Ethics

MODULE 89.1: Ethics and Trust

LOS 89.a: Explain Ethics

- **Definition:** Ethics refers to a set of shared beliefs about what behavior is **good or acceptable** and what is **bad or unacceptable.**
- **Ethical Conduct:** Behavior that:
  1. Follows moral principles and social expectations.
  2. Improves outcomes for stakeholders (clients, coworkers, employers, and the investment community).
  3. Balances self-interest with the interests of others.
- **Stakeholder-Centric View:** Ethical behavior aims to enhance long-term trust and outcomes for all parties affected by one's decisions.

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LOS 89.b: Role of a Code of Ethics in Defining a Profession

- **Code of Ethics:** A written set of moral principles that:
  1. Defines acceptable behavior.
  2. Communicates the values and expectations of a group or organization.
  3. Provides general guidance for decision-making.
- Some codes include **rules or standards** requiring a minimum level of ethical conduct.
- **Profession:** A group of individuals with specialized knowledge who:
  - Serve others honestly and competently.
  - Agree to abide by a professional code of ethics.
- **Purpose:** Codes of ethics help:
  - Enhance public confidence in the profession.

- Signal commitment to integrity and competence.
- Encourage consistent behavior among members.

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LOS 89.c: Professions and How They Establish Trust

- **Definition:** A profession is an occupational group (e.g., doctors, lawyers, investment managers) that:
  1. Requires specialized expert knowledge.
  2. Emphasizes ethical conduct and service to society.
- **Key Characteristics:**
  - Written **code of ethics** and professional standards.
  - Regulatory or governing body.
  - Focus on **client interests and societal benefit.**
  - Continuing education requirements.
  - Emphasis on integrity and public trust.
- **How Professions Build Trust:**
  1. Set and enforce high standards of conduct.
  2. Monitor professional behavior.
  3. Maintain competence through ongoing education.
  4. Prioritize client interests.
  5. Mentor others and promote professional excellence.

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LOS 89.d: Need for High Ethical Standards in Investment Management

- **Special Responsibility:** Investment professionals are **entrusted with clients' wealth** and must:
  - Protect and grow client assets responsibly.
  - Provide trustworthy, transparent information.
- **Why Ethics Matter More in Finance:**
  - Services are **intangible**, so clients cannot easily assess quality.
  - Trust is critical for maintaining confidence and long-term relationships.

- **Consequences of Unethical Behavior:**
  1. Damages client wealth and confidence.
  2. Erodes firm and industry reputation.
  3. Reduces capital flow and increases cost of capital.
  4. Causes misallocation of capital, reducing economic growth.
  5. Adds perceived risk, lowering overall market efficiency.

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LOS 89.e: Professionalism in Investment Management

- **Definition:** Acting with integrity, competence, diligence, and respect — using specialized expertise to serve clients' best interests.
- **Importance:** Clients often lack the financial knowledge to assess recommendations or fees. Professionals must therefore act ethically and transparently.
- **Two Standards:**

Standard	Description
Suitability Standard	Requires recommendations suitable for client's risk tolerance and return objectives.
Fiduciary Standard	Requires acting in the **best interest of the client**, prioritizing client welfare above self-interest.

- **Ethical professionalism** demands fiduciary-like care, even when the legal requirement is only suitability.

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LOS 89.f: Challenges to Ethical Behavior

- **Overconfidence in One's Own Ethics:** Individuals often overrate their moral integrity.
- **Situational Influences (External Factors):**
  - Social pressure or loyalty to employer/supervisor.
  - Short-term rewards or prestige.
  - Organizational culture focused solely on compliance ("what can I do") rather than principles ("what should I do").
- **Internal vs. External Influences:**

Internal (Personal Traits)	External (Situational Factors)
Values, personality, moral beliefs	Corporate culture, peer pressure, incentives

- **Key Challenge:** Acting ethically despite pressures or incentives to the contrary.

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LOS 89.g: Ethical Standards vs. Legal Standards

- **Distinction:**

Ethical Standards	Legal Standards
Based on moral principles and societal values	Based on codified laws and regulations
Often set a **higher** standard than law	Define minimum acceptable behavior
Requires judgment and moral reasoning	Requires compliance and documentation

- **Examples:**
  - Whistle-blowing may be *illegal* but **ethical**.
  - Promoting a relative's firm without disclosure may be *legal* but **unethical**.
- **Ethics → Law Relationship:**
  - Laws often follow major ethical failures (e.g., 1933 Securities Act after 1929 crash, Sarbanes–Oxley after Enron, Dodd–Frank after 2008 crisis).
  - Laws evolve, but ethics require continuous moral judgment.

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LOS 89.h: Framework for Ethical Decision-Making

Purpose: Integrate ethics into all decision processes to improve outcomes, accountability, and consistency.

Four-Step Framework:

1. **Identify:**
   - Relevant facts.
   - Stakeholders and duties owed.
   - Ethical principles and conflicts of interest.
2. **Consider:**
   - Situational influences and personal biases.
   - Possible alternative actions.

    - Seek guidance (e.g., mentors, compliance, or legal advisors).

3. **Decide and Act:**
    - Choose the most ethical and appropriate action.
    - Evaluate both short- and long-term effects.

4. **Reflect:**
    - Evaluate the outcome — was it as anticipated?
    - Analyze why or why not; adjust future behavior.

Benefits of Using a Framework:

- Clarifies conflicts of interest.
- Encourages broader perspective and deliberation.
- Reduces unintended ethical consequences.
- Promotes consistency and transparency in decision-making.

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Summary Table: Ethics and Trust in Investment Management

Concept	Key Points and Examples
Ethics	Shared beliefs defining acceptable vs. unacceptable conduct. Ethical behavior benefits all stakeholders.
Code of Ethics	Written moral guide; communicates professional values and minimum standards.
Profession	Specialized knowledge, ethical standards, service to society, continuing education.
Trust in Professions	Built through expertise, ethical standards, client-first focus, oversight, and mentorship.
High Standards in Finance	Needed due to client trust, intangibility of services, and economy-wide consequences of unethical acts.
Professionalism	Suitability vs. fiduciary standard — fiduciary duty requires acting in clients' best interests.
Challenges to Ethics	Overconfidence, social pressure, monetary incentives, short-term focus.
Ethics vs. Law	Ethics are broader; laws follow ethical lapses. Some actions may be legal yet unethical or vice versa.
Decision Framework	Identify → Consider → Decide → Reflect; integrates ethics into organizational culture.

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Key Takeaways

- Ethics underpin professionalism, trust, and long-term market integrity.
- Ethical standards go beyond legal compliance; they require moral reasoning.
- Investment professionals must balance self-interest with duty to clients, employers, and society.
- Establishing an ethical decision-making framework fosters consistency, transparency, and accountability.
- Trust, once lost, is difficult to regain — maintaining it is a fundamental ethical obligation.

MODULE 90.1: The CFA Institute Code and Standards

LOS 90.a: The CFA Institute Professional Conduct Program (PCP)

Overview:

- The **CFA Institute Professional Conduct Program (PCP)** enforces the Code of Ethics and Standards of Professional Conduct.
- It is governed by:
  1. The **CFA Institute Bylaws**, and
  2. The **Rules of Procedure for Proceedings Related to Professional Conduct**.
- Core principles:
  - **Fairness** — ensuring due process for all members and candidates.
  - **Confidentiality** — maintaining privacy throughout investigations.

Governance Structure:

- The **CFA Institute Board of Governors** has overall responsibility.
- The **Disciplinary Review Committee (DRC)** enforces the Code and Standards.
- The **Professional Conduct staff** carries out inquiries and investigations.

Triggers for Inquiry:

1. **Self-disclosure:** Members/candidates report civil litigation, criminal investigations, or written complaints in their annual Professional Conduct Statement.
2. **Written complaints:** Submitted by clients, employers, or other third parties.

3. **Public information:** Reports of misconduct from media or public sources.
4. **Exam violations:** Reported by CFA exam proctors.
5. **Social media or exam analysis:** Detected by CFA Institute's internal monitoring.

Investigation Process:

- The Professional Conduct staff may:
  1. Request a written explanation from the member or candidate.
  2. Interview the subject, complainant, or third parties.
  3. Collect relevant records and documentation.
- Possible outcomes:
  1. No disciplinary action.
  2. Issue of a **cautionary letter**.
  3. Proposal of disciplinary sanctions.

Hearing and Sanctions:

- If a sanction is proposed, the member/candidate can:
  - **Accept** the sanction (case closed), or
  - **Reject** it — leading to a hearing before a **Disciplinary Review Panel** composed of CFA Institute members.
- Possible sanctions include:
  - Public censure or condemnation.
  - Suspension or revocation of membership.
  - Suspension from the CFA Program.

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LOS 90.b: The Six Components of the Code of Ethics and the Seven Standards of Professional Conduct

Six Components of the CFA Institute Code of Ethics:

1. **Act with integrity, competence, diligence, respect, and in an ethical manner** with the public, clients, employers, colleagues, and market participants.
2. **Place the integrity of the investment profession and clients' interests above personal interests.**

3. **Use reasonable care and independent professional judgment** in analysis, recommendations, and actions.
4. **Practice and encourage others to practice** in a professional and ethical manner to enhance the reputation of the profession.
5. **Promote the integrity and viability of global capital markets** for the benefit of society.
6. **Maintain and improve professional competence** and strive to improve the competence of other investment professionals.

Seven Standards of Professional Conduct:

Standard	**Description**
I. Professionalism	Laws, independence, honesty, and objectivity in all conduct.
II. Integrity of Capital Markets	Avoid acting on material nonpublic information and avoid market manipulation.
III. Duties to Clients	Prioritize client interests, ensure fair dealing, suitability, accurate performance reporting, and confidentiality.
IV. Duties to Employers	Loyalty to employer, proper compensation disclosure, and supervisory responsibilities.
V. Investment Analysis, Recommendations, and Actions	Diligent, independent research; transparent communication; and record retention.
VI. Conflicts of Interest	Full disclosure, transaction priority, and referral fee transparency.
VII. Responsibilities as a CFA Member or Candidate	Uphold CFA Institute reputation; accurate references to CFA designation or program.

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LOS 90.c: Ethical Responsibilities Under the Code and Standards

Detailed Breakdown of Standards and Key Ethical Responsibilities:

CFA Code of Ethics and Standards — Key Requirements

I. **PROFESSIONALISM**

A. **Knowledge of the Law**

- Comply with all applicable laws, regulations, and the Code and Standards.
- When conflicts exist, follow the stricter law or regulation.
- Do not knowingly participate in violations; dissociate from illegal or unethical activities.

B. **Independence and Objectivity**

- Maintain objectivity and professional independence.
- Avoid offering, soliciting, or accepting gifts that could impair integrity (e.g., expensive trips from brokers).
- Disclose potential conflicts to employers.

C. **Misrepresentation**
- Do not misstate or omit material facts in research, performance data, or marketing.
- Avoid plagiarism and exaggeration.

D. **Misconduct**
- No dishonesty, fraud, or deceit in any professional capacity.
- Avoid personal conduct that reflects poorly on professional reputation.

II. **INTEGRITY OF CAPITAL MARKETS**

A. **Material Nonpublic Information**
- Do not act or cause others to act on material nonpublic information (insider trading).
- Example: trading on leaked earnings information violates this standard.

B. **Market Manipulation**
- Avoid practices that distort market prices or volumes (e.g., wash trades, rumor-spreading).
- Manipulation is unethical even if temporarily profitable.

III. **DUTIES TO CLIENTS**

A. **Loyalty, Prudence, and Care**
- Act for clients' benefit with diligence and prudence; prioritize client interests over employer and self.
- Example: allocate IPO shares fairly among clients, not to personal accounts.

B. **Fair Dealing**
- Deal fairly and objectively with all clients; distribute recommendations and opportunities fairly.

C. **Suitability**
- Understand clients' risk tolerance, financial situation, and objectives.
- Recommend only suitable investments in the context of the total portfolio; for discretionary accounts, follow client mandates or written objectives.

D. **Performance Presentation**
- Present performance data that is fair, accurate, and complete; avoid cherry-picking or misleading composites.

E. **Preservation of Confidentiality**
- Maintain client confidentiality unless: (1) information involves illegal acts, (2) disclosure is required by law, or (3) the client consents.

IV. **DUTIES TO EMPLOYERS**

A. **Loyalty**
- Act for the employer's benefit; avoid harming the firm and do not misuse confidential information.
- Disclose independent practice or outside activities to the employer.

B. **Additional Compensation Arrangements**
   - Do not accept gifts, benefits, or compensation that could create conflicts without written consent from all parties (employer and client).

C. **Responsibilities of Supervisors**
   - Ensure subordinates comply with laws, regulations, and the Code and Standards; implement and enforce compliance procedures.

V. **INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTIONS**

A. **Diligence and Reasonable Basis**
   - Use thorough research and adequate due diligence before making recommendations; maintain independence and objectivity in analysis.

B. **Communication with Clients**
   - Disclose the investment process, significant risks, and limitations; distinguish clearly between facts and opinions.
   - Update clients about material changes in methods or significant assumptions.

C. **Record Retention**
   - Maintain records that support analysis, recommendations, and actions; retain records for the period required by law or at least seven years (best practice).

VI. **CONFLICTS OF INTEREST**

A. **Disclosure of Conflicts**
   - Disclose all matters that could impair independence or objectivity using clear, plain language.

B. **Priority of Transactions**
   - Client and employer trades take priority over personal trades; personal trades allowed only if they do not disadvantage clients.

C. **Referral Fees**
   - Disclose to employer, client, and prospective clients any compensation for product or service referrals.

VII. **RESPONSIBILITIES AS CFA INSTITUTE MEMBER OR CANDIDATE**

A. **Conduct as Participants in CFA Programs**
   - Do not engage in behavior that compromises CFA Institute integrity, the CFA designation, or exam security (e.g., cheating, sharing exam content, falsifying records).

B. **Reference to CFA Institute, Designation, and Program**
   - Do not misrepresent the CFA designation or candidacy.
   - Correct usage: "CFA charterholder," "Level II CFA Program candidate." Avoid incorrect phrasing such as "CFA-certified" or "CFA Level II graduate."

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Key Takeaways and Examples

- **Code vs. Standards:** The **Code of Ethics** sets broad principles; the **Standards of Professional Conduct** specify practical rules of behavior.

- **Example – Knowledge of the Law:** A CFA charterholder learns that a colleague is front-running trades. The member must not participate and must dissociate (e.g., refuse to execute, notify compliance).
- **Example – Independence:** An analyst is offered an all-expenses-paid trip to inspect a company. Must either decline or disclose and ensure no compromise of objectivity.
- **Example – Suitability:** Recommending speculative small-cap stocks to a retiree with low risk tolerance breaches suitability.
- **Example – Misrepresentation:** Reusing another analyst's research report without attribution constitutes plagiarism.
- **Example – Referral Fees:** An advisor receives 1% of client investments for referring them to an insurance firm — must disclose to both employer and clients.
- **Ethical Rationale:** The goal is to maintain **trust, transparency, and fairness** in client relationships and global capital markets.

MODULE 91.1: Guidance for Standards I(A) and I(B)

LOS 91.a–91.c: Application, Prevention, and Identification of Conduct

Focus:

- Demonstrate ethical application of the Code and Standards in professional integrity issues.
- Recommend practices that prevent violations.
- Identify conduct that conforms to or violates the Code and Standards.

Context:

- Standard I of the CFA Institute Standards of Professional Conduct covers **Professionalism**.
- Subsections include:
  1. I(A) Knowledge of the Law
  2. I(B) Independence and Objectivity
- The 11th Edition of the *Standards of Practice Handbook* (2014) provides detailed examples, which are often tested in CFA Level I.

Exam Reminder:

- You must recognize violations, not quantify what is "reasonable" or "token."

- Key interpretive terms such as "reasonable," "adequate," and "token" are clarified by context — the question will usually make clear whether conduct violates the Standard.

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Standard I(A): Knowledge of the Law

Core Requirement:

- Members and Candidates must:
    1. Understand and comply with all applicable laws, rules, and regulations — including those of CFA Institute, regulators, and professional bodies.
    2. When multiple jurisdictions apply, follow the **most strict** law or regulation.
    3. Not knowingly participate in, or assist with, violations of any law, rule, or regulation.
    4. Dissociate from any known violations.

Guidance:

- "Applicable laws" include local, national, and CFA Institute Standards.
- A violation of the Code or Standards also constitutes a violation of this subsection.
- Members must remain informed about legal and regulatory changes that affect their professional duties.

Actions that Violate Standard I(A):

- Ignoring known violations by colleagues or clients.
- Participating in misleading or fraudulent activities (e.g., using false marketing materials).
- Failing to dissociate from illegal practices such as insider trading or false performance reporting.

Example:

- An analyst discovers that her firm misallocates trades in favor of certain accounts. She must report it to compliance and **dissociate** from the activity; if unresolved, resignation may be required.

Best Practices — for Members:

1. Stay current with laws and regulations through continuing education.
2. Consult compliance officers or legal counsel when in doubt.
3. Maintain written records documenting suspected violations and dissociation efforts.

4. Encourage firmwide ethics and compliance programs.
5. Although not required, members are strongly encouraged to report violations to the CFA Institute Professional Conduct Program (PCP).

Best Practices — for Firms:

1. Adopt a formal **Code of Ethics**.
2. Provide staff with regular compliance training and regulatory updates.
3. Establish internal reporting and whistle-blower mechanisms.
4. Periodically review compliance procedures.

Summary Table: Knowledge of the Law

Aspect	Guidance and Examples
Main Duty	Comply with the strictest applicable rule or regulation.
If Conflict Exists	Follow the rule offering the **highest ethical standard**.
If Violation by Others	Dissociate; report internally; resign if necessary.
Reporting Requirement	Encouraged (not mandatory) to report to CFA Institute PCP.
Example	Refusing to market a misleading prospectus and documenting dissociation.

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Standard I(B): Independence and Objectivity

Core Requirement:

- Members and Candidates must use **reasonable care and judgment** to achieve and maintain independence and objectivity in all professional activities.
- Must not offer, solicit, or accept any gift, benefit, compensation, or consideration that could reasonably be expected to compromise independence or objectivity.

Purpose:

- To ensure that professional analysis, recommendations, and actions are based on unbiased judgment — free from undue influence, pressure, or inducement.

Common Threats to Independence:

1. **Pressure from issuers or employers** to produce favorable research or ratings.
2. **Inducements or gifts** from brokers, clients, or vendors seeking favorable treatment.
3. **Allocation of IPO shares** to personal or favored accounts.

4. **Issuer-paid research** where compensation is tied to positive outcomes.

Examples of Violations:

- Accepting an all-expenses-paid luxury trip from a company being analyzed.
- Allowing investment banking interests to alter research conclusions.
- Producing "independent" research funded by an issuer without full disclosure.
- Allocating oversubscribed IPOs to personal or friends' accounts.

Examples of Acceptable Conduct:

- Accepting a modest, routine business meal that is not intended to influence analysis.
- Accepting a client gift of small or "token" value (e.g., a holiday basket), provided it is disclosed to the employer.
- Preparing issuer-paid research reports if:
  - Compensation is a fixed fee, not contingent on report conclusions, and
  - The report discloses that it is issuer-paid.

Guidelines for Gifts and Entertainment:

Type of Gift or Benefit	Ethical Treatment under Standard I(B)
From Clients	Allowed if modest and disclosed to employer (before acceptance if possible).
From Companies or Brokers	Not allowed if could compromise objectivity; "token" gifts acceptable.
Lavish Entertainment or Luxury Trips	Violation — expected to influence independence.
Issuer-Paid Research Compensation	Allowed only as flat-fee arrangement with full disclosure.

Recommended Procedures for Members:

- Pay personal or firm travel expenses to company visits or conferences whenever feasible.
- Avoid corporate aircraft unless no commercial alternative exists.
- Decline or disclose any benefit that may affect judgment.
- Keep detailed records of any gifts, hospitality, or compensation received.

Recommended Procedures for Firms:

1. **Establish written policies** on gifts, travel, research independence, and conflicts.
2. Require **pre-approval** for IPO or private-placement participation.
3. Assign a **compliance officer** to monitor independence and objectivity.
4. Define a clear threshold for what constitutes a "token" gift.
5. Require disclosure of all client gifts to supervisors.

Practical Examples:

- **Example 1 (Violation):** An analyst accepts Super Bowl tickets from a company whose stock she covers. → Likely to influence objectivity — violation.
- **Example 2 (Compliant):** A fund manager accepts a $50 gift card from a long-term client and reports it to compliance. → Token and disclosed — not a violation.
- **Example 3 (Violation):** An analyst accepts payment per published favorable rating. → Compensation tied to outcome — violation.
- **Example 4 (Compliant):** Analyst pays for own travel to company site visit and discloses all material interactions. → Independence preserved.

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Exam Strategy and Key Interpretations

- **Strictest standard:** Apply the most stringent applicable rule or ethical interpretation when multiple rules conflict.
- **Intent:** Intent does not excuse prohibited conduct—if a Standard prohibits the action, motivation is irrelevant.
- **Reasonable:** "Reasonable" means consistent with objective professional judgment, not personal convenience.
- **Token:** "Token" denotes low monetary value and low potential to influence behavior; determine meaning from context.
- **If in doubt:** Disclose, document, and distance — the "3 Ds."

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Key Takeaways Summary Table

Standard	Summary and Prevention Practices
I(A) Knowledge of the Law	• Comply with all applicable laws and regulations — follow the strictest rule. • Do not participate in or ignore violations. • Dissociate and document efforts. • Encourage firms to maintain compliance systems and education programs.
I(B) Independence and Objectivity	• Maintain unbiased judgment and professional autonomy. • Avoid accepting or offering inducements that may compromise integrity. • Accept only token gifts; disclose all client gifts. • Establish firm policies limiting gifts, IPO participation, and research funding. • Firms should appoint compliance officers and define reporting channels.

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Essential Principles to Remember

- Ethical professionalism requires strict compliance with law and unwavering independence of thought.
- Members must actively prevent, not merely avoid, unethical conduct.
- Transparency, documentation, and disclosure protect both clients and professionals.
- Firm policies should institutionalize ethics — codes, training, monitoring, and reporting systems.
- On the exam, focus on:
    1. Recognizing clear violations,
    2. Identifying compliant behavior, and
    3. Recommending firm-level controls to prevent future breaches.

MODULE 91.2: Guidance for Standards I(C) and I(D)

Overview

- These standards fall under **Standard I: Professionalism.**
- They focus on honesty, accuracy, and integrity in communication and conduct.
- The two subsections are:
  1. I(C) Misrepresentation
  2. I(D) Misconduct
- The core goal is to preserve **trust and transparency** in the investment profession by ensuring members neither mislead others nor engage in deceitful or unethical behavior.

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Standard I(C): Misrepresentation

Main Requirement:

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

Key Principle: All communications — written, oral, or digital — must be **accurate, complete, and truthful**. Misrepresentation can occur through:

- False statements or exaggeration.
- Omitting material facts.
- Misleading data presentation.
- Plagiarism (use of others' work without proper attribution).

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1. What Constitutes Misrepresentation

- **Misleading Statements:** - Exaggerating qualifications or firm capabilities. - Claiming expertise or resources that do not exist. - Guaranteeing investment returns where none are contractually or legally guaranteed.
- **Omissions:** - Failing to disclose key assumptions, risks, or limitations in analysis. - Selectively presenting data to make performance appear stronger.

- **Plagiarism:** - Using reports, models, forecasts, or charts prepared by others without credit. - Presenting third-party research as one's own work. - Copying text from research reports, spreadsheets, or articles without acknowledgment.
- **Improper Benchmarking:** - Using a performance benchmark that is not comparable to the investment strategy employed.
- **False Marketing:** - Using promotional materials from other firms or advisors that are misleading or unverified. - Selecting valuation services solely because they yield the highest values.

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2. Examples of Violations

Example	**Why It Violates the Standard**
Guaranteeing a 12% return on an equity portfolio	No explicit guarantee exists — creates false expectations.
Using another firm's report without attribution	Constitutes plagiarism and misrepresentation of intellectual property.
Reporting performance that excludes underperforming accounts	Misleading by omission — performance data must be complete and fair.
Advertising an "award-winning research team" when no such recognition exists	Misrepresentation of firm capabilities.
Using misleading third-party marketing materials	Member remains responsible for accuracy of distributed materials.

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3. Plagiarism Rules and Acceptable Use

Permitted:

- Using publicly available data, statistics, or tables from recognized financial and statistical services (e.g., Bloomberg, IMF, World Bank, or government sources) without citation.
- Referring to firm-internal research or models (from colleagues or former employees) without listing all prior contributors — provided that the work is firm property.

Not Permitted:

- Copying another analyst's model, idea, or report without credit.
- Republishing or summarizing third-party research without citing the original source.

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4. Recommendations for Members

1. **Maintain transparency:** Always cite sources of external data, models, or research.
2. **Keep records:** Retain copies of all reports, data, and references used in preparing analysis.
3. **Verify materials:** Review third-party marketing materials for accuracy before distributing.
4. **Clarify services:** Provide written descriptions of your and your firm's qualifications and offerings.
5. **Regular review:** Periodically check all public communications for misrepresentation.

Recommendations for Firms:

- Implement compliance procedures for verifying third-party marketing materials.
- Maintain records of all published communications.
- Conduct internal audits to ensure performance reporting is fair and complete.
- Provide clear guidelines on citation and source acknowledgment.

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Summary Table: Standard I(C) — Misrepresentation

Aspect	**Key Points and Examples**
Objective	Ensure honesty, accuracy, and transparency in all professional communications.
Major Violations	Plagiarism, data omission, false claims, misleading marketing, improper benchmarks.
Example of Violation	Presenting a firm's capabilities or client list that does not exist.
Permitted Practice	Using government or recognized statistical data without citation.
Best Practice	Retain all supporting materials; disclose sources; cite external research.

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Standard I(D): Misconduct

Main Requirement:

> 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.

Essence of the Standard:

- Prohibits unethical, fraudulent, or deceitful acts in both professional and personal contexts.
- Covers not only illegal acts but also actions damaging to one's professional reputation or the CFA designation.

Key Points:

- Applies to both **professional** and **personal** conduct — even outside the workplace.
- The act must reflect adversely on integrity, competence, or reputation.
- Examples include: substance abuse affecting work, falsifying credentials, or engaging in fraud.
- Members must not misuse this Standard to attack another member for personal or political reasons unrelated to ethics or competence.

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1. Examples of Violations

Example	Reason for Violation
Engaging in insider trading or market fraud	Dishonesty and deceit in professional conduct.
Falsifying academic or professional credentials on a resume	Misrepresentation and fraud.
Substance abuse that affects work performance	Reflects adversely on professional competence.
Misappropriating client or employer funds	Clear breach of honesty and integrity.
Attempting to use this Standard to harm another member personally	Abuse of ethical enforcement — unethical behavior in itself.

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2. Examples of Compliant Conduct

- Reporting own minor regulatory infraction proactively and cooperating with authorities.
- Seeking treatment for personal issues before they impair professional work.
- Refusing to engage in dishonest practices despite external pressure.

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3. Recommendations for Firms

1. Develop and publicize a clear **Code of Ethics** prohibiting dishonest or fraudulent acts.
2. Provide staff with examples of potential violations and disciplinary actions.
3. Perform thorough background and reference checks for all new hires.
4. Establish whistleblower protections to encourage ethical reporting.
5. Ensure consistent enforcement and consequences for ethical breaches.

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Summary Table: Standard I(D) — Misconduct

Aspect	**Key Points and Examples**
Objective	Prevent any conduct (professional or personal) involving fraud, deceit, or dishonesty.
Scope	Applies to all conduct that reflects on professional integrity or competence, not just job-related.
Examples of Violations	Fraud, theft, falsifying records, substance abuse impairing work.
Abuse of the Standard	Using it to attack others for non-professional reasons is itself unethical.
Firm Practices	Code of ethics, clear sanctions, employee education, reference checks.

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Key Comparative Overview: Standards I(C) vs. I(D)

Dimension	**Standard I(C) Misrepresentation**	**Standard I(D) Misconduct**
Primary Focus	Accuracy and truthfulness in communication and representation.	Integrity and honesty in conduct and behavior.
Typical Violations	False statements, omissions, plagiarism, misleading data.	Fraud, deceit, dishonesty, acts harming reputation.
Scope	Investment analysis, marketing, and professional activities.	Both professional and personal conduct affecting reputation.
Intent Requirement	Must be "knowingly" misrepresenting or misleading.	Includes negligent or reckless behavior damaging reputation.
Preventive Measures	Citation, documentation, communication review.	Codes of ethics, background checks, training.

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Essential Takeaways

- Misrepresentation = misleading others through words, omissions, or plagiarism.
- Misconduct = dishonesty, fraud, or any act damaging reputation or integrity.
- Accuracy, honesty, and transparency are non-negotiable.
- Firms should institutionalize ethics through policies, education, and compliance checks.
- Members must take personal responsibility for ensuring their communications and behavior uphold the dignity of the investment profession.

MODULE 91.3: GUIDANCE FOR STANDARD II — INTEGRITY OF CAPITAL MARKETS

Overview

- **Purpose:** Protect the fairness and transparency of global capital markets.
- **Core Idea:** All participants should have equal access to material information.
- **Two Subsections:**
  1. Standard II(A) — Material Nonpublic Information
  2. Standard II(B) — Market Manipulation
- These rules ensure that **confidence, fairness, and efficiency** in capital markets are maintained.

—

Standard II(A): Material Nonpublic Information

Standard Text:

> 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.

—

1. Core Concepts and Definitions

- **Material Information:**
  - Information is **material** if disclosure would affect a security's price, or if a reasonable investor would consider it important before making an investment decision.
  - Examples of material information:
    * Earnings results or profit warnings.
    * Mergers, acquisitions, or takeovers.
    * Dividend changes or stock repurchases.
    * New product launches or regulatory approvals.
    * Credit rating downgrades or changes in management.
  - **Ambiguous information** (unclear price impact) may not be material.
- **Nonpublic Information:**
  - Information is **nonpublic** until it has been widely disseminated to the marketplace.
  - Private meetings, analyst calls, and selective disclosures do **not** constitute public dissemination.
- **Acting or Causing Others to Act:**
  - Includes trading, recommending, or passing material nonpublic information to others ("tipping").
  - Applies to direct investments, derivatives, mutual funds, swaps, and options.

—

2. The Mosaic Theory

Definition:

> Reaching an investment conclusion through perceptive analysis of **public information** combined with **non-material nonpublic information** does not violate the Standard.

Explanation:

- Analysts are encouraged to use skill and diligence to piece together various data sources (e.g., industry trends, supplier data, management tone) to form a conclusion.
- The key is that none of the individual pieces used are both **material** and **nonpublic**.

Example:

- A semiconductor analyst predicts a firm's strong quarterly performance based on:

- Publicly available sales reports from suppliers.
- Industry shipment data.
- A non-material observation that the firm's parking lot is full.

→ This is permitted under the Mosaic Theory.

—

3. Examples of Violations

Situation	Violation Explanation
Trading on advance knowledge of a pending merger	Material and nonpublic — insider trading.
Receiving confidential earnings data during an analyst call and trading before it's published	Nonpublic disclosure — violation.
Leaking information about an upcoming credit downgrade to friends or clients	"Tipping" — causing others to act on material nonpublic information.
Employee of investment bank using client deal information to trade for personal benefit	Use of insider information beyond intended purpose — violation.

—

4. Recommendations for Members

1. Make reasonable efforts to ensure the firm disseminates material information publicly.
2. Avoid discussions of sensitive information in public or semi-public places.
3. Maintain confidentiality — even within the firm — on sensitive client data.
4. Seek guidance from compliance officers when uncertain about information status.
5. Maintain and respect firm "restricted lists" of securities under blackout.

—

5. Recommendations for Firms

- Implement robust **information barrier systems** ("firewalls") to prevent insider information flow.
- Appoint compliance officers to monitor cross-department communication.

- Maintain lists such as:
  - **Watch List:** Securities under review for potential insider exposure.
  - **Restricted List:** Securities for which trading is prohibited.
  - **Rumor List:** Speculative cases monitored by compliance.
- Monitor employee and proprietary trading.
- When holding material nonpublic information:
  - Restrict trading to only take the opposite side of unsolicited client trades.
  - Avoid total trading halts that could alert the market to insider information.

—

Summary Table: Standard II(A) — Material Nonpublic Information

Aspect	Explanation and Examples
Definition of "Material"	Information that would affect price or influence investor decisions.
Definition of "Nonpublic"	Information not yet widely disseminated to the market.
Prohibited Actions	Trading, recommending, or tipping based on material nonpublic information.
Permitted Practice	Mosaic Theory — combining public and immaterial nonpublic data.
Firm Policies	Firewalls, watch lists, restricted lists, employee trade monitoring.
Member Practices	Maintain confidentiality, consult compliance, and promote public dissemination.

—

Standard II(B): Market Manipulation

Standard Text:

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

—

1. Core Principle

- The Standard prohibits actions intended to **deceive or mislead** market participants through price or volume manipulation.
- Manipulation damages market integrity, investor confidence, and efficiency.
- The key factor is **intent to mislead** — legitimate trading strategies that affect prices incidentally do not violate the Standard.

—

2. Types of Market Manipulation

1. **Information-Based Manipulation**

    - Spreading false or misleading information to influence prices.
    - Example: Circulating fake news about a merger to drive up share price.

2. **Transaction-Based Manipulation**

    - Artificially affecting price or volume through trades designed to mislead.
    - Examples:
        - "Wash trades" — buying and selling the same security to inflate volume.
        - "Pump-and-dump" — artificially raising prices to sell at profit.
        - "Marking the close" — trading near market close to influence closing price.

—

3. Examples of Violations

Situation	**Violation Explanation**
Spreading false rumors of a takeover to boost stock price	Intentional dissemination of false information — information-based manipulation.
Executing offsetting buy/sell orders to create fake market activity	Transaction-based manipulation — distorts trading volume.
"Marking the close" to improve portfolio valuation	Intentional price distortion for misleading reporting.
Coordinating trades among funds to move market prices in favor of one	Intent to mislead — coordinated manipulation.

—

4. Examples of Non-Violations

- A large buy order causing a price increase due to legitimate market demand. → No intent to mislead, hence not a violation.

- Executing hedging or arbitrage trades that inadvertently affect prices. → Economic rationale exists — not manipulation.

—

5. **Recommendations for Members and Firms**

- Maintain written policies against dissemination of false information.
- Verify all market-related communications and research findings before release.
- Monitor employees for unusual trading patterns or coordinated activity.
- Separate proprietary trading from market-making and research functions.
- Document rationale for all large or unusual trades.

—

Summary Table: Standard II(B) — Market Manipulation

Aspect	**Explanation and Examples**
Core Principle	No intentional distortion of prices or volume to mislead others.
Information-Based Manipulation	False rumors, misleading press releases, fake research.
Transaction-Based Manipulation	Wash trades, marking the close, pump-and-dump.
Key Test	Was there **intent to mislead** the market?
Legitimate Activities	Large orders based on real investment intent, hedging, arbitrage.
Firm Controls	Communication verification, trade monitoring, compliance audits.

—

Combined Summary: Standard II(A) vs. II(B)

Dimension	**II(A): Material Nonpublic Information**	**II(B): Market Manipulation**
Primary Focus	Prevent insider trading and misuse of confidential material information.	Prevent artificial price or volume distortion to mislead investors.
Nature of Violation	Acting or tipping on material nonpublic information.	Spreading false info or trading deceptively to influence prices.
Key Test	Was the information material and nonpublic?	Was there intent to mislead or deceive market participants?
Examples	Insider trading, selective disclosure, leaking earnings data.	Wash trades, pump-and-dump, marking the close.
Permitted Practice	Mosaic theory using public + non-material nonpublic data.	Legitimate large trades based on genuine market demand.
Firm Controls	Firewalls, restricted lists, compliance oversight.	Communication controls, trade monitoring, documentation.

—

Key Takeaways

- **Standard II(A):** Protects against unfair informational advantage — trading on or disclosing material nonpublic information is unethical and illegal.
- **Standard II(B):** Protects market integrity — any act designed to manipulate prices or mislead participants is prohibited.
- **Mosaic Theory:** Encourages skillful, ethical analysis using publicly available and immaterial data.
- **Firm Role:** Compliance systems (firewalls, watch/restricted lists, monitoring) are essential for preventing violations.

MODULE 91.4: GUIDANCE FOR STANDARDS III(A) AND III(B)

STANDARD III: DUTIES TO CLIENTS

Core Principle: Members and Candidates owe a duty of loyalty, fairness, and prudence to their clients. They must place client interests above their own or their employer's interests, and must treat all clients fairly when taking investment actions.

—

Standard III(A): Loyalty, Prudence, and Care

Standard Text:

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

—

1. Core Principles

- **Client Interests First:** Always act in the client's best interest, even if this conflicts with personal or employer interests.
- **Prudence and Diligence:** Exercise the same care, skill, and judgment that a prudent person familiar with such matters would use.
- **Portfolio Context:** Evaluate investments in the context of the client's total portfolio, not in isolation.
- **Governance Documents:** Manage client assets according to the terms of governing documents such as trust deeds, investment mandates, or policy statements.

- **Fiduciary Principle:** Although CFA Standards do not automatically impose a fiduciary duty, they require behavior consistent with fiduciary principles of loyalty, prudence, and care.
- **Transparency and Disclosure:** Inform clients of limitations in services or product offerings (e.g., restricted product lists).

—

2. **Key Applications**

- **Proxy Voting:** Vote proxies responsibly and in clients' best interests. → If costs outweigh benefits, it may be reasonable not to vote, but this must be documented.
- **Soft Dollars / Soft Commissions:** Client brokerage commissions must be used only for research or services that directly benefit the client — not for the manager's own advantage.
- **Defining "Client":** - Usually the person or entity to whom the duty is owed (e.g., individual, pension plan, or institution). - For mutual funds or pooled investments, the client is the fund itself, not individual investors. - For investment managers, the "client" may be the investing public as a whole.

—

3. **Examples of Violations**

Situation	**Why It Violates the Standard**
Placing employer's interests ahead of client's by recommending proprietary funds	Fails to put client first — conflict of interest.
Failing to diversify client portfolio according to mandate	Neglect of prudence and care.
Voting proxies automatically in favor of management without analysis	Not acting in client's best interest.
Using client commissions to pay for office equipment or entertainment	Misuse of client assets — violation of loyalty.
Failing to disclose limited product offerings	Misleads clients regarding the scope of service.

—

4. Examples of Compliant Conduct

- Disclosing all potential conflicts of interest to clients before taking action.
- Maintaining detailed investment policy statements (IPS) reflecting client objectives, constraints, and risk tolerance.
- Periodically reviewing client portfolios and updating suitability profiles.
- Ensuring all brokerage commissions are used for client benefit (e.g., legitimate research).
- Providing clients with clear, itemized quarterly statements of holdings and transactions.

—

5. Recommendations for Members

1. Submit to clients regular (at least quarterly) statements showing securities in custody, debits, credits, and transactions.
2. Follow applicable laws and fiduciary obligations.
3. Establish and document client investment objectives and risk tolerance.
4. Diversify portfolios appropriately.
5. Deal fairly and transparently with all clients.
6. Disclose all conflicts of interest and compensation structures.
7. Vote proxies and exercise ownership rights in clients' best interests.
8. Maintain confidentiality and seek best execution for client trades.

—

6. Summary Table: Standard III(A) — Loyalty, Prudence, and Care

Aspect	Explanation and Examples
Core Duty	Put client interests first; act with prudence, care, and diligence.
Scope	Applies to discretionary and advisory relationships; across all client accounts.
Proxy Voting	Vote in best interest of client; may abstain if cost ¿ benefit.
Soft Dollar Use	Only for research or services benefiting the client.
Typical Violations	Favoring own firm's products, failing to diversify, misusing client commissions.
Best Practices	Written policies, IPS creation, quarterly reporting, conflict disclosure.

—

Standard III(B): Fair Dealing

Standard Text:

> 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.

—

1. Core Principle

- All clients must be treated fairly and impartially — no favoritism or discrimination.
- "Fairly" does not mean "equally"; different service levels are acceptable if disclosed and offered to all clients willing to pay.
- The goal is to ensure equal opportunity for all clients to act on recommendations and trades.

—

2. Key Requirements

- **Timely Dissemination:** - Ensure all clients have a fair chance to act on recommendations before trading for personal or firm accounts. - Disseminate new or changed recommendations simultaneously to all relevant clients.
- **Trade Allocation:** - Allocate trades equitably, based on pre-established policies. - No client should receive preferential allocation (e.g., favored accounts getting shares in an oversubscribed IPO).
- **Different Service Levels:** - Permitted if disclosed and available to all clients (e.g., "premium" services for higher fees).
- **Order Execution:** - Ensure fairness in timing, pricing, and accuracy of order fills for all accounts.

—

3. Examples of Violations

Situation	Why It Violates the Standard
Providing new recommendations first to large institutional clients before smaller ones	Fails fair dissemination — unequal access.
Taking personal positions before disseminating a "buy" recommendation (front-running)	Unfair advantage — client disadvantage.
Allocating all shares of an oversubscribed IPO to favored clients	Unfair trade allocation.
Delaying recommendation updates for certain clients	Denies equal opportunity to act.

—

4. Examples of Compliant Conduct

- Disseminating changes in recommendations to all clients at the same time.
- Maintaining a client list with holdings to ensure fair treatment in all actions.
- Providing different service tiers only when properly disclosed (e.g., institutional vs. retail).
- Using automated systems to release recommendations simultaneously via email or client portal.
- Reviewing account allocations regularly to verify fairness and accuracy.

—

5. Recommendations for Members

1. Encourage firms to create compliance procedures ensuring fair dissemination of investment recommendations.
2. Maintain a detailed client list and portfolio records to ensure consistent treatment.
3. Document the timing of all recommendations and trades.
4. Avoid discussing pending recommendations with anyone before official release.
5. Verify all client trades were executed according to policy.

—

6. Recommendations for Firms

- **Access Control:** Limit the number of people aware of pending recommendations.
- **Rapid Dissemination:** Shorten time between decision and release.
- **Pre-Dissemination Policies:** Prohibit personnel with prior knowledge from trading or discussing recommendations before release.
- **Trade Allocation Procedures:**
  - Allocate shares fairly among client accounts.
  - Document and disclose allocation policies.
  - Ensure trades are executed promptly and recorded accurately.
- **Systematic Account Review:** Periodically check for consistency between portfolio actions and client objectives.
- **Disclosure of Service Levels:** Explain available levels of service and fees to all clients.

—

7. Summary Table: Standard III(B) — Fair Dealing

Aspect	**Explanation and Examples**
Core Duty	Treat all clients fairly and objectively in analysis, recommendations, and trades.
Fair vs. Equal	Fair $\neq Equal; differencesallowedifdisclosedandavailabletoall.$
Violations	Front-running, preferential dissemination, unfair trade allocation.
Best Practices	Simultaneous release of recommendations, documented allocation policies.
Firm Controls	Pre-dissemination rules, restricted access, compliance oversight, client audits.

—

Comparison: Standard III(A) vs. III(B)

Dimension	**III(A): Loyalty, Prudence, and Care**	**III(B): Fair Dealing**
Primary Focus	Duty to put client interests first and act prudently.	Duty to treat all clients fairly and objectively.
Scope	Portfolio management, client relationships, conflicts of interest.	Communication, dissemination, trade allocation.
Key Obligation	Loyalty, diligence, care, transparency.	Equal opportunity for all clients, no favoritism.
Examples of Violation	Failing to diversify, misusing soft dollars, not disclosing conflicts.	Front-running, selective recommendation release, unfair allocation.
Firm Procedures	Investment policy statements, proxy voting, best execution.	Dissemination protocols, allocation systems, client list maintenance.

—

Essential Takeaways

- **Standard III(A):** Loyalty and prudence demand that the client's interest comes before any other. Always act with care, diligence, and professionalism, consistent with fiduciary principles.

- **Standard III(B):** Fair dealing requires giving all clients an equal opportunity to benefit from advice and actions. Fair $\neq equal|differencesmustbetransparentandnon-discriminatory$.

- **Core Practice Themes:** - Maintain client trust through transparency and diligence. - Disclose conflicts and maintain independence. - Develop firm policies for recommendation dissemination and trade fairness. - Document everything — fairness, suitability, and prudence are proven through evidence.

MODULE 91.5: GUIDANCE FOR STANDARDS III(C), III(D), AND III(E)

STANDARD III: DUTIES TO CLIENTS (CONTINUED)

Purpose: These three Standards ensure that CFA members act with diligence, transparency, and discretion in their professional relationships with clients — ensuring suitability, accuracy, and confidentiality.

—

Standard III(C): Suitability

Standard Text:

1. When Members and Candidates are in an advisory relationship with a client, they must:

   a. Make a reasonable inquiry into the client's investment experience, risk and return objectives, and financial constraints, and update regularly.
   b. Determine that an investment is suitable given the client's financial situation and written objectives.
   c. Judge the suitability of investments in the context of the client's total portfolio.

2. When Members and Candidates are responsible for managing a portfolio to a specific mandate, they must make recommendations and take actions consistent with the stated objectives and constraints of the portfolio.

—

1. Core Principles

- **Suitability = "Fit" between client profile and investment actions.**
- Client interests, objectives, and constraints must always guide recommendations.
- Suitability depends on whether the member:
  - Conducts reasonable inquiry into client's circumstances;
  - Keeps the IPS (Investment Policy Statement) current;
  - Evaluates investments at the portfolio level;
  - Acts within the mandate's scope.
- Use of leverage must be explicitly considered and explained to clients.

—

2. Investment Policy Statement (IPS)

- The IPS is the foundational document defining:
  - Client type (individual/institutional);
  - Return objectives;
  - Risk tolerance;
  - Constraints (liquidity, time horizon, taxes, legal/regulatory factors);
  - Performance benchmarks.
- IPS must be updated periodically to reflect changes in client circumstances.

—

3. Unsolicited Trade Requests

Scenario: A client requests a trade that the manager knows is unsuitable under the IPS.
Two cases:

1. **Minimal portfolio impact:** - Manager discusses with the client why it is unsuitable. - May execute per firm policy if client acknowledges and understands the risk. - Document the discussion and client acknowledgment.
2. **Material portfolio impact:** - Manager should update the IPS to reflect the changed risk profile. - If client refuses, follow firm policy (e.g., place trade in a separate "client-directed" account). - As a last resort, consider ending the advisory relationship.

—

4. Examples of Violations

Situation	**Why It Violates the Standard**
Recommending speculative small-cap stocks to a low-risk client	Inconsistent with IPS and client risk profile.
Failing to update a client's IPS after major life changes (e.g., retirement)	Lack of due diligence and reassessment.
Using excessive leverage in a conservative client's portfolio	Inappropriate given client's objectives.
Investing outside a fund's stated style or mandate (e.g., growth manager buys distressed debt)	Breach of mandate suitability.

—

5. Recommendations for Members

- Create a written IPS for each client.
- Document return objectives, risk tolerance, and constraints clearly.
- Review and update IPS regularly.
- Ensure all investment actions align with client goals and constraints.
- Educate clients about leverage and risk implications.
- Reconfirm suitability when market or personal circumstances change.

—

6. Summary Table: Standard III(C) — Suitability

Aspect	Explanation and Examples
Objective	Match investment recommendations to client's risk/return profile and constraints.
Tools	Investment Policy Statement (IPS), periodic reviews, documentation.
Unsolicited Trades	Allowed only after client acknowledgment or IPS update.
Violations	Ignoring IPS, excessive leverage, unsuitable recommendations.
Best Practices	Written IPS, ongoing suitability checks, compliance documentation.

—

Standard III(D): Performance Presentation

Standard Text:

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

—

1. Core Principles

- Accuracy and transparency are essential for maintaining client trust.
- Do not misstate, cherry-pick, or overstate past performance.
- Avoid implying that future returns will mirror past results.
- Provide sufficient disclosure to allow clients to interpret performance correctly.

—

2. Key Guidelines

- Present performance of a **weighted composite** of similar portfolios — not only the best account.
- Include **terminated accounts** in historical results (with disclosure).
- Disclose all relevant facts:
  - Gross or net of fees;
  - Inclusion of model results;

  - Use of leverage or derivatives;
  - Benchmarks and time periods.
- Brief summaries must state that detailed data are available upon request.

—

3. Examples of Violations

Situation	Why It Violates the Standard
Showing only top-performing accounts in a composite report	Misleads clients — not a fair representation.
Omitting terminated accounts from historical data	Distorts true performance record.
Projecting past performance as guaranteed future results	Creates false expectations — unethical.
Using simulated ("model") results without disclosure	Misleading — not transparent about methodology.

—

4. Recommendations for Members

- Encourage firm compliance with **Global Investment Performance Standards (GIPS®)**.
- Tailor performance presentation to audience sophistication.
- Retain documentation of all data and calculations used.
- Use standardized time periods and comparable benchmarks.
- Make full supporting details available on request.

—

5. Summary Table: Standard III(D) — Performance Presentation

Aspect	Explanation and Examples
Goal	Ensure fair, accurate, and complete communication of investment results.
Prohibited Acts	Misleading data, selective performance, omission of terminated accounts.
Best Practice	GIPS compliance, composite reporting, transparent disclosure.
Documentation	Maintain full calculation records and data sources.
Short Reports	Must state that detailed data are available upon request.

—

Standard III(E): Preservation of Confidentiality

Standard Text:

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

—

1. Core Principles

- Protect client information as a professional obligation.
- Applies to current, former, and prospective clients.
- Confidentiality may be breached only when:
  - Legal requirement or subpoena demands it;
  - Client engages in illegal activities (e.g., money laundering);
  - Client explicitly permits disclosure.
- Cooperating with CFA Institute Professional Conduct Program (PCP) investigations is permitted under this Standard.

—

2. Examples of Violations

Situation	**Why It Violates the Standard**
Sharing client portfolio data with friends or other clients	Breach of confidentiality — unauthorized disclosure.
Discussing client accounts in public (e.g., elevator, restaurant)	Risk of revealing confidential information.
Disclosing client trades to media without consent	Unauthorized release — violation.

—

3. Examples of Permissible Disclosures

- Disclosing information when required by a legal authority or court order.
- Reporting suspected criminal activity to authorities (e.g., insider trading).
- Sharing client data internally with authorized colleagues working for the same client.
- Providing data when the client has given written consent.

—

4. Recommendations for Members

1. Avoid discussing client information with anyone outside the client's service team.
2. Follow firm protocols for electronic data storage and transmission.
3. Encourage firms to establish clear confidentiality policies and secure systems.
4. Obtain written client consent before sharing any confidential information externally.
5. Continue to maintain confidentiality even after the client relationship ends.

—

5. Summary Table: Standard III(E) — Preservation of Confidentiality

Aspect	**Explanation and Examples**
Goal	Protect client information and privacy.
Scope	Applies to current, former, and prospective clients.
Permitted Disclosure	Required by law, illegal activity, or client consent.
Violations	Unauthorized sharing, gossiping, or careless handling of client data.
Best Practices	Follow firm policy, restrict access, secure data, obtain consent.

—

Comparison: Standards III(C), III(D), III(E)

Dimension	III(C) Suitability	III(D) Performance Presentation	III(E) Confidentiality
Focus	Align investments with client objectives, risk tolerance, and constraints.	Ensure truthful and transparent reporting of investment results.	Safeguard all client information unless exceptions apply.
Key Tool	Investment Policy Statement (IPS).	GIPS-compliant performance reporting.	Secure client data management and consent documentation.
Main Violations	Unsuitable recommendations, ignoring IPS, excessive leverage.	Cherry-picked performance, omitting terminated accounts.	Sharing private client data or careless handling.
Best Practices	Written IPS, periodic review, documentation.	Full disclosure, composite reporting, record retention.	Strict confidentiality policies, legal awareness.
Ethical Focus	Prudence and care.	Honesty and transparency.	Trust and discretion.

—

Key Takeaways

- **Standard III(C):** Ensure all investment recommendations and actions are suitable for client circumstances; maintain an updated IPS and document all rationale.
- **Standard III(D):** Present performance data that are fair, complete, and transparent; follow GIPS® where possible to maintain comparability and credibility.
- **Standard III(E):** Uphold confidentiality for all client information; disclose only when legally required, consented to, or necessary to report illegal activity.
- Together, these Standards promote **trust, transparency, and fiduciary responsibility** — the foundation of ethical client relationships in investment management.

MODULE 91.6: GUIDANCE FOR STANDARD IV — DUTIES TO EMPLOYERS

Purpose: Standard IV focuses on maintaining professionalism and ethical conduct within employment relationships. It ensures that members act loyally toward their employers, avoid conflicts of interest, and maintain strong supervision and compliance systems.

—

Standard IV(A): Loyalty

Standard Text:

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.

—

1. Core Principles

- Loyalty to the employer means acting in the firm's best interests while maintaining professional integrity.
- Members must not harm their employer through fraud, deceit, or misuse of proprietary information.
- However, **client interests always take precedence** over employer interests when there is a conflict.
- Loyalty does not mean placing employer interests above family or ethical responsibilities — personal and moral duties must be balanced.
- Independent contractors must abide by the terms of their contracts rather than this employment-based duty.

—

2. Independent Practice

- Members may engage in outside (independent) business activities only if:
  1. They provide **written notification** to their employer before starting;
  2. They disclose all terms (compensation, duration, nature of service);
  3. The employer gives explicit consent.
- Example: A portfolio manager taking part-time consulting work for another investment firm must first notify and obtain written approval from her employer.

—

3. Leaving an Employer

- Members must continue to act in their employer's best interest until their resignation is effective.
- Violations include:
  - Misappropriating trade secrets or confidential information;
  - Soliciting clients or employees before departure;

- Self-dealing or diverting opportunities;
- Removing or copying client lists or proprietary records.

- After leaving, members may use:
  - General knowledge and experience gained;
  - Publicly known client names;
  - Permitted information under industry agreements (e.g., U.S. "Broker Recruiting Protocol").

—

4. Social Media Conduct

- Members must adhere to employer policies regarding the use of social media.
- During departure or transition, they must not use professional social media accounts to contact clients unless permitted by firm policy.
- Best practice: maintain separate personal and professional accounts.

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5. Examples of Violations

Situation	**Why It Violates the Standard**
Taking client contact information before leaving firm	Misappropriation of employer property.
Starting an advisory business while still employed without notice	Competes with employer without consent.
Soliciting clients before resignation	Undermines employer and violates loyalty.
Using social media to announce move to another firm before official notice	Breaches employer policy and causes reputational harm.

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6. Recommendations for Members

- Provide employers with a copy of the CFA Institute Code and Standards.
- Use separate personal and professional communication channels.
- Follow firm procedures during resignation; avoid conflicts or client solicitation.
- Document all external engagements and obtain written approval.

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7. Recommendations for Firms

- Establish ethical compensation systems that do not encourage unethical conduct.
- Create clear policies for outside employment, data use, and social media.
- Implement compliance programs emphasizing loyalty, confidentiality, and client-first principles.

—

8. Summary Table: Standard IV(A) — Loyalty

Aspect	**Explanation and Examples**
Goal	Maintain loyalty to employer while prioritizing client interests.
Scope	Applies to all employee relationships; contractors bound by agreements.
Independent Practice	Allowed only with written disclosure and employer consent.
Leaving a Firm	No client solicitation or misappropriation before departure.
Social Media	Follow firm policy; separate personal and professional use.
Best Practices	Written communication, ethical exit behavior, clear compliance policies.

—

Standard IV(B): Additional Compensation Arrangements

Standard Text:

> 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.

—

1. Core Principles

- Members must not accept outside compensation that conflicts with employer interests without prior written consent.
- Compensation includes both direct (money) and indirect (benefits, gifts, incentives) forms.
- Written consent may be through formal letter, email, or signed communication.

—

2. Additional Compensation vs. Gifts

- **Additional Compensation:** - Offered for future performance (e.g., bonus tied to portfolio returns). - Requires **written consent** before acceptance.
- **Gift:** - Given for past performance. - Requires **disclosure** to the employer (under Standard I(B) — Independence and Objectivity).

—

3. Examples of Violations

Situation	**Why It Violates the Standard**
Accepting a client's offer of a bonus for outperforming the market without informing employer	Creates potential conflict; requires written consent.
Receiving commissions from a third-party fund manager for recommending its funds	Competes with employer's interest and biases recommendations.
Accepting free luxury trips for future business promotion	Indirect benefit tied to job performance — needs consent.

—

4. Recommendations for Members

- Report any proposed additional compensation in writing to the employer before acceptance.
- Describe the nature, amount, and duration of compensation clearly.
- If employed part-time, clarify outside work and compensation at hiring.

—

5. Recommendations for Firms

- Verify details of external compensation with offering parties.
- Create procedures for reviewing and approving outside benefits.
- Record all disclosures in compliance documentation.

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6. Summary Table: Standard IV(B) — Additional Compensation Arrangements

Aspect	Explanation and Examples
Goal	Prevent conflicts of interest between employee and employer.
Requirement	Obtain written consent from all parties before accepting any external benefit.
Key Distinction	Additional compensation (future) vs. gift (past).
Violations	Accepting undisclosed future-based bonuses, third-party incentives.
Best Practices	Written disclosure, verification, firm approval process.

—

Standard IV(C): Responsibilities of Supervisors

Standard Text:

> 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.

—

1. Core Principles

- Supervisors are responsible for both preventing and detecting violations of laws and the CFA Code and Standards.
- Supervisory duties apply once a member has direct or delegated authority over others.
- Reasonable efforts include implementing and maintaining effective compliance systems.

—

2. Compliance Systems

- Must meet:
  - Industry standards;
  - Regulatory requirements;
  - CFA Institute's ethical expectations.
- Components of an adequate system:
  - Clearly written and easy-to-understand procedures;
  - Designated compliance officer with authority;
  - System of checks and balances;
  - Defined scope, reporting procedures, and sanctions.

—

3. **Dealing with Deficient Compliance Systems**
   - If no adequate system exists, supervisors must:
     - Decline supervisory responsibility in writing;
     - Inform management and recommend improvements.
   - Failure to do so can make the supervisor personally accountable for violations committed by subordinates.

—

4. **Handling Violations**
   - Respond promptly upon discovery.
   - Conduct a thorough investigation.
   - Increase supervision or restrict the employee's activities during the investigation.
   - Report outcomes and enforce sanctions appropriately.

—

5. **Recommendations for Members**
   - Recommend adoption of a firm code of ethics and distribute it widely.
   - Educate and train employees regularly.
   - Issue reminders and periodic updates.
   - Require professional conduct evaluations.
   - Review employee actions periodically for compliance.

—

6. **Recommendations for Firms**
   - Separate compliance procedures from the firm's code of ethics.
   - Limit activities of suspected violators during investigations.
   - Structure incentives to discourage unethical behavior.
   - Ensure procedures are updated and reflect legal and regulatory changes.

—

7. Summary Table: Standard IV(C) — Responsibilities of Supervisors

Aspect	Explanation and Examples
Goal	Ensure compliance with laws, regulations, and the CFA Code.
Obligation	Prevent and detect violations by subordinates.
Compliance System	Written, clear, effective, and regularly updated.
Deficient Systems	Decline responsibility in writing until corrected.
Response to Violations	Investigate promptly and increase supervision.
Best Practices	Education, reminders, compliance audits, ethical culture.

—

Comparison of Standards IV(A), IV(B), and IV(C)

Dimension	IV(A) Loyalty	IV(B) Additional Compensation	IV(C) Responsibilities of Supervisors
Focus	Duty to act in employer's best interest.	Avoiding conflicts from external benefits.	Ensuring compliance by subordinates.
Key Requirement	No harm to employer, written notice before outside work.	Written consent for any additional compensation.	Effective supervision and compliance procedures.
Typical Violations	Client solicitation, misuse of info, secret business.	Undisclosed performance-based bonuses or incentives.	Ignoring violations, failing to install compliance systems.
Best Practices	Written approvals, ethical exits, separate accounts.	Transparency, documentation, verification.	Training, monitoring, prompt investigation.
Ethical Emphasis	Loyalty and transparency.	Independence and conflict avoidance.	Accountability and ethical leadership.

—

Key Takeaways

- **Standard IV(A): Loyalty** — Act in the employer's best interest without harming firm integrity; obtain consent for outside work; avoid misappropriation when leaving.
- **Standard IV(B): Additional Compensation Arrangements** — Avoid conflicts by disclosing and obtaining written approval before accepting any outside compensation.
- **Standard IV(C): Responsibilities of Supervisors** — Supervisors must establish and enforce robust compliance systems and respond swiftly to violations.

- Together, these standards promote **ethical leadership, transparency, and accountability** in professional relationships.

MODULE 91.7: GUIDANCE FOR STANDARD V — INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTIONS

Purpose: Standard V emphasizes professional diligence, transparent communication, and responsible recordkeeping in all aspects of the investment process. It ensures that analysis and recommendations are based on adequate research, properly communicated, and supported by evidence.

—

Standard V(A): Diligence and Reasonable Basis

Standard Text:

> 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.

—

1. Core Principles

- Investment recommendations must be supported by **sound research and reasonable evidence**.
- Due diligence and independent judgment must guide all analyses and decisions.
- The extent of required research depends on:
  - The member's role (analyst, portfolio manager, etc.);
  - The investment philosophy of the firm;
  - The nature and complexity of the security or service.
- Members must not rely blindly on external sources without assessing their quality.

—

2. **Factors to Consider Before Making Recommendations**
    - Global and national economic conditions;
    - Company financial performance, operating history, and industry cycle;
    - Fee structure and historical results (for funds);
    - Assumptions and limitations of quantitative models;
    - Appropriateness of peer-group or comparative valuation metrics.

    —

3. **Using Third-Party Research**
    - Members may use external research, but must first evaluate its:
        - Assumptions;
        - Analytical rigor;
        - Timeliness and accuracy;
        - Objectivity and independence.
    - Firms should establish a **review policy** for the quality and credibility of third-party research.

    —

4. **Recommendations for Members**
    - Advocate for firm policies requiring:
        - Substantiated research and documentation of all recommendations;
        - Written procedures defining minimum standards for due diligence;
        - Measurable performance criteria for research quality;
        - Scenario testing and sensitivity analysis for quantitative models;
        - Regular evaluation of data vendors and external advisors.

    —

5. Examples of Violations

Situation	Reason for Violation
Recommending a stock after reading only a news headline	Lacks adequate research basis and due diligence.
Using a third-party model without reviewing its assumptions	No reasonable investigation of accuracy or reliability.
Failing to adjust valuation for known macroeconomic risks	Insufficient diligence and incomplete analysis.
Allowing external pressure from management to influence analysis outcome	Violates independence and objectivity.

—

6. Summary Table: Standard V(A) — Diligence and Reasonable Basis

Aspect	Explanation and Examples
Goal	Ensure all investment actions are based on thorough, independent research.
Key Duties	Diligence, independence, reasonable basis, adequate research.
Due Diligence Areas	Economic factors, firm fundamentals, model limitations, peer comparisons.
Violations	Insufficient analysis, blind reliance on third-party data, external pressure influence.
Best Practices	Scenario testing, sensitivity analysis, external research review, documentation.

—

Standard V(B): Communication with Clients and Prospective Clients

Standard Text:

Members and Candidates must:

1. Disclose to clients and prospective clients the basic format and general principles of their investment processes and promptly disclose any material changes.
2. Disclose significant limitations and risks associated with the investment process.
3. Use reasonable judgment in identifying important factors and include them in communications.
4. Distinguish between fact and opinion in presenting analyses and recommendations.

—

1. **Core Principles**
   - Clear, accurate, and complete communication is essential.
   - Applies to all forms of communication — written, oral, electronic, or visual.
   - Members must:
     - Explain their investment process and changes to it;
     - Identify and disclose key risks and assumptions;
     - Distinguish facts (data, verifiable info) from opinions or forecasts.

   —

2. **Communicating Risks and Limitations**
   - Members must disclose all significant risks such as:
     - Liquidity (difficulty in exiting positions);
     - Capacity (limit to which fund size affects returns);
     - Volatility or leverage exposure;
     - Model or data limitations.
   - Clients must understand potential outcomes in terms of **total returns**, not just price changes.

   —

3. **Communicating Model-Based Recommendations**
   - Disclose:
     - Model assumptions and data inputs;
     - Sensitivity to changes in parameters;
     - Uncertainty inherent in statistical results.
   - Example: A quantitative analyst must explain that "expected return = 8%" is a model-based estimate, not a guaranteed result.

   —

4. **Ongoing Communication**
   - Clients must be updated regularly about:
     - Changes in process, methodology, or risk;
     - Significant developments affecting portfolio performance;
     - New or emerging investment limitations.

   —

5. Examples of Violations

Situation	Reason for Violation
Failing to disclose a change in investment strategy to clients	Clients misled about process and risks.
Presenting a model output as a guaranteed forecast	Misrepresentation — confusion between fact and opinion.
Not explaining liquidity constraints in a hedge fund	Lack of risk disclosure.
Communicating outdated investment methodology	Misleads clients — incomplete information.

—

6. Recommendations for Members

- Maintain records of all research and communications to substantiate recommendations.
- Include all material information needed for client understanding.
- Clearly label assumptions, projections, and opinions.
- Explain methodology, especially for structured or complex products.
- Use plain, accessible language for non-professional audiences.

—

7. Summary Table: Standard V(B) — Communication with Clients

Aspect	Explanation and Examples
Goal	Ensure clarity, transparency, and understanding in client communication.
Key Duties	Disclose process, risks, limitations, and distinguish fact from opinion.
Common Risks	Liquidity, capacity, model assumptions, volatility.
Violations	Failing to disclose changes, overstating certainty, omitting risks.
Best Practices	Recordkeeping, clear labeling, timely updates, full transparency.

—

Standard V(C): Record Retention

Standard Text:

> 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.

—

1. Core Principles

- Members must keep adequate records to:
  - Substantiate the basis for investment actions and advice;
  - Support performance data and disclosures;
  - Demonstrate compliance with laws and the Code and Standards.
- Records belong to the employer, not the individual.
- Applies to all communications — reports, emails, calls, and text messages.

—

2. Changing Employers

- Members leaving a firm may not take research or client records.
- They may recreate analyses using **publicly available data**.
- Memory or confidential materials from the prior employer cannot be used.

—

3. Record Retention Duration

- Follow local laws and firm policies.
- If none exist, CFA Institute recommends retaining records for at least **seven years**.

—

4. Examples of Violations

Situation	Reason for Violation
Failing to keep analysis documents supporting a buy recommendation	Cannot substantiate research — non-compliant recordkeeping.
Deleting emails with client trade instructions	Loss of required record — violates Standard V(C).
Using proprietary data from former employer	Misuse of firm property.

—

5. Recommendations for Members

- Keep written or electronic copies of all research, notes, and client communications.
- Ensure compliance with firm recordkeeping policies.
- Back up records securely and restrict access to authorized personnel.
- Retain records for at least seven years if no regulatory standard applies.

—

6. Summary Table: Standard V(C) — Record Retention

Aspect	**Explanation and Examples**
Goal	Maintain documentation supporting all investment decisions and communications.
Ownership	Records belong to the employer, not the individual.
Retention Period	Minimum of seven years (if no legal standard specified).
Violations	Failing to keep research notes, deleting client instructions, using old firm data.
Best Practices	Centralized storage, compliance oversight, periodic audits.

—

Comparison: Standards V(A), V(B), and V(C)

Dimension	**V(A): Diligence & Reasonable Basis**	**V(B): Communication with Clients**	**V(C): Record Retention**
Focus	Quality and depth of research and analysis.	Transparency in process, risks, and updates.	Documentation supporting all actions and communications.
Key Duty	Independent, evidence-based diligence.	Full, fair, and clear disclosure.	Maintain accurate and accessible records.
Common Violations	Inadequate research, overreliance on external data.	Omitting risks, failing to distinguish fact from opinion.	Destroying or removing firm-owned records.
Best Practices	Scenario testing, model validation, external review.	Clear, factual, updated, and documented communication.	Seven-year retention, secure storage, firm ownership.
Ethical Focus	Integrity in analysis.	Transparency in communication.	Accountability in documentation.

—

Key Takeaways

- **Standard V(A): Diligence and Reasonable Basis** — Perform independent, thorough research with adequate evidence before recommending or acting.
- **Standard V(B): Communication with Clients** — Disclose processes, risks, and assumptions; distinguish facts from opinions; communicate changes promptly.
- **Standard V(C): Record Retention** — Maintain complete and accessible documentation supporting all analyses and actions for at least seven years.
- Together, these standards protect client trust and uphold professional accountability in all investment-related conduct.

MODULE 91.8: GUIDANCE FOR STANDARD VI — CONFLICTS OF INTEREST

Purpose: Standard VI ensures transparency, fairness, and integrity when potential conflicts exist between the interests of clients, employers, and members themselves. It focuses on disclosure, prioritization of client interests, and openness about referral compensation.

—

Standard VI(A): Disclosure of Conflicts

Standard Text:

> 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 duties to clients, prospective clients, or employers. Disclosures must be prominent, delivered in plain language, and communicate relevant information effectively.

—

1. Core Principles

- Full and fair disclosure allows clients and employers to evaluate the objectivity of members' advice and potential biases.
- Applies to both **actual** and **potential** conflicts of interest.
- The disclosure must be:
  - **Prominent** — not hidden or vague;
  - **Plain language** — understandable to all clients;
  - **Effective** — clearly conveying the nature and extent of the conflict.

—

2. **Common Conflicts Requiring Disclosure**

   - **Ownership interests:** Holding or owning shares in companies that are subject of research or recommendations.
   - **Compensation structures:** Bonus schemes tied to sales volume or short-term results that may bias advice.
   - **Board service:** Serving on a corporate board while analyzing or recommending its securities.
   - **Broker-dealer activities:** Market-making or proprietary trading in securities that clients hold.
   - **Outside business activities:** Other employment or consulting roles that may influence professional judgment.

   —

3. **Employer Responsibility**

   - Members must give their employer enough detail to evaluate the significance of any conflict.
   - They should take steps to avoid or mitigate conflicts when possible.
   - Prompt reporting is required when conflicts arise unexpectedly.

   —

4. **Examples of Violations**

Situation	**Why It Violates the Standard**
Recommending a company in which the member owns stock without disclosure	Creates bias that could impair independence.
Receiving extra commissions tied to short-term trading activity without informing clients	Conflicts client's long-term interest — not disclosed.
Failing to disclose service on the board of a client firm	Dual role compromises objectivity and independence.
Hiding bonus incentives related to fund inflows from client awareness	Misleads clients about advisor's motivations.

—

5. Recommendations for Members

- Fully disclose all special compensation, bonus programs, commissions, and incentives.
- Ensure disclosures are updated when compensation structures change.
- Deliver disclosures in writing, using clear and accessible language.
- Encourage firms to establish centralized conflict-of-interest registers.

—

6. Summary Table: Standard VI(A) — Disclosure of Conflicts

Aspect	**Explanation and Examples**
Goal	Protect investor and employer trust through transparency.
Scope	Actual and potential conflicts (ownership, board service, bonuses).
Disclosure Standard	Prominent, plain-language, and effective communication.
Violations	Undisclosed ownership, hidden bonus incentives, failure to update disclosures.
Best Practices	Written disclosure, periodic updates, conflict registers, compliance oversight.

—

Standard VI(B): Priority of Transactions

Standard Text:

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

—

1. Core Principles

- Client interests come first — before personal or employer trading.
- Personal transactions must not disadvantage clients or benefit from client trading.
- Applies to direct and indirect ownership (e.g., spouse or family accounts where member is beneficial owner).
- Personal trading may occur only:
  - After clients and employer have had adequate opportunity to act;
  - Within firm's trading and pre-clearance policies.

—

2. **Key Considerations**

- **Family Accounts:** Treated as client accounts if managed under the same fiduciary duty.
- **Front Running:** Buying or selling for personal benefit before client orders — strictly prohibited.
- **Information Misuse:** Acting on nonpublic knowledge of pending trades violates both Standard VI(B) and Standard II(A).

—

3. **Firm Policies to Prevent Conflicts**

- **Blackout/Restricted Periods:** Employees may not trade before client or employer trades are executed.
- **Preclearance Procedures:** All personal trades must be reviewed by compliance.
- **Duplicate Confirmations:** Require brokerage firms to send duplicate trade records for monitoring.
- **Holdings Disclosure:** Employees must periodically disclose all beneficial ownership positions.

—

4. **Examples of Violations**

Situation	**Why It Violates the Standard**
Buying stock before a large client purchase recommendation is released	Front running — personal gain from client trade information.
Selling a personal holding just before a client sale order	Gains advantage at client's expense.
Failing to disclose ownership in a security recommended to clients	Conflict between personal and client interest.
Allowing family accounts to trade ahead of other clients	Preferential treatment violates fair dealing.

—

5. **Recommendations for Members**

- Avoid participation in IPOs or private placements to eliminate perceived bias.
- Follow firm preclearance, blackout, and reporting procedures strictly.

- Disclose all personal holdings and beneficial ownership.
- Do not act on material nonpublic information regarding pending trades.

—

6. Recommendations for Firms

- Implement robust personal trading policies including:
  - Blackout periods before client trades;
  - Restrictions on IPO/private placement participation;
  - Trade preclearance systems;
  - Duplicate confirmations and periodic reporting.
- Ensure supervisory procedures monitor compliance effectively.

—

7. Summary Table: Standard VI(B) — Priority of Transactions

Aspect	**Explanation and Examples**
Goal	Ensure client interests take precedence over personal or firm transactions.
Scope	All beneficial ownership transactions, including family accounts.
Prohibited Acts	Front running, self-dealing, misuse of client trade info.
Firm Controls	Preclearance, blackout periods, duplicate confirmations, periodic reporting.
Best Practices	Client-first approach, transparency, compliance monitoring.

—

Standard VI(C): Referral Fees

Standard Text:

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

—

1. **Core Principles**

   - Members must be transparent about any referral arrangements — whether they receive or pay compensation for client introductions or service recommendations.
   - Disclosure allows clients and employers to evaluate potential bias and total service costs.
   - Applies to both monetary and non-monetary benefits (e.g., gifts, commissions, discounts).

   —

2. **Disclosure Requirements**

   - Disclose to:
     1. **Employer** — to ensure internal approval and compliance;
     2. **Client/Prospect** — so they can assess impartiality and costs;
     3. **Regulators** — if legally required.
   - Disclosure must include:
     - Nature of consideration (cash, commissions, in-kind benefit);
     - Value and timing of the benefit;
     - Recipient and payer details.

   —

3. **Examples of Violations**

Situation	**Why It Violates the Standard**
Receiving a fee from a mutual fund company for client referrals without disclosure	Creates hidden incentive — conflicts objectivity.
Paying another advisor for client introductions without informing employer	Undisclosed outgoing referral payment — non-transparent.
Accepting discounted travel or perks for promoting a fund	In-kind referral benefit — must be disclosed.

—

4. **Recommendations for Members**

- Maintain written records of all referral fee arrangements.
- Disclose such arrangements to all relevant parties before execution.
- Update employer quarterly or as terms change.
- Encourage firms to develop clear approval processes for referral compensation.

—

5. **Recommendations for Firms**

- Require pre-approval of all referral agreements.
- Maintain centralized logs of all referral-related compensation.
- Define policies covering both cash and non-cash benefits.
- Audit periodically to ensure adherence and consistency of disclosures.

—

6. **Summary Table: Standard VI(C) — Referral Fees**

Aspect	**Explanation and Examples**
Goal	Ensure transparency about referral-related compensation or benefits.
Disclosure Requirement	Inform employer, clients, and prospects of any consideration received or paid.
Types of Benefits	Cash, commission, travel perks, discounts, in-kind rewards.
Violations	Undisclosed payments or gifts influencing referrals.
Best Practices	Written disclosure, employer approval, quarterly updates, centralized recordkeeping.

—

Comparison of Standards VI(A), VI(B), and VI(C)

Dimension	VI(A) Disclosure of Conflicts	VI(B) Priority of Transactions	VI(C) Referral Fees
Focus	Transparency about personal or professional conflicts of interest.	Prioritizing client and employer trades over personal transactions.	Full disclosure of referral compensation and benefits.
Main Duty	Disclose actual and potential conflicts clearly and promptly.	Ensure client interests are not disadvantaged by personal trading.	Inform all parties of referral-related compensation or consideration.
Typical Violations	Undisclosed ownership, bonus structures, board service.	Front running, self-dealing, misuse of client trade info.	Hidden referral payments or non-cash benefits.
Best Practices	Written disclosure, periodic review, conflict registers.	Preclearance, blackout periods, client-first execution.	Written employer and client disclosure, quarterly updates.
Ethical Focus	Transparency and independence.	Fairness and client priority.	Honesty and disclosure.

—

Key Takeaways

- **Standard VI(A): Disclosure of Conflicts** — Full and fair disclosure of all relationships or incentives that could impair independence or create bias.
- **Standard VI(B): Priority of Transactions** — Client and employer trades take absolute priority over personal or related-party trades.
- **Standard VI(C): Referral Fees** — Disclose all compensation or benefits related to client referrals or product recommendations.
- Together, these standards uphold the principles of **transparency, fairness, and client-first conduct**, ensuring market integrity and trust.

MODULE 91.9: GUIDANCE FOR STANDARD VII — RESPONSIBILITIES AS A CFA INSTITUTE MEMBER OR CFA CANDIDATE

Purpose: Standard VII governs ethical conduct in relation to CFA Institute, its programs, and the CFA designation. It ensures that members and candidates protect the integrity, credibility, and prestige of the CFA charter and the examination process.

—

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

Standard Text:

> Members and Candidates must not engage in any conduct that compromises the reputation or integrity of CFA Institute, the CFA designation, or the integrity, validity, or security of CFA Institute programs.

—

1. Core Principles

- The CFA charter's value depends on the integrity and fairness of the exam and the conduct of its participants.
- Members and candidates must uphold the reputation of CFA Institute and protect the confidentiality of the program.
- Applies to all forms of misconduct, including cheating, misrepresentation, or revealing exam content.
- Covers both candidates (exam-takers) and members (charterholders or volunteers).

—

2. Prohibited Conduct

- **Cheating or misconduct during exams:**
  - Copying answers, using unauthorized materials, or accessing notes or devices.
  - Violating calculator, personal belongings, or Candidate Pledge rules.
- **Disclosing exam content:**
  - Sharing or discussing exam questions, topics tested, or required formulas.
  - Applies even after the exam administration is complete.
- **Improper use of confidential information:**
  - Sharing information about question development, grading, or exam scoring (for CFA volunteers).
  - Revealing any CFA Institute internal processes.
- **Misrepresentation to CFA Institute:**
  - Providing false information on the Professional Conduct Statement (PCS) or Continuing Education Program.
  - Failing to disclose disciplinary or legal violations truthfully.

—

3. Scope of Applicability

- Applies to all participants in CFA Institute programs — candidates, members, and volunteers.
- Includes conduct **before, during, and after** the exam, as well as behavior outside the testing environment that harms CFA Institute's reputation.

—

4. Examples of Violations

Situation	Reason for Violation
A candidate copies from another examinee's paper.	Cheating — compromises exam integrity.
Posting on social media about exam questions or topics tested.	Reveals confidential information about the exam.
A CFA charterholder discloses internal grading procedures to the public.	Violates confidentiality of CFA Institute processes.
Falsifying information on the annual Professional Conduct Statement.	Dishonesty toward CFA Institute — damages reputation.
Using CFA Institute volunteer access to preview future exam content.	Misuse of privileged information — integrity breach.

—

5. Permitted Conduct

- Expressing personal opinions about the CFA Program (difficulty, study hours, fairness) is allowed, provided no confidential details are revealed.
- Discussing general study strategies or materials publicly is acceptable.
- Giving feedback to CFA Institute through official channels is encouraged.

—

6. Recommendations for Members and Candidates

- Review and strictly follow all CFA Program testing rules and policies.
- Avoid any discussion or sharing of exam-specific details, online or offline.
- Keep exam materials, including topics and formulas, confidential.
- Be truthful and accurate when submitting Professional Conduct Statements.
- Maintain professionalism when discussing CFA Institute publicly.

—

7. Summary Table: Standard VII(A) — Conduct in CFA Institute Programs

Aspect	Explanation and Examples
Goal	Protect the integrity, validity, and reputation of the CFA Program and designation.
Prohibited Actions	Cheating, revealing exam content, falsifying information, violating exam policies.
Scope	All CFA candidates, members, and volunteers.
Examples	Posting exam topics online, disclosing grading processes, lying on PCS form.
Best Practices	Confidentiality, honesty, compliance with all CFA Program rules.

—

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

Standard Text:

> 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, holding the CFA designation, or candidacy in the CFA Program.

—

1. Core Principles

- Members and candidates must represent their relationship with CFA Institute accurately and modestly.
- Must not make promises or implications that the CFA designation guarantees superior investment performance, employment, or ethical behavior.
- The CFA designation is earned and maintained only by:
  - Completing all three CFA exams;
  - Satisfying work experience requirements;
  - Submitting annual PCS and paying membership dues.
- There is no "partial CFA" — one is either a candidate, a charterholder, or neither.

—

2. Proper Use of the CFA Designation

- "John Smith, CFA" — correct usage (the designation follows the name).
- Members must not use the CFA designation as a noun (e.g., "I am a CFA" is incorrect).
- The charter must always be written in capital letters and without periods ("CFA," not "C.F.A.").

—

3. Proper Reference to CFA Program Candidacy

- Correct: "Level II candidate in the CFA Program."
- Incorrect: "CFA Level II" or "CFA Level II holder."
- Candidates must not imply partial completion or guaranteed success.

—

4. Common Misrepresentations to Avoid

- Claiming that the CFA designation guarantees better performance or job outcomes.
- Implying that the CFA charterholder status ensures higher ethical behavior by itself.
- Using the CFA mark for commercial or promotional exaggeration (e.g., "Hire us — all CFAs outperform the market").
- Stating or implying partial achievement (e.g., "Passed CFA Level I — thus a partial CFA").
- Continuing to claim active membership after failing to pay dues or sign PCS.

—

5. Membership Obligations

- Members must:
    1. Sign the Professional Conduct Statement (PCS) annually.
    2. Pay annual CFA Institute membership dues.
- Failure to meet these obligations results in inactive status — the member may not present themselves as a CFA Institute member or active charterholder.

—

6. Examples of Violations

Situation	Reason for Violation
Claiming to be a "CFA Level III" without passing the exam	Misrepresentation of candidacy.
Using "CFA" as a noun ("I am a CFA")	Improper use of the designation.
Advertising "Guaranteed higher returns because we are CFAs"	Exaggerates meaning of the designation.
Continuing to use "CFA" after failing to pay annual dues	Misrepresentation of active membership.
Claiming to have earned the charter faster to suggest superior skill	Improper self-promotion — misleading.

—

7. Recommendations for Members and Candidates

- Use the CFA designation only after officially awarded by CFA Institute.
- Follow official branding guidelines for use of "CFA," "CFA Institute," and "CFA Program."
- Ensure promotional materials accurately reflect membership or candidacy status.
- Update employer and marketing documents if membership becomes inactive.
- Refrain from making comparisons or guarantees based on holding the charter.

—

8. Summary Table: Standard VII(B) — Reference to CFA Institute, the CFA Designation, and the CFA Program

Aspect	Explanation and Examples
Goal	Ensure accurate, modest, and proper reference to the CFA designation and program.
Proper Use	"John Smith, CFA" or "Level II candidate in the CFA Program."
Improper Use	"CFA Level II holder," "I am a CFA," or implying job superiority.
Membership Requirement	Sign PCS + pay dues annually to maintain active status.
Violations	Misrepresentation, exaggeration, continued use after inactivity.
Best Practices	Follow official usage rules, disclose accurate status, avoid promotional misuse.

—

Comparison of Standards VII(A) and VII(B)

Dimension	VII(A): Conduct in CFA Programs	VII(B): Reference to CFA Institute and CFA Designation
Focus	Protect the integrity of the CFA exam and program.	Prevent misrepresentation of CFA membership or designation.
Prohibited Acts	Cheating, disclosing exam content, falsifying PCS.	Misuse of "CFA," exaggerating competence, false membership claims.
Scope	Candidates, members, volunteers.	Members, candidates, firms using CFA name.
Examples of Violations	Discussing exam topics online; lying on PCS.	Claiming "CFA Level II holder"; advertising guaranteed success.
Best Practices	Confidentiality, honesty, compliance with CFA Program rules.	Accurate reference, follow CFA branding policy, avoid exaggeration.
Ethical Focus	Integrity and confidentiality.	Truthfulness and professional representation.

—

Key Takeaways

- **Standard VII(A): Conduct in CFA Institute Programs** — Maintain the confidentiality, integrity, and reputation of CFA Institute and its examinations.
- **Standard VII(B): Reference to CFA Institute and CFA Designation** — Use the CFA designation truthfully and accurately, without exaggeration or misrepresentation.
- Members must fulfill annual obligations (PCS + dues) to maintain active status.
- Together, these standards preserve the trust, credibility, and global prestige of the CFA charter.

MODULE 92.1: INTRODUCTION TO GIPS (GLOBAL INVESTMENT PERFORMANCE STANDARDS)

Purpose: The Global Investment Performance Standards (GIPS) provide a globally accepted framework for calculating and presenting investment performance results. They ensure full, fair, and comparable disclosures, preventing performance misrepresentation and building trust between firms, clients, and regulators.

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LOS 92.a: Why GIPS Were Created — Applicability and Benefits

1. Background and Rationale

- Historically, firms used inconsistent methods to present performance:
  - Highlighted only top-performing portfolios;
  - Excluded terminated or poorly performing accounts;
  - Selected favorable time periods to show higher returns.
- These inconsistencies made it difficult for clients to compare performance across firms and led to misleading claims.
- **GIPS** were created to establish **uniform standards** for performance calculation and presentation — ensuring:
  - Transparency,
  - Comparability,
  - Credibility.

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2. Scope of Applicability

- **Who can claim compliance:**
  - Only **investment management firms** that manage assets on behalf of clients.
  - Compliance must be on a **firmwide basis** — not by individual departments, strategies, or composites.
- **Who cannot claim compliance:**
  - Software developers, data vendors, consultants, or custodians — they may state that they *endorse* GIPS but cannot *claim compliance.*
- **Nature of compliance:** Compliance with GIPS is voluntary but must be *complete* and *firmwide* if claimed.

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3. Benefits of GIPS Compliance

- **For clients and prospects:** Enables meaningful comparison across investment firms.
- **For firms:** Builds credibility, transparency, and reputation; attracts institutional clients.
- **For regulators:** Provides consistency and clarity in performance measurement industrywide.

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4. Examples of Non-GIPS-Compliant Practices

Practice	**Why It Violates GIPS Principles**
Showing returns for only one high-performing fund	Not representative; misleading portrayal of total performance.
Excluding accounts closed due to poor performance	Creates bias; hides underperformance.
Selecting only the best 3-year period to report	Cherry-picking; lacks consistency and comparability.
Combining different methodologies for different clients	Inconsistent and nonstandardized reporting.

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LOS 92.b: Key Concepts — The Eight Sections of the GIPS Standards

Section	Description and Key Ideas
1. **Fundamentals of Compliance**	Defines essential requirements: (a) Clearly define the firm; (b) Provide GIPS-compliant reports to all clients and prospects; (c) Follow all applicable laws and regulations; (d) Avoid any misleading or false presentations.
2. **Input Data and Calculation Methodology**	Data must be accurate, consistent, and comparable. Firms must use standard return calculation methodologies (time-weighted or money-weighted). Uniformity ensures comparability across firms.
3. **Composite and Pooled Fund Maintenance**	Firms must create meaningful composites that group portfolios with the same investment strategy or objective. Performance is asset-weighted (not equally weighted). All fee-paying, discretionary portfolios must be included in at least one composite.
4. **Composite Time-Weighted Return Report**	Specifies required and recommended disclosures for presenting time-weighted composite returns. Suitable when the manager does not control external cash flows.
5. **Composite Money-Weighted Return Report**	Specifies required and recommended disclosures for composites where the firm has control over external cash flows. Suitable for private equity or real estate.
6. **Pooled Fund Time-Weighted Return Report**	Outlines reporting requirements for time-weighted performance of pooled funds.
7. **Pooled Fund Money-Weighted Return Report**	Outlines reporting requirements for money-weighted returns of pooled funds.
8. **GIPS Advertising Guidelines**	Defines conditions under which a firm can advertise compliance. Only advertisements that explicitly claim GIPS compliance must follow these guidelines.

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Interpretation:

- GIPS provides both **required** and **recommended** disclosures.
- Firms need not include disclosures that are not applicable.
- Once all requirements are met, firms may include an official **GIPS compliance statement**.

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LOS 92.c: Purpose and Concept of Composites

- A **composite** is a group of discretionary portfolios managed according to a similar investment strategy, objective, or mandate.
- Examples of composites:
  - Large-cap growth equity portfolios;
  - Investment-grade domestic bond portfolios;
  - Accounts managed to replicate a specific index.
- Composites demonstrate a firm's performance *by strategy*, allowing clients to evaluate consistency and style-specific skill.

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Composite Construction Principles

- Must include **all fee-paying, discretionary portfolios** (current and terminated) managed under that strategy.
- Portfolio inclusion should be determined **before** performance results are known — this prevents cherry-picking.
- Each portfolio must belong to **at least one composite**.
- Composite returns are **asset-weighted averages** — larger portfolios have greater influence.
- Pooled funds are included if they meet the composite definition.

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Examples of Proper Composite Practices

Example	**Explanation**
Including all discretionary, fee-paying portfolios in a large-cap composite	Ensures fair, representative performance.
Assigning portfolios to composites based on mandate before results are known	Prevents selection bias.
Calculating composite return as asset-weighted average	Reflects size-adjusted portfolio performance.

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LOS 92.d: Fundamentals of Compliance — Defining the Firm and Discretion

1. Definition of the Firm

- The firm is the **entity presented to clients as a distinct business unit**.
- If multiple geographic divisions share a common brand (e.g., "Bluestone Advisers"), the firm includes all such offices and clients.
- GIPS compliance must cover the **entire firm**, not a subset.

2. Definition of Discretion

- "Discretion" refers to the ability to make independent investment decisions consistent with the client's objectives.
- Portfolios are **discretionary** if the manager has full authority to act per the strategy.
- Portfolios are **nondiscretionary** if client-imposed restrictions prevent the manager from implementing the intended strategy.
- Only discretionary portfolios are included in composites.

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3. Examples: Discretionary vs. Nondiscretionary Portfolios

Portfolio Type	**Treatment Under GIPS**
Client allows manager full authority to follow investment strategy	Discretionary — must be included in relevant composite.
Client prohibits investments in certain industries, limiting strategy execution	Nondiscretionary — may be excluded from composite.
Client retains veto power over every trade decision	Nondiscretionary — cannot be treated as part of discretionary composite.

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LOS 92.e: Independent Verification of GIPS Compliance

1. Concept

- Verification provides an independent, third-party evaluation of whether the firm's policies and performance presentations comply with GIPS requirements.
- Verification enhances the credibility of the firm's claim of compliance but is not mandatory.

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2. Characteristics of Verification

- Must be performed by an **independent third-party verifier** — not internally.
- Verification applies to the **entire firm**, not to individual composites.
- The verifier attests that:
  1. The firm has complied with all GIPS requirements for composite construction;
  2. The firm's processes and procedures are designed to ensure GIPS-compliant performance presentation and calculation.

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3. Example Disclosure Language (Post-Verification)

> *"[Firm Name] has been verified for the periods [insert dates] by [Verifier Name]. A copy of the verification report is available upon request."*

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4. Examples: Verification Scope and Practice

Scenario	**Verification Applicability**
Firm hires an external verifier to check one equity composite only	Not valid — verification must be firmwide.
Firm's processes for calculating performance and maintaining composites are verified by an independent third party	Compliant — firmwide verification achieved.
Firm self-reviews its own performance reports for GIPS compliance	Not acceptable — verification must be independent.

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Summary Tables by Learning Objective

1. LOS 92.a — Purpose and Scope of GIPS

Aspect	**Explanation**
Purpose	Standardize performance reporting; prevent misrepresentation.
Applicability	Investment management firms managing client assets.
Nature	Voluntary but must be complete and firmwide.
Benefits	Enhances comparability, credibility, transparency.

2. **LOS 92.b — Eight GIPS Sections**

Section	**Purpose**
1. Fundamentals	Define firm, avoid false information.
2. Input Data	Ensure consistent, fair performance inputs.
3. Composite Maintenance	Establish fair, asset-weighted composites.
4–7. Reporting Sections	Define TWR/MWR requirements for composites and pooled funds.
8. Advertising Guidelines	Govern compliance claims in advertisements.

3. **LOS 92.c — Composites**

Aspect	**Explanation**
Definition	Group of discretionary portfolios with similar objectives.
Requirement	Must include all fee-paying discretionary portfolios.
Purpose	Demonstrate performance by strategy or style.
Calculation	Asset-weighted average of portfolio returns.

4. **LOS 92.d — Fundamentals of Compliance**

Concept	**Explanation**
Definition of Firm	Business entity held out to clients as a single firm.
Discretion	Determines which portfolios belong in composites.
Inclusion Rule	All discretionary, fee-paying portfolios must be included.

5. **LOS 92.e — Independent Verification**

Aspect	**Explanation**
Purpose	Strengthen credibility of firm's compliance claim.
Performed By	Independent third party (not internal).
Scope	Entire firm, not a single composite.
Disclosure	"Verified for the period [dates] by [verifier]."

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Key Takeaways

- **GIPS** standardize global performance reporting, enabling comparability and transparency.
- **Compliance** is voluntary but must be full-firm and comprehensive.
- **Composites** ensure that all portfolios within a similar strategy are fairly represented.
- **Firm Definition** and **Discretion** are central to GIPS integrity.
- **Independent Verification** adds credibility but is not mandatory.

- Overall, GIPS enhances investor confidence and aligns global reporting practices with ethical transparency.

MODULE 93.1: ETHICS APPLICATION

Purpose: This module applies the **CFA Institute Code of Ethics and Standards of Professional Conduct (Standards I–VII)** to real-world scenarios. It helps identify ethical and unethical conduct, evaluate firm policies, and interpret how each case aligns or violates CFA Standards.

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LOS 93.a–93.b: Evaluate and Explain Conduct Relative to the CFA Code and Standards

Members and Candidates must understand not only what violates each Standard but also how to evaluate conduct, firm policies, and ethical decision-making frameworks.

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STANDARD I — PROFESSIONALISM

Standard I(A): Knowledge of the Law

Principle: Members must understand and comply with all applicable laws, rules, and regulations (including CFA Standards). When conflicts exist, the strictest standard must be followed.

Case Applications

- **Case 1: Overcharging Clients** - Firm seeks reimbursement for expenses already reimbursed. - Member reports issue; firm corrects only partially. - **Violation:** Member must disassociate from any continuing client overcharging. - *Ethical lesson:* Reporting is not enough — continued association with unethical practice breaches the Standard.

- **Case 2: Money-Laundering Suspicion Ignored** - Member fails to investigate suspicious transactions for a long-standing client. - **Violation:** Lack of diligence in preventing legal breaches. - *Key concept:* Loyalty to client never overrides law.

- **Case 3: Forged Customer Signatures** - Member falsifies documents for expediency. - **Violation:** Direct breach of law and integrity.

Summary Table: Knowledge of the Law

Case	Ethical Interpretation
1. Overcharging Clients	Must fully disassociate; partial correction is insufficient.
2. Ignoring Suspicious Transactions	Duty to investigate and comply with AML laws.
3. Forging Signatures	Fraudulent conduct; direct legal violation.

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Standard I(B): Independence and Objectivity

Principle: Members must maintain objectivity and independence in analysis and decision-making, avoiding influence from gifts, payments, or political contributions.

Case: Political Contributions - Member donates to a politician hoping to gain investment contracts. - **Violation:** Attempts to secure advantage impair independence and objectivity.

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Standard I(C): Misrepresentation

Principle: Members must not make any false, misleading, or deceptive statements relating to investment analysis, recommendations, actions, or qualifications.

Case Applications

- **Case 1: Guaranteed Returns** — Violation - Member guarantees future fund performance; misleading to clients.
- **Case 2: Omission of Personnel Change** — Violation - Proposal lists key personnel; one leaves before client decision. - Failure to update = misrepresentation by omission.
- **Case 3: False Corporate Disclosure** — Violation - CEO tweets false information ("funding secured") to manipulate price. - Misrepresentation of material fact to investors.

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Standard I(D): Misconduct

Principle: Members must not engage in dishonesty, fraud, or deceit, nor commit acts that reflect adversely on their professional integrity.

Case Applications

- **Case 1: Civil Disobedience Arrest** — Not a Violation - Conduct unrelated to professional integrity; motivated by personal beliefs.
- **Case 2: Error Correction Abuse** — Violation - Member covers client losses using personal funds to hide poor performance. - Misleading clients — unethical and dishonest.

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STANDARD II — INTEGRITY OF CAPITAL MARKETS

Standard II(A): Material Nonpublic Information

Principle: Members must not act or cause others to act on material nonpublic information.

Case Applications

- **Case 1: Overheard Takeover Tip** — Violation - Trading on overheard information about an acquisition = insider trading.
- **Case 2: Selective Disclosure by Company** — Violation - Information shared with select analysts = nonpublic; acting on it breaches Standard.

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Standard II(B): Market Manipulation

Principle: Members must not engage in practices that distort prices or artificially inflate volume with intent to mislead.

Case: Fake Shareholders - Member falsifies shareholder list to meet listing requirements. - **Violation:** Misleads market about liquidity and violates market integrity.

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STANDARD III — DUTIES TO CLIENTS

Standard III(A): Loyalty, Prudence, and Care

Principle: Members must act for the benefit of clients, placing client interests above their own or employer's.

Case Applications

- **Case 1: Limiting Fiduciary Duty in Client Agreement** — Violation - Cannot "opt out" of acting in client's best interest.
- **Case 2: Self-Directed Margin Account** — Not a Violation - Relationship defined clearly; member acts within negotiated limits.
- **Case 3: Expense Allocation Misuse** — Violation if personal benefit - Allocating personal or unrelated client expenses breaches loyalty.

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Standard III(B): Fair Dealing

Principle: Members must deal fairly and objectively with all clients regarding investment recommendations and actions.

Case: Paid Update Service - Member offers additional research updates for a fee; not a violation if all clients are informed and have equal access to the option. - **Violation occurs only if** preferential info is given selectively.

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Standard III(C): Suitability

Principle: Recommendations must match client risk tolerance, objectives, and constraints.

Case Applications

- **Case 1: Excessive Risk for Tax Advantage** — Violation - Tax benefit does not justify risk beyond client's tolerance.
- **Case 2: Client-Requested Change Without Investigation** — Violation - Failing to reassess suitability = breach of due diligence.

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Standard III(D): Performance Presentation

Principle: Performance must be fair, accurate, and complete.

Case: Pre-Fund Composite Data - Member uses pre-fund portfolio data to imply longer track record. - **Violation:** Misleading representation of fund history.

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Standard III(E): Preservation of Confidentiality

Principle: Client information must remain confidential unless: (1) it involves illegal activity, (2) law requires disclosure, or (3) client consents.

Case: Client Data Breach - Member downloads client files to personal device; data hacked. - Both member and compliance head violated Standard for inadequate data protection.

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STANDARD IV — DUTIES TO EMPLOYERS

Standard IV(A): Loyalty

Principle: Members must act for the benefit of their employer and not harm it.

Case Applications

- **Case 1: Disparaging Employer While Employed** — Violation.
- **Case 2: Whistleblowing to Regulators for Client Protection** — Not a Violation.
- **Case 3: Taking Client Information Upon Leaving Firm** — Violation.

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Standard IV(B): Additional Compensation Arrangements

Principle: Members must not accept gifts, benefits, or compensation that may create a conflict with employer interests unless written consent is obtained.

Case: Bonus from Covered Company - Member offered extra payment by company for coverage selection. - Must obtain employer's written approval before acceptance.

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Standard IV(C): Responsibilities of Supervisors

Principle: Supervisors must ensure that subordinates comply with laws and CFA Standards.

Case Applications

- **Case 1: Lax Supervision and No Procedures** — Violation.
- **Case 2: Accepting Role Without Authority or Expertise** — Violation. - Should have declined supervisory responsibility until adequate authority and procedures were established.

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STANDARD V — INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTIONS

Standard V(A): Diligence and Reasonable Basis

Principle: Recommendations must be based on diligent, independent research with a reasonable basis.

Case Applications

- **Case 1: Inadequate Analysis and Plagiarized Report** — Both members violate the Standard. - Second member cannot rely blindly on unverified work of others.

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Standard V(B): Communication with Clients and Prospective Clients

Principle: Members must disclose changes in investment processes, risks, and methodologies to clients promptly.

Case Applications

- **Case 1: Change in Fee Calculation** — Violation. - Must notify clients prior to implementing fee changes.
- **Case 2: Undisclosed Rating Methodology Change** — Violation. - Must disclose model/method changes before publication.

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Standard V(C): Record Retention

Principle: Maintain appropriate records to support investment actions and client communications.

Case: Outdated Client Profiles — Violation. - Failing to update records violates due diligence even if portfolios are adjusted.

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STANDARD VI — CONFLICTS OF INTEREST

Standard VI(A): Disclosure of Conflicts

Principle: All actual and potential conflicts must be disclosed to clients and employers.

Case: Third-Party Subadvisor Payments — Violation. - Undisclosed compensation creates hidden bias.

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Standard VI(B): Priority of Transactions

Principle: Client trades take precedence over personal or related-party transactions.

Case Applications

- **Case 1: Front Running Own Accounts** — Violation.
- **Case 2: Sharing Client Order Info with Friends** — Violation.
- **Case 3: Biased Trade Allocation** — Violation (and breach of fair dealing).

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Standard VI(C): Referral Fees

Principle: Members must disclose to clients and employers any compensation received for referrals.

Case: Undisclosed Gifts to Referrers — Violation. - Must disclose referral-based rewards to all clients and prospects.

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STANDARD VII — RESPONSIBILITIES AS A CFA INSTITUTE MEMBER OR CANDIDATE

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

Principle: Members must not compromise the integrity or confidentiality of the CFA Program.

Case: Post-Exam Party Discussion - Discussing exam difficulty = allowed. - Discussing exam topics/questions = violation.

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

Principle: Members must not misrepresent or exaggerate the meaning or implications of the CFA designation or membership.

Case: Use of CFA by Inactive Member — Violation. - Member who failed to pay dues may not use the CFA designation. - Misrepresenting inactive individuals as "CFA charterholders" violates the Standard.

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KEY SUMMARY TABLE: MODULE 93.1

Standard	Core Principle	Example of Violation	Example of Compliance
I(A) Knowledge of Law	Follow the strictest applicable rule.	Ignoring money-laundering alerts.	Reporting and disassociating from violations.
I(B) Independence	Maintain objectivity.	Political donations for contracts.	Declining gifts that could bias judgment.
I(C) Misrepresentation	No misleading statements.	Guaranteeing returns.	Accurate, balanced disclosures.
I(D) Misconduct	No dishonest or deceitful behavior.	Forgery, manipulation.	Professional civil behavior outside work.
II(A) Material Info	No trading on inside information.	Acting on takeover rumor.	Waiting for public disclosure.
II(B) Market Manipulation	No distortion of prices/volume.	Fake shareholder list.	Honest, transparent trades.
III(A) Loyalty to Clients	Client interests first.	Hidden fees, expense abuse.	Full disclosure and best execution.
III(B) Fair Dealing	Treat all clients equally.	Selective recommendation timing.	Simultaneous communication.
III(C) Suitability	Match investment to client profile.	Ignoring risk tolerance.	IPS-driven decisions.
III(D) Performance	Fair, accurate reporting.	Fake track record.	GIPS-compliant presentation.
III(E) Confidentiality	Protect client data.	Leaking or mishandling data.	Secure systems, consent-based sharing.
IV(A) Loyalty to Employer	No harm or misappropriation.	Badmouthing firm, taking client lists.	Honest resignation, no data theft.
IV(B) Compensation	Written consent for external pay.	Accepting undisclosed bonuses.	Employer-approved agreements.
IV(C) Supervision	Prevent and detect violations.	Inadequate procedures or training.	Strong compliance framework.
V(A) Diligence	Adequate research basis.	Blindly copying analysis.	Independent verification.
V(B) Communication	Full disclosure of changes/risks.	Hiding fee or model changes.	Timely updates to clients.
V(C) Record Retention	Maintain supporting records.	Failing to update client files.	Up-to-date documentation.
VI(A) Disclosure	Reveal all conflicts.	Hidden third-party payments.	Transparent disclosures.
VI(B) Priority	Client trades first.	Front running.	Preclearance and blackout rules.
VI(C) Referral Fees	Disclose referral compensation.	Hidden client gifts or discounts.	Written disclosure to all parties.
VII(A) Conduct	Protect CFA Program integrity.	Discussing exam content.	Respect confidentiality.
VII(B) Reference	Proper use of CFA title.	Using CFA when inactive.	"John Smith, CFA" after dues paid.

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KEY TAKEAWAYS

- Ethical practice means consistent application of integrity, transparency, diligence, and fairness across all professional interactions.
- The **intent** behind actions matters — even technically legal acts can violate ethical standards if they mislead or harm clients.
- Members must prioritize: (1) Law and regulation, (2) CFA Standards, (3) Client and market integrity, (4) Employer loyalty, (5) Ongoing professional conduct.
- The Code and Standards are not only a rulebook but a **framework for trust** in global investment practice.