Study Seminar for Financial Analysts ®

2001

# The Code of Ethics and The Standards of Professional Conduct

Standards of Practice Handbook, 7<sup>th</sup> edition (AMR 1996)

Pages 5-10

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# Code of Ethics

Integrity Credit to Profession Independent Judgement Competence

# Standards of Professional Conduct

# I Fundamental Duties

- I(a) Must maintain Knowledge and Compliance with laws, rules, regulations
- I(b) Not Knowingly **Participate or Assist** in violation
  - International held to higher standard of law or THE ASSOCIATION

Il Relationships and Responsibilities to the Profession

- II (A) Use of Designation
- II (B) Misconduct
- II (C) Plagiarism

Il Relationships with and Responsibilities to Employer IIIA-inform of obligation to comply and give them a copy of the Code and Standards

IIIB- Duty to Employer

- IIIC: Conflicts -ownership & employer's prohibited activities
- IIID- Dollars additional Compensation
- IIIE Duties of Supervisors
- IV Relationships with and Responsibilities to Clients

#### A: Investment Process

**Reasonable Basis:** Diligence, Adequate basis, avoid Misrepresentations & Maintain files

**Research Reports:** Relevant factors, Opinion vs. Fact, Basic characteristics of investment

- Objectivity & Independence
- B: Interactions with Clients and Prospects

Fiduciary Duties (Loyal Prudes Diversify Effectively) Recommendations/Actions (Know what suits the client) Fair Dealing (fair - not necessarily equal) Priority of Transactions (Client, Firm, Self- Benef.int) Confidentiality (maintain unless illegal) Misrepresentation (services, qualifications, credentials) Conflicts (disclose anything which biases member ) Referral Fees (must disclose fees for recommendations)

- V. Relationships with and Responsibilities to the Investing Public
  - (a) Prohibition against use of material non-public information
  - (b) Performance Presentation

### Standards of Professional Conduct

Fun	Fundamental Duties
Professionals	R&R to Profession
Employ	to Employer
Clients	to Clients & prospects
Publicly	to investing public

#### I Fundamental Duties KC over PA

- I(a) Must maintain Knowledge and Compliance with laws , rules, regulations
  I(b) Not Knowingly Participate or Assist in violation
  - International held to higher standard of law or THE ASSOCIATION

#### II Relationships and Responsibilities to the Profession $U\!M\!P$

# l(a) Use of Designation:

- A 1- Dignified & judicious manner
- A2- Use "Chartered Financial Analyst" or "CFA"
- A3 Candidates can state that they are candidates but no partial completion recognised.

### ll (b) Misconduct

Goes beyond obligations to comply with laws. includes felony convictions and any behaviour which reflects adversely on self and profession

# dishonesty, fraud, breach of trust, intoxication at work etc.

#### II C Prohibition against Plagiarism

- using other's work without noting the source
- using vague references i.e investment experts
- using forecasts without incl. Caveats
- using charts or graphs without source
- using proprietary software without permission Exception: material from recognised reporting service; eg. S&P500

# III Relationships with and Responsibilities to Employer ABCDE

Remember: always disclose in writing

# A: Always Copy Information

IIIA- Inform of obligation to comply with Code give them a copy of the Code and Standards

# B: BOSS must OK competition ( client too)

IIB- Boss must OK - Duty to Employer

Can't Compete w ithout w ritten permission

If leaving you can't take clients, lists, software, presentation materials,

confidential materials other employees while still employed

# C: Conflicts ownership & employer's prohibited activities

- 1- must disclose if conflicts exist to make unbiased and objective recommendations eg ownership or beneficial interest.
- 2- must comply with employer's rules regarding conflicts trading

# D: extra Dollars- additional compensation

#### IID- Dollars - additional Compensation

Disclose in writing any direct or indirect compensation from third parties

#### E: Ensure Supervisors supervise:

Reasonable supervision must be exercised to prevent and detect violations. A compliance program should be implemented or the supervisory position should be declined in writing

# IV Relationships with and Responsibilities to CLIENTS

A: Investment Process (D.A.M.M. R.O.B. be OBJECTIVE) Reasonable Basis: DAMM Diligence, Adequate basis, avoid Misrepresentations & Maintain files Research Reports: ROB Relevant factors, Opinion vs. Fact, Basic characteristics of investment Objectivity & Independence

# IV Relationships with and Responsibilities to CLIENTS

# B: Interactions with Clients and Prospects (FISH RECOMMEND FAIR DEALING PRIOR to CONFIDENTIALLY MISREPRESENTING CONFLICTING REFERRAL FEES)

Fiduciary Duties (Loyal Prudes Diversify Effectively) Recommendations/Actions (Know what suits the client) Fair Dealing (fair - not necessarily equal) Priority of Transactions (Client,Firm,Self-Benef.int) Confidentiality (maintain unless illegal) Misrepresentation (services,qualifications,credentials) Conflicts (disclose anything which biases member) Referral Fees (must disclose fees for recommendations)

# V Relationships with and Responsibilities to the INVESTING PUBLIC

#### Insider Trading

Prohibition against use of material non-public information Shall not trade, or cause trading in, security to which privy to information member knows was given in breach of duty. <u>OR</u> If no duty is breached but info was misappropriated. Member should encourage public dissemination

Chiarella & Dirks cases Key points:Must be a breach of trust or fiduciary responsibility for insider trading

# *V(b)Performance Presentation* Hint: Think of Joe Friday on Dragnet: "Just the <u>FAC</u>ts <u>Mis</u>s"

When communicated directly or indirectly performance information should be fair accurate & complete

Misrepresentation: shall not make any statements, orally or in writing, which misrepresent actual or expected performance

- 1. Analysts must not Misrepresent
- 2. Effort to ensure Fair Accurate Complete
- 3. Inform employer of PPS and encourage compliance
- 4. If performance complies then Analyst is in compliance
- 5. Disclaimer may be used if in compliance