Code of Ethics

Standards of Professional Conduct

Professionalism Subsections

Integrity of Capital Markets Subsections

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

Investment Analysis, Recommendations, and Actions Subsections

Conflicts of Interest Subsections

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, Prucence 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

Independence and Objectivity Recommended Procedures

Misrepresentation Recommended Procedures

- 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.

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.

- 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.

- 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

Material Nonpublic Information Recommended Procedures

Loyalty, Prudence, and Care Recommended Procedures

Fair Dealing Recommended Procedures

- 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.

- 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.

- 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.

- 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

Performance Presentation Recommended Procedures

Preservation of Confidentiality Recommended Procedures

Additional Compensation Arrangements Recommended Procedures

- 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.

- 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.

- 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.

- 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

Communication with Clients and Prospective Clients Recommended Procedures

Record Retention Recommended Procedures

- 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.

- 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 in 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.

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

- 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

Referral Fees Recommended Procedures

Three Level Approach to Permissible Research

- 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 preclearance 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.

Level I **Define the Product or Service.** Define it in detail, including multiple components. Answer the question, "What is paid for with soft dollars?"

Level II **Determine Usage.** Determine the primary use of the product or service. For example, does the Bloomberg service received directly assist in the investment decision-making process, or is it there just to provide an "overall benefit to the firm"?

Level III **Mixed Use Analysis.** This step must be completed only if the product or service is classified as "research" based on the Level I and Level II analysis above. This Level III analysis is the investment manager's allocation of the proportion of the product or service which directly assists in the investment decision making process. For example, if the Bloomberg service is used 50% of the time to "determine the market and industry trends as part of the investment manager's investment decision-making process," then half of the expense can be paid from client brokerage.

- 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.

Research and Objectivity Standards Requirements 1-4

Research and Objectivity Standards Requirements 5-8

Research and Objectivity Standards Requirements 8-11

Five Basic Principles of the "New" Prudent Investor Rule

5. **Research Analyst Compensation.** Compensation for research analysts should be directly related to the quality of the research and recommendations provided by the analyst and not directly linked to investment banking or corporate finance activities.

6. **Relationships With Subject Companies.** Analysts must not allow the subject company, prior to publication, to see any part of the research report that might signal the analyst's recommendation or rating, or make any promises concerning a specific recommendation or rating.

7. **Personal Investments and Trading.** The firm must institute policies and procedures that

   - Address the personal trading of covered employees.
   - Ensure covered employees do not share information with anyone who could use that information to trade ahead (i.e., front running) of client trades.
   - Prohibit covered employees and immediate family members from buying or receiving shares of subject companies or companies in the industry the employee covers prior to an IPO.

8. **Timeliness of Research Reports and Recommendations.** Regularly issue research reports on subject companies on a timely basis.

1. **Research Objectivity Policy.** The firm must have:

   - A formal written independence and objectivity research policy that it distributes to clients, prospective clients, and employers.
   - Supervisory procedures so that employees comply with the policy.
   - A senior officer who attest annually to clients and prospective clients that the firm has complied with the policy.

2. **Public Appearances.** Covered employees who make public appearances to discuss research or investment recommendations must disclose any personal and firm conflicts of interest.

3. **Reasonable and Adequate Basis.** Research reports and investment recommendations must have a reasonable and adequate basis. Either a single employee or a committee must be charged with reviewing and approving all research reports and investment recommendations.

4. **Investment Banking.** Firms with investment banking operations must have in place policies and procedures that:

   - Separate research analysts from the investment banking departments.
   - Analysts don't report to and are not supervised by investment bankers.
   - Prevent the investment banking department from reviewing, revising, or approving research reports and investment recommendations.

- Diversification is expected of portfolio managers as a method of reducing risk.
- Trustees must base an investment's appropriateness on is risk/return profile in a portfolio.
- Excessive trade (churning), as well as excessive fees and other transactions costs that are not warranted by the portfolio risk/return objectives, should be avoided.
- Current income for the trust must be balanced against the need for growth.
- Trustees are allowed (and may be required under certain circumstances) to delegate investment authority.

9. **Compliance and Enforcement.** Firms must enforce their policies and compliance procedures, assess disciplinary sanctions on employees who violate the policies, monitor the effectiveness of the compliance procedures, and maintain records of any internal audits of the policies.

10. **Disclosure.** The firm must disclose conflicts of interest related to covered employees or the firm as a whole.

11. **Rating System.** The firm must have a rating system that investors find useful for investment decisions and provides investors with information they can use to determine the suitability of specific investments for their own portfolios.

General Soft Dollar Standards Requirements

Soft Dollar Standards Requirements for Relationships with Clients

Selection of brokers

Soft Dollar Standards Requirements for Evaluation of Research

- Disclose to the client that the manager may participate in soft dollar arrangements involving the client's account prior to participating in such arrangements.

- Soft dollar practices must benefit the client and must place the clients' interest above the investment manager's interests.
- Allocation of client brokerage must not be based on the amount of client referrals the investment manager receives from a broker.
- Regarding mutual funds, the investment manager's client is the fund. The fund's board should set policies regarding broker selection.

- Research must meet the definition. Research is defined as services and products provided by a broker whose primary use directly assists the investment manager in the investment decision-making process, and not in the management of the firm.
- Research must benefit the client.
- The basis for the determination must be documented.
- In the case of principal trades not subject to other fiduciary regulations, the research may benefit other client accounts, as long as disclosure is made to the client and prior permission is received.
- If the criteria regarding client brokerage associated with principal trades is not met, the investment manager must pay for the research.
- In the case of mixed use research, make a reasonable allocation of the cost of the research based on its expected usage. Only portions that are used by the investment manager in the investment decision-making process can be paid with client brokerage. Mixed use research allocation must be reevaluated annually.

- Consider trade execution capabilities when selecting brokers.
- Proper broker selection is a key area where the investment manager can add value for the client. Failure to obtain best execution will hurt performance.

Soft Dollar Standards Requirements for Client-Directed Brokerage

Soft Dollar Standards Requirements for Disclosure

Soft Dollar Standards Requirements for Record Keeping

- Investment managers must disclose in plain language their soft dollar policies. Principal trades must be addressed.
- Investment managers must disclose the type of research received through proprietary or third-party research, the extent of its use, and whether an affiliated broker is involved.
- To claim compliance with Soft Dollar Standards, the client must receive as statement that soft dollar practices conform to these standards, and the statement must be provided at least annually.
- Investment managers must disclose to clients, prominently and in writing, that more information concerning soft dollar arrangements is available on request.
- Additional information provided upon request may include a description of what the firm obtained through its soft dollar arrangements, the brokers who provided services, and total commissions generated for the client's account.

- Do not use brokerage from another client to products or services purchased under any client-directed brokerage agreement.
- Brokerage is an asset of the client, so the practice of client-directed brokerage does not violate the investment manager's duty.

- Meet legal and regulatory requirements.
- Are needed to supply timely information to clients consistent with the disclosure requirements.
- Document any arrangements that obligate the investment manager to generate a specific amount of brokerage.
- Document arrangements with clients regarding soft dollar or client-directed brokerage.
- Documents any broker arrangements.
- Document the basis for allocations when using client brokerage for mixed use services and products.
- Show compliance with the CFA Institute Soft Dollar Standards and identify the personnel responsible.
- Include copies of client disclosures and authorizations.