

Association of Certified International Investment Analysts

Principles of Ethical Conduct

FINAL DRAFT

Preamble

In an increasingly global investment environment, the Association of Certified International Investment Analysts, ACIIA* was founded with the goal of establishing a base of common standards of technical and ethical knowledge and practices and of facilitating the exchange of information among investment analysts worldwide.

The philosophy behind the development of the CIIA* education program was that investment analysts' activities in various countries and regions are characterized by differences in culture, practices and regulations which should be recognized and respected by market participants. The CIIA program also seeks to promote the implementation and enforcement of high technical and ethical standards, to ensure the close relationship and mobility of investment analysts across the different markets.

The ACIIA considers professional competence and ethics as the key pillars underlying investment analysts' activities worldwide. The association also places emphasis on investment analysts' independence from any external undue pressure which could impair their objectivity.

The ACIIA's recognition of the governing role of national/regional associations in their own countries/regions – irrespective of their size or the development stage of the local market – is a key factor which differentiates the association from any other entity in global capital markets. The association's policy to respect the cultural and regulatory aspects of each country/region also helps investment analysts better understand the local factors which could affect an investment decision and thus limits the risk of such decisions being taken on the basis of wrong or incorrect views or perceptions. The close relation that the ACIIA promotes among its members, encourages not only the ongoing exchange of knowledge and experience between markets of different sizes and stages of development, but also the assimilation of the technical and ethical practices adopted in various countries/regions, thus converging towards best practice.

The global CIIA program is adopted and implemented by each of the national/regional member associations of the ACIIA, in compliance with the common principles laid down by the latter. The global CIIA education program was developed, and is continuously reviewed, through the democratic collaboration between national/regional ACIIA member associations, which represent investment analysts around the world. The CIIA program combines international common examinations comprising two levels (Foundation and Final) administered by ACIIA, with a national specific examination, covering national specific components, administered by each national/regional association.

In this context, the ACIIA has established *Principles of Ethical Conduct*, which incorporate globally-accepted best practices. Each national/regional association is encouraged to adopt the Principles and to use them as a model to develop or improve their own ethical codes and standards as necessary.

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For the purpose of these Principles, 'Investment analysts' are individuals who evaluate or use financial, economic or statistical data as part of the professional practice of financial analysis, investment management, portfolio management, securities analysis, investment counselling, or other similar professions.

The ACIIA Principles consist of *Fundamental Principles* which lay down fundamental ethical behaviour for investment analysts and *Specific Key Principles*, which apply these Fundamental Principles to investment analysts' activities. Lastly, *Key Recommendations* have been defined as standards which each national/regional association is recommended to adopt to give effect to each Specific Key Principle.

The ACIIA Principles seek to ensure the highest ethical conduct of investment analysts. Primarily, these principles are directed at investment analysts which are members of ACIIA associations, but they aim at setting standards for everyone of the profession, thus contributing to the integrity of global capital markets as a whole.

A. Fundamental Principles

1. Honesty, Integrity, and Fairness

Investment analysts shall observe high standards of honesty, integrity, and fairness in dealings with clients, prospective clients, and others related to professional activities, so as to enhance public confidence in the profession.

2. Reasonable Care and Diligence

Investment analysts shall perform their professional activities with reasonable care, prudence and diligence.

3. Interests of Clients First

Investment analysts shall always act in the best interests of their clients and prospective clients, and place the interests of clients and prospective clients before their own or that of their employers, or those of any third party.

4. Independence and Objectivity

Investment analysts shall take reasonable care to maintain independence and objectivity and to make fair judgments in performing their professional activities.

5. Professional Competence

Investment analysts shall continuously strive to maintain and improve their professional competence.

6. Required Knowledge and Compliance

Investment analysts shall maintain knowledge of and comply with all applicable laws, rules, regulations, and the codes of ethics and standards of professional conduct of national or regional associations, and shall not consciously partake in any violation of an ethical or legal nature.

B. Specific Key Principles

1. Reasonable Basis and Fair Representation

Principle: *Investment analysts shall have a reasonable basis for, and provide fair representation in, their investment research, recommendations, and investment management.*

Key recommendations:

- a. Investment analysts shall have a reasonable basis for their investment research, recommendations, and investment management, supported by thorough and diligent research and analysis.
- b. Facts and opinions shall be clearly distinguished; forecasts shall be labelled as such.
- c. Analysis shall be presented clearly and structured logically so as to avoid any misinterpretation.
- d. Analysis shall be prepared with professional diligence; investment analysts shall make every reasonable effort to check the reliability and truthfulness of information from external sources.
- e. The basic principles and methods used for valuation, securities' selection, and portfolio construction, and any material changes to them, shall be disclosed; all material facts and risk factors shall be adequately disclosed.
- f. Investment analysts shall not give assurances or guarantees, either orally or written, regarding the performance of an investment.
- g. When using material prepared by another, investment analysts shall take prudent and thorough care acknowledging the name of the author, publisher, or source of such material.
- h. Investment analysts shall maintain appropriate records to support the reasonableness of their investment research, recommendations, and investment management.

2. Suitability

Principle: *Investment analysts shall assess the appropriateness of an investment recommendation or investment action for their clients and prospective clients.*

Key recommendations:

- a. Investment analysts shall make a reasonable inquiry into clients' and prospective clients' financial situations, and know their needs and investment experiences.
- b. Investment analysts shall consider the appropriateness of investment recommendations or actions for clients' investment objectives and portfolios.
- c. Investment analysts shall clearly indicate the basic features of an investment and its associated risks to clients and prospective clients.
- d. When an investment recommendation is made to the public (not specified clients), investment analysts shall indicate information such as provided under B.2.c. above so that the recipients of the recommendation can determine whether the recommendation is appropriate for them or not.

3. Prohibition Against Misrepresentation

Principle: Investment analysts shall accurately present all relevant facts to avoid any misrepresentation as to their professional services.

Key recommendations:

- a. Investment analysts shall not make any statements that could be misleading as to the services offered to clients and prospective clients, and any other important facts relevant to professional activities.
- b. Investment analysts shall present investment performance fairly, accurately, and completely to their clients and prospective clients.

4. Prevention and Disclosure of Conflicts of Interest

Principle: Investment analysts shall take all necessary steps to avoid conflicts of interest that could reasonably be expected to impair their independence and objectivity.

Key recommendations:

- a. Investment analysts shall disclose to their clients, prospective clients, and employers all matters that could reasonably be expected to impair their independence and objectivity.
- b. Investment analysts shall inform their supervisors of any form of pressure arising in the course of their professional duties.
- c. Investment analysts shall refrain from ownership of securities in their coverage sectors, unless such ownership is reasonably judged not to impair research objectivity and is disclosed to clients and prospective clients.
- d. Investment analysts assigning recommendations shall allow their clients and prospective clients adequate time to act on their recommendations before acting on their own behalf or their employers.
- e. Investment analysts shall not trade inconsistently with their firm's published recommendations, except in cases of clear personal necessity and only in compliance with the employer's disclosure procedures.
- f. Investment analysts shall give priority to investment transactions for clients over their personal or employers' account transactions.

5. Compensation

Principle: Investment analysts shall not accept compensation that could reasonably be expected to impair their independence and objectivity.

Key recommendations:

- a. Investment analysts shall disclose to their clients, prospective clients, and employers all monetary compensation or other benefits for services provided to clients from any source other than their firms.
- b. Investment analysts shall not accept from companies that they cover, gifts or other benefits which could reasonably be expected to impair their independence and objectivity.

6. Fair Dealing with Clients

Principle: *Investment analysts shall deal fairly with all clients and prospective clients when disseminating investment recommendations and taking investment actions.*

7. Prohibition Against Use of Material, Non-Public Information

Principle: *Investment analysts, whilst in the possession of material non-public information relating to issuers of financial instruments, shall not trade on, or communicate to others, such information, or use such information in investment analysis.*

8. Proper Use of Professional Qualifications

Principle: *Investment analysts shall use their qualifications with due care so as to enhance the standing of and confidence in such qualifications and their related associations.*

Key recommendation:

When using the CIIA designation in their professional activities, investment analysts shall take due care so as to enhance the standing of and confidence in the qualification and its related associations.

9. Preservation of Client Confidentiality

Principle: *Investment analysts shall preserve the confidentiality of information about clients and prospective clients.*

ACIIA Principles of Ethical Conduct at a Glance

A. Fundamental Principles

Investment analysts shall:

- A.1. Observe high standards of honesty, integrity, and fairness in dealings with clients, prospective clients, and others related to professional activities, so as to enhance public confidence in the profession.
- A.2. Perform their professional activities with reasonable care, prudence and diligence.
- A.3. Always act in the best interests of their clients and prospective clients, and place the interests of clients and prospective clients before their own or that of their employers, or those of any third party.
- A.4. Take reasonable care to maintain independence and objectivity and to make fair judgments in performing their professional activities.
- A.5. Continuously strive to maintain and improve their professional competence.
- A.6. Maintain knowledge of and comply with all applicable laws, rules, regulations, and the codes of ethics and standards of professional conduct of national or regional associations, and shall not consciously partake in any violation of an ethical or legal nature.

B. Specific Key Principles

Investment analysts shall:

- B.1. Have a reasonable basis for, and provide fair representation in, their investment research, recommendations, and investment management.
- B.2. Assess the appropriateness of an investment recommendation or investment action for their clients and prospective clients.
- B.3. Accurately present all relevant facts to avoid any misrepresentation as to their professional services.
- B.4. Take all necessary steps to avoid conflicts of interest that could reasonably be expected to impair their independence and objectivity.
- B.5. Not accept compensation that could reasonably be expected to impair their independence and objectivity.
- B.6. Deal fairly with all clients and prospective clients when disseminating investment recommendations and taking investment actions.
- B.7. Whilst in the possession of material non-public information relating to issuers of financial instruments, not trade on, or communicate to others, such information, or use such information in investment analysis.
- B.8. Use their qualifications with due care so as to enhance the standing of and confidence in such qualifications and their related associations.
- B.9. Preserve the confidentiality of information about clients and prospective clients.