

## Summary of the 2023 Revisions to the Code and Standards

In 2023, the CFA Institute Board of Governors revised the Standards of Professional Conduct in three areas. This resulted in the inclusion of one new standard and revisions to two existing standards. The changes are summarized below:

1. Within Standard I: Professionalism, the Board approved a new standard requiring members to act with and maintain the competence necessary to fulfill their professional responsibilities, so reinforcing the principle set forth in the Code of Ethics
2. Within Standard V: Investment Analysis, Recommendations, and Actions, the Board revised Standard V(B) Communication with Clients and Prospective Clients, to require disclosures about the nature of the services provided by members and candidates and the costs to the client associated with those services.
3. Within Standard VI Conflicts of Interest, the Board renamed Standard VI(A) “Avoid or Disclose Conflicts” and revised the standard to require members and candidates to either avoid conflicts of interest or disclose those conflicts. Previously there was no mention of avoiding conflicts of interest in the standard.

These changes go into effect on 1 January 2024. New guidance and examples will be added to the Standards of Practice Handbook to fully explain these new requirements and a new 12<sup>th</sup> edition to the Handbook will be available 1 January 2024.

## New and Revised Standards of Professional Conduct

### Competence Standard

#### I. PROFESSIONALISM

##### E. Competence

**Members and Candidates must act with and maintain the competence necessary to fulfill their professional responsibilities.**

Given the diverse range of professional services engaged in by members and candidates, the knowledge, skills, and abilities necessary to successfully fulfill their role will vary according to the nature of their professional duties. Over time, a member’s role may expand, requiring new or different knowledge, skills, and abilities. Members will develop and refine their skills and abilities throughout their professional careers. Requiring members and candidates to act with and maintain appropriate levels of competence will help ensure they provide a high standard of professional service for their clients and employers.

Currently, the Code of Ethics requires members and candidates to “act with integrity, competence, and diligence” and to “maintain and improve their professional competence and

strive to improve the competence of other investment professionals.” This new standard is consistent with and directly supports the requirements of the Code of Ethics. Standard I(E) makes these requirements of the Code of Ethics more explicit and emphasizes the need for members and candidates to continuously maintain or improve the competence required by their professional position.

The skills and abilities necessary for members and candidates to successfully fulfill their role vary according to the nature and complexity of their professional duties. As a result, there will be different criteria for competence for different members. An examination of the facts and circumstances of each member or candidate will dictate their expected conduct under this standard.

Finally, Standard I(E) does not require members and candidates to engage in any specific program of professional development or continuing education. There are a variety of ways members and candidates can demonstrate and maintain competence when engaging in their professional responsibilities.

#### Disclosure of Nature of Services and Costs to Client

### **V. INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTIONS**

#### **B. Communication with Clients and Prospective Clients**

##### **Members and Candidates must:**

##### **1. Disclose to clients and prospective clients the nature of the services provided, along with information about the costs to the client associated with those services.**

A fundamental goal of the Code and Standards is to protect client interests and allow them to make fully informed decisions about their investments and financial well-being. Providing clients with information about the nature of the services they can expect from investment professionals and the financial impact they can expect from those services is critical to achieving this goal. The disclosures required by this new standard will permit clients to make informed decisions as to whether to engage with the member or candidate and their firm.

The standard on Communication with Clients and Prospective Clients also requires members to disclose the basic format and general principles of the investment processes they use to analyze investments, select securities, and construct portfolios and to promptly disclose any material changes to these processes. The associated financial impact is an important part of the investment process but, until now, was not explicitly addressed as part of this disclosure. The revision to Standard V(B) fills this gap.

Revised Standard Relating to Conflicts

**VI. CONFLICTS OF INTEREST**

**A. Avoid or Disclose Conflicts**

**Members and Candidates must avoid or make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity and interfere with respective duties to their clients, prospective clients, and employer. Members and Candidates must ensure that such disclosures are prominent, are delivered in plain language, and communicate the relevant information effectively.**

While Standard VI(A) historically required members and candidates to disclose conflicts, the language of the standard made no mention of avoiding conflicts. Nevertheless, the guidance for the Conflicts of Interest standard has long stated that best practice is to avoid conflicts or the appearance of conflicts. Including the option to avoid versus simply disclosing conflicts in the language of the standard emphasizes that members and candidates should avoid conflicts of interest whenever reasonably possible. While avoiding conflicts altogether is preferred, often in the investment industry it may not be reasonable for members and candidates to avoid a conflict or the perception of a conflict. When it is not reasonable for members and candidates to avoid a conflict, Standard VI(A) continues to require clear and complete disclosure of the conflict.