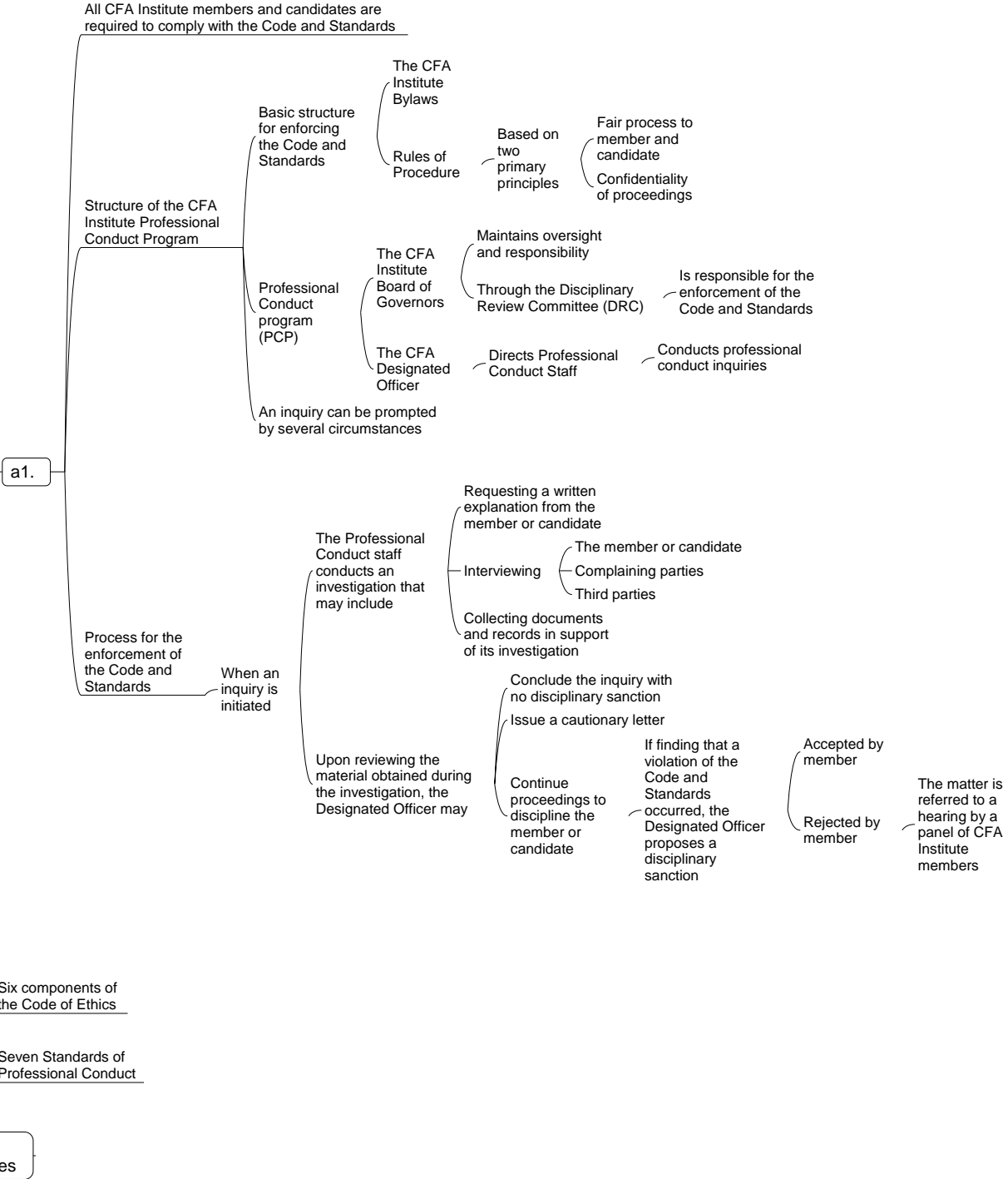
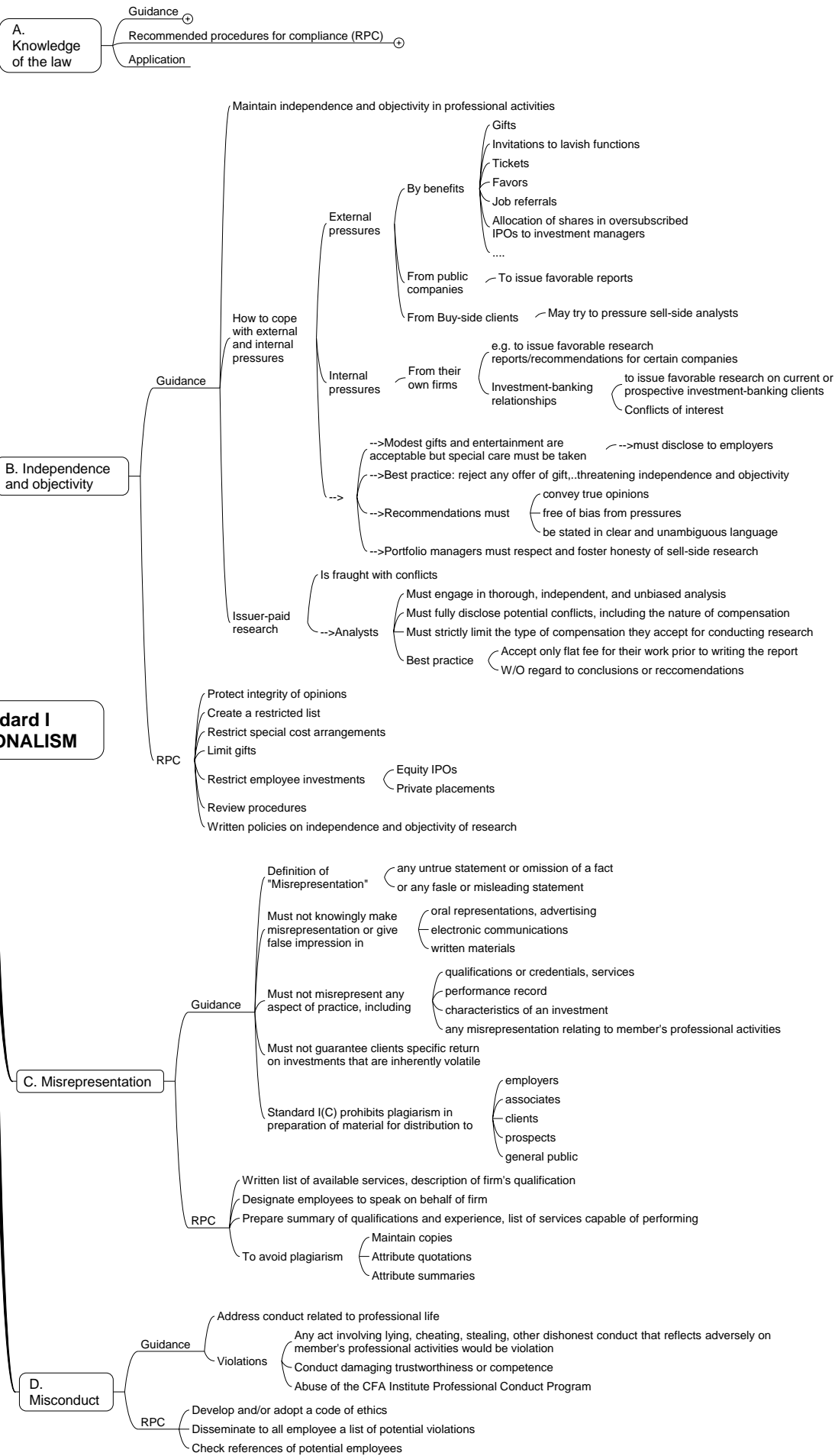


1. Code Of Ethics And Standards Of Professional Conduct



2.1 Standard I PROFESSIONALISM



2.2 Standard II INTEGRITY OF CAPITAL MARKET

A. Material nonpublic information (MNI)

Guidance

Definition of "Material nonpublic information"

Must be particularly aware of info selectively disclosed by corporations

Mosaic Theory

Analysis of Public info + nonmaterial nonpublic info --> Investment conclusion

Analysts are free to act on this collection of info w/o risking violation

Analysts should save and document all their research

RPC

Make reasonable efforts to achieve public dissemination of material info

If public dissemination is not possible,

Must communicate the info only to the designated supervisory and compliance personnel within the firm

Must not take investment action on the basis of the info

Must not knowingly engage in conduct inducing insiders to privately disclose MNI

Encourage firms to

adopt compliance procedures preventing misuse of MNI

develop & follow disclosure policies to ensure proper dissemination

use "firewall"

Prohibition of all proprietary trading while firm is in possession of MNI may be inappropriate

B. Market manipulation

Definition

can be related to

transactions that deceive market participants

Transactions that artificially distort prices or volume

Securing a controlling, dominant position in a financial instrument to exploit and manipulate price of a related derivative/or underlying asset

dissemination of false or misleading info

including spreading false rumors to induce trading by others

Standard II(B) not meant to

prohibit legitimate trading strategies

prohibit transactions done for tax purposes

The intent of action is critical to determining whether it is a violation of this Standard

2.3 Standard III DUTIES TO CLIENTS

A. Loyalty, prudence, and care

Guidance
 Responsibility to a client includes
 "Soft dollars"
 RPC

- duty to exercise reasonable care
 - Prudence
 - require cautions and discretion
 - act with care, skill, and diligence
 - follow the investment parameters set forth by clients & balancing risk & return
- duty of loyalty
 - Understand & adhere to fiduciary duties
 - Determine identity of "client"
 - Must be aware of whether they have "custody" or effective control of client assets
 - Manage pool of assets in accordance with terms of governing documents
 - Put their obligation to client first in all dealings
 - Avoid all real or potential conflicts of interest
 - Forgo using opportunities for their own benefit at the expense of client
 - Follow any guidelines set out by client for the management of assets
 - Judge investment decisions in context of total portfolio
 - Vote proxies in an informed & responsible manner

- Submit to clients at least quarterly itemized statements
- Separate assets
- Review investments periodically
- Establish policies & procedures with respect to proxy voting and the use of client brokerage
- Encourage firms to address some topics

B. Fair dealing

Guidance
 Investment recommendations
 Investment actions
 RPC

- Do not discriminate against any clients
- "Fairly" vs "equally"
 - Standard III(B) addresses the manner of disseminating investment recommendations or changes in prior recommendations to clients
 - Ensure fair opportunity to act on
 - Encourage firms to design equitable system to prevent selective, discriminatory disclosure
 - Material changes should be communicated to all current clients
 - particularly clients may have acted on or been affected by earlier advise
 - Clients who don't know changes and therefore place orders contrary to a current recommendation
 - should be advised of the changed recommendation before the order is accepted
- Treat all clients fairly in light of their investment objectives & circumstances
 - Disclose to clients & prospects written allocation procedures
 - duty of fairness and loyalty to clients can never be overridden by client consent to patently unfair allocation procedures
 - Should not take advantage of their position in the industry to the detriment of clients

C. Suitability

Guidance
 In investment advisory relationships
 RPC ⊕

- Be sure to gather client info in the form of an IPS and make suitability analysis prior to making recommendation/taking investment action
- Inquiry should be repeated at least annually/prior to material changes
- If clients withhold info ⊕
- Risk analysis
- Fund managers ⊕
- In case of unsolicited trade requests unsuitable for client ⊕

D. Performance presentation

Guidance
 Research analysts promoting the success of accuracy of their recommendations
 RPC — GIPS

- Standard III(D) prohibits misrepresentations of past performance or reasonably expected performance
 - > Provide credible performance info
 - > Should not state or imply that clients will obtain or benefit from rate of return generated in the past
- Research analysts promoting the success of accuracy of their recommendations
 - > ensure that their claims are fair, accurate, and complete
- If the presentation is brief, must make available to clients and prospects the detailed info upon request

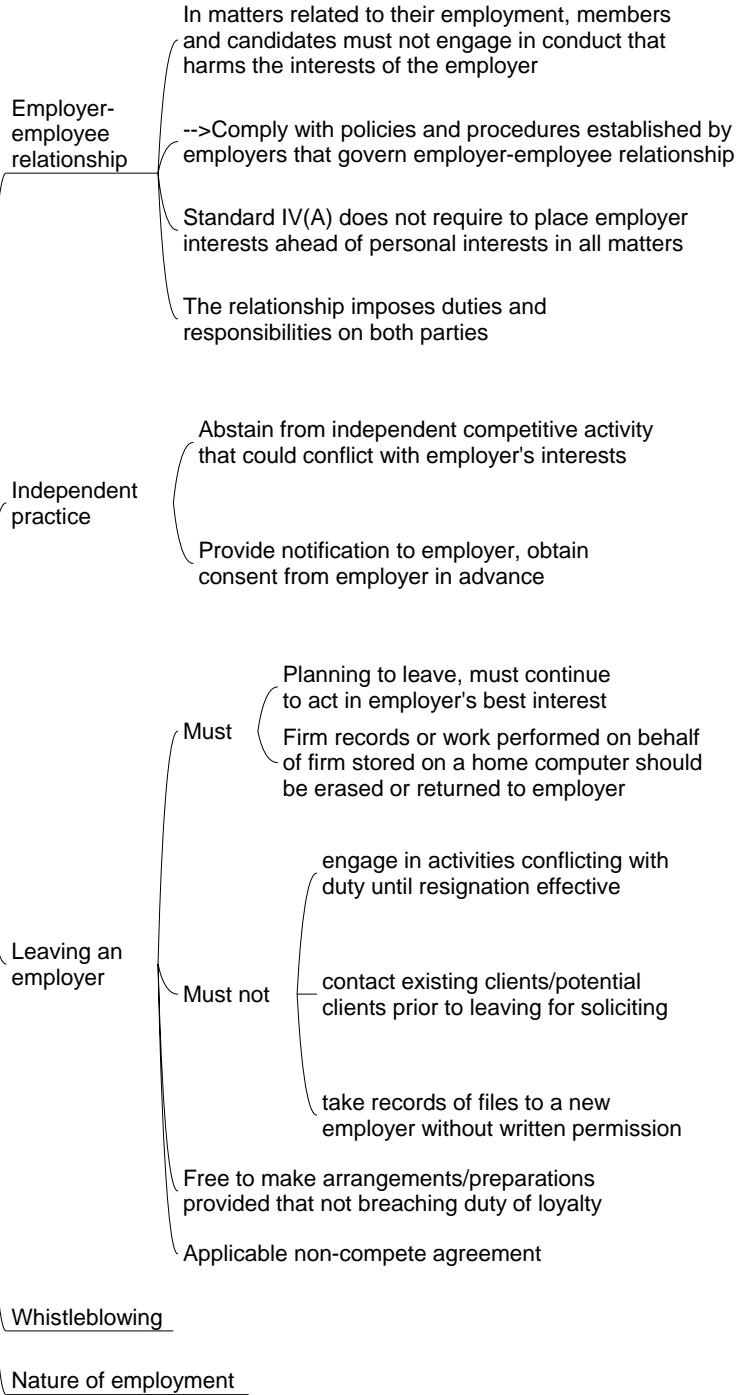
E. Preservation of confidentiality

Guidance
 RPC

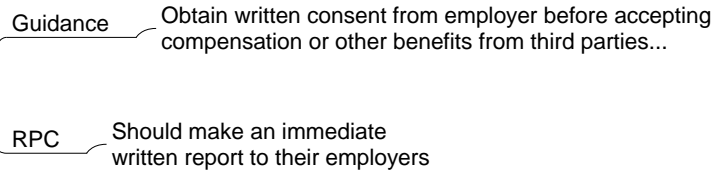
- Standard III(E) is applicable when members receive info ⊕
- Comply with applicable laws
- When in doubt --> consult with compliance department/outside counsel before disclosing
- Standard III(E) does not prevent cooperating with an investigation by CFAI PCP

2.4 Standard IV DUTIES TO EMPLOYERS

A. Loyalty



B. Additional compensation arrangements



C. Responsibilities of supervisors

⊕

2.5 Standard V INVESTMENT ANALYSIS, RECOMMENDATIONS & ACTIONS

A. Diligence and reasonable basis

Guidance

The application of Standard V(A) depends on

- investment philosophy followed
- role of member in the investment decision-making process
- support and resources provided by employer

Must make reasonable efforts to cover all pertinent issues when arriving at recommendation

Provide or offer to provide supporting info to clients when making recommendations/changing recommendations

Using secondary or third-party research

--> must make reasonable & diligent efforts to determine whether 2nd/3rd party research is sound

Group research and decision making

If member does not agree with the independent and objective view of the group

--> Not necessarily have to decline to be identified if believing consensus opinion has reasonable & adequate basis

--> Should document member's difference of opinion with group

RPC

B. Communication with clients and prospective clients

Guidance

Standard V(B) addresses conduct with respect to communicating with clients

Communication is not confined to written form but via any means of communication

Developing and maintaining clear, frequent, and thorough communication practices is critical

Must

- distinguish clearly between facts & opinions
- present basic characteristics of the analyzed security in preparing research report
- adequately illustrate to clients & prospective clients the manner of conducting investment decision-making process
- keep them informed with respect to changes to the chosen investment process

Brief communications

--> must be supported by background report or data on request

Capsule form recommendations

--> should notify clients that additional info and analyses are available from the producer of the report

Investment advice based on quantitative research and analysis

- > must be supported by readily available reference material
- > in a manner consistent with previously applied methodology or with changes highlighted

Should outline known limitations, consider principal risks in investment analysis, report

RPC

C. Record retention

Guidance

In hard copy or electric form

Fulfilling regulatory requirements may satisfy the requirements of this Standard

Must explicitly determine whether it does

Absence of regulatory guidance,

CAFI recommends maintaining records for at least 7 yrs

RPC

2.6 Standard VI CONFLICTS OF INTEREST

A. Disclosure of conflicts

Guidance

- Managing conflicts
 - is a critical part of working in investment industry
 - can take many forms
 - Best practice is to avoid conflicts of interest when possible
 - If not, disclosure is necessary
- Disclosures must be
 - prominent
 - made in plain language
 - in a manner to effectively communicate the info to clients
- Disclosure to clients
 - All matters may impair objectivity
 - Relationships
 - between member or their firm and issuer
 - investment banking
 - underwriting and financial relationships
 - Broker/dealer market-making activities
 - Material beneficial ownership of stock
 - Investment personnel also serves as a director ⊕
 - > Sell-side members
 - should disclose material beneficial ownership interest in securities/investment recommended
- Disclosure of conflicts to employers
 - What?
 - Same circumstances with clients
 - Any potential conflict situation
 - How?
 - Enough info
 - Other requirements ⊕

B. Priority of transactions

Guidance

- Clients & employers' transactions have priority
- Co-investment
 - > personal investment positions or transactions should never adversely affect client investments
- Conflicts of interests
 - may occur
 - > make sure
 - client is not disadvantaged by the trade
 - investment professional does not benefit personally from trades undertaken for clients
 - investment professional complies with applicable regulatory requirements
- Having knowledge of pending transactions, assess to info during normal preparation of research recommendations
 - > Must not convey such info
- May undertake personal transactions after clients & employers have had adequate opportunity to act on recommendation
- Family accounts (that are client accounts)
 - should be treated like other accounts
 - if member has beneficial ownership
 - > may still be subject to pre-clearance or reporting requirements

C. Referral fees

Inform

- whom
 - employer
 - client
 - prospective client
- what
 - compensation
 - consideration
 - benefit
 - received from, or paid to, others
- how
 - before entry into any formal agreement
 - nature of the consideration or benefit

**2.7 Standard VII
RESPONSIBILITIES
AS CFA MEMBER /
CANDIDATE**

**A. Conduct as
members and
candidates in
the CFA
program**

- Prohibiting any conduct that undermines the integrity of the CFA charter
 - Cheating on CFA exam or any exam
 - Not following rules and policies of the CFA program
 - Giving confidential info on the CFA Program to candidates or the public
 -
- Not precluded from expressing opinion regarding the CFA Program or CFAI

**B. Reference to
CFA Institute, the
CFA Designation
and the CFA
program**

- Preventing promotional efforts that make promises or guarantees tied to the CFA designation
 - Over-promise the competence of an individual
 - Over-promise future investment results
- Applies to any form of communication
- To maintain CFAI membership
 - Remit annually to CFAI a completed Professional Conduct Statement
 - Pay applicable CFAI membership dues on an annual basis
- Using the CFA designation (see Curriculum)
- Referencing candidacy in the CFA program (see Curriculum)
- Proper using of the CFA marks (see Curriculum)

3.1 CFA Institute Soft Dollar Standards

Soft Dollar Standards (SDS)

- are **voluntary** standards for Members
- focus on 6 key areas
 - Definitions — To enable all parties dealing with SD practices to have a common understanding of all of the different aspects of SD
 - Research — To give a clear guidance to investment managers on what products and services are appropriate for a manager to purchase with client brokerage
 - Mixed-used products — To clarify the manager's duty to clearly justify the use of client brokerage to pay a portion of mixed-use product
 - Disclosure — To obligate investment managers to
 - clearly disclose their SD practices
 - give detailed info to each client when requested
 - Record keeping — To ensure that client can
 - receive assurances that what investment managers are doing with client brokerage can be supported in an "audit"
 - receive important info on request
 - Client-directed brokerage — To clarify the manager's role and fiduciary responsibilities to clients

a1. Define "Soft Dollar" Arrangements

- Investment Manager directs transactions to a Broker, in exchange for which Broker provides brokerage and research services to the Investment Manager
- include
 - Proprietary Research Arrangements
 - Third-party Research Arrangements
- Not include Client-directed Brokerage Arrangements

a2. Some definitions

- Agency trade — A transaction involving the pmt of a commission
- Principal trade — A transaction involving a "discount" or a "spread"
- Soft dollar practices — involve the use of client brokerage by an investment manager to obtain products and services to aid the manager in investment decision making process
- Brokerage — The amount on any trade retained by a broker to be used directly or indirectly as pmt for ⊕
- Research — Services and/or products provided by a broker, the primary use of which must directly assist the investment manager in its investment decision making process
 - Types
 - Proprietary research ⊕
 - Third-party research ⊕
- Mixed-Use — Services and/or products, provided to an investment manager by a broker through a Brokerage Arrangement used for both
 - Investment decision making process
 - Management of the investment firm
- Client-directed brokerage arrangement — An arrangement whereby a client directs that trades for its account be executed through a specific broker
 - in exchange for which the client receives a benefit in addition to execution services

a3. General principles of Soft Dollar Standards

- 2 key principles of SDS
 - 1. Brokerage is the property of client
 - 2. Investment managers have a duty to
 - obtain best execution
 - minimize transaction costs
 - use client brokerage to benefit clients
- CFAI SDS are intended to ensure
 - Full and fair disclosure of the investment manager's use of a client's brokerage
 - Consistent presentation of info->all parties clearly understand brokerage practices
 - Uniform disclosure and record keeping
 - High standards of ethical practices within the investment industry

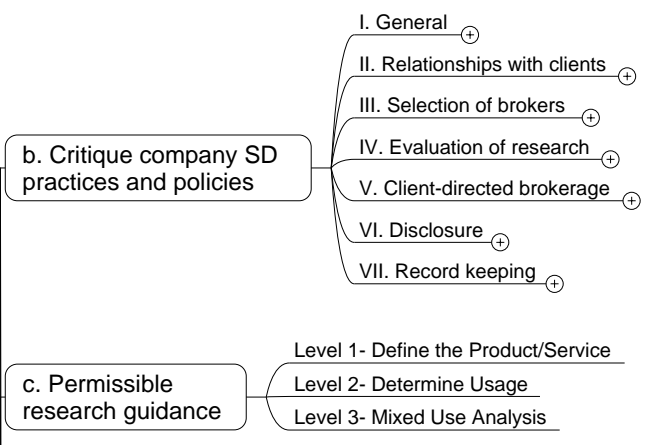


Figure 1: Key Requirements of the CFA Institute Soft Dollar Standards

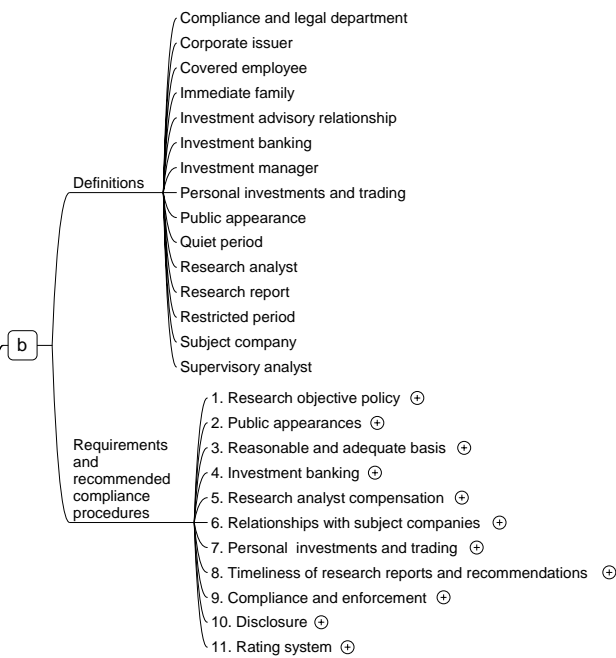
<i>Category</i>	<i>Key Requirements</i>
General	<ul style="list-style-type: none"> Place client interests above all else. Don't allocate client brokerage based on client referrals from brokers.
Relationships With Clients	<ul style="list-style-type: none"> Disclose potential participation in soft dollar arrangements.
Selection of Brokers	<ul style="list-style-type: none"> Consider brokers' trade execution capabilities when selecting brokers.
Evaluation of Research	<ul style="list-style-type: none"> Use client brokerage only for products and services that meet the definition of "research"; products and services that assist the investment manager in the investment decision making process. Document basis for determining why it meets the definition. Research must benefit the client. Allocate research cost based on expected usage for mixed use research.

3.2 CFA Institute Soft Dollar Standards (cont.)

Client-Directed Brokerage	<ul style="list-style-type: none"> Don't use brokerage from one client to pay for research purchased for another client who is operating under a client-directed brokerage agreement.
Disclosure	<ul style="list-style-type: none"> Disclose policies in plain language. Send client annual statement that soft dollar practices conform to Soft Dollar Standards. Disclose to clients that more information on policies is available upon request.
Record Keeping	<ul style="list-style-type: none"> Meet all regulatory and legal requirements. Document any specific arrangement with clients, including client-directed brokerage agreements. Document the basis for mixed use allocations. Document how products and services assist the manager in the investment decision making process. Document compliance with the Soft Dollar Standards.

CFAI-ROS are intended to be specific, measurable standards for managing and disclosing conflicts of interest that may impede a research analyst's ability to conduct independent research and make objective recommendations

a. Objectives of Research Objectivity Standards (ROS) (p.104)

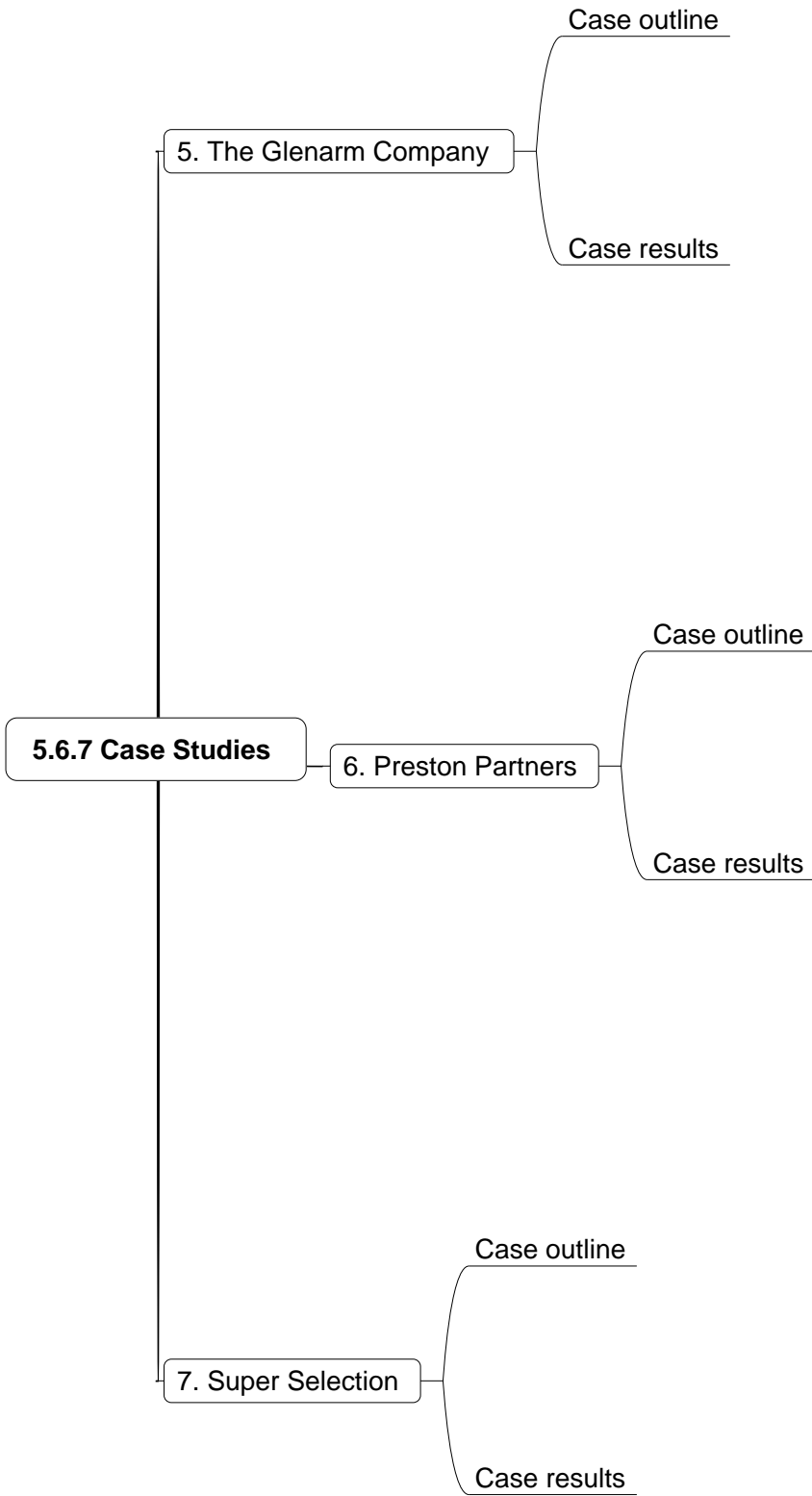


4. CFA Institute Research Objectivity Standards

Figure 2: Key Requirements of the CFA Institute Research Objectivity Standards

Category	Key Requirements
Research Objectivity Policy	<ul style="list-style-type: none"> Have a formal, written policy and distribute it to clients, prospective clients, and employees. Senior office must attest annually that firm complies with policy.
Public Appearances	<ul style="list-style-type: none"> Disclose conflicts of interest when discussing research and recommendations in public forums.
Reasonable and Adequate Basis	<ul style="list-style-type: none"> All reports and recommendations must have a reasonable and adequate basis.
Investment Banking	<ul style="list-style-type: none"> Separate research analysts from investment banking. Don't let analysts report to, or be supervised by, investment banking personnel. Don't let investment banking review, revise, or approve research reports and recommendations.

Research Analyst Compensation	<ul style="list-style-type: none"> Link analyst compensation to quality of analysis, not amount of investment banking business done with client.
Relationships With Subject Companies	<ul style="list-style-type: none"> Don't let subject companies see issue rating or recommendation prior to release, or promise a specific rating or recommendation.
Personal Investments and Trading	<ul style="list-style-type: none"> Don't engage in front running of client trades. Don't let employees and immediate family members trade ahead of clients, trade contrary to firm recommendations, or participate in IPOs of companies covered by the firm.
Timeliness of Research Reports and Recommendations	<ul style="list-style-type: none"> Issue research reports on a timely basis.
Compliance and Enforcement	<ul style="list-style-type: none"> Enforce policies and compliance procedures, assess disciplinary sanctions, monitor effectiveness of procedures, and maintain records.
Disclosure	<ul style="list-style-type: none"> Disclose conflicts of interest.
Rating System	<ul style="list-style-type: none"> Have a rating system investors find useful and provide them with information they can use to determine suitability.



**8. Trade Allocation:
Fair Dealing And
Disclosure**

a. Trade allocation
practice critique

b. Appropriate response
to inadequate trade
allocation practices

9. Changing Investment Objectives

a. Critique disclosure of investment objectives and basic policies

b. Appropriate response to inadequate disclosure procedures

Warm-up: The Old Prudent Man Rule ⊕

a. Basic principles of the New Prudent Investor Rule

1. Diversification is fundamental to risk minimization
2. Trustees must base an investment's appropriateness on risk/return profile
3. Trustees have a duty to avoid fees, transaction costs, and other expenses that are not justified
4. The fiduciary's duty of impartiality requires a conscious balancing of current income and growth
5. Trustees may have a duty, as well as the authority, to delegate as prudent investors would

b. General Fiduciary Standards

- A trustee must exercise
- Care ⊕
 - Skill ⊕
 - Caution ⊕
 - Loyalty ⊕
 - Impartiality ⊕

10. Prudence In Perspective

c. Differentiate

The Old PMR

The New PIR

- Use of total return ⊕
- Risk management ⊕
- Evaluation in a portfolio context ⊕
- Security restrictions ⊕
- Delegation of duty ⊕

d. Key factors should be considered when investing and managing trust assets

1. Economic conditions
2. Effect of inflation and deflation
3. Impact of investment decisions on the beneficiary's tax liability
4. How each investment contributes to risk/return of the overall trust portfolio
5. Expected total return from income and capital appreciation
6. Other resources of beneficiaries
7. Needs for
 - liquidity
 - regularity of income
 - preservation or appreciation of capital
8. Whether any assets have a special relationship to the requirements of the beneficiary or the trust