STUDY SESSION 1: ETHICAL AND PROFESSIONAL STANDARDS
All CFA Institute members and candidates enrolled in the CFA Program are required to comply with the Code of Ethics and the Standards of Professional Conduct (Code and Standards). The CFA Institute Bylaws and Rules of Procedure for Proceedings Related to Professional Conduct (Rules of Procedure) form the basic structure for enforcing the Code and Standards.

The Rules of Procedure are based on the following two principles:

1. Fair process.
2. Maintaining confidentiality of process.

The CFA Institute Board of Governors is responsible for implementing the Professional Conduct Program (PCP) through the Disciplinary Review Committee (DRC).

The CFA Institute Designated Officer, through the Professional Conduct staff, carries out professional conduct inquiries. Circumstances which can initiate an inquiry include:

- Information disclosed on the annual Professional Conduct Statement.
- Written complaints received by Professional Conduct staff.
- Questionable conduct as publicized by the media or any other source.
- A violation report submitted by a CFA examination proctor.

Once an inquiry is initiated, the Professional Conduct staff undertakes an investigation which can include:

- Requesting a written explanation.
- Interviewing related person(s).
- Collecting any supporting documents.

The information collected is reviewed by the Designated Officer, who may conclude that:

1. No disciplinary action is needed
2. A cautionary letter needs to be issued
3. Proceedings need to be continued.

If it is concluded that there has been a violation of the Code and Standards, the Designated Officer can propose a disciplinary sanction. The member or candidate has the right to accept or reject the decision. A rejection would require the matter to be referred to a hearing by a panel of CFA Institute members. Sanctions by CFA Institute may include condemnation by peers, consequences for current or future employment or suspension from the CFA program.

The adherence of investment professionals to ethical practices benefits all market participants.

- Clients are reassured that investment professionals they hire prioritize their interests.
- Investment professionals benefit from the more efficient and transparent operation of the market that integrity promotes.
Sound ethics is fundamental to capital markets and the investment profession as it increases investors’ confidence in global financial markets. Ethics is also of paramount importance because of the interconnectedness of global financial markets, which gives rise to the issue of market sustainability. It is imperative that top management foster a strong culture of ethics not just among CFA charter holders and candidates but among all staff members who are involved directly or indirectly with client relations, the investment process, record keeping, and beyond.

However, new challenges continually arise for members and candidates in applying the Code and Standards. This is because ethical dilemmas are not unambiguously right or wrong and require a bit of judgment.

The CFA Institute Code of Ethics plays an integral role in maintaining the integrity of CFA Institute members and upholding professional excellence. All CFA Institute members and CFA candidates must abide by this code and are encouraged to notify their employers of any violations. Violations may result in disciplinary sanctions by CFA Institute, which may include revocation of membership, candidacy in the CFA program and the right to use the CFA designation.

The Code of Ethics requires all members and candidates to:

- 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 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 of, and uphold the rules governing, capital markets.
- 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
   B. Independence and Objectivity
   C. Misrepresentation
   D. Misconduct

II. Integrity of Capital Markets
   A. Material Nonpublic Information
   B. Market Manipulation

III. Duties to Clients
   A. Loyalty, Prudence and Care
   B. Fair Dealing
   C. Suitability
   D. Performance Presentation
   E. Preservation of Confidentiality
IV. Duties to Employers
   A. Loyalty
   B. Additional Compensation Arrangements
   C. Responsibilities of Supervisors

V. Investment Analysis, Recommendations and Actions
   A. Diligence and Reasonable Basis
   B. Communication with Clients and Prospective Clients
   C. Record Retention

VI. Conflicts of Interest
   A. Disclosure of Conflicts
   B. Priority of Transactions
   C. Referral Fees

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

The best way to prepare for Ethics is to thoroughly read the Standards themselves, along with related guidance and examples.