



## Code of Ethics November 2011

### RULE 204A-1 INVESTMENT ADVISER CODE OF ETHICS

In July 2004, the SEC adopted Rule 204A-1 of the Investment Advisers Act of 1940 to require federally-registered investment advisers to adopt a Code of Ethics to address not only personal trading, but to also adopt standards of business conduct, including provisions that require compliance with federal securities laws. In addition to certain required provisions discussed below, a Code of Ethics should set forth ideals for ethical conduct founded on principles of openness, integrity, and honesty, and should effectively convey to the adviser's employees the value the firm places on ethical conduct. Importantly, Code of Ethics also should set the bar for employees to live up not only to the letter of the law, but also to the ethical ideals of the organization. While many states follow the SEC's rules for investment advisers, whether a state-registered investment adviser must adopt a Code of Ethics varies from state to state dependent upon the requirements of the applicable state's laws, rules and regulations.

An adviser's Code of Ethics is premised upon the fact that investment advisers are held to a fiduciary standard of care and therefore owe their clients the highest duty of loyalty to ensure that their clients' interests are put ahead of their own. Consequently, investment advisers are obligated to act and provide advice in the best interests of their clients. This carries with this obligation to seek to avoid conflicts of interest with clients, and where conflicts cannot be avoided, they should be mitigated with full disclosure of all material facts that could affect the advisory relationship.

To facilitate the fulfillment of an investment adviser's fiduciary obligation, firms must be cognizant of this heightened standard of care when establishing and enforcing their written Code of Ethics. To that end, Rule 204A-1 states that at a *minimum* the Code of Ethics must include:

1. A standard of business conduct that the investment adviser requires of its supervised persons, reflecting the firm's fiduciary obligations and those of its supervised persons;
2. Provisions requiring the adviser's supervised persons to comply with applicable federal securities laws;
3. Provisions that require all of the firm's access persons to report, and the investment adviser to review, the access person's personal securities transactions and holdings periodically;
4. Provisions requiring supervised persons to report any violations of the adviser's Code of Ethics promptly to the firm's Chief Compliance Officer or, provided the Chief Compliance Officer also receives reports of all violations, to other persons designated in the firm's Code of Ethics;
5. Provisions requiring the investment adviser to provide each of its supervised persons with a copy of the Code of Ethics and any amendments, and requiring

- the adviser's supervised persons to provide a written acknowledgement of their receipt of the Code and any amendments; and
6. Provisions requiring pre-approval of certain securities obtained through an initial public offerings ("IPO") or private placement.

As stated above, an investment adviser's Code of Ethics must require that all "access persons" prepare a written report of current securities holdings and transaction reports of reportable securities no later than 10 days after hire and annually thereafter. Under Rule 204A-1, an "access person" is someone who the investment adviser is required to supervise and who has access to nonpublic information regarding clients' purchase or sale of securities, is involved in making securities recommendations to clients and/or who has access to such recommendations that are nonpublic. All information required to be reported must be current, meaning no more than 45 days prior to the reporting date. The firm must also require access persons to submit quarterly securities transactions reports no later than 30 days after the end of the calendar quarter. Such reporting can be accomplished either by use of a quarterly reporting form or receipt of duplicate confirmation and brokerage statements. The Chief Compliance Officer must review and maintain these reports and records as part of the firm's required book and records.

Many Codes of Ethics also provide for escalation processes and disciplinary measures for infractions and/or violations of the firm's Code. Therefore, it is important for investment advisers to train and educate their employees annually and as needed to ensure their knowledge and understanding of the Codes provisional requirements. As a best practice, part of this training should include an Employee Acknowledgement Form and any related training handouts which should be maintained as part of the firm's books and records.

As a practical matter, the most important asset of a firm is its relationship with its clients and employees, and its professional reputation. Establishing and adhering to the firm's Code of Ethics can help keep these relationships in good standing. To that end, each firm should analyze their business model to address their conflicts of interest and any other compliance issues when designing and implementing their Code of Ethics.

For more information, or to learn about how CCLS may be of assistance in developing or assessing your current Code of Ethics, please do not hesitate to contact us at (619) 278-0020.

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