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P R I S T I N E

Ethics and Professional Standards

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

III Duties to Clients

- 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, or
 3. The client or prospective client permits disclosure of the information

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Sample Material

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- Clients interest always comes before employer's or personal interest
 - Exercise prudence ,care, skill and diligence while making investment decisions in a way in which a reasonable investor acting in like capacity would do.
 - Adhere with fiduciary responsibility specific to a client
 - Ensure clients objectives and expectation for a performance of account are reasonable and in accord with clients circumstances and risk appetite
 - Investment decision should be judged in the context of total portfolio
 - Duty of loyalty includes voting proxies in an informed manner.Voting all proxies may not be necessary as it may not benefit the client
 - Client brokerage should be used to benefit the client.

III A Loyalty, Prudence, and Care

- Recommended Procedure for Compliance
 - Submit to each client, at least quarterly, an itemized statement showing the funds and securities in possession plus debits, credits and all the transactions during that period.
 - Follow all applicable rules and laws
 - Establish the investment objectives of the client - Consider the suitability of the portfolio relative to the client's needs and circumstances or the investment's basic characteristics or the characteristics of the total portfolio.
 - Diversify
 - Fair Dealing with all the clients
 - Disclose conflicts of interest
 - Disclose compensation arrangements
 - Vote proxies
 - Maintain confidentiality
 - Seek best execution
 - Place client interests first

Example 1:

Don Davis a member uses a broker for clients account. The broker is an old friend of Davis. He charges very high fees and does not always provide the best execution. The broker however allows Davis to use his vacant apartment for personal use. Davis uses the apartment to host any clients that may be visiting them.

Comment 1:

This is a violation of the Standard since the member failed to get best execution for the client. Also client brokerage should only be used for services that will directly benefit the client. Use of the brokerage for any other activity is strictly prohibited.

Example 2:

Carrie Moss runs an investment management firm. She directs all her brokerage to Neo Ltd. a private broking firm. She directs all trades originating from accounts referred to her by Neo and also any other account. In return Neo provides her some account management business. Comment on whether the above complies with the CFA Standards.

Comment 2:

Two instances of violation of the CFA Standards can be found in the above case. If the broker fails to provide the best price or execution then Carrie should change her brokers. She must search for the broker who can provide the least execution cost. Another violation occurs if the broker-member relationship is not disclosed to the client.