

Ethics

Ethics, as a subject in CFA Level I, would contribute to 36 questions in the exam. Thus, its weight is 15% and it is then the second subject with the most number of questions. Furthermore, CFA Institute deems this subject to be integral to the passing of the Level I. In short, Ethics is a critical subject to pass. You need not be reminded that the passing mark is relatively set at 70%.

To succeed in this subject, there are three important factors.

Firstly, the **terms** used in Ethics are crucial. The words “**shall**” and “**must**” mean that members and candidates are required to comply, as it would be stated in the Code of Ethics and Standards of Practice. These words represent the mandatory acts that you have to comply with. The term “**should**” means that you are encouraged to practice but required not comply with nor prohibited. The term “**may**” means that you are allowed to practice as you are not prohibited to do so. For example, in the even a stockbroker wishes to present gifts to a fund manager with the value exceeding \$100, the fund manager may accept the gifts but must disclose. However, the fund manager should decline the gifts. To say that the fund manager must decline the gifts would not be correct.

Secondly, the **relationship** between members and other parties is vital as well. Ethics pertain to professional relationships and not centered on personal dealings. Questions on insider trading, confidentiality, gifts and many more depend on the type of relationships that exist. For example, the fund manager may accept gifts from a stockbroker but an analyst must decline gifts from subject companies for the same gifts, which exceed a reasonable amount (mostly about \$100). The rationale is that there is no contractual relationship between an analyst and a subject company.

Thirdly, Ethics is the only subject in the exam where all answers in the multiple choice set can be correct. You are required to **rank** them. Ranking choice answers in order to select the best answer is common in the exam. Same example as above, the fund manager may accept gifts from the stockbroker as long as he discloses the gifts. That can be a correct answer. However, if there is another answer that says that he should decline the gifts, then the correct answer would now be this. That’s because, this answer carries a higher moral ground and thus, is correct. So, in the exam, if you feel that there is a dilemma, rank your answers.

Whatever it is, please do read the questions carefully and do not rush in this subject.