

CFA® Level I

One-Page Learning Module Summaries

Ethical and Professional Standards

5 learning modules · one page each · built from CFA Program Level I curriculum, Volume 10

How each page works

■ Module banner	Exact module title, exam relevance (High/Medium/Low-yield) and whether it is calculation- or concept-heavy.
■ The big picture	Two or three sentences of intuition: why the module exists.
■ Learning outcomes	Every LOS of the module, in book order, rewritten as what you must know or do.
■ Key formulas / key facts	Formulas in curriculum notation with every variable defined; fact tables for concept modules.
■ Worked example	One numerical example (or a short Ethics case). Tagged [CFA curriculum] when taken from the curriculum, [Illustrative] when made up by RBei.
■ What examiners like to test	Traps, key distinctions and typical question angles.

Notes. (1) The curriculum lists LOS without letters; “LOS 1, 2, 3” follows the order in the book. (2) Exam relevance is RBei’s judgement from the number of LOS, the calculation LOS and the weight of worked examples and practice problems in each module; the curriculum does not rate modules. (3) [India context, not curriculum] marks Indian examples added for context; they are not curriculum. (4) [Note: ...] marks places where the curriculum is inconsistent or offers two framings.

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Module 1 — Ethics and Trust in the Investment Profession

Topic: Ethical and Professional Standards · Exam relevance: **Medium-yield** · **Concept-heavy**

The big picture

Businesses and financial markets thrive on **trust** — “a strong belief in the reliability of a person or institution.” Clients hand over their savings without being able to judge the work themselves, so one person’s misconduct can damage a whole firm. Laws help but lag practice; a **profession** adds a code of ethics, standards of conduct and individual judgment to fill the gap.

Learning outcomes in plain language

- LOS 1 Explain ethics.** A set of moral principles and rules of conduct that guide behaviour. *Ethical conduct* follows moral principles and balances self-interest with the direct and indirect consequences for other **stakeholders**.
- LOS 2 Role of a code of ethics.** It publicly communicates a profession’s shared principles and expected behaviour; *standards of conduct* are the specific benchmarks for **minimally acceptable** behaviour.
- LOS 3 Professions and trust.** A profession is an occupational community with specific education, expert knowledge and a framework of practice and behaviour; know the ten characteristics that build trust (table).
- LOS 4 Why high standards matter in investing.** Clients entrust their assets to professionals with superior expertise, and may not see the conflicts, risks and fees involved.
- LOS 5 Professionalism in investment management.** A relatively young profession that meets most, but not all, expectations of a profession; CFA Institute’s mission and role.
- LOS 6 Challenges to ethical behaviour.** Overconfidence bias, situational influences (money, prestige, loyalty) and a narrow compliance culture.
- LOS 7 Ethical vs legal standards.** Much conduct is both, but some legal acts are unethical and some ethical acts may be illegal; law alone is insufficient.
- LOS 8 Ethical decision-making framework.** Identify → Consider → Decide and act → Reflect; the process is often iterative.

Key facts

Code vs standards	Code of ethics = general guide to how members should act. Standards of conduct = “benchmarks for the minimally acceptable behavior”; members may choose even higher standards.
Professions build trust	They (1) normalize practitioner behaviour, (2) provide a service to society, (3) are client focused (<i>fiduciary duty</i> = a high standard of care when acting for another), (4) have high entry standards, (5) possess a body of expert knowledge, (6) encourage continuing education, (7) monitor professional conduct, (8) are collegial, (9) are recognized oversight bodies, (10) encourage engagement of members. High ethical standards separate professions from craft guilds and trade bodies.
CFA Institute	Mission: “to lead the investment profession globally, by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.” Members and candidates meet the <i>highest</i> of CFA Institute, regulator or employer standards; where client and market interests conflict, market integrity is the overriding duty.
Challenges	<i>Overconfidence</i> : we overrate our own morality and internal traits. <i>Situational influences</i> (external factors: money, prestige, loyalty to employer and colleagues) are more likely than character to drive unethical acts and shift focus to the short term. <i>Compliance culture</i> : “What can I do?” instead of “What should I do?”
Why law is not enough	Laws follow market practice and take time; may be vague, conflicting or too narrow; can create new loopholes; vary by jurisdiction; are interpreted opportunistically. Legal but unethical: trading on material nonpublic information where not banned. Ethical but illegal: civil disobedience, some whistleblowing.
Framework	Identify : relevant facts, stakeholders and duties owed, ethical principles, conflicts of interest. Consider : situational influences, additional guidance, alternative actions. Decide and act . Reflect : was the outcome as anticipated? Why or why not?

Worked example (CFA curriculum)

Framework II (Example 6). A financial adviser saving for a car can earn a team bonus (most new investors into the firm’s funds) plus a **5% commission** on fund sales. A teammate says he needs the bonus for his elderly mother’s treatment. That day an **89-year-old** client on a limited income asks for more income. **Identify**: the client’s interests take precedence. **Consider**: the bonus and the teammate’s plea are situational influences; the relationship with **teammates** is the most powerful one here. **Decide**: *research other income investments* (risk, return, fees) before recommending anything — not simply disclose the commission and sell the house fund.

What examiners like to test

- **Code vs standards**: the code is the general guide; standards are the *minimum* benchmarks. A code does not ensure every member acts ethically.
- **What drives unethical acts**: situational influences (external factors), not character or internal traits. Loyalty can outweigh money.
- **Framework purpose**: to see several perspectives and cut unanticipated consequences — not to maximise who gains, and still needed when conduct is legal.

Module 2 — Code of Ethics and Standards of Professional Conduct

Topic: Ethical and Professional Standards · Exam relevance: **High-yield** · **Concept-heavy**

The big picture

The **Code** is six high-level, aspirational principles; the **Standards** are the practical rules members and candidates must follow. Together they are read as “an interwoven tapestry of ethical requirements.” This module is the map: who enforces them, what they say, and what changed in the 2023 revisions.

Learning outcomes in plain language

- LOS 1 Professional Conduct Program (PCP) and enforcement.** Board of Governors oversees the PCP, which with the Disciplinary Review Committee (DRC) enforces the Code and Standards; know the sources of inquiries, investigation outcomes and sanctions.
- LOS 2 Six Code components and seven Standards.** Recall the six Code principles and the seven Standards with their titles.
- LOS 3 Responsibilities under each Standard, including sub-sections.** Know what each sub-standard requires (detail in Module 3), including the one new and two revised standards.

Key facts

The Code of Ethics. Members and Candidates must: (1) “Act with integrity, competence, diligence, and 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.” (2) “Place the integrity of the investment profession and the interests of clients above their own personal interests.” (3) “Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.” (4) “Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.” (5) “Promote the integrity and viability of the global capital markets for the ultimate benefit of society.” (6) “Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.”

Seven Standards	I Professionalism (A–E) · II Integrity of Capital Markets (A–B) · III Duties to Clients (A–E) · IV Duties to Employers (A–C) · V Investment Analysis, Recommendations, and Actions (A–C) · VI Conflicts of Interest (A–C) · VII Responsibilities as a CFA Institute Member or CFA Candidate (A–B).
2023 revisions	New I(E) Competence: “act with and maintain the competence necessary to fulfill their professional responsibilities” (no specific CE program required). Revised V(B): new duty to disclose “the nature of the services provided, along with information about the costs to the client.” Renamed/revised VI(A) Avoid or Disclose Conflicts: “Avoid or make full and fair disclosure”; disclosures must be prominent, in plain language and effective.
Sources of inquiries	Self-disclosure on the annual Professional Conduct Statement; written complaints; media, regulatory notices or public sources; exam proctor reports; post-exam analysis and social-media monitoring.
Process	PC staff investigate (written explanation, interviews, documents) → close with no sanction, issue a cautionary letter , or propose charges. Member accepts or rejects; if rejected → DRC panel decides violation and sanction.
Sanctions	Public censure; suspension of membership and use of the CFA designation; revocation of the charter. Candidates: suspension or prohibition from the CFA Program.
Firms	Code applies to individuals; firms may adopt it and state “[Insert name of party] claims compliance with the CFA Institute Code of Ethics and Standards of Professional Conduct. This claim has not been verified by CFA Institute.” The <i>Asset Manager Code</i> applies to firms.

Worked example (CFA curriculum)

Standard V(B), revised — costs of services (Module 3, V(B) Example 1). ABC Capital advises companies owned by its Private Equity Fund III and charges them fees. It remits the fees to the fund if the investment falls in value but *keeps* them if it rises. The private placement memorandum is silent; the CEO calls it common industry practice and a “win-win.” **Verdict: violation of V(B)** — compensation received has not been disclosed to the fund’s investors. The firm cannot rely on investors’ sophistication or on the fact that they benefit from the arrangement.

What examiners like to test

- **Exact Code wording:** “Promote the integrity and viability of the global capital markets *for the ultimate benefit of society*” — truncated versions are wrong answers.
- **Which Standard holds which rule:** gifts that compromise independence = I(B), not IV; performance presentation = III(D), not V; fact vs opinion = V(B); “written consent from *all parties involved*” = IV(B).
- **PCP process:** a DRC panel is used *only* when the member rejects the charges; inquiries can start from media reports.

Module 3 — Guidance for Standards I–VII

Topic: Ethical and Professional Standards · Exam relevance: **High-yield** · **Concept-heavy**

The big picture

The *Standards of Practice Handbook* in one table: learn each sub-standard as “what it requires” plus “the trap that makes the obvious answer wrong.”

Learning outcomes in plain language

- LOS 1** Apply the Code and Standards to cases. Name the sub-standard a fact pattern engages and judge whether it is violated.
- LOS 2** Recommend practices and procedures to prevent violations: firewalls, restricted lists, blackout periods, compliance systems.
- LOS 3** Identify conforming vs violating conduct, including “acceptable if disclosed or consented to” cases.

Key facts: the seven Standards and their sub-standards

Sub-standard	What it requires	Classic trap
Standard I: Professionalism		
I(A) Knowledge of the Law	Comply with all applicable laws, rules and the Code; follow the more strict ; dissociate from violations.	Reporting to regulators not compelled unless law requires; inaction plus association = participation.
I(B) Independence and Objectivity	Do not offer, solicit or accept gifts or benefits that could compromise independence.	Modest gifts fine; disclose client gifts to employer; use commercial travel paid by self or firm, not by the issuer.
I(C) Misrepresentation	Do not <i>knowingly</i> misrepresent analysis, recommendations or actions.	Guaranteeing returns on volatile assets; plagiarism; omissions; out-of-date data.
I(D) Misconduct	No dishonesty, fraud or deceit; no acts reflecting adversely on reputation, integrity, competence.	Civil disobedience for personal beliefs is generally <i>not</i> a violation.
I(E) Competence	Act with and maintain the competence the role needs.	Passing a licensing exam alone does not prove competence.
Standard II: Integrity of Capital Markets		
II(A) Material Nonpublic Information	Do not act or cause others to act on MNPI.	Mosaic theory: public plus <i>nonmaterial</i> nonpublic data is fine; overheard MNPI still binds.
II(B) Market Manipulation	No practices that distort prices or inflate volume <i>with intent to mislead</i> .	Information-based (false rumours) or transaction-based; no intent, no violation.
Standard III: Duties to Clients		
III(A) Loyalty, Prudence, and Care	Loyalty, care, prudence; clients before employer or self.	Identify the true client; brokerage is the client’s asset.
III(B) Fair Dealing	Deal fairly and objectively with all clients.	“Fairly”, not “equally”; premium service if disclosed and open to all.
III(C) Suitability	Advisory: inquire, judge vs written objectives and total portfolio, update. Mandate: stay within it.	Unsolicited unsuitable trade: discuss first; a mandate need not suit all investors.
III(D) Performance Presentation	Reasonable efforts: fair, accurate and complete.	Label simulated results; disclose what a composite contains.
III(E) Preservation of Confidentiality	Keep client data (current, former, prospective) confidential, with 3 exceptions.	Covers former clients; cooperating with the PCP is not a breach.
Standard IV: Duties to Employers		
IV(A) Loyalty	Act for the employer; do not withhold skills or cause harm.	May prepare to leave; no client lists or early solicitation; whistleblowing can be justified.
IV(B) Additional Compensation Arrangements	Conflicting pay needs written consent from all parties.	Oral consent is not enough.
IV(C) Responsibilities of Supervisors	Reasonable efforts so supervisees comply.	Inadequate compliance system ⇒ decline in writing.
Standard V: Investment Analysis, Recommendations, and Actions		
V(A) Diligence and Reasonable Basis	Diligence, independence, thoroughness; reasonable and adequate basis.	Check third-party research; may stay named on a sound group report.
V(B) Communication with Clients and Prospective Clients	Disclose services and costs, process and changes, risks; fact vs opinion.	Changed methodology disclosed promptly; sophistication no excuse.
V(C) Record Retention	Maintain records supporting analysis and communications.	Records belong to the firm; at least 7 years if no local rule.
Standard VI: Conflicts of Interest		
VI(A) Avoid or Disclose Conflicts	Avoid, or disclose fully and fairly: prominent, plain language, effective.	Avoidance preferred; own holdings and board seats are conflicts.
VI(B) Priority of Transactions	Client and employer trades before those the member beneficially owns.	Front-running; family <i>client</i> accounts are treated like any other client.
VI(C) Referral Fees	Disclose compensation received from or paid to others for referrals.	Disclose before any formal agreement, with nature and estimated value.
Standard VII: Responsibilities as a CFA Institute Member or CFA Candidate		
VII(A) Conduct as Participants in CFA Institute Programs	Do not compromise the integrity or security of CFA programs.	Opinions are allowed; exam content (even topics tested) is not.
VII(B) Reference to CFA Institute, the CFA Designation, and the CFA Program	Do not misrepresent or exaggerate membership, charter, candidacy.	No “partial designation”; “first attempt” only if not linked to ability; lapsed dues end use of CFA.

Worked example (CFA curriculum)

Standard VI(C) Referral Fees (Example 1). Brady Securities refers accounts to Lewis Brothers, which in return gives Brady research (cost US\$20,000 a year) and routes client trades to Brady (extra client cost US\$10,000); referrals earned Lewis US\$200,000 in fees. White takes a Brady-referred client *without disclosing* this: **violation**; the client could not reassess the recommendation.

What examiners like to test

- **Disclose vs consent:** disclosure cures VI(A), VI(C) and client gifts; IV(B) needs *written consent*.
- **Stricter rule wins:** of local law, the Code and Standards and firm policy, follow the strictest.

Module 4 — Introduction to the Global Investment Performance Standards (GIPS)

Topic: Ethical and Professional Standards · Exam relevance: **Medium-yield** · **Concept-heavy**

The big picture

Before GIPS, managers could show their best account, drop the failures, or pick flattering time periods, so track records could not be compared. The GIPS standards are a practitioner-driven, **voluntary** set of ethical principles for calculating and presenting historical results, built on **fair representation** and **full disclosure**.

Learning outcomes in plain language

- LOS 1 Why GIPS, who can claim, who benefits.** Created to stop misleading practices and allow comparison; only firms (and asset owners) that *manage actual assets* can claim compliance; firms, prospective clients/investors, asset owners and oversight bodies benefit.
- LOS 2 Key concepts of the GIPS Standards for Firms.** Ethical standards for fair representation and full disclosure; comply with all requirements and aim for the recommendations; composites for every strategy; reliance on accurate input data and set calculation methods.
- LOS 3 Purpose of composites.** Aggregate all actual, fee-paying, discretionary portfolios with a similar mandate, objective or strategy, so a firm cannot cherry-pick its best accounts.
- LOS 4 Fundamentals of compliance.** Recommended: the broadest, most meaningful definition of the **firm**; the firm's definition of **discretion** decides which portfolios enter composites.
- LOS 5 Independent verification.** Optional firm-wide testing by an independent third party that adds credibility to the claim of compliance.

Key facts

Abuses GIPS prevents	<i>Representative accounts</i> (a top portfolio shown as the firm's results); <i>survivorship bias</i> (dropping terminated poor performers); <i>varying time periods</i> (showing only good periods).
Objectives	Promote investor interests and confidence; accurate, consistent data; worldwide acceptance of a single standard; fair, global competition among firms; industry self-regulation on a global basis.
2020 edition	Three chapters: GIPS Standards for Firms , for Asset Owners , for Verifiers . Firms that compete for business comply with the Standards for Firms.
Who can claim	Any firm that manages actual assets. Not consultants (unless they manage the assets) and not software or vendors. Asset owners comply as firms if they compete for business, or use the Standards for Asset Owners if they report to an oversight body.
All or nothing	Compliance is firm-wide, never for one product or composite. Either comply with all requirements and use the GIPS Compliance Statement, or make no reference to GIPS. Voluntary; not typically required by regulators.
Composites	All actual, fee-paying, discretionary portfolios, included on pre-established (<i>ex ante</i>) criteria; every such segregated account in at least one composite; pooled funds in any composite whose definition they meet. A composite may hold a single portfolio.
Firm and discretion	"The firm should adopt the broadest, most meaningful definition of the firm," including all offices operating under the same brand name. Client restrictions that stop the strategy being implemented can make a portfolio non-discretionary ; non-discretionary portfolios must not be in composites.
Verification	Optional (recommended as best practice); firm-wide, not per composite; by an independent third party only. Tests policies and procedures for composite and pooled fund maintenance and for performance calculation, presentation and distribution. It does <i>not</i> ensure the accuracy of any specific performance report.

Worked example (CFA curriculum)

Global Equity Composite. A GIPS-compliant firm presenting its Global Equity Composite must include *all* fee-paying portfolios that are, or have historically been, managed in its Global Equity strategy; it may not subjectively choose which to include. Applying this to the practice problems: showing a history "composed of a single top-performing portfolio" is the *representative-account* abuse; including terminated portfolios, or showing all periods since inception, is consistent with GIPS; a composite contains "all discretionary portfolios that meet the composite definition," never non-discretionary ones.

What examiners like to test

- **Who cannot claim:** software vendors and consultants that do not manage the assets. Pension funds (public or private) that manage actual assets can.
- **Verification myths:** not required to claim compliance, not done by the firm's own compliance department, not a guarantee of any single presentation.
- **Broadest vs narrowest:** the firm definition should be the *broadest*, most meaningful one; composite membership is decided *ex ante*, not *ex post*.

Module 5 — Ethics Application

Topic: Ethical and Professional Standards · Exam relevance: **High-yield · Concept-heavy**

The big picture

Short vignettes, based on CFA Institute's *Ethics in Practice* casebook, walk through every Standard in turn. Each case asks: which Standard applies, is it violated, and what would compliant conduct look like? The recurring lesson: good intentions, client benefit or industry custom never excuse a breach.

Learning outcomes in plain language

- LOS 1 Evaluate practices, policies and conduct** against the Code and Standards: identify the relevant sub-standard from the facts of a case.
- LOS 2 Explain why conduct does or does not violate** the Code and Standards, and what the member should do instead (dissociate, disclose, obtain consent, decline, refrain).

Key facts: case lessons by Standard

I Professionalism	<i>Pellie</i> approves AML red-flag reports without inquiry: I(A) violation. <i>Mwangi</i> signs clients' documents for them (forgery), even with their general approval: I(A). <i>Myers</i> should not donate to a campaign he hopes will win him state pension mandates: I(B). <i>Lee</i> promises equity returns will offset a withdrawal penalty: I(C). <i>Andersen</i> must disclose that a key team member left after the pension-plan proposal: I(C). <i>Brodeur</i> posts "Funding is secure" for a \$420 take-private with no agreement or price set: I(C). <i>Hanse's</i> civil-disobedience convictions: no violation of I(D). <i>Mang</i> secretly compensates clients through fake "errors": I(D). <i>Mahajan</i> studies his new sectors but not supervision: I(E) violation.
II Capital markets	<i>Khatri</i> trades on overheard MNPI: II(A), even though the colleague was careless. <i>Kwame</i> answers select sell-side analysts about a regulator meeting: II(A) selective disclosure. <i>Abbha</i> inflates the initial shareholder count before listing: II(B) information-based manipulation, even though the company later did well.
III Clients	<i>Maste's</i> policy uses disclosure to limit liability for failing clients: III(A). <i>Gaini</i> liquidates a self-directed margin account per the agreement: no violation — duties depend on the relationship. <i>Scherzer</i> emails updates to all clients at once: no III(B) violation. <i>Marte</i> (concentrated, leveraged fund) and <i>Duri</i> (no suitability analysis for a property SMSF): III(C). <i>Jergenn</i> shows a separate-account composite as the fund's history without saying so: III(D). <i>Marsh</i> (client data on a hacked home server) and compliance head <i>Giddings</i> : both III(E).
IV Employers	<i>Nickoli</i> disparages HHI to clients before resigning and <i>Clemence</i> takes the client list: IV(A). <i>Kuznetsov</i> reports his employer's mis-selling to regulators: acceptable, protects clients. <i>Estevez's</i> bonus from covered companies is acceptable only with her firm's written approval: IV(B). <i>Duhih</i> and <i>Sasha</i> : supervision without effective compliance systems: IV(C).
V – VII	<i>Harrel</i> (repeats the CEO's claims unchecked) and <i>Chong</i> (relies on Harrel): both V(A). <i>Dukis</i> changes a rating methodology without telling investors: V(B). <i>Duermott</i> updates records only "when he finds the time": V(C). <i>Reebh's</i> subadviser payments: avoid or disclose, VI(A). <i>Yang</i> , <i>Kapadia</i> (tips friends) and <i>Perrkins</i> (omnibus allocation): front-running, VI(B). <i>Kiang's</i> undisclosed referral rewards: VI(C). <i>Taveras</i> may relay students' views on difficulty, not exam specifics: VII(A) [Note: answer key says B; analysis supports C]. <i>Bennett</i> (lapsed dues, still uses CFA): VII(B); silent <i>Ahmed</i> assists her: I(A).

Worked example (CFA curriculum)

Mandracken — Standard I(A) Knowledge of the Law. SBS Bank charges custody clients a SWIFT message rate described as an out-of-pocket reimbursement, but it includes a margin over actual cost. Mandracken, CFA, raises this; his supervisor says to cut the rate for *new* clients and revisit existing ones at renewal. **Answer: refuse to take part in client interactions using the fee schedule until the SWIFT rate reflects actual cost.** The fix is inadequate: it covers new clients only, is not immediate for existing clients and ignores past overcharges. Simply following the supervisor is continued association, which may be viewed as participation. Going to the board or regulators, or leaving, may be needed later, but interim steps come first.

What examiners like to test

- **Excuses that fail:** the client benefited, it is industry practice, the client is sophisticated, the supervisor approved, the company turned out fine.
- **Not every breach of law or contract is a violation:** Hanse's civil disobedience and Gaini's contract-based liquidation comply.
- **Remedy ladder:** raise it with a supervisor or compliance → dissociate → escalate (board, regulator) or leave, if needed.