



Approved Prep
Provider



CFA Institute

Ethical and Professional Standards

Guidance for Standards I-VII

2020 Exam

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General Advice

- Read from the curriculum
- CFA Institute Online Course
- Standard
 - Guidance
 - Recommended Procedures for Compliance
 - Application of the Standard
- “Listen” to the lectures

I. PROFESSIONALISM

- A. Knowledge of the Law
- B. Independence and Objectivity
- C. Misrepresentation
- D. Misconduct

I(A) Knowledge of the Law

- Members and Candidates must understand and comply with all applicable laws, rules, and regulations of any government, regulatory organization, licensing agency, or professional association governing their professional activities. In the event of conflict, Members and Candidates must comply with the more strict law, rule, or regulation. Members and Candidates must not knowingly participate or assist in and must dissociate from any violation of such laws, rules, or regulations.

Guidance

- Relationship between the Code and Standards and Applicable Law
- Investment Products and Applicable Laws
- Participation in or Association with Violations by Others

Recommended Procedures for Compliance

- Stay informed
- Review procedures
- Maintain current files
- Legal counsel
- Dissociation
- Advise/encourage your firm to:
 - Develop and/or adopt a code of ethics
 - Provide information on applicable laws
 - Establish procedures for reporting violations

I(B) Independence and Objectivity

- Members and Candidates must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. Members and Candidates 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.

Guidance

- Buy-Side Clients
- Investment Banking Relationships
- Public Companies
- Issuer-Paid Research
- Travel Funding
- Credit Rating Agency Opinions
- Influence during the Manager Selection/Procurement Process
- Brokerage Houses

Recommended Procedures for Compliance

- Protect the integrity of opinions
- Create a restricted list
- Restrict special cost arrangements
- Limit gifts
- Restrict investments
- Review procedures
- Independence policy
- Appointed officer

I(C) Misrepresentation

- Members and Candidates must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.

A misrepresentation is any untrue statement or omission of fact or any statement that is otherwise false or misleading.

Guidance

Impact on Investment Practice
Performance Reporting
Social Media
Omissions
Plagiarism
Work Completed for Employer

Recommended Procedures for Compliance

- Factual Presentations
- Qualification Summary
- Verify Outside Information
- Maintain Webpages
- Plagiarism Policy
 - Maintain copies
 - Attribute quotations
 - Attribute summaries

I(D) Misconduct

- Members and Candidates 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.

Guidance

Any act that involves lying, cheating, stealing, or other dishonest conduct is a violation of this standard if the offense reflects adversely on a member's or candidate's professional activities. Although CFA Institute discourages any sort of unethical behavior by members and candidates, the Code and Standards are primarily aimed at conduct and actions related to a member's or candidate's professional life.

Recommended Procedures for Compliance

- Code of ethics
- List of violations
- Employee references

II. INTEGRITY OF CAPITAL MARKETS

A. Material Nonpublic Information

B. Market Manipulation

II(A) Material Nonpublic Information

- 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.

Guidance

- What Is “Material” Information?
- What Constitutes “Nonpublic” Information?
- Mosaic Theory
- Social Media
- Using Industry Experts
- Investment Research Reports

Recommended Procedures for Compliance

- Achieve Public Dissemination
- Adopt Compliance Procedures
- Adopt Disclosure Procedures
- Issue Press Releases
- Firewall Elements
- Appropriate Interdepartmental Communications
- Physical Separation of Departments
- Prevention of Personnel Overlap
- A Reporting System
- Personal Trading Limitations
- Record Maintenance
- Proprietary Trading Procedures
- Communication to All Employees



II(B) Market Manipulation

- Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.

Guidance

- Information-Based Manipulation
- Transaction-Based Manipulation

III. DUTIES TO CLIENTS

- A. Loyalty, Prudence, and Care
- B. Fair Dealing
- C. Suitability
- D. Performance Presentation
- E. Preservation of Confidentiality

III(A) Loyalty, Prudence, and Care

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

Guidance

- Understanding the Application of Loyalty, Prudence, and Care
- Identifying the Actual Investment Client
- Developing the Client's Portfolio
- Soft Commission Policies
- Proxy Voting Policies

Recommended Procedures for Compliance

- Regular Account Information
- Client Approval
- Firm Policies
 - *Follow all applicable rules and laws*
 - *Establish the investment objectives of the client*
 - *Consider all the information when taking actions*
 - *Diversify*
 - *Carry out regular reviews*
 - *Deal fairly with all clients with respect to investment actions*
 - *Disclose conflicts of interest*
 - *Disclose compensation arrangements*
 - *Maintain confidentiality*

III(B) Fair Dealing

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

Guidance

- Investment Recommendations
- Investment Action

Recommended Procedures for Compliance

- Develop Firm Policies
 - *Limit the number of people involved*
 - *Shorten the time frame between decision and dissemination*
 - *Publish guidelines for pre-dissemination behavior*
 - *Simultaneous dissemination*
 - *Maintain a list of clients and their holdings*
 - *Develop and document trade allocation procedures*
- Disclose Trade Allocation Procedures
- Establish Systematic Account Review
- Disclose Levels of Service

III(C) Suitability

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

Guidance

- Developing an Investment Policy
- Understanding the Client's Risk Profile
- Updating an Investment Policy

Guidance (Cont...)

- The Need for Diversification
- Addressing Unsolicited Trading Requests
- Managing to an Index or Mandate

III(C) Suitability

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 - c. Judge the suitability of investments in the context of the client's total portfolio.
- 2. When Members and Candidates are responsible for managing a portfolio to a specific mandate, strategy, or style, they must make only investment recommendations or take only investment actions that are consistent with the stated objectives and constraints of the portfolio.

Recommended Procedures for Compliance

- Investment Policy Statement
- Regular Updates
- Suitability Test Policies



III(D) Performance Presentation

- When communicating investment performance information, Members and Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete.

Guidance

- Provide credible performance information to clients and prospective clients
- Avoid misstating performance or misleading clients
- If the presentation is brief make available to clients and prospects, on request, detailed supporting information

Recommended Procedures for Compliance

- Apply the GIPS Standards
- Compliance without Applying GIPS Standards
 - consider the knowledge and sophistication of the audience
 - present the performance of the weighted composite of similar portfolios rather than using a single representative account
 - include terminated accounts as part of performance history
 - include disclosures that fully explain the performance results being reported
 - maintain the data and records used to calculate the performance being presented

III(E) Preservation of Confidentiality

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

Guidance

- Status of Client
- Compliance with Laws
- Electronic Information and Security
- Professional Conduct Investigations by CFA Institute

Recommended Procedures for Compliance

- The simplest, most conservative, and most effective way to comply with Standard III(E) is to avoid disclosing any information received from a client except to authorized fellow employees who are also working for the client.

IV. DUTIES TO EMPLOYERS

A. Loyalty

B. Additional Compensation Arrangements

C. Responsibilities of Supervisors

IV(A) Loyalty

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

Guidance

- Employer Responsibilities
- Independent Practice
- Leaving an Employer
- Use of Social Media
- Whistleblowing
- Nature of Employment

Recommended Procedures for Compliance

- Competition Policy
- Termination Policy
- Incident-Reporting Procedures
- Employee Classification

IV(B) Additional Compensation Arrangements

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

Guidance

Obtain permission from before accepting compensation that might create a conflict.

“Written consent” includes any form of communication that can be documented.

Discuss possible limitations to their abilities to provide services that may be competitive with your employer during the negotiation and hiring process.

Recommended Procedures for Compliance

Make an immediate written report to supervisor and compliance officer specifying any compensation you propose to receive.

The details of the report should be confirmed by the party offering the additional compensation, including performance incentives offered by clients.

This written report should state the terms of any agreement.

IV(C) Responsibilities of Supervisors

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

Guidance

- System for Supervision
- Supervision Includes Detection

Recommended Procedures for Compliance

- Codes of Ethics or Compliance Procedures
- Adequate Compliance Procedures
- Implementation of Compliance Education and Training
- Establish an Appropriate Incentive Structure

V. INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTIONS

- A. Diligence and Reasonable Basis
- B. Communication with Clients and Prospective Clients
- C. Record Retention

V(A) Diligence and Reasonable Basis

▫

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.

Guidance

- Defining Diligence and Reasonable Basis
- Using Secondary or Third-Party Research
- Using Quantitatively Oriented Research
- Developing Quantitatively Oriented Techniques
- Selecting External Advisers and Subadvisers
- Group Research and Decision Making

Recommended Procedures for Compliance

- Establish a policy that research reports must have reasonable and adequate basis
- Written guidance
- Criteria for assessing the quality of research
- Detailed, written guidance for testing of all computer-based models
- Measurable criteria for assessing outside providers
- Criteria for evaluating for evaluating external advisers

V(B) Communication with Clients and Prospective Clients

▫

Members and Candidates must:

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

Guidance

- Informing Clients of the Investment Process
- Different Forms of Communication
- Identifying Risk and Limitations
- Report Presentation
- Distinction between Facts and Opinions in Reports

Recommended Procedures for Compliance

Depends heavily on case-by-case review rather than a specific checklist



V(C) Record Retention

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

Guidance

- New Media Records
- Records Are Property of the Firm
- Local Requirements

Recommended Procedures for Compliance

The responsibility to maintain records that support investment action generally falls with the firm rather than individuals.

You should archive research notes and other documents that support investment-related communications

VI. CONFLICTS OF INTEREST

- A. Disclosure of Conflicts
- B. Priority of Transactions
- C. Referral Fees

VI(A) Disclosure of Conflicts

- 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 employer. Members and Candidates must ensure that such disclosures are prominent, are delivered in plain language, and communicate the relevant information effectively.

Guidance

- Disclosure of Conflicts to Employers
- Disclosure to Clients
- Cross-Departmental Conflicts
- Conflicts with Stock Ownership
- Conflicts as a Director

Recommended Procedures for Compliance

Disclose special compensation arrangements with the employer that might conflict with client interests, such as bonuses based on short-term performance criteria, commissions, incentive fees, performance fees, and referral fees.

If firm does not permit such disclosure you should document the request and may consider dissociating from the activity.

VI(B) Priority of Transactions

- Investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner.

Guidance

- Avoiding Potential Conflicts
- Personal Trading Secondary to Trading for Clients
- Standards for Nonpublic Information
- Impact on All Accounts with Beneficial Ownership

Recommended Procedures for Compliance

- Limited participation in equity IPOs
- Restrictions on private placements
- Establish blackout/restricted periods
- Reporting requirements
 - Disclosure of holdings in which the employee has a beneficial interest
 - Providing duplicate confirmations of transactions
 - Preclearance procedures
- Disclosure of policies

VI(C) Referral Fees

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

Guidance

Advise the client or prospective client before entry into any formal agreement

Disclose the nature of the consideration or benefit

Recommended Procedures for Compliance

Encourage your employer to develop procedures related to referral fees

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

VII. RESPONSIBILITIES AS A CFA INSTITUTE MEMBER OR CFA CANDIDATE

- A. Conduct as Participants in CFA Institute Programs
- B. Reference to CFA Institute, the CFA Designation, and the CFA Program

VII(A) Conduct as Participants in CFA Programs

- 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 CFA Institute programs.

Guidance

- Confidential Program Information
- Additional CFA Program Restrictions
- Expressing an Opinion

VII(B) Reference to CFA Institute, the CFA Designation, and the CFA Program

- 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.

Guidance

- CFA Institute Membership
- Using the CFA Designation
- Referring to Candidacy in the CFA Program
- Proper Usage of the CFA Marks

Conclusion

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