



**soleadea**

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## LEVEL 1: ETHICS

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Reading 57 (2<sup>nd</sup> out of 5): CODE OF ETHICS  
AND STANDARDS OF PROFESSIONAL CONDUCT

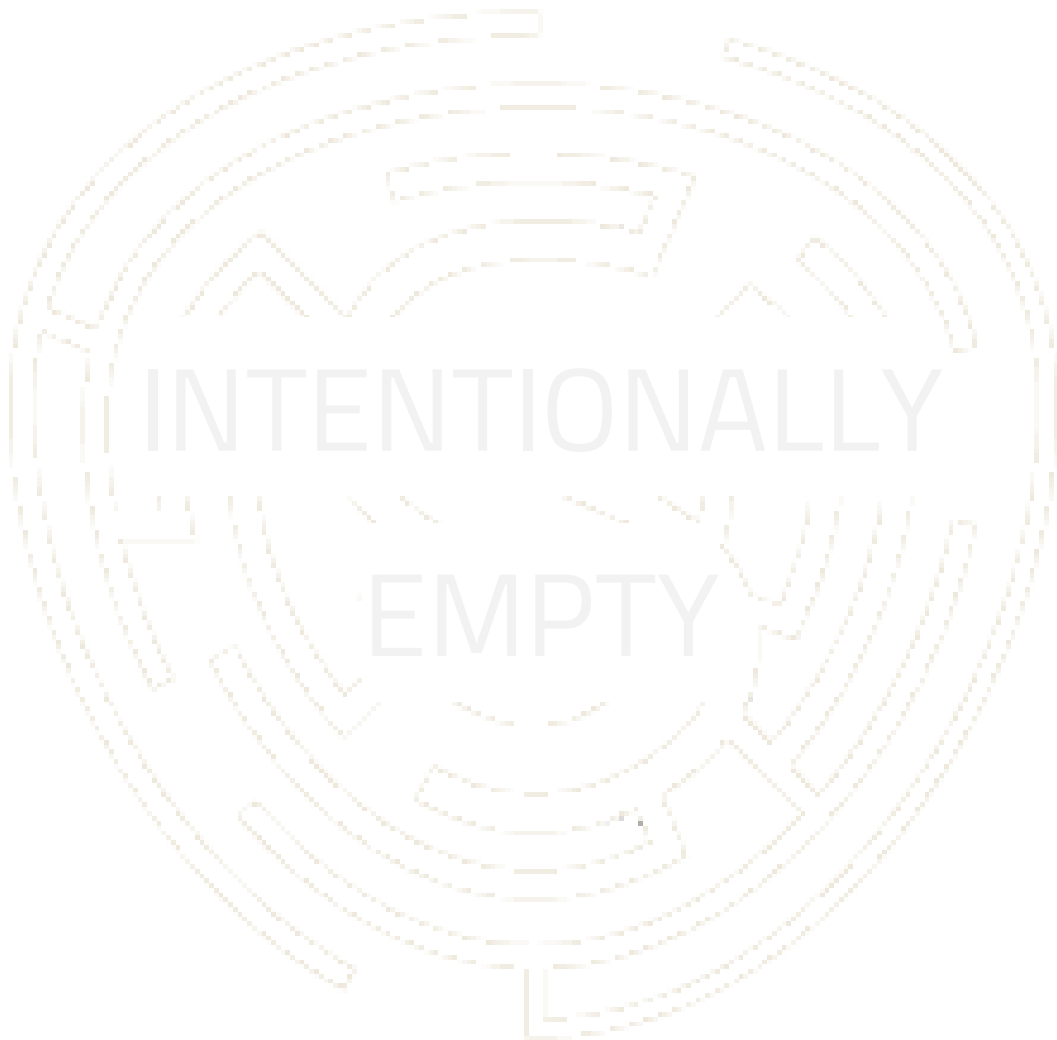
Difficulty:

**easy**

Benchmark Study Time:

**1h**

2022





**THIS E-BOOK:**

- ❖ is a selective summary of the corresponding Reading in your CFA® Program Curriculum,
- ❖ provides place for your own notes,
- ❖ helps you structure your study and revision time!

## How to use this e-book to maximize your knowledge retention:

1. **Print** the e-book in duplex and bind it to keep all important info for this Reading **in one place**.
2. **Read** this e-book, best twice, to grasp the idea of what this Reading is about.
3. **Study** the Reading from your curriculum. **Here add** your notes, examples, formulas, definitions, etc.
4. **Review** the Reading using this e-book, e.g., write your summary of key concepts or revise the formulas at the end of this e-book (if applicable).
5. **Done?** Go to [your study plan](#) and change the Reading's status to **green** :  
(it will make your Chance-to-Pass-Score™ grow ☺).
6. **Come back** to this e-book from time to time to **regularly review for knowledge retention!**

**NOTE:** While studying or reviewing this Reading, you can use the tables at the end of this e-book and mark your study/review sessions to hold yourself accountable.



## ETHICS – INTRODUCTION

### Defining Code of Ethics

**Code of Ethics** is a set of principles and moral rules agreed on and accepted by investment professionals.

Code = set of moral principles to be followed in the financial world

There are six major principles included in the Code of Ethics that generally correspond to the following moral obligations:

1. Act in a morally acceptable manner and to the best of your abilities in any of your professional relationships.
2. Always place the good of your profession and your clients first.
3. Stay independent and exercise reasonable care in your professional activities.
4. Practice in an ethical way that earns you an honest reputation and encourage others to do so.
5. Promote the integrity of the market.
6. Maintain and improve your competence and encourage others to do so.

### Defining Standards of Professional Conduct

**Standards of Professional Conduct** provide a comprehensive description of best practices and moral duties for investment professionals.

Standards = description of best practices and moral duties

There are **7 Standards**. Each of them includes a number of sub-sections that specify acceptable ethical conduct and responsibilities applicable to particular profession-related situations.



HERE KNOWLEDGE RETENTION HAPPENS | WRITE: notes, examples, etc.



## STANDARDS OF PROFESSIONAL CONDUCT

### **Standard I: Professionalism**

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

### **Standard II: Integrity of Capital Markets**

- (A) Material Nonpublic Information
- (B) Market Manipulation

### **Standard III: Duties to Clients**

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

### **Standard IV: Duties to Employers**

- (A) Loyalty
- (B) Additional Compensation Arrangements
- (C) Responsibilities of Supervisor

### **Standard V: Investment Analysis, Recommendations, and Actions**

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

### **Standard VI: Conflicts of Interest**

- (A) Disclosure of Conflicts
- (B) Priority of Transactions
- (C) Referral Fees



## Standard VII: Responsibilities as a CFA Institute Member or CFA Candidate

(A) Conduct as Members and Candidates in the CFA Program

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

The general idea behind the Standards has not changed since their creation in the 1960s. **All CFA members, charterholders, and candidates are obliged to obey the provisions of the Code of Ethics and the Standards of Professional Conduct.** Any violations may result in appropriate disciplinary sanctions including, but not limited to, the exclusion from the CFA Program or the revocation of the CFA designation.

HERE KNOWLEDGE RETENTION HAPPENS | WRITE: notes, examples, etc.



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## WHY ETHICS MATTERS

### Trust

In the investment industry, trust is even more important than in other businesses. It's the **foundation without which a strong investment industry cannot exist**.

Unethical behavior can damage investor trust, lead to erosion in public confidence in investment professionals, and impair the sustainability of global capital markets.

### Culture of Integrity

Individuals should strive for and companies should promote the so-called culture of integrity, which is based on ethical standards of conduct when it comes to working with clients. The **best interest of the client should be always given prominence** and his or her assets should be managed in the best possible way, even beyond legal regulations.

### Market Sustainability

The concept of market sustainability has been added to the CFA exam curriculum to draw attention to the fact that **financial professionals should consider not only the present but also future consequences of their actions** in a broader perspective.

market sustainability = taking care of the long-term health of the market from a global perspective  
(introduced in the wake of the global financial crisis)

### Ethics and Legal Regulations

Sometimes ethical behavior and legal behavior do not go hand in hand. Legal means required by law, whereas ethical is morally correct. **Sometimes, abiding by law can be morally insufficient or even unacceptable**. Moreover, some individuals often try to circumvent the law for personal gains, thus compromising both law and ethics.

ethical behavior  $\neq$  legal behavior



HERE KNOWLEDGE RETENTION HAPPENS | WRITE: notes, examples, etc.



## Summarizing key concepts:

### ☐ Defining Code of Ethics

My summary:

### ☐ Defining Standards of Professional Conduct

My summary:

### ☐ Why ethics matters (e.g., trust, culture of integrity, legal regulations)

My summary:

### ☐ Market sustainability

My summary:



## ☐ 7 Standards of Professional Conduct

**My summary:**



## Keeping myself accountable:

**TABLE 1 | STUDY**

When you sit down to study, you may want to **try the Pomodoro Technique** to handle your study sessions: study for 25 minutes, then take a 5-minute break. Repeat this 25+5 study-break sequence all throughout your daily study session.



Tick off as you proceed.

POMODORO TIMETABLE: study-break sequences (25' + 5')													
date		date		date		date		date		date		date	
25'		25'		25'		25'		25'		25'		25'	
5'		5'		5'		5'		5'		5'		5'	
25'		25'		25'		25'		25'		25'		25'	
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25'		25'		25'		25'		25'		25'		25'	
5'		5'		5'		5'		5'		5'		5'	

**TABLE 2 | REVIEW**

Never ever neglect revision! Though it's not the most popular thing among CFA candidates, regular revision is what makes the difference. If you want to pass your exam, **schedule & do your review sessions**.

REVIEW TIMETABLE: When did I review this Reading?													
date		date		date		date		date		date		date	
date		date		date		date		date		date		date	