

CFA 一级知识框架图

Ethics (1)

专业来自101%的投入!

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Framework

Study Session 1 **Ethical and Professional** **Standards**

- R1 Ethics and Trust in the Investment Profession
- R2 Code of Ethics and Standards of Professional Conduct
- R3 Guidance for Standards I-VII
- R4 Introduction to the Global Investment Performance Standards(GIPS)
- R5 The GIPS Standards

Reading 1

Ethics and Trust in the Investment Profession

Explain ethics and professionalism (概念)

| | |
|------------------------|--|
| Ethics | <ul style="list-style-type: none"> ➤ The guiding beliefs or ideals characterizing a society or societal group. |
| Ethical conduct | <ul style="list-style-type: none"> ➤ Behavior that follows moral principles and balances self-interest with both the direct and the indirect consequences of the behavior on others. ➤ Actions that are perceived as beneficial and conforming to the ethical expectations of society. |
| Code of ethics | <ul style="list-style-type: none"> ➤ Specific communities or societal groups in which we live and work sometimes <u>codify their beliefs</u> about obligatory and forbidden conduct in a written set of principles, often called a code of ethics. |

Explain ethics and professionalism (概念)

| | |
|-------------------|---|
| Job | ➤ Very simply the work someone does to earn a living. |
| Vocation | ➤ A job or occupation to which someone is particularly well suited and is very dedicated. |
| Profession | <p>➤ The <u>ultimate evolution of an occupation</u>, resulting from the efforts of members practicing the occupation at a high level and creating a set of ethics and standards of conduct for the entire group.</p> <ul style="list-style-type: none"> ● Based on <u>specialized knowledge and skills</u>; ● Based on <u>service to others</u>; ● Practiced by members who share and agree to <u>adhere to a common code of ethics</u>. |

Reasons for adopting ethics (概念)

| | | |
|--------------------------------------|------------------------|---|
| Challenge | Overconfidence | <ul style="list-style-type: none"> ➤ People tend to believe that they are ethical people and that their ethical standards are higher than average. |
| | Situational influences | <ul style="list-style-type: none"> ➤ External factors, such as environmental or cultural elements, that shape our thinking, decision making, and behavior. <ul style="list-style-type: none"> ● very powerful; ● often unrecognized effect on our thinking and behavior. |
| Effects of ethical behavior | | <ul style="list-style-type: none"> ➤ <u>Lead to broader participation in the markets;</u> ➤ <u>Protection of clients' interests;</u> ➤ <u>More opportunities for investment professionals and their firms;</u> ➤ <u>Lead to higher levels of success and profitability;</u> ➤ <u>Enjoy lower relative costs.</u> |
| Effects of unethical behavior | | <ul style="list-style-type: none"> ➤ <u>Erodes and can even destroy trust.</u> |

Framework for ethical decision making (概念)

| | |
|-----------------------|--|
| Identify | ➤ Relevant facts, stakeholders and duties owed, ethical principles, conflicts of interest. |
| Consider | ➤ Situational influences, additional guidance, alternative actions. |
| Decide and act | |
| Reflect | ➤ Was the outcome as anticipated? Why or why not? |

Reading 2

Code of Ethics and Standards of Professional Conduct

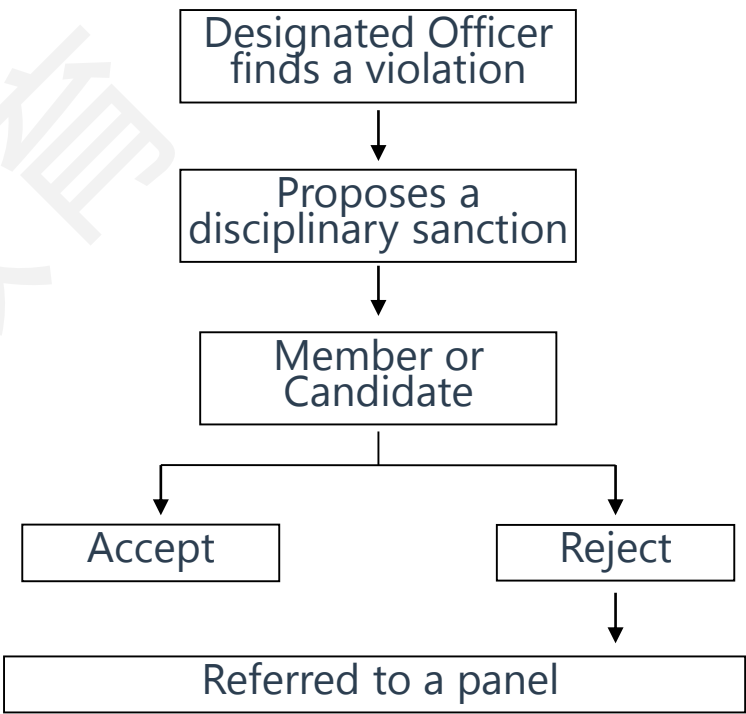
Proceedings and the hearing panel (概念)

| | |
|---|---|
| Primary principles | <ul style="list-style-type: none"> ➤ Fairness of the process to members and candidates. ➤ Confidentiality of the proceedings. |
| CFA Institute Board of Governors | <ul style="list-style-type: none"> ➤ Governors maintain oversight and responsibility for the Professional Conduct Program (PCP). |
| PCP and Disciplinary Review Committee (DRC) | <ul style="list-style-type: none"> ➤ Responsible for enforcement of the Code and Standards. |
| Professional conduct inquiries come from a number of sources | <ul style="list-style-type: none"> ➤ Self-disclosure on annual Professional Conduct Statements of involvement in civil litigation or a criminal investigation, or that the member or candidate is the subject of a written complaint. ➤ Written complaints about professional conduct received by the Professional Conduct staff. ➤ Evidence of misconduct by a member or candidate that the Professional Conduct staff received through public sources, such as a media article or broadcast. ➤ A report by a CFA exam proctor of a possible violation during the examination. |

Proceedings and the hearing panel (概念)

Once an inquiry is initiated

- Professional conduct staff **may** request (in written) an explanation from the subject member or candidate **and may**:
 - Interview the subject member or candidate;
 - Interview the complainant or other third parties;
 - Collect documents and records relevant to the investigation.
- The **Designated Officer** may decide:
 - No disciplinary;
 - Issue a cautionary letter;
 - Discipline the member or candidate.



Proceedings and the hearing panel (概念)

- when the member or candidate does not accept the charges and proposed sanction; the matter is referred to a panel composed of DRC (Discipline Review Committee) members.

Panel

- Panels review materials and presentations from Professional Conduct staff and from the member or candidate.
- The panel's task is to determine whether a violation of the Code and Standards or testing policies occurred and, if so, what sanction should be imposed.

Sanctions imposed by CFA Institute may have significant consequences; they include public censure, suspension of membership and use of the CFA designation, and revocation of the CFA charter. Candidates enrolled in the CFA Program who have violated the Code and Standards or testing policies may be suspended or prohibited from further participation in the CFA Program.

AMC & Code and Standards (对比)

Comparisons of AMC and Code and Standards

AMC was drafted specifically for firms.

Codes and Standards aimed at individual investment professionals who are members of CFA Institute or candidates in the CFA Program.

Code of Ethics (概念)

**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.
- Place the **integrity** of the investment profession and the interests of clients above their own personal interests.
- Use reasonable **care** and exercise **independent** professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect **credit** on themselves and the profession.
- Promote the **integrity and viability** of the global capital markets for the ultimate benefit of society.
- Maintain and improve their professional **competence** and strive to maintain and improve the competence of other investment professionals.

Code of Ethics (概念)

Definition

- Specific communities or societal groups in which we live and work sometimes codify their beliefs about obligatory and forbidden conduct in a written set of principles, often called a **code of ethics**.

Role

- Adopt a code of ethics to communicate the organization's values and overall expectations regarding member behavior.
- Serves as a general guide for how community members should act.

Reading 3

Guidance for Standards I-VII

Standards I-VII (理解)

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

I (A) Knowledge of the Law

条款要点

- 知法：不需要成为法律专家(not expert on all laws and compliance) , must comply with law directly governing (和你本职工作直接相关的法律法规)。
- 守法：most strict (law or CFA institute Standards).
- 发现违法：
 - 确切知道：
 - ✓ 原则：dissociate, no requirement to report violations to governmental authorities.
 - ✓ 正确顺序：report to supervisor或compliance department → 再 dissociate , 即使辞职也在所不惜。
 - 怀疑：Consult, but can't be absolved from requirements to compliance.

案例总结

- Members and candidates will need to be aware of the differences between cultural and religious laws (文化习俗)
- Comply with the new guidance and regulation governing use of social media.

I (B) Independence and Objectivity

条款 要点

➤ Gift:

- Best Practice: Reject gift that could be expected to compromise independence and objectivity;
- Gift from subject company (to research): 拒绝奢侈礼物, modest and normal gift is OK;
- Gift from client (to asset manager): 事后gift可以收取, 视为tips, 但必须disclose, 否则违反I(B); 针对条款IV (B)中的礼物或报酬, 要求不仅要disclose而且必须获得written consent, 否则违反IV (B)。

I (B) Independence and Objectivity

条款
要点

➤ 常见场景：

- Buy-side clients: institutional clients, portfolio managers会对sell side analyst造成压力；
- Fund manager relationships and Custodial Relationships: hiring and retaining outside managers and third-party custodians要独立客观；
- Investment banking: research analyst不能受到投行的影响；
- **Performance measurement and attribution:** 作为performance analysts, 要披露基金经理是否有stray from their mandate, alter the construction of composite的现象, performance analyst的独立客观性可能会受到基金经理和sales的影响；
- Public companies: analyst must not promise favorable report about the firm;
- Credit rating agency opinions: 评级机构也要保持自己的独立客观性；
- **Influence during the manager selection:** 不能贿赂别人, 也不能收受贿赂；
- Issuer-paid research: 只能收flat fee, 任何额外的bonus都不能收；
- Travel funding: 最好自己付钱, 若commercial transport无法达到, 可以接受modestly arranged travel.

I (B) Independence and Objectivity

案例 总结

- Tickets to World Cup属于比较奢侈的礼物。
- Travel expense from external manager: should avoid the trip experience to impede his independence and objectivity in selection of managers.

I (C) Misrepresentation

条款要点

- 禁止吹牛：
 - A company is prohibited from saying “we can provide all services you need”. Proper way is to provide a list of services available;
 - not misrepresent qualifications or services;
 - 禁止guarantee the investment performance of volatile investment , 但是如果本身return 是可以保证的，也可以guarantee.
- Omissions
 - 使用models and technical analysis时，不能把expected result说成fact;
 - 展示业绩时prevent cherry picking (cherry picking指挑业绩好的披露)。
- Performance Reporting: 可以没有benchmark (比如hedge fund)，但是如果有，benchmarks要跟投资风格相匹配。
- Plagiarism.
- Using third-party information：必须要disclose.

I (C) Misrepresentation

案例 总结

- Typographical error要及时改正。
- Use somebody's report ,change a few words, sign your name, and get it out→剽窃。
- P/E ratio, standard deviation →常识性的知识，用自己语言总结，可以没有引用；若直接copy，要有引用。
- Learns from a media→先verify，再引用原作出处或引用media及原作者姓名。
- Unless the returns of a single fund reflect the performance of a firm as a whole, the use of a singular fund for performance comparisons should be avoided.

I (D) Misconduct

条款
要点

- Lying, cheating, stealing, or other dishonest conduct.
- Negatively affects ability to perform professional activities (指与本职工作相关的)。

案例
总结

- Personal bankruptcy：不违反 I(D), 但如果破产是因为fraudulent or deceitful business conduct，那么就违反 I(D)。
- Intoxicated after lunch：影响正常工作，违反 I(D)。
- Environmental activist，闯入petrochemical plant，基于个人信仰，没有暴力行为，不对职业形象造成负面影响，不违反I(D)。

II(A) Material Nonpublic Information

条款 要点

- 原则：Trading or inducing others to trade on material nonpublic information → violate II(A).
- 判断是否是MNI:
 - Reliable source;
 - Clear impact:
 - ✓ Company-related information : earnings、M&A、changes in assets、innovations、new licenses、developments regarding customers or suppliers、changes in management、auditor notification、events、legal disputes;
 - ✓ Macro-economy;
 - ✓ Large orders;
 - ✓ Well known analyst;
 - ✓ Qualified personnel.
 - Non-public : Selective disclosure may violate MNI. (这种信息不算是 public , 不能使用)
- Mosaic theory : material public and nonmaterial nonpublic information → 不违反II (A).
- Industry experts : 要管理好从行业专家获得的MNI , 自己不能用 , 也不能给别人用。

II(A) Material Nonpublic Information

案例 总结

- Selective disclosure : In a meeting with the finance director of the manufacturer and the other 10 largest shareholders of that company→只是这几个人知道，属于选择性披露，信息依然是nonpublic.
- 从高管那里获得了MNI，虽然质疑信息的可靠性，但是仍然买了这只股票→违反II (A) (只要有MNI，并且进行了交易，就违反II (A)，不管有什么理由推脱)。

II(B) Market Manipulation

| | |
|-------------|--|
| 条款要点 | <ul style="list-style-type: none"> ➤ Info-based: Dissemination of false or misleading information. ➤ Transaction-based : artificially affect prices or volume to give misleading impression of price movement. ➤ 不违反II(B)的： <ul style="list-style-type: none"> ● To increase liquidity, Futures Exchange made agreement with member to ensure the minimum trading volume; ● Not prohibit trading strategies that exploit a diff in market power, info or other inefficiency; ● Not prohibit trade for tax purposes, selling then buying back. |
| 案例总结 | <ul style="list-style-type: none"> ➤ Buy and sell the stock using the multiple accounts to raise the trading volume → violate II(B). |

III(A) Loyalty, Prudence and Care

条款
要点

- Identify client→特殊的：
 - Beneficiary: 主要体现在pension plans or trusts;
 - Mandate: 主要体现在mutual fund.
- Soft dollar:
 - 要为客户seek “best execution” and “best price” ;
 - Soft dollar要直接有利于investment manager帮助客户做投资决策。
Whenever using client brokerage to purchase goods or services that do not benefit the client, should disclose to clients the methods or policies followed in addressing the potential conflict.
- Proxy voting policies:
 - 要作出有利于客户的投票；
 - voting proxies may not be necessary in all instances, 要做cost-benefit分析；
 - should disclose to clients their proxy voting policies.
- Understanding the application of Loyalty, Prudence, and Care
 - Fiduciary duty: 主要是investment manager和advisor等提供投资建议的人；
 - Does not render all fiduciaries. Trade execution professional没有fiduciary duty, 但是trader也必须要use their skills and diligence to execute trades in the most favorable terms for clients.

III(A) Loyalty, Prudence and Care

案例 总结

- Investment manager did not obtain best execution for clients and indirectly used clients' brokerage to cover overhead expense, it is clear violation.
- Responsibility of asset manager of mutual fund is to manage the fund according to the investment policy statement of the fund. His actions should not be influenced by the needs of any particular fund investor.

III(B) Fair Dealing

条款 要点

- Fairly \neq equally ; Premium level service is okay, if not disadvantage or negatively affect other clients. Should be disclosed to clients and available to everyone.
- Trade: equitable system, pro rata on order size, not on account size ;
- Analyst's Recommendation :
 - 第一时间发给所有客户 ;
 - Material changes in prior recommendations should be communicated to all current clients;
 - Clients who do not know the changed recommendation and who place orders contrary to a current recommendation should be advised of the changed recommendation.

III(B) Fair Dealing

案例 总结

- Weng uses email to issue a new recommendation to all his clients and then calls his 3 biggest clients to discuss the recommendation in detail. → not violate.
- Burdette has violated Standard III(B) by sending an investment recommendation to a select group (只发给了Twitter follower) of contacts prior to distributing it to all clients. → violate.
- The recommended reports of helping the firm conduct after-the-fact reviews of how effectively the firm's advisers are dealing with their client's portfolios. → not violate.

III(C) Suitability

条款要点

- 了解客户→写IPS →要完全依据IPS来投资
 - Updating the IPS should be repeated at least annually and also prior to material changes ;
 - Diversification : 是否适合客户要站在portfolio的角度, 不能只看这个资产本身(主要是 derivatives , 衍生品虽然风险高, 但是还有风险对冲的作用);
 - Managing to an index or mandate : consistent with the stated mandate;
 - **Addressing unsolicited trade requests** : unsolicited trade指的是和IPS不一致, 但是客户自己要求做的trade.
- 原则 : the member or candidate should refrain from making the trade until he or she discusses the concerns with the client.

案例总结

- Covered call options in the equity portfolio→风险对冲的作用, 不违反III(C).
- High income mutual fund , buys zero dividend stock→违反, 因为不符合fund的投资风格。
- When selecting an external or sub-adviser, candidate needs to ensure that the new manager's services are appropriate for his clients.

III(D) Performance Presentation

条款 要点

- Not misrepresent past performance or reasonably expected performance.
 - Not state or imply to obtain what was achieved in the past.
- Include terminated portfolio as part of performance history.
- The performance of weighted rate of return rather than a single performance.
- If the presentation is brief, must make available to clients and prospects, on request, the detailed information.
- Apply GIPS standards : 这是recommended , 不是必须的 , 但是如果宣称遵守但实际没有遵守 , 就违反III(D)。
- Full disclosure: whether simulated, when the performance record is that of a prior entity, whether gross of fees, net of fees, or after tax.
 - 模拟的业绩可以包含在业绩中 , 但是必须要disclose.

III(D) Performance Presentation

案例 总结

- 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.
- **Modifying the performance attribution methodology without proper notifications** to clients would fail to meet the requirements of Standard III(D).
 - 如果candidate真的认为新的模型对于performance attribution更好；
 - 正确做法：He would need to report the results of both calculations to the client. The report should also include the reasons why the new methodology is preferred, which allow the client to make a meaningful comparison to prior results and provide a basis for comparing future attributions.
- Full information is provided when clients have sufficient information to judge the performance generated by the firm.

III(E) Preservation of Confidentiality

条款 要点

- Must keep information about current, former, and prospective clients confidential unless:
 - The information concerns illegal activities on the part of the client;
 - Disclosure is required by law; or
 - The client or prospective client permits disclosure of the information.
- If applicable law requires maintaining confidentiality, even if the information concerns illegal activities on the part of the client, should not disclose.
- Must continue to maintain the confidentiality of client records even after the client relationship has ended.

III(E) Preservation of Confidentiality

案例 总结

➤ 使用social media:

- Under the direction of her firm's technology and compliance departments, she established a new group page on an existing social media platform specifically for her clients. →✓
- The instructions also advised clients that all comments posted would be available to the public and thus the platform was not an appropriate method for communicating personal or confidential information. →✓