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CHEAT SHEET

CFA® Program Level I

Ethical and Professional Standards Cheat Sheet

2027 curriculum · 10 readings

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ABOUT THIS EDITION

CredGuild · CFA® Program Level I · Ethical and Professional Standards Cheat Sheet
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USING THIS BOOK

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The revision summary of the CredGuild notes for the 2027 CFA® Program Level I curriculum, Ethical and Professional Standards: for each reading, the bottom line of every module, the exam shortcuts and the formulas. Use it in the last weeks before the exam, after you have studied the readings.

To learn a reading in full, open its notes at credguild.com. This sheet is free to print and share: credguild.com/cfa/level-1/cheat-sheet/

CFA® PROGRAM LEVEL I · CHEAT SHEET

Ethical and Professional Standards

Exam weight 10–15% · 10 readings

93 Ethics and Trust in the Investment Profession

- Ethics is the body of shared beliefs about which behavior is good and which is bad, and ethical conduct can also be described as behavior that improves outcomes for stakeholders, balancing self-interest against the impact on others.
- A code of ethics states a group's values, principles and general expectations, while standards of conduct set the minimum acceptable behavior in particular situations and are an optional part of a code.
- Professions establish trust through demanding requirements for expertise, knowledge and skill, standards of ethical behavior, monitoring of professional conduct, continuing education, a focus on clients' needs, and mentoring others in the profession.
- Investment advice and management are intangible products whose quality clients find hard to judge, and unethical conduct raises perceived investment risk and the cost of capital while reducing capital invested, the efficiency of capital allocation and economic growth.
- The suitability standard requires recommended securities to match the client's return requirements and risk tolerance, while the stronger fiduciary standard requires acting in the client's best interests.
- The challenges to ethical behavior are overconfidence in one's own ethics, situational influences and rules-focused compliance cultures; a lack of ethical principles is a personal trait, not a situational influence.
- Law and ethics overlap but neither is a subset of the other: some legal acts are unethical, and some illegal acts, such as whistle-blowing or civil disobedience, are considered ethical by many.
- The ethical decision-making framework has four steps: identify the facts, stakeholders, duties, principles and conflicts; consider influences, guidance and alternatives; decide and act; and reflect on the outcome.

94 Code of Ethics and Standards of Professional Conduct

- The Professional Conduct Program enforces the Code and Standards on the principles of fairness and confidentiality: the Disciplinary Review Committee is responsible for enforcement and the Professional Conduct staff carry out inquiries.
- An inquiry can start from self-disclosure on the annual Professional Conduct Statement, a written complaint, evidence from public sources, a report by an exam proctor, or CFA Institute's own monitoring of social media and review of exam materials.
- The Professional Conduct staff may conclude with no disciplinary sanction, a cautionary letter or a disciplinary sanction, and a member or candidate who rejects a proposed sanction is referred to a disciplinary review panel for a hearing.
- Exam convention: the sanctions listed are condemnation by the member's peers (public censure) and suspension of a candidate's continued participation in the CFA Program. Current practice: the preamble to the Code and Standards also names revocation of membership, of candidacy and of the right to use the CFA designation.

- Component 1 of the Code names four qualities, integrity, competence, diligence and respect, while complying with GIPS, advocating new laws, educating the general public, honoring contractual provisions and maximizing return per unit of risk are not components of the Code.
- Standards I to VII cover, in order: professionalism; integrity of capital markets; duties to clients; duties to employers; investment analysis, recommendations, and actions; conflicts of interest; and responsibilities as a CFA Institute member or candidate.
- Under Standard I(A), a member follows the Code and Standards where local law is less demanding and follows local law where it is stricter.
- The Code and Standards bind members of CFA Institute, including charterholders, and candidates for the CFA designation, so a member who does not yet hold the charter can still be sanctioned.

EXAM SHORTCUTS

- Specific duties such as keeping records or distinguishing fact from opinion come from the Standards, so an answer that places them in the Code of Ethics can be ruled out.

95 Guidance for Standard I: Professionalism

- Under Standard I(A), a member compares the applicable laws with the Code and Standards and follows whichever is strictest on each point, so where applicable law is weaker or silent the Code and Standards govern.
- A member who learns that coworkers or clients are breaking applicable rules goes to a supervisor or the compliance department to have the conduct remedied and, if it is not remedied, must dissociate, which in an extreme case may mean resigning.
- The Code and Standards do not require a member to report wrongdoers to governmental or regulatory authorities, although local law may require it.
- Under Standard I(B), modest gifts and ordinary business entertainment are acceptable, the test being whether an item could reasonably be expected to compromise independence and objectivity, and a gift from a client may be accepted but must be disclosed to the employer.
- Issuer-paid research is permitted if the compensation is a flat fee not tied to the report's conclusions, recommendations or market impact and the issuer payment is disclosed.
- Under Standard I(C), misrepresentation covers plagiarism, selective data presented in order to mislead, the omission of relevant information and any knowing attempt to mislead investors, but factual data from recognized financial and statistical reporting services may be used without citation.
- Standard I(D) covers only professional conduct: dishonesty, fraud or deceit violates it, while civil disobedience is generally not a violation and personal bankruptcy is not one unless fraudulent or deceitful professional conduct was involved.
- Under Standard I(E), the member, not the employer, is responsible for developing the competence a new role requires, and continuing education is recommended but not required.

96 Guidance for Standard II: Integrity of Capital Markets

- Standard II(A) applies only when information is both material, meaning disclosure would move the price or a reasonable investor would want to know it, and nonpublic, meaning it has not been disseminated to the marketplace in general.
- Selective disclosure, such as telling a group of analysts on a conference call or a roadshow audience, leaves the information nonpublic for everyone who heard it.
- Acting or causing others to act on material nonpublic information includes trading for oneself, clients, the employer or family members, executing an order from someone known to be trading on it, recommending or tipping, and trading related funds, swaps or options, while possession alone is not a violation.

- Under the mosaic theory, an analyst may act on a conclusion drawn from public information and nonmaterial nonpublic information even if the conclusion would be material had the company disclosed it, but never on an item that is itself material and nonpublic.
- Standard II(B) is violated by spreading false or misleading information to affect prices or volume, or by trades intended to mislead market participants.
- Strategies that exploit market inefficiencies, transactions made for tax purposes and block trades used to limit price impact are not manipulation when they carry no intent to mislead.
- A member who holds material nonpublic information should make reasonable efforts to achieve public dissemination of it by the company.
- The firm's core control is a firewall, with a clearance area, review of employee trades, watch, restricted and rumor lists, and monitoring and restriction of proprietary trading.

EXAM SHORTCUTS

- Under Standard II(B), whether the member profited does not matter; the deciding element is the intent to mislead, so a trade that merely moves the price is not a violation without it.

97 Guidance for Standard III: Duties to Clients

- Standard III(A) requires loyalty to clients, reasonable care and prudent judgment, with clients' interests placed before the employer's and the member's own, but it does not create a fiduciary duty where none already exists.
- For a pension plan, the duty of loyalty runs to the plan participants and beneficiaries, not to the sponsoring company, its management or its shareholders.
- Client brokerage (soft dollars) is an asset of the client and must be used for the client's benefit, such as research that assists in managing client accounts, while a client's instruction to direct its trades to a named broker may be followed with disclosure that best execution may not be achieved.
- Proxies must be voted in an informed and responsible way in clients' interests, although a cost-benefit analysis may show that voting a particular proxy is not worthwhile.
- Fair dealing is not equal treatment: disclosed service tiers open to anyone willing to pay are allowed, but a partly filled order is allocated pro rata to each account's order size, across all accounts for which the trade is suitable, at the same average price.
- In an advisory relationship, Standard III(C) requires a reasonable inquiry into the client's experience, objectives and constraints before acting, regular reassessment, and a judgment of suitability in the context of the total portfolio; a manager running a portfolio to a mandate acts only within its stated objectives and constraints.
- Standard III(D) requires reasonable efforts to make performance information fair, accurate and complete, and a brief presentation is allowed if detailed information is available on request and the presentation says it gives only limited information.
- Under Standard III(E), confidential information about current, former and prospective clients may be disclosed only if it concerns illegal activities by the client, if the law requires disclosure, or if the client or prospective client permits it, and giving it to the Professional Conduct Program in an investigation is permitted.

EXAM SHORTCUTS

- Client consent or disclosure does not make an unfair allocation or dissemination practice acceptable, so an answer that relies on consent to justify one can be ruled out.

98 Guidance for Standard IV: Duties to Employers

- Under Standard IV(A), an employer–employee relationship exists whenever a person works in the service of another, with no written contract or monetary compensation required.

- Independent practice that competes with the employer for compensation or other benefit is allowed only after the member notifies the employer of the types of services, expected duration and compensation and obtains the employer's consent before the practice begins.
- Until a resignation is effective, a member may prepare to compete, for example by interviewing, leasing office space or registering a new firm, but may not solicit the employer's current or prospective clients, induce colleagues to leave, or copy client lists, models or other files.
- After leaving, and absent a valid non-compete agreement, a member may contact former clients using memory or public sources, while records created or kept for the employer remain its property in any medium.
- Whistleblowing against the employer's interest to protect clients or market integrity is not a breach of loyalty when it is not for personal gain and complies with applicable law.
- Under Standard IV(B), a benefit that competes with the employer's interest, or that might reasonably be expected to create a conflict of interest with it, may be accepted only with written consent, e-mail included, from all parties involved.
- Under Standard IV(C), a supervisor must make reasonable efforts to prevent, detect and act on violations by anyone under his or her supervision or authority, and delegating supervisory duties does not transfer the supervisory responsibility.
- A member asked to supervise where compliance procedures are absent or inadequate must decline in writing to accept supervisory responsibility until the firm adopts adequate procedures.

EXAM SHORTCUTS

- Ask when a client bonus is earned: one that depends on future performance is an additional compensation arrangement needing written consent in advance under Standard IV(B), while one that rewards performance already achieved is a gift to be disclosed under Standard I(B).

99 Guidance for Standard V: Investment Analysis, Recommendations, and Actions

- Standard V(A) requires diligence, independence and thoroughness, and every analysis, recommendation or action must rest on a reasonable and adequate basis backed by appropriate research and investigation.
- How much research is enough depends on the member's investment philosophy, role in the decision-making process and the employer's resources and support.
- A member may rely on third-party or the firm's own research after a reasonable and diligent review of its assumptions, rigor, timeliness, objectivity and independence, but a rumor, an overheard tip or a single popular-press article is not a reasonable basis.
- Standard V(B) requires members to disclose the nature and costs of their services, the general principles and basic format of their investment process with prompt disclosure of material changes, and significant limitations and risks.
- A projection must be presented as an opinion, so writing that a future event will happen violates Standard V(B), while a short recommendation is allowed if clients are told that the full analysis is available.
- Under Standard V(C), records in any medium belong to the firm, and a member who changes employers must re-create supporting records from public sources or the covered company rather than rely on memory.
- Where no regulation or firm policy sets a retention period, records should be kept for at least seven years.
- Suitability under Standard III(C) applies when advising a particular client, while a research analyst publishing a general recommendation is judged under Standard V(A).

EXAM SHORTCUTS

- Standard V(A) judges the work done before a recommendation, so the investment's later loss or gain does not by itself decide whether the Standard was violated.

100 Guidance for Standard VI: Conflicts of Interest

- Standard VI(A) requires members to avoid conflicts where reasonably possible and otherwise to make full and fair disclosure in prominent, plain-language form, so a line of fine print buried in a legal appendix does not meet it.
- The conflict that most often requires disclosure is the member's own stock ownership in a company he or she recommends or that clients hold, including beneficial ownership through a trust, and disclosing the holding meets the Standard without declining the assignment or selling the stock.
- Market making, investment banking relationships, board seats held by the member or senior firm officers, paid consulting work for the issuer, and compensation arrangements that could create incentives at odds with clients' objectives must be disclosed.
- Under Standard VI(B), transactions for clients and employers have priority over those in which the member is the beneficial owner, client transactions also come before the firm's proprietary trading, and front-running violates the Standard.
- Fee-paying client accounts of family members are treated exactly like other client accounts, neither favored nor disadvantaged.
- A member may trade personally in a security that is not suitable for any client without first offering it to clients, the overriding test being that personal trades do not disadvantage any client.
- Standard VI(C) requires disclosure of any compensation, consideration or benefit, cash or non-cash, received from or paid to others for recommending products or services, with its nature and estimated value, before the client or prospect enters into an agreement for services.
- Recommended procedures for Standard VI(B) include limits on employee participation in equity IPOs, restrictions on private placements, blackout periods before client trades, and reporting procedures such as pre-clearance and duplicate trade confirmations.

EXAM SHORTCUTS

- To tell look-alike benefits apart, start from the trigger: a client's gift for results already achieved falls under I(B), a benefit tied to future performance or competing outside pay under IV(B), a holding, relationship or pay scheme that could impair independence and objectivity under VI(A), and pay for recommending products or services under VI(C).

101 Guidance for Standard VII: Responsibilities as a CFA Institute Member or CFA Candidate

- Conduct that breaches Standard VII(A) includes cheating, or offering to help someone cheat, on a CFA Institute exam, breaking CFA Program rules and policies, disclosing confidential exam information, improperly using the CFA designation and misrepresenting information on the Professional Conduct Statement.
- Confidential exam information includes specific questions and the broad topic areas or formulas that were or were not tested, the obligation continues after the testing window closes, and discussing the curriculum itself is allowed.
- Standard VII(A) does not restrict expressing opinions, so criticizing CFA Institute, the CFA Program, pass rates or CFA Institute's advocacy positions is allowed.
- To remain an active member and keep the right to use the CFA designation, a charterholder must pay annual membership dues and file the annual Professional Conduct Statement.
- No partial CFA designation exists, so a title such as "CFA Level II" is not allowed, but a candidate may state facts such as the levels passed, the years they were passed and that each was passed on the first attempt.
- Claiming superior ability, or promising higher returns, lower risk or better service, because of the designation or exam results violates Standard VII(B).
- Stating that one is a charterholder, describing accurately what the designation requires, and stating that holding the charter reflects a commitment to high ethical standards are allowed.
- Members should check that their firms know how to refer correctly to a member's CFA designation or candidacy.

102 Application of the Code and Standards: Level I

- Application questions test which Standard a fact pattern touches and whether the conduct crosses the line, and the explanation must name the fact that decides the outcome.
- Under Standard I(A), a member who cannot stop a violation through supervisors or compliance must dissociate, and a partial fix that leaves some clients affected is not enough.
- Members cannot contract out of their duties to clients, so a client agreement may not excuse the firm from acting in clients' best interests or restrict clients' legal claims.
- Soft dollars may pay only for research and services that benefit clients, never for office furniture or personal expenses.
- A fee-based premium service is allowed if all clients know it exists and it never delivers recommendation changes ahead of other clients, and disclosing the service does not make early delivery acceptable.
- Under Standard IV(B), a benefit that competes with or could create a conflict with the employer's interest needs written consent from all parties involved, and when the outside party has already made its offer in writing, the employer's written consent is what remains.
- Putting a family member's account ahead of clients violates Standard VI(B) even when the information acted on is public.
- Candidates may share general impressions of exam difficulty but not specific questions or which topics were or were not tested, and soliciting such information also violates Standard VII(A).

EXAM SHORTCUTS

- If the information in a stem came from a general newswire, it is public, so Standard II(A) is not the issue and the answer usually lies in priority of transactions or fair dealing.

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- **Cheat sheet and formula sheet:** every reading's bottom line and every formula, by topic. credguild.com/cfa/level-1/cheat-sheet/

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