LM02 · ETHICAL AND PROFESSIONAL STANDARDS · CFA LEVEL I

Code of Ethics and Standards of Professional Conduct

The Code you pledged to uphold — and the seven Standards that give it teeth

What This Reading Covers

This learning module introduces the six-component **Code of Ethics**, the seven **Standards of Professional Conduct** with their sub-standards (A, B, C, ...), and the **CFA Institute Professional Conduct Program (PCP)** — the disciplinary machinery that enforces them. Application guidance for Standards I–VII, and the distinction between the Code and the Standards, anchor every Ethics item on the exam.

Source Material

The authoritative source is the **Standards of Practice Handbook (12th Ed., updated 2024)**. Candidates pledge to abide by the CFA Institute Standards; most ethics questions come directly from the text and examples in the handbook.

Exam Tip: Questions about the Code and Standards will most likely be **application questions**. You will be given a situation and be asked to identify whether a violation occurs, what the violation is, or what the appropriate course of action should be. You are **not required to know the standards by number, just by name**.

PROFESSIONAL CONDUCT PROGRAM — STRUCTURE

CFA Institute Professional Conduct Program

All CFA Institute members and candidates must comply with the Code and Standards. The **CFA Institute Board of Governors** maintains oversight and responsibility for the Professional Conduct Program (PCP).

Disciplinary Review Committee (DRC)

The **Disciplinary Review Committee (DRC)** is responsible for **enforcement** of the Code and Standards.

1. The DRC is a **volunteer committee of CFA charterholders**.
2. The DRC partners with Professional Conduct staff to **establish and review professional conduct policies**.
3. The DRC is also responsible for **reviewing conduct when there is a potential violation**.

Governing Documents

The **CFA Institute Bylaws** and **Rules of Procedure for Professional Conduct** form the basic structure for enforcing the Code and Standards.

PCP — OVERSIGHT STACK

CFA Institute Board of Governors — oversight & responsibility for PCP

Disciplinary Review Committee (DRC) — enforcement

Professional Conduct Staff — conduct inquiries

Governing documents: CFA Institute Bylaws + Rules of Procedure for Professional Conduct

PROFESSIONAL CONDUCT PROGRAM — INQUIRY PROCESS

How Inquiries Start and Progress

Five Sources That Can Trigger an Inquiry

1. **Self-disclosures** by members/candidates on their annual **Professional Conduct Statements** (e.g., involvement in civil litigation, a criminal investigation, or being the subject of a written complaint).
2. **Written complaints** received by the Professional Conduct staff.
3. **Evidence of misconduct** received through public sources such as a **media article or broadcast** or regulatory notices.
4. A **report by a CFA exam proctor** of a possible violation during the examination.
5. **Analysis of exam scores and materials** and monitoring of **websites and social media** by CFA Institute.

Investigation Steps

Once an inquiry is begun, the Professional Conduct staff may:

- A. Request (in writing) an **explanation** from the subject member or candidate.
- B. **Interview** the subject member/candidate, the complainant, or other third parties.
- C. **Collect documents and records** relevant to the investigation.

Exam Tip: Memorize the **five inquiry triggers**: self-disclosure, written complaints, public evidence/media, exam proctor report, and analysis/monitoring of exam materials & social media.

PROFESSIONAL CONDUCT PROGRAM — OUTCOMES & SANCTIONS

Staff Decisions and Sanctions

After Investigating, Professional Conduct Staff May:

OPTION 1

Take no disciplinary action / decide that no disciplinary sanctions are appropriate.

OPTION 2

Issue a **cautionary letter**.

OPTION 3

Propose a disciplinary sanction (discipline the member/candidate).

Accept or Reject the Sanction

If a disciplinary sanction is proposed, the member/candidate can either **accept or reject** the sanction.

If the member/candidate **rejects** the sanction, the matter is referred to a **panel of Disciplinary Review Committee members** (a panel of CFA Institute members) for a **hearing**. The panel then determines if a violation occurred and, if so, what sanction should be imposed.

Sanctions Imposed May Include:

1. **Public condemnation** (condemnation by the member's peers).
2. **Suspension** of membership and **revocation of CFA charter** (for members).
3. **Prohibition from further participation in the CFA Program** / suspension of the candidate's continued participation in the CFA Program (for candidates).

QUIZ 1 · CHECKPOINT

Test Your Understanding: PCP Structure & Process

Q1. Which CFA Institute body has overall *responsibility* for the Professional Conduct Program?

Q2. Which of the following is *least likely* a trigger for a Professional Conduct inquiry?

Q3. If a member *rejects* a disciplinary sanction proposed by Professional Conduct staff, the matter is referred to:

Q4. Sanctions imposed under the Professional Conduct Program can include all of the following *except*:

THE CODE OF ETHICS — SIX COMPONENTS

The Code of Ethics

The Code of Ethics states that Members of CFA Institute (including CFA charterholders) and candidates for the CFA designation (**Members and Candidates**) must do the following:

1. Ethical Manner

Act with **integrity, competence, diligence, and 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.

2. Integrity & Client Primacy

Place the **integrity of the investment profession** and the **interests of clients** above their own personal interests.

3. Reasonable Care & Independent Judgment

Use **reasonable care** and exercise **independent professional judgment** when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.

4. Credit to Profession

Practice and encourage others to practice in a **professional and ethical manner** that will **reflect credit** on themselves and the profession.

5. Integrity of Capital Markets

Promote the **integrity and viability of the global capital markets** for the ultimate benefit of society.

6. Competence

Maintain and improve their **professional competence** and strive to maintain and improve the competence of other investment professionals.

Exam Tip: A workshop mnemonic for the Code's six components: **(1)** act ethically; **(2)** integrity is paramount and clients always come first; **(3)** reasonable care & be independent; **(4)** be a credit to the profession; **(5)** uphold capital-market rules; **(6)** be competent.

STANDARDS OF PROFESSIONAL CONDUCT — OVERVIEW

The Seven Standards of Professional Conduct

THE SEVEN STANDARDS — NAME ONLY (NO NUMBERS REQUIRED)

I · PROFESSIONALISM
Law · Independence · Misrep
Misconduct · Competence

II · INTEGRITY OF MARKETS
Material Nonpublic Info
Market Manipulation

III · DUTIES TO CLIENTS
Loyalty · Fair Dealing ·
Suitability · Performance · Confid.

IV · DUTIES TO EMPLOYERS
Loyalty · Add'l Comp.
Responsibilities of Supervisors

V · INVESTMENT ANALYSIS
Diligence · Communication
Record Retention

VI · CONFLICTS OF INTEREST
Disclose · Priority of Trans.
Referral Fees

VII · RESPONSIBILITIES AS CFA MEMBER / CANDIDATE
A. Conduct in CFA Programs · B. Reference to CFA Institute,
the CFA Designation, and the CFA Program

The Seven Standards (verbatim)

ROMAN	STANDARD NAME
I	**Professionalism**
II	**Integrity of Capital Markets**
III	**Duties to Clients**
IV	**Duties to Employers**
V	**Investment Analysis, Recommendations, and Actions**
VI	**Conflicts of Interest** (also called "Conflict of Interest")
VII	**Responsibilities as a CFA Institute Member or CFA Candidate**

Exam Tip: Candidates should focus on the **purpose** of each standard, **applications**, and **proper procedures of compliance**. Know the Standards by name, not by number.

STANDARD I · PROFESSIONALISM

Standard I — Professionalism

I(A) Knowledge of the Law

Understand and comply with **all laws, rules, regulations** (including the Code & Standards) governing professional activities. Comply with the **more strict** law, rule, or regulation. Do not knowingly assist in violation; otherwise **dissociate** from the activity.

Guidance: apply most-strict standard · first notify supervisor/compliance · may confront wrongdoer directly · dissociate if necessary · *inaction may be construed as participation* · no requirement to report violations to governmental authorities, but may be appropriate.

I(B) Independence and Objectivity

Use **reasonable care and judgment** to achieve and maintain independence and objectivity in professional activities. Do not offer, solicit, or accept any compensation that could compromise independence/objectivity.

Guidance: modest gifts are okay · distinguish gifts from clients vs. gifts from entities trying to influence · may accept gifts from clients but must disclose to employer (and get permission if for *future* performance) · investment-banking pressure: do not bow to pressure to issue favorable research · for issuer-paid research, flat-fee structure is preferred.

I(C) Misrepresentation

Do not make misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.

Guidance: covers oral, written, or electronic communications · do not misrepresent qualifications, services of self or firm, or performance record or characteristics of an investment · do not guarantee a certain return · **no plagiarism** (written or oral).

I(D) Misconduct

Do not engage in any professional conduct involving **dishonesty, fraud, or deceit**, or commit any act that reflects adversely on professional reputation, integrity, or competence.

Guidance: covers conduct that may not be illegal but could adversely affect a member's ability to perform duties.

I(E) Competence

Have and maintain the **abilities, skills, and knowledge** to fulfill your professional responsibilities.

Guidance: needs for compliance may vary with duties and change over time or with new/expanded roles. *Negative outcomes do not necessarily imply a lack of competence.*

STANDARDS II & III · MARKETS · CLIENTS

Standard II — Integrity of Capital Markets

II(A) Material Nonpublic Information

Members in possession of nonpublic information that **could affect an investment's value** must not act or cause someone else to act on the information.

Guidance: "material" — if disclosure would affect a security's price or if reasonable investors would want the information before making a decision · "nonpublic" until made available to the marketplace · information given to analysts is nonpublic until made available to investors in general · **Mosaic Theory** permitted.

II(B) Market Manipulation

Do not engage in practices that **distort prices** or **artificially inflate trading volume** with intent to mislead market participants.

Guidance: do not engage in transaction-based manipulation (false impression of activity/price, or dominant position to manipulate an asset or related derivative) · do not distribute false or misleading information.

Standard III — Duties to Clients

III(A) Loyalty, Prudence, and Care

Act with **reasonable care** and exercise **prudent judgment**. Act for the benefit of clients and place their interests **before** employer's or own interests.

Guidance: follow applicable fiduciary duty · manage pools per governing documents · make decisions in *total portfolio* context · vote proxies responsibly and disclose proxy voting policies · **soft dollars must benefit the client**.

III(B) Fair Dealing

Deal fairly and objectively with all clients when providing investment analysis, making recommendations, taking action, or engaging in other professional activities.

Guidance: different service levels are okay if disclosed and no client is disadvantaged · all clients must have a fair chance to act on every recommendation · treat all clients fairly while considering objectives and circumstances.

III(C) Suitability

Know client's risk and return objectives and financial constraints; update regularly; make recommendations/actions consistent with stated objectives and constraints. **Look at suitability in a portfolio context.**

Guidance: gather client info at the outset and prepare an IPS · **update IPS at least annually** · consider whether leverage/derivatives are suitable · if managing a fund to a mandate, invest according to mandate.

III(D) Performance Presentation

When communicating investment performance information, ensure it is **fair, accurate, and complete**.

Guidance: do not misstate or mislead · do not state or imply ability to achieve returns similar to those in the past.

III(E) Preservation of Confidentiality

Keep current and prospective client information confidential **unless**: (a) illegal activities are suspected, (b) disclosure is required by law, or (c) the client/prospect allows disclosure.

Guidance: extends to **former** clients · **exception**: may provide confidential information to CFA Institute for an investigation under the Professional Conduct Program.

QUIZ 2 · CHECKPOINT

Test Your Understanding: Code & Standards I–III

Q5. Which of the following is *not* one of the six components of the Code of Ethics?

Q6. Under Standard I(A) Knowledge of the Law, when a local law and the Code & Standards conflict, a member must comply with:

Q7. Which statement about Standard II(A) Material Nonpublic Information is *most accurate*?

Q8. Under Standard III(E) Preservation of Confidentiality, a member may disclose otherwise-confidential client information:

Q9. Under Standard III(C) Suitability, a member in an advisory relationship should update the Investment Policy Statement:

STANDARDS IV & V · EMPLOYERS · ANALYSIS

Standard IV — Duties to Employers

IV(A) Loyalty

Must **act for the benefit of the employer**.

Independent practice: if planning to engage in independent practice, notify employer of services provided, expected duration, and compensation — do not proceed without consent.

Leaving an employer: act in the employer's best interest until resignation is effective · do not take records/files without permission · simple knowledge of names of former clients is okay · no prohibition on use of experience or knowledge gained at former employer.

Whistleblowing: permitted only if it protects the client or integrity of capital markets — *not* permitted for personal gain.

IV(B) Additional Compensation Arrangements

Do **not accept gifts, benefits, compensation, or consideration** that competes with or creates a conflict with the employer's interest unless **written consent** is obtained from **all parties involved**.

Guidance: compensation/benefits include direct compensation by the client and other benefits received from third parties · for written consent from "all parties involved," **email is acceptable**.

IV(C) Responsibilities of Supervisors

Must make **reasonable efforts to detect and prevent violations** of laws, rules, regulations, or the Code and Standards by employees under their supervision.

Guidance: supervisors must take steps both to *prevent* and to *detect* violations. Do not take supervisory responsibility if procedures are inadequate.

Standard V — Investment Analysis, Recommendations, and Actions

V(A) Diligence and Reasonable Basis

Exercise **diligence, independence, and thoroughness**. Have a **reasonable and adequate basis**, supported by appropriate research, for any investment analysis, recommendation, or action.

Guidance: cover all relevant issues · determine soundness when using secondary/third-party research · group research and decision making: provided a reasonable basis exists, the member need not necessarily agree with the group opinion.

V(B) Communication with Clients and Prospective Clients

Disclose services and costs; disclose the basic format and general principles of investment processes and any material changes promptly; identify **limitations, risks, and important factors**; distinguish between **fact and opinion**.

Guidance: clients must know what services will or will not be provided · include basic characteristics of the security · inform clients of any change in investment processes · suitability in portfolio context · *all communication* is covered, not just reports.

V(C) Record Retention

Develop and maintain appropriate **records** to support investment analysis, recommendations, actions, and other investment-related communications.

Guidance: records support research and the rationale for conclusions/actions · records are **firm's property** and cannot be taken when the member leaves without the firm's consent · if no regulatory requirement or firm policy, CFA Institute recommends a retention period of **seven years**.

STANDARDS VI & VII · CONFLICTS · CFA MEMBER RESPONSIBILITIES

Standard VI — Conflicts of Interest

VI(A) Avoid or Disclose Conflicts

Avoid or make **full and fair disclosure** to clients, prospects, or employer of all matters that could reasonably be expected to impair independence and objectivity or interfere with respective duties.

Disclose to clients all matters that could impair objectivity — e.g., investment-banking relations, broker/dealer market-making activities, significant stock ownership, board service — so clients can judge motives and biases.
Disclose to employers ownership of stock analyzed/recommended, board participation, financial/other pressures that may influence decisions, and conflicts that could be damaging to the employer's business.

VI(B) Priority of Transactions

Investment transactions for **clients and employers must have priority** over investment transactions in which a Member or Candidate is the **beneficial owner**.

Guidance: "beneficial owner" = direct or indirect personal interest in the securities · client, then employer, then personal transactions · **family-member accounts that are client accounts must be treated as other client accounts**.

VI(C) Referral Fees

Must **disclose to employer, clients, and prospective clients** any compensation, consideration, or benefit received from or paid to others for recommendation of products/services.

Guidance: disclosure allows clients/employers to evaluate full cost of service and any potential biases · disclosure must be made **prior to entering into any formal agreement** for services · disclose the **nature of the consideration**.

Standard VII — Responsibilities as a CFA Institute Member or CFA Candidate

VII(A) Conduct as Participants in CFA Institute Programs

Must not engage in any conduct that compromises the **reputation or integrity of CFA Institute or the CFA designation**, or the integrity, validity, or security of CFA Institute programs.

Covered conduct: cheating on exams · disregarding exam rules/policies/security measures · giving confidential information (including exam questions, or topic areas tested or not tested) · improper use of CFA designation to further personal/professional objectives · misrepresenting the CFA Institute Professional Development Program or the Professional Conduct Statement.

VII(B) Reference to CFA Institute, the CFA Designation, and the CFA Program

Must not **misrepresent or exaggerate** the meaning or implications of membership in CFA Institute, holding the CFA designation, or candidacy in the CFA program.

CFA Institute membership: complete PCS annually and pay membership dues annually (failure results in **inactive member** status).

Using the CFA designation: don't misrepresent or exaggerate the meaning of holding the designation.

Reference to the CFA Program: may reference participation but **no partial designation** (there is no such thing as a CFA Level I/II/III). Okay to say "passed all levels on first attempt" if true, but do not imply superior ability.

Using the CFA marks: the "Chartered Financial Analyst" and "CFA" marks must be used **after** a charterholder's name.

COMMON RULES — CHEAT SHEET FROM SCHWESER

"You Can" vs. "You Can't" — Key Applications

THINGS YOU CAN DO

- Use information from **recognized statistical sources** without attribution.
- Be wrong (if you had a reasonable basis at the time).
- Use several pieces of nonmaterial, nonpublic information to construct recommendations (**mosaic theory**).
- Do large trades that may affect market prices, as long as intent is **not** to mislead.
- Say Treasury securities are **without default risk**.
- Seek guidance of supervisor, compliance officer, or outside counsel.
- Get rid of records after **seven years**.
- Accept gifts from clients and referral fees **as long as properly disclosed**.
- Call biggest clients first **after fair distribution** of a recommendation/change.
- Accept compensation from a company to write a research report if relationship and nature of compensation are disclosed.
- Engage in civil disobedience (protest unjust laws), even if arrested.
- Disclose confidential information to authorities to expose wrongdoing / protect market integrity (**whistleblowing**).

THINGS YOU CAN'T DO

- **Solicit gifts**.
- Compromise your objectivity or independence.
- Lie, cheat, or steal.
- Continue association with others who are breaking laws/rules/regulations.
- Use others' work or ideas without attribution (**plagiarism**).
- **Guarantee investment results** or say past results will certainly repeat.
- Personally take shares in **oversubscribed IPOs**.
- Take material with you when you leave (you can take what's in your brain).
- Act/cause others to act on **material nonpublic information**.
- Manipulate market prices or trading volume with intent to mislead.
- Reveal CFA exam questions or disclose what topics were tested/not tested.
- Put "CFA" in **bold or bigger font** than your name.
- Put "CFA" in a **pseudonym** that conceals identity (e.g., social-media handle).
- Imply that holders of the CFA charter produce **better investment results**.

- \+ Say you have passed the Level I, II, or III CFA exam (if true).

- x Claim **CFA candidacy** unless registered for the next exam or awaiting results.
- x Refer to a partial designation — **there is no such thing as a "CFA Level I"** (or II, or III).

Exam Tip: These lists are directly drawn from Schweser's condensed summaries of the Standards. The core principle: **disclosure + reasonable basis + client-first** will solve most application questions.

EVOLUTION OF THE STANDARDS

Evolution of the Code & Standards

> The authoritative reference for applying the Code and Standards is the CFA Institute **Standards of Practice Handbook**. The current edition is the **12th Edition, updated in 2024**. Candidates should read the handbook in addition to any summary.

Why the Handbook Matters

Two reasons the original **Standards of Practice Handbook (12th Ed., updated 2024)** should be read directly:

1. As a CFA candidate, you have **pledged to abide** by the CFA Institute Standards.
2. Most ethics questions will likely come directly from the **text and examples** in the Standards of Practice Handbook.

Ethics Weighting on the Level I Exam

Ethical and Professional Standards is **15%–20%** of the Level I examination and is extremely important to overall success.

Allocating preparation time based on the number of LOS will most likely lead to being underprepared in some key areas, especially Ethical and Professional Standards.

Governing Structure — Recap

DOCUMENT / BODY	ROLE
CFA Institute Bylaws	Basic structure for enforcement
Rules of Procedure for Professional Conduct	Basic structure for enforcement
Board of Governors	Oversight of PCP
Disciplinary Review Committee (DRC)	Enforcement of Code & Standards
Professional Conduct Staff	Conducts inquiries / investigations

Standards of Practice Handbook — 12th Ed. (updated 2024)	Authoritative guidance and examples for Standards I–VII

Exam Tip: On the day before your exam, one well-known review recommendation is to **reread Ethical and Professional Standards, including all the examples**, from the curriculum volume.

QUIZ 3 · CHECKPOINT

Test Your Understanding: Standards IV–VII & Evolution

Q10. Under Standard IV(A) Loyalty, an employee leaving an employer may *most appropriately*:

Q11. Under Standard VI(B) Priority of Transactions, the correct order of priority is:

Q12. Under Standard VII(B), which of the following is *most accurate*?

Q13. Under Standard V(C) Record Retention, if no regulatory requirement or firm policy applies, CFA Institute recommends retaining records for:

Q14. Which of the following *best* describes the authoritative source for applying the Code and Standards referenced in the curriculum?

MODULE COMPLETE

Your Scorecard

0 / 14

LM02 Key Takeaways — Exam-Ready Cheat Sheet

Professional Conduct Program

1. **Oversight stack:** CFA Institute Board of Governors (oversight) → Disciplinary Review Committee (enforcement, volunteer charterholders) → Professional Conduct staff (inquiries). Governed by CFA Institute Bylaws + Rules of Procedure.
2. **Five inquiry triggers:** self-disclosure on annual PCS · written complaints · public evidence/media · exam proctor report · analysis of exam materials & social-media monitoring.
3. **Staff outcomes:** no action · cautionary letter · propose sanction. If rejected → DRC panel hearing. **Sanctions:** public condemnation; suspension/revocation of charter (members); prohibition from CFA Program (candidates).

Code of Ethics — Six Components (name, not number)

1. Act with integrity, competence, diligence, respect — ethically.
2. Place integrity of profession & client interests above personal interests.
3. Use reasonable care & independent professional judgment.
4. Practice/encourage conduct that reflects credit on the profession.
5. Promote integrity & viability of global capital markets.
6. Maintain & improve professional competence — yours and others'.

Seven Standards & Their Sub-Standards

- I **Professionalism:** A Knowledge of Law · B Independence & Objectivity · C Misrepresentation · D Misconduct · E Competence.
- II **Integrity of Capital Markets:** A Material Nonpublic Information · B Market Manipulation.
- III **Duties to Clients:** A Loyalty, Prudence & Care · B Fair Dealing · C Suitability · D Performance Presentation · E Preservation of Confidentiality.
- IV **Duties to Employers:** A Loyalty · B Additional Compensation · C Responsibilities of Supervisors.
- V **Investment Analysis & Actions:** A Diligence & Reasonable Basis · B Communications · C Record Retention.
- VI **Conflicts of Interest:** A Avoid/Disclose · B Priority of Transactions · C Referral Fees.
- VII **CFA Member/Candidate:** A Conduct in CFA Programs · B Reference to CFA Institute, Designation & Program.

Last-Minute Exam Checklist

Most-strict rule: when local law & Code conflict, apply the stricter

Mosaic theory: nonmaterial + nonpublic + public = legitimate

Priority: client → employer → personal (beneficial owner)

IPS: update at least annually; suitability in a portfolio context

Records: 7-year recommended retention; records are firm property

Sanctions: condemnation / charter revocation (members) / prohibition (candidates)

Handbook: Standards of Practice Handbook, 12th Ed., updated 2024

Step 1 of 16