CFA LEVEL I STUDY SHEET · TOPIC 1

Ethical and Professional Standards

Chartered Financial Analyst (CFA®) Program Level I exam

10–15% of the exam · 10 learning modules · 2027 curriculum

This topic covers how firms govern risk, why ethics underpins trust in the investment profession, and how the CFA Institute Code of Ethics and Standards of Professional Conduct (effective 1 January 2024) apply to everyday decisions. Level I questions are mostly short scenarios: you decide whether a person's conduct conforms to or violates a specific Standard, and what they should have done instead.

You should be able to: After this guide you should be able to name the Standard a scenario engages, decide whether the conduct conforms or violates it, and state the remedy the Standards expect.

Every learning module: the key point and the trap

ETH.1 Why ethics builds trust in finance

Ethics is a set of moral principles and rules of conduct that guide behaviour when choices affect others; ethical conduct balances self-interest with the interests of others.

Trap: Assuming that compliance with the law is enough: an act can be legal and still unethical.

ETH.2 The Code, the Standards and enforcement

Members and candidates must follow the Code and Standards and each year sign a statement disclosing matters such as complaints, litigation or investigations relating to their professional conduct.

Trap: Mixing up the Code (six broad principles) with the Standards (seven numbered Standards with sub-sections), or thinking only a client complaint can start an inquiry.

ETH.3 Law, independence, honesty and competence

I(A) Knowledge of the Law: follow the stricter of applicable law and the Code and Standards; do not knowingly participate in or assist violations, and dissociate from them, which may mean refusing work or leaving the firm.

Trap: Thinking that following local law is always enough, or that a 'guaranteed' statement is always misrepresentation even when the instrument really is guaranteed.

ETH.4 Inside information and market manipulation

II(A) Material Nonpublic Information: members who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on it.

Trap: Treating any nonpublic fact as forbidden: the test needs information that is both material and nonpublic.

ETH.5 What members owe their clients

III(A) Loyalty, Prudence, and Care: act for the benefit of clients and put their interests before the employer's and one's own; for a pension plan the beneficiaries are the clients. Voting proxies and directing brokerage (soft dollars) must serve clients.

Trap: Believing fair dealing requires every client to receive the same service, or that the plan sponsor rather than the beneficiaries is the client of a pension manager.

ETH.6 What members owe their employers

IV(A) Loyalty: in matters related to employment, act for the employer's benefit and do not deprive it of skills, divulge confidential information or otherwise cause harm.

Trap: Thinking that a member who has not yet resigned may contact clients 'just to let them know', or that a verbal okay is enough under IV(B).

ETH.7 Research basis, client communication, records

V(A) Diligence and Reasonable Basis: exercise diligence, independence and thoroughness in analysis and have a reasonable and adequate basis, supported by research, for any recommendation or action.

Trap: Presenting a forecast as fact (an opinion such as an earnings estimate must be identified as an opinion), or thinking records leave with the analyst.

ETH.8 Disclosing conflicts, trade priority, referrals

VI(A) Disclosure of Conflicts: make full and fair disclosure of all matters that could reasonably impair independence and objectivity or interfere with duties to clients, prospective clients and the employer; disclosure must be prominent, delivered in plain language and communicate the information effectively.

Trap: Believing a fee-paying family member's account must wait until all other clients trade, or that a conflict disclosed in fine print is enough.

ETH.9 Candidate conduct and using the CFA name

VII(A) Conduct as Participants in CFA Institute Programs: do not engage in conduct that compromises the reputation or integrity of CFA Institute, the CFA designation or the integrity, validity or security of CFA Institute programs.

Trap: Thinking any discussion of the exam is a breach: general remarks are fine, specific questions and topic content are not.

ETH.10 Mixed ethics cases at Level I

Start every case by naming who is owed a duty: clients first, then the employer, then the member's own interest.

Trap: Stopping at the first Standard you spot when the facts also breach another.

Key terms

Risk tolerance: The amount of risk an organisation or investor is willing to accept to reach its goals.

Risk budgeting: Allocating a total risk limit across activities, managers or asset classes.

Mosaic theory: Reaching a material conclusion from public and nonmaterial nonpublic information, which is permitted.

Material information: Information a reasonable investor would want, or that would likely move the price if released.

Fair dealing: Treating all clients fairly and objectively; not necessarily identically.

Soft dollars: Using client brokerage commissions to buy research or services, which must benefit the clients.

Dissociate: To separate oneself from a violation, for example by refusing to take part or leaving the firm.

Professional Conduct Program: CFA Institute's process for investigating and sanctioning breaches of the Code and Standards.

Beneficial owner: A person who benefits from or controls an account's investments, such as one's own or a spouse's account.

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