

CFA Institute Code of Ethics and Standards of Professional Conduct + Guidance for Standards I-VII

M&C = Members & Candidates
 COE = Code of Ethics
 SOPC = Standards of Professional Conduct
 BOG = Board of Governors
 PDP = Professional Development Program

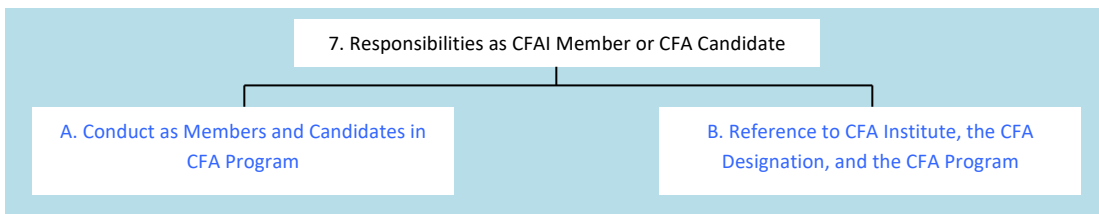
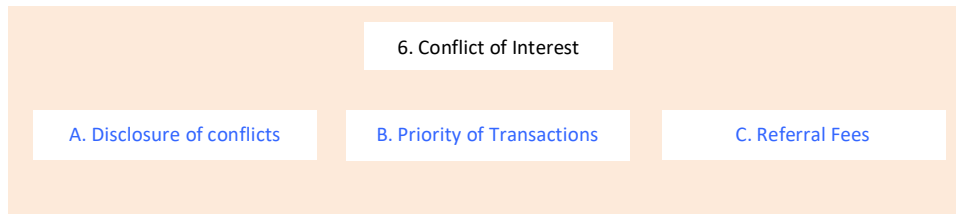
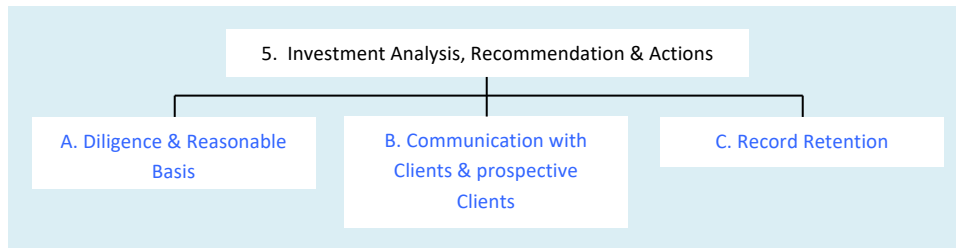
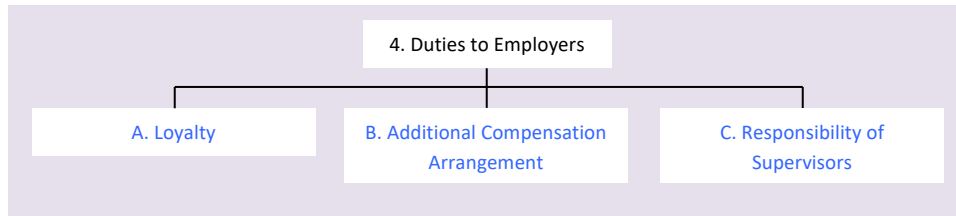
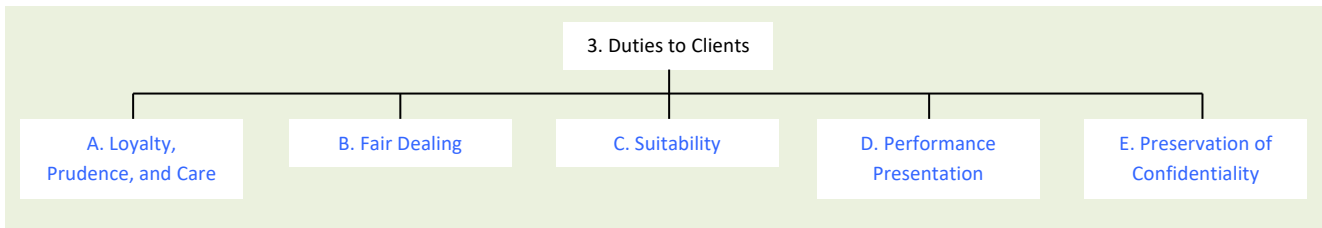
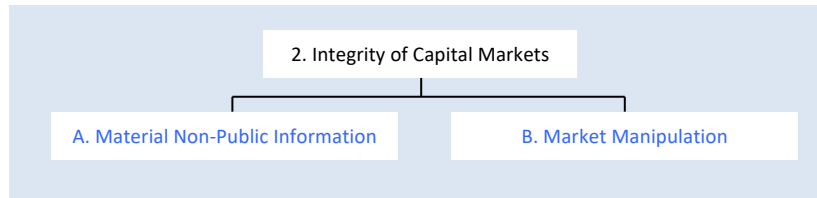
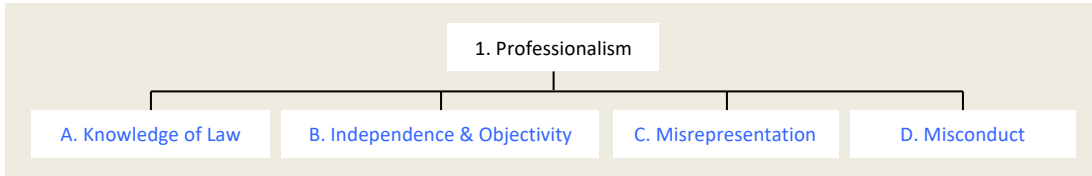
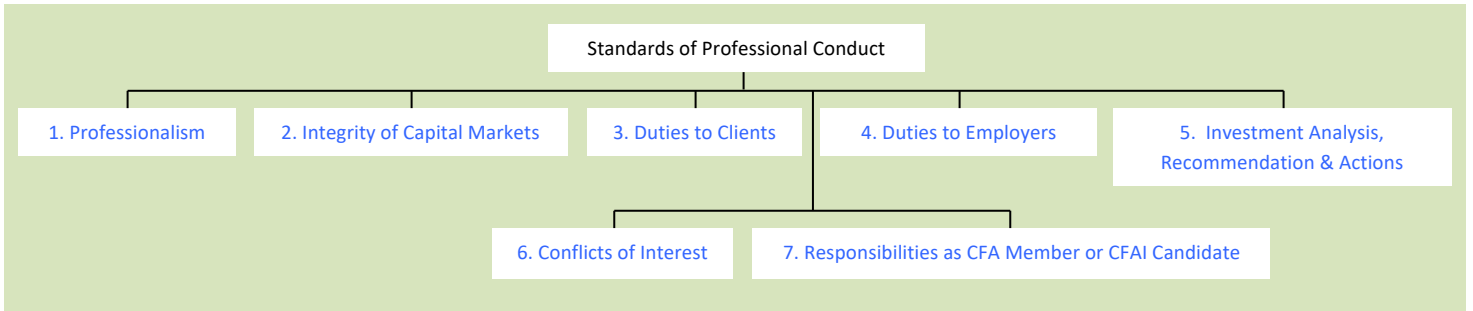
CFAI = CFA Institute
 PCP = Professional Conduct Program
 DRC = Disciplinary Review Committee
 PCS = Professional Conduct Statement

- CFAI PCP ⇒ covered by CFAI bylaws & rules for procedures for proceedings related to professional conduct.
- PCP is based on principles of fairness to M&C & confidentiality of proceedings.
- DRC of CFAI BOG ⇒ responsible for PCP & enforcement of code & standards.

Circumstances Which Can Prompt Inquiry

- If disclosure by member/candidate on PCS of involvement in civil litigation, criminal investigation of any complaint (written) against the member/candidate.
- Written complaints about member/staff received by professional conduct staff.
- Evidence of misconduct by member/candidate received by professional conduct staff through public source.
- A report by CFA proctor of a possible violation during examination.
- CFAI designated officer conduct inquiries.
- Professional conduct staff (in writing) may request explanation from subject member/candidate & may:
 - Interview the subject member/candidate.
 - Interview the complainant / third party.
 - Collect relevant document & records.
- Designated officer may decide:
 - No disciplinary sanctions are appropriate.
 - Issue a cautionary letter.
 - To discipline the member/candidate.
- If disciplinary sanction is proposed, the subject member/candidate may accept the sanction.
- If sanction is rejected ⇒ matter may be referred to CFAI panel for hearing.
- Sanctions may include:
 - Public censure.
 - Suspension of candidate's continued participation in CFAI program.

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Place the integrity of the investment profession and the interests of clients above their own personal interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
- Promote the integrity of, and uphold the rules governing, capital markets.
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.



1. Professionalism

1 A. Knowledge of Law

- M&C must understand & comply with all applicable laws, rules & regulations (including COE & SOPC).
- These rules & regulations pertain to any govt, regulatory organization, licensing agency or professional association governing their professional activities.
- Must comply with more strict law, rule or regulation in case of conflict.
- M&C must not knowingly participate or assist & must dissociate from any violation of laws, rules or regulations.

Guidance ⇒ Code & Standards vs Local Law

- Members must know laws & regulations related to their professional activity in all countries where they work (conduct business).
- Adhere to most strict rules ⇒ if have to decide b/w local laws & codes & standards of CFAI.
 - Must comply with local laws related to professional activity.
 - Never violate code & standards even if activity is otherwise legal.

Guidance ⇒ Participation or Association with Violation by Others

- Members must dissociate or separate themselves from any ongoing client or employee activity which is illegal or unethical.
- In extreme case they may have to leave the employer.
- May confront the individual involved first.
 - Approach the supervisor or compliance department if confrontation and discussion fails.
 - Inaction with continued association may be construed as knowing participation.

Recommended Procedures for Compliance-Members

- Members should establish procedures which ensure employees are updated with applicable laws, rules & regulations.
- Compliance laws must be reviewed on an ongoing basis in order to ensure that they address prevailing laws, CFAI standards & regulations.
- Members should maintain current reference material for employees in order to keep up-to-date on laws, rules & regulations.
- In doubt members should seek advice of counsel or their compliance department.
- Members should document any violation when they disassociate from prohibited activity.
- Members should encourage their employers to persuade the perpetrator(s) to end such activity.
- Under some circumstances it may be advisable or otherwise required by the law to report violations to governmental authorities.
- Standards (CFAI) do not require members to report violations to governmental authorities.
- Members are strongly encouraged to report other members' violations of the code & standards.

Recommended Procedure for Compliance-Firms

- Members should encourage their firms to:
 - Develop and/or adopt a code of ethics.
 - Provide information which highlights applicable laws and regulations and may be distributed to employees.
 - Establish written procedures for reporting suspected violation of laws, regulations or company policies.
- Members in charge of supervision, creation and maintenance of investment services should:
 - Be aware of and comply with regulations and laws in their country of origin.
 - They must be aware and comply with regulations of countries where products/services will be sold.

1 B. Independence & Objectivity

- M&C must use reasonable care & judgment to achieve & maintain independence & objectivity in professional activities.
- Not accept any gift, or any type of consideration that compromise their own or another's independence & objectivity.

Guidance

- Investment process must not be influenced by any external sources.
- Modest gifts are permitted (by clients).
- Allocation of shares in oversubscribed IPO to personal accounts is not permitted.
- Distinguish b/w gifts from clients & entities seeking influence to the detriment of the client.
- Gifts must be disclosed to the member's employer in any case either prior to acceptance or subsequently.

Guidance-Investment Banking Relationships

- Do not get pressurized from sell-side analyst to issue favorable research on current or prospective investment-banking client.
- Disclose conflicts and manage these appropriately while working with investment bankers in "road shows".
- Make sure of effective "firewalls" b/w research/investment management & investment banking activities.

Guidance-Public Companies

- Do not limit research to discussions with company management.
- Use sources like:
 - Suppliers
 - Customers
 - Competitors
- Analyst must not be pressured to issue favorable research by the companies they follow.

Guidance-Buy Side Clients

- Responsibility of portfolio managers to respect and foster intellectual honesty of sell side research.
- Portfolio managers must not pressure sell side analysts.
 - They may have large positions in particular securities; rating downgrade may adversely affect portfolio performance.

Guidance-Fund Manager Relationships

Members responsible for selecting outside managers should not accept gifts, entertainment or travel that might be perceived as impairing independence and/or objectivity.

Guidance-Credit Rating Agency

- Members employed by credit rating agencies should make sure they prevent undue influence by security issuing firms.
- Members using credit ratings must be aware of potential conflict of interest.
- Consider whether independent analysis is warranted.

Guidance-Issuer Paid Research

- Analyst's compensation for such research should be limited.
- Preference is a flat fee.
- No reward must be attached with report's recommendation.

Guidance-Travel

Best practice ⇒ analysts pay their own commercial travel while attending informative events or tours sponsored by the firm being analyzed.

Recommended Procedures for Compliance

- Protect the integrity of opinions (unbiased opinion of the analyst) & design proper compensation systems.
- Create a restricted list (remove the controversial company from research universe).
- Restrict special cost arrangements (limit the use of corporate aircraft to situations in which commercial transportation is not available).
- M&C should pay for commercial transportations & hotel charges.
- Limit the acceptance of gratuities and/or gifts to token items.
- Develop formal policies related to employee purchases of equity or equity related IPOs (strict limits on private placements).
- Effective supervisory & review procedures.
- Ensure that research analysts are not supervised or controlled by any department that could compromise the independence of analyst.
- Appoint a senior officer with oversight responsibilities for compliance with firm's COE & all regulations concerning its business.

1 C. Misrepresentation

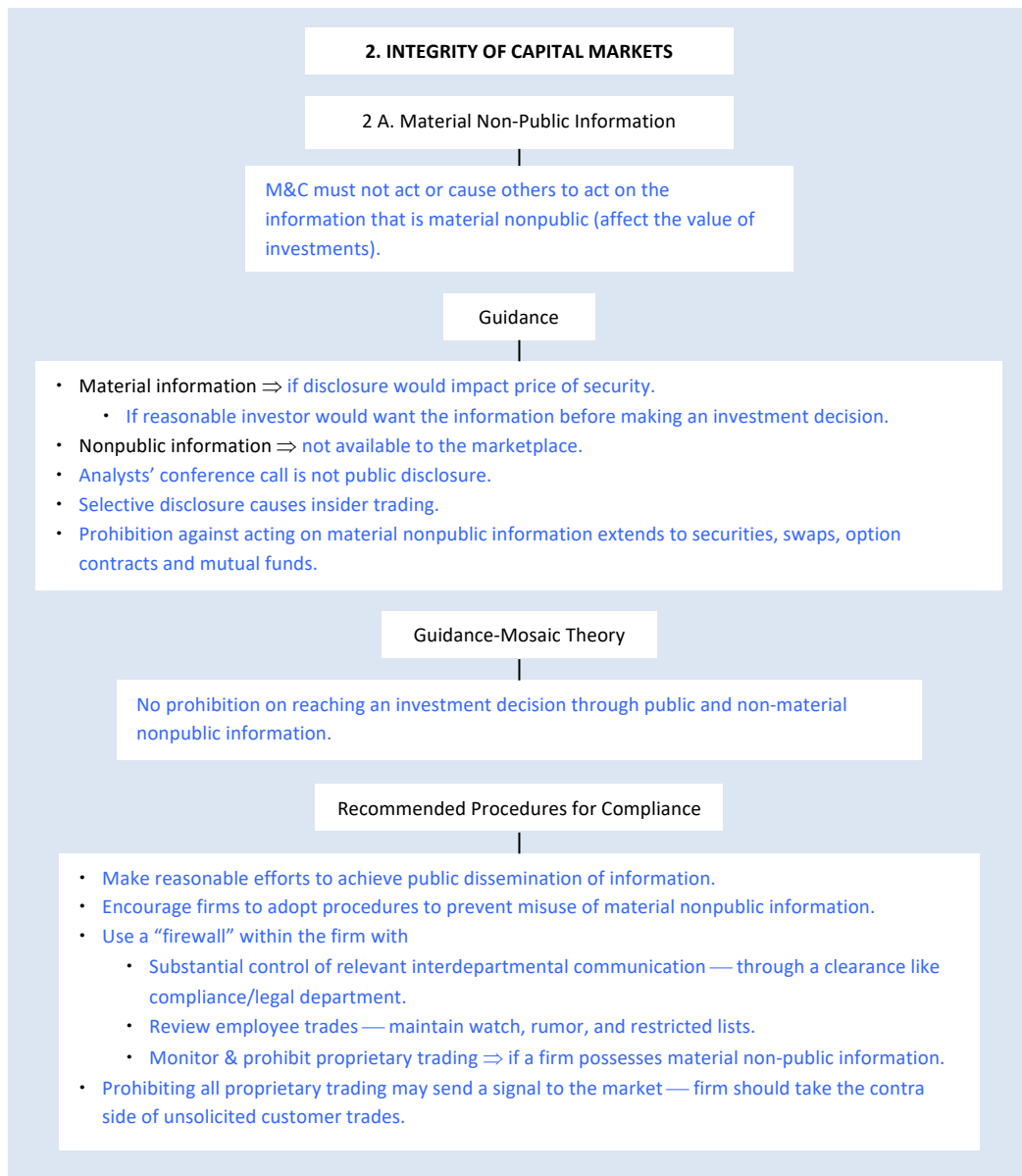
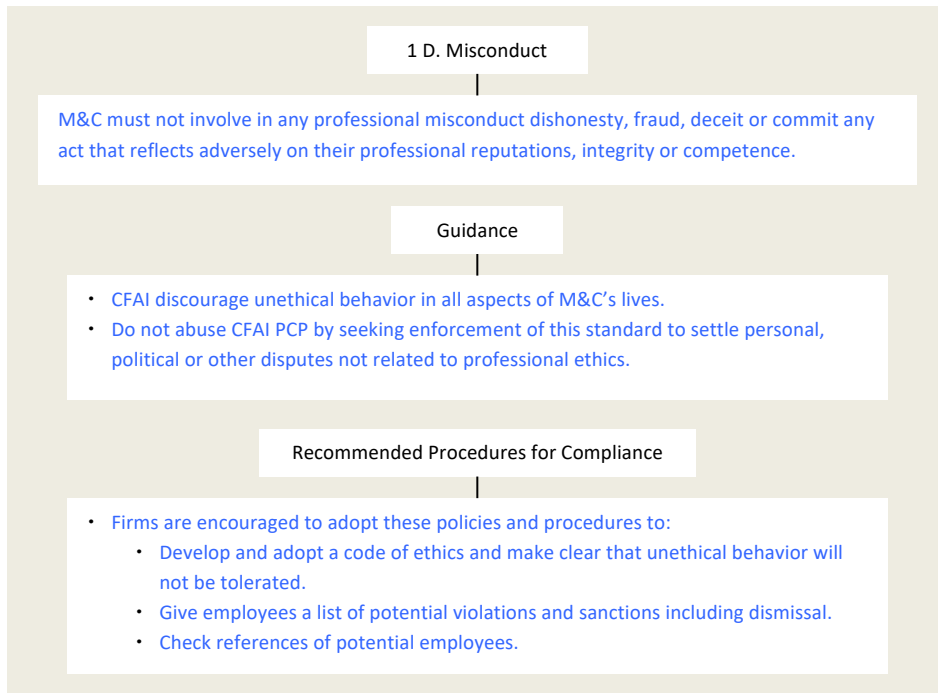
M&C must not knowingly make any misrepresentations relating to investment analysis, recommendation, actions or other professional activities.

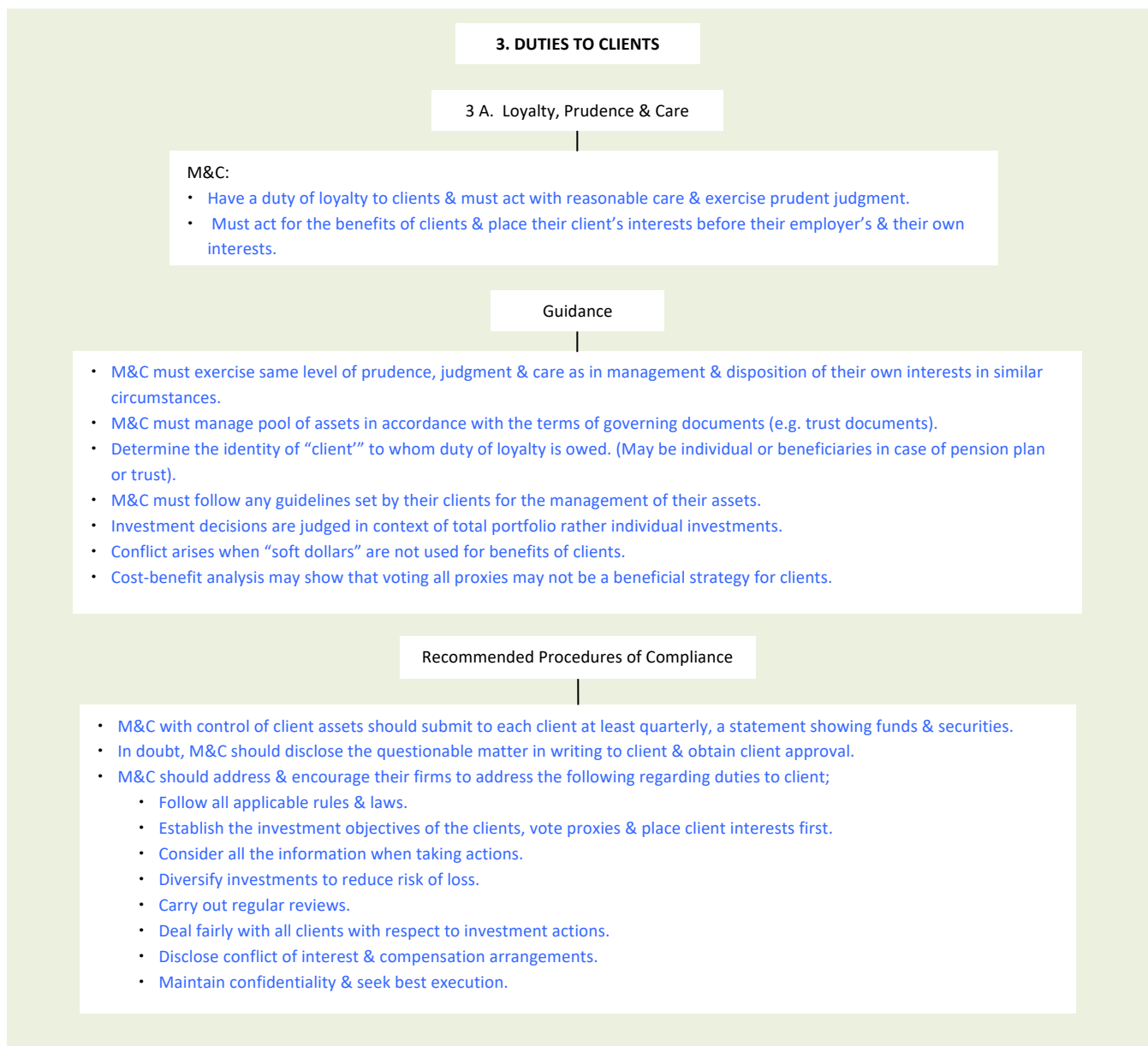
Guidance

- Misrepresentation causes mistrust.
- Do not give false impressions in writing, oral or electronic communication.
- Misrepresentation includes.
 - Guaranteeing investment performance.
 - Plagiarism.
- Plagiarism ⇒ using someone else's work without giving him credit.
- Misrepresentation also includes deliberately omitting information that could affect investment decision.
- Models and analysis developed by others at firm are the property of firm ⇒ members can use them without attributing to developers.
- A report written by another analyst employed by the firm cannot be released as another analyst's work.

Recommended Procedures for Compliance

- Firms should provide employees, who deal with clients, a written list of firm's available services and description of its employees' qualifications.
- Employees' qualification should be accurately presented as well.
- To avoid plagiarism firm must keep record of all sources and cite them.
- Generally understood and factual information need not to be cited.
- Members should encourage firms to establish procedures for verifying marketing claims of third parties whose information the firm provides to clients.





3 B. Fair Dealing

M&C must deal fairly & objectively with clients (when providing investment analysis, making recommendations, taking action or engaging in other professional activities).

Guidance

- No discrimination among clients while disseminating recommendations or taking investment action.
- Fairly does not mean equally ⇒ difference in timings of emails & fax received by clients are normal course of business.
- Different services levels are okay as far as these do not adversely affect any client.
- Disclose different levels of services to all clients and prospects.
- Premium services should be available to all those who are willing to pay for them.

Guidance-Investment Recommendation

- All clients must be given fair opportunity to act upon every recommendation.
- Clients unaware of change in recommendation — should be advised before the order is accepted.

Guidance-Investment Actions

- Clients must be treated fairly in the light of their investment objectives and circumstances.
- Both institutional and individual clients must be treated in a fair & impartial manner.
- M&C should not take advantage of their position to disadvantage clients (e.g., in IPOs).

Recommended Procedures for Compliance

- Firms are encouraged to establish compliance procedures to treat customers & clients fairly.
- Communicate recommendations simultaneously within the firm & to customers.
- M&C should consider the following:
 - Limit the no. of people who are aware that a recommendation is going to be disseminated.
 - Shorten the time frame b/w decision & dissemination.
 - Publish guidelines for pre-dissemination behavior.
 - Simultaneous dissemination (treat all clients fairly).
 - Maintain a list of clients & their holdings.
- Develop & document trade allocation procedures.
- Disclose trade allocation procedures (must be fair & equitable).
- Establish systematic account review (no preferential treatment to any client or customer).
- Disclose level of services (different levels of services are possible for same or different fees).

3 C. SUITABILITY

2. M&C are in advisory relationship

Make inquiry into client's investment experience, risk & return objectives, financial constraints & reassess & update this information regularly.

Determine investment suitability with reference to client's objectives, constraints & mandate.

Judge investment suitability in context of client's total portfolio.

1. When M&C are responsible for managing a portfolio to a specific mandate, strategy or style

Take actions and make recommendations according to stated objectives & constraints of portfolio.

Guidance

- Develop IPS at beginning of the relationship.
- Consider client's needs, circumstances & risk tolerance.
- Consider whether the use of leverage is suitable for the client or not.
- Make sure to abide by the stated mandate.

Recommended Procedures for Compliance

- Develop written IPS of each client & take the following into consideration:
 - Client identification.
 - Investor objectives.
 - Investor constraints.
 - Performance measurement benchmark
- Objectives & constraints should be maintained & reviewed periodically to reflect any changes in clients' circumstances.
- Suitability test policies.

3 D. Performance Presentations

M&C must communicate fair, accurate & complete investment performance information.

Guidance

- Members must avoid misstating performance or misleading clients about investment performance of themselves or their firms.
- Members should not misrepresent past performance or reasonably expected performance.
- Members should not state or imply the ability to achieve a rate of return similar to that achieved in the past.
- Provide reference to limited information provided on brief presentations.
- For brief presentations members must make detailed information available on request.

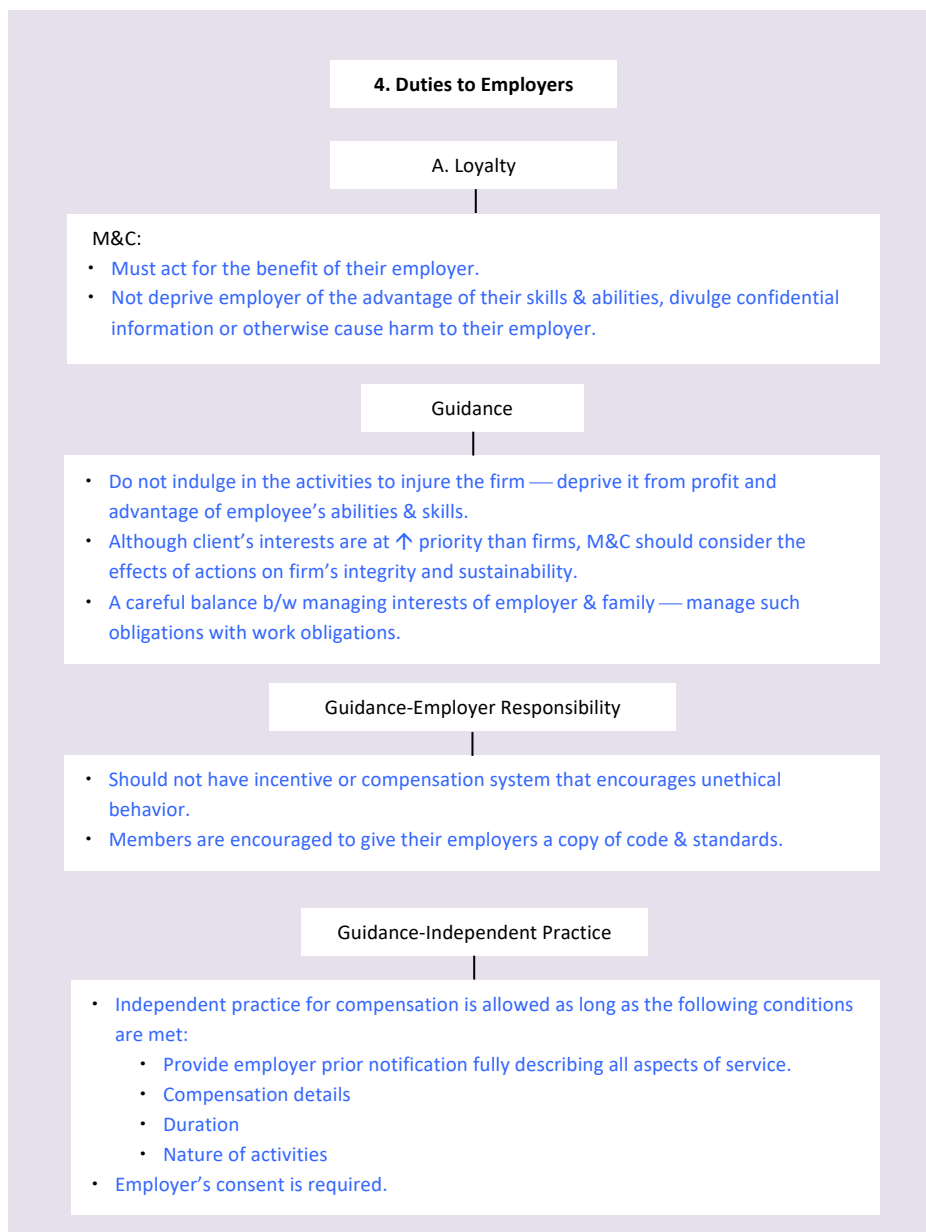
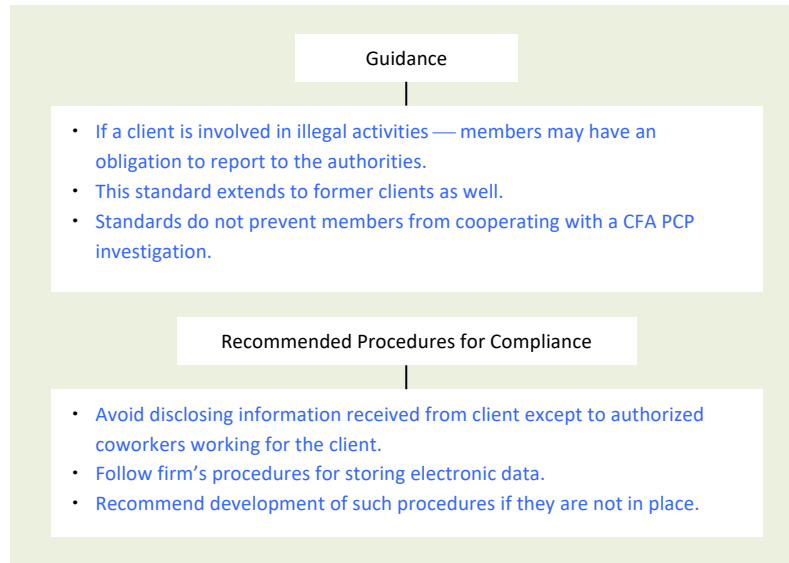
Recommended Procedures for Compliance

- Apply GIPS standards.
- Consider the knowledge of audience to whom performance presentation is addressed.
- Performance of weighted composite of similar portfolios rather a single account.
- Include performance history of terminated accounts.
- Disclosures that fully explain the performance results being reported.
- Maintain data & records used to calculate the performance being presented.

3 E. Preservation of Confidentiality

M&C must keep information about current, former & prospective clients confidential unless:

- Information concerns illegal activity.
- Disclosure is required by law.
- Client or prospective client permits disclosure.



Guidance-Leaving an Employer

- Continue to act in employer's best interest until resignation is effective.
- Activities that may constitute a violation include:
 - Misappropriation of trade secrets
 - Misuse of confidential information
 - Soliciting employer's client prior to leaving
 - Self-dealing
 - Misappropriation of client lists.
- Employer records on home computers, PDA, cell phones or any other medium are property of firm.
- After leaving the organization, simple knowledge of names and existence of former clients is not confidential.
- M&C can use the experience or knowledge gained with former employer at any other organization.

Guidance-Whistleblowing

- In exceptional cases, the duty to employer may be violated to protect any client or for the integrity of markets.
- Whistleblowing cannot be done for personal gains.

Guidance-Nature of Employment

If M&C are independent contractors, they still have a duty to abide by the terms of the agreement.

Recommended Procedures for Compliance

- Competition policy (employer restrictions on offering similar services outside the firm).
- Termination policy (how termination will be disclosed to clients & staff).
- Incident-reporting procedures.
- Employee classification (e.g. full time, part time).

4 B. Additional Compensation Arrangements

M&C must not accept gifts, benefits, compensation, or consideration that compete 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.

Guidance

- Compensation includes both direct & indirect form.
- Additional benefits are also included.
- Written consent from employer also includes email communication.

Recommended Procedures for Compliance

- Immediately report to employer in written format detailing any proposed compensation and services.
- Performance incentives should be verified by the offering party.

4 C. Responsibility of Supervisors

M&C must make reasonable efforts to detect & prevent violations of applicable laws, rules & regulations & code & standards by anyone subject to their supervision or authority.

Guidance

- Members must take steps to prevent from violating laws, rules, regulations or code & standards.
- Make reasonable efforts to detect violations.
- Members with supervisory responsibility must ensure that policies regarding investment or non-investment behavior are enforced equally.

Guidance-Compliance Procedures

- Members with supervisory responsibility must bring an inadequate compliance system to the firm's attention and recommend corrective action.
- While investigating violation ⇒ appropriate to limit suspected employee's activities.
- Unless adequate procedures are adopted by the firm, a member must decline supervisory responsibility in writing if faced with no or inadequate compliance procedures.

Recommended Procedures for Compliance

- M&C are encouraged to adopt recommendation that their employers adopt a COE.
- Separate the COE from compliance procedures.
- Adequate compliance procedures:
 - Clearly written & accessible manual.
 - Designate a compliance officer to implement compliance procedures.
 - Implement system of checks & balances.
 - Describe the hierarchy of supervision.
 - Outline scope of procedures & permissible conduct.
- Once a compliance program is in place, a supervisor should:
 - Disseminate program contents to appropriate personnel & educate them regarding compliance procedures.
 - Incorporate professional conduct evaluation as part of employee's performance review.
 - Review employees' actions & identify violations.
 - Respond promptly once a violation is discovered, conduct thorough investigation & increase supervision.

5. Investment Analysis, Recommendations and Actions

5 A. Diligence & Reasonable Basis

2. M&C must exercise diligence, independence & thoroughness in investment analysis, recommendations & actions.

1. M&C must have a reasonable & adequate basis for investment analysis, recommendation or action (supported by research & investigation).

Guidance-Reasonable Basis

- Level of research for due diligence depends on product/service offered.
- Prior to making recommendation or investment action consider:
 - Firm's financial and operating history & business cycle stage.
 - Mutual fund's fee & management history.
 - Limitation of any quantitative methods used.
 - Appropriateness of peer group comparisons.

Guidance-Using Secondary or Third-Party Research

- To periodically review quality of third party research, consider the following:
 - Review assumptions.
 - How rigorous is the analysis.
 - How timely the research is.
 - Evaluate objectivity & independence of recommendations.

Guidance-Quantitative Research

- Able to explain the importance of quantitative research and how results were used in decision making process.
- Consider scenarios which are not typically used to assess downside risk.
- Ensure that both positive & negative results have been used.

Guidance-External Advisers

- Ensure advisors have adequate compliance and internal controls.
- Review the quality of the published return information.
- Do not deviate from stated strategies.

Guidance-Group Research & Decision Making

M&C should not decline to be identified with the report if there is a reasonable and adequate basis which is independent and objective.

Recommended Procedures for Compliance

- Policy requiring that research reports, credit ratings & investment recommendations have a reasonable & adequate basis.
- Develop written guidance for analysts, supervisory analysts & review committees.
- Develop measurable criteria for research report quality assessment.
- Written guidance for computer-based models used in developing, rating & evaluating financial instruments.
- Develop measurable criteria for assessing outside providers.
- Standardized set of criteria for evaluating the adequacy of external advisers.

5 B. Communication with Clients and Prospective Clients

M&C must:

- Disclose to clients & prospective clients the basic format & general principals of investment processes & disclose any change that materially affect those processes.
- Identify important factors (related to investment analyses, recommendation or actions) & include them in communications with clients & prospective clients.
- Distinguish b/w fact & opinion (in investment analysis & recommendations).

Guidance

- Always include basic characteristics of security identified.
- Distinguish b/w facts and opinions.
- Illustrate investment decision making process utilized.
- The standard does not confine communication to a research report.
- Communicate any specific risk factors associated with securities.
- Clearly communicate potential gains & losses.
- Failure to illustrate model's limitations may be considered as violation.

Recommended Procedures for Compliance

Able to supply additional information if requested — maintain relevant information.

5 C. Record Retention

M&C must develop & maintain appropriate records relating to investment analyses, recommendations, actions & other investment related communications with clients & prospective clients.

Guidance

- Maintain records that support conclusion or any investment action.
- Such records are property of the firm.
- If regulatory requirements do not recommend, maintain records for at least 7 years.
- Members who change firms must recreate analysis documentation – not rely on memory or material created in previous firms.

Recommended Procedures for Compliance

Record-keeping is generally firm's responsibility.

6. Conflict of Interest

6 A. Disclosure of Conflict

M&C must:

- Make full & fair disclosure of all matters that impair independence & objectivity or interfere with respective duties to clients, prospective clients & employers.
- Disclosures must be prominent, are delivered in plain language & the information must be communicated effectively.

Guidance-Disclosure to Clients

- Disclose all potential & actual conflicts of interest to existing and prospective clients to let them judge any potential bias.
- If servicing as a board member — disclose.
- Disclosure of broker/dealer market making activities.
- Disclosure of holdings in companies that member recommends or clients hold.
- Disclosure of fee arrangements including those in which the firm benefits from investment recommendations.

Guidance –Disclosure of Conflicts to Employers

- Give employer enough information to judge the impact of conflict.
- Take reasonable steps to avoid conflict — report promptly if conflict occurs.

Recommended Procedures for Compliance

Special compensation arrangements (bonus, commission etc.) should be disclosed.

6 B. Priority of Transaction

Investment transaction priority flow:

Clients
↓
Employers
↓
Employees

Guidance

- Prioritize client's transactions over personal transactions & transactions made on behalf of the member's firm.
- Personal transactions may be undertaken after clients and employer have given adequate opportunity and time to act upon an investment recommendation.
- Personal transaction – member is a “beneficial owner”.
- Regular fee-paying family member accounts should not be disadvantaged to client accounts.
- Information about pending trades should not be acted on for personal gains.

Recommended Procedures for Compliance

- Limited participation in equity IPOs by investment personnel.
- Restrictions on private placements for investment personnel.
- Establish blackout/restricted periods for investment personnel.
- Reporting requirements for investment personnel:
 - Disclosure of holdings in which the employee has a beneficial interest.
 - Provide duplicate confirmations of transactions.
 - Preclearance procedures.
- Disclosure of policies regarding personal investing.

6 C. Referral Fees

M&C must disclose to employer, clients & prospective clients, as appropriate, any compensation, consideration or benefit received from or paid to others for recommendation of products & services.

Guidance

- Must inform employers, clients and prospects of benefits received for referrals of customers and clients.
- All types of consideration must be disclosed.

Recommended Procedures for Compliance

- Encourage firms to adopt procedures regarding compensation for referrals.
- Update firm at least quarterly regarding nature and value of referral compensation received if firms do not have clear procedures for approval.

7. Responsibilities as CFA Member or CFAI Candidate

7 A. Conduct as Members and Candidates in CFA Program

M&C must not:

- Engage in any conduct that compromises reputation or integrity of CFAI or CFA designation.
- Violate integrity, validity or security of the CFA examinations.

Guidance

- Must not engage in any activity that undermines the integrity of CFA charter.
- Standard applies to:
 - Cheating in CFA or any CFAI exam.
 - Revealing anything about the contents & topics of exam.
 - Not following the rules & policies for CFA program.
 - Disclosing confidential information on CFA program to candidates or to public.
 - Improperly using the designation.
 - Misrepresenting information on PCS or CFAI PDP.
- Members can express their opinion on CFA institute or program.
- Members volunteering CFA program must not solicit or reveal information about:
 - Exam questions
 - Deliberation related to exam process
 - Scoring of question

7 B. References to CFA Institute, the CFA Designation, and the CFA Program

M&C must not misrepresent or exaggerate the meaning or implication of membership in CFA institute, holding the CFA designation or candidacy in CFA program.

Guidance

- Do not over-promise individual competence.
- Do not over promise future investment results.
- Sign PCS annually.
- Pay CFAI membership dues annually.
- Do not misrepresent or exaggerate the meaning of the designation.
- No partial designation exists.
- Although it is acceptable to state that candidate has successfully completed the program in 3 years ⇒ claiming superior ability is not permitted.
- In written/oral communications.
 - The Chartered Financial Analyst and CFA marks must be used as adjectives or after charterholder's name.
 - Prohibited to be used as nouns.