



**CFA Institute**<sup>®</sup>  
Investment Foundations

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## **Module 7: INDUSTRY CONTROLS**

### **Chapter 20: Investment Industry Documentation**

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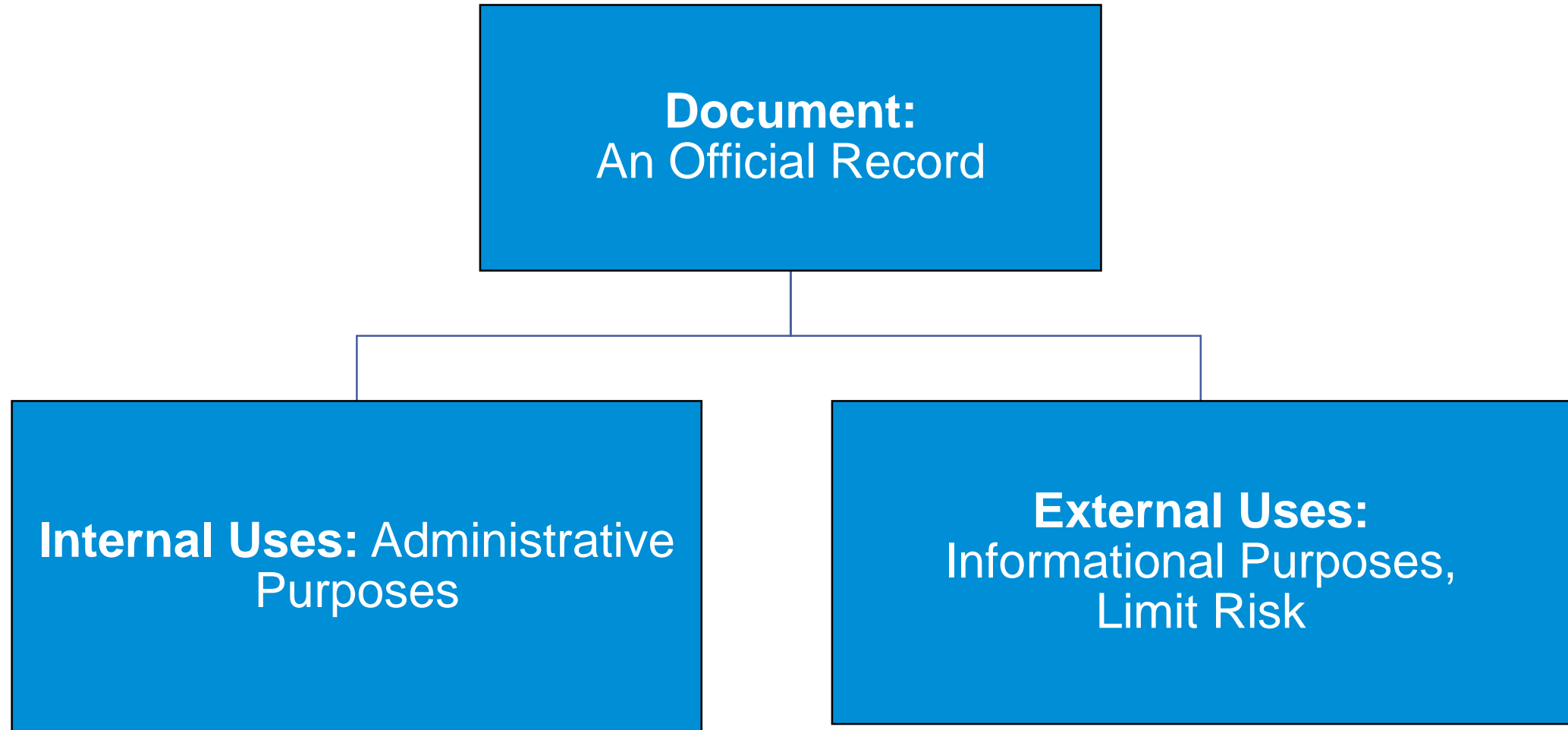


Module	Topic	Weight	LOS	Exam Qs	Hours to Study	Module Practice Qs	Chapter Practice Qs
<b>Module 1</b>	<b>Industry overview</b>	5%	7	6	5	28	28
Chapter 1	The Investment Industry: A Top-Down View						
<b>Module 2</b>	<b>Ethics and regulation</b>	10%	14	12	10	91	
Chapter 2	Ethics and Investment Professionalism						49
Chapter 3	Regulation						42
<b>Module 3</b>	<b>Inputs and tools</b>	20%	50	24	20	291	
Chapter 4	Microeconomics						53
Chapter 5	Macroeconomics						57
Chapter 6	Economics of International Trade						47
Chapter 7	Financial Statements						70
Chapter 8	Quantitative Concepts						64
<b>Module 4</b>	<b>Investment instruments</b>	20%	29	24	20	213	
Chapter 9	Debt Securities						69
Chapter 10	Equity Securities						72
Chapter 11	Derivatives						42
Chapter 12	Alternative Investments						30
<b>Module 5</b>	<b>Industry structure</b>	20%	27	24	20	96	
Chapter 13	Structure of the Investment Industry						28
Chapter 14	Investment Vehicles						29
Chapter 15	The Functioning of Financial Markets						39
<b>Module 6</b>	<b>Serving client needs</b>	5%	12	6	5	76	
Chapter 16	Investors and Their Needs						35
Chapter 17	Investment Management						41
<b>Module 7</b>	<b>Industry controls</b>	20%	24	24	20	154	
Chapter 18	Risk Management						51
Chapter 19	Performance Evaluation						53
Chapter 20	Investment Industry Documentation						50
	<b>Total</b>	<b>100%</b>	<b>163</b>	<b>120</b>	<b>100</b>	<b>949</b>	<b>949</b>

## AFTER COMPLETING THIS CHAPTER, YOU SHOULD BE ABLE TO DO THE FOLLOWING:

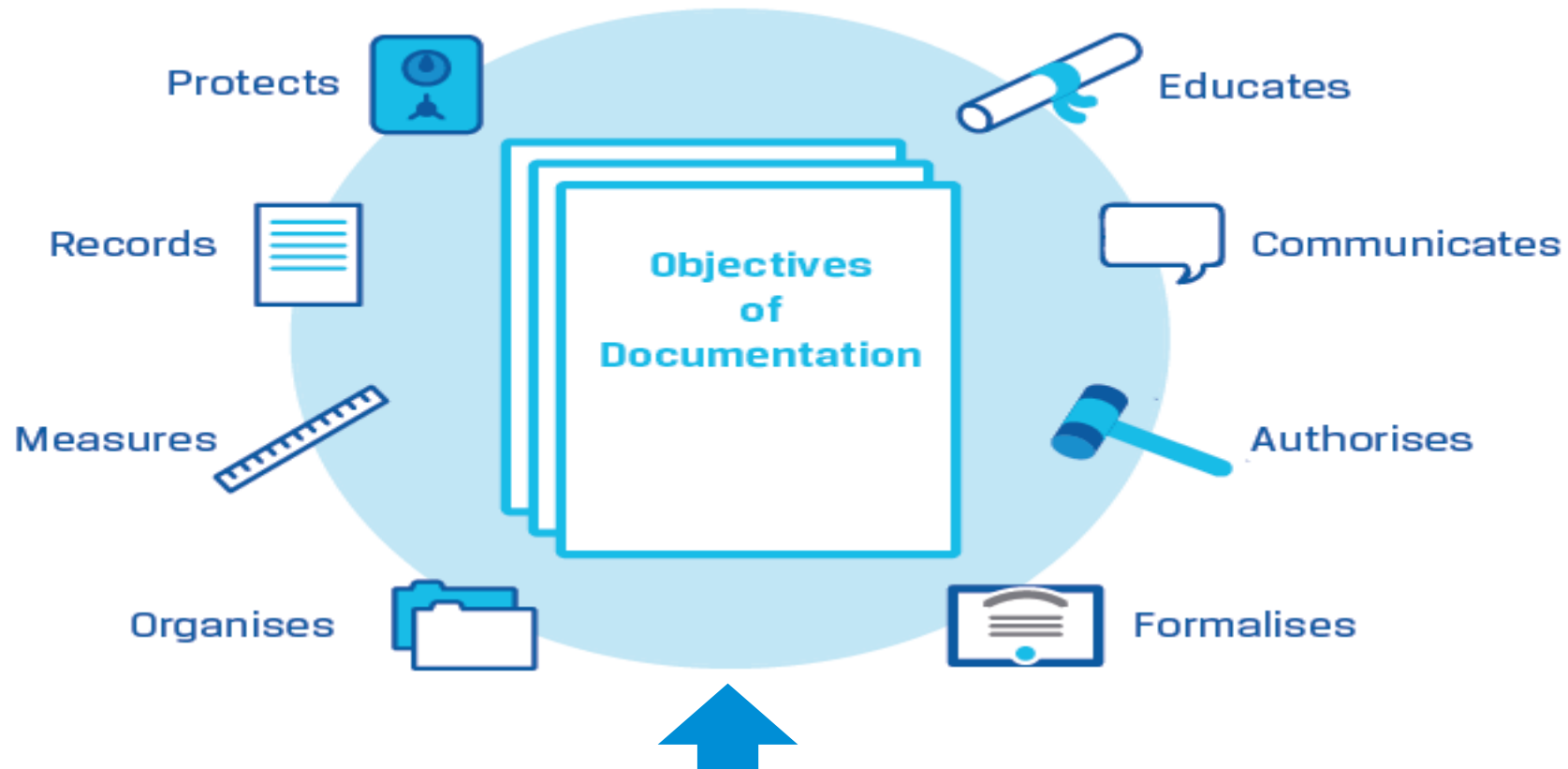
- a) Define a document;
- b) Describe objectives of documentation;
- c) Describe document classification systems;
- d) Describe types of internal documentation;
- e) Describe types of external documentation;
- f) Describe document management.

# DOCUMENTS



LOS a: Define a document.

# OBJECTIVES OF DOCUMENTATION



From a legal perspective, documents establish proof: proof of existence, authority, activity, and obligation.

LOS b: Describe objectives of documentation.

## PRACTICE Q: EXPERT

In the context of the investment industry, records help:

- A. establish roles, deliverables, and obligations.
- B. provide benchmarks for measurement and audits.
- C. preserve corporate learning (institutional memory).

# PRACTICE Q: EXPERT

In the context of the investment industry, **records** help:

- A. establish roles, deliverables, and obligations.
- B. provide benchmarks for measurement and audits.
- C. preserve corporate learning (institutional memory).**

C is correct. In the context of the investment industry, **records help preserve corporate learning (institutional memory)**.

A is incorrect. Documentation that **formalise contains roles, deliverable, and obligations**.

B is incorrect. Documentation that **measures contains benchmarks for measurement and audit**.

1. Educates—informs or provides instruction
2. Communicates—conveys ideas, concepts, or information
3. Authorises—provides the basis, and often the authority, for action
4. **Formalises**—establishes roles, deliverables, and obligations
5. Organises—ensures thoroughness and consistency of action, allowing the company to function more efficiently and effectively
6. **Measures**—provides a benchmark for measurement and audit
7. **Records**—preserves corporate learning (institutional memory)
8. Protects—provides assurance of a system to safeguard interests and manage risks

# DOCUMENT CLASSIFICATION SYSTEMS

## Origin

- Original documents
- Derived documents
- Associated documents

## Direction

- Flow down
  - Policies and procedures
- Flow up
  - Reporting

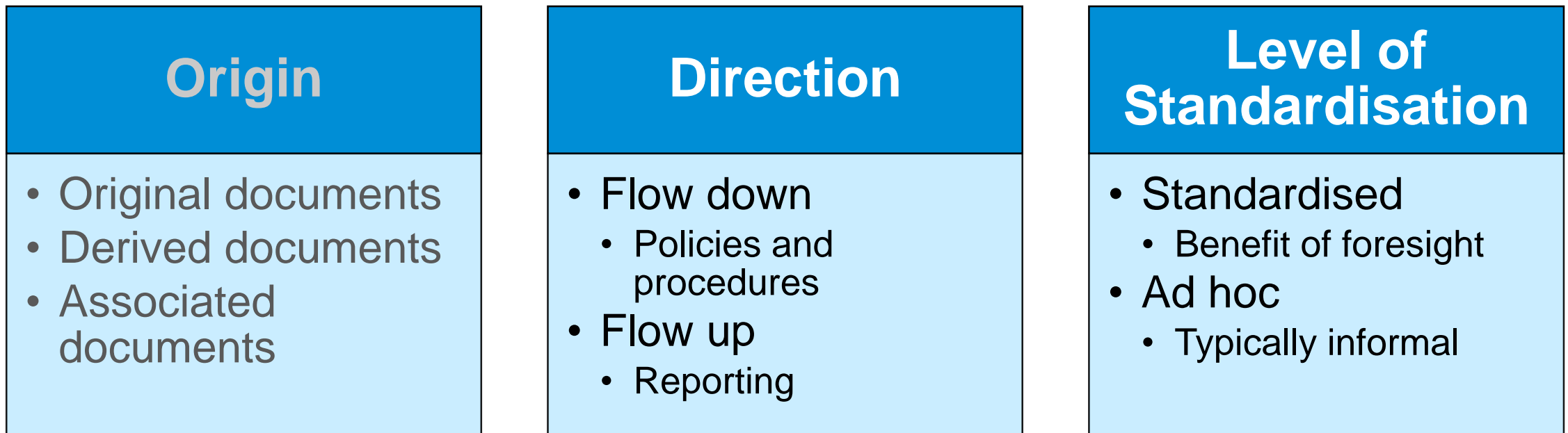
## Level of Standardisation

- Standardised
  - Benefit of foresight
- Ad hoc
  - Typically informal

LOS c: Describe document classification systems.



# DOCUMENT CLASSIFICATION SYSTEMS



LOS c: Describe document classification systems.

# RISK MANAGEMENT POLICY

## **Objective**

- Authorise, formalise, and communicate in order to explain the company's risk tolerance and risk appetite.

## **Origin**

- Derived from regulation, but specific to the company. Associated with the company's mission and strategy and a variety of related internal documents.

## **Direction**

- Internal document that flows from the top down.

## **Level of Standardisation**

- Standardised policy template, formally drafted, approved by the company's board of directors or similar governance body, and adopted by management. Implemented by the risk management and compliance groups.

LOS c: Describe document classification systems.

## PRACTICE Q: EXPERT

When a firm generates a document responding to a request for its compliance procedures regarding soft dollars, from the firm's perspective, the derived document is the:

- A. document responding to the request.
- B. document in which the request is made.
- C. procedural document referenced in the responding document.

## PRACTICE Q: EXPERT

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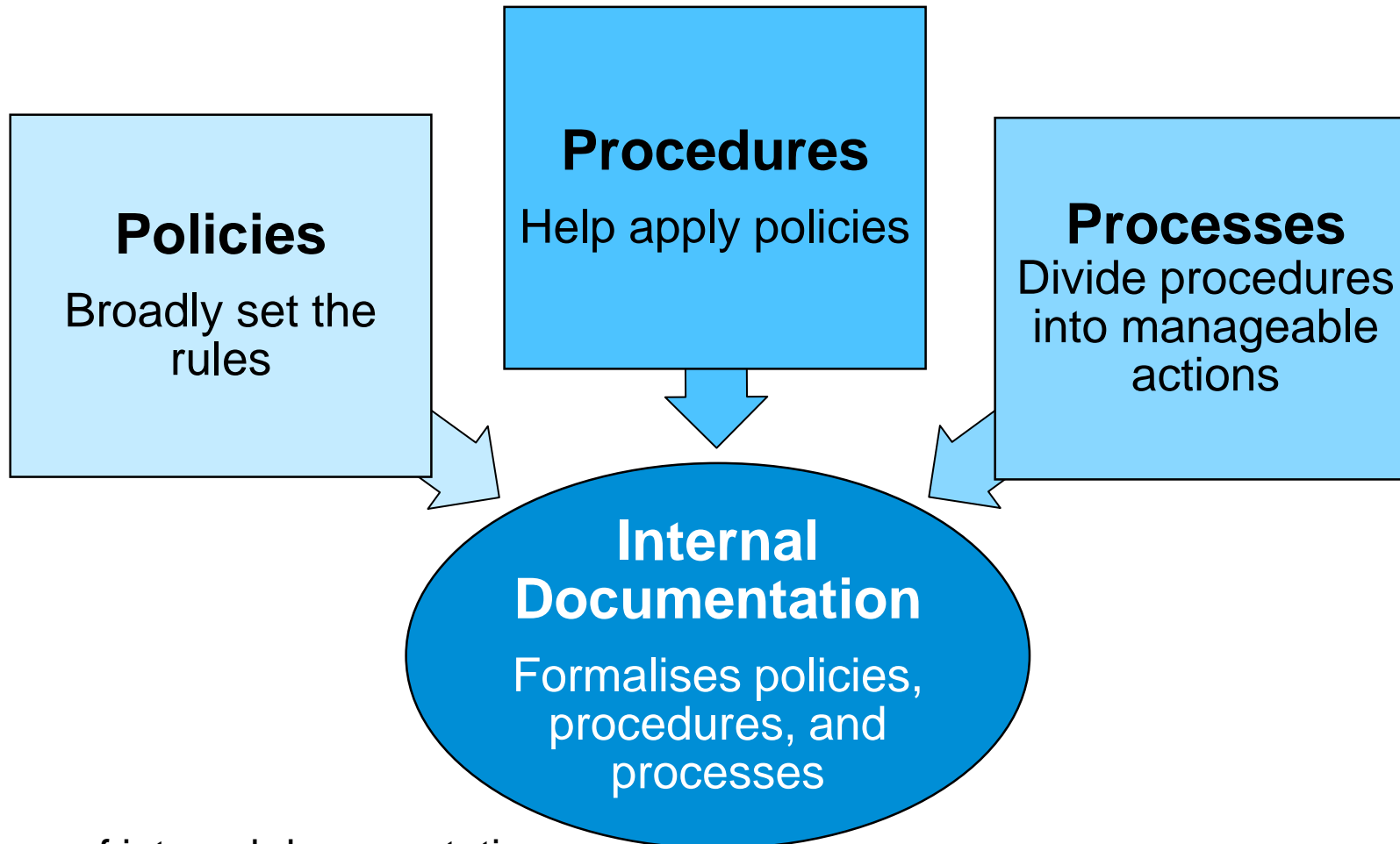
- A. **document responding to the request.**
- B. document in which the request is made.
- C. procedural document referenced in the responding document.

**A is correct.** The document responding to the request is the derived document based on the associated document that explains the compliance procedures regarding soft dollars.

B is incorrect. The document in which the request is made is not a derived document for the firm.

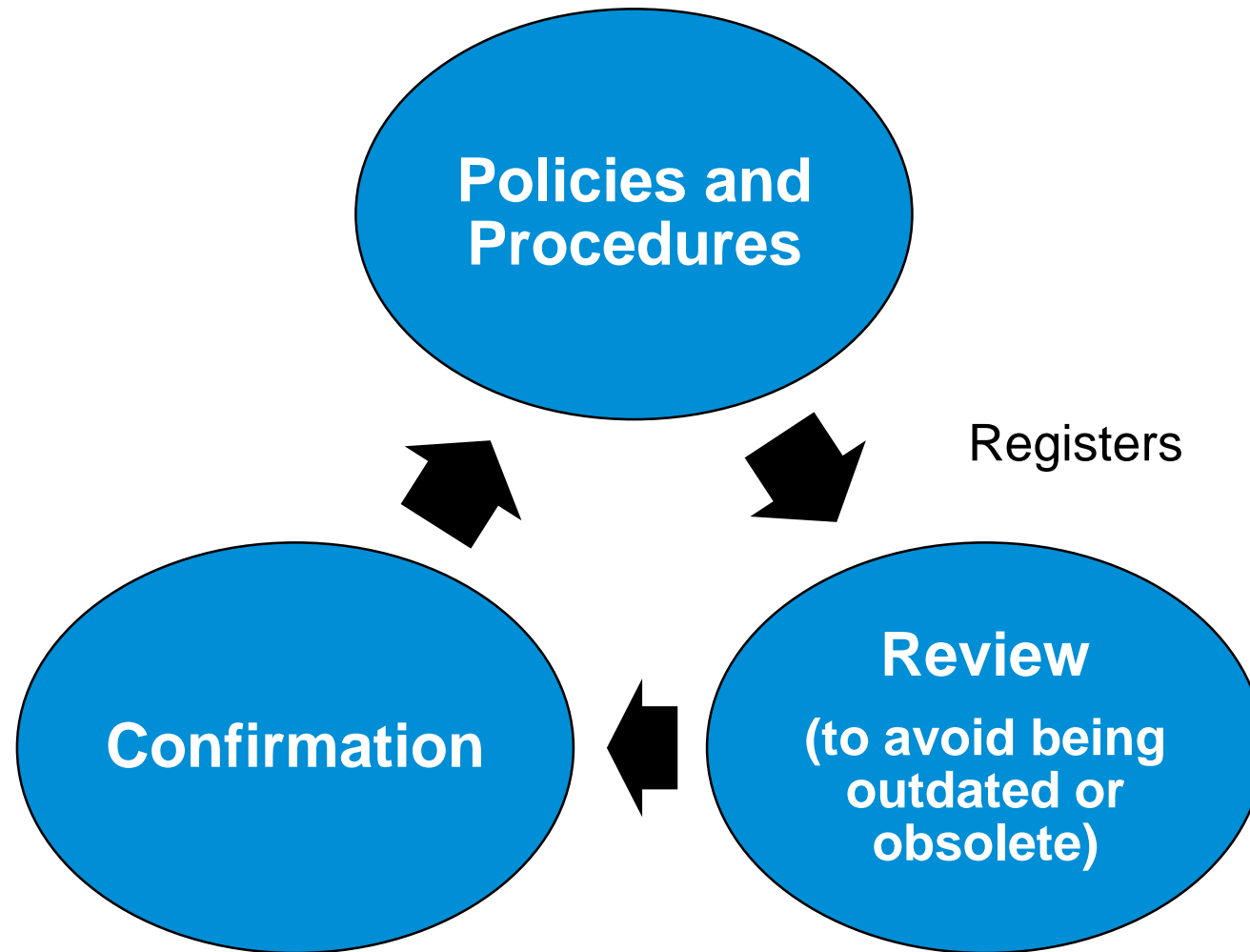
C is incorrect. The procedural document referenced in the responding document is an associated document.

# INTERNAL DOCUMENTATION



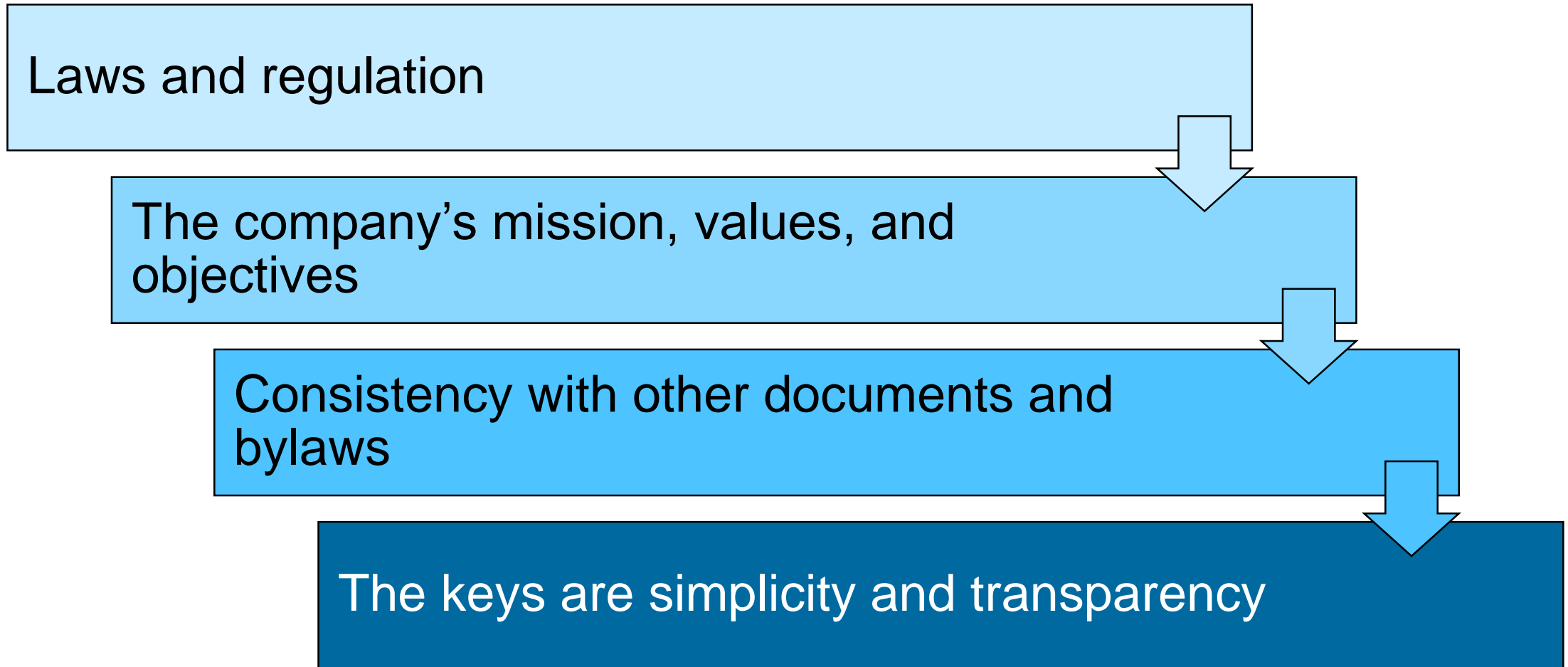
LOS d: Describe types of internal documentation.

# REVIEW AND CONFIRMATION



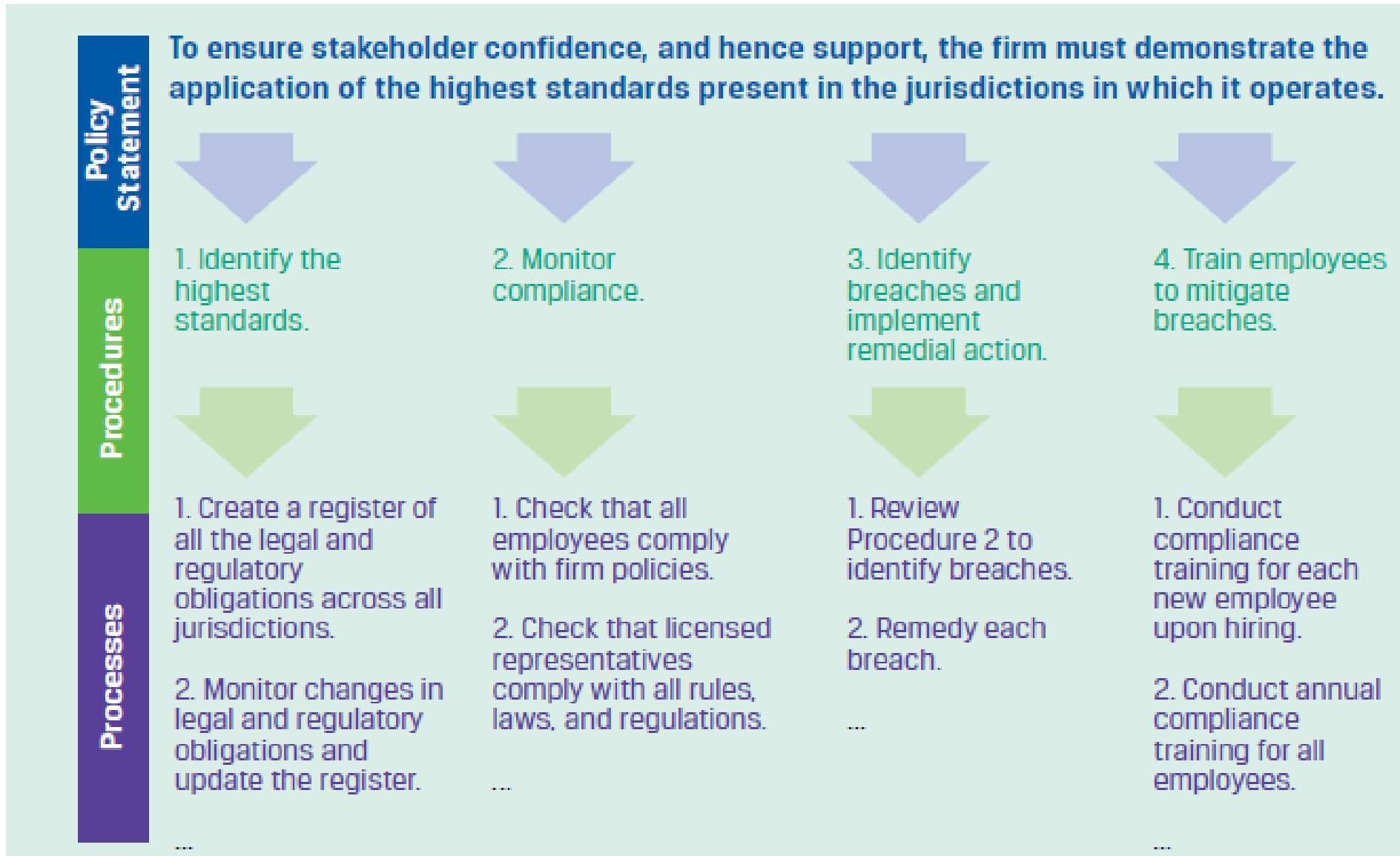
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## POLICY DOCUMENTATION



LOS d: Describe types of internal documentation.

# POLICY, PROCEDURE, AND PROCESS DOCUMENTATION



Policies broadly set the rules.

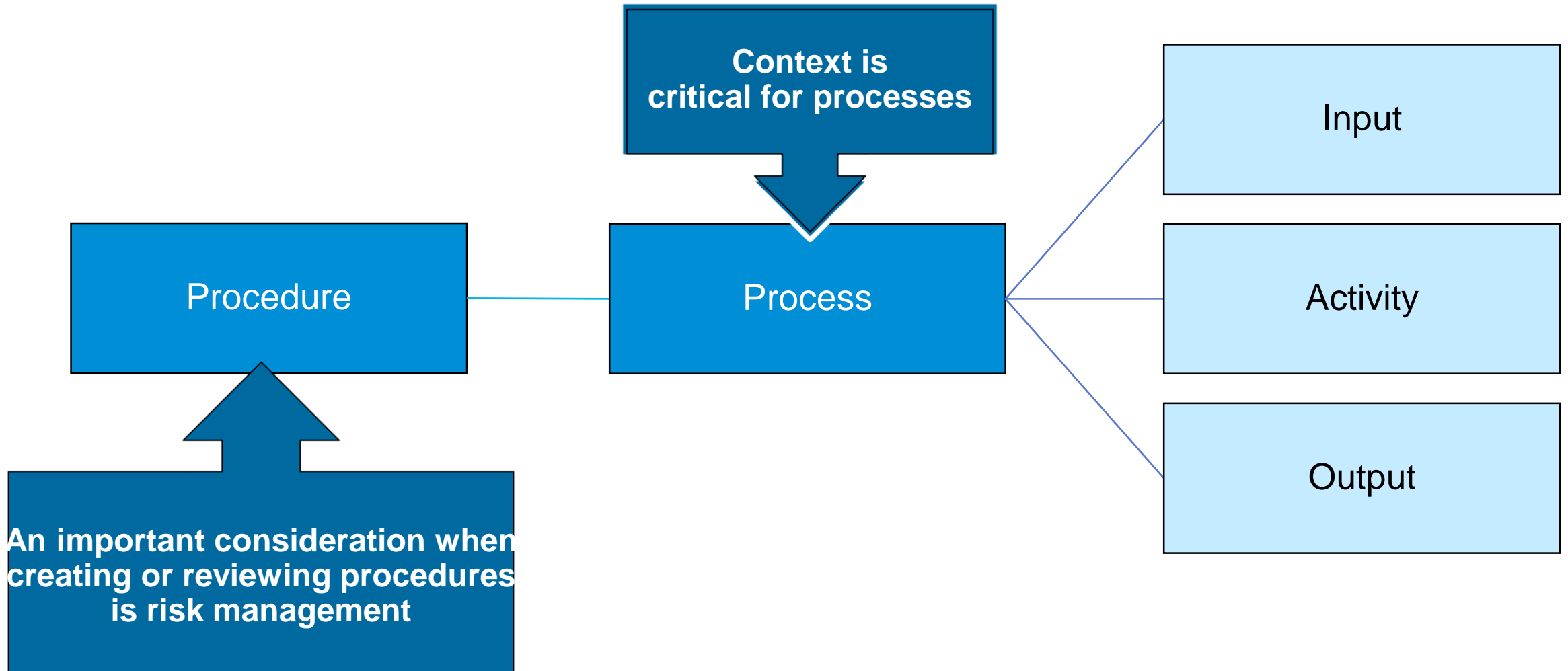
Procedures help apply policies, and

Processes divide procedures into manageable actions.

LOS d: Describe types of internal documentation.



# PROCEDURE AND PROCESS DOCUMENTATION

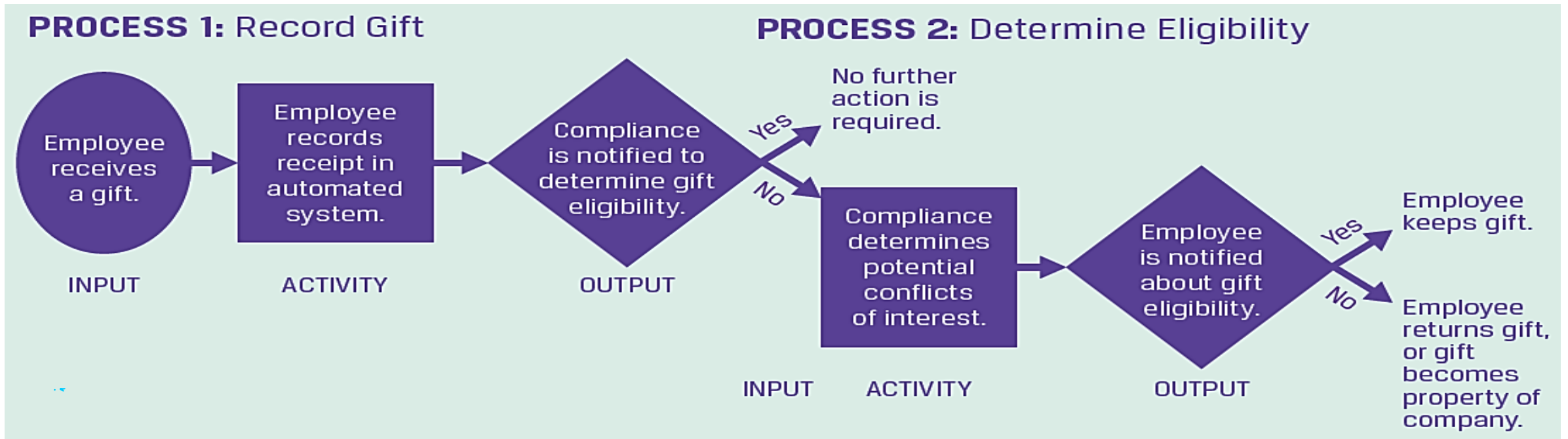


LOS d: Describe types of internal documentation.

# PROCESS FLOW DIAGRAM

**POLICY:** Gifts worth more than \$100 require compliance approval to determine potential conflicts of interest.

**PROCEDURE 1: Gift Management**



LOS d: Describe types of internal documentation.

## PRACTICE Q: EXPERT

Which type of internal document is most likely to provide general guidance and be broadly worded?

- A. Policy
- B. Process
- C. Procedure

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Which type of internal document is most likely to provide general guidance and be broadly worded?

- A. Policy
- B. Process
- C. Procedure

Policies broadly set the rules.

Procedures help apply policies, and

Processes divide procedures into manageable actions.

**A is correct.** A policy document typically is broadly worded and provides general guidance for the implementation of procedures to generate processes to meet policy objectives.

B is incorrect. **A process document tends to be very specific about roles and activities.**

C is incorrect. **A procedure document tends to have very specific guidance and is not broadly worded.**

## PRACTICE Q: EXPERT

An employee handbook that outlines travel reimbursement guidelines is best classified as a(n):

- A. ad hoc document.
- B. derived document.
- C. associated document.

## PRACTICE Q: EXPERT

An employee handbook that outlines travel reimbursement guidelines is best classified as a(n):

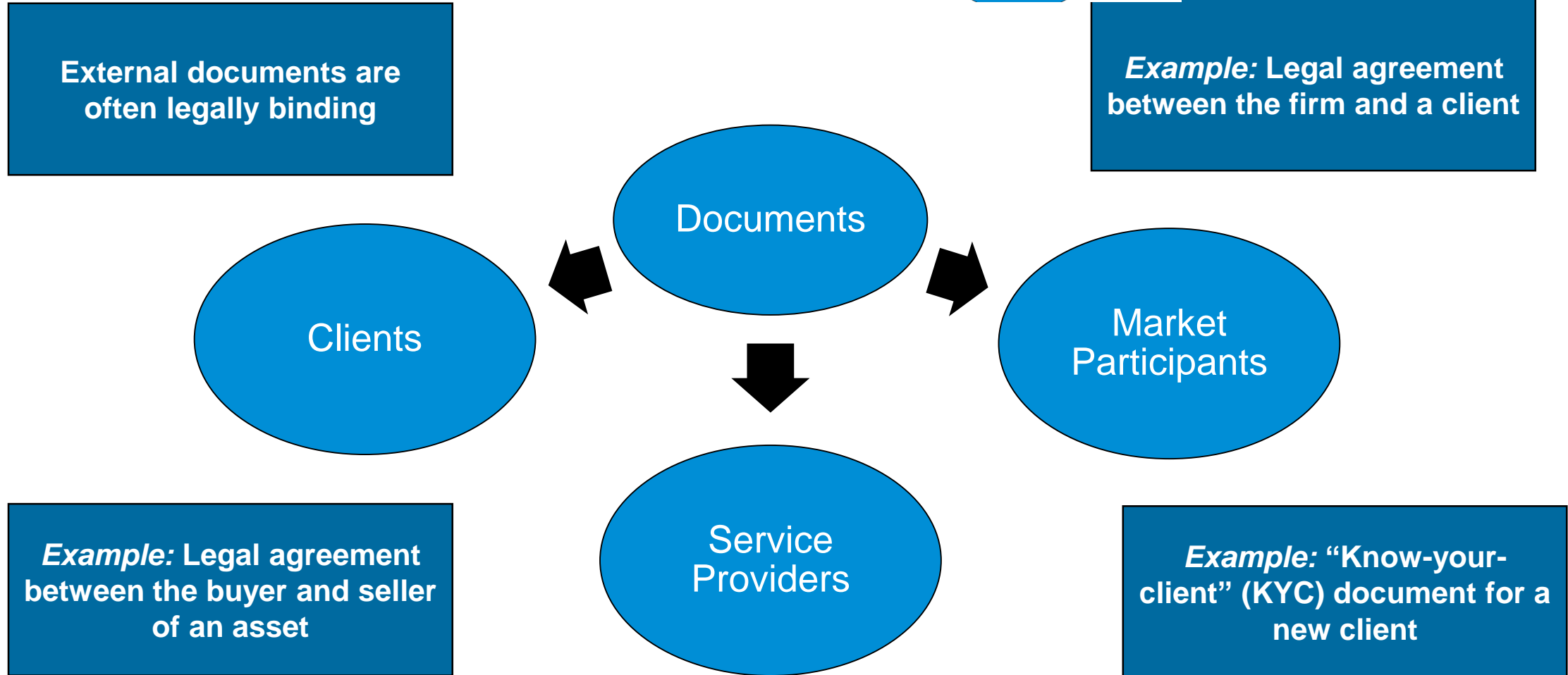
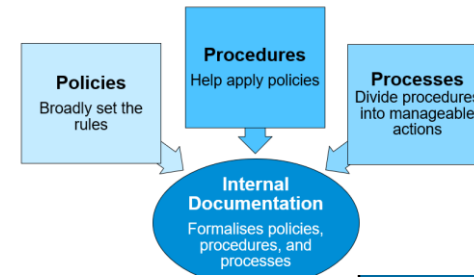
- A. ad hoc document.
- B. derived document.
- C. associated document.**

C is correct. An employee handbook that outlines travel reimbursement guidelines is an associated document that employees would refer to in order to determine which travel expenses may or may not be reimbursed.

A is incorrect because an **ad hoc document is typically informal**. Because an employee handbook usually describes policies and procedures, it is more likely to be a standardised document rather than an ad hoc document.

B is incorrect because a **derived document comes into existence because of other documents**. In this context, **an expense claim form would be a better example of a derived document**.

# EXTERNAL DOCUMENTATION



LOS e: Describe types of external documentation.

# USERS OF EXTERNAL DOCUMENTATION IN THE INVESTMENT INDUSTRY

Governments, legislators, and regulators

Groups that help organise the market

Market participants who facilitate investments or transactions

Professional firms and individuals serving the needs of the industry

Investors, both retail clients and institutional investors

LOS e: Describe types of external documentation.



# EXTERNAL DOCUMENTATION: STAGES OF THE TYPICAL CLIENT INTERACTION



LOS e: Describe types of external documentation.

# MARKETING

## Marketing documentation for a company in the investment industry typically includes the following:

**Presentation materials** that provide background on the company, its products, and/or its services

**Offering documentation**, such as a prospectus or term sheet

**Fact sheets** about the company's products

- For **asset management firms**, the marketing documentation also contains information about the managers, including their investment strategy and competitive advantages.
- **Marketing materials are typically regulated** to ensure that companies in the investment industry provide fair representations of their products.

LOS e: Describe types of external documentation.

## CLIENT ON-BOARDING

### The typical know-your-client (KYC) process requires the client to:

**Complete a questionnaire** and provide personal background information.

**Be screened** against various global databases to ascertain whether he or she is known or wanted by local or international law enforcement agencies.

**Submit to anti-money-laundering** checks at on-boarding and thereafter.

**Provide proof of the source of funds** to verify that the money does not originate from an illegal or criminal source.

- The KYC process is important in setting the basis for the relationship, in particular to differentiate between **discretionary and non-discretionary** relationships.

LOS e: Describe types of external documentation.

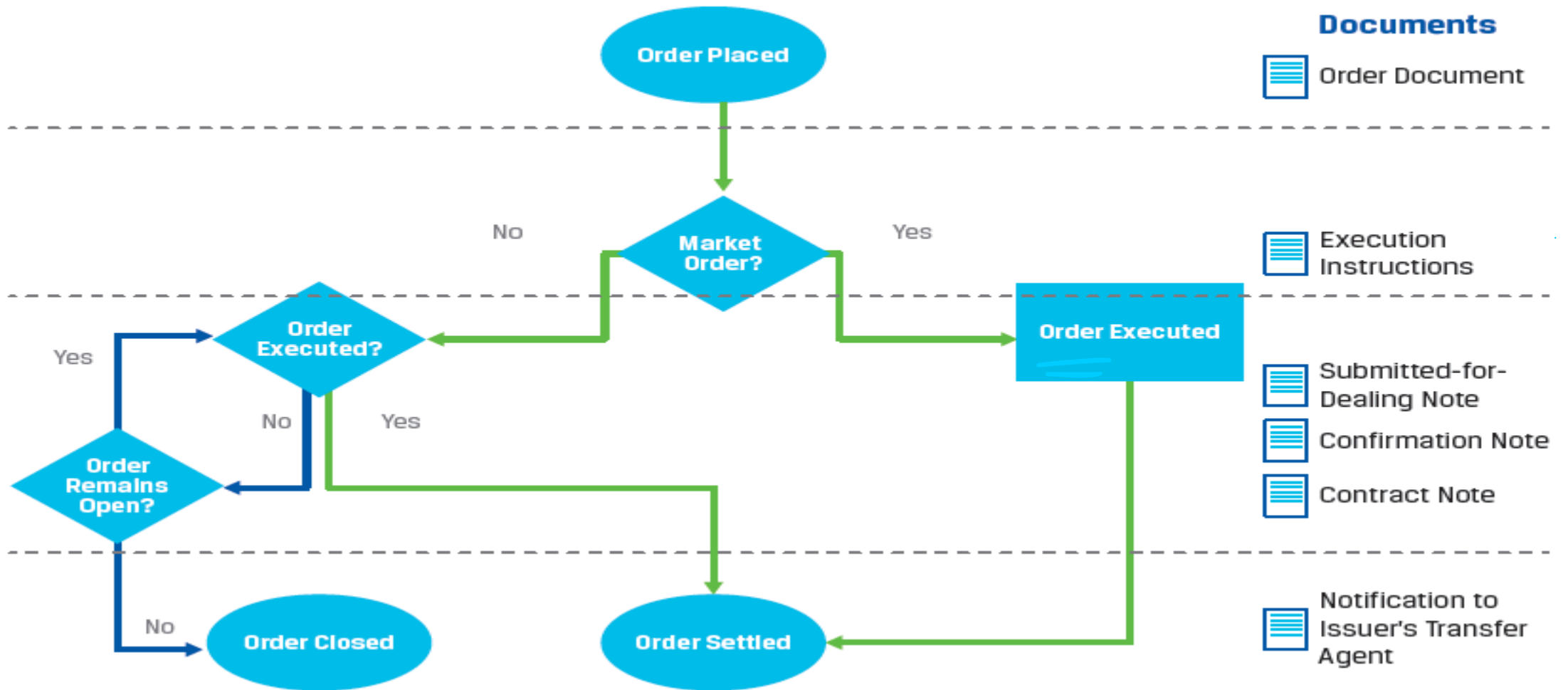
## FUNDING

**Funding:** Once the client on-boarding process is complete and approved by the compliance department, the next stage is the cash transfer and the investment of the money.

- Each step in the funding process relies on external documentation to formalise, legalise, and protect the rights and obligations of each of the parties involved.

LOS e: Describe types of external documentation.

# TRADING DOCUMENTATION

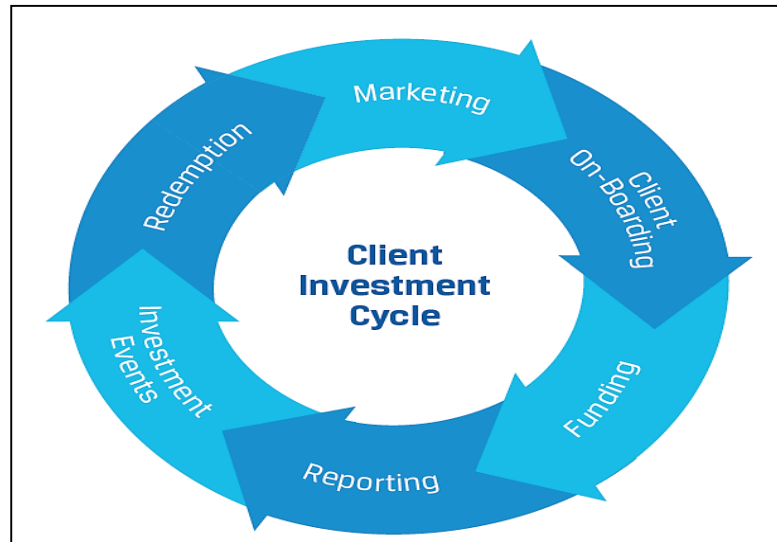


LOS e: Describe types of external documentation.

# REPORTING

**Reporting: After funding, regular communication will occur between the company and its client.**

- A valuation (if a market price is available) or an appraisal (that is, an estimation if no market price is available) of each asset held is sent to the client on a regular basis.



LOS e: Describe types of external documentation.

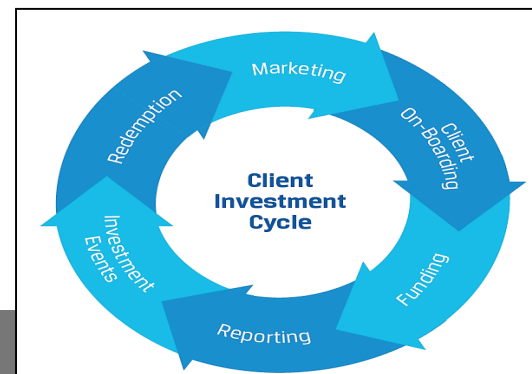
# INVESTMENT EVENTS

**Investment events:** Over the life of the investment, numerous events may take place that affect the client or require the client to take action.

**Some events are expected**, such as regular income in the form of interest from a bond investment, dividends from an equity investment, or rental income from a commercial real estate investment.

**Unexpected events** that lead to external documentation include the following:

- Merger and acquisition activity
- Bankruptcy
- Natural disaster



LOS e: Describe types of external documentation.

# REDEMPTION

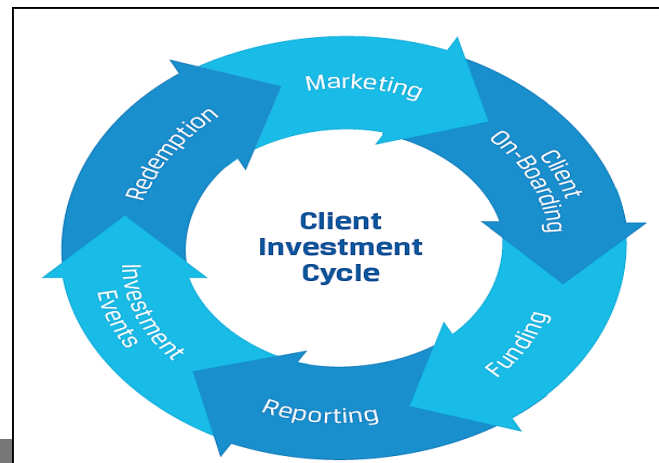
At some stage, a client may want to redeem or sell an investment.

Depending on the type of investment, a written request may be required.

After verifying the authenticity of the client's instruction, the company arranges for the investment to be sold.

When the investment is sold, the company's authorised signatories allow the bank to release the cash proceeds

A final written confirmation statement is then sent to the client.



LOS e: Describe types of external documentation.



## PRACTICE Q: EXPERT

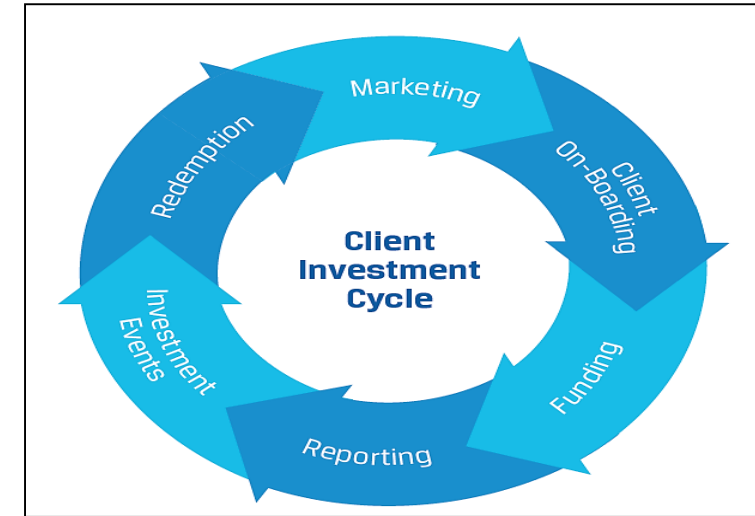
The type of documentation that can be received by a client prior to the on-boarding process is:

- A. marketing documentation.
- B. know-your-client documentation.
- C. documentation that determines whether the relationship is discretionary.

## PRACTICE Q: EXPERT

The type of documentation that can be received by a client prior to the on-boarding process is:

- A. **marketing documentation.**
- B. know-your-client documentation.
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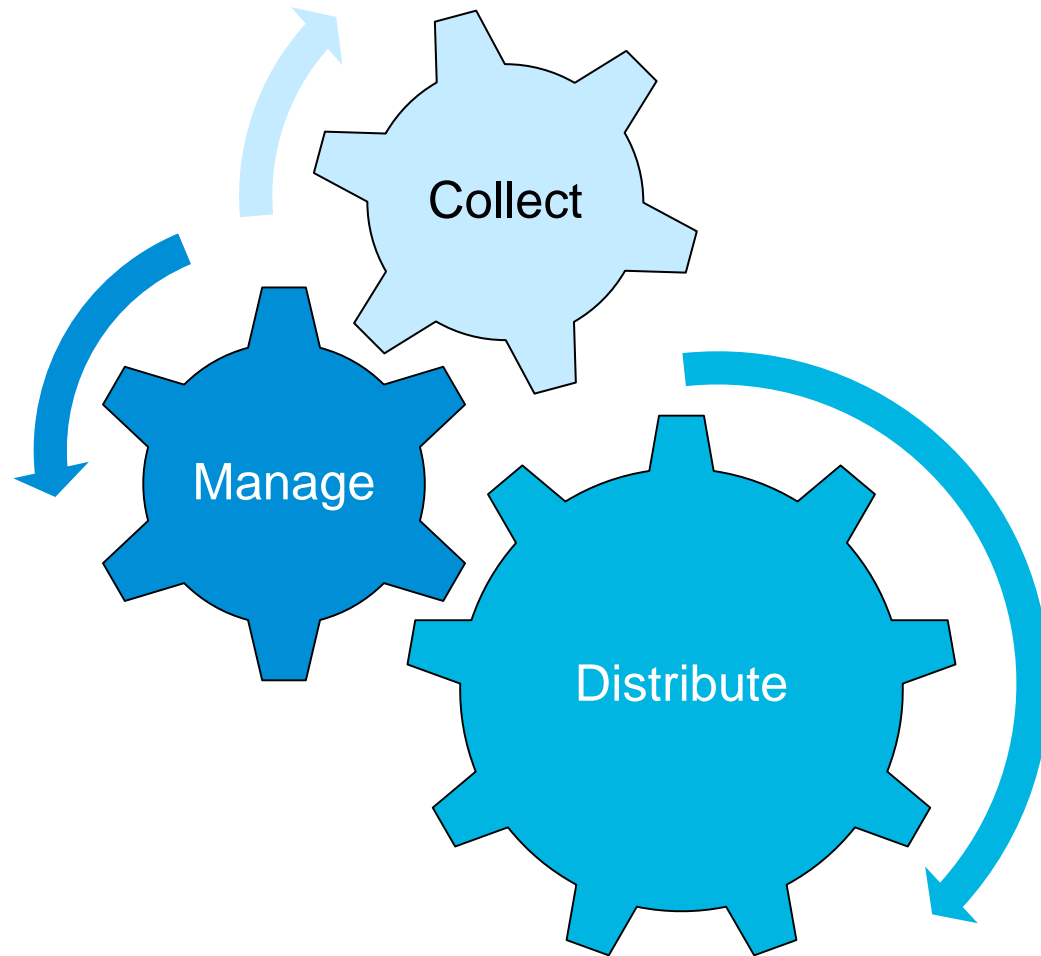


A is correct. Clients and potential clients can receive marketing documentation prior to the on-boarding process.

B is incorrect. **Know-your-client documentation is part of the on-boarding process.**

C is incorrect. **Documentation that determines if a relationship is discretionary is part of the on-boarding process.**

## INFORMATION TECHNOLOGY (IT)



IT has greatly enhanced our ability to collect, collate, manage, and distribute documents.  
The use of IT can also reduce risk.

LOS f: Describe document management.

# MANAGING DOCUMENTS

## Document Management

### Access

Documents should be easily retrievable

### Security

Needed to protect sensitive information

### Retention

For logical, legal, and regulatory reasons

### Disposal

Responsibility to destroy after retention period

LOS f: Describe document management.

## PRACTICE Q: EXPERT

In the document management process, ease of data retrieval is best accomplished by:

- A. retaining information after its initial use.
- B. maintaining a centralised repository.
- C. using sound practices for safekeeping documentation.

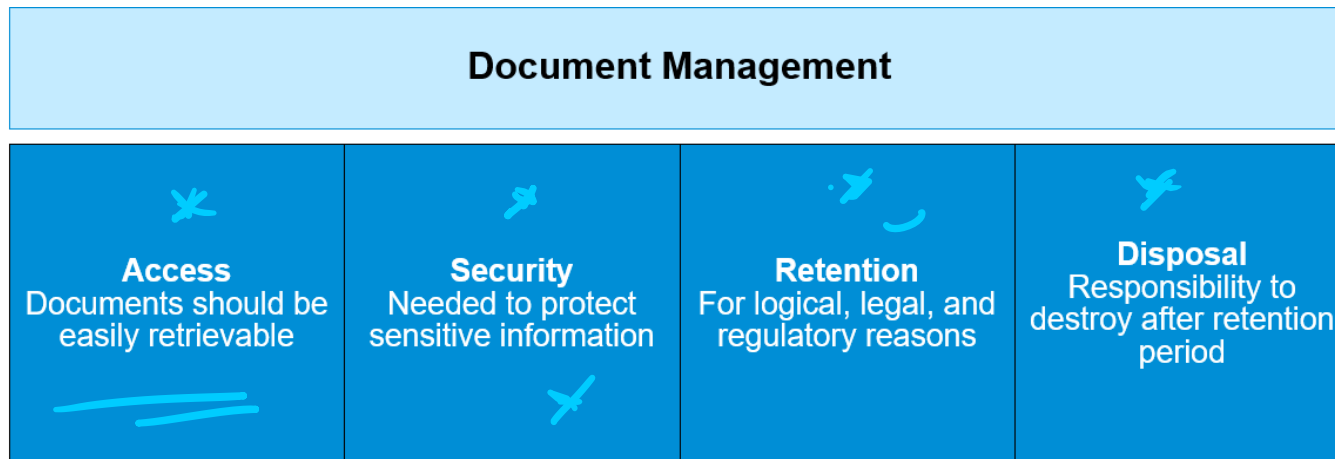
# PRACTICE Q: EXPERT

In the document management process, ease of data retrieval is best accomplished by:

- A. retaining information after its initial use.
- B. maintaining a centralised repository.**
- C. using sound practices for safekeeping documentation.

**B is correct.** Maintaining a centralised repository, with appropriate access rights, helps data retrieval. This repository is often electronic.

A and C are incorrect because retaining information after its initial use and using sound practices for safekeeping documentation **do not imply that data will be easy to retrieve.**



## LOOKING FORWARD

**You have completed a comprehensive education programme.**

**You have also acquired a set of ethical and professional standards.**

**Congratulations**

**You have acquired a “common language” with investment industry professionals.**

**You are the future of the financial industry.**