

October 11, 2007

Jonathan J. Stokes
Director, Standards of Practice
CFA Institute Centre for Financial Market Integrity
CFA Institute
560 Ray C. Hunt Drive
Charlottesville, Virginia 22903-2981

Dear Mr. Stokes,

We applaud the CFA Institute Centre for Financial Market Integrity for the work it has done in drafting the Code of Conduct for Members of a Pension Scheme Governing Body. While the Code does not use the word “fiduciary,” the 12 fundamental ethical responsibilities point directly to adopting a universal standard of fiduciary care. Attached are our answers to the questions posed in your request for comments. We represent approximately 2,500 Accredited Investment Fiduciary[®] (AIF[®]) and Accredited Investment Fiduciary Analyst[™] (AIFA[®]) designees, all of whom were given an opportunity to review and comment on the attached document.

As an introduction to the comments provided in the attached document, I would like to provide a brief overview of our organizations, fi360 and the Centre for Fiduciary Excellence. Fi360’s mission is to promote a culture of fiduciary responsibility and improve the decision making processes of investment fiduciaries. With defined practices as our foundation, we offer training (AIF and AIFA training programs), tools (sophisticated Web-based tools for trustees and investment professionals), and resources (publications, CE, insights, etc.) in support of that mission. The Centre for Fiduciary Excellence, LLC. is an independent certification organization. CEFEX works closely with industry experts to provide comprehensive assessment programs to improve the fiduciary practices of investment stewards, advisors and managers. CEFEX certifications help determine trustworthiness of investment fiduciaries.

The core objective of the AIF program is to provide those who manage money on behalf of others critical knowledge they need to meet their responsibilities as investment fiduciaries. The program is guided by a set of Practices¹ that are captured in the *Prudent Practices for Investment Fiduciaries* handbook series.² Separate handbooks have been published to address the activities of Investment Stewards (such as those who sit on the governing bodies of pension funds), Investment Advisors, and Investment Managers. I have enclosed a set of these three handbooks for your review. Please note that the Practices captured in the Investment Stewards and Investment Advisors handbooks are fully substantiated by U.S. law. In addition to the handbooks, I have enclosed a copy of *Legal Memoranda*, which provides U.S. legal substantiation and explanatory text for each of the Practices, and the *Prudent Practices for Investment Stewards and Investment Advisors (Worldwide Edition)*, which removes U.S.-centric Practices and substantiation.

In recent years fi360 has partnered with firms in other countries to develop *Prudent Practices for Investment Stewards and Investment Advisors* handbooks substantiated in the laws of those countries.



There are now country-specific handbooks for New Zealand and Canada in addition to the U.S. edition. We expect an additional handbook for Singapore will be completed soon.

The introduction of the handbooks in other countries has been facilitated by the fact that each handbook is structured as a Global Fiduciary Standard of Excellence, which is closely aligned to the approach used by the International Organization for Standardization (ISO) to establish a guiding body of knowledge.³ The ISO approach captures a specified set of processes, principles, or procedures in a Standard (which is analogous to our *Prudent Practices* handbooks). A Standard is defined by Practices that detail the underlying processes, principles, and procedures. Practices are further delineated through Criteria. Through published standards, investment professionals around the world can be recognized for their conformity to well-defined practices that support trustworthy relationships with the investors they serve.

A great strength of this ISO-like approach is that it provides sufficient detail regarding the practical application of a Standard to enable a trained analyst to determine if the requirements of the Standard are being met by an organization claiming conformity. Indeed, ISO has established a robust methodology for auditing conformity to Standards. The AIFA curriculum is devoted to teaching the ISO auditing methodology and how to apply it to the evaluation of fiduciary organizations (e.g., governing bodies of pension schemes) to determine if they conform to a Global Fiduciary Standard of Excellence. These assessments can be as a consultant-level engagement, or as a more formal CEFEX Certification.

As you review the blue *Prudent Practices for Investment Stewards* handbook, you will see that it embodies the Code of Conduct for Members of a Pension Scheme Governing Body and provides extensive elaboration on what specifically is required of those who manage money on behalf of others. I also believe these comments and the handbooks will more clearly illustrate the context of the comments provided in the attached response.

Clearly your efforts are closely aligned with ours. I would appreciate the opportunity to discuss with you how our organizations may be able to collaborate in pursuit of our common goals.

Sincerely,

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End Notes:

1. The Practices were developed by the Foundation for Fiduciary Studies.
2. The Prudent Practices for Investment Fiduciaries handbook series is published by Fiduciary360.
3. Note that the Practices and handbooks are modeled after the ISO approach, but are not ISO Standards themselves.



Comments on the proposed CFS Code for Pension Bodies

Our comments are directed to the six specific lines of inquiry posed by the CFA Institute. We believe our comments in these areas, coupled with the supplementary materials referenced in the cover letter, provide a comprehensive response to the request of the Institute.

1. Is the language of the Code or guidance sufficiently clear and concise? Does the guidance provide straightforward and comprehensive interpretation of the Code? How can the clarity and comprehensibility of the guidance be improved?

Comments: The language of the Code is clear and concise. It does not, however, provide comprehensive interpretation of the Code. The ISO-like approach of the Prudent Practices for Investment Stewards handbook illustrates an approach that provides more specific guidance and more comprehensive interpretations of the Code. For example, compare Code provisions 7, 9, and 12 with Practices 1.1, 2.6, and 4.6, respectively. These Code provisions and Practices are very similar in content. However, the use of Criteria and inclusion of substantiation makes the Practices more comprehensive and provides more guidance for practical application.

2. Are there areas of ethical responsibilities for members of a pension fund governing body that haven't been adequately addressed in the Code or guidance?

Comments: The Code does a good job of capturing major ethical responsibilities. It does not, however, address the full range of obligations associated with fiduciary responsibilities of governing bodies of pension schemes. These fiduciary obligations are remarkably consistent in developed countries around the world. We have seen this first hand while helping develop Prudent Practices handbooks in New Zealand, Canada and Singapore. Given that fiduciary responsibility is a well established and almost universal concept, we are puzzled as to why the CFA Institute seems to have purposefully avoided an explicit fiduciary basis for the Code. Ethics is less well grounded in law and regulation. Consequently, an ethics-oriented code will necessarily be less well defined and more difficult to assess for conformity. Please refer to the 22 Practices in the Investment Steward handbook for more comprehensive coverage of fiduciary responsibilities.

3. Is the guidance to the principles of the Code helpful? Should it be more specific? What other conduct, specific duties, or other ethical issues should the Code address that has not already been addressed in the guidance to the Code? What issues need further guidance to assist with interpretation or practical application?

Comments: As indicated above, the Code is helpful and goes a long way towards promoting a culture of fiduciary responsibility. Nevertheless, the title "Code of Conduct for Members of a Pension Scheme Governing Body" suggests thorough coverage of all key responsibilities such members must address. We believe this may be misleading since governing body members have more fiduciary responsibilities than are captured in the Code. We recommend that the Code either



be relabeled as an ethical guide or, preferably, expanded for more complete coverage of fiduciary obligations.

4. Are the Code and the proposed guidance globally applicable? Are there specific sections of the Code and guidance that conflict with local or regional laws, regulations, or business practices that would prevent members of the pension governing body from adhering to the Code?

Comments: The Code and proposed guidance are, we believe, globally applicable. We are not aware of any sections of the Code or Guidance that would prevent members of the pension governing body from adhering to the Code. As mentioned previously, we believe the Code could be broadened to provide more robust coverage of fiduciary obligations without encountering significant conflicts with local or regional laws, regulations or business practices.

5. Are the “Recommended Procedures for Compliance” helpful? What other recommended procedures for compliance would you suggest? Although the Code applies to individuals, should the guidance also suggest recommended procedures for compliance by firms?

Comments: The guidance for individuals is helpful but lacks sufficient depth. It does not provide much in the way of specific “recommended procedures;” rather, it presents orienting concepts and underlying principles. Procedures that are more specific than what is captured in the guidance would be desirable. Examples could also be used to illustrate the dividing line between compliance and non-compliance. Guidance for firms would be worthwhile, especially since members may have shared responsibilities and firms have obligations to establish structures to support effective governance by the members of the governing bodies.

6. Are there any terms or phrases that are not well defined in the Code or guidance that should be included in the “definitions” section?

Comments: The definitions section provides adequate support for the existing Code elements and the guidance provided. A more extensive glossary is likely to be needed if the Code and supporting guidance are developed to provide greater breadth and depth. Please see the glossaries of the Prudent Practices handbooks for comparison.