Banking Standards Review
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6th March 2014

The CFA Society of the United Kingdom (CFA UK) is pleased to respond to the Banking Standards Review's consultation paper of February 2014. This response has been informed by previous responses to the Parliamentary Commission on Banking Standards and the Financial Conduct Authority, by the society's position paper on Investing in Banks and by feedback from the society's Professional Standards and Market Practices Committee.

Introduction

In our original response to the Parliamentary Commission on Banking Standards[1] , CFA UK noted,

'The crisis in the banking sector was the result of a systemic governance failure that was characterized by banks willing to place their interests above their customers; ineffective corporate governance; insufficient market discipline and ineffective regulation...The introduction of a Code of Ethics and Standards of Professional Conduct for bankers would be welcome as part of the solution.'

Investment is a profession and its participants understand their responsibility to protect the public from incompetence and unethical behaviour by maintaining professional and ethical standards. The investment sector (or buy-side) has had its own share of embarrassing cases of poor practice, but a large number of those that work in the sector are members of a professional body and are conscious of their duty to maintain appropriate standards. The same should be true of finance more generally and banking in particular. Some have argued that professional and ethical standards should not apply in wholesale markets – such as the money markets – because all participants can operate on a 'buyer beware' basis. However, that assumption fails to take account of participants' responsibility to maintain a fair market so as to promote trust and, ultimately, to provide a public benefit in effective price formation. This view also fails to take account of the link between wholesale markets – such as the interbank rate or FX markets – and their use by retail consumers. The Financial Conduct Authority (FCA) and the Law Commission have both recognised that the duty of care should be the same regardless of how the client is classified - buyer beware needs to be balanced with seller beware[2].

What the banking scandals perhaps reveal is the widespread practice of placing personal or firm interest ahead of that of the market and clients (retail and non-retail). The banking sector, unlike the investment sector, appears to be far from operating as a profession. With reference to the specific standards (see Appendix 1 for a summary) expected of CFA UK members, it is possible to identify a number of failings. For instance-

- Standard I(c) of our code requires members not knowingly to make any misrepresentations,
- Standard 1(d) demands that members should not engage in any professional conduct involving dishonesty, fraud, or deceit.
- Standard II(b) states categorically that members must not engage in practices that distort prices.
- Standard III Duties to Clients Loyalty, Prudence, and Care says that 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.

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[1] https://secure.cfauk.org/assets/3326/CFA_UK___PCBS__banking_standards_response_4_Jan_2013.pdf

[2] CFA UK response to Journey to the FCA
https://secure.cfauk.org/assets/2126/CFA_UK_response_Journey_to_the_FCA_SENT.pdf
CFA UK response to the Fiduciary Duties of Investment Intermediaries
https://secure.cfauk.org/assets/3699/CFA_UK_Fiduciary_Duty_20140127.pdf

It appears that some banks have paid lip service to professional ideals and ethical business culture within their marketing communications, but have not embedded those ideals and behaviours within their firms. If they had, banks might not be making headlines for the wrong reasons. That would also have been less likely if the UK had experienced more effective regulation. Individuals in banks appear to have acted with little fear of penalty from a regulator, their firm or a professional body. In our view, this lack of attention to ethics and professionalism would be less likely to occur in professions such as medicine or the law, where professional codes of conduct have been adopted and are properly enforced.

The new organisation should be able to play a helpful role in developing and operating metrics by which banks' cultures can be assessed and reported to stakeholders. In addition, the new organisation should be well-placed to identify and comment on best practices and to promote – and where necessary – develop standards for conduct and competence (though we note that there are already many different sets of standards in existence.

CFA UK welcomes the proposed introduction of a new organisation to raise standards in banking and is pleased to respond to the Banking Standards Review's consultation paper. However, we also observe that standards can only be raised where there is accountability and when the accounts provided have consequences.

Consultation question responses

Question 1
Do you agree with the objective to establish a new independent organisation with the aim of defining and raising standards of conduct and competence in banking?

CFA UK agrees with the objective as defined above, but notes that this differs from the objective described in the first two lines on page 4 of the consultation. The call there is for the new organisation to contribute to measurable and continuous improvement in the conduct and culture of banks doing business in the UK and to support high standards in the future.

We believe that it would be better to identify two objectives: to assess conduct and culture in UK banking and to contribute to improvements in conduct and culture. We recommend dropping the reference to continuous improvement (as this is unrealistic) and are also concerned (as noted elsewhere) about the scope of the new organisation's remit. It might be easier to reference the UK operations of UK-regulated banks and building societies, rather than all banks doing business in the UK (or the overseas operations of UK banks where there may be separate and specific national requirements).

The society agrees that the new organisation should act as an independent champion for better banking standards and agrees with the mission as defined on page 4. The new body has the opportunity to encourage bank boards to drive cultural behaviour by embarrassing those banks whose metrics are below average and by praising those that outperform.

In terms of defining good behaviour, we believe that it might be more productive to define this from a stakeholder rather than a customer perspective. Customers are a crucial stakeholder group whose interests the new organisation should actively seek to protect and promote, but they are just one of the stakeholder communities that is exposed to issues relating to conduct and culture. Others with an interest are taxpayers, investors and employees (who all suffer when the behaviour of small pockets of banks' staff diminishes a bank's reputation).

In our position paper on 'Investing in banks'[3], we noted that there are several 'stakeholders' or interested parties in UK banks. These include:

- Customers/ depositors
- Banking and financial system regulators
- Shareholders (a class of investor)
- Holders of bonds and related securities (classes of investor)
- Funders (a class of investor/ depositor)
- Taxpayers (as 'backers of last resort' to banks), politicians and society at large
- Directors and staff

[3] https://secure.cfauk.org/assets/2803/CFA_UK_Investing_In_Banks_Position_paper_2013.pdf

Not all of these stakeholders have the same power at any point in time. Relative power amongst stakeholders can vary, leading to the advancement of some stakeholders' interests at the expense of others. If the relative power of one party falls below a level that is acceptable to that constituency, there is likely to be resistance and potential change. It is not clear, *a priori*, that an equilibrium position can exist, whereby all stakeholders are simultaneously satisfied. Arguably, since the most recent banking crisis, the relative power of regulators and politicians has been in the ascendancy, while the power of shareholders, directors and staff has weakened. Depositors have traditionally had a privileged position amongst stakeholders, with various degrees of protection.

A dysfunctional financial system (or individual bank) can affect each stakeholder in turn, and thus all stakeholders have an interest in the proper functioning of the banking system and, therefore, in the conduct of bank employees and the culture within banks. The new organisation faces a difficult challenge in representing these constituencies, but it is important that it does so.

The new organisation must clearly be independent of the banks – though we are concerned about how this independence can be demonstrated – and agree that the new organisation should not have statutory powers.

Question 2
Do you agree that there is a case for a collective approach calling for the participation of all banks doing business in the UK?

"Banking history is littered with examples of manipulative conduct driven by misaligned incentives, of bank failures born of reckless, hubristic expansion and of unsustainable asset price bubbles cheered on by a consensus of self-interest or self-delusion. An important lesson of history is that bankers, regulators and politicians alike repeatedly fail to learn the lessons of history: this time, they say, it is different."

(PCBS vol 1 para 9)

Yes. The collective action should be system wide. Systemic governance failures are a collective problem and need a systemic solution. The new body should take a stakeholder perspective and empower the demand side to seek and reward improved conduct.

The public concern about bank behaviour might be more closely associated with some banks than with others, but the distaste for banking and bank behaviour is close to universal. It is in the interests of all banks to work together to raise standards and in the public interest for all banks to engage. Those banks that choose not to participate should be noticeable by their absence.

Standards that require more responsible behaviour should be applied broadly so that there is no business advantage to those that do not adopt. In fact, there should be a disincentive for banks to stand outside the new organisation from being seen by stakeholders as less committed to attaining and maintaining high ethical and professional standards.

We agree that, in the absence of industry-wide action, additional regulation to attempt to tackle conduct and culture is possible. This would certainly be costly and would probably be ineffective. Regulation sets minimally acceptable practices. It has limited capacity to encourage or incentive improved behaviour.

Question 3
Do you agree with the proposed role of the new organisation to set standards of behaviour and competence for banks and building societies, and to define metrics against which they could benchmark?

The new organisation should work with banks, building societies and stakeholders to develop standards of behaviour and competence. It may only be possible to develop short, principle-based sets of standards for broad adoption because of the different stakeholder relationships across different types of bank and building society's business lines. It would be appropriate to develop additional, tailored standards for use within different business lines.

It will be difficult to develop comparative metrics without setting down clear reporting requirements. Initially, data submitted to the new organisation is likely to have different bases and definitions. The new organisation will probably be accused – by those banks whose performance appears relatively poor – of category errors in its comparative assessment (i.e. comparing apples and pears). It will take time to develop common standards for reportable data.

The new organisation should be careful not to build in an assumption that all banks' reports will always record how the standards have been achieved. European bank regulators have underlined the need for some banks to fail the forthcoming round of stress tests to ensure the tests' credibility and prove their rigour. The new organisation will face the same credibility challenge. It will be important to identify some banks and building societies as not having improved or for failing to adhere to standards. It is important that the public can see that assessment against the standards is real and rigorous.

Question 4
Do you agree with the proposed scope of the new organisation to include all British banks and building societies, and foreign banks doing business in the UK?

The new organisation's scope ought to be immediately comprehensible so that stakeholders can see which organisations ought to be involved and which are not. It might be easier to define the scope as banks and building societies regulated by the PRA and FCA.

Question 5
Do these proposals go far enough to ensure the body has credibility?

The stated commitment to independence is clearly vital. However, how this independence will be achieved and protected is unclear. While the organisation is dependent on bank funding (that is not protected by statute or regulation), it will always be possible for critics to claim that 'he who pays the piper calls the tune'.

The consultation paper is light on details relating to governance. It refers to the processes by which executive staff and the Board might be appointed, but does not discuss the process by which the Memorandum and Articles of Association might be formed and asks respondents to comment on the direction of the organisation's accountability.

The absence of specific recommendations on governance and accountability is understandable. The consultation intends to reveal the degree of support for a new organisation with this stated purpose. Unless and until that support is evident – and there is a clearer understanding of the organisation's scope – it would be difficult to design a suitable governance framework.

In the interim, given our view that the new organisation ought to operate in the public interest by promoting high standards of conduct and competence on behalf of stakeholders, perhaps it would be appropriate for the new body to plan to seek public feedback on its performance from stakeholder representative groups such as the Treasury Select Committee, the Financial Ombudsman's Service, the Citizens Advice service, employee groups and representative investor groups.

In terms of funding, the body's credibility would be enhanced if its funding was demonstrably outside the influence of the Board of any bank or building society. This could perhaps be achieved initially by the mutual agreement of all participating bodies on a proportionate levy to operate in perpetuity (or at least for a 10-year period). In time, it would be better if the body was also able to extend its revenue generation and run down the levy taken directly from banks. It might also be possible to fund the new organisation through an additional impost attached to any fine or penalty paid by a regulated entity. The new body's success in driving improved standards would see it put itself out of business as its funding dried up. Introducing some form of funding along these lines might align the new organisation's funding and purpose neatly.

The credibility of the new body's operations will be determined by the effectiveness of its activities and by the perceived fairness and efficiency with which it operates. Standards and metrics should be set or selected by specialist teams composed of named individuals selected by the new organisation's Board, with the standards themselves ultimately requiring Board approval. As per the arrangements at the International Accounting Standards Board (IASB), dissenting opinions on the Board (if there are any) should be published alongside any new standards.

The governance, funding and operation of the organisation should be wholly transparent, with all policies and processes available for review. Reasonable targets should be set for the executive team and the organisation's performance against those targets should be publicly reported. Similarly, Board minutes and reports should be published and meetings should be open to representatives from stakeholder groups.

Building stakeholder confidence will only be a consequence of the new body's actions, but the composition of the Board and its public statements should help to buy the necessary time.

Question 6
Do you agree that the new body should initially work with banks and building societies rather than individuals? What are the pros and cons of aspiring to build individual membership over time?

Yes. The new organisation should not have individual members; certainly not initially and probably not in due course. The consultation paper proposes that the new organisation operates as a canopy body for other professional bodies representing individuals across the financial services sector. There are already many professional bodies operating in the sector and new bodies could be set up independently of those or as related entities if there is a perceived need for specialist professionalism in new areas. The new organisation would not use its time or resources wisely by replicating the individual membership opportunities provided by the professional bodies.

The new body should focus on developing effective relationships with employers, professional bodies and other stakeholder groups. Developing and managing these relationships so that they are productive and help to deliver the intended mission – especially while guarding the new body's independence – will be challenging. The new body should focus its resources in this area and should not try to build the considerable resources necessary to act as a direct membership organisation (particularly as these are available elsewhere).

Question 7
In the section titled 'Ethics', a case is made for a more pro-active approach to managing ethical issues. Do you agree with this, and, if so, how should it be done?

There is a clear public interest in banks' and building societies' proper care for ethical and professional standards. However, banks and building societies current positions on this issue are likely to be quite varied and, where they have yet to be built into a Board's framework, various, different solutions might be most appropriate depending on the structure and existing culture.

While the new organisation should encourage a more proactive approach to ethical issues in financial services firms, it probably should not try to determine the best approach to how that should be managed. It would be more appropriate to report on how different organisations have responded to that challenge, though, in time, it may be possible to make some general assumptions as to best practice.

Before the financial crisis, there was typically a singular focus on the generation of improved returns and increased profitability, but without regard for the need to maintain the moral license to operate (and the regulatory license to do so). Boards and capital providers are now increasingly aware of the need to focus on returns over the long-term. There will be different routes to the optimal consideration of ethical issues and it would be useful to allow competing approaches to emerge for which customers and other stakeholders may then indicate a preference.

Question 8
Do you agree with the proposal to build on best practice as set out in the regulators' guiding principles?

Yes, but the primary concern should be to ensure that there are no conflicts or contradictions with the guiding principles. The regulators' guiding principles are sound and valuable, but there would be no harm in developing best practices that help banks and building societies to apply the principles and go beyond them. After all, 'Don't lie, be competent, observe market standards of conduct, work with the regulator and don't let the business run out of control' are more likely to be regarded as sound common sense as the minimal standards for bank employees rather than as a rallying cry for improved excellence.

The new organisation should develop a generic set of standards and then measure each bank or building society's own code against those, rather than assessing each independently. The new organisation's best practice guidelines need to be an extension from the regulatory principles in order to prevent confusion with those.

Question 9
What would be the best way of assessing the implementation of a bank's code of conduct?

This could best be achieved through regular assessment of the perceived impact of a code of conduct on stakeholders – employees, customers and capital providers. This assessment may be drawn from internal and external reviews.

Question 10
Do you agree with the agenda outlined in the 'standards of competence' section?

We understand the proposed agenda as being that the new institution should provide a canopy under which other professional bodies would continue to operate and grow. The new organisation will have an interest in the development, qualification and disciplining of professional body members and could accredit and validate training and qualifications. In addition, the new organisation could set standards for and accredit internal training programmes.

CFA UK broadly agrees with the proposed agenda and supports the proposal that the new body should act as a canopy body for professional bodies in financial services. We agree that the new body might be well-positioned to assess professional bodies' contributions to raising standards in development, qualification and disciplining (perhaps commenting on these in a report annually) and that the new body might be another useful location for common discussion among professional bodies on these issues.

It might be helpful for the new body to be able to accredit training (against its own standards), but doing so requires the development or sourcing of specialist experience from those working in learning and development across different business lines and roles. This is an expensive and time-consuming activity and it might be better to identify commonly used learning outcomes that appropriate training might contain, rather than reviewing individual providers.

Similarly, the new body could contribute to some in-house training programmes by identifying learning outcomes, but it would be difficult for the body to assess the effectiveness of individual programmes.

It would remain more important for the new body to focus on the outcome – the net result for stakeholders – and to provide guidance (rather than direct oversight) on how the intended outcome might best be achieved.

Question 11
Would you support the proposed relationship with the existing professional bodies?

Yes. Please see our response to Question 10.

Question 12
Is the proposal for assessing in-house training sensible and practical? Could the new organisation play a helpful role in the certification process?

Please see our response to Question 10.

Question 13
Do you think a benchmarking exercise, to help banks identify areas for improvement, would be of value?

It will be important for the new organisation to develop a common set of metrics – to be used as benchmarks – to help banks and building societies identify areas for improvement. Having such a common set of measures will support the new organisation's purpose and protect its credibility. It will be important to avoid a situation where each bank operates its own set of measures that show it to perform well, but which can't be independently audited or compared.

It will be difficult to develop appropriate metrics. The four proposed sets – culture; competence; customer outcomes; winning back trust – sound right, but there may be overlap between them. Ultimately, the metrics developed should cover these areas, but perhaps the focus should be on introducing a reasonable number of credible metrics and on achieving shared agreement on these to allow independent audit and comparison (rather than on perfecting the measures themselves). The quality of the measures matters more than their quantity.

The new organisation could work with existing data sets initially, but should work rapidly to achieve agreement on metrics and standardised reporting. Self-reporting should be permitted (as it will save cost and allow banks and building societies to integrate reporting into their improved ethical frameworks), but the new body should randomly audit a number of reports annually.

Given the extent to which the body's own credibility would be bound up in the reports, it needs to take active control over the output.

Question 14
Are the groups of metrics outlined in the section titled 'Benchmarking' the correct ones? Would you propose others?

As noted above, they cover the right areas, but may not need to be grouped in this way. The right answer may not emerge through the consultation process and may require work by specialist groups under the new Board's supervision.

Question 15
Would it make sense for banks to adopt a set of standard questions to add to their existing staff surveys?

CFA UK does not have a strong view on this question. It might be best for the new organisation to recommend best practice and to then ask banks and building societies if they have adopted that or not. If they have not done so, the new organisation might ask them to explain why.

Question 16
Is self-reporting appropriate? Might other methods deliver better results?

Yes, with random auditing.

Question 17
Are there non-bureaucratic alternatives to the approach outlined in the section titled 'discipline' that might work better? Is there a role for kite-marking?

The new body should not have statutory or regulatory rights to discipline individuals or banks. Those rights reside with employers, professional bodies (if relevant) and with the regulator.

The body has the opportunity to encourage market discipline to work, by providing data on banks' relative adherence to and achievement of ethical and professional standards. Banks' support for the new body should not be rewarded by a kitemark, though their achievement of certain levels of ethical and professional behaviour over periods of time might be.

Banks are accountable to the regulator and to their stakeholders (of which this body might be one), but the body should not seek any disciplinary powers if its primary purpose is, as it should be, to champion good practice in the public interest.

Question 18
Do you agree with the proposition that the new body should aim to become, in time, a membership organisation for bankers to join?

Perhaps, but probably not. The body's role should be to see banking operate as a profession. That may mean that some bankers should join existing professional bodies. It may mean that some new professional bodies could be set up for some areas of banking not currently served. It is unlikely that the new body will be best placed to act as a professional body for individual members. The canopy role is much easier to fill and there is a greater need for that. Existing bodies have the experience of the governance, frameworks and processes required to act as a professional body operating in the public interest. It takes time and resources to develop the necessary infrastructure and experience.

Question 19
Should the new organisation aspire to a role as a thought leader in banking, sharing best practice and helping to propose solutions to challenges that arise in the future?

Yes and no. Yes, as thought leader in issues relating to the development and operation of banks' processes and systems in the public interest and in the measurement and reporting of those. That alone would be a substantial challenge. No, in that the new organisation should not stray beyond that remit. The new organisation's challenges will be substantial and there will be a need to identify and maintain focus.

CFA Society United Kingdom

CFA UK and CFA Institute

This response is from the Chartered Financial Analyst Society of the UK (CFA UK). The response has been prepared by CFA UK's Professional Standards and Market Practices Committee (PSMPC).

CFA UK serves society's best interests through the provision of education and training, the promotion of high professional and ethical standards and by informing policy-makers and the public about the investment profession.

Founded in 1955, CFA UK represents the interests of approximately 11,000 investment professionals. CFA UK is part of the worldwide network of member societies of CFA Institute and is the largest society outside North America.

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behaviour in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors' interests come first, markets function at their best, and economies grow. CFA Institute has more than 120,000 members in more than 140 countries..

The aim of CFA UK's advocacy initiative is to work with policy-makers, regulators and standard-setters to promote fair and efficient-functioning markets, high standards in financial reporting and ethical standards across the investment profession. The society is committed to providing members with information regarding proposed regulatory and accounting standards changes and bases its responses on feedback direct from members or relevant committees.

Members of CFA UK abide by the CFA Institute Code of Ethics and Standards of Professional Conduct (enclosed). Since their creation in the 1960s, the Code and Standards have served as a model for measuring the ethics of investment professionals globally, regardless of job function, cultural differences, or local laws and regulations. The Code and Standards are fundamental to the values of CFA Institute and its societies.

Yours,

Will Goodhart
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CFA Society United Kingdom

APPENDIX 1

CFA Institute

CODE OF ETHICS AND STANDARDS OF PROFESSIONAL CONDUCT

PREAMBLE

The CFA Institute Code of Ethics and Standards of Professional Conduct 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, revocation of candidacy in the CFA Program, and revocation of the right to use the CFA designation.

THE CODE OF ETHICS

Members of CFA Institute (including 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 themselves 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.

CFA Society United Kingdom

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.

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 client's 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 make only investment recommendations or take only investment actions that are consistent with the stated objectives and constraints of the portfolio.

D. Performance Presentation. When communicating investment performance information, Members and 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, or
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 ACTIONS

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 they use 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 analyses, 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.