



CFA Institute[®]
Investment Foundations

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Module 2: ETHICS AND REGULATION

Chapter 2: Ethics and Investment Professionalism

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

JUNE 2017 CFA CANDIDATE SURVEY

Top 3 most difficult topic areas





CFA INSTITUTE ETHICS MATERIALS OVERVIEW

- 1. Module 2 Ethics and Regulation**
 - Chapter 2 Ethics and Investment Professionalism
 - Chapter 3 Regulation

<https://www.cfainstitute.org/ethics>

- 1. Code of Ethics and Standards of Professional Conduct (2 pages)
- 2. Standards of Practice Handbook (294 pages)
- 3. Ethical Decision Making Framework (1 page) + game based course
- 4. [Code and Standards Video Series](#)
- 5. [Code and Standards Case Studies](#)

- 1. [The Global Investment Performance Standards \(GIPS®\)](#)
- 2. [Asset Manager Code](#)



Code and
Standards



Handbook

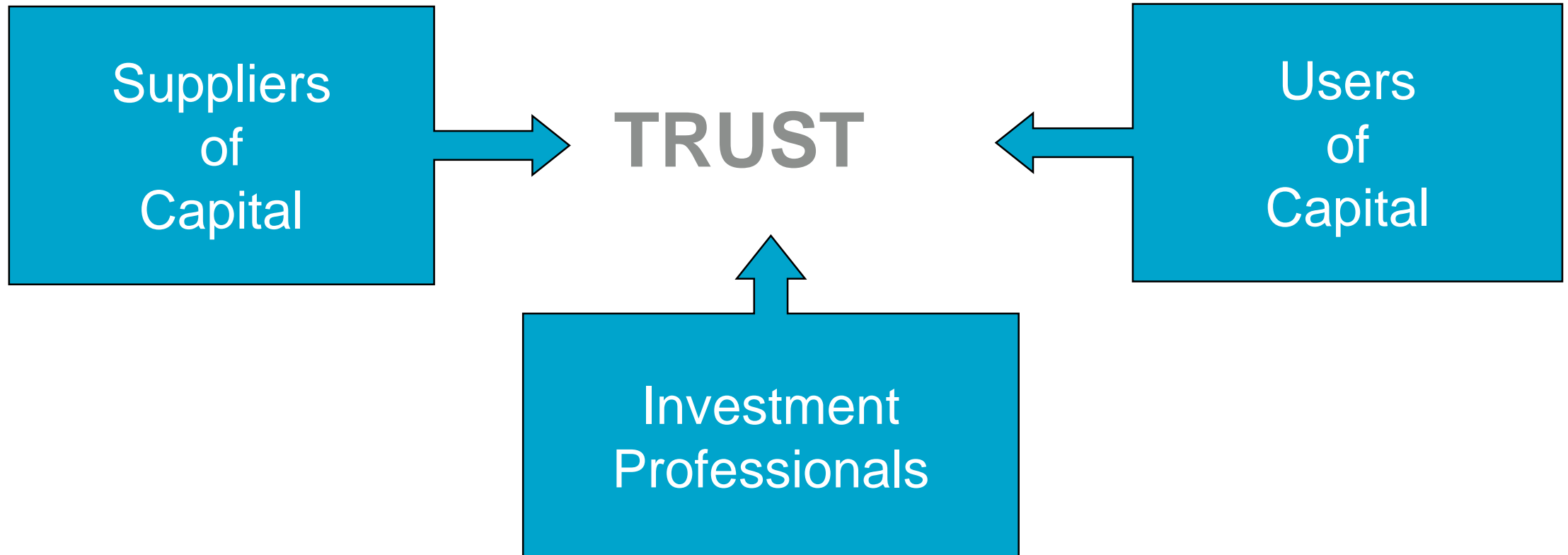


EDM Framework

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

- a) Describe the need for ethics in the investment industry;
- b) Identify obligations that individuals in the investment industry have to clients, prospective clients, employers, and co-workers;
- c) Identify elements of the CFA Institute Code of Ethics;
- d) Explain standards of practice (professional principles) that are based on the CFA Institute Code of Ethics;
- e) Describe benefits of ethical conduct;
- f) Describe consequences of conduct that is unethical or unprofessional;
- g) Describe a framework for making ethical decisions

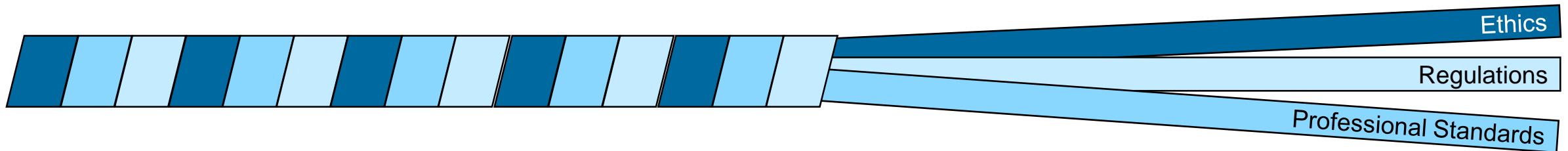
THE IMPORTANCE OF TRUST



BUILDING A CULTURE OF INTEGRITY

1. Set high standards and put them in writing;

2. Get adequate and ongoing training on professional and ethical standards;



3. Assess the integrity of individuals and groups encountered; and

4. Take action when breaches of integrity and ethical standards are observed.

THE NEED FOR ETHICAL BEHAVIOUR



LOS a: Describe the need for ethics in the investment industry.

EXAMPLES OF CONFLICTS OF INTEREST

Efforts to generate
excessive
commissions

Insider Trading:
Attempts to benefit
from material
nonpublic
information

Front Running:
Placing a personal
order ahead of a
client's order

LOS b: Identify obligations that individuals in the investment industry have to clients, prospective clients, employers, and co-workers.

OBLIGATIONS TO CLIENTS, EMPLOYERS, AND CO-WORKERS

Clients

- Identify and manage conflicts of interest
- Know investment products
- Exercise independent judgment

Employers

- Remain loyal
- Carry out responsibilities with professional competence and care

Co-Workers

- Support professional development
- Promote and follow ethical practices

LOS b: Identify obligations that individuals in the investment industry have to clients, prospective clients, employers, and co-workers.

IDENTIFYING KEY OBLIGATIONS

1. What is my role in the company and in what way do I contribute to its success?
2. To whom do I owe a duty or an obligation?
3. What potential individual and organisational conflicts of interest should I be aware of?
4. What measures do I need to take to ensure I have sufficient competence to fulfil my role?
5. What supervision can I expect?

LOS b: Identify obligations that individuals in the investment industry have to clients, prospective clients, employers, and co-workers.

CFA INSTITUTE CODE OF ETHICS

Members of CFA Institute (including CFA charterholders) and candidates for the CFA designation (“Members and Candidates”) must:

- 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.

LOS c: Identify elements of the CFA Institute Code of Ethics.

CFA INSTITUTE CODE OF ETHICS

- 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.

LOS c: Identify elements of the CFA Institute Code of Ethics.

PRINCIPLES GUIDING THE STANDARDS OF PROFESSIONAL CONDUCT

Client interests are paramount

Exercise diligence, reasonable care,
and prudent judgment

Act with independence and objectivity

Avoid or disclose conflicts of interest

LOS d: Explain standards of practice (professional principles) that are based on the CFA Institute Code of Ethics.

PRINCIPLES GUIDING THE STANDARDS OF PROFESSIONAL CONDUCT

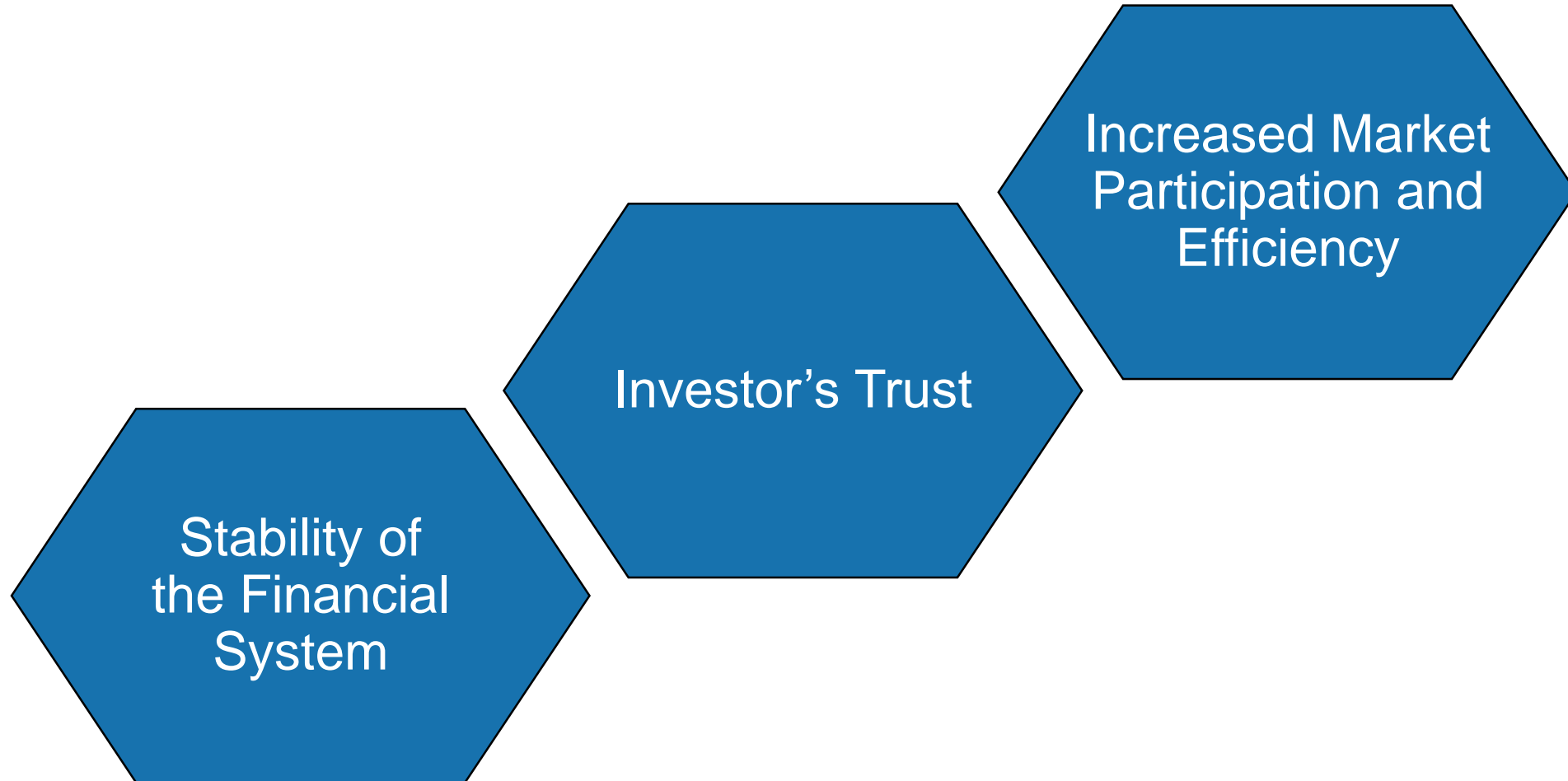
Make full and fair disclosure

Engage in fair dealing

Protect confidential information

LOS d: Explain standards of practice (professional principles) that are based on the CFA Institute Code of Ethics.

BENEFITS OF ETHICAL CONDUCT



LOS e: Describe benefits of ethical conduct.

CONSEQUENCES OF UNETHICAL OR UNPROFESSIONAL CONDUCT

Industry

- Changes in investor behaviour
- Financial contagion

LOS f: Describe consequences of conduct that is unethical or unprofessional.

CONSEQUENCES OF UNETHICAL OR UNPROFESSIONAL CONDUCT

Clients

- Ownership of unsuitable assets
- Excessive costs

LOS f: Describe consequences of conduct that is unethical or unprofessional.

CONSEQUENCES OF UNETHICAL OR UNPROFESSIONAL CONDUCT

Employers

- Loss of reputation
- Legal liabilities

Individuals

- Legal, professional, personal, and economic consequences

LOS f: Describe consequences of conduct that is unethical or unprofessional.

A FRAMEWORK FOR MAKING ETHICAL DECISIONS

1. Identify an ethical issue(s) and relevant duties/obligations

- What is the ethical dilemma?
- To whom is a duty owed, or who might be affected by the decision?
- Are any duties in conflict, and which takes precedence?

2. Identify conflicts of interest

- Are personal interests affecting my decision/action?

3. Get the relevant facts

- What are the relevant facts in the situation?
- Are there any facts not known that should be known?
- What resources are available to learn more about the situation?
- Is there enough available information to make a decision?

LOS g: Describe a framework for making ethical decisions.

A FRAMEWORK FOR MAKING ETHICAL DECISIONS

4. Identify applicable ethical principles

- What are the fundamental ethical principles involved in the situation?

5. Identify circumstances that could be affecting judgment

What factors are affecting judgment?

- Outside factors, such as authority figures, a vocal group, and incentives, can affect judgment.
- Internal factors, such as overconfidence and rationalisation, can also affect judgment.

6. Identify and evaluate alternative actions

- What are the options?
- Have creative options been identified?
- What criteria affect choosing among options? How should conflicts of interest be managed?
- If a particular alternative was shared with a respected individual or reported to a wider audience, what is the expected response?

LOS g: Describe a framework for making ethical decisions.

A FRAMEWORK FOR MAKING ETHICAL DECISIONS

7. Seek additional guidance

- Would discussing the issues with a supervisor, colleagues, or legal (compliance) personnel be appropriate or helpful?

8. Act and review the outcome

- How did the decision turn out, and what has been learned from this specific situation?

LOS g: Describe a framework for making ethical decisions.

SUMMARY

Trust is essential to the investment profession.

Ethical principles can guide decision making and behaviour.

The CFA Institute Code of Ethics sets ethical standards for investment professionals.

Violations of legal and ethical standards can have significant negative consequences.

Make ethical decisions by using a framework for ethical decision making.