June 20, 2007

Alberta Securities Commission
British Columbia Securities Commission
Manitoba Securities Commission
New Brunswick Securities Commission
Nova Scotia Securities Commission
Registrar of Securities, Northwest Territories
Registrar of Securities, Nunavut
Registrar of Securities, Yukon Territory
Saskatchewan Financial Services Commission
Securities Commission of Newfoundland and Labrador
Securities Office, Prince Edward Island

c/o Mr. John Stevenson, Secretary Ontario Securities Commission 20 Queen Street West Suite 1903, Box 55 Toronto, Ontario, M5H 3S8

#### And/et

Madame Anne-Marie Beaudoin Directrice du secrétariat Autorité des marchés financiers 800, square Victoria, 22e étage C.P. 246, Tour de la Bourse Montréal, Quebec H4Z 1G3

#### Subject: Proposed NI 31-103, Registration Requirements

# Mr. Stevenson and Madame Beaudoin:

The Canadian Advocacy Council of CFA Institute Canadian Societies (CAC)<sup>1</sup> is pleased to respond to the Request for Comments dated February 23, 2007, where the Canadian Securities Administrators (CSA) invited interested parties to submit comments on the Proposed NI 31-103, *Registration Requirements*. Our comments are formatted in general terms and then by addressing the specific questions outlined in the Request for Comments.

<sup>&</sup>lt;sup>1</sup> The CAC represents the 12 Canadian member societies of the CFA Institute constituting over 11,000 members who are active in Canada's capital markets. Members of the CAC consist of portfolio managers, investment analysts, corporate finance professionals, and other capital markets participants. The CAC's has been charged by Canada's CFA Institute member societies to review Canadian regulatory, legislative and standard setting activities.

#### General Comments

The Canadian Advocacy Council (CAC) agrees with the broad objectives and principles of the proposal, although, we would like to comment in respect of some aspects which seem difficult or prohibitively expensive to comply with.

In its Proposal on Registration Reform dated January 13, 2006 the CSA outlined the basic cornerstones of the registration process to be:

- Proficiency only qualified persons can deal or advise
- Integrity registered persons must be honest and of good repute
- Solvency registered persons must be financially viable

Moreover, in this same document the CSA outlined that the basic purposes of registration relate to ensuring the competency and suitability of registrants in the activities in the Canadian marketplace. These key purposes also include regulation of the maintenance of books and records, conflicts of interest disclosures and management procedures, criminal record and background reviews. With the intention that as a result of the registration process, investors will be able to assess the risk of transacting business with participants in Canada's securities markets.

Unfortunately we do not believe that the majority of the items outlined in NI 31-103 will assist investors or market participants in meeting the purposes outlined above. Instead, these proposed rules, create more ambiguities for current and potential registrants. We believe that while there are flaws with the current system, enhanced enforcement of the existing rules may result in the attainment of the objectives outlined above.

We do applaud the CSA's efforts to harmonize the registration process for various market participants. We believe that the key benefits to the proposed system in Ni 31-103 are the requirement to register with only one jurisdiction and hence one regulator, and the simplification of the number of registrant categories. We believe that these benefits will save registrants and market participants precious administrative time spent on the registration process. These savings can then be channeled into other compliance and regulatory efforts such as enhanced record-keeping, continued education and enforcement of policies.

CFA charterholders and members of the CFA Institute adhere to a strict Code of Conduct and Standards of Practice that we believe address the key methods to maintaining integrity within Canada's capital markets. We have enclosed a copy of both the Code of Conduct and Standards of Practice as an Exhibit to this letter.

**Business Trigger**. We welcome any simplification of the current registration system and it seems appropriate that the trigger for registration as a dealer match the one that has been in place for advisers for years. However, we

note the interpretation of what constitutes a business does leave a lot of discretion in the hands of the regulators. Assuming the business trigger is adopted for all categories of registrants, we would encourage the CSA to publish on a regular basis what sorts of activities have attracted a requirement to register or, conversely, been seen not to be a business activity. Transparency and consistency of the interpretation of this trigger will be very important, particularly in the early days of the new regime.

Further, the Notice that accompanies the Instrument suggests the CSA is considering continuing the inclusion of the concept of "an act in furtherance of" a registerable activity in the new statutory regime. We would recommend that this idea be **dropped**. The business trigger gives the regulators sufficient discretion to require registration of market participants engaging in activities that are of concern and for which registration would achieve one of the goals outlined above, without introducing the additional ambiguity of what does or does not constitute 'an act in furtherance' of securities activities. The business trigger has been in place for advisers for more than 25 years in certain provinces, free of any concept of an act in furtherance of advising, and without any apparent need for that language to be added to the regime. Interpreting the business trigger test under the new regime will be challenging enough for both market participants and the regulators alike without complicating the regime further.

Registration and competence requirements: It is in the investing public's interest for the regulators to recognize appropriate equivalencies for similar and appropriate training, education and experience. We note that SROs do not generally provide equivalent recognition of third party qualifications like the CFA designation, despite the fact that the CFA designation is more comprehensive than what is provided under the Canadian Securities Course. Since the majority of "gateway" courses and exams for entry to Canada's capital markets is controlled by the Canadian Securities Institute (CSI), the monopolistic tendencies of this entity are such that prohibitive barriers are placed in front of well qualified candidates. For example, we see little value for a member of any provincial bar (e.g. Law Society of Upper Canada) to be forced to write the CSI's Directors and Officers exam in order to become a director or officer of an SRO member.

If an individual has a recognized level of experience, certification or education that would qualify them for a registration category under NI 31-103 (e.g. Portfolio Manager advising representative) then the rule should provide for an automatic exemption from the proficiency requirements for registration categories requiring less education, training and experience, including those at SRO member firms. Those individuals with recognized education, certification or experience should be eligible for all types of registrations afforded to them by these qualifications and not be required to complete specific exams that are of little relevance.

We believe that the change to an exam-based environment is beneficial to those individuals with significant training, education and experience. However, the benefits of this change could be easily nullified if the entity creating and adjudicating these exams sets prices or delivers them in such a fashion relative to their courses that are prohibitive to market entrants. Exams should be available in at least the same format and with the same frequency as that of course exam.

While we do not object to new registrants being required to submit certain operational documents to ensure the integrity of their internal support systems, we are concerned that these documents would be available in the public domain either in the form of direct disclosure or as a result of a request under the Freedom of Information Act. Specifically, we are referring to information found in Form 33-109F6,<sup>2</sup> sections D to G inclusive. We regard the documents and information outlined in sections D to G as proprietary trade secrets of each firm and accordingly believe that they should not, under any circumstances, be made available to the public. Moreover, we believe that incumbent registrants should be required to file the same documents and receive the same scrutiny as new registrants.

**Disclosure requirements.** We note that the proposed rule retains the disclosure requirements regarding related and connected issuers that dates from 1987 and imposes several additional requirements relating to the client's relationship with the firm and the firm's relationship with other parties, among other things. While we agree that it is important that clients have complete information about these topics so that they may make informed decisions, we are concerned that the requirements mandated by the Instrument will only impose high costs on firms without providing any significant benefits to clients.

In our view, for disclosure to be effective it must focus on key information and be as concise as possible. Requiring many pages of disclosure is simply going to guarantee fewer, if any, clients than ever to read the material. Requiring firms to send out written notice to clients when this disclosure changes before transacting on behalf of affected clients guarantees that the disclosure material will be written in as generic a way as possible to reduce the likelihood of there being any need to amend it. This type of regime simply adds costs without benefiting anyone – and investors will ultimately bear those costs. We are firmly against any measure that would create more "boilerplate" language in client communications and believe that this section of the Instrument would increase the length and decrease the utility of this disclosure.

As an alternative, we would suggest that the CSA recognize the advances in communication technology, and allow intermediaries to post detailed and specific information on their policies with respect to conflicts of interest and

<sup>&</sup>lt;sup>2</sup> Form 33-109F6 is the *Application for Registration as a Dealer, Adviser or Investment Fund Manager for Securities and/or Derivatives* 

much of the client relationship information on line, where it could be updated quickly, easily and at relatively low cost. The disclosure in client documentation could then be pared back to the essentials and clients referred to the appropriate website for full details – both on account opening and in account statements and confirmations. This would be in keeping with the CSA's policies in other areas regarding 'access equals delivery' and more appropriately balance costs and benefits. In return, the CSA should expect that the disclosure made on website would have to be more detailed, in plain language and with greater utility than is currently the case for items like the statement of policies on related issuers.

# Specific Comments

Our specific comments relate to each of the questions posted by the CSA as follows as well as items that are of specific interest.

# **Questions Posed by CSA**

# **Exempt Market Dealers**

**Question #1:** What issues or concerns, if any, would your firm have with the proposed fit and proper and conduct requirements for exempt market dealers? Please explain and provide examples where appropriate.

Answer: The CAC believes that it is appropriate to have some basic level of knowledge for all dealers, even for exempt market dealers. It should be noted that investors, no matter how wealthy, are not necessarily knowledgeable. This is especially true for many of the instruments and transactions posted by exempt market dealers (which are by their nature, complex).

**Question #2**: The British Columbia Securities Commission seeks comments on the relative costs and benefits in British Columbia of harmonizing with the other CSA jurisdictions to create an exempt market dealer category and in doing so, eliminating the registration exemptions for capital-raising transactions and the sale of those securities, referred to in some jurisdictions as "safe securities" (i.e. government guaranteed debt).

Answer: We believe that the additional regulatory burden is justified when – 1) the small additional regulatory burden is justified by the general increase in investor protection -- 2) the important benefits of national harmonization are significant.

#### **Investment Fund Manager Registration**

**Question #3:** Registration for managers of all types of investment funds (other than private investment clubs) is proposed. Are there managers of funds for which the risks identified are adequately addressed in some other way and therefore registration as a fund manager may not be necessary? If so, please describe the situation.

Answer: Although registration has value, registration does not assure competence. We believe that only managers that handle or have access to client funds need to be registered.

# **Individual Registration Categories**

**Ultimate Designated Person and Chief Compliance Officer** 

**Question #4**: Registration of the UDP and CCO is proposed. As well, we propose that the UDP be the senior officer in charge of the activity carried on by a firm that requires the firm to register. What issues or concerns, if any, would your firm have with these registration requirements? Do you think the registration of the UDP and CCO contributes to or detracts from a firm wide culture of compliance? Please explain.

Answer: We strongly supports the proposed requirements. Tone at the Top is very important. UDP and CCO should be separate individuals and both should be registered. The CCO and UDP should be accountable to and responsible for their entire organization. Day to day activities would be delegated in many cases and the regulations should permit and encourage delegation as appropriate, with ultimate responsibility remaining with the senior management.

# **Associate Advising Representative**

**Question #5:** The Rule proposes an associate advising representative category for portfolio managers but not for restricted portfolio managers because the restricted portfolio manager category is intended for individuals who have expertise in a specific industry. Is the concept of an associate advising representative useful in the context of a restricted portfolio manager? If so, why?

Answer: Yes the concept is useful. The same argument for creating an associate advising representative category applies equally for restricted and non restricted portfolio managers.

#### Registration of all Senior Executives

**Question #6:** We discussed but have not proposed registration of senior executives and directors (i.e. the mind and management) of a firm. Registration would assist the regulators in being able to deal directly with this group of people rather than indirectly through the firm. Please provide us with comments on what positions in a firm should be considered part of the mind and management and what issues or concerns you or your firm would have with registration of individuals in those positions.

Answer: The current rules require registration of too many individuals, significantly increasing the regulatory burden without providing additional investor protection. The process should be significantly simplified; the current requirement of multiple registrations, often in all provinces and territories, regardless of residence of the person, is an administrative nightmare. There should

be only one registration process that should be related to the location of where the individual or entity is domiciled.

Registration should only be required for those representatives carrying on a registerable activity and who are resident in a given province. We believe that by attaching the registration process to an individual's residence would reduce potential "gaming" of geographic registration jurisdictions.

However, we believe it is important that the mind and management of the firm to be registered in all jurisdictions. This would include the CEO, COO, CFO and the Directors of the Board. In particular it is important to require the registration of the Directors as they are directly responsible for the oversight and governance of the company including its executive committee, policies and activities.

## **Permitted Dealing Activities for Advisers**

**Question #7:** The proposed exemption applies to advisers who are actively advising and managing their clients' fully-managed accounts. The exemption has not been extended to advisers dealing in securities of their own pooled funds with third parties. If there are circumstances in which you think it would be appropriate to extend the exemption to third parties please describe.

Answer: The clients of managed accounts have protections, such as the automatic application of fiduciary responsibilities, which third parties do not have. We recommend that exemption not be extended.

We do note that a portfolio manager operating its own pooled funds only for its discretionary clients does not have an equivalent exemption from the requirement to be registered as an investment fund manager. We believe that there should be such an exemption, subject to the same limitations as the dealer exemption because a separate fund manager registration would add significant costs, but little additional investor protection as the fiduciary responsibilities and proficiency standards for a portfolio manager are the highest of all categories.

#### **Financial Institution Bonds**

**Question #8:** The Rule requires dealers, advisers and fund managers to have Financial Institution Bonds. In cases where the owners of the firm also carry out the operations and registerable activity of the firm, usually in small firms, are these bonds prohibitively costly to obtain and will the bonds provide coverage if they are obtained in these situations?

Answer: While we are sensitive to the needs of ensuring that those firms acting as advisers, dealers or investment fund managers in Canada's capital markets are sufficiently solvent to manage their client's affairs in an appropriate manner, we are concerned that the

capital and insurance requirements proposed in NI 31-103 may form undue barriers to entry.

In the case where advisers, dealers or investment fund managers do not, in any part of the management process, take custody of the client's funds or assets (with the exception of the payment of investment management fees) we believe that there is little solvency risk to the investing public and accordingly believe that the capital and insurance requirements should be at the lowest end of the proposed range of \$25,000. Moreover should a registered adviser choose to create a pooled fund so as to aggregate a number of smaller accounts, but still does not take possession of client funds or assets then its registration as an investment fund manager should not result in additional capital or insurance requirements. For the reasons noted above, if the portfolio manager restricts sales of those funds to its own managed accounts, it should be exempt from any further registration requirements as an investment fund manager.

In the case where advisers, dealers or investment fund managers take possession of client funds or assets we believe that the capital and insurance requirements outlined in NI 31-103 are adequate to provide sufficient protection to investors.

Lastly, there is no little or no discussion about the capital requirements of custodian and clearing entities which handle the funds on behalf of most Canadian advisers and investment fund managers. As these are the entities that actually hold title to the funds and assets of investors we believe that substantial capital requirements should be imposed upon them as they are ultimately responsible for the safekeeping of Canadian investor assets.

## **Relationship Disclosure**

**Question #10:** What issues or concerns, if any, would your firm have with the proposed relationship disclosure requirements? Is this type of requirement appropriate for some or all types of accredited investors? If so, what information would be useful to have in the relationship disclosure document?

Answer: While we do not strenuously object to most of the items listed in section 5.12, the language of section 5.12(2) seems to suggest that each relationship disclosure statement must be prepared separately for each client, as it must contain the know-your-client information about that client. If this is the case, the costs of preparing the relationship disclosure statements and keeping them current will be very high. Nowhere in the Notice is it established that the benefits received by the investing public from this disclosure outweigh the very substantial costs that will be imposed on all market participants.

Further, we are concerned that prohibiting registrants from transacting on behalf of clients until any material change in the information is disclosed would be potentially harmful to Canadian investors. There are many circumstances where trades need to be carried out quickly to avoid significant losses and blocking trading because a notice has not been sent would carry with it a very high cost for any benefit achieved. The application of this rule may also have a negative effect on the general capital markets as it may reduce liquidity and increase overall market risk.

We are unclear on how to interpret the phrase "advises the client to ...hold a security" used in s.5.10(2)(b) (and elsewhere in the Instrument) in the context of a managed account, and would recommend the Companion Policy provide guidance on this point. If the phrase means anything other than making an express recommendation not to sell a security that the client already owns, the rule will be unworkable in practice. If the phrase is interpreted as including the simple holding of the security in a managed account, when a change occurs in the information required to be disclosed under s. 5.12, the portfolio manager will be automatically offside the rules no matter what is done – as holding the securities would fall within one of the prohibited actions under s.5.10(2).

In terms of the type of information that should be provided in these disclosures we are concerned that the requirement to disclose any and all potential conflicts will result in boilerplate language on client application forms that will have little public good. Any disclosure should be material to the client, the document(s)should be concise, in plain language and not onerous to review.

#### Conflicts

**Question #12:** The Rule requires a registered firm to identify and deal with all conflicts. Would a materiality concept be appropriate within the requirement or should that be dealt with at the firm level within the firm's policies?

Answer: We are concerned about the requirement to identify and address all conflicts of interest on practical grounds. Even an independent full service dealer faces multiple conflicts in its various roles. In a multi-faceted, financial conglomerate, the possible conflicts are exponentially more numerous. Unfortunately, the requirement to disclose these conflicts on initial and ongoing basis forms problems for all financial services firms. It may be possible to describe the full scope of likely conflicts on a generic basis, but this risks just producing boilerplate disclosure that provides little real benefit to investor protection at substantial cost. For investment management, advising or dealing clients the materiality of certain conflicts is more important that the existence of these conflicts. We believe that the requirement to disclose that conflicts exist will result

in boilerplate language on client application forms that will have little value to the Canadian investing public.

Canada's financial institutions are multi-faceted and multi-disciplined organizations, as a result, each institution in its entirety is rife with conflicts between each operating group. The full and complete disclosure of these conflicts in any document would have little utility to clients as the list of conflicts would change on an ongoing basis. Moreover, institutions have developed compliance mechanisms to reduce the impact that these conflicts would have on the Canadian investing public including limitations on communications between various operating groups (research v. underwriting). Providing information across these established barriers in order to comply with the requirements in the Instrument may well constitute a breach of other legal obligations and overall do more harm than good.

Therefore disclosure should be coupled with a materiality requirement relating to the conflict. We believe while that materiality is measured at the individual client level, and that it can be broadly defined by the type of services provided by the adviser, dealer or investment fund manager to the client. Thus underwriting clients would have different material conflicts than those receiving institutional investment fund management or research. Thus our definition of "firm level" would the operating entity that interacts with a particular investor.

We also note that the CSA has granted a number of exemptions from the current equivalent to the prohibition on principal trading set out in s. 6.2 where the trades are in fixed income securities with managed accounts. In granting these exemption orders the CSA properly recognized the nature of the fixed income market in Canada and imposed appropriate protections to ensure that managed account clients are protected from abusive trades. We know of no change in policy or market conditions that would justify forcing market participants to reapply for this type of relief and we recommend that the terms of these orders be built into the Instrument so all market participants get equivalent treatment.

# **Exemptions from Registration**

**Question #14:** One objective of NI 45-106 Prospectus and Registration Exemptions was to have all exemptions in one instrument. As mentioned, we have included the registration exemptions in the Rule for purposes of obtaining comments on the exemptions that are being proposed under a business trigger. Would you prefer the registration exemptions remain in NI 45-106 or be moved into the Rule?

Answer: We have no strong views on where the registration exemptions eventually reside. We would strongly suggest that wherever they are located, the other instrument's companion policy

contain a clear cross reference to the actual location of any relevant exemptions.

We are more concerned with what the final list of exemptions retained and removed will be once the legislative amendments necessitated by the move to the business trigger are drafted. We trust that the public will be given ample opportunity to comment on the proposed changes before they are implemented to ensure no unanticipated consequences result. For example, under the current regime, discretionary portfolio managers rely on the 'trading through a registered dealer' exemption from dealer registration in making investment decisions and executing trades for their clients. Movement to the business trigger may not eliminate the need for this exemption, as advisers are clearly in the securities business. Carrying out buying or selling securities for their clients (albeit through a registered dealer) may engage the definition of dealing in securities, particularly if the concept of 'acts in furtherance' is carried forward to the new regime.

#### **Transition**

**Question #15:** Is 120 days sufficient to allow registrants with existing referral arrangements to comply with the Rule? If not, what length of time is sufficient? Please explain.

Answer: 120 days is probably a sufficiently long transition period for most registrants.

We are more concerned with the transition period that will apply where an existing registrant may have to obtain additional capital (portfolio managers) or take additional courses/exams (limited market dealer representatives). Equally of concern is the transition period that will apply to existing market participants (such as fund managers and dealers in the exempt market outside Ontario and Newfoundland & Labrador). We urge the CSA to give significant periods of time to reach these new standards.

#### **Date for Annual Fee Payment**

**Question #16:** A matter not dealt with in the Rule but one which relates to registrants and NRD is the annual fee payment date. Comments have been made by some industry participants that a December 31 fee payment date is problematic and that a May 31 fee payment date would be better. Please comment on whether a May 31 or December 31 annual fee payment date is better for your firm.

Answer: In our view, having the fee payment date coincide with the calendar year end – and many organizations' tax yearend – is preferable.

We find it curious that there is no mention in the Companion Policy of the mechanism to which client accounts at suspended advisers, dealers or investment fund managers can be handled and transacted upon. We speculate that if a registered entity were suspended (for, say, non-payment of fees) then it is likely that client accounts would be frozen until an exemption order was executed to allow for clients to have their assets transferred to an adviser, dealer or investment fund manager in good standing. The damage to client accounts and the public good during this transition period could be substantial.

# Summary

We hope the CSA will take our comments into consideration and review the proposal for NI 31-103. These proposed new rules will have a significant impact and we do not believe that, in their current form, these CSA rules and policies are achieving the goals originally set forth.

We thank you for the opportunity to provide the foregoing comments, we welcome any questions you may have and we appreciate the time you are taking to consider our point of view. Please feel welcome to contact us at chair@cfaadvocacy.ca.

Regards,

Blair Carey, CFA Co-Chair

Robert Morgan, CGA, CFA Co-Chair



# Code of Ethics and Standards of Professional Conduct

#### **PREAMBLE**

The CFA Institute Code of Ethics and Standards of Professional Conduct (Code and Standards) are fundamental to the values of CFA Institute and essential to achieving its mission to lead the investment profession globally by setting high standards of education, integrity, and professional excellence. High ethical standards are critical to maintaining the public's trust in financial markets and in the investment profession. Since their creation in the 1960s, the Code and Standards have promoted the integrity of CFA Institute members and served as a model for measuring the ethics of investment professionals globally, regardless of job function, cultural differences, or local laws and regulations. All CFA Institute members (including holders of the Chartered Financial Analyst® (CFA®) designation) and CFA candidates must abide by the Code and Standards and are encouraged to notify their employer of this responsibility. Violations may result in disciplinary sanctions by CFA Institute. Sanctions can include revocation of membership, candidacy in the CFA Program, and the right to use the CFA designation.

#### THE CODE OF ETHICS

Members of CFA Institute (including Chartered Financial Analyst® [CFA®] charterholders) and candidates for the CFA designation ("Members and Candidates") must:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Place the integrity of the investment profession and the interests of clients above their own personal interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on ourselves and the profession.
- Promote the integrity of, and uphold the rules governing, capital markets.
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

#### STANDARDS OF PROFESSIONAL CONDUCT

#### I. PROFESSIONALISM

- **A. Knowledge of the Law.** Members and Candidates must understand and comply with all applicable laws, rules, and regulations (including the CFA Institute Code of Ethics and Standards of Professional Conduct) of any government, regulatory organization, licensing agency, or professional association governing their professional activities. In the event of conflict, Members and Candidates must comply with the more strict law, rule, or regulation. Members and Candidates must not knowingly participate or assist in and must dissociate from any violation of such laws, rules, or regulations.
- **B.** Independence and Objectivity. Members and Candidates must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. Members and Candidates must not offer, solicit, or accept any gift, benefit, compensation, or consideration that reasonably could be expected to compromise their own or another's independence and objectivity.
- **C. Misrepresentation.** Members and Candidates must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.

**D. Misconduct.** Members and Candidates must not engage in any professional conduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence.

#### **II. INTEGRITY OF CAPITAL MARKETS**

- **A. Material Nonpublic Information.** Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information.
- **B. Market Manipulation.** Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.

#### **III. DUTIES TO CLIENTS**

**A. Loyalty, Prudence, and Care.** Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests. In relationships with clients, Members and Candidates must determine applicable fiduciary duty and must comply with such duty to persons and interests to whom it is owed.

**B. Fair Dealing.** Members and Candidates must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities.

#### C. Suitability.

- **1.** When Members and Candidates are in an advisory relationship with a client, they must:
  - **a.** Make a reasonable inquiry into a client's or prospective clients' investment experience, risk and return objectives, and financial constraints prior to making any investment recommendation or taking investment action and must reassess and update this information regularly.
  - **b.** Determine that an investment is suitable to the client's financial situation and consistent with the client's written objectives, mandates, and constraints before making an investment recommendation or taking investment action.
  - **c.** Judge the suitability of investments in the context of the client's total portfolio.
- 2. When Members and Candidates are responsible for managing a portfolio to a specific mandate, strategy, or style, they must only make investment recommendations or take investment actions that are consistent with the stated objectives and constraints of the portfolio.
- **D. Performance Presentation.** When communicating investment performance information, Members or Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete.
- **E. Preservation of Confidentiality.** Members and Candidates must keep information about current, former, and prospective clients confidential unless:
  - **1.** The information concerns illegal activities on the part of the client or prospective client.
  - 2. Disclosure is required by law.
  - **3.** The client or prospective client permits disclosure of the information.

# IV. DUTIES TO EMPLOYERS

- **A.** Loyalty. In matters related to their employment, Members and Candidates must act for the benefit of their employer and not deprive their employer of the advantage of their skills and abilities, divulge confidential information, or otherwise cause harm to their employer.
- **B.** Additional Compensation Arrangements. Members and Candidates must not accept gifts, benefits, compensation, or consideration that competes with, or might reasonably be expected to create a conflict of interest with, their employer's interest unless they obtain written consent from all parties involved.
- **C. Responsibilities of Supervisors.** Members and Candidates must make reasonable efforts to detect and prevent violations of applicable laws, rules, regulations, and the Code and Standards by anyone subject to their supervision or authority.

# V. INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTION

**A.** Diligence and Reasonable Basis. Members and Candidates must:

- **1.** Exercise diligence, independence, and thoroughness in analyzing investments, making investment recommendations, and taking investment actions.
- **2.** Have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action.

# B. Communication with Clients and Prospective Clients.

Members and Candidates must:

- 1. Disclose to clients and prospective clients the basic format and general principles of the investment processes used to analyze investments, select securities, and construct portfolios and must promptly disclose any changes that might materially affect those processes.
- 2. Use reasonable judgment in identifying which factors are important to their investment analyses, recommendations, or actions and include those factors in communications with clients and prospective clients.
- **3.** Distinguish between fact and opinion in the presentation of investment analysis and recommendations.
- **C. Record Retention.** Members and Candidates must develop and maintain appropriate records to support their investment analysis, recommendations, actions, and other investment-related communications with clients and prospective clients.

#### VI. CONFLICTS OF INTEREST

- **A. Disclosure of Conflicts.** Members and Candidates must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or 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.
- **B. Priority of Transactions.** Investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner.
- **C. Referral Fees.** Members and Candidates must disclose to their employer, clients, and prospective clients, as appropriate, any compensation, consideration, or benefit received from, or paid to, others for the recommendation of products or services.

# VII. RESPONSIBILITIES AS A CFA INSTITUTE MEMBER OR CFA CANDIDATE

- **A.** Conduct as Members and Candidates in the CFA Program. Members and Candidates must not engage in any conduct that compromises the reputation or integrity of CFA Institute or the CFA designation or the integrity, validity, or security of the CFA examinations.
- B. Reference to CFA Institute, the CFA designation, and the CFA Program. When referring to CFA Institute, CFA Institute membership, the CFA designation, or candidacy in the CFA Program, Members and Candidates must not misrepresent or exaggerate the meaning or implications of membership in CFA Institute, holding the CFA designation, or candidacy in the CFA Program.