CHARTA LEARNING · LESSON NOTES

Standard IV: duties to employers

CFA Level I · Ethical and Professional Standards

You will learn: Explain what loyalty to an employer requires, when extra pay needs written consent, and what a supervisor must do, and name the part of Standard IV that a case touches.

Running example: Examples use made-up people and firms, mainly Marlowe Park Capital, the analyst Nadia Rahman, the portfolio manager Tomas Berg and the research head Helen Marsh, with made-up figures.

1. The three parts and IV(A) Loyalty

- Three questions: IV(A) Loyalty, what do I owe my employer, now and after I leave; IV(B) Additional Compensation Arrangements, may I accept extra pay from anyone else; IV(C) Responsibilities of Supervisors, how do I keep those I lead inside the rules.
- In matters related to their employment, members must act for the benefit of their employer: do not deprive it of the advantage of your skills and abilities, do not divulge its confidential information, do not otherwise cause it harm. Your private life is your own.
- Outside paid work is not banned, but give the employer written notice of the types of services, the duration and the pay, and wait for its consent. Telling is not consent, and only the employer's consent counts, not the outside client's.
- Loyalty never means helping the firm break the law or mislead clients: duties to clients and markets come first. Reporting serious wrongdoing properly, to protect clients or the market and not for gain, is not disloyal.

CASE 1: NADIA'S WEEKEND NEWSLETTER, UNANNOUNCED TO THE FIRM

Paid outside work	weekend newsletter	**$1,500 a month**
Over one year	1,500 × 12	**$18,000**
Competes with the firm?	same kind of client	**yes**
Employer told and agreed?	written at home, own time, own laptop	**no**
Verdict	paid, competing, unapproved	**IV(A) violation**

2. Leaving the firm

- While still employed you may prepare to compete: think about plans, write a business plan, register a company, rent an office. You may not take the firm's property or solicit its clients: copying the client list, taking models and research, or calling clients to win them.
- After leaving, with no non-compete agreement (a contract promising not to compete), loyalty has ended and competing is fine. Skills, experience and public information come with a person. The firm's client file and records do not: the source decides.
- Models, research and client lists built on the job belong to the employer, even if you wrote every line. An employee is covered; a contractor owes the duties its agreement sets out, so read the contract.

CASES 2 AND 3: TOMAS BERG

Writes a business plan; registers the company	preparation	**allowed**
Emails the client file home	the firm's property	**not allowed**
Phones 40 clients while employed	solicits	**not allowed: IV(A) violation**
After leaving: public directory and memory	no non-compete	**allowed**
After leaving: the firm's exported spreadsheet	former employer's records	**not allowed**

Watch out: Thinking preparing to leave is disloyal (only taking files or soliciting is); thinking the duty ends with the working day, since it follows the person, not the clock.

3. IV(B) Additional Compensation Arrangements

- Members must not accept gifts, benefits, compensation or consideration (anything of value) that competes with, or might reasonably be expected to create a conflict of interest with, their employer's interest, unless they obtain written consent from all parties involved. The arrangement need not have caused harm yet.
- Order: the offer arrives; written disclosure of the full terms (amount, duration, nature); the employer weighs it; written consent by all parties, and only then accept. Accepting first and asking afterwards is a violation even if the employer would have said yes. A verbal nod is not consent.
- Needs consent: a client bonus for beating a benchmark; paid advice to a company the firm researches. Does not: royalties on an unrelated cookbook (no conflict). The firm's own bonus is not IV(B). Extra pay is not forbidden, hidden extra pay is the problem.

CASES 4 AND 5: TOMAS AND NADIA

Carlos: $5,000,000, beat benchmark (6%) by 2% (8%)	2% × 5,000,000	**$100,000 extra**
Bonus at 10% of the extra	10% × 100,000	**$10,000**
Compared with salary of 90,000	10,000 ÷ 90,000	**about 11%**
Nadia: client offers $1,000 a month	1,000 × 12	**$12,000 a year**
Her manager nodded in the corridor	no written terms	**IV(B) violation**

Watch out: Thinking a verbal yes is consent; thinking all outside income or all client bonuses are banned (only competing or conflicting pay needs consent); counting the outside party's consent instead of the employer's.

4. IV(C) Responsibilities of Supervisors

- Members with supervisory responsibility must make reasonable efforts to prevent and detect violations by those under their supervision or authority, measured against laws, rules, regulations and the Code and Standards. Real authority creates the duty, not the job title, and delegating a task does not delegate the duty.
- Reasonable effort means adequate compliance procedures (clear written rules, explained to staff, covering the business risks) and acting on evidence. It does not mean guaranteeing no violation, or checking every trade personally.
- On finding a violation: investigate promptly; increase supervision of the person while assessing (not a punishment); act on what you find, escalating to compliance or senior management if needed. A warning alone is not enough.
- If the firm has no adequate procedures, decline the supervisory role in writing until proper procedures exist.

5. IV(C) in cases

- Case 6: Helen Marsh (12 analysts) learns Dev Patel passed a client's confidential details to a friend. She gives a quiet warning and does not investigate or increase supervision. Violation: she did not act on the evidence as a reasonable supervisor would.
- Case 7: Helen has written rules, annual training, approval for personal trades and monthly review. Kofi Mensah trades secretly through a relative's account, which could not be detected. She investigates at once on hearing a rumour. No IV(C) breach: reasonable efforts, not a guarantee.
- Case 8: Ravi Singh is offered a desk of 25 traders at a firm with no compliance manual and no compliance staff. He should decline the supervisory responsibility, in writing, until adequate procedures are in place.
- Quick fire: Nadia's unapproved newsletter is IV(A); a client bonus agreed with a nod is IV(B); a warning and nothing more is IV(C); calling clients from a public directory after leaving, with no non-compete, is no breach.

Key takeaways

- Loyalty: act for the employer's benefit; do not hold back skills, leak confidential information or cause harm.
- Outside paid work: tell the employer the services, duration and pay, and wait for its consent.
- You may prepare to leave, but not take property or solicit clients while employed.
- IV(B): anything that competes or might create a conflict needs written consent, with the terms, from all parties before you accept.
- IV(C): reasonable efforts through adequate procedures and acting on evidence, not a guarantee.
- Violation found: investigate and supervise more closely. No procedures: decline the role in writing.

Quick check

1. Nadia's manager nods in the corridor on a client bonus. Enough?
   Answer: No: consent must be written, with the terms such as amount and duration.
2. Tomas has left, no non-compete. May he use a public directory?
   Answer: Yes: public information and his own skills come with him, as long as he uses none of the firm's files.
3. A supervisor finds a violation and gives only a warning. OK?
   Answer: No: she must investigate promptly and increase supervision.

Summary notes for the Charta whiteboard lesson. Examples use made-up figures. Watch the full lesson at charta-learning.com.