



金程教育  
GOLDEN FUTURE

可信赖的财经培训专家

# CFA一级培训项目

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## Ethics



讲师：章嘉艺

金程教育资深培训师

地点：■ 上海 □ 北京 □ 深圳

# 章嘉艺

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- **工作职称：**执业律师、中国注册会计师（CPA）、美国特许金融分析师协会（CFA）二级候选人。上海虹桥正瀚律师事务所 商业诉讼部 资深律师、金程国际金融专修学院首席法律专家、肆大会计培训中心法律教学总监。
- **教育背景：**华东政法大学 学士
- **工作背景：**曾任职于某会计师事务所从事审计工作、曾任职于锦天城律师事务所 从事非诉讼业务 参与多家上市公司的企业重组及并购业务、任职上海虹桥正瀚律师事务所 参与承办大量案件 如私募股权投资、金融衍生品、银行、信托、保理、税务等诉讼及仲裁案件（累计办案标的超过人民币50亿元），在经济、财税等领域积累了大量的法律实务经验。
- **服务客户：**上海世博会事务协调局、中国工商银行股份有限公司、中国建设银行股份有限公司、上海银行股份有限公司、宝洁（中国）有限公司、民生证券股份有限公司、上海陆家嘴（集团）有限公司、华宝信托有限责任公司、上海市嘉定区国资委、上海豫园商城房地产发展有限公司、上海实业（集团）有限公司。
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# Topic Weightings in CFA Level I

Session NO.	Content	Weightings
Study Session 1	Ethics & Professional Standards	15
Study Session 2-3	Quantitative Analysis	12
Study Session 4-6	Economics	10
Study Session 7-10	Financial Reporting and Analysis	20
Study Session 11	Corporate Finance	8
Study Session 12	Portfolio Management	5
Study Session 13-14	Equity Investment	10
Study Session 15-16	Fixed Income	12
Study Session 17	Derivatives	5
Study Session 18	Alternative Investments	3

# Frame work of this course

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- **Code of Ethics**
- **Guidance for Standards I-VII**
- **Global Investment Performance Standards (GIPS)**

# Ethics & Professional Standards

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**Members of CFA Institute (“Members and Candidates”) must:**

- Act with **integrity**, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, **and other participants in the global capital markets**. (与资本市场各方接触时保持正直、胜任、讲道德)
- Place the **integrity** of the investment profession and the interests of clients **above their own personal interests**. (客户利益高于自身利益)
- Use reasonable **care** and exercise **independent** professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities. (专业活动中合理审慎、独立)
- Practice and encourage others to practice in a professional and ethical manner that will **reflect credit on themselves and the profession**. (守信)
- Promote the **integrity** of, and uphold the **rules governing, capital markets**. (遵守规定)
- **Maintain and improve their professional competence** and strive to maintain and improve the competence of other investment professionals. (保持并提高胜任能力)

# Frame work of this course

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- Code of Ethics
- Guidance for Standards I-VII
- Global Investment Performance Standards (GIPS)

# Seven Standards of Professional Conduct



# Guidance for Standards I-VII





# Standard I(A): Content

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## ➤ 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. (了解、遵守法律、法规、规定等)
2. In the event of conflict, must comply with the more strict law, rule, or regulation. (总是遵循更严格的法律法规)
3. Must not knowingly participate or assist in any violation of such laws, rules, or regulation. (不能明知故犯)
4. Must dissociate from any violation of such laws, rules, or regulations. (从违法违规行为中脱离出来)

## Standard I (A): Guidance-Code and Standards vs. local law

### ➤ 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 govern his activities, not expert on compliance, however, must comply with law directly governing.** (不要求成为所有法律的专家, 必须遵守直接相关的法律)
7. Always adhere to the most strict rules and requirements ( law or CFA institute Standards) that apply. Do not violate Code or Standards even if the activity is otherwise legal under local laws.
8. **Comply with the last applicable law if transferable applicability**

work (applicable)	live	compliance
Ms → Live	Ls	Ls < Code → Code
Ls → Live	Ms	Ms > Code → Ms

## ***Standard I (A): Guidance - Participation or association with violations by others***

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

9. **Know** → report through supervisor or compliance department → may consider confronting wrongdoers → (if unsuccessful) → dissociate and document → **quit** (即使生活窘迫, 在情况严重时也必须退出)
10. **Suspect** → Consult → but can't be absolved from requirements to compliance (怀疑时要咨询, 但咨询不能免责)
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. (没有要求一定要将违法行为报告政府) (**whistle blowing**)
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. (在违法行为中不作为, 也会被认为是参与违法行为)

## ***Standard I(A): Guidance - Investment Products and Applicable Laws***

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### **➤ 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. （了解产品的来源地与销售地法律）
14. Should make reasonable efforts to review whether associated firms that are distributing products or services also abide by the laws and regulations. （确保关联公司遵守相关法律法规）
15. 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. （跨国交易时要做好各种法律的尽职调查）

# Standard I (A) : Procedures- *For members and candidates*

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## ➤ Recommended procedures - *For members and candidates*

16. Maintain current files: Should maintain or encourage their employers to maintain readily accessible current reference copies of applicable statutes, rules, regulations. (鼓励他们的雇主备有最新法律法规)
- *Distribution area laws*: Should make reasonable efforts to understand the applicable laws – **both country and regional – for the countries and regions where their investment products are developed and distributed to clients**. (投资产品来源和销售的法律)
  - *Legal counsel*: When in doubt about the appropriate action, seek the advice of legal counsel or compliance personnel. If a potential violation exists, should seek the advice of legal counsel.
  - *Dissociation*: When dissociate, should document the violation and urge their firms to persuade the perpetrators to cease such conduct. **May have to quit the job**. (书面记录违法行为，要求公司说服违法者停止，必要时可以退出工作)

# Standard I (A): Procedures - *For Firms*

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## ➤ Recommended procedures - *For Firms*

17. The formality and complexity of compliance procedures for firms depend on the nature and size of the organization and the nature of its investment operations. (程序的复杂程度取决于公司性质和规模，但必须要有)
18. Should encourage firms to consider the following policies and procedures:
  - ✓ ***Develop or adopt a code of ethics:*** The ethical culture starts at the top.
    - ◆ Should encourage supervisors or managers to adopt.
    - ◆ When in ethical dilemmas, adhering to the Code facilitates solutions and prevent the need of a “whistleblowing” solution publicly alleging concealed misconduct. Asset Manager Code of Professional Conduct, may be used as the basis for the codes

# Standard I (A): Procedures - *For Firms*

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## ➤ Recommended procedures - *For Firms*

19. Should encourage firms to consider the following: (con't)

✓ ***Provide information on applicable laws:***

◆ Pertinent information that highlights applicable laws and regulations might be **distributed** to employees or made available in a **central location**. (将材料分发给员工或放在触手可及的地方)

◆ Information sources might **include** primary information developed by the relevant governmental agencies, regulatory organizations and professional associations (e.g., from websites); and association publications (e.g., *CFA Magazine*).

✓ ***Establish procedures for reporting violations:*** Firms might provide written protocols for reporting suspected violations. (建立报告违规行为的机制)

## Standard I(A): Case 1-2

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- **Case 1\*. (Notification of Known Violations)** Allen found overstatement of earnings in files prepared for regulators, he seeks advice of firm's general counsel, who says it would be difficult for regulator to blame Allen for any wrongdoing involved.
  - **Comment:** As the counsel does not give clear justification for the legitimacy of the situation, Allen must report to his supervisor and seek independent legal advice and determine whether the regulator should be notified of the error. Cannot be absolved from requirements to comply with law/regulation in spite of having sought advice of legal counsel.
  
- **Case 2\*. (Dissociating from a Violation)** Brown finds his customer concealed losses in foreign branch and the preliminary prospectus (初步募股书) has been distributed for the underwriting.
  - **Comment:** It's clear violation, Brown must report to supervisor. If not remedied, he also must dissociate and seek further legal advice to determine appropriate action.



## Standard I(A): Case 3-4

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- **Case 3. (Dissociating from a Violation)** Washington finds his employer omits some performance in calculating composite to inflate performance, and is asked to use promotional material that includes erroneous number to solicit business.
  - **Comment:** The employer commits misrepresentation; Washington must dissociate from that and bring the fact to supervisor or compliance dept. If it's not remedied, he should consider whether resignation is appropriate, even consider other employment, because using the erroneous number would be construed as assisting in violation.
  
- **Case 4. (Following the Highest Requirements)** Collins, a Wall Street analyst works in a developing country with little laws concerning insider trading.
  - **Comment:** Collins should be aware of the risk and adhere to the Code and Standards which is more strict and address material nonpublic information officially. (即使当地法律没有对内幕交易进行规定, CFA也不能参与)

## Standard I(A): Case 5

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- **Case 5. (Following the Highest Requirements)** Jameson is a CFA charterholder based in the US and also works as a registered investment advisor in an island nation that prohibits participation in IPOs, he believes the Code and Standards apply and ignores the strict prohibition on IPOs in the island.
- **Comment:** Jameson must follow the stricter requirements of the local law. By ignoring it, he is in violation of Standard I (A).  
(岛国法律规定CFA不能参加IPO，CFA要遵守该严格的法律)

## Standard I (A): example

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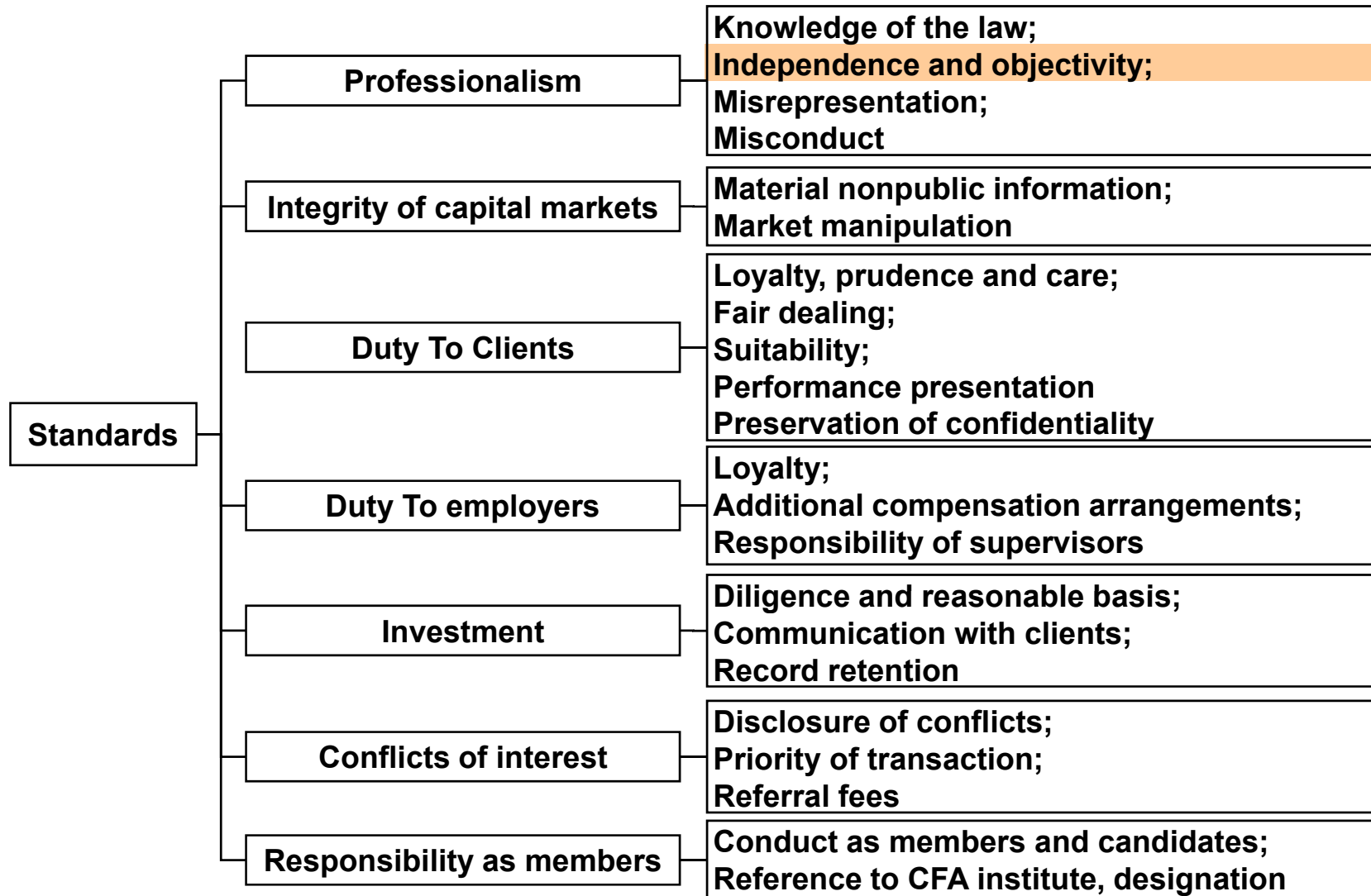
- Solot finds the work of one of her analysts, Blaine Paddock, CFA, is not completed as carefully and thoroughly as it should be. Solot then confronts Paddock about his poor quality research and tells him he can leave Apac voluntarily or be fired. Paddock chooses to leave the bank, walking out with his personal papers and research notes that were created prior to his joining Apac. Subsequently, Paddock uses this intellectual property to help establish a high-net-worth investment advisory firm. When a prospective client asks Paddock if he left Apac because of questions on the quality of his work, Paddock says it was to start his own business. Paddock least likely violated the CFA Institute Standards of Professional Conduct concerning his:
- A. research.
  - B. intellectual property.**
  - C. prospective client disclosure.

## Standard I (A): example

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- Jane and Joe work for an investment company and even in the same group. Jane, CFA, always shares some latest information in the industry with Joe, who is studying for the CFA level 2 exam. One day Joe discovered that Jane may conduct something that maybe harmful to the company's clients. What should Joe do with this situation? :
- A. Do nothing because he takes no supervisory duties and should appreciate the help from Jane.
  - B. Report to the CFA committee.
  - C.** Disassociate from the misconduct and report to the company's compliance department .

# Guidance for Standards I-VII



# Standard I(B): Content

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## ➤ 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.

（那些被合理认为将会影响客观独立的礼物、好处、佣金、安排，都不能提供、索要、接受）

# Standard I(B): Guidance

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## ➤ 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**) (一般情况应拒绝)
  - ✓ 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** (从被研究公司处取得的礼物) : should evaluate both the actual effect on his independence and objectivity and in the eyes of clients. (即使主观没有受到影响,但在他人眼中会影响独立性也不行)

# Standard I(B): Guidance

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## ➤ Guidance

6. **Gift from clients** (从客户处取得的礼物) : Receiving a gift, benefit, or consideration from a client can **be distinguished** from gifts (客户的礼物区别于其他方的礼物, 一般可以接受) 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. (可能的话事先披露给雇主)
  - ✓ **If notification is not possible prior to acceptance**, members and candidate must disclose to their employers benefits previously accepted from clients. (不行的话, 事后也要披露)
  - ✓ 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. (告诉雇主是为了引起雇主的同意)



## Standard I(B): Guidance -Buy-Side clients and portfolio managers

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### ➤ Guidance -Buy-Side clients

7. Buy-Side Clients may try to pressure sell-side analysts. (卖方分析师, 一般指投行分析师。买方分析师, 一般指基金经理分析师)
  - ✓ Institutional clients are the primary users of sell-side research, either directly or with soft dollar brokerage. (好处归属客户)
  - ✓ Rating downgrade: some portfolio managers may support sell-side ratings inflation → affect the portfolio's performance and manager's compensation. (投行分析师下调评级可能会影响基金经理业绩)
  - ✓ Portfolio performance is subject to media and public scrutiny, affect the manager's professional reputation.
8. For portfolio managers: (基金经理不能因此而报复分析师)
  - ✓ 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 (报复) is possible may cause concern and make it difficult to maintain independence.

## Standard I(B): Guidance -*Fund manager relationships*

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### ➤ Guidance -*Fund manager relationships*

9. Members and candidates responsible for hiring and retaining outside managers should not accept gifts, entertainment, or travel funding that may be perceived as impairing their decisions. （有责任确保外聘经理不接受会影响独立性的礼物）
10. Primary and **secondary fund managers**\* 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 -*Investment banking relationships*

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## ➤ Guidance -*Investment banking relationships*

11. **Firewall** between research and investment banking should be built to minimize conflicts of interest. (投行部、研究部之间要设立防火墙)
  - ✓ Separate reporting structures for personnel on the research side and personnel on the investment banking side. (人事上要分开)
  - ✓ 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. (分析师的薪酬不能和投行部门挂钩)
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.

## Standard I(B): Guidance - *Public companies*

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### ➤ Guidance - *Public companies*

14. 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. （可以保证全面研究上市公司，但不能保证一定会出具一份好的研究报告）
15. **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**. （上市公司的尽职调查要全面，从各个角度入手）

## Standard I(B): Guidance- *Issuer-Paid research*

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### ➤ Guidance - *Issuer-Paid research*

16. Remember that this type of research is fraught with potential conflicts. (Issuer-Paid research有潜在的利益冲突，但是还是允许的)
17. 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) (研究报告的费用，不能直接或间接和研究的结果挂钩)
18. Must fully disclose potential conflict of interest, including the nature of compensation. If not → misleading investors
19. 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

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## ➤ Guidance - *Travel Funding*

- 24. May be influenced by discussions exclusively with the company executives when flying on a **corporate jet**. (做专机一般独立性会受到影响, 做包机一般不会受到影响)
- 25. **Best practice:** always use commercial transportation (乘坐商务的交通工具) rather than accept paid travel arrangements from an outside company.
- 26. Should commercial transportation **be unavailable**, may accept modestly arranged travel to participate in appropriate information-gathering events, such as a property tour. (乘坐商务交通工具不可行的→可以做直升飞机等)

## ➤ Guidance – *Social Activities*

- 27. 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 for Compliance

## ➤ Recommended procedures for Compliance

- Protect the integrity of opinions – unbiased opinion and adequate system
- Create a restricted list for corporate client if not willing to issue adverse opinion and distribute only factual information about companies on the list. (如果不想发表负面意见, 可以加入restricted list)
- Restrict special cost arrangements – “pay it yourself”; not reimbursed by corporate issuer (不能向issuer报销); limit use of corporate aircraft to situations in which commercial transportation is not available; issuer shouldn't always host the analyst. (不能总是由issuer请客)
- 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. (不仅要看单个礼物的价值, 还要看汇总在一起的金额)

## Standard I(B): Case 1-2

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- **Case 1. (Travel Expenses)** Taylor, a mining analyst is invited by Precision Metals to join a group of his peers in a tour of mining facilities in several western U.S. states. The company arranges for chartered group flights (包机) from site to site and accommodations in Spartan Motels, the only chain with accommodations near the mines, for 3 nights. Taylor allows Precision Metals to pick up his tab (账单), as do the other analysts, with one exception – Adams, an employee of a large trust company who insists on following his company's policy and paying for his hotel room himself. (Taylor让PM公司付了, Adams坚持自己付)
  - **Comment:** Adams strictly avoiding the conflict of interest but Taylor is not necessarily violating Standard I(B) because what the mining company offers is just **too modest and normal** to compromise the analyst's independence and objectivity even in the clients' eyes.
- **Case 2. (Research Independence)** Dillon promises to provide full research coverage of the potential client in a presentation.
  - **Comment:** Dillon may agree to provide research coverage, but must not commit to providing favorable recommendation.



## Standard I(B): Case 3

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- **Case 3. (Research Independence and Intrafirm Pressure)** Fritz is an equity analyst with Hilton Brokerage who covers the mining industry. He has concluded that the stock of Metals & Mining is overpriced at its current level, but he is concerned that a negative research report will hurt the good relationship between Metals & Mining and the investment banking division of his firm. In fact, a senior manager of Hilton Brokerage has just sent him a copy of a proposal (投标书) his firm has made to Metals & Mining to underwrite a debt offering.
- **Comment:**
- ✓ Fritz's analysis must be objective and based solely on consideration of company fundamentals. (分析师仍然应当独立、客观)
  - ✓ This conflict could have been eliminated if, in anticipation of the offering, Hilton Brokerage had placed Metals & Mining on a restricted list for its sales force. (若不愿发表不好的意见, 可以放入restricted list)

## Standard I(B): Case 4

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- **Case 4. (Research Independence and Sales Pressure)** Warner is credit analyst whose salary is closely linked to the performance of the corporate bond department. Near the quarter's end, salespeople ask her to push problematic bond in large inventory which were unable to be sold due to announcement of an operating problem.
- **Comment:** Warner's opinion on the bonds must not be affected by internal pressure or compensation. In this case, she must refuse to push the problematic bond to clients unless able to justify that the market price has adjusted for the operating problem.

# Guidance for Standards I-VII

Standards	Professionalism	Knowledge of the law; Independence and objectivity; <b>Misrepresentation;</b> 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 I(C): Content

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## ➤ Content:

1. Must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.

# Standard I(C): Guidance- Definition of Misrepresentation

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## ➤ Guidance

2. A misrepresentation is any untrue statement 不实陈述 or omission of a fact 省略事实 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). (各种形式的不正当陈述都不行, 书面报告即使没有发布也不能不正当陈述)
  - ✓ In this context, “knowingly” means that either knows or should have known that the misrepresentation was being made or that omitted information could alter the investment decision-making process. (knowingly是知道或应当知道)

## Standard I(C): Guidance- *classification of misrepresentation 1*

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### ➤ Guidance - *Impact on Investment Practice*

3. Guarantee the investment performance
  - ✓ I(C) **prohibits** from guaranteeing clients specific return which is inherently volatile. (禁止保证收益)
  - ✓ But **not prohibit** from guaranteeing the return which is built into the structure of the product or for which an institution has agreed to cover any losses. (但如果结构产品本身是保本的，可以保证收益)
4. Misrepresentation of capabilities
  - ✓ A company is prohibited from saying “we can provide all services you need”. Proper way is to provide a list of services available.
  - ✓ If find misrepresentation of qualification (e.g. typographical error), correct the error as soon as possible, or violate I (C).
5. Misrepresentation of performance
  - ✓ If invest in areas outside a firm’s core competencies through outside managers, must be disclosed, must not represent those managers’ investment practices as their own. For further detail, refer to V(B). (用外部经理需要披露，不能将外部经理的业绩归于自己)

# Standard I(C): Guidance – classification 2 (plagiarism)

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## ➤ Guidance –*Plagiarism*

### 6. Plagiarism (抄袭、剽窃)

- ✓ 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.
- ✓ Apply to plagiarism in oral communications, such as through group meetings; visits with clients; use of audio/video media; and telecommunications. (各种形式都可能构成抄袭、剽窃)
- ✓ 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)

### 7. Plagiarism includes:

- ✓ Take a study done by others, change name, and release.
- ✓ Using excerpts from others' reports without acknowledgement.
- ✓ Citing quotations as attributable to “leading analysts” and “investment experts” without naming specific reference.
- ✓ Using charts and graphs without stating sources.

# Standard I(C): Guidance - Plagiarism

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## ➤ Guidance - Plagiarism

### 8. Plagiarism includes: (con't)

- ✓ Presenting statistical estimates of forecasts prepared by others and identifying the sources but without including the qualifying statements or caveats that may have been used.
- ✓ Copying proprietary computerized spreadsheets or algorithms without authorization of the creators.
- ✓ Research reports based on multiple sources of information **without acknowledging the sources**. Such as ideas, statistical compilations, and forecasts combined to give the appearance of original work.

### 9. Can use the third party report, but must disclose.

### 10. When citing from mainstream media outlet:

- ✓ **Cannot only cite the information from mainstream**, in case of misunderstanding and potential deviation from the viewpoint of the original author. (不能仅仅引用中间环节，一定要引用到最终作者)
- ✓ **Best practice: Obtain the information directly from the author, review it, and cite it in the report.**



# Standard I(C): Guidance - *Work Completed for Employer*

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## ➤ Guidance - *Work Completed for Employer*

11. Firm may issue future reports without attribution to prior analysts, but a member or candidate cannot issue under his name. (可以不说是前员工写的, 但不能换上自己的名字发布)
- ✓ **May** use other people's work within the same firm without committing a violation. (同一公司的报告不用引用)
  - ✓ 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. (原作者离开了公司, 公司仍然有权使用该报告) 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. (其他员工不能属自己的名字)

# Standard I(C): Recommended procedures for Compliance

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## ➤ Recommended procedures for Compliance

- Factual presentations: fairly present firm's capabilities
- Qualification summary: list of services available, qualifications and experience (客观地阐述公司的能力，并将能提供的服务用清单列出)
- Plagiarism policy:
  - ✓ Maintain copies: Keep copies of all research reports, articles containing research ideas, material with new statistical methodologies, and other materials that were relied on in preparing the research report.
  - ✓ Attribute quotations: Attribute to their sources any direct quotations, including projections, tables, statistics, model/product ideas, and new methodologies prepared by persons other than recognized financial and statistical reporting services or similar sources. (知名机构的数据不必引用)

## Standard I(C): Case 1-3

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- **Case 1. (Representing the Firm's Abilities)** Rogers is a partner of Rogers and Black, a small investment advisory firm. She assures a prospective client that “we can perform all the financial and investment services you need.” Rogers and Black is well equipped to provide investment advice but cannot provide asset allocation assistance or a full array of financial and investment services.
  - **Comment:** Rogers violated I(C) by orally misrepresenting the services they can perform.
  
- **Case 2\*. (Disclosure of Issuer-Paid Research)** McGuire is an issuer-paid analyst hired by listed companies to promote their stocks online, but he concealed this contractual relationship and promoted as seemingly independent analyst.
  - **Comment:** McGuire violated Standard I(C) as he failed to disclose his arrangement with the listed companies and misled the investors online.
  
- **Case 3. (Correction of Unintentional Errors)** Yao is responsible for the marketing material and catches a typographical error that inflates the composite assets.
  - **Comment:** Yao did not knowingly make the misrepresentation, he didn't violate I(C). He should make necessary correction once catching the error.

## Standard I(C): Case 4-6

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- **Case 4. (Noncorrection of Known Errors)** The firm exaggerates Muhammad's academic degree in its promotional material, for years, Muhammad and the others distributed this material. (公司夸大M的学位, M明知而不纠正构成违规)
  - **Comment:** Muhammad may not have been directly responsible for the misrepresentation, but that he knew and used the material is clear violation.
  
- **Case 5. (Plagiarism, New)** Grant read a mining company research report prepared by others, then she made minor further consult and used the main report and circulated as her own report.
  - **Comment:** Grant plagiarized other people's report without acknowledgment, it's a clear violation.
  
- **Case 6. (Misrepresentation of Information)** Marks describes the interest-only strips as "guaranteed by the US government" to his pension clients who are required by law to purchase securities only guaranteed by the US government. In fact, the IOs are subject to interest rate changes and the clients incurred losses.
  - **Comment:** Marks misrepresented the terms and characteristics of the investment and it's a violation.

## Standard I(C): Case 7-8

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- **Case 7. (Potential Information Misrepresentation)** Abdrabbo advises his to-be retired clients to move their investment from equity to bank sponsored CD and money-market accounts (insured by the U.S. government) so the principal will be guaranteed up to a certain amount.
- **Comment:** While there is risk that the institution offering the certificates of deposits and money-market accounts could go bankrupt, in the United States, these accounts are insured by the U.S. government through the Federal Deposit Insurance Corporation. Therefore, using the term “guaranteed” in this context is not inappropriate as long as the amount is within the government-insured limit. Abdrabbo should explain these facts to the clients.
- **Case 8. (Plagiarism)** Swanson is preparing a research report for acquisition, and was given an accomplished report prepared by others for reference. Swanson finds that report is not complete for the purpose and reports this to the partner of the firm who tells him to “use Davis report ,change a few words, sign your name, and get it out.”
- **Comment:** If Swanson does as requested, he will violate Standard I(C). He could refer to those portions of the Davis report that he agrees with if he identifies Davis as the source; he could then add his own analysis and conclusions to the report before signing and distributing it.

## Standard I(C): Case 9-10

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- **Case 9. (Plagiarism)** Browning is intrigued by Jorrely's new concept during a seminar; he proceeds to test the model, making some minor mechanical changes while retaining the concept. He then claims he discovered a new model.
  - **Comment:** Although Browning tested Jorrely's model on his own and even slightly modified it, he must still acknowledge the original source of the idea. Browning can certainly take credit for the final, practical results; he can also support his conclusions with his own test. The credit for the innovative thinking, however, must be awarded to Jorrely.
  
- **Case 10\*. (Plagiarism)** Through a mainstream media outlet, Schneider learns about a study that she would like to cite in her research. Should she cite both the mainstream intermediary source as well as the author of the study itself when using that information?
  - **Comment:**
    - ✓ Best practice would be either to obtain the complete study from its original author and cite only that author,
    - ✓ or to use the information provided by the media and cite both sources

## Standard I (C): example

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- ★ Bryan Barrett, CFA, provides investment advice on gold and other hard assets to several large institutions. He said that thousands of his clients have benefited from his advice. Does Barrett's advertisement violate any CFA Institute Standards of Professional Conduct? :
- A. No .
  - B. Yes, related to Misrepresentation .
  - C. Yes, related to Communication with Clients .

## Standard I (C): example

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- Robert is responsible for the creation and distribution of ABC Company's marketing materials. In the materials, it says that the asset value of the company is **350 billion, but actually the true value is 35 billion**. Before Robert could make necessary change to the data, his subordinates had distributed these materials to their clients without seeking Robert's permission. **Robert doesn't know the distribution of the materials**. Under this circumstance, does Robert violate any CFA Standards of Professional Conduct?
- A. No.
- B. Misrepresentation.
- C. Misconduct.



## Standard I (C): example

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- Grey recommends the purchase of a mutual fund that invests solely in long-term U.S. Treasury bonds. He makes the following statements to his clients:
- Statement 1: "The payment of the bonds is guaranteed by the U.S. government; therefore, the default risk of the bonds is virtually zero."
- Statement 2: "If you invest in the mutual fund, you will earn a 10 percent rate of return each year for the next several years based on historical performance of the market."
- Did Grey's statements violate the CFA Institute Code and Standards?
  - A. Neither statement violated the Code and Standards.
  - B. Only Statement 1 violated the Code and Standards.
  - C. Only Statement 2 violated the Code and Standards.

# Guidance for Standards I-VII



# Standard I(D): Content

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## ➤ 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. (任何不诚信的行为都是misconduct, 但不是所有违法行为都是misconduct)

# Standard I(D): Guidance

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## ➤ 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. (不能滥用该准则来解决私人问题)

### 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. (如果没有做尽职调查就违反了misconduct准则)

# Standard I(D): Guidance

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## ➤ Guidance

5. 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.

## Standard I(D): Case 1-3

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- **Case 1. (Professionalism and Competence)** Sasserman is clearly intoxicated after lunch with friends and thus compromise his judgment while working in the afternoon.
  - **Comment:** Sasserman's excessive drinking is a violation of Standard I (D), because his judgment is compromised.
- **Case 2. (Fraud and Deceit)** Brink, an auto analyst and volunteer of local charities, while handling purchasing agreement of vans, deliberately directs the purchase to his friend dealer at abnormal higher price and splits the surcharge. (多出部分)
  - **Comment:** Brink's conduct involves dishonesty, fraud, and violates I(D).
- **Case 3. (Personal Actions and Integrity)** Garcia, a mutual fund manager, is also an environmental activist. During nonviolent protests, he has been arrested for trespassing (闯入、侵入) the property of a petrochemical plant.
  - **Comment:** Generally, Codes focus on professional conduct and don't cover acts of civil disobedience in support of personal beliefs. It's not a violation.

## Standard I (D): example

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- Gabrielle Gabbe, CFA, has been accused of professional misconduct by one of her competitors. The allegations concern Gabbe's personal bankruptcy filing when she was a college student ten years ago and had a large amount of uninsured medical bills. By not disclosing the bankruptcy filing to her clients, did Gabbe violate any CFA Institute Standards of Professional Conduct?
- A. No .
- B. Yes, related to Misconduct .
- C. Yes, related to Misrepresentation .

## Standard I (D): example

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- A CFA Candidate purchased copyrighted CFA exam preparatory study guide from a publisher. Two weeks prior to the exam, the Candidate **lost** the study guide, so he **photocopied a copy** that his friend had purchased. According to the Standards of Practice Handbook, did the Candidate *most likely* violate the CFA Institute Standards of Professional Conduct?

A. Yes.

B. No, because he had purchased his own copy .

C. No, because both had purchased their own copies .

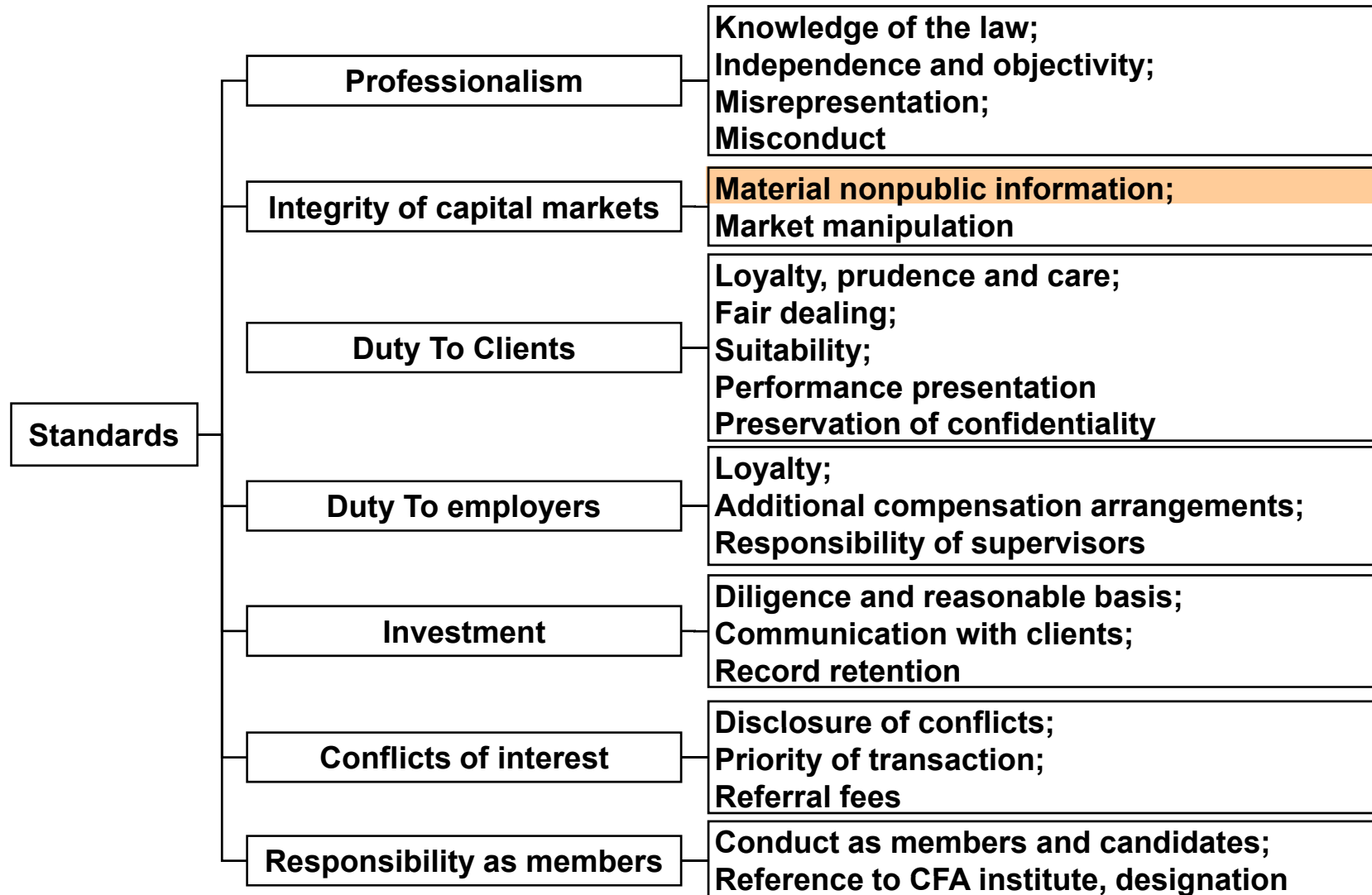


## Standard I (D): example

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- As a condition of his employment with an investment bank, Abasi Hasina, CFA, was required to sign an employment contract, **including a non-compete clause restricting him from working for a competitor for three years after leaving the employer**. After one year, Hasina quits his job for a comparable position with an investment bank in a country where non-compete clauses are illegal. Lawyers with whom he consulted prior to taking the new position **determined the non-compete clause was a violation of human rights and thus illegal**. Did Hasina most likely violate the CFA Institute Code of Ethics?
- A. Yes.
- B. No, because the non-compete clause violates his human rights .
- C. No, because the non-compete clause is illegal in the new country of employment .

# Guidance for Standards I-VII



# Standard II(A): Content

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➤ **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. (不能使用，也不能促使他人使用重大非公开信息)

# Standard II(A): Guidance

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## ➤ Guidance

2. 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. (不能直接买卖与内幕消息相关的股票，也不能买卖与该股票相关的衍生品、共同基金、另类投资)

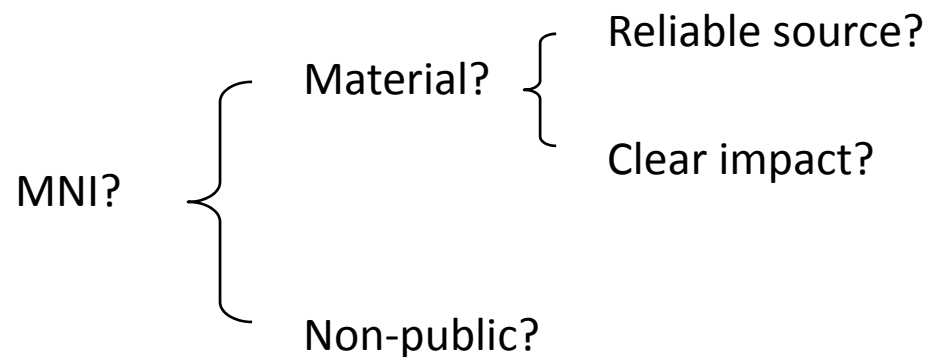
## Standard II(A): Guidance - *What Is “Material” Information ?*

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### ➤ 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. (如果这个消息会影响股价，或者一个正常的投资者在投资之前想知道，属于material)
- ✓ Information is “**nonpublic**” until it has been disseminated or is available to the marketplace in general.



## Standard II(A): Guidance - *What Is “Material” Information ?*

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

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

- ✓ Earnings
- ✓ Mergers, acquisitions, tender offers, or joint ventures
- ✓ Changes in assets
- ✓ Innovations products, processes, or discoveries
- ✓ New licenses, patents, registered trademarks, or regulatory approval/rejection of a product
- ✓ 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
- ✓ Government reports of economic trends (employment, housing starts, currency information, etc.)
- ✓ Orders for large trades before they are executed
- ✓ Competitor’s estimation → not MNI

## Standard II(A): Guidance - *What constitutes “nonpublic” Information ?*

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

7. Information is “nonpublic” until it has been disseminated or is available to the marketplace.
  - ✓ Not necessary to wait for the slowest method of delivery. (无需等到最晚公开方式完成)
  - ✓ Once the information is disseminated to the market, it is public information that is no longer covered by this standard. (只要信息公开就不属于内幕消息)
  - ✓ Selective disclosure may violate MNI. If MNI disclosed selectively, should issue a press release or otherwise public dissemination. (是否 selective, 要analyst自行判断。如果只是一小撮analyst获得了信息, 就视为 selective, 不能使用)

## Standard II(A): Guidance - *Mosaic theory*

### ➤ Guidance – *Mosaic Theory*

#### 8. Mosaic theory: (马赛克理论)

	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. (用非重大非公开的信息推出的结论可以使用，即使该结论是保密的)
  - ✓ 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 - *Investment Research Reports*

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## ➤ Guidance - *Investment Research Reports*

9. 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**. Such a report would have to be made public before it was distributed to clients. (知名分析师的报告可能会影响市场，有时也会被认为是重大非公开消息)
10. Issue press releases
  - ✓ Companies should consider issuing press releases **prior to analyst meetings and conference calls** and scripting those meetings and calls to decrease the chance that further information will be disclosed. (公司在开分析师会之前，考虑先开发布会)
  - ✓ If MNI is disclosed for the first time in an analyst meeting or call, the company should promptly issue a press release or otherwise make the information publicly available.

# Standard II(A): Recommended Procedures for Compliance

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## ➤ Recommended procedures for Compliance

### 11. Firewall

- ✓ Should not share or use MNI in IBanking, until it's disclosed publicly.
- ✓ “watch”, “restricted”, “rumor” lists
- ✓ Even at small firms, procedures concerning interdepartmental communication, the review of trading activity, and the investigation of possible violations should be compiled and formalized
- ✓ Establish a reporting system in which authorized people review and approve communications between departments.

# Standard II(A): Recommended Procedures for Compliance

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## ➤ Recommended procedures for Compliance

### 12. Record maintenance.

- ✓ Multi-service firms should maintain written records of the communications between various departments. (不同部门沟通要书面化)
- ✓ Firms should place a high priority on training and should consider instituting comprehensive training programs, particularly for employees in sensitive areas. (敏感部门的员工要特别关注)

### 13. Proprietary trading procedures (自营业务)

- ✓ Monitor and restrict proprietary trading when holding MNI
  - ◆ Market maker in possession of MNI, if stopping trading signals to market, remain passive to market, and take only the contra side of unsolicited customer's trades. (只被动地与相对方交易)
  - ◆ Risk-arbitrage trading: Best to stop; If not stop, prove the adequacy of their internal procedures, demonstrate stronger review and documentation. (套利交易最好停止)

## Standard II(A): Case 1-3

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- **Case 1\*. (Acting on Nonpublic Information)** Staple gets the information of the tender offer for SmartTown from his wife who is the niece of the president and controlling shareholder of SmartTown, and immediately buys the stock.
  - Comment: The info is both material and nonpublic so it is a violation of Standard II (A).
  
- **Case 2. (Acting on Nonpublic Information)** Walsh, while in elevator, overhears the discussion between top executives of Swan Company about the unexpected bad earnings that only will be released to public next week, he immediately sells the stock.
  - Comment: It is material nonpublic information, Walsh must not trade on it.
  
- **Case 3. (Controlling Nonpublic Information)** During the telephone conference call with Bright Company, Peter is advised that the earnings projections (利润预测) have significantly dropped. The colleagues of Peter walk in and out during the call and get the information and traded on the information at once.
  - Comment: Peter violated Standard II (A) as he failed to prevent the transfer and misuse of material nonpublic information and his colleagues who traded also committed violation.

## Standard II(A): Case 4-6

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- **Case 4\*. (Acting on Nonpublic Information)** George's nephew is the night foreman of the publisher and has early access to the content of the weekly column (杂志专栏) before it is printed. Once published, the column usually affects the price of the stocks discussed. George then gets an advance copy, trades the stocks mentioned and profits from the information.
  - **Comment:** Both George and his nephew has violated Standard II (A).
  
- **Case 5. (Acting on Nonpublic Information)** The Newmans get the nonpublic information that O'Hara Brother has just fired its CFO through the wife of the CEO of O'Hara Brother who is co-working with them at a local charity. Mr. Newman sells his entire holding of O'Hara Brother.
  - **Comment:** The information is material and nonpublic and constitutes violation.

## Standard II(A): Case 7-8

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- **Case 6\*. (Selective Disclosure of Material Information)** In a meeting with the finance director of the manufacturer and the **other 10 largest shareholders of that company**, Levenson knew a **forthcoming strike which will cripple the production**. She concerns whether she could change the rating based on this information.
- **Comment:** Levenson must first determine **whether the material information is public**. If the company has not made this information public (a small-group forum does not qualify as a method of public dissemination), she cannot use the information according to Standard II(A).
  - Violate III(E)-Preservation of Confidentiality
- **Case 7\*. (Determining Materiality)** Fechtman collects information **from his doctor who thinks** a takeover is imminent (即将) and it is good to long stocks. After talking to investment professionals and checking opinions on the company and industry trends, Fechtman decides to accumulate more stock.
- **Comment:** Although information on an expected takeover bid may be of the type that is generally material and nonpublic, in this case, **the source of information is unreliable and could not be considered material**. Therefore, Fechtman can trade the stock on the basis of this information.

## Standard II (A): example

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- While at a bar in the financial district after work, Ellen Miffitt, CFA, overheard several employees at one of her competitors discussing how they would manipulate down the price of a thinly traded micro cap stock over the next few days. Miffitt's clients had large positions of this stock and when she arrived at work the next day, she immediately sold all of these holdings. As she had determined that the micro cap stock was suitable for all of her accounts, even at its previously higher price, Miffitt bought back her clients' original exposure at the end of the week at the new, lower price. Which CFA Institute Standards of Professional Conduct did Miffitt least likely violate?
- A. Market Manipulation.
  - B. Preservation of Confidentiality.**
  - C. Material Nonpublic Information .

# Guidance for Standards I-VII





## Standard II(B): Content

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- **Content:** must not engage in practices that
- distort prices or artificially inflate trading volume (扭曲价格、虚增交易量)
  - with the intent to mislead market participants. (目的是误导投资者)
1. Market manipulation includes:
- ✓ Info-based: The dissemination of false or misleading information
  - ✓ Transaction-based: Transactions that deceive or would be likely to mislead market participants by distorting the price-setting mechanism of financial instruments.

# Standard II(B): Guidance

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## ➤ Guidance

2. Transaction-based: Distort prices or artificially inflated trading volume with the intent to mislead market participation.
3. Information-based: Spread false info
4. 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. (利用市场的无效性)
  - ✓ Not prohibit trade for tax purposes, selling then buying back. (为了税收目的)
5. Futures Exchange signed the contract with Market Maker to insure the minimum trading volume by decreasing commission. → If for the interest of clients and disclosed, Not violate. (交易所与做市商有约定, 如果达到一定的交易量可以减少佣金, 如果这种利益归属于客户且披露了, 没有违反市场操纵准则)

## Standard II(B): Case 1-2

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- **Case 1. (“Pump-Priming” Strategy)** In order to demonstrate best liquidity of a new contract, Gonchar, chairman of the ACME Futures Exchange, enters into agreements with members so that they commit to a substantial minimum trading volume on the new contract for a specific period in exchange for reductions of commission.
- **Comment:** If ACME fully discloses its agreement with members to boost transactions over some initial launch period, it does not violate Standard II(B). ACME’s intent is not to harm investors but on the contrary to give them a better service. For that purpose, it may engage in a liquidity-pumping strategy, but it must be disclosed.

## Standard II (B): example

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- Lin Liang, CFA, is an investment manager and an auto industry expert. Last month, Liang requested securities regulators to open an investigation into accounting irregularities at Road Rubber Company (RRC) despite having no basis for the request. Shortly before he spoke to the regulators, Liang shorted RRC stock for his clients. Once the regulators opened an investigation, Liang leaked this information to multiple sources in the media. When news of the investigation became public, the share price of RRC immediately dropped 30%. Liang then covered the short positions and made \$5 per share for his clients. Liang least likely violated which of the CFA Institute Standards of Professional Conduct?
- A. Misconduct .
  - B. Market Manipulation .
  - C. Priority of Transactions .

# Guidance for Standards I-VII



# Standard III(A): Content

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## ➤ Content:

1. Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. (要有合理的审慎和慎重的判断)
2. Must act for the benefit of their clients and place their clients' interests before their employer's or their own interests. (把客户的利益放在雇主之前, 自己之前)

# Standard III(A): Guidance

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## ➤ Guidance

3. Exercise prudence, care, skill, and diligence.
4. Fiduciary (受托人) (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.**
  - ✓ 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. (信托资产的管理必须严格遵守信托文件)

# Standard III(A): Guidance

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## ➤ 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.**
  - ✓ In managing a client's portfolio, prudence requires following the investment parameters (参数) set by the client and balancing risk and return.
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 - *Identifying the Actual Investment Client*

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### ➤ Guidance - *Identifying the Actual Investment Client*

7. The first step is to determine the identity of the “client” to whom the duty of loyalty is owed. (定义谁才是真正的“客户”)
  - ✓ In the context of an investment manager managing the personal assets of an individual, the client is easily identified. (管理个人资产→资产所有人就是客户)
  - ✓ 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. (管理信托资产→信托的最终受益人才是客户)
  - ✓ In some situations, an actual client or group of beneficiaries may not exist. 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. (管理指数基金、特定的合约→把“mandate”作为客户)

# Standard III(A): Guidance - *Developing the Client's Portfolio*

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

8. 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.
  - ✓ 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. (要确保客户的目标和预期是现实可行的，风险是合适的)
  - ✓ In most circumstances, recommended investment strategies should relate to the long-term objectives and circumstances of the client. (要考虑客户长期的目标和状况)

# Standard III(A): Guidance - *Developing the Client's Portfolio*

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

10. Particular care must be taken to detect **whether** the goals of the investment manager or the firm in placing business, selling products, and executing security transactions potentially conflict with the best interests and objectives of the client. (避免设定的目标与客户是冲突的)
11. Must follow any guidelines set by their clients for asset management.
12. Investment decisions must be judged in the context of the total portfolio rather than by individual investment within the portfolio. (站在整个组合的角度，而不是仅考虑单个资产)

## Standard III(A): Guidance - *Soft Commission Policies*

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### ➤ Guidance - *Soft Commission Policies*

13. A client will direct a manager to use the brokerage to purchase goods or services for the client (directed brokerage). 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.
14. Obligated to seek “best price” and “best execution”, and assured that the goods or services purchased from the brokerage will benefit the account beneficiaries. （为客户寻找最好的价格和执行）
15. “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. （一味寻找lowest price 反而违反该准则）
- Should disclose to the client and **obtain written consent** that the client may not be getting best execution from the directed brokerage if he insist on trading through that broker.

# Standard III(A): Guidance - *Voting Proxy Policies*

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## ➤ **Guidance – *Voting Proxy Policies***

20. Voting proxies in an informed and responsible manner.

- ✓ Proxies have economic value to a client. Must ensure that they 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 nonroutine governance issues may violate III(A). (不能盲目跟着管理层投票)
- ✓ 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. Should disclose to clients their proxy voting policies. (考虑到成本效益原则，有时可以不投票)

# Standard III(A): Recommended procedures for compliance

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## ➤ Recommended procedures for compliance

21. When taking investment actions, must consider the appropriateness and suitability of the investment relative to:

- ✓ the client's needs and circumstances
- ✓ the investment's basic characteristics
- ✓ the basic characteristics of the total portfolio.

22. Diversify:

- ✓ Should diversify investments to reduce the risk of loss, unless diversification is not consistent with plan guidelines or is contrary to the account objectives. (一定要分散化, 除非分散化和客户的目标相冲突)

## Standard III(A): Case 1-2

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- **Case 1 \* (Identifying the Client-Plan Participants).** Wiley serves as trustee for Miller's pension plan and is requested by the Miller's managers to support their anti-takeover action by buying Miller's common stock for the plan. Wiley generally believes the stock overvalued, follows the request considering maintaining the company's good favor and realizing additional new business. And the anti-takeover action succeeds.
  - **Comment:** The trustee must act for the beneficiary's interest (in this case the plan participants), not the benefit of the management. The guiding principle is the appropriateness of the investment for the plan, not whether the decision benefits Wiley or the company that hired him. So, it is violation.
  
- **Case 2\* (Client Commission Practices).** JNI, a successful investment manager for local pension plans, directed large portion of brokerage to Thompson because of close relationships between the executives of the two firms. JNI considers Thompson's research services and execution capabilities average. But commission structure is high relative to charges from other firms.
  - **Comment:** JNI did not obtain best execution for clients and indirectly used clients' brokerage to cover overhead, it is clear violation.

## Standard III (A): example

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- David Bravoria, CFA, is an independent financial advisor for a high net worth client with whom he had not had contact in over two years. During a recent brief telephone conversation, the client stated he wanted to increase his risk exposure. Bravoria subsequently recommended and invested in several high-risk funds on behalf of the client. Bravoria continued, as he had done in the past, to send to his client monthly, detailed itemized investment statements. Did Bravoria most likely violate any CFA Standards?
- A. No.
  - B. Yes, with regard to investment statements.
  - C. Yes, with regard to purchasing venture capital funds .

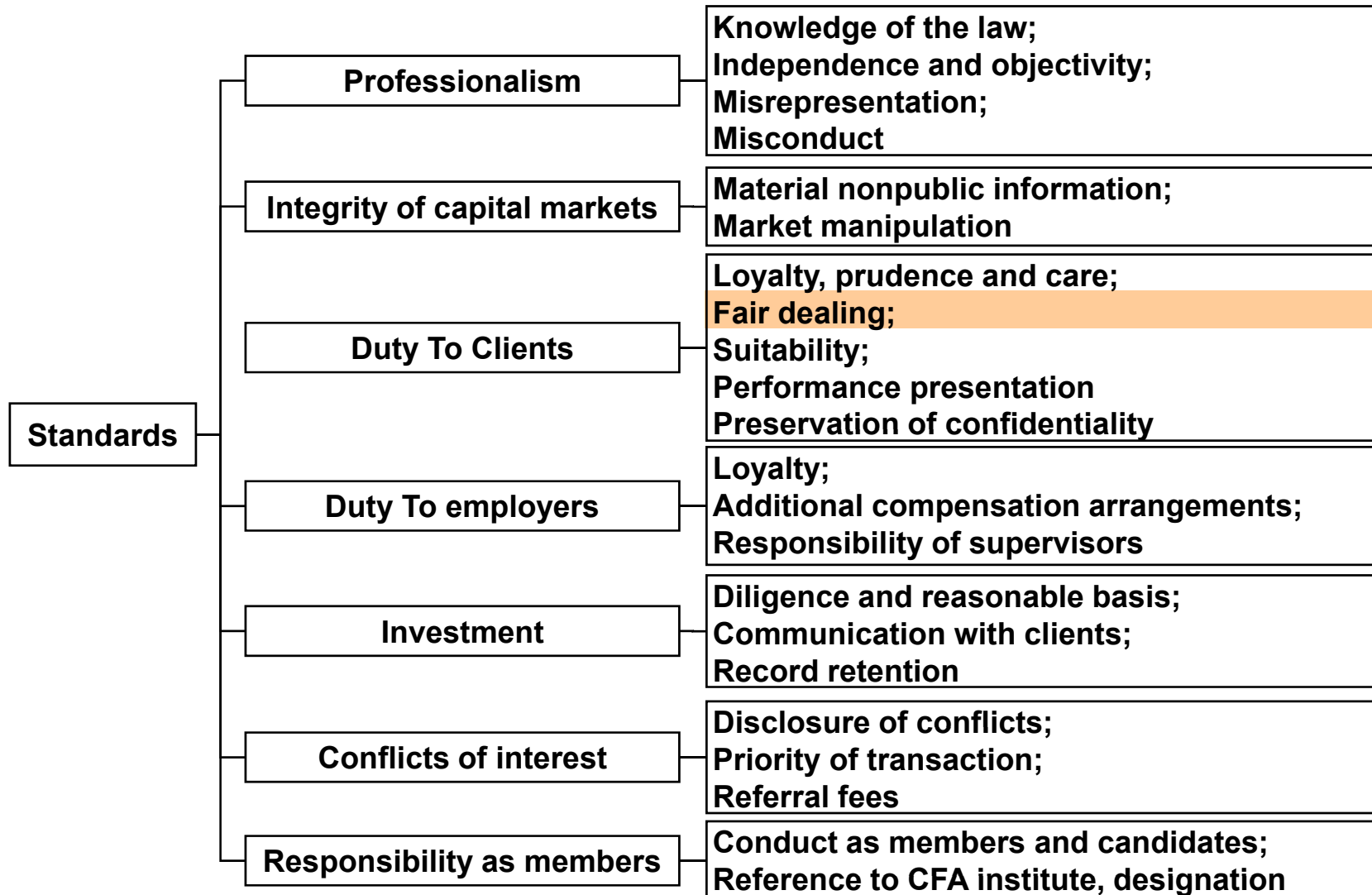


## Standard III (A): example

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- Jack Steyn, CFA, recently became the head of the trading desk at a large investment management firm that **specializes in domestic equities**. While reviewing the firm's trading operations, he notices clients give discretion to the manager to select brokers on the basis of their overall services to the management firm. Despite the client directive, Steyn would most likely violate Standard III (A) Loyalty, Prudence, and Care if he pays soft commissions for which of the following services from the brokers?
- A. Equity research reports.
  - B. Investment conference attendance. (出席投资会议)
  - C. Database services for offshore investments.

# Guidance for Standards I-VII



# Standard III(B): Content

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## ➤ 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

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## ➤ Guidance

### 2. Fairly ≠ equally

- Fairly: Not to discriminate against any clients when disseminating recommendations or taking investment action. (不能歧视性对待客户)
- Equally: Not required to treat all clients exactly the same, e.g. reach all clients exactly the same time, by e-mail or telephone. (无需对客户完全一样)

### 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). (可以对客户进行分级, 如VIP等, 但必须披露并使所有客户均有机会)

### 5. Trade: equitable system, pro rata on order size, not on account size. (超募时不能按 “account size” 应按 “order size” )

# Standard III(B): Guidance

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## ➤ Guidance:

### 6. Material changes:

- ✓ If clients place orders contrary to, or have acted on, been affected by earlier recommendation, should notify them updated recommendation. So a list of clients and holdings of securities of clients should be needed. (客户交易与推荐相反, 要提醒)

### 7. 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.

### 8. If the issue is oversubscribed, should be prorated to all subscribers.

- ✓ should be taken on a round-lot basis to avoid odd-lot distributions.  
(有时交易要求凑整数而给部分客户多一些是可以的)
- ✓ 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 - *Investment Action*

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

9. 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.** (家庭账户要作为一般客户对待, 前提是家庭不是在同一屋檐下且正常缴费)
10. Must make every effort to treat all individual and institutional clients in a fair and impartial manner. (对机构客户和普通客户要一视同仁)
11. Disclose to **clients and prospective** clients the documented allocation procedures in place and how the procedures would affect them.
12. Should not take advantage of their position to the detriment of clients.

# Standard III(B): Recommended procedures for compliance

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## ➤ Recommended procedures for compliance

### 21. Shorten the time frame between decision and dissemination

- ✓ If a detailed recommendation is still in preparation, should publish a short summary including the conclusion in advance.
  - ◆ In large firms with extensive review process, the long passage of time is not within the control of the analyst. Should communicate to customers and firm personnel by an update or “flash” report.

### 22. Simultaneous dissemination

- ✓ Should not give favored clients info when such action may disadvantage other clients. (不能因为关系好, 就先将信息提供给某部分客户)
- ✓ Discuss with some clients after email dissemination, okay. (邮件都发出后和个别客户讨论是可以的)

### 23. Disclose trade allocation procedures

- ✓ Disclosure of inequitable allocation methods does not relieve of the obligation. Trade allocation procedures must be fair and equitable. (不合理的分配方式, 即使披露也不能免责)

## Standard III (B): example

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- Clive Bowers, CFA, is a portfolio manager at Burlington Advisors (BA). Bowers manages two mutual funds along with a number of individual accounts. All of the portfolios, including the mutual funds, have similar return objectives, risk tolerances, and tax constraints. When Bowers allocates shares from lock trades, **he fills the mutual fund orders first and often allocates the remaining shares to the individual accounts based on their portfolio size.** When allocating shares from block trades, does Bowers violate any CFA Institute Standards?
- A. No.
  - B. Yes, with respect to suitability.
  - C. Yes, with respect to fair dealing.**



## Standard III (B): example

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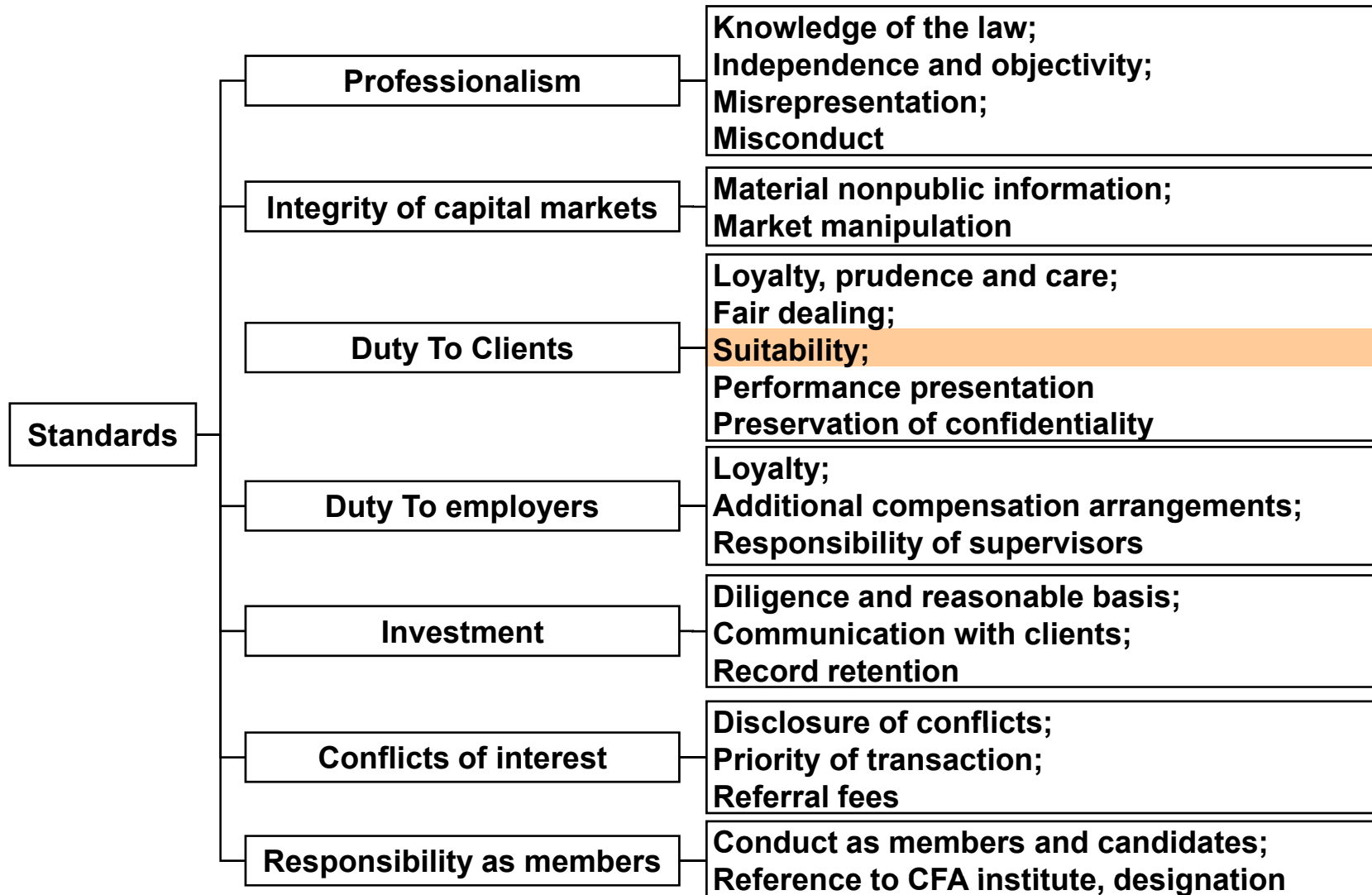
- Wouter Duyck, CFA, is the sole proprietor of an investment advisory firm serving a middle-class retail clientele. Duyck **claims** to be different from his competitors because he conducts his **own independent research**. Duyck has hundreds of clients. He fully discloses that to simplify the management of all these accounts he has created a recommended list of stocks, from which he selects investments for all of his clients. **Duyck's recommended list of stocks is obtained from his primary broker**, who has completed due diligence on each stock. Duyck's recommended list least likely violates which of the following CFA Institute Standards of Professional Conduct?
- A. Fair Dealing.
  - B. Misrepresentation.
  - C. Diligence and Reasonable Basis.

## Standard III (B): example

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- heila Schleif, CFA, is an equity analyst at an investment bank. Schleif uses a data-driven computer model in making her stock recommendations. Schleif discovers the model contains a coding error. **If the coding error were corrected, her most recent buy recommendation would change to a sell.** Schleif corrects the coding error, issues a bank-wide revision of her recommendation changing the buy to a sell, and **then forwards the revision to all bank clients** who received the initial recommendation. Concerning her actions related to the coding error, Schlieif most likely violated which of the following CFA Institute Standards of Professional Conduct?
- A. Fair Dealing.
  - B. Priority of Transactions.
  - C. Diligence and Reasonable Basis.

# Guidance for Standards I-VII



# Standard III(C): Content

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## ➤ 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. (作出投资决策或投资建议前, 评估是否适合客户)
  - ✓ Judge the suitability in the context of the client's total portfolio. (站在整个投资组合的角度, 来评估是否适合客户)
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. (如果投资前对投资目标及限制进行过约定, 投资决策或投资建议要严格遵守该约定)

# Standard III(C): Guidance

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## ➤ Guidance

3. In advisory: know clients, suitable, portfolio;
4. When managing to specific mandate, consistent with the stated objectives and constraints of the portfolio.
5. If unsolicited trade is known unsuitable:
  - ✓ To individual, should refrain from trade or seek an affirmative statement from the client that suitability is not a consideration. (客户提出了交易是unsuitable的，如果客户坚持，要取得客户的书面同意)

# Standard III(C): Guidance

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## ➤ Guidance - *Developing an Investment Policy*

6. 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*

7. 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. (评估客户的风险接受能力很重要)

## ➤ Guidance - *Updating an Investment Policy*

8. Updating the IPS should be repeated at least annually and also prior to material changes to any specific investment recommendations. (IPS必须每年更新，如果投资有实质性变化，需要先更新IPS)

# Standard III(C): Guidance

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## ➤ Guidance - *The Need for Diversification*

9. An investment with high relative risk may be a suitable in the context of the entire portfolio or when the client's stated objectives contemplate speculative or risky investments.
10. Can be responsible for assessing the suitability of an investment only on the basis of the information and criteria actually provided by the client. (只对客户提供的信息负责，客户未提供的无需负责)

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

11. Responsibility is to invest in a manner consistent with the stated mandate.
12. Those who manage pooled assets to a specific mandate are not responsible for any individual investor. (管理资产组的，无需对个人客户负责)
  - ✓ Only those who have advisory relationship are responsible for individual clients.

# Standard III(C): Recommended Procedures for Compliance

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## ➤ Recommended Procedures for Compliance

### 13. Investment policy statement.

- ✓ Include needs, circumstances, performance benchmarks and objectives, and review annually; (IPS每年都需要review一下)
- ✓ An appropriate suitability determination will not prevent some investments or investment actions from losing value. (suitability不代表不会亏钱)
- ✓ Update investors' objectives and constraints periodically (定期update目标和限制)



# Standard III(C): Recommended Procedures for Compliance

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## ➤ Recommended Procedures for Compliance

### 15. Regular updates.

- ✓ Objectives and constraints should be maintained and reviewed periodically to reflect any changes in the client's circumstances. (目标和限制要定期检查，并与客户状况相匹配)
  - ◆ Changes in either factor may result in a fundamental change in asset allocation. (客户任何一方面变化都可能导致资产组合的根本变化)
- ✓ Should regularly compare constraints with capital market expectations to arrive at an appropriate asset allocation.
- ✓ Annual review is reasonable unless business or other reasons, such as a major change in market conditions, dictate more frequent review. (市场情况变化了，要更频繁得review)

# Standard III(C): Recommended Procedures for Compliance

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## ➤ Recommended Procedures for Compliance

### 16. Suitability test policies.

- ✓ Should require the investment professional to look beyond the potential return of the investment and include the following:
  - ◆ an analysis on the impact on the portfolio's diversification,
  - ◆ a comparison of the investment risks with the client's assessed risk tolerance, and
  - ◆ the fit of the investment with the required investment strategy.

## Standard III(C): Case 1-2

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- **Case 1\* (Investment Suitability-Risk Profile).** Smith recommends investing 20% of both his 2 clients' portfolios in zero-yield small-cap hi-tech issues. **One** of them having a large asset base is willing to invest partly aggressively while the other only wants to achieve a steady return with low volatility.
  - **Comment:** The two clients have different financial circumstances and objectives. Smith's recommendation is not suitable for steady one. It violates III(C).
- **Case 2 (Investment Suitability-Entire Portfolio).** Walters suggests his client to use covered call options in the equity portfolio to improve the performance in a portfolio perspective. He educates his client about all possible outcomes, such as tax consideration, downside risk etc.
  - **Comment:** Walters has considered the characteristics of the client's entire portfolio and thoroughly explained the investment to the client. It's not a violation.

## Standard III (C): example

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- Abigail Unger, CFA, is a portfolio manager at Cascade Investments (CI). After thoroughly researching MBS and checking client investment objectives for appropriateness, Unger purchased two of the bonds for several clients. Following steep declines in MBS, several clients complain to CI, claiming the bonds were unsuitable investments. Has Unger violated any CFA Institute Standards?
- A. No.
- B. Yes, with respect to suitability.
- C. Yes, with respect to diligence and reasonable basis.

## Standard III (C): example

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- One fund manager found that a product was suitable for his clients and made a purchase for the clients. The transaction **did not correspond exactly to the strategy** of the firm determined at the beginning of the year which the client understood well. **The manager decided to inform the client of the modification of the strategy in three months**, when they would communicate with their clients about the strategies of the new years. Which standard did he most likely violate?
- A. Suitability.
  - B. Communication with clients.
  - C. Fair dealing.

## Standard III (C): example

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- Frederic LUTHER, a salesperson, established an IPS for a client when he persuaded the client to direct his transactions to their firms. All Frederic is doing is execute orders with some recommendations on choices made by the client. **One day, the client made an order on purchase of some stocks that are not suitable for him.** Frederic recommended the client take a second thought of his order, but the client insisted. **At last, Frederic agreed to execute the order.** Did Frederic comply with the Standards?
- A. Yes, because it is the client himself who is responsible for his own decision.
- B.** No, because Frederic should assure all his client's investments comply with the IPS.
- C. No, because Frederic should make his client understand what he is doing.

## Standard III (C): example

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- Noor Mawar, CFA, manages a trust fund with the beneficiary being an orphaned 18-year-old student. The investment policy dictates that trust assets are expected to provide the student with a stable low risk source of income until she reaches the age of 30 years. Based on information from an internet blog, the student asks Mawar to invest in a new business venture she expects will provide high returns over the next 5 years. Mawar ignores the request, instead securing conservative investments to provide sufficient income. Did Mawar most likely violate the CFA Institute Code of Ethics and Standards of Professional Conduct?
- A. Yes.
- B.** No, because the client's objectives were met.
- C. No, because the investment time frame does not match the investment horizon.

## Standard III (C): example

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- Molly Burnett, CFA, is a portfolio manager for a fund that **only invests in environmentally friendly companies**. A multinational utility company recently acquired one of the fund's best performing investments, a wind power company. The wind power company's shareholders received utility company shares as part of the merger agreement. **The utility has one of the worst environmental records in the industry**, but its shares have been one of the top performers over the past 12 months. Because the utility pays a high dividend every three months, Burnett holds the utility shares until the remaining two dividends are paid for the year then sells the shares. Burnett most likely violated the CFA Institute Standard of Professional Conduct concerning?

- A. suitability.
- B. disclosure of conflicts.
- C. independence and objectivity.



# Guidance for Standards I-VII



# Standard III(D): Content

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## ➤ 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

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## ➤ Guidance:

2. The presentation should be **fair, accurate, complete**
3. Not misrepresent past performance or reasonably expected performance.
  - ✓ Not state or imply to obtain what was achieved in the past (不能明示或者暗示过去的业绩可以代表未来。Eg: 过去10年的收益率达到12%，可以合理预计未来也可能达到12%)
4. Full disclosure:
  - ✓ Simulated performance using models?
  - ✓ Performance is obtained in prior firm? (可以使用以前公司的业绩，但必须取得前雇主的同意，因为业绩表述需要资料的支持。同时要披露。)
  - ✓ Is performance gross of fees, net of fees, or after tax?
5. Include terminated portfolio as part of performance history. (已经终止的数据要包括在内)
6. The performance of weighted rate of return rather than a single performance.

# Standard III(D): Guidance

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## ➤ Guidance: (con't)

7. If the presentation is brief, must
  - ✓ make available to clients and prospects, on request, the detailed information supporting that communication. (如果是用简要方式陈述业绩的, 客户需要业绩详细资料时要能拿得出来)
  - ✓ **Best practice:** brief presentations include a reference to the limited nature of the information provided.

## Standard III(D): Recommended Procedures for Compliance

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### ➤ Recommended Procedures for Compliance

#### 8. 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). (GPIS不是强制要求遵守, 但最好能遵守)
- ✓ Should encourage firms to comply with the GIPS standards.

## Standard III(D): Recommended Procedures for Compliance

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### ➤ Recommended Procedures for Compliance

9. **Compliance without applying GIPS standards.** Can also meet obligations under Standard III(D) by: (未遵守GPIS时要注意)
- ✓ 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 (refer to Full Disclosure<sup>4</sup>), and
  - ✓ maintaining the data and records used to calculate the performance being presented.

## Standard III(D): Case 1-3

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- **Case 1\* (Performance Calculation and Length of Time).** Taylor communicates his clients that “**You can expect steady 25%** annual compound growth of the value of your investments over the year.” **In fact,** Taylor’s performance only **achieves the rate of 25%** per annum **once** for the past years.
  - **Comment:** Taylor dishonestly **overstates** his performance, it is a violation. Also violates I(C) Misrepresentation.
- **Case 2 (Performance Calculation and Asset Weighting).** Judd, a senior partner of ACM, circulates a performance sheet and **claims compliance with the GIPS.** **But** his composites are not asset weighted which is a violation of GIPS.
  - **Comment:** It’s a false claim of GIPS compliance and violates Standard III (D).

## Standard III(D): Case 1-3

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- **Case 3 \*(Performance Presentation and Prior Fund/Employer).** McCoy is recently recruited by a new company. The new company prepared a marketing campaign in which includes McCoy's equity performance achieved at his old company and **the advertisement did not identify the old source.**
- **Comment:** McCoy violate Standard III (D) by distributing material **performance misrepresentations regarding** the historical performance of the new company. Generally, the standard does not prohibit showing past record **so long as it is fully disclosed** where the performance comes from and the person's role in it.



## Standard III (D): example

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- Sam Snead, CFA, is the founder and portfolio manager of the Everglades Fund. In its first year the fund generated a return of 30%. Building on the fund's performance, Snead created new marketing materials that **showed the fund's gross 1-year return as well as the 3-, and 5-year returns which he calculated by using back-tested performance information**. As the marketing material is used only for presentations to institutional clients, Snead **did not mention the inclusion of back-tested data**. According to the Standards of Practice Handbook, did Snead violate any CFA Institute Standards of Professional Conduct?
- A. No.
- B.** Yes, because he did not disclose the use of back-tested data.
- C. Yes, because he failed to deduct all fees and expenses before calculating the fund's track record.

## Standard III (D): example

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- Which of the following is a recommended procedure to make performance presentation?
- A. To prepare a format presentation of performance to audience.
  - B. To clearly disclose whether performance is gross of fee or net of fee.**
  - C. To present performance based on a representative portfolio.

## Standard III (D): example

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- Paper was recently terminated as one of a team of five managers of an equity fund. The fund had two value-focused managers and terminated one of them to reduce costs. In a letter sent to prospective employers, Paper presents, with written permission of the firm, the performance history of the fund to demonstrate his past success?
- A. Paper did not violate the Code and Standards.
- B.** Paper violated the Code and Standards by claiming the performance of the entire fund as his own.
- C. Paper violated the Code and Standards by including the historical results of his prior employer.

# Guidance for Standards I-VII



# Standard III(E): Content

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## ➤ Content:

1. Must keep information about current, former, and prospective clients confidential **unless**: (注意该条准则是针对客户的)
  - ✓ 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.  
(在法律允许或客户同意的情况下可以披露)

# Standard III(E): Guidance

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## ➤ Guidance

2. Require preservation of the confidentiality of information communicated by **clients, prospective clients, and former clients**. 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. (如果法律要求披露或涉及非法行为的, 可能有义务向相关部门进行报告)

## ➤ 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

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## ➤ 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.  
(如果在某些情况下法律要求, 就必须披露)
  - ✓ ***If applicable law requires maintaining confidentiality, even if the information concerns illegal activities on the part of the client, should not disclose.*** (如果法律要求保密, 即使违法也要保密)
  - ✓ When in doubt, should consult with compliance personnel or legal counsel before disclosing confidential information about clients.

## Standard III(E): Guidance- *Electronic Information and Security*

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

6. 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.** （不要求成为信息保密技术的专家，但对雇主的保密政策必须了解） The size and operations of the firm will lead to differing policies for ensuring the security of confidential information maintained within the firm.



## Standard III(E): Guidance - *Professional Conduct Investigations by CFA Institute*

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

7. Requirements of III(E) are not intended to prevent from cooperating with an investigation by the CFA Institute Professional Conduct Program (PCP).
8. 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. (提供信息后PCP会保密)
  - ✓ Will not be considered in violation of this standard by forwarding confidential information to the PCP. (提供给PCP不算违规)

# Standard III(E): Recommended Procedures for Compliance

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## ➤ Recommended Procedures for Compliance

9. 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. (只能将信息告诉同样服务这个客户的同事)
10. 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?

## Standard III (E): example

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- Townsend was recently appointed to the board of directors of a youth golf program that is the local chapter of a national not-for-profit organization. The program is beginning a new fund-raising campaign to expand the number of annual scholarships it provides. Townsend believed that many of her clients made annual donations to charity. The next week in her **regular newsletter to all clients**, she included a small section discussing the fund—raising campaign and her position on the organization's board?
- A. Townsend did not violate the Code and Standards.
- B. Townsend violated the Code and Standards by soliciting donations from her clients through the newsletter.
- C. Townsend violated the Code and Standards by not getting approval of the organization before soliciting her clients.

# Guidance for Standards I-VII



# Standard IV(A): Content

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## ➤ 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

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## ➤ Guidance

2. **Core rule**: Whether injure the firm, deprive the firm of its profit, or compromise the advantage of employee's skill and capability

## ➤ Guidance - *Employer Responsibilities*

3. **Encouraged** to provide employer with a copy of the Code and Standards.
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.** (高管有义务设计一种不会诱导员工做出不道德行为的薪酬政策)

# Standard IV(A): Guidance - *Independent Practice*

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## ➤ Guidance - *Independent Practice*

5. “Practice” means any service that the employer currently makes available for remuneration.
6. “Undertaking independent practice” means engaging in competitive business, as opposed to making preparations to begin such practice.  
(independent practice 是相竞争的业务)
7. Should abstain from independent competitive activity that could conflict with the interests of their employer.
8. 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: (从事 independent practice 需要向雇主披露并获得雇主同意)
  - types of services they will render to prospective independent clients,
  - the expected duration of the services,
  - and the compensation for the services.
9. Should not render services until they receive consent from their employer to all of the terms of the arrangement.

## Standard IV(A): Guidance - *Leaving an Employer*

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### ➤ Guidance - *Leaving an Employer*

10. Before leaving, the following will cause a violation:

- ✓ Misappropriation of trade secrets (盗窃交易秘密)
- ✓ 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. (在离职前就挖雇主的现有客户→违规)
- ✓ Self-dealing (appropriating for one's own property a business opportunity or information belonging to one's employer)
- ✓ Take properties without written permission, even rejected idea list. (即使是当时没有被采纳的点子也不能带走)



## Standard IV(A): Guidance - *Leaving an Employer*

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

12. Once notice is provided to the employer of the intent to resign, must follow the policies and procedures to notify clients of planned departure. Must not take records or files to a new employer without the written permission of the previous employer. (不能带走雇主的一片纸)
13. Once an employee has left the firm, the skills and experience that an employee obtained while employed are not “confidential” or “privileged” information. (从雇主学到的技能可以继续使用)
  - ✓ IV(A) does not prohibit experience or knowledge gained at one employer from being used at another employer.
14. Simple knowledge of names and existence of clients is generally not confidential information unless deemed such by an agreement or by law. But cannot use detailed info (e.g. address, phone number) to solicit clients.
15. 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. (在原雇主的文档应当销毁或者返还)

# Standard IV(A): Guidance

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## ➤ 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. If independent contractors, still have a duty to abide by the terms of the agreement. (oral or written agreement)

## Standard IV(A): Case 1-2

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- **Case 1\* (Soliciting Former Clients).** Magee, a pension manager, is leaving for a new company. Before resigning from the old employer, Magee asks 4 big accounts at the old firm to leave with her and solicit existing prospective clients for her new employer.
  - **Comment:** Magee violated Standard IV (A) **by soliciting** the current and prospective clients of the old employer **before her resignation.**
- **Case 2\* (Former Employer's Documents and Files).** Hightower has decided to leave his employer and start his own business. He has been careful not to solicit the employer's clients and planning to copy and take with him the followings: the clients list with addresses and telephone numbers, clients account statements, sample marketing presentations, recommendation list, computer models, etc.
  - **Comment:** Except with the consent of their employer, departing employees may **not take employer property** which includes what Hightower plans to take. So it is a violation standard IV(A).

## Standard IV(A): Case 3-4

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- **Case 3\* (Ownership of Completed Prior Work).** Madeline spends her summer as an unpaid intern at M&L helping GIPS compliance work. Two months later, she gets a job at MMC, also a GIPS compliant. Before leaving M&L, she **copies the firm's software that she helped develop.**
  - **Comment:** Internship is an employment and Madeline violated Standard IV (A) because she misappropriated M&L's property without permission.
- **Case 4\* (Starting a New Firm).** Allen, an equity analyst, without notice to her employer, registers (注册) to start an investment that will compete with her employer. However, she has not actively sought clients.
  - **Comment:** It is not a violation as long as Allen only prepares her new business on her own time outside the office and if Allen will not be soliciting clients for the business or otherwise operating the new company until she has left her current employer.

## Standard IV(A): Case 5

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- **Case 5\*\* (Soliciting Former Clients).** Chisolm **left** his former firm for a competing firm and **wants to contact his former clients**. Is this a violation of Standard IV (A) for Chisolm?
- **Comment:** It mainly depends on the nature and extent of the contact with former clients and the information Chisolm uses. If Chisolm uses confidential or privileged information obtained from former employer, it is violation. If Chisolm maintains his duty of loyalty before joining new firm and adheres to non-compete agreement and just use public information about former firm after departing to contact former clients, it is not violation.

## Standard IV(A): example

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- Jan Loots, CFA, quit his job as a portfolio manager at an investment firm with whom he had a non-solicitation agreement he signed several years ago. Loots received permission to take his investment performance history with him and also took a copy of the firm's software-trading platform. Subsequently, Loots sent out messages on social media sites announcing he was looking for clients for his new investment management firm. Access to Loots' social media sites is restricted to friends, family, and former clients. Loots least likely violated the CFA Institute Standards of Professional Conduct concerning his:
- ?
- A. trading software.
  - B. non-solicitation agreement .
  - C. investment performance history .

# Guidance for Standards I-VII



# Standard IV(B): Content

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## ➤ 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** (该准则约束的是：如果收取相关好处，会影响雇主利益的情况) **unless they obtain written consent from all parties involved.**



# Standard IV(B): Guidance

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## ➤ 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): Recommended Procedures for Compliance

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## ➤ Recommended Procedures for Compliance

5. 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. (从雇主以外收到好处要及时向雇主汇报)
6. The details of the report should be confirmed by the party offering the additional compensation, including performance incentives by clients. (向雇主的汇报中包含的细节, 应当经过提供好处一方确认)
7. 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.

## Standard IV(B): Case 1-2

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- **Case 1\* (Notification of Client Bonus Compensation).** Whitman, an employee at ATC, manages the account of Cochran, a client. Cochran proposes to Whitman that if the performance above 15% before tax, the Whitmans could enjoy a trip to Monaco. Whitman is paid a salary by his employer and does not inform this arrangement to his employer.
- **Comment:** Whitman violated Standard IV (B) by failing to disclose the vacation arrangement to his employer. This arrangement could compromise objectivity. Violate IV(B)→VI(A)→I(B)

## Standard IV(B): Case 1-2

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- **Case 2\* (Notification of Outside Compensation).** Jones sits on the board of directors of EUI and receives no monetary compensation, but receives membership privileges for his family at all EUI facilities. Jones buys the EUI stock for the clients for which it is appropriate and does not disclose this arrangement to his employer.
  - **Comment:** Jones violated Standard IV (B) by failing to disclose to his employer the non-monetary benefits for his directorship. Violate IV(B)→VI(A)→I(B)

## Standard IV(B): example

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- Alexandra Zagoreos, CFA, is the head of a government pension plan. Whenever Zagoreos hires a money management firm to work with the pension plan, she finalizes the deal over dinner at a nice restaurant. At these meals, Zagoreos also arranges for the money manager to provide her payments equal to 10% of the management fee the manager receives from the pension plan. Zagoreos keeps half of the payments for her own use and distributes the remainder as cash incentives to a handful of her most trusted staff. Zagoreos least likely violated which of the following CFA Institute Code of Ethics and Standards of Professional Conduct?
- A. Referral fees .
  - B. Loyalty, Prudence and Care .
  - C. Additional Compensation Arrangements .

## Standard IV(B): example

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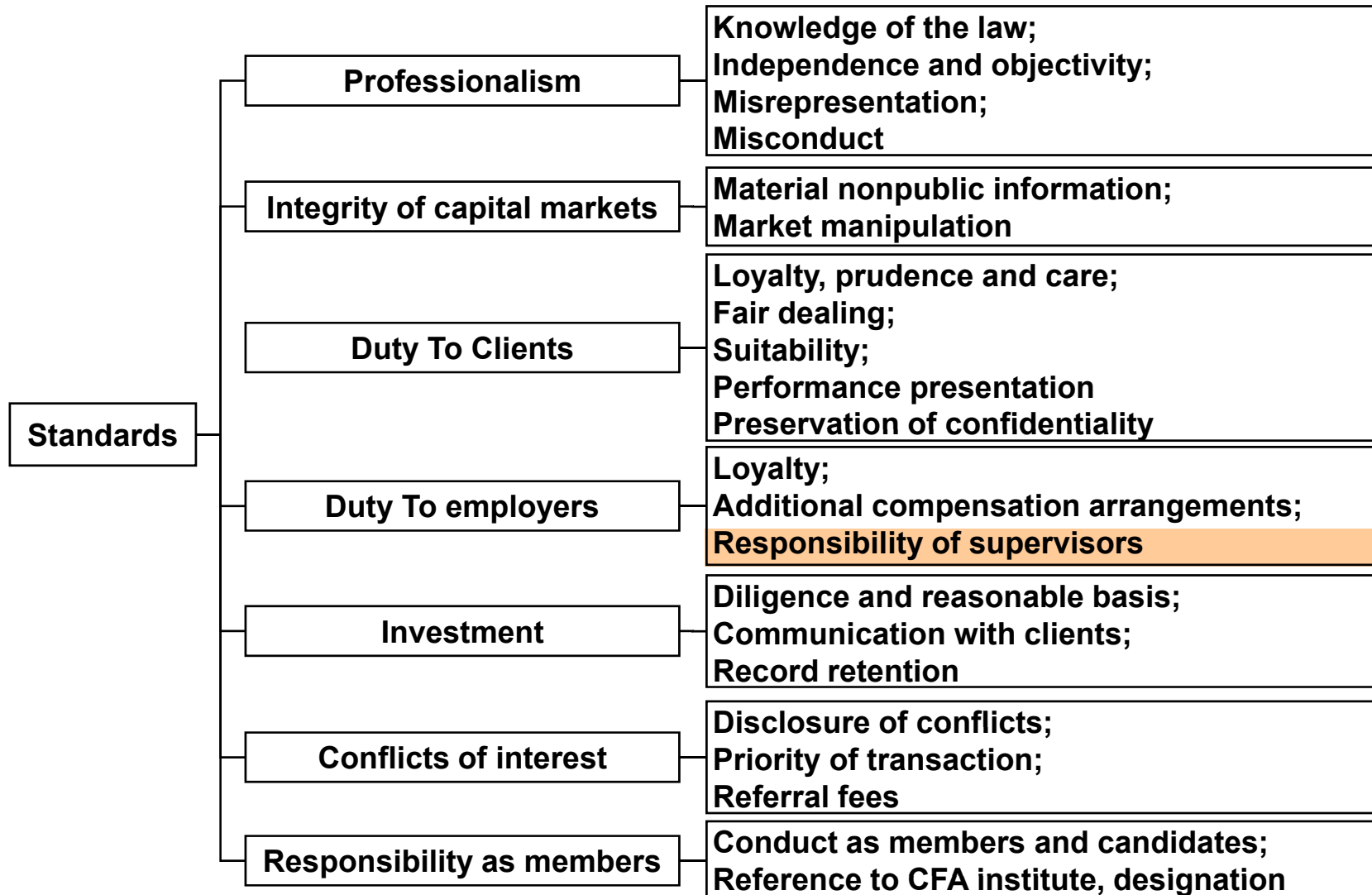
- Rachel Pederson, CFA, has managed the account of Olga Stefansson for the past decade and has a very good relationship with her client. Stefansson has a beach house in the Bahamas and offers Pederson and her family two free weeks at the house as a reward for the excellent returns generated in her account. Pederson is so busy at work that she does not tell anyone where she is going for vacation. When accepting Stefansson's offer, Pederson *least likely* violates the CFA Institute Standard relating to ?
- A. Loyalty to Employer.
  - B. Disclosure of Conflicts.
  - C. Additional Compensation Arrangements.

## Standard IV(B): example

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- Buta Singh, CFA, has a large extended family and manages the portfolios of several family members. Singh does not charge the family members a management fee, but receives a small percentage of each portfolio's profits. Singh accepted a position as portfolio manager for Bhotmange Investments to manage high net worth accounts. As the family portfolios were not normal client relationships, Singh did not inform his new employer of his side activity. With respect to the family portfolios; did Singh violate any CFA Institute Standards of Professional Conduct ?
- A. No.
- B.** Yes, because he failed to obtain consent from his employer.
- C. Yes, because he failed to disclose his new employment to his existing clients.

# Guidance for Standards I-VII





# Standard IV(C): Content

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➤ **Content:**

1. Must make reasonable efforts to detect and prevent violations of applicable laws, rules, regulations, and the Code and Standards by anyone subject to their supervision or authority. (发现和阻止违规行为)

# Standard IV(C): Guidance

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## ➤ Guidance - *Detection Procedures*

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

## ➤ Guidance - *Compliance Procedures*

3. Can delegate, but should instruct how to supervise, does not relieve them of their supervisory responsibility. (可以转委托他人监管，但必须指示明确且对转委托负责)
4. 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.

## ➤ Guidance - *Inadequate Procedures*

5. Those who have supervisory responsibility should bring an inadequate compliance system to the attention of the firm's senior managers and recommend corrective action.
6. If cannot discharge supervisory responsibilities because of the inadequate or absence of a compliance system, should decline in writing to accept supervisory responsibility until adoption. (在inadequate or absence of a compliance system情况下，应拒绝承担监管者责任)

# Standard IV(C): Guidance

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## ➤ Guidance

7. 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.

# Standard IV(C): Guidance

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➤ **Guidance - *Detection Procedures***

8. If adopted reasonable procedures and took steps to institute an effective compliance program, may not violate IV(C) if he does not detect violations that occur despite these efforts.
9. May violate IV(C) if he knows or should know that the procedures designed to detect and prevent violations are not being followed.

➤ **Guidance - *Enforcement of Non-Investment-Related Policies***

10. Those who have supervisory responsibility should enforce policies related to investment and non-investment-related activities equally.

## Standard IV(C): Case 1

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- **Case 1\* (Supervising Trading Activities).** Edwards, a trainee trader at Wheeler (WHC), a brokerage firm, assists a customer in paying for the securities of Highland, Inc. (HL). Despite the fact that HL is not on WHC's recommended list, a large volume of its stock is traded through WHC in this manner. Mason, VP of WHC, is responsible for supervising compliance with the securities laws in the trading department. Part of her compensation from WHC is based on commission revenues from the trading department. Although she notices the increased trading activity, she does nothing to investigate or halt it.
- **Comment:** Mason violated IV (C) by failing to adequately review and investigate purchase orders in HL stock executed by Edwards and her failure to supervise the trainee's wrongdoing. Supervisors should be sensitive to actual or potential conflicts between self-interests and supervisory responsibilities.
  - Also see VI(A) – Disclosure of conflicts.

## Standard IV(B): example

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- Wayne RUBY, a CFA Charterholder, is a director of brokerage department of a large investment bank. Someone told him that a member in his team, Max CHANG, often front-ran their clients. However, Max assured that the whistleblower wanted to take his place. Wayne was going to lead an investigation on the affair. Before he could arrive at any conclusion, he permitted Max to stay on his current position with more closely supervision. Did Wayne comply with the Standards?
- A. Yes, because he was making an investigation.
  - B. Yes, because he had strengthened the supervision.**
  - C. No, because he just permitted Max to stay on the current position before a conclusion was arrived.

# Guidance for Standards I-VII



# Standard V(A): Content

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## ➤ 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. (分析、投资或者提供建议要有合理、充分的基础)



## Standard V(A): Guidance - *Defining Diligence and Reasonable Basis*

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### ➤ 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 (所有有关的都要考虑到位) 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 (分析时需要考虑的因素):
  - ✓ company's operating and financial history, 财务历史)
  - ✓ current stage of the industry's business cycle, 行业周期
  - ✓ mutual fund's fee structure and management history, 费用结构、管理历史
  - ✓ output and potential limitations of quantitative models, 模型输出与限制
  - ✓ quality of the assets included in a securitization, 证券化资产质量
  - ✓ appropriateness of selected peer-group comparisons. 合适同类公司比较

## Standard V(A): Guidance - *Using Secondary or Third-Party Research*

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

6. **Criteria** in forming an opinion on whether research is sound include:
- ✓ assumptions used, (假设的使用)
  - ✓ rigor of the analysis performed, (分析的精准严密)
  - ✓ date/timeliness of the research, and (数据及时)
  - ✓ 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. (外部数据怀疑就不能用)

## Standard V(A): Guidance - Quantitatively Oriented Research

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

7. Need to have an understanding of the parameters used in the model or quantitative research. (不一定要成为建模的专家，但要了解相应的参数)
8. Although not required to be experts in technical aspects of the models, must be able to explain to their clients the importance of the quantitative research and how the results were used in the decision-making process. (能够解释①数量研究的重要性；②研究结果对投资决策的影响)
9. Need to consider the **time horizon** of data input in financial models. (考虑模型使用的数据的区间)
10. In development of a recommendation, may need to test the models by using volatility and performance expectations that represent scenarios outside the observable databases. (可以考虑极端情况下的结果)
11. 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. (确保模型包含了负面的市场事件)

## Standard V(A): Guidance - *Group Research and Decision Making*

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### ➤ Guidance - *Group Research and Decision Making*

12. 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. (有时候名字在报告上，并不代表有这样的观点)
13. Not agree conclusion, dissociated from the group research?
  - ✓ If believe that 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. (有时即便观点不同，但整个研究过程是可靠的，也可以署名)
14. Always recommend “hot” issue indicates **NO** reasonable basis. (不能总是推荐所谓的热门股票)

# Standard V(A): Recommended Procedures for Compliance

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## ➤ Recommended Procedures for Compliance

15. Should encourage their firms to consider the following policies and procedures to support the principles of Standard V(A):

- ✓ **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 (research, investment, or credit), supervisory analysts, and review committees that establishes the due diligence procedures for judging whether a particular recommendation has a reasonable and adequate basis.
- ✓ **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. (for internal)
- ✓ **Develop detailed, written guidance** that establishes minimum levels of scenario testing of all computer-based models used in developing, rating, and evaluating financial instruments.

# Standard V(A): Recommended Procedures for Compliance

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## ➤ Recommended Procedures for Compliance (con't)

- ✓ Develop measurable criteria for assessing outside providers, including
  - ◆ the quality of information being provided,
  - ◆ the reasonableness and adequacy of the provider's collection practices,
  - ◆ and the accuracy of the information over time. The established policy should outline how often the provider's products are reviewed.
- ✓ Adopt a standardized set of criteria for evaluating the adequacy of external advisers. The policy should include how often and on what basis the allocation of funds to the adviser will be reviewed.

## Standard V(A): Case 1-2

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- **Case 1\* (sufficient due diligence):** Hawke, a corporate finance officer, believes the tax benefit for oil and gas companies will soon be removed and convinces some companies that to capitalize on this, an equity financing must be arranged very quickly. Lacking sufficient resources to conduct adequate research on all the prospective issuers, Hawke decides to estimate the issuing prices based on the relative size of each company and to justify the pricing later.
- **Comment:** Hawke has violated Standard V (A) by pricing the issues simply based on size without reasonable and adequate analysis. He should have taken on only the work he could adequately handle.

## Standard V(A): Case 1-2

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- **Case 2 (developing a reasonable basis, NEW):** Witt creates a website to attract new clients, and due to time deadline, Witt created a report based on a few news articles and what markets deemed hot securities online.

- **Comment:**

- ✓ Witt has violated Standard V (A) because his continuing recommendation for IT stocks has not been based on reasonable and adequate basis.
- ✓ IV(C) Responsibility of supervisors



## Standard V(A): Case 3

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- **Case 3\* (group research opinions):** Mastakis, a junior analyst, is writing a residential mortgage report for the firm. After he submitted the report for review, the majority of the committee disagrees with his conclusion. And the report is significantly changed. Should he ask his name be taken off the report?
- **Comment:** Mastakis has not violated Standard V (A) as long as he has a reasonable and adequate basis. When the report is a group effort, not all members of the team may agree with all aspects of the report. He can ask to have his name removed from the report, but if he has a reasonable and adequate basis or is confident in the research process, he does not have to dissociate from the report even he disagrees.

## Standard V(A): example

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- Meshack Bradovic, CFA, was recently hired as a credit analyst at a credit rating agency whose major clients include publicly listed companies on the local stock exchange. One of the clients is preparing to issue new bonds to finance a major factory project. Bradovic's research suggests the creditworthiness of the company has severely deteriorated over the last year due to negative operating cash flows. Without conducting extensive research, Bradovic's boss puts pressure on him to upgrade the credit rating to an investment grade rating. What course of action is most appropriate for Bradovic to prevent any violation of the CFA Code or Standards?
- A. Quit his position with the firm. .
  - B. Upgrade the rating but note his objections in writing .
  - C. Disassociate with the credit rating report, the bond issue and the client .

## Standard V(A): example

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- Kirsten Kelso, CFA, is a research analyst at an independent research firm. Kelso is part of a team of analysts who focus on the automobile industry. Recently, Kelso disagreed with two research "sell" recommendations written by her team even though she felt confident the research process was properly conducted. In discussions with several clients, Kelso states "even though my name is on the sell reports, these stocks are a buy because sales and share prices for both auto companies will rise significantly due to strong demand for their vehicles." Concerning the "sell" recommendations, which of Kelso's following actions would most likely violate the CFA Institute Standards of Professional Conduct?
- A. Dissociating from the report.
  - B. Distinguishing between fact and opinion.
  - C. Sharing her personal opinion of the stocks.

## Standard V(A): example

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- Sallie Lewis, CFA, is a research analyst covering the mining industry. Along with other analysts, Lewis visited the primary mine of Gold Rush Mines (GR). During the visit, a major piece of equipment failed and **Lewis overheard an unidentified employee state that production would be stalled for six months.** Lewis immediately filed a sell recommendation on GR without any additional research. Has Lewis violated any CFA Institute Standards ?
- A. No.
- B. Yes, with respect to diligence and reasonable basis.
- C. Yes, with respect to material nonpublic information .

# Guidance for Standards I-VII



# Standard V(B): Content

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## ➤ Content

Members and Candidates must:

1. Disclose to clients and prospective clients the basic format and general principles (披露投资过程的一般方式和基本原则) 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. (这些投资过程有实质性的变化, 要及时与客户沟通)
2. 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. (判断投资分析、推荐、投资中重要因素, 及时与客户进行沟通)
3. Distinguish between fact and opinion in the presentation of investment analysis and recommendations. (区分事实和观点)
  - ✓ “...will be...” → fact
  - ✓ “...may be ...” → opinion

# Standard V(B): Guidance

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

4. Keep clients informed on an ongoing basis about changes to the investment process. (投资过程有变化要及时与客户沟通)
5. 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. (了解每个资产变化对于整个组合的影响)
6. Should inform clients about the specialization or diversification expertise of external advisers.

## ➤ Guidance - *Different Forms of Communication*

7. If recommendations are in capsule form (such as a recommended stock list), should notify clients that additional information and analyses are available upon request. (可以提供简易版报告，但必须告知客户，需要的话可以提供详细版)

# Standard V(B): Guidance

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## ➤ Guidance - *Identifying Limitations of Analysis*

9. Outline known limitations of the analysis and conclusions contained in their investment advice. Include those limitations in the report. (告诉客户分析和结论有一定的局限性)

## ➤ Guidance - *Distinction between Facts and Opinions in Reports*

10. In the case of complex quantitative analyses, analysts must clearly separate fact from statistical conjecture and should identify the known limitations of an analysis. (区分事实和统计学预测)
  - ✓ Failing to identify the limits of statistically developed projections. Readers will be unaware of the limits.
  - ✓ Failing to separate past from future by not indicating that earning estimates, changes in dividend outlook, and future market price info are only ***opinions***.



# Standard V(B): Recommended Procedures for Compliance

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## ➤ Recommended Procedures for Compliance

11. Changes in Style, committee, ceilings for investment universe should be disclosed to clients and prospect clients. (投资风格、投资委员会、投资上限变化要及时向客户披露)

# Standard V(B): Case 1

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- **Case 1\* (providing opinions as facts)** Dox is a mining analyst. He has finished a report on BB Minerals. Included in his report is his assessment of geological extent of mineral reserves likely to be found on the company's land. He completed calculation on the basis of the core samples from the drilling and assessed that the company has more than 500,000 ounces of gold on the property. He concludes his report as follows: "Based on the fact that the company has 500,000 ounces of gold to be mined, I recommend a strong BUY."
- **Comment:** His calculation of the gold reserve is opinion but not fact. He will violate V(B) if he issues the report as written.

## Standard V(B): Case 2

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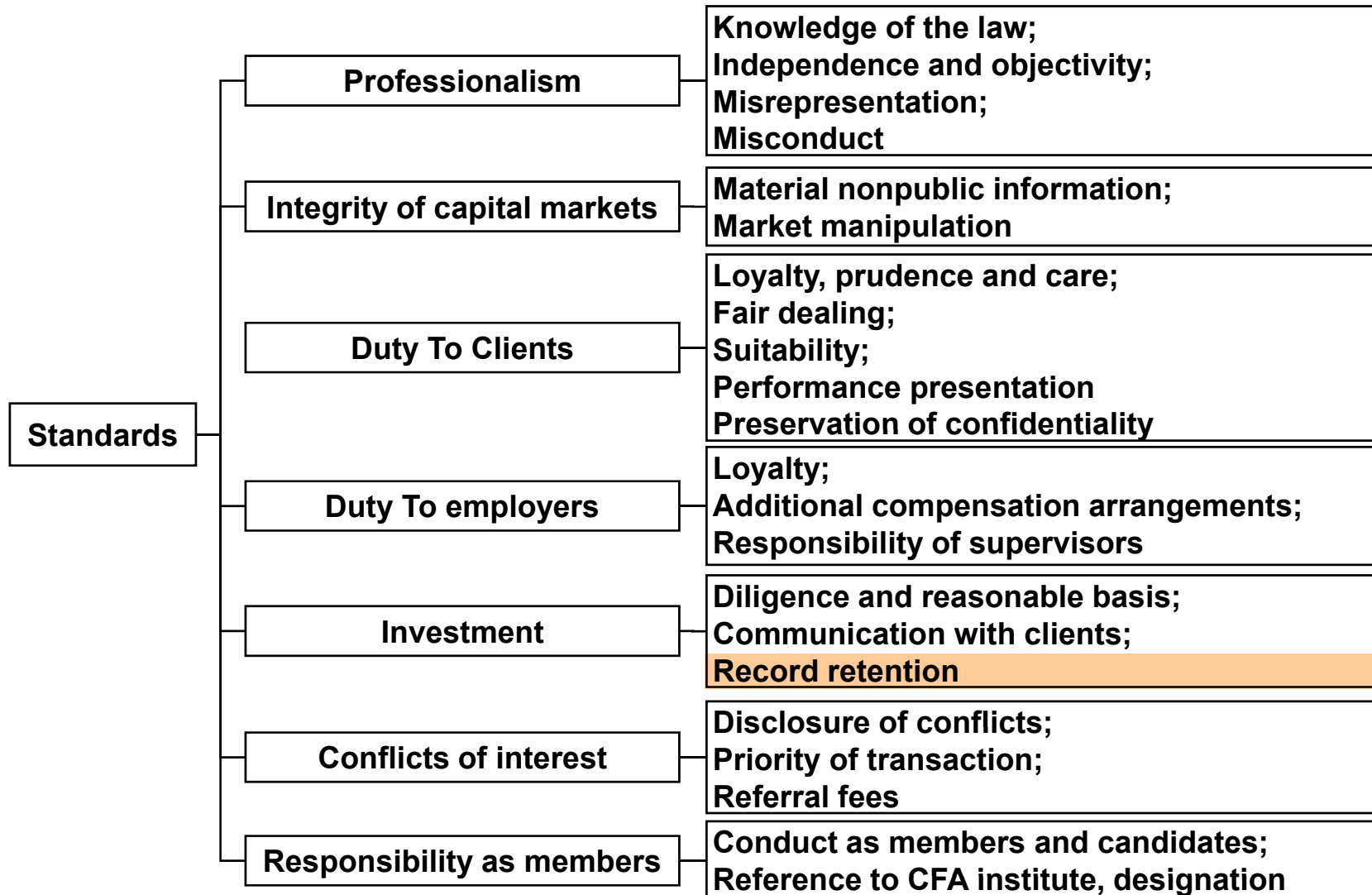
- **Case 2\* (notification of fund mandate change)** MAA is a successful small cap manager with increasing new clients. For liquidity purpose, the CIO **decides to lift the maximum market-cap ceiling from 250 million to 500 million** and informs prospective clients and third-party consultants.
  - **Comment:** The CIO must also inform the existing clients about **this material change** otherwise he violated Standard V (B).

## Standard V(B): example

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- Jimmi Alvarez, CFA, is the founder of an investment advisory firm serving high net worth investors. For the past decade, Alvarez has invested his clients' money in mid-cap stocks. After much research, Alvarez determines that small-cap stocks are undervalued and moves a portion of all of his clients' assets into these stocks. Alvarez plans to inform his clients of this change with their year-end statements in three months. Has Alvarez violated any CFA Institute Standards?
- A. No.
  - B. Yes, with respect to misrepresentation.
  - C. Yes, with respect to communication with clients and prospective clients.

# Guidance for Standards I-VII



# Standard V(C): Content

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## ➤ 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

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## ➤ 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. (records是公司财产，未经允许不能带走)
4. Cannot use historical recommendations or research reports created at the previous firm because the supporting documentation is unavailable. (不能使用以前的推荐或者研究报告，因为没有支持数据)
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

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## ➤ Guidance - *Local Requirements*

6. Fulfilling local regulatory requirements also may satisfy the requirements of Standard V(C), but should explicitly determine whether it does.
7. 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. (有规定的按照规定, 没有规定的保留7年)
  - ✓ If legal requirement regarding record maintenance is 5 years, how long should we keep records?



## Standard V(C): example

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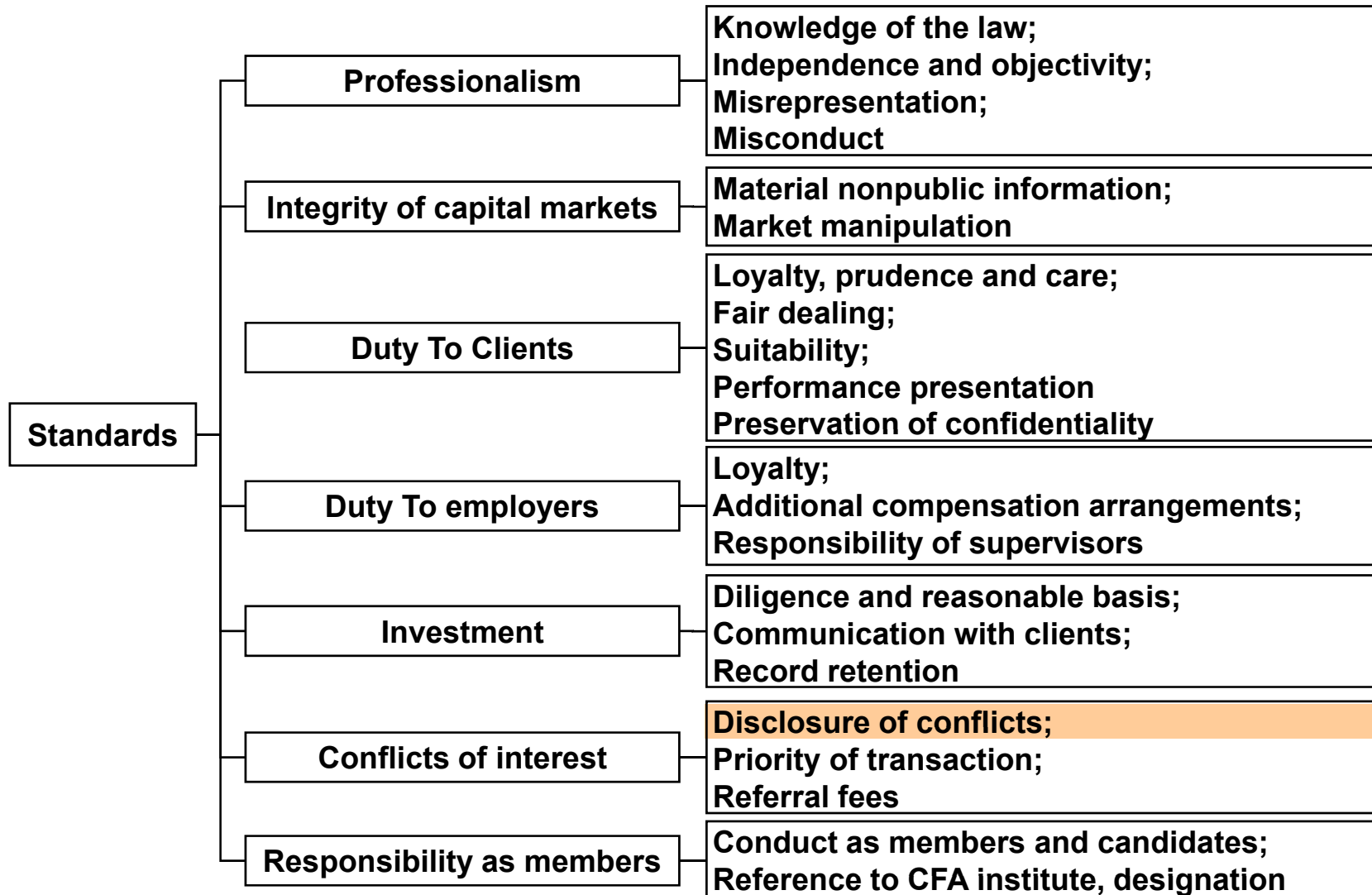
- Guillermo Sandoval, CFA, owns an asset management firm with offices downtown. To minimize rent expenses, each year Sandoval ships the previous year's research records to a nearby warehouse. There, the reports are digitized and stored in both electronic and hard-copy forms. After five years, all paper copies are destroyed and only electronic copies are retained. Are Sandoval's record-retention procedures in compliance with the CFA Institute Standards of Practice?
- A. Yes.
- B. No, because he did not retain the copies in his offices.
- C. No, because he failed to retain the original documents.

## Standard V(C): example

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- Gregor Pavlov, CFA, is a fund manager working for the general partner of a new private equity fund. Pavlov includes in the fund marketing material his performance history from his previous employer. He received permission from his former employer to take his historical return figures and the supporting research reports he used to make the related investment decisions. Did Pavlov most likely violate the CFA Institute Code of Ethics and Standards of Professional Conduct?
- A. No.
  - B. Yes, regarding Loyalty.
  - C. Yes, regarding Record Retention.

# Guidance for Standards I-VII



# Standard VI(A): Content

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## ➤ 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**. (所有可能和客户、潜在客户、雇主产生利益冲突的事项都要进行披露)
2. Must ensure that such disclosures are prominent, are delivered in plain language, and communicate the relevant information effectively.

# Standard VI(A): Guidance

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## ➤ 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
5. If asked to cover the company, when **inherit** the shares of the company in subject
  - ✓ must disclose if follow (继承股票后如果还想follow, 必须披露)
  - ✓ the best practice is to assign another to follow up the company (最好是让别人来follow)

# Standard VI(A): Guidance

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## ➤ 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: (1) directorship; (2) investment banking service, financial relationship; (3) market-making; (4) beneficial ownership of stock
- 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): Recommended Procedures for Compliance

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## ➤ Recommended Procedures for Compliance

### 11. Disclosure of performance arrangement

- Firms are encouraged to include information on compensation package in firms' promotional literature. (鼓励公司在宣传册上披露)
- 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. (雇主制定的incentive fee 与客户利益冲突, 要披露。如果雇主不允许披露, 要脱离或者辞职)

## Standard VI(A): Case 1-3

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- **Case 1 (conflicts of interest and business relationships):** Weiss is writing a research report on Vimco, a client of his firm's M&A dept. Weiss's colleagues sit on the board of directors of Vimco subsidiaries.
  - **Comment:** Weiss must disclose in his research report the special relationship between his firm and Vimco.
- **Case 2 (conflicts of interest and business stock ownership):** DR sells a 25% interest in its partnership to FNY and immediately thereafter, the president of DR changes her recommendation of FNY and adds it on the firms approved list for purchase.
  - **Comment:** The president must disclose the new relationship with FNY to all clients.



## Standard VI(A): Case 1-3

---

- **Case 3 (conflicts of interest and business stock ownership):** Fargmon, a research analyst, has been recommending Kincaid because of its innovative new copier. As he is asked to write a follow-up report on Kincaid, his wife **inherits \$3 million of Kincaid stock.**
- **Comment:** Fargmon must disclose his wife's ownership of the Kincaid stock to his employer and in his follow-up report.
  - **Best practice:** Ask the firm to assign another analyst to follow-up.

## Standard VI(A): Case 4-5

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- **Case 4 (conflicts of interest and business stock ownership):** Robert is speculating in penny stocks and buys 100,000 shares of D. Mining. Then she is asked to write a report on the penny stock in the mining industry. Robert would recommend D. Mining even without owning it.
  - **Comment:** Robert must disclose the ownership in the report and to her employer before writing the report.
- **Case 5 (conflicts of interest and compensation arrangement, NEW):** Dyson is managing pension funds with long term objectives. After his employer introduced a bonus compensation system that rewards portfolio managers on the basis of quarterly performance, Dyson changes his strategy and buys high beta stocks to boost short term performance without changing the IPS.
  - **Comment:**
    - ✓ Dyson violated Standard VI (A) by failing to inform her clients of the changes in her compensation arrangement that created a conflict of interest. Violate VI(A)→I(B).
    - ✓ Also violate III (C)

## Standard VI(A): example

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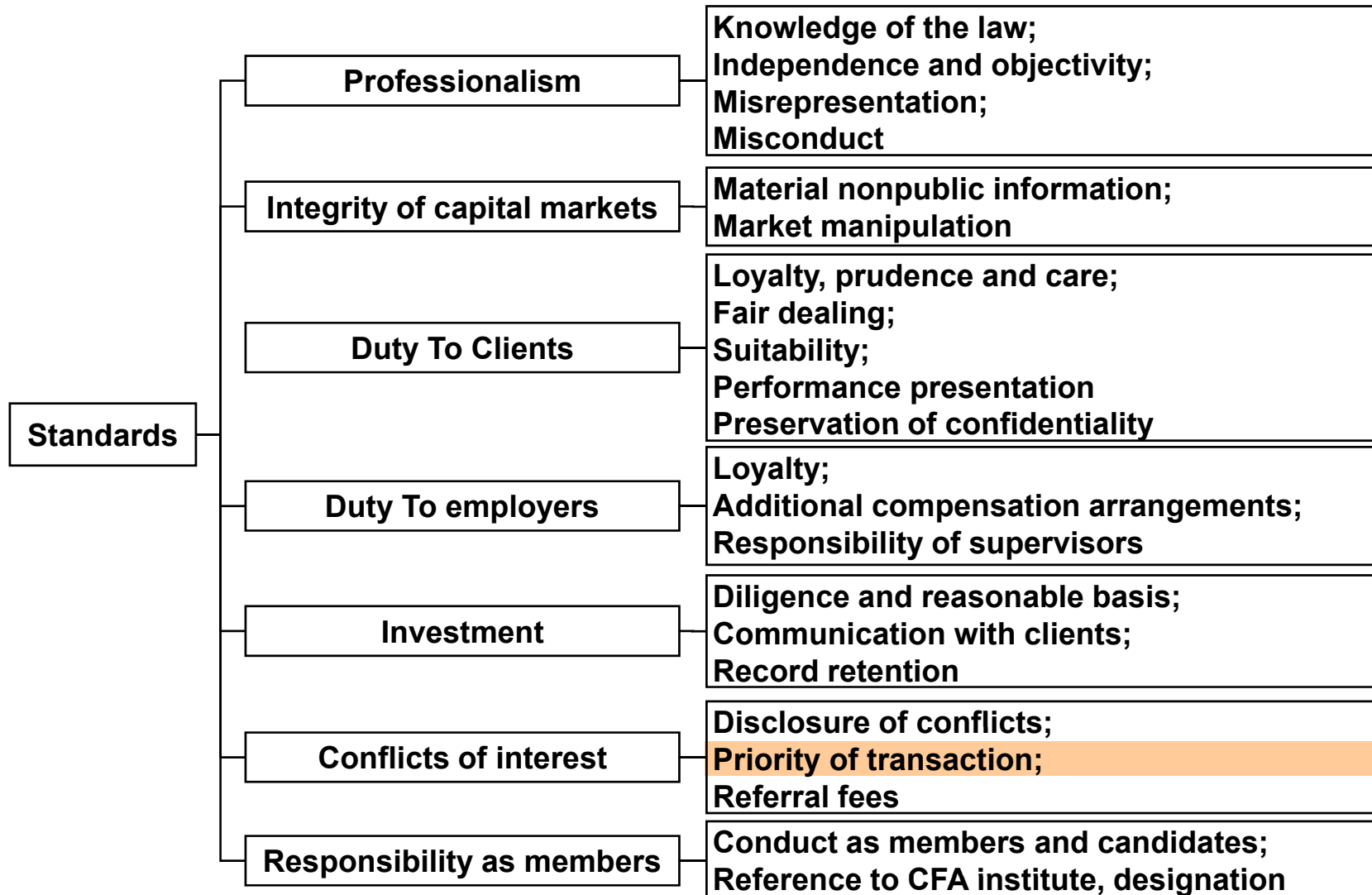
- Yao Tsang, CFA, has a large percentage of his net worth invested in the Australian mining company Outback Mines, which he has held for many years. Tsang is in the process of moving to a new employer where he will be responsible for initiating research on U.S. domestic mining companies. Shortly after his move, Tsang is asked to complete a research report on Outback Mines. In order to meet the CFA Institute Standards of Professional Conduct concerning his stock holding, which of the following is the most appropriate action for Tsang to take?
- A. Disclose his stock holding to his employer and to clients.
  - B. Sell his stock holdings to eliminate any potential conflict of interest.
  - C. Refuse to write the report and ask his employer to assign another analyst to complete the analysis.

## Standard VI(A): example

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- Beth Kozniak, a CFA candidate, is an independent licensed real estate broker and a well-known property investor. She is currently brokering the sale of a commercial property on behalf of a client in financial distress. If the client's building is not sold within 30 days, he will lose the building to the bank. A year earlier, another client of Kozniak's had expressed interest in purchasing this same property. However, she is unable to contact this client, nor has she discovered any other potential buyers. Given her distressed client's limited time frame, Kozniak purchases the property herself and foregoes any sales commission. Six months later, she sells the property for a nice profit to the client who had earlier expressed interest in the property. Does Kozniak most likely violate the CFA Institute Standards of Professional Conduct ?
- A. No.
- B. Yes, she did not disclose her potential conflicts of interest to either client .
- C. Yes, she profited on the real estate to the detriment of her financially stressed client .

# Guidance for Standards I-VII



# Standard VI(B): Content

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## ➤ 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. (交易顺序：客户 > 雇主 > 自身)

# Standard VI(B): Guidance

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## ➤ Guidance

2. Client > employer > individual (Individual - beneficial owner.)
3. After 7 minutes, buy, it's a violation. Must be sufficient length of time in order to let clients have opportunities to respond to your recommendation. (实质重于形式, 给客户足够的时间反应)

## ➤ 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 mutual fund employees making money from personal investments as long as
  - ✓ the client is not disadvantaged by the trade, (客户没有受到损害)
  - ✓ the investment professional does not benefit personally from trades undertaken for clients, and complies with applicable regulatory requirements (遵守当地的法律)

## ➤ 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. (beneficiary owner 视为 member or candidate 本身, 客户雇主利益仍应当优先)

# Standard VI(B): Guidance

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## ➤ 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. (不能将内幕消息透露给与自己有利益关系的人)

## ➤ 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 (要像对待他人一样对待家庭账户, 除非同一屋檐下或非正常缴费)
10. If have beneficial ownership in the account, may be subject to preclearance or reporting requirements of the employer or applicable law. (对自己作为最终受益人的账户要进行事先清理, 或依照法律、雇主要求进行报告)



## Standard VI(B): Case 1-2

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- **Case 1 (personal trading):** Long, a research analyst, **postponed** his recommendation of buying a stock for the firm **as he could buy first for his personal account.**
  - **Comment:** Long violated Standard VI (B) by taking advantage of his knowledge of the stock's value before his employer.
  - May also violate II(A)
  
- **Case 2 (trading for family member account):** Baker maintains an account in her husband's name with her individual clients and when allocating hot issues, **she acquires for her husband's account first** and then her clients if possible.
  - **Comment:** It's a violation; Baker must acquire shares for the clients first and for her husband's account only after doing so and should disclose her personal trading to all interested parties. See also III(B).

## Standard VI(B): Case 3-4

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- **Case 3 (personal trading and disclosure, NEW):** Michaels is leading a luxury life with a low paying job as a investment staff serving both the research depart. and the investment management depart. The director of the company investigates and discovers that Michaels has made front running trading based on firms recommendations.
- **Comment:**
  - ✓ Michaels violated VI (B) by placing personal trading ahead of client transactions.
  - ✓ Supervisor violated IV (C) for having not prevented this.
  - ✓ Michaels violated II(A) for serving both the research department and investment management department.

## Standard VI(B): Case 3-4

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- **Case 4\* (trading prior to report dissemination):** Seven minutes after informed the sell recommendation for a stock in an in-house meeting, Riley closes out a long call option in that stock and establishes a sizable put position. She claims she took this to facilitate clients' sales.
- **Comment:** Riley exploited the sell recommendation and did not give customers the opportunity to act before the firm itself did.
  - Violate VI(B) and II(A).

## Standard VI(B): Case 5

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- **Case 5\*\*\* (Family accounts as equal):** Toffler, a portfolio manager at Esposito, manages retirement account established with the firm by her parents. Whenever IPOs is available, she first allocates shares to all her other clients for whom the investment is appropriate; only then does she place remaining portion in her parents' account if appropriate.
- Comment: As fee-paying clients, Toffler's parents are entitled to the same treatment as other clients. So Toffler also **violated III(B)**, but **not VI(B)**.

## Standard VI(B): example

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- Teresa Avila, CFA, is a micro cap investment analyst at a hedge fund. The fund requires Avila to hold any securities that she recommends for the fund in her own account as well. The president of the fund has stated, **“We require our analysts to eat their own cooking”**. As Avila has such a small account, whenever she trades for her own portfolio, she combines the transactions with those of the hedge fund, so that she **is sure to have her account aligned with the fund**. Has Avila violated any CFA Institute Standards of Professional Conduct?
- A. No.
- B. Yes, related to Misconduct.
- C. Yes, related to Priority of Transactions.

## Standard VI(B): example

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- Eric Pantoja is enrolled as a candidate in the CFA examination program. He works as an assistant for Chehalis Investments (CI). Pantoja saw CI's purchase list and purchased several of the recommended stocks. Pantoja least likely violates the CFA Institute Standard relating to
- A. Misconduct.
  - B. Priority of Transaction.
  - C. Diligence and Reasonable Basis.

## Standard VI(B): example

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- Spencer Rivers, CFA charterholder, manages the accounts of an institution, the employer and his parents. His father does not pay for the investment service fee. When IPOs become available, how should he do?
- A. Allocate to the institution client and to the employer.
- B. Allocate to the institution client, his father and the employer.
- C. Allocate to the institution client, the employer and his father.

## Standard VI(B): example

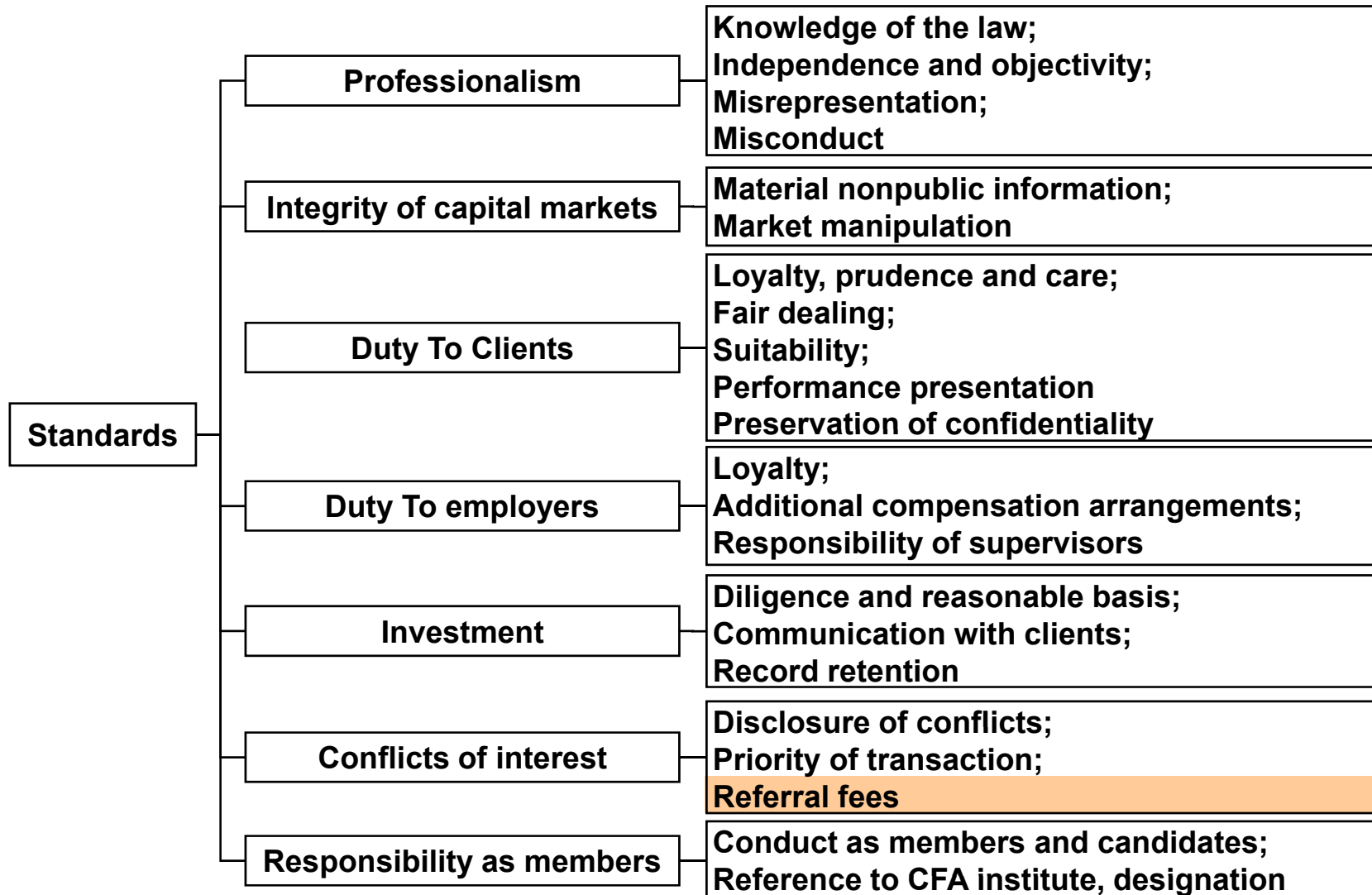
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- Kazuya Kato, CFA, is a widely followed economist at a global investment bank. When Kato opines on economic trends, markets react by moving stock valuations considerably. When Kato received information of a temporary oversupply of rare earth metals, he issued a forecast that price trends for rare earth metals would be down significantly on a long-term basis. Kato also secretly sold his report to a widely followed Internet site. Prior to issuing this forecast, Kato emailed all portfolio managers at his bank with a copy of his report indicating that his opinion would be reversed shortly so there would be trading opportunities. Kato least likely violated which of the following CFA Institute Code of Ethics and Standards of Professional Conduct?

- A. Market Manipulation.
- B. Priority of Transactions.**
- C. Additional Compensation Arrangements.



# Guidance for Standards I-VII



# Standard VI(C): Content

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## ➤ 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. (他人支付或者向他人支付的介绍费, 应向雇主、客户、潜在雇主披露)

# Standard VI(C): Guidance

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## ➤ Guidance

2. Such disclosure will allow the client or employer to evaluate
  - ✓ any partiality shown in any recommendation of services (是否存在不公正)
  - ✓ the full cost of the service. (客户知道真实的成本)

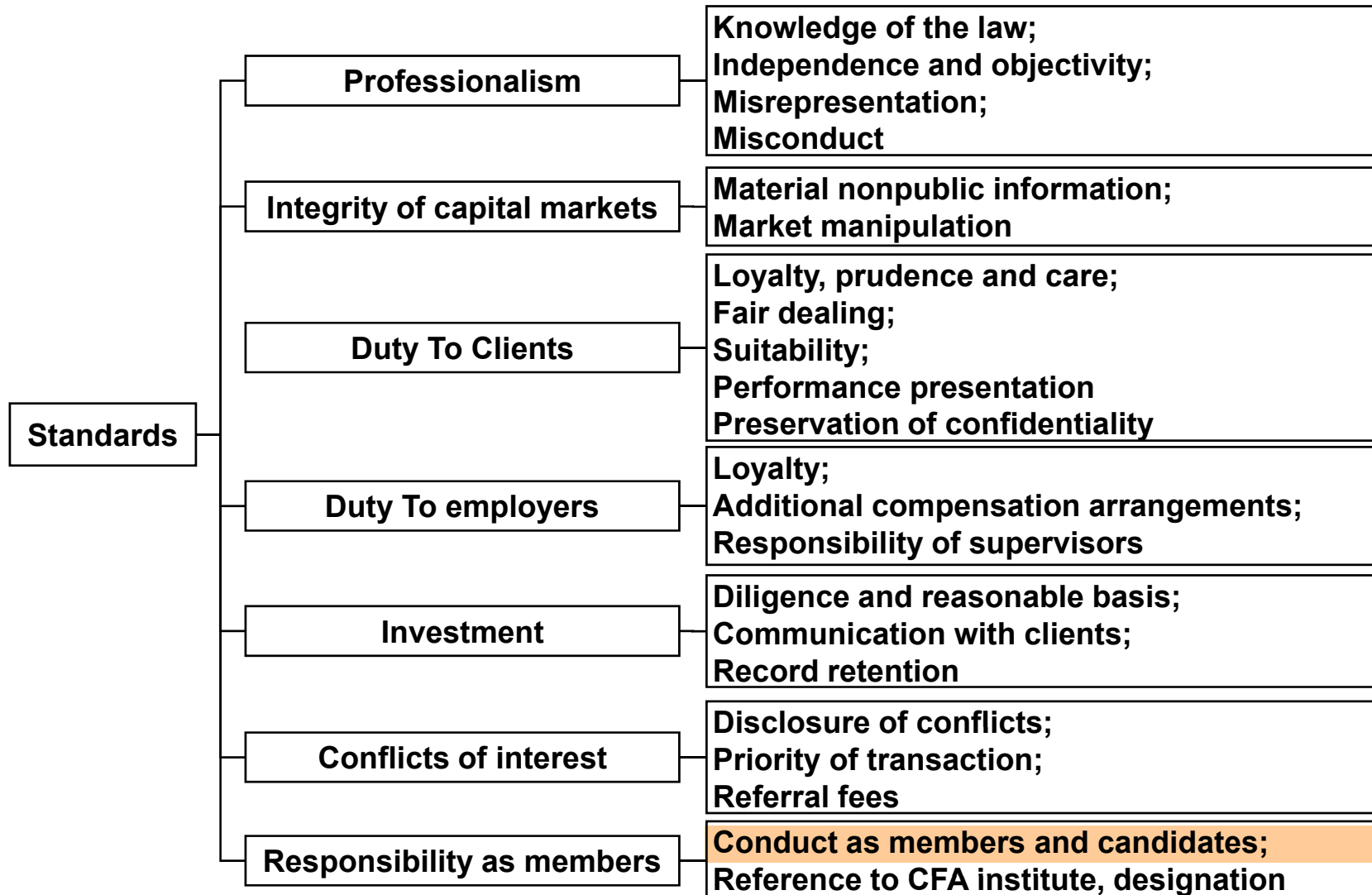
# Standard VI(C): Recommended procedures for compliance

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## ➤ Recommended procedures for compliance

- 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

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## ➤ 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 examinations.

# Standard VII(A): Guidance

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## ➤ Guidance:

2. Conduct covered includes but is not limited to
  - ✓ Cheating or assisting others on the CFA examination or any other CFA Institute examination; (考试不能作弊)
  - ✓ Disregarding the rules and policies of the CFA Program related to exam administration; (遵守CFA考试规定)
  - ✓ Providing confidential program or exam information to candidates or the public; (对CFA考试内容要保密)
  - ✓ Improperly using the CFA designation in any form of communication;
  - ✓ Improperly using an association with CFA Institute to further personal or professional goals;

# Standard VII(A): Guidance

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## ➤ 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)**. (不能违反其他规定，如计算机的使用)

## ➤ Guidance - *Expressing an Opinion*

5. Expressing opinions regarding the CFA Program or CFA Institute is OK. (可以表达对CFA的观点)



## Standard VI(B): example

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- Tammi Holmberg is enrolled to take the Level I CFA exam. While taking the exam, the candidate on Holmberg's immediate right took a stretch break and a piece of paper from his pocket fell onto Holmberg's desk. Holmberg glanced at the paper and realized there was information written on the paper, which included a formula Holmberg needed for the question she was working on. Holmberg had not memorized this formula and could not complete the question without this information. Holmberg pushed the paper off her desk and used the formula to complete the question. According to the CFA Institute Code of Ethics and Standards of Professional Conduct, Holmberg most likely:
- A. compromised her exam.
  - B. was free to act on the information that fell on her desk.
  - C. is responsible for notifying exam proctors of her neighbor's violation.

## Standard VI(B): example

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- A CFA charterholder is the fund manager for a non-profit organization. During a presentation regarding the restructuring of their investment portfolio's asset allocation, the Head of the Finance Committee questions the manager. As part of his response, the manager states, "I am a CFA charterholder. I know what I'm talking about, and you should do what I say". According to the Standards of Practice Handbook, has the charterholder violated any of the CFA Institute Standards of Professional Conduct:
- A. No.
  - B. Yes, Responsibilities as a CFA Institute Member.
  - C. Yes, Communication with Clients and Prospective Client.

# Guidance for Standards I-VII



# Standard VII(B): Content

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## ➤ 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

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## ➤ Guidance

### 2. How to use CFA:

- ✓ adj, not n.
- ✓ Always capitalized.
- ✓ CFA level I ✗
- ✓ C.F.A ✗
- ✓ Don't alter to create new words or phrases.
- ✓ Mustn't be used as part of the name of a firm.
- ✓ Shouldn't be given more prominence (e.g. larger, bold) than the charter holder' name.

### 3. Mustn't cite the expected date of exam completion and award of charter.

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

### 5. 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

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## ➤ 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:
  - ✓ Remit annually to CFA Institute a complete Professional Conduct Statement. (每年交述职报告)
  - ✓ Pay membership dues annually. (每年交年费)

## ➤ 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

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## ➤ 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

# Standard VII(B): Recommended procedures

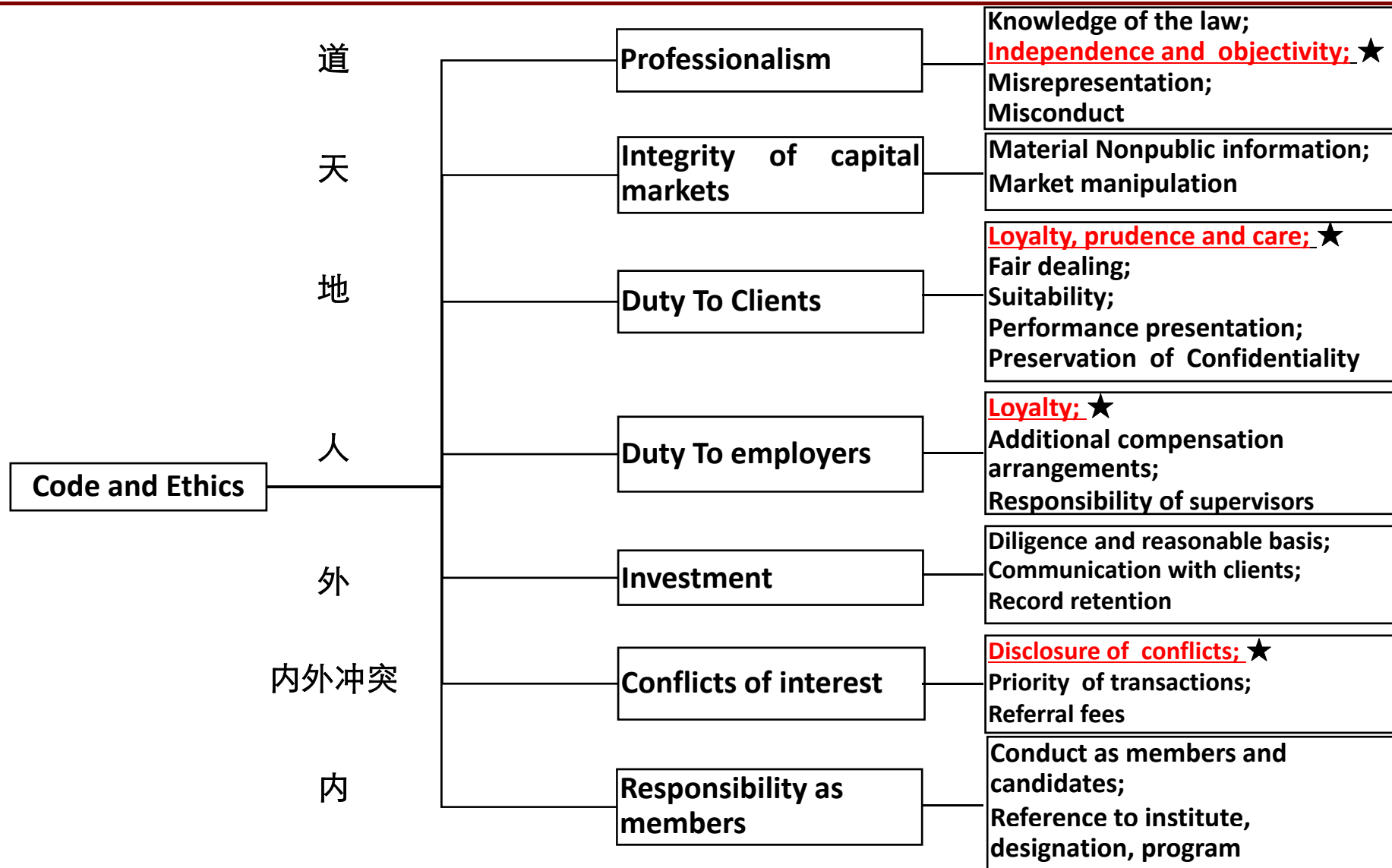
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## ➤ Recommended procedures for compliance

- Should disseminate written information and the accompanying guidance to legal, compliance, public relations, and marketing departments.
- Should encourage firms to create templates that are approved by a central authority (such as the compliance department) as being consistent with VII(B).



# Seven Standards of Professional Conduct



# Contrast between some similar standards

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## 1: I(C) Misrepresentation, III(D) performance Presentation, V(B) Communication with clients

- I(C) focuses on performance presentation, so guarantee the investment performance with volatile return, misrepresentation of service and qualification, and plagiarism violate this standard.
- III(D) focuses on the statement of performance to clients, so the misleading statement concerning performance, including give clients the hint that they can earn the historical yield, violate this standard
- V(B) focuses on disclosing the member's own changes for clients, letting clients know their information, and differentiating between fact and opinion

### ➤ TIPS

- IV(B) → VI(A) → I(B)
- III(D) → I(C)

# Contrast between some similar standards

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## ➤ Contrast between some similar standards

I(C) Misrepresentation	<u>所有的</u> 不正当陈述
III(D) Performance presentation	<u>业绩的</u> 不正当陈述
V(B) Communication with Clients and Prospective Clients	向客户 <u>披露自身的变化</u> ，并且区分事实与意见

# Contrast between some similar standards

---

## 2: III(B) Fair dealing, VI(B) Priority of Transactions

- III(B) focuses on constraining the fairness of the order of transaction between clients
- VI(B) focuses on the order of transaction among clients, individuals and employers

## 3: IV(B) Additional compensation arrangement, VI(A) Disclosure of Conflicts

- IV(B) focuses on disclosing the additional compensation from clients and the third-party to the employer
- VI(A) focuses on disclosing the possible interest conflict to clients and public, so that clients can have right judgments

# Contrast between some similar standards

---

## ➤ Contrast between some similar standards

III(B) Fair Dealing	<u>客户之间</u> 的交易优先顺序
VI(B) Priority of Transactions	客户>雇主>个人

IV(B) Additional Compensation Arrangements	为 <u>雇主的利益</u> ，向其披露额外收入
VI(A) Disclosure of conflicts	为 <u>客户及公众的利益</u> ，向其披露额外收入

# Frame work of this course

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- Code of Ethics
- Guidance for Standards I-VII
- Global Investment Performance Standards (GIPS)

# Introduction to GIPS - Why were the GIPS Standard created

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## I. Why were the GIPS Standard created?

- GIPS are a set of ethical principles based on a standardized, industry-wide approach
- Misleading practices that hinder performance comparability:
  - Representative accounts: showing a top-performing portfolio as representative of a firm's result. (有人披露业绩时会选择代表性账户)
  - Survivorship Bias: excluding “weak performance” accounts that have been terminated. (账户存在幸存者偏差)
  - Varying Time Periods: showing performance for selected time periods with outstanding returns. (披露的期间段也是人为可以选择的)

# Introduction to GIPS - Who can claim compliance

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## II. Who can claim compliance

- Complying with the GIPS standards is voluntary (披露的期间段也是人为可以选择的)
- Firm-wide and full compliance
  - Can't be achieved on a single product or composite. (不能仅适用单个产品或组合, 应当全面遵守)
  - Two options: (1) Fully comply with all requirements; (2) Not comply with all requirements and not claim compliance



# Introduction to GIPS - Who benefits from compliance

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## III. Who benefits from compliance

- Benefit 2 groups: investment management firm and prospective clients
- For firms:
  - Can assure prospective clients that their track record is complete and fairly presented; (可以向客户保证业绩是公平的)
  - Able to participate in competitive bids against other compliant firms throughout the world; (参与投标时能够与其他公司比较)
  - Strengthen firm's internal control over performance-related processes. (加强内部控制)
- For investors:
  - Have greater confidence in the integrity of performance presentation of a compliant firm, and can easily compare performance presentation from different firms. (投资者可以更好地信任公司)
  - Compliance enhances the credibility of firms.

# Introduction to GIPS - Composites

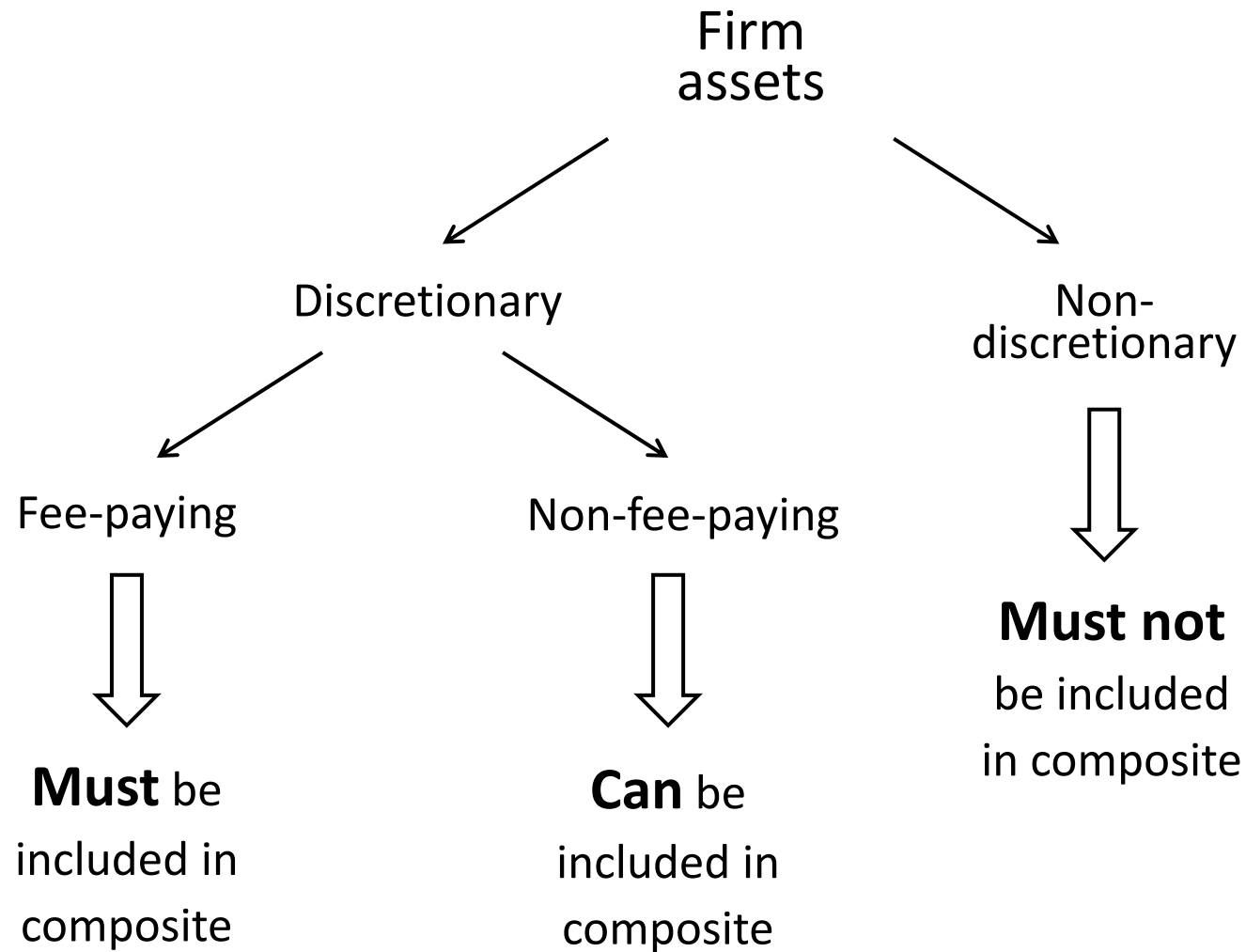
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## IV. Composites

- **A composite** is a grouping of individual discretionary portfolios representing a similar investment strategy, objective, or mandate.
- A composite, such as Global Equities, must include all portfolios (current and past) that the firm has managed in accordance with this particular strategy.
- The firm should identify which composite each managed portfolio is to be included in before the portfolio's performance is known. (公司在披露业绩前应该考虑将portfolio 归入哪个composite)
  - This prevents firms from choosing portfolios to include in a composite in order to create composites with superior returns.

# Introduction to GIPS - Composites

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# GIPS – Key characteristics

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## ➤ Definition of Firm

- The definition should reflect the “distinct business entity” that is held out to clients and prospects as the investment firm .
- GIPS are ethical standards for performance presentation which ensure fair representation of results and full disclosure .

## ➤ Key characteristics

- Include all actual fee-paying, discretionary portfolios in composites for a minimum of 5 years or since firm or composite inception. After presenting five years of **compliant data**, the firm must add annual performance each year going forward up to a minimum of 10 years.
  - ✓ 公司只成立3年怎么办？
  - ✓ 公司有11年的业绩数据，怎么处理？
- No partial compliance and only full compliance can be claimed.

# GIPS – Objectives & Key characteristics

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## ➤ Key characteristics (con't)

- Firms are required to use certain calculation and presentation standards and make specific disclosures.
  - ✓ E.g. composite → asset weighted
- Follow the local laws for cases in which a local or country-specific law or regulation conflicts with GIPS , but disclose the conflict.

# GIPS - Nine major sections of GIPS

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## Nine major sections of GIPS

0. Fundamentals of compliance
  1. Input data
  2. Calculation methodology
  3. Composite construction
  4. Disclosure
  5. Presentation and reporting
  6. Real estate
  7. Private equity
  8. Wrap fee/Separately Managed Account Portfolios

# GIPS - Fundamentals of compliance

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## 0. Fundamentals of compliance

- Firm-wide basis
- Full compliance
  - If the Firm does not meet all the requirements of the GIPS standards, must not represent or state that it is “in compliance with the Global Investment Performance Standards except for...”
- Statements referring to the **calculation methodology** as being “in accordance,” “in compliance,” or “consistent” with the Global Investment Performance Standards, or similar statements, are **prohibited**. （不能仅说计算方式遵守GIPS）
- Statements referring to the performance of a single, existing client portfolio as being “calculated in accordance with the Global Investment Performance Standards” **are prohibited, except** when a GIPS-compliant firm reports the performance of an individual client’s portfolio to that client. （如果这个客户仅持有该资产组合，那么公司可以单独声称该资产组合遵守GIPS）

# GIPS - Fundamentals of compliance

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## 0. Fundamentals of compliance (con't)

- Firms must make every reasonable effort to provide a compliant presentation to all prospective clients. Must not choose to whom they present a compliant presentation. As long as a prospective client has received a compliant presentation within the previous 12 months, the firm has met this requirement.  
(要把遵守声明给所有的顾客，12个月内给过可以不给)
- Firms must provide a complete list of composite descriptions to any prospective client on request. Must include terminated composites on the firm's list of composite descriptions for at least five years after the composite termination date.



# GIPS

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## 1. Input data

- For periods beginning on or after 1 January 2011, portfolios must be valued in accordance with the definition of fair value and the GIPS Valuation Principles.  
(2011年后组合必须以公允价值计价)

## 2. Calculation methodology

- Firms must calculate time-weighted rates of return that adjust for external cash flows. Both periodic and sub-period returns must be geometrically linked.

## 3. Composite construction

- All actual, fee-paying, discretionary portfolios must be included in at least one composite. Although non-fee-paying discretionary portfolios may be included in a composite (with appropriate disclosure), non-discretionary portfolios must not be included in a firm's composites. (一个portfolio至少被归入一个composite)
- Firms must not link performance of simulated or model portfolios with actual performance. (模拟的业绩不能和真实业绩相挂钩)

# GIPS

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## 5. Presentation and reporting

- The following items must be presented in each compliant presentation:
  - At least **5 years** of performance (or since inception if less than five years) that meets the requirements of the GIPS standards. After a firm presents a minimum of five years of GIPS compliant performance, the firm must present an additional year of performance each year, building up to a minimum of **10 years** of GIPS compliant performance.

# GIPS

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## 7. Private Equity

- Firms must calculate the annualized since-inception internal rates of return (SI-IRR).

## 8. Wrap fee/separately managed account (SMA) portfolios

- **Wrap fee:** A type of bundled fee and are specific to a particular investment product.
- **A wrap fee portfolio** is sometimes referred to as a “Separately managed account” (SMA) or “managed account.”

**It's not an end but just the beginning.**

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You have to believe in yourself. That's the secret of success.--

Charles Chaplin

人必须有自信，这是成功的秘密。--卓别林