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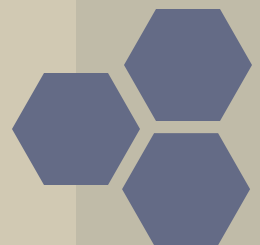
**Academy of Professional Finance 专业金融学院**

## CFA Level II

### SS 1 Ethical & Professional Standards

#### Lecture 2 Code of Ethics and Standards of Professional Conduct

CFA Lecturer: Hongfeng Xu

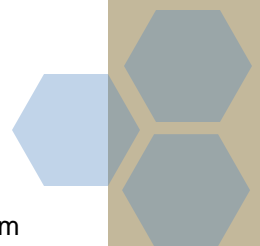




# CFA Institute Professional Conduct Program

## Professional Conduct Program

- The **CFA Institute Board of Governors** maintains oversight and responsibility for the **Professional Conduct Program (PCP)**, which, in conjunction with the **Disciplinary Review Committee (DRC)**, is responsible for enforcement of the Code and Standards.
- The DRC is a volunteer committee of CFA charterholders who serve on panels to review conduct and partner with Professional Conduct staff to establish and review professional conduct policies.
- The **CFA Institute Bylaws** and **Rules of Procedure for Professional Conduct (Rules of Procedure)** form the basic structure for enforcing the Code and Standards.



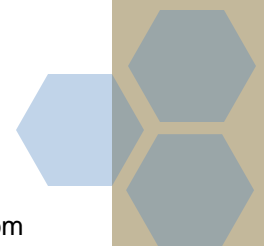


# CFA Institute Professional Conduct Program

## Sources of Inquiry

Professional Conduct inquiries come from a number of sources:

- Members and candidates must self-disclose on the annual Professional Conduct Statement all matters that question their professional conduct.
- Written complaints received by Professional Conduct staff can bring about an investigation.
- CFA Institute staff may become aware of questionable conduct by a member or candidate through the media, regulatory notices, or another public source.
- Candidate conduct is monitored by proctors who complete reports on candidates suspected to have violated testing rules on exam day.
- CFA Institute may also conduct analyses of scores and exam materials after the exam, as well as monitor online and social media to detect disclosure of confidential exam information.



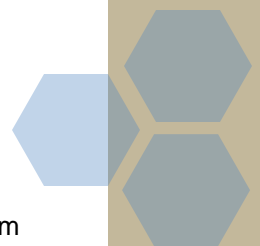


# CFA Institute Professional Conduct Program

## Inquiry Initiation

To Initiate an inquiry, first

- ➔ Professional Conduct staff conducts an investigation that may include requesting a written explanation from the member or candidate; interviewing the member or candidate, and the complaining parties; and collecting documents and records relevant to the investigation.
- ➔ The Professional Conduct staff may conclude the inquiry with no disciplinary sanction, issue a cautionary letter, or continue proceedings to discipline the member or candidate.
- ➔ If the Professional Conduct staff believes a violation of the Code and Standards or testing policies has occurred, the member or candidate has the opportunity to reject or accept any charges and the proposed sanctions.
- ➔ If the member or candidate does not accept the charges and proposed sanction, the matter is referred to a panel composed of DRC members. After reviewing materials and presentations from Professional Conduct staff and from the member or candidate. The panel will determine whether a violation of the Code and Standards or testing policies occurred and, if so, what sanction should be imposed.

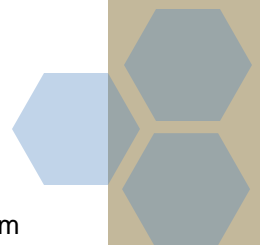




# CFA Institute Professional Conduct Program

## Inquiry Initiation

➔ Sanctions imposed by CFA Institute include public censure, suspension of membership and use of the CFA designation, and revocation of the CFA charter. Candidates enrolled in the CFA Program who have violated the Code and Standards or testing policies may be suspended or prohibited from further participation in the CFA Program.





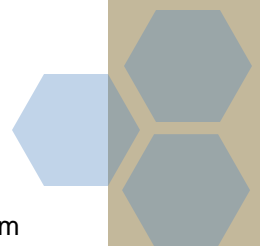
# CFA Institute Professional Conduct Program

## Adoption of the Code and Ethics

Once a party ensures its code of ethics meets the principles of the Code and Standards, that party should make the following statement whenever claiming compliance:

*“[Insert name of party] claims compliance with the CFA Institute Code of Ethics and Standards of Professional Conduct. This claim has not been verified by CFA Institute.”*

CFA Institute welcomes public acknowledgement, when appropriate, that firms are complying with the CFA Institute Code of Ethics and Standards of Professional Conduct and encourages firms to notify us of the adoption plans.

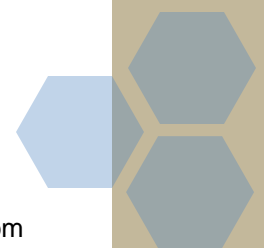




# Ethics and the Investment Industry

## Why ethics matters?

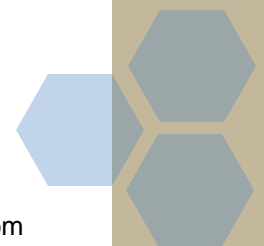
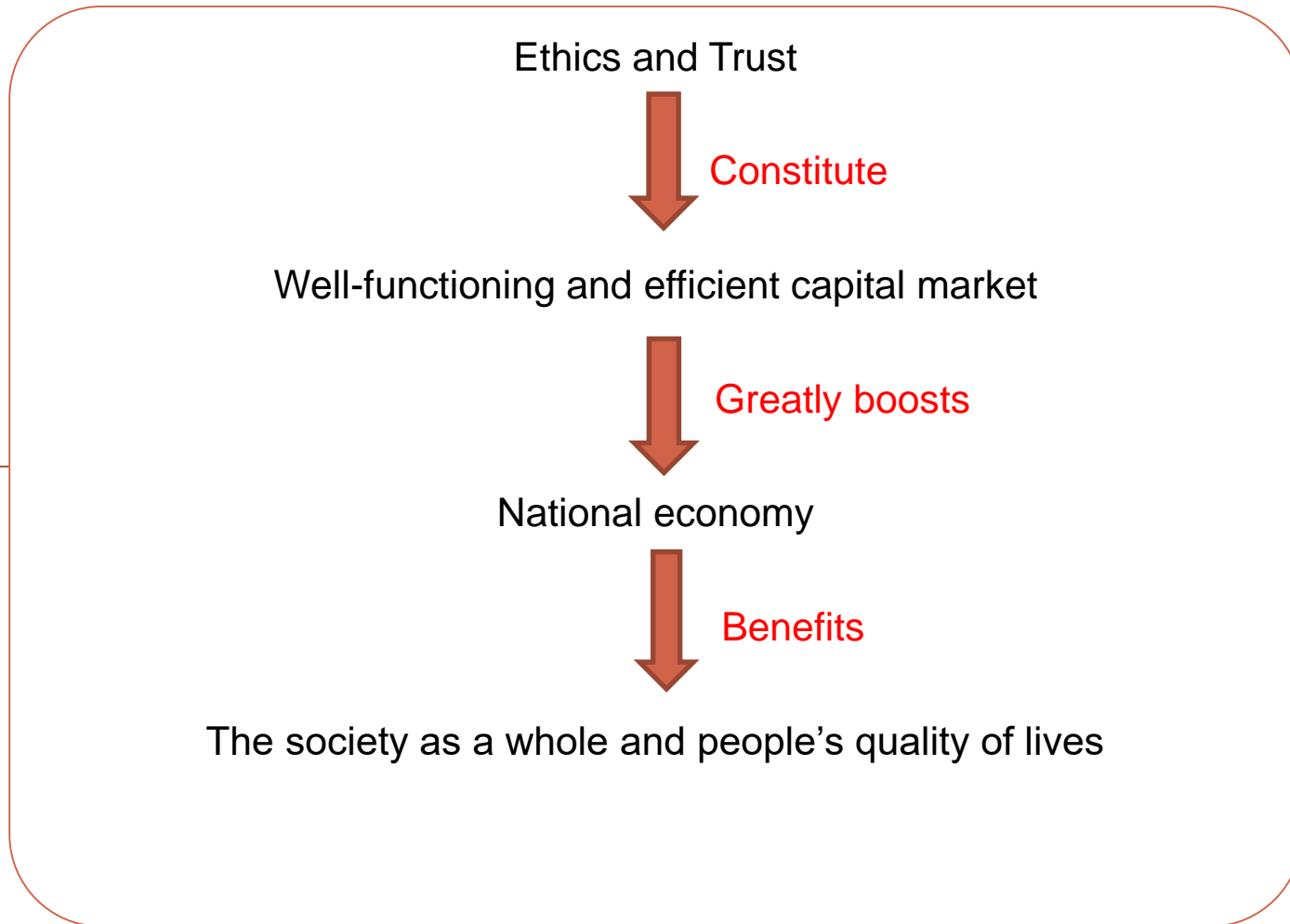
- Ethics can be defined as a set of moral principles or rules of conduct that provide guidance for our behavior. Widely acknowledged fundamental ethical principles include honesty, fairness, diligence, and care and respect for others.
- Not only does unethical behavior by individuals have serious personal consequences—ranging from job loss and reputational damage to fines and even jail—but unethical conduct in the investment industry can damage investor trust and thereby impair the sustainability of the global capital markets as a whole.
- Unfortunately, incidents like accounting frauds, market manipulations, Ponzi schemes, insider-trading scandals happen one after another, which leads to erosion in public confidence in investment professionals.
- In order to earn investors' trust, Individuals and firms must develop a “culture of integrity” that penetrates all levels of operations and insist on working in the best interests of clients. A strong ethical culture that helps honest, ethical people engage in ethical behavior will foster the trust of investors, lead to robust global capital markets, and ultimately benefit society. That is why ethics matters.





# Ethics and the Investment Industry

## Ethics, society and the capital markets



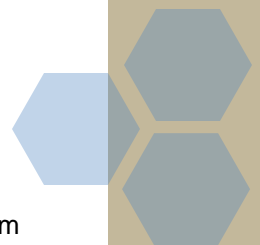




# Ethics and the Investment Industry

## Capital market sustainability and the actions of one

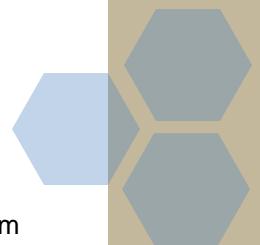
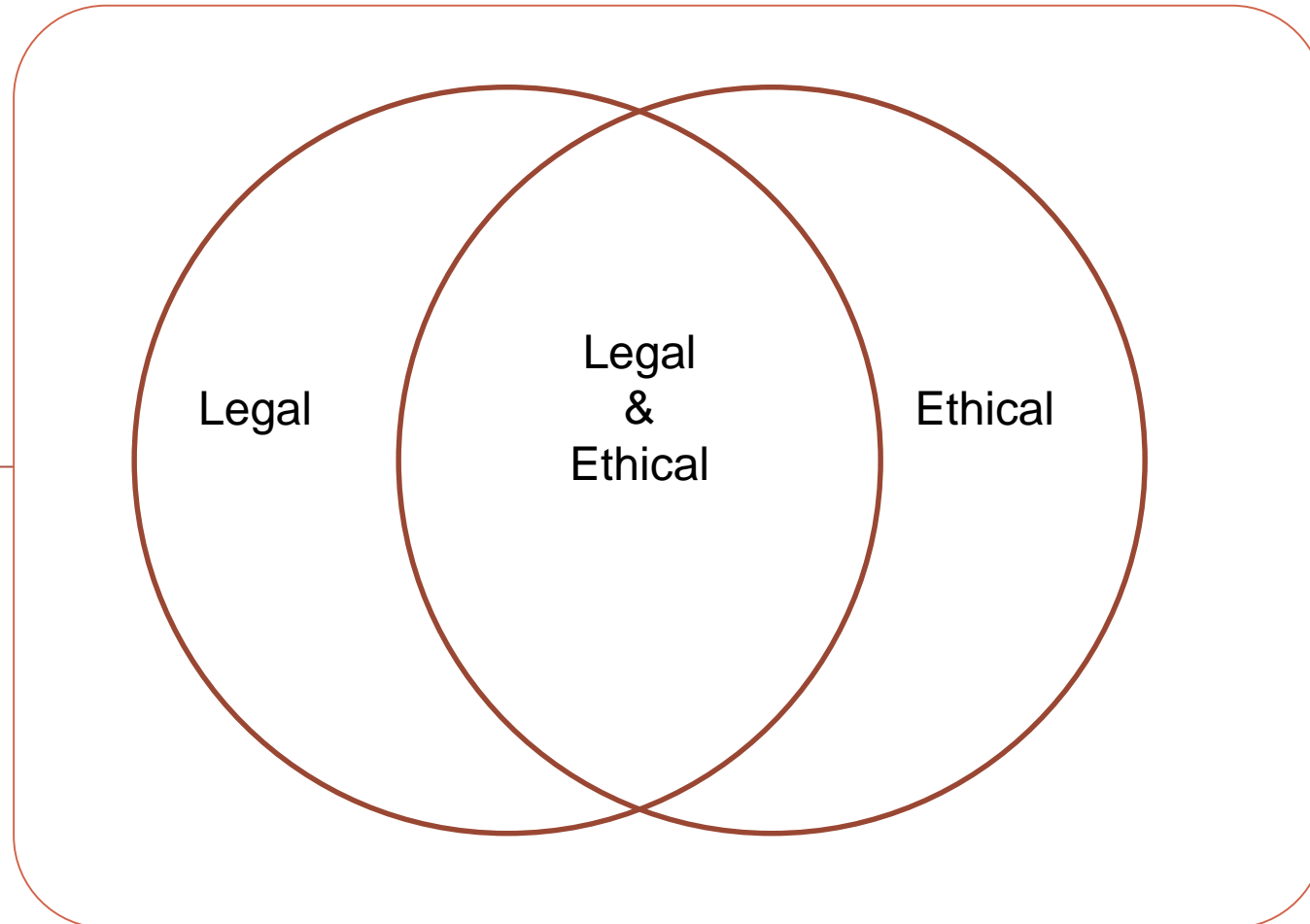
- With the acceleration of globalization, the world is becoming increasingly integrated. So as the global financial market.
- In an interconnected global economy and marketplace, totally isolated decisions are less likely to be the case. Chances are that decisions made by one market participant may have unexpected effect on investors in other countries.
- Each participant should strive to be aware of how his or her actions or the products he or she distributes may have an impact on capital market participants in other regions or countries.
- Therefore, in order to avoid severe global crisis caused by individuals, each market participant is obligated to behave prudently and ethically.





# Ethics and the Investment Industry

## The relationship between ethics and regulations





# Ethics and the Investment Industry

## Applying an ethical framework

Ethical decision-making frameworks are designed to facilitate the decision-making process for all decisions. They help people look at and evaluate a decision from multiple perspectives, enabling them to identify important issues they might not otherwise consider.

### **Ethical decision-making framework**

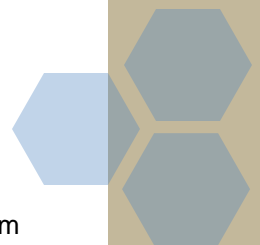
- Identify: Relevant facts, stakeholders and duties owed, ethical principles, conflicts of interest
- Consider: Situational influences, additional guidance, alternative actions
- Decide and act
- Reflect: Was the outcome as anticipated? Why or why not?



# Ethics and the Investment Industry

## Commitment to ethics by firms

An investment professional's natural desire to "do the right thing" must be reinforced by building a culture of integrity in the workplace. Development, maintenance, and demonstration of a strong culture of integrity within the firm by senior management may be the single most important factor in promoting ethical behavior among the firm's employees.





# Ethics and the Investment Industry

## Ethical commitment of CFA Institute

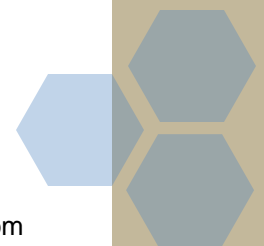
- An important goal of CFA Institute is to ensure that its members and candidates develop, promote, and follow the highest ethical standards in the investment industry.
- The **CFA Institute Code of Ethics (Code)** and **Standards of Professional Conduct (Standards)** are the foundation supporting the organization's quest to uphold the industry's highest standards of individual and corporate practice and to help serve the greater good.
- The Code is a set of principles that define the overarching conduct CFA Institute expects from its members and CFA Program candidates. The Code works in tandem with the Standards, which outline professional conduct that constitutes fair and ethical business practices.



# Code of Ethics and Standards of Professional Conduct

## 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 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.





# Code of Ethics and Standards of Professional Conduct

## The Standards of Professional Conduct

### **Standard I: Professionalism**

- A. Knowledge of the Law
- B. Independence and Objectivity
- C. Misrepresentation
- D. Misconduct

### **Standard II: Integrity of Capital Markets**

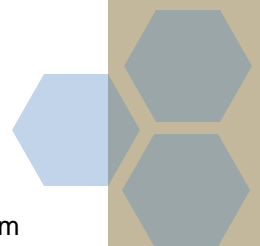
- A. Material Nonpublic Information
- B. Market Manipulation

### **Standard III: Duties to Clients**

- A. Loyalty, Prudence, and Care
- B. Fair Dealing
- C. Suitability
- D. Performance Presentation
- E. Preservation of Confidentiality

### **Standard IV: Duties to Employers**

- A. Loyalty
- B. Additional Compensation Arrangements
- C. Responsibilities of Supervisors





# Code of Ethics and Standards of Professional Conduct

## The Standards of Professional Conduct

### **Standard V: Investment Analysis, Recommendations, and Actions**

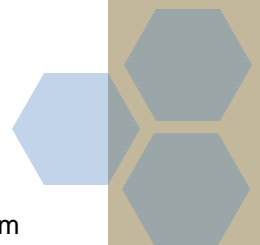
- A. Diligence and Reasonable Basis
- B. Communication with Clients and Prospective Clients
- C. Record Retention

### **Standard VI: Conflicts of Interest**

- A. Disclosure of Conflicts
- B. Priority of Transactions
- C. Referral Fees

### **Standard VII: 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 the CFA Program







Thank You!

