

Ethics

-- 2018

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Brief Introduction

Topic weight:

SS1	Ethics & Professional Standards	15%
SS2 - SS3	Quantitative Analysis	12%
SS4 - SS6	Economics	10%
SS7 - SS10	Financial Reporting and Analysis	20%
SS11	Corporate Finance	7%
SS12	Portfolio Management	7%
SS13 - SS14	Equity Investment	10%
SS15 - SS16	Fixed Income	10%
SS17	Derivatives	5%
SS18	Alternative Investments	4%
Weights:		100%

Brief Introduction

Content:

➤ Study Session 1: Ethical and Professional Standards

- Reading 1: Ethics and Trust in the Investment Profession
- Reading 2: Code of Ethics and Standards of Professional Conduct
- Reading 3: Guidance for Standards I - VII
- Reading 4: Introduction to the Global Investment Performance Standards (GIPS)
- Reading 5: The GIPS Standards

Brief Introduction

Exam-importance ranking:

- Reading 3: Guidance for Standards I - VII
- Reading 5: The GIPS Standards
- Reading 1: Ethics and Trust in the Investment Profession
- Reading 2: Code of Ethics and Standards of Professional Conduct
- Reading 4: Introduction to the Global Investment Performance Standards (GIPS)

Brief Introduction

考纲对比:

➤ 与2017年相比，2018年的考纲没有变化。

Brief Introduction

学习建议:

- 本门课程难度比较高，类似于法条，有很多辨析；
- 区分Requirements和Recommendations；
- 注意细则之间的关联性；
- 最好阅读CFA Program Curriculum（CFA官方教材）；
- 考点比较固定，真题经常换汤不换药；
- 一定要多做题，推荐官方教材上的习题和历年模考题。

Brief Introduction

锲而舍之，朽木不折！

锲而不舍，金石可镂！

Ethics and Trust in the Investment Profession

Tasks:

- **Explain** ethics and **describe** the role of ethics in defining a profession
- **Identify** challenges to ethical behavior
- **Describe** the need for high ethical standards in the investment industry
- **Distinguish** between ethical and legal standards
- **Describe** and **apply** a framework for ethical decision making



Definition of Ethics

- Our decision and behavior can harm or benefit a variety of **stakeholders**.
- Examples of stakeholders: *colleagues, clients, employers, the communities in which we live and work, the investment profession* .
- **Moral Principles (Ethical Principles)** are beliefs regarding what is good, acceptable, or obligatory behavior and what is bad, unacceptable, or forbidden behavior.



Definition of Ethics

- Specific communities or societal groups **codify** their beliefs about obligatory and forbidden conduct in a written set of principles, often called a **code of ethics**.
- **Standards of conduct** serve as benchmarks for the **minimally acceptable** behavior of community members and can help clarify the code of ethics.



Ethics and Professionalism

- A profession has several characteristics that distinguish it from ordinary occupations. A profession is
 1. based on specialized knowledge and skills.
 2. based on service to others.
 3. practiced by members who share and agree to adhere to a common code of ethics.



Ethics and Professionalism

- The code of ethics communicates the shared principles and expected behaviors of its members.
- The code of ethics informs and provides some assurance to the public that the profession's members will use their specialized skills and knowledge in service of others.



Challenges to Ethical Conduct

➤ Several challenges include:

1. people tend to believe that they are ethical people and that their ethical standards are higher than average.

- **Overconfidence bias** leads us to place too much importance on internal traits and intrinsic motivations.

2. decision makers often fail to recognize and/or significantly underestimate the effect of **situational influences**.



Challenges to Ethical Conduct

- **Situational influences** are external factors (environmental or cultural elements), that shape our thinking, decision making and behavior.
 - a. The bystander effect
 - b. Large financial rewards and prestige (short-term self-interests vs. long-term risks)
 - c. Loyalty, Promotions
- A strong compliance culture can become another situational influence that blinds employees to other important considerations.





The Importance Of Ethical Conduct In The Investment Industry

- The investment industry serves society by matching those who supply capital, or money, with those who seek capital to finance, or fund, their activities.
- **Trust** is especially important in the investment industry for several reasons:
 1. the nature of the client relationship
 2. specialized knowledge and access to information
 3. the nature of investment products and services





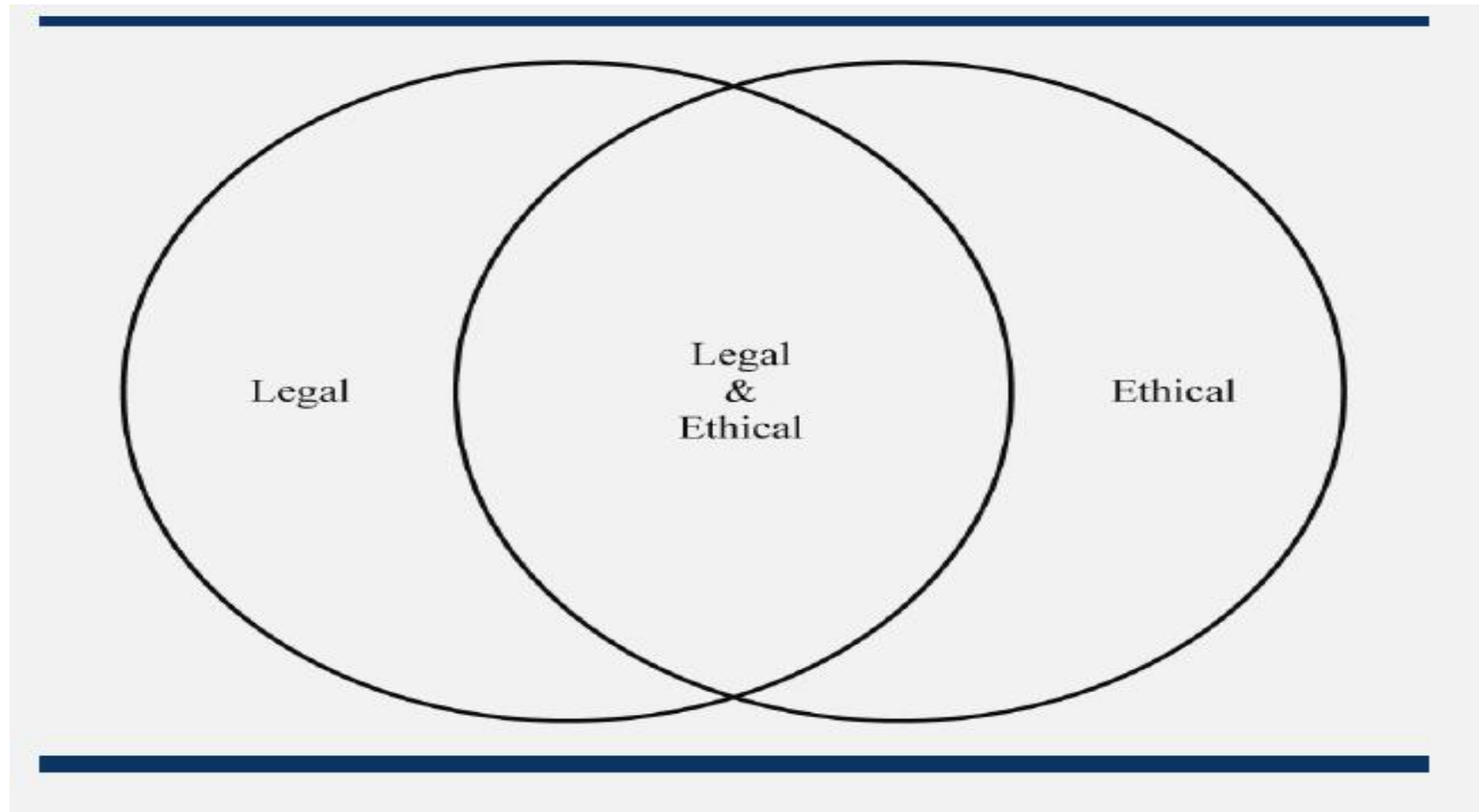
The Importance Of Ethical Conduct In The Investment Industry

- Ethical behavior builds and fosters trust.
- Ethical behavior by all market participants can lead to:
 - broader participation in the markets
 - protection of clients' interests
 - more opportunities for investment professionals and their firms.



Ethical VS. Legal Standards

- Legal and ethical conduct are NOT always the same.



Ethical VS. Legal Standards

- The law is not always the best mechanism to reduce unethical behavior:
 1. laws typically follow market practices.
 2. a new law may reduce existing activity while simultaneously creating an opportunity for a different, but similarly problematic, activity.
 3. laws vary across countries or jurisdictions.
 4. Laws are also subject to interpretation and compliance by market participants.
- Ethical conduct goes **beyond** legal standards



Ethical Decision-Making Frameworks

- Ethical Decision-Making Framework
 - 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?



Summary

➤ **Importance:** ★★

➤ **Content:**

- Ethics and professionalism
- Challenges to ethical conduct
- Importance of ethical conduct in investment industry
- Ethical VS. Legal standards
- Ethical decision-making frameworks

➤ **Exam tips:**

- 了解道德规范定义，及其在专业定义中的角色
- 理解道德行为在投资行业的重要性，及其面临的挑战
- 区分道德准则和法律准则，描述道德决策框架





Ethical and Professional Standards

Tasks:

- **Describe** the structure of the CFA Institute Professional Conduct and the process for the enforcement of the Code and Standards.
- **State** the six components of the Code of Ethics and the seven Standards of Professional Conduct.



The Structure of the Professional Conduct Program

- **The CFA Institute Board of Governors** (CFA协会治理委员会) maintains oversight and responsibility for the Professional Conduct Program (PCP)(职业行为计划).
- **The Disciplinary Review Committee** (纪律审查委员会) is responsible for enforcement of the Code and Standards.
- **Professional Conduct Staff** (职业行为调查工作人员) conduct professional conduct inquiries under the direction of the **CFA Institute Designated Officer**(CFA协会指定官员).



The Enforcement of the Code and Standards

Circumstances that can prompt an inquiry:

- **Self disclosure**(自我披露) by members and candidates on the annual Professional Conduct Statement(PCS)(职业行为陈述表)
- **Written complaints**(书面投诉) received by Professional Conduct Staff
- **Evidence of questionable conduct**(不当行为的证据) through media or another public source



The Enforcement of the Code and Standards

Circumstances that can prompt an inquiry (Cont.)

- **A violation report**(违反考试规定报告) by a CFA examination proctor for breaching the examination rules
- **Analysis of scores and exam materials**(分析试卷) after the exam, and **monitor social media**(监测社交媒体) to detect disclosure of confidential exam information



The Enforcement of the Code and Standards

Investigation Results

- No discipline sanction (无纪律处分)
- Issue a cautionary letter(警告信)
- A disciplinary sanction(纪律处分)
 - Public censure(公开谴责)
 - Suspension of membership and the use of the CFA designation(暂停会员资格或使用CFA称号资格)
 - Revocation of the CFA charter(收回CFA证书)
 - Suspension from further participation in the CFA Program(暂停参加CFA考试资格)



The Enforcement of the Code and Standards

Disagreement on investigation result

- If the member or candidate does not accept the proposed sanction, the matter is referred to a **hearing panel**(听证陪审团) composed of DRC members and CFA Institute member volunteers.
- The hearing panel's conclusion is **FINAL!** (必须接受听证陪审团的最终裁决)



Code of Ethics (道德规范)

- 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.
- 坚持正直，胜任，勤勉，尊敬的做事原则，以合乎职业道德的方式对待公众，客户，潜在客户，雇主，雇员，同事，以及其他全球资本市场的参与者。



Code of Ethics (道德规范)

- Place the integrity of the investment profession and the interests of clients above their own personal interests.
 - 将投资行业的诚信和客户利益置于个人利益之上。
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
 - 进行投资分析，提供投资建议，采取投资或其他专业活动时，应保持合理的谨慎，做出独立的专业判断。



Code of Ethics (道德规范)

- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
 - 履行并鼓励其他人履行职业道德规范，彰显其自身和行业的信誉。
- Promote the integrity and viability of the global markets for the ultimate benefit of society.
 - 提升资本市场诚信和活力，实现社会终极利益。



Code of Ethics (道德规范)

- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.
 - 保持并提高专业胜任能力，努力保持和提高其他投资行业专业人士的胜任能力。



Standards of Professional Conduct

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



Summary

➤ **Importance:** ☆☆

➤ **Content:**

- The structure of the CFA Institute Professional Conduct Program
- The enforcement of the Code and Standards
- The six components of the Code of Ethics and the seven Standards of Professional Conduct

➤ **Exam tips:**

- 熟悉六大道德规范(Code of Ethics)的内容。
- 较常考的是五种被调查的情况及相应的处罚结果。





STANDARD I : PROFESSIONALISM

Standard I(B) Independence and Objectivity

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



Standard I(A) Knowledge of the Law

Content

- 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.



Standard I(A) Knowledge of the Law

Content (Cont.)

- 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 regulation.



Standard I(A) Knowledge of the Law

Guidance

➤ Relationship between the Code and Standards and Applicable Law

- **Applicable law** is the law that governs the member's or candidate's conduct.
- Must follow the **more strict** of the applicable law or the Code and Standards.



Standard I(A) Knowledge of the Law

Guidance (Cont.)

➤ **Association with Violations by others**

- **Confront** the wrongdoer
- **Report** to supervisor or compliance department
- **Must dissociate** from the illegal/unethical activity:
removing member's or candidate's name from research report, asking for a different assignment, etc.
- In extreme case, dissociation may require **resignation**



Standard I(A) Knowledge of the Law

➤ **Association with Violations by others (Cont.)**

- **Inaction** may be construed as participation
- It is **encouraged (not required)** to report violations by fellow members and candidates to CFA Institute
- **No requirement** to report violations to government authorities
- Should **consult** legal and compliance advisers when there is doubt whether a violation occurred



Standard I(A) Knowledge of the Law

Guidance (Cont.)

Investment Products and Applicable Laws

- Understand and comply with the laws and regulations of the countries of origination and expected sale
- Review whether channel firms responsible for distributing products also abide by the laws and regulations



Standard I(A) Knowledge of the Law

Guidance (Cont.)

Others

- No requirement to be experts on all the applicable laws



Standard I(A) Knowledge of the Law

Recommended Procedures

Members and candidates

- Stay informed about changes in applicable laws
- Regularly review firm's compliance procedures
- Maintain files of applicable laws and important cases

Firms

- Develop and/or adopt a code of ethics
- Provide information on applicable laws
- Establish procedures for reporting violations



Standard I(A) Knowledge of the Law

Example:

Michael Allen works for a brokerage firm and is responsible for an underwriting of securities. A company official gives Allen information indicating that the financial statements Allen filed with the regulator overstate the issuer's earnings. Allen seeks the advice of the brokerage firm's general counsel, who states that it would be difficult for the regulator to prove that Allen has been involved in any wrongdoing.



Standard I(A) Knowledge of the Law

Comment:

Although it is recommended that members and candidates seek the advice of legal counsel, the reliance on such advice does not absolve a member or candidate from the requirement to comply with the law or regulation. Allen should report this situation to his supervisor, seek an independent legal opinion, and determine whether the regulator should be notified of the error.



Practice

Mary Kim, CFA, practices in the established country of Oldasia and in the emerging country of Newasia. By regulation, Oldasia prohibits licensed investment advisors from trading in securities ahead of their clients. Newasia has no laws or regulations in this area. Mary Kim may:

- A. trade ahead of her clients in Newasia only.
- B. not trade ahead of her clients in either country.
- C. trade ahead of her clients in Newasia only, as long as she has made full disclosure to her clients that she reserves the right to do this.



Solution

B is correct

Under Standard I(A), Mary Kim, as a CFA charterholder, must apply the CFA Institute Code and Standards or the controlling law, whichever is stricter. Because Standard VI(B) requires members to put client trades ahead of their own transactions, Mary Kim must follow the standard in the absence of governing law, or where the law is less strict than the standard.



Summary

➤ **Importance:** ☆ ☆ ☆

➤ **Content:**

- Relationship between the Code and Standards and Applicable Law
- Association with Violations by others
- Investment products and Applicable Laws

➤ **Exam tips:**

- 遵守更严格的法规或CFA道德准则
- 发现违反法规或准则的行为时应采取的恰当行动





STANDARD I : PROFESSIONALISM

Standard I(B) Independence and Objectivity

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



Standard I(B) Independence and Objectivity

Content

- 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.



Standard I(B) Independence and Objectivity

Guidance

- **Buy-side clients** may influence sell-side analyst's independence because:
- Portfolio managers have significant positions in the security under review
 - A downgrade may affect the manager's compensation
 - Bad performance may affect the manager's professional reputation



Standard I(B) Independence and Objectivity

Guidance (Cont.)

➤ Selection of Fund manager and Custodian

- Members and candidates responsible for hiring and retaining outside managers and third-party custodians should not accept benefits that impair their decisions.
- An example is the “**pay-to-play**(付费参与)” scandal.



Standard I(B) Independence and Objectivity

Guidance (Cont.)

➤ Investment Banking Relationships

- Analysts must not be pressured to issue favorable report on current/prospective clients by their firms.
- Having analysts work with investment banking colleagues is appropriate only when the conflicts are adequately managed and disclosed.
- “**Firewalls**(防火墙)” are used to minimize conflicts of interest.



Standard I(B) Independence and Objectivity

Guidance (Cont.)

Performance Measurement and Attribution

- Performance analysts must not allow internal or external influence to affect their independence and objectivity.

Public Companies

- Analysts must not be pressured to issue favorable reports by the companies they follow.



Standard I(B) Independence and Objectivity

Guidance (Cont.)

Credit Rating Agency Opinions

- Members/candidates must prevent influences from the company requesting the rating.

Issuer-paid research

- Analysts must disclose potential conflicts of interest.
- A **flat fee**(固定費用) that is not linked to the recommendations should be determined prior to writing the reports.



Standard I(B) Independence and Objectivity

Guidance (Cont.)

Travel Funding

- Best practice is for members and candidates to pay by themselves.
- May accept modestly arranged travel when commercial transportation is unavailable (e.g. the destination is **remote**) , but disclosure is needed.



Standard I(B) Independence and Objectivity

Guidance (Cont.)

➤ Exception to gifts/benefits

- **Modest gifts** are acceptable.
- A gift from a client is acceptable, but members and candidates should disclose to their employers prior to accepting such gift/benefit.



Standard I(B) Independence and Objectivity

Recommended Procedures

- Protect the integrity of opinions
- Create a **restricted list**(限制清单)
- Restrict special cost arrangements
 - For example, members/candidates should encourage issuers to limit the use of corporate aircraft to situations in which commercial transportation is not available.



Standard I(B) Independence and Objectivity

Recommended Procedures

➤ Limit gifts

- The standard does not preclude customary and ordinary business-related entertainment as long as its purpose is not to influence members/candidates.

➤ Restrict investments

- Strict limits should be imposed on personnel investment on IPOs or private placement.



Standard I(B) Independence and Objectivity

Example:

Walter 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 his firm has made to Metals & Mining to underwrite a debt offering. Fritz needs to produce a report right away and is concerned about issuing a less-than favorable rating.



Standard I(B) Independence and Objectivity

Comment:

Fritz's analysis of Metals & Mining must be objective and based solely on consideration of company fundamentals. Any pressure from other divisions of his firm is inappropriate. 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.



Practice

Luis Rodriguez, CFA, is an analyst at XYZ Investments. He covers a company that is located in a region that is not easily accessible. The company invites analysts for their annual analyst meeting and pays for the transportation to the remote location. Rodriguez is:

- A. allowed to accept the payment for transportation because the trip was all business and was out of the way.
- B. allowed to accept the payment for transportation as long as it does not exceed \$100.
- C. not allowed to accept the payment for transportation because this is a considered a “perk” and may influence his independent judgment.



Solution

A is correct

Standard I(B) Independence and Objectivity. Analysts should pay for their own travel accommodations if the location is accessible by normal means. In this situation payment is acceptable because the location is out of the way and the purpose of the trip is all business.



Summary

➤ **Importance:** ☆ ☆ ☆

➤ **Content:**

- Influences from internal sources
- Influences from external sources

➤ **Exam tips:**

- 要正确理解members/candidates与他人的各种商业和工作关系
- 影响独立性和客观性的好处或礼物绝对不能接受
- 不能因内部或外部压力而妥协独立性
- 记住与礼物或好处有关的特例





STANDARD I : PROFESSIONALISM

Standard I(C) Misrepresentation

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



Standard I(C) Misrepresentation

Content

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



Standard I(C) Misrepresentation

Guidance

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

Impact on Investment Practice

- Members/candidates must not misrepresent both their and their employer's **qualifications**(资质) **or services**
- Misrepresentation resulting from the use of **third-party information** become the responsibility of the members/candidates



Standard I(C) Misrepresentation

Guidance (Cont.)

➤ Performance Reporting

- Members/candidates must ensure that performance is **accurate** and **complete**, e.g. *Cherry picking* is not allowed.
- The standard prohibits members/candidates from making any **return guarantee on volatile investments**
- When performance benchmark is required, select the most **appropriate benchmark**



Standard I(C) Misrepresentation

Guidance (Cont.)

Omissions

- The omission of a fact or outcome can be misleading, especially in the use of models and technical analysis
- Outcomes from models shall not be presented as fact
- Omissions regarding the true relationship between a member/candidate and other companies constitute a misrepresentation



Standard I(C) Misrepresentation

Guidance (Cont.)

Plagiarism (抄袭)

- The standards prohibits plagiarism
- Models and analysis developed by others at a member/candidate's firm are the property of the firm and can be used without attribution
- Information from recognized financial and statistical reporting services may not be cited



Standard I(C) Misrepresentation

Recommended Procedures

- Providing a written list of the firm's available services and a description of the firm's qualifications
- Verify outside information
- To avoid plagiarism, members/candidates should:
- Maintain copies
- Attribute quotations, including projections, table, statistics, model/product ideas, etc.
- Attribute summaries of material prepared by others



Standard I(C) Misrepresentation

Example:

Anthony McGuire is an issuer-paid analyst hired by publicly traded companies to electronically promote their stocks.

McGuire creates a website that promotes his research efforts as a seemingly independent analyst. McGuire posts a profile and a strong buy recommendation for each company on the website indicating that the stock is expected to increase in value. He does not disclose the contractual relationships with the companies he covers on his website, in the research reports he issues, or in the statements he makes about the companies in internet chat rooms.



Standard I(C) Misrepresentation

Comment:

McGuire has violated Standard I(C) because the website is misleading to potential investors. Even if the recommendations are valid and supported with thorough research, his omissions regarding the true relationship between himself and the companies he covers constitute a misrepresentation. McGuire has also violated Standard VI(A)-Disclosure of Conflicts by not disclosing the existence of an arrangement with the companies through which he receives compensation in exchange for his services.



Practice

Jamie Pyles, a portfolio management trainee for a money management firm, calls prospective clients, telling them that he is a portfolio manager. He informs prospective clients that based on the last five years of performance of his firm, he can guarantee the client at least a 75% return. He informs them that his firm can provide all of the services that they will ever need. What is the minimum number of misrepresentations Jamie has made to the prospective clients?

- A. 3.
- B. 5.
- C. 2.



Solution

A is correct

There are at least *three* misrepresentations. First, that Jamie is a portfolio manager, when he's really a trainee. Second, that the firm can provide all of the services they will ever need. Third, that he can guarantee a 75% return.



Summary

➤ **Importance:** ☆ ☆ ☆

➤ **Content:**

- Impact on investment practice
- Performance reporting
- Omissions
- plagiarism

➤ **Exam tips:**

- 主要有四个考点，分别是涉及1) 投资业绩；2) 会员及其雇主的资质或能提供的服务；3) 删除事实信息；4) 抄袭，等有关的误导陈述。






STANDARD I : PROFESSIONALISM

Standard I(D) Misconduct

Tasks:

- **Demonstrate** the application of the Code and Standards
 - **Distinguish** between conformities and violations
 - **Recommend** practices and procedures designed to prevent violations
- 



Standard I(D) Misconduct

Content


- 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.





Standard I(D) Misconduct


Guidance

- The standards are primarily aimed at conduct related to a member's or candidate's **professional life**
 - Do not seek the standards as a method of settling personal, political, or other disputes unrelated to professional ethics
 - Any act that involves lying, stealing, or other dishonest conduct is a violation
- 



Standard I(D) Misconduct

Guidance (Cont.)

- Conduct that, although not illegal, but negatively affects a member's or candidate's trustworthiness or competence, is a violation
 - The lack of diligence (sufficient effort) in providing professional services may be a violation
 - Personal bankruptcy may violate the standard if it involves fraudulent or deceitful business conduct.
- 



Standard I(D) Misconduct

Example:

Carmen Garcia manages a mutual fund dedicated to socially responsible investing. She is also an environmental activist. As the result of her participation in nonviolent protests, Garcia has been arrested on numerous occasions for trespassing on the property of a large petrochemical plant that is accused of damaging the environment.





Standard I(D) Misconduct

Comment:

Generally, Standard I(D) is not meant to cover legal transgressions resulting from acts of civil disobedience in support of personal beliefs because such conduct does not reflect poorly on the member's or candidate's professional reputation, integrity, or competence.





Practice

Which of the following actions *most likely* violates Standard I(D) Misconduct?

- A. A member's market forecasts have been wrong in three consecutive quarters, prompting a formal complaint from a client.
- B. A Level I candidate is ejected from a hotel for attempting to pass a bad check.
- C. A member pursues an employment opportunity with a competing firm, primarily as a means of securing a salary increase from her current employer.






Solution

B is correct

Any activity that reflects adversely on a member's professional reputation, integrity, or competence is a violation of Standard I(D) Misconduct. As long as the member has a reasonable and adequate basis for all recommendations, simply being wrong does not call the member's integrity or competence into question. A member can pursue an employment opportunity with a competitor as long as the member abides by the Standards related to Duties to Employers.






Summary

➤ **Importance:** ☆ ☆ ☆

➤ **Content:**

- Conduct related to professional life
- Conduct unrelated to professional life

➤ **Exam tips:**

- 该细则相对容易，主要强调会员或考生的专业生活。
 - 与专业工作无关的个人，政治，宗教等问题通常不属于该细则规范行为
 - 欺骗，偷盗等行为是渎职行为
 - 不违法的行为也有可能渎职
- 



STANDARD II: INTEGRITY OF CAPITAL MARKETS

Standard II(A) Material Nonpublic Information

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



Standard II(A) Material Nonpublic Information

Content

- 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.



Standard II(A) Material Nonpublic Information

Guidance

What is “Material” Information?

- The information is “material” if 1) its disclosure would have an impact on the price of a security; or 2) investors would want to know the information before making an investment decision; 3) the source of the information is reliable;
- Examples: earnings, merger & acquisition, innovative products, changes in management, legal disputes, new debt ratings, etc.



Standard II(A) Material Nonpublic Information

Guidance (Cont.)

What Constitutes “Nonpublic” Information?

- Information is “nonpublic” until it has been disseminated to the marketplace in general
- Information that is made available to a select group of people remains nonpublic
- Members/candidates may use insider information for the specific purpose of conducting due diligence for such activities as mergers, security underwriting, credit ratings, etc.



Standard II(A) Material Nonpublic Information

Guidance (Cont.)

Mosaic Theory (马赛克理论)

- Members/candidates do not violate the standard when they reach a material conclusion about a corporate action or event through an analysis of public information and nonmaterial nonpublic information



Standard II(A) Material Nonpublic Information

Guidance (Cont.)

Social Media

- Information from internet and social media platforms may not be considered public
- Example: social media that requires membership in order to access the published content
- Members/candidates should verify that material information obtained from these sources can also be accessed from a source that is available to the public (e.g., webpages, press releases)



Standard II(A) Material Nonpublic Information

Guidance (Cont.)

Using Industry Experts

- Members/candidates may speak with experts regarding economic conditions, industry trends, and technical issues relating to products and services
- Members/candidates are prohibited from taking investment actions based on material nonpublic information provided by industry experts



Standard II(A) Material Nonpublic Information

Recommended Procedures

Achieve Public Dissemination

- Members/candidates should make reasonable efforts to achieve public dissemination of material information
- If public dissemination is not available, members/candidates must communicate the information only to their supervisory and compliance personnel of their firm



Standard II(A) Material Nonpublic Information

Recommended Procedures (Cont.)

- Adopt Compliance and Disclosure Procedures
- Firewall
 - Firewall is used for preventing the communication of material nonpublic information within firms
- Personal Trading Limitations
- Proprietary Trading Procedures
 - A prohibition on all types of proprietary activity when a firm possesses material nonpublic information is not appropriate, e.g. **market making**(造市、做市)



Standard II(A) Material Nonpublic Information

Example:

Frank Barnes, the president and controlling shareholder of the SmartTown clothing chain, decides to accept a tender offer and sell the family business at a price almost double the market price of its shares. He describes this decision to his sister (SmartTown's treasurer), who conveys it to her daughter (who owns no stock in the family company at present), who tells her husband, Staple. Staple, however, tells his stockbroker, Alex Halsey, who immediately buys SmartTown stock for himself.



Standard II(A) Material Nonpublic Information

Comment:

The information regarding the pending sale is both material and nonpublic. Staple has violated Standard H(A) by communicating the inside information to his broker. Halsey also has violated the standard by buying the shares on the basis of material nonpublic information.



Practice

An analyst is allowed to trade on information that he has predicted, such as a corporate action or event, using perceptive assembly and analysis of material public information or nonmaterial, non-public information. This is called the:

- A. assessment theory.
- B. deduction theory.
- C. mosaic theory.



Solution

C is correct

This deductive reasoning is legal (does not constitute trading with inside information) and is called the mosaic theory.



Summary

➤ **Importance:** ☆ ☆ ☆

➤ **Content:**

- What is material and nonpublic information
- Mosaic theory
- Social media and using industry experts

➤ **Exam tips:**

- 判断信息是否是重大的内幕信息是解题关键
- 理解马赛克理论





STANDARD II: INTEGRITY OF CAPITAL MARKETS

Standard II(B) Market Manipulation

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



Standard II(B) Market Manipulation

Content

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



Standard II(B) Market Manipulation

Guidance

➤ **Information-Based Manipulation**

- Example: Spreading false rumors to induce trading by others

➤ **Transaction-Based Manipulation**

- Example: Securing a controlling and dominant position in a financial instrument to manipulate the price of a related derivative or the underlying asset
- The Standard is not intended to preclude transactions undertaken on legitimate trading strategies



Standard II(A) Material Nonpublic Information

Example:

In an effort to pump up the price of his holdings in Moosehead & Belfast Railroad Company, Steve Weinberg logs on to several investor chat rooms on the internet to start rumors that the company is about to expand its rail network in anticipation of receiving a large contract for shipping lumber.



Standard II(A) Material Nonpublic Information

Comment:

Weinberg has violated Standard II(B) by disseminating false information about Moosehead & Belfast with the intent to mislead market participants.



Practice

Steve Waters, a CFA candidate, has decided to enter into a long position of Farmco stock. Since Farmco is thinly traded, Waters is concerned the order will overwhelm the liquidity of Farmco and the price will surge. Waters engages in a series of block trades in order to accomplish the purchase. Waters has engaged in:

- A. neither transaction-based manipulation nor information-based manipulation.
- B. transaction-based manipulation, but not information-based manipulation.
- C. both transaction-based manipulation and information-based manipulation.



Solution

A is correct

Waters is not in violation of Standard II(B), Market Manipulation. Transaction-based manipulation includes, but is not limited to, transactions that artificially distort prices or volume. Information-based manipulation includes, but is not limited to, spreading false rumors about a firm in order to induce others to trade.



Summary

➤ Importance: ☆ ☆ ☆

➤ Content:

- Information-based manipulation
- Transaction-based manipulation

➤ Exam tips:

- 该细则相对容易，要了解常见的市场操纵手段
- 基于市场不有效性采取的合法交易策略不是市场操纵





STANDARD III: DUTIES TO CLIENTS

Standard III(A) Loyalty, Prudence, and Care

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



Standard III(A) Loyalty, Prudence, and Care

Content

- 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 benefits of their clients and place their client's interests before their employer's or their own interests



Standard III(A) Loyalty, Prudence, and Care

Guidance

➤ Identifying the Actual Investment Client

- Special cases:
 - ✓ For pension fund or trusts, the client is not the person or entity who hires the manager, but rather the beneficiaries of the plan or trust
 - ✓ When managing pools of clients' assets, the manager should comply with terms of governing documents



Standard III(A) Loyalty, Prudence, and Care

Guidance (Cont.)

➤ Developing the Client's Portfolio

- Members/candidates should ensure:
 - ✓ Investment recommendations and transactions are suitable to clients' objectives and circumstances
 - ✓ Particular care must be taken on the potential conflict between the members/candidates or their firm and clients' interests
 - ✓ Investment decisions are judged in the context of the total portfolio, rather than by individual investment



Standard III(A) Loyalty, Prudence, and Care

Guidance (Cont.)

➤ **Soft Dollar/Commission(软美元) Policies**

- **Soft dollar** is the practice that an investment manager uses client brokerage to purchase research services
- Soft dollar is client's asset, its uses must benefit client
- “**Directed brokerage**”(客户指定经纪费) is a practice that a client direct a manager to use the client's brokerage to purchase services or goods for the client
- When selecting broker for clients, members must seek “best transaction cost” and “best execution”



Standard III(A) Loyalty, Prudence, and Care

Guidance (Cont.)

➤ Proxy Voting(代理投票) Policies

- A cost-benefit analysis must be made prior to any proxy voting
- Voting proxies may not be necessary in all instances



Standard III(A) Loyalty, Prudence, and Care

Recommended Procedures

- Regular account information
- Client approval
- Follow all applicable rules and laws
- Establish the investment objectives of the clients
- Consider all the information when taking actions
- Diversify
- Carry out regular reviews
- Deal fairly with all clients
- Disclose conflicts of interest
- Maintain confidentiality



Standard III(A) Loyalty, Prudence, and Care

Example:

Emilie Rome is a trust officer for Paget Trust Company. Rome's supervisor is responsible for reviewing Rome's trust account transactions and her monthly reports of personal stock transactions. Rome has been using Nathan Gray, a broker, almost exclusively for trust account brokerage transactions. When Gray makes a market in stocks, he has been giving Rome a lower price for personal purchases and a higher price for sales than he gives to Rome's trust accounts and other investors.



Standard III(A) Loyalty, Prudence, and Care

Comment:

Rome is violating her duty of loyalty to the bank's trust accounts by using Gray for brokerage transactions simply because Gray trades Rome's personal account on favorable terms. Rome is placing her own interests before those of her clients.



Practice

Which of the following is a possible breach of fiduciary duties by a CFA Institute member who manages assets on behalf of a client?

- A. Using directed brokerage.
- B. Neither of these breach fiduciary duties.
- C. Voting all proxies of stocks the client owns.



Solution

C is correct

To comply with Standard III(A), the analyst is obligated to vote proxies in an informed and responsible manner. 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. Directed brokerage occurs when the client requests that the client's brokerage be used to purchase services that directly benefit the client. Although, this may prevent best execution, it does not violate the Standards as it was directed by the client, not the brokerage firm.



Summary

➤ Importance: ☆ ☆ ☆

➤ Content:

- Identifying actual clients
- Developing client's portfolio
- Soft dollar
- Proxy voting

➤ Exam tips:

- 客户利益至上是重要原则
- 要正确判定“实际客户”
- 要正确判断“软美元”，记住软美元使用原则
- 记住“经纪商”的选择标准，及代理投票原则





STANDARD III: DUTIES TO CLIENTS

Standard III(B) Fair Dealing

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



Standard III(B) Fair Dealing

Content

- 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



Standard III(B) Fair Dealing

Guidance

➤ **“Fair” is not “Equal”**

- The standard does not state “equally” because:
 - ✓ Communicating with all clients on a uniform basis presents practical problems due to differences in timing and methods of communications with clients
 - ✓ Each client has unique needs and objectives
 - ✓ Firms may differentiate their services to clients, but different levels of services should be disclosed, and must not disadvantage any client



Standard III(B) Fair Dealing

Guidance (Cont.)

Investment Recommendations

- No discrimination against any client when disseminating investment recommendations
- Particular care should be taken that updated recommendation reaches those clients who have acted on the earlier advice
- Clients who place orders contrary to a current recommendation should be advised before the order is accepted



Standard III(B) Fair Dealing

Guidance (Cont.)

Investment Action

- Treating all clients fairly in light of their investment objectives and circumstances
- If security issue is **oversubscribed** (超额认购), the issue should be **prorated** (按比例) to all subscribers
- Members/candidates should be prohibited from participating in “**hot issue**”
- Family-member accounts are treated similarly to the accounts of other clients



Standard III(B) Fair Dealing

Recommended Procedures

- Limit the number of people involved
- Shorten the time frame between decision and dissemination
- Public guidelines for pre-dissemination behavior
- Simultaneous dissemination
- Maintain a list of clients and their holdings
- Develop, document, disclose trade allocation procedures
- Establish systematic account review
- Disclose levels of services



Standard III(B) Fair Dealing

Example:

Ling Chan manages the accounts for many pension plans, including the plan of his father's employer. Chan developed similar but not identical investment policies for each client, so the investment portfolios are rarely the same. To minimize the cost to his father's pension plan, he intentionally trades more frequently in the accounts of other clients to ensure the required brokerage is incurred to continue receiving free research for use by all the pensions.



Standard III(B) Fair Dealing

Comment:

Chan is violating Standard III(B) because his trading actions are disadvantaging his clients to enhance a relationship with a preferred client. All clients are benefiting from the research being provided and should incur their fair portion of the costs. This does not mean that additional trading should occur if a client has not paid an equal portion of the commission; trading should occur only as required by the strategy.



Practice

A money management firm has the following policy concerning new recommendations: When a new recommendation is made, each portfolio manager estimates the likely transaction size for each of their clients. Clients are notified of the new recommendation in the order of their estimated transaction size—largest first. All clients have signed a form where they acknowledge and consent to this allocation procedure. With respect to Standard III(B), Fair Dealing, this is:

- A. a violation of the standard.
- B. not a violation because the clients have signed the consent form.
- C. not a violation because the clients are aware of the policy.



Solution

A is correct

Such a policy is a violation of the Standard and client acknowledgement and/or consent does not change that fact.



Summary

➤ Importance: ☆ ☆ ☆

➤ Content:

- Investment recommendations
- Investment actions

➤ Exam tips:

- “公平”不等于“相同”
- 无论是“信息披露”还是“投资交易，都应公平对待客户
- 家庭成员是客户时，一视同仁






STANDARD III: DUTIES TO CLIENTS

Standard III(C) Suitability

Tasks:

- **Demonstrate** the application of the Code and Standards
 - **Distinguish** between conformities and violations
 - **Recommend** practices and procedures designed to prevent violations
- 

Standard III(C) Suitability

Content

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.



Standard III(C) Suitability

Content (Cont.)

- 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.



Standard III(C) Suitability

Content (Cont.)

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.



Standard III(C) Suitability

Guidance

➤ **Developing an Investment Policy Statement (IPS)**

- The **IPS**(投资政策声明) addresses the client's risk tolerance, return requirements, investment constraints, the roles and responsibilities of the parties to the advisory relationship
- Based on the IPS, members/candidates can assist in developing an appropriate **strategic asset allocation** and investment program
- Updating the IPS should be repeated at least **annually**



Standard III(C) Suitability

Guidance (Cont.)

➤ **Understanding the Client's Risk Profile**

- Consider whether **leverage/derivative** product is suitable for clients

➤ **The need for Diversification**

- An investment with high relative risk may be a suitable investment in the context of the entire portfolio



Standard III(C) Suitability

Guidance (Cont.)

➤ **Addressing Unsolicited(主动提出) Trading Requests**

- When a client makes an **unsuitable** trade request:
 - ✓ If it has only a **minimum impact** on the entire portfolio, first educating clients on the effects of the request, then may execute the trade
 - ✓ If it has a **material impact** on the portfolio, updating client's IPS may be necessary
 - ✓ If clients decline to modify their IPS while insisting the trade be made, determining whether continuing the advisory relationship with the client



Standard III(C) Suitability

Guidance (Cont.)

➤ Managing pooled assets to an Index or Mandate

- Investing in a manner consistent with the mandate
- Members/candidates are not responsible for determining the suitability of the fund for investors
- Determining suitability for clients applies to situations where members/candidates have an advisory relationship with clients



Standard III(C) Suitability

Recommended Procedures

- In formulating an IPS for a client, consider:
 - **Client identification**
 - ✓ Type of client; the existence of separate beneficiaries;
 - **Investor objectives**
 - ✓ Return objectives (income, growth in principal, maintenance of purchasing power); risk tolerance
 - **Investor constraints**
 - ✓ Liquidity needs; investable funds; time horizon; tax consideration; investor preferences; legal issues
 - **Performance measurement benchmark**



Standard III(C) Suitability

Example:

Caleb Smith, an investment adviser, has two clients: Larry Robertson, 60 years old, and Gabriel Lanai, 40 years old. Both clients earn roughly the same salary, but Robertson has a much higher risk tolerance because he has a large asset base. Robertson is willing to invest part of his assets very aggressively; Lanai wants only to achieve a steady rate of return with low volatility to pay for his children's education. Smith recommends investing 20% of both portfolios in zero-yield, small-cap, high-technology equity issues



Standard III(C) Suitability

Comment:

In Robertson's case, the investment may be appropriate because of his financial circumstances and aggressive investment position, but this investment is not suitable for Lanai. Smith is violating Standard III(C) by applying Robertson's investment strategy to Lanai because the two clients' financial circumstances and objectives differ.



Practice

Carol Hull, CFA, is an investment advisor whose prospective client, Frank Peters, presents special requirements. To construct an investment policy statement for Peters, Hull inquires about Peters' investment experience, risk and return objectives, and financial constraints. Peters states that he has a great deal of investment experience in the capital markets and does not wish to answer questions about his tolerance for risk or his other holdings. Under Standard III(C), Suitability, Hull:

- A. is permitted to manage Peters' account without any knowledge of his risk preferences.
- B. may accept Peters' account but may only manage his portfolio to a benchmark or index.
- C. must decline to enter into an advisory relationship with Peters.



Solution

A is correct

Hull would not violate Standard III(C), Suitability, by managing Peters' account without knowledge of his risk preferences. She made a reasonable inquiry into Peters' investment experience, risk and return objectives, and financial constraints, as the Standard requires. If a client chooses not to provide some of this information, the member/candidate can only be responsible for assessing the suitability of investments based on the information the client does provide.



Summary

➤ **Importance:** ☆ ☆ ☆

➤ **Content:**

- Developing IPS
- The need for diversification
- Unsolicited trade request
- Managing to an index or mandate

➤ **Exam tips:**

- 应事先了解客户信息和情况，需定期更新
- 投资推荐必须先考虑客户适合性，任何不合适的投资，即使赚钱，也违反该细则
- 了解“客户主动提出的交易请求”的恰当处理程序





STANDARD III: DUTIES TO CLIENTS

Standard III(D) Performance Presentation

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



Standard III(D) Performance Presentation

Content

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



Standard III(D) Performance Presentation

Guidance

- Do not **misrepresent** past performance
- Provide **complete** performance information: no cherry-picking, including liquidated/terminated accounts
- Do not state or imply that clients will obtain a return that was generated in the past
- Do not make return **guarantee** on volatile investment



Standard III(D) Performance Presentation

Recommended Procedures

- Consider audience sophistication when presenting performance
- Use performance of the weighted composite of similar portfolios
- Include terminated accounts as part of historical performance
- Make all disclosures and maintain records



Standard III(D) Performance Presentation

Example:

Jed Davis has developed a mutual fund selection product based on historical information from the 1990-95 period. Davis tested his methodology by applying it retroactively to data from the 1996-2003 period, thus producing simulated performance results for those years. In January 2004, Davis's employer decided to offer the product and Davis began promoting it through trade journal advertisements and direct dissemination to clients. The advertisements included the performance results for the 1996-2003 period but did not indicate that the results were simulated.



Standard III(D) Performance Presentation

Comment:

Davis violated Standard m(D) by failing to clearly identify simulated performance results. Standard m(D) prohibits members and candidates from making any statements that misrepresent the performance achieved by them or their firms and requires members and candidates to make every reasonable effort to ensure that performance information presented to clients is fair, accurate, and complete. Use of simulated results should be accompanied by full disclosure as to the source of the performance data, including the fact that the results from 1995 through 2003 were the result of applying the model retroactively to that time period.



Practice

A money manager, who is a member of CFA Institute, suggests during phone calls to his clients that, “I hope you will relay to your friends the great returns I earned for you this past year.” The manager had generated above average returns in the past year. Is this a violation of Standard III(D), Performance Presentation?

- A. Yes, because the Standard forbids members asking their clients to say anything about how well the member has done.
- B. Not if it is true.
- C. Yes, because the intended message fails the test of completeness as required under the standard.



Solution

C is correct

Standard III(D) requires that members communicate performance in a fair, accurate, and complete fashion, and covers both written and oral communication. Asking someone to advertise only one year's performance is unlikely to be representative since this constitutes a timeframe that is too short.



Summary

➤ **Importance:** ☆ ☆ ☆

➤ **Content:**

- The performance presentation standard

➤ **Exam tips:**

- 业绩信息必须准确，完整
- 除特殊说明，不能承诺未来业绩
- 注意该细则与“Misrepresentation”相关





STANDARD III: DUTIES TO CLIENTS

Standard III(E) Preservation of Confidentiality

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



Standard III(E) Preservation of Confidentiality

Content

- 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
 3. The client or prospective client permits disclosure of the information



Standard III(E) Preservation of Confidentiality

Guidance

➤ Exception:

- Members/candidates may provide confidential information to CFA Institute for an investigation under Professional Conduct Program
- If applicable law requires to maintain confidentiality, members/candidates should not disclose a client's information , even if the information concerns illegal activities of the client



Standard III(E) Preservation of Confidentiality

Recommended Procedures

- Avoid discussing any information received from a client except to colleagues working on the same project



Standard III(E) Preservation of Confidentiality

Example:

Lynn Moody is an investment officer at the Lester Trust Company. She has an advisory customer who has talked to her about giving approximately US 50,000 to charity to reduce her income taxes. Moody is also treasurer of the Home for Indigent Widows (HIW), which is planning its annual giving campaign. HIW hopes to expand its list of prospects, particularly those capable of substantial gifts. Moody recommends that HIW's vice president for corporate gifts call on her customer and ask for a donation in the US\$50,000 range.



Standard III(E) Preservation of Confidentiality

Comment:

Even though the attempt to help the Home for Indigent Widows was well intended, Moody violated Standard III(E) by revealing confidential information about her client.



Practice

Standard III(E), Preservation of Confidentiality, applies to the information that an analyst learns from:

- A. current clients and prospects only.
- B. current clients, former clients, and prospects.
- C. current clients and former clients only.



Solution

B is correct

According to Standard III(E), Preservation of Confidentiality, an analyst must preserve the confidentiality of information communicated by clients, former clients, and prospects.



Summary

➤ **Importance:** ☆ ☆ ☆

➤ **Content:**

- Preservation of Confidentiality and its exceptions

➤ **Exam tips:**

- 该细则相对较容易，记住可披露客户信息的四个特例





STANDARD IV: DUTIES TO EMPLOYERS

Standard IV(A) Loyalty

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



Standard IV(A) Loyalty

Content

- 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.



Standard IV(A) Loyalty

Guidance

Independent Practice

- If planning to engage in independent practice, **notifying** employer the types of services provided, the duration of the services, and the compensation
- Do not proceed without **consent** from employer



Standard IV(A) Loyalty

Guidance (Cont.)

Leaving an Employer

- If planning to leave employer, act in the best interest of employer until the resignation is effective
- Employee is free to make preparations to leave as long as such preparations do not breach his duty of loyalty
- No prohibition on use of experience or knowledge gained at former employer
- No prohibition on engaging in competitive conduct unless applicable “**non-compete agreement**(竞业禁止协议)” with former employer has been signed



Standard IV(A) Loyalty

Guidance (Cont.)

➤ Leaving an Employer

- Activities that might constitute a violation:
 - ✓ Misappropriation of trade secrets
 - ✓ Misuse of confidential information
 - ✓ Solicitation of the employer's clients prior to cessation of employment
 - ✓ Self-dealing
 - ✓ Misappropriation of clients lists
 - ✓ Misappropriation of records or work performed on behalf of the firm



Standard IV(A) Loyalty

Guidance (Cont.)

Use of Social Media

- Firm-approved business related social media accounts would be considered the firm's assets, transfer or delete the accounts upon resignation
- Best practice is to maintain separate accounts for personal and professional social media activities



Standard IV(A) Loyalty

Guidance (Cont.)

Whistleblowing (揭发)

- Members/candidates may act contrary to employer's interests in order to comply with duties to the market and clients (e.g. when employer is engaged in illegal or unethical activity)
- Such action is permitted only if the intent is aimed at protecting clients or integrity of the market, not for personal gain



Standard IV(A) Loyalty

Guidance (Cont.)

➤ Nature of Employment

- Members/candidates must determine whether they are employees or independent contractors
- Duties within an independent contractor relationship are governed by terms of agreement



Standard IV(A) Loyalty

Example:

Samuel Magee manages pension accounts for Trust Assets, Inc., but has become frustrated with the working environment and has been offered a position with Fiduciary Management. Before resigning from Trust Assets, Magee asks four big accounts to leave that firm and open accounts with Fiduciary. Magee also persuades several prospective clients to sign agreements with Fiduciary Management. Magee had previously made presentations to these prospects on behalf of Trust Assets.



Standard IV(A) Loyalty

Comment:

Magee violated the employee-employer principle requiring him to act solely for his employer's benefit. Magee's duty is to Trust Assets as long as he is employed there. The solicitation of Trust Assets' current clients and prospective clients is unethical and violates Standard IV(A).



Practice

When providing outside services, a member should provide all of the following information to her current employer EXCEPT:

- A. the compensation she will receive.
- B. the types of services to be provided.
- C. a promise to remit an agreed-upon percentage of the proceeds to the current employer.



Solution

C is correct

She should provide information about the type of services, the compensation arrangement and the expected duration of the project.



Summary

➤ Importance: ☆ ☆ ☆

➤ Content:

- Independent practice
- leaving an employer
- Use of social media
- Whistleblowing
- Nature of employment

➤ Exam tips:

- 兼职工作需事先告知雇主并获其批准
- 为离职做准备不违反细则，离职时不能带走雇主财产除非获得许可
- 如不存在“竞业禁止协议”，离职后可与雇主竞争





STANDARD IV: DUTIES TO EMPLOYERS

Standard IV(B) Additional Compensation Arrangements

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



Standard IV(B) Additional Compensation Arrangements

Content

- 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.



Standard IV(B) Additional Compensation Arrangements

Guidance

- Compensation and benefits include direct compensation by the client, and any indirect compensation or benefits received from third parties
- “Written consent” includes any form of communication that can be documented (e.g. email)
- Employer is entitled to know all compensation/benefit arrangements to assess the motivations and true cost of the services (e.g. the nature of the compensation, amount, and duration of agreement)



Standard IV(B) Additional Compensation Arrangements

Example:

Terry Jones sits on the board of directors of Exercise Unlimited, Inc. In return for his services on the board, Jones receives unlimited membership privileges for his family at all Exercise Unlimited facilities. Jones purchases Exercise Unlimited stock for the client accounts for which it is appropriate. Jones does not disclose this arrangement to his employer because he does not receive monetary compensation for his services to the board.



Standard IV(B) Additional Compensation Arrangements

Comment:

Jones has violated Standard IV(B) by failing to disclose to his employer benefits received in exchange for his services on the board of directors. The nonmonetary compensation may create a conflict of interest in the same manner as being paid to serve as a director.



Practice

Jill Marsh, CFA, works for Advisors where she manages various portfolios. Marsh's godfather is an accountant and has done Marsh's tax returns every year as a birthday gift. Marsh's godfather has recently become a client of Advisors and asked specifically for Marsh to manage his account. In order to comply Standard IV(B), Disclosure of Additional Compensation Arrangements, she needs to:

- A. have her godfather cease doing her taxes.
- B. do neither of the actions listed here.
- C. liquidate from her personal portfolio any stocks her godfather owns and verbally tell her supervisor about the tax services.



Solution

B is correct

Standard IV(B) requires that members disclose to their employer in writing all benefits that they receive in addition to their regular compensation for services they perform on behalf of their employer. It is not unreasonable for an individual's godfather to give them a birthday gift. Moreover, since the tax services were a regular birthday present before her godfather became a client, this implies that they are unrelated to any investment management services.



Summary

➤ Importance: ☆ ☆ ☆

➤ Content:

- Additional Compensation Arrangement

➤ Exam tips:

- 任何与雇主有利益冲突的额外报酬或好处，必须事先获得雇主书面同意
- 应向雇主充分披露额外报酬协议的信息





STANDARD IV: DUTIES TO EMPLOYERS

Standard IV(C) Responsibilities of Supervisors

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



Standard IV(C) Responsibilities of Supervisors

Content

- 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.



Standard IV(C) Responsibilities of Supervisors

Guidance

System for Supervision

- Establish an **effective and adequate** compliance system
- “Adequate” means meeting industry standards, regulatory requirements, the requirements of the Code and Standards, the circumstances of the firm
- Bring inadequate compliance system to the attention of senior management and recommend corrective action
- Once compliance system is established, ensure the procedures are monitored and enforced



Standard IV(C) Responsibilities of Supervisors

Guidance (Cont.)

System for Supervision

- If a compliance system is absent or inadequate, decline in writing to accept supervisory responsibility (or promotion) until the firm adopts reasonable procedures
- When **delegating** supervisory duties to subordinates, instruct about methods to promote compliance



Standard IV(C) Responsibilities of Supervisors

Guidance (Cont.)

➤ System for Supervision

- Once a violation occurred, a supervisor should:
 - ✓ **Respond promptly** to assess the extent of wrongdoing
 - ✓ Conduct a thorough **investigation**
 - ✓ **Place appropriate limitations** on the wrongdoer until investigation is complete
 - ✓ **Increasing the monitoring** to ensure violation will not be repeated



Standard IV(C) Responsibilities of Supervisors

Guidance (Cont.)

➤ System for Supervision

- Once a violation occurred, inadequate actions include:
 - ✓ Relying on employee's statement about the extent of the violation
 - ✓ Relying on employee's assurances that the wrongdoing will not reoccur
 - ✓ Simply reporting the misconduct up the chain of command
 - ✓ Simply warning the employee to cease the activity



Standard IV(C) Responsibilities of Supervisors

Guidance (Cont.)

➤ Supervision include Detection

- If the supervisor makes a reasonable effort to detect violations, but fails to detect a violation that occurs, she is in compliance with the standard
- If no effort is made to detect and prevent violations, the supervisor is in violations of the standard even if no violations by his subordinates have occurred



Standard IV(C) Responsibilities of Supervisors

Example:

David Edwards, a trainee trader at Wheeler & Company, a major national brokerage firm, assists a customer in paying for the securities of Highland, Inc., by using anticipated profits from the immediate sale of the same securities. Despite the fact that Highland is not on Wheeler's recommended list, a large volume of its stock is traded through Wheeler in this manner. Roberta Ann Mason is a Wheeler vice president responsible for supervising compliance with the securities laws in the trading department. Part of her compensation from Wheeler is based on commission revenues from the trading department. Although she notices the increased trading activity, she does nothing to investigate or halt it.



Standard IV(C) Responsibilities of Supervisors

Comment:

Mason's failure to adequately review and investigate purchase orders in Highland stock executed by Edwards and her failure to supervise the trainee's activities violate Standard IV(C), Supervisors should be especially sensitive to actual or potential conflicts between their own self interests and their supervisory responsibilities.



Practice

A firm recently hired Jill Taylor to be a managing supervisor in the firm. Taylor knows that all of her subordinate supervisors are members of CFA Institute and that they have a compliance system in place with respect to the Code and Standards. Under these conditions Taylor needs to:

- A. review the compliance system for its adequacy.
- B. neither of these choices.
- C. rely on the current compliance system since the subordinate supervisors are subject to the Code and Standards.



Solution

A is correct

According to Standard IV(C), Responsibilities of Supervisors, Taylor must make reasonable efforts to detect violations of law, rules, regulations, and Code and Standards. This responsibility is not eliminated because the Taylor's subordinates are CFA Charterholders. Taylor should review the compliance system and report any inadequacies to senior management.



Summary

➤ Importance: ☆ ☆ ☆

➤ Content:

- System for supervision
- Supervision include detection

➤ Exam tips:

- 管理者必须在公司内部建立完善严格的合规制度
- 晋升或被授予监管职责时，应检查公司当前合规制度，确保其完善并符合当前法律要求，否则不能接受监管工作
- 理解发现下属违反法规时应采取的处理办法





STANDARD V: INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTIONS

Standard V(A) Diligence and Reasonable Basis

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



Standard V(A) Diligence and Reasonable Basis

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.



Standard V(A) Diligence and Reasonable Basis

Guidance

➤ Defining Diligence and Reasonable Basis

- The nature of diligence and level of research rely on:
 - ✓ The investment philosophy
 - ✓ The product/service being offered
 - ✓ The role of the member/candidate in the investment decision-making process
 - ✓ The support and resources provided by employer



Standard V(A) Diligence and Reasonable Basis

Guidance (Cont.)

➤ **Using Secondary and Third-Party Research**

- **Secondary research** is research conducted by colleagues
- **Third-Party research** is research conducted by entities outside the firm (brokerage firm, research firm, etc.)
- Members/Candidates must make diligent efforts to determine the source and soundness of the research
- Criteria in determining soundness include:
 - ✓ Assumptions used; Rigor of the analysis; Timeliness of the research; Evaluation of the objectivity and independence;



Standard V(A) Diligence and Reasonable Basis

Guidance (Cont.)

➤ Using Secondary and Third-Party Research

- Members/candidates may rely on others in the firm to determine the soundness of secondary and third-party research, unless having reason to question its validity
- Members/candidates should verify that firm has a policy about the timely and consistent review of approved research providers



Standard V(A) Diligence and Reasonable Basis

Guidance (Cont.)

➤ Using or Developing Quantitatively Oriented Techniques

- **For users:**

- ✓ Understanding the parameters used in models
- ✓ Understanding the assumptions and limitations inherent in models
- ✓ Considering extremely positive and negative scenarios

- **For developers:**

- ✓ Must understand the technical aspects of models
- ✓ Considering the source and time horizon of input data
- ✓ Including a wide range of possible input expectations



Standard V(A) Diligence and Reasonable Basis

Guidance (Cont.)

➤ Selecting External Advisors and Sub-advisors

- Members/candidates must review external advisors as diligently as reviewing individual funds and securities
- Criteria for reviewing external advisor include its:
 - ✓ Established code of ethics
 - ✓ Compliance and internal control procedures
 - ✓ The quality of the published return information
 - ✓ Investment process and adherence to its stated strategy



Standard V(A) Diligence and Reasonable Basis

Guidance (Cont.)

➤ Group Research and Decision Making

- The conclusions represent the consensus of the group
- When disagreeing with the view of group, members/candidates need not decline to be identified with the report, provided that the group's opinion has a reasonable and adequate basis and is independent and objective



Standard V(A) Diligence and Reasonable Basis

Recommended Procedures

- Establish policy that research/recommendations should have reasonable and adequate basis
- Review/approve research reports prior to external circulation
- Establish due diligence procedures for judging if recommendation has met reasonable and adequate basis criteria
- Develop measurable criteria for assessing the quality of the research



Standard V(A) Diligence and Reasonable Basis

Example:

Evelyn Mastakis is a junior analyst who has been asked by her firm to write a research report predicting the expected interest rate for residential mortgages over the next six months. Mastakis submits her report to the fixed-income investment committee of her firm for review, as required by firm procedures. Although some committee members support Mastakis's conclusion, the majority of the committee disagrees with her conclusion, and the report is significantly changed to indicate that interest rates are likely to increase more than originally predicted by Mastakis. Should Mastakis ask that her name be taken off the report when it is disseminated?



Standard V(A) Diligence and Reasonable Basis

Comment:

Generally, analysts must write research reports that reflect their own opinion and can ask the firm not to put their name on reports that ultimately differ from that opinion. When the work is a group effort, however, not all members of the team may agree with all aspects of the report. Ultimately, members and candidates can ask to have their names removed from the report, but if they are satisfied that the process has produced results or conclusions that have a reasonable and adequate basis, members and candidates do not have to dissociate from the report even when they do not agree with its contents. If Mastakis is confident in the process, she does not need to dissociate from the report even if it does not reflect her opinion



Practice

A CFA Institute member sends a preliminary research report on a company to his supervisor. The supervisor approves the report, but then the analyst receives news that causes him to revise downward the earnings estimate of the company. The analyst resubmits the report to the supervisor with the new earnings estimate. The analyst soon finds out that the supervisor plans to release the first version of the report without a reasonable and adequate basis. The analyst must:

- A. insist that the supervisor change the earnings forecast or remove his name from the report.
- B. both insist that a follow up report be issued and take up the issue with regulatory authorities.
- C. only insist that the first report be followed up by a revision.



Solution

A is correct

According to Standard V(A), Diligence and Reasonable Basis, the analyst must exercise diligence, independence, and thoroughness when performing investment analysis, making a recommendation, or taking investment action. The analyst should document the difference in opinion including any request to remove his or her name from the report.



Summary

➤ Importance: ☆ ☆ ☆

➤ Content:

- Using secondary and third-party research
- Using and developing quantitatively oriented techniques
- Selecting external advisors and Group research

➤ Exam tips:

- 投资推荐，选择外部投资顾问，使用 and 开发量化模型等专业工作必须满足勤勉，充分依据，独立和客观性标准
- 使用第二方和第三方研究报告前应检查其来源和合理性
- 理解团队研究过程中出现分歧时的合理解决方式
- 注意该细则与细则 “Loyalty, Produce, and Care” 和 “Independence and Objectivity” 有关





STANDARD V: INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTIONS

Standard V(B) Communication with Clients and Prospective Clients

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



Standard V(B) Communication with Clients

Content

- 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



Standard V(B) Communication with Clients

Content (Cont.)

➤ Members and Candidates must:

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



Standard V(B) Communication with Clients

Guidance

➤ Informing Clients of the Investment Process

- Addressing factors that have positive and negative influences on recommendations
- Including significant risks and limitations of investment process
- Keep clients informed promptly about changes to the investment process
- Disclose the basic characteristics of an investment



Standard V(B) Communication with Clients

Guidance (Cont.)

➤ Different Forms of Communication

- Forms of communication include:
 - ✓ in-person description, telephone conversation, media broadcast, internet, etc.
- Treating all clients **fairly** when communicating with clients
- If information is communicated in **capsule form**(简略形式)(e.g. a recommended stock list), notify clients that additional information and analyses are available



Standard V(B) Communication with Clients

Guidance (Cont.)

➤ Identifying Risks and Limitations

- **Types of risks** that may be disclosed include:
 - ✓ leverage risk, market-related risks, risks associated with complex financial instruments, country risk, industry risk, security-specific risk, credit risk, etc
- **Limiting factors** of investments include:
 - ✓ liquidity, smallest investment amount, etc.
- No disclosure of risks or limitations unknown at the time recommendations are made may not breach Standard V(B), but may violate Standard V(A)



Standard V(B) Communication with Clients

Guidance (Cont.)

Report Presentation

- Including those elements important to the analyses and conclusions of the report
- A research report may emphasize certain areas, touch briefly on others, and omit certain aspects deemed unimportant

Distinction between Facts and Opinions

- Separating the past from the future
- Recommendations and conclusions of report are opinions



Standard V(B) Communication with Clients

Example:

At Fundamental Asset Management, Inc., the responsibility for selecting stocks for addition to the firm's "approved" list has just shifted from individual security analysts to a committee consisting of the research director and three senior portfolio managers. Eleanor Morales, a portfolio manager with Fundamental Asset Management, thinks this change is not important enough to communicate to her clients.



Standard V(B) Communication with Clients

Comment:

Morales must disclose the process change to all her clients. Some of Fundamental's clients might be concerned about the morale and motivation among the firm's best research analysts after such a change. Moreover, clients might challenge the stock-picking track record of the portfolio managers and might even want to monitor the situation closely.



Practice

An analyst receives a report from his research department that summarizes and interprets a recent speech from the chairman of the U.S. Federal Reserve. The summary says that the chairman thinks inflation is under control. Based upon this summary, the analyst says in his next newsletter that inflation is under control. This is a violation of:

- A. Standard V(A), Diligence and Reasonable Basis, only.
- B. Standard V(A), Diligence and Reasonable Basis, and Standard V(B), Communication with Clients and Prospective Clients.
- C. none of the Standards listed here.



Solution

B is correct

The analyst should verify that the research department has interpreted the chairman's speech correctly. The analyst must make it clear that the statement concerning inflation is only an opinion. No one knows if that is true or not at any point in time. Based upon the given information, we cannot say that the analyst is violating only one standard. The analyst may also be violating plagiarism in accordance with Standard I(C), Misrepresentation.



Summary

➤ **Importance:** ☆ ☆ ☆

➤ **Content:**

- Informing clients of investment process
- Different forms of communication and report presentation
- Distinction between facts and opinions

➤ **Exam tips:**

- 该细则强调投资过程中需要向客户披露的信息内容（估值，选股，构建组合的方法和原则；风险；局限性；重要影响因素，等）
- 注意区别事实和观点
- 注意该细则与细则“Fair Dealing”和“Misrepresentation”有关。比如：披露信息时要公平对待客户；省略重要事实信息会同时违反该细则和“Misrepresentation”。





STANDARD V: INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTIONS

Standard V(C) Record Retention

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



Standard V(C) Record Retention

Content

- 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.



Standard V(C) Record Retention

Guidance

- Records may be maintained either in hard copy or electronic form
- Examples of supporting documents include:
 - Personal notes from meetings with covered company
 - Computer-based model outputs and analyses
 - Notes from clients meetings to review IPS
 - Outside research reports
- If no regulatory requirement, CFA Institute recommends maintaining records **at least 7 years**



Standard V(C) Record Retention

Guidance (Cont.)

➤ Records are property of employer

- When leaving employer, cannot take the records without employer's consent
- Cannot use historical recommendations or reports created at former employer when supporting documentation is unavailable
- Must re-create supporting records with information gathered through public sources or the covered company, not from memory or sources obtained from former employer



Standard V(C) Record Retention

Example:

Martin Blank develops an analytical model while he is employed by Green Partners Investment Management, LLP (GPIM). While at the firm, he systematically documents the assumptions that make up the model as well as his reasoning behind the assumptions. As a result of the success of his model, Blank is hired to be the head of the research department of one of GPIM's competitors. Blank takes copies of the records supporting his model to his new firm.



Standard V(C) Record Retention

Comment:

The records created by Blank supporting the research model he developed at GPIM are the records of GPIM. Taking the documents with him to his new employer without GPIM's permission violates Standard V(C). To use the model in the future, Blank must re-create the records supporting his model at the new firm.



Summary

➤ Importance: ☆ ☆ ☆

➤ Content:

- Maintaining all supporting records
- Maintaining at least 7 years
- Records are property of employer

➤ Exam tips:

- 该细则相对较容易
- 必须保存所有研究，投资，及客户沟通记录
- 至少保存7年
- 注意该细则与细则 “Loyalty to employer” 的关系，记录信息是雇主财产，离职时如没有获得雇主同意，不能带走任何记录





STANDARD VI: CONFLICTS OF INTEREST

Standard VI(A) Disclosure of Conflicts

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



Standard VI(A) Disclosure of Conflicts

Content

- 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.



Standard VI(A) Disclosure of Conflicts

Guidance

➤ **Disclosure of Conflicts to Clients**

- Relationship between an issuer and the member/candidate (e.g., **board service, consulting service, beneficial ownership of stock**)
- Relationship between an issuer and the member/candidate's firm (e.g., **investment banking relationship, broker/dealer market-making activities**)
- Fee or compensation arrangements that would conflict with clients' interest (e.g. referral fee, incentive fees, rebates, bonuses based on short term performance)



Standard VI(A) Disclosure of Conflicts

Guidance

➤ Disclosure of Conflicts to Employers

- Circumstances that generate conflicts with clients should be disclosed to employer as well
- Disclose conflicts that would cause a member/candidate to act not in the employer's best interest (e.g., independent practice, additional compensation arrangements)



Standard VI(A) Disclosure of Conflicts

Recommended Procedures

- If firm does not permit disclosure, consider dissociating from the activity
- Firms are encouraged to include compensation information in promotional materials



Standard VI(A) Disclosure of Conflicts

Example:

Hunter Weiss is a research analyst with Farmington Company, a broker and investment banking firm. Farmington's merger and acquisition department has represented Vimco, a conglomerate, in all of Vimco's acquisitions for 20 years.

From time to time, Farmington officers sit on the boards of directors of various Vimco subsidiaries. Weiss is writing a research report on Vimco.



Standard VI(A) Disclosure of Conflicts

Comment:

Weiss must disclose in his research report Farmington's special relationship with Vimco. Broker/dealer management of and participation in public offerings must be disclosed in research reports. Because the position of underwriter to a company entails a special past and potential future relationship with a company that is the subject of investment advice, it threatens the independence and objectivity of the report writer and must be disclosed.



Practice

Abner Flome, CFA, is writing a research report on Paulsen Group, an investment advisory firm. Flome's brother-in-law holds shares of Paulsen stock. Flome has recently interviewed for a position with Paulsen and expects a second interview. According to the Standards, Flome's *most* appropriate action is to disclose in the research report:

- A. that he is being considered for a job at Paulsen.
- B. his brother-in-law's holding of Paulsen stock and that he is being considered for a job at Paulsen.
- C. his brother-in-law's holding of Paulsen stock.



Solution

A is correct

The possibility of employment with Paulsen creates a potential conflict of interest which Flome must disclose. Standard VI(A) Disclosure of Conflicts does not require disclosure of his brother-in-law's ownership of Paulsen stock.



Summary

➤ **Importance:** ☆ ☆ ☆

➤ **Content:**

- Disclosure of conflicts to clients
- Disclosure of conflicts to employer

➤ **Exam tips:**

- 注意该细则与若干其他细则相关（比如，Independence and Objectivity, Loyalty to employer, Additional Compensation Arrangements, Referral Fees)
- 必须披露任何与雇主和客户之间存在的利益冲突
- 披露方式要满足“有效”和“显著”原则





STANDARD VI: CONFLICTS OF INTEREST

Standard VI(B) Priority of Transactions

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



Standard VI(B) Priority of Transactions

Content

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



Standard VI(B) Priority of Transactions

Guidance

- “**Personal Transactions**” include those made for a member/candidate’s own account, for immediate family accounts, and for accounts in which member/candidate has a direct/indirect interest (e.g., trust, retirement account)
- Client and employer transactions take priority over personal transactions
- Family member accounts that are client accounts must be treated as other client accounts



Standard VI(B) Priority of Transactions

Guidance (Cont.)

- When clients require members/candidates to have **aligned interests** (e.g., co-investment), client's transactions still take priority over personal transactions
- Conveying material nonpublic information (e.g., unpublished recommendations or reports) to any other person to allow them to trade prior to clients/employer violate both "Priority of Transactions" and "Material Nonpublic Information"



Standard VI(B) Priority of Transactions

Recommended Procedures

- The firm's compliance procedures should:
 - Limit participation in equity IPOs
 - Restrict purchase of securities through private placements
 - Establish blackout/restricted periods
 - Establish reporting procedures and prior clearance requirements
 - Disclose policies on personal investing to clients, upon request



Standard VI(B) Priority of Transactions

Example:

Research analyst Marlon Long does not recommend purchase of a common stock for his employer's account because he wants to purchase the stock personally and does not want to wait until the recommendation is approved and the stock is purchased by his employer.



Standard VI(B) Priority of Transactions

Comment:

Long has violated Standard VI(B) by taking advantage of his knowledge of the stock's value before allowing his employer to benefit from that information.



Practice

Gordon McKinney, CFA, works in the trust department of a bank. The bank's trust account holds a large block of a particular company. McKinney learns that this company is going to buy back one million shares at a 15% premium to the market price on a first-come-first-served basis. McKinney immediately tells his mother-in-law to tender her shares but waits until the end of the day to tender the trust's shares.

McKinney has *most* likely violated:

- A. Standard VI(B), Priority of Transactions.
- B. Standard IV(A), Loyalty to Employer.
- C. Standard II(A), Material Nonpublic Information.



Solution

A is correct

If an analyst decides to make a recommendation about the purchase or sale of a security, he must give his customers or employer adequate opportunity to act on this recommendation before acting on his own behalf. Personal transactions include those made for the member's own account and family accounts. Standard IV(A), Loyalty to Employer, concerns a member competing with his employer (independent practice). Standard II(A), Material Nonpublic Information, does not apply. The question does not indicate that the information is not public.



Summary

➤ Importance: ☆ ☆ ☆

➤ Content:

- Definition of Personal Transactions
- Priority of Transactions

➤ Exam tips:

- 该细则相对较容易。注意“个人交易”的适用情况。
- 如果客户要求“共同投资”，个人交易仍然要放在客户交易之后。
- 注意该细则与“Fair Dealing”和“Material Nonpublic Information”有关。当家庭成员是客户时，如果将家庭成员的交易置于其他客户的交易之后，同时违反“Fair Dealing”和该细则。当把未公布的推荐报告提前泄露给其他人，使其在客户和雇主之前完成交易时，同时违反“Material Nonpublic Information”和该细则。





STANDARD VI: CONFLICTS OF INTEREST

Standard VI(C) Referral Fees

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



Standard VI(C) Referral Fees

Content

- 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.



Standard VI(C) Referral Fees

Guidance

- Disclosure allows clients and employers to evaluate full cost of service and any potential biases
- Disclosure is to be made prior to entering into any formal agreement for services
- Disclosure the nature of the consideration/benefit (e.g., flat fee or percentage basis, one-time or continuing benefit, benefit in the form of provision of service or other noncash benefit and its estimated money value)



Standard VI(C) Referral Fees

Example:

James Handley works for the trust department of Central Trust Bank. He receives compensation for each referral he makes to Central Trust's brokerage department and personal financial management department that results in a sale. He refers several of his clients to the personal financial management department but does not disclose the arrangement within Central Trust to his clients.



Standard VI(C) Referral Fees

Comment:

Handley has violated Standard VI(C) by not disclosing the referral arrangement at Central Trust Bank to his clients. Standard VI(C) does not distinguish between referral payments paid by a third party for referring clients to the third party and internal payments paid within the firm to attract new business to a subsidiary. Members and candidates must disclose all such referral fees. Therefore, Handley is required to disclose, at the time of referral, any referral fee agreement in place among Central Trust Bank's departments. The disclosure should include the nature and the value of the benefit and should be made in writing.



Practice

Wes Smith, CFA, refers many of his clients to Bill Towers, CPA, for accounting services. In return, Towers performs routine services for Smith, such as his tax returns, for no charge.

Towers has just become a member of CFA Institute. With this development, Towers must:

- A. only reveal to the prospects referred by Smith that he performs services for Smith.
- B. reveal to the prospects referred by Smith that he performs services for Smith, along with the estimated value of those services.
- C. discontinue his services for Smith.



Solution

B is correct

According to VI(C), Referral Fees, as a member of CFA Institute, Towers must tell his clients about the payment in kind to Smith along with an estimate of the value of those services



Summary

➤ Importance: ☆ ☆ ☆

➤ Content:

- Disclosure of Referral Fees

➤ Exam tips:

- 该细则相对较容易。
- 必须事先向客户披露“推荐费”信息
- 要披露“推荐费”的类型（一次性的还是连续的？固定的还是按比例？现金的还是非现金的？）
- 如果是非现金的“推荐费”，应披露其评估价值





STANDARD VII: RESPONSIBILITIES AS A CFA INSTITUTE MEMBER OR CFA CANDIDATE

Standard VII(A) Conduct as Participants in CFA Institute Programs

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



Standard VII(A) Conduct as Participants in CFA Institute Programs

Content

- 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.



Standard VII(A) Conduct as Participants in CFA Institute Programs

Guidance

- Conduct that violates the Standard include:
 - Providing confidential program or exam information to candidates or the public
 - ✓ All aspects of the exam, including questions, broad topical areas, and formulas, tested or not tested, are considered confidential
 - ✓ The Standard does not prohibit candidates from discussing non-confidential information or curriculum material with others



Standard VII(A) Conduct as Participants in CFA Institute Programs

Guidance (Cont.)

- Conduct that violates the Standard include:
 - Violating any rules and testing policies of CFA Institute programs, such as calculator policy, personal belongings policy, or the Candidate Pledge(考生公约)
 - Giving or receiving assistance (cheating) on the Exams
 - Improperly using an association with CFA Institute to further personal or professional goals
 - Misrepresenting information on the Professional Conduct Statement(PCS)



Standard VII(A) Conduct as Participants in CFA Institute Programs

Guidance (Cont.)

- The Standard does not cover expressing opinions regarding CFA Institute, the CFA Program, or other CFA programs



Standard VII(A) Conduct as Participants in CFA Institute Programs

Example:

Loren Sullivan is enrolled to take the Level II CFA examination.

He has been having difficulty remembering a particular formula, so prior to entering the exam room, he writes the formula on the palm of his hand. During the afternoon section of the exam, a proctor notices Sullivan looking at the of palm of his hand. She asks to see his hand and finds the formula.



Standard VII(A) Conduct as Participants in CFA Institute Programs

Comment:

Because Sullivan wrote down information from the Candidate Body of Knowledge (CBOK) and took that written information into the exam room, his conduct compromised the validity of his exam performance and violated Standard VII(A). Sullivan's conduct was also in direct contradiction with the rules and regulations of the CFA Program, the Candidate Pledge, and the CFA Institute Code and Standards.



Practice

Stephanie Orange, Level II CFA candidate, posts blogs for her exam study group three days after the exam to vent her frustrations over the exam. However, to avoid disclosing what was actually on the exam, she only discusses topic areas she thought would be on the exam that were not. Orange is *most likely*:

- A. in violation of Standard VII(A) "Conduct as Members and Candidates in the CFA Program" for providing confidential information about the exam.
- B. not in violation as the information was only about what was NOT on the exam.
- C. not in violation as the information about the actual exam contents was posted after the conclusion of the exam.



Solution

A is correct

Standard VII(A) "Conduct as Members and Candidates in the CFA Program" prohibits members and candidates from providing confidential information about the exams even after the conclusion of the exam. Examples include broad topical areas tested or not tested.



Summary

➤ Importance: ☆ ☆ ☆

➤ Content:

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

➤ Exam tips:

- 该细则相对较容易。
- 绝不能泄露任何CFA协会机密信息（比如考试内容）
- 不能违反任何考试政策（比如考试作弊）
- 不能错误陈述PCS信息
- 该细则没有禁止考生或会员发表与CFA协会和考试有关的个人观点，前提是没有泄露机密信息





STANDARD VII: RESPONSIBILITIES AS A CFA INSTITUTE MEMBER OR CFA CANDIDATE

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

Tasks:

- **Demonstrate** the application of the Code and Standards
- **Distinguish** between conformities and violations
- **Recommend** practices and procedures designed to prevent violations



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

Content

- 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) Reference to CFA Institute, Designation, and Program

Guidance

➤ CFA Institute Membership

- To maintain status of member
 - ✓ Complete and remit PCS annually
 - ✓ Pay membership dues annually
- Failure to comply with above results in an inactive member status



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

Guidance

➤ Using the CFA Designation

- To earn the right to use the CFA designation
 - ✓ Completion of the CFA Program
 - ✓ Required years of acceptable work experience
(≥ 4 years)
- Must satisfy CFA Institute membership requirements to maintain the right to use the designation
- Do not misrepresent or exaggerate the meaning or implications of holding the CFA Designation



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

Guidance

➤ Referring to Candidacy in the CFA Program

- A person is a candidate in the CFA Program if
 - ✓ Application for registration in the CFA Program has been accepted by CFA Institute
 - ✓ The person has sat for the exam but exam results have not yet been received
- Do not imply achievement of any type of partial designation
- Okay to say “passed all levels on first attempt”, but do not imply superior ability



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

Guidance

➤ Proper Usage of the CFA Marks

- The “Chartered Financial Analyst” and “CFA” marks must always be used either after a charterholder’s name or as **adjectives**, not as nouns
- Must not use a pseudonym(假名 , 笔名) to hide identify
- **Incorrect use** include:
 - ✓ He is one of two CFAs in the company
 - ✓ Jane Smith, C.F.A.
 - ✓ Jane Smith, cfa
 - ✓ Jane Smith, **CFA**



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

Example:

An advertisement for AZ Investment Advisors states that all the firm's principals are CFA charter holders and all passed the three examinations on their first attempt. The advertisement prominently links this fact to the notion that AZ's mutual funds have achieved superior performance.



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

Comment:

AZ may state that all principals passed the three examinations on the first try as long as this statement is true, but it must not be linked to performance or imply superior ability. Implying that (1) CFA Charterholders achieve better investment results and (2) those who pass the exams on the first try may be more successful than those who do not violates Standard VII(B).



Practice

Jeffrey Jones passed the Level I CFA examination in 1997 and the Level II examination in 2009. He is not currently enrolled for the Level III examination. According to the CFA Institute Standards of Professional Conduct, which of the following is the *most appropriate* way for Jones to refer to his participation in the CFA Program?

- A. Jeffrey Jones, CFA (expected 2011).
- B. Candidate in the CFA Institute CFA Program.
- C. Passed Level II of the CFA examination in 2009.



Solution

C is correct

No designation exists for someone who has passed Level I, Level II, or Level III of the CFA exam (Standard VII (B)). Persons who have passed a certain level of the exam may state that they have completed that level. A person can only state he is a Candidate if he is currently enrolled in the CFA Program. It is also an improper reference to use “expected” a part of the designation.



Summary

➤ Importance: ☆ ☆ ☆

➤ Content:

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

➤ Exam tips:

- 该细则相对较容易。
- 掌握“会员资格”，“持证资格”，“考生资格”的条件和要求
- 不能夸大CFA会员，CFA持证人和通过CFA考试的含义
- 掌握“CFA Marks”的正确使用方法





THE GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS)

Tasks:

- **Explain** why the GIPS were created and what parties the GIPS apply to, and who is served by GIPS
- **Explain** the construction and purpose of composites
- **Explain** the requirements for verification
- **Describe** the key features of the GIPS
- **Explain** how the GIPS are implemented in countries
- **Describe** the nine major sections of the GIPS



The Global Investment Performance Standards (GIPS)

Misleading Practices of Performance presentation

Representative Accounts

- Selecting a top-performing portfolio to represent the firm's overall investment results for a specific mandate

Survivorship Bias

- Presenting average performance history that excludes terminated or liquidated portfolios

Varying Time Periods

- Presenting performance for a selected time period during which the mandate produced excellent returns



The Global Investment Performance Standards (GIPS)

Why GIPS Were Created?

- GIPS make performance measurement among firm **comparable**, with standardized calculation and reporting practices
- GIPS aim to **avoid misrepresentation** of performance of investment firms and to give clients relevant information to evaluate past performance



The Global Investment Performance Standards (GIPS)

Parties Affected by GIPS

Firms

- The GIPS apply to **investment management firms**

Prospective and current clients

- Intended to serve prospective and current clients of investment management firms



The Global Investment Performance Standards (GIPS)

Composites: Construction and Purpose

➤ Composite

- An aggregation/Grouping of all **fee-paying, discretionary** portfolios that are managed, or have historically been managed in accordance with the **same investment mandate, objective, or strategy**
- Groupings must be done according to **pre-identified criteria**



The Global Investment Performance Standards (GIPS)

Verification

- Firms that claim compliance with the GIPS **self-regulate** their claim of compliance
- Firms may **voluntarily** hire an **independent third party** to verify its claim of GIPS compliance
- Verification is performed on **entire firm**, not specific composites
- Verifier must attest that firm has complied with **all GIPS requirements** (e.g., composite construction, processes or procedures regarding calculation methods, input data, presentation, etc.)



The Global Investment Performance Standards (GIPS)

GIPS Objectives

- Establishing investment **industry best practices** for calculating and presenting investment performance
- Obtaining **global acceptance** of a single standards for calculation and presentation of investment performance based on principles of fair and full disclosure
- Ensuring **consistent and accurate** performance data
- Promoting **fair, global competition** among investment firms
- Promoting global industry “**self-regulation**”



The Global Investment Performance Standards (GIPS)

GIPS Key Characteristics

- Defining the firm as “**Distinct Business Entity**” held out to clients (e.g., the corporation, subsidiary, or division)
- **Total firm assets** include total market value of discretionary and non-discretionary assets, including fee-paying and non-fee-paying accounts
- Including asset **performance of sub-advisors**, as long as the firm has discretion over sub-advisor selection



The Global Investment Performance Standards (GIPS)

GIPS Key Characteristics (Cont.)

- Certain **calculation/presentation standards** are required along with **disclosures**
- **Input data** must be accurate
- GIPS include required and recommended provisions
- **No partial compliance** is allowed, only full compliance can be claimed
- Applying GIPS on a **firm-wide basis**



The Global Investment Performance Standards (GIPS)

GIPS Key Characteristics (Cont.)

- The firm is required to **initially** present **at least 5 years** of annual performance compliant with the GIPS, or performance **since inception** if the firm/composite has been in existence less than 5 years. **Thereafter**, the firm must present an additional year of performance each year, building up to a **minimum of 10 years** GIPS-compliant performance.
- If GIPS conflicts with local law, **follow local law**, but disclose conflicts
- GIPS are **Ethical Standards** for performance presentation



The Global Investment Performance Standards (GIPS)

GIPS Claim of Compliance

- Once GIPS requirements are met, the following **compliance statement must be used**:
 - “[Firm name] has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS)”
- **No statements** referring to calculation methodologies used in a composite presentation being “in accordance with GIPS” or the like



The Global Investment Performance Standards (GIPS)

Firm Fundamental Responsibilities - Requirements

- Providing a compliant presentation to **all prospects**
- Providing a **composite list and description** to all prospects who make a request
- Listing discontinued composites for **at least 5 years**
- On clients request, provide compliant presentation and composite description
- When **jointly marketing** with other firms, separate from non-compliant firms



The Global Investment Performance Standards (GIPS)

9 Major Sections of the GIPS Standards

- 1. *Fundamentals of compliance*** – issues to consider when claiming GIPS compliance (e.g., definition of firm)
- 2. *Input data*** – must be consistent and accurate, for full, fair, comparable performance presentations
- 3. *Calculation methodology*** – certain methodologies are required; be uniform in methods
- 4. *Composite construction*** – create meaningful, asset-weighted composites
- 5. *Disclosures*** – certain information must be disclosed about presentation/policies



The Global Investment Performance Standards (GIPS)

9 Major Sections of the GIPS Standards

- 6. *Presentation and reporting*** – present investment performance according to GIPS requirements
- 7. *Real estate*** – provisions also apply to real estate investments, regardless of level of control the firm has over management of the investment
- 8. *Private equity*** – value according to GIPS Private Equity Valuation Principles, unless open-end or evergreen fund (then follow regular GIPS)
- 9. *Wrap-fee/Separately Managed Account Portfolios***



Practice 1

In order to comply with the GIPS Standards, a firm must initially show GIPS-compliant history for a minimum of:

- A. five years, or since inception if the firm has been in existence for less than five years.
- B. two years, or since inception if the firm has been in existence for less than two years.
- C. three years, or since inception if the firm has been in existence for less than three years.



Solution 1

A is correct

A firm must initially show GIPS-compliant history for a minimum of five years, or since inception if the firm has been in existence for less than five years.



Practice 2

The nine major provisions of the Global Investment Performance Standards (GIPS) include all of the following *except*:

- A. Input Data, Calculation Methodology, and Real Estate.
- B. Fundamentals of Compliance, Composite Construction, and Disclosures.
- C. Calculation Methodology, Composite Construction, and Alternative Assets.



Solution 2

C is correct

C is correct because Alternative Assets is not among the eight major provisions or sections of the Global Investment Performance Standards which include: Fundamentals of Compliance, Input Data, Calculation Methodology, Composite Construction, Disclosures, Presentation and Reporting, Real Estate, and Private Equity. Standard II, Provisions of The Global Investment Performance Standards.



Practice 3

The Global Investment Performance Standards (GIPS) *least likely* requires:

- A. non-discretionary portfolios to be included in composites.
- B. non fee-paying portfolios to be excluded in the returns of appropriate composites.
- C. composites to be defined according to similar investment objectives and/or strategies.



Solution 3

A is correct

Composites (Standard IV – Composites) must be defined according to similar investment objectives and/or strategies.

Terminated portfolios must be included in the historical returns of appropriate composites while only fee paying portfolios are to be included in composites.



Summary

➤ Importance: ☆ ☆

➤ Content:

- GIPS Objectives and parties affected by GIPS
- Composite construction
- Claim of compliance and Verification
- Fundamental responsibilities and key GIPS features
- 9 sections of GIPS

➤ Exam tips:

- 很多考点需要记忆
- 理解GIPS的目标，知道GIPS只适用资产管理公司，掌握composites的构建要求，知道“声明遵守GIPS”的正确方法，了解verification的基本要求，知道GIPS的主要特征和“9大部分”

