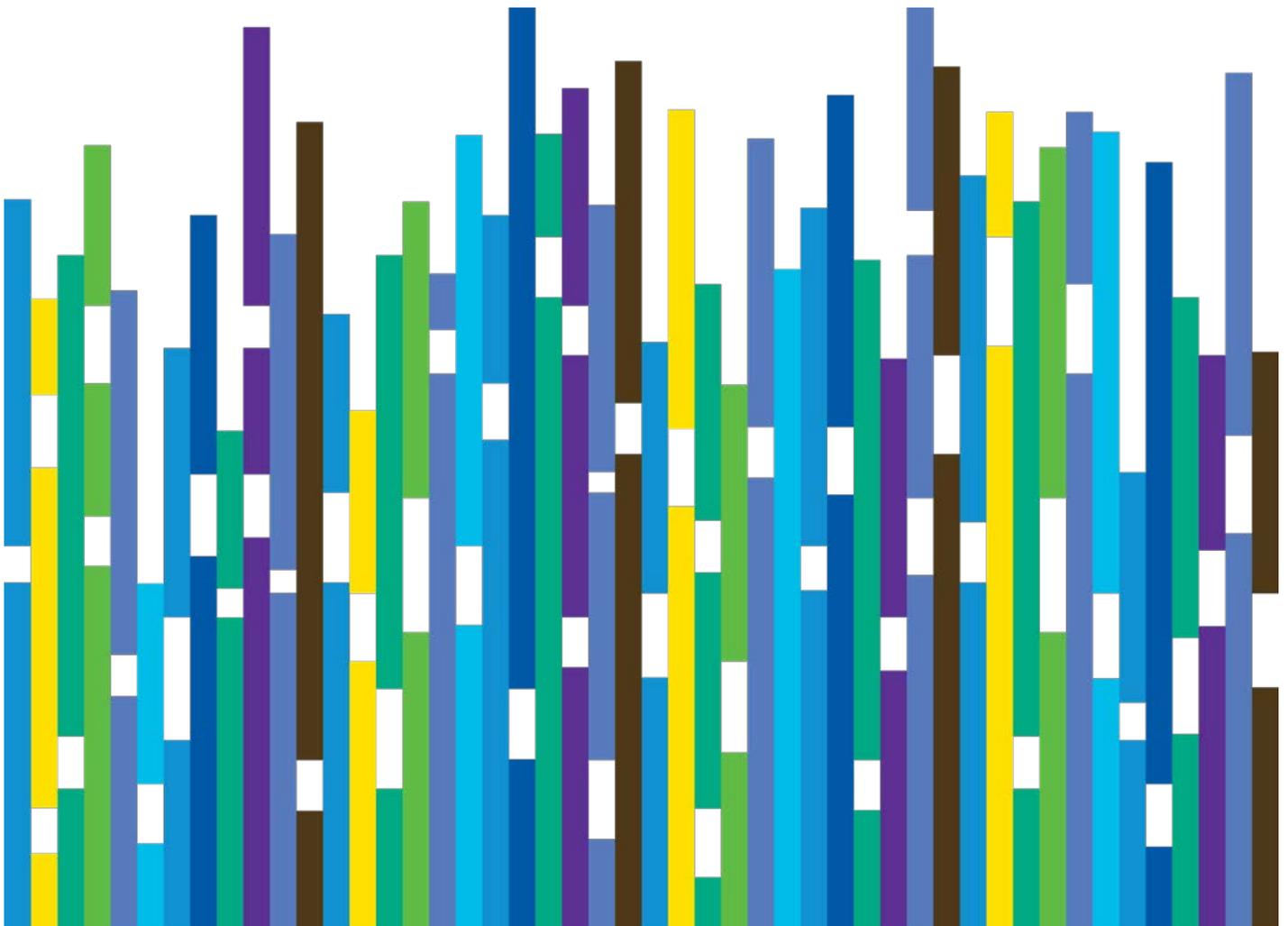


# DISCIPLINARY SANCTION GUIDELINES

Matters Related to  
Professional Conduct



# DISCIPLINARY SANCTION GUIDELINES

## Matters Related to Professional Conduct

### Introduction

CFA Institute has created these Sanction Guidelines to describe the guiding principles, key factors and considerations, conduct-specific factors, and types of aggravating/mitigating factors that Professional Conduct and Hearing Panels typically consider in determining disciplinary sanctions for violations of the CFA Institute Code of Ethics and Standards of Professional Conduct in industry-related cases. The goals are to ensure that sanction determinations continue to be fair, effective, transparent, and consistent, and to provide more information to Covered Persons and their attorneys regarding the approach that Professional Conduct and Disciplinary Panels will take when making sanction decisions.

Professional Conduct and Hearing Panels must always use their knowledge, experience, and best professional judgment in making sanction decisions. They should also consult these Guidelines to ensure that their sanction determinations are well-reasoned, fair, and consistent.

### Guiding Principles

The goals of CFA Institute disciplinary sanctions are to protect the investing public, maintain market integrity, and promote and reinforce public confidence in the investment profession, as embodied by our members and candidates who have committed themselves to the highest standards of professional ethics. Disciplinary sanctions serve to deter Covered Persons and others from engaging in wrongdoing and to educate them about the risks, dangers, and consequences of engaging in different types of illegal and unethical conduct.

To achieve these important goals, Professional Conduct and Hearing Panels should seek to impose fair, consistent, and proportionate sanctions that are effective in holding Covered Persons accountable for the actual or potential damage that their wrongdoing posed to clients, the investing public, the financial markets, and/or the reputations of CFA Institute, its members and candidates, the CFA designation, and the investment profession generally.

Consequently, when determining the appropriate sanction in industry-related matters, Professional Conduct and Hearing Panels should assure themselves that the sanction:

- Advances the goal of protecting the investing public and enhances the public's confidence in the investment profession by ensuring that CFA Institute holds its members and candidates accountable for their professional misconduct and sanctions them appropriately,
- Upholds the integrity and value of CFA Institute membership and professional designations and protects the reputations and interests of the membership of CFA Institute as a whole,
- Serves to educate and deter others (including the Covered Person) from committing similar violations in the future,
- Promotes, enforces, and maintains high ethical standards in the investment profession,
- Ensures that misconduct that was directed at, or involved taking advantage of, an elderly, infirm, or otherwise vulnerable person is considered a significant aggravating factor in determining the appropriate sanction,
- Reflects the unique facts, circumstances, and evidence in each matter,

- Balances the need to protect the investing public and promote the ethical values of CFA Institute with the right of the individual Covered Person to a fair sanctioning process while ensuring that protecting investors remains paramount,
- Ensures that the sanction determination is well-reasoned and is proportional to the seriousness of the misconduct, after considering mitigating and aggravating factors:
  - Because the principal goal of CFA Institute sanctions is to protect the public (rather than merely to punish individuals for wrongdoing), factors that mitigate against punishment may carry less weight in Hearing Panel sanction decisions than they might in other forums where the goal of sanctioning is merely punitive.
  - Because the public is entitled to expect integrity and honesty from a member or candidate who has committed to abide by the Code and Standards, absent unusual circumstances, it is reasonable for a Hearing Panel to impose a lengthy Timed Suspension or a Revocation/Prohibition upon a member or candidate whose misconduct involves dishonesty or deceit.
  - In cases involving multiple violations of the Code and Standards, the sanction may be aggregated so that it appropriately reflects the gravity of the total underlying misconduct.
  - A Timed Suspension should be considered when: (a) the violations involve intentional or reckless misconduct, or gross or inexcusable negligence; (b) there has been a pattern of misconduct or deliberate acts of concealment; (c) the Covered Person has a prior, relevant disciplinary history; and/or (d) the misconduct caused some measure of tangible or intangible harm to investors, the marketplace, or the financial services industry.
  - A Revocation or Prohibition should be considered when: (a) any of the factors stated above is present; (b) the Covered Person's disciplinary history with CFA Institute, a securities regulator/self-regulatory organization, or criminal authority shows a fundamental disrespect for law; and/or (c) the violation caused *significant* tangible or intangible harm to investors, the marketplace, or the financial services industry.

## Key Factors and Considerations

The table below provides guidance regarding the three Key Factors in determining the appropriate sanction to impose on a Covered Person: (1) the Covered Person’s intent or state of mind when he or she engaged in the misconduct, (2) the nature and severity of the Covered Person’s misconduct, and (3) the extent of the damage caused by the Covered Person’s conduct. To make a determination as to each of those factors, a Hearing Panel should consult the questions listed under “Considerations” and review the “Guidance” associated with each Key Factor.

Key Factor	Considerations	Guidance
<p>Covered Person’s Intent</p> <p>Unintentional (accidental)            Negligent (careless)            Reckless (clearly should have known)            Intentional (deliberate)</p>	<p>Did the Covered Person:</p> <ul style="list-style-type: none"> <li>• Make full, timely disclosure to, and then reasonably rely on, competent professional advice provided by a direct supervisor, compliance officer, or in-house or outside counsel?</li> <li>• correctly follow the supervisory or operational procedures of his or her employer in connection with the misconduct?</li> <li>• engage in the misconduct despite prior warning from a colleague, manager, compliance officer, counsel, or regulator?</li> <li>• engage in fraudulent, manipulative, or deceptive conduct?</li> <li>• engage in the misconduct alone, or with others, resulting in differing degrees of knowledge, participation, and responsibility?</li> <li>• organize and plan the conduct, or was it the result of a rash action or temporary lapse of judgment?</li> <li>• Conceal or attempt to conceal the misconduct or otherwise deceive or mislead a client, employer, or regulator from discovering the misconduct?</li> </ul>	<p>It may be difficult to discern a Covered Person’s state of mind at the time of the misconduct. In many cases, however, a Covered Person’s behavior before and after the misconduct can provide a reliable indication of whether they had deliberate intent to engage in wrongdoing.</p> <p>For example, a strong indicator of intent is pre-planning of the behavior and/or attempting to hide it after the fact.</p> <p>Reckless conduct ignores “red flags” and involves behavior that a professional or student of the investment industry should clearly have known violated regulatory, judicial, or ethical rules.</p>

Key Factor	Considerations	Guidance
<p>Nature of Misconduct</p> <p>Minor or Technical Substantive Severe</p>	<p>Did the Covered Person's Conduct:</p> <ul style="list-style-type: none"> <li>• Involve a minor misstep or honest mistake; is it the result of a lack of expertise or experience?</li> <li>• Involve a single act of misconduct, or did the conduct involve numerous acts and/or a pattern of misconduct?</li> <li>• Involve misconduct over an extended period?</li> <li>• Involve multiple violations, either related or un-related to each other?</li> <li>• Involve the Covered Person's directing, in either a supervisory or non-supervisory capacity, another individual to engage in misconduct?</li> <li>• Involve fraudulent, deceptive, or manipulative acts or statements?</li> </ul>	<p>There are varying levels of misconduct. What makes the nature of one's conduct minor, substantive, or severe often is dependent on an assessment of intent. It is the difference between misstating and misrepresentation; forgetting a disclosure or intentionally omitting information.</p> <p>Multiple incidents of misconduct or misconduct over an extended period often indicate a pattern of misconduct that may warrant a more severe sanction.</p> <p>There are some types of misconduct that are clearly objectionable and improper. Even a single incident of such misconduct may be so egregious as to be deemed "severe", such as market manipulation, theft, fraud, and/or trading on material nonpublic information.</p>
Key Factor	Considerations	Guidance
<p>Harm/Damage to</p> <p>a) Clients, b) Employer, c) Financial Markets, d) Market Participants, e) CFA Institute, and/or f) The Profession.</p> <p>None Minimal Moderate Significant</p>	<p>Did the Covered Person's conduct:</p> <ul style="list-style-type: none"> <li>• Financially harm a client?</li> <li>• Affect one client or several clients?</li> <li>• Result in actual harm or possible harm?</li> <li>• Impact business operations and productivity for the employer?</li> <li>• Result in a loss of clients, loss of trust, or otherwise negatively affect the employer's ability to conduct business?</li> <li>• Undermine confidence in the integrity of financial markets?</li> <li>• Reflect poorly on the gold standard of CFA Institute, its membership, candidates, products, and/or testing programs?</li> <li>• Reflect poorly on the investment profession, undercutting the public's trust in the profession through adverse publicity?</li> <li>• Affect negatively the markets by distorting prices, artificially affecting trading volume, or overall misleading market participants?</li> </ul>	<p>Actual harm can be tangible or intangible. Tangible harm is measurable and often financially related. In assessing the Covered Person's conduct, consideration should be given to the nature and extent of monetary harm, if any, to the client and/or employer.</p> <p>Monetary harm to a client is typically measured through losses sustained in an account or unnecessary fees paid. Monetary harm to an employer can occur through monetary damages for an investigation, regulatory proceeding and/or legal fees.</p> <p>Intangible harm to a client is more difficult to quantify but may include subjective factors that impact the client's life or loss of trust in the Covered Person or financial markets. For a Covered Person's employer, intangible harm may include reputational damage, unwanted publicity, or loss of trust in the firm.</p> <p>Exposing a client or employer to a risk that does not materialize or cause direct harm may be considered when evaluating this sanction factor. For example, if the Covered Person's misconduct exposes the firm or client to possible litigation, regardless of whether a lawsuit is ever filed, the firm or client were exposed to a potential risk and that potential harm may be considered.</p>

Key Factor	Considerations	Guidance
		<p>Involving a client or employer, either voluntarily or involuntarily, in misconduct causes indirect and possibly intangible harm, regardless of whether monetary losses were incurred by either. That a client or employer benefitted financially from the Covered Person's misconduct (or otherwise) does not justify or negate the harm caused by that misconduct, nor does it negate consideration of this sanction factor.</p> <p>The measure of damage to financial markets and market participants can be tangible or intangible. For example, in the instance of market manipulation, there may be tangible damages measured by the extent to which the market for a security was distorted. An intangible damage may be the extent to which investors' trust in a market is undermined by the conduct.</p> <p>Similarly, damage to CFA Institute may result in loss of members and/or candidates, or in undermining the reputation of the organization, its professional designations, exam programs, products, or membership as a whole.</p> <p>Given the nature of information technology, the mere dissemination of information regarding a Covered Person's misconduct may not be the best measure of the seriousness or impact of that individual's conduct on the markets, market participants, CFA Institute, or the profession.</p>

## Conduct-Specific Factors

The following tables contain principal considerations and sanction ranges for many of the most common types of misconduct:

1. Conversion or improper use of funds or securities
2. Duty to employer (independent practice)
3. Duty to Employer (leaving an employer)
4. Fiduciary duty
5. Forgery
6. Inadequate supervision
7. Insider trading
8. Manipulation
9. Plagiarism
10. Suitability/excessive trading

## Conversion or Improper Use of Funds or Securities

### Standard I(D) – Misconduct

**Members and Candidates must not engage in any professional conduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence.**

Conversion is a type of theft. In this context, the term “Conversion” typically means the intentional, unauthorized taking or use of funds, securities, or other property belonging to a client or employer, for one’s own benefit or for some other unauthorized purpose. The term “Improper Use” refers to funds, securities, or other property being used in a manner unintended by its owner. In addition to funds and securities, conversions or improper uses can involve such things as client lists and account information; intellectual property or the work of others; and business opportunities.

Principal Considerations (in Addition to the General Principles)	Recommended Sanction
<ul style="list-style-type: none"> <li>• Was the misappropriation done intentionally or negligently?</li> <li>• If the Covered Person (CP) engaged in an improper use of funds or securities, did he or she honestly and reasonably misunderstand his or her client’s or employer’s instructions or intentions?</li> <li>• Did the misappropriation cause any harm?</li> <li>• Did the CP personally benefit, and if so, to what extent?</li> <li>• Did the CP self-disclose his or her misconduct to those involved and voluntarily take appropriate remedial action before he or she was required to do so?</li> </ul>	<p><b><i>Negligent Misconduct</i></b></p> <ul style="list-style-type: none"> <li>• If there was an honest and reasonable misunderstanding, consider a Censure or short Timed Suspension (up to 6 months).</li> <li>• If there was little or no harm, consider a Censure or a short Timed Suspension (up to 6 months).</li> <li>• If there was harm, consider a longer Timed Suspension (6 months to 3 years).</li> <li>• In cases involving inexcusable negligence and/or significant harm, consider a Revocation/Prohibition.</li> </ul> <p><b><i>Intentional or Reckless Misconduct</i></b></p> <ul style="list-style-type: none"> <li>• A Revocation/Prohibition is standard, regardless of the nature or amount of any harm.</li> </ul>

## Duty to Employer (Independent Practice)

### Standard IV(A) – Duty of Loyalty

***In matters related to their employment, Members and Candidates must act for the benefit of their employer and not deprive their employer of the advantage of their skills and abilities, divulge confidential information, or otherwise cause harm to their employer.***

**Independent Practice:** Members and candidates must abstain from independent competitive activity that could conflict with that of their employer. While members and candidates may enter into an independent business while still employed, they must notify their employer and describe the type of service they intend to provide to independent clients, the duration of the services, and the compensation they expect to receive.

Principal Considerations (in Addition to the General Principles)	Recommended Sanction
<p><b><i>Failure to Obtain Employer Permission to Engage in Independent Practice (IP)</i></b></p> <ul style="list-style-type: none"> <li>• Did the Covered Person (CP) intentionally, recklessly, or negligently fail to obtain employer consent to IP?               <ul style="list-style-type: none"> <li>○ Did the CP disclose the IP to the employer and obtain the required consent before the employer detected the IP?</li> <li>○ Did the CP mislead the employer about the IP?</li> <li>○ Did the CP engage in IP despite the employer's denial of the CP's request?</li> </ul> </li> <li>• What was the duration of the undisclosed IP?</li> <li>• How much did the CP's IP harm the employer (e.g., did the IP reduce the employer revenues? Did the CP use employer resources to conduct IP?) Did the IP involve the employer's clients?</li> <li>• Were the employer's clients harmed by the CP's IP (e.g., did the CP neglect the employer's clients in favor of the IP clients? Did the CP create the impression that IP was approved and that the employer was supervising it?)</li> </ul>	<p><b><i>Negligent Misconduct</i></b></p> <ul style="list-style-type: none"> <li>• If there was no harm to the employer or the employer's clients, and the CP received no benefit, the IP was of short duration, or was eventually disclosed to the employer prior to detection, consider a Private Reprimand or Censure.</li> <li>• If the employer or the employer's clients were minimally harmed and the CP received minimal benefit, the IP was of short duration, or was eventually disclosed to the employer prior to detection, consider a Timed Suspension (3 months to 12 months).</li> <li>• If the employer or the employer's clients were significantly harmed, the CP received significant benefit, the IP was of long duration or was detected by the employer, consider a longer Timed Suspension (6 months to 3 years).</li> </ul> <p><b><i>Intentional of Reckless Misconduct</i></b></p> <ul style="list-style-type: none"> <li>• If neither the employer nor the employer's clients were harmed, the IP was of short duration, or was eventually disclosed to the employer prior to detection, consider a Censure or a short Timed Suspension (up to 6 months).</li> <li>• If the employer or the employer's clients were minimally harmed, the IP was of long duration or was detected by the employer after the fact, consider a longer Timed Suspension (6 months to 3 years) or a Revocation/Prohibition.</li> <li>• In egregious cases, consider a Revocation/Prohibition.</li> </ul>

## Duty to Employer (Leaving an Employer)

### Standard IV(A) – Duty of Loyalty

***In matters related to their employment, Members and Candidates must act for the benefit of their employer and not deprive their employer of the advantage of their skills and abilities, divulge confidential information, or otherwise cause harm to their employer.***

**Leaving an Employer:** When members and candidates are planning to leave their current employer, they must continue to act in the employer’s best interest. They must not engage in any activities that would conflict with this duty until their resignation becomes effective.

Principal Considerations (in Addition to the General Principles)	Recommended Sanction
<p><b><i>Leaving an Employer</i></b></p> <ul style="list-style-type: none"> <li>• Did the Covered Person (CP) intentionally, recklessly, or negligently:               <ul style="list-style-type: none"> <li>○ Misappropriate trade secrets?</li> <li>○ Misuse confidential information?</li> <li>○ Misappropriate employer records, including models and reports, including those developed by the CP?</li> <li>○ Solicit the employer’s clients prior to the cessation of employment?</li> <li>○ Disparage the employer?</li> <li>○ Violate the terms of a non-compete or non-solicitation agreement?</li> <li>○ Engage in self-dealing (appropriating for the CP’s use the employer’s property, business opportunity, or information belonging to the employer)? or</li> <li>○ Misappropriate clients or client lists?</li> </ul> </li> <li>• To what extent was the employer harmed by the CP’s misconduct?</li> </ul>	<p><b><i>Negligent Misconduct</i></b></p> <ul style="list-style-type: none"> <li>• If the CP engaged in only one of the behaviors described at left, and the employer was not harmed, consider a Private Reprimand or Censure.</li> <li>• If the CP engaged in more than one of the behaviors described at left, and the employer was harmed, consider a Censure or a Timed Suspension (up to 18 months).</li> <li>• In egregious cases, consider a lengthy Timed Suspension (6 months to three years) or a Revocation/ Prohibition.</li> </ul> <p><b><i>Intentional or Reckless Misconduct</i></b></p> <ul style="list-style-type: none"> <li>• If the CP engaged in only one of the behaviors described at left, and the employer was not harmed, consider a Censure or a short Timed Suspension (up to 12 months).</li> <li>• If the CP engaged in more than one of the behaviors described at left, and the employer was harmed, consider a longer Timed Suspension (6 months to 3 years) or a Revocation/Prohibition.</li> <li>• In egregious cases, consider a lengthy Timed Suspension or a Revocation/Prohibition.</li> </ul>

# Fiduciary Duty/Loyalty Prudence and Care

## Standard III(A) – Loyalty, Prudence, and Care

**Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests.**

Under this Standard, the client's interests are paramount. Investment actions must be carried out for the sole benefit of the client and in a manner that the member or candidate believes, given the known facts and circumstances, to be in the best interest of the client. Members and candidates must exercise the same level of prudence, judgment, and care that they would apply in the management of their own interests in similar circumstances. This Standard clarifies that all members and candidates, regardless of job title, local laws, or cultural differences, are required to comply with these fundamental obligations.

Principal Considerations (in Addition to the General Principles)	Recommended Sanction
<ul style="list-style-type: none"> <li>• Did the Covered Person (CP) breach the duty of loyalty, prudence, and care intentionally, recklessly, or negligently?</li> <li>• Was the breach of the duty of loyalty, prudence and care an isolated incident or did the CP engage in numerous breaches and/or a pattern of misconduct?</li> <li>• Did the CP breach the duty of loyalty, prudence, and care over an extended period?</li> <li>• To what extent were the CP's clients harmed by the CP's failure to exercise the duty of loyalty, prudence, and care?</li> <li>• Did the CP self-identify the breach of the duty of loyalty, prudence, and care and address it responsibly?</li> <li>• Did the member or candidate benefit in any way from the breach of the duty of loyalty, prudence, and care?</li> </ul>	<p><b><i>Negligent Misconduct</i></b></p> <ul style="list-style-type: none"> <li>• If there was no reliance or harm to others, consider a Censure.</li> <li>• If there was harm to clients, consider a Timed Suspension (3 to 12 months).</li> <li>• In egregious cases, consider a longer Timed Suspension (6 months to 3 years) or a Revocation/Prohibition.</li> </ul> <p><b><i>Intentional or Reckless Misconduct</i></b></p> <ul style="list-style-type: none"> <li>• If there was no reliance or harm to others, consider a Timed Suspension (6 to 18 months).</li> <li>• If there was reliance and/or harm to others, consider a longer Timed Suspension (6 months to 3 years) or a Revocation/Prohibition.</li> <li>• In egregious cases, consider a Revocation/Prohibition.</li> </ul>

# Forgery

## Standard I(C) – Misrepresentation

**Members and Candidates must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.**

**Forgery:** the unauthorized use of signatures or falsification of records.

Principal Considerations (in Addition to the General Principles)	Recommended Sanction
<ul style="list-style-type: none"><li>• Was the forgery done intentionally, recklessly, or negligently?<ul style="list-style-type: none"><li>◦ Did the Covered Person (CP) have a good-faith, but mistaken, belief that the CP had express or implied authority to sign documents on the client's behalf?</li></ul></li><li>• What was the nature of the forged document? If the document pertained to a transaction was the transaction agreed to by the client? Did the client resign the forged/falsified document or ratify the signature?</li><li>• How extensive/significant was the forgery?</li><li>• Did anyone rely on the forged materials, and if so, were they harmed?</li><li>• Was the forgery later identified and addressed responsibly?</li><li>• Did the member or candidate benefit in any way from the forgery?</li></ul>	<p><b><i>Negligent Misconduct</i></b></p> <ul style="list-style-type: none"><li>• If there was no reliance or harm to others, consider a Private Reprimand or Censure.</li><li>• If there was reliance and/or harm to others, consider a Censure or Timed Suspension (6 months to 3 years).</li><li>• In egregious cases, consider a longer Timed Suspension (12 months to 3 years) or a Revocation/Prohibition.</li></ul> <p><b><i>Intentional or Reckless Misconduct</i></b></p> <ul style="list-style-type: none"><li>• If there was no reliance or harm to others, consider a Censure.</li><li>• If there was reliance and/or harm to others, consider a Timed Suspension (12 months to 3 years).</li><li>• In egregious cases, consider a Revocation/Prohibition.</li></ul>

# Inadequate Supervision

## Standard IV(C) – Responsibilities of Supervisors

**Members and Candidates must make reasonable efforts to ensure that anyone subject to their supervision or authority complies with applicable laws, rules, regulations, and the Code and Standards.**

A Member or Candidate has supervisory responsibilities for all employees who are subject to his or her authority or influence, regardless of whether they are CFA Institute members or candidates in the CFA Program. What constitutes “reasonable efforts” to supervise depends on the specific circumstances of each case, including the number of employees involved and the nature of the work.

Principal Considerations (in Addition to the General Principles)	Recommended Sanction
<ul style="list-style-type: none"> <li>• Did the Covered Person (CP) ignore “red flag” warnings of possible misconduct by those he or she supervised, or otherwise allow the misconduct to occur or escape detection?</li> <li>• How bad was the underlying misconduct that resulted from the CP’s failure to adequately supervise?</li> <li>• Did the CP diligently implement and follow his or her firm’s supervisory policies and procedures?</li> <li>• Were the supervisory policies and procedures reasonable designed to prevent and detect violations, or were they somehow defective through no fault of the CP?</li> <li>• Did the CP take prompt corrective action once violations were detected?</li> <li>• Did the CP’s failure to supervise contribute to any harm caused by the violations, and if so, to what extent?</li> </ul>	<p><b><i>Negligent Misconduct</i></b></p> <ul style="list-style-type: none"> <li>• If there was little or no harm, consider a Censure or a short Timed Suspension (3 to 6 months).</li> <li>• If there was harm, consider a longer Timed Suspension (6 months to 3 years).</li> <li>• In cases involving gross negligence, willful blindness, personal participation in the underlying misconduct, and/or significant harm, consider a Revocation/Prohibition.</li> </ul> <p><b><i>Intentional or Reckless Misconduct</i></b></p> <ul style="list-style-type: none"> <li>• Regardless of whether the conduct caused any harm, if the CP behaved recklessly by ignoring “red flag” warnings of possible misconduct or engaged in willful blindness, consider a Timed Suspension (6 months to 3 years).</li> <li>• If the CP’s failure to supervise was intentional, involved their participation in the underlying misconduct, and/or caused significant harm, consider a Revocation/Prohibition.</li> </ul>

# Insider Trading

## Standard II(A) – Material Nonpublic Information

**Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information.**

Information is “material” if its disclosure would probably have an impact on the price of security or if reasonable investors would want to know the information before making an investment decision. Information is “nonpublic” until it has been made known or is available to the marketplace in general (as opposed to a select group of investors).

Principal Considerations (in Addition to the General Principles)	Recommended Sanction
<ul style="list-style-type: none"> <li>• Did the Covered Person (CP) intentionally, recklessly, or negligently trade on information that was material and nonpublic?               <ul style="list-style-type: none"> <li>○ Determining intent can be difficult, but efforts to conceal: (1) a relationship between the CP and the source/recipient of the material nonpublic information (MNPI) or (2) the trading (e.g. by trading in a friend’s or family member’s account or failing to report or pre-clear the trade (if required)) may indicate knowledge that the information was material and nonpublic.</li> <li>○ Efforts to capitalize on MNPI (e.g., using OTM options, liquidation of other assets to purchase shares, or uncharacteristically large transactions) often suggests the CP knew s/he was trading while in possession of the MNPI.</li> <li>○ Credible, contemporaneous evidence of reasonable reliance on counsel or compliance suggests a lack of intent to misuse material nonpublic information. In such cases, CP must provide accurate information regarding the source/ circumstances surrounding the acquisition of the MNPI.</li> </ul> </li> <li>• Did the CP obtain a benefit (either tangible or intangible) from the use of the material nonpublic information? In insider trading cases, a tangible benefit may be a monetary gain from the purchase of shares or the avoidance of a loss from the sale of shares. Intangible benefits may include an enhanced reputation for investing acumen or strengthened relationships between the provider of material nonpublic information and its recipient.</li> <li>• Did the CP’s use of MNPI cause harm to clients, the securities markets, the investing public, or the reputation CFA designation?               <ul style="list-style-type: none"> <li>○ The guidance for Standard II(A) creates a strong presumption that the use of MNPI causes significant harm. “Trading or inducing others to trade on material nonpublic information erodes confidence in the capital markets, institutions, and investment professionals by supporting the idea that those with inside information and special access can take unfair advantage of the general investing public.”</li> </ul> </li> </ul>	<p><b><i>Negligent Misconduct</i></b></p> <ul style="list-style-type: none"> <li>• If there was no benefit to the CP and no harm to others, consider a Censure.</li> <li>• If there was benefit to the CP or harm to others, consider a Timed Suspension (6 months to 3 years)</li> <li>• In more egregious cases (benefit to CP and/or harm to others) consider a lengthy Timed Suspension (6 months to 3 years) or a Revocation/Prohibition.</li> </ul> <p><b><i>Intentional or Reckless Misconduct</i></b></p> <ul style="list-style-type: none"> <li>• If there was no benefit to the CP and no harm to others, consider a Timed Suspension (12 months to 3 years).</li> <li>• If there was benefit to the CP or harm to others, consider a lengthy Timed Suspension (12 months to 3 years) or a Revocation/Prohibition.</li> <li>• In egregious cases, a Revocation/Prohibition is standard.</li> </ul>

# Manipulation

## Standard II(B) – Market Manipulation

**Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.**

Market manipulation includes: the dissemination of false or misleading information; and transactions that deceive or would be likely to mislead others by distorting prices. The intent of the action is critical to determining whether there has been a violation.

Principal Considerations (in Addition to the General Principles)	Recommended Sanction
<ul style="list-style-type: none"> <li>• Was the Covered Person’s (CP) conduct intentional or reckless?</li> <li>• Did the violation involve planning or concealment?</li> <li>• Did the CP involve or work with others in the manipulation?</li> <li>• Did the CP or his or her colleagues benefit from the manipulation and, if so, to what extent?</li> <li>• Were investors or other market participants harmed and, if so, what was the nature and extent of that harm?</li> </ul>	<p><b><i>Negligent Misconduct</i></b></p> <ul style="list-style-type: none"> <li>• If there was little or no harm to the market and/or the CP received only minimal benefit, consider a Timed Suspension (3 months to 12 months).</li> <li>• If there was harm to the market and/or the CP received significant benefit, consider a longer Timed Suspension (6 months to 3 years).</li> </ul> <p><b><i>Intentional of Reckless Misconduct</i></b></p> <ul style="list-style-type: none"> <li>• If there was little or no harm to the market or the CP received only minimal benefit, consider a Timed Suspension (12 months to 3 years).</li> <li>• If the CP’s conduct harmed the market and/or the CP received significant benefit, a Revocation/Prohibition is the standard sanction.</li> </ul>

# Plagiarism

## Standard I(C) – Misrepresentation

**Members and Candidates must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.**

**Plagiarism:** Plagiarism is defined as copying or using in substantially the same form materials prepared by others without acknowledging the source of the material or identifying the author and publisher of such material.

Principal Considerations (in Addition to the General Principles)	Recommended Sanction
<ul style="list-style-type: none"> <li>• Was the plagiarism done intentionally, recklessly, or negligently?</li> <li>• What was the nature of the plagiarized document?</li> <li>• How extensive was the plagiarism?</li> <li>• Did anyone rely on the plagiarized material, and if so, were they harmed?</li> <li>• Was the plagiarism later identified and addressed responsibly?</li> <li>• Did the Covered Person benefit in any way from the plagiarism?</li> </ul>	<p><b><i>Negligent Misconduct</i></b></p> <ul style="list-style-type: none"> <li>• If there was no reliance or harm to others, consider a Private Reprimand or Censure.</li> <li>• If there was reliance and/or harm to others, consider a Timed Suspension (3 months to 12 months).</li> <li>• In egregious cases, consider a Timed Suspension (6 months to 3 years).</li> </ul> <p><b><i>Intentional or Reckless Misconduct</i></b></p> <ul style="list-style-type: none"> <li>• If there was no reliance or harm to others, consider a Timed Suspension (3 months to 12 months).</li> <li>• If there was reliance and/or harm to others, consider a longer Timed Suspension (6 months to 3 years) or a Revocation/Prohibition.</li> <li>• In egregious cases, consider a longer Timed Suspension (12 months to 3 years) or a Revocation/Prohibition.</li> </ul>

# Suitability

## Standard III(C)(1) – Suitability

*When Members and Candidates are in an advisory relationship with a client, they must:*

- **Make a reasonable inquiry into a client’s or prospective client’s investment experience, risk and return objectives, and financial constraints prior to making any investment recommendations or taking investment action and must reassess and update this information regularly.**
- **Determine that an investment is suitable to the client’s financial situation and consistent with the client’s written objectives, mandates, and constraints before making an investment recommendation or taking investment action.**
- **Judge the suitability of investments in the context of the client’s total portfolio.**

Principal Considerations (in Addition to the General Principles)	Recommended Sanction
<ul style="list-style-type: none"> <li>• Was the Covered Person’s (CP) conduct intentional, reckless, or negligent?</li> <li>• Did the CP gather client information at the inception of the relationship and use it to develop a written investment policy statement that addresses the client’s risk tolerance, return objectives, and investment constraints?</li> <li>• Did the CP regularly review and periodically update the client’s investment policy statement to address any important changes?</li> <li>• Were clients harmed and, if so, what was the nature and extent of that harm?</li> </ul>	<p><b><i>Negligent Misconduct</i></b></p> <ul style="list-style-type: none"> <li>• If there was no actual or potential harm, consider a short Timed Suspension (3 months to 12 months).</li> <li>• If there was limited or only potential harm, consider a longer Timed Suspension (6 months to 3 years).</li> <li>• If there was significant actual or potential harm, consider a longer Timed Suspension (12 months to 3 years) or a Revocation/Prohibition.</li> </ul> <p><b><i>Intentional or Reckless Misconduct</i></b></p> <ul style="list-style-type: none"> <li>• If there was no actual or potential harm, consider a Timed Suspension (6 months to 3 years).</li> <li>• If there was limited harm, consider a longer Timed Suspension (12 months to 3 years) or a Revocation/Prohibition.</li> <li>• If there was significant actual or potential harm, consider a Revocation/Prohibition.</li> </ul>

## Aggravating/Mitigating and Factors

Once the Hearing Panel has made an initial sanction determination, it should consider whether the facts of the case include aggravating or mitigating factors. The following aggravating and mitigating factors should be considered to more closely calibrate the severity of the sanction to the conduct at issue. Because the goal of all CFA sanctions is primarily to protect the public interest, the presence of mitigating circumstances should not cause a significant shift or change in the Hearing Panel's initial sanction determination.

Aggravating & Mitigating Factors	Considerations	Guidance
<p><b>Personal Benefit</b></p> <ul style="list-style-type: none"> <li>• None</li> <li>• Minimal</li> <li>• Moderate</li> <li>• Significant</li> </ul>	<p>Did the Covered Person's conduct</p> <ul style="list-style-type: none"> <li>• result in a personal benefit, either monetary or otherwise, for the Covered Person, his or her colleagues, family, friends, current employer, or future employer?</li> <li>• permit the Covered Person, colleagues, family, friends, current employer, or future employer to avoid a loss?</li> </ul>	<p>Personal benefit should be broadly understood to include direct and indirect, tangible and intangible enrichment that the Covered Person, colleagues, family, friends, current employer, or future employer received as a result of the misconduct. Avoidance of loss is also a factor for purposes of this sanction factor.</p> <p>Benefit can often be received in a manner that is readily measurable monetarily such as commissions, gifts, bonuses, promotions, and salary increases. A benefit can also include less easily measurable, intangible enrichment such as enhanced reputation, client admiration, reciprocity of favors, public recognition, and client referrals.</p> <p>Also consider potential benefit, whether realized or not. For example, a Covered Person may have engaged in a transaction in order to realize a tangible or intangible gain or avoid a loss. Intervening circumstances may have prevented that gain from being realized or the loss being avoided. In such cases, consider the magnitude of the potential gain or loss avoided.</p>

Aggravating & Mitigating Factors	Considerations	Guidance
<p><b>Prior Findings of a Violation</b></p> <ul style="list-style-type: none"> <li>• None</li> <li>• One, not similar conduct</li> <li>• One, similar conduct</li> <li>• Multiple, not similar conduct</li> <li>• Multiple, similar conduct</li> </ul>	<p>Does the Covered Person have a disciplinary history</p> <ul style="list-style-type: none"> <li>• with Professional Conduct that resulted in a finding of a violation?</li> <li>• with a regulatory body, former employer, current employer, or professional association that resulted in a finding of a violation?</li> <li>• that relates to the current conduct at issue?</li> </ul>	<p>In evaluating a Covered Person's disciplinary history, consideration should be given to the number, age, and nature of any previous violations, as well the corresponding outcome(s).</p> <p>A history of similar violations that shows a general disregard for the Code and Standards should be considered adversely.</p> <p>Some violations are of such a serious nature that even if there are no previous violations, a significant sanction will be appropriate.</p>
<p><b>Reporting of a Matter to CFA Institute</b></p> <ul style="list-style-type: none"> <li>• Timely disclosure</li> <li>• Non-Disclosure</li> </ul>	<p>Did the Covered Person timely and accurately report the matter to Professional Conduct?</p>	<p>All members and candidates are obligated to disclose in a timely and accurate manner whether they are the subject of an investigation or proceeding with a regulatory or judicial body, their employer, or a professional organization. Failing to disclose a matter on the annual professional conduct statement should be considered adversely.</p>
<p><b>Reporting of a Matter to employer and/or regulator</b></p>	<p>Did the Covered Person self-report the matter and accept responsibility for the misconduct <i>prior</i> to its detection by his or her employer and/or regulator?</p>	<p>Proactive self-reporting and acceptance of responsibility is a mitigating factor. Merely admitting to conduct that has already been discovered by an employer or a regulator is not.</p>

Aggravating & Mitigating Factors	Considerations	Guidance
<p><b>Cooperation with Investigators</b></p> <ul style="list-style-type: none"> <li>Assisted in investigation (produced requested documents and information in timely manner)</li> <li>Minimal assistance during investigation</li> <li>Active concealment of information</li> </ul>	<p>Did the Covered Person conceal information, provide inaccurate or misleading information, or otherwise unnecessarily delay Professional Conduct's investigation?</p>	<p>All members and candidates are obligated to produce accurate and complete copies of all requested documents in their possession or control, provide information and cooperate fully in the investigation and disciplinary proceeding by Professional Conduct. Failing to cooperate fully with an investigation or proceeding should be considered adversely.</p> <p>Because Covered Persons are required to cooperate with Professional Conduct investigations, only assistance provided by the Covered Person that is proactive and exceptional should be considered a mitigating factor in imposing sanctions.</p>
<p><b>Time Elapsed Between Conduct and the Statement of Charges</b></p> <p><b>Delay between resolution of the matter and completion of investigation</b></p>	<p>Did the investigation involve</p> <ul style="list-style-type: none"> <li>protracted regulatory or judicial proceedings which delayed Professional Conduct's investigation?</li> <li>conduct by the Covered Person that was either ongoing or compounded by new disclosures or discovery of additional misconduct?</li> <li>a lapse resulting in a disadvantage to the Covered Person's ability to present a defense?</li> </ul>	<p>Significant delays between conclusion of the underlying action and resolution of a Professional Conduct investigation can occur for a variety of reasons.</p> <p>However, to the extent that responsibility for the delay rests with Professional Conduct, this may be considered a mitigating factor in evaluating the appropriate sanction.</p>
<p><b>Significant Remediation and Genuine Remorse</b></p>	<p>Has the Covered Person</p> <ul style="list-style-type: none"> <li>acted proactively and responsibly to remedy the misconduct?</li> <li>exhibited genuine remorse and accepted responsibility for their actions?</li> </ul>	<p>Significant remediation and genuine remorse is a mitigating factor.</p> <p>Lack of remediation and/or genuine remorse should be considered an aggravating factor.</p>