I. Ethical and Professional Standards

1 Code of Ethics and Standards of Professional Conduct

1.1 Structure of the CFA Professional Conduct Program and enforcement of the Code and the Standards

- The **Standards of Practice Council** (SPC) discusses, updates and interprets the Code and the Standards
- The **Board of Governors**oversees two bodies responsible to enforce the Code and standards:
  - The **Professional Conduct Program** (PCP)
  - The **Disciplinary Review Committee** (DRC)

1.2 The Code of Ethics

- Act with integrity, competence, diligence and 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 judgement when conducting investment analysis, making investment recommendations, taking investment actions, engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and on 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.

1.3 Standards of Professional Conduct

1. Professionalism
   (a) Knowledge of the Law
   (b) Independence and objectivity
   (c) Misrepresentation
   (d) Misconduct
2. Integrity of capital markets
   (a) Material Nonpublic Information
   (b) Market Manipulation
3. Duties to clients
   (a) Loyalty, Prudence and Care
   (b) Fair Dealing
   (c) Suitability
   (d) Performance Presentation
   (e) Preservation of Confidentiality
4. Duties to Employers
   (a) Loyalty
   (b) Additional Compensation Arrangements
   (c) Responsibilities of Supervisors
5. Investment Analysis, Recommendations, and Actions
   (a) Diligence and Reasonable Basis
   (b) Communication with Clients and Prospective Clients
   (c) Record Retention
6. Conflicts of Interest
   (a) Disclosure of Conflicts
   (b) Priority of Transactions
   (c) Referral Fees
7. Responsibilities as a CFA Institute Member or CFA Candidate
   (a) Conduct as Participants in CFA institute Programs
   (b) Reference to CFA Institute, the CFA designation, and teh CFA Program

2 Guidance for Standards I-VII

2.1 Standard I: Professionalism

2.1.1 Knowledge of the Law

- Members and Candidates must respect the Standards and all applicable Laws and Regulation. If the Regulations impose lower constraints than the Code and Standards, then the latter must be observed.
- Candidates must **stay informed**, **review the procedures** of their firm, and **maintain current files** to retain the knowledge about regulations, rules and important cases.

2.1.2 Independence and Objectivity

- **Protect the integrity of opinions**: research should always be independent and free of pressure, whether from clients, suppliers, employers or any other actor of the investment profession.
- If conflicts of interest or other pressure prevent the firm from emitting a fully independent opinion, it should restrain itself to only **disseminate facts**, whithout judgement or ratings.
- Members should be careful not to accept **gifts** which could impair their independence. Nor should they offer sumptuous gifts to their counterparts.
- Strict policies on **personal investments** should be implemented. The interests of the Clients, and of the firm have priority over personal investment (and investments of relatives)
- formal policies and structures should be implemented to ensure independence. (e.g. appointed officer)

2.1.3 Misrepresentation

- Members and Candidates must not misrepresent any aspect of their practice the Standards and all applicable Laws and Regulation. If the Regulations impose lower constraints than the Code and Standards, then the latter must be observed.
- **Performance reporting**: benchmarks should be fair, and its choice justified. The reliability of performance reports transmitted to the clients is of the utmost importance.
- **Omissions**: they also represent a misrepresentation when they have a material effect and are misleading.
- Any form of **plagiarism** is un-ethical, and is also misleading as they do attribute the words to their original parent. In order to limit plagiarism, firms should maintain copies of old reports, make sure to attribute any quotations used, and also attribute summaries
- **Factual presentations**: overall, most misrepresentations can be avoided by adopting factual presentations, which accurately describe the firm, its area of expertise, and the qualifications of the speaker, for example.

2.1.4 Misconduct

- The firms should take steps to prevent misconduct from their employees, such as: adopt a **code of ethics**, disseminate a **list of violations** and associated sanctions, or to **check the references** of potential employees.

2.2 Standard II: Integrity of Capital Markets

2.2.1 Material Nonpublic information

- A **Material information** is any information that would have a significant impact on the prices of a security, of any information that investors would want to have before making an investment decision.
- As long as an information is not public, it is nonpublic. i.e., as long as their is a reasonable expectation that the public did not receive the information, it is not public.
- **Mosaic Theory**: analysts should use all available information, from any sources, as long as it is either public, or nonpublic nonmaterial
- **Experts**: it is a good practice to consult experts, and they should be rewarded for their services. However they should never be pressured to disclose nonpublic information.
- A investment research Reports that can reasonably be expected to have an impact on prices should be distributed simultaneously to all clients.
- Firms should adopt **compliance** and **disclosure procedures**, and implement firewalls to prevent nonpublic information to be accessed by any employees within the firm.
- **Personal Trading limitations** should be implemented, to decrease the incentive for employees to use nonpublic information.
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2.2.2 Market Manipulation

- **Information-based manipulation**: spreading false rumours or issuing misleading information with the intent to affect market price is a market manipulation.
- **Transaction-based manipulation**:
  - Transactions that artificially affect the trading volume or price of a security, which represent a diversion form the expectations of a fair and efficient market.
  - securing a controlling, dominant position in a financial instrument to exploit or manipulate the price of related derivatives or underlying.

2.3 Standard III: Duties to clients

2.3.1 Loyalty, Prudence, and Care

- A member or candidate who does not provide advisory services to a client but who acts only as a trade execution professional must **prudently work in the client's interest** when completing requested task
- Members and candidates should identify their **ultimate client**, for the benefit of whom they must act, and their duty of loyalty is owed.
- Duties of loyalty, prudence and care also include **voting proxies**. I.e. the members or candidates should vote in a responsible manner at the GM.

2.3.2 Fair dealing

- Dealing "**fairly**" with clients means that members/candidates must take care not to discriminate against any client when disseminating investment recommendations or taking investment actions. Clients should be treated impartially and fairly. An update of an investment recommendation should be sent simultaneously to all customers.
- In the case of over-subscription for an IPO or other investments, Members/Candidates should give up personal investments, and those of their relatives, and allocate the available amount with pro-rata.
- The enforcement of this standards mainly depends upon proper **procedures**, which should be **disclosed** to all clients and prospective clients.

2.3.3 Suitability

- **Developing an Investment Policy**: M/Cs must prepare a memo about the client, including: client's financial circumstances, personal data, attitude toward risk, objectives and investing and such in order to properly define an investment policy.
- If any changes occurs in the client's desires or attitude toward investment, the memo needs to be updated. That also ensures that the client understands the implications of the change.
- Portfolios should be **diversified**.
- M/Cs should make reasonable efforts to educate their clients and make sure that they understand the risks associated with their investment policy.

2.4 Standard IV: Duties to Employers

2.4.1 Loyalty

- Employers are encouraged to adhere to the Code and Standards
- **Independent Practice**: if M/Cs want to engage in an activity that would compete with their employer's, they must provide them with documentation about this activity, compensations, duration, etc. and receive their employer's approval.
- **Leaving an Employer**:
  - M/Cs who plan to leave their employer must continue to work in the best interest of their current company as long as their contract runs.
  - When leaving a firm, M/Cs must not misappropriate trade secrets, clients lists, misuse confidential information,...
- **Whistleblowing**: The protection of the integrity of capital markets are paramount to the personal interests of M/Cs and their employers

2.4.2 Additional Compensation Arrangements

- M/Cs should not accept gifts or other compensations that might conflict with their employer's interests.
- M/Cs should write reports to their supervisors to indicate the compensations that they plan to receive in addition to the compensation from the employer.

2.4.3 Responsibilities of Supervisors

- M/Cs who are supervisors must respect the Standards and Code, and are also responsible for their subordinates to apply these guidelines.
- They must thus implement adequate supervision systems, including education, detection and potential sanctions.
- M/Cs should also seek to implement incentives structures for their subordinates to act in an ethic manner, and in respect with the Code and Standards.

2.5 Standard V: Investment Analysis, Recommendations, and Actions

2.5.1 Diligence and Reasonable Basis

- When making investment recommendations, M/Cs must conduct a thorough analysis, and base put forth reasonable efforts, which may vary depending on the investment recommendation.
- M/Cs must rely on reasonable attributes in their analysis: Macro conditions, firm's history, financial data, ratios, calculations, quality of assets, level of fees, etc.
- When using independent research, M/Cs should make reasonable efforts to ensure that the research is sound. In particular, they should asses the reliability of the assumptions, the rigor of the analysis, etc.
- When using quantitative oriented research, M/Cs do not need to understand the full detail of the models. They should however make sure to understand the parameters used, the assumptions and limitations of the model.
- When developing quantitative oriented research, M/Cs should make sure that the ultimate user of the research can easily understand the criteria highlighted above, and they should be diligent to asses the reliability of the data that they use.
- When selecting external advisers, M/Cs should make sure to review the code of ethics, qualifications, compliance with internal procedures, asses the quality of the information provided, etc.

2.5.2 Communication with Clients and Prospective Clients

- M/Cs should inform clients and prospective clients about the manner in which they conduct the investment decision-making process.
- Members should identify and disclose to their clients the significant risks and limitations of their investments.
- M/Cs should strictly distinguish the Facts and Opinion in their research reports.

2.5.3 Record Retention

- New forms of communications (Internet-based, etc.) should also be retained. Incl mails, instant messengers, blog posts,...
- The Records are the propriety of the Firm

2.6 Standard VI: Conflicts of Interest

2.6.1 Disclosure of Conflicts

- Disclosure of conflicts to employers: M/Cs should try to avoid conflicts. If any conflict arises that might impact the activities of the M/Cs, then they should promptly report it to their employers and provided them enough detail for them to assess the impact of the conflict.
- M/Cs must also respect appropriate disclosure to the clients, in particular about fees and subadvisory agreements
- Service as a Director: it might generate three potential conflicts of interest:
  - Conflict between duties owed to clients and duties owed to shareholders
  - Personal trading / stock-options
  - Access to material nonpublic information

2.6.2 Priority of Transactions

- To avoid conflicts of interest:
  - The client should not be disadvantaged by the trade
  - The investment professional does not benefit personally from the trade
  - The investment professional complies with applicable regulatory requirements
- Client trading > Personal trading, or trading for an account with a beneficial ownership
- To prevent such conflicts, two strategies can be implemented:
  - Enhance disclosure (employee's positions and trades, employee's beneficial interests, etc.)
  - Strict procedures to give priority to the client, such as limitation on personal subscription in IPO, restrictions on private placements, blackout periods, etc.

2.6.3 Referral Fees

- referral fees should be subject to a strict approval procedure, including disclosure, if they are not prohibited.

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

2.7.1 Conduct as Participants in CFA Institute Programs

- M/Cs should not cheat in the exams
- M/Cs should not disclose any information that is confidential or from the exams

2.7.2 Reference to CFA Institute, the CFA Designation, and the CFA Program

- M/Cs should not cheat in the exams
- M/Cs should not disclose any information that is confidential or from the exams

3 Introduction to the Global Investment Performance Standards (GIPS)

1. **Why Were the GIPS Standards Created?** To oppose misleading practices in the asset management industry, among which:
    - Representative account: choosing a top performer as representative of the whole
    - Survivorship bias
    - Varying Time periods
2. **Who Can Claim Compliance?**
    - Investment management firms on a voluntary basis
    - Only firms that actually manage assets
    - It is a firm-wide process: Either fully comply, or not valid.
3. **Who Benefit from Compliance?** Investment management firms and customers
4. **Composites:** The GIPS standards requires the use of composites. Composites must include all portfolio within the given category. Exhaustivity is mandatory.
5. **Verification:** The firms are self-regulating, ie. they regulate themselves their compliance with the GIPS. However they can also hire thrid-party professional to improve the credibility of their claim.
6. **Structure of the GIPS Standards:** The GIPS are divided into 9 sections:

    0 Fundamentals of Compliance

    1 Input Data

    2 Calculation methodology

    3 Composite Construction

    4 Disclosure

    5 Presentation and reporting

    6 Real Estate

    7 Private Equity

    8 Wrap Fee/Separately Managed Account (SMA) Portfolios

4 The GIPS Standards

- GIPS are ethical standards for investment performance presentation to ensure fair representation and full disclosure of investment performance.
- Firms should not limit themselves to the minimum requirements of GIPS but adhere to the best practices recommended.
- Every single portfolio must be included in at least one composite
- GIPS rely on the integrity of input data, and require firms to adhere to certain calculations methodology