

STUDY SESSION

2

Ethical and Professional Standards (2)

This study session begins with the role played by ethics and professionalism in the investment industry. A framework to support ethical decision-making is provided to help guide behavior. The reading emphasizes the importance that a profession's code of ethics and standards of behavior have in generating the trust with its clients and society as a whole.

The Asset Manager Code of Professional Conduct uses the basic tenets of the Code and Standards to establish ethical and professional standards for firms managing client assets. The Asset Manager Code of Professional Conduct also extends the Code and Standards to address investment management firm practices regarding trading, compliance, risk management, security pricing, and disclosure.

The Global Investment Performance Standards (GIPS®) contain ethical and professional standards for presenting investment performance to prospective clients. These guidelines provide for standardized performance calculation and presentation among investment managers, enabling investors to objectively compare manager return histories and evaluate performance. This study session concludes with a grounding in the requirements and recommendations of GIPS.

READING ASSIGNMENTS

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| Reading 4 | Professionalism in the Investment Industry
by Bidhan L. Parmar, PhD, Dorothy C. Kelly, CFA, Colin McLean, MBA, FIA, FSIP, Nitin M. Mehta, CFA, and David B. Stevens, CIMC, CFA |
| Reading 5 | Asset Manager Code of Professional Conduct
by Kurt N. Schacht, JD, CFA, Jonathan J. Stokes, JD, and Glenn Doggett, CFA |
| Reading 6 | Overview of the Global Investment Performance Standards
by Philip Lawton, PhD, CFA, CIPM |

LEARNING OUTCOMES**READING 4. PROFESSIONALISM IN THE INVESTMENT INDUSTRY**

The candidate should be able to:

- a** describe how professions establish trust;
- b** explain professionalism in investment management;
- c** describe expectations of investment professionals;
- d** describe a framework for ethical decision-making.

READING 5. ASSET MANAGER CODE OF PROFESSIONAL CONDUCT

The candidate should be able to:

- a** explain the purpose of the Asset Manager Code and the benefits that may accrue to a firm that adopts the Code;
- b** explain the ethical and professional responsibilities required by the six General Principles of Conduct of the Asset Manager Code;
- c** determine whether an asset manager's practices and procedures are consistent with the Asset Manager Code;
- d** recommend practices and procedures designed to prevent violations of the Asset Manager Code.

READING 6. OVERVIEW OF THE GLOBAL INVESTMENT PERFORMANCE STANDARDS

The candidate should be able to:

- a** discuss the objectives, key characteristics, and scope of the GIPS standards and their benefits to prospective clients and investment managers;
- b** explain the fundamentals of compliance with the GIPS standards, including the definition of the firm and the firm's definition of discretion;
- c** explain the requirements and recommendations of the GIPS standards with respect to input data, including accounting policies related to valuation and performance measurement;
- d** discuss the requirements of the GIPS standards with respect to return calculation methodologies, including the treatment of external cash flows, cash and cash equivalents, and expenses and fees;
- e** explain the requirements and recommendations of the GIPS standards with respect to composite return calculations, including methods for asset-weighting portfolio returns;
- f** explain the meaning of "discretionary" in the context of composite construction and, given a description of the relevant facts, determine whether a portfolio is likely to be considered discretionary;
- g** explain the role of investment mandates, objectives, or strategies in the construction of composites;

- h** explain the requirements and recommendations of the GIPS standards with respect to composite construction, including switching portfolios among composites, the timing of the inclusion of new portfolios in composites, and the timing of the exclusion of terminated portfolios from composites;
- i** explain the requirements of the GIPS standards for asset class segments carved out of multi-class portfolios;
- j** explain the requirements and recommendations of the GIPS standards with respect to disclosure, including fees, the use of leverage and derivatives, conformity with laws and regulations that conflict with the GIPS standards, and noncompliant performance periods;
- k** explain the requirements and recommendations of the GIPS standards with respect to presentation and reporting, including the required timeframe of compliant performance periods, annual returns, composite assets, and benchmarks;
- l** explain the conditions under which the performance of a past firm or affiliation must be linked to or used to represent the historical performance of a new or acquiring firm;
- m** evaluate the relative merits of high/low, range, interquartile range, and equal-weighted or asset-weighted standard deviation as measures of the internal dispersion of portfolio returns within a composite for annual periods;
- n** identify the types of investments that are subject to the GIPS standards for real estate and private equity;
- o** explain the provisions of the GIPS standards for real estate and private equity;
- p** explain the provisions of the GIPS standards for Wrap fee/Separately Managed Accounts;
- q** explain the requirements and recommended valuation hierarchy of the GIPS Valuation Principles;
- r** determine whether advertisements comply with the GIPS Advertising Guidelines;
- s** discuss the purpose, scope, and process of verification;
- t** discuss challenges related to the calculation of after-tax returns;
- u** identify and explain errors and omissions in given performance presentations and recommend changes that would bring them into compliance with GIPS standards.