

Standards of Professional Conduct & Guidance: Professionalism

Test ID: 7658602

Question #1 of 82

Question ID: 442249

Which of the following is *most likely* permitted under Standard I(C), Misrepresentation?

- ✓ **A) Including data showing the current government bond yield curve in a report to a client without stating its source.**
- ✗ **B) Citing quotes attributed to "investment experts" without specific reference.**
- ✗ **C) Using excerpts from reports prepared by others without acknowledgement.**

Explanation

The government bond yield curve is factual information that is available from many recognized financial or statistical reporting services.

Question #2 of 82

Question ID: 412355

A money manager works for a full-service brokerage firm. After meeting with a new client and gathering all relevant information, the money manager says that she thinks her firm can perform all the financial services the new client needs. With respect to Standard I(C), Misrepresentation, this:

- ✗ **A) is a violation because she cannot make statements like this under any circumstances.**
- ✓ **B) may not be a violation if the manager's opinion is based upon the factual information gathered.**
- ✗ **C) may not be a violation if the representation was made orally.**

Explanation

There is no violation if the opinion is based upon the factual information gathered and the firm's actual capabilities. This is true whether or not the representation was written, oral, or electronic. None of the other choices are correct.

Question #3 of 82

Question ID: 412287

CFA Institute members should encourage their employers to do all of the following EXCEPT:

- ✗ **A) make clear that dishonest personal behavior reflects poorly on the profession.**
- ✓ **B) require employees to write personal ethics statements.**
- ✗ **C) conduct background checks on potential employees to ensure that they are of good character and eligible to work in the investment industry.**

Explanation

There is no reason to have employees write personal ethics statements. CFA Institute encourages all of the other actions.

Question #4 of 82

Question ID: 412338

An analyst preparing a report needs to cite which of the following?

- ☐ A) Estimates of betas provided by Standard & Poor's.
- ☒ B) A recent quote from the Federal Reserve Chairman.
- ☐ C) The individual who developed a chart from the same firm.

Explanation

Statistics provided by a recognized agency, such as Standard and Poor's, do not need to be cited. Charts, quotes, and algorithms developed by the firm would need to be cited when they are used but the individual(s) who developed the materials within the firm do not need to be cited.

Question #5 of 82

Question ID: 412305

A member or candidate who suspects that a colleague is violating the law should *most* appropriately:

- ☒ A) consult with the company counsel to determine if in fact a law is being violated.
- ☐ B) report all illegal activities to the appropriate regulatory agency.
- ☐ C) report the illegal activity to CFA Institute Professional Standards Review Board for action.

Explanation

According to Standard I(A), Knowledge of the Law, members and candidates shall not knowingly participate or assist in any violation of laws, rules, regulations, or the Code and Standards.

When members suspect a client or a colleague of *planning or engaging in ongoing illegal activities*, members should take the following actions:

- **Consult counsel** to determine if the conduct is, in fact, illegal.
- **Disassociate** from any illegal or unethical activity. When members have reasonable grounds to believe that a client's or employee's activities are illegal or unethical, the members should disassociate from these activities and urge their firm to attempt to persuade the perpetrator to cease such activity.

Note: The Code and Standards do not require that members report legal violations to the appropriate governmental or regulatory organizations, but such disclosure may be prudent in certain circumstances.

Question #6 of 82

Question ID: 412307

Joan Platt, CFA, operates an investment advisory service in New York but maintains an office in Xania. Xania recently established a stock market, which is not very efficient. None of the Xanian stocks trade in the U.S. market. Xania legally permits the use of material inside information. Platt believes that using inside information would help her compete against other Xanian investment advisors and also help some of her Xanian clients reach their investment objectives. Platt is

considering adopting local investment practices in Xania. According to CFA Institute Standards of Professional Conduct, Platt may:

- ☐ A) use material inside information, but only after notifying CFA Institute.
- ☒ B) not use material inside information.
- ☐ C) use material inside information because Xania legally permits this practice.

Explanation

Because applicable law involving material inside information is less strict than the Code and Standards, Platt must adhere to the Code and Standards. Standard II(A) prohibits against use of material nonpublic information.

Question #7 of 82

Question ID: 412303

Ernesto Vivaldo is a CFA candidate. He is working in the branch office of an American-based investment company in Belgium. Vivaldo is a citizen of Venezuela. In his country, a portfolio manager is not required to disclose referral fees. Belgian law does not allow referral fees for portfolio managers. Vivaldo has been offered a deal that involves a referral fee. Vivaldo should follow the requirements of:

- ☐ A) CFA Institute.
- ☒ B) Belgium.
- ☐ C) Venezuela.

Explanation

According to Standard I(A) Knowledge of the Law, CFA candidates and current CFA Institute members must follow whichever law is stricter. In this case, the strictest laws are those of Belgium.

Question #8 of 82

Question ID: 412360

An investment advisor takes a trip for which his firm will pay the expenses. Upon his return he alters some of the numbers on restaurant receipts to inflate the expenses by \$64. Is this a violation of Standard I(D)?

- ☒ A) Yes, because it reflects adversely on the charterholder's professional reputation.
- ☐ B) No, if such a crime carries less than a one-year prison term.
- ☐ C) Yes, because the amount involved is over \$50.

Explanation

Professional conduct involving dishonesty, fraud, or deceit is a direct violation of Standard I(D), Misconduct.

Question #9 of 82

Question ID: 412323

If an analyst suspects a client or a colleague of planning or engaging in ongoing illegal activities, which of the statements about

the actions that the analyst should take is *most correct*? According to the CFA Institute Standards of Professional Conduct, the analyst should:

- ✓ **A) consult counsel to determine the legality of the activity and disassociate from any illegal or unethical activity if the member has reasonable grounds to believe that the activity is illegal or unethical.**
- ✗ **B) disassociate from any illegal or unethical activity if the member has reasonable grounds to believe that the activity is illegal or unethical.**
- ✗ **C) consult counsel to determine the legality of the activity.**

Explanation

According to the procedures for compliance involving Standard I(A), CFA Institute members should determine legality and disassociate from any illegal or unethical activity.

Question #10 of 82

Question ID: 412288

CFA Institute believes:

- ✓ **A) that a minimum level of professional responsibility and conduct dictates that members be aware of and comply with laws, rules, and regulations governing their conduct.**
- ✗ **B) that a maximum level of professional responsibility and conduct dictates that members be aware of and comply with laws, rules, and regulations governing their conduct.**
- ✗ **C) that firms should comply with all domestic laws and regulations and that these laws also govern behavior in foreign markets, regardless of foreign laws and requirements.**

Explanation

CFA Institute's Code and Standards dictate a *minimum* level of conduct. Standards should not be based on ethics of upper management and the board of directors of a company. Firms must comply with the strictest applicable standards, whether they be foreign or domestic laws and regulations.

Question #11 of 82

Question ID: 412348

Marc Randall, CFA, is an investment analyst. During a meeting with a potential client, Randall's boss states that, "You can be sure our investments will always outperform Treasury Bonds because of our fine research staff members, like Marc." Randall knows that this statement is:

- ✗ **A) a violation of fiduciary duties owed to clients under the Standards.**
- ✓ **B) a violation of the Standard concerning prohibition against misrepresentation.**
- ✗ **C) not in violation of the Code and Standards.**

Explanation

Under Standard I(C), members are forbidden from guaranteeing a specific rate of return on volatile investments. Therefore, the statement is in violation of the Standard.

Question #12 of 82

Question ID: 412349

Jamie Pyles, a portfolio management trainee for a money management firm, is trying to create a client base. He phones prospective clients, telling them that he is a portfolio manager. He informs prospective clients that based on the last five years of performance of his firm, he can guarantee the client at least a 75% return. He informs them that his firm can provide all of the services that they will ever need. What is the minimum number of misrepresentations Jamie has made to the prospective clients in violation of Standard I(C), Misrepresentation?

- ☐ A) 5.
- ☐ B) 2.
- ☒ C) 3.

Explanation

There are at least *three* misrepresentations. First, that Jamie is a portfolio manager, when he's really a trainee. Second, that the firm can provide all of the services they will ever need. Third, that he can guarantee a 75% return.

Question #13 of 82

Question ID: 412361

Which of the following are recommended procedures of compliance according to Standard I(D), Misconduct?

- ☐ A) **Enroll employees in a continuing education program that would provide updates on required ethical behavior.**
- ☒ B) Conduct background checks on potential employees to ensure that they are of good character.
- ☐ C) All of these choices are correct.

Explanation

According to Standard I(D) Misconduct - Procedures for Compliance: Members should encourage their employers to conduct background checks on potential employees to ensure that they are of good character and eligible to work in the investment industry.

Question #14 of 82

Question ID: 412347

Which of the following *would be permissible* under Standard I(C), Misrepresentation?

- ☐ A) **Reporting statistics prepared by an outside firm, identifying the source but omitting caveats and qualifying statements.**
- ☒ B) Including a graph showing the Fed's discount rates over the previous 12 months in a report that goes to clients.
- ☐ C) Using excerpts from a report prepared by a well known outside research firm without acknowledgement.

Explanation

The only permissible action in the above list is including a graph of the Fed's discount rates over the last 12 months because it

is factual information published by a recognizable financial and statistical reporting service.

Question #15 of 82

Question ID: 412326

According to the CFA Institute Standards of Professional Conduct, Standard I(A), Knowledge of the Law, members shall not knowingly participate or assist in any violations of laws, rules, or regulations. An analyst:

- ☐ A) is held responsible for participating in illegal acts when the law is evident to anyone knowing the law and is held responsible for violations by others when the analyst is unaware of the facts giving rise to the violation.
- ☐ B) must report all legal violations to the proper regulatory commission and is held responsible for participating in illegal acts when the law is evident to anyone knowing the law.
- ☒ C) is held responsible for participating in illegal acts when the law is evident to anyone knowing the law and can participate in a violation by having knowledge of the violation and taking no action to stop it or disassociate from it.

Explanation

If you suspect someone is planning or engaging in illegal activities, you should:

1. Determine the legality of the activities. Consult your supervisor and legal counsel.
2. Take appropriate action. Disassociate, attempt to persuade the perpetrator to stop. CFA Institute does not require you to report them to the authorities, but the law might.

Question #16 of 82

Question ID: 412309

Mary Kim, CFA, practices in the established country of Oldasia as well as in the emerging country of Newasia. By regulation, Oldasia prohibits licensed investment advisors from trading in securities ahead of their clients. Newasia has no laws or regulations in this area. Mary Kim may:

- ☐ A) trade ahead of her clients in Newasia only, as long as she has made full disclosure to her clients that she reserves the right to do this.
- ☐ B) trade ahead of her clients in Newasia only.
- ☒ C) not trade ahead of her clients in either country.

Explanation

Under Standard I(A), Mary Kim, as a CFA charterholder, must apply the CFA Institute Code and Standards or the controlling law, whichever is stricter. Because Standard VI(B) requires members to put client trades ahead of their own transactions, Mary Kim must follow the standard in the absence of governing law, or where the law is less strict than the standard.

Question #17 of 82

Question ID: 412315

A CFA Institute member works for Secure Securities, Inc., and plays rugby on the firm's rugby team. Secure Securities' team recently played the team of a rival firm. During the game, a fight broke out and the CFA Institute member was the instigator,

but no one was seriously hurt. Is this a violation of I(A) concerning maintaining knowledge and complying with laws, rules, and regulations?

- ✓ **A) No, because a fight at a rugby game is not a professional activity.**
- ✗ **B) Yes, because the member could have hurt someone in the fight.**
- ✗ **C) Yes, because the member is bound by the Code of Ethics.**

Explanation

Standard I(A) covers members' professional activity only. Violations outside professional activity that involve fraud, theft or deceit would potentially be violations.

Question #18 of 82

Question ID: 412371

A CFA charterholder who comes to work intoxicated is:

- ✗ **A) not in violation of the standards.**
- ✗ **B) in violation of Standard IV(A) concerning duties to employer.**
- ✓ **C) in violation of Standard I(D) concerning professional misconduct.**

Explanation

Being intoxicated at work is poor personal behavior. It is a violation of Standard I(D), which covers professional competence and integrity.

Question #19 of 82

Question ID: 412317

What is the rule of thumb for members, CFA charterholders and candidates in the CFA program when weighing the requirements of the CFA Institute Code and Standards and the requirements of local laws? If the applicable laws are:

- ✗ **A) less strict, they should make a judgment call on which to follow, the Code and Standards or the local laws and requirements.**
- ✓ **B) more strict, they must adhere to the applicable laws.**
- ✗ **C) more strict, they must still follow the Code and Standards.**

Explanation

The rule of thumb for members, CFA charterholders and candidates in the CFA program requires that they adhere to the applicable laws if the applicable laws are more strict than the requirements of the Code and Standards. If there are no laws or the laws are less strict, they must adhere to the Code and Standards.

Question #20 of 82

Question ID: 412304

Jason Blackwell, CFA, works as an investment manager for Mega Capital, a large multinational brokerage firm. Mega Capital is based in a country whose applicable law is stricter than the CFA Institute Code and Standards, but does business with clients in a country whose applicable law is less strict than the Code and Standards. Blackwell decides to follow the

requirements of the Code and Standards for clients in the less strict country, which is sufficient to also comply with that less-strict country's local laws. While Blackwell is still employed at Mega, Lego Associates verbally asks Blackwell to review client portfolios during evenings and weekends for a fee. Blackwell gets written consent from his immediate supervisor at Mega to undertake this independent activity for a one-month trial basis.

Which of the following statements about Blackwell's actions involving Standard I, Professionalism, and Standard IV(A), Loyalty is *most* accurate? Blackwell:

- ☐ A) violated both Standard I and Standard IV(A).
- ☐ B) did not violate either Standard I or Standard IV(A).
- ☒ C) violated Standard I but did not violate Standard IV(A).

Explanation

Blackwell violated Standard I, Professionalism. Jameson must comply with the strictest requirements among the laws of the country where his firm is based, the CFA Institute Code and Standards, and the laws of the country where he is doing business. Because the applicable laws in Mega Capital's home country are stricter than the Code and Standards, Jameson must additionally adhere to that more strict law.

Question #21 of 82

Question ID: 412328

An analyst is told by his supervisor that when he feels he should write a buy recommendation he is free to do so, and when he feels he should write a sell recommendation he should check with the supervisor first. This practice is *most likely*:

- ☐ A) consistent with the Code of Ethics and Standards of Professional Conduct.
- ☐ B) in violation of Standard V(B), Communications with Clients and Prospective Clients.
- ☒ C) in violation of Standard I(B) Independence and Objectivity.

Explanation

The policy dictated by the supervisor would infringe upon the analyst's independence and objectivity. It may discourage the analyst from making sell recommendations and, furthermore, present the opportunity for the supervisor to try and change the analyst's mind.

Question #22 of 82

Question ID: 412367

Which of the following does NOT violate Standard I(D), Misconduct? Roland Lawson, a financial analyst:

- ☒ A) is arrested for participating in a nonviolent protest.
- ☐ B) committed perjury in connection with a lawsuit against his firm.
- ☐ C) drinks excessively during business meetings with clients and returns to work under the influence of alcohol.

Explanation

Any professional conduct that involves dishonesty, fraud, or deceit is a violation of Standard I(D), Misconduct. One must refrain from activities that reflect poorly on integrity, reputation, trustworthiness, or professional conduct. The focus of the

Standard is on professional, not personal, conduct.

Question #23 of 82

Question ID: 442250

According to CFA Institute Standards of Professional Conduct, which of the following is least likely a form of misrepresentation?

- ☐ A) Attributing specific quotations to "leading analysts" and "investment experts" without specific reference.
- ☐ B) Presenting statistical estimates of forecasts prepared by others with the source identified, but without qualifying statements or caveats that may have been used.
- ☒ C) Using factual information published by recognized financial and statistical reporting services or similar sources without acknowledgment.

Explanation

Standard I(C) provides that "factual information published by recognized financial and statistical reporting services or similar sources" may be used without an acknowledgment.

Question #24 of 82

Question ID: 412343

Wes Smith, CFA, has been working toward the completion of a Master of Science in Finance. He has passed all the necessary courses and written the necessary thesis. He still must defend the thesis in one month. Smith's thesis advisor assures him that he will pass the thesis defense. Smith has new business cards printed with "M.S. in Finance" after his name. This is a violation of:

- ☒ A) none of the Standards if Smith does not make the cards public until after he defends his thesis and receives his degree.
- ☐ B) Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program.
- ☐ C) Standard I(C), Misrepresentation.

Explanation

If the cards were distributed today he would be in violation of Standard I(C), Misrepresentation. However, if Smith does not make the cards public until after he receives the degree, there is no violation.

Question #25 of 82

Question ID: 412345

Which of the following is NOT expressly prohibited by Standard I(C), Misrepresentation?

- ☐ A) misrepresenting the services a member is capable of performing.
- ☐ B) misrepresenting a member's academic or professional credentials.
- ☒ C) providing information on guaranteed investment products.

Explanation

Misrepresentation of qualifications, academic and professional credentials and services that can be performed by the firm are all expressly prohibited by Standard I(C).

Question #26 of 82

Question ID: 412291

The Standards of Professional Conduct explicitly outlines responsibilities to four groups. Which of the following is NOT a group mentioned in that list?

☒ **A) The Federal Reserve.**

☐ **B) The profession.**

☐ **C) The investing public.**

Explanation

The Standards explicitly mention responsibilities to the profession, employers, clients, prospects, and the investing public. The Federal Reserve is not mentioned.

Question #27 of 82

Question ID: 412363

Nancy Hall, a candidate in the CFA program, is an analyst for a mutual fund. As part of her job she makes company visits to interview executives. On a recent trip she stayed with her sister instead of at a hotel. In her expenses Hall included a hotel charge of \$100, which was less than the amount allowed by her employer. After receiving a check for her expenses, Hall disclosed to her supervisor that she had stayed with her sister instead of at a hotel. She also returned the \$100 to her employer. According to CFA Institute Standards of Professional Conduct, which of the following statements *best* describes Hall's professional conduct?

☐ **A) Hall did not engage in professional misconduct because she did not meet all of the requirements to use the CFA designation.**

☐ **B) Hall did not engage in professional misconduct because she eventually disclosed this information and returned the \$100 to her employer.**

☒ **C) Hall engaged in professional misconduct.**

Explanation

Hall engaged in professional misconduct because her act involved dishonesty, fraud, and deceit.

Question #28 of 82

Question ID: 412314

Maria Valdes, CFA, is an analyst for Venture Investments in the country of Newamerica, which has laws prohibiting the acceptance of any gift from a vendor if the gift exceeds US \$250. Valdes has evidence that her Venture Investments colleague, Ernesto Martinez, CFA, has been receiving gifts from vendors in excess of US \$250.

Valdes is obligated to:

- ☐ A) disassociate herself from the activity, urge Venture to persuade Martinez to cease the activity, and inform CFA Institute and regulatory authorities of the violation.
- ☒ B) disassociate herself from the activity, and urge Venture to persuade Martinez to cease the activity.
- ☐ C) disassociate herself from the activity, urge Venture to persuade Martinez to cease the activity, and inform CFA Institute of the violation.

Explanation

Standard I(A), Knowledge of the Law requires members who have knowledge of colleagues engaging in illegal activities to disassociate from the activity and urge their firms to persuade the individual to cease such activity. Reporting to regulatory authorities may be prudent in certain circumstances, but is not required. Reporting to CFA Institute is not required.

Question #29 of 82

Question ID: 412331

In order to comply with the CFA Institute Standards, an analyst should:

- ☐ A) use only his company's research when making investment recommendations and use outside research for reports and analysis on stocks.
- ☐ B) use only his own research in making investment recommendations, because anything else would violate Standard I(B), Independence and Objectivity.
- ☒ C) use outside research only after verifying its accuracy.

Explanation

Standard I(B), Independence and Objectivity: the analyst is allowed to use outside research only after an insightful review. There are no restrictions regarding the exclusive use of outside information or in-house information.

Question #30 of 82

Question ID: 412294

The SEC's new stock-trading rule has just gone into effect. The SEC will give brokers a 10-day grace period, during which violators of the rule will be immediately notified and given a chance to remedy their situation to comply with the new rule. If a CFA Institute member unknowingly violates the rule and then remedies the situation within the 10-day grace period, has the member violated Standard I(A)?

- ☒ A) Yes, because the member did not maintain knowledge and know of the rule.
- ☐ B) No, because the member unknowingly broke the rule.
- ☐ C) No, because the member remedied the situation.

Explanation

Standard I(A) explicitly says that a member shall maintain knowledge and comply with laws, rules, and regulations. By not knowing of the rule, the member broke the standard. If a CFA Institute member accidentally breaks a rule from a careless error and remedies the situation, this would not be a violation of Standard I(A).

Question #31 of 82

Question ID: 412369

An analyst belongs to a nationally recognized charitable organization, which requires dues for membership. The analyst has worked out a deal under which he provides money management advice in lieu of paying dues. While performing services for the organization, the analyst discovers some useful computer programs that his predecessor developed and left as the property of the organization. The analyst decides to use the computer programs in his consulting business. This action is:

- ✓ **A) a violation of Standard I(D) concerning misconduct.**
- ✗ **B) appropriate since the analyst is technically an employee of the organization.**
- ✗ **C) a violation of Standard III(B) concerning fair dealing.**

Explanation

Since the programs are the property of the organization, the analyst can only use them for the organization. It does not matter whether the analyst is an employee or not. Personal use of the programs without permission from the charitable organization is dishonest and prohibited.

Question #32 of 82

Question ID: 470998

Which of the following actions *most likely* violates Standard I(D) Misconduct?

- ✗ **A) A member pursues an employment opportunity with a competing firm, primarily as a means of securing a salary increase from her current employer.**
- ✗ **B) An analyst is arrested for trespassing while participating in an anti-abortion protest.**
- ✓ **C) A Level I candidate submits a request to her employer for auto travel reimbursement using inflated mileage totals**

Explanation

Any activity that reflects adversely on a member's professional reputation, integrity, or competence is a violation of Standard I(D) Misconduct. Standard I(D) is generally not intended to extend to legal transgressions resulting from acts of civil disobedience in support of personal beliefs. A member can pursue an employment opportunity with a competitor as long as the member abides by the Standards related to Duties to Employers.

Question #33 of 82

Question ID: 412300

Sometimes a CFA Institute member simply *feels* a law has been violated by his firm, and sometimes the member *knows* a law has been violated. Which of the following pairs of guidelines is CORRECT with respect to the first step a member should take in each case? The member should first contact:

- ✗ **A) his supervisor in the firm if he feels a law has been violated and contact the firm's counsel if he knows a law has been violated.**
- ✗ **B) the firm's counsel if he feels a law has been violated and the SEC if he knows a law has been violated.**
- ✓ **C) the firm's counsel if he feels a law has been violated and contact his supervisor if he knows a law has been violated.**

Explanation

Standard I(A) says that when a member feels a law has been broken, the member should seek advice from the firm's counsel. If the member feels the advice is unbiased and competent, the member should follow it. If the member knows a law has been violated, the member should contact a supervisor.

Question #34 of 82

Question ID: 412340

According to CFA Institute Standards of Professional Conduct, which of the following statements about the prohibition against plagiarism is *most correct*? The prohibition against plagiarism applies to written materials:

- ☒ **A) oral communications, and telecommunications.**
- ☐ **B) and oral communications only.**
- ☐ **C) only.**

Explanation

The prohibition against plagiarism applies to all three areas.

Question #35 of 82

Question ID: 412296

A CFA Institute member is also a member and the portfolio manager of an environmentalist group. In its charter, the environmentalist group lists a group of companies its members should boycott. The CFA Institute member would violate Standard I(A) concerning obeying all rules and regulations if the member:

- ☐ **A) performs either of the activities listed here.**
- ☒ **B) purchases stock of a boycotted firm for the group's portfolio.**
- ☐ **C) actively protests against a publicly traded firm boycotted by the group.**

Explanation

Standard I(A) says the member must be guided by all applicable rules and regulations of professional associations governing the member's professional activities. Purchasing the stock for the firm would be a violation because it involves the member's professional activities and the rules of a group to which the member belongs and works for. Actively protesting would not be covered by that standard.

Question #36 of 82

Question ID: 412368

A CFA charterholder is caught shoplifting and is sentenced to nine months in prison. Is this a violation of Standard I(D) Misconduct?

- ☐ **A) No, because the crime does not relate to the investment profession.**
- ☐ **B) Yes, because the prison sentence is more than six months.**
- ☒ **C) Yes, because the crime involved stealing.**

Explanation

Any act involving lying, cheating, stealing, or other dishonest conduct that reflects adversely on the charterholder's professional activities is a violation of Standard I(D). Although the crime did not relate to the investment profession, it certainly reflected adversely on the charterholder professionally.

Question #37 of 82

Question ID: 412370

Timothy Hooper, CFA, is a security analyst at an investment firm. In his spare time, Hooper serves as a volunteer for City Pride, which collects clothes for the homeless. Hooper has occasionally given some of the clothes to his friends or sold the clothes instead of returning all of the clothing to City Pride. City Pride discovers what he has been doing and dismisses him. Later, City Pride learns that other volunteer organizations have dismissed Hooper for similar actions. Has Hooper violated Standard I(D) on professional misconduct in the CFA Institute Standards of Professional Conduct?

- ☒ A) No, because Hooper volunteers his services to City Pride.
- ☒ B) No, because Hooper's conduct is unrelated to his professional activities as a security analyst.
- ☒ C) Yes.

Explanation

Hooper violated Standard I(D) because he repeatedly engaged in conduct that involves dishonest conduct. This violation occurred despite the fact that his offenses do not relate directly to his professional activities. However, Hooper's conduct reflects poorly on his professional reputation and integrity.

Question #38 of 82

Question ID: 412290

For an employee with the CFA designation who works for a firm, which of the following is NOT necessary to meet the requirements of the Code and Standards?

- ☒ A) It is recommended that their employer is aware of the Code and Standards.
- ☒ B) Deliver a copy of the Code and Standards to their employer.
- ☒ C) Recommend notifying their employer of their responsibility to follow the Code and Standards.

Explanation

It is no longer required but recommended that CFA members and candidates notify their employer that they are required to follow the Code and Standards.

Question #39 of 82

Question ID: 412306

An analyst, who is a CFA charterholder, is working in a foreign country. Which of the following statements is CORRECT? The analyst is:

- ☒ A) governed by CFA Institute's Code and Standards.
- ☒ B) covered by the strictest of the following laws and rules: his own country's, the foreign country's or CFA Institute's Code and Standards.

☒ **C)** governed by the laws and standards of the country in which he is living and working.

Explanation

The analyst is covered by the strictest of the following laws and rules: his own country's, the foreign country's or CFA Institute's Code and Standards.

Question #40 of 82

Question ID: 412311

Which of the following statements about the responsibilities of CFA charterholders is CORRECT? CFA charterholders:

- ☒ **A) are only obligated to comply with securities laws in the U.S.**
- ☒ **B) must comply with the laws and rules governing their profession and must not engage in any individual behavior that reflects adversely on the entire profession.**
- ☒ **C) need not comply with the laws and rules governing their profession or must not engage in any individual behavior that reflects adversely on the entire profession.**

Explanation

CFA charterholders must comply with the laws and rules governing their profession and must not engage in any individual behavior that reflects adversely on the entire profession. While they should act honorably and follow U.S. securities laws, they are obligated to more than that, as set forth in the Code and Standards.

Question #41 of 82

Question ID: 460626

If a member does business in a country with stricter securities laws and regulations than the Code and Standards, but the member's home country has less strict securities laws or regulations than the Code and Standards, the member must abide by the:

- ☒ **A) laws and regulations of the country with stricter securities laws.**
- ☒ **B) home country's securities laws and regulations only.**
- ☒ **C) Code and Standards only.**

Explanation

The member must abide by the laws and regulations of the country in which he is doing business if these laws are stricter than his home country's laws or the Code and Standards. A member must adhere to the strictest applicable law or regulation.

Question #42 of 82

Question ID: 412329

Joshua Rosenberg, CFA, is an equity analyst who covers Northwest Implements, a farm implement manufacturer. Northwest's main factory is located in a sparsely inhabited region six hours by automobile from the nearest airport. Northwest has its own corporate jet and a landing strip is located near the facility. When Rosenberg contacts Northwest's management to gather information for a report he is preparing on the company, Northwest's chief financial officer, Thomas Blake, invites Rosenberg to visit Northwest's headquarters and meet with management. Blake offers to send Northwest's corporate jet to pick up

Rosenberg from an airport near Rosenberg's home and to return him home the same evening. Rosenberg estimates that it would require three days for him to make the visit using commercial travel. If Rosenberg accepts Blake's offer and makes the trip to Northwest's headquarters on the corporate jet, Rosenberg:

- ✓ **A) has not violated the Code and Standards.**
- ✗ **B) has violated the Code and Standards unless he discloses the trip and the payment of his travel expenses in his report on Northwest.**
- ✗ **C) has violated the Code and Standards unless he reimburses Northwest for the cost of the trip.**

Explanation

Standard I(B) requires members to maintain independence and objectivity. A visit by an analyst to an out-of-the-way site may be paid for by a client company host as long as the analyst can maintain objectivity. Members should encourage clients to limit the use of corporate aircraft, but exceptions can be made if transportation would not otherwise be available or would be inefficient.

Question #43 of 82

Question ID: 412310

Janet Green, CFA, provides investment advice and other services to clients in several countries. She resides in Country A whose securities laws and regulations are less strict than the Code and Standards. She also conducts business with clients in Country B, which has no securities laws or regulations, and in Country C, which has securities laws and regulations that are stricter than the Code and Standards. Which of the following statements is CORRECT? According to CFA Institute Standards of Professional Conduct, Green must adhere to the Code and Standards in:

- ✗ **A) Country A but the law in Country B and Country C.**
- ✗ **B) Country A, Country B, and Country C.**
- ✓ **C) Country A and Country B but the law in Country C.**

Explanation

Green needs to follow Standard I(A) -- Knowledge of the law. In Country A, Green must adhere to the Code and Standards because Country A's laws are less strict. In Country B, Green must also adhere to the Code and Standards because Country B has no securities laws. Because Country C's applicable law is stricter than the requirements of the Code and Standards, Green must adhere to the laws of Country C.

Question #44 of 82

Question ID: 412330

Luis Rodriguez, CFA, is an analyst at XYZ Investments. He covers a company that is located in a region that is not easily accessible. The company invites analysts for their annual analyst meeting and pays for the transportation to the remote location. Rodriguez is:

- ✗ **A) allowed to accept the payment for transportation as long as it does not exceed \$100.**
- ✓ **B) allowed to accept the payment for transportation because the trip was all business and was out of the way.**

- ☐ C) not allowed to accept the payment for transportation because this is a considered a "perk" and may influence his independent judgment.

Explanation

Standard I(B) Independence and Objectivity. Analysts should pay for their own travel accommodations if the location is accessible by normal means. In this situation payment is acceptable because the location is out of the way and the purpose of the trip is all business.

Question #45 of 82

Question ID: 412324

Josh LeBlanc, a CFA charterholder, is an investment analyst for a small stock brokerage firm. He wants to acquire and maintain knowledge about applicable laws, rules, and regulations relating to his professional activities. According to the CFA Institute Standards of Professional Conduct, which of the following ways is *least likely* to meet compliance procedures?

- ☐ A) Review written compliance procedures on a regular basis.
- ☐ B) Keep informed about changes in applicable laws, rules, and regulations.
- ☒ C) Rely on past practices followed within his firm.

Explanation

LeBlanc should follow the compliance procedures under Standard IA -- Knowledge of the law. Relying on his firm's past practices may be insufficient for LeBlanc to stay current with changes in applicable laws, rules, and regulations.

Question #46 of 82

Question ID: 412354

Based on CFA Institute Standards of Professional Conduct, which of the following statements is a violation of Standard I(C), Misrepresentation?

- ☐ A) A broker says XYZ stock is very likely to double in value over the next six months.
- ☐ B) An investment manager recommends to a prospective client an investment in GNMA bonds because they are guaranteed by the federal government.
- ☒ C) A young trainee bond trader tells a prospective client that she can assist the client in all the client's investment needs: equity, fixed income, and derivatives and based on her years of experience as an analyst in the business that an investment looks like it has lots of potential.

Explanation

CFA Institute members, CFA charterholders, and CFA candidates are prohibited from misrepresenting their services or qualifications and inappropriate assurances about any investment or its return.

Question #47 of 82

Question ID: 412356

Paul Thomas, CFA, is designing a new layout for research reports his firm writes and issues on individual stocks. In his design,

Thomas includes a stock chart on the first page of each report. He does not reference that the charts are copied from an unrecognizable Finance web site. Thomas has:

- ☐ A) violated CFA Institute Standards of Professional Conduct because he did not make sure that the information in these charts is accurate.
- ☒ B) violated CFA Institute Standards of Professional Conduct because he did not state the source of the charts.
- ☐ C) not violated CFA Institute Standards of Professional Conduct because these charts are widely available over the Internet.

Explanation

Standard I(C) Misrepresentation. Members should not copy or use material prepared by others without acknowledging and identifying the source of such material. Using charts and graphs without stating their source is a violation of the Standard.

Question #48 of 82

Question ID: 412320

Jane Dawson, CFA, an analyst at a New York brokerage firm, suspects that Bob Boatman, CFA, another analyst at the same firm, has violated a state securities law. According to the CFA Institute Standards of Professional Conduct, Dawson is:

- ☐ A) required to report the suspected violation to the appropriate state regulatory agency.
- ☒ B) NOT required to report the violation to the appropriate governmental or regulatory organizations.
- ☐ C) required to report the suspected violation to CFA Institute.

Explanation

The Code and Standards **do not** require that members report legal violations to the appropriate governmental or regulatory organizations, but such disclosure may be prudent in certain circumstances. Dawson should consult legal counsel and disassociate from the activity.

Question #49 of 82

Question ID: 412297

Allen Parsons, a CFA candidate, suspects a colleague at his firm of engaging in an illegal activity. Which of the following statements about procedures for compliance involving Standard I(A), Knowledge of the law is NOT correct? Parsons:

- ☒ A) is required to report this legal violation to the appropriate governmental or regulatory organizations.
- ☐ B) should urge his firm to attempt to persuade the perpetrator to cease such conduct.
- ☐ C) should consult counsel to determine whether the conduct is, in fact, illegal.

Explanation

Standard I(A), Knowledge of the law, does not require that Parsons report legal violations to the appropriate governmental or regulatory organizations, but such disclosures may be appropriate under certain circumstances.

Question #50 of 82

Question ID: 412337

Francisco Perez, CFA, CPA, is a portfolio manager for an investment advisory firm. Due to the prominence of his position, he is often invited to attend free marketing and educational events hosted by firms which seek to inform the investment community about their investment processes. One such firm, Unlimited Horizons, has invited Perez to attend free educational events which qualify for Continuing Education credits which could help Perez maintain his CPA designation. Perez should *most likely*:

- ✓ **A) decline to attend the event as it could result in a violation of Standard I(B) "Independence and Objectivity."**
- ✗ B) accept the invitation as no cash compensation is involved and the primary intent is to educate and inform the investment community.
- ✗ C) decline to attend the event as it could result in a violation of Standard I(A) "Knowledge of the Law."

Explanation

Perez should decline the invitation as it creates the impression of lack of independence. If he does not accept the free continuing education courses, he would have to pay for them some other way so the free courses are a form of compensation. Nothing in the vignette suggests the free classes are illegal.

Question #51 of 82

Question ID: 412366

A CFA charterholder in a managerial position is in the process of hiring new analysts. If the charterholder conducts background checks on the job applicants with respect to their character, the charterholder has:

- ✗ A) complied with Standard VII(A) concerning conduct of members and candidates in the CFA Program.
- ✗ B) violated the Code of Ethics by invading the applicants' privacy.
- ✓ C) complied with Standard I(D) concerning professional misconduct.

Explanation

To avoid potential problems and comply with Standard I(D), employers are encouraged to conduct background checks on potential employees.

Question #52 of 82

Question ID: 412362

Hillary Jones, CFA, sometimes promises clients that she will allocate more shares from oversubscribed initial public offerings (IPOs) than she knows she will actually be able to deliver. Her employer has reprimanded her in the past for similar behavior. Which of the following statements is *least* accurate regarding Jones' behavior?

- ✗ **A) Her actions are a violation of the standard concerning misrepresentation, because she promised something she knew the firm could not deliver.**
- ✗ B) Her actions are a violation of the standard concerning professional misconduct because she deceived her clients.

- ✓ **C)** Her actions are a violation of the Standards only if prosecution results in a felony conviction.

Explanation

Jones violated Standard I(C) Misrepresentation by promising clients she would allocate more shares than she could deliver. Her actions also violated Standard I(D) Misconduct pertaining to acts of **dishonesty**, fraud, or **deceit** which reflects adversely on a member's professional reputation, integrity, or competence. She also violated the Code of Ethics which states that members and candidates must act with **integrity**, competence, diligence, respect, and in an **ethical manner** with the public, clients, and prospective clients. The specific punishment for the actions is not relevant.

Question #53 of 82

Question ID: 412341

The following information involves two research analysts at a brokerage firm.

- Erik Bagenot, CFA, is preparing a research report on Global Enterprises, Inc. In preparing the report, he uses materials from many sources. For example, he uses factual information published by Standard & Poor's Corporation without acknowledging the source. He also uses excerpts from a research report prepared by another analyst. Bagenot makes only a slight change in wording for these excerpts, but acknowledges the source.
- Sally Wain, who is currently enrolled in the CFA program, is preparing a research report on Manson Telecommunications. She attends a conference in which several investment experts provide their views about the future prospects of this company. Wain cites several quotations from these investment experts in her report without specific reference.

According to CFA Institute Standards of Professional Conduct involving prohibition against plagiarism, which of the following statements is CORRECT?

- ✗ **A) Bagenot violated the Standards, but Wain did not.**
- ✓ **B) Wain violated the Standards, but Bagenot did not.**
- ✗ **C) Both Bagenot and Wain violated the Standards.**

Explanation

Bagenot complied with Standard I(C), which permits publishing factual information from Standard & Poor's without acknowledgment and using excerpts with acknowledgment. Wain committed plagiarism because she failed to give specific references for the quotations that she used.

Question #54 of 82

Question ID: 442248

All of the following violate Standard I(C), Misrepresentation, EXCEPT:

- ✓ **A) presenting factual information published by recognized statistical reporting services without acknowledgment.**
- ✗ **B) copying a proprietary computerized spreadsheet without seeking authorization from the creators.**
- ✗ **C) citing quotes attributable to "investment experts" without specific references.**

Explanation

Standard I(C), Misrepresentation, permits using factual information from recognized financial and statistical reporting services without acknowledgment.

Question #55 of 82

Question ID: 412313

A CFA Institute member conscientiously maintains records of changes in security regulations. The member notices that his colleagues do not, and does NOT say anything. Is this a violation of Standard I(A)?

- ✓ **A) Yes, because the member is bound by the Code of Ethics.**
- ✗ **B) No, as long as the colleagues do not violate the new rules.**
- ✗ **C) Yes, and the member should disassociate from these colleagues.**

Explanation

The last bullet point of the Code says that a member shall "Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals." Ignoring the neglect of rule changes of others would clearly be incongruent with this component. As long as the colleagues do not violate the laws, the member does not have to disassociate himself from the colleagues.

Question #56 of 82

Question ID: 412316

Nicholas Brynne, CFA, is a fixed-income analyst who trades in mortgage-backed securities (MBS). The MBS industry has seen sweeping regulatory changes since Brynne took his current position, and he now feels his understanding of applicable laws and regulatory standards is dated. Brynne must:

- ✗ **A) rely on his firm's policies and procedures for guidance on legal and regulatory standards.**
- ✗ **B) have all trades reviewed by his compliance department until he has obtained an expert level of knowledge in compliance.**
- ✓ **C) update his understanding of applicable laws and regulatory standards relating to his position.**

Explanation

See Standard I(A) "Knowledge of the Law." Brynne should update his understanding of applicable laws and regulatory standards relating to his position, although he is not required to be an expert in compliance. Relying only on firm policies and procedures is not sufficient.

Question #57 of 82

Question ID: 412308

Benito Salvatore, CFA, is licensed in the established country of Oldworld but has clients and makes investments in the emerging country of Newworld. The regulations of Oldworld prohibit licensed investment professionals from taking gifts or gratuities in any amount from vendors or persons connected with potential investments. The laws of Newworld are silent on this issue. Unsolicited, Salvatore is offered a vase worth US \$75 by a Newworld trust company and a bronze statue worth US \$200 by a Newworld company that Salvatore is considering as a potential investment.

Salvatore is:

- ☐ A) permitted to accept the vase but not the statue.
- ☐ B) permitted to accept both gifts.
- ☒ C) not permitted to accept either gift.

Explanation

Under Standard I(A), Salvatore must, as a CFA charterholder, apply the CFA Institute Code and Standards or the controlling law, whichever is stricter. In this instance the stricter laws of Oldworld, where Salvatore is licensed, apply to prohibit the gifts, even though the gifts are offered in Newworld.

Question #58 of 82

Question ID: 412327

Deloris Johnson, CFA, suspected that her intern, who was working without pay at her brokerage firm, had violated a federal securities regulation. Johnson discussed the matter with her company's legal counsel who said that the intern's conduct was illegal. According to the CFA Institute Code and Standards of Professional Conduct, Johnson can dissociate herself from this illegal activity by:

- ☐ A) telling her intern to stop such conduct.
- ☐ B) transferring supervision of the intern to another person.
- ☒ C) reporting the activity to the appropriate authorities.

Explanation

Johnson can dissociate herself from the illegal activity by reporting the activity to the appropriate authorities. However, the Code and Standards **do not** require that she report legal violations to the appropriate governmental or regulatory organizations, but such disclosure is prudent in this circumstance.

By transferring the intern to another supervisor this may not solve the problem of the illegal activity occurring and the company would still be held liable for it.

Question #59 of 82

Question ID: 412319

Which of the following is a CORRECT statement of a member's duty under the Code and Standards?

- ☒ A) In the absence of specific applicable law or other regulatory requirements, the Code and Standards govern the member's actions.
- ☐ B) A member is required to comply only with applicable local laws, rules, regulations, or customs even though the CFA Institute Code and Standards may impose a higher degree of responsibility or a higher duty on the member.
- ☐ C) A member who trades securities in a foreign securities market where no applicable local laws or stock exchange rules regulate the use of material nonpublic information may take investment action based on this information.

Explanation

The Code and Standards represent a minimum level of guidance for members' actions, not a maximum level. The key to remember here

is that whether the local area does or does not have standards governing member's actions, one must follow the stricter standard environment.

Question #60 of 82

Question ID: 412289

Kenny Barrett, CFA, is working in the Australian office of American Investments Co. From an informal conversation, Barrett learns that the company's most recent investment report was based on misappropriated information. No one at the Australian office expresses concern, however, because there has been no breach of Australian law. Barrett should:

- ✓ **A) seek advice from company counsel to determine appropriate action.**
- ✗ **B) disassociate himself from the case with a written report to his supervisor.**
- ✗ **C) do nothing because the branch is outside of U.S. jurisdiction.**

Explanation

Kenny's best choice is to seek the company counsel's advice. If Kenny does nothing, he is breaching Standard I(A) Knowledge of the Law. Disassociation is not enough.

Question #61 of 82

Question ID: 412365

Which of the following is *least likely* a violation of Standard I(D), Misconduct? Being:

- ✗ **A) convicted of a felony.**
- ✗ **B) intoxicated at the office.**
- ✓ **C) convicted of a misdemeanor traffic offense.**

Explanation

According to Standard I(D)" *Members shall not engage in any professional conduct involving dishonesty, fraud, deceit, or commit any act that reflects adversely on their professional reputation, integrity, or competence..*" The standard is not intended to regulate one's personal behavior.

Question #62 of 82

Question ID: 412295

Mega Securities, a multinational investment advisor based in the United States, employs the following analysts who practice in multiple jurisdictions.

- Melissa Black, CFA, resides in Country N, which has no securities laws or regulations, but does business in Country L, which has securities laws and regulations that are less strict than the Code and Standards.
- Tom White, a CFA Institute member, resides in Country L, but does business in Country S, which has securities laws and regulations that are stricter than the Code and Standards.

According to the CFA Institute Code and Standards, which of the following statements about Black and White is CORRECT?

Black must adhere to the White must adhere to the

- | | |
|---|------------------|
| <input checked="" type="checkbox"/> A) law of Country L | law of Country S |
| <input checked="" type="checkbox"/> B) Code and Standards | law of Country S |
| <input checked="" type="checkbox"/> C) law of Country N | law of Country L |

Explanation

Because the applicable law in Country L is *less* strict than the Code and Standards, Black must adhere to the Code and Standards.
Because the applicable law is *stricter* than the Code and Standards, White must adhere to the more strict applicable law of Country S.

Question #63 of 82

Question ID: 412318

Bob Smith, CFA, is an outside board member of Atlantic Technologies, but is not paid by the firm for his services. An employee at Atlantic informs Smith that Atlantic has improperly timed the booking of contracts to achieve the desired quarterly financial results. The misleading financial statements would turn losses into profits. Smith confers with the firm's legal counsel who indicates that this conduct is, in fact, illegal. Smith urges Sharon White, Atlantic's chief operating executive, to change the financial statements, but she refuses to do so. According to CFA Institute Standards of Professional Conduct, which of the following statements *best* describes what Smith should do in this situation?

- ☒ A) Smith should wait until the next board meeting, which is scheduled in two weeks, to make other board members aware of the situation.
- ☒ B) Smith should immediately make CFA Institute aware of the situation at Atlantic.
- ☒ C) Smith should promptly disassociate himself from Atlantic's actions by resigning as a director or by reporting the activities to the appropriate authorities.

Explanation

Smith should disassociate from any illegal activity by resigning as a director or by reporting the activities to appropriate authorities. Inaction combined with continuing association with Atlantic's illegal conduct may be construed as participation, or assistance, in the illegal conduct.

Question #64 of 82

Question ID: 412302

Shortly after becoming employed by Valco & Co., an investment banking firm, Stan McDowell, CFA, learns that most of Valco's initial public offerings (IPO) are really effected in order to profit management via price manipulation of the shares. McDowell observes an illegal act, sanctioned by senior management, in progress and refuses to sign off on his responsibility. Instead, McDowell takes the documentation to his supervisor and tells him he should sign it in his place. This action is:

- ☒ A) an overreaction. Senior management's sanctioning of the act absolves McDowell from his ordinary responsibility as a CFA Institute member.
- ☒ B) a suitable reaction, and he is in compliance with the Code and Standards.
- ☒ C) a violation of the Code and Standards since he is required not to knowingly participate or assist in such an act.

Explanation

McDowell, by his action in taking the documentation to his supervisor, is knowingly participating in and/or assisting in an illegal act. This is clearly prohibited under Standard I(A), and he is in violation of the Standard.

Question #65 of 82

Question ID: 412357

A copyrighted technique for measuring the downside risk of an investment has just been revealed to the public. If an analyst adopts the technique, he must cite the use of the technique in all research reports in which the technique is used EXCEPT:

- ☐ A) if the analyst uses reasonable care and verifies that the technique provides superior results.
- ☐ B) if the analyst does not modify the technique at all.
- ☒ C) Neither of these answers provide grounds for an exception.

Explanation

Neither of the answers in this question provide adequate grounds for not citing the source of the methodology. Although "verifying" the technique is a good idea and congruent with the Code and Standards, the analyst still needs to cite the use of the copyrighted technique even after modifying it slightly to avoid violation of Standard I(C), Misrepresentation.

Question #66 of 82

Question ID: 412299

Robe Advisory Services operates an office in San Francisco, where it manages portfolios for its clients based in the United States. The firm also maintains an office in Tokyo, where it employs Sam Lee, CFA who researches Japanese stocks. According to the CFA Institute Standards of Professional Conduct, Lee is required to maintain knowledge of and comply with all applicable laws, rules, and regulations in:

- ☒ A) both the U.S. and Japan and the CFA Institute Standards of Professional Conduct.
- ☐ B) Japan, but not the U.S., and the CFA Institute Standards of Professional Conduct.
- ☐ C) both the U.S. and Japan, but not the CFA Institute Standards of Professional Conduct.

Explanation

To abide by the Standards, employees who work for foreign-based firms are required to apply the stricter of the foreign (here, U.S.) law, the domestic (here, Japanese) law, or CFA Institute standards.

Question #67 of 82

Question ID: 412336

Susan Nielsen, CFA, is an equity research analyst on a fact-finding property tour with 6 other analysts to learn about Just Kittens, Inc. Just Kittens sells tungsten ball-bearings and has 16 warehouses, and 20 manufacturing, research, and wholesale sales outlets scattered over 8 countries – mostly emerging markets. Because of the remote location of some of the facilities, commercial travel is effectively unavailable. Just Kittens charts a jet and various busses to take the research analysts to the properties. If Nielsen accepts these accommodations, she is *most likely*:

- ☐ A) not in violation of Standard I(B) "Independence and Objectivity" because best practices dictate that better access to company executives is likely to lead to more accurate and timely information.
- ☐ B) in violation of Standard I(B) "Independence and Objectivity."

- ✓ **C)** not in violation of Standard I(B) "Independence and Objectivity" because commercial travel is effectively unavailable.

Explanation

Nielsen is not in violation of Standard I(B) "Independence and Objectivity" because commercial travel is effectively unavailable.

Question #68 of 82

Question ID: 412344

Sandra Bulow, CFA, is responsible for updating her employing firm's website to include changes in analysis techniques and trading procedures. She is often very delinquent in making these changes, despite working extensive hours. She is aware clients are using the website to make investment decisions, and has received complaints from the sales department as the information on the website is often different from what is presented in sales meetings. Bulow is *most likely*:

- x **A) in violation of Standard III(B) "Fair Dealing."**
- ✓ **B)** in violation of Standard I(C) "Misrepresentation."
- x **C)** not in violation of any Standard.

Explanation

Bulow is most likely in violation of Standard I(C) "Misrepresentation." The web site information is erroneous, and needs to be updated to match the firm's current practices.

Question #69 of 82

Question ID: 412322

WEB, an investment-banking firm, is the principal underwriter for MTEX's upcoming debenture issue. Wendy Berry, CFA, an analyst with WEB, has found out from an employee in MTEX's programming department that a serious glitch was recently discovered in the software program of their major new product line. In fact, the glitch is so bad that most of their orders have been canceled. Berry checked the debenture's prospectus and found no mention of this development. The red herring prospectus has already been distributed. Berry's *best* course of action is to:

- x **A) notify potential investors of the omission on a fair and equitable basis.**
- ✓ **B)** inform her immediate supervisor at WEB of her discovery.
- x **C)** keep quiet since this is material non-public inside information.

Explanation

Berry should report this information only to her immediate supervisor. Subsequently, she and her supervisor may consult with legal counsel concerning the competing issues in this situation. For the present, she should avoid disclosure to colleagues who do not need to know the information and she should also avoid disclosure to clients.

Question #70 of 82

Question ID: 412321

The CFA Institute Standards of Practice Handbook requires CFA Institute members to do all the following EXCEPT:

- ✓ **A) to disclose in writing to the proper regulatory authority all observed violations of the securities laws and regulations.**
- ✗ **B) to inform employer, clients, and potential clients of benefits received for recommending products or services.**
- ✗ **C) receive written permission from both their employer and outside clients to engage in investment consulting outside the firm.**

Explanation

Members are not required to report violations of others to regulatory authorities, either verbally or in writing, but such reporting may be prudent.

Question #71 of 82

Question ID: 412293

If a CFA Institute member knows that a fellow employee has violated a law, according to Standard I(A) the member:

- ✓ **A) should seek advice from the firm's legal counsel or a compliance officer.**
- ✗ **B) is required to report the employee violating the law to the appropriate governmental authority.**
- ✗ **C) is required to report the employee violating the law to the appropriate supervisor in the firm.**

Explanation

The most appropriate action is to seek advice about the potential violation. Standard I(A) does not require a CFA Institute member to report potential violations by others.

Question #72 of 82

Question ID: 412335

An analyst who is a CFA Institute member receives an invitation from a business associate's firm to spend the weekend in a high-quality resort. In order to abide by the Standards, the analyst should (may):

- ✓ **A) do both of the actions listed here.**
- ✗ **B) obtain written consent from his supervisor if the offer is contingent on achieving a target investment return.**
- ✗ **C) refuse the invitation if the associate is from a firm he analyzes for his employer.**

Explanation

According to Standard I(B) Independence and Objectivity, the analyst should refuse the invitation if it is from a firm the analyst covers for his employer. The analyst can accept the invitation if it is from a client but the analyst must get written consent from his employer if the offer is contingent on future performance, to comply with Standard IV(B) Additional Compensation Arrangements.

Question #73 of 82

Question ID: 412301

Bob Blanford, CFA, is an investment analyst for a large global brokerage firm. He recently moved to Ragatan, a developing country with few securities laws and regulations. As part of conducting a company analysis, Blanford interviews Ravi Shanti, vice-president of finance

at Starr Industries. Starr is a major industrial firm in Ragatan and a client at Blanford's firm. Based on his analysis, Blanford suspects that Shanti may have deliberately overstated Starr's current earnings and its earnings for the past several quarters. If this information becomes public, Blanford believes that Starr's stock price will drop substantially. Blanford suspects that Shanti may have violated Ragatan's securities laws. Which of the following statements is *least likely* to comply with Standard I, Professionalism? Blanford should:

- ☐ A) **determine the legality of the activity, possibly by consulting counsel.**
- ☐ B) disassociate himself from the client, if the activity is illegal or unethical.
- ☒ C) take no action.

Explanation

Because Blanford suspects Shanti of engaging in ongoing illegal activities, Blanford should take action by determining the legality of the suspected action, disassociating from any illegal activity, and urging his firm to attempt to persuade Shanti to cease such conduct if such an activity is illegal or unethical.

Question #74 of 82

Question ID: 412359

All of the following are violations of Standard I(D), Misconduct, EXCEPT:

- ☒ A) **conviction of a misdemeanor involving civil disobedience in support of one's personal beliefs.**
- ☐ B) any conduct that undermines confidence that the CFA charter represents a level of achievement based on merit and ethical conduct.
- ☐ C) conviction of a crime involving fraud.

Explanation

The Code and Standards do not focus on personal conduct as long as the conduct does not reflect poorly on one's professional reputation, integrity, or competence.

Question #75 of 82

Question ID: 412346

At the time of its initial public offering (IPO), a mutual fund is invested primarily in junk bonds. As part of its strategy, it is also invested in some zero-coupon U.S. Treasury bonds. The amount of the investment in the Treasury bonds is such that their maturity value equals 90% of the current value of the fund. Which of the following may a CFA Institute member say to her clients concerning the fund at issuance?

- ☐ A) **Since the fund is backed by the U.S. government, you know you will get your money back.**
- ☐ B) The fund is virtually default risk free.
- ☒ C) A CFA Institute member may not make either of these statements.

Explanation

Standard I(C), Misrepresentation, prohibits making statements that mention a guarantee of returns or misrepresent the true nature of the investment.

Question #76 of 82

Question ID: 412298

Michael Bellow, CFA, CAIA, is an investment banker who is involved with an initial public offering (IPO) of NewCo. Because this is Bellow's first involvement in an IPO, he reports to an experienced supervisor. While reviewing past financial statements provided by NewCo, Bellow suspects that NewCo deliberately overstated its earnings for the past several quarters. Bellow seeks the advice of his firm's highly competent general counsel and follows the advice given without deviation. Based on the general counsel's advice, Bellow consults his immediate supervisor about the suspected overstatement of earnings. After reviewing the situation, Bellow's supervisor explains why NewCo's calculations of its earnings are correct. Bellow realizes that his inexperience and exuberance initially led him to an incorrect conclusion about NewCo's earnings.

Which of the following statements about Bellow's actions involving Standard I(A), Knowledge of the law, and Standard I(C), Misrepresentation, is CORRECT? Bellow:

- ☒ **A) violated Standard I(A) but did not violate Standard I(C).**
- ☒ **B) did not violate either Standard I(A) or Standard I(C).**
- ☒ **C) violated both Standard I(A) and Standard I(C).**

Explanation

Bellow did not violate Standard I(A), Knowledge of the law, because he sought advice of counsel and followed that advice. Bellow did not violate Standard I(C), Misrepresentation, because he made reasonable and diligent efforts to ensure the accuracy of the information and to avoid any material representation.

Question #77 of 82

Question ID: 412325

Don Roberts, a CFA Institute member, resides in Country L, where the securities laws and regulations are less strict than the CFA Institute Code and Standards. Roberts also does business in Country N, which has no securities laws or regulations. Thus, Country N has no laws prohibiting the use of material nonpublic information. Roberts has clients in both Country L and N. Country L's law states that the law of the locality where business is conducted governs. According to CFA Institute Standards of Professional Conduct about the use of material nonpublic information, Roberts may:

- ☒ **A) take investment action based on this information only for his clients in Country N but not for his clients in Country L or himself.**
- ☒ **B) take investment action based on this information for clients in both Country N and Country L and for himself.**
- ☒ **C) not take investment action on the basis of this information.**

Explanation

Because applicable law states that the law of the locality where the business is conducted governs and local law is less strict than the Code and Standards, the member must adhere to the Code and Standards. Standard II(A) prohibits the use of material nonpublic information.

Question #78 of 82

Question ID: 412312

Which of the following is a CORRECT statement of a member's duty under the Code and Standards?

- ☐ A) A member who trades securities in a country with less strict laws, rules, regulations, or customs may follow those laws if he discloses this information to his client.
- ☐ B) A member is required to comply only with applicable local laws, rules, regulations, or customs even though the CFA Institute code and Standards may impose a higher degree of responsibility or a higher duty on the member.
- ☒ C) In the absence of specific applicable law or other regulatory requirements, the Code and Standards govern the member's actions.

Explanation

Members are always, at a minimum, subject to the Code and Standards.

Question #79 of 82

Question ID: 460628

Jerry Brock, CFA, is a partner in a small investment advisory firm that caters to high net worth individuals. He has experienced a number of personal and financial setbacks over the past two years and has filed for bankruptcy protection. Has Brock violated CFA Institute Standards of Professional Conduct?

- ☐ A) Yes, because a member must conduct both their personal and professional business in a manner that protects their reputation and integrity.
- ☐ B) No, but he must disclose the bankruptcy filing to his clients.
- ☒ C) No, unless his personal financial difficulties result from actions that reflect adversely on his honesty and integrity.

Explanation

Standard I(D) Misconduct prohibits members from participating in any professional conduct that reflects adversely on their professional reputation or integrity. Declaring personal bankruptcy does not, by itself, reflect adversely on the individual's integrity or trustworthiness. If the circumstances of the bankruptcy included any fraudulent or deceitful conduct on the part of the member, then that would be considered a violation.

Question #80 of 82

Question ID: 460627

A member or candidate who produces issuer-paid research should *most appropriately* negotiate a:

- ☐ A) fee based on the performance of the issuer's shares.
- ☐ B) fee that may include equity or warrants.
- ☒ C) flat fee prior to writing the report.

Explanation

Standard I(B) Independence and Objectivity states that the best practice for issuer-paid research is to negotiate a flat fee before writing the report. Compensation that depends on the performance of the issuer's securities can compromise an analyst's objectivity by creating an incentive to write a positive recommendation.

Question #81 of 82

Question ID: 470996

Mary White, CFA, sits on the board of directors of XYZ Manufacturing, Inc. She discovers that management has knowingly participated in an activity she knows is illegal. According to the CFA Institute Standards of Professional Conduct, White is *least likely* to be required to:

- ☐ A) seek legal advice to determine what actions should be taken.
- ☒ B) report the violation to the CFA Institute Professional Conduct Program.
- ☐ C) disassociate herself from the activity.

Explanation

Members are encouraged -- but not required -- to report violations of others. Standard I(A), Knowledge of the Law. Prohibition against knowingly practicing or assisting in violation of laws, rules, and regulations. If White knows that someone has engaged in a possible illegal activity, she should: (1) report the finding to the appropriate supervisory person at her firm, (2) if the situation is not remedied, disassociate herself from the situation, and (3) seek legal advice to see what other actions, such as notifying the proper regulatory agency, should be taken.

Question #82 of 82

Question ID: 412351

A CFA charterholder gathers the closing prices of a security from a widely read publication. The charterholder uses the data as part of a report she is preparing and fails to report the data source in the report. This is:

- ☒ A) not a violation of Standard I(C) if the data can be gathered from several public sources.
- ☐ B) a violation of Standard I(C).
- ☐ C) not a violation of Standard I(C) if the data cannot be gathered from several public sources.

Explanation

Since the security prices represent factual information that can be verified from several sources, there is no violation. It could have been a violation had the information been exclusively published by the source.