**CFA 10 Ethics and Professional Standards**

**10.1 Ethics and trust**

Ethics: Shared set of beliefs about what is acceptable or unacceptable behaviour

Ethical conduct: Follow moral principles & society’s expectations, improve outcomes for stakeholders

**Profession**

Code of ethics: Written set of moral principles

* Can communicate expectations for an organisation

Profession: Group of people with specialised skills who agree to follow code of ethics

Characteristics of professions:

* Code and standards for behaviour, regulatory body, focus on clients and society

Ways professions establish trust:

* High standards for skills, ethical standards, monitoring conduct, continuous education
* Having a code creates trust

Professional standards specify minimum level of acceptable conduct

**Ethics in investment management**

Investment professionals are entrusted with client’s wealth

Trust is more important as advice and management are intangible, so quality hard to evaluate

* Acting unethically means clients less likely to use services

Lack of trust in financial services raises cost of capital as financial advisors have less funds

* Increases perception of risk 🡪 Higher cost of capital

Unethical behaviour affects allocation of capital 🡪 Not allocated to best sources of growth

Financial professions are held to a Suitability or Fiduciary Standard

* Suitability: Match between client return requirements and risk tolerances
* Fiduciary: Stronger, requires professionals to act in client’s best interest

**Challenges to ethical behaviour**

1) Individuals overemphasise their own personal traits in determining ethical quality of behaviour

2) Considering near term consequences only, and not long term consequences

3) External/situational influences are more important in influencing ethical behaviour than own traits

* E.g., social pressure, financial rewards

4) If there are rules that are too strict, individuals focus on what they can do, not should do

**Ethical standards vs Legal standards**

Ethical behaviour isn’t always legal

* E.g., Whistleblowing, civil disobedience

Legal behaviour isn’t always ethical

* E.g., Nepotism

New laws and regulations can stem from recent cases of behaviour perceived as unethical

Complying with ethics requires more judgement

**Ethical decision making framework**

Need to integrate ethics into decision making process

* Adopt code of ethics, support of senior management

4 steps:

1. Identify: relevant factors, stakeholders, ethical principles, conflicts of interest
2. Consider: situational influences, personal biases, additional guidance from 3rd party, alternative actions
3. Decide and act
4. Reflect: evaluate the outcome, see if results were intended or unintended

**10.2 Code of Ethics and Standards of Professional Conduct**

**CFA Institute Professional Conduct Program**

CFA Institute Professional Conduct Program:

* Covered by CFA institute bylaws and Rules of Procedure for Proceedings Related to Professional Conduct

CFA Institute Board of Governors: Responsible for Professional Conduct Program

Disciplinary Review Committee: Enforces Code and Standards

CFA Institute Professional Conduct staff conducts inquiries related to conduct

They will inquire when:

1. Self-disclosure of members for civil litigation or criminal investigation, or got a written complaint
2. Written complaints received by Professional Conduct staff
3. Evidence of misconduct through public sources (e.g., news)
4. CFA exam violation
5. Analysis of exam materials and social media

During an inquiry: Can interview member, 3rd parties, and collect documents

Outcomes: No sanctions, cautionary letter, discipline member

* Discipline: Condemnation, suspension of CFA
* Member can accept or reject discipline 🡪 If reject, will be referred to disciplinary review panel

**Code of ethics (memorise)**

CFA institute members must:

1. Act with integrity and ethics in the investment profession
2. Place client interest and integrity above own interests
3. Use reasonable care in analysis
4. Encourage others to be ethical
5. Promote integrity and viability of global capital markets
6. Keep improving professional competence, for yourself and others

**Professional conduct (memorise all)**

7 components

1. Professionalism
2. Integrity of capital markets
3. Duties to clients
4. Duties to employers
5. Investment analysis, recommendations, and actions
6. Conflicts of interest
7. Responsibilities as a CFA institute member/candidate

**1) Professionalism**

a) Knowledge of the law

* Comply with all laws, codes, standards (inc CFA ones)
* If there is a conflict, must comply with stricter law
* Must not knowingly participate in violations

b) Independence and objectivity

* Use reasonable care to get independence and objectivity in professional activities
* Cannot receive/solicit/offer gifts that will compromise this

c) Misrepresentation

* Must not knowingly make misrepresentations relating to investment analysis

d) Misconduct

* Must not engage in deceit, fraud, etc

e) Competence

* Maintain competence needed for job

**2) Integrity of capital markets**

a) Material non-public information

* Can’t act or get others to act on it

b) Market manipulation

* Must not distort prices, or artificially inflate volume

**3) Duties to clients**

a) Loyalty, prudence, and care

* Must act with reasonable care and have product judgement for clients
* Place clients’ interests above their own, and their employer

b) Fair dealing

* Be fair and objective with clients

c) Suitability

Suitability for advisory

* Understand client’s investment experience, risk/return goals, financial constraints before making recommendations
* Make investment suitable with clients financial situation and written objectives
* Needs to be suitable in broader portfolio

Suitability for investment management

* Investments need to be consistent with stated objectives and constraints of portfolio

d) Performance presentation

* Need to fairly and accurately communicate investment performance

e) Preservation of confidentiality

* Need to keep info about clients confidential (inc former and prospective)
* Exceptions: Concerns illegal activities of client, required by law, client permits it

**4) Duties to employers**

a) Loyalty

* Must act to benefit of employer, don’t deprive skills

b) Additional compensation arrangements

* Don’t accept compensation that can create conflicts of interest with employer unless there is written consent from all parties

c) Responsibilities of supervisors

* Must make reasonable efforts to make members under their supervision compliant with rules, codes, and standards

**5) Investment analysis, recommendations, and actions**

a) Diligence and reasonable basis

* Use diligence in investment actions, and have a reasonable basis

b) Communication with clients and prospective clients

* Disclose nature of services and costs
* Disclose investment process, limitations, and risks
* Distinguish between fact and opinion

c) Record retention

* Maintain records of analysis, communications, etc

**6) Conflicts of interest**

a) Avoid or disclose conflicts

* Must fully disclose conflicts and communicate it clearly

b) Priority of transactions

* Must prioritise transactions for clients and employers over transactions that benefit the member

c) Referral fees

* Need to disclose to everyone any compensation received for recommending products

**7) Responsibilities as a CFA member/candidate**

a) Conduct as participants in CFA Institute programs

* Don’t do anything that compromises integrity of CFA institute

b) Reference to CFA institute, CFA designation, and CFA program

* Don’t exaggerate or misrepresent the meaning of membership in the CFA

**10.3 Guidance for Standard 1-7**

Some parts are open to interpretation: Reasonable, Adequate, Token

* Need to use own judgement in exam
* Likely be descriptor words in question e.g., Lavish, Luxury for Tokens

Need to learn the violations

Need to know which Standard is violated (e.g., Duties to clients, Professionalism, etc)

There are NO valid reasons for a Standard to be violated

* The exception is intent (e.g., intent to mislead)

**1a) Professionalism: Knowledge of the law**

Don’t violate any laws, rules or regs that apply to professional activities

* This means any violation of Code and Standards also violates this subsection!

Member can face 3 sets of rules simultaneously:

* The Standards, Country where they reside, Country where they are doing business

Follow the strictest of these rules!

CFA strongly encourages to report if you see someone violating:

* Report to supervisor or compliance
* If can’t be reported 🡪 Must disassociate from activity
* If can’t disassociate 🡪 Resign from firm
* This is strongly encouraged, not required

Recommendations for members:

* Keep employees informed about rule changes
* Review written compliance procedures regularly
* Maintain copies of current rules
* If in doubt about legality, consult supervisor, compliance, or lawyer
* When disassociating, keep records and tell employer to end violations
* Strongly encouraged to report violations to CFA
* If employee, encourage employer to do so

Recommendations for firms:

* Have a code of ethics
* Provide employees with these rules
* Have procedure for reporting

**1b) Professionalism: Independence and objectivity**

Should take reasonable care to maintain independence and objectivity in professional activities

* May face pressure to reach certain conclusions 🡪 If they are influenced they have violated
* Examples: Altering investment recommendations, allocating shares to oversubscribed IPOs to personal accounts

Should not take/solicit/offer any gift that might compromise independence and objectivity

* Normal business entertainment permitted
* Can’t take gifts of value
* Client gifts less likely to compromise independence than gifts from other parties
* Client gifts should be disclosed to employer before acceptance if possible

Accepting compensation that is dependent on conclusions 🡪 Violates standard

Can make reports paid for by subject firm for their securities, but compensation has to be flat rate independent of conclusions

* Need to disclose it is issuer paid

Recommendations for members:

* Pay for own travel when practical, limit corporate aircraft use

Recommendations for firms:

* Restrict employee participation in IPOs and private placements (need pre-approval)
* Have compliance officer, written policies on independence and objectivity
* Limit gifts to tokens, other than from clients

**1c) Professionalism: Misrepresentation**

Shouldn’t knowingly mispresent professional activities

* Knowingly mislead investors
* Cherrypicking data, omitting data
* Plagiarism without crediting source (not required for projects, statistics, members who have left the firm)

Actions that would violate:

* Presenting 3rd party research as your own
* Guarantee a specific return without a gov or financial institution guarantee
* Choosing a valuation service because it gives the highest value
* Choosing a non-comparable performance benchmark
* Presenting data that omits relevant variables
* False/misleading info about analyst/firm capabilities
* Using misleading marketing materials from 3rd party

Recommendations for members:

* Prepare summary of experience and services a member can perform
* Develop procedures to verify marketing materials from 3rd parties
* Cite source of materials from others
* Keep copies of all sources used in research
* Provide list of firms services and qualifications
* Regularly review documents that show qualifications and capabilities

**1d) Professionalism: Misconduct**

Should not do fraud, dishonestly, deceit, or any act that could reflects adversely on their reputation, integrity and competence

* The reflects adversely part says members should not use this standard to settle disputes not related to professional ethics

Recommendations for firms

* Develop code of ethics and make clear unethical behaviour won’t be tolerated
* Give employees list of sanctions
* Check references of potential employees

Violations of law are not necessarily misconduct if it doesn’t reflect integrity/compentence

**1d) Professionalism: Competence**

Must act with and maintain competence necessary for professional responsibilities

Negative outcomes do not imply a lack of competence

Recommends, but doesn’t require members to participate in continuing education

Recommendations for members:

* Participate in continuing education, acquire professional designations

**2a) Integrity of Capital Markets: Material non-public info**

Those with MNPI should not act or cause others to act on the info

Material info: Info that would affect the price of a security

* If effect is ambiguous, it is not MNPI

Extends to mutual funds with the subject securities, and derivatives

It is member’s responsibility to determine if info is MNPI

Mosiac theory: Reaching conclusion with public info and non-material non-public info is not a violation

Recommendations for members:

* Make reasonable effects to achieve public dissemination
* Encourage firms to adopt procedures to prevent misuse of MNPI

Recommendations for firms:

* Use a firewall in the firm
* Control interdepartmental communications
* Review employee trades
* Have watch, restricted, and rumour lists

Prohibiting all trading if a firm has MPNI may send market a signal

**2b) Integrity of Capital Markets: Market manipulation**

Must not distort prices or artificially inflate trading volume with the intent to mislead market participants

* E.g., Spreading false info, making trades intended to mislead
* Key point: Intent to mislead is required for violation

**3a) Duties to clients: Loyalty, prudence, and care**

Must have a duty of loyalty to clients and must act with reasonable care and have prudent judgement (duty is to beneficiaries)

* Must place clients’ interests before employer’s or their own
* Both are required

Members must

* Use the appropriate prudence, skill, care
* Manage assets in accordance to agreements and documents
* Make investment decisions in the context of the whole portfolio
* Inform clients about any limitations in the relationship
* Vote proxies responsibly
* Client brokerage commissions must be used to benefit client

Recommendations for members:

* Establish investment objectives of client, consider suitability, diversify
* Disclose conflicts
* Disclose compensation arrangements
* Seek best execution
* Voke proxies in best interest of client
* Maintain confidentiality

**3b) Duties to clients: Fair dealing**

Must be fair and objective to clients in investment analysis, recommendations, or taking action

Don’t discriminate against clients

* Fairly doesn’t always mean equally (e.g., emails can arrive at different times)

Different service levels are acceptable, but can’t disadvantage any clients

* Need to disclose all service levels
* Premium levels of service need to cost more

Give all clients a fair opportunity to act on every recommendation

* Need to be advised of a change in recommendation before the order is accepted

Treat clients fairly in light of their investment objectives and circumstances

Recommendations for members:

* Establish compliance procedures for dissemination of new recommendations and fair treatment
* Maintain list of clients and holdings

Recommendations for firms:

* Limit number of people who are aware a change in recommendation will be made
* Shorten time between decision and dissemination
* Have pre-dissemination guidelines
* Disseminate recommendation changes simultaneously
* Have systematic account review so no one gets preferred treatment
* Disclose all service levels

**3c) Duties to clients: Suitability**

When in advisory relationship with client:

* Must understand their investment experience, risk/return objectives, and financial constraints before making any recommendation or taking action (gather info in IPS – Investment policy statement)
* Investment must be suitable for client’s financial situation and align with client’s written objectives
* Judge suitability in context of whole portfolio

When managing portfolio to a specific strategy, must only take actions that align with stated objectives and constraints of portfolio

If the client requests an unsuitable trade:

* Should not make the trade unless the manager has discussed with client the reasons based on IPS the trade is unsuitable
* For both material or non-material trades on overall risk/return for total portfolio

For non-material effect on risk/return

* After discussion, manager can follow firm policy for unsuitable trades
* Client must acknowledge discussion and understand why it is unsuitable

For material effect on risk/return

* Update IPS so client can accept a changed risk profile to permit trade
* If client doesn’t accept changed IPS, manager can allow trade in separate client directed account
* Otherwise, may need to fire client

Recommendations for members:

* Put client needs, circumstances, objectives into written IPS
* Review IPS periodically

**3d) Duties to clients: Performance presentation**

Must make reasonable efforts to ensure communications about investment performance are fair, accurate, and complete

Should not misstate performance

* Should not misrepresent past performance or reasonably expected performance
* Cannot state or imply they can achieve a rate of return similar to the past

Need to have detailed info available on request

Recommendations for members:

* Adhere to GIPS
* Consider sophistication of the audience
* Show weighted composite of similar portfolios instead of a single account
* Include terminated accounts as part of hist performance
* Maintain records

**3e) Duties to clients: Preservation of Confidentiality**

Must keep info about current, former, and prospective clients confidential

Exceptions:

* Info concerns illegal activities of the client (can be obligated to report) – can only be passed to proper authorities, not others
* Disclosure required by law
* Client permits disclosure

Required to cooperate with PCP investigations for their own conduct

Encouraged to cooperate for PCP investigations of others

Recommendations for members:

* Avoid disclosing info about client except to authorised coworkers
* Follow firm procedures for data storage

**4a) Duties to employers: Loyalty**

Must act to benefit employer and not deprive employer of their skills, divulge confidential info, or cause harm to employer

Must place client’s interest above employer but consider their actions on the firm’s integrity

No requirement to put employer interests above family and personal obligations

* Expected employees will balance these obligations

Dutiy to Employers can be violated to satisfy Duty to Clients or Integrity of Market

* E.g., Whistleblowing

Independent practice for compensation is allowed if:

* Employer is fully notified and consents

When leaving an employer, must continue to act in their best interest until resignation is effective

Violations before leaving include:

* Misappropriation of trade secrets
* Misuse of confidential info and client lists
* Soliciting employers clients
* Self-dealing

Exceptions from violations when leaving

* Knowledge of former clients
* Using experience and knowledge gained
* Can have permits to take client info

Employee records on any medium are firm property

Must adhere to employer social media policy

* Must comply with firm policy about notifying clients about employee separations

**4b) Duties to employers: Additional compensation arrangements**

Must not accept gifts, benefits or compensation that might reasonably create a conflict of interest with the employer’s interest unless they get written consent from all parties

Additional compensation arrangement is not the same as gifts from clients

* Both require written consent in advance

Additional compensation arrangement: Bonus offered by client that depends on future performance

Gift: Bonus rewarded by client for past performance

* Requires disclosure to employer

Recommendations for members:

* Make immediate written report for any additional compensation
* Part time employees need to discuss any competing arrangements with employer

Recommendations for firms:

* Additional compensation details should be verified by offering party

**4c) Duties to employers: Responsibilities of supervisors**

Must make reasonable efforts to ensure anyone under their supervision complies with laws, regs, codes, and standards

* Reasonable effort for prevention and detection

Compliance system must meet industry requirements, regulations, and codes & standards

Need to bring it up to firms management if compliance system is not up to standard

* Must decline supervisory position if member believes it is not good enough

If there is violation need to increase supervision and limit wrongdoer activities

Recommendations for members:

* Distribute compliance programme, update it, educate people on it
* Have professional conduct evaluations
* Review employee actions for monitor compliance

Recommendations for firms:

* Don’t comingle compliance procedures and code of ethics
* Limit employee activities during possible breach
* Make compliance procedures clear, easy to understand
* Have defined compliance officer
* Structure incentives to not reward unethical behaviour

**5a) Investment analysis, recommendations and actions: Diligence and reasonable bias**

Must use diligence, independence, and thoroughness in analysing, recommendations or taking actions

Must have reasonable and adequate basis for decisions, supported by appropriate research

* Firms must have policy to have research be reasonable and adequate, and guidance for research
* The reason can’t be too frivolous

Degree to diligence required depends on:

* Member’s role in process
* Investment philosophy
* Resources provided by employers

Things to consider:

* Macro conditions
* Firm’s financial results and history
* Fees and historical results for a mutual fund
* Limitations for any quantitative models used
* Peer group comparisons

Recommendations for members

* Periodically review quality of 3rd party research
* Measurable qualities of research
* Min level of scenario testing for models, have standards for accuracy, range
* Policy to evaluate outside info providers and advisors

**5b) Investment analysis, recommendations and actions: Communications with clients and prospective clients**

Required to (inc prospective clients):

* Disclose to clients nature of services and cost
* Disclose to clients basics of investment process, and any material changes
* Disclose limitations and risks of investment process, and any changes (e.g., liquidity, capacity)
* Use reasonable judgement to identify which factors are important for investment
* Distinguish between fact and opinion when presenting analysis

Details

* Covers all types of client communication
* Need to disclose costs and nature at initiation and if things change
* Expectations on modelling are opinion, not fact
* Communicate potential losses/gains in total returns
* Should maintain records on nature of research and supply it if requested

**5c) Investment analysis, recommendations and actions: Record retention**

Need to maintain appropriate records to support analysis and communications with clients

* Support reasons for analyst’s conclusion
* Any communications must be retained

Records are firm property

* Usually firm’s responsibility to keep records

If a member changes firms, they cannot rely on materials created at previous firm

* They can only rely on memory if supporting documentation is recreated

Standard recommends a 7 year min holding period if no regulations are in place

**6a) Conflicts of interest: Avoid or disclose conflicts**

Must disclose everything that could reasonably impair their independence and objectivity or interfere with duties to clients (inc prospective) and employer

Disclosures must be prominent, in plain language and communicated effectively

Should avoid actual or potential conflicts of interest if possible

* Must disclose if they can’t avoid

Disclosure allows clients to judge motives and biases for themselves

Common disclosures: Broker-dealer market making, board service, owning a security that is recommended, compensation structure (may incentivise short term)

**6b) Conflicts of interest: Priority of transactions**

Transactions for clients and employers have more priority than transactions in which the member is a beneficiary owner (i.e., personal transactions)

Personal transactions can only be taken after clients and employer have had adequate opportunity to act on a recommendation

Members should not act on info about pending trades for personal gain

Personal trades cannot disadvantage clients

When requested, members need to fully disclose firm trading policies

Recommendations for members:

* Avoid conflicts that arise in IPOs by not participating

Recommendations for firms

* Have basic procedures that address conflicts from personal investing
* Establish limitations on employee participation in IPOs and private placements
* Establish blackout/restricted periods (before trading for clients), to stop front running
* Establish reporting procedures, disclosure of personal holdings, trade preclearance

**6c) Conflicts of interest: Referral fees**

Must disclose to employer and clients (inc prospective) and employers any benefit received from or paid to others for recommending products/services

So clients can evaluate full cost of service and any potential partiality

Includes all types of consideration

Recommendations for members

* Provide employers at least quarterly updates

Recommendations for firms

* Have clear procedures for approval and policies about nature and value

**7a) Responsibilities as a CFA member/candidate: Conduct as participants in CFA programs**

Must not do anything that compromises the reputation or integrity of the the CFA institute, designation, or programs

Includes:

* Cheating on CFA exam or any exam
* Revealing exam info
* Not following CFA rules
* Improperly using designation to further own goals
* Can’t reveal confidential info about CFA program
* Misrepresenting info on the Professional Conduct Statement (PCS) or CFA Professional Development Program
* Volunteers cannot share anything about CFA scoring process

**7b) Responsibilities as a CFA member/candidate: Reference to CFA institute, designation, and program**

When referring to the CFA institute, designation, or candidacy in the program, members/candidates should not mispresent or exaggerate the meaning or implications or implications of it

Must not make promotional promises or guarantees tied to the CFA

* E.g., Overpromising competence, overpromising investment results

To maintain membership, members must:

* Sign PCS annually
* Pay CFA membership dues annually

Otherwise no longer a member

Cannot claim superior ability if completed CFA designation in 3 years

**10.4 Introduction to Global Investment Performance Standards (GIPS)**

**Why are GIPS needed**

If firms choose their own reporting methods for investment performance:

* Results aren’t comparable
* Can be biased

Sources of bias:

* Choose top performing portfolio and claims it represents firm overall assets
* Excluding terminated accounts, which may have closed from sub-par performance
* Selectively choosing best time periods

GIPS: Standardised methodology for performance reporting

* Can compare across firms, provides useful info, doesn’t misrepresent performance, easier to supervise
* Only applies to firms that manage assets for others

Complying with GIPS is voluntary

Must comply firmwide to claim GIPS compliance

**GIPS sections**

8 sections

1) Fundamentals of compliance

* Define the firm
* Provide GIPS compliant reports
* Comply with regulations and laws
* Present data that is not false nor misleading

2) Input data and calculation methodology

* Input data should be consistent
* Methodology for return calculations are uniform

3) Composite and pooled fund maintenance

* Need to create meaningful asset-weighted composites for fair presentation
* Composite performance is based on performance of portfolios with similar strategies/objectives

4) Composite time weighted return report

5) Composite money weighted return report

6) Pooled fund time weighted return report

7) Pooled fund money weighted return report

Sections 4-7 have required and recommended procedures for reporting, and necessary disclosures

* Not all disclosures apply to everyone
* Can include claim of compliance if it has met all GIPS requirements

8) GIPS advertising guidelines

* If ad has claim of compliance with GIPS, the ad must comply with guidelines
* Doesn’t matter if it ad doesn’t mention GIPS compliance

**Purpose of composites**

Composite: Grouping of individual discretionary portfolios with similar strategies/mandates

* Reporting on composites shows firms success in varying investment styles

Composite must include all fee-paying discretionary portfolios (current and past) that the firm managed with a particular strategy

Need to announce which composite the portfolio is in before performance is know

* Stops grouping composites after performance to create composites with superior performance

**Fundamentals of compliance**

Definition of the firm: For GIPS, it must be a corporation, subsidiary, or division held out to clients as a business entity

* Must include all geog locations

Discretion: How a firm determines which portfolios should be included in a composite

**Independent verification**

Firms are encouraged to pursue independent verification of GIPS compliance

* Verification applies to entire firm’s performance measures, not just one composite

Verification must be done by 3rd party for entire firm

3rd party needs produce a verification report that attests:

1. Compliance with GIPS requirements for composite construction
2. Firm’s processes present performance in accordance to GIPS calculation methodology, GIPS data requirements, GIPS format

**10.5 Ethics Application**

**1a) Professionalism: Knowledge of the law**

Examples:

* Firm is overcharging clients by trying to charge expenses that are reimbursable, member should dissociate
* Fail to investigate transactions that are at high risk of violating money laundering laws
* Forging customer signatures for expediency

**1b) Professionalism: Independence and Objectivity**

Examples:

* Contributing to politicians campaign to get preferential treatment for contracts to manage gov pension money

**1c) Professionalism: Misrepresentation**

Examples:

* Guaranteeing returns on an investment that has no actual guarantee of returns
* During a proposal to manage assets is under consideration, a key personnel leaves – member needs to inform client otherwise it is violation
* Lying about financial info

**1d) Professionalism: Misconduct**

Examples:

* Being arrested for minor criminal offenses as part of civil disobedience is not necessarily a violation
* Using error correcting to falsely make account performance look better than it actually is

**1e) Professionalism: Competence**

Example:

* Accepting supervisory role, but not taking steps to gain competence as supervisor

**2a) Integrity of Capital Markets: Material non-public info**

Example:

* Using MNPI that was overhead
* Selective sharing of MNPI

**2b) Integrity of Capital Markets: Market manipulation**

Example:

* Misleading market participants about potential liquidity of shares by fraudulently including names of people who don’t hold shares to meet min requirements for listing

**3a) Duties to clients: Loyalty, prudence, and care**

Example:

* Putting a policy in to prevent from acting in clients best interest, and to not investigate suitability – members can’t opt out
* If a client self-directs their own account, members requirements to act in best interest are limited
* Charging clients for expenses that benefit other clients or for personal use is a violation

**3b) Duties to clients: Fair dealing**

Example:

* Not a violation if you charge more for better service, as long as all clients are aware of the option

**3c) Duties to clients: Suitability**

Example:

* Recommending investments that are too risky than is suitable for some clients even if they have some advantages
* Making client requested change to portfolio without investigating if it is suitable

**3d) Duties to clients: Performance presentation**

Example:

* Using performance data for separately managed accounts before the firm managed it to create a composite, making the firm look much older than it actually is

**3e) Duties to clients: Preservation of confidentiality**

Example:

* Not taking adequate steps to protect client info, e.g., downloading it on personal computer
* Both the head of compliance and member who downloaded it are at fault – compliance shouldn’t have let it be possible

**4a) Duties to employers: Loyalty**

Example:

* Makes harmful statements about his current firm, whilst promoting his new firm, all whole still at the original firm
* If a member harms employers for the best interests of clients, it is not a violation
* Taking client info when going to a new firm

**4b) Duties to employers: Additional compensation arrangements**

Example:

* If a member is offered a bonus payment from a 3rd party for services, they need to get written approval from employer to accept bonus arrangement

**4c) Duties to employers: Responsibilities of supervisors**

Example:

* Not having clear written compliance policies and employee training
* Not making reasonable efforts to ensure members aren’t engaging in misconduct
* Accepting compliance role despite no prior experience, and not having permission to review communications, and cannot enforce policies – should’ve declined

**5a) Investment analysis, recommendations, and actions: Diligence and reasonable basis**

Example:

* Recommending purchase of shares for which the member has not done a diligent and independent analysis
* If another analyst bases report of that one, then they are in violation too

**5b) Investment analysis, recommendations, and actions: Communications with clients and prospective clients**

Example:

* Credit agency changes its method of rating, but doesn’t tell users about it

**5c) Investment analysis, recommendations, and actions: Record retention**

Example:

* Not updating written records in a timely manner, even if keeping himself updated

**6a) Conflicts of interest: Avoid or disclose conflicts**

Example:

* Receiving payment for 3rd party subadvisors, but not telling clients this

**6b) Conflicts of interest: Priority of transactions**

Example:

* Buying securities in personal account just prior to purchasing large blocks of the same securities in client accounts (front-running)
* Telling others about big trades he is planning to execute, as it gives others the chance to front run
* Allocating profitable trades to personal accounts, and a disproportionate amount of losing trades to largest client accounts where they will probably go unnoticed

**6c) Conflicts of interest: Referral fees**

Example:

* Not disclosing referral fees to existing and prospective clients (includes gifts)

**7a) Responsibilities as CFA member/candidate: Conduct as participants in CFA programs**

Example:

* Sharing/soliciting info about exam questions and topics were tested in CFA exam

**7b) Responsibilities as CFA member/candidate: Reference to CFA institute, designation, and program**

Example:

* Putting CFA designation on marketing materials despite not paying dues
* Claiming someone else is a CFA charterholder, despite them not paying dues