

Code of Conduct.....	4
Standard I. - Fundamental Responsibilities.....	5
Standard II. - Relationships with and Responsibilities to the Profession	6
II (A) - Use of Professional Designation	6
II (B) - Professional Misconduct	7
II (C) - Prohibition against Plagiarism.....	8
Standard III - Relationships and Responsibilities to the Employer	9
III (A) - Obligation to Inform Employer of Code and Standards.....	9
III (B) - Duty to Employer	10
III (C) – Disclosure of Conflicts to Employer.....	11
III (D) - Disclosure of Additional Compensation Arrangements	12
III (E) - Responsibilities of Supervisors.....	13
Standard IV - Relationships with and Responsibilities to Clients and Prospects.....	14
IV (A) - The Investment Process	14
IV (A.1) - Reasonable Basis and Representations	14
IV (A.2) - Research Reports.....	15
IV (A.3) - Independence and Objectivity.....	16
IV (B) - Interactions with Clients and Prospects	17
IV (B.1) - Fiduciary Duties	17
IV (B.2) - Portfolio Investment Recommendations and Actions	18
IV (B.3) - Fair Dealing.....	19
IV (B.4) - Priority of Transactions.....	20
IV (B.5) - Preservation of Confidentiality.....	21
IV (B.6) - Prohibition against Misrepresentation	22
IV (B.7) - Disclosure of Conflicts to Clients and Prospects.....	23
IV (B.8) - Disclosure of Referral Fees.....	24
Standard V - Relationships with and Responsibilities to the Investing Public	25
V(A) - Prohibition against Use of Material Nonpublic Information.....	25
V(B) - Performance presentation	27

Global Investment Performance Standards	28
Global Investment Performance Standards.....	28
GIPS beneficiaries	28
Key characteristics.....	29
Scope.....	29
Five main topics and requirements.....	30
Verification scope and purpose	30

Ethical and Professional Standards CFA® Level I: Study Session 1

The Association for the Investment Management and Research (AIMR®) does not endorse, promote, review, or warrant the accuracy of the products or services offered by Inmarkets Training or verify or endorse the pass rates claimed by Inmarkets Training. AIMR®, Association for Investment Management and Research®, CFA®, and Chartered Financial Analyst™ are trademarks owned by AIMR®.

CFA Learning Outcomes are reprinted with permission. Copyright 2001, Association for Investment Management and Research, Charlottesville, VA. All rights reserved.

Code of Conduct

Members of AIMR shall:

- Act with integrity, competence, dignity, and in an ethical manner when dealing with the public, clients, prospects, employers, employees, and fellow members.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on members and their profession.
- Strive to maintain and improve their competence and the competence of others in the profession.
- Use reasonable care and exercise independent professional judgment.

Standard I. - Fundamental Responsibilities

Summary

- A. Maintain knowledge of and comply with all applicable laws, rules, and regulations (including AIMR, government, etc.).
- B. Do not violate any of laws, rules, and regulations above.

You are required to:

- Consult counsel to determine if the conduct is illegal when you have a suspicion;
- Dissociate yourself from the illegal or unethical activity.

You are NOT required to:

- Report violations to the authorities (although this is advisable).

Scenarios

- When a member lives/works in a country with no securities laws, or securities laws which are less strict than AIMR Code and Standards, the AIMR Code and Standards apply.
- When a member lives/works in a country with more strict securities laws than AIMR Code and Standards, the securities laws apply.

Standard II. - Relationships with and Responsibilities to the Profession

II (A) - Use of Professional Designation

Summary

1. Only reference CFA membership in a dignified and judicious manner.
2. Use the marks “Chartered Financial Analyst” or “CFA” in a proper manner.
3. Candidates in the CFA Program may reference their participation in the CFA Program, but not imply that they have achieved any type of partial designation.

You are required to:

- (i) Complete the CFA program, (ii) abide by AIMR’s Professional Conduct Program, and (iii) be an active member of AIMR – to use the CFA designation.

Scenarios

- If you have passed a certain level of the CFA Program, such as Level II, then you are only allowed to say “I passed Level II of the CFA program in the year _____”.
- Additionally, if you are enrolled on another level, such as Level III, then you are allowed to say “I am a Level III candidate in the CFA Program”.
- Once you meet all the criteria for CFA designation, you are allowed to use the letters CFA after your name (in the same or smaller font size), and you can describe yourself as an active CFA Charterholder.
- The CFA mark is an exclusive mark of AIMR, registered with USPTO and other authorities around the world.
- CFA should be used as an adjective (e.g. CFA Charterholder, CFA candidate) not as a noun (e.g. He is a CFA).

II (B) - Professional Misconduct

Summary

1. Do not engage in dishonesty, fraud, deceit, or misrepresentation.
2. Do not engage in any conduct that compromises the integrity of the CFA designation.

You are required to:

- Be honest and display high personal integrity and moral character;
- Encourage your employer to make clear that it will not tolerate dishonest personal behavior;
- Encourage your employer to adopt a code of ethics;
- Encourage your employer to conduct background checks on potential employees to ensure that they are of good character and eligible to work in the investment industry.

Scenarios

- Violations include any conviction of a felony, or crime punishable by more than one year in prison, or a misdemeanor (lying, cheating, stealing, etc.).
- Making investment decisions under the influence of alcohol is considered a violation.
- The first case of a minor crime (e.g. traffic violations, possession of small quantities of drugs) is not considered to be a violation, but repeated offences (three or more) are a violation.
- Price gouging, i.e. charging an unsuspecting customer a high price, taking bribes and kickbacks, are violations.

II (C) - Prohibition against Plagiarism

Summary

Do not copy material prepared by others without acknowledging them, except factual information published by financial or statistical reporting services.

You are required to:

- Keep copies of materials that were used in preparing research reports;
- Attribute quotations, projections, tables, statistics, model/product ideas, and methodologies to their original authors;
- Attribute paraphrases and summaries to their sources;
- Explicitly attribute data, product ideas, methodologies, etc., which were developed by someone who works within your firm, when giving expert testimony.

You are NOT required to:

- Attribute data, statistics, etc. published by financial or statistical reporting services or similar sources.
- Attribute ideas, methodologies etc., developed by people within your firm, when speaking with clients and prospects.

Scenarios

- Copying marketing material is NOT allowed.
- Copying internal documents from another firm can be a violation of this Standard as well as Standard V(A), Prohibition against Use of Material Nonpublic Information

Standard III - Relationships and Responsibilities to the Employer

III (A) - Obligation to Inform Employer of Code and Standards

Summary

1. Inform your employer in writing that you are obligated to comply with AIMR's Code and Standards.
2. Give a copy of the Code and Standards to your employer if they don't have one already.

You are required to:

- Give written notice to your supervisors advising them of your obligation to abide by AIMR's Code and Standards;
- Suggest to your employer that they should adopt AIMR's Code and Standards and disseminate them throughout the firm.

Scenarios

- The responsibility for compliance with this standard is most significant for the most senior CFA member in your firm, but everyone is individually responsible as well.

III (B) - Duty to Employer

Summary

Do not undertake any independent practice in competition with your employer without obtaining written consent from both your employer and the entities for whom you will be undertaking independent practice.

You are required to:

- provide a written statement to your employer if you plan to engage in independent practice, describing the types of services, the expected duration, and the compensation;
- provide a written statement to your prospective client about the identity of your employer, what the employer would charge for similar services, and the fact that you are working independently of your employer;
- NOT render such services until you have received consent from your employer to all the terms of the arrangement;
- NOT render such services until you have received written consent from your prospective client stating that they have read and understood your statement;
- NOT contact existing or potential clients prior to leaving for a new job, or take records or files without the written permission of your old employer.

You are NOT required to:

- Give up working independently, while you are employed by your firm;
- Desist from soliciting the clients of your old employer after you have joined a new employer.

Scenarios

- Remember, there is no prohibition from undertaking independent work, but you must inform your employer and seek their permission.
- Misappropriation of trade secrets, client lists or any other confidential information is a violation.
- Taking your team with you when you move jobs, i.e. instigating mass resignations, is a violation.
- Soliciting your existing employer's clients to move with you when you move to a new job is a violation.
- Planning a conspiracy, or deceit is a violation.

III (C) – Disclosure of Conflicts to Employer

Summary

1. Disclose to your employer all matters, which could interfere with your duty or your ability to make unbiased and objective recommendations.
2. Comply with any prohibitions on activities imposed by your employer to prevent conflicts of interest.

You are required to:

- Report any beneficial interest (ownership of securities), corporate directorships, trusteeships and any special relationships to your employer;
- Discuss any action involving conflict of interest with your firm's compliance officer.

You are NOT required to:

- Desist from personal trading and board memberships, if your employer allows them.

Scenarios

- In many cases employers preempt potential conflicts of interest by prohibiting you from taking board positions, and restricting personal trading. You must respect these measures. A violation of these guidelines is a violation of this standard.

III (D) - Disclosure of Additional Compensation Arrangements

Summary

Disclose in writing to your employer all monetary compensation or other benefits that you receive for services rendered to anyone other than your employer.

You are required to:

- Make an immediate written report to your employer specifying any outside compensation or benefits;
- State the terms, amount of compensation, and the duration of any such agreements.

You are NOT required to:

- Give up the potential of making extra money by working outside your employment, as long as it is cleared by your employer and your clients are aware of it.

Scenarios

- “In writing” here and elsewhere in the standards includes faxes and emails that can be retrieved and documented.
- There is a related obligation to disclose such arrangements to your customers and prospects - Standard IV (B.7) - Disclosure of Conflicts to Clients and Prospects.

III (E) - Responsibilities of Supervisors

Summary

If you have the ability to influence the conduct of others, you should take steps to prevent any violation of applicable statutes, regulations, or provisions of the AIMR's Code and Standards by others.

You are required to:

- Develop adequate compliance procedures that are easily accessible and easy to understand;
- Create a system of checks and balances, outline permissible conduct, and delineate procedures for reporting violations;
- Disseminate the compliance procedures;
- Update the procedures periodically;
- Educate personnel regarding compliance procedures;
- Incorporate a professional conduct evaluation into every employee's performance review;
- Review employee actions to ensure compliance and identify violators;
- Take necessary steps to enforce compliance procedures once a violation has occurred;
- Respond promptly to any violation - conduct a thorough investigation – and increase supervision or place limitations on the wrongdoer while the investigation is underway.

You are NOT required to:

- Personally evaluate each member of your team (if your team is large you can delegate some of the duties) but the ultimate responsibility is still yours.

Scenarios

- Under this standard supervisors are responsible for their actions as well as setting the procedures for compliance by those under their supervision.
- If someone in your supervision commits a violation, e.g. abuses material nonpublic information, without you stopping them, then you have violated this Standard.
- If you delay investigating a violation by someone under your supervision, you will be violating this Standard.

Standard IV - Relationships with and Responsibilities to Clients and Prospects

IV (A) - The Investment Process

IV (A.1) - Reasonable Basis and Representations

Summary

- a. Be diligent and thorough when making investment recommendations or taking investment actions.
- b. Have an adequate basis for such recommendations or actions.
- c. Avoid any material misrepresentation in any research report or recommendation.
- d. Keep records to support the reasonableness of recommendations or actions.

You are required to:

- Analyze the basic characteristics of an investment before recommending it to a broad client group.
- Analyze a client's needs and focus on matching the characteristic of the whole portfolio to these needs.
- Maintain files to support investment recommendations.

Scenarios

- You are allowed to recommend actions on the basis of your firm's research or research prepared by another brokerage firm, bank, or investment service for general distribution (best to disclose your source though).
- However, you should not rely on any information that you suspect is inaccurate.
- Due diligence for IPOs, private placements, etc. is sensitive territory – you must have a very good understanding of the industry and the position of the target before doing this.
- Where applicable, you should account for differences between countries (accounting, disclosure, securities laws, public protection, tax withholding, settlement difficulties, etc.)

IV (A.2) - Research Reports

Summary

- a. Use reasonable judgment regarding the inclusion or exclusion of relevant factors in research reports.
- b. Distinguish between facts and opinions in research reports.
- c. Indicate the basic characteristics of the investment involved in any report to be released for public distribution.

You are required to:

- Maintain records indicating the nature of the research undertaken for a report;
- Be able to supply information on factors excluded from the report;
- Assure yourself of the reliability, accuracy and appropriateness of data included in your reports;
- Ascertain that any processing of the data (e.g. into financial ratios) is consistent with your analytical purposes.

You are NOT required to:

- Disregard pre-announcements by a company, e.g. when a firm announces its results, it can be treated as a fact.

Scenarios

- Distinguish between facts and opinions. Base your recommendations on facts, don't rely on rumors, etc.
- Admit to the limitations of your analysis/conclusions and direct the audience to where to obtain more information where possible.
- Conduct your own independent and objective analysis, e.g. don't just rely on the information given to you by a company when issuing a report on them.

IV (A.3) - Independence and Objectivity

Summary

Use reasonable care to maintain independence and objectivity in making investment recommendations or taking investment actions.

You are required to:

- Protect the integrity of opinions, i.e. ensure that research reports are unbiased;
- Disclose all corporate relationships, including directorships, underwriting arrangements or market making;
- Disclose personal holdings/beneficial ownerships;
- Create a restricted list of firms regarding for whom you are not permitted to disseminate adverse opinions;
- Restrict special cost arrangements, i.e. pay for your travel costs rather than letting corporate issuers picking up the tab;
- Limit gifts to under US\$100 in value;
- Restrict investments by employees at your firm in IPOs and private placements;
- Implement effective supervisory and review procedures to ensure that analysts and portfolio managers comply with personal investment policies.

You are NOT required to:

- Decline gifts given by clients, even those over US\$100, so long as you inform your employer.
- Decline client entertainment, so long as there is no conflict, i.e. no pressure to disadvantage other clients.

Scenarios

- Although gifts under US\$100 and entertainment are allowed – watch out for the motives.
- If a client gives you a bonus or a gift exceeding US\$100 you may accept it, but then immediately inform your employer who can determine whether it impinges on your independence or objectivity.

IV (B) - Interactions with Clients and Prospects

IV (B.1) - Fiduciary Duties

Summary

In relationships with clients, members shall use particular care in determining applicable fiduciary duty and shall comply with such duty as to those persons and interests to whom the duty is owed. Members must act for the benefit of their clients and place their clients' interests before their own.

You are required to:

- Follow all applicable rules and laws;
- Establish the investment objectives of the client;
- Diversify investments to reduce risk, unless this is contrary to the objectives of the client.
- Deal fairly with all clients with respect to investment actions;
- Disclose all possible conflicts of interest to your clients;
- Disclose manager compensation arrangements to your clients;
- Determine who is authorized to vote shares and vote proxies in the best interest of the beneficiaries;
- Preserve the confidentiality of client information;
- Provide your clients with the best execution reasonably available;
- Serve the best interest of your clients.

Scenarios

- This Standard matters mainly if you have discretionary powers over the client's portfolio.
- It is crucial to identify who you owe the fiduciary duties to – it is not always the person who hires you or pays your fees. The beneficiary can be someone else. The duty is owed to the beneficiaries.
- Fiduciary duties for trusts in the US are governed by the Prudent Investor rule, which replaces the Prudent Man rule.
- Fiduciary duties for charitable trusts and public/corporate pension plans in the US are governed by ERISA.
- Diversification is highly advisable under most circumstances.
- Watch out for soft dollars, i.e. services that brokers may give you for passing client transaction business their way. This is only allowed if the clients are informed of the practice, if the services from the broker help you to service the client, and if the overall deal is a good one for the client.

IV (B.2) - Portfolio Investment Recommendations and Actions

Summary

- a. Find out a client's financial situation, investment experience and objectives prior to making any recommendations and update this information at least annually.
- b. Consider the appropriateness and suitability of investment recommendations or actions for each portfolio or client.
- c. Distinguish between facts and opinions when presenting recommendations.
- d. Keep the clients and prospects informed about the investment processes by which you select securities and construct portfolios.

You are required to:

- Know the type and nature of your clients;
- Know the return objectives and risk tolerance of your clients;
- Know the liquidity needs, expected cash flows, investable funds, time horizon, tax considerations, regulatory and legal circumstances and other constraints of your clients.

You are NOT required to:

- Change an existing client portfolio as soon as you it comes under your discretion – it is best to take a bit of time, plan and implement actions in an organized way.

Scenarios

- The important point here is suitability – don't sell futures to widows and orphans.
- Keep the client in the loop, inform them about the characteristics of the various investments and the decision-making process involved, tell them about the downside risks.
- Look at the portfolio as a whole, not on an investment-by-investment basis.
- Don't be too conservative either - where the client's situation permits, you can recommend them to go for growth oriented stocks etc.

IV (B.3) - Fair Dealing

Summary

Deal fairly and objectively with all clients and prospects when disseminating investment recommendations or material changes in prior recommendations, and when taking investment action.

You are required to:

- Limit the number of people privy to recommendations that are due to be disseminated;
- Shorten the time frame between decision to make an investment recommendation and its dissemination;
- Publish personnel guidelines that prohibit those with prior knowledge from discussing or taking any action on the pending recommendations;
- Establish procedures for simultaneous dissemination, i.e. all clients must be informed at approximately the same time.
- Establish rules to ensure that client transactions will take precedence over transactions by the firm or its employees;
- Establish procedures for determining if a change in recommendation is material;
- Maintain a list of clients and their holdings to facilitate notification of all parties who may be affected by a change in recommendation;
- Develop trade allocation procedures to ensure fairness to clients (both in priority of execution and allocation of price obtained on block trades), timeliness of execution, and accuracy of trade records and client positions;
- Disclose trade allocation procedures (which should be fair and equitable) to your clients;
- Establish a systematic account review to ensure that no client is given preferential treatment, and that one account is not being used to bail a favored account out of a bad investment;
- Disclose whether your firm offers different levels of service to your clients.

You are NOT required to:

- Give the same level of services to all clients, e.g. you can give more information and research to discretionary clients than to transaction-only clients.

Scenarios

- Be fair to all clients: do not favor some and discriminate against others, don't put one client unfairly over another.
- If you offer different levels of service, tell this to your clients and tell them what they can expect at each level.

IV (B.4) - Priority of Transactions

Summary

Give clients and employers a higher priority than your own personal transactions, and clients and employer adequate opportunity to act on any recommendations that you have made before acting on your own behalf.

You are required to:

- Define what constitutes a personal transaction;
- Define investments;
- Limit the number of access persons (in association with your firm) who have knowledge of pending investment recommendations or action by implementing Fire Walls;
- Define prohibited transactions (in association with your firm), such as equity-based IPOs and private placements, which are not available to the employees of your firm;
- Establish procedures (in association with your firm) for reporting and prior-clearance of all employees' personal transactions;
- Establish procedures (in association with your firm) for a review committee of senior officials of your firm to consider special situations.
- Ensure that procedures will be enforced; and
- Establish disciplinary procedures, including internal investigation, disgorgement of all profits from trades that violate the established policies and allocation of the disgorged profits.

You are NOT required to:

- Restrict purchase of government securities and municipal bonds for yourself or other employees of your firm.

Scenarios

- Don't put yourself ahead of your clients and/or your employers.

IV (B.5) - Preservation of Confidentiality

Summary

Preserve the confidentiality of information communicated to you by clients, prospects, or employers unless this information concerns illegal activities.

You are required to:

- Avoid discussing any information received from a client, except to fellow employees working with the same client;
- Ask yourself if the disclosure is necessary and beneficial to the client in cases where you have to disclose information.

You are NOT required to:

- Preserve confidentiality if the information concerns something illegal – in which case you must report the information to the appropriate authorities.

Scenarios

- You cannot use this Standard as an excuse for not cooperating with investigations by AIMR's Professional Conduct Program (PCP) – PCP is an extension of yourself when it comes to confidential information.
- Furthermore, any confidentiality clause that you have with your clients must make a provision for both you and the client to cooperate with PCP.
- Remember you would violate this standard even if it were well intentioned, e.g. you cannot give out financial information about your clients to charities.

IV (B.6) - Prohibition against Misrepresentation

Summary

Do not misrepresent (orally or in writing):

- a. the services that they or their firms are capable of performing.
- b. their qualifications or the qualifications of their firm.
- c. the member's academic or professional credentials.

Do not make or imply any assurances or guarantees regarding any investment.

You are required to:

- Understand clearly the limit of your firm's capabilities and services provided;
- Use a written resume of your firm's services and your own strengths and weaknesses.

Scenarios

- If you post information on the Internet, you need to monitor them regularly to ensure that they are all up to date.
- Never say that an investment is "guaranteed" except when the return is contractually guaranteed e.g. insured bank deposits, T-bills (held to maturity) and some types of insurance contracts.
- Never imply that you can produce superior returns in the future based on your past success – always state that returns cannot be assured and there are risks involved.
- Don't be expansive and say things like "we can provide all the investment services you need". Stick to the facts.

IV (B.7) - Disclosure of Conflicts to Clients and Prospects

Summary

Disclose all matters (e.g. ownership of securities), which could impair your ability to make unbiased and objective recommendations, to your clients and prospects.

You are required to:

- Report to your employers, clients, and prospects any material beneficial interest you may have in securities, or any corporate directorships/relationships you may have with the companies, which you are recommending.
- Make such disclosures before you make any recommendations or take any actions regarding such investments.

You are NOT required to:

Completely eliminate conflicts of interest. Conflicts of interest will always exist. The key thing is to deal with them in the correct way and disclose them to clients.

Scenarios

- You need to be very careful if you ever make buy recommendations about a company that is hiring yours or your firm's services (consultancy, IPO underwriting, etc.).
- Always disclose matters that could be expected to impair your objectivity (even if it is not actually the case). Let clients and prospects judge your motives/biases for themselves.
- If you own stock in a company (or its competitors) that you recommend, disclose your beneficial ownership.
- Directorships are very tricky. If you are making any recommendations about a company and you sit on its board of directors, there is a high chance that you will violate something or the other. You have responsibilities to the shareholders of that company, to the investors you are targeting and to prevent abuse of nonpublic material information.

IV (B.8) - Disclosure of Referral Fees

Summary

Disclose to your clients or prospects any benefit which you receive or which you pay to others for the recommendation of any services.

You are required to:

- Disclose the existence and terms of any referral fee agreements to all clients or prospects, who have been referred under such agreements;
- Describe the nature of the consideration and its estimated dollar value in this disclosure;
- Consult a supervisor and legal counsel before making any new referral fee arrangement.

Scenarios

- All benefits in cash, in kind and in soft dollars count in this standard.
- Tell the client clearly whether you are giving or receiving any benefit in lieu of the client's business.
- State both the amounts and nature, e.g. is it a flat fee or a percentage commission.

Standard V - Relationships with and Responsibilities to the Investing Public

V(A) - Prohibition against Use of Material Nonpublic Information

Summary

Where you possess material nonpublic information related to the value of a security, you should not trade or cause others to trade in that security if: (i) such trading would breach a duty, or (ii) the information was misappropriated, or (ii) it relates to a tender offer.

If you receive material nonpublic information in confidence, you should not breach that confidence by trading or causing others to trade in securities to which such information relates. You should make reasonable efforts to achieve public dissemination of material nonpublic information disclosed in breach of a duty.

You are required to:

- Establish, maintain and enforce (in association with your firm) written compliance policies and procedures to prevent the misuse of material nonpublic information;
- Generally consult your supervisor or legal counsel before trading while in possession of material nonpublic information;
- Implement (in association with your firm) Fire Walls, which consist of substantial control over interdepartmental communications, review of employee trading against restricted lists, restriction of proprietary trading while the firm is in possession of material nonpublic information;
- Implement (in association with your firm) additional Fire Wall procedures: restricting and monitoring personal trading, using restricted list and stock watch list when the firm has material nonpublic information, disseminating material nonpublic information on a need to know basis, designating a supervisor who approves personal trades;
- Establish guidelines that require anyone who receives material nonpublic information to communicate it to a designated supervisor/compliance officer;
- Establish trading procedures to educate employees about material nonpublic information and the efforts to prevent its misuse;
- Review customer accounts regularly and investigate patterns of heavy trading by clients, employees or their close relatives;
- Keep research records that allow the recreation of the investment processes for the purpose of investigation.

You are NOT required to:

- Refrain from using material public information or nonmaterial nonpublic information to draw conclusions that are material.

Scenarios

- Material information is anything that can impact the price of a security, e.g. a dividend cut, a large contract, an as-yet-unannounced acquisition, earnings surprise, etc.
- If you ever possess material nonpublic information you cannot trade the affected security or cause others to trade it.
- In a situation where you have received material information that has been disclosed in breach of duty, you should make reasonable efforts to achieve public dissemination by asking the company concerned to make it public. Failing that, you should speak to your supervisor/compliance officer.
- You can use information that you may overhear or find out in an indirect way, e.g. an old friend of yours who is the CEO of a company gets fired and you sell its stock.
- However, you cannot use information that you stumble upon that involves a tender offer – that would be misappropriation.
- If material information pertains to something illegal, you must report it to the authorities.
- Failing to protect material nonpublic information from accidental release is a violation.

V(B) - Performance presentation

Summary

1. Do not make any statements that misrepresent the investment performance that you or your firm has accomplished or can reasonably be expected to achieve.
2. If you communicate performance information to clients or prospects you should ensure that it is a fair, accurate, and complete presentation of you and your firm's performance.

You are required to:

- Preferably comply with AIMR-PPS standards or GIPS;
- Consider the knowledge and the sophistication of the audience at whom the presentation is directed;
- Include the disclosures that would fully explain the performance results;
- Maintain data and records used to arrive at the performance being presented.

You are NOT required to:

- Comply with AIMR-PPS standards or GIPS if you choose not to, although in this case it is necessary to take care regarding the other requirements of this standard.

AIMR-PPS are divided into the following four sections:

- Construction and Maintenance of Composites: creating meaningful asset-weighted composites is critical to the fair presentation, consistency and comparability of results over time and among different firms.
- Calculation of returns: the use of standard methodologies, e.g. time-weighted total rate of return.
- Presentation of Investment Results: firms are required to follow standard guidelines for presenting the results.
- Disclosures: firms must disclose information about the data and calculation methodology used in the presentation.

Scenarios

- Presentations must contain full information about the data and methodology, e.g. you cannot have a 50% return in one year and claim that you have historically achieved a 50% return on investment.
- If you make any claims about compliance with AIMR-PPS, you must comply with it fully. There is no such thing as partial compliance with AIMR-PPS, e.g. you cannot say: "we comply with most of AIMR-PPS, except ...".

Global Investment Performance Standards

Global Investment Performance Standards

Due to the globalization of the finance industry a variety of firms from different countries now compete with one another to service investors. However, prospective clients lack the means to compare the investment performance reported by these firms, due to varying standards and practices in most countries. In response to this situation, AIMR® adopted the GIPS® (Global Investment Performance Standards), a global standard for the calculation and presentation of investment performance. The GIPS objectives are:

- To obtain global acceptance of a fair standard for performance presentation with full disclosure and comparability.
- To ensure the use of accurate and consistent data for reporting, marketing and presentation.
- To promote fair competition between firms from around the world, without raising entry barriers for new firms.
- To foster self-regulation in investment industry.

GIPS beneficiaries

Prospective and existing clients: who can look at the performance presented by firms that comply with GIPS with greater confidence and compare the performance reported by compliant firms more easily and fairly.

Investment management firms: Compliance with GIPS enables firms from countries with lax standards to compete with those from countries with more established standards. They also help firms from countries with more established standards to compete effectively with firms worldwide.

Key characteristics

- GIPS are ethical standards that ensure fair representation and full disclosure.
- GIPS prescribe certain calculation and presentation methods.
- GIPS act as minimum standards, firms are encouraged to take additional measures if these could help end users to understand its performance results better.
- GIPS require that all actual fee-paying discretionary portfolios be included in composites, which are defined according to investment objective or strategy. Note: model (as opposed to actual) portfolios and portfolios over which the firm has no discretion cannot be included. Non-fee-paying portfolios may be included but require additional disclosure.
- The portfolios must be included in composites on an ex-ante basis (i.e. using a predetermined criteria) and not post fact basis.
- GIPS require firms to start by presenting a five-year historical record (unless the firm or composite is less than five years old) and then over the subsequent years build this towards a ten-year historical record.
- A firm must comply with all GIPS guidelines before it can claim compliance.
- If local laws conflict with GIPS, the firm must comply with the local laws and make a full disclosure of conflict.

Scope

Firms from any country can choose compliance with GIPS. A firm is defined as:

- Any entity registered with the regulatory authority in its country that oversees investment management activities.
- A subsidiary or division that presented to clients as a separate entity.
- All assets managed to one or more currencies (until January 1, 2005).

Crucially, a firm may not apply GIPS to only one portion of a firm, e.g. a department or division that does not have an independent identity in the market.

GIPS require the firm to start by presenting performance for the past five years. Where the firm or given composite is less than five years old, it must present performance from its date of inception. Subsequently, the firm must build this history up to ten years over time. The firm can also link non-GIPS-compliant performance for periods after January 1, 2000 to the compliant performance history as long as this is clearly disclosed.

Firms claiming compliance with GIPS must comply with all GIPS requirements. However, some of these requirements do not go into full force until 2005 or 2010, and are only recommendations until then.

Five main topics and requirements

GIPS are divided into the following five sections: input data, calculation methodology, composite construction, disclosures, and presentation and reporting. Each of these topics has several requirements and recommendations. The key requirements for the calculation of portfolio returns are:

- Use of time-weighted, total returns.
- Returns must include realized and unrealized gains and income.
- Returns must adjust for cash flows due to contributions and withdrawals.
- Returns must be calculated on a monthly basis after January 1, 2001 (quarterly basis before this date).
- Income from bonds must be recognized on an accrual basis, and this income must be included in the market price of the bond (i.e. full/dirty price must be used for bonds not their clean price).
- Dividend income must be recognized on an accrual basis after January 1, 2005 (it is still recommended before then).
- Portfolios must be included in composites using asset weighting (not equal weighting), based on the beginning market values (not end of the period market values).

Verification scope and purpose

- The purpose of verification is to provide assurance that a firm claiming compliance with GIPS conforms to all GIPS requirements on a firm-wide basis.
- The process of verification can also result in the improvement of internal policies and procedures in relation to complying with GIPS.
- Any independent third party can perform the verification (the firm itself cannot perform verification).
- Verification is not a mandatory requirement of GIPS (at least not until Jan 2005). However, it adds credibility to the firm's claim of compliance and is strongly recommended.
- Verification must be performed on a firm-wide basis, not on specific composites.

Verification must test whether the firm has complied with all the composite construction requirements of GIPS on a firm-wide basis and whether the firm's process and procedures are designed to calculate and present performance results in compliance with GIPS.