

Ethics in Finance Notes:

Standard 1: Professionalism

1(A) Knowledge of the Law:

- Members and candidates must understand and comply with all applicable laws, rules and regulations of any government, regulatory organisation etc.
- In event of conflict, must comply with stricter law/rule.
- Must not knowingly participate or assist in and must dissociate from any violation.
- Guidance:
 - Always go by stricter law if conflict.
 - Actions:
 - Notify supervisor or compliance department.
 - May confront violator directly.
 - Dissociate or separate if necessary.
 - Inaction may be construed as participation/assistance.
 - No requirement to report violations to government or regulatory agencies unless appropriate.
- Recommended Procedures for Compliance (Individuals):
 - Stay informed (memos, continuing education program).
 - Review procedures.
 - Maintain current files (statutes, rules and regulations up to date).
 - Seek compliance/legal advice when in doubt.
 - Dissociation.
- Recommended Procedures for Compliance (Firms):
 - Develop/adopt code of ethics.
 - Distribute information internally on applicable laws and regulations.
 - Establish written procedures for reporting suspected violations.

1(B) Independence and Objectivity:

- Must use reasonable care and judgement to achieve and maintain independence and objectivity in professional activities.
- Must not offer, solicit or accept any gift that reasonably could be expected to compromise own or another's independence and objectivity.
- Guidance – Focus on:
 - Buy-side clients.
 - Fund manager and custodial relationships.
 - Investment banking relationships.
 - Public companies.
 - Credit rating agency options.

- Further Guidance:
 - Avoid situations that could cause loss of independence or objectivity.
 - Modest gifts acceptable.
 - Distinguish between gifts from clients and gifts from entities trying to influence.
 - May accept gifts from clients if disclose to employer.
 - Internal pressure to issue favourable reports.
 - Investment banking relationships – pressure to issue favourable research.
 - Performance measurement and attribution.
 - Manager selection process.
- Recommended Procedures for Compliance:
 - Protect integrity of options – reports should reflect unbiased opinion.
 - Create a restricted list.
 - Restrict special cost arrangements – accommodation, flights and other expenses.
 - Limit gifts.
 - Restrict investments – IPO share allocations.
 - Review procedures and establish formal written policy on independence and objectivity of research.
 - Independence policy.
 - Appointed officer.

1(C) Misrepresentation:

- Members and candidates must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions or other professional activities.
- Guidance – Focus on:
 - Impact on investment practice.
 - Performance reporting.
 - Social media.
 - Omissions.
 - Plagiarism.
 - Work completed for employer.
- Further Guidance:
 - Extends to all oral, written or electronic communications.
 - Do not misrepresent:
 - Qualifications.
 - Services of firm.
 - Performance record.
 - Characteristics of an investment.
 - Do not guarantee a certain return.
 - No plagiarism.
 - Performance reporting.
 - Social media.
 - Omissions.

- Recommended Procedures for Compliance:
 - Factual presentations.
 - Qualification summary.
 - Verify outside information.
 - Maintain webpages.
 - Plagiarism policy – maintain records of materials used to prepare reports.
 - Attribute quotes and summaries – except for recognised financial and statistical reporting services.

1(D) Misconduct:

- Members and candidates must not engage in any professional conduct involving dishonesty, fraud, deceit or commit any act that reflects adversely on their professional reputation, integrity or competence.
- Guidance:
 - Addresses all conduct that reflects poorly on professional integrity, competence or good reputation.
 - Conduct that damages trustworthiness and competence.
 - Conduct may not be illegal, but could adversely affect member's ability to perform duties.
- Recommended Procedures for Compliance:
 - Adopt code of ethics.
 - Disseminate list of potential violations and associated disciplinary actions.
 - Conduct background checks on potential employees.

Standard 2: Integrity of Capital Markets

2(A) Material Non-public Information:

- Members and candidates who possess material non-public information that could affect value of an investment must not act or cause others to act on information.
- Guidance – Focus on:
 - What is material information?
 - What constitutes non-public information?
 - Mosaic theory.
 - Social media.
 - Using industry experts.
 - Investment research reports.
- Further Guidance:
 - Information material if its disclosure likely impacts a share's price or if investors would want information before making investment decision.
 - Price effect unclear, not material.
 - Non-public until been made available to market.
 - Information made available to analysts is non-public until made available to general investors.
 - Mosaic theory: no violation when analyst reaches conclusion about even through analysis of public information added to non-material non-public information.

- Recommended Procedures for Compliance:
 - Achieve public dissemination.
 - Adopt compliance procedures and disclosure procedures.
 - Issue press releases.
 - Firewall elements and appropriate interdepartmental communications.
 - Physical separation of departments and prevention of personnel overlap.
 - Reporting system.
 - Personal trading limitations.
 - Record maintenance.
 - Restricted list and review trades by employees.
 - Restrict proprietary trading while possession of MNPI.

2(B) Market Manipulation:

- Members and candidates must not engage in practices that distort prices or artificially inflate trading volume with intent to mislead market participants.
- Guidance – Focus on:
 - Information-based manipulation:
 - Dissemination of false or misleading information.
 - “pump and dump”.
 - Transaction-based manipulation:
 - Implies giving false impression of activities or price movements.
 - Gaining principal position in a share to manipulate price of share.
 - Distributing or misleading information.