



Centre for
Financial
Market
Integrity

CFA Institute Code of Ethics and Standards of Professional Conduct Revised

February 14, 2006

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- ▶ **The Value of Good Ethics and Standards**
- ▶ **History of Code and Standards**
- ▶ **Role of Standards of Practice Council (SPC)**
- ▶ **Process for Revisions**
- ▶ **Summary of Changes**
- ▶ **Specific Changes**
- ▶ **Standards of Practice Handbook**
- ▶ **Adopting Ethical Standards**

Ethical practices benefit capital markets:

- ▶ **Investor confidence**
- ▶ **Public trust**
- ▶ **Efficient markets**

The mission of CFA Institute is ...

“To lead the investment profession globally by setting the highest standards of ethics, education, and professional excellence.”

- ▶ **Code and Standards in place since 1962**
- ▶ **Periodically updated**
- ▶ **Last major changes made in 1996**
- ▶ **Keep up with changes to the industry**
- ▶ **Ensure it is the “highest” standard**

SPC charged as the “keeper” of the Code and Standards

- ▶ **interpreting**
- ▶ **reviewing**
- ▶ **updating**

SPC members:

Lee Price, CFA, Chair

Ross E. Hallett, CFA

Samuel B. Jones, CFA

Lynn S. Mander, CFA

Todd P. Lowe, CFA

Sunil Singhania, CFA

Mirosław Panek, CFA

Mario Eichenberger, CFA

Toshihiko Saito, CFA

Richard Wayman, CFA

Martha Oberndorfer, CFA

Mark Sinsheimer, CFA

Brian O'Keefe, CFA

Jules Huot, CFA

SPC works to ensure Code and Standards are ...

- ▶ *The “highest standard”*
- ▶ Relevant to the profession
- ▶ *Globally applicable*
- ▶ Comprehensive, practical, and specific
- ▶ *Enforceable*
- ▶ Testable in the CFA Program

Process for Change

- ▶ **SPC review**
- ▶ **Drafting new material**
- ▶ **Public comment**
- ▶ **SPC response**
- ▶ **CFA Institute board approval**

Summary of Changes

- ▶ **Reorganization**
- ▶ **New standards**
- ▶ **Revised current standards**
- ▶ **Meeting the global standard**
- ▶ **Clarifying requirements**
- ▶ **Elimination of standards**

- I. Professionalism**
- II. Integrity of Capital Markets**
- III. Duties to Clients**
- IV. Duties to Employers**
- V. Investment Analysis,
Recommendations, and Action**
- VI. Conflicts of Interest**
- VII. Responsibilities as CFA Institute
Members or CFA Candidates**

Summary:

- ▶ **C&S are Fundamental to the values of CFA Institute and essential to achieving its mission**
- ▶ **High ethical standards are critical to maintaining the public's trust in financial markets**
- ▶ **C&S have served as a model for measuring the ethics of investment professionals globally**
- ▶ **All CFA Institute members and CFA candidates must abide by the C&S and are encouraged to notify their employer of this responsibility.**
- ▶ **Violations may result in disciplinary sanctions by CFA Institute**

New principles:

- ▶ **Place the integrity of the investment profession and the interests of clients above their own personal interests**
- ▶ **Promote the integrity of, and uphold the rules governing, capital markets**

Standard I (A) – Knowledge of the Law

- ▶ **Obey applicable law**
- ▶ **Dissociate from violations**

Standard I: Professionalism

Standard I (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”

Standard I (C) - Misrepresentation

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

Standard I (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”

Standard II (A) – Material Nonpublic Information

“Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information”

Standard II (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”

Standard III: Duties to Clients

Standard III (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. In relationships with clients, Members and Candidates must determine applicable fiduciary duty and must comply with such duty to persons and interests to whom it is owed”

Standard III (C) – Suitability

- ▶ **Inquire into clients' circumstances**
- ▶ **Investments consistent with written objectives**
- ▶ **Judge suitability in the context of total portfolio**
- ▶ **When managing a portfolio (fund) to a mandate, must make investments consistent with that mandate**

Standard III (E) – Preservation of Confidentiality

“Members and Candidates must keep information about current, former, and prospective clients confidential unless:

- The information concerns illegal activities on the part of the client or prospective client,**
- Disclosure is required by law, or**
- The client or prospective client permits disclosure of the information”**

Standard IV(A) – Duties to Employers

“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”

Standard V: Investment Analysis, Recommendations, and Actions

Standard V(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”

Standard VI (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”

Standard VI (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”

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

- ▶ Replaces “proper, dignified, and judicious use language with prohibition against “misrepresentation” and exaggeration
- ▶ Requirement to inform employer of Code and Standards is changed to a recommendation – language is in the preamble

Revised Code and Standards:

- ▶ **Go into effect 1 January 2006.**
- ▶ **Will be tested for the first time in the CFA Program on the June 2006 exam**

The Handbook offers...

- ▶ **Guidance**
- ▶ **Interpretation**
- ▶ **Application**
- ▶ **Self test**
- ▶ **Available through CFA Institute website**

- ▶ **CFA Institute encourages firm adoption**
- ▶ **No formal procedures to do so**
- ▶ **Public acknowledgement and notification of CFA Institute would be helpful**
- ▶ **Translations of new Code and Standards will soon be available**