Question 1
L2R01TB-AC005-1512
LOS: LOS-5640
Lesson Reference: Lesson 1: Code of Ethics and Standards of Professional Conduct
Difficulty: medium
With respect to Standard III(E): Preservation of Confidentiality, members may disclose confidential information about a client if:

- (selected) required by law.
- approved by legal counsel.
- the business relationship has ended.

Rationale
✔ **required by law.**
Members may not disclose confidential information about a current, former, or prospective client unless: (1) the client gives permission, (2) it concerns illegal activity, or (3) disclosure is required by law.

Rationale
✘ **approved by legal counsel.**
Members may not disclose confidential information about a current, former, or prospective client unless: (1) the client gives permission, (2) it concerns illegal activity, or (3) disclosure is required by law.

Rationale
✘ **the business relationship has ended.**
Members may not disclose confidential information about a current, former, or prospective client unless: (1) the client gives permission, (2) it concerns illegal activity, or (3) disclosure is required by law.

Question 2
L2R01TB-ITEMSET-AC001-1512
LOS: LOS-5640
LOS: LOS-5790
Lesson Reference: Lesson 1: Code of Ethics and Standards of Professional Conduct
Difficulty: medium

Use the following information to answer the next 3 questions:

King Asset Management (KAM) is a small investment company, which has never had a formal compliance policy. Rhonda Deitz is the firm's newly-appointed compliance officer. The firm has adopted the CFA Institute Standards of Professional Conduct as the basis for its compliance program. Dietz met with KAM's executive team to discuss compliance issues. She opened the meeting with by saying, “The first steps we need to take are to:

1. draft and disseminate a written code of ethics to all our employees;
2. hire an in-house lawyer to address any ethical issues and answer questions;
3. build a written compliance manual to document laws, rules, and regulations.”

Noting that KAM has a few high-profile asset managers on its team making public appearances on radio and television, Dietz suggests that the firm also adopts the CFA Research Objectivity Standards. Craig Hanson, portfolio manager, points out that the Standards of Professional Conduct and Research Objectivity Standards are substitutes for one another stating, “We should either adopt one or the other, not both.” Matt Reynolds added to the conversation by saying, “The ROS are most appropriate for a sell-side firm. As a buy-side firm, we would be better served incorporating a public appearance policy into our program.”

Dietz ends the meeting but stopped Barbara Jenkins, the firm's human resource manager, on the way out. She asked her to make some recommendations about hiring procedures and documenting employee activities. Jenkins agreed to send her an email with some initial suggestions.

i.
Which of the initial steps that Dietz listed at the start of her meeting with the firm's executives is *least consistent* with the required compliance or recommended procedures with respect to Professionalism?

- ○ Step 1.
- ◉ Step 2.
- ○ Step 3.

Rationale
This Answer is Correct
Step 2 is least consistent. The recommended procedures of Standard I(A) state that firms should develop and adopt a written code of ethics, which should be disseminated to all employees. It also suggests firm's document currently applicable rules and regulations in a written compliance manual accessible to all employees. While it does suggest that employees seek legal counsel to resolve questionable issues, it does not require that the firm hires in-house lawyers for this purpose.

Rationale
This Answer is Correct
Step 2 is least consistent. The recommended procedures of Standard I(A) state that firms should develop and adopt a written code of ethics, which should be disseminated to all employees. It also suggests firm's document currently applicable rules and regulations in a written compliance manual accessible to all employees. While it does suggest that employees seek legal counsel to resolve questionable issues, it does not require that the firm hires in-house lawyers for this purpose.

Rationale

This Answer is Correct

Step 2 is least consistent. The recommended procedures of Standard I(A) state that firms should develop and adopt a written code of ethics, which should be disseminated to all employees. It also suggests firm's document currently applicable rules and regulations in a written compliance manual accessible to all employees. While it does suggest that employees seek legal counsel to resolve questionable issues, it does not require that the firm hires in-house lawyers for this purpose.

ii.

Which employee's statement is *least consistent* with the CFA Institute Research Objectivity Standards?

- ○ Dietz's.
- ● Hanson's.
- ○ Reynolds'.

Rationale

This Answer is Incorrect

The Research Objectivity Standards are meant to complement, not replace, the Standards of Professional Conduct.

Rationale

This Answer is Incorrect

The Research Objectivity Standards are meant to complement, not replace, the Standards of Professional Conduct.

Rationale

This Answer is Incorrect

The Research Objectivity Standards are meant to complement, not replace, the Standards of Professional Conduct.

iii.

According to the Standards of Professional Conduct required compliance and recommended procedures, which of the following suggestions sent from Jenkins would be *least appropriate*?

- ○ Require each employee to endorse the firm's written code of ethics by signature.
- ● Suspend participants in personal bankruptcy or acts of civil disobedience.
- ○ Perform pre-hire background checks and require character referrals.

Rationale

This Answer is Incorrect

The standards do not penalize members for legitimate personal bankruptcies or for exercising their social or political beliefs through protest. Standard I(D) does recommend the endorsement of the firm's adopted code of ethics by all employees. It also suggests appropriate due diligence in ensuring the firm only hires employees with high ethical character.

Rationale

This Answer is Incorrect

The standards do not penalize members for legitimate personal bankruptcies or for exercising their social or political beliefs through protest. Standard I(D) does recommend the endorsement of the firm's adopted code of ethics by all employees. It also suggests appropriate due diligence in ensuring the firm only hires employees with high ethical character.

Rationale

This Answer is Incorrect

The standards do not penalize members for legitimate personal bankruptcies or for exercising their social or political beliefs through protest. Standard I(D) does recommend the endorsement of the firm's adopted code of ethics by all employees. It also suggests appropriate due diligence in ensuring the firm only hires employees with high ethical character.

Question 3

L2ET-PQ0102-1502

LOS: LOS-5640

Lesson Reference: Lesson 1: Code of Ethics and Standards of Professional Conduct

Difficulty: hard

CFA Institute maintains and promotes the Code of Ethics and the Standards of Professional Conduct in order to create a culture of ethics for the ultimate benefit of:

- ○ Investment firms.
- ○ The investment industry as a whole.
- ◉ Society.

Rationale

❌ **Investment firms.**

Incorrect. Society ultimately benefits from efficient markets where capital can freely flow to the most productive or innovative destination. CFA Institute maintains and promotes the Code of Ethics and Standards of Professional Conduct in order to create a culture of ethics for the ultimate benefit of society.

Rationale

❌ **The investment industry as a whole.**

Incorrect. Society ultimately benefits from efficient markets where capital can freely flow to the most productive or innovative destination. CFA Institute maintains and promotes the Code of Ethics and Standards of Professional Conduct in order to create a culture of ethics for the ultimate benefit of society.

Rationale

✅ **Society.**

Correct. Society ultimately benefits from efficient markets where capital can freely flow to the most productive or innovative destination. CFA Institute maintains and promotes the Code of Ethics and Standards of Professional Conduct in order to create a culture of ethics for the ultimate benefit of society.

Question 4

L2R01TB-AC008-1512

LOS: LOS-5640

Lesson Reference: Lesson 1: Code of Ethics and Standards of Professional Conduct

Difficulty: medium

According to the Duties to Clients Standard, members are obligated to:

- (selected) place their employer's interests ahead of their own.
- judge the suitability of assets based on their stand-alone risk.
- provide the names of former clients to prospective customers.

Rationale

✔ place their employer's interests ahead of their own.

Standard III: Duties to Clients requires that covered persons place both their clients' and employer's interests ahead of their own. Assets' risk should be judged in a portfolio context. Confidentiality would prohibit a covered person from sharing the names of clients with prospects.

Rationale

✖ judge the suitability of assets based on their stand-alone risk.

Standard III: Duties to Clients requires that covered persons place both their clients' and employer's interests ahead of their own. Assets' risk should be judged in a portfolio context. Confidentiality would prohibit a covered person from sharing the names of clients with prospects.

Rationale

✖ provide the names of former clients to prospective customers.

Standard III: Duties to Clients requires that covered persons place both their clients' and employer's interests ahead of their own. Assets' risk should be judged in a portfolio context. Confidentiality would prohibit a covered person from sharing the names of clients with prospects.

Question 5
L2ET-TBB201-1412
LOS: LOS-5630
Lesson Reference: Lesson 1: Code of Ethics and Standards of Professional Conduct
Difficulty: medium
CFA Institute states that nonmembers and firms:

- Cannot claim compliance with the Code and Standards.
- Can claim compliance with the Code and Standards but must issue a statement indicating that the claim has not been verified by CFA Institute.
- Can claim compliance with the Code and Standards if and only if the claim has been verified by CFA Institute.

Rationale

This Answer is Correct

A nonmember or firm can adopt CFA Institute Code and Standards as part of their code of ethics; however, they must issue the following statement whenever claiming compliance:

“[Name of nonmember or firm] claims compliance with the CFA institute Code of Ethics and Professional Conduct. This claim has not been verified by CFA Institute.”

Question 6
L2ET-TB0002-1412
LOS: LOS-5640
Lesson Reference: Lesson 1: Code of Ethics and Standards of Professional Conduct
Difficulty: medium
The CFA Institute Code and Standards apply to:

- (selected) Individual members of CFA Institute and candidates in the CFA Program.
- Individual members of CFA Institute and candidates in the CFA Program, and the firms where they are employed.
- Individual members of CFA Institute and candidates in the CFA Program, the firms where they are employed, and the other nonmembers employed by the firm.

Rationale

This Answer is Correct

The CFA Institute Code and Standards apply to members of CFA Institute and candidates in the CFA Program. CFA Institute does encourage firms to adopt the Code and Standards as part of their code of ethics; however, this is not mandatory for firms employing members and candidates.

Question 7
L2ET-PQ0101-1502
LOS: LOS-5630
Lesson Reference: Lesson 1: Code of Ethics and Standards of Professional Conduct
Difficulty: hard
Members of CFA Institute and candidates in the CFA Program should "maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals." This is a requirement under:

- (selected) The Code of Ethics.
- Standard I(A): Knowledge of the Law.
- Standard VII(A): Conduct as Members and Candidates in the CFA Program.

Rationale

✔ **The Code of Ethics.**

Correct. One of the six components of the Code of Ethics is "members and candidates should maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals." Standard I(A) and Standard VII(A) do not explicitly address the issue of maintaining and improving competence.

Rationale

✖ **Standard I(A): Knowledge of the Law.**

Incorrect. One of the six components of the Code of Ethics is "members and candidates should maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals." Standard I(A) and Standard VII(A) do not explicitly address the issue of maintaining and improving competence.

Rationale

✖ **Standard VII(A): Conduct as Members and Candidates in the CFA Program.**

Incorrect. One of the six components of the Code of Ethics is "members and candidates should maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals." Standard I(A) and Standard VII(A) do not explicitly address the issue of maintaining and improving competence.

Question 8
L2ET-TBX101-1502
LOS: LOS-5640
Lesson Reference: Lesson 1: Code of Ethics and Standards of Professional Conduct
Difficulty: easy
Which of the following statements regarding the relationship between ethics and regulations is *most likely* to be accurate?

- ○ Compliance with a well-defined regulatory framework will ensure ethical behavior by market participants.
- ◉ The requirements of ethical standards often go beyond the requirements of regulations.
- ○ Acting ethically does not usually fulfill the requirements of regulations.

Rationale

This Answer is Correct

Ethical behavior is often distinguished from legal conduct by describing legal behavior as what is required, and ethical behavior as conduct that is morally correct. Ethical principles usually go beyond that which is legally sufficient and encompass what the right thing to do is.

Question 9
L2R01TB-AC007-1512
LOS: LOS-5640
Lesson Reference: Lesson 1: Code of Ethics and Standards of Professional Conduct
Difficulty: medium
According to the Professionalism Standard, members *must not*, under any circumstances:

- accept, solicit, or offer any gifts in the course of their professional duties.
- apply the Standards in place of governing civil rules, regulations, or laws.
- (selected) engage in any act of deceit, dishonesty, or that damages their professional reputation.

Rationale

accept, solicit, or offer any gifts in the course of their professional duties.

The Professionalism Standard covers: A. Knowledge of the law, B. Independence and objectivity, C. Misrepresentation, and D. Misconduct. By engaging in any act of deceit, fraud, or illicit activity, a covered person is in violation of Standard I Professionalism—D. Misconduct.

Rationale

apply the Standards in place of governing civil rules, regulations, or laws.

The Professionalism Standard covers: A. Knowledge of the law, B. Independence and objectivity, C. Misrepresentation, and D. Misconduct. By engaging in any act of deceit, fraud, or illicit activity, a covered person is in violation of Standard I Professionalism—D. Misconduct.

Rationale

engage in any act of deceit, dishonesty, or that damages their professional reputation.

The Professionalism Standard covers: A. Knowledge of the law, B. Independence and objectivity, C. Misrepresentation, and D. Misconduct. By engaging in any act of deceit, fraud, or illicit activity, a covered person is in violation of Standard I Professionalism—D. Misconduct.

Question 10

L2ET-TB0001-1412

LOS: LOS-5630

Lesson Reference: Lesson 1: Code of Ethics and Standards of Professional Conduct

Difficulty: medium

Bruce Dessau is asked by a work colleague who is unfamiliar with the CFA Institute to describe the difference between the CFA Institute Code of Ethics and the CFA Institute Standards of Professional Conduct. Dessau should respond:

- (selected) The Code of Ethics comprises of six overarching general principles such as acting with integrity and maintaining competence. The Standards of Professional Conduct consist of a series of seven specific applications of these general principles such as not engaging in market manipulation and acts of misconduct.
- The Standards of Professional conduct comprise of six overarching general principles such as acting with integrity and maintaining competence. The Code of Ethics consists of a series of seven specific applications of these general principles such as not engaging in market manipulation and acts of misconduct.
- Both the Code of Ethics and Standards of Professional Conduct contain a series of specific applications of general principles such as not engaging in market manipulation and acts of misconduct.

Rationale

This Answer is Correct

The Code of Ethics consists of general principles to which CFA members and candidates should always adhere. These include principles such as acting with integrity and maintaining competence. The Standards of Professional Conduct are more specific rules relating to different situations that help member and candidates to adhere to the general principles laid out in the Code of Ethics.

Question 11
L2R01TB-AC006-1512
LOS: LOS-5640
Lesson Reference: Lesson 1: Code of Ethics and Standards of Professional Conduct
Difficulty: medium
The Code of Ethics requires members to:

	Maximize Their Clients' Wealth	*Strive to Improve the Competence of Their Peers*
A.	Yes	No
B.	No	Yes
C.	Yes	Yes

- ROW A
- ROW B
- ROW C

Rationale
ROW A
The Code of Ethics require covered persons to: act with integrity and competence, place the integrity of the profession and clients' interests ahead of their own, use reasonable care and independent judgment, be a credit to the profession, promote the integrity of the capital markets, maintain their own competence, and improve others within the profession. It does not require the maximization of clients' wealth.

Rationale
ROW B
The Code of Ethics require covered persons to: act with integrity and competence, place the integrity of the profession and clients' interests ahead of their own, use reasonable care and independent judgment, be a credit to the profession, promote the integrity of the capital markets, maintain their own competence, and improve others within the profession. It does not require the maximization of clients' wealth.

Rationale
ROW C
The Code of Ethics require covered persons to: act with integrity and competence, place the integrity of the profession and clients' interests ahead of their own, use reasonable care and independent judgment, be a credit to the profession, promote the integrity of the capital markets, maintain their own competence, and improve others within the profession. It does not require the maximization of clients' wealth.

Question 12
L2R01TB-AC009-1512
LOS: LOS-5640
Lesson Reference: Lesson 1: Code of Ethics and Standards of Professional Conduct
Difficulty: medium
When communicating recommendations to clients, the Investment Analysis, Recommendations, and Actions Standard requires members to:

- ○ disclose the detailed specifications of any financial models used in the analysis.
- ○ retain and make all research documentation available to clients upon request.
- ◉ disclose any material changes to the member's investment selection methodology.

Rationale

✗ disclose the detailed specifications of any financial models used in the analysis.

Investors choose managers based on a variety of characteristics. One common factor is the investment style or methodology employed by the manager. If the manager changes that methodology, the client should be informed so that he can make a reasonable decision as to whether the manager still meets his needs.

Conflicts of interest are a common dilemma for investment professionals. The Standards of Professional Conduct provide guidance on handling them. First, members should anticipate the sources of conflicts and avoid them. Second, if it is unavoidable, you should disclose the conflict to the affected clients in enough detail that they might make an informed decision as to whether it might prove to disadvantage them. The Standards do not categorically prohibit gifting, bonuses, or referral fees. They do, however, require formal disclosures to employers and clients.

Rationale

✗ retain and make all research documentation available to clients upon request.

Investors choose managers based on a variety of characteristics. One common factor is the investment style or methodology employed by the manager. If the manager changes that methodology, the client should be informed so that he can make a reasonable decision as to whether the manager still meets his needs.

Conflicts of interest are a common dilemma for investment professionals. The Standards of Professional Conduct provide guidance on handling them. First, members should anticipate the sources of conflicts and avoid them. Second, if it is unavoidable, you should disclose the conflict to the affected clients in enough detail that they might make an informed decision as to whether it might prove to disadvantage them. The Standards do not categorically prohibit gifting, bonuses, or referral fees. They do, however, require formal disclosures to employers and clients.

Rationale

✓ disclose any material changes to the member's investment selection methodology.

Investors choose managers based on a variety of characteristics. One common factor is the investment style or methodology employed by the manager. If the manager changes that methodology, the client should be informed so that he can make a reasonable decision as to whether the manager still meets his needs.

Conflicts of interest are a common dilemma for investment professionals. The Standards of Professional Conduct provide guidance on handling them. First, members should anticipate the sources of conflicts and avoid them. Second, if it is unavoidable, you should disclose the conflict to the affected clients in enough detail that they might make an informed decision as to whether it might prove to disadvantage them. The Standards do not categorically prohibit gifting, bonuses, or referral fees. They do, however, require formal disclosures to employers and clients.

Question 13

L2R01TB-AC004-1512

LOS: LOS-5630

Lesson Reference: Lesson 1: Code of Ethics and Standards of Professional Conduct

Difficulty: medium

The CFA Code of Ethics applies to:

- ○ members, CFA candidates, and their firms.
- ◉ members and CFA candidates, but not their firms.
- ○ members, but not CFA candidates or their firms.

Rationale

members, CFA candidates, and their firms.

The Code of Ethics applies to members and candidates. Firms are encouraged to adopt a code of ethics but are not required to adopt the CFA Code of Ethics. However, the CFA Code of Ethics may be used as a model for the code adopted by a firm.

Rationale

members and CFA candidates, but not their firms.

The Code of Ethics applies to members and candidates. Firms are encouraged to adopt a code of ethics but are not required to adopt the CFA Code of Ethics. However, the CFA Code of Ethics may be used as a model for the code adopted by a firm.

Rationale

members, but not CFA candidates or their firms.

The Code of Ethics applies to members and candidates. Firms are encouraged to adopt a code of ethics but are not required to adopt the CFA Code of Ethics. However, the CFA Code of Ethics may be used as a model for the code adopted by a firm.