Cfa level1 note – ethics and professional standards

Sociology, Ethics

Ethical and Professional Standards 1. : Code of Ethics A. : State the four components of the Code of Ethics. Members of AIMR shall: 1. Act with integrity, competence, dignity, and in an ethical manner when dealing with the public, clients, prospects, employers, employees, and fellow members. 2. Practice and encourage others to practice in a professional and ethical manner that will reflect credit on members and their profession. 3. Strive to maintain and improve their competence and the competence of others in the profession. . Use reasonable care and exercise independent professional judgment. to launch Standards of Practice 2-I. : Standards of Professional Conduct: I. Fundamental Responsibilities A. : Know the laws and rules. Standard: Maintain knowledge of and comply with all applicable laws, rules, and regulations (including AIMR's Code of Ethics and Standards of Professional Conduct) of any government, government agency, regulatory organization, licensing agency, or professional association governing the members' professional activities.

Compliance: Members can acquire and maintain knowledge about applicable laws, rules, and regulations by: • Maintaining current files on applicable statutes, rules, and regulations. • Keeping informed. • Reviewing written compliance procedures on a regular basis. B. : Don't break or help others break the law. Standard: Not knowingly participate or assist in any violation of such laws, rules, or regulations. Compliance: When members suspect a client or a colleague of planning or engaging in ongoing illegal activities, members should take the following actions: • Consult counsel to determine if the conduct is, in fact, illegal. Disassociate from any illegal or unethical activity. When members have reasonable grounds to believe that a client's or employee’s activities are illegal or unethical, the members should dissociate from these activities and urge their firm to attempt to persuade the perpetrator to cease such activity. 2-II. : Standards of Professional Conduct: II. Relationships with and Responsibilities to the Profession A. : Use of Professional Designation II(A. 1) AIMR members may reference their membership only in a dignified and judicious manner.

The use of the reference may be accompanied by an accurate explanation of the requirements that have been met to obtain membership in these organizations. II(A. 2) Those who have earned the right to use the Chartered Financial Analyst designation may use the marks “ Chartered Financial Analyst” or “ CFA” and are encouraged to do so, but only in a proper, dignified, and judicious manner. The use of the designation may be accompanied by an accurate explanation of the requirements that have been met to obtain the right to use the designation. II(A.) Candidates in the CFA Program, as defined in the AIMR Bylaws, may reference their participation in the CFA Program, but the reference must clearly state that an individual is a candidate in the CFA Program and cannot imply that the candidate has achieved any type of partial designation. B. : Professional Misconduct II(B. 1) Members shall not engage in any professional conduct involving dishonesty, fraud, deceit, or misrepresentation or commit any act that reflects adversely on their honesty, trustworthiness, or professional competence.

II(B. 2) Members and candidates shall not engage in any conduct or commit any act that compromises the integrity of the CFA designation or the integrity or validity of the examinations leading to the award of the right to use the CFA designation. Compliance: 1. Make clear that dishonest personal behavior reflects poorly on the profession. 2. Adopt a code of ethics to which every employee must subscribe. 3. Conduct background checks on potential employees to ensure that they are of good character and eligible to work in the investment industry.

C. : Prohibition against Plagiarism Standard: Members shall not copy or use, in substantially the same form as the original, material prepared by another without acknowledging and identifying the name of the author, publisher, or source of such material. Members may use, without acknowledgment, factual information published by recognized financial and statistical reporting services or similar sources. ? ? Compliance: 1. Maintain copies of materials that were relied on in preparing the research report. 2.

Attribute quotations (and projections, tables, statistics, models, and methodologies) used other than recognized financial and statistical reporting services. 3. Attribute paraphrases and summaries of material prepared by others. 2-III. : Standards of Professional Conduct: III. Relationships and Responsibilities to the Employer A. : Inform your Employer of the Code and Standards III(A. 1) Members shall inform their employer in writing, through their direct supervisor, that they are obligated to comply with the Code and Standards and are subject to disciplinary sanctions for violations thereof.

III(A. 2) Members shall deliver a copy of the Code and Standards to their employer if the employer does not have a copy. Compliance: Members should notify their supervisor in writing of the Code and Standards and the member'sresponsibilityto follow them. The member should also suggest that the employers adopt the Code and Standards and disseminate it throughout the firm. If the employer has publicly acknowledged, in writing, that they have adopted AIMR’s Code and Standards as part of the firm’s policies then the member need not give the formal written notification as required by III(A).

B. : Duty to Employer Standard: Members shall not undertake any independent practice that could result in compensation or other benefit in competition with their employer unless they obtain written consent from both their employer and the persons or entities for whom they undertake independent practice. ? ? Compliance: 1. Members who plan to engage in independent practice for compensation should provide written statements to their employer describing the types of services they will perform, the expected duration of the services, and the compensation they will receive. . Members should also disclose to their prospective clients the identity of their employer, the fact that they are performing independently of the employer, and what their employer would charge for similar services. 3. Members seeking new employment should not contact existing clients or potential clients prior to leaving their employer or take records/files to their new employer without the written permission of the previous employer. C. Disclose Conflicts between you and your Employer III(C. 1): Members shall disclose to their employer all matters, including beneficial ownership of securities or other investments, that reasonably could be expected to interfere with their duty to their employer or ability to make unbiased and objective recommendations. III(C. 2): Members shall comply with any prohibitions on activities imposed by their employer if a conflict of interest exists.

Compliance: Members should report to their employers any beneficial interest and any special relationships, like corporate directorships, that may reasonably be considered a conflict of interest with their responsibilities. Members should also discuss the situation with their firm’s compliance officer before taking any action that could lead to a conflict of interest. D. : Disclose Additional Compensation from Outside the Firm to your Employer Standard: Members shall disclose to their employer in writing all monetary ompensation or other benefits that they receive for their services that are in addition to compensation or benefits conferred by a member’s employer. Compliance: Members should make an immediate written report to their employer specifying any compensation or benefits they receive or propose to receive for services in addition to what their employer is to give them. This written report should state the terms of any oral or written agreement, the amount of compensation, and the duration of the agreement. E. : Responsibilities of Supervisors

Standard: Members with supervisory responsibilities, authority, or the ability to influence the conduct of others shall exercise reasonable supervision over those subject to their supervision or authority to prevent any violation of applicable statutes, regulation, or provisions of the Code and Standards. In so doing, members are entitled to rely on reasonable procedures designed to detect and prevent such violations. ? ? Compliance: The supervisor and the compliance officer should: 1. Disseminate the compliance procedures. 2. Update the procedures as necessary. 3. Educate the staff and issue periodic reminders. . Incorporate a professional conduct evaluation into the employee’s performance review. 5. Review employee actions to ensure compliance and identify violators, initiating procedures once a violation has occurred. A supervisor should respond promptly to the violation by conducting a thorough investigation, and placing limitations on the wrongdoer until the investigation is complete. 2-IV. : Standards of Professional Conduct: IV. Relationships with and Responsibilities to Clients and Prospects A. : The Investment Process IV(A. 1) Reasonable Basis and Representations. Members shall: a.

Exercise diligence and thoroughness in making investment recommendations or in taking investment actions. b. Have a reasonable and adequate basis, supported by appropriate research and investigation, for such recommendations or actions. c. Make reasonable and diligent efforts to avoid any material misrepresentation in any research report or investment recommendation. d. Maintain appropriate records to support the reasonableness of such recommendations or actions. Compliance: 1. Analyze the investment's basic characteristics (records must show the characteristics of the investment and the basis for the recommendation). . Analyze the needs of the portfolio (includes the client's needs, as well as the needs of the total portfolio). 3. Maintain files to support investment recommendations. [pic] IV(A. 2) Research Reports. Members shall: a. Use reasonable judgment regarding the inclusion or exclusion of relevant factors in research reports. b. Distinguish between facts and opinions in research reports. c. Indicate the basic characteristics of the investment involved when preparing for public distribution a research report that is not directly related to a specific portfolio or client.

Compliance: Members should consider including the following information in research reports: 1. Expected annual rates of return, calculated on a total return basis. 2. Annual income expectations. 3. Current rate of return or yield. 4. The degree of uncertainty associated with the cash flows, and other risk factors. 5. The investment's marketability or liquidity. [pic] IV(A. 3) Independence and Objectivity. Members shall use reasonable care and judgment to achieve and maintain independence and objectivity in making investment recommendations or taking investment actions. Compliance: 1. Protect integrity of opinions.

Reports should reflect the analyst's unbiased opinion. 2. Disclose all corporate relationships (i. e. , directorships, underwriting arrangements or acting as a market maker). 3. Disclose personal holdings and beneficial ownerships. 4. Create a restricted list. 5. Restrict special cost arrangements. Members should pay for their commercial transportation and hotel charges. 6. Limit gifts (US$100 is the maximum acceptable value for a gift or gratuity). 7. Restrict investments (strict limits should be imposed on private placements). 8. Review procedures (supervise the personal investment activities of the employees).

B. : Interactions with Clients and Prospects IV(B. 1) Fiduciary Duties: In relationships with clients, members shall use particular care in determining applicable fiduciary duty and shall comply with such duty as to those persons and interests to whom the duty is owed. Members must act for the benefit of their clients and place their clients' interests before their own. Compliance: 1. Follow all applicable rules and laws. 2. Establish the investment objectives of the client. 3. Diversify. 4. Deal fairly with all clients withrespectto investment actions. 5. Disclose all possible conflicts of interest. . Disclose compensation arrangements. 7. Preserve the confidentiality of client information. 8. Maintainloyaltyto the plan beneficiaries. [pic] IV(B. 2) Portfolio Investment Recommendations and Actions: Members shall: a. Make a reasonable inquiry into a client's financial situation, investment experience, and investment objectives prior to making any investment recommendations and shall update this information as necessary, but no less frequently than annually, to allow the members to adjust their investment recommendations to reflect changed circumstances. b.

Consider the appropriateness and suitability of investment recommendations or actions for each portfolio or client (including the needs and circumstances of the portfolio or client, the basic characteristics of the investment involved, and the basic characteristics of the total portfolio). c. Distinguish between facts and opinions in presenting recommendations. d. Disclose to clients and prospects the basic format and general principles of the investment processes by which securities are selected and portfolios are constructed and shall promptly disclose to clients and prospects any changes that might significantly affect those processes.

Compliance: Know basic nature of your client; know objectives and constraints. [pic] IV(B. 3) Fair Dealing: Members shall deal fairly and objectively with all clients and prospects when disseminating investment recommendations, disseminating material changes in prior investment recommendations, and taking investment action. Compliance: 1. Limit the number of people privy to recommendations and changes. 2. Shorten the time frame between initiation and dissemination. 3. Publish personnel guidelines for pre-dissemination. 4. Simultaneous dissemination. 5. Establish rules about employee trading activities. . Establish procedures for determining material changes. 7. Maintain a list of clients and their holdings. 8. Develop trade allocation procedures. 9. Make sure one account is not being used to bail out other accounts. 10. If the firm offers differing levels of service, this fact should be disclosed to all clients. [pic] IV(B. 4) Priority of Transactions: Clients and employers shall have priority over transactions in securities or other investments of which a member is the beneficial owner so that such personal transactions do not operate adversely to their clients' or employer's interests.

If members make a recommendation regarding the purchase or sale of a security or other investment, they shall give their clients and employer adequate opportunity to act on the recommendation before acting on their own behalf. Compliance: 1. Define personal transactions. 2. Define covered investments. 3. Limit the number of access persons. “ Fire Walls” should be built to prevent the flow of information from one group or department to other groups within the firm. 4. Define prohibited transactions. The text specifically mentions equity based IPOs. . Establish reporting procedures and prior-clearance requirements. 6. Ensure that procedures will be enforced and establish disciplinary procedures. [pic] IV(B. 5) Preservation of Confidentiality: Members shall preserve the confidentiality of information communicated by clients, prospects, or employers concerning matters within the scope of the client-member, prospect-member, or employer-member relationship unless the member receives information concerning illegal activities on the part of the client, prospect, or employer.

Compliance: The simplest and most effective way to comply is to avoid discussing any information received from a client except to colleagues working on the same project. [pic] IV(B. 6) Prohibition against Misrepresentation: Members shall not make any statements, orally or in writing that misrepresent: a. the services that they or their firms are capable of performing. b. their qualifications or the qualifications of their firm. c. the member'sacademicor professional credentials.

Members shall not make or imply, orally or in writing, any assurances or guarantees regarding any investment except to communicate accurate information regarding the terms of the investment instrument and the issuer's obligations under the instrument. Compliance: Firms can provide guidance to employees who make written or oral presentations to clients or prospects by providing a written list of the firm’s available services and a description of the firm’s qualifications. [pic] IV(B.) Disclosure of Conflicts to Clients and Prospects: Members shall disclose to their clients and prospects all matters, including beneficial ownership of securities or other investments, that reasonably could be expected to impair the member's ability to make unbiased and objective recommendations. Compliance: Members should report to their employers, clients, and prospects any material beneficial interest they may have in securities, corporate directorships, or other special relationships they may have with the companies they are recommending.

Members should make the disclosures before they make any recommendations or take any investment actions regarding these investments. [pic] IV(B. 8) Disclosure of Referral Fees: Members shall disclose to clients and prospects any consideration or benefit received by the member or delivered to others for the recommendation of any services to the client or prospect. Compliance: 1. Disclose all agreements in writing to any client or prospect who has been referred. 2. Describe in the disclosure the nature of the consideration and the estimated dollar value of the consideration. . Consult a supervisor and legal counsel concerning any prospective arrangement regarding referral fees. 2-V. : Standards of Professional Conduct: V. Relationships with and Responsibilities to the Investing Public A. : Prohibition against Use of Material Nonpublic Information Standard: Members who possess material nonpublic information related to the value of a security shall not trade or cause others to trade in that security if such trading would breach a duty or if the information was misappropriated or relates to a tender offer.

If members receive material nonpublic information in confidence, they shall not breach that confidence by trading or causing others to trade in securities to which such information relates. Members shall make reasonable efforts to achieve public dissemination of material nonpublic information disclosed in breach of a duty. Compliance: Fire walls, minimum elements are: 1. Control over interdepartmental communications. 2. Review employee trading against restricted lists. 3. Restrict proprietary trading while the firm is in possession of material nonpublic information.

Additional procedures: 1. Restrict personal and proprietary employee trading. 2. Place securities on a restricted list when the firm has material nonpublic information. 3. Disseminate material nonpublic information only to those with a need to know. 4. Designate a supervisor who decides when trading is appropriate. B. : Performance presentation Standard: 1. Members shall not make any statements, orally or in writing, that misrepresent the investment performance that they or their firms have accomplished or can reasonably be expected to achieve. 2.

If members communicate individual or firm performance information directly or indirectly to clients or prospective clients, or in a manner intended to be received by clients or prospective clients, members shall make every reasonable effort to assure that such performance information is a fair, accurate, and complete presentation of such performance. Compliance: Misrepresentation about the investment performance of the firm can be avoided if the member maintains data about the firm's investment performance in written form. Investment accounts should be combined into composites by investment class and risk groups. : Standards of Practice Handbook a: Demonstrate a thorough knowledge of the Standards of Professional Conduct by recognizing and applying the Standards to specific situations. This is an application of many different ethics concepts to different scenarios. After having learned the ethics material in earlier learning outcomes you will be able to apply these concepts to various scenarios as you take the quizzes. b: Distinguish between conduct that conforms to the Code and the Standards and conduct that violates the Code and the Standards.

This requires looking at different scenarios and possibly applying several ethics concepts to each scenario. After you learn and understand the ethics concepts you will be able to apply them to specific situations through the quizzes. 4: AIMR Performance Presentation Standards Handbook a: Explain thegoalsof the AIMR-PPS Standards. The Standards have been designed to meet the following goals: • To achieve greater uniformity and comparability among performance presentations. • To improve the service offered to investment management clients. • To enhance theprofessionalismof the industry. To bolster the notion of self-regulation. Note: The Presentation Standards are intended primarily to be performance presentation standards, not performance measurement standards. Portions of the AIMR-PPS are required while some are recommended. AIMR strongly encourages the adoption of both required and recommended components of the Standards. Also, performance presentations may have to provide more than the minimum requirements of the AIMR-PPS to meet the full intent of the Standards. b: Identify the parties affected by the AIMR-PPS standards. Firms. The PPS Standards are voluntary. The PPS are widely recognized as fair and accurate reporting guidelines for investment performance. • AIMR Members, CFA Charterholders, and CFA Candidates. The PPS are not explicitly incorporated into the AIMR Code and Standards of Professional Conduct. The PPS does, however, help insure that members, charterholders and candidates are in compliance with Standard V(B), Performance Presentation, so that they will make no material misrepresentation of their performance results. • Prospective and Current Clients.

The PPS helps clients compare investment performance across firms. The PPS helps clients evaluate their investment manager’s performance. c: Identify the four main topics of the AIMR-PPS standards (i. e. , creation and maintenance of composites, calculation of returns, presentation of results, and disclosures). • Creation and maintenance of composites. A composite is a set of portfolios that follow the same investment style. • Calculation of returns. • Presentation of results. • Disclosures. d: Identify what constitutes a valid claim of compliance with the AIMR-PPS standards.

To claim compliance, firms must meet all composite, calculation, presentation, and disclosure requirements. Adherence to the basic requirements, however, does not guarantee fair and adequate performance reporting. Compliance with the standards also requires adherence to all applicable laws and regulations. If the firm has made every reasonable effort to ensure that their performance presentation is in compliance with the PPS, the firm can use the following legend:? XYZ Firm has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research.

AIMR has not been involved with the preparation or review of this report. • Any use of the mark “ AIMR” except as shown above is prohibited. • If results are not in full compliance, performance cannot be presented as: Being in compliance with the AIMR-PPS except for … • Statements referring to the calculation methodology used in a presentation as being in accordance or compliance with AIMR-PPS standards are prohibited. • AIMR members who misuse the term AIMR, AIMR-PPS standards, or the Compliance Statement are subject to disciplinary sanctions under Standard V(B).