CHARTA LEARNING · LESSON NOTES

Standard I: Professionalism

Ethics

1 Five parts, one idea: your own integrity

- I(A) Knowledge of the law
- I(B) Independence and objectivity
- I(C) Misrepresentation
- I(D) Misconduct
- I(E) Competence

IN THE LESSON

- Imagine a doctor who is brilliant, but who takes presents from a drug company, copies other doctors' papers and hides what the law requires.
- You would not trust that doctor, however clever.
- Standard one is the same idea for investment professionals.
- It is about how you behave, before we even ask how you treat clients.
- It has five parts.
- Part A is knowledge of the law.
- Part B is independence and objectivity.
- Part C is misrepresentation.
- Part D is misconduct.
- Part E is competence.
- At Level Two these come packed into one story about one person, and your job is to test each act against its own part, not against how bad it sounds.

2 I(A) Knowledge of the law

- Follow the stricter of the law and the Code
- Never knowingly join in a breach
- Raise it inside the firm first
- Still going on? Step away, e.g. remove your name
- Telling a regulator: encouraged, not required

IN THE LESSON

- Part A says you must understand and follow the laws and rules that apply to you, and the Code and Standards too.
- When they differ, follow whichever is stricter.
- Notice what that means.
- A looser law never lets you off the Code, and a tougher law is not cancelled by the Code being silent.
- Part A also covers other people's breaches.
- You must not knowingly take part in one.
- If you learn of a breach, you raise it inside the firm first, with a supervisor or compliance.
- If it carries on, you step away, for example by removing your name from the work.
- Telling a regulator is encouraged, but it is not compulsory unless the law demands it.

3 I(A): when you know of a breach

From knowing to stepping away

Know of a breach → Raise it with compliance → Still going on? → Dissociate: remove your name

IN THE LESSON

- Here is the order of steps, read from left to right.
- First box: you know that a breach is going on.
- Maybe you are certain, maybe you only suspect, and when you are unsure you ask compliance.
- Second box: raise it with compliance or a supervisor, inside the firm.
- Third box: ask whether it is still going on.
- If compliance fixes it, you are done.
- If it continues, move to the fourth box: dissociate, which means separate yourself from it, for example by removing your name from the work, or asking to be moved.
- Notice what is missing from the line.
- Going to the regulator is not a required step, and raising it quietly while carrying on working is not enough.

4 I(B) Independence and objectivity

- Judgement must not be swayed by gifts or ties
- Client gift: fine if the employer is told
- From someone seeking influence: could it sway you?
- Issuer-paid research: flat fee, disclosed
- Fee tied to the rating or conclusion: breach

IN THE LESSON

- Part B is about whether your opinion can be bought.
- Your judgement must not be swayed by gifts, favours or ties.
- Start with gifts.
- A gift from a client, say a thank you after a good year, may be accepted if you tell your employer.
- The employer simply needs to know about your interest.
- A gift from someone who wants influence is different.
- A company you cover, or a broker chasing your orders, is aiming at your future opinion, so telling your employer does not rescue it.
- The test is whether it could reasonably be expected to compromise your objectivity.
- Then there is issuer paid research.
- It must be objective and disclose how it is paid for, and the fee should be flat, not tied to the conclusion.

5 I(C) Misrepresentation

- Do not mislead about your work, skills or sources
- Plagiarism: passing off others' work as yours
- Facts from recognised data services need no credit
- Overstated ability or record: misrepresentation
- Credit the source, describe yourself honestly

IN THE LESSON

- Part C says you must not mislead anyone about your own work, your skills or the sources you use.
- The classic form is plagiarism.
- That means presenting someone else's words, analysis, charts or assumptions as your own, whether they are taken from a rival's report, a journal article or a colleague.
- Be careful about the line, though.
- Plain facts from a recognised data service, such as a statistics office's published figures, can be used without credit.
- The analysis built on them is a different matter.
- Part C also covers overstating your abilities or track record, for example claiming experience you do not have.
- Credit the source, and describe yourself honestly.

6 I(D) Misconduct and I(E) Competence

- Dishonesty, fraud or deceit in professional life
- Acts that reflect badly on integrity or competence
- A private misfortune is not misconduct by itself
- I(E) Competence: keep skills up; no set course

IN THE LESSON

- Part D covers misconduct.
- It forbids professional conduct that involves dishonesty, fraud or deceit, and acts that reflect badly on your integrity or your professional competence.
- The key word is professional.
- Part D is not a net that catches every private misfortune.
- A bankruptcy after an illness, a divorce or a speeding ticket is not misconduct by itself.
- Faking an expense claim is, because it is deceit.
- Competence has its own part, E, new in the twenty twenty four edition.
- You are expected to develop and keep up your knowledge and skills, but no particular course or qualification is required.
- Reading, training and good advice all count.
- So ask of each act, was it dishonest, or did it truly reflect on integrity or competence?

7 A routine for every case

The case routine

What did they do? →
Which part of Standard I? →
Apply the stricter rule →
Breach? What action?

IN THE LESSON

- Before the cases, here is a routine that works every time.
- First box: ask what the member actually did, and what they knew.
- Take the facts, not the label the story puts on them.
- Second box: decide which part of Standard one the act touches: the law, independence, misrepresentation or misconduct.
- Third box: apply the stricter rule.
- If the law and the Code differ, the tougher one governs, and a lenient local threshold is never the answer on its own.
- Fourth box: decide whether there is a breach, and what the member should do.
- Work in this order, and never choose the answer first and hunt for a rule that allows it.

8 Case 1: the Code is silent, the law is not

Sofia Lund, CFA: law demands a written risk warning

Law: written risk warning	before leveraged advice	**required**
Code: no such rule	the Code is not the limit	**silent**
Sofia skips the warning	'the Code does not need it'	**skipped**
Stricter rule governs	follow the law	**I(A) breach**

IN THE LESSON

- Case one.
- Sofia Lund, a C F A charterholder, advises clients in a country where the law demands a written risk warning before any advice on a leveraged product.
- The Code has no matching rule, so Sofia skips the warning, saying the Code does not need it.
- Read the rows from the top.
- The law requires the warning.
- The Code says nothing.
- She skips it.
- Now apply the stricter rule.
- The law is the stricter here, and Standard one A tells her to follow whichever is stricter.
- The Code is not a ceiling on what she must do.
- So this is a breach of one A.
- The action is to give the warning every time.

9 Case 2: she raises it, then steps away

Priya Nair, CFA: a manager back-dates trade tickets

She tells compliance	raised inside the firm	**step one**
Compliance does nothing	the back-dating goes on	**continues**
She leaves the desk	and removes her name	**dissociates**
No regulator report	encouraged, not required	**No breach**

IN THE LESSON

- Case two.
- Priya Nair, a C F A charterholder, finds that a senior manager back dates trade tickets so favoured accounts get better prices.
- She tells compliance.
- Compliance does nothing, and the back dating goes on.
- So Priya asks to leave the desk and removes her name from the reports that depend on those trades.
- She does not go to the regulator.
- Is that a breach?
- No.
- Look at the order.
- She raised it inside the firm first.
- When it continued, she dissociated.
- That is exactly what Standard one A asks.
- Reporting to the regulator would have been encouraged, but it was not required, so leaving it out is no breach.

10 Case 3: a well-meant talk is not enough

Lukas Ferro, CFA: a colleague inflates valuations

He warns the colleague alone	who promises to stop	**well meant**
Nobody else is told	no compliance, no record	**gap**
It goes on; he still signs	he stays attached	**knowing**
Private talk is not enough	raise it, then step away	**I(A) breach**

IN THE LESSON

- Case three.
- Lukas Ferro, a C F A charterholder, notices that a colleague inflates the valuations in joint reports.
- Lukas is kind.
- He speaks to the colleague alone, who promises to stop.
- Nobody else is told.
- The valuations keep coming, and Lukas keeps signing the joint reports.
- Lukas meant well, and the private talk felt like the right thing.
- It is still a breach of Standard one A.
- He knows of the problem, he did not raise it with compliance, there is no record, and he stays attached to work he knows is wrong.
- A private promise is not a safeguard.
- He should raise it inside the firm and, if it continues, dissociate.

11 Case 4: a client's thank-you watch

Marcus Webb, CFA: a client offers a watch worth 400

Gift from a client	thanks for a strong year	**a reward**
He tells his employer	before he accepts it	**disclosed**
Could it sway his advice?	pays for past work only	**unlikely**
Disclosure settles it		**No breach**

IN THE LESSON

- Case four.
- Marcus Webb, a C F A charterholder, manages money for a client who is delighted with a strong year.
- The client offers him a watch worth four hundred, as thanks.
- Marcus tells his employer before accepting.
- Is there a breach?
- No.
- The gift comes from a client, and it rewards work already done.
- It is not aimed at his future opinion on an issuer.
- The only risk is that his employer does not know about an interest he has, and telling the employer removes that risk.
- So under Standard one B, disclosure settles a client's gift.
- Remember the contrast.
- If the same watch came from a company he covers, disclosure would not be enough.

12 Case 5: the fee that rises with a buy

Ravi Menon, CFA: a company pays for its own report

Fee if hold or sell	base fee	**20,000**
Fee if the rating is buy	base plus extra	**30,000**
A buy pays more by	30,000 vs 20,000	**50%**
Pay depends on the rating	objectivity at risk	**I(B) breach**

IN THE LESSON

- Case five.
- Ravi Menon, a C F A charterholder, is asked by a company to write a research report on it.
- The fee is twenty thousand if his rating is hold or sell, and thirty thousand if his rating is buy.
- The buy fee is fifty per cent higher than the other.
- The twenty thousand is simply the base.
- Does the extra ten thousand matter?
- Yes.
- His pay now depends on his conclusion, and that could reasonably be expected to compromise his objectivity.
- This is a breach of Standard one B, even if he would never let money change his mind.
- The proper terms are a flat fee, agreed in advance, and a clear note in the report saying who paid.

13 Case 6: one source is fine, one is copied

Elena Ruiz, CFA: her report for clients

Growth series, statistics office	a recognised data source	**fine**
Rival's table and assumptions	copied, rival not named	**copied**
Plagiarism is a breach	analysis must be credited	**attribute**
Overall	one use fine, one not	**I(C) breach**

IN THE LESSON

- Case six.
- Elena Ruiz, a C F A charterholder, writes a report for clients.
- In it she uses a growth series from the national statistics office, and gives no source.
- She also pastes a table of forecasts and the discount rate assumptions from a rival's report, with no mention of the rival.
- Treat them separately.
- The statistics are plain facts from a recognised data service, so using them without credit is fine.
- The rival's forecasts and assumptions are someone else's analysis presented as her own.
- That is plagiarism, a breach of Standard one C.
- She should credit the rival, or build her own forecasts.
- Overall one use is fine, and the other is a breach.

14 Case 7: the brochure that stretches the truth

Oskar Berg, CFA: his biography in a fund brochure

Brochure: 15 years in derivatives	the claim clients see	**claimed**
Truth: 4 years, mostly shares	derivatives only briefly	**actual**
Clients may rely on it	ability overstated	**misleading**
Correct it before release		**I(C) breach**

IN THE LESSON

- Case seven.
- Oskar Berg, a C F A charterholder, is named in a fund brochure as having fifteen years of experience running derivative strategies.
- In truth he has four years of experience, and mostly with shares.
- He signs off the brochure because the fund is doing well and it looks better with the longer story.
- Clients may well rely on that claim when they choose the fund.
- The statement overstates his abilities, and no result in the fund can excuse that.
- It is misrepresentation under Standard one C.
- The action is to correct the brochure before it is used, describing his real experience, and to have marketing material checked before release.

15 Case 8: two colleagues, two private troubles

Gregor Pike and Lena Voss, both CFA charterholders

Gregor: false expense claims	deceit towards his employer	**I(D) breach**
Lena: bankrupt after illness	no dishonesty at all	**No breach**
Test applied	dishonesty, not misfortune	**I(D)**

IN THE LESSON

- Case eight has two people.
- Gregor Pike, a C F A charterholder, submitted false expense claims to his employer for trips he never took.
- Lena Voss, a C F A charterholder, filed for personal bankruptcy after large medical bills following a serious illness.
- Nothing suggests she did anything dishonest.
- Both stories sound bad, so use the test from Standard one D.
- Is there dishonesty, fraud or deceit in professional life?
- For Gregor, yes, the claims are deceit towards his employer, so that is a breach.
- For Lena, no.
- A bankruptcy caused by illness is a private misfortune, not dishonesty, so there is no breach.
- The sound of the story is not the test.

16 Case 9: a new sector and no course

Dalia Ostrow, CFA: takes over a sector new to her

New sector, little experience	she accepts the coverage	**accepts**
Reads filings, uses a reviewer	study and expert review	**keeps up**
No formal course taken	none is required	**not needed**
I(E) competence kept up		**No breach**

IN THE LESSON

- Case nine.
- Dalia Ostrow, a C F A charterholder, is asked to cover the insurance sector, which is new to her after the specialist resigned.
- She accepts.
- She reads the regulatory filings of each company, and she asks a retired insurance analyst to review her first reports before they go out.
- She does not take any formal course.
- Is this a breach?
- No.
- Under part E, competence has to be kept up, and she has done real work to do that, with study and expert review.
- Nothing in Standard one requires a particular course or qualification.
- What matters is that she is competent in practice.
- So this is a case where the answer is no breach.

17 Cases 1 to 4: breach or not?

Cases one to four

Case	Verdict
1 Sofia skips the risk warning	Breach
2 Priya raises it, then steps away	No breach
3 Lukas talks privately, stays on	Breach
4 Marcus discloses a client's watch	No breach

IN THE LESSON

- Here are the first four cases in one place, so you can see the pattern.
- Case one, Sofia skips the written risk warning the law demands: breach, because the stricter rule governs.
- Case two, Priya raises the back dating inside the firm, then steps away: no breach.
- Case three, Lukas talks to his colleague privately and keeps signing: breach, even though he meant well.
- Case four, Marcus discloses a watch from a client: no breach.
- Notice that two of the four are no breach, and that the well meant act in case three is still a breach.
- The lesson is to decide from the Standard, and never from how the story feels.
- Check each act against its own part.

18 Cases 5 to 8: breach or not?

Cases five to eight

Case	Verdict
5 Ravi's fee rises with a buy	Breach
6 Elena copies a rival's table	Breach
7 Oskar overstates his record	Breach
8 Gregor lies; Lena's illness	Split

IN THE LESSON

- And the next four cases.
- Case five, Ravi's fee rises with a buy rating: breach of one B, because his pay depends on his conclusion.
- Case six, Elena copies a rival's table and assumptions without credit: breach of one C, though her use of the statistics office's figures was fine.
- Case seven, Oskar overstates his record in a brochure: breach of one C.
- Case eight, a split verdict.
- Gregor's false expense claims are a breach of one D, while Lena's bankruptcy after illness is no breach at all.
- Look at where the breaches are.
- None of them are the private misfortune.
- They are the acts that mislead, copy or deceive.

19 Mistakes that cost marks on Standard I

- Law is the limit? No: the stricter rule governs
- Meaning well is enough? No: raise it, step away
- Disclosure cures any gift? Only a client's
- Must report to a regulator? Encouraged only
- Any misfortune is misconduct? No: dishonesty is

IN THE LESSON

- Five traps to watch for.
- First, treating the law as the limit.
- The stricter of the law and the Code governs, so a lenient law never rescues a breach.
- Second, thinking that meaning well is enough.
- Lukas meant well, but the Standard asks you to raise a breach and step away, not only to hope.
- Third, thinking disclosure cures every gift.
- It settles a client's gift, but a gift from someone seeking influence fails if it could compromise objectivity.
- Fourth, thinking you must report to a regulator.
- It is encouraged, but not compulsory unless the law demands it.
- Fifth, treating every misfortune as misconduct.
- Part D is about dishonesty and integrity, not bad luck.

20 Part two: from a rule to a system

- Knowing a rule is not the same as obeying it
- Most breaches: a quick decision made alone
- Write the answer down before the question comes
- Members should press their firm to adopt systems

IN THE LESSON

- Now the second half.
- Picture a busy analyst on a Friday afternoon, and an invitation to a free trip arrives.
- There is no gift rule at the firm, so she decides alone, quickly, and a little hopefully.
- Most breaches of Standard one happen like this.
- Knowing the Standard and never breaching it are two different things.
- So a member should do more than behave well.
- The member should encourage the firm to adopt systems that make the right answer already written down.
- We will go through them part by part: law, independence, misrepresentation, and misconduct.
- The trap to remember is treating a lenient legal threshold as enough, when the Code sets the higher bar.

21 Practices for knowledge of the law

- A current record of the rules in each jurisdiction
- Regular training, with attendance recorded
- A route to compliance for suspected breaches
- A reminder to staff: the stricter rule governs

IN THE LESSON

- Start with knowledge of the law.
- Rules differ from place to place, and they change.
- So the first practice is a current record of the rules in each jurisdiction where the firm does business, kept up to date by someone whose job it is.
- The second is regular training, so staff are reminded of the law and of the Code and Standards, and so a new rule actually reaches them.
- The third is a route for raising a suspected breach with compliance, with a clear person to go to and no penalty for asking.
- That route is what makes the steps from earlier, raise it, then step away, possible in real life.
- Add a simple reminder that the stricter rule governs.

22 Practices for independence and objectivity

- A written gift and entertainment policy with a limit
- A log of gifts received from clients
- Flat fees for issuer-paid research, disclosed
- Research kept apart from investment banking

IN THE LESSON

- Independence is where firm policy matters most.
- First, a written gift and entertainment policy with a value limit, so no one decides alone.
- Second, a log of client gifts, because even acceptable gifts should be on the record, so that the employer knows about them.
- Third, for issuer paid research, flat fee terms agreed in advance, which means the pay cannot depend on the rating, and with the arrangement disclosed in the report.
- Fourth, a separation between research and investment banking, so that a company paying the bankers cannot lean on the analysts.
- Each practice takes a judgement call and turns it into a routine.
- That protects the member as well as the client.

23 The trap: a policy written to the law

Draft policy: staff may accept what local law allows

Law: no value limit at all	it is silent, so lenient	**lenient**
Head of legal: leave out a cap	'the law is all we need'	**the trap**
Code: could it compromise?	the higher bar	**stricter**
Better draft: cap, log, approval	the firm sets its own limit	**adopt**

IN THE LESSON

- Here is the trap in a case.
- A firm drafts its gift section like this: staff may accept anything local law allows.
- The law in that country has no value limit at all.
- The head of legal says a cap would go beyond what the law requires, so it should be left out.
- Read down the rows.
- The law is silent, so it is lenient.
- The argument is that the law is all the firm needs.
- That is the trap.
- The Code asks a higher question: could the benefit compromise objectivity?
- That is the stricter bar, so it governs.
- The better draft sets the firm's own cap, a log, and approval before anyone accepts.
- A policy that copies a lenient law approves everything.

24 A policy at work: a year of gifts

Policy: log all; approval above 250; review above 500 a year

Client gift, spring	120: log it	**120**
Client gift, autumn	180: log it	**180**
Client gift, winter	260: over 250, approval	**260**
Client total for the year	560: over 500, reviewed	**560**
Trip from a covered company	decline; the firm pays	**2,400**

IN THE LESSON

- Now see a good policy work with numbers.
- The firm's rule: log every gift, get approval for any single gift over two hundred and fifty, and have compliance review if a client's gifts pass five hundred in a year.
- An analyst receives three client gifts, worth one hundred and twenty in spring, one hundred and eighty in autumn, and two hundred and sixty in winter.
- The first two are logged.
- The third is over the approval line, so it needs approval.
- The total is five hundred and sixty, sixty over the review line, so compliance looks at it.
- Finally, a company she covers offers a trip worth two thousand four hundred.
- That is nearly ten times the approval line, so she declines, and the firm pays for any visit.

25 Practices against misrepresentation

- Keep copies of every source you use
- Attribute quotes, paraphrases and summaries
- Review marketing material before release
- Check claims of skills against the record

IN THE LESSON

- Misrepresentation is stopped by habits of record keeping and review.
- First, keep copies of the sources you use, so that you can show where a number or a paragraph came from, and check it later.
- Second, attribute quotations, paraphrases and summaries.
- A paraphrase still needs a credit, because the ideas are someone else's.
- Third, review marketing material before release, by compliance or a second person, so that a stretched biography or a flattering track record is caught before a client sees it.
- Fourth, check claims about skills and results against the real record.
- Oskar's brochure would never have reached clients under these rules.
- A second pair of eyes is cheap, and a retraction is expensive.

26 Practices against misconduct

- A code of ethics everyone signs
- Reference checks on new hires
- A clear disciplinary process
- Training to keep competence up; no set course

IN THE LESSON

- Misconduct is about honesty, so the safeguards are about people and process.
- First, a code of ethics that everyone reads and signs, so that expectations are written down.
- Second, reference checks on new hires, so that a person with a record of deceit is found before they join, not after.
- Third, a clear disciplinary process, so that staff know what happens if they break the rules, and so that the response is fair and consistent.
- Fourth, support for competence: regular training, and encouragement to keep skills up, although no particular course is required.
- Gregor's false claims might have been caught by a check at hiring, or by a rule that expense claims are reviewed by someone else.

27 From a risk to a safeguard

The prevention chain

Risk: a decision made alone → Write the rule down → Check it: log, review → Train and enforce

IN THE LESSON

- Every one of these practices follows the same chain, read left to right.
- First box: spot the risk, which is usually a decision made alone and in a hurry.
- Second box: write the rule down, in a policy with a clear limit, a plain procedure, or a code.
- Third box: add a check, such as a log, a review, or an approval from someone else.
- Fourth box: train and enforce, so that the rule is known and so that a breach has a consequence.
- If any link is missing, the chain breaks.
- A policy with no log cannot be audited, and a log with no enforcement is only paperwork.
- A good exam answer names the risk and the safeguard that matches.

28 Each part of Standard I and its safeguard

Match the problem to the safeguard

Part of Standard I	Safeguard
I(A) law	Rules record, training
I(B) independence	Limit, log, flat fee
I(C) misrepresentation	Sources, review
I(D) misconduct, I(E) competence	Code, checks, training

IN THE LESSON

- Here is the whole second half on one board.
- For knowledge of the law, the safeguard is a record of the rules in each place, plus training.
- For independence, it is a gift limit, a log, and flat fees.
- For misrepresentation, it is copies of sources and a review before anything is released.
- For misconduct, it is a code of ethics, reference checks and a disciplinary process, and for competence, regular training.
- Whenever a question describes a problem, find which of the five parts it belongs to, and then name the matching safeguard.
- If an answer says the firm already meets the legal minimum, be suspicious.
- The Code, not the lenient threshold, sets the bar.

29 Recap: what to take away

- I(A): stricter rule; raise it, then step away
- I(B): client gift disclosed OK; flat fee for research
- I(C): credit sources; never overstate
- I(D) dishonesty yes, misfortune no; I(E) keep skills up
- Prevent: policy, log, review, code; the Code sets the bar

IN THE LESSON

- Let's pull it together.
- Standard one is about your own integrity, in five parts.
- Part A: follow the stricter of the law and the Code, and if you know of a breach, raise it, then step away if it continues.
- Reporting to a regulator is encouraged, not compulsory.
- Part B: client gifts are fine if disclosed, but anything that could compromise objectivity fails, and issuer paid research needs a flat fee.
- Part C: credit your sources and never overstate your abilities.
- Part D: dishonesty is misconduct, a private misfortune is not.
- Part E: keep your competence up, though no set course is required.
- Prevention means a written policy, a log, a review and a code, and never relying on a lenient legal threshold alone.

30 Try three quick cases

1. The law is stricter than the Code on a point. Which governs?
   Answer: The law: the stricter rule governs
2. An issuer-paid report's fee rises with a buy rating. Allowed?
   Answer: No, I(B) breach: use a flat fee
3. A gift policy copies a lenient local law. Enough?
   Answer: No: add a cap, a log and approval

IN THE LESSON

- Now try three cases yourself.
- Pause after each one.
- Question one.
- The law of a country is stricter than the Code on a point.
- Which governs?
- The law, because the stricter rule governs.
- Question two.
- An analyst's fee for an issuer paid report rises if she gives a buy rating.
- Is that allowed?
- No, it is a breach of the part on independence, because her pay depends on her conclusion.
- A flat fee is the answer.
- Question three.
- A firm writes its gift policy to match a lenient local law.
- Is that enough?
- No.
- The Code sets the higher bar, so the firm should add its own limit, a log and approval before anyone accepts a gift.