethics and Standards of Professional Conduct
- LM2 Guidance for Standards I–VII
- LM3 Application of the Code and Standards: Level II

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# Learning Module 1

**Code of Ethics and Standards of Professional Conduct**

# Framework

1. Proceedings
2. The Panel
3. Comparisons of AMC and Code and Standards
4. Ethics & Professional Standards

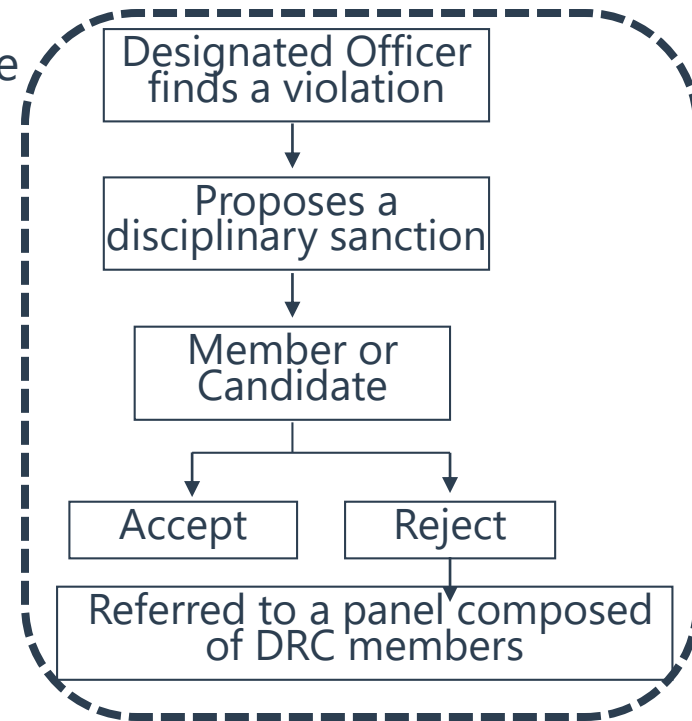


# Proceedings

- The CFA Institute Board of Governors maintains oversight and responsibility for the Professional Conduct Program (PCP).
- PCP and Disciplinary Review Committee (DRC) are responsible for enforcement of the Code and Standards. Professional Conduct inquiries come from a number of sources.
  - Self-disclosure on annual Professional Conduct Statements of involvement in civil litigation or a criminal investigation, or that the member or candidate is the subject of a written complaint.
  - Written complaints about professional conduct received by the Professional Conduct staff.
  - Evidence of misconduct by a member or candidate that the Professional Conduct staff received through public sources, such as a media article or broadcast.
  - A report by a CFA exam proctor of a possible violation during the examination.

# Proceedings

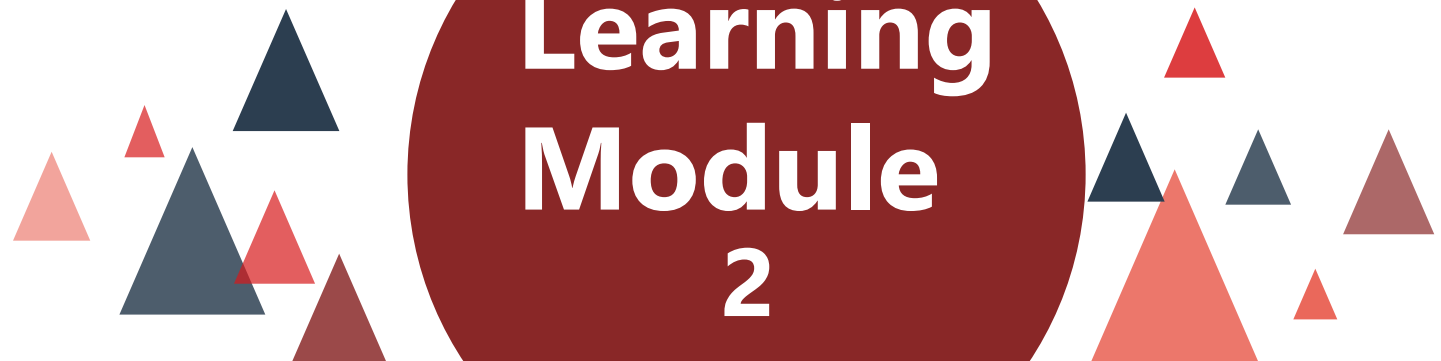
- Once an inquiry is initiated, Professional Conduct staff **may** requests (in writing) an explanation from the subject member or candidate **and may**:
  - interview the subject member or candidate
  - interview the complainant or other third parties
  - collect documents and records relevant to the investigation
- **The Designated Officer may decide:**
  - that no disciplinary sanctions are appropriate
  - to issue a cautionary letter
  - to discipline the member or candidate





## The Panel

- If the member or candidate does **not** accept the charges and proposed sanction, the matter is referred to a **panel** composed of **DRC (Discipline Review Committee) members**.
  - Panels review materials and presentations from Professional Conduct staff and from the member or candidate.
  - The panel's task is to determine whether a violation of the Code and Standards or testing policies occurred and, if so, what sanction should be imposed.
- Sanctions imposed by CFA Institute may have significant consequences; they include public censure, suspension of membership and use of the CFA designation, and revocation of the CFA charter. Candidates enrolled in the CFA Program who have violated the Code and Standards or testing policies may be suspended or prohibited from further participation in the CFA Program.

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# Learning Module 2

**Guidance for Standards I–VII**



# Guidance for Standards I-VII





# Standard I (A): Content

## ➤ Content

1. Members and Candidates must understand and comply with all **applicable** laws, rules, and regulations (including the CFA Institute Code of Ethics and Standards of Professional Conduct) of any government, regulatory organization, licensing agency, or professional association governing their professional activities.
2. In the event of conflict, Members and Candidates must comply with the more strict law, rule, or regulation
3. Must not knowingly participate or assist in any violation of such laws, rules, or regulation.
4. Must dissociate from any violation of such laws, rules, or regulations.

# Standard I (A): Guidance

## ➤ Guidance - Code and Standards vs. local law

5. Must know and should know the laws and regulations **related to their professional activities** in all countries in which they conduct business.
6. **Not expert** on all laws that could potentially govern his activities, not expert on compliance, however, must comply with law directly governing.
7. Always adhere to the **most strict** rules and requirements (law or CFA institute Standards) that apply. Members and candidates must not engage in conduct that constitutes a violation of the Code and Standards, even though it may otherwise be legal.
8. Comply with the last applicable law if transferable applicability

# Standard I (A): Guidance

## ➤ Guidance - Participation or association with violations by others

9. Know → attempt to stop the behavior by bringing it to the attention of the employer through **supervisor or compliance department** → (if unsuccessful) → dissociate and document → quit
10. Suspect → **Consult** → but can't be absolved from requirements to compliance
11. There is **no requirement** under Standards to report violations to governmental authorities, but this may be advisable in some circumstances and required by law in others.
12. Inaction combined with continuing association with those involved in illegal or unethical conduct may be construed as participation or assistance in the illegal or unethical conduct.

## Standard I (A): Guidance

### ➤ Guidance - Investment Products and Applicable Laws

13. Members and candidates involved in creating or maintaining investment services, investment products, packages of securities and derivatives should be mindful of where these products or packages will be sold as well as their places of origination. (the place of sales and origination)
14. The **applicable** laws and regulations of the countries or regions of origination and expected sale **should be understood** by those responsible for the supervision of the services or creation and maintenance of the products or packages.

## Standard I (A): Guidance

### ➤ Guidance - Investment Products and Applicable Laws

15. Should make reasonable efforts to review whether **associated firms** that are distributing products or services also abide by the laws and regulations.
16. Should undertake necessary due diligence when transacting cross-border business to understand the multiple applicable laws and regulations, in order to protect the reputation of the firm and themselves.
17. Seek appropriate guidance from the firm's compliance or legal departments and legal counsel outside the organization when uncertain about which laws or regulations in conducting business in multiple jurisdictions.

# Guidance for Standards I-VII

<b>Standards</b>	<b>Professionalism</b>	<b>Knowledge of the law;</b> <b>Independence and objectivity;</b> <b>Misrepresentation;</b> <b>Misconduct</b>
	<b>Integrity of Capital Markets</b>	<b>Material nonpublic information;</b> <b>Market manipulation</b>
	<b>Duty To Clients</b>	<b>Loyalty, prudence and care;</b> <b>Fair dealing;</b> <b>Suitability;</b> <b>Performance presentation;</b> <b>Preservation of confidentiality</b>
	<b>Duty To Employers</b>	<b>Loyalty;</b> <b>Additional compensation arrangements;</b> <b>Responsibility of supervisors</b>
	<b>Investment</b>	<b>Diligence and reasonable basis;</b> <b>Communication with clients;</b> <b>Record retention</b>
	<b>Conflicts of Interest</b>	<b>Disclosure of conflicts;</b> <b>Priority of transaction;</b> <b>Referral fees</b>
	<b>Responsibility as Members</b>	<b>Conduct as members and candidates;</b> <b>Reference to CFA institute, designation</b>



# Standard I(B): Content

➤ **Content:**

1. Members and Candidates must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities.
2. Must not offer, solicit, or accept any gift, benefit, compensation, or consideration that reasonably could be expected to compromise their own or another's independence and objectivity.



# Standard I(B): Guidance

## ➤ Guidance

3. Mainly concerning how to deal with internal and external conflicts.
4. Reject gift that could be expected to compromise their own or another's independence and objectivity. (**Best Practice**)
  - ✓ Ordinarily, modest and normal gift is OK only if its purpose is not to influence independence. Benefits may include gifts, invitations to lavish functions, tickets, favors, job referrals, and so on.
5. Gift from corporate: should evaluate both the actual effect on his independence and objectivity and in the eyes of clients.

# Standard I(B): Guidance

## ➤ Guidance

6. Gift from clients: Receiving a gift, benefit, or consideration from a client can be distinguished from gifts given by entities seeking to influence independence to the detriment of other clients. Client's gift **should be disclosed**, if not → violate I(B).
  - ✓ **When possible**, prior to accepting “bonuses” or gifts from clients, members and candidates should disclose to their employers such benefits offered by clients.
    - ◆ If notification is not possible prior to acceptance, members and candidate must disclose to their employers benefits previously accepted from clients.
  - ✓ Disclosure allows the employer of a member or candidate to make an independent determination about the extent to which the gift may affect the member's or candidate's independence and objectivity.

# Standard I(B): Guidance

## ➤ Guidance - Buy-Side clients

### 7. **Buy-Side Clients may try to pressure sell-side analysts.**

- ✓ Institutional clients are the primary users of sell-side research, either directly or with soft dollar brokerage.
- ✓ Rating downgrade: some portfolio managers may support sell-side ratings inflation → affect the portfolio's performance and manager's compensation.
- ✓ Portfolio performance is subject to media and public scrutiny, affect the manager's professional reputation.

### 8. For portfolio managers:

- ✓ It is improper to threaten or engage in retaliatory practices.
- ✓ Although most portfolio managers do not engage in such practices, the perception by the research analyst that a reprisal is possible may cause concern and make it difficult to maintain independence.

## Standard I(B): Guidance

### ➤ Guidance -Fund manager relationships and Custodial Relationships

9. Members and candidates responsible for hiring and retaining outside managers and third-party custodians should not accept gifts, entertainment, or travel funding that may be perceived as impairing their decisions.
10. Primary and **secondary fund managers** and **third-party custodians** often arrange educational and marketing events to inform others about their business strategies or investment process.
  - ✓ Must review the merits of each offer individually in determining whether they may attend yet maintain independence.

# Standard I(B): Guidance

## ➤ Guidance -Investment banking relationships

**11. Firewall between research and investment banking should be built to minimize conflicts of interest.**

- ✓ **Separate reporting structures** for personnel on the research side and personnel on the investment banking side.
- ✓ Compensation arrangement that minimizes the pressures on research analysts and rewards objectivity and accuracy.

**Compensation should not link analyst remuneration directly to investment banking assignments in which analyst may participate as a team member.**

12. It is appropriate to have analysts work with investment **bankers only when the conflicts are adequately and effectively managed and disclosed.**

13. Firms should also regularly review policies and procedures to determine whether analysts are adequately safeguarded and to improve the transparency of disclosures relating to conflict of interests.



## Standard I(B): Guidance

### ➤ Guidance -Performance Measurement and Attribution

14. Members and candidates working within a firm's investment performance measurement department may also be presented with situations that challenge their independence and objectivity.
15. As **performance analysts**, their analysis may reveal instances where managers may have appeared to stray from their mandate. Or the performance analyst may receive requests to **alter the construction of composite indices** due to negative results for a selected account or fund.
16. The member or candidate must not allow internal or external influences to affect their independence and objectivity as they faithfully complete their **performance calculation** and analysis related responsibilities.

## **Standard I(B): Guidance**

### ➤ **Guidance - Public companies**

- 17. Analysts should not be pressured to issue favorable research by the companies they follow.** Can promise to cover the firm, should not promise favorable report about the firm.
18. Due diligence in financial research and analysis involves gathering information from public disclosure documents and also company management and investor-relations personnel, suppliers, customers, competitors, and other relevant sources.

## Standard I(B): Guidance

### ➤ Guidance - Credit rating agency opinions

19. Members and candidates at rating agencies should ensure that procedures at the agencies prevent undue influences from a sponsoring company during the analysis.
20. Should abide by their agencies' and the industry's standards of conduct regarding the analytical process and the distribution of reports.
21. The rating agencies need to develop the necessary firewalls and protections to allow the independent operations of their different business lines.
22. When using information provided by credit rating agencies, Should be mindful of the potential conflicts of interest.



## Standard I(B): Guidance

### ➤ Guidance -Influence during the Manager Selection/Procurement Process

23. The need for members and candidates to maintain their independence and objectivity extends to the hiring or firing of those who provide many business services beyond investment management.
24. When serving in a hiring capacity, members and candidates should not solicit gifts, contributions, or other compensation that may affect their independence and objectivity. Solicitations do not have to benefit members and candidates personally to conflict with Standard I(B).
  - **Requesting contributions to a favorite charity or political organization** may also be perceived as an attempt to influence the decision-making process.
25. members and candidates serving in a hiring capacity should refuse gifts, donations, and other offered compensation that may be perceived to influence their decision-making process.

## Standard I(B): Guidance

26. When working to earn a new investment allocation, members and candidates should not offer gifts, contributions, or other compensation to influence the decision of the hiring representative.
- The offering of these items with the intent to impair the independence and objectivity of another person would not comply with standard I(B).
  - ***Such prohibited actions may include offering donations to a charitable organization or political candidate*** referred by the hiring representative. (pay to play scandal)

## Standard I(B): Guidance

### ➤ Guidance - Issuer-Paid research

- 27. Remember that this type of research is fraught with potential conflicts.
- 28. Analysts' compensation for preparing such research should be limited, and the preference is for **a flat fee that is not linked to their conclusions or recommendations (directly or indirectly)**
- 29. Must **fully disclose** potential conflict of interest, including the nature of compensation. If not → misleading investors
- 30. Conduct a thorough analysis of the company's financial statements based on public information, benchmarking within a peer group, and industry analysis.
  - ✓ Distinguish between fact and opinion.



## Standard I(B): Guidance

➤ **Guidance - Travel Funding**

31. The benefits related to accepting paid travel extend beyond the cost savings to the member or candidate and his firm, such as the chance to talk exclusively with the executives of a company or learning more about the investment options provided by an investment organization.
32. **Best practice:** always use **commercial transportation** rather than accept paid travel arrangements from an outside company.
33. Should commercial transportation be unavailable, may accept **modestly arranged travel** to participate in appropriate information-gathering events, such as a property tour.

➤ **Guidance – Social Activities**

34. When seeking corporate financial support for conventions, seminars, or even weekly society luncheons, should evaluate both the actual effect on their independence and whether their objectivity might be perceived to be compromised in the eyes of their clients.

# Standard I(B): Recommended Procedures

## ➤ Recommended Procedures

- Protect the integrity of opinions – unbiased opinion and adequate system
  - ✓ Establish policies that every research report concerning the securities of a corporate client should reflect unbiased opinion.
  - ✓ compensation systems should protect integrity in investment decision process by maintaining independence and objectivity of analysts.
- **Create a restricted list for corporate client if not willing to issue adverse opinion and distribute only factual information about companies on the list.**
- Restrict special cost arrangements: When attending meetings at an issuer's headquarters, members and candidates should pay for commercial transportation and hotel charges. **No corporate issuer should reimburse members or candidates for air transportation.**
- **Limit gifts - token items only.** Customary and ordinary business-related entertainment is okay as long as its purpose is not to influence independence; based on local customs and whether the limit is per gift or annual total amount.

# Standard I(B): Recommended Procedures

## ➤ Recommended Procedures (con't)

- **Restrict investments: Firms set up policy related to**
  - ✓ employee purchases of equity or equity-related IPO;
  - ✓ pre-approval for employee participation in IPO, and prompt disclosure of investment actions taken following the offering;
  - ✓ Restrict acquiring securities in private placements.
- Review procedures - Implement effective review procedures about personal investment activities to ensure compliance with firm policies.
- Independence policy: formal written policy to ensure that analysts are not controlled/supervised by any department that could compromise independence.
- Appointed officer:
  - ✓ to supervise for compliance;
  - ✓ provide every employee with procedures for reporting violation.

# Guidance for Standards I-VII

Standards	Professionalism	Knowledge of the law; Independence and objectivity; Misrepresentation; Misconduct
	Integrity of Capital Markets	Material nonpublic information; Market manipulation
	Duty To Clients	Loyalty, prudence and care; Fair dealing; Suitability; Performance presentation; Preservation of confidentiality
	Duty To Employers	Loyalty; Additional compensation arrangements; Responsibility of supervisors
	Investment	Diligence and reasonable basis; Communication with clients; Record retention
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# Standard I(C): Content

➤ **Content:**

1. Must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.
2. Once finding misrepresentation (e.g. typographical error), correct the error as soon as possible, or violate I (C).



# Standard I(C): Guidance

## ➤ Guidance

2. A misrepresentation is any **untrue statement** or **omission** of a fact or any statement that is otherwise **false** or **misleading**.
  - ✓ Must not knowingly omit or misrepresent information or give a false impression of a firm, organization, or security in **oral representations, advertising (whether in the press or through brochures), electronic communications, or written materials (whether publicly disseminated or not).**
  - ✓ “Knowingly” means that either know or should have known that the misrepresentation was being made or that omitted information could alter the investment decision-making process.
  - ✓ **Omission** of a fact or outcome: Although not every model can test for every factor or outcome, should ensure that the analyses incorporate a broad range of **assumptions**—from very positive scenarios to extremely negative scenarios.

# Standard I(C): Guidance

## ➤ Omissions

3. The **omission of a fact or outcome** has increased in importance because of the growing use of technical analysis. Many members and candidates **rely on models** and processes to scan for new investment opportunities, to develop investment vehicles, and to produce investment recommendations and ratings. **Findings from models shall not be presented as fact.**
4. **Omissions** are also important in regards to what information is provided concerning the **performance measurement and attribution process.**
  - ✓ Member and candidates should encourage their firms to develop strict policies for **composite development to prevent cherry picking**— situations in which selected accounts are presented as representative of the firm's abilities. The omission of all accounts appropriate for the defined composite may misrepresent to clients the success of the manager's implementation of its strategy.

# Standard I(C): Guidance

## ➤ Guidance - Impact on Investment Practice

5. Guarantee the investment performance
  - ✓ **Prohibit: Guaranteeing specific return** which is inherently volatile, because it is misleading to investors.
  - ✓ **Not prohibit:** Providing clients with information on investments that have guarantees built into the structure of the product **or** for which an institution has agreed to cover any losses.
6. Members and candidates must not misrepresent any aspect of their practice, including (but not limited to) their **qualifications or credentials**, the qualifications or services provided by their firm, their performance record and the record of their firm, and the characteristics of an investment.
  - ✓ A company is prohibited from saying “we can provide all services you need”. Proper way is to provide **a list of services** available.

## Standard I(C): Guidance

7. Investing through outside managers
  - ✓ If invest in areas outside a firm's core competencies through **outside managers**, must disclosed intended use of external managers, members and candidates must not represent those managers' investment practices as their own. For further detail, refer to V(B).
8. Using third-party information
  - ✓ Should exercise care and diligence when using **3rd-party information**.
  - ✓ When it affects the professional's business practices, investment professional should be responsible for the misrepresentation.



# Standard I(C): Guidance

## ➤ Guidance-Performance Reporting

9. Members and candidates may misrepresent the success of their performance record through presenting **benchmarks that are not comparable to their strategy.**
  - ✓ clients can be misled if the benchmark's results are not reported on a basis comparable to that of the fund's or client's results.
  - ✓ **Best practice:** selecting the most appropriate available benchmark from a universe of available options.
10. The transparent presentation of appropriate performance benchmarks is an important aspect in providing clients with information that is useful in making investment decisions.
11. Standard I(C) does not require that a benchmark always be provided in order to comply. Some investment strategies may not lend themselves to displaying an appropriate benchmark because of the complexity or diversity of the investments included.

## Standard I(C): Guidance

12. Some investment strategies may use reference indices that do not reflect the opportunity set of the invested assets.
  - ✓ a hedge fund comparing its performance with a “**cash plus**” basis.
  - ✓ When such a benchmark is used, members and candidates should take reasonable efforts to ensure that they disclose the reasons behind the use of this reference index to avoid misrepresentations of their performance.
13. Members and candidates should discuss with clients on a continuous basis the appropriate benchmark to be used for performance evaluations and related fee calculations.



## Standard I(C): Guidance

14. Reporting misrepresentations may also occur when **valuations** for illiquid or non-traded securities are available from more than one source. When different options are available, members and candidates may be tempted to switch providers to obtain higher security valuations.
- ✓ Members and candidates should take reasonable steps to provide accurate and reliable security pricing information to clients on a consistent basis.
  - ✓ **Consistency** in the reported information will limit misperceptions that misrepresented values may have assisted in manipulating investors into continuing to hold certain securities in their portfolios.
  - ✓ Changing pricing providers ***should not be based solely on the justification that the new provider reports a higher current value of a security.***



## Standard I(C): Guidance

### ➤ Social Media

15. When communicating through social media channels, members and candidates should provide only the **same information** they are allowed to distribute to clients and potential clients through other traditional forms of communication.
  - ✓ The online or interactive aspects of social media do not remove the need to be open and honest about the information being distributed.
16. The perceived anonymity granted through these platforms may entice individuals to misrepresent their qualifications or abilities or those of their employer.
  - ✓ Actions undertaken through social media that knowingly misrepresent investment recommendations or professional activities are considered a violation of Standard I(C).





# Standard I(C)

## ➤ Guidance –Plagiarism

### 17. Plagiarism

- ✓ Definition: Copying or using in substantially the same form materials prepared by others **without acknowledging** the source of the material or identifying the author and publisher of such material.
- ✓ Applied in oral communications (e.g. group meetings); visits with clients; use of audio/video media; and telecommunications.
- ✓ Must not copy (or represent as their own) original ideas/material without permission. Must acknowledge and identify the source of ideas/material that is not their own. (e.g. a computer model derived from others' idea)

# Standard I(C)

## ➤ Guidance –Plagiarism

### 18. Forms of plagiarism:

- ✓ Take a study done by others, change name, and release.
- ✓ Using **excerpts** from others' reports (whether verbatim or slight changes in wording) without acknowledgement.
- ✓ Citing "leading analysts" and "investment experts" without naming specific reference.
- ✓ Using charts and graphs without stating sources.

# Standard I(C): Guidance - Plagiarism

## ➤ Guidance - Plagiarism

### 19. Forms of plagiarism: (con't)

- ✓ Presenting **statistical estimates of forecasts** prepared by others and identifying the sources **without including the qualifying statements or caveats** that may have been used.
- ✓ Copying proprietary computerized spreadsheets or algorithms without authorization of the creators.
- ✓ Preparation of research reports based on multiple sources of information without acknowledging the sources.
  - ◆ Cannot use undocumented forecasts, earnings projections, asset values, etc. Sources must be revealed to bring the responsibility directly back to the author or the firm involved.

# Standard I(C): Guidance - Plagiarism

## ➤ Guidance - Plagiarism

20. In distributing 3rd-party, outsourced research, may use and distribute reports as long as not representing oneself as the author.

- ✓ May add value for the client by sifting through research and repackaging it for clients.

- ◆ **clients should be fully informed that they are paying for the ability of the member or candidate to find the best research from a wide variety of sources.**

- ✓ Should disclose whether the research presented comes from another source, from either within or outside the member's firm.
  - ◆ This allows clients to understand who has the expertise.

# Standard I(C): Guidance - Plagiarism

## ➤ Guidance - Plagiarism

21. When citing from mainstream media outlet:

- ✓ Cannot only cite the information from the intermediary, in case of misunderstanding and potential deviation from the viewpoint of the original author.
- ✓ **Best practice: Either** obtain the information directly from the author and cite only that author **or** use the information provided by the intermediary and cite both sources.

## Standard I(C): Guidance

### ➤ Guidance - Work Completed for Employer

22. Firm may issue future reports **without attribution to prior analysts**, but a member or candidate cannot reissue a previously released report solely under his or her name.
- ✓ **May** use other people's work (research, models, etc.) within the same firm without committing a violation.
  - ✓ When the original analyst leaves the firm, research and models developed while employed are the **property of the firm**. The firm retains the right to continue using the work completed after leaving.
    - ◆ The firm may issue future reports without providing attribution to the prior analysts.
    - ◆ A member or candidate **cannot reissue** a previously released report solely under his or her name.

# Guidance for Standards I-VII

<b>Standards</b>	<b>Professionalism</b>	Knowledge of the law; Independence and objectivity; Misrepresentation; <b>Misconduct</b>
	<b>Integrity of Capital Markets</b>	Material nonpublic information; Market manipulation
	<b>Duty To Clients</b>	Loyalty, prudence and care; Fair dealing; Suitability; Performance presentation; Preservation of confidentiality
	<b>Duty To Employers</b>	Loyalty; Additional compensation arrangements; Responsibility of supervisors
	<b>Investment</b>	Diligence and reasonable basis; Communication with clients; Record retention
	<b>Conflicts of Interest</b>	Disclosure of conflicts; Priority of transaction; Referral fees
	<b>Responsibility as Members</b>	Conduct as members and candidates; Reference to CFA institute, designation



# Standard I(D): Content

➤ **Content**

1. Must not engage in any professional conduct involving **dishonesty, fraud, or deceit** or commit any act that **reflects adversely** on their professional reputation, integrity, or competence.



# Standard I(D): Guidance

## ➤ Guidance

### 2. Dishonest conduct

- ✓ Any act that involves lying, cheating, stealing, or other dishonest conduct would violate this standard if the offense reflects adversely on professional activities.
- ✓ Do not abuse this standard to settle personal, political, or other disputes unrelated to professional ethics.

### 3. Absence of appropriate conduct and sufficient effort

- ✓ Member or candidate is expected to conduct the necessary due diligence to understand the nature and risks of investment before making investment recommendations.
- ✓ If not taking such steps, instead, relying on others, is violation.

# Standard I(D): Guidance

## ➤ Guidance

4. Conduct that damages trustworthiness or competence may include behavior that negatively affects ability to perform professional activities.
  - ✓ E.g. **abusing alcohol** during business hours. Because it could have a detrimental effect on the ability to fulfill professional responsibilities.
  - ✓ **Personal bankruptcy** may not reflect on the integrity or trustworthiness of the person declaring bankruptcy,
    - ◆ but if the circumstances of the bankruptcy involve fraudulent or deceitful business conduct, the bankruptcy may be a violation of this standard.

# Guidance for Standards I-VII

Standards	Professionalism	Knowledge of the law; Independence and objectivity; Misrepresentation; Misconduct
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# Standard II(A): Content

## ➤ Content:

1. Members and Candidates who possess material nonpublic information that could affect the value of an investment must **not act** or **cause others to act** on the information.

## Standard II(A): Guidance

### ➤ Guidance

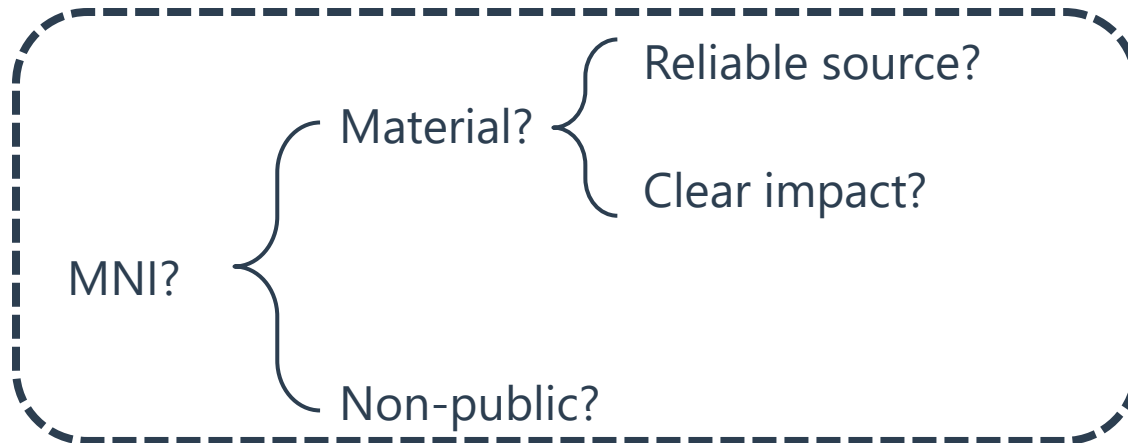
2. Trading or inducing others to trade on material nonpublic information will cause investors to avoid capital markets because the markets are perceived to be "rigged" in favor of the knowledgeable insider.
3. Must not use such information to:
  - ✓ directly buy and sell of individual securities or bonds
  - ✓ influence their investment actions related to derivatives, mutual funds, or other alternative investments.

## ◆ Standard II(A): Guidance

### ➤ Guidance - What Is “Material” Information?

#### 4. Material Nonpublic

- ✓ Information is “**material**” if its disclosure would likely have an impact on the price of a security **or** if reasonable investors would want to know the information before making an investment decision.
- ✓ Information is “**nonpublic**” until it has been disseminated or is available to the marketplace in general.





## Standard II(A): Guidance

➤ **Guidance - What Is “Material” Information?**

5. Substance and specificity determines the materiality

● Company-related information

- ✓ Earnings
- ✓ Mergers, acquisitions, tender offers, or joint ventures
- ✓ Changes in assets or asset quality
- ✓ Innovations products, processes, or discoveries
- ✓ New licenses, patents, registered trademarks, or regulatory approval/rejection of a product

## **Standard II(A): Guidance**

### ➤ **Guidance - What Is “Material” Information?**

#### 5. Substance and specificity determines the materiality

##### ● Company-related information

- ✓ Developments regarding customers or suppliers (e.g. the acquisition or loss of a contract)
- ✓ Changes in management
- ✓ Changes in auditor notification or the fact that the issuer may no longer rely on an auditor's report or qualified opinion
- ✓ Events regarding the issuer's securities
- ✓ Bankruptcies
- ✓ Significant legal disputes
- ✓ New or changing equity or debt rating issued by third party



## Standard II(A): Guidance

### ➤ Guidance - What Is “Material” Information?

5. Substance and specificity determines the materiality (con't)
  - Macro-economy
    - ✓ Government reports of economic trends (employment, housing starts, currency information, etc.)
  - Large orders
    - ✓ Orders for large trades before they are executed
  - Well known analyst
    - ✓ Reports from well known analyst
  - Qualified personnel
    - ✓ Information about trials of a new drug
    - ✓ Additionally, information about trials of a new drug, product, or service under development from qualified personnel involved in the trials is likely to be material, whereas educated conjecture by subject experts not connected to the trials is unlikely to be material.
  - Competitors
    - ✓ Competitor's estimation → not MNI

## Standard II(A): Guidance

### ➤ Guidance - What constitutes “nonpublic” Information?

6. Information is “nonpublic” until it has been disseminated or is available to the marketplace.
  - ✓ Not necessary to wait for the slowest method of delivery.
  - ✓ Once the information is disseminated to the market, it is **public information** that is no longer covered by this standard.
7. Selective disclosure
  - ✓ Disclosure to a room full of analysts does not necessarily make the disclosed information “public.”
  - ✓ Analysts should also be alert to the possibility that they are selectively receiving MNI when a company provides them with guidance or interpretation of financial statements or regulatory filings.
  - ✓ **Selective disclosure may violate MNI.** If MNI was disclosed selectively, the listed company should issue a press release or reach public dissemination.

## Standard II(A): Guidance

### ➤ Guidance – When can use “nonpublic” Information?

8. A member or candidate may use insider information provided legitimately by the source company for the specific purpose of conducting due diligence according to the business agreement between the parties for such activities as mergers, loan underwriting, credit ratings, and offering engagements.

# Standard II(A): Guidance - Mosaic Theory

## ➤ Guidance – Mosaic Theory

9. Mosaic theory:

	Material	Non-material
Public	√	√, but unnecessary
Non-public	×	√

- May use conclusions from the analysis of **material public and nonmaterial nonpublic information** even if those conclusions would have been material inside information had they been communicated directly to the analyst by a company.
  - ✓ A perceptive analyst reaches a conclusion about a corporate action or event through an analysis of public information and items of nonmaterial nonpublic information. → not violate II (A)
  - ✓ Should **save and document** all the research when applying mosaic theory → Standard V(C).

# Standard II(A): Guidance – Social Media

## ➤ Guidance – Social Media

10. Members and candidates participating in groups with membership limitations should **verify that material information obtained from these sources** can also be accessed from a source that would be considered available to the public (e.g., company filings, webpages, and press releases).
  - ✓ the use of these platforms would be comparable with other traditional forms of communications, such as e-mails and press releases.
  - ✓ Members and candidates, as required by Standard I(A), should also complete all appropriate regulatory filings related to information distributed through social media platforms.

# Standard II(A): Guidance – Industry Expert

## ➤ Guidance – Industry expert

11. Members and candidates **may provide compensation to individuals for their insights without violating this standard.** However, members and candidates are **ultimately responsible** for ensuring the information they receive does not constitute material nonpublic information.

- ✓ members and candidates would be prohibited from taking investment actions on the associated firm until the information became publicly known to the market
- ✓ Firms connecting experts with members or candidates often require both parties to sign agreements concerning the disclosure of material nonpublic information.



## Standard II(A): Guidance

### ➤ Guidance - Investment Research Reports

12. When a well-known or respected analyst issues a report or makes changes to his or her recommendation, that information alone may have an effect on the market and thus may be considered material. Theoretically, such a report would have to **be made public** before it was distributed to clients.
13. The analyst is not a company insider, however, and does not have access to inside information. Presumably, the analyst created the report from information available to the public (mosaic theory) and by using his or her expertise to interpret the information. The analyst's hard work, paid for by the client, generated the conclusions.
14. Simply because the public in general find the conclusions material does not require that the analyst make his/her work public.  
Investors who are not clients of the analyst can either do the work themselves or become clients of the analyst for access to the analyst's expertise.



# Standard II(A): Recommended Procedures

## ➤ Recommended Procedures

### 15. A reporting system.

- Primary objective of effective firewall procedure:
  - ✓ establish a reporting system in which authorized people review and approve communications between departments.
- **Inter-department communication:**
  - ✓ should **consult a designated compliance officer to determine whether sharing the information is necessary and how much to be shared.**
  - ✓ If sharing is necessary, the compliance officer should coordinate the process of “looking over the wall” so that the necessary information will be shared and the integrity of the procedure will be maintained.
- A single supervisor or compliance officer should decide whether or not information is material and whether it is sufficiently public to be used as the basis for investment decisions.
- Ideally, the supervisor or compliance officer responsible for communicating information to a firm’s research or brokerage area would not be a member of that area. (independent)



# Standard II(A): Recommended Procedures

## ➤ Recommended Procedures

### 16. Record maintenance.

- ✓ Multi-service firms should maintain written records of the communications between various departments. Firms should place a high priority on training and consider instituting comprehensive training programs, particularly for employees in sensitive areas.

### **17. Proprietary trading procedures (自营业务)**

- ✓ Monitor and restrict proprietary trading when holding MNI
- ✓ Prohibition on **all** proprietary activity when owning MNI is **not appropriate**. → depend on the **types** of proprietary trading.
  - ◆ **Market maker** in possession of MNI, withdrawal from market making will be a clear tip to market. Remain passive to market (take only contra side of unsolicited customer's trades).
  - ◆ **Risk-arbitrage trading**: Best to stop; If not stop, prove the adequacy of their internal procedures, and must demonstrate stringent review and documentation of firm trades.

# Guidance for Standards I-VII

<b>Standards</b>	<b>Professionalism</b>	Knowledge of the law; Independence and objectivity; Misrepresentation; Misconduct
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	<b>Duty To Employers</b>	Loyalty; Additional compensation arrangements; Responsibility of supervisors
	<b>Investment</b>	Diligence and reasonable basis; Communication with clients; Record retention
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	<b>Responsibility as Members</b>	Conduct as members and candidates; Reference to CFA institute, designation

## Standard II(B): Content

- **Content:** Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants. Market manipulation includes:
  - **Info-based:** Dissemination of false or misleading information
    - ✓ Pump up prices by issuing misleading positive info, then dump.
  - **Transaction-based:** Members or candidates knew or should have known that transactions deceive or would be likely to mislead market participants by distorting the price-setting mechanism. It includes:
    - ✓ artificially affect prices or volume to give misleading impression of price movement, which represent a diversion from the expectations of a fair and efficient market.
    - ✓ securing a dominant position to exploit and manipulate the price of related derivative and the underlying asset.

# Standard II(B): Guidance

## ➤ Guidance

2. The **intent** of the action is critical to determining whether it is a violation
  - ✓ Not prohibit legitimate trading strategies that exploit a diff in market power, info, or other inefficiency.
  - ✓ Not prohibit trade for tax purposes, selling then buying back.
3. To increase liquidity, Futures Exchange made agreements with members to insure the minimum trading volume in exchange for reduction of commission. → If for the interest of clients and disclosed, **not violate**. (see Case 5)

# Guidance for Standards I-VII



# Standard III(A): Content

## ➤ Content:

1. Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment.
2. Must act for the benefit of their clients and place their clients' interests before their employer's or their own interests.

# Standard III(A): Guidance

## ➤ Guidance

3. Exercise prudence, care, skill, and diligence.

4. **Fiduciary** (acting for the benefit of another party) requires higher duty to other business duty.

- ✓ A **fiduciary** is someone who acts for the benefit of someone else.  
In a position of trust, fiduciaries owe undivided loyalty to their clients and must place clients' interests before their own.
- ✓ Prudent man rule: A fiduciary must direct and operate the client's assets according to a **higher standard** of loyalty and extra care than the standard to which most people are held.
- ✓ Any pooling of funds must be managed in strict accordance to the trust documents.

# Standard III(A): Guidance

## ➤ Guidance

5. Prudence requires caution and discretion.
  - ✓ The exercise of prudence requires acting with care, skill, and diligence in the circumstances that a reasonable person acts in a like capacity and familiar with such matters would use.
  - ✓ In managing a client's portfolio, prudence requires **following the investment parameters set by the client** and balancing risk and return.
  - ✓ Acting with care requires a prudent and judicious manner in avoiding harm to clients.
6. Standard III(A), is **not a substitute for legal** or regulatory obligations. The duty required in fiduciary relationships exceeds what is acceptable in many other business relationships because a fiduciary is in an enhanced position of trust.



## Standard III(A): Guidance

### ➤ Understanding the Application of Loyalty, Prudence, and Care

7. Standard III(A) does not render all members and candidates fiduciaries. However, Standard III(A) requires members and candidates to work in the client's best interest no matter what the job function.

- The conduct may or may not rise to the level of **being a fiduciary, depending on the type of client, whether they are giving investment advice**, and the many facts and circumstances surrounding a particular transaction or client relationship.
  - ✓ A member or candidate who does not provide advisory services to a client, but who acts only as a **trade execution** professional must prudently work in the client's interest when completing requested trades.
  - ✓ **The extent of the advisory arrangement and limitations should be outlined** in the agreement with the client at the outset of the relationship. For instance, members and candidates should inform clients that the advice provided will be limited to the propriety products of the firm and **not include other products available on the market.**

## Standard III(A): Guidance

### ➤ Guidance - Identifying the Actual Investment Client

8. Determine the identity of the “client” to whom the duty of loyalty is owed.

#### 4 types of clients:

- ✓ **Individual:** In the context of an investment manager managing the personal assets of an individual, the client is the owner of the asset.
- ✓ **Beneficiary:** When the manager is responsible for the portfolios of pension plans or trusts, the client is the beneficiaries of the plan or trust. The duty of loyalty is owed to the ultimate beneficiaries.
- ✓ **Mandate:** Members and candidates managing a fund to an index or an expected mandate owe the duty of loyalty, prudence, and care to the stated mandate.
- ✓ **Investing public:** The client may be the investing public as a whole, the goals of independence and objectivity of research surpass the goal of loyalty to a single organization.

## Standard III(A): Guidance

### ➤ Guidance - Developing the Client's Portfolio

9. The duty of loyalty, prudence, and care to client is especially important because the investment manager typically possesses greater knowledge in investment than the client does. This disparity places the individual client in a vulnerable position; the client must trust the manager.
  - ✓ The manager in these situations should ensure that the client's objectives and expectations of the account are **realistic and suitable** to their circumstances and that the risks involved are appropriate.
  - ✓ In most circumstances, recommended investment strategies should relate to the **long-term objectives** and circumstances of the client.

## Standard III(A): Guidance

### ➤ Guidance - Developing the Client's Portfolio (con't)

10. Particular care must be taken to detect whether the goals of the investment manager potentially conflict with the best interests and objectives of the client.
11. Must **follow any guidelines** set by their clients for asset management.
  - ✓ e.g. charity
12. Investment decisions must be judged in the context of the **total portfolio** rather than by individual investment within the portfolio.

## Standard III(A): Guidance

### ➤ Guidance - Soft Commission Policies

14. An investment manager often has discretion over the selection of brokers executing transactions. Conflicts arise when an investment manager uses client brokerage to purchase research services → “soft dollars” or “soft commissions.”
15. Whenever using client brokerage to purchase goods or services that do not benefit the client, should disclose to clients the methods or policies followed in addressing the potential conflict.
  - ✓ A member or candidate who pays a higher commission than he or she would normally pay to purchase goods or services, without corresponding benefit to the very client, violates III (A).

## Standard III(A): Guidance

### ➤ Guidance - Soft Commission Policies (con't)

**16. Directed brokerage:** A client will direct a manager to use the brokerage to purchase goods or services for the client. Because brokerage commission is an asset of the client and is used to benefit that client, not the manager, such a practice does not violate any duty of loyalty.

- ✓ Obligated to seek **“best execution” and “best price”**, and assured that the goods or services purchased from the brokerage will benefit the account beneficiaries.
- ✓ “Best execution” refers to a trading process that seeks to maximize the value of the client’s portfolio within the client’s stated investment objectives and constraints.
- ✓ Should disclose to the client and obtain **written consent** that the client may not get best execution from the directed brokerage if he insist on trading through that broker.

# Standard III(A): Guidance

## ➤ Guidance – Proxy Voting Policies

17. Voting proxies in an informed and responsible manner.

- ✓ Proxies have economic value to a client.
  - ◆ Must ensure properly safeguard and maximize this value.
- ✓ An investment manager who fails to vote, casts a vote without considering the impact of the question, or votes blindly with management on non-routine governance issues may violate III(A).
- ✓ **A cost-benefit analysis** may show that voting all proxies may not benefit the client, so voting proxies may not be necessary in all instances.
  - ◆ Members and candidates should disclose to clients their proxy voting policies.

## Example



Skylark Company primarily uses mutual funds from Prexel Funds for client accounts. Prexel charges fees that are higher than similar funds; however, some of these fees are given back to Skylark as rebates. Skylark uses these rebates to maintain reporting systems for the benefit of all clients. The systems enable clients to access better and more timely performance data. Prexel Funds' net-of-fee performance is better than its competitor funds. Skylark determines Prexel to be best suited for clients. Skylark discloses this arrangement to clients when they open an account with Skylark.

Any violation?

**Solution: No**



# Guidance for Standards I-VII

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# Standard III(B): Content

➤ **Content:**

1. Must deal fairly and objectively with all clients when
  - ✓ providing investment analysis
  - ✓ making investment recommendations
  - ✓ taking investment action, or engaging in other professional activities.

# Standard III(B): Guidance

## ➤ Guidance

2. Fairly ≠ equally
  - ✓ Fairly: Not to discriminate against any clients when disseminating recommendations or taking investment action.
  - ✓ Equally: Not required to treat all clients exactly the same, e.g. reach all clients exactly the same time, by e-mail or telephone.
3. Report types: initial detailed report, brief update report, by addition to or deletion from a recommended list, or simply by oral communication.
4. **Premium level service is okay**, if not disadvantage or negatively affect other clients. Should be disclosed to clients and available to everyone (should not be selective).
5. Trade: equitable system, pro rata on order size, not on account size.

# Standard III(B): Guidance

## ➤ Guidance - *Investment Recommendations*

6. involves members and candidates whose primary function is the preparation of investment recommendations to be disseminated either to the public or within a firm for the use of others in making investment decisions.
7. **The criterion:** the primary responsibility is the preparation of recommendations to be acted on by others, including those in the member's or candidate's organization.
8. An investment recommendation is any opinion in regard to purchasing, selling, or holding a given security or other investment.
  - ✓ Recommendation may be disseminated in different types. (refer to 3. report types)
  - ✓ A recommendation distributed to anyone outside the organization is considered a communication for general distribution.

## Standard III(B): Guidance

### ➤ Guidance - *Investment Recommendations*

9. Ensure that information is disseminated in a manner that all clients have a fair opportunity to act on every recommendation.
  - ✓ should encourage their firms to design an equitable system to prevent selective or discriminatory disclosure
  - ✓ should inform clients about what kind of communications they will receive.
10. **Material changes** in prior recommendations should be communicated to all current clients; particular care should be taken that the information reaches those clients who have acted on or been affected by the earlier advice.
  - ✓ Clients who do not know the changed recommendation and who place orders contrary to a current recommendation should be advised of the changed recommendation **before** the order is accepted.

## Standard III(B): Guidance

### ➤ Guidance - *Investment Action*

11. Treat all clients fairly in light of investment objectives and circumstances.
12. When making investments in new offerings or in secondary financings, should distribute the issues to all customers who are suitable for the investment and **consistent with the policies of allocating blocks of stock.**
13. If the issue is **oversubscribed**, should be prorated to all subscribers.
  - ✓ should be taken **on a round-lot basis to avoid odd-lot distributions.**
  - ✓ if the issue is oversubscribed, should forgo any sales to themselves or immediate families in order to free up additional shares for clients.

## Standard III(B): Guidance

### ➤ Guidance - *Investment Action* (Con't)

14. If the investment professional's **family-member accounts** are managed similarly to the accounts of other clients of the firm, these accounts should not be excluded from buying such shares.
15. Must make every effort to treat all individual and institutional clients in a fair and impartial manner.
16. **Disclose** to clients and prospective clients the **documented allocation procedures** in place and how the procedures would affect them.
17. Should not take advantage of their position to the detriment of clients.

# Standard III(B): Recommended Procedures

## ➤ Recommended Procedures

- Develop firm policies
  - ✓ an investment advisor who is a sole proprietor and handles only discretionary accounts might not disseminate recommendations to the public, but should have formal written procedures to ensure that all clients receive fair investment action
- Consider the following points when establishing compliance procedures:
  - ✓ **Limit the number of people who are privy** to the fact that a recommendation is going to be disseminated
  - ✓ **Shorten the time frame** between decision and dissemination<sup>18</sup>
  - ✓ Publish guideline for pre-dissemination behavior
  - ✓ Simultaneous dissemination<sup>19</sup>
  - ✓ Maintain a list of clients and their holdings
  - ✓ Develop and document trading allocation procedures<sup>20</sup>
- ***Disclose trade allocation procedures***
  - ✓ Trade allocation procedures must be fair and equitable.
  - ✓ ***Disclosure of inequitable allocation methods does not relieve the member or candidate of this obligation.***



# Guidance for Standards I-VII

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# Standard III(C): Content

## ➤ Content

1. When in an advisory relationship with a client, must:
  - ✓ Make a **reasonable inquiry** into a client or prospective client's investment experience, risk and return objectives, and financial constraints prior to making any investment recommendation or taking investment action, must reassess and update regularly.
  - ✓ Determine that an investment is suitable to the client's financial situation and consistent with **written** objectives, mandates, and constraints before making an investment recommendation or taking investment action.
  - ✓ ***Judge the suitability in the context of the client's total portfolio.***
2. When responsible for managing a portfolio to a specific **mandate**, strategy, or style, must only make investment recommendations or take investment actions that are **consistent with the stated objectives and constraints of the portfolio.**

## Standard III(C): Guidance

### ➤ **Guidance - *Developing an Investment Policy***

3. In an advisory relationship, must gather client information at the inception of the relationship.
  - ✓ Information includes the client's financial circumstances, personal data (such as age and occupation) that are relevant to investment decisions, attitudes toward risk, and objectives in investing.
  - ✓ Information should be **incorporated into a written investment policy statement (IPS)** that addresses the client's risk tolerance, return requirements, and all investment constraints

### ➤ **Guidance - *Understanding the Client's Risk Profile***

4. One of the most important factors to be considered in matching appropriateness and suitability of an investment with a client's needs and circumstances is measuring that client's tolerance for risk.

### ➤ **Guidance - *Updating an Investment Policy***

5. Updating the IPS should be repeated **at least annually** and also prior to material changes to any specific investment recommendations.

## Standard III(C): Guidance

### ➤ **Guidance - *The Need for Diversification***

6. An investment with high relative risk may be suitable in the context of the entire portfolio **or** when the client's stated objectives contemplate speculative or risky investments.
7. The manager may be responsible for only a portion of the client's total portfolio, or the client may not have provided a full financial picture.
  - ✓ Members and candidates can be responsible for assessing the suitability of an investment **only on the basis of the information actually provided by the client.**

### ➤ **Guidance - *Managing to an Index or Mandate***

8. Responsibility is to invest in a manner consistent with the stated mandate.
9. Those who manage pooled assets to a specific mandate are not responsible for any individual investor.
  - ✓ Only those who have advisory relationship are responsible for individual clients.

## Standard III(C): Guidance

### ➤ *Addressing Unsolicited Trade Requests*

#### 10. Unsolicited trades request that a member or candidate knows are unsuitable for a client.

- The member or candidate should refrain from making the trade until he or she discusses the concerns with the client.
  - ✓ an unsolicited request may be expected to have only **a minimum impact** on the entire portfolio because the size of the requested trade is small or the trade would result in a limited change to the portfolio's risk profile.
    - ◆ necessary client approval for executing unsuitable trades.
    - ◆ At a minimum, the client should acknowledge the discussion and accept the conditions that make the recommendation unsuitable.
  - ✓ Unsolicited request expected to have **a material impact** on the portfolio, the member or candidate should use this opportunity to update the investment policy statement.
    - ◆ Some clients that decline to modify their policy statements while insisting an unsolicited trade be made.
      - members or candidates will need to evaluate the effectiveness of their services to the client and ultimately determine whether they should continue the advisory arrangement with the client.
      - Some firms may allow for the trade to be executed in a new unmanaged account.

# Guidance for Standards I-VII

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# Standard III(D): Content

➤ **Content:**

1. When communicating investment performance information, must make reasonable efforts to make sure that it is fair, accurate, and complete.

## Standard III(D): Guidance

### ➤ Guidance:

2. The presentation should be **fair, accurate, complete**
3. Prohibit misrepresentations of past performance or reasonably expected performance
  - ✓ **Not state or imply to obtain what was achieved in the past**
4. Include terminated portfolio as part of performance history.
5. The performance of weighted rate of return rather than a single performance.



## Standard III(D): Guidance

### ➤ Guidance: (con't)

#### 6. If the presentation is **brief**, must

- ✓ make available to clients and prospects, on request, the detailed information supporting that communication.
- ✓ **Best practice:** brief presentations include a reference to the limited nature of the information provided.

# Standard III(D): Recommended Procedures

## ➤ Recommended Procedures

### **7. *Apply GIPS standards.***

- ✓ For members and candidates who are showing the performance history of the assets they manage, compliance with the GIPS standards is the best method to meet their obligations under Standard III(D).
- ✓ Should encourage firms to comply with the GIPS standards.

# Standard III(D): Recommended Procedures

## ➤ Recommended Procedures

8. **Compliance without applying GIPS standards.** Can also meet obligations under Standard III(D) by:

- ✓ considering the knowledge and sophistication of the audience to whom a performance presentation is addressed,
- ✓ presenting the performance of the weighted composite of similar portfolios rather than using a single representative account,
- ✓ including terminated accounts as part of performance history with a clear indication of when the accounts were terminated,
- ✓ including disclosures that fully explain the performance results being reported.
  - ◆ Simulated performance using models?
  - ◆ Performance record from prior entity?
  - ◆ ***Is performance gross of fees (investment management fee), net of fees, or after tax?***
- ✓ maintaining the data and records used to calculate the performance being presented.

# Guidance for Standards I-VII

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# Standard III(E): Content

➤ **Content:**

1. Must keep information about current, former, and prospective clients confidential unless:
  - ✓ The information concerns illegal activities on the part of the client;
  - ✓ Disclosure is required by law; or
  - ✓ The client or prospective client permits disclosure of the information.

# Standard III(E): Guidance

## ➤ Guidance

2. Require preservation of the confidentiality of information communicated by clients, prospective clients, and former clients<sup>4</sup>. III(E) is applicable when:
  - ✓ receiving information because of special ability to conduct a portion of the client's business or personal affairs, and
  - ✓ receiving information that arises from or is relevant to that portion of the client's business that is the subject of the special or confidential relationship.
3. If disclosure is required by law or the information concerns illegal activities by the client, may have an obligation to report the activities to the appropriate authorities.

## ➤ Guidance - *Status of Client*

4. Must continue to maintain the confidentiality of client records even after the client relationship has ended. ***If a client or former client expressly authorizes the disclosure***, may follow the terms of the authorization and provide the information.

## Standard III(E): Guidance

### ➤ Guidance - *Compliance with Laws*

5. As a general matter, must comply with applicable law.
  - ✓ If applicable law requires disclosure of client information in certain circumstances, members and candidates must comply with the law.
  - ✓ ***If applicable law requires maintaining confidentiality***, even if the information concerns illegal activities on the part of the client, should not disclose.
  - ✓ When in doubt, should consult with compliance personnel or legal counsel before disclosing confidential information about clients.

## Standard III(E): Guidance

### ➤ Guidance - *Electronic Information and Security*

6. Many employers have strict policies about how to electronically communicate sensitive client information and store client information on personal laptops, mobile devices or portable disk/flash drives.
7. Standard III(E) **does not require** members or candidates to **become experts** in information security technology, but they should have a thorough understanding of the policies of their employers. The size and operations of the firm will lead to differing policies for ensuring the security of confidential information maintained within the firm.
8. Members and candidates should encourage their firm to conduct regular periodic training on confidentiality procedures for all firm personnel, including portfolio associates, receptionists, and other non-investment staff who have routine direct contact with clients and their records



## Standard III(E): Guidance

### ➤ Guidance - *Professional Conduct Investigations by CFA Institute*

9. Requirements of III(E) are not intended to prevent from cooperating with an investigation by the CFA Institute Professional Conduct Program (PCP).
10. When permissible under applicable law, shall consider the **PCP** an extension of themselves when requested to provide information about a client in support of a PCP investigation into their own conduct.
  - ✓ Encouraged to cooperate with investigations into the conduct of others.
  - ✓ Any information turned over to the PCP is kept in the strictest confidence.
  - ✓ Will not be considered in violation of this standard by forwarding confidential information to the PCP.

# Standard III(E): Recommended Procedures

## ➤ Recommended Procedures

11. The simplest, most conservative and effective way to comply with III(E) is to avoid disclosing any information received from a client **except to authorized fellow employees who are also working for the client.**
12. In some instances, may want to disclose information from clients that is outside the scope of the confidential relationship and does not involve illegal activities. Before making such a disclosure, should ask the following:
  - ✓ In what context was the information disclosed? If disclosed, is the information relevant to the work?
  - ✓ Is the information background material that, if disclosed, will enable better service to the client?
13. Communication with clients: Members and candidates should be diligent in discussing with clients the appropriate methods for providing confidential information. It is important to convey to clients that not all firm-sponsored resources may be appropriate for such communications.

# Guidance for Standards I-VII



# Standard IV(A): Content

## ➤ **Content:**

1. In matters related to their employment, must act for the benefit of employer and not deprive employer of the advantage of their skills and abilities, divulge confidential information, or otherwise cause harm to their employer.

## Standard IV(A): Guidance

### ➤ Guidance

2. **Core rule**: Protect the interests of their firms by refraining from any conduct that would injure the firm, deprive it of profit, or deprive it of the member's or candidate's skills and ability.

### ➤ Guidance - *Employer Responsibilities*

3. **Encouraged** to provide employer with a copy of the Code and Standards. These materials will inform the employer of the responsibilities of a CFA Institute member or candidate in the CFA Program. The Code and Standards also serve as a basis for questioning employer policies and practices that conflict with these responsibilities.
4. Employers are not obligated to adhere to the Code and Standards. Senior management has the additional responsibility to devise compensation structures and incentive arrangements that do not encourage unethical behavior.

## Standard IV(A): Guidance

### ➤ Guidance - *Independent Practice*

5. "Undertaking independent practice" means engaging in competitive business, as opposed to making preparations to begin such practice.
6. Should abstain from independent competitive activity that could conflict with the interests of their employer.
  - ✓ Although IV(A) does not preclude from entering into an independent business while still employed, those who planning to engage in such practice for compensation must notify their employer and describe:
    - ◆ types of services they will render to prospective independent clients,
    - ◆ the expected duration of the services,
    - ◆ the compensation for the services.
7. Should not render services until they receive **consent** from their employer to all of the terms of the arrangement.

## Standard IV(A): Guidance

### ➤ Guidance - *Leaving an Employer*

8. **Before leaving**, the following will cause a violation:

- ✓ Misappropriation of trade secrets
- ✓ Misappropriation of client lists. Memorizing client lists (name and address) is not permitted, unless the info does not come from the records of former employer or violate noncompete agreement.
- ✓ Misuse of confidential information.
- ✓ Soliciting employer's clients prior to cessation of employment.
- ✓ Self-dealing (appropriating for one's own property a business opportunity or information belonging to one's employer)

9. **After leaving**, the following will cause a violation:

- ✓ Violation of terms in existing non-compete contract
- ✓ Taking records or files (even rejected idea list) to a new employer without the written permission of the previous employer

## Standard IV(A): Guidance

### ➤ Guidance - *Leaving an Employer* (con't)

10. Once notice is provided to the employer of the intent to resign, must follow the policies and procedures to notify clients of planned departure.
11. Once an employee has left the firm, the skills and experience that an employee obtained while employed are not "confidential" or "privileged" information.
  - ✓ IV(A) does not prohibit experience or knowledge gained at one employer from being used at another employer.
12. Simple knowledge of names and existence of clients is not confidential information unless deemed such by an agreement or by law.
13. Firm records or work performed on behalf of the firm that is stored in paper copy or electronically while employed should be **erased** or **returned** to the employer unless the firm gives permission to keep those records after employment ends.



## Standard IV(A): Guidance

### ➤ Guidance - *Leaving an Employer* (con't)

14. In some markets, there are agreements between employers within an industry that outline information that departing employees are permitted to take upon resignation, such as the "Protocol for Broker Recruiting" in the United States.
  - individuals are allowed to take some general client contact information when departing.
    - ✓ To be protected, a copy of the information the individual is taking must be provided to the local management team for review.
    - ✓ Additionally, the specific client information may only be used by the departing employee and not others employed by the new firm.



## Standard IV(A): Guidance

### ➤ Guidance – *Use of Social Media*

15. Communications through social media platforms that potentially reach current clients should adhere to the employer's policies and procedures regarding notification of departing employees.
16. Specific accounts and user profiles of members and candidates may be created for solely professional reasons, including firm approved accounts for client engagements. Such business related accounts would be considered part of the firm's assets, thus requiring members and candidates to transfer or delete the accounts as directed by their firm's policies and procedures.
  - **Best practice** for members and candidates is to **maintain separate accounts** for their personal and professional social media activities.
  - Members and candidates **should discuss** with their employers how profiles should be treated when a single account includes personal connections and also is used to conduct aspects of their professional activities.

## Standard IV(A): Guidance

### ➤ Guidance - *Whistleblowing*

17. Personal interests, and interests of employer, are secondary to protecting the integrity of capital markets and the interests of clients.
18. When an employer is engaged in illegal or unethical activities, actions taken by the employee that would normally violate loyalty to employer (e.g. violating certain policies, contradicting employer instructions, or preserving a record by copying employer records) may be justified. Such action would be permitted only if the intent is clearly aimed at protecting clients or the integrity of the market, not for personal gain.

### ➤ Guidance - *Nature of Employment*

19. The applicability is based on the nature of the employment-employee versus **independent contractor**. Duties within an independent contractor relationship are governed by the oral or written agreement between the member and the client.



## Example



Victoria Duffy, CFA, recently left her position as a portfolio manager at DalTex Investment Advisors. Duffy has started her own investment management firm, Victory Investment Management. Duffy has lunch with Linda Kercheval, CFA, the chief compliance officer at DalTex, as she is interested in offering Kercheval a position at Victory. During their meeting, Duffy shares with Kercheval a presentation that includes the proposed management structure, the investment products to be offered, and a list of potential clients.

Although Kercheval is excited about the opportunity to join Duffy, she feels the timing is not quite right so she delays submitting her resignation.

## Example



A short time later, she sees one of the clients Duffy had noted in her presentation in the DalTex office. She stops to talk with the client who mentioned how much he missed working with Duffy. Kercheval tells the client she had recently seen Duffy and shares her plans to open her own firm. The client gives Kercheval his business card and asks her to have Duffy contact him or to give him the name of her new firm. Kercheval considers what she should do and comes up with the following options:

Option 1: Call Duffy and recount the conversation.

Option 2: Do nothing until she joins Victory and then pass on the card to Duffy.

Option 3: Give the client the name of Duffy's new firm.

Regarding her conversation with DalTex's client, which option should Kercheval most likely choose to prevent violating CFA Institute Code of Ethics and Standards of Professional Conduct?

**Solution:** Option 3

# Guidance for Standards I-VII



## Standard IV(B): Content

### ➤ Content:

1. Must not accept gifts, benefits, compensation, or consideration that competes with, or might reasonably be expected to create a conflict of interest with, their employer's interest unless they obtain written consent from all parties involved.



## Standard IV(B): Guidance

### ➤ Guidance

2. No gifts, benefits, compensation or consideration are to be accepted which may create a conflict of interest with the employer's interest unless **written consent** is received from **all parties**.
3. "Written Consent" includes any form of communication that can be documented (for example, communication via computer e-mail that can be retrieved and documented).
4. Must obtain permission for additional compensation/benefits because such arrangements may affect loyalty and objectivity and create potential conflicts of interest.





## Standard IV(B): Guidance

**5. There may be instances in which a member or candidate is hired by an employer on a “part-time” basis.**

- ✓ Members and candidates should discuss possible limitations to their abilities to provide services that may be competitive with their employer during the negotiation and hiring process.

# Standard IV(B): Recommended Procedures

## ➤ Recommended Procedures

6. Should make an immediate written report to employer specifying any compensation they propose to receive for services in addition to the compensation or benefits received from their employer.
7. The details of the report should be **confirmed by the party** offering the additional compensation, including performance incentives by clients.
8. The written report should state the terms of any agreement under which a member or candidate will receive additional compensation;
  - ✓ Include **the nature** of the compensation, the **approximate amount** of compensation, and the **duration** of the agreement.

# Guidance for Standards I-VII

Standards	Professionalism	Knowledge of the law; Independence and objectivity; Misrepresentation; Misconduct
	Integrity of Capital Markets	Material nonpublic information; Market manipulation
	Duty To Clients	Loyalty, prudence and care; Fair dealing; Suitability; Performance presentation; Preservation of confidentiality
	Duty To Employers	Loyalty; Additional compensation arrangements; Responsibility of supervisors
	Investment	Diligence and reasonable basis; Communication with clients; Record retention
	Conflicts of Interest	Disclosure of conflicts; Priority of transaction; Referral fees
	Responsibility as Members	Conduct as members and candidates; Reference to CFA institute, designation



## Standard IV(C): Content

➤ **Content:**

1. Members and Candidates must make reasonable efforts to ensure that anyone subject to their supervision or authority complies with applicable laws, rules, regulations and the Code and Standards.

# Standard IV(C): Guidance

## ➤ Guidance

2. Can delegate, but not relieve of supervisory responsibility.
  - ✓ Should instruct about methods to prevent and detect violations of laws, rules, regulations, firm policies, and the Code and Standards.

## ➤ Guidance - *Detection Procedures*

3. Exercise reasonable supervision by establishing and implementing written compliance system and ensuring periodic review on the system.

# Standard IV(C): Guidance

## ➤ Guidance

4. At a minimum, Standard IV(C) requires that members and candidates with supervisory responsibility make reasonable efforts to prevent and detect violations by ensuring the establishment of effective compliance systems.
  - a code of ethics,
  - compliance policies and procedures,
  - reviewing employee actions to determine whether they are following the rules,
  - education and training programs,
  - an incentive structure that rewards ethical conduct, and
  - adoption of firm-wide best practice standards (e.g. the GIPS Standards, CFA Institute Asset Manager Code of Professional Conduct).

## Standard IV(C): Guidance

### ➤ Guidance – *Supervision includes detection*

5. Exercise reasonable supervision by establishing and implementing written compliance procedures and ensuring that those procedures are followed through **periodic review**.
6. If a member or candidate has adopted reasonable procedures and taken steps to institute an effective compliance program, then the member or candidate may **not be in violation** of Standard IV(C) if he or she does not detect violations that occur despite these efforts.

### ➤ Guidance - *Inadequate Procedures*

7. **Those who have supervisory responsibility should bring an inadequate compliance system to the attention of the firm's senior managers and recommend corrective action.**
8. If the member or candidate clearly cannot discharge supervisory responsibilities because of the absence of a compliance system or because of and inadequate compliance system, the member or candidate should **decline in writing** to accept supervisory responsibility until the firm adopts reasonable procedures to allow adequate exercise of supervisory responsibility.

## Standard IV(C): Guidance

### ➤ Guidance – *System for supervision*

9. Should know what an adequate system is, and make reasonable efforts to see that appropriate procedures are established, documented, communicated to covered personnel, and followed.
  - ✓ Once such procedures are in place, supervisor must make reasonable efforts to ensure that the procedures are monitored and enforced.
10. **Once knowing a potential violation, supervisor must promptly initiate an investigation to ascertain the extent of the wrongdoing.**
  - ✓ Relying on employee's statements or assurances that the wrongdoing will not recur is **not enough**.
  - ✓ Reporting the misconduct up the chain of command and warning the employee to cease the activity are also **not enough**.
  - ✓ Should take steps to ensure that the violation will not be repeated, by **placing limits on the employee's activities or increasing the monitoring of the employee's activities**.



# Guidance for Standards I-VII



# Standard V(A): Content

## ➤ Content:

- Members and Candidates must:
  1. Exercise diligence, independence, and thoroughness in analyzing investments, making investment recommendations, and taking investment actions.
  2. Have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action.

# Standard V(A): Guidance

## ➤ Guidance

- The requirements for research conclusions vary in relation to the role in investment decision-making process, but must make reasonable efforts to cover all pertinent issues when arriving at a recommendation.
- Provide supporting information to clients → enhance transparency

## ➤ Guidance - ***Defining Diligence and Reasonable Basis***

3. In providing investment service, often use a variety of resources (company reports, third-party research, and results from quantitative models).
4. Some attributes to consider:
  - ✓ Global, regional, and country macroeconomic conditions
  - ✓ current stage of the industry's business cycle,
  - ✓ company's operating and financial history,
  - ✓ mutual fund's fee structure and management history,
  - ✓ output and potential limitations of quantitative models,
  - ✓ quality of the assets included in a securitization,
  - ✓ appropriateness of selected peer-group comparisons.
5. Can base decisions only on the information available at the time the decision is made. The steps taken in developing a diligent and reasonable recommendation should minimize unexpected downside events.

## Standard V(A): Guidance

### ➤ Guidance - *Using Secondary or Third-Party Research*

6. Criteria in forming an opinion on whether research is sound include:
- ✓ assumptions used,
  - ✓ rigor of the analysis performed,
  - ✓ date/timeliness of the research, and
  - ✓ evaluation of objectivity and independence of recommendations
- If rely on secondary or third-party research, must make reasonable and diligent efforts to determine whether it is sound. If suspect the soundness, must not rely on that information.
  - May rely on others in the firm to determine soundness and use the information in good faith assuming the due diligence process was deemed adequate.

## Standard V(A): Guidance

- The **sources of the information and data will influence the level of the review** a candidate must undertake.
  - ✓ Information and data taken from **internet sources**, such as personal blogs, independent research aggregation websites, or social media websites, likely **require a greater level of review** than information from more established research organizations.
- Should verify that the firm has a policy about the **timely and consistent review** of approved research providers to ensure the quality of the research.
- If such policy not in place, should encourage development and adoption.

## Standard V(A): Guidance

### ➤ *Guidance – Using Quantitatively Oriented Research*

7. Need to have an understanding of the **parameters** used in the model or quantitative research.
8. Although not required to be experts in technical aspects of the models, must understand the **assumptions and limitations** inherent in any model and **how the results were used** in the decision-making process.

## Standard V(A): Guidance

### ➤ ***Guidance – Developing Quantitatively Oriented Research***

9. Individuals who create new quantitative models and services must exhibit a higher level of diligence in reviewing new products than the individuals who ultimately use the analytical output.
  - Members and candidates involved in the development and oversight of quantitatively oriented models, methods, and algorithms must **understand the technical aspects of** the products they provide to clients.
  - A thorough **testing** of the model and resulting analysis should be completed prior to product distribution.
10. Need to consider the **time horizon of data** input in financial models.
11. In development of a recommendation, may need to **test the models by using volatility and performance expectations** that represent **scenarios outside the observable databases**.
12. In reviewing computer models or the resulting output, pay attention to the assumptions and rigor of the analysis **to ensure that the model incorporates negative market events**.

## Standard V(A): Guidance

### ➤ Guidance - *Selecting External Advisers and Subadvisers*

13. Why adopt external advisers and subadvisers?
  - ✓ The progression of financial instruments and allocation techniques leads to the use of specialized managers to invest in specific asset classes that complement the firm's in-house expertise.
14. Need to ensure that the firm has standardized criteria for reviewing external advisers. Such criteria would include, but would not be limited to, the following:
  - ✓ reviewing the adviser's established code of ethics
  - ✓ understanding the adviser's compliance and internal control procedures
  - ✓ assessing the quality of the published return information
  - ✓ reviewing the adviser's adherence to its stated strategy



## Standard V(A): Guidance

### ➤ Guidance - Group Research and Decision Making

15. The conclusions or recommendations of the group report represent the consensus of the group, but may not necessarily be the views of the member or candidate, even though his name is included on the report.
16. If not reflect his or her conclusion, must dissociate from the **group research?**
  - ✓ If the consensus opinion has a reasonable and adequate basis and is independent and objective, need not decline to be identified with the report, even if it does not reflect his opinion.
17. Always recommend "hot" issue indicates **NO** reasonable basis.

# Standard V(A): Recommended Procedures

## ➤ Recommended Procedures

18. Should encourage firms to consider the following:

- ✓ Establish a policy requiring that research reports, credit ratings, and investment recommendations have a basis that can be substantiated as reasonable and adequate.
- ✓ Develop **detailed, written guidance** for analysts and review committees for **judging reasonable and adequate basis** of a particular recommendation.
- ✓ Develop **measurable criteria** for assessing the **quality** of research, the **reasonableness and adequacy of the basis** for any recommendation or rating, and the **accuracy** of recommendations over time.
- ✓ Develop detailed, written guidance that establishes **minimum levels of scenario testing** of all computer-based models used in developing, rating, and evaluating financial instruments.

## Example



Chan has been working with an internal data science team to develop a machine learning model to improve the bank's forecast of IPO prices. In its last meeting with Chan, the data science team advised that adding several new variables to the model resulted in a statistically significant increase in forecast accuracy. However, Chan was not clear on how the new variables would improve the accuracy and considers following recommendation:

Step 1: Review the technical aspects and programming of the model;

Step 2: Review the model factors and parameters to better understand its assumptions and limitations.

➤ With regard to the machine learning model, to be in compliance with the Standards, Chan must complete:

A. Step 1 only.

**B. Step 2 only.**

C. both Step 1 and Step 2.

# Guidance for Standards I-VII

Standards	Professionalism	Knowledge of the law; Independence and objectivity; Misrepresentation; Misconduct
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	Duty To Employers	Loyalty; Additional compensation arrangements; Responsibility of supervisors
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	Conflicts of Interest	Disclosure of conflicts; Priority of transaction; Referral fees
	Responsibility as Members	Conduct as members and candidates; Reference to CFA institute, designation

# Standard V(B): Content

## ➤ Content

### Members and Candidates must:

1. Disclose to clients and prospective clients the **basic format and general principles** of the investment processes used to analyze investments, select securities, and construct portfolios and must promptly disclose any changes that **might materially affect those processes**.
2. Disclose to clients and prospective clients significant **limitations and risks** associated with the investment process.
3. Use reasonable judgment in identifying which factors are important to their investment analyses, recommendations, or actions and include those factors in communications with clients and prospective clients.
4. Distinguish between fact and opinion in the presentation of investment analysis and recommendations.
  - ✓ "...will be..." → fact
  - ✓ "...may be ..." → opinion

## Standard V(B): Guidance

### ➤ **Guidance - *Informing Clients of the Investment Process***

5. Keep clients informed on an ongoing basis about changes to the investment process.
6. Understanding the basic characteristics of an investment is important in judging suitability on a stand-alone basis, it's especially important in determining the impact each investment will have on the characteristics of a portfolio.
7. **Should inform clients** about the specialization or diversification expertise of external advisers.

### ➤ **Guidance - *Different Forms of Communication***

7. All means of communications are included here, not just research reports, so in person, over the call, or by the computer are okay.
  - ✓ When providing information to clients through new technologies, members and candidates should take reasonable steps to ensure that such delivery would treat all clients fairly.
8. If recommendations are **in capsule form** (such as a recommended stock list), should notify clients that additional information and analyses are available upon request.

## Standard V(B): Guidance

### ➤ Guidance - *Identifying Risk and Limitations of Analysis*

9. Members and candidates must outline to clients and prospective clients significant risks and limitations of the analysis contained in their investment products or recommendations.

✓ The type and nature of significant risks will depend on the investment process that members and candidates are following and on the personal circumstances of the client **Guidance - *Distinction between Facts and Opinions in Reports***

- ◆ In general, the use of leverage constitutes a significant risk and should be disclosed.
- ◆ Adequately disclose the general market-related risks
- ◆ Risks associated with the use of complex financial instruments that are deemed significant.
- ◆ Other types of risks that members and candidates may consider disclosing include, but are not limited to, counterparty risk, country risk, sector or industry risk, security-specific risk, and credit risk.

## Standard V(B): Guidance

11. Investment securities and vehicles may have limiting factors that influence a client's or potential client's investment decision.
  - Examples of such factors and attributes include but are not limited to investment liquidity and capacity.
    - ✓ **Liquidity** is the ability to liquidate an investment on a timely basis at a reasonable cost.
    - ✓ **Capacity** is the investment amount beyond which returns will be negatively affected by new investments.
12. Members and candidates have to disclose significant risks known to them at the time of the disclosure.
13. Members and candidates cannot be expected to disclose risks they are **unaware** of at the time recommendations or investment actions are made.
  - A **one-time investment loss** that occurs after the disclosure does not constitute a pertinent factor in assessing whether significant risks and limitations were properly disclosed
  - Having **no knowledge** of a risk or limitation that subsequently triggers a loss may reveal **a deficiency** in the **diligence and reasonable** basis of the research of the member or candidate, **but may not reveal a breach of Standard V(B)**.



# Standard V(B): Guidance

## ➤ Guidance-Report Presentation

14. The member or candidate who prepares the report must **include those elements that are important to the analysis** and conclusions of the report so that the reader can follow and challenge the report's reasoning.
15. A report writer who has done adequate investigation may emphasize certain areas, touch briefly on others, and omit certain aspects deemed unimportant. As long as the analyst clearly stipulates the limits to the scope of the report.
16. Investment advice based on **quantitative** research and analysis must be supported by readily available reference material and should be applied in a manner **consistent with previously applied methodology**.
  - If changes in methodology are made, they should be highlighted.

## Standard V(B): Guidance

### 17. Separate opinions from facts:

- ✓ In the case of **complex quantitative analyses**, analysts must clearly **separate fact from statistical conjecture** and should identify the known limitations of an analysis.
- ✓ Should **explicitly discuss** with clients and prospective clients the assumptions used in the investment models and processes to generate the analysis.
- ✓ Caution should be used in promoting the accuracy of any model or process to clients because the ultimate output is merely an estimate of future results and not a certainty.

# Guidance for Standards I-VII

Standards	Professionalism	Knowledge of the law; Independence and objectivity; Misrepresentation; Misconduct
	Integrity of Capital Markets	Material nonpublic information; Market manipulation
	Duty To Clients	Loyalty, prudence and care; Fair dealing; Suitability; Performance presentation; Preservation of confidentiality
	Duty To Employers	Loyalty; Additional compensation arrangements; Responsibility of supervisors
	Investment	Diligence and reasonable basis; Communication with clients; Record retention
	Conflicts of Interest	Disclosure of conflicts; Priority of transaction; Referral fees
	Responsibility as Members	Conduct as members and candidates; Reference to CFA institute, designation



# Standard V(C): Content

➤ **Content:**

1. Members and Candidates must develop and maintain appropriate records to support their investment analysis, recommendations, actions, and other investment-related communications with clients and prospective clients.

## Standard V(C): Guidance

### ➤ Guidance

2. Records may be maintained either in hard copy or electronic form.

### ➤ Guidance - *Records Are Property of the Firm*

3. Records created in professional activities are the property of the firm. When leaving the firm, cannot take those records, including originals or copies of supporting records of his work, to the new employer without the **express consent** of the previous employer.
4. Can **not use** historical recommendations or research reports created at the previous firm because the supporting documentation is unavailable.
5. For future use, must **re-create** the supporting records at the new firm through **public** sources, or directly from **covered** company, and not from memory or sources through previous employer unless with permission.

## Standard V(C): Guidance

### ➤ Guidance - *New Media Records*

6. Members and candidates should understand that employers and local regulators are developing digital media retention policies, but these policies may lag behind the advent of new communication channels.
  - ✓ Such lag places greater responsibility on the individual for ensuring that all relevant information is retained.

### ➤ Guidance - *Local Requirements*

7. Fulfilling local regulatory requirements also may satisfy the requirements of Standard V(C), but should explicitly determine whether it does.
8. **If no regulatory guidance in place, CFA Institute recommends maintaining records for at least 7 years.** If there is a legal requirement for retention period, follow the legal requirement.
  - ✓ If legal requirement regarding record maintenance is 5 years, how long should we keep records?

# Guidance for Standards I-VII





## Standard VI(A): Content

➤ **Content:**

1. Members and Candidates 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 their employer.
2. Must ensure that such disclosures are prominent, are delivered in plain language, and communicate the relevant information effectively.



# Standard VI(A): Guidance

## ➤ Guidance

3. Try our best to avoid any potential and actual conflict of interest.
4. Disclosures must be prominent and must be made **in plain language**
  - ✓ Best practice: update disclosures when the nature of a conflict of interest changes materially
5. If an analyst was asked to cover the company, when **inherit** the shares of the company in subject
  - ✓ must disclose if continue to follow
  - ✓ Best practice: assign another analyst to follow up the company

# Standard VI(A): Guidance

## ➤ Guidance

### 6. Disclosure to Employers

- Mere appearance of conflict of interest may create problems.
  - ✓ Restrict **personal trading, outside board membership**, and related activities to prevent situations that could give the appearance of a conflict of interest.
- If inadvertently find conflicts, must report and resolve as quickly and effectively as possible.

### 7. Disclosure to Clients:

- Disclose:
  - ✓ **corporate financing or market making relationship**;
  - ✓ Security holding
  - ✓ Directorship
  - ✓ **Individual relationship**
- Should also disclose fee arrangements, subadvisory arrangements or situations involving nonstandard fee structures. Equally important is to disclose arrangements in which the firm benefits directly from recommendations

# Standard VI(A): Guidance

## ➤ Guidance

### 8. Cross-Departmental Conflicts

- 和内部的矛盾（研究部与投行部）
- 和外部的矛盾（和上市公司之间）
- Broker-sponsored limited partnerships to invest venture capital.
  - ✓ Conflicts exist because not only to follow issues after IPO, but also to promote in the secondary market.

### 9. Conflicts with Stock Ownership

- **May** prohibit from owning any such securities → overly burdensome.
- Sell-side disclose ownership in stock recommended, buy-side disclose procedures for reporting requirements for personal transactions.

### 10. Conflicts as a Director

- Duties owed to clients and to shareholders of the company
- Investment personnel as a director receive the securities or options
- Board service receiving MNI

# Standard VI(A): Recommended Procedures

## ➤ Recommended Procedures

### 11. Disclosure of performance arrangement

- Firms are encouraged to include information on compensation package in firms' promotional literature.
- If fee based on capital gains or capital appreciation (performance fee), **should disclose**;
- If outstanding options exist for incentives, should **disclose the amount and expiration date** of these options as a footnote to any research report published.

### 12. Incentive fees should not be in conflict with the interests of clients'.

- If Yes, should disclose to clients;
- If employer not permit disclosure, should dissociate, or **quit** the job.

# Guidance for Standards I-VII

<b>Standards</b>	<b>Professionalism</b>	<b>Knowledge of the law; Independence and objectivity; Misrepresentation; Misconduct</b>
	<b>Integrity of Capital Markets</b>	<b>Material nonpublic information; Market manipulation</b>
	<b>Duty To Clients</b>	<b>Loyalty, prudence and care; Fair dealing; Suitability; Performance presentation; Preservation of confidentiality</b>
	<b>Duty To Employers</b>	<b>Loyalty; Additional compensation arrangements; Responsibility of supervisors</b>
	<b>Investment</b>	<b>Diligence and reasonable basis; Communication with clients; Record retention</b>
	<b>Conflicts of Interest</b>	<b>Disclosure of conflicts; Priority of transaction; Referral fees</b>
	<b>Responsibility as Members</b>	<b>Conduct as members and candidates; Reference to CFA institute, designation</b>



# Standard VI(B): Content

➤ **Content:**

1. Investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner, which means transactions that ultimately benefit Member or Candidate.

## Standard VI(B): Guidance

### ➤ **Guidance**

2. Client > employer > individual
  - ✓ Individual - beneficial owner.
3. After 7 minutes, buy, it's a violation. Must have enough time to let clients have opportunities to respond to your recommendation.

### ➤ **Guidance - *Avoiding Potential Conflicts***

4. Conflicts between the client's interest and an investment professional's personal interest may occur.
5. Although conflicts of interest exist, it's OK for individual managers, advisers, or fund employees making money from personal investments as long as
  - ✓ the client is not disadvantaged by the trade,
  - ✓ the investment professional does not benefit personally from trades undertaken for clients,
  - ✓ comply with applicable regulatory requirements

### ➤ **Guidance - *Personal Trading Secondary to Trading for Clients***

6. Clients and employers have priority over trades in which a member or candidate is the beneficiary owner.
7. Some clients in certain investment situations require investment personnel to have aligned interests. But mustn't adversely affect client investment.

## Standard VI(B): Guidance

### ➤ Guidance - Standards for Nonpublic Information

7. Prohibit from conveying nonpublic information to any person ***whose relationship to the member or candidate makes him a beneficial owner of the person's securities***. Must not convey this information to any other person if the nonpublic information can be deemed material.

### ➤ Guidance - Impact on All Accounts with Beneficial Ownership

8. Personal transactions include those for own account, for family (including immediate family members) accounts, and for accounts of direct or indirect pecuniary interest, such as a trust or retirement account
9. Family accounts that are client accounts should be treated like any other firm account, should not be disadvantaged because of that relationship.
  - ✓ Disadvantage parents who are normal fee-paying clients: violate III (B) fair dealing
10. If have beneficial ownership in the account, may be subject to preclearance or reporting requirements of the employer or applicable law.



# Guidance for Standards I-VII

Standards	Professionalism	Knowledge of the law; Independence and objectivity; Misrepresentation; Misconduct
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	Investment	Diligence and reasonable basis; Communication with clients; Record retention
	Conflicts of Interest	Disclosure of conflicts; Priority of transaction; Referral fees
	Responsibility as Members	Conduct as members and candidates; Reference to CFA institute, designation

# Standard VI(C): Content & Guidance

## ➤ Content:

1. Members and Candidates must disclose to their employer, clients, and prospective clients, as appropriate, any compensation, consideration, or benefit received from, or paid to, others for the recommendation of products or services.

## ➤ Guidance

2. Such disclosure will allow the client or employer to evaluate
  - ✓ **any partiality shown in any recommendation of services**
  - ✓ **the full cost of the service.**
3. Disclose nature of consideration.

# Standard VI(C): Recommended Procedures

## ➤ Recommended Procedures

- Encourage employers to develop procedures for referral fees.
- Firm **may completely restrict** such fees; if not restrict, should indicate the appropriate steps for requesting approval.
- Employers should have investment professionals provide to the clients notification of approved referral fee programs and provide the employer regular **(at least quarterly)** updates on the amount and nature of compensation received.

# Guidance for Standards I-VII





# Standard VII(A): Content

➤ **Content:**

1. Members and Candidates must not engage in any conduct that compromises the reputation or integrity of CFA Institute or the CFA designation or the integrity, validity, or security of the CFA Institute programs.

## Standard VII(A): Guidance

### ➤ **Guidance:**

2. Conduct covered includes but is not limited to
  - ✓ Giving or receiving assistance (cheating) on any other CFA Institute examination;
  - ✓ Violating the rules and policies of the CFA Program related to exam administration;
  - ✓ Providing confidential program or exam information to candidates or the public;
  - ✓ Disregarding or attempting to circumvent security measures established by CFA Institute for the CFA exam;
  - ✓ Improperly using an association with CFA Institute to further personal or professional goals;
  - ✓ Misrepresenting information on the Professional Conduct Statement or in the CFA Institute Continuing Education Program.



## Standard VII(A): Guidance

➤ **Guidance - *Confidential Program Information***

3. CFA Institute is vigilant about protecting the integrity of the CFA Program content and examination process and prohibits candidates from disclosing confidential material gained during the exam process.

➤ **Guidance - *Additional CFA Program Restrictions***

4. Violating any of the testing policies, such as the calculator policy, personal belongings policy, or the Candidate Pledge, constitutes a **violation of Standard VII(A).**

➤ **Guidance - *Expressing an Opinion***

5. Expressing opinions regarding the CFA Program or CFA Institute is OK.

# Guidance for Standards I-VII







# Standard VII(B): Content

➤ **Content:**

1. When referring to CFA Institute, CFA Institute membership, the CFA designation, or candidacy in the CFA Program, Members and Candidates must not misrepresent or exaggerate the meaning or implications of membership in CFA Institute, holding the CFA designation, or candidacy in the CFA Program.

# Standard VII(B): Guidance

## ➤ Guidance

### 2. How to use CFA:

- ✓ adj, not n.
- ✓ Always capitalized.
- ✓ CFA level I ×
- ✓ C.F.A ×
- ✓ Pseudonyms or online profile names created to hide identity should not be tagged with CFA designations.
- ✓ Mustn't cite the expected date of exam completion and award of charter.

### 3. A candidate who has passed level III but has not received charter can't use CFA designation.

### 4. In citing the designation in a resume, a charterholder should use the date that he or she received the designation and should cite CFA institute as the conferring body.

- ✓ **Example:** CFA, 2001, CFA Institute (optional Charlottesville, Virginia, USA)

## **Standard VII(B): Guidance**

### ➤ **Guidance**

6. It's only appropriate to use CFA logo on the business card or letterhead of each individual CFA charterholder. Candidates can mention in their C.V.
7. The order of CFA and CPA doesn't matter.

### ➤ **Guidance – *CFA Institute membership***

8. Once accepted as a member, must satisfy the followings to maintain status:
  - ✓ Remit annually to CFA Institute a complete Professional Conduct Statement.
  - ✓ Pay membership dues annually.

### ➤ **Guidance – *Using CFA Designation***

9. If a charterholder fails to meet membership requirements, he forfeits the right to use CFA designation. Until membership is reactivated, can only state that they were charterholders in the past.

## Standard VII(B): Guidance

### ➤ Guidance – *Referring to candidacy*

10. When can you state yourself as a candidate?
  - ✓ After receiving registration acceptance letter by CFA Institute
  - ✓ Before exam results have been received
11. If a candidate passes each level of the exam on the first try and wants to state that he or she did so, that is not a violation because it is a statement of fact,
  - ✓ but must not over-promise the competency and future investment results

## 问题反馈

- 如果您认为金程**课程讲义/题库/视频**或其他资料中**存在错误**，**欢迎您告诉我们**，所有提交的内容我们会在最快时间内核查并给与答复。
- **如何告诉我们？**
  - 将您发现的问题通过电子邮件告知我们，具体的内容包含：
    - ✓ 您的姓名或网校账号
    - ✓ 所在班级
    - ✓ 问题所在科目（若未知科目，请提供章节、知识点）和页码
    - ✓ 您对问题的详细描述和您的见解
  - 请发送电子邮件至：[academic.support@gfedu.net](mailto:academic.support@gfedu.net)
- **非常感谢您对金程教育的支持，您的每一次反馈都是我们成长的动力。**后续我们也将开通其他问题反馈渠道（如微信等）。