

## Code of ethics and standards of professional conduct

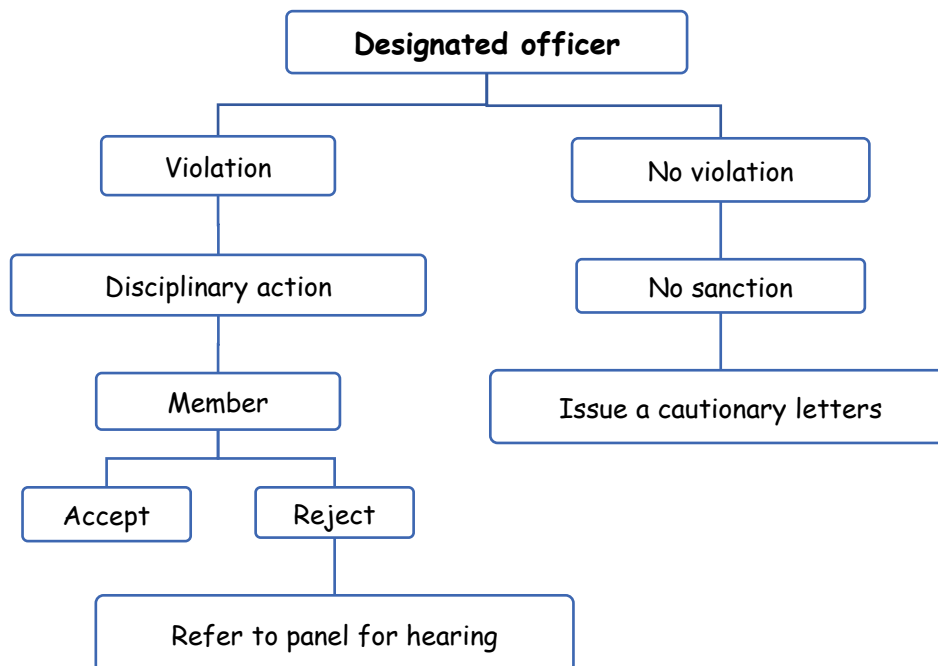
Structure of the CFA institute professional conduct program and the process for the enforcement of the code and standards

The CFA institute professional conduct staff conducts inquiries related to professional conduct. several circumstances can prompt such as inquiry;

1. Self- disclosure by members or candidates on their annual Professional Conduct Statements of involvement in civil litigation or a criminal investigation, or that the member or candidate is the subject of a written complaint.
2. Written complaint about a members or candidate's professional conduct that are received Professional Conduct staff.
3. Evidence of misconduct by a members or candidates that the Professional Conduct staff received through public sources, such as media, article or broadcast.
4. A report by a CFA exam proctor of a possible violation during the examination.

Analysis of exam materials and monitoring of social media by CFA Institute.

Once an inquiry has begun, the Professional Conduct staff may decide.



## Code of ethics

Members of CFA institute including chartered financial analyst (cfa) charter holders and candidates for the candidates for the cfa designation ("members and candidates") must:

- 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 participations in the global capital market.
- 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 and viability of the global capital markets for the ultimate benefit of society.
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

## Standards of professional conduct

### I. Professionalism

- A. Knowledge of the law.** Members and Candidates must understand and comply with all applicable laws, rules, and regulations (including the CFA Institute Code of Ethics and Standards of Professional Conduct) of any government, regulatory organization, licensing agency, or professional association governing their professional activities. In the event of conflict, Members and Candidates must comply with the stricter law, rule, or regulation. Members and Candidates must not knowingly participate or assist in any violation of laws, rules, or regulations and must disassociate themselves from any such violation.

#### Recommendations for members

- Establish, or encourage employer to establish, procedures to keep employees informed of changes in relevant laws, rules, and regulations.
- Review, or encourage employer to review, the firm's written compliance procedures on a regular basis.
- Maintain, or encourage employer to maintain, copies of current laws, rules, and regulations.
- When in doubt about legality, consult supervisor, compliance personnel, or a lawyer.
- When dissociating from violations, keep records documenting the violations, encourage employer to bring an end to the violations.
- There is no requirement in the Standards to report wrongdoers, but local law may require it; members are "strongly encouraged" to report violations to CFA institute professional conduct program.

#### Recommendations for Firms

- Have a code of ethics.
- Provide employees with information on laws, rules, and regulations governing professional activities.
- Have procedures for reporting suspected violations.

Violations

- Doing something allowed by local laws overseas but not CFA institute standards.
- Knowingly participating or assisting in unethical activity done by others.
- A student is enrolled to take the level 1 exam; her friend purchased Level 1 study materials from a well-known CFA review program the previous year. The friend made a photocopy of the previous year's copyrighted materials and sold it to Mr.X to help her study.

Not violations

- Informing supervisors/firm's compliance department for an appropriate action to be taken.
- Reporting a legal violation to govt. or regulatory official is appropriate but not always required.
- Instances where the supervisor believes that an employee has violated the written policies regarding trading in personal accounts, the supervisor then should limit the trading activity and increase monitoring of the employee's trades.

**B. Independence and objectivity.** Members and Candidates must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. Members and Candidates must not offer, solicit, or accept any gift, benefit, compensation, or consideration that reasonably could be expected to compromise their own or another's independence and objectivity.

**Recommendations for Members**

- Members or their firms should pay for their own travel to company events or tours when practicable and limit use of corporate aircraft to trips for which commercial travel is not an alternative.

**Recommendations for Firms**

- Restrict employee participation in IPOs and private placements, require preapproval for participation.
- Appoint a compliance officer, have written policies on independence and objectivity and clear procedures for reporting violations.
- Limit gifts, other than from clients, to token items only.

Violations

- Yielding to pressure from other departments.
- Accepting expensive gifts & offers and using them for their own business marketing.
- An employee cannot allocate shares to his personal account if an IPO has been oversubscribed.
- Following instructions without using own judgment.
- Accepting Fee for an issuer pay research report, based on the conclusion of the report.
- Accepting tickets of a sold-out concert as they have significant material value.
- Gifts from entities (third party service providers) like brokers, custodians, etc. to use their services
- Issuing recommendations as per the instructions of supervisor and not based on independent judgment.
- Accepting any form of expensive gifts
- An analyst is concerned that an unfavourable report may result in management reprisal, so he gave a 'Buy' rating on a stock. [3rd party]

- Independently research credit ratings by agencies to evaluate their soundness.
- Issuer paid research if conclusion is unbiased, compensation disclosed to employee & compensation preferably in the form of a flat fee without regard to the conclusion.
- Accepting gifts from clients after disclosure to the employer.
  - For past performance - disclosure
  - For future performance - written permission
- Paying travel expenses or arrangements for visit to remote locations.
- Not disclosing about gifts to other clients in case the gift was not based on future performance, (i.e. gifts based on future performance needs to be disclosed to other clients).
- Subscription of IPO based on prospectus and not insider information
- Modest gifts from clients. (nominal value)
- Getting bonus based on performance by employer.
- Gift received after the opinion has been given since it cannot affect judgment now.

May accept gifts and bonuses from clients. However, refer to standard IVB

- An employee receives the following gifts from his clients
  - Three tickets to a tennis match.
  - Use of client's flat in America for two weeks.

The analyst disclosed the gift to her supervisor.

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

**Recommendations for Members**

- Prepare a summary of experience, qualifications, and services a member is able to perform.
- Encourage employers to develop procedures for verifying marketing materials provided by third parties concerning their capabilities, products, and services.
- Cite the source of any summaries of materials provided by others.
- Keep copies of all reports, articles, or other materials used in the preparation of research reports.
- Provide a list, in writing, of the firm's available services and qualifications.
- Periodically review documents and communications of members for any misrepresentation of employee or firm qualifications and capabilities.

- No specific reference to source of information.
- Citing assurance of consistency in future performance based on past. Ex: "we have outperformed in past & will continue to do so", "Continue to benefit clients", "Generate future results"
- Data taken from any source to support one's own investigation requires source citing.
- Not giving credit to same one else's innovative thinking or idea.
- Claiming 3rd party research as own.
- Misrepresenting an analyst's qualification.
- Using someone else's work & not acknowledging the same.
- Statement of guarantee where in it is not applicable
- Plagiarism - Using someone else's work without permission or credit.
- Copying proprietary information without authorization of owner.
- Joining a competing firm after relocating, despite signing a non-compete clause, because such a clause is illegal in the new city.

- Unintentional error while preparing material
- Informing clients of the guarantee of products built into this structure.
- Ex senior tranche of CDO has more credit standing than junior.
- Using information from recognized financial/ statistical data & reporting without citing sources.
- Ex: US Treasury website.
- Stating that US Treasury fund contains "guaranteed securities".
- Mentioned "we provide all services" and assist clients with financial & investigating services & making arrangements for services not given in-house.

Not Violations

D. **Misconduct.** 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.

#### Recommendations for Firms

- Develop and adopt a code of ethics and make clear that unethical behaviour will not be tolerated.
- Give employees a list of potential violations and sanctions, including dismissal.
- Check references of potential employees.

Violations

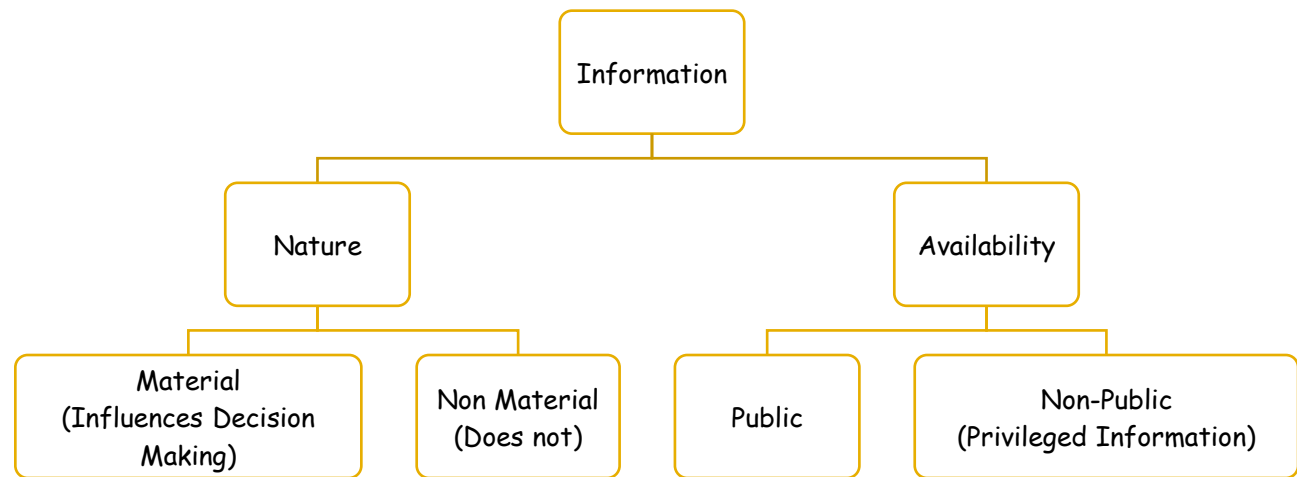
- Being intoxicated while making financial decisions.
- Including receipt that is not part of company trip as expense.
- Being dishonest, altering facts of a situation.
- Neglecting to perform due diligence when required as it is a professional obligation.
- Reporting to CFA institute to settle disputes unrelated to professional ethics.
- Stating vague statements about a company's financial conditions to mislead investors.

- Being arrested for non - violent protest supporting personal beliefs; Civil disobedience.
- Violation of law that does not reflect on member's honesty, integrity or competence.
- Working as a bar tender part - time
- Personal bankruptcy is not a violation unless an element of fraud is involved.
- An analyst was arrested in a protest for deforestation, which is illegal.

Not Violations

Ans- Protesting for cutting trees may be illegal but ethical, so being arrested for civil disobedience is not a violation.

## II. Integrity of Capital Markets



**Mosaic Theory: Public Material + Non-Public Non-Material information is allowed to be used.**

(Can trade, recommend or disclose)

**Non-Public + Material Information is unethical to use.**

**A. Material Non - public Information.** Members and Candidates who possess material non-public information that could affect the value of an investment must not act or cause others to act on the information.

### **Recommendations for Members**

- Make reasonable efforts to achieve public dissemination by the firm of information they possess.
- Encourage their firms to adopt procedures to prevent the misuse of material non-public information.

### **Recommendations for Firms**


Use a firewall within the firm, with elements including:

- Exercise substantial control of relevant interdepartmental communications through a clearance area, such as the compliance or legal department.
- Review employee trades.
- Maintain "watch," "restricted," and "rumour" lists.



Violations

- Using material non - public information
- Meeting for analysts, not for general public - Any information given here cannot be used for Client or Personal A/C.
- Contacted internal counsel before planning trade based on material non - public information
- Failure to prevent transfer of material non - public info to others in a firm. Ex: Manager shouts on the phone leaving his cabin door open.
- Trading on insider information.
- Trading on stock based on advance copy of stock recommendation received.
- CFO tells analyst that earnings may fall below his estimates. Analyst changes recommendation to 'sell'.
- CFA overhears information and tells her senior but does not trade - Violation because others might act on it.
- Receiving information from friends in previous company in chat rooms (online).
- Few people hearing the information along with you doesn't make it public information. Thus, one cannot trade on the same.
- Few people hearing the information along with you doesn't make it public information. Thus, one cannot trade on the same.
- Urging another person to accept shares based on insider information one possesses.
- Using material non-public information & using public information to cover up for it.
- Analyst working in investment banking division & sharing information with colleagues.
- Recommending 'Buy' to all the internet bulletins so that he can offload the existing share.

- 
- Not Violations
- Mosaic theory - non - material non - public + material public, own analysis etc.
  - One should keep detailed documents of one's own analysis to prove the same.
  - Information could be material non-public but if the source is unreliable, then using it is not a violation.
  - A famous analyst recommendation impacts price. His clients can act on it before he makes the recommendation public. His material is not classified as material so he is not under any violation.

- B. **Market Manipulation.** Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.
- Ex: Doctor tells you Company A may be taken over by Company B.



Violations

- Intentional misleading or manipulation of price or data.
  - Spreading false rumours to induce trading
  - Creating price volatility artificially
  - Manipulating participants by creating artificial liquidity.
  - Posting false information on social media to increase/ decrease price Simultaneous buying & selling of its subsidiaries, citing volume as evidence of market liquidity.
  - Manipulating options transactions to drive up prices.
  - Generating false trading volumes so as to sell left over shares in future.
  - Giving 'buy' recommendation; and then selling client shares when prices have gone up due to the recommendation.
  - Giving a company a smaller number of shares than what it has subscribed, only to get that company's goodwill attached. This goodwill will help to increase demand of unsubscribed shares
- An analyst intentionally planned the release of his research report to sensationalize the news in order to pressure a stock's price lower severely.



Not Violations

- Low - cost transactions through competitive advantage.
- Hedging any potential loss from a decline in price of a stock prior to completion of the sale transaction.
- Transactions meant for minimizing tax liabilities.
- Trading strategies used to benefit investors. (May not be manipulation - Sell Call and Buy Stock)
- Exploiting Arbitrage opportunities between stock and options.
- Prices may change due to exploiting of arbitrage opportunities.

### III. Duties to clients

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

#### Recommendations for members:

Submit to clients, at least quarterly, itemized statements showing all securities in custody and all debits, credits, and transactions

Encourage firms to address these topics when drafting policies and procedures regarding fiduciary duty:

- Follow applicable rules and laws.
- Establish investment objectives of client.
- Consider suitability of a portfolio relative to the client's needs and circumstances, the investment's basic characteristics, or the basic characteristics of the total portfolio.
- Diversify.
- Deal fairly with all clients in regard to investment actions.
- Disclose conflicts.
- Disclose compensation arrangements.
- Vote proxies in the best interest of clients and ultimate beneficiaries.
- Maintain confidentiality.
- Seek best execution



- Investment made against mandate even if it provided high returns.
- Trading with selective brokers to get recommendations from them for getting more clients.
- Appointing a broker simply because he trades the member's A/C on favourable terms. It is possible that the client wants better and faster service and the broker chosen is giving advantages to the employer's firm.
- Using client brokerage for services that does not benefit the client.
- Doing more than required trade in client A/C to accomplish client's goal & generate commission income.
- The financial advisor at New Investments Asset Managers adhered to company protocols to maintain transparency in his client contacts. While overseeing his family's accounts, he avoided creating a conflict of interest by not putting shares of an appropriate initial public offering (IPO) into his brother's account.

Note: pension fund/trust manager owes loyalty to beneficiaries of the Pension Fund and not the people who hire them

- Choosing brokers based on quality of services.
- Tyra, an analyst, discovers a trade omission in client account investment performance before its release. Correcting the error results in a significant loss for a client previously considering termination due to underperformance.

**B. Fair Dealing.** 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.

**Recommendations for Members**

- Encourage firms to establish compliance procedures requiring proper dissemination of investment recommendations and fair treatment of all customers and clients.
- Maintain a list of clients and holdings—use to ensure that all holders are treated fairly.

**Recommendations for Firms**

- Limit the number of people who are aware that a change in recommendation will be made.
- Shorten the time frame between decision and dissemination.
- Publish personnel guidelines for pre-dissemination—have in place guidelines prohibiting personnel who have prior knowledge of a recommendation from discussing it or taking action on the pending recommendation.
- Disseminate new or changed recommendations simultaneously to all clients who have expressed an interest or for whom an investment is suitable.
- Develop written trade allocation procedures—ensure fairness to clients, timely and efficient order execution, and accuracy of client positions.
- Disclose trade allocation procedures.
- Establish systematic account review—ensure that no client is given preferred treatment and that investment actions are consistent with the account's objectives.
- Disclose available levels of service



Violations

- Giving opinion on something to selected clients only.
- Informing few analysts about something.
- Trading in one A/C prior to trading or announcing recommendation for other clients.
- Arrangement made for shares of an IPO of selected clients just before IPO is offered to general public.
- Making allotments based on the client's A/C size and not according to their preference or equally. But be careful to assess suitability as well. Don't blindly do pro-rata allocation.
- Immediately trading for own A/C after announcing recommendation change to its clients (give clients time to act).
- Member taking hot IPO issue for himself.
- Giving priority to few clients while allocating trade.
- Disseminating buy / sell recommendations too few clients before everyone else.
- Over-subscribed shares should be awarded on a Pro rata basis. Also should forgo any allocations to themselves and to any immediate family members (If they are not a client) and free up additional shares for clients.
- Use their position to disadvantage clients in cases of IPO Allotment of shares.



Not Violations

- Email clients with email addresses & regular mail to ones without an email address.
- After general recommendation to all clients, analyst calls firm's largest client to discuss the same in more detail.
- If client places an order that goes against firm's recommendation, inform the client about the same before accepting.
- IPO being allocated to all clients including brother's fee-based retirement account.
- Releasing a press note to inform.
- After giving recommendations give some time to the client to react. Do not shoot a mail about some recommendation and immediately start trading on that yourself.
- If a firm has changed its recommendation from 'Buy' to 'Sell'; and the same has not yet been communicated all the clients and at that very moment a client calls up to Buy the stock - we have to inform him of the changed recommendation even though the others have not been informed.
- Uzen issues a new recommendation via email to all clients, then discusses it in detail with his three largest institutional clients.

### C. Suitability.

1. When Members and Candidates are in an advisory relationship with a client, they must:
  - a. Make a reasonable inquiry into a client's or prospective clients' investment experience, risk and return objectives, and financial constraints prior to making any investment recommendation or taking investment action and must reassess and update this information regularly.
  - b. Determine that an investment is suitable to the client's financial situation and consistent with the client's written objectives, mandates, and constraints before making an investment recommendation or taking investment action.
  - c. Judge the suitability of investments in the context of the client's total portfolio.
2. When Members and Candidates are responsible for managing a portfolio to a specific mandate, strategy, or style, they must make only investment recommendations or take investment actions that are consistent with the stated objectives and constraints of the portfolio.

#### Recommendations for Members

- For each client, put the needs, circumstances, and investment objectives into a written IPS.
- Consider the type of client and whether there are separate beneficiaries, investor objectives (return and risk), investor constraints (liquidity needs, expected cash flows, time, tax, and regulatory and legal circumstances), and performance measurement benchmarks.
- Review the investor's objectives and constraints periodically to reflect any changes in client circumstances.

#### Violations

- Intentional deviation from investment policy statement.
- Failing to determine client's objectives and constraints prior to investing.
- Making investments without analysing suitability from the client's perspective.
- Investing in illiquid securities even if it generates high return if IPS requires liquid securities.
- Investing in securities in a fund that does not suit the mandate of the fund. Ex- investing in small cap securities for a large cap fund.
- Putting all clients' money in a friend's hedge fund without analysing suitability.
- Analyse the investor's objectives and constraints. Cannot use same strategy as others only on the basis of age, income etc.
- Investing in Mutual Funds requires to be managed as per mandate and not as per suitability of the investors participating in the fund.
- A Member manages a high-income mutual fund. He purchases zero-dividend stock in a financial services company because the stock is undervalued, which makes it an attractive investment.

#### Not Violations

- Investments made as per IPS.
- A member, who believes an unsolicited trade is unsuitable for the client, can either decline to carry it out or ask the client for a statement that suitability is not a consideration for the trade.
- Consider suitability of investment prior to making recommendation or investing.
- If unsolicited information will have significant impact - discuss with client.
- Client's IPS must include:
  - Client identification - type & nature
  - Objectives (RR)
  - Constraints (TTLU)
- Disclosure of conflict is not a part of client IPS.

D. **Performance Presentation.** When communicating investment performance information, Members or Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete.

**Recommendations for Members**

- Encourage firms to adhere to *Global Investment Performance Standards*.
- Consider the sophistication of the audience to whom a performance presentation is addressed.
- Present the performance of a weighted composite of similar portfolios rather than the performance of a single account.
- Include terminated accounts as part of historical performance and clearly state when they were terminated.
- Include all appropriate disclosures to fully explain results (e.g., model results included, gross or net of fees, etc.).
- Maintain data and records used to calculate the performance being presented.

Violation

- Excluding disclosure of terminated portfolios in performance will show an upward bias.
- When presenting past performance in one's resume, acknowledge the entire team. Failure to credit the entire team and show the performance as a result of personal effect is a violation.
- Advertising the details of past performance of the funds managed at prior firm without identifying that it was earned while working at that firm.
- Advertising simulated results of a strategy as actual performance
- Changing firm's performance attribution method without disclosing it to the clients.
- Implying future returns will reflect past performance.
- A Firm claims compliance with the *GIPS* standards, but its returns are not calculated in accordance with the requirements of the *GIPS* standard.

Not Violations

- Must ensure accuracy, completeness & fairness of performance presentation.
- Showing past performance of funds managed at a previous firm as part of performance track record, if mentioned that it pertains to the previous firm.
- Brief representation is acceptable as long as it includes a statement stating that detailed information is available upon request.

E. **Preservation of Confidentiality.** Members and Candidates must keep information about current, former, and prospective clients confidential unless:

- I. The information concerns illegal activities on the part of the client or prospective client,
- II. Disclosure is required by law, or
- III. The client or prospective client permits disclosure of the information.

**Recommendations for Members**

- Members should avoid disclosing information received from a client except to authorize co-workers who are also working for the client.
- Members should follow firm procedures for storage of electronic data and recommend adoption of such procedures if they are not in place.



Violations

- Disclosing information that was learned from client in course of their business relationship.
- Leaking out confidential information given by CFO who is your client.
- (EX: management believes they will receive a large contract from a foreign govt. which will increase revenue by 20%).
- An investment advisor got to know that one of his clients is planning to contribute \$30,000 to charity to reduce his tax liability. The investment advisor immediately calls his NGO to approach the concerned client to receive a contribution towards their campaign.

**Disclosing data about one client's A/C to another client to help him decide if he should invest in that other client's firm or not.**

- Disclosing information permitted by client.
- Data given to legal authorities (giving tax related information to bank manager is violation - needs to be given to relevant legal authority like ITO)
- Sharing confidential client information with CFA institute's professional conduct program (PCP) to help in their investigation is recommended but not required - members should cooperate.
- An investment officer received a request from a local law to disclose one of her client's information, Before disclosing the same. She cross-checked with the compliance team - not a violation.



Not Violations

#### IV. Duties to Employers

**A. Loyalty:** 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.

##### Recommendation for Members

- Members are encouraged to give their employer a copy of the Code and Standards.
- Best practice is to use separate social media accounts for personal and professional communications.

##### Recommendations for Firms

- Employers should not have incentive and compensation systems that encourage unethical behavior.

Violations

- Even if one receives compensation like a parking space for a volunteer position in similar work field. (disclosure to employer & written consent required)
- Records are property of the ex-employer. Former client cannot be contacted from records (client list) taken from ex-employer. You may contact them using public sources, your memory or books, records, etc. (Provided no non-compete agreement has been signed)
- Taking models from previous employer without permission - even if you had created the model.
- Disclosing sensitive business information (EX: a recommendation on a stock)
- Mention of past performance of a fund in an individual's resume is a violation unless permission from respective employer taken.
- Soliciting client at current job to open his a/c at the new firm the employee will be soon shifting to.
- Sending research report to employer 'B' (future employer) before employer 'A' while working for employer 'A'. 'A' has the first right to act on the research.
- An unpaid intern is considered an employee & cannot take records.
- Using employer's time to do own work or work for a firm he is about to start.
- A Group of employees leaving an organization together. Before leaving, they plan to respond to request for proposal that is in conflict with the employer. They can prepare before and respond after leaving the job not before that.
- Soliciting clients from the existing company to a new company that you have joined.
- Trying to convert potential customers to the new company rather than the current company.
- Bidding for an order while still employed is not preparation but competing.

Not Violations

- If employer's permission taken prior to responding.
- 2 employees discussing joining others in an employee-led buyout.
- Acting as town mayor without employer's permission if time permits- since no conflict of interest no permission required.
- Accepting board position without compensation is not a violation but time consuming, hence must inform employer.
- Contacting clients of former firm without using previous employer's records.
- Taking files if permission taken.
- Soliciting clients after leaving the job.

**B. Additional compensation arrangements.** 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

**Recommendations for members**

- Make an immediate written report to the employer detailing any proposed compensation and services, if additional to that provided by the employer.
- Members and candidates who are hired to work part time should discuss any arrangements that may compete with their employer's interest at the time they are hired and abide by any limitations their employer identifies.

**Recommendations for Firms**

- Details of additional compensation, including any performance incentives, should be verified by the offering party.

- Client gives employee a vacation incentive if a particular % is achieved & employee does not disclose it to the employer.
- Member purchases shares for clients of the company in which he is in the BOD; & receives that company's products at no charge. (since he is a director and is receiving free Products therefore a part of both IVB and IB)

- Disclosing bonus offer by client to employer & getting written consent.
- Taking permission before accepting
- Employer's permission is required to accept gifts if it creates conflict of interest. (Ex: Accepting Airline tickets to check if the airline services are fine before commenting on the Airline's stock)

**C. Responsibilities of supervisors.** 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.

#### **Recommendations for members**

A member should recommend that his employer adopt a code of ethics. Members should encourage employers to provide their codes of ethics to clients.

Once the compliance program is instituted, the supervisor should:

- Distribute it to the proper personnel.
- Update it as needed.
- Continually educate staff regarding procedures.
- Issue reminders as necessary.
- Require professional conduct evaluations.
- Review employee actions to monitor compliance and identify violations

#### **Recommendation for Firms**

Employers should not commingle compliance procedures with the firm's code of ethics — this can dilute the goal of reinforcing one's ethical obligations.

While investigating a possible breach of compliance procedures, it is appropriate to limit the suspected employee's activities.

Adequate compliance procedures should:

- Be clearly written.
- Be easy to understand.
- Designate a compliance officer with authority clearly defined.
- Have a system of checks and balances.
- Outline the scope of procedures.
- Outline what conduct is permitted.
- Contain procedures for reporting violations and sanctions.
- Structure incentives so unethical behavior is not rewarded.



- Head of research department changes its recommendation from buy to sell and orally advises certain other executives of the changed recommendation; & the executives short the stock in client & own A/C before the report is sent to all clients the next day. It is the duty of the supervisor to see that no one acts on such information until all clients are informed.
- Supervisor buys stocks suggested by his juniors without checking for reasonableness & adequate basis.
- Heavy trading in a stock at a firm's trading desk not on the firm's recommended list - duty of supervisor to monitor such activity.
- Only reporting violation of employee to upper management & providing written warning to employees to cease such activities is not sufficient.
- If firm's compliance is inadequate, member should decline supervisory responsibility until firm adopts reasonable compliance procedures in writing. Only informing supervisor otherwise is a violation.
- Mistakes by juniors like tweeting a recommendation are classified as inadequate training by supervisor.

- Members may delegate supervisory duty to subordinates but remains responsible for instructing them about how to detect & prevent violation.
- Bringing inadequate compliance system in the notice of management.
- Decline in writing from the post or responsibility until reasonable compliance procedure adopted.

## V. Investment analysis, recommendations, and actions

### A. Diligence and Reasonable Basis

Members and Candidates must:

1. Exercise diligence, independence, and thoroughness in analysing 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.

### Recommendations for Members

A member should recommend that his employer adopt a code of ethics. Members should encourage employers to provide their codes of ethics to clients.

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- Distribute it to the proper personnel.
- Update it as needed.
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While investigating a possible breach of compliance procedures, it is appropriate to limit the suspected employee's activities.

- Adequate compliance procedures should:
  - Be clearly written.
  - Be easy to understand.
  - Designate a compliance officer with authority clearly defined.
  - Have a system of checks and balances.
  - Outline the scope of procedures.
  - Outline what conduct is permitted.
  - Contain procedures for reporting violations and sanctions.
  - Structure incentives so unethical behavior is not rewarded

### Violations

- Member selects external advisor for equity based on low fee & does not consider performance or service.
- Issuing recommendation based on what others are buying
- IPO shares priced without doing adequate research.
- Member proposes IPO to investors but does not do adequate research due to lack of resources, on all the prospectus issuing companies. It bases its IPO recommendation on relative size of the company & later tries to justify the same when the staff has time for it.
- Making recommendation for a company (which is offering the firm underwriting services) based on its maximum production level and not expected production level.
- While using 3rd party research report, required to review assumptions & evaluate objectivity. If the same is not done it is a violation.
- Using available data without proper research & justification.
- Selection of sub manager should not be based solely on the lowest fee or reputation.

### Not Violations

- Group consensus (of all analysts) is not required. If 'A' writes a report & 'B' while reviewing makes changes, 'A' does not need to do anything further. If 'A' believes that 'B' did not have reasonable basis, he should get his name removed.
- Compensate analysts based on the quality of their research.
- Have a policy requiring that research reports, recommendations have a basis that can be substantiated as reasonable & adequate.
- Member proposes hedge fund to client after proper and adequate research. Hedge fund incurs heavy loss & closes operations.
- Use of 3rd party research for recommendation after reviewing assumptions and evaluating objectivity.
- Member writes a report on interest rate forecast. Maximum committee members vote to change the report based on certain facts. No need to disassociate or remove name from the report.

## B. Communication with clients and prospective clients.

Members and candidates must:

1. Disclose to clients and prospective clients the basic format and general principles of the investment processes used to analyse investments, select securities, and construct portfolios and must promptly disclose any changes that might materially affect those processes.
2. Disclose to clients and prospective client's significant limitations and risks associated with the investment process.
3. Use reasonable judgment in identifying which factors are important to their investment analyses, recommendations, or actions and include those factors in communications with clients and prospective clients.
4. Distinguish between fact and opinion in the presentation of investment analysis and recommendations.

### Recommendations for members

- Selection of relevant factors in a report can be a judgment call so members should maintain records indicating the nature of the research, and be able to supply additional information if it is requested by the client or other users of the report.

Violation

- Member does not intend to include all relevant factors behind investment advice in the newsletter.
- Member estimates gold reserves of 500000 ounces in a company's property & makes report - "based on the fact that it has gold reserves, stock is a buy".
- Due to poor results of benchmark, member decides to structure portfolios passively to track benchmark but does not inform clients.
- Firm changes advisor and discloses in annual report and not immediately to clients.
- Portfolio manager used to do stock selection, now senior manager will; client not informed.
- Member changes criteria of stock selection & informs prospective clients and third party consultants but not existing clients.
- Member sends report to clients indicating high return if interest rate volatility decreases, but does not disclose basic creator of the strategy and how the strategy will perform if interest rate volatility increases.
- Analyst discussed how her strategy will perform if euro appreciates as expected but does not mention the scenario where it depreciates.
- Giving guarantee of improved results.
- Stating expected improvement as a fact.
- Changes investment process without informing clients.
- Hiding strategies from clients arguing proprietary information.

- Instead of increasing ceiling of small cap stocks from \$250m to 500m, member includes non US stocks in portfolio. Information of change is given to all concerned parties.
- Inform clients about processes or changes (even after implementation). Expectation of improved result is not a violation.
- The strategy to provide risk free profits through arbitrage of interest rate differentials is by nature arbitrage and therefore guaranteed. Hence providing guarantee of results not violation based on such a strategy.
- Disclosure of changes do not include details of the current valuation model to contrast with the new model, provided a detailed description of the new model is given along with any limitation on the investment universe.
- An analyst might state that government bonds are supported by sovereign guarantees, suggesting a high level of security for the principal and interest payments.

Not Violations

C. **Record Retention.** Members and Candidates must develop and maintain appropriate records to support their investment analysis, recommendations, actions, and other investment-related communications with clients and prospective clients.

**Recommendations for Members**

- If no regulatory standards or firm policies are in place, the Standard recommends a seven-year minimum holding period.
- Recommendations for Firms
- This recordkeeping requirement generally is the firm's responsibility

Violations

- Research properly based on interviews, analysis etc. but record not maintained
- Shredding of records after preparing reports.
- Not maintaining record of sources based on which decisions taken
- Keep records of your previous company and use the same for your prospective clients.

- Allocation of client's portfolio to technology sector as per benchmark; sector suffers loss & client loses money. Member shows the IPS to client and proves that allocation has been made as per benchmark proportion.

Not Violations

**VI. Conflicts of interest**

A. **Disclosure of Conflicts.** Members and Candidates must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and employer. Members and Candidates must ensure that such disclosures are prominent, are delivered in plain language, and communicate the relevant information effectively.

**Recommendations for Members**

- Any special compensation arrangements, bonus programs, commissions, and incentives should be disclosed.



Violation

- Member replaces external manager which has average results with a friend's firm without telling clients. Disclosure needs to be made as appointing a friend's firm is conflict even though the friend's firm might be better.
- Member, a portfolio manager, takes job as a trustee of a fund without informing employer - should not only inform but discuss before appointment.
- Member accepts offer from stock promoter for additional compensation for sale of his stock without informing clients or employer.
- Member sits on client's BOD, member writes a report on client's stock. She does not disclose the fact of her sitting on the board.
- Member's employer introduces bonus compensation system that rewards portfolio managers on 'quarterly performance basis to its peers and benchmark indices'. Member changes his investment strategy and buys high beta stock contrary to client IPS. Does not inform client about change in compensation agreement. There is a conflict due to compensation system being changed and the client needs to be informed.
- Member writes an issuer pay research report and does not disclose the same in the report which was published on his website.
- Non-disclosure to employer or all clients on matters including beneficial ownership.
- Recommending a stock of a company because the marketing division wants to obtain business from that company.
- Not disclosing compensation changes conflicting with the client's investment goals.
- Contradicting client's IPS objectives to achieve short-term goals.
- Failing to disclose to clients the additional compensation received for recommending and/or selling a stock.



Not Violations

- Member recommends stock of a company that his wife inherits in large amount but he discloses the fact to clients & employer.
- Disclosure of stock holding & position on BOD to clients & employer.
- CFA asked by firm 'A' to write report on 'B'. 'A' is market maker for 'B', and a principal in the firm sits on B's BOD. He may write report disclosing the market making & directorship positions.
- Sell side analyst writing research report on Company must disclose any beneficial ownership too.
- An analyst is preparing a stock report on the company while disclosing her stakes in the same.
- Undertaking transactions in accounts for which you are a beneficial owner after the clients and employers have had an adequate opportunity to act on a recommendation.
- Providing enough disclosures to ascertain the impact of conflicts and mitigating it.

**B. Priority of Transactions.** Investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner.

### Recommendations for Firms

All firms should have basic procedures in place that address conflicts created by personal investing.

The following areas should be included:

- Establish limitations on employee participation in equity IPOs.
- Establish restrictions on participation in private placements. Strict limits should be placed on employee acquisition of these securities and proper supervisory procedures should be in place. Participation in these investments raises conflict of interest issues similar to those of IPOs.
- Establish blackout/restricted periods. Employees involved in investment decision making should have blackout periods prior to trading for clients—no front running (i.e., purchase or sale of securities in advance of anticipated client or employer purchases and sales).
- Establish reporting procedures, including duplicate trade confirmations, disclosure of personal holdings and beneficial ownership positions, and preclearance procedures.

Violations

- Not executing client sell order prior to selling own shares.
- Member reveals sell rating on a stock to firm's brokers who buys put options on the stock for her firm's A/C before report is sent to clients.
- Employee purchases stock before client or for his personal A/C.
- Parents are clients. Member purchases shares in client A/C before parents A/C to prevent violation. It is a violation and parents must be treated at par with other clients.
- Not giving client an adequate opportunity to act on a recommendation before trading for personal accounts
- Members involved in distributing an IPO of equity shares may participate in it unless the IPO is oversubscribed. Recommended - not required - to obtain pre clearance from supervisor before participating.
- Trading in family / friend's A/C which is not a firm A/C after giving recommendations.
- An employer's firm traded in the options market before allowing a client to react to the recommendations, which impacted market prices.
- Taking advantage of one's knowledge of a stock's value before allowing one's employer to benefit from that information.
- Acting on information about pending trades for personal gains.

Not Violations

- Taking position in own A/C one week after publishing a report.
- Entering personal transactions that are contrary to what their firms are recommending for clients as long as:
  - Don't disadvantage clients
  - Don't benefit personally from client trades
  - Violate any regulations.
- A wealth manager prioritizes applying for an oversubscribed hot IPO issue for the client's account before his personal account.
- Treating parent's fee-paying account at par with other client's account.

C. **Referral Fees.** Members and Candidates must disclose to their employer, clients, and prospective clients, as appropriate, any compensation, consideration, or benefit received from, or paid to, others for the recommendation of products or services.

#### Recommendations for Members

- Members should encourage their firms to adopt clear procedures regarding compensation for referrals.
- Members should provide their employers with updates at least quarterly.
- Recommendations for Firms
- Firms that do not prohibit referral fees should have clear procedures for approval and policies regarding the nature and value of referral compensation received.

Violations

- Member advises client to use services of someone else without disclosing that he is being compensated for the same.
- monthly market research
- A ----->B
- <-----
- Client referred, European equity research.
- Clients and prospects unaware of agreement between A and B - violation
- X is a portfolio manager and Y is a recruiter. X lets Y play golf at his club & Y refers to X's firm any high level executive recruited without disclosure.
- Member fails to disclose to the client (referred by a 3rd party) about referred fees payable to 3rd party for giving him clients
- Member works in trust department of a bank. He receives compensation for referral made to bank's brokerage and personal finance management department. Member does not disclose the referral fee to his clients
- Verbally communicating the firm's referral program instead of providing written documentation as required
- Soliciting current firm's client for your own side business to earn referral fees, without disclosing it to your employer
- Not disclosing the referral arrangement to her clients regardless of whether a brokerage house provides the "best price" and "best execution"
- Clients were previously unaware of referral fee arrangements, which were later disclosed on bills sent out in arrears

- Disclosing referral fee arrangements to employers and potential clients.
- The portfolio manager secured approval from the employer and informed the client about referral fee arrangements prior to drafting the IPS.

Not Violations

## VII. Responsibilities as a CFA institute member or CFA candidate

- A. **Conduct as Participants in CFA Institute Programs.** Members and Candidates must not engage in any conduct that compromises the reputation for integrity of CFA Institute or the CFA designation or the integrity, validity, or security of CFA Institute programs.

Violations

- Passing CFA exam papers to friends
- Planning to use CFA exam questions to gain advantage over other candidates
- Cheating or participating in cheating in CFA exam.
- Candidate does not stop writing when asked by proctor.
- Member uses CFA Committee position to benefit her clients or herself.
- Candidates discussing formulas that came or did not come in the exam.
- Candidates disclose weightings of topics in exam.
- Candidates discuss topics that were tested in the exam.
- Expressing frustration on a particular topic not being tested in the exam - can express frustration but not disclose the topic that was not tested.
- Providing information concerning the exam questions to only a few candidates who use it to prepare for the exam.
- Member using his volunteer position to benefit his clients and himself.

- Free to disagree with CFA institute policies procedures etc.
- Participation in CFA related blogs, social network pages etc.
- Expressing negative opinion about CFA program or institute.
- Discussing CFA in general
- Discussing the toughness and importance of the subject materials.
- Discussing about CFA course in general.
- Criticising CFA Institute for personal disagreements.
- Candidate posts on the internet stating that the exam was not a good representation of the curriculum.

Not Violations

- B. **Reference to CFA institute, the CFA designation, and the CFA program.** When referring to CFA institute, CFA institute membership, the CFA designation, or candidacy in the CFA program, members and candidates must not misrepresent or exaggerate the meaning or implications of membership in CFA institute, holding the CFA designation, or candidacy in the CFA program.

### Recommendations for members

- Members should be sure that their firms are aware of the proper references to a member's CFA designation or candidacy, as errors in these references are common.



## Violations

- 'Superior performance' statement given as a result of being CFA charter holder
- Using CFA as a noun
- Using "cleared in consecutive attempts" as an indication of superior ability.
- Company's mutual fund achieves superior performance. Company states that firm's principals are charter holders. Company tries to gain superiority compared to non-charter holders.
- Member uses CFA designation even when he fails to file his professional conduct statement & stops paying his dues.
- Uses CFA after his name even though his membership has been suspended.
- Put 'CFA' logo on company's letterhead.
- Maintains an online account on a popular internet forum using the name "Old CFA charter holders" to get himself identified on the forum
- Member stating or implying that he is an active charter holder.
- Statement - "I shall receive my charter this fall".
- Writing CFA as C.F.A.
- Stating or indirectly implying that CFA charter holder acquires superior results than non-charter holder.
- Citing an expected date for completion of a level or CFA program.
- Writing after your name - CFA,2013, CFA Society of India - because you have to use CFA institute not society of India
- Writing "CFA Level 2 Candidate" after your name immediately after clearing the Level 1 exam.
- Stating that enrolling as a candidate in the CFA Program ensures you will become better at valuing securities.
- "CFA, Level II," "CFA, Expected 20X1," and "John Smith, Charter Pending" violate this standard.
- Stating that someone who passes the exams on the first try is better or more successful than those who do not.
- Claiming to be better than others in Private Wealth Management because you chose Private Wealth Management Pathway in CFA Level 3.

- Stating that one has cleared all 3 levels consecutively in first attempt.
- Giving details of subjects studied and knowledge gained during the course.
- Referring membership status with the institute.
- Candidates may reference their candidacy if they are enrolled or waiting for their exam results.
- Mentioning CFA designation without overstating your competency.
- Having the CFA designation before or after your Ph.D. on the resume and business cards.
- Candidate stating that he is a February 2021 CFA Level I candidate.
- Showing on the resume that you choose the Private Equity Pathway for CFA Level 3.

## Not Violations