

Asset Manager Code

The CFA Institute Asset Manager Code outlines the ethical and professional responsibilities of firms (“Managers”) that manage assets on behalf of clients.¹ By adopting and enforcing a code of conduct for their organizations, Managers demonstrate their commitment to ethical behavior and the protection of investors’ interests.

1.1 GENERAL PRINCIPLES OF CONDUCT

Managers have the following responsibilities to their clients.

Managers must:

1. Act in a professional and ethical manner at all times.
2. Act for the benefit of clients.
3. Act with independence and objectivity.
4. Act with skill, competence, and diligence.
5. Communicate with clients in a timely and accurate manner.
6. Uphold the applicable rules governing capital markets.

1.2 ASSET MANAGER CODE

(A) Loyalty to Clients

Managers must:

1. Place client interests before their own.
2. Preserve the confidentiality of information communicated by clients within the scope of the Manager–client relationship.
3. Refuse to participate in any business relationship or accept any gift that could reasonably be expected to affect their independence, objectivity, or loyalty to clients.

(B) Investment Process and Actions

Managers must:

1. Use reasonable care and prudent judgment when managing client assets.
2. Not engage in practices designed to distort prices or artificially inflate trading volume with the intent to mislead market participants.
3. Deal fairly and objectively with all clients when providing investment information, making investment recommendations, or taking investment action.

4. Have a reasonable and adequate basis for investment decisions.
5. When managing a portfolio or pooled fund according to a specific mandate, strategy, or style:
 - a. Take only investment actions that are consistent with the stated objectives and constraints of that portfolio or fund.
 - b. Provide adequate disclosures and information so investors can consider whether any proposed changes in the investment style or strategy meet their investment needs.
6. When managing separate accounts and before providing investment advice or taking investment action on behalf of the client:
 - a. Evaluate and understand the client's investment objectives, tolerance for risk, time horizon, liquidity needs, financial constraints, any unique circumstances (including tax considerations, legal or regulatory constraints, etc.), and any other relevant information that would affect investment policy.
 - b. Determine that an investment is suitable to a client's financial situation.

(C) Trading

Managers must:

1. Not act or cause others to act on material nonpublic information that could affect the value of a publicly traded investment.
2. Give priority to investments made on behalf of the client over those that benefit the Managers' own interests.
3. Use commissions generated from client trades to pay for only investment-related products or services that directly assist the Manager in its investment decision-making process, and not in the management of the firm.
4. Maximize client portfolio value by seeking best execution for all client transactions.
5. Establish policies to ensure fair and equitable trade allocation among client accounts.

(D) Risk Management, Compliance, and Support

Managers must:

1. Develop and maintain policies and procedures to ensure that their activities comply with the provisions of this Code and all applicable legal and regulatory requirements.
2. Appoint a compliance officer responsible for administering the policies and procedures and for investigating complaints regarding the conduct of the Manager or its personnel.
3. Ensure that portfolio information provided to clients by the Manager is accurate and complete and arrange for independent third-party confirmation or review of such information.
4. Maintain records for an appropriate period of time in an easily accessible format.
5. Employ qualified staff and sufficient human and technological resources to thoroughly investigate, analyze, implement, and monitor investment decisions and actions.
6. Establish a business-continuity plan to address disaster recovery or periodic disruptions of the financial markets.

7. Establish a firmwide risk management process that identifies, measures, and manages the risk position of the Manager and its investments, including the sources, nature, and degree of risk exposure.

(E) Performance and Valuation

Managers must:

1. Present performance information that is fair, accurate, relevant, timely, and complete. Managers must not misrepresent the performance of individual portfolios or of their firm.
2. Use fair-market prices to value client holdings and apply, in good faith, methods to determine the fair value of any securities for which no independent, third-party market quotation is readily available.

(F) Disclosures

Managers must:

1. Communicate with clients on an ongoing and timely basis.
2. Ensure that disclosures are truthful, accurate, complete, and understandable and are presented in a format that communicates the information effectively.
3. Include any material facts when making disclosures or providing information to clients regarding themselves, their personnel, investments, or the investment process.
4. Disclose the following:
 - a. Conflicts of interests generated by any relationships with brokers or other entities, other client accounts, fee structures, or other matters.
 - b. Regulatory or disciplinary action taken against the Manager or its personnel related to professional conduct.
 - c. The investment process, including information regarding lock-up periods, strategies, risk factors, and use of derivatives and leverage.
 - d. Management fees and other investment costs charged to investors, including what costs are included in the fees and the methodologies for determining fees and costs.
 - e. The amount of any soft or bundled commissions, the goods and/or services received in return, and how those goods and/or services benefit the client.
 - f. The performance of clients' investments on a regular and timely basis.
 - g. Valuation methods used to make investment decisions and value client holdings.
 - h. Shareholder voting policies.
 - i. Trade allocation policies.
 - j. Results of the review or audit of the fund or account.
 - k. Significant personnel or organizational changes that have occurred at the Manager.
 - l. Risk management processes.

1.3 NOTIFICATION OF COMPLIANCE

Managers must notify the CFA Institute of their claim of compliance through the Asset Manager Code claim of compliance form at www.cfainstitute.org/assetcode. This form is for communication and information-gathering purposes only and does not represent that CFA Institute engages in enforcement or quality control

of an organization's claim of compliance. CFA Institute does not verify either the Manager's claim of compliance or actual compliance with the Code.

For additional information on complying, please visit www.cfainstitute.org/assetcode.

1.4 ADDITIONAL GUIDANCE FOR THE ASSET MANAGER CODE

The following interpretations of the Asset Manager Code are responses to inquiries received from firms seeking to comply with the Code. These interpretations serve as additional guidance to the Asset Manager Code from CFA Institute and should be considered official and authoritative explanations of the requirements of the relevant Code provisions.

1.4.1 Defining a Firm

How does the Asset Manager Code apply to large investment advisers that are the parent of a group of smaller managers? Does compliance by the parent company signify that all of the related firms are in compliance? Can the smaller firms claim compliance separately?

In the case of a common parent of several individual asset managers, each individual manager may claim compliance or the parent firm may claim compliance for all individual members. However, if the parent claims compliance for the group, then each individual member firm of that group must comply with the provisions of the Code. Additionally, both the parent and the underlying firms may claim compliance with the Code and appear on the CFA Institute list of compliant firms.

1.4.2 Claiming Compliance

If a firm claims compliance with the Asset Manager Code, is it required to include a statement of compliance on its marketing materials or in GIPS-compliant presentations?

The Code does not require firms to include a claim of compliance on marketing materials. If the firm claims compliance with the GIPS standards and the Code, the firm is not required to include a claim of Code compliance on GIPS-compliant performance. If the firm chooses to include a claim of compliance with the Code on its marketing materials, it must include the following statement: "[Firm] claims compliance with the CFA Institute Asset Manager Code. This claim has not been verified by CFA Institute."

1.4.3 Suitability

Is a Code-compliant asset manager required to meet the suitability provision (Provision B.6) for large, sophisticated asset owners or for asset owners working through a third-party consultant?

Provision B.6 applies to firms managing client assets with a variety of strategies and mandates. For instances when an institutional investor, either directly or through

a third-party consultant, hires an investment manager to manage a specific portion of the institutional assets to a particular mandate, strategy, or style, Provision B.5 would be the applicable suitability provision. Provision B.5 requires the manager to take investment actions that are consistent with the mandate but does not require a suitability assessment of the mandate itself in relation to the client's other assets. Meeting either of these provisions can be documented through the investment policy statement or through the manager contract.

1.4.4 Protecting Client Interests

Provision C.2 states that clients must be given “priority” over investments that benefit the manager's own interests. If a manager's trade allocation policies treat all accounts “equitably” but do not necessarily give “priority” to an account or fund that is not invested in by the manager, does that comply with Code?

Trade allocation policies that (1) treat all accounts or funds equitably without consideration of a manager's participation; and (2) do not disadvantage clients for the manager's benefit are not incompatible with this provision. Provision C.2 highlights the duty to act in the best interest of clients. Giving client accounts priority in the context of this provision prohibits manager accounts from being favored over client accounts. The guidance to Provision C.2 makes clear that investment activities of the manager for his or her own investments must not adversely affect or disadvantage the manager's clients.

1.4.5 Best Execution

Provision C.4 states that compliant managers are to seek best execution for all client transactions. If a client directs the manager to trade with a specific broker that may not offer best execution but does provide some other service to the client, can the manager still claim compliance with the Code?

Directed brokerage arrangements that do not allow the firm to obtain best execution do not violate this provision. Best execution in this case can only be done within the confines of the client mandate.

Provision C.4 highlights the duty to maximize client portfolio value by trading through the appropriate channels for the particular circumstances for the trade. When a client directs the manager to trade through a specific broker, this may prevent the manager from using a broker that could provide more favorable execution terms for the client. Best practice dictates that the manager alert the client of the potential impact of his or her directed brokerage on execution prices.

1.4.6 Third-Party Confirmation of Client Information

Does the routine reconciliation process provided for by the custodial bank meet the “independent third-party confirmation” requirement of Provision D.3 of the Code? Does a manager need some separate, formal confirmation to a client?

Provision D.3 considers the routine reconciliation process of custodians to constitute “independent third-party confirmation” as required by the Code. No additional confirmation statement is required.

1.4.7 Risk Management

Regarding Provision D.7, can you describe what sort of risk management process you are seeing in managers adopting the Code?

CFA Institute does not require firms to disclose their risk management processes to the organization prior to or as part of their claim of compliance. We are not privy to the processes adopted by managers. It is up to each manager to adopt adequate risk management processes to meet this provision that are appropriate and relevant to the firm. The guidance to Provision D.7 outlines generally what constitutes an effective risk management process.

1.4.8 Valuation of Assets

Provision E.2 states that compliant managers are to use fair-market prices for traded securities. When a manager feels that the market quotation for a specific security or type of security no longer reflects the current value of the security, would the manager be prohibited from using alternative methods for calculating the holding value?

When the manager feels that the market quotation price no longer reflects the current value of a security because of an unforeseen market event (e.g., a sudden and protracted decline in trading liquidity), then the manager may treat that security like other investment assets without market quotation for valuation purposes. The manager may use widely accepted valuations methods common for the industry or turn to an independent third party for the security valuations.

1.4.9 Disclosures

Regarding providing the required disclosures in Section F, does the Code allow for some accounts to receive full disclosure documents (such as Form ADV or a fund prospectus) but others that do not?

The guidance to Provision F.1 states that “managers must determine how best to establish lines of communication that fit their circumstances and enable clients to evaluate their financial status.” It is up to managers to determine how best to communicate with their clients. Provision F.4 lists the information that the Code requires to be made available (disclosed) to clients. Each manager has discretion regarding how disclosures are accomplished so long as the required information is available to the clients.

Managers need not disclose the full details of all required information with every communication. For example, for Provision F.4.b, a manager may state at the outset of the relationship that “information on regulatory or disciplinary action taken against this firm or our employees is available on request.”

1.4.10 Soft Dollars

Does the requirement under Provision F.4.e that managers disclose to clients “the amount of any soft or bundled commissions” require the unbundling of commissions for each trade or each client? Does a description of the manager’s execution process, which includes soft dollar and research practices, meet this requirement?

Disclosure under Provision F.4.e allows investors to make informed decisions about whether their commissions are used to purchase goods and services

(including research) beyond execution and whether they are receiving a benefit from these goods and services. Disclosure enables investors to determine whether to use advisers who enter into soft dollar arrangements. However, Provision F.4.e does not require firms to unbundle each trade for each client. Firms should disclose to clients what amount (i.e., dollars) or portion (i.e., percentage) of their total commissions was paid under a soft dollar arrangement, along with the services received from the soft dollars and the benefit of those services to the clients. Boilerplate or general statements regarding use of soft dollars are not sufficient. In situations in which investors buy into a particular investment fund and the trading of the fund generates soft dollars, the firm is not required to break down the soft dollar commissions for each individual investor in the fund. Similarly, in programs in which holdings for many individual accounts are aggregated with other clients for trading or recordkeeping, disclosure of soft dollar information in aggregate is sufficient. Individual investors are then free to request information about soft dollars for their individual accounts. With disclosure in hand, the investor can make an informed decision about engaging the manager.

1.4.11 Investment Process

Does the requirement under Provision F.4.g require the manager to publicly disclose the full operations of the security selection process? For instance, is the manager required to disclose all elements of a proprietary quantitative model?

Provision F.4.g, in conjunction Provision F.4.c, highlights the need for a manager to provide clients and prospective clients with sufficient information to make an informed decision about the investment methodology used in managing the portfolio. The provisions do not require the firm to publish a proprietary investment model or analytical process. However, the communications with clients and prospective clients should be sufficiently detailed to give them sufficient information to understand the nature and the risks of the investment process. The timing and frequency of such disclosures by the manager may be determined based on the relationship that exists with the individual clients.

1.4.12 Additional Q&As

What are the registration options for a diverse organization with many operating subsidiaries?

Any legal operating entity providing investment management services is permitted to claim compliance with the Asset Manager Code. This permits the parent-level organization to claim compliance, as well as the individual subsidiaries. It is up to the firm to determine the most appropriate entities to submit claims of compliance to accurately reflect the information to clients.

If the organization registers compliance for the parent-level organization, then all operating subsidiaries would be covered by that registration. Thus, the registration of the subsidiaries, is not needed, but is permitted to add clarity.

When registration is completed at the subsidiary-level, only the specific organization and any subsidiaries under it are deemed as complying with the Code. The registration of a subsidiary does not create an obligation of the parent to comply with the Code.

A firm has only one legal structure but operates in different divisions for providing services to clients. Is the firm permitted to register compliance for only one specific operating division?

A firm may not register compliance for a division that is not operated as a separate legal entity. Any legal operating entity providing investment management services is permitted to claim compliance with the Asset Manager Code. The CFA Institute website then displays the names of the firms claiming compliance. Users of the website would not be able to tell if only a portion of the listed firm complied with the requirements of the Code.

Additional questions? Contact the helpdesk at industrystandards@cfainstitute.org.

NOTE

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