

Code of Ethics

Standards of Professional Conduct

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Professionalism Subsections

Integrity of Capital Markets Subsections

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- I. Professionalism
- II. Integrity of Capital Markets
- III. Duties to Clients
- IV. Duties to Employers
- V. Investment Analysis, Recommendations, and Actions
- VI. Conflicts of Interest
- VII. Responsibilities as a CFA Institute Member or CFA Candidate

- Act with integrity, competence, diligence, respect, and in an ethical manner.
- Place the integrity of the investment profession and the interests of clients above your own interests.
- Use reasonable care and judgment with analysis, recommendations and investment actions.
- Practice and encourage others to practice in an ethical manner.
- Promote the integrity of and uphold the rules governing capital markets.
- Maintain and improve your professional competence and strive to do so for other investment professionals.

- A. **Material Nonpublic Information.** Nonpublic information that could affect the value of an investment cannot be acted upon. Cannot cause others to act upon such information.
- B. **Market Manipulation.** Cannot take action to distort prices or artificially inflate trading volume with the intent to mislead market participants.

- A. **Knowledge of the Law.** Understand and comply with all applicable laws. Follow the more strict law or regulation. Must not knowingly participate or assist in and must disassociate from violations.
- B. **Independence and Objectivity.** Use reasonable care and judgment to maintain independence and objectivity. No gifts or benefits that can compromise their independence or objectivity.
- C. **Misrepresentation.** No misrepresentations related to analysis, recommendations, actions or other professional activities.
- D. **Misconduct.** No professional conduct involving dishonesty, fraud or deceit.

Duties to Clients Subsections

Duties to Employers Subsections

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Investment Analysis, Recommendations, and Actions  
Subsections

Conflicts of Interest Subsections

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- A. **Loyalty.** Must act for the benefit of their employer, not withhold skills and abilities, or divulge confidential information.
- B. **Additional Compensation Arrangements.** Must not accept gifts, benefits, compensation or consideration that might create a conflict of interest with their employer's interest unless there's written consent from all parties involved.
- C. **Responsibilities of Supervisors.** Must make reasonable effort to detect and prevent violations of applicable laws, rules, regulations, and the Code and Standards by anyone subject to their supervision.

- A. **Disclosure of Conflicts** Must disclose all matters that could impair their independence and objectivity or interfere with duties to clients and employer. Must ensure such disclosures are prominent and delivered in plain language.
- B. **Priority of Transactions.** Transactions for clients and employers must have priority over transactions in which a Member or Candidate is the beneficial owner.
- C. **Referral Fees.** 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 or products or services.

- A. **Loyalty, Prudence and Care.** Must act with reasonable care. Place clients' interests before their employer's or their own interests.
- B. **Fair Dealing.** Deal fairly and objectively with all clients when providing analysis, recommendations or taking investment action.

C. **Suitability.**

- 1. When in an advisory relationship with a client:
  - a. Consider the client's investment experience, risk and return, and financial constraints. Must update this information regularly.
  - b. Determine suitability before taking action or making a recommendation.
  - c. Judge the suitability of investments in the context of the entire portfolio.
- 2. When managing to a specific mandate, strategy or style, recommendations and actions must be consistent with those objectives.

- D. **Performance Presentation.** Make reasonable efforts to ensure performance information is fair, accurate and complete.

E. **Preservation of Confidentiality.** Must keep information confidential unless:

- 1. The information concerns illegal activities.
- 2. Disclosure is required by law.
- 3. The client or prospective client permits disclosure of the information.

A. **Diligence and Reasonable Basis.** Members and Candidates must:

- 1. Use diligence, independence, and thoroughness in analysis, recommendations, and investment actions.
- 2. Support analysis, recommendation and action with research and investigation.

B. **Communications with Clients and Prospective Clients.** Members and Candidates must:

- 1. Disclose to clients basic investment processes and any changes that materially affect those processes.
- 2. Use judgment identifying investment factors and include those factors in communications with clients.
- 3. Distinguish between fact and opinion in presentation of analysis and recommendation.

- C. **Record Retention.** Maintain appropriate records to support their analysis, recommendations, actions, and other communications with clients and prospective clients.

**Responsibilities as a CFA Member or Candidate Subsections**

**Knowledge of the Law Recommended Procedures**

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**Independence and Objectivity Recommended Procedures**

**Misrepresentation Recommended Procedures**

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- With respect to members
  - Have procedures to keep up with changes in the laws, rules, and regulations.
  - Compliance procedures should regularly to so they address current law, CFAI Standards, and regulations.
  - Maintain current reference materials for employees to access in order to keep up to date on laws, rules, and regulations.
  - Seek advice of counsel or their compliance department when in doubt.
  - Document any violations when disassociating from prohibited activity and encourage employers stop such activity.
  - Reporting violations to authorities is not required, but may be advisable or required by law.
  - Strongly encouraged to report other members' violations of the Code and Standards.
- With respect to firms
  - Develop or adopt a code of ethics.
  - Make information on laws and regulations available to employees.
  - Set up written procedures for reporting violations of laws, regulations, or company policies.

- Provide employees who deal with clients or prospects a list of the firm's services and a qualifications.
- Employee qualifications should be accurately presented as well.
- Maintain records of all materials used to generate reports or other products and properly cite sources.
- Information from recognized financial and statistical reporting services need not be cited.
- Members should encourage firms to establish procedures for verifying third party information provided to clients.

- A. **Conduct as Members and Candidates in the CFA Program.** Must not engage in any conduct that compromises the reputation of the CFA Institute, the CFA designation or the CFA exam.
- B. **Reference to CFA Institute, the CFA Designation, and the CFA Program.** Must not misrepresent or exaggerate the meaning or implications of holding the CFA designation or candidacy in the CFA program.

- Protect the integrity of opinions—make sure they are unbiased.
- Create a restricted list and distribute only factual information about companies on the list.
- Restrict special cost arrangements—pay for one's own transportation and hotel. Limit use of corporate aircraft to cases in which commercial transportation is not available.
- Limit gifts to token items only. Business-related entertainment is okay provided it doesn't influence independence or objectivity. Firms should impose clear value limits on gifts.
- Restrict employee investments in IPOs and private placements. Require IPO approval.
- Have effective supervisory and review procedures.
- Have formal written policies on independent and objectivity of research.
- Appoint a compliance officer and give procedures for employee reporting of unethical behavior and violations of applicable regulations.

Misconduct Recommended Procedures

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Loyalty, Prudence, and Care Recommended Procedures

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Material Nonpublic Information Recommended Procedures

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Fair Dealing Recommended Procedures

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- Try to get the information made public.
- Encourage firms to adopt procedures to prevent misuse of material nonpublic information.
- Use a “firewall” within the firm, with elements including
  - Control of interdepartmental communications through the compliance or legal department.
  - Review employee trades—maintain “watch,” “restricted,” and “rumor” lists.
  - Monitor and restrict proprietary trading while a firm has material nonpublic information.

Stopping all proprietary trading while in possession of nonpublic information may be inappropriate if it sends a signal to the market. In these cases, firms should take the contra side of only unsolicited customer trades.

- Encourage firms to set up procedures for proper dissemination of recommendations and fair treatment of all customers and clients.
- Consider these points when establishing fair dealing compliance procedures.
  - Limit the people who know about future changes in recommendations.
  - Shorten the time frame between decision and dissemination.
  - Use guidelines for pre-dissemination prohibiting personnel who have knowledge of a recommendation from discussing or taking action on it.
  - Simultaneous dissemination of updated recommendations to everyone who has expressed an interest or for whom an investment is suitable.
  - Keep a list of clients and holdings to ensure that all holders are treated fairly.
  - Disclose trade allocation procedures.
  - Use systematic account review to ensure that no one is given preferred treatment.
  - Disclose available levels of service.

- Develop and adopt a code of ethics to make clear that unethical behavior will not be tolerated.
  - Give employees a list of potential violations and sanctions, including dismissal.
  - Check references of potential employees.
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- Submit to clients, at least quarterly, itemized statements.
  - Encourage firms to address these topics when drafting policies and procedures regarding fiduciary duty.
    - Follow applicable rules and laws.
    - Establish investment objectives of client. Consider suitability of portfolio relative to client’s needs, the investment’s characteristics, and the characteristics of the total portfolio.
    - Diversify.
    - Deal fairly with all clients in regards to investment actions.
    - Disclose conflicts.
    - Disclose compensation arrangements.
    - Vote proxies in the best interest of clients and ultimate beneficiaries.
    - Maintain confidentiality.
    - Seek best execution.
    - Place client interest first



Suitability Recommended Procedures

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Preservation of Confidentiality Recommended Procedures

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Performance Presentation Recommended Procedures

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Additional Compensation Arrangements Recommended Procedures

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- Encourage firms to adhere to GIPS.
- Consider the sophistication of the audience during a performance presentation.
- Present performance of weighted composite of similar portfolios, not a single account.
- Include terminated accounts in historical performance and clearly state termination date.
- Include disclosures to fully explain results (e.g., model results included, gross or net of fees, etc.).
- Maintain data and records used to calculate the performance being presented.

- Make an immediate written report to employer detailing any proposed additional compensation and services. Details, including any performance incentives, should be verified by the offering party.

- Put the needs, circumstances, and investment objectives of each client into a written IPS.
- Consider the type of client and whether there are separate beneficiaries, objectives—return and risk—constraints—liquidity, time, tax, and regulatory and legal circumstances—and performance measurement benchmarks.
- Review investor’s objectives and constraints periodically to reflect any changes in circumstances.

- Avoid disclosing client information except to authorized co-workers who also work for the client.
- Follow firm procedures for electronic data storage, and recommend adopting such procedures.

**Responsibility of Supervisors Recommended Procedures**

**Diligence and Reasonable Basis Recommended Procedures**

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**Communication with Clients and Prospective Clients  
Recommended Procedures**

**Record Retention Recommended Procedures**

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- Encourage firms to consider these policies and procedures.
  - Require research reports and recommendations have a reasonable and adequate basis.
  - Have detailed, written guidance for proper research and due diligences.
  - Have measurable criteria for quality of research, and base analyst compensation on that.
  - Have a minimum acceptable level of scenario testing for computer models, and standards for the range of scenarios, model accuracy, and a measure of the sensitivity of cash flows to model assumptions and inputs.
  - Have a policy for evaluating third party information providers for reasonableness and accuracy.
  - Provide criteria for evaluating external advisers and state how often a review of external advisers will be performed.

- This record keeping requirement is generally the firm's responsibility.

- Recommend employer adopt a code of ethics and provide it to clients.
- Employers should not mix compliance procedures with code of ethics.
  - Adequate compliance procedures should
    - ◇ Be clearly written and easy to understand.
    - ◇ Designate a compliance officer with authority clearly defined.
    - ◇ Have a system of checks and balances.
    - ◇ Outline the scope of procedures and what conduct is permitted.
    - ◇ Have procedures for reporting violations and sanctions.
  - Once the compliance program is instituted, the supervisor should
    - ◇ Distribute it to the proper personnel.
    - ◇ Update it as needed, educate staff on procedures, and issue reminders.
    - ◇ Require professional conduct evaluations.
    - ◇ Review employee actions to monitor compliance and find violations.
    - ◇ Enforce procedures once a violation occurs.
- If there is a violation, respond promptly and conduct a thorough investigation while placing limitations on the wrongdoer's activities.

- Maintain records indicating the nature of research in reports, and be able to supply additional information if it is requested by the client or other users.

Disclosure of Conflicts Recommended Procedures

Priority of Transactions Recommended Procedures

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Referral Fees Recommended Procedures

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- Have procedures for conflicts created by personal investing. The following areas should be included.
  - Limited or no participation in IPOs.
  - Strict limits on buying private placements with extra supervisory procedures.
  - Establish blackout periods prior to trading for clients for employees involved in investment decision-making—no front running. Firm size and security type will indicate severity of blackout requirements.
  - Establish reporting procedures including duplicate trade confirmations, disclosure of personal holdings or beneficial ownership positions, and pre-clearance procedures.
  - Members must fully disclose their firms' personal trading policies to investors when requested.

- Any special compensation arrangements, bonus programs, commissions, and incentives should be disclosed.

- Encourage firms to adopt procedures regarding compensation for referrals.
- Firms that do not prohibit such fees should have procedures for approval, and members should provide employers with updates at least quarterly with the nature and value of referral compensation received.