

Charta Learning

The Code of Ethics and Standards I to III

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Code of Ethics

ET.1.a · Set out the parts that make up the Code of Ethics

What principles do members and candidates commit to in the Code of Ethics?	Acting with integrity, competence, diligence and respect; putting the profession's integrity and clients' interests above their own; reasonable care and independent judgement; credit to the profession; promoting market integrity; maintaining competence.
Whose interests come first under the Code of Ethics?	The integrity of the profession and clients' interests are placed above the member's own.
What is the relationship between the Code and the Standards of Professional Conduct?	The Code sets the principles; the Standards give the specific, enforceable rules that apply them to situations.

ET.1.b · Use a structured framework to make ethical decisions

What are the steps of the ethical decision-making framework?	Identify facts, stakeholders, duties and principles; consider situational influences and seek guidance; decide and act; reflect on the outcome.
Why does a framework matter most in hard cases?	The hard cases are not the ones where the right answer is obvious.
Why is the situational influences step the most valuable?	Misconduct usually arises not from a decision to do wrong but from an environment that makes the wrong thing feel routine.
Which situational influences should be considered?	Time pressure, incentives and the behaviour of colleagues.
What does the reflection step achieve?	It closes the loop, turning a resolved case into a better response next time.

Code of Ethics and Standards of Professional Conduct

ET.1.c · Explain how CFA Institute polices the Code and Standards through its Professional Conduct Program

What can prompt a Professional Conduct Program inquiry?	A complaint, media or other public information, a member's or candidate's own disclosures (including the annual Professional Conduct Statement), or reports of conduct during an examination.
What outcomes can an investigation have?	No action, a cautionary letter (conduct warrants attention but not discipline), or a proposed disciplinary sanction.

What sanctions are available?	Public censure; suspension or revocation of membership or of the right to use the CFA designation; and for candidates, suspension or prohibition from further participation in the CFA Program.
What happens if a member or candidate rejects a proposed sanction?	The matter goes to a hearing before a panel.
How does this enforcement relate to legal proceedings?	It is separate from any legal or regulatory proceeding.

Standard I

ET.2.a · Use Standard I (Professionalism) to judge a case

What are the five parts of Standard I (Professionalism)?	Knowledge of the Law, Independence and Objectivity, Misrepresentation, Misconduct and Competence.
Which rule applies when law and the Code and Standards differ?	The stricter of the two.
What does Independence and Objectivity prohibit?	Offering, soliciting or accepting any gift or benefit that reasonably could be expected to compromise judgement.
How far does the Misconduct standard reach?	To dishonesty, fraud or deceit, and any act, including outside professional life, that reflects adversely on reputation, integrity or competence.
What does the Competence standard require?	Acting with and maintaining the knowledge and skills the role demands, without prescribing any particular continuing education programme.

ET.2.b · Put the Knowledge of the Law standard, I(A), into practice

Which law applies when local law and the Code differ?	The stricter. If local law is less strict than the Code, the Code governs; if local law is stricter, local law governs.
What must a member do on discovering a violation by others?	Dissociate from it, which means leaving the activity and may mean resigning.
Does Standard I(A) impose a duty to report violations to authorities?	No affirmative duty under the Standard, though local law may impose one.
Why is reporting internally while continuing to take part not enough?	It may still be treated as participation in the violation.

ET.2.c · Put the Independence and Objectivity standard, I(B), into practice

What must members do under Standard I(B)?	Use reasonable care to achieve and maintain independence and objectivity, and not offer, solicit or accept anything that could reasonably be expected to compromise their own or another's independence.
How should modest client gifts and gifts from those seeking influence be treated?	Modest gifts from clients are permitted with disclosure to the employer; gifts from those seeking to influence an opinion call for far more caution.
Why is the test not whether the member feels influenced?	People reliably believe they are not; the test is whether a reasonable observer would expect the arrangement to compromise judgement.
What is the remedy for travel paid by a company being analysed?	Pay one's own way.

ET.2.d · Put the Misrepresentation standard, I(C), into practice

What does Standard I(C) prohibit?	Knowingly making any misrepresentation relating to investment analysis, recommendations, actions or other professional activities.
What conduct counts as misrepresentation?	Guaranteeing a return on an inherently volatile investment, overstating qualifications or scope of services, and plagiarism.
What counts as plagiarism?	Using another's work without attribution, including charts, models and language from research reports.
What may be used without citation?	Recognised statistical or factual sources. A colleague's or competitor's analysis may not be presented as one's own.
Can a misrepresentation be made without a false statement?	Yes. Omission can misrepresent as effectively as a false statement.

ET.2.e · Use the Misconduct standard, I(D), in cases

What does Standard I(D) prohibit?	Professional conduct involving dishonesty, fraud or deceit, and any act that reflects adversely on professional reputation, integrity or competence.
Does the Misconduct standard reach personal life?	Yes, where conduct bears on trustworthiness or competence.
Why is it not a general morality clause?	A traffic offence or personal matter unrelated to professional character does not engage it.
What are the standard illustrations of conduct that does breach it?	Habitual drunkenness during business hours and personal bankruptcy arising from fraud.

ET.2.f · Use the Competence standard, I(E), in cases

What does Standard I(E) require?	Acting with and maintaining the competence necessary to fulfil professional responsibilities. It was added in the 12th edition.
What does competence depend on?	The role and its complexity: analysts, portfolio managers and supervisors need different knowledge, skills and abilities.
What must a member do when their role changes or they take on an unfamiliar product?	Acquire what the new work requires.
Does the Standard prescribe a continuing education programme?	No. Employer training, conferences, certifications, self-study and consulting experts are all acceptable routes.
Is competence judged by outcomes?	No, by the knowledge and care brought to the work: a loss after thorough research is not a breach, but passing a licensing exam without learning its content is not enough.

Standard II

ET.3.a · Use Standard II (Integrity of Capital Markets) to judge a case

When is information material?	If a reasonable investor would want it before deciding, or if its release would move the price.
When does information stop being non-public?	Once it has been broadly disseminated. Telling a few analysts is not dissemination.
What must a member who possesses material non-public information avoid?	Acting on it or causing others to act on it.
What does the mosaic theory permit?	Conclusions built from public information and non-material non-public pieces are the analyst's own work, however valuable.
What is the test for market manipulation?	Intent to mislead, through transactions distorting price or volume or dissemination of false information, not whether anyone was actually misled.

ET.3.b · Put the Material Nonpublic Information standard, II(A), into practice

What must a member with material non-public information not do?	Act, or cause others to act, on it.
When is information nonpublic?	Until it has been disseminated to the marketplace generally.
What does the mosaic theory permit?	Reaching a material conclusion by combining public information with nonmaterial nonpublic information - the legitimate core of analysis.

What should a member do beyond simply declining to trade?	Make reasonable efforts to have the information made public; if that is not possible, communicate it only to designated supervisory and compliance personnel.
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ET.3.c · Put the Market Manipulation standard, II(B), into practice

What does Standard II(B) prohibit?	Practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.
What is information-based manipulation?	Spreading false or misleading information, including pumping a position one intends to sell.
What is transaction-based manipulation?	Using trades themselves to create a false impression, such as wash trading, matched orders, or marking the close to influence a valuation price.
What distinguishes manipulation from legitimate trading?	Intent. A large order that moves a price is not manipulation, whereas a small one placed to set a mark may be.

Standard III

ET.4.a · Use Standard III (Duties to Clients) to judge a case

What does the Loyalty, Prudence and Care duty require?	The client's interest ahead of the employer's and one's own, with the care a prudent person would apply to their own affairs.
What does fair dealing mean for recommendations?	Recommendations and changes reach all clients fairly - not identically, since mandates differ, but with nobody systematically served last.
How is suitability judged?	In the context of the client's whole portfolio and written objectives, so a sound investment can still be an unsuitable one.
What must performance presentation be?	Fair, accurate and complete.
How long does the confidentiality duty last?	It survives the end of the client relationship.

ET.4.b · Put the Loyalty, Prudence, and Care standard, III(A), into practice

Whose interests come first under III(A)?	Clients' interests before the employer's and the member's own, acting with reasonable care and prudent judgement.
Who is the client for a pension plan?	The beneficiaries, not the sponsoring company or the executives who selected the manager.
How must soft dollars be used?	For research that benefits the client whose commissions paid for it.

What does a policy of not voting proxies require?	A cost-benefit justification rather than mere convenience, since proxy voting is part of the duty.
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ET.4.c · Put the Fair Dealing standard, III(B), into practice

Does fair dealing mean treating all clients identically?	No. Differing service levels are permitted if disclosed and available to all who qualify.
What must happen when a recommendation changes?	It must reach every entitled client through a process giving each a fair opportunity to act, with the gap between decision and dissemination kept short.
How should limited opportunities such as an oversubscribed offering be allocated?	By a pre-established, disclosed and systematic method rather than case by case.
What must be avoided in dissemination?	Systematically placing any client ahead of the others.

ET.4.d · Put the Suitability standard, III(C), into practice

What must a member in an advisory relationship inquire into?	The client's experience, risk and return objectives and constraints, reassessed regularly.
How often should the client's profile be updated and in what form?	Put in writing and updated at least annually.
Why is suitability judged on the total portfolio?	A speculative holding can be suitable within a diversified portfolio and unsuitable as a concentration.
How is suitability assessed when managing to a stated mandate or index?	Against that mandate, and the manager may not depart from it because they judge another strategy better.

ET.4.e · Put the Performance Presentation standard, III(D), into practice

What must members ensure about performance information?	Make reasonable efforts to ensure it is fair, accurate and complete.
Which presentation practices are prohibited?	Presenting a composite as a single account, omitting terminated accounts, unlabelled simulated or back-tested records, and unstated gross-of-fee figures.
Why is presenting a selected best-performing account a breach?	It is presented as representative of the firm's results when it is not.
Is GIPS compliance required by Standard III(D)?	No. Compliance satisfies the Standard but is not required; the Standard simply requires that the presentation not mislead.

ET.4.f · Put the Preservation of Confidentiality standard, III(E), into practice

Whose information must be kept confidential under III(E)?	Current, former and prospective clients.
What are the exceptions to confidentiality?	The information concerns illegal activities, disclosure is required by law, or the client permits it.
Why may a former client's information not be used at a new employer?	The duty survives the end of the relationship.
Is cooperating with a CFA Institute Professional Conduct Program investigation a breach?	No, it is an exception.
What is the safe course when illegal activity is suspected?	Consult counsel rather than deciding the legal question alone.

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