

STUDY SESSION

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Ethical and Professional Standards

The readings in this study session present a framework for ethical conduct in the investment profession. The first reading discusses ethics, the role of a code of ethics in defining a profession, and the importance of ethics in the investment profession. It also introduces an ethical decision-making framework. The focus then turns to the CFA Institute Code of Ethics and Standards of Professional Conduct as well as the Global Investment Performance Standards (GIPS®).

The principles and guidance presented in the CFA Institute *Standards of Practice Handbook (Handbook)* form the basis for the CFA Institute self-regulatory program to maintain the highest professional standards among investment practitioners. “Guidance” in the *Handbook* addresses the practical application of the Code of Ethics and Standards of Professional Conduct. The guidance expands upon the purpose and scope of each standard, presents recommended procedures for compliance, and provides examples of the standard in practice.

The Global Investment Performance Standards (GIPS) facilitate efficient comparison of investment performance across investment managers and country borders by prescribing methodology and standards that are consistent with a clear and honest presentation of returns. Having a global standard for reporting investment performance to prospective clients minimizes the potential for ambiguous or misleading presentations.

READING ASSIGNMENTS

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| Reading 1 | Ethics and Trust in the Investment Profession
by Bidhan L. Parmar, PhD, Dorothy C. Kelly, CFA, and
David B. Stevens, CFA |
| Reading 2 | Code of Ethics and Standards of Professional Conduct
<i>Standards of Practice Handbook</i> , Eleventh Edition |

(continued)

Reading 3	Guidance for Standards I–VII <i>Standards of Practice Handbook</i> , Eleventh Edition
Reading 4	Introduction to the Global Investment Performance Standards (GIPS)
Reading 5	Global Investment Performance Standards (GIPS)

LEARNING OUTCOMES

READING 1. ETHICS AND TRUST IN THE INVESTMENT PROFESSION

The candidate should be able to:

- a** explain ethics;
- b** describe the role of a code of ethics in defining a profession;
- c** identify challenges to ethical behavior;
- d** describe the need for high ethical standards in the investment industry;
- e** distinguish between ethical and legal standards;
- f** describe and apply a framework for ethical decision making.

READING 2. CODE OF ETHICS AND STANDARDS OF PROFESSIONAL CONDUCT

The candidate should be able to:

- a** describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards;
- b** state the six components of the Code of Ethics and the seven Standards of Professional Conduct;
- c** explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.

READING 3. GUIDANCE FOR STANDARDS I–VII

The candidate should be able to:

- a** demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity;
- b** distinguish between conduct that conforms to the Code and Standards and conduct that violates the Code and Standards;
- c** recommend practices and procedures designed to prevent violations of the Code of Ethics and Standards of Professional Conduct.

READING 4. INTRODUCTION TO THE GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS)

The candidate should be able to:

- a** explain why the GIPS standards were created, what parties the GIPS standards apply to, and who is served by the standards;

- b** explain the construction and purpose of composites in performance reporting;
- c** explain the requirements for verification.

READING 5. THE GIPS STANDARDS

The candidate should be able to:

- a** describe the key features of the GIPS standards and the fundamentals of compliance;
- b** describe the scope of the GIPS standards with respect to an investment firm's definition and historical performance record;
- c** explain how the GIPS standards are implemented in countries with existing standards for performance reporting and describe the appropriate response when the GIPS standards and local regulations conflict;
- d** describe the nine major sections of the GIPS standards.