Standards VI and VII: conflicts and responsibilities

Ethical and Professional Standards

1 A story: the referee who owns a team

- A conflict: your interest could pull against a client's
- Having one is not a breach; hiding or mishandling it is
- VI(A) Disclosure of Conflicts
- VI(B) Priority of Transactions, VI(C) Referral Fees

IN THE LESSON

- Picture a football referee who also owns one of the two teams on the pitch.
- He may be perfectly honest.
- But the crowd cannot know that, and the other team has every reason to worry.
- A conflict of interest is just this.
- It is a situation where your own interest, or your employer's, could pull against what a client needs.
- Having one is not a crime.
- At Level three most conflicts are built into how firms work, because they run their own funds, earn performance fees and pay for introductions.
- Standard six has three parts.
- Part A is about disclosing conflicts.
- Part B is about whose trades go first.
- Part C is about referral fees.
- Let us take them in turn.

2 Standard VI: what it requires

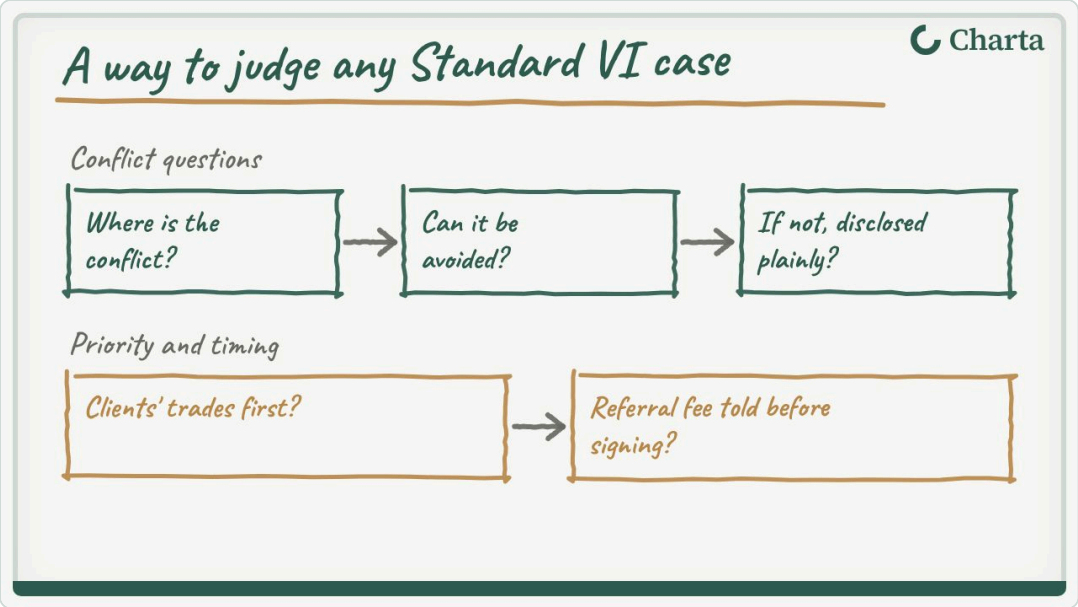
Standard VI at a glance

Part of Standard VI	What it requires
VI(A) Disclosure of Conflicts	avoid, else disclose plainly
VI(B) Priority of Transactions	clients and employer first
VI(C) Referral Fees	disclose before signing

IN THE LESSON

- Here are the three parts on one page.
- Part A, Disclosure of Conflicts, says avoid a conflict where you reasonably can, and where one remains, disclose it prominently and in plain language.
- Part B, Priority of Transactions, says that clients and the employer come first, and your own trades wait.
- Part C, Referral Fees, says that any payment for a recommendation or an introduction must be disclosed to the client before they sign up.
- Notice what is missing.
- None of the three parts bans the arrangement itself.
- A firm may run its own funds and may pay for introductions.
- The breach comes from hiding the arrangement, from the wrong order, or from the wrong timing.
- Keep that in mind for every case.

3 A way to judge any Standard VI case



IN THE LESSON

- When the exam hands you a conflicts case, walk down five questions in order.
- The top row first.
- Where is the conflict, meaning who gains besides the client?
- Can it be avoided?
- Avoidance is preferred wherever it is reasonably possible.
- If not, is it disclosed prominently and in plain words, rather than buried?
- Then the second row.
- Do the clients' trades go before the manager's own?
- And if money is paid for an introduction, was the client told before signing?
- Most cases need only one or two of these questions to settle.
- Then name the subsection and say the fact that decides it.
- Keep this path in mind as Anika Rowan meets her first case.

4 VI(A): avoid first, then disclose

- First: avoid the conflict where reasonably possible
- Second: full and fair disclosure of what remains
- Prominent and in plain language, not buried
- Sources: own funds, fees, board seats, own holdings

IN THE LESSON

- Now part A in detail.
- A conflict is a situation where the interest of the member or the firm could cloud judgement.
- The Standard asks for two things, in an order of preference.
- First, avoid the conflict where that is reasonably possible.
- Where one remains, the requirement is the second thing, full and fair disclosure.
- Disclosure has to be prominent and in plain language.
- Placing it in legal terms deep inside a long agreement does not count.
- The usual sources of trouble are steering client money into the firm's own funds, an incentive fee that rewards extra risk, a board seat at a company clients hold, and a personal holding in the same thinly traded stock as clients.

5 Case 1: the in-house bond fund

Elmstead 160m; Anika would move its 30m bond sleeve in-house

In-house fund, after fees	4.10% less 0.45%	**3.65%**
Outside fund, after fees	4.00% less 0.25%	**3.75%**
Cost to Elmstead of moving	0.10% of 30m	**30,000 a year**
Fee the firm would earn	0.45% of 30m	**135,000 a year**
Verdict	not banned, merit first	**Choose outside**

IN THE LESSON

- Case one.
- Our running client is the Elmstead Pension Scheme.
- Anika Rowan wants to move its thirty million bond allocation into the firm's own fund.
- That fund is expected to earn four point one per cent before fees, and it charges point four five.
- An outside fund is expected to earn four per cent and charges point two five.
- After fees, the in house fund gives three point six five and the outside fund gives three point seven five.
- Moving would cost the scheme a tenth of a point, thirty thousand a year, while the firm would collect one hundred and thirty five thousand.
- The Standard does not ban the in house fund.
- But on merit the outside fund wins here, so that is the choice.
- If Anika still prefers her own fund, she must justify it and disclose the fee prominently.

6 Case 2: an incentive fee and risk

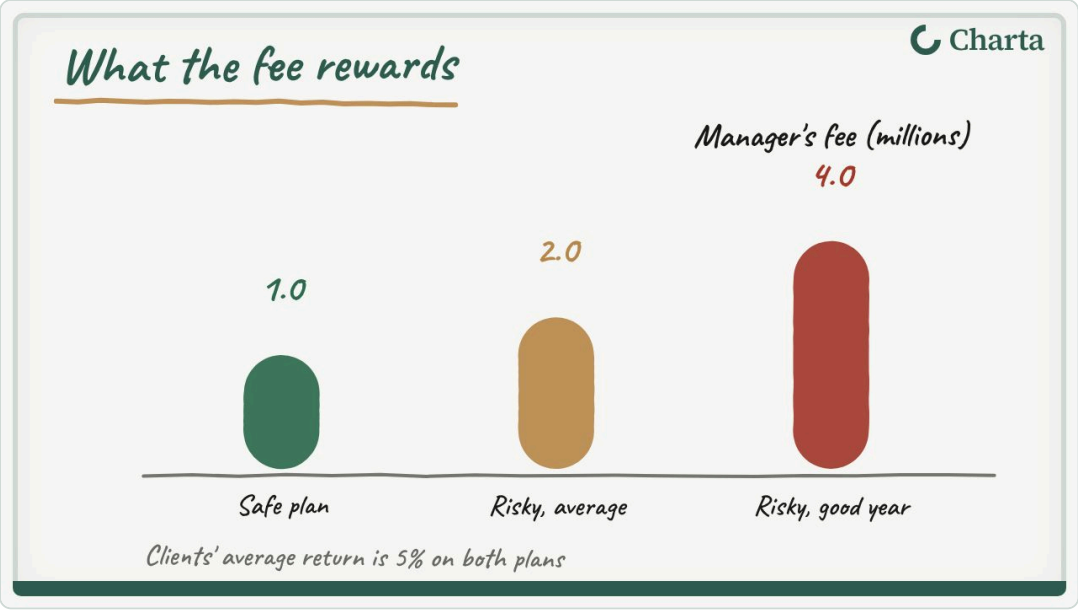
Fund 100m; fee 20% of gains, nothing on losses

Safe plan, client gain	5% of 100m	**5.0m**
Safe plan, manager's fee	20% of 5.0m	**1.0m**
Risky plan, client average	50% × 20% + 50% × −10%	**5%**
Risky plan, average fee	50% × 4.0m + 50% × 0	**2.0m**
Risky plan, bad-year loss	10% of 100m; fee 0	**−10.0m**

IN THE LESSON

- Case two is an incentive fee.
- Brightwell Quay runs a fund of one hundred million, and the manager keeps twenty per cent of any gain but pays nothing on a loss.
- Compare two plans.
- The safe plan earns five per cent, a gain of five million, so the fee is one million.
- The risky plan has an even chance of gaining twenty per cent or losing ten per cent.
- Its average return for the clients is also five per cent, because half of twenty less half of ten is five.
- But the fee is four million in the good year and nothing in the bad year, so the average fee is two million.
- Same average return for the clients, double the fee for the manager, and the ten million bad year loss falls on the clients alone.

7 What the fee rewards



IN THE LESSON

- Here are those fees as a picture.
- The vertical axis is the manager's fee, in millions.
- The first bar is the safe plan, with a fee of one.
- The second bar is the risky plan on average, with a fee of two, twice as much, even though the clients' average return is the same five per cent.
- The third bar is the risky plan in a good year, with a fee of four.
- Every bar leaves out the bad year, where the fee is nothing and the clients carry the loss.
- So a fee that pays more for variability gives the manager a reason to take more risk than the client needs.
- Standard six A does not ban it.
- But the clients must be told plainly, with numbers like these, and not just a fee percentage.

8 Fine or breach under VI(A)?

Which of these breach VI(A)?

Situation	Verdict
In-house fund on merit, fee shown	Acceptable
Incentive fee risk undisclosed	Breach
Hidden board seat at a held company	Breach
Disclosure on page 31 of 40	Not enough

IN THE LESSON

- Here is a quick sorting drill for part A.
- Disclosure is the fallback when avoidance is not reasonable, and it can only work if the client can see it.
- An in house fund chosen on merit, with its fee shown, is acceptable.
- An incentive fee whose risk-taking incentive is never disclosed is a breach, because clients cannot judge the risk it encourages.
- A board seat at a company the clients hold, kept hidden, is also a breach.
- The last row is the trap, and it is the one that catches careful people.
- Disclosure on page thirty one of a forty page agreement is not enough, because the Standard asks for prominent disclosure in plain language.
- Signing a form is not the same as understanding it.

9 VI(B): clients first, then you

- Client and employer transactions come before your own
- Buying first, then filling the client order, is a breach
- Size does not matter: a small trade ahead is still ahead
- Family accounts paying normal fees are clients too

IN THE LESSON

- Now part B, Priority of Transactions.
- Clients and the employer come first.
- Think of a baker who sees a long queue for the last loaves, and quietly takes some home for herself first.
- That is trading ahead.
- A manager who knows a big client order is coming, and buys for her own account first, gains when the price moves up as the client order arrives.
- That is front running, and it is a breach however small her own trade is.
- Two more points.
- Her own account has to wait until clients have traded.
- And family accounts that pay normal fees are clients like any other, so they take their place in the queue and share a block order in the same way, neither favoured nor left out.

10 Sharing a part-filled block

Fill ratio = shares filled ÷ shares ordered
Allocation = order × fill ratio

Fill ratio	Same for every client
Shares filled	Shares actually bought
Shares ordered	What the account asked for
Allocation	Account's share of the fill

IN THE LESSON

- When a block order is only partly filled, fairness needs a rule, and the simplest is pro rata.
- First find the fill ratio, which is the shares filled divided by the shares ordered.
- Then each account gets its own order size times that same ratio.
- Every account, large or small, family or not, receives the same percentage of what it asked for, and no account is filled first.
- The manager's own account is not in the queue until the clients are finished.
- In the exam, the usual error is to give the family account nothing, or to count the manager's personal order inside the total as if it were a client's.
- Keep the ratio in your head and the case becomes simple arithmetic.

11 Case 3: the block and the father's account

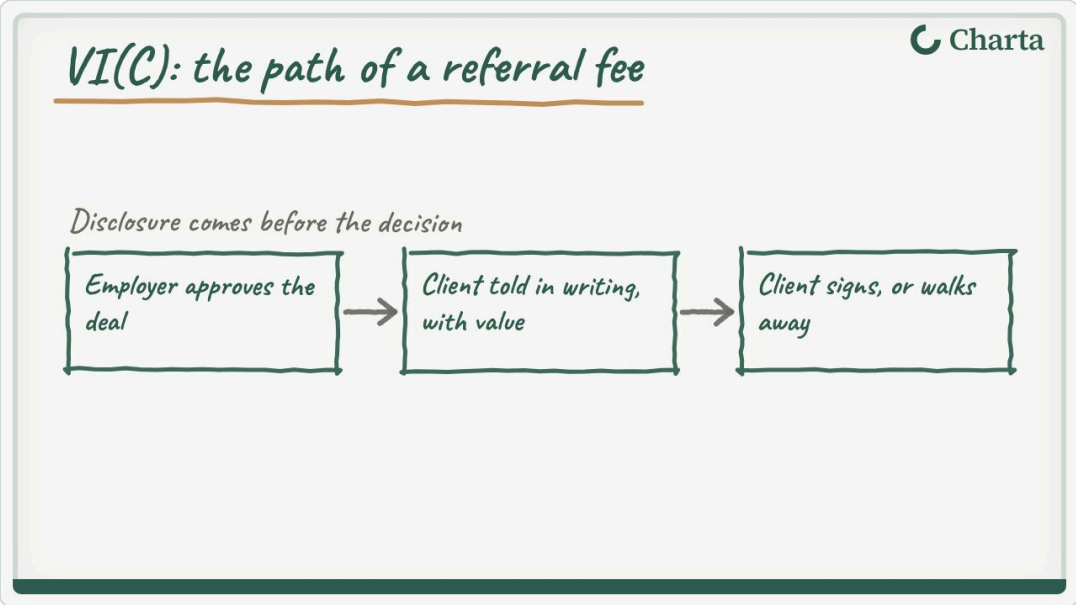
Block: Elmstead 60,000; others 30,000; father 10,000

Shares ordered for clients	60,000 + 30,000 + 10,000	**100,000**
Filled on day one	80,000 ÷ 100,000	**80%**
Elmstead gets	60,000 × 80%	**48,000**
Father's account gets	10,000 × 80%	**8,000**
Anika's own 2,000 shares	after the block is complete	**waits**

IN THE LESSON

- Case three.
- Anika wants to buy a small cap stock.
- Her clients' orders make a block of one hundred thousand shares: sixty thousand for Elmstead, thirty thousand for other clients, and ten thousand for her father's account, which pays normal fees.
- She also wants two thousand shares for herself.
- On day one only eighty thousand shares are bought, so the fill ratio is eighty per cent.
- Elmstead gets forty eight thousand, and her father's account gets eight thousand, the same eighty per cent as everyone.
- Her own two thousand shares wait until the block is complete.
- The tempting mistake is to leave her father out so as not to look biased.
- That would disadvantage a client.
- So the verdict is that the family account is treated like any client, and she comes last.

12 VI(C): the path of a referral fee



IN THE LESSON

- Now part C, Referral Fees.
- Suppose a consultant who advises pension schemes recommends your firm, and your firm pays the consultant for the introduction.
- The client who hires you on that advice would want to know about the payment, because it may colour the recommendation.
- So the Standard says disclose, and it says when: before the client signs up.
- Read the boxes from left to right.
- First the employer approves the arrangement, because a member should not strike private deals about the firm's business.
- Then the client is told in writing, including what the payment is worth.
- Then the client decides whether to sign.
- Disclosure after signing is too late, since the client has already acted on the recommendation.

13 Case 4: the consultant's fee

Fenwood Consulting introduces Elmstead, 160m

Fee to Fenwood	0.05% of 160m	**80,000 a year**
Brightwell's own fee	0.30% of 160m	**480,000 a year**
Referral as share of fee	80,000 ÷ 480,000	**16.7%**
When to tell the trustees	before they sign	**VI(C)**

IN THE LESSON

- Case four.
- Fenwood Consulting introduced the Elmstead Pension Scheme to Brightwell Quay.
- The firm will pay Fenwood point zero five per cent of the scheme's assets each year.
- On one hundred and sixty million, that is eighty thousand a year.
- The firm's own fee is point three per cent, which is four hundred and eighty thousand.
- So the referral payment is sixteen point seven per cent of what the firm earns from the scheme.
- That is large enough to colour a recommendation.
- If the trustees hear about it only after signing, it is a breach of Standard six C.
- If the firm writes to them beforehand, with the amount, then the arrangement is allowed.
- The one who needs the information is the scheme, not the consultant.

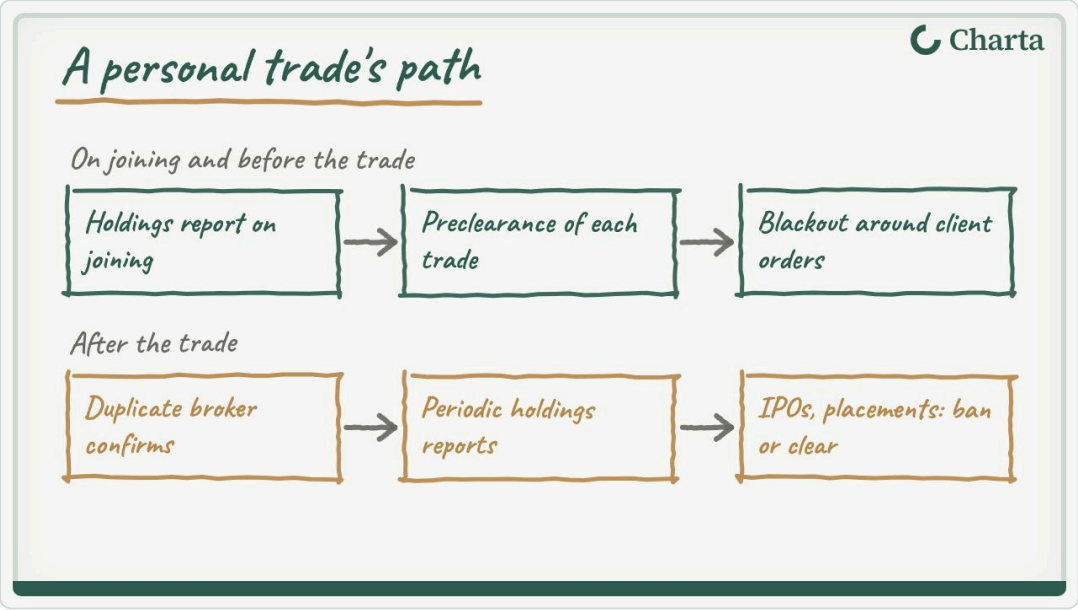
14 A story: the smoke alarm

- Disclosing afterwards cannot undo the harm
- Preventive checks beat after-the-fact reviews
- Tobias Ferrand, compliance, builds five sets of controls
- Trades, in-house funds, fees, directorships, referrals

IN THE LESSON

- A smoke alarm does not put out a fire.
- It warns you early enough to stop one from starting or spreading.
- Procedures for Standard six work in the same way.
- If an employee has already traded ahead of a client, telling the client afterwards cannot undo the price move.
- If a client has signed without hearing of a referral fee, a later letter cannot undo that decision.
- So good procedures act before the event.
- Checks made after the event only find the damage.
- Tobias Ferrand, the compliance officer at Brightwell Quay, therefore builds five sets of controls: for personal trading, for in house funds, for incentive fees, for directorships, and for referral fees.
- We take them one at a time.

15 A personal trade's path



IN THE LESSON

- Start with the main defence, personal trading rules.
- Follow the six boxes.
- On joining, every employee files a holdings report, so compliance knows what they own, and files again periodically.
- Before each trade, the employee asks for preclearance.
- A blackout period around client orders and portfolio rebalances means the answer is no while clients are trading.
- After the trade, the broker sends duplicate confirmations straight to compliance, so the trade can be matched to its approval without relying on the employee.
- The last box covers initial public offerings, which spelled in short are I P Os, and private placements.
- These are either banned or need a preclearance of their own, because they are scarce deals that clients should have the first chance at.

16 Case 5: preclearance at work

Jun Okoye asks on Monday to buy 2,000 shares

Request on Monday	2,000 = 2.2% of client order	**denied**
Client order	90,000 shares, done Tuesday	**pending**
Blackout (firm's rule)	to 2 trading days after	**Thursday**
Resubmitted on Friday	clients have traded	**approved**
Duplicate confirmation	matches the approval	**reconciled**

IN THE LESSON

- Case five shows the controls working together.
- On Monday an analyst, Jun Okoye, asks to buy two thousand shares of a mid cap stock for his own account.
- That is only two point two per cent of the client order, but size is not the test.
- The desk has a client order for ninety thousand shares of the same stock, completing on Tuesday.
- Brightwell Quay's blackout lasts until two trading days after a client order completes, so until Thursday.
- The request is denied.
- Jun resubmits on Friday, and it is approved, because clients have traded.
- The broker's duplicate confirmation arrives at compliance and matches the approval.
- The employee still gets his shares, only after clients have traded, and compliance can prove it from records it did not have to ask for.

17 Each control and what it heads off

Control, how it works, and the breach it heads off

Personal trading rules	preclear, blackout, confirm	**Trading ahead**
In-house fund, cross-trade policy	merit memo; fee disclosed	**Steering to firm**
Incentive fee terms	explained with numbers	**Hidden risk-taking**
Directorships	approved; shown in reports	**Hidden board seat**
Referral arrangements	approved; value disclosed	**Hidden referral**

IN THE LESSON

- Here are the other controls, each matched with the conflict it heads off.
- Preclearance, blackouts and duplicate confirmations head off trading ahead of clients.
- A written policy on in house funds and cross trades, with each choice justified on merit and disclosed, heads off the steering of client money to firm products.
- Plain explanation of incentive fee terms, with numbers like those we saw, lets clients see the risk taking the fee may encourage.
- Prior approval of directorships, with disclosure in client reports, heads off the hidden board seat.
- And advance employer approval of referral arrangements, with written disclosure of their estimated value, heads off the undisclosed referral fee.
- If a question asks you to recommend procedures, link each procedure to the conflict it prevents.

18 Case 6: Tobias Ferrand's rules in use

Five rules applied to Anika's year

Board seat, Mossgate Foods	approve first; show in reports	**clients hold 2%**
Fenwood referral	employer approves; tell client	**80,000 a year**
In-house bond fund	merit memo; fee shown	**3.65% v 3.75%**
Incentive fee terms	explain with numbers	**4.0m or nothing**
Personal trades	preclear; blackout; confirm	**see Case 5**

IN THE LESSON

- Case six applies the whole set to the running firm.
- Anika wants a board seat at Mossgate Foods, a company where Elmstead's portfolio holds two per cent.
- The rule is prior approval, and the seat shown in the client reports.
- The Fenwood referral needs employer approval first, and a written notice to the scheme showing eighty thousand a year.
- The in house bond fund needs a merit memo and the fee shown, and here the fund earned three point six five against three point seven five for the outside fund.
- The incentive fee terms are explained, with a good year fee of four million or nothing.
- And personal trades follow case five.
- Each rule acts before the event, and each is tied to a conflict.

19 Mistakes on Standard VI

- Page 31 of 40 is buried, not disclosed
- Preclearance is a control, not a defence for the trade
- A family account paying normal fees is a client
- A referral fee told after signing is told too late
- Avoid if you can; disclosure is the minimum

IN THE LESSON

- Here are the mistakes that cost marks on Standard six.
- First, treating disclosure as a signature.
- A conflict buried on page thirty one of a forty page agreement is not disclosed in the way the Standard needs.
- Second, thinking preclearance is a defence.
- It is a control, and a trade that jumps ahead of clients is still a breach even if compliance approved it.
- Third, leaving out a family account that pays normal fees.
- It is a client like any other.
- Fourth, telling a client about a referral fee after signing, when the Standard says before.
- Fifth, forgetting the order of preference.
- Avoiding the conflict is preferred where that is reasonably possible, but disclosure is what the Standard requires, so a conflict disclosed properly is not a breach in itself.

20 A story: the name on the door

- Letters after a name are a sign others rely on
- VII(A): conduct as a member or candidate
- VII(B): how you refer to CFA Institute and the charter
- Managers meet VII(B) most, in marketing

IN THE LESSON

- Think of a plumber who paints a licence number on his van.
- Customers rely on it.
- If he paints it on without holding the licence, or hints that his licence guarantees every job will be perfect, he weakens trust for every honest plumber.
- Standard seven works like that for the C F A designation and the C F A Program.
- Part A is about how members and candidates behave in the programme itself: no cheating, no revealing exam content, no misuse of membership.
- Part B is about how you refer to C F A Institute, the designation and the programme.
- Managers meet part B most often, because it lives in pitch books, biographies and email signatures.

21 Standard VII: what it requires

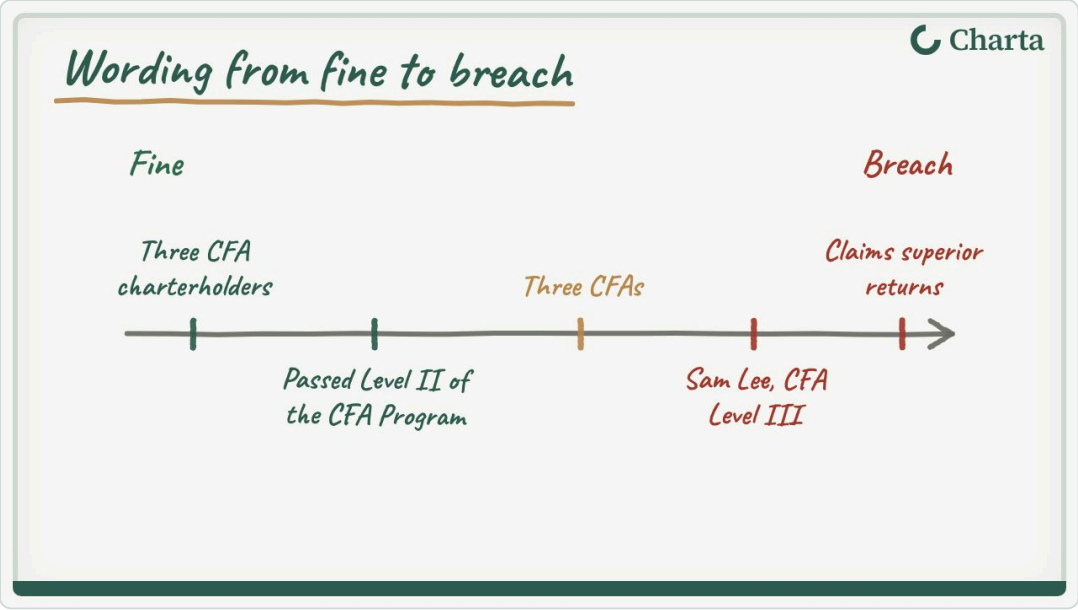
Standard VII at a glance

Part of Standard VII	What it requires
VII(A) Conduct in the Program	no cheating, no exam content
VII(A) Membership	no false conduct statement
VII(B) The designation	adjective, after the name
VII(B) Program and claims	facts only, no promise

IN THE LESSON

- Here is the Standard on one page.
- Under part A, conduct in the programme, do not cheat, and do not reveal exam content, including which topics or formulas appeared.
- Under part A again, membership: do not misuse it, for example by filing a false Professional Conduct Statement.
- Criticising C F A Institute's policies, though, is allowed.
- Under part B, the designation is an adjective, used after a name or in the phrase C F A charterholder.
- Also under part B, a candidate may state facts about the programme but may not claim a partial designation, and no material may suggest that the charter guarantees better returns.
- That is the last row, program and claims.
- Remember too that the right to use the designation lapses without paid dues and the annual statement.

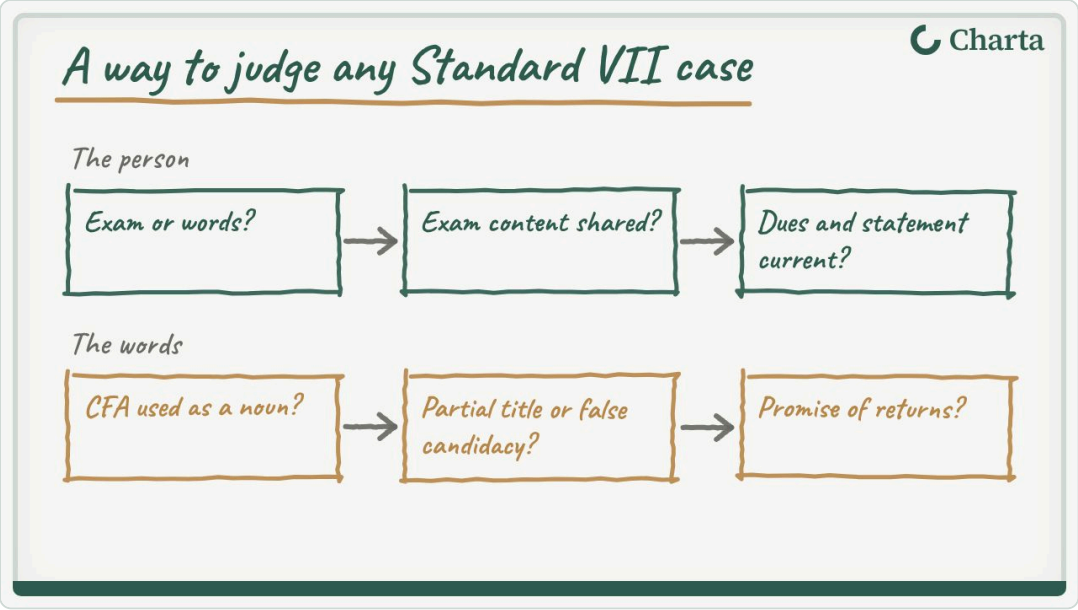
22 Wording from fine to breach



IN THE LESSON

- Here is a ladder of wording.
- The left end is fine and the right end is a breach.
- Read the labels from left to right.
- First, three C F A charterholders.
- The designation is an adjective, so this is fine.
- Second, passed Level two of the C F A Program.
- That is an accurate fact.
- In the middle, three C F As, which uses the designation as a noun.
- That is a breach, fixed by adding the word charterholders.
- Next, Sam Lee, C F A Level three, claims a partial designation, and there is no such thing.
- At the far right is the worst: a claim of superior returns.
- That suggests the charter guarantees results.
- Of the three breaches, two need one or two words changed, and the last needs the claim deleted.

23 A way to judge any Standard VII case



IN THE LESSON

- Judge a Standard seven case with two rows of questions.
- The first row is about the person.
- Is the issue the exam, or is it the words?
- If the exam, was any content shared, such as topics or formulas, or was anything unfair done to gain marks?
- Next, is the right to the designation still alive, meaning dues paid and the Professional Conduct Statement filed?
- The second row is about the words.
- Is C F A used as a noun?
- Is a partial designation or a false candidacy claimed, such as a level passed written as a title?
- And last, does the text promise better returns?
- A yes to shared exam content, a noun, a partial title or a promise of returns is a breach, and so is a no on dues and the statement.
- Criticism of the organisation is the one thing that looks risky and is not.

24 Case 7: the pitch book

Draft pitch book for Wrenfield Charity: five phrases

Our three CFAs	a noun	**Breach**
Deliver superior returns	implies guaranteed results	**Breach**
Mira Tolland, CFA Level III	a partial designation	**Breach**
Dues unpaid for 2 years	right to use has lapsed	**Breach**
Blog criticising exam fees	criticism is allowed	**Fine**

IN THE LESSON

- Case seven.
- Brightwell Quay drafts a pitch book for Wrenfield Charity.
- Check five phrases.
- The team page says, our three C F As.
- That is a noun, so it is a breach.
- It then says they deliver superior returns, which implies the charter guarantees results, another breach.
- Mira Tolland's biography reads, C F A Level three, a partial designation, a breach.
- A senior manager who stopped paying dues two years ago still signs emails as C F A, but his right to use it has lapsed, a breach.
- Last, a charterholder wrote a blog post criticising the exam fees.
- That is fine, because criticism of the policies is allowed.
- So four of the five are breaches, and each is fixed by rewording or by stopping use.

25 Fine or breach under VII(A)?

Which of these breach VII(A)?

Action	Verdict
Said the exam was very hard	Fine
Said which topics came up	Breach
Study group on curriculum problems	Fine
False Professional Conduct Statement	Breach

IN THE LESSON

- Now the part A side, in a sorting drill.
- Saying the exam was very hard is fine.
- Saying which topics came up is a breach, because it undermines the exam for everyone who sits it later.
- A study group working curriculum problems together is fine, because studying together is not disclosing exam content.
- A false Professional Conduct Statement is a breach, since it misuses membership.
- Notice where the line falls.
- Saying it was difficult is harmless.
- Describing what was on it is the problem, and that holds even after the sitting is over and even when no question is quoted.

26 A story: the proofreader

- Compliance reviews every document that mentions CFA
- Pitch books, biographies, signatures, social media
- Approved wording: designation after the name
- Candidacy is enrolment; levels passed are facts

IN THE LESSON

- Newspapers do not rely on every reporter to spell every name right.
- They employ a proofreader who checks every page before it prints.
- Breaches of Standard seven happen in the written word, and the same cure works.
- Compliance at Brightwell Quay reviews every document that mentions C F A Institute or the charter, from pitch books to biographies, email signatures and social media profiles, against a list of approved wording.
- The designation goes after a name.
- Candidacy is described as enrolment in the C F A Program.
- Levels passed are stated as facts.
- A second control, a yearly check of dues and statements, answers the question the wording cannot, which is whether the person is still entitled to the letters.

27 Approved wording

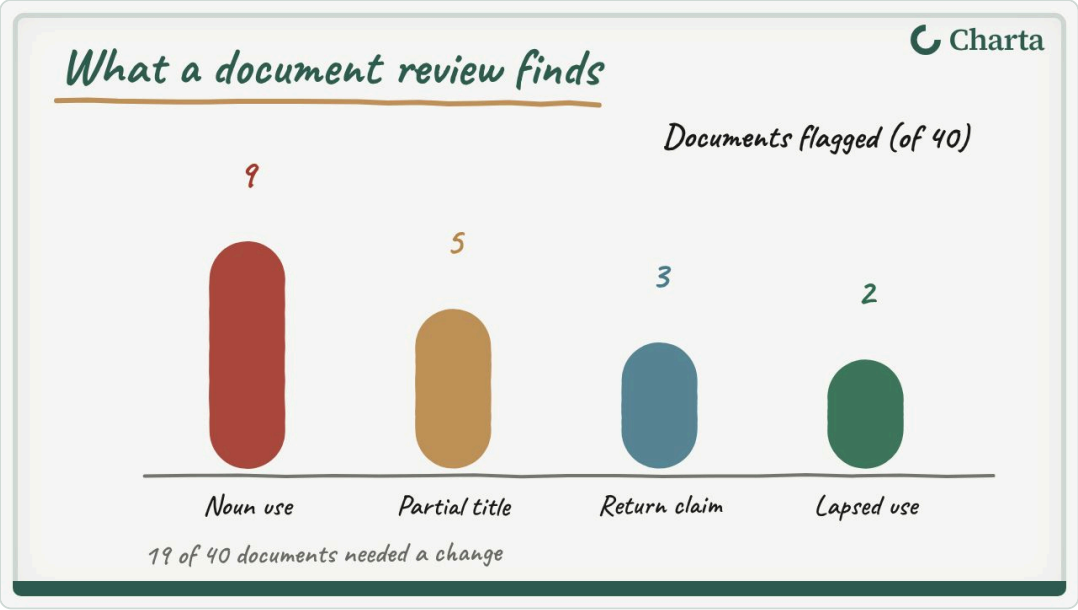
Wording for compliance to replace

Instead of	Use
Three CFAs	Three CFA charterholders
Tolland, CFA Level III	Level III candidate, CFA Program
Candidate, not registered	Passed Level I
Delivers superior returns	(delete the claim)

IN THE LESSON

- Here is the approved wording list compliance works from.
- Each row pairs wording to replace with wording to use.
- Three C F As becomes three C F A charterholders, with the letters used as an adjective.
- C F A Level three after a name becomes a Level three candidate in the C F A Program, where that is true.
- A person who passed a level but is not registered for the next is no longer a candidate, so the text says, passed Level one, as a plain fact.
- And any claim that the charter delivers superior returns is simply removed.
- With a list this short, a biography, a signature or a profile can be checked in minutes.

28 What a document review finds



IN THE LESSON

- Does a review find anything?
- Tobias Ferrand reviewed forty documents at Brightwell Quay, covering pitch books, biographies, signatures and profiles.
- The picture shows the documents flagged, by type.
- The vertical axis is the number of documents.
- The tallest bar is the designation used as a noun, nine documents.
- Next comes a partial designation or false candidacy, five.
- Then a claim about returns, three.
- Last, use by someone whose right had lapsed, two.
- Nine plus five plus three plus two is nineteen, so nearly half of the forty documents needed a change.
- None of it was deliberate.
- It came from habit and from copying old text, which is why checking every document beats trusting each author.

29 Case 8: the yearly check

Brightwell Quay: 12 charterholders, 5 staff who sat exams

Charterholders on the list	checked each year	**12**
Dues paid, statement filed	11 of 12	**11 of 12**
Action on the lapsed one	stop using CFA	**1 person**
Staff who have sat exams	4 registered, 1 not	**5**
The one not registered	no longer a candidate	**passed Level I**

IN THE LESSON

- The second control is a yearly check.
- Brightwell Quay has twelve charterholders.
- Each year compliance asks whether each has paid dues and filed the Professional Conduct Statement.
- Eleven of the twelve are current.
- The twelfth is not, so he is told to stop using the letters after his name.
- Five staff have sat exams in the programme.
- Four are registered for their next level.
- The fifth passed Level one and has not registered for Level two.
- Passing stays true, but candidacy ended when registration stopped, so the biography now says, passed Level one.
- Nothing about the old wording changed.
- What changed was the right to use it, and only a check of the records could show that.

30 Exam season and volunteers

- Exam season memo: study together, never discuss content
- Working curriculum problems in a group is fine
- Volunteer writers and graders keep that work confidential
- Compliance keeps a record of who is enrolled

IN THE LESSON

- Part A needs its own controls, and they are mostly about people.
- Before exam season Brightwell Quay sends staff a short memo.
- Studying the curriculum together is fine, and working practice problems in a group is fine.
- Discussing what a sitting examined is not, even among friends after the paper, and even without quoting a question.
- Staff who volunteer to write or grade questions are reminded that their work is confidential in the same way.
- Compliance also keeps a record of who is enrolled and who is not, so no one is described as a candidate after registration has ended.
- These are cheap controls, and they work because the easiest breach of Standard seven is a casual chat in a corridor.

31 Recap: the lesson in five lines

- VI(A): avoid first, else disclose prominently and plainly
- VI(B), VI(C): clients first; referral fees told before signing
- VI procedures act before the event
- VII: no exam content; CFA is an adjective, no partial title
- VII procedures: wording review, yearly check, exam memo

IN THE LESSON

- Let us pull the lesson together.
- First, Standard six A: avoid a conflict where reasonably possible, otherwise disclose it prominently and in plain language.
- Second, six B and six C: clients trade first, family accounts paying normal fees are clients, and a referral fee is disclosed before signing.
- Third, the procedures for Standard six act before the event: preclearance, blackouts, duplicate confirmations, merit memos, prior approvals.
- Fourth, Standard seven: no cheating, no exam content, and the designation is an adjective with no partial title and no promise of returns.
- Fifth, its procedures: a wording review of every document and a yearly check of dues and statements, plus a memo before exam season.

32 Try three quick questions

1. Block 50,000; filled 40,000; an account ordered 10,000. Its share?
   Answer: Fill ratio 40,000 ÷ 50,000 = 80%, so it gets 8,000.
2. Referral: 0.1% a year on a 50m scheme. Value, and when to tell?
   Answer: 0.1% × 50m = 50,000 a year; tell the scheme before it signs.
3. A pitch book says 'our four CFAs'. Breach? Fix?
   Answer: Yes, a noun. Say 'four CFA charterholders'.

IN THE LESSON

- Now try three quick questions yourself.
- Pause after each one.
- Question one.
- A block of fifty thousand shares is ordered for clients, and forty thousand are filled.
- One account ordered ten thousand.
- How many shares does it get?
- The fill ratio is forty thousand over fifty thousand, eighty per cent, so it gets eight thousand.
- Question two.
- A consultant is paid point one per cent a year for introducing a fifty million scheme.
- What is it worth, and when must the scheme be told?
- Point one per cent of fifty million is fifty thousand a year, and the scheme must be told before it signs.
- Question three.
- A pitch book says, our four C F As.
- Is it a breach, and what is the fix?
- Yes, it uses the designation as a noun, and the fix is to say four C F A charterholders, after which the wording is fine.