



Practice Codes & Standards

Effective Date: 01/06/2019

**Code of Ethics and Standards of Professional Practice Manual for
Registered Investment Advisers in Nigeria**

**Association of Corporate and Individual Investment Advisers of Nigeria
(CIIA)**

Code of Ethics and Standards of Professional Practice

First Edition. June 2019

INVITATION TO COMMENT ON DRAFT AND FINAL VERSION

CIIA is the sole and official trade group of Registered Investment Advisers in Nigeria. The body was approved and registered by the SEC in April 2018 to perform self-regulatory functions for its members in efforts directed at improving the investment advisory service practice in the Nigerian and global financial markets. As part of its initial operating framework, CIIA, by its Governing Council had sought comments from industry stakeholders and the general public on the proposed maiden edition of the Association's Code of Ethics and Standards of Professional Practice which was released in March 2019 as an Exposure Draft.

The original draft document contained information in four major sections referred to as The Standards, to explain the rationale behind each provision or requirement in the subsections, and to elicit feedback on specific issues, regarding these key proposed requirements. In addition to responding to the specific requirements for which respondents may have an opinion, Council also urged that feedback on any other information or aspect in, and outside of the document be provided, detailing items supported or opposed with the reasons for the comments/position expressed. All comment letters were considered carefully and are greatly appreciated.

The exposure draft remained in the public domain for the period 8th of March 2019 to 8th of May 2019 for comments during which additional material/provisions were received and reviewed into the final version herein which now has five major sections. All further enquiries on this first edition remain welcome via letters and emails sent directly to the executive secretary at info@ciang.com for necessary clarifications. Correspondence may also be submitted in physical documents to:

**The Executive Secretary
CIIA
10th Floor, Reinsurance House
46 Marina Lagos.**

The CIIA Code of Ethics

These are our collective behavioural values held dearly close to our hearts and serving as the minimum requirements of the public's expectations of our members' professional conduct.

All Registered Investment Advisers must:

1. Accept, and be committed wholeheartedly, to the ideals of a **fiduciary** in the investment advisory profession, and as provided in this code and the entire manual;
2. Act always with **integrity, transparency and loyalty**, placing the interests of clients above own personal interests in the ultimate entrenchment of **total trust, utmost good faith** and **honesty** across the industry;
3. Consistently exercise **reasonable care** and apply **independent professional judgment** in conducting the three important investment advisory tasks of (i) **analyzing investments**, (ii) **recommending investments**, and (iii) **taking investment actions**, and engaging in other professional activities and;
4. Consistently **develop competence** in the discipline, **encouraging others** in the investment industry to practice in a **professional and ethical manner** that will reflect credit on themselves and the global capital markets for the **ultimate benefit of society**.

Table of Contents		
Standard		Page
	Code of Ethics	2
	Table of Contents	3
	Investor Education	5
	Introduction	7
	Definitions and Interpretations	10
1.	Standardization of The Advisory Process	14
1.1	Due process, documentation and reporting	14
1.1.1	Investment analysis, recommendations and actions	14
1.1.2	Investment policy statements	14
1.1.3	Investment Manager Selection	15
1.1.4	Investment Management Agreement	15
1.1.5	Investment performance reporting/presentations	16
1.1.6	Retention of records	16
2.	Transparency of Adviser Actions	17
2.1	Independence, Duties and responsibilities of the adviser to clients	17
2.1.1	Business structure and express contractual obligations	18
2.1.2	Advisory Fees – Pure Advisory versus Transaction-based services and fees	18
2.1.3	Communication of investment actions and results	18
2.1.4	Advice Provided Through Automated Platforms – Artificial Intelligence	19
3.	Elimination of Conflicts of Interests	19
3.1	Disclosures and conflicts of interest	20
3.1.1	Disclosure of conflicts, existing and potential	20
3.1.2	Referral fees	20
3.1.3	Non-contractual remunerations	20
3.2	Infractions and misdemeanours impugning market integrity	20
3.2.1	Material non-public information	20
3.2.2	Market manipulation	20
4.	Professionalism & Ethics	21
4.1	Knowledge of the adviser in his area of professional jurisdiction;	21
4.1.1	Knowledge of existing market laws and regulations;	21
4.1.2	Misrepresentation;	22
4.1.3	Misconduct;	22
4.2	Duties and responsibilities of the Adviser	22
4.2.1	Loyalty to the Client	23
4.2.2	Fair dealings and priority of transactions	23
4.2.3	Suitability	23

4.2.4	Preservation of confidentiality	24
4.2.5	Non-contractual compensations and remunerations by clients	24
4.2.6	Proper supervision of subordinates	24
5.	Sanctions and Remediations	24
5.1	Members' Infractions and Penalties	24
5.1.1	Membership sustenance	25
5.1.2	Communication	25
5.1.3	Supervision of representatives	25
5.1.4	Public/Investor Complaints	25
5.1.5	Investigation	25
5.1.6	Infractions	26



"NEVER TRY TO WALK ACROSS A RIVER JUST BECAUSE IT HAS AN AVERAGE DEPTH OF FOUR FEET."

Milton Friedman: 1912-2006

INVESTOR EDUCATION

This important document opens with what can be regarded as a rather unusual narrative. One that is now much required than ever, to set some equally important records of market practice straight, for the benefit of its users, but most importantly, for the benefit of the general investing public.

This narrative simply is to address once and for all, the crucial need for clarity on what are the appropriate functional titles and descriptions as are currently in use, for certain financial market operators.

Setting the records straight at such an early stage in this document also provides the basis for understanding the entire contents of the CIIA Codes and Standards as laid out hereinafter. It has been adopted as a critical task to execute at such a moment, to unravel the rather insidious nature of this market practice that is almost global, and the obscure harm it brings to the much-proclaimed market development objective.

Over time, the end-to-end processes for conducting the businesses (roles, duties and responsibilities) of certain market operators have left nothing else but a clear trail of confusion in the matter of who amongst the lot does provide untainted investment advice. This is especially observed in the public's struggle with what essentially is the principal function each and every one of them is expected by regulation to carry out, and if there are any specifically set boundaries that cannot or should not be crossed in the rather sensitive area of offering investment advice. This affirmation rests on the existence of enough evidence suggesting that individual retail investors for example are mostly unaware of the differences between brokers and investment advisers and the standards of care to which each group is held. These operators in particular are:

S/No.	APPROPRIATE TITLE	APPROPRIATE DESCRIPTION	LOCAL MARKET ADOPTED TITLE
1.	INVESTMENT ADVISER	A registered financial entity, committed to <u>providing investment advice</u> under the fiduciary standards for a fee/remuneration.	INVESTMENT ADVISER
2.	INVESTMENT ADVISER REPRESENTATIVE	<u>Employees of an investment adviser</u> duly authorised to provide investment advice on behalf of the registered investment adviser.	SPONSORED INDIVIDUAL
3.	INVESTMENT SALES AGENT	A registered financial entity in the business of <u>selling investments or financial products</u> .	BROKER - (Stock, Real Estate, Insurance, etc.)
4.	INVESTMENT SALES REPRESENTATIVE	<u>Employees of investment sales agents</u> duly authorized to sell investment products on behalf of the sales agent.	SPONSORED INDIVIDUAL
5.	*FINANCIAL ADVISER	Commonly used title for the wholesale sell-side (investment banking) advisory business but in actual fact has become a nebulous and often loosely-used title that is already highly prone to usage abuse by many other professionals not even registered as capital market operators, and sometimes to wilfully mislead/confuse the retail buy-side.	FINANCIAL ADVISER

***The most-widely used and/or loosely adopted title and key source of confusion.**

Other titles in use in the global financial markets that continue to generate a lot of confusion amongst the investing public as to who does exactly what include the following:

- 1. Financial Planner**
- 2. Certified Financial Planner**
- 3. Wealth Manager and**
- 4. Wealth Advisor**

CIIA thus takes it as very important a narrative to share at this juncture in the effort to remove all forms of the existing doubts and confusions arising out of the misapplication of these titles in the day-to-day interactions of financial professionals with the general public. In so doing, it becomes imperative to further clarify that where a service provider is, or claims to be providing investment advisory services, prospective investors with such vendors MUST make it a point of duty to request for its valid registration with BOTH the Security and Exchange Commission and the CIIA as so duly registered.

In summary, investment advisers provide their professional services on the buy side of the financial market and are compensated for such offerings. Practice however allows for both the investment advisory and sales functions (two principal functions belonging to the two opposing buy and sell sides of the market) to be registered under one roof of a capital market business – a hybrid business. The focus however for advisory is majorly on guidance and NOT product sales, thus the need to commit wholeheartedly to the fiduciary standards as against the suitability standards allowed for the investment sales agents/the brokers. By interpretation, the suitability standard only requires that a service or product vendor ensures that at the point of offering, such product only meets the extant needs of the investor and no more. The fiduciary standard on the other hand requires a whole lot more as purposely detailed in this document.

To all investors, current and prospective alike therefore, when next faced with a situation presenting any form of doubt or confusion, CIIA wishes to urge a thorough look out for all the appropriate marks of a duly accredited investment adviser which this document is intended to help easily identify in its entire provisions.

Introduction

This document provides an initial and as extensive as possible, framework for the self-regulation of the investment advisory practice in Nigeria under the **fiduciary** standard. It addresses mainly the operations of Registered Investment Advisers. Registered Investment Advisers are professionals and firms duly registered under the **Investment and Securities Act No. 29 of 2007** by the **Securities and Exchange Commission (SEC)**. They are by obligation, subject to the rules of operations in the Nigerian Capital Market, one of which is the mandatory membership of one or more of the registered trade groups of the same market. The Association of Corporate and Individual Investment Advisers of Nigeria (CIIA) is thus the duly registered and sole recognised trade group for registered investment advisers in Nigeria.

This document therefore sets out the requirements for best practices acceptable globally, amongst the registered investment advisers, their representatives and other duly accredited agents, for the ultimate benefit and protection of all their clients or investors. These requirements, otherwise known as provisions of the standards, are the minimum expected of professionals in the delivery of their services. They are equally the fundamental moral obligations involved in the process of such service delivery, aligning sufficiently with the known principles of the fiduciary standard as against the suitability standard. They thus encode a simple framework by which compliance with or breach of such standards are easily identified and adequately addressed, all in the ultimate interest of the investor. The standards are equally instructive and recommended for investors to digest as a source of vital information on the appropriate steps to follow and what minimum expectations they should have of, and in their dealings with, the professional investment adviser. It is a reliable source of what each investor needs to know in navigating the financial markets.

The provisions in this manual draw extensively from experiences in the global investment management space with a view to benchmarking the current standards in Nigeria, and with the ultimate objective to improve the TRUST element in the financial intermediation process. In all areas necessary, it is hoped that dealings that ultimately fail to uphold the important principles of **TRUST, TRANSPARENCY and ACCOUNTABILITY** as essentially required in the financial markets, will be eliminated.

Over time, and as the market itself evolves, it is expected that the standards will themselves undergo changes and better align with the necessity to keep up with global market dynamics and expectations.

The Objective – Strengthening The Trust Base in Investment Advisory Practice

The capital market is an expansive network of different interests amongst buyers and sellers. In keeping with the age-old caveat of buyers exercising extra care at every point of purchase, the need arises therefore for appropriate guidance. One of the very strong underlying factors necessitating this need for guidance especially in the rather technical world of the overall financial industry, is the often less-than-adequate protection at the buyer's disposal. Against the almost inimitable and potentially lethal prowess of the seller in his profession, commonly identified as the agency problem, the buyer is often defenceless and prone to

abuses. The exposure of the buyer, here being the prospective investor, to the unchecked or absolute discretion of the seller therefore does not bode well for the collective good of the market and the economy as a whole. It is in recognition of this global phenomenon that markets consistently evolve in the intermediation process and practices toward the ultimate protection of the buyer, the investor.

In Nigeria today, the situation is hardly any different, with a group of vendors offering services and products within the same dimension of investor-interest and protection. The challenge however has remained drawing that solid line of demarcation between who truly is in the business for the sole interest of the investor, and thus offers the appropriate investor-protection services, and who, by their offerings, can hardly be described as an adviser in the first instance. Again, there are quite many duly qualified professionals in the market donning the appellation of investment advisers, but whose processes and practices when passed through the tests of fiduciary responsibilities come way below the mark. Another famous source of challenge to this specialist profession of Investment Advisory is the very blurred line between some of the globally recognised capital market functions, especially the broker/broker-dealer and the investment adviser proper. It is instructive, as well as interesting to note that arguments have been back and forth globally on the crucial need to conscientiously segregate these practices that are widely acknowledged registrable and co-habitable under the same brand/roof of a professional financial services firm. In this need therefore resides perhaps the fundamental objective to holding advisory firms genuinely committed to investor care and protection to the fiduciary standard as against the suitability standard. This founding hence sorts the ambiguities inherent in the multiplicity of role-plays amongst most capital market operators often identifiable or presenting as investment advisers but which beyond the façade of the enabling/due registration cannot be upheld against all odds.

The age of uncertainty regarding genuine investor care and protection services therefore by this practice code and standards comes to an end first by the willing collaboration of all professionally accredited and duly registered investment advisers to end it by their subscription to the membership of CIIA, and by the strong backing of the regulatory authorities who have also by their statutory obligations, subscribed to the ongoing practice reform under due approval.

By the foregoing, CIIA is building a virile and much trustworthy Nigerian Investment Industry, readily accommodating to all types of investors from all around the globe on the back of these new practice principles encapsulated in our objective thrust captioned '**STEPS**', as a body of professionally qualified and duly registered investment advisers acknowledged as fiduciaries:

The STEPS Industry reform initiative:

In keeping with the requirements of these **STEPS** principles enunciated below, every investment adviser demonstrates the commitment to global best practices in servicing their clients' interest first and above all else's, and ultimately in tune with the intents of the fiduciary standard they collectively represent in the following minimum requirements to be adopted as Standards of Professional Practice:

-
1. **Standardization of the Advisory process;**
 2. **Transparency of Adviser actions;**
 3. **Elimination of conflict of interests;**
 4. **Professionalism and Ethics and;**
 5. **Sanctions and Remediations.**

In summary, the STEPS is the CIAA's mnemonic for memorizing the five major sections of the standards.

S/No.	Word/Terminology	Definition/Interpretation
1.	Administrative Charges	Charges/costs involved in the day-to-day running of the investor's investment programme. The makeup of this could include custodian, legal, external valuation, tax and audit fees, incurred either directly or indirectly on behalf of the client's investment programme.
2.	Adviser Representative	This is the market adopted name for a SEC-registered sponsored individual directly responsible for carrying out the firm's advisory functions, including provision of advisory services and products for its clients. Only adviser representatives are qualified to provide advisory services on behalf of their registered firms.
3.	Affiliate Member	Investment advisers who are in the process of meeting all the association's requirements for membership, but cannot practice as a registered adviser in the Nigerian market, and all other members of the public who identify with the ideals of the body with the objective of benefitting from its services and offerings, and have registered with the association but do not wish to practice.
4.	Agency Problem	Inherent, natural or acquired superiority of one party over the other in a transaction that places the lesser party in an obvious disadvantage. An agency problem will be implied where a documented major (agent) is required to act on behalf of a minor (principal) who is legally presumed unable to make reasonable judgments.
5.	CEP	Continuing Education Programme
6.	CIIA	Short for Association of Corporate and Individual Investment Advisers, Nigeria.
7.	Conflict of Interest	A situation where a fiduciary is found wanting by placing the interest of his client below, or after his own or employer's selfish interest. Conflict of interests could either be existent or potential and must be thoroughly analysed in making appropriate decisions regarding the client's investment programme.
8.	Corporate Adviser	An entity registered with the SEC as an incorporated business either under the Nigerian partnership or corporation laws. Corporate advisers carry the vicarious liabilities of their accredited representatives and must ensure adequate supervision of their employees at all times.
9.	Fiduciary/Fiduciary Standard	A party to whom another's interests has been entrusted, with the duty of care, prudence, diligence, utmost good faith, and reasonable judgment to act on behalf and in the sole interest of that other, consistently.

Fiduciary standard, similar to the Hippocratic Oath for physicians, places registered advisers under both a legal and moral obligation to put their clients' best interest and financial well-being ahead of their own. In simple terms, a FIDUCIARY MUST commit to, and ALWAYS:

1. Put client's interests first.
2. Act with utmost good faith.
3. Provide full and fair disclosure of all material facts.
4. Do not mislead clients.
5. Expose all conflicts of interest.

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|--|---|
| 10. Individual Adviser | A person registered with the SEC as a sole proprietor to carry on the business of investment adviser in the Nigerian capital market. Such individual bears the full responsibilities under the objective of the association's application of the fiduciary principle in the provision of advisory services in the country. |
| 11. Investment Adviser | <p>Any person, individual or corporate who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities, or who, for compensation and as part of a regular business, issues or promulgates analyses or reports concerning securities.</p> <p>In the Nigerian context, this definition covers a person or persons who carries on the business of advising others concerning securities; or as part of a regular business, issues or publishes analysis or reports concerning securities; or pursuant to a contract or arrangement with a client, undertakes on behalf of the client for compensation, the management of a portfolio of securities for the purpose of investment.</p> |
| 12. Investment Policy Statement (IPS) | An important engagement document prepared by the adviser to provide clear understanding and guidance on the investment programme of the investor in the areas of responsibilities, expectations, permissible investment products, in what proportions, for how long, and at what level of return and risk, amongst others. |
| 13. Investment Programme | An arrangement put in place and agreed to by both the adviser and the client in writing, to manage the investment portfolio and other related financial affairs of the investor. Investment programmes are flexible and can take on any form as far as both parties are comfortable with the scope and terms of the engagement. |
| 14. Management Fee | Management fee is often of the exclusive preserve of the professional investment or money manager. This is the charge/cost associated with the professional services of the duly appointed investment management firm. |

15.	Manager Selection	The highly methodical process by which qualifying professional money managers are assessed for appointment to, monitoring on, and removal from the client's investment programme.
16.	Open Architecture	An operating environment or business structure that affords the adviser full independence and discretion to offer or provide services and products to his clients from any vendor found most suitable in serving the adviser's client's objective(s).
17.	Pooled Fund Investment	A collective investment scheme or portfolio – as different from a segregated investment – managed to a group's collective and inseparable objectives and/or interests. Examples of this will be mutual funds, pension funds, private equities and hedge funds.
18.	Qualifying Experience	The minimum period of time within which the regular investment adviser must have had his/her hands-on experience before being admitted into the association or registered by the SEC. In Nigeria, this is currently 48 months.
19.	Registered Investment Adviser	An individual or corporate entity, registered by the SEC under the current Securities Act, and a regular member of the CIIA.
20.	Regular Member	An investment adviser who has fully met all the requirements of the association including having the required qualifying period of experience and meeting his CEP points requirement.
21.	SEC	Securities and Exchange Commission
22.	Securities	Items or constituents of an investor's investment portfolio being advised upon by his duly appointed investment adviser. These would include investment options from the different asset classes both traditional and alternative.
23.	Segregated Account	A portfolio or set of portfolios managed exclusively to an individual's objectives, strategies, and constraints as different from a pooled fund.
24.	Sub-advisory	The appointment by the adviser by due process, of a professional investment management firm to run the portfolio management aspect of the client's investment programme.
25.	Suitability Standard	Conversely to the FIDUCIARY standard, other capital market intermediaries especially product brokers are held to a lesser measure or degree of loyalty called the <u>Suitability Standard</u> , which simply requires the broker to sell investments <u>they believe are suitable</u> for their clients at a particular point in time, and not necessarily what is best for the client. Examples here include stock brokers, real estate brokers, insurance agents and others who frequently use pseudonyms such as financial adviser, financial representative or consultant, registered representative, client or wealth advisor, etc.)

- 26. Transaction Costs** Total statutory and ancillary expenses incurred at the original point of transaction (buy or sell) for the benefit of the investor's account. The makeup of this item may differ in different markets and other special circumstances. In Nigeria, this may include the brokers' and regulators' charges, the applicable stamp duties, and costs of research.
- 27. Wrap/Bundled Fee** A rating percentage cost of an investor's total wealth under advisory management incurred on behalf of an investor including a number or combination of transaction charges, management fees, custodian fees, and other permissible operating costs on the investor's account.

1. Standardization of The Advisory Process

The very first standard has the primary objective to establish a fair and level playing ground upon which every registered investment adviser shall provide its professional services. This standard also provides the framework by which advisers will be assessed individually as well as in comparison with others in their client engagement procedures. In a nutshell, the first provision of the practice code and standards sets out the minimum requirements expected of the adviser in the following key process areas:

1.1. Due process, documentation and reporting;

1.1.1. Investment analysis, recommendations and actions:

The basic requirement here is that every investment advice shall follow a globally recognized procedure. In such procedure, the objective(s) and fundamental right of the investor to know **MUST** be **ADEQUATELY** addressed in alignment with the professional adviser's service and product offerings based on his/her professional knowledge. This due process **MUST** factor into account, the adviser's perfect understanding of the client's financial and personal background, his current and future financial desires, how these are affected by current as well as projected market situations, and the likelihood of such market trends affecting the fortunes of such an investment plan or contemplated advice. All these **MUST** be adequately documented and properly maintained as investor records for purposes of necessary evaluation. To the above end, every adviser shall:

- a. Conduct a thorough personal and risk profile of his prospective clients and draw a clear understanding of their investment and financial goals which both parties must formally attest to, in writing;
- b. Every investment adviser must conduct or have conducted a thorough analysis of the investment environment, and in particular, the intended investment product or instruments eventually recommended to be employed in the investment programme of the prospective client. Such recommended product or instrument having been found suitable for the investor, must be detailed in an Investment Policy Statement, to guide both parties in areas of responsibilities and expectations.
- c. Every investment adviser must take appropriate action steps in all the required client engagement and relationship management processes, that are easily verifiable by other independent third parties, ensuring that the interests of the investor is, and remains above the adviser's. Such actions being regularly communicated in simple-to-understand language to the investor.

1.1.2. Investment Policy Statement – IPS:

As part of the important documents to be maintained by the investment adviser, this requirement provides adequate guidance to both parties as to areas of responsibilities and boundaries within which the investment programme shall run. Amongst other necessary details of the IPS are the following:

- a. Detailed client description;
- b. Purpose of establishing the IPS – nature of investment programme;
- c. Duties and investment responsibilities of parties involved;
- d. Statement of investment goals, objectives, and constraints (liquidity, legality, time horizon, taxes etc.);
- e. Performance measures and benchmarks – returns and risk objectives;
- f. Schedule for review of investment performance and the IPS;
- g. Any considerations in developing strategic asset allocation;
- h. Investment strategies and investment styles and;
- i. Guidelines for rebalancing

1.1.3. Investment Manager Selection

In appointing counterparts to work with the adviser on the client’s investment programme, the adviser has the duty to exercise transparent objectivity and ensure that due diligence is observed in the process leading to the fair choice of such other professional colleagues and their **NECESSARY** services and products. In the important and core aspect of selecting the investment manager, amongst others, the adviser must pay very close attention to, and thoroughly engage the following required factors:

- a. A well-documented request for proposal, or recommendation from a proprietary list of researched managers;
- b. Asset class specialisation by manager;
- c. Inherent operational flaws of manager;
- d. Manager investment philosophy, people and processes – the 3Ps;
- e. Manager performance track record;
- f. Observable attributes of the firm and its people in the following key aspects:
 - i. Intelligence;
 - ii. Knowledge and Skill;
 - iii. Focus;
 - iv. Long-term Thinking;
 - v. Independence and;
 - vi. Alignment of interest with investor’s.

1.1.4. Investment Management Agreement and/or Official Document:

It is imperative that the underlying investment management agreement specifically and directly addressing the investor’s interests either in a segregated account, or its equivalent in other indirect investment programmes like pooled funds, be made known by providing a copy of such agreement or legally-binding document to the investor. All investment products in use in the

client's investment programme must have official documents stating clearly amongst others, the following important information:

- a. Introduction of main parties to the client's investment programme;
- b. Objectives behind the establishment of the investment account;
- c. Professional parties and their established responsibilities;
- d. Investment accounting and reporting requirements;
- e. Investment management Fees and other eligible charges;
- f. Notices by parties;
- g. Condition of Confidentiality;
- h. Breach and remedies;
- i. Legal Jurisdiction, Arbitration and Settlement

1.1.5. Investment performance reporting/presentations:

This represents the most critical information feedback mechanism in the client's investment programme. The requirement here aims to provide the investor with standard and adequate performance measures of his account/portfolio. Every investment adviser therefore must ensure that their clients get **AT LEAST QUARTERLY** detailed reports on their investment portfolio and as when requested. In the current efforts by industry stakeholders and the regulators to ensure a standardization of such reporting exercise, each investor's periodic performance report must as of now present amongst other important information, the following as minimum disclosures:

- a. The period to date return and risk ex-post measures;
- b. The period to date benchmark return and risk ex-post measures;
- c. The end of period portfolio holdings;
- d. The end of period benchmark holdings;
- e. The returns calculation methodology and;
- f. The risk type adopted for the investment portfolio at least in qualitative or quantitative expressions.

1.1.6. Retention of records:

To reinforce the credibility of the entire advisory process, all records of analyses, recommendations, and actions taken on the professional management of the investor's portfolio must be safely kept for future references and necessary evaluation. This is further required either in adequately protected electronic/online form or secured-access physical filing facility or both.

Maintaining security of clients' records is paramount also in view of the confidentiality of the relationship and every investment adviser must ensure this sensitive aspect of the relationship is adequately guarded. Access to such information/records must be under strict supervision and appropriate guidance of the superior line or responsibility officer, ensuring a total prevention of

loss or damage that may warrant undue disagreements or arguments between the adviser and the client.

Investment advisers for the purpose of this requirement must retain all client records within their system and/or archive for a minimum period of seven (7) years post-account closure before they can be considered outdated and hence due for removal or destruction. Advisers must ensure however, that such outdated client records due for removal or destruction must be so removed or destroyed under a controlled process to prevent undue exposure of clients' sensitive information, or such information getting into the wrong hands or inappropriate quarters.

2. Transparency of Adviser Actions

In the advisory process, there is always quite a number of different and interlocking interests not necessarily or totally working in favour of the client. Identifying these interests and how each benefits from the holistic relationship can be such a tedious/demanding task, in which the investor's own interest often gets overlooked. The whole programme is originally about the investor and it is primarily for this reason that the professional services of a committed adviser are required to guide and protect the interest of his often-vulnerable client. The adviser therefore should be the very last of all the parties engaged in the investment programme, to be found wanting. He must submit himself and his entire operations to the test of probity, with the consistent validation that investors can keep their trust intact in what he or his firm does. This is the point at which trust becomes the strongest element of a thriving advisory business as well as an indispensable requisite for a healthy capital market. The adviser must live above board and demonstrate ultimate transparency of his actions in every decision he takes on behalf of his client.

Lack of transparency in the advisory process heaps such a significantly unwarranted burden on investors to keep conducting appropriate due diligence and reconciliations at almost every turn which is not the primary objective of investing in the first instance, and also not cheap. Every action of the adviser must therefore reflect a dealing at a reasonable arm's length, first and foremost in the interest of the investor and ultimately for his sole benefit, and/or any of his accredited beneficiaries.

2.1. Independence – Business Structure, Affiliations and Operations;

To support a credible system of operation and relationship management, the adviser must present himself to the prospective investor on initial contact, in the full picture of his business and how it works. The objective of this important requirement is for clients to understand the structure of the adviser's business and how this would affect services and products to be provided in serving the client's sole interests, and the commensurate costs associated or to be associated to such offerings. Costs associated to advisory services come in different forms including (i) transaction commissions, (ii) flat fees, (iii) hourly rates and (iv) wrap or bundled fees, which could include other administrative charges. In the discharge of his duties and expectations for appropriate remuneration, the adviser must be transparent in all his dealings with the investor, and by this

must be upfront with him, on how his business is structured and how such structure could play a major role in the provision of his or his firm's services.

One of the highly important factors considered in running an investment advisory business is the degree of independence possessed by the adviser to be able to take discretionary decisions and actions in the best interest of the investor without any form of pressure or conflicting interests against such discretions. At both ends of the advisory service spectrum are the individual and corporate advisory business types. Individual advisory offers full independence to the professional whilst corporate advisory does not. In the offering by the corporate adviser, representatives do not always or completely possess the full discretion to serve the client in what may be considered the best interest of the client. Whilst it may be the corporate adviser's policy to source particular investment, insurance, and other relevant products for clients' investment programmes from its holding/parent or affiliated companies, the individual adviser does not have such constraints and thus can operate effectively under an open architecture business structure, to the ultimate advantage of the client.

2.1.1. Business structure and express contractual obligations:

Every investment adviser must make appropriate introduction of himself and his business structure and operations to the prospective investor. This requirement is important to enable the client to make very good judgments and informed decisions about how best he wants his investment programme managed. An adviser representative of a corporate advisory firm must introduce himself as one with the full import of what this represents, whilst an individual adviser must equally explain the implications of providing services as one. Client relationship management under both types of advisory business must be guided by very well documented agreements and guidelines to forestall any confusion and disagreements in the programme down the line;

2.1.2. Advisory Fees – Pure advisory versus transactions-based services and fees:

In recognition of the complexity which total expenses associated with the client's investment programme could take on, advisers must differentiate **what costs are directly attributable to their own services and product offerings** to the investor and demonstrate how this separation justifies the totality of the services being provided in the sole interest of the investor. Advisers must refrain from the acquisition of services and products not directly in the interest of the client but meant to generate transactional commissions for the adviser's benefit.

2.1.3. Communication of investment actions and outcomes:

To further strengthen the transparency requirement of adviser actions, every adviser must provide a reliable and consistent communication channel with the investor to seamlessly keep the investor

up to speed about necessary changes in his investment programme. Electronic prompts and alerts are desirable means of such channels, but the adviser is at liberty to design and implement any other means by which the objective of keeping the investor adequately informed is fulfilled. The adviser must also make all reasonable efforts to share all statutory reports and other periodic reporting forms with the investor within an equally reasonable time period to enable the investor to make the most appropriate decisions timely and as when necessary.

2.1.4. Advice Offered Through Technological Platforms – Artificial Intelligence

With the age of technology catching up with virtually every professional discipline, investment advice is also not left out. The speed and efficiency which technology offers to providing investment advice endears the infrastructure much more these days to professional individuals looking to grow their businesses. But in recognition of the yet inherent disconnect between human and machine intuition, lies the need for proper guidance and control of advice offered through an automated interface. Whilst this particular subject is of a very broad scope and the world is yet to reach a consensus on the measured controls, it is yet necessary as a risk management measure to provide adequate information to the adviser's clients on the implications of such advice and appropriate decision making. Every adviser therefore as basic requirements must ensure the following when using artificial intelligence in any aspect of his advisory process:

- a. Disclose by endorsement on every such advisory document, including the adviser's own generic reports intended for public circulation, the use of automated or artificially-generated information/advice;
- b. Explain the differences between the two types of traditional/human and artificial advisory channels and the possible limitations present in, as well as the implications of both;
- c. Provide the ample opportunity to allow the client to make his choice between what is currently traditional/human advisory and automated advice at the point of the engagement process detailed in standard 1.

3. Elimination of Conflicts of Interests

Taking undue advantage of the client investor's weakness in the area of capital market knowledge or operations is almost a natural instinct that can be found in every professional offering in the market. The objective of this particular standard however is to make disclosure a core aspect of the principles of fiduciary responsibility. To mitigate or totally prevent the possible fallouts of the economic theory of adverse selections or agency problems, voluntary revelation of certain issues upfront at the point of initiating a relationship or at certain crucial points along the way becomes indispensable. Every adviser as a professional therefore, must adhere to the ethics of the discipline of which disclosure is a prominent one. Disclosure affords the adviser the opportunity to present facts, truths, and realities to the investor, which ordinarily would have been perfect for the investor's programme and his sole interest and benefits but for certain constraints of the present circumstance, which can actually call the integrity of the entire

investment programme to question down the line. Disclosure therefore helps to remove any hidden objective of the adviser in a good investment recommendation subject to the ultimate comfort of the client by detailing the presence or existence of such constraints, that could either be viewed or actually turn out as untoward or fraudulent down the line in the investment programme.

3.1. Disclosures and conflicts of interest;

3.1.1. Disclosure of conflicts, existing and potential:

Advisers must make full and fair disclosure of all matters that are, or could reasonably be expected, to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and employer. They must ensure that such disclosures are prominent, are delivered in plain and simple-to-understand language and communicate the relevant information and their implications effectively.

3.1.2. Referral fees:

Advisers must disclose to their employer, clients, and prospective clients, as appropriate, any compensation, consideration, or benefit received from, or paid to, others for the recommendation of products or services.

3.1.3. Non-contractual Remunerations:

Adviser representatives must not accept gifts, benefits, compensation, or consideration that competes with, or might reasonably be expected to create a conflict of interest with, their employer's interest unless they obtain written consent from all parties involved.

3.2. Infractions and misdemeanours impugning market integrity.

3.2.1. Material non-public information:

In conducting his investment analysis, as well as in the processes of making investment recommendations and taking investment actions on behalf of his client, the adviser must exercise reasonable care and diligence not to act on information or cause others to act on the same information which he has acquired by privilege and is not yet made officially public. Material information generally is defined as information for which there is a substantial likelihood that a reasonable investor would consider it important in making his or her investment decisions, or information that is reasonably certain to have a substantial effect on the price of an issuer's securities. Material Nonpublic Information is information that would affect the market value or trading in a particular security. Information is considered to be nonpublic when it has not been adequately disclosed to the general public.

3.2.2. Market Manipulation:

The adviser in his publications must not knowingly circulate false and misleading materials and information that can cause losses to both his clients and the general public. Advisers therefore

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

4. Professionalism & Ethics

4.1. Knowledge of the adviser in his area of professional jurisdiction;

Just like in every profession, what makes the investment adviser unique in his chosen field is the acquired and recognised capacity to provide a specialized service in helping people to attain their financial objectives and goals. Such capacity comes in a combination of requirements that each professional adviser must consistently meet, and demonstrate in his dealings with the general public, and of which formal education in certain academic curricula, continuous learning, environmental/market awareness, and years of practical experience represent the topmost on the list.

In addition to these important requirements, is the adviser's self-submission to the ideals of his profession, recognising such as the minimum expectation from the larger society, of his behaviour as it affects the integrity of what the calling stands for. In this wise, every adviser must endeavour to consistently act, keeping strictly with the **ETHICS** of the investment advisory profession which are explained as follows:

- a. Accept, and be committed wholeheartedly, to the ideals of a fiduciary in the investment advisory profession, and as provided in this code and the entire manual;
- b. Act always with integrity, transparency and loyalty, placing the interests of clients above own personal interests in the ultimate entrenchment of total trust, utmost good faith and honesty;
- c. Consistently exercise reasonable care and apply independent professional judgment in conducting the three important investment advisory tasks of (i) analyzing investments, (ii) recommending investments, and (iii) taking investment actions, and engaging in other professional activities and;
- d. Consistently develop competence in the discipline, encouraging others in the investment industry to practice in a professional and ethical manner that will reflect credit on themselves and the global capital markets for the ultimate benefit of society.

4.1.1. Knowledge of existing market laws and regulations;

Every investment adviser must be conversant, well-versed in, and demonstrate a sound understanding of the application of the prevalent laws of the Nigerian Capital Market – **The Investment and Securities Act No.29 of 2007**, and all market regulations appertaining to it as issued by the SEC. Whilst the provisions of this standard are set with the objective of ensuring the ultimate protection of investors in the marketplace, they are not to be interpreted as superior to the relevant laws or regulations in any aspect, and therefore should be applied in conjunction with what such existing laws and regulations stipulate. In essence, these provisions are a compendium of the letters and intents of the law to complement it and are thus to be viewed as being in support of

maintaining discipline in the market. For purposeful guidance however, wherever there is a conflict between the law and the provisions of this standard, the adviser must comply with whichever is the stricter between these provisions and the existing law, rule, or regulation. Advisers must abstain completely from participating or assisting in, and must dissociate themselves from, any violation of such laws, rules, or regulations. Every adviser must in the foregoing regard, comply with the regulatory requirement of belonging to his accredited trade group in the Nigerian Capital market, herein being the CIIA.

4.1.2. Misrepresentation:

An adviser must not engage in such practices as to knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities. Likewise, in this case an adviser must not present or lay claim to other professionals' works as his, or his organization's and its services and offerings. In his regular interactions and communications with his client and the general public, the adviser must make every reasonable effort to distinguish between what are statements of his own opinion as different from statements of fact.

4.1.3. Misconduct:

An adviser's wilful or deliberate attempt or action to deceive, mislead, or defraud his client for selfish gains or similar inappropriate benefits other than the client's, as well as the general public's in any of his publications, service and product offerings shall be liable to professional misconduct and be subject to disciplinary action and possibly legal actions for appropriate remedies under the law. Investment advisers must therefore be very watchful so as to avoid the following amongst others:

- a. Theft and fraudulent transactions to the direct and indirect advantage of the adviser;
- b. Falsification of documents, client information and other reports meant for the consumption of the investor and the general public;
- c. Suppression of material information having direct or indirect bearing on the wellbeing of the investor;
- d. Altercation of any type whether resulting or not in physical confrontation with the client and any member of the public;
- e. Open or discreet violation of any of the laws of the federal republic of Nigeria.

4.2. Duties and responsibilities of the Adviser;

The investment advisory practice in Nigeria comes mainly in two branches namely (i) Corporate and (ii) Individual Investment Advisers, features of which have already been adequately addressed under the business structure aspect of standard 2.1.1. The requirement of loyalty is as important and as delicate in interpretation. The usual resolution question therefore is, to whom the adviser representative (the employee) should be dominantly accountable between the employer (the

corporate advisory firm) and the client/investor. In the corporate advisory setting, the sponsored individuals, otherwise known as adviser representatives are employees of the corporate firm and thus owes certain obligations under contract, including certain primary duties of loyalty to the employer. In the individual adviser setting, the adviser, being the sole sponsored individual is his own employer and thus owes total obligation under the duty of loyalty to his client. In both the corporate and individual advisory business settings however, the ultimate loyalty of the adviser is to the investor.

4.2.1. Loyalty to the client:

Where the business is of the corporate type, the adviser representatives as duly registered also by the SEC shall owe the duty of loyalty on ALL matters of the investor's welfare, first and foremost to the investor and not to the employer firm registered by the SEC. Adviser representatives, registered by the SEC as sponsored individuals shall be people of utmost integrity and requisite capacity to deliver professional investment advice as stipulated under the law and the provisions of this standard.

Generally, advisers have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. They must act for the benefit of their clients and place their clients' interests before their employer's or their own interests. In relationships with clients, advisers must determine applicable fiduciary duty and must comply with such duty to persons and interests to whom it is owed.

4.2.2. Fair Dealings and Priority of Transactions:

All advisers must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities, all on behalf of his client. In addition, advisers must place the investor's interests before and above those of their employers and themselves whenever conducting investment buy and sell, and other client-related transactions. By the foregoing, all investors must receive the adviser's equitable allocation or apportionment of investment products based on availability, first-come-first-served principle, and as well as any other opportunity for the legitimate disposal of client's assets, before anyone else's.

4.2.3. Suitability:

Having satisfied himself that the investor has a good understanding of the process of the investment programme as required under standard 1.1.1 the adviser owes it a duty of care to determine that an investment is suitable to the client's financial situation and consistent with his written objectives, mandates, and constraints before making an investment recommendation or taking investment action. The adviser must also judge the suitability of investments in the context of the client's total portfolio, and when he is responsible for managing a portfolio to a specific

mandate, strategy, or style, the adviser must only make investment recommendations or take investment actions that are consistent with the stated objectives and constraints of the portfolio.

4.2.4. Preservation of Confidentiality.

All advisers must keep information about current, former, and prospective clients confidential unless: the information concerns illegal activities on the part of the client or prospective client, disclosure is required by law, or the client or prospective client permits disclosure of the information.

4.2.5. Non-contractual compensations and remunerations by clients:

As part of the measures to prevent conflicts of interest addressed under standard 3.1.1 – Disclosures – adviser representatives are required to disclose and bring to the notice of superiors within the firm, all information relating to unofficial compensation, and with potentials to discredit the advisory process and discipline as a whole.

4.2.6. Proper Supervision of subordinates:

Every adviser must ensure that all officers or employees under their supervision receive proper and adequate guidance in the handling of investors' requests and other matters pertaining to the investor's investment programme. Advisers must therefore make reasonable efforts to detect and prevent violations of applicable laws, rules, regulations, and these standards set herein by anyone subject to their supervision or authority.

5. Sanctions and Remediations

5.1. Members' Infractions and Penalties

The CIIA as a professional body is committed to achieving its objectives principally by means of suasive practices and therefore encourages members to lead the new advisory narrative in all ramifications from this perspective. In so doing, CIIA holds that membership of this avowed fiduciary profession cannot be overemphasized as being a representation of everything that is true, just, and rewarding in the experience of the investing public. These Codes and Standards therefore represent the very minimum requirements for members to learn, understand, and be willing to consistently abide by in their dealings with their client investors who shall equally have every reason untainted, and the comfort, to going with, and trusting the judgment of their adviser. Where all else fails however, and there is enough reason to believe a member has violated any of this standard's provisions, CIIA in fulfilment of its mandate shall apply the most appropriate and fairest sanctions to correcting the resulting untoward situation.

Such minimum requirements expected of members to consistently abide by should also be made complete in the knowledge of what stands in the gap between the Codes and Standards, and their

conscientious application. To this end are the following initial measures the CIIA has set out to address the all-important issue of maintaining the integrity of the profession:

5.1.1. Membership sustenance

In pursuing the main objects of the association which include investor education, investor protection, members' career development, and overall market growth, members are encouraged to renew their annual membership including the attestation to CIIA's Professional Conduct Statement between the months of March and April every year. This will enable the adequate provision of the value-adding offerings of CIIA, including the regular accreditation through maintenance of the online register and other unique benefits. Non-renewal of membership may lead to automatic delisting of registered advisers with censored or limited access to other benefits which may in turn adversely affect its overall operations;

5.1.2. Communication

Every member is required to conspicuously display its registration number and the embedded CIIA logo on ALL its correspondence with clients and other stakeholders. Provision of any form of investment advice under anonymity other than what is reasonably informal/casual briefings is prohibited; a member of the association is under obligation to live above board in all dealings, transparently with clients and members of the general public until otherwise documented and published;

5.1.3. Supervision of Representatives

Adviser representatives are ambassadors of the registered member and must equally abide by all the rules and requirements of operations of investment advisory services in the country. Weak or total lack of supervision of representatives has a direct bearing on the membership standing of registered members and can lead to sanctions being taken directly on such members. In summary, both the member and her representatives are liable to sanctions, penalties and rules of remediation of actions that are contrary to and violating the integrity of the CIIA and the profession at large;

5.1.4. Public/Investor Complaints

Members infractions are reported directly to the CIIA via the online complaints form provided on the association's website. Each case will be considered on its own merit and full allowance given for fair hearing;

5.1.5. Investigations

CIIA shall conduct appropriate administrative investigations into each complaint brought to its attention and members are under obligation to provide all information and facts regarding the complaint to enable a fair resolution of such;

5.1.6. Infractions

EOW – establishment of wrongdoing: following the conclusion of the administrative investigation and in line with the provisions of this standard, a notice of EOW shall be issued to a member found in contravention of any standard, and as such will be apprised of its liability under the applicable sanctions, penalties and remediation options part of which can be any or a combination of the following in the meantime:

- a. **Caution** – a letter of caution which shall serve as record of bad faith on the part of the adviser in question, in the books of the association, shall be issued to the affected adviser to refrain from committing or repeating such acts bringing his/her firm into conflict with the client in the first instance. Such records of bad faith however raises the likelihood of an adviser falling within the radius of sterner measures in the event of a recurrence, or of ANY other infraction committed by it;
- b. **Restitution** – an adviser found culpable through the violation of any of the standards shall be made to make good any pecuniary losses to the client arising from his misdemeanour as established in the EOW. In addition to such restitution, a caution may be issued to such an adviser depending on the gravity and circumstances of the infraction;
- c. **Suspension** – depending on the gravity of the infraction recorded in the EOW and records of any past shortcomings against the adviser, a suspension order may be placed on the adviser by the association and copied to the Securities and Exchange Commission. This process will equally entail the notification to the general public of the suspension of the activities and operations of the adviser from the Nigerian capital market for a period to be determined in line with the extended rules of the regulator;
- d. **Prosecution** – members' involvement in matters infringing directly upon the law and against the state shall be referred at once to the appropriate quarters for prosecution, and in this period, the member shall remain in full suspension until such trial is concluded;
- e. **Cancellation of Membership, Summary Withdrawal of CMO Registration, & Blacklisting** – the highest price payable by any member for proven wrongdoing is the summary delisting from the association's membership and withdrawal of operating licence as a capital market operator in Nigeria. Not ending there, such firm and its representatives may be blacklisted and never be able to transact any business again in the entire Nigerian financial industry as a service provider.