

10. Ethical and Professional Standards

10.1. Ethics and Trust in the Investment Profession

10.1.1. 重要知识点

10.1.1.1. Definition:

- **Ethics**
 - The guiding beliefs or ideals characterizing a society or societal group.
- **Ethical conduct**
 - Behavior that follows moral principles and balances self-interest with both the direct and the indirect consequences of the behavior on others.
- **Code of ethics**
 - Specific communities or societal groups in which we live and work sometimes codify their beliefs about obligatory and forbidden conduct in a written set of principles, often called a code of ethics.
 - Serves as a general guide for how community members should act.
- **Standards**
 - Some communities will also expand on their codes of ethics and adopt explicit rules or standards that identify specific behaviors required of community members.
 - Serve as benchmarks for the minimally acceptable behavior of community members and can help clarify the code of ethics.

10.1.1.2. Ethics and professionalism

- **Explain professionalism**
 - A profession is an occupational community that has specific education, expert knowledge, and a framework of practice and behavior that underpins community trust, respect, and recognition.
 - The requirement to uphold high ethical standards is one clear difference between professions and craft guilds or trade bodies.
 - A primary goal of profession is to establish trust among clients and among society in general.
- **Common characteristics of professions to establish trust**
 - Professions normalize practitioner behavior.
 - Professions provide a service to society.
 - Professions are client focused.
 - Professions have high entry standards.
 - Professions possess a body of expert knowledge.
 - Professions encourage and facilitate continuing education.
 - Professions monitor professional conduct.
 - Professions are collegial, they should be respectful to each other, even when they are competing.
 - Professions are recognized oversight bodies.
 - Professions encourage the engagement of members.
- **Professions are evolving**
 - The investment management profession has become increasingly global, driven by the opening of capital markets, coordination of regulation across borders, and the emergence of technology.
- Investment management professionals are trusted to draw on a body of formal knowledge and apply that knowledge with care and judgement.

- Investment management professionals are likely to encounter dilemmas, including those with ethical implications.
- High ethical standards always matter and are of particular importance in the investment management profession, which is based almost entirely on trust.

10.1.1.3. Challenges to ethical conduct

- **Overconfidence** can lead to faulty decision making.
- **Situational influences** have a very powerful and often unrecognized effect on our thinking and behavior.
 - External factors, such as environmental or cultural elements, that shapes our thinking, decision making, and behavior.
 - Factors: Money, Promotions, Prestige, Loyalty to employer and colleagues, a strong compliance culture.

10.1.1.4. Trust

- Trust is the very foundation of the financial markets.
- Reasons:
 - The nature of the client relationship
 - Differences in knowledge and access to information
 - The nature of investment products and services

10.1.1.5. Effects of ethical & unethical behavior

- **Effects of ethical behavior:**
 - Lead to broader participation in the markets
 - Protection of clients' interests
 - More opportunities for investment professionals and their firms
 - Lead to higher levels of success and profitability
 - Enjoy lower relative costs
- **Effects of unethical behavior:**
 - Erodes and can even destroy trust
 - ◆ Diminished trust in financial markets can reduce growth in the investment industry and tarnish the reputation of firms and individuals in the industry, even if they did not participate in the unethical behavior.

10.1.1.6. Legal and ethical conduct are not always the same.

- Many types of conduct are both legal and ethical, but some conduct may be one and not the other.
- The law is not always the best mechanism to reduce unethical behavior.
 - Laws typically follow market practices.
 - Regulators' responses typically take significant time, during which the problematic practice may continue or even grow.
 - A new law may be vague, conflicting, and/or too narrow in scope.
 - Laws vary across countries or jurisdictions, allowing questionable practices to move to places that lack laws relevant to the questionable practice.
 - Laws are also subject to interpretation and compliance by market participants, who may choose to interpret the law in the most advantageous way possible or delay compliance until a later date.
- Ethical conduct goes beyond what is legally required and encompasses what different societal groups or communities, including professional associations, consider to be ethically correct behavior.

10.1.1.7. Framework for ethical decision making

- Steps are as follows:
 - **Identify:** Relevant facts, stakeholders and duties owed, ethical principles, conflicts of interest;
 - **Consider:** Situational influences, additional guidance, alternative actions;
 - **Decide and act;**
 - **Reflect:** Was the outcome as anticipated? Why or why not?

10.1.2. 基础题

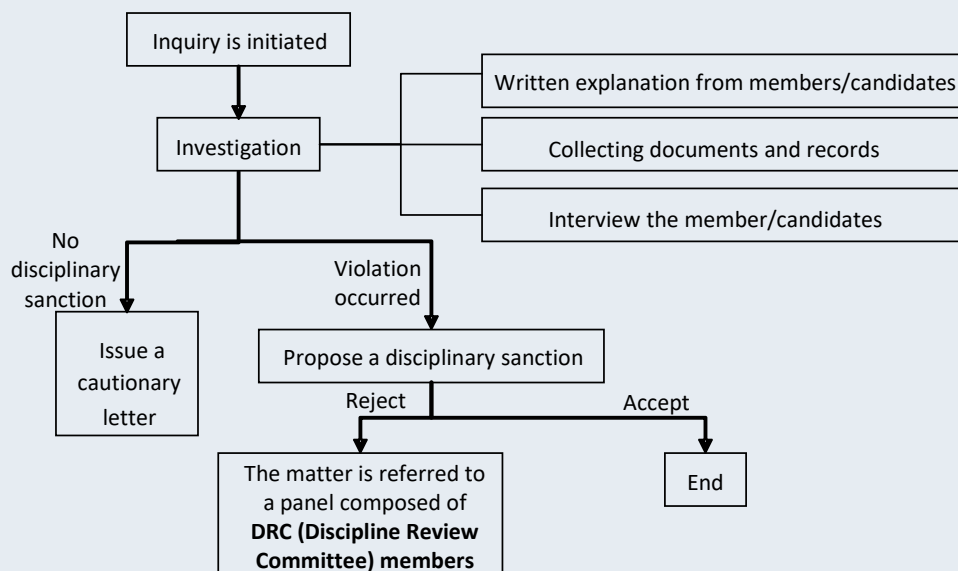
Q-1. Which of the following statements is least accurate about Code of ethics?

- A. The shared principles and expected behaviors of a profession's members.
- B. The general guide for how community members should act.
- C. The benchmarks for the minimally acceptable behavior.

10.2. The Process for the Enforcement of the Code and Standards

10.2.1. 重要知识点

10.2.1.1. The process for the enforcement of the code and standards:



10.2.1.2. The CFA Institute board of governors maintains oversight and responsibility for the Professional Conduct Program (PCP).

10.2.1.3. PCP and Disciplinary Review Committee (DRC) are responsible for enforcement of the Code and Standards.

10.2.1.4. How to detect

- Self-disclosure
- Written complaints
- Public sources
- CFA exam proctor

10.2.1.5. Professional conduct staff may request (in written) an explanation from the subject member or candidate and may:

- Interview the subject member or candidate;
- Interview the complainant or other third parties;
- Collect documents and records relevant to the investigation.

10.2.1.6. The designated officer may decide

- That no disciplinary sanctions are appropriate.
- To issue a cautionary letter.
- To discipline the member or candidate.

10.2.1.7. Hearing panel

- If the member or candidate does not accept the charges and proposed sanction, the matter is referred to a **panel** composed of DRC (Discipline Review Committee) members.
- The hearing panel's task is to determine whether a violation of the Code and Standards occurred and, if so, what sanction should be imposed.

10.2.1.8. Sanctions 由轻到重依次为: public censure, suspension of membership and use of the CFA designation, revocation of the CFA charter

10.2.1.9. AMC & Code and standards

- AMC was drafted specifically for firms.
- Code and standards is aimed at individual investment professionals.

10.2.1.10. Code of ethics

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Place the integrity of the investment profession and the interests of clients above their own personal interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
- Promote the integrity and viability of the global capital markets for the ultimate benefit of society.
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

10.2.2. 基础题

Q-2. Giddings, CFA, is an equity trader at Global Investment Bank (GB). Giddings traded the bank's investment portfolio profitably for the past five years and earned significant bonuses for his efforts. Subsequently, internal auditors of GB formally accused Giddings of exceeding his trading authority and engaging in unauthorized trades. According to the CFA Institute Code of Ethics and Standards of Professional Conduct, Giddings should most likely:

- A. disclose the complaint to CFA Institute.
- B. refuse further bonuses until the issue is resolved.
- C. request a temporary suspension of his CFA Institute membership.

Q-3. Sanctions imposed by CFA Institute for violations of the CFA Institute Code of Ethics or Standards of Professional Conduct least likely include:

- A. monetary fines.

- B. public censure.
- C. revocation of a CFA Charter.

10.3. Knowledge of the law

10.3.1. 重要知识点

10.3.1.1. Content

- 知法→守法→不违法
 - Must understand and comply with laws and regulations that directly govern their professional activities. (和你本职工作直接相关的法律法规)
 - Should know their firm's policies and procedures for accessing compliance guidance.
 - Not require to become experts in compliance.
 - Not required to have detailed knowledge of or be experts on all the laws that could potentially govern their activities.
- must comply with the more strict law, rule, or regulation;
- 不能故意(knowingly)参与或协助违法违规行为，并应当使自己与违规行为脱离；

10.3.1.2. Relationship between the code and standards and applicable Law

- 如果法律法规之间存在冲突,总是遵守最严格的要求;
- 如果有传递关系，遵循最后一个生效的 law or regulation;

Workplace (Applicable) Stating that residence law applies.	Residence	Comply with
Less strict	More strict	Last applicable is the residence law, more strict than Code → Adhere to the law of more strict country
More strict	Less strict	Last applicable is the residence law, less strict than Code → Adhere to Code and Standards

10.3.1.3. Participation or association with violations by others

- 发现违法：
 - 确切知道：
 - ◆ 原则：dissociate, no requirement to report violations to governmental authorities.
 - ◆ 正确顺序：report to supervisor 或 compliance department →如果他们不处理，再 dissociate，即使辞职也在所不惜。
 - 怀疑：Consult, but can't be absolved from requirements to compliance.
- 当发现有违法行为时，CFA Institute 并不要求向政府管理机构汇报。是否汇报取决于适用法律(applicable law)是否有相关要求。
- Inaction combined with continuing association with those involved in illegal or unethical conduct may be construed as participation or assistance in the illegal or unethical conduct.

10.3.1.4. Investment Products and Applicable Laws

- 投资产品的开发者、销售及维护人员要注意产品销售地和来源地的法律；对于分销商，同样要注意其是否遵守了法律。
- 跨境业务需要 due diligence，为了保证公司及自身的声誉，要了解适用的法律

10.3.1.5. Recommended Procedures for Compliance

- 对于个人：
 - stay informed;
 - encourage 公司时常对合规程序进行 review;
 - 保存 readily accessible current reference copies of applicable statutes, rules, regulations;
- 对于公司：
 - The formality and complexity of compliance procedures for firms depend on the nature and size of the organization and the nature of its investment operations;
 - Develop or adopt a code of ethics, provide information on applicable laws, establish procedures for reporting violations.

10.3.2. 基础题

Q-4. James Woods, CFA, is a portfolio manager at ABC Securities. Woods has reasonable grounds to believe his colleague, Sandra Clarke, a CFA Level II candidate, is engaged in unethical trading activities that may also be in violation of local securities laws. Woods is not Clarke's supervisor, and her activities do not impact Woods or any of the portfolios for which he is responsible. Based on the Code and Standards, the recommended course of action is for Woods to:

- A. report Sandra Clarke to ABC's trading supervisor or compliance department.
- B. not take any action because he is not directly involved.
- C. report Sandra Clarke to the appropriate governmental or regulatory organization.

Q-5. Myers, CFA, is an analyst with a hedge fund and works closely with Pellie who earned her CFA designation 10 years ago. Myers becomes aware that Pellie uses her CFA designation even though she no longer pays her membership dues. During several meetings that Pellie and Myers have with the firm's clients, Pellie emphasizes that all her team members, including herself, are CFA charterholders. To be consistent with the Standards, Myers should:

- A. only dissociate himself from activities involving Pellie.
- B. only report Pellie 's conduct to the fund's compliance department.
- C. dissociate himself from activities involving Pellie and report Pellie's conduct to the fund's compliance department.

Q-6. A member resides in Adovia, a country with securities laws and regulations that are less strict than the Code and standards. She does business in Batavia, a country with securities laws and regulations that are less strict than those of aAdovia. Which of the

following statements is accurate? The member must most likely adhere to:

- A. the code and standards.
- B. the laws and regulations of Adovia.
- C. the laws and regulations of Batavia.

10.4. Independence and Objectivity

10.4.1. 重要知识点

20.1.1.1. Content

- must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities.
- Must not offer, solicit, or accept any gift, benefit, compensation, or consideration that reasonably could be expected to compromise their own or another's independence and objectivity.

20.1.1.2. Gifts from corporate and clients

- Best practice: Reject gift that could be expected to compromise independence and objectivity. Modest gift is OK, as long as its purpose is not to compromise the objectivity.
- 判断的原则：第一是礼物的金额很少（modest）；第二是礼物不能是特地准备的(not unusual arrangement)。
- Gift from client: 事后 gift 可以接受，但必须披露，否则违反 I(B)。尽量在接受前披露，如果实在没法披露，也要事后披露。

20.1.1.3. Buy-side clients

- Sell-side analyst should not be pressured by buy-side firms to issue favorable research on current or prospective investment-banking clients.
- It is improper for portfolio managers to threaten or engage in retaliatory practices.

20.1.1.4. Fund manager relationships and Custodial Relationships

- Members and candidates who are responsible for hiring and retaining outside managers should not accept gifts, entertainment, or travel funding that may be perceived as impairing their decisions.
- For meeting sponsored funds, members and candidates must review the merits of each offer individually in determining whether they may attend yet maintain their independence of conduct regarding the analytic process and the distribution of their reports.

20.1.1.5. Investment banking

- Firewall between research and investment banking should be built to minimize conflicts of interest.
 - Separate reporting structures for personnel on the research side and personnel on the investment banking side;
 - Compensation should not link analyst remuneration directly to investment banking assignments in which analyst may participate as a team member.
- It is appropriate to have analysts work with investment bankers only when the conflicts are adequately and effectively managed and disclosed.
- Firms should also regularly review policies and procedures to determine whether analysts are adequately safeguarded.

20.1.1.6. Performance measurement and attribution

- As performance analysts, their analysis may reveal instances where managers may

appeared to stray from their mandate.

- The performance analyst may receive requests to alter the construction of composite indices due to negative results for a selected account or fund.
- The member or candidate must not allow internal or external influences to affect their independence and objectivity as they faithfully complete their performance calculation and analysis related responsibilities.

20.1.1.7. Public companies

- Analysts should not be pressured to issue favorable research by the companies they follow. Can promise to cover the firm, should not promise favorable report about the firm.
- Due diligence in financial research and analysis involves gathering information from public disclosure documents and also company management and investor-relations personnel, suppliers, customers, competitors, and other relevant sources.

20.1.1.8. Credit rating agencies

- Members and candidates at rating agencies should ensure that procedures at the agencies prevent undue influences from a sponsoring company during the analysis.
- Abide by their agencies' and the industry's standards of conduct regarding the analytical process and the distribution of their reports
- Develop the necessary firewalls and protections to allow the independent operations of their different business lines.
- When using information provided by credit rating agencies, members and candidates should be mindful of the potential conflicts of interest.

20.1.1.9. Influence during the manager selection/procurement process

- When hiring or firing of those who provide many business services beyond investment management or when working to earn a new investment allocation, members and candidates should not receive, solicit or offer gifts, contributions, or other compensation to influence the decision of the hiring representative.

20.1.1.10. Issuer-paid research

- Analysts' compensation for preparing such research should be limited, and the preference is for a flat fee that is not linked to their conclusions or recommendations (directly or indirectly).
- Must fully disclose potential conflict of interest, including the nature of compensation. If not → misleading investors.
- Conduct a thorough analysis of the company's financial statements based on public information, benchmarking within a peer group, and industry analysis. (Distinguish between fact and opinion).

20.1.1.11. Travel funding

- Best practice: always use commercial transportation rather than accept paid travel arrangements from an outside company.
- Should commercial transportation be unavailable, members and candidates may accept modestly arranged travel to participate in appropriate information-gathering events, such as a property tour.
- May be influenced by discussions exclusively with the company executives when flying on a corporate or chartered jet.

20.1.1.12. Social Activities

- When seeking corporate financial support for conventions, seminars, weekly

society luncheons, evaluate both the actual effect on independence and whether objectivity might be perceived to be compromised in the eyes of clients.

20.1.1.13.雇主可能为了与其他公司保持业务关系，可能会要求研究人员 **issue favorable research reports**，正确的做法是保持客观独立，按照客观事实撰写报告。

20.1.1.14.Procedures for compliance

- Protect the integrity of opinions: unbiased, design compensation systems with integrity.
- Create a restricted list: if unwilling to issue unfavorable, put it on a restricted list and only issue factual information.
- Restrict special cost arrangement: pay charges by themselves when visiting headquarter, not reimbursed for air fees by corporate issuer, limit use firm's aircraft only when no commercial transportation. Should not always be hosted by issuer.
- Limit gifts: Customary, business-related entertainment is okay as long as its purpose is not to influence professional independence or objectivity; 礼物的价值要参考 local customs 并且说明价值限制是 per gift or annual total amount.
- Restrict investments: develop formal policies about employee purchases of equity or equity-related ipos, require prior approval for employee to participate in ipos, disclose timely investment actions following the offering, strict limit on investment personnel acquiring securities in private placements.
- Review procedures: implement effective supervisory and review procedures about personal investment activities.
- Independence policy: formal written policy, not influenced by any parties that could compromise their independence.
- Appointed officer: to supervise for compliance; provide procedures and policies for reporting violation to every employee.

10.4.2. 基础题

Q-7. Jennifer Ducumon, CFA, is a portfolio manager for high-net-worth individuals at Northeast Investment Bank. Northeast holds a large number of shares in Babyskin Care Inc., a manufacturer of baby care products. Northeast obtained the Babyskin shares when they underwrote the company's recent IPO. Ducumon has been asked by the investment banking department to recommend Babyskin to her clients, who currently do not hold any shares in their portfolios. Although Ducumon has a favorable opinion of Babyskin, she does not consider the shares a buy at the IPO price nor at current price levels. According to the CFA Institute Code of Ethics and Standards of Professional Conduct the most appropriate action for Ducumon is to:

- A. ignore the request.
- B. recommend the shares after additional analysis.
- C. follow the request as soon as the share price declines.

- Q-8.** Andrew Smith, CFA, works for Granite, a commercial bank that also has a sizable sell-side research division. Smith is presenting financing solutions to a potential business client, Dynamic Materials Corp. As part of his presentation, Smith mentions that Granite will initiate research coverage on Dynamic. Is Smith's arrangement most likely appropriate with regard to the Code and Standards?
- A. No, because Smith cannot offer to provide research coverage on a company if it becomes a Corporate finance client.
 - B. No, because Granite cannot provide research coverage on a corporate finance client because it constitutes a violation of research independence.
 - C. Yes.
- Q-9.** Dilshan Kumar, CFA, is a world-renowned mining analyst based in London. Recently, he received an invitation from Cerberus Mining, a company listed on the London Stock Exchange with headquarters in Johannesburg, South Africa. Cerberus asked Kumar to join a group of prominent analysts from around the world on a tour of its mines in South Africa, some of which are in remote locations and not easily accessible. The invitation also includes an arranged wildlife safari to Krueger National Park for the analysts. Kumar accepts the invitation, planning to visit other mining companies he covers in Namibia and Botswana after the safari. To prevent violating any CFA Institute Standards of Professional Conduct, it is most appropriate for Kumar to only accept which type of paid travel arrangements from Cerberus?
- A. Flights on a private airplane to the remote mining sites in South Africa.
 - B. Economy class round trip ticket from London to Johannesburg.
 - C. Ground transportation to Krueger National Park.
- Q-10.** Andy Mehta, CFA, is a research analyst who covers Black Gold Resources (BGR). Executives at BGR take Mehta and other analysts to visit a newly discovered oilfield on BGR's private jet because commercial flights are unavailable. In addition, BGR offers Mehta a ticket to a sold-out concert by a famous pop star. Mehta informs her employer about the ticket after attending the concert, as prior notice was not possible. Mehta failed to comply with the Standards by accepting:
- A. a seat on the BGR private jet only
 - B. a ticket to the sold-out concert only
 - C. both a seat on the BGR private jet and a ticket to the sold-out concert.
- Q-11.** Dillon, CFA, is promoted to head of research department. He is considering initiating coverage of Windtel, a domestic solar panel producer with limited research coverage.

Upon hearing of Dillon's new role at Greentree, Windtel's head of investor relations sends Dillon a set of high-quality Japanese carving knives with Windtel's logo. The knives contain a note reading, "Congratulations. We look forward to working with you in the future." Dillon informs his supervisor of the gift and is allowed to keep the knives. Dillon's supervisor also mentions that he plays golf with the chief financial officer of Windtel and would be willing to arrange a meeting to discuss the company's recent earnings announcement. Dillon accepts the meeting and several weeks later initiates coverage of Windtel. Regarding Windtel, are Dillon's actions consistent with the recommendations of the Standards?

- A. Yes.
- B. No, because he should have refused the gift from Windtel.
- C. No, because he should have refused the meeting arranged by his supervisor.

10.5. Misrepresentation

10.5.1. 重要知识点

20.2.1.1. Content

- Must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities. Once finding misrepresentation (e.g. typographical error), correct the error as soon as possible, or violate I (C).
- A misrepresentation is any untrue statement or omission of a fact or any statement that is otherwise false or misleading.
 - Must not knowingly omit or misrepresent information or give a false impression of a firm, organization, or security in oral representations, advertising (whether in the press or through brochures), electronic communications, or written materials (whether publicly disseminated or not).
 - "Knowingly" means that either know or should have known that the misrepresentation was being made or that omitted information could alter the investment decision-making process.
 - Should ensure that the analyses incorporate a broad range of assumptions—from very positive scenarios to extremely negative scenarios.

20.2.1.2. Impact on investment practice

- 不能保证 specific return which is inherently volatile.
- **Not prohibit** from guaranteeing return which is built into the structure of the product or for which an institution has agreed to cover any losses. 不禁止向客户提供有关投资产品的信息，如果这些产品本身的结构中包含担保，或者是机构已同意为其弥补任何损失。
 - 如联邦储蓄利率是 2%，那么保证 2% 利率是可以的。
- 不可以对客户说“我们可以提供你需要的所有服务”，正确的做法是提供一个公司所能提供的服务清单；
- 不能 **misrepresent qualifications**，一旦发现要立即改正，如果过了很长时间不改正，就会被定义为 misrepresent（如名片打印错误一年后才发现就算违反）。

- 如果通过 **outside managers** 进行投资，must disclose intended use of external managers, members and candidates must not represent outside managers' investment practices as their own.
- 使用第三方信息要注意：Exercise care and diligence，同时如果影响到了投资的专业性，investment professional 要对此负责。

20.2.1.3. Omission

- The omission of a fact or an outcome can be misleading. Findings from models shall not be presented as fact.
- Member and candidates should encourage their firms to develop strict policies for composite development to prevent “cherry picking”.

20.2.1.4. Performance reporting

- Members and candidates may misrepresent the success of their performance record.
- Clients can be misled if the benchmark's results are not reported on a basis comparable to that of the fund's or client's results.
- 不一定每一个投资组合都要选择一个 benchmark，一些复杂的投资策略可能难以找到基准。
- 虚假陈述还会出现在对**不流通证券(illiquid securities)**进行定价的时候。当出现多个不同的信息来源时，Members and candidates 应该为客户提供准确并且可靠的证券定价信息。定价机构的选择应当保持一致性，不能因为新的定价机构提供了一个较高的证券报价信息而随意更换现在的定价机构。信息的一致性在一定程度上也限制了虚假陈述。

20.2.1.5. Social media

- Members and candidates 在社交媒体上为客户所提供的信息必须要和通过其他传统交流方式所提供的信息一致，并且也同样不能出现一些虚假或者内幕消息。
- Members and candidates 还必须遵守一些专门针对一些社交媒体交流所制定的 Code and Standards. 在社交媒体上故意散播错误的投资建议或者虚假陈述专业投资活动的信息，都会被视为违反了 Standard I(C).

20.2.1.6. Plagiarism

- **Plagiarism 定义为：** Copying or using in substantially the same form materials prepared by others without acknowledging the source of the material or identifying the author and publisher of such material.
- 适用于任何场合，包括口头交流，媒体采访等。
- 未经许可 **copy (or represent as their own) original ideas/material** 就算违反，必须 acknowledge and identify the source of ideas/material.
- **常见形式：** Using excerpts from others' reports without acknowledgement; Citing quotations as “leading analysts” and “investment experts” without naming specific reference; Using charts and graphs without stating sources; Presenting statistical estimates of forecasts prepared by others and identifying the sources without including the qualifying statements or caveats that may have been used; Copying proprietary computerized spreadsheets or algorithms without authorization; Preparation of research reports based on multiple sources without acknowledging the sources.
- 引用别人的思想需要鸣谢(**credit or acknowledgement**), 否则就是 **Plagiarism**;

- 引用他人的模型, 分析师作了少许修改, 把模型作为自己的, 属于 plagiarism 行为, 违反了 I(C), 正确的做法是标注这个模型的出处来源;
- 引用媒体的转载, obtain the information directly from the author and cite only that author 或者 use the information provided by the intermediary and cite both sources, 不能 only cite the information from the intermediary.
- 无心的打印错误不违反 misrepresentation, 但是如果发现错误, 却没有纠正, 那么就违反了 misrepresentation.

20.2.1.7. Work completed for employer

- The firm retains the right to continue using the work completed after a member or candidate has left the organization. 公司可以 issue future reports without providing attribution to the prior analysts, 但公司内其他员工不能 reissue a previously released report solely under his name.

20.2.1.8. Recommended procedures

- **Factual presentations:** written list of available services and a description of qualifications, 并且指定专人作为公司发言人。
- **Qualification summary:** 对于 representations of qualifications, 公司要定期检查 employee correspondence and documents.
- **Verify outside information:** 对于第三方要 verify, 防止其因为错误陈述而影响公司声誉. Encourage to develop policy to verify.
- **Maintain webpage:** 保存网页; Protect site's integrity, confidentiality, and security; not misrepresent and fully disclose.
- **Plagiarism policy:**
 - maintain copies of all research reports with research ideas, material with new methodologies, and other materials being relied on in preparing the research report;
 - attribute to sources any direct quotations, including projections, tables, statistics, model/product ideas, and new methodologies prepared by persons other than recognized financial and statistical reporting services or similar sources.
 - attribute to sources any paraphrases or summaries of material prepared by others.

10.5.2. 基础题

Q-12. Marsha, CFA, discovered that her employer, Superior Investments Inc. (SII), inflates investment performance in SII's marketing brochure. In accordance with firm policy, Marsha uses SII's marketing brochure to present to prospective clients. In addition, Marsha emails stock recommendations to her clients in capsule form and offers additional information only upon request. Marsha has most likely violated the Standards:

- A. by emailing stock recommendations to her clients in capsule form.
- B. only by using SII's marketing brochure to present to prospective clients.
- C. both by emailing stock recommendations to her clients in capsule form and by using SII's marketing brochure to present to prospective clients.

Q-13. Jean-Luc Schlumberger, CFA, is an independent research analyst providing equity research on listed companies. He incorporates factual information published by State Statistics Bureau without acknowledging the source into the body of his research reports. In addition, Schlumberger issues a buy recommendation of Baby-skin Care Inc. basing on the conclusions and models from a well-known analyst Rebecca Wong's research without any indications or disclosures. Schlumberger has least likely violated the Standards by?

- A. Using factual information published by State Statistics Bureau.
- B. Using the conclusions from a well-known analyst.
- C. Using the models established by a well-known analyst.

Q-14. Mike, CFA, manages a complex investment portfolio that does not lend itself to comparison with a benchmark. Therefore, Mike presents the portfolio's performance against a reference index in his quarterly report. In the report, he acknowledges that the reference index does not represent the portfolio's investment strategy but explains that it was used due to lack of an appropriate benchmark. Has Mike most likely violated the standards?

- A. NO
- B. Yes, the standard relating to misrepresentation
- C. Yes, the standard relation to communication with clients and prospective clients.

Q-15. Which of the following actions is most likely consistent with the Standard relating to misrepresentation? A member should:

- A. only discuss with clients on a continuous basis the appropriate benchmark to be used
- B. only change security pricing providers to obtain a higher security valuation for customers
- C. both discuss with clients on a continuous basis the appropriate benchmark to be used and change security pricing providers to obtain a higher security valuation for customers.

10.6. Misconduct

10.6.1 重要知识点

10.6.1.1 Scope of application

- 凡是有关于欺诈的(dishonesty, fraud, or deceit), 或者影响到 professional reputation, integrity, or competence 的行为都是 misconduct.
- 与职业行为无关的、除欺诈以外的行为不违反 misconduct, 比如作为环保组织的成员参加游行。
- Excessive drinking at lunch during work that has negative effect on your ability to make sound investment decisions is a violation of Standard I (D).

10.6.1.2 个人破产 may not reflect on the integrity or trustworthiness of the person declaring

bankruptcy

- 如果是经营破产（如与欺诈无关），免责；
- 如果是因欺诈(fraudulent or deceitful business conduct)导致的破产，不能免责。

10.6.1.3 Recommended procedures

- Code of ethics: every employee should subscribe and make clear that the unethical activities will not be tolerated.
- List of violations: potential violations and associated disciplinary sanctions.
- Employee references: check potential employee's character and eligible for work in the investment industry because of past infractions of the law.

10.6.2 基础题

Q-16. Emily, CFA, is an analyst covering the banking sector. She has declared bankruptcy due to large unpaid personal medical bills. On weekends, she participates in public protests for climate protection. She was recently arrested for trespassing during a protest, which is an act of civil disobedience in her country. Has Emily violated the Standards?

- A. No
- B. Yes, she has violated the Standard relating to misconduct
- C. Yes, she has violated the Standard relating to loyalty, prudence and care

Q-17. Abdul Naib, CFA, was recently asked by his employer to submit an updated document providing the history of his employment and qualifications. The existing document on file was submitted when he was hired five years ago. His employer notices the updated version shows Naib obtained his MBA two years ago, whereas the earlier version indicated he had already obtained his MBA at the time of his hire. Because the position Naib was hired for had a minimum qualification of an MBA, Naib is asked to explain the discrepancy. He justifies his actions by stating: "I knew you would not hire me if I did not have an MBA, but I already had my CFA designation. Knowing you required an MBA, I went back to school on a part-time basis after I was hired to obtain it. I graduated at the top of my class, but this should not come as any surprise because you have seen evidence I passed all of my CFA exams on the first attempt." Did Naib most likely violate the CFA Institute Standards of Professional Conduct?

- A. Yes, with regard to Misconduct.
- B. No.
- C. Yes, with regard to Reference to the CFA Designation.

Q-18. Johnny, CFA, works in the client services department at an investment firm. Johnny has been short-selling stocks on his personal account in anticipation of a significant decline in the market. His transactions do not disadvantage his firm's clients. Following a dramatic rise in the markets, Johnny is unable to cover his short positions and is forced

to declare personal bankruptcy. Has Johnny violated the Standards?

- A. No
- B. Yes, the Standard relating to misconduct
- C. Yes, the Standard relating to loyalty, prudence, and care

10.7. Competence

10.7.1. 重要知识点

10.7.1.1. Content:

- Members and Candidates must **act with and maintain** the competence necessary to fulfill their professional responsibilities

10.7.1.2. To act with and maintain appropriate knowledge, skills, and abilities when they carry out their professional responsibilities so that they provide a high standard of professional service for their clients and employers.

- **Knowledge** is the body of information applied directly to the performance of a function and how effectively it is applied.
- **Skills** are capabilities to perform a role-specific act or function to complete specific tasks and achieve professional goals.
- **Abilities** are capabilities and attitudes that support behaviors that result in observable outcomes.

10.7.1.3. Determining what conduct specifically constitutes competence will differ for each role and will depend on the facts and circumstances applicable to each member or candidate.

10.7.1.4. While competence allows members and candidates the opportunity to undertake an activity successfully, lack of competence cannot necessarily be determined by an unsuccessful or a negative outcome.

10.7.1.5. Recommended procedures

- Regularly engaging in a professional development or continuing education program.
- Studying for or earning professional certifications or designations.
- Attending conferences, seminars, or webinars.
- Regularly participating in training offered by their employer.
- Diligently engaging in informal continuing education or self-study, such as through outside reading of subject matter articles, treatises, and publications.
- Participating in expert groups or organizations.
- Becoming proficient with any new skill or knowledge, as necessary, when their professional responsibilities **change**.

10.7.2. 基础题

Q-19. Adam, a portfolio manager, and several of his clients are impressed by the significant gains in a short time achieved by investing in cryptocurrency. They urge Adam to include cryptocurrency products as part of their portfolios. Although Adam is generally aware of cryptocurrency investment trend in reputable newspapers, he is unfamiliar with the nature of the asset or the difference between the many cryptocurrency products. Not wanting to lose clients, or miss out on a hot market trend by delaying an

investment decision until he completes research into the asset, Adam purchases a cryptocurrency product that has been heavily promoted through social media for several of his clients. Has Adam violated the Standards?

- A. No
- B. Yes, the Standard relating to Competence.
- C. Yes, the Standard relating to Misrepresentation.

10.8. Material Nonpublic Information

10.8.1. 重要知识点

10.8.1.1 Content: 如果持有 MNI, 自己不能利用或促使他人利用 MNI 进行投资

10.8.1.2 判断 material 的条件: 来源可靠, 对股价影响明确, substance and specificity determines the materiality

- Company-related information
 - Earnings.
 - M&A, acquisitions, tender offers, or joint ventures.
 - Changes in assets, Changes in management.
 - Innovative products, processes, or discoveries.
 - New licenses, patents, registered trademarks, or regulatory approval/rejection of a product.
 - Developments regarding customers or suppliers.
 - Changes in auditor notification.
 - Events regarding the issuer's securities.
 - Bankruptcies.
 - Significant legal disputes.
 - New or changing equity or debt rating issued by third party
- Government reports of economic trends
- Orders for large trades before they are executed
- Reports from well known analyst
- Qualified personnel: information about trials of a new drug, product, or service under development from qualified personnel involved in the trials is likely to be material, whereas educated conjecture by subject experts not connected to the trials is unlikely to be material.
- 竞争对手的预测不能认为是 MNI.

10.8.1.3 其他情形:

- 有名的公司或者分析师对股价的研究对市场有影响, 算是 material.
- **Suppliers:** 从供应商处了解到一个公司的信息, 如果来源是可靠的, 则算是 MNI, 不能使用; 如果是自己观察到的, 属于 Mosaic 理论范畴, 可以使用。竞争者的分析, 不算 material.
- 不管通过什么途径, 公开发行的报告就是 public (失误引起的提前发行, 也算作公开发布, can use for trading) .
- 如果公司在分析师会议上泄露了内幕信息, can't use.
- Selective disclosure may violate MNI. If MNI was disclosed **selectively**, the listed company should issue a press release or reach public dissemination.

10.8.1.4 可以使用内幕消息的情况: 如果 members or candidates 在商业活动中 (如兼并收购、

信用评级等)做尽职调查,用到对方公司合理提供的没有公开的内部消息,不算违背 Standard II(A)。如果为了其他目的使用内幕信息,尤其是为了诱导他人对该公司的证券进行交易,则违背了 Standard II(A)。

10.8.1.5 Mosaic theory : 可以使用 material public information and non-material non-public information, 但必须 save and document all the research.

10.8.1.6 Social media: 一些社会媒体平台只能把信息提供给注册会员。Members and candidates 需要确认这些信息能否从其他公开渠道获得。Members and candidates 在通过这些社会媒体平台和客户进行交流时,只要其他投资大众也有权查阅这类信息,那么这就不违背 standard II(A)。

10.8.1.7 Industry expert: Members and candidates 需要对外部聘用的行业专家所提供的信息负责,不能用一些 material nonpublic information。如果行业专家提供了一些企业的 material nonpublic information, 在这些信息被公开之前, members and candidates 不能使用这些信息进行投资。

10.8.1.8 Investment Research Reports: Simply because the public in general find the conclusions material does not require that the analyst make his/her work public. Investors who are not clients of the analyst can either do the work themselves or become clients of the analyst for access to the analyst's expertise.

10.8.1.9 Achieve public dissemination

- If material, should try to achieve public dissemination.
- Encourage the firm to make it public, if not possible, report only to designated supervisory and compliance personnel within her firm.
- not invest on MNI, or induce insider to disclose MNI.
- Recommended procedures - Adopt compliance procedures
- Encourage firms to adopt compliance procedures to prevent the misuse of MNI.
- Particularly important is improving compliance in such areas as the review of employee and proprietary trading, documentation of firm procedures, and the supervision of interdepartmental communications in multi-service firms.
- Compliance procedures should suit the particular characteristics of a firm, including its size and the nature of its business.

10.8.1.10 Adopt disclosure procedures

- members and candidates should encourage the development of and compliance with procedures for distributing new and updated investment opinions to clients.
- Recommendations of this nature may represent material market moving information that needs to be communicated to all clients fairly.

10.8.1.11 Issue press releases

- Companies should consider issuing press releases prior to analyst meetings and conference calls and scripting those meetings and calls to decrease the chance that further information will be disclosed.
- If MNI is disclosed for the first time in an analyst meeting or call, the company should promptly issue a press release or otherwise make the information publicly available.

10.8.1.12 Firewall Elements

- substantial control of interdepartmental communications, preferably through a clearance area in either the compliance or legal department;
- Review of employee trading through the maintenance of “watch,” “restricted,” and “rumor” lists;

- Documentation of the procedures designed to limit the flow of information between departments and of the actions taken to enforce those procedures;
- heightened review or restriction of proprietary trading while a firm is in possession of material nonpublic information.

10.8.1.13 Physical separation of departments

10.8.1.14 Prevention of personnel overlap

10.8.1.15 A reporting system

- Authorized people review and approve communications between departments.
- Consult a designated compliance officer to determine whether sharing the information is necessary and how much information should be shared.
- If the sharing is necessary, the compliance officer should coordinate the process of “looking over the wall”.
- A single supervisor or compliance officer should have the specific authority and responsibility of deciding whether or not information is material and whether it is sufficiently public to be used as the basis for investment decisions.
- Ideally, the officer is independent.

10.8.1.16 Personal trading limitations.

- Consider restrictions or prohibitions on personal trading and carefully monitor proprietary trading and personal trading.
- Require employees to make periodic reports of their own transactions and transactions made for the benefit of family members.
- Securities should be placed on a restricted list when a firm has or may have MNI.
- A watch list shown to only the few people responsible for compliance should be used to monitor transactions in specified securities.

10.8.1.17 Record maintenance.

- Multi-service firms should maintain written records of the communications between various departments.
- Firms should place a high priority on training and should consider instituting comprehensive training programs, particularly for employees in sensitive areas.

10.8.1.18 Proprietary trading procedures (自营业务)

- Monitor and restrict proprietary trading when holding MNI.
- 公司如果拥有 MNI，不必禁止所有自营交易（Proprietary trading）
 - 如果是做市商 market maker, remain passive to the market, take only the contra side of unsolicited customer trades;
 - In risk arbitrage trading, best to stop; If not stop, prove the adequacy of their internal procedures and must document firm trades.

10.8.1.19 Communication to all employees.

- Written compliance policies and guidelines should be circulated to all employees of a firm.
- Policies and guidelines should be used in conjunction with training programs aimed at enabling employees to recognize MNI.
- Sufficient training to either make an informed decision or to realize they need to consult a supervisor or compliance officer before engaging in questionable transactions.

10.8.2. 基础题

Q-20. According to the CFA Institute Code of Ethics and Standards of Professional Conduct,

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trading on material nonpublic information is least likely to be prevented by establishing:

- A. personal trading limitations.
- B. selective disclosure.
- C. firewalls.

Q-21. Lisa, CFA, overhears the CEO of Brodeur Retail saying that the quarterly report to be released next week will miss analysts' expectations. Lisa immediately calls her brother who owns the stock to tell him what she overheard. One week later, Lisa writes a report on another company, ABD retail. She uses public and nonmaterial nonpublic information for her analysis to issue a "buy" recommendation. Has Lisa most likely violated the Standards?

- A. No
- B. Yes, by calling her brother to tell him what she overheard
- C. Yes, by using public and nonmaterial nonpublic information for her analysis to issue a "buy" recommendation

Q-22. When a client asks her how she makes investment decisions, Petra Vogler, CFA, tells the client she uses mosaic theory. According to Vogler, the theory involves analyzing public and nonmaterial nonpublic information, including the evaluation of statements made to her by company insiders in one-on-one meetings in which management discusses new earnings projections not known to the public. Vogler also gathers general industry information from industry experts she has contacted. Vogler most likely violates the CFA Institute Standards of Professional Conduct because of her use of:

- A. nonmaterial nonpublic information.
- B. one-on-one meeting information.
- C. industry expert information.

Q-23. Edo Ronde, CFA, an analyst for a hedge fund, One World Investments, is attending a key industry conference for the microelectronics industry. At lunch in a restaurant adjacent to the conference venue, Ronde sits next to a table of conference attendees and is able to read their nametags. Ronde realizes the group includes the president of a publicly traded company in the microelectronics industry, Fulda Manufacturing, a

company Ronde follows. Ronde overhears the president complain about a production delay problem Fulda's factories are experiencing. The president mentions that the delay will reduce Fulda's earnings by more than 20% during the next year if not solved. Ronde relays this information to the portfolio manager he reports to at One World explaining that in a recent research report he recommended Fulda as a buy. The manager asks Ronde to write up a negative report on Fulda so the fund can sell the stock. According to the CFA Institute Standards of Professional Conduct, Ronde should least likely:

- A. request the portfolio manager not act on the information.
- B. leave his research report as it is.
- C. revise his research report.

10.9. Market Manipulation

10.9.1. 重要知识点

10.9.1.1. Content: Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.

10.9.1.2. The intent of the action is critical to determine whether it is a violation of this standard.

- 如果目的不是操纵市场，不违反准则要求。
 - To increase liquidity, Futures Exchange made agreement with member to ensure the minimum trading volume;
 - Not prohibit trading strategies that exploit a difference in market power, info or other inefficiency;
 - Not prohibit trade for tax purposes, selling then buying back.
 - 一家交易所与做市商签署协议，要求做市商保证最低交易量，同时，交易所承诺佣金折扣。如果他们的目的旨在操纵市场，则违反了 II(B); 如果他们的目的旨在活跃市场，且此协议对外公布，则不违反 II(B).

10.9.1.3. 以操纵为目的的信息发布(information based)和交易(transaction based)都违反准则要求;

- Info-based: spreading false or misleading information.
- Transaction-based: transactions that deceive or would be likely to mislead market participants by distorting the price-setting mechanism of financial instruments.

10.9.2. 基础题

Q-24. Which of the following actions violate the Standard relating to market manipulation?

- A. Entering large buy and sell trades between multiple proprietary accounts of the firm with the intent to increase trading volume.
- B. Exploiting perceived market inefficiencies through aggressive trading strategies.

- C. Placing the securities mentioned as material nonpublic information on the firm's restricted trading list.

Q-25. Peter Chang, CFA, spreads rumors on social media about a potential acquisition of Advanced Electronics Company (AEC) after buying the stock for his personal account. Despite the rumors, AEC's stock price declines and Chang closes his position at a significant loss. Has Chang violated the Standards?

- A. No
B. Yes, the Standard relating to market manipulation only
C. Yes, both the Standard relating to market manipulation and the Standard relating to misconduct

10.10. Loyalty, Prudence and Care

20.10.1. 重要知识点

20.10.1.1. 信托义务和 loyalty, prudence, and care 的区别。

- 不管和客户有没有建立信托关系(Fiduciary duty), members and candidates 都必须对客户尽有 loyalty, prudence, and care 的责任。
- 信托关系可以增加与客户之间的信任度。虽然 Members and candidates 必须遵守合法的信托义务, 但是 Code and Standards 并不要求每一个 members and candidates 都成为信托人。
- Standard III(A)要求 members and candidates 为客户争取最大利益。

20.10.1.2. 作为交易的执行者, 但不需要为客户提供建议时:

- Use their skills and diligence to execute trades in the most favorable terms that can be achieved. (争取达到最好的结果)

20.10.1.3. 作为交易的执行者同时为客户提供投资建议时:

- The extent of the advisory arrangement and limitations should be outlined in the agreement with the client at the outset of the relationship. 必须根据客户自身的 objectives and risk tolerances, 以及自身需求给出建议。

20.10.1.4. 四类客户

- Individuals: An investment manager manages the personal assets of an individual.
- Beneficiary: When the manager is responsible for the portfolios of **pension plans or trusts**, the client is the beneficiaries of the plan or trust. The duty of loyalty is owed to **the ultimate beneficiaries**.
- Mandate: In some situations, the actual client or beneficiaries may not exist. Members and candidates managing a fund to an index or an expected mandate owe the duty of loyalty, prudence, and care to the stated mandate.
- Investing public: The client may be the investing public as a whole, the goals of independence and objectivity of research surpass the goal of loyalty to a single organization.

20.10.1.5. Develop client's portfolios

- Should ensure that the client's objectives and expectations of the account are realistic and suitable to their circumstances and that the risks involved are appropriate.

- Recommended investment strategies should relate to the long-term objectives and circumstances of the client.
 - 检查 investment manager or the firm 的利益是否 conflict with the best interests and objectives of the client.
 - Must follow any guidelines set by their clients for asset management.
 - 投资决策要基于整个 portfolio.
- 20.10.1.6. Soft commission policies**
- “Soft dollars” or “soft commissions” should benefit clients, not investment manager.
 - If pay a higher commission without corresponding benefit to the client, violate.
 - **“directed brokerage” is ok**, but still obligated to seek “best price” and “best execution”, and be assured by the client that the goods or services purchased from the brokerage will benefit the account beneficiaries. In addition, should disclose to the client that the client may not be getting best execution from the directed brokerage.
 - “Best execution” refers to a trading process that seeks to maximize the value of the client’s portfolio within the client’s stated investment objectives and constraints. 如果客户执意要求 directed brokerage, 而不考虑利益的最大化, 应该取得客户的书面同意。
- 20.10.1.7. Proxy Voting Policies**
- vote without considering the impact of the question, or votes blindly with management on non-routine governance issues may violate III(A).
 - 并不是任何时候使用 vote proxies 都是有益的, 如果 好处不足以覆盖成本 (cost-benefit analysis), 可以放弃投票。
 - Should determine who is authorized and for the benefit of beneficiaries, should disclose any change in voting proxy policy.
- 20.10.1.8. Regular account information should submit to each client, at least quarterly, an itemized statement showing:**
- The funds and securities in the custody or possession plus all debits, credits, and transactions that occurred during the period;
 - Where the assets are to be maintained, as well as where or when they are moved;
 - Should separate the client’s assets from any others’ and their own assets.
- 20.10.1.9. Client approval**
- If uncertain, should ask what he/she would expect or demand if the member/candidate was the client.
 - If in doubt, should disclose questionable matter in writing to the client and obtain client approval.
- 20.10.1.10. Should diversify unless diversification is not consistent with plan guidelines or is contrary to the account objectives**

20.10.2. 基础题

- Q-26.** Jack Steyn, CFA, recently became the head of the trading desk at a large investment management firm that specializes in domestic equities. While reviewing the firm's trading operations, he notices clients give discretion to the manager to select brokers on the basis of their overall services to the management firm. Despite the client directive,

Steyn would most likely violate Standard III(A): Loyalty, Prudence, and Care if he pays soft commissions for which of the following services from the brokers?

- A. Database services for offshore investments.
- B. Equity research reports.
- C. Investment conference attendance.

Q-27. Jorge Lopez, CFA, is responsible for proxy voting on behalf of his bank's asset management clients. Lopez recently performed a cost-benefit analysis that showed the proxy-voting policies might not benefit the bank's clients. As a result, Lopez immediately changes the proxy-voting policies and procedures without informing anyone. Lopez now votes client proxies on the side of management on all issues, with the exception of major mergers in which a significant impact on the stock price is expected. Lopez least likely violated the CFA Institute Standards of Professional Conduct in regard to:

- A. cost-benefit analysis.
- B. voting with management.
- C. proxy-voting policy disclosures.

Q-28. Sanjay Gupta, CFA, is interviewed by the First Faithful Church to manage the church's voluntary retirement plan's equity portfolio based upon his superior return history. Each church staff member chooses whether to opt in or out of the retirement plan according to his or her own investment objectives. The plan trustees tell Gupta that stocks of companies involved in the sale of alcohol, tobacco, gambling, or firearms are not acceptable investments given the objectives and constraints of the portfolio. Gupta tells the trustees he cannot reasonably execute his strategy with these restrictions and that all his other accounts hold shares of companies involved in these businesses because he believes they have the highest alpha. By agreeing to manage the account according to the Trustees' wishes, does Gupta violate the CFA Institute Standards of Professional Conduct?

- A. No.
- B. Yes, because the manager was hired based upon his previous investment strategy.
- C. Yes, because the restrictions provided by the Trustees are not in the best interest of the members.

Q-29. Golden, CFA, meets with client Stephanie. They agree to a conservative investment strategy for equities and fixed-income securities. The current investment policy states that no borrowing or derivatives will be used in the portfolio. Without any further communication, Golden invests Stephanie's equity assets in an exchange-traded fund

that uses leverage to achieve expected daily returns of three-times the daily returns of a major stock index. Golden has most likely violated the Standard(s) relating:

- A. only to loyalty, prudence, and care
- B. only to communication with clients and prospective clients
- C. both to loyalty prudence and care , and to communication with clients and prospective clients.

10.11. Fair Dealing

10.11.1 重要知识点

10.11.1.1 Fair 不等于 equal; 如果 treat clients equally, 有可能违反 fair dealing.

10.11.1.2 可以为不同的客户设置不同的服务等级, 但是必须不对顾客造成负面影响。 需要满足前提:不损害其他客户的利益、向所有客户披露并且所有满足条件的客户都可以获得高等级的服务。

10.11.1.3 Investment recommendation 的发表可以有多种方式: brief update report, by addition to or deletion from a recommended list, or simply by oral communication, 都必须确保 all clients have a fair opportunity to act on every recommendation.

- 提供投资建议时, disclosure of inequitable allocation system, even accepted by clients, can't be exempt from fair dealing for disclosure and acceptance. Disclose trade allocation procedures 需要注意 disclosure of inequitable allocation methods does not relieve the member of this obligation.

10.11.1.4 Should not give favored clients advance information when such advance notification may disadvantage other clients. 如: 发现某个股票是 hot issue,为自己喜欢的顾客多配了一些, 违反了 fair dealing;

10.11.1.5 Once this distribution has occurred, the member or candidate may follow up separately with individual clients. 如: 把新的投资建议 e-mail 给顾客之后找大机构客户讨论细节, 不一定违反 fair dealing;

10.11.1.6 Investment action

- When making investments in new offerings or in secondary financings, should distribute the issues to all customers who are suitable for the investment and consistent with the policies of allocating blocks of stock.
- 对于 oversubscribed issues: round-lot basis, forgo any sales to themselves or immediate families in order to free up additional shares for clients→not violate.
- If the investment professional's family-member accounts are managed similarly to the accounts of other clients of the firm, these accounts should not be excluded from buying such shares.
- Must make every effort to treat all individual and institutional clients in a fair and impartial manner.
- Disclose to clients and prospective clients the documented allocation procedures in place and how the procedures would affect them.
- Should not take advantage of their position to the detriment of clients.

10.11.1.7 Recommended procedures

- Limit the number of people who are privy to the fact that a recommendation is going to be disseminated.

- Shorten the time frame between decision and dissemination, disseminate a short summary report including the conclusion might be published in advance.
- Publish guideline for pre-dissemination behavior.
- Communicate recommendations both within the firm and to customers simultaneously.
- Maintain a list of clients and their holdings.
- Processing and executing orders on a first-in, first-out basis.
- Giving all client accounts participating in a block trade the same execution price and charging the same commission.
- When the full amount of the block order is not executed, allocating partially executed orders among the participating client accounts pro rata on the basis of order size while not going below an established minimum lot size for some securities.
- Allocate partially executed orders among client accounts **pro rata based on order size (not account size)**, not below a minimum lot size.
- When allocating trades for new issues, obtaining advance indications of interest, allocating securities by client (rather than portfolio manager), and providing for a method for calculating allocations.

10.11.2 基础题

Q-30. Charlie Mancini, CFA, is the Managing Director for Business Development at SV Financial, (SVF), a large U.S.-based mutual fund organization. Mancini has been under pressure recently to increase revenues. In order to secure business from a large hedge fund manager based in Asia, Mancini recently approved flexible terms for the fund's client agreement. To allow for time zone differences, the agreement permits the hedge fund to trade in all of SVF's mutual funds six hours after the close of U.S. markets, which is prohibited by U.S. regulators. Did Mancini violate any CFA Institute Standards of Professional Conduct?

- A. No.
- B. Yes, with regard to Fair Dealing and Material Nonpublic Information.
- C. Yes, with regard to Fair Dealing.

Q-31. Miranda Grafton, CFA, purchased a large block of stock at varying prices during the trading session. The stock realized a significant gain in value before the close of the trading day, so Grafton reviewed her purchase prices to determine what prices should be assigned to each specific account. According to the Standards of Practice Handbook, Grafton's least appropriate action is to allocate the execution prices:

- A. across the participating client accounts at the same execution price.
- B. across the participating client accounts pro rata on the basis of account size.
- C. on a first-in, first-out basis with consideration of bundling orders for efficiency.

Q-32. Atlantic Capital Management has access to a limited number of shares in a popular new

issue expected to be oversubscribed. Atlantic's portfolio managers have determined the issue to be a prudent addition within Atlantic's developing growth equity strategy. A number of the firm's investment professionals have family-member accounts that are managed to the developing growth strategy. Which of the following allocation options most likely adheres to the Code and Standards? Atlantic should allocate the shares:

- A. to family-member accounts only after non-family accounts have been allocated their shares.
- B. on a prorated basis across all developing growth accounts, including the family-member accounts.
- C. on a prorated basis across all developing growth accounts, excluding the family-member accounts.

Q-33. Marry, CFA, is a broker to a large number of clients. Marry sends an e-mail to all her clients about her firm's rating change on Wood Rock Inc. from "buy" to "sell". She then discusses the rating change with premium fee-paying clients over the phone. Afterwards, she discusses the rating change over the phone with all other clients who bought shares of Wood Rock based on the initial "buy" rating. Has Marry most likely violated the Standard relating to fair dealing?

- A. NO.
- B. Yes, by discussing the rating change over the phone only with select clients.
- C. Yes, by discussing the rating change with premium fee-paying clients prior to calling current holders of Wood Rock.

10.12. Suitability

10.12.1 重要知识点

10.12.1.1 Content

- When in an advisory relationship
 - Make a reasonable inquiry into a client or prospective client's investment experience, risk and return objectives, and financial constraints prior to making any investment recommendation or taking investment action, must reassess and update regularly.
 - Determine that an investment is suitable to the client's financial situation and consistent with written objectives, mandates, and constraints before making an investment recommendation or taking investment action.
 - Judge the suitability in the context of the client's total portfolio.
- When responsible for managing a portfolio
 - must only make investment recommendations or take investment actions that are consistent with the stated objectives and constraints of the portfolio.

10.12.1.2 Developing an investment policy

- In an advisory relationship, must gather client information at the inception of the relationship.

10.12.1.3 Understanding the client's risk profile

- One of the most important factors to be considered in matching appropriateness and

suitability of an investment with a client's needs and circumstances is measuring that client's tolerance for risk.

10.12.1.4 Updating an investment policy

- Updating the IPS should be repeated at least annually and also prior to material changes to any specific investment recommendations.

10.12.1.5 The need for diversification

- An investment with high relative risk may be suitable in the context of the entire portfolio or when the client's stated objectives contemplate speculative or risky investments.
- The manager may be responsible for only a portion of the client's total portfolio, or the client may not have provided a full financial picture.
 - Members and candidates can be responsible for assessing the suitability of an investment only on the basis of the information and criteria actually provided by the client.

10.12.1.6 Managing to an index or mandate

- Responsibility is to invest in a manner consistent with the stated mandate.
- Those who manage pooled assets to a specific mandate are not responsible for any individual investor.
 - Only those who have advisory relationship are responsible for individual clients.

10.12.1.7 Addressing unsolicited trade requests. The member or candidate should refrain from making the trade until he or she discusses the concerns with the client.

- An unsolicited request may be expected to have only a minimum impact on the entire portfolio because the size of the requested trade is small or the trade would result in a limited change to the portfolio's risk profile.
 - Necessary client approval is needed for executing unsuitable trades.
 - At a minimum, the client should acknowledge the discussion and accept the conditions that make the recommendation unsuitable.
- When unsolicited request is expected to have a material impact on the portfolio, the member or candidate should use this opportunity to update the investment policy statement.
 - Some clients that decline to modify their policy statements while insisting an unsolicited trade be made. Members or candidates will need to evaluate the effectiveness of their services to the client and ultimately determine whether they should continue the advisory arrangement with the client.
 - Some firms may allow for the trade to be executed in a new unmanaged account.

10.12.1.8 Developing an investment policy

- Gather client information at the inception of the advisory relationship.
- Information should be incorporated into a written investment policy statement (IPS).

10.12.1.9 Updating an investment policy

- Repeated at least annually and also prior to material changes.
- Client should fully disclose complete financial portfolio, including those portions not managed by the member or candidate, 如果客户不如实汇报, 无法进行 suitability analysis. Analysis only based on provided information.

10.12.1.10 **Investment Policy Statement**, in formulating an investment policy for the client, the member or candidate should take the following into consideration.

- Client identification—(1) type and nature of client, (2) the existence of separate beneficiaries, and (3) approximate portion of total client assets under management.
- Investor objectives—(1) return objectives and (2) risk tolerance.
- Investor constraints—(1) liquidity needs, (2) expected cash flows, (3) investable funds, (4) time horizon, (5) tax considerations, (6) regulatory and legal circumstances, (7) investor preferences, prohibitions, circumstances, and unique needs, and (8) proxy voting responsibilities and guidance.
- Performance measurement benchmarks.

10.12.1.11 Regular updates

- Objectives and constraints should be maintained and reviewed periodically to reflect any changes in the client's circumstances.
- Should regularly compare constraints with capital market expectations to arrive at an appropriate asset allocation.
- Annual review is reasonable unless business or other reasons, such as a major change in market conditions, dictate more frequent review.
- Should document attempts to carry out review if circumstances prevent it.
- **The suitability test procedures** should require the investment professionals to look beyond the potential return of the investment and include the following:
 - An analysis on the impact on the portfolio's diversification.
 - A comparison of the investment risks with the client's assessed risk tolerance.
 - The fit of the investment with the required investment strategy.

10.12.2 基础题

Q-34. IPS should be updated repeatedly at least:

- A. Annually.
- B. Semi-annually.
- C. Quarterly.

Q-35. Leng Bo, CFA, is a bond portfolio manager for individual investors. Last year, a client whose portfolio is limited to investment-grade bonds approved Bo's purchase of a below-investment-grade bond. Because yields in the high-grade fixed-income markets declined, Bo subsequently decides to enhance the client's portfolio by investing in several additional bonds with ratings one or two notches below investment grade. The investment strategy implemented by Bo most likely violated which of the following CFA Institute Standards of Professional Conduct?

- A. Independence and Objectivity.
- B. Suitability.
- C. Communication with Clients and Prospective Clients.

Q-36. Amanda, CFA, is a portfolio manager. She has a new client and develops an investment policy statement (IPS) that addresses the client's risk and return objectives and constraints. The client does not disclose assets managed by other firms and Amanda

agrees to only manage the portion of the client's assets disclosed to her. In a separate document, Amanda develops an investment program and strategic asset allocation for the portion of client assets she manages. Has Amanda most likely violated the Standard relating to suitability?

- A. No.
- B. Yes, by keeping the investment program and strategic asset allocation in a document that is separate from the IPS.
- C. Yes, by agreeing to manage a portion of the client's assets without knowledge of the client's assets managed by other firms.

Q-37. According to the standards, members are required to:

- A. update a client's investment policy statement at least semiannually.
- B. refuse to execute a client's unsolicited trade request if the trade is not aligned with the client's investment objectives.
- C. conduct an investment suitability review based on the information provided by the client, even if the client withholds information.

Q-38. Which of the following is a recommended procedure for compliance with the Standard relating to suitability? Members should encourage their firms to develop suitability test policies that require investment professionals to analyze:

- A. the impact of an investment on a portfolio's diversification only
- B. The fit of an investment with the required investment strategy only
- C. Both the impact of an investment on a portfolio's diversification and the fit of an investment with the required investment strategy.

10.13. Performance Presentation

10.13.1 重要知识点

10.13.1.1 Should be accurate, complete and fair;

- Not misrepresent past performance or reasonably expected performance.
- 不可以说明或暗示可以获得与过去业绩相同的收益;
- Include terminated portfolio as part of performance history.
- Weighted rate of return rather than a single performance.

10.13.1.2 If the presentation is brief.

- Make available to clients and prospects, on request, the detailed information supporting that communication.
- **Best practice:** brief presentations include a reference to the limited nature of the information provided.

10.13.1.3 推荐 apply GIPS standards, 如果不遵循 GIPS 也可以。 Compliance without applying GIPS standards. Can also meet obligations under Standard III(D) by:

- Considering the knowledge and sophistication of the audience to whom a performance presentation is addressed.
- Presenting the performance of the weighted composite of similar portfolios rather than using a single representative account.
- Including terminated accounts as part of performance history with a clear indication of when the accounts were terminated.
- Including disclosures that fully explain the performance results being reported: 是否是用模型模拟出来的业绩? 获得该业绩时所担任的职位? Performance record from prior entity? Gross of fees (investment management fee), net of fees, or after tax?
- Maintaining the data and records.

10.13.2 基础题

- Q-39.** Sam Snead, CFA, is the founder and portfolio manager of the Everglades Fund. In its first year the fund generated a return of 30%. Building on the fund's performance, Snead created new marketing materials that showed the fund's gross 1-year return as well as the 3-, and 5-year returns which he calculated by using back-tested performance information. As the marketing material is used only for presentations to institutional clients, Snead did not mention the inclusion of back-tested data. According to the Standards of Practice Handbook, did Snead violate any CFA Institute Standards of Professional Conduct?
- A. No.
 - B. Yes, because he did not disclose the use of back-tested data.
 - C. Yes, because he failed to deduct all fees and expenses before calculating the fund's track record.
- Q-40.** Kyle Taylor of Taylor Trust Company, noting the performance of Taylor's common trust fund for the past two years, states in a brochure sent to his potential clients, "You can expect steady 25% annual compound growth of the value of your investments over the year." Taylor Trust's common trust fund did increase at the rate of 25% per year for the past year, which mirrored the increase of the entire market. The fund has never averaged that growth for more than one year, however, and the average rate of growth of all of its trust accounts for five years is 5% per year. Taylor least likely violates the CFA Institute Standard of Professional Conduct concerning:
- A. Performance presentation.
 - B. Misrepresentation.
 - C. Suitability.
- Q-41.** According to the Standards, when presenting performance results, members should encourage their firms to:

- A. disclose whether the results are before or after tax.
- B. exclude terminated accounts as part of performance history.
- C. present the results using the most representative single account.

10.14. Preservation of Confidentiality

10.14.1. 重要知识点

10.14.1.1. Keep information about current, former, and prospective clients confidential unless

- The information concerns illegal activities on the part of the client;
- Disclosure is required by law; or
- The client or prospective client permits disclosure of the information.

10.14.1.2. III(E) is applicable when

- Receiving information because of special ability to conduct a portion of the client's business or personal affairs, and
- Receiving information that arises from or is relevant to that portion of the client's business that is the subject of the special or confidential relationship.

10.14.1.3. Status of client

- Maintain the confidentiality of client records even after the client relationship has ended. **If a client or former client expressly authorizes the disclosure, may follow the terms of the authorization and provide the information**.

10.14.1.4. 遵守法律规定

- If applicable law requires disclosure of client information in certain circumstances, members and candidates must comply with the law.
- **If applicable law requires maintaining confidentiality, even if the information concerns illegal activities on the part of the client, should not disclose.**
- When in doubt, should consult with compliance personnel or legal counsel before disclosing confidential information about clients.

10.14.1.5. Electronic information and security

- Not require members or candidates to become experts in information security technology, but they should have a thorough understanding of the policies of their employers.

10.14.1.6. When permissible under applicable law, shall consider the PCP an extension of themselves when requested to provide information about a client in support of a PCP investigation into their own conduct

- Encouraged to cooperate with investigations into the conduct of others.
- Any information turned over to the PCP is kept in the strictest confidence.
- Will not be considered in violation of this standard by forwarding confidential information to the PCP.

10.14.1.7. The simplest, most conservative and effective way to comply with III(E) is to avoid disclosing any information received from a client except to authorized fellow employees who are also working for the client.

10.14.1.8. Electronic information and security: 很多雇主对于通过电子设备交流以及存放的客户信息都有严格的规定。近几年，对于移动远程数字通信，法规机构建立了更为严格的数据安全法律。Members and candidates 应该鼓励公司对人员进行定期的关于保密流程的训练。

10.14.1.9. Communication to clients: Members and candidates 应当确认公司有相应的合规

政策能够防止客户信息外泄，并告诉客户合理的传递保密信息的方式。

10.14.1.10. In some instances, may want to disclose information from clients that is outside the scope of the confidential relationship and does not involve illegal activities. Before making such a disclosure, should ask the following:

- In what context was the information disclosed? If disclosed, is the information relevant to the work?
- Is the information background material that, if disclosed, will enable better service to the client?

10.14.1.11. Communication with clients: Members and candidates should be diligent in discussing with clients the appropriate methods for providing confidential information. It is important to convey to clients that not all firm-sponsored resources may be appropriate for such communications.

10.14.2. 基础题

Q-42. Teresa Staal, CFA, is an investment officer in a bank trust department. She manages money for celebrities and public figures, including an influential local politician. She receives a request from the politician's political party headquarters to disclose his stock holdings. The request indicates local law requires the disclosure. What steps should Staal most likely take to ensure she does not violate any CFA Institute Standards of Professional Conduct?

- A. Provide the information and inform her client.
- B. Check with her firm's compliance department to determine her legal responsibilities.
- C. Send the requested documents and inform her supervisor.

Q-43. John, CFA, is an investment advisor. A friend asks John to share client contacts in order to solicit charitable donations. John responds that he is unable to share current clients' contact details and instead provides e-mail addresses of several former clients. The next day, John finds out that one of his colleagues, Lauren, a Level II candidate in the CFA Program, has failed to inform her supervisor about her personal bankruptcy resulting from large medical bills. Have the Standards most likely been violated?

- A. No.
- B. Yes, by Lauren.
- C. Yes, by John.

10.15. Loyalty to Employer

10.15.1 重要知识点

10.15.1.1 Core rule is not to injure the firm, deprive of its profit, or deprive of the employee's advantage of ability and skills.

10.15.1.2 Independent practice

- “Undertaking independent practice” means engaging in competitive business, as opposed to making preparations to begin such practice.
- Should abstain from independent competitive activity that could conflict with the interests of their employer, 必须向雇主披露：
 - Types of services they will render to prospective independent clients,
 - The expected duration of the services,
 - The compensation for the services,
- 没有得到雇主同意不能进行 independent practice.
- 兼职工作，如投资分析师同时担任市长、兼职教师等，考虑是否会影响到本职工作。

10.15.1.3 在职揭发(whistleblowing)

- Personal interests, and interests of employer, are secondary to protecting the integrity of capital markets and the interests of clients.
- 如果出于保护客户利益、市场诚信和其他非个人利益目的，可以在职揭发；
When an employer is engaged in illegal or unethical activities, activities that would normally violate a member's/candidate's duty to his/her employer (such as contradicting employer instructions, violating certain policies and procedures, or preserving a record by copying employer records) may be justified.

10.15.1.4 独立的合同签约人(independent contractors)必须遵守与雇主所达成的协议。(oral or written agreement)

10.15.1.5 在辞职前，雇员不可以做的行为包括但不限于以下所列：

- 盗用(misappropriation)客户的商业秘密(trade secrets)；
- 盗用(misappropriation)客户名单 (client lists)。 Memorizing client lists (name and address) is not permitted, unless the info does not come from the records of former employer or violate non-compete agreement.
- 滥用(misuse)保密信息(confidential information)；
- 辞职前招揽(solicit)客户转移业务；
- 盗用(misappropriation)客户资料；
- Self-dealing (appropriating for one's own property a business opportunity or information belonging to one's employer), 不可以将属于雇主的商业机会或信息据为己有。如果离职前开展的个人业务尚未运营，不一定会违规。

10.15.1.6 离职以后，以下行为可能会构成违规：

- Violation of terms in existing non-compete contract
- Taking records or files (even rejected idea list) to a new employer without the written permission of the previous employer

10.15.1.7 在雇主那儿学习的工作经验和技能是可以使用的。但是，在职过程中自己开发的模型不可以带走。 the skills and experience that an employee obtained while employed are not “confidential” or “privileged” information.

- IV(A) does not prohibit experience or knowledge gained at one employer from being used at another employer.

10.15.1.8 仅仅知道原雇主的客户名字不属于机密 unless deemed such by contract or law;

10.15.1.9 自己电脑上或者纸质文件保存的工作资料要删除或归还公司。

10.15.1.10 Protocol for broker recruiting: 雇主和雇员会签署一份协议，同意雇员辞职后可以带走一部分信息。

- Individuals are allowed to take some general client contact information when

departing.

- A copy of the information the individual is taking must be provided to the local management team for review.
- The specific client information may only be used by the departing employee and not others employed by the new firm.

10.15.1.11 Use of social media: 社交媒体对 loyalty to employer 的影响。

- 通过社交媒体通知员工离职的信息需要符合公司的规章制度。以提供专业服务为目的而建立起来的用户账号应当被视为公司资产的一部分。
- 员工离职的时候需要根据公司的章程规定对账号进行转移或者删除。最好的方法是把个人账号和以提供专业服务为目的的公司账号分开，如果不能分开，需要和公司讨论到底应该怎样处理。

10.15.1.12 推荐公司执行 Competition policy:

- Must understand any restrictions placed by the employer on offering similar services outside the firm while still employed.
- If an employer elects to have its employees sign a non-compete agreement, should ensure that the details are clear and fully explained prior to signing the agreement.

10.15.1.13 推荐公司执行 termination policy:

- Should establish clear procedures regarding the resignation process, including addressing how the termination will be disclosed to clients and staff.
- May also outline the procedures for transferring responsibilities of ongoing research responsibilities and account management.

10.15.1.14 推荐公司执行 incident-reporting procedures

- Should be aware of firm's policies related to whistleblowing and encourage firms to adopt industry best practices. Many firms are required by regulatory mandates to establish confidential and anonymous reporting procedures that allow employees to report potentially unethical and illegal activities in the firm.
- Firms are encouraged to adopt a standardized classification structure for employees and indicate how each of the policies applies to each employee class.

10.15.2 基础题

Q-44. Jimmy Lan, CFA, is a technology analyst at Pacific Securities, Inc. and is a leading authority on Japanese technology companies. Lan's clients include many leading Japanese equity managers. While still employed at Pacific, Lan makes plans during the weekends to start a new company, JL Consulting. His plans consist of contracting office space, interviewing potential employees, and purchasing office equipment. Once he feels ready to launch his new firm, Lan provides Pacific with his resignation notice. After leaving, Lan constructs earnings models of the technology companies he previously covered, using the knowledge and experience gained while at Pacific. He then contacts former clients by using public sources and encourages them to become clients of his new firm. Are Lan's actions in compliance with the Code and Standards?

- A. No, because the names of former clients, modeling skills, and experience gained by Lan are confidential information of Pacific Securities.

- B. Yes, assuming he is not in breach of any non-compete agreement signed while at Pacific Securities.
- C. No, because he is prohibited from engaging in activities related to starting his new business while still employed by Pacific Securities.

Q-45. Elbie Botha, CFA, an equity research analyst at an investment bank, disagrees with her research team's buy recommendation for a particular company's rights issue. She acknowledges the team's recommendation is based on a well-developed process and extensive research, but she feels the valuation is overpriced based on her assumptions. Despite her contrarian view, her name is included on the research report to be distributed to all of the investment bank's clients. To avoid violating any CFA Institute Standards of Professional Conduct, it would be least appropriate for Botha to undertake which of the following?

- A. Insist her name be removed from the report.
- B. Leave her name on the report.
- C. Issue a new report.

Q-46. When Jefferson Piedmont, CFA, joined Branch Investing, Branch began using a quantitative stock selection model Piedmont had developed on his own personal time prior to his employment with Branch. One year later when Piedmont left the firm, he found the original copy of the model he had developed in a file at his home and presented it to his new employer, who immediately began using the model. According to the Standards of Practice Handbook, did Piedmont most likely violate any CFA Institute Standards of Professional Conduct?

- A. No.
- B. Yes, because he misappropriated property now belonging to Branch.
- C. Yes, because he failed to inform his new employer the model was the same one used by his previous employer.

Q-47. Rex Leopold, CFA, is a financial advisor. Leopold plans to leave his current employer to start his own competing business. During non-business hours, and before giving notice of termination to his current employer, Leopold undertakes preparations to start his own firm, including procuring the appropriate regulatory approvals, leasing office

space, and hiring an office manager. Has Leopold most likely violated the Standards?

- A. No.
- B. Yes, the Standard relating to loyalty.
- C. Yes, the Standard relating to misconduct.

Q-48. Before leaving his current employer to start a new firm, a member most likely violates the Standard relating to loyalty by:

- A. making plans during weekends to enter into a competitive business.
- B. copying records and files after securing written permission of the current employer.
- C. soliciting the business of his current firm's prospective clients for his new firm using publicly available information.

10.16. Additional Compensation Arrangement

10.16.1 重要知识点

10.16.1.1 Must not accept gifts, benefits, compensation or consideration which may create a conflict of interest with the employer's interest **unless written consent is received** from all parties.

10.16.1.2 所有安排必须得到雇主的同意 (No arrangement without the employer's approval), 从雇主之外收取的其他收益必须立即以书面形式(immediate written report)向雇主说明(amount and nature of consideration);

10.16.1.3 披露的目的在于: 雇主能够客观地判断员工的工作是否会受到影响。

10.16.1.4 Make an immediate written report to employer specifying any compensation they propose to receive for services in addition to the compensation or benefits received from their employer.

10.16.1.5 The details of the report should be confirmed by the party offering the additional compensation, including performance incentives by clients.

10.16.1.6 Members and candidates must obtain permission for additional compensation or benefits because such arrangements may affect loyalty and objectivity and create potential conflicts of interest.

10.16.1.7 The written report should state the terms of any agreement under which a member or candidate will receive additional compensation.

- Include the nature of the compensation, the approximate amount of compensation, and the duration of the agreement.

10.16.2 基础题

Q-49. Jefferson Piedmont, CFA, a portfolio manager for Park Investments, plans to manage the portfolios of several family members in exchange for a percentage of each portfolio's profits. Because his family members have extensive portfolios requiring

substantial attention, they have requested that Piedmont provide the services outside of his employment with Park. Piedmont notifies his employer in writing of his prospective outside employment. Two weeks later, Piedmont begins managing the family members' portfolios. By managing these portfolios, which of the following CFA Institute Standards of Professional Conduct has Piedmont violated?

- A. Conflicts of Interest.
- B. Additional Compensation.
- C. Both Additional Compensation and Conflicts of Interest.

Q-50. When Abdullah Younis, CFA, was hired as a portfolio manager at an asset management firm two years ago, he was told he could allocate his work hours as he saw fit. At that time, Younis served on the board of three non-public golf equipment companies and managed a pooled investment fund for several members of his immediate family. Younis was not compensated for his board service or for managing the pooled fund. Younis's investment returns attract interest from friends and co-workers who persuade him to include their assets in his investment pool. Younis recently retired from all board responsibilities and now spends more than 80% of his time managing the investment pool for which he charges non-family members a management fee. Younis has never told his employer about any of these activities. To comply with the CFA Institute Standards of Professional Conduct with regard to his business activities over the past two years, Younis would least likely be required to disclose which of the following to his employer?

- A. Family investment pool management.
- B. Board activities.
- C. Non-family member management fees.

Q-51. According to the recommended procedures for compliance with the Standard relating to additional compensation arrangements, a member should make an immediate written report specifying the proposed compensation arrangements:

- A. only to her supervisor.
- B. only to her supervisor and to her firm's compliance officer.
- C. to her supervisor, to her firm's compliance officer, and to her clients.

10.17. Responsibility of Supervisors

10.17.1 重要知识点

10.17.1.1 Make reasonable efforts to detect and prevent violations by anyone subject to their supervision.

10.17.1.2 通过 establishing and implementing the written compliance system and ensuring such system is followed through periodic review 来执行 reasonable supervision.

10.17.1.3 在建立制度时，必须明确：What an adequate system is.

10.17.1.4 如果将管理的职责委托给（delegate）他人，管理者不能免除监督管理的职责，且必须 instruct 被委托的人 how to detect and prevent the violations of laws, rules and code.

10.17.1.5 对于 inadequate 的管理制度，管理者应提请上层注意并提出改进(corrective)建议。

10.17.1.6 如果由于不存在（nonexistent）制度或制度不完善(poor)，管理者必须以书面形式拒绝接受管理职责 until the firm adopts adequate system.

10.17.1.7 Once knowing a potential violation, supervisor must promptly initiate an investigation.

- Relying on employee's statements or assurances that the wrongdoing will not recur is not enough.
- Reporting the misconduct up the chain of command and warning the employee to cease the activity are also not enough.
- Should take steps to ensure that the violation will not be repeated, by placing limits on the employee's activities or increasing the monitoring of the employee's activities.

10.17.1.8 Detection procedures

- If adopted reasonable procedures and took steps to institute an effective compliance program, may not violate IV(C) if he does not detect violations that occur despite these efforts.
- May violate IV(C) if he knows or should know that the procedures designed to detect and prevent violations are not being followed.

10.17.1.9 Enforcement of non-investment-related policies.

- Those who have supervisory responsibility should enforce policies related to investment and non-investment-related activities equally.
- Establish policies related to attendance and acceptable workplace actions, such as mandatory vacations for specific positions.

10.17.1.10 Adequate procedure.

- Be clearly written and tailored to the firm's operations;
- In plain language, easy to understand;
- Designate a compliance officer;
- Describe hierarchy of supervision and assign duties among supervisors;
- Create a system of checks and balances;
- Outline the scope of the procedures and procedures to document the monitoring and testing of compliance procedures;
- Outline permissible conduct;
- Delineate procedure for reporting violations and sanctions.

10.17.1.11 Once the compliance program is instituted, the supervisor should:

- Disseminate the contents of the program to personnel;
- Periodically update procedures to ensure that the measures are adequate under the law;

- Continually educate personnel regarding compliance procedures;
- Issue periodic reminders of procedures to personnel;
- Incorporate professional conduct evaluation in employee's performance review;
- Review the actions of employees;
- Take steps to enforce procedures once violation occurred.

10.17.1.12 Once violation is discovered, a supervisor should

- Promptly respond;
- Thoroughly investigate to determine the scope of the wrongdoing;
- Increase supervision or place appropriate limitations on the wrongdoer pending the outcome of the investigation.

10.17.2 基础题

Q-52. Mariam Musa, CFA, head of compliance at Dunfield Brokers, questions her colleague Omar Kassim, a CFA candidate and a research analyst, about his purchase of shares in a company for his own account immediately before he publishes a "buy" recommendation. He defends his actions by stating he has done nothing wrong because Dunfield does not have any personal trading policies in place. The CFA Institute Standards of Professional Conduct were most likely violated by:

- A. only Musa.
- B. only Kassim.
- C. both Musa and Kassim.

Q-53. Madeline Smith, CFA, was recently promoted to senior portfolio manager. In her new position, Smith is required to supervise three portfolio managers. Smith asks for a copy of her firm's written supervisory policies and procedures but is advised that no such policies are required by regulatory standards in the country where Smith works. According to the Standards of Practice Handbook, Smith's most appropriate course of action would be to:

- A. require her firm to adopt the CFA Institute Code of Ethics and Standards of Professional Conduct.
- B. decline to accept supervisory responsibility until her firm adopts procedures to allow her to adequately exercise such responsibility.
- C. require the employees she supervises to adopt the CFA Institute Code of Ethics and Standards of Professional Conduct.

Q-54. John Straw, CFA, supervises portfolio managers. Straw learns that one manager, Sue Lane, CFA, inappropriately purchased a highly speculative stock for a risk-averse account under her management. Lane assures him that she has only done this in one account and that it will not happen again. To comply with the Standards, Straw should do which of the following?

Action 1	Place limits on and increase monitoring on all of Lane's activities
Action 2	Redesign the compliance procedures to anticipate every potential future violation

- A. Action 1 only
- B. Action 2 only
- C. Both Action 1 and Action 2

10.18. Diligence and Reasonable Basis

10.18.1 重要知识点

10.18.1.1 The requirements for research conclusions vary in relation to the role in investment decision-making process, but must make reasonable efforts to cover all pertinent issues when arriving at a recommendation.

10.18.1.2 Provide supporting information to clients → enhance transparency

10.18.1.3 Defining diligence and reasonable basis.

- In providing investment service, often use a variety of resources.
- 考虑: current stage of the industry's business cycle; company's operating and financial history; mutual fund's fee structure and management history; output and potential limitations of quantitative models; quality of the assets included in a securitization; appropriateness of selected peer-group comparisons.
- Can base decisions only on the information available at the time the decision is made. The steps taken in developing a diligent and reasonable recommendation should minimize unexpected downside events.

10.18.1.4 Secondary or third-party research

- 检查 Criteria in forming an opinion on whether research is sound, if suspect the soundness, must not rely on that information.
- May rely on others in the firm to determine soundness and use the information in good faith assuming the due diligence process was deemed adequate.
- Should verify that the firm has a policy about the timely and consistent review of approved research providers to ensure the quality of the research.
- If such policy not in place, should encourage development and adoption.

10.18.1.5 Quantitatively oriented research

- Need to have an understanding of the parameters used in the model or quantitative research.
- Although not required to be experts in technical aspects of the models, must be able to explain to their clients the importance of the quantitative research and how the results were used in the decision-making process.
- Need to consider the time horizon of data input in financial models.
- In development of a recommendation, may need to test the models by using volatility and performance expectations that represent scenarios outside the observable databases.
- In reviewing computer models or the resulting output, pay attention to the assumptions and rigor of the analysis to ensure that the model incorporates negative market events.
- Members and candidates 需要对投资分析和建议报告所用到的数据来源进行调查, 保证这些数据的准确性。对通过网络搜集到的信息, members and candidates

需要进行更为严格的审核。如果公司没有这项制度，应当鼓励公司建立相关制度。

- 新模型的创建者需要比模型最终使用者具备更高的审慎原则，即模型开发者要比模型使用者更懂模型。
- 负责创建并且检验模型的 **members and candidates** 需要对产品的技术有彻底的了解。在模型发布之前需要对模型以及模型运行结果进行全面彻底的检验。

10.18.1.6 Selecting external advisers and subadvisers

- Ensure that the firm has standardized criteria for reviewing external advisers, 包含以下几方面：
 - Reviewing the adviser's established code of ethics;
 - Understanding the adviser's compliance and internal control procedures;
 - Assessing the quality of the published return information;
 - Reviewing the adviser's adherence to its stated strategy.

10.18.1.7 Group research

- The conclusions or recommendations of the group report represent the consensus of the group, but may not necessarily be the views of the member or candidate, even though his name is included on the report.
- 如果不同意结论，但是 consensus opinion has a reasonable and adequate basis and is independent and objective，那么 need not decline to be identified with the report.
- 如果不同意结论，而且 not confident in the process, should dissociate from the report whether it does not reflect his opinion or not.
- Always recommending "hot" issue indicates without sound analysis→ **NO** reasonable basis.

10.18.1.8 Establish a policy requiring that research reports, credit ratings, and investment recommendations have a basis that can be substantiated as reasonable and adequate.

10.18.1.9 Develop detailed, written guidance for analysts and review committees for judging reasonable and adequate basis of a particular recommendation.

10.18.1.10 Develop measurable criteria for assessing the quality of research, the reasonableness and adequacy of the basis for any recommendation or rating, and the accuracy of recommendations over time.

10.18.1.11 Develop detailed, written guidance that establishes minimum levels of scenario testing of all computer-based models used in developing, rating, and evaluating financial instruments.

10.18.1.12 Develop measurable criteria for assessing outside providers.

- Adopt a standardized set of criteria for evaluating the adequacy of external advisers. The policy should include how often and on what basis the allocation of funds to the adviser will be reviewed.

10.18.2 基础题

Q-55. Kirsten Kelso, CFA, is a research analyst at an independent research firm. Kelso is part of a team of analysts who focus on the automobile industry. Recently, Kelso disagreed with two research sell recommendations written by her team, even though she felt confident the research process was properly conducted. In a webcast open to all institutional but not retail clients, Kelso states, "Even though my name is on the sell reports, these stocks are a buy in part because sales and share prices for both auto companies will rise significantly because of strong demand for their vehicles." Kelso's

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actions would least likely violate which of the following CFA Institute Standards of Professional Conduct?

- A. Communication with Clients.
- B. Diligence and Reasonable Basis.
- C. Fair Dealing.

Q-56. Rodney Rodrigues, CFA, is responsible for identifying professionals to manage specific asset classes for his firm. In selecting external advisers, Rodrigues reviews the adviser's investment process, established code of ethics, the quality of the published return information, and the compliance and integrated control framework of the organization. In completing his review, Rodrigues most likely violated the CFA Institute Standards of Professional Conduct with regard to his due diligence on:

- A. internal control procedures.
- B. adherence to strategy.
- C. performance measures.

Q-57. Wouter Duyck, CFA, is the sole proprietor of an investment advisory firm serving several hundred middle class retail clients. Duyck claims to be different from his competitors because he conducts research himself. He discloses that to simplify the management of all these accounts he has created a recommended list of stocks, from which he selects investments for all of his clients based on their suitability. Duyck's recommended list of stocks is obtained from his primary broker, who has completed due diligence on each stock. Duyck's recommended list least likely violates which of the following CFA Institute Standards of Professional Conduct?

- A. Fair Dealing.
- B. Misrepresentation.
- C. Diligence and Reasonable Basis.

Q-58. William Wong, CFA, is an equity analyst with Hayswick Securities. Based on his fundamental analysis, Wong concludes that the stock of a company he follows, Nolvec Inc., is substantially undervalued and will experience a large price increase. He delays revising his recommendation on the stock from "hold" to "buy" to allow his brother to

buy shares at the current price. Wong is least likely to have violated the CFA Institute Standards of Professional Conduct related to:

- A. duty to clients.
- B. reasonable basis.
- C. priority of transactions.

10.19. Communication with Clients and Prospect Clients

10.19.1 重要知识点

10.19.1.1 Key points of communication with clients and prospective clients:

- Distinguish between fact and opinion.
 - “...Will be...” → fact.
 - “...May be ...” → opinion.
- Informing clients of the investment process.
- Keep clients informed on an ongoing basis about changes to the investment process.
- Understanding the basic characteristics of an investment is important in judging suitability on a stand-alone basis, it's especially important in determining the impact each investment will have on the characteristics of a portfolio.
- Should inform clients about the specialization or diversification expertise of external advisers.
- Disclose to clients and prospective clients the nature of the services provided, along with information about the cost to the client associated with those services.

10.19.1.2 交流有很多方式，包括 in person, over the call, or by the computer. If recommendations are in capsule form (such as a recommended stock list), should notify clients that additional information and analyses are available upon request.

10.19.1.3 Must promptly disclose any material changes that might materially affect those processes.

10.19.1.4 内容包括:

- Include **limitations** of the analysis and conclusions in the report.
- **Distinguish between facts and opinions** in reports.
- If not indicate that earnings estimates, changes in the dividend outlook, and future market price information are opinions subject to future circumstances, thus fail to separate past from future and violate V(B).
- In the case of complex quantitative analyses, analysts must clearly separate fact from statistical conjecture and should identify the known limitations of an analysis
- Changes in style, ceilings, committee, universe of investment should disclose to the clients and prospect clients. 如果投资过程发生了改变，如改变了投资方法、决策主体等，都必须向客户披露。投资流动性、投资上限也应当披露。
- Capacity is the investment amount beyond which returns will be negatively affected by new investments.
- Communicate significant risk and limitation of analysis:
 - Members and candidates 需要告诉客户在这些投资产品中所存在的风险。一般来说，使用杠杆的风险，市场相关的风险，使用复杂的金融工具所产生

的风险都属于比较重要的风险，都需要告知客户。投资中所产生的局限性也要告知客户，比如投资流动性和投资最大份额。

■ 在投资之前，member 和 candidate 需要把自己已经意识到的风险向客户披露，没有意识到的风险无需向客户披露。在合规的过程中，对于谣传的风险和局限性要有一定的认知。在衡量风险和局限性的时候，一次性的投资损失不能作为长期的因素来进行考量。如果是因为一些没有意识到的风险或限制导致了损失并不违背 V(B)。

■ Report presentation: member or candidate 的分析报告必须包括对分析以及报告的结论有重要影响的因素，这样读者就清楚的知道报告的投资逻辑并且可以对投资逻辑进行挑战和质疑。如果报告撰写者已经做了充分的调研，只要将局限性披露给投资者就不违反准则要求。投资意见应当基于数量模型的分析结果，这些数量模型以及分析需要得到现有的参考资料的支持。模型使用的方法需要保持一致性，若发生变动，需强调说明。

10.19.2 基础题

Q-59. Which of the following statements concerning requirements under Standard V(B)–Communication with Clients and Prospective Clients is least likely accurate?

This standard requires members and candidates to:

- A. divulge the number of investment related personnel responsible for external communication.
- B. distinguish between fact and opinion in the presentation of investment analysis and recommendations.
- C. disclose the basic format and general principles of the investment process.

Q-60. Agnes Trimbach, CFA, works at an investment firm that serves individual investors.

Trimbach recommends the purchase of German government bonds to a client. She tells the client: “The government guarantees that you will receive the promised principal and interest on the bonds. In addition, interest rate fluctuations could add to your gains or cause losses.” Has Trimbach most likely violated the Standards?

- A. No.
- B. Yes, the Standard relating to misrepresentation.
- C. Yes, the Standard relating to communication with clients and prospective clients.

Q-61. Arshani Madan, CFA, develops a product that selects mutual funds based on historical data. Madan tests her methodology and produces simulated performance results. The promotional material for the product does not indicate that the results are simulated. Madan has violated the Standards relating:

- A. only to performance presentation.
- B. only to communication with clients and prospective clients.
- C. both to performance presentation and communication with clients and prospective clients.

Q-62. Members most likely violate the standard relating to communication with clients and prospective clients by

- A. including only important areas of an investment analysis in research reports.
- B. revealing assumptions used in the investment process to prospective clients.
- C. issuing research reports that do not separate facts from statistical projections.

10.20. Record Retention

10.20.1 重要知识点

10.20.1.1 必须保留得出投资结论和投资操作的所有研究记录，这些记录是公司的财产；

- 如果当地没有明确的规定，CFA 协会要求记录必须保留 7 年；
- If applicable law requires 5-year record, 保存 5 年。

10.20.1.2 Records can be maintained either in hard copy or electronic form;

10.20.1.3 Records are property of the firm

- Records created in professional activities are the property of the firm. When leaving the firm, cannot take those records, including originals or copies of supporting records of his work, to the new employer without the express consent of the previous employer.
- Cannot use historical recommendations or research reports created at the previous firm because the supporting documentation is unavailable.
- For future use, must re-create the supporting records at the new firm through public sources, or directly from covered company, and not from memory or sources through previous employer unless with permission.

10.20.1.4 The responsibility to maintain records that support investment action generally falls with the firm rather than individuals.

- Must archive research notes and other documents, either electronically or in hard copy, that support their current investment-related communications.
- Doing so will assist their firms in complying with requirements for preservation of internal or external records.

10.20.1.5 New media record: 随着科技进步，新的社交媒体对记录保存带来挑战。

- 会员以及候选人需要理解虽然雇主以及当地的监管者会对新媒体中记录的保存出台相关政策，但这些规定往往会滞后于新传播途径的诞生。
- 这种滞后后就要求会员以及候选人自己确保所有的相关信息记录得到保存。这些无纸质形式的媒体类型包括但不限于：邮件、短信、博客、微博上的资料。

10.20.2 基础题

Q-63. Guillermo Sandoval, CFA, owns an asset management firm with offices downtown. To minimize rent expenses, each year Sandoval ships the previous year's research records to a nearby warehouse. There, the reports are digitized and stored in both electronic and

hard-copy forms. After five years, all paper copies are destroyed and only electronic copies are retained. Are Sandoval's record-retention procedures in compliance with the CFA Institute Standards of Practice?

- A. Yes.
- B. No, because he did not retain the copies in his offices.
- C. No, because he failed to retain the original documents.

Q-64. Gina, CFA, is an equity analyst. She recently left her job at Provo Capital (PC) to join Hensley Investments (HI). Gina obtains the express consent of PC to take one of her historical research reports with her. At HI, she diligently updates and publishes the report. Afterwards, she re-creates supporting records from memory for record keeping purposes. Has Gina violated the Standards?

- A. No.
- B. Yes, by publishing the updated research report.
- C. Yes, by re-creating supporting records from memory.

Q-65. In the absence of regulations or firm policies, the Standards recommend retaining investment-related records for a minimum of:

- A. 5 years.
- B. 7 years.
- C. 10years.

10.21. Avoid or disclose conflicts

10.21.1 重要知识点

10.21.1.1 Must avoid or make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and their employer.

10.21.1.2 Ensure that such disclosures are prominent, are delivered in plain language, and communicate the relevant information effectively.

- Best practice is to avoid actual conflicts or the appearance of conflicts of interest. When it is not reasonable for members and candidates to avoid a conflict, clear and complete disclosure to mitigate the conflict is necessary.

10.21.1.3 Common sources for conflict are compensation structures, especially incentive and bonus structures that provide immediate returns for members and candidates with little or no consideration of long-term value creation.

10.21.1.4 If an analyst was asked to cover the company, when inherit the shares of the company in subject:

- Must disclose if continue to follow.
- Best practice: assign another analyst to follow up the company.

10.21.1.5 Restrict personal trading, outside board membership, and related activities to prevent situations that could give the appearance of a conflict of interest.

10.21.1.6 Disclosure to clients: corporate financing; market making relationship; security

holding; directorship; individual relationship.

10.21.1.7 Also disclose fee arrangements, subadvisory arrangements or situations involving nonstandard fee structures. Equally important is to disclose arrangements in which the firm benefits directly from recommendations.

10.21.1.8 部门间的冲突

- Internal conflict between R&D and investment banking.
- External conflict with listed firms.
- Broker-sponsored limited partnerships to invest venture capital.

10.21.1.9 持股的冲突

- The easiest method: prohibit from owning any such securities → overly burdensome and discriminates against members and candidates.
- Sell-side members and candidates should disclose ownership in stock recommended, buy-side members and candidates should disclose procedures for reporting requirements for personal transactions.

10.21.1.10 Conflicts as a director

- Duties owed to clients and to shareholders of the company.
- Investment personnel as a director receive the securities or options.
- Board service receiving MNI.

10.21.1.11 Performance arrangement 的披露

- Firms are encouraged to include information on compensation package in firms' promotional literature.
- If fee is based on capital gains or capital appreciation (performance fee), should disclose;
- If outstanding options exist for incentives, should disclose the amount and expiration date of these options as a footnote to any research report published.

10.21.1.12 Incentive fees should not be in conflict with the interests of clients.

- If Yes, should disclose special compensation arrangements to clients;
- If the member's or candidate's firm does not permit such disclosure, the member or candidate should document the request and may consider dissociating from the activity.

10.21.2 基础题

Q-66. Umi Grabbo, CFA, is a highly regarded portfolio manager for Atlantic Advisors, a mid-sized mutual fund firm investing in domestic securities. She has watched the hedge fund boom and on numerous occasions suggested her firm creates such a fund. Senior management has refused to commit resources to hedge funds. Attracted by potential higher fees associated with hedge funds, Grabbo and several other employees begin development of their own hedge fund to invest in international securities. Grabbo and her colleagues are careful to work on the fund development only on their own time. Because Atlantic management thinks hedge funds are a fad, she does not inform her supervisor about the hedge fund creation. According to the Standards of Practice

Handbook, Grabbo should most likely address which one of the Codes and Standards immediately?

- A. Disclosure of Conflicts.
- B. Additional Compensation Arrangements.
- C. Priority of Transactions.

Q-67. Heidi Katz is a CFA candidate and an analyst at a pension consulting firm. Her father is a major shareholder and managing director at Saturn Partners, a large hedge fund. When assisting in an alternative manager search for a pension client, Katz plans to recommend Saturn's market-neutral strategy because she believes it meets all of the pension plan's criteria. Given this situation, the best course of action for Katz is to:

- A. disclose the potential conflict to the pension client when discussing this recommendation.
- B. disclose the potential conflict to her employer and follow their guidance regarding disclosure of her relationship to the client.
- C. not present this strategy to the client and recommend another strategy.

Q-68. Adira Badaw, CFA, who owns a research and consulting company, is an independent board member of a leading cement manufacturer in a small local market. Because of Badawi's expertise in the cement industry, a foreign cement manufacturer looking to enter the local market has hired him to undertake a feasibility study. Under what circumstances can Badawi most likely undertake the assignment without violating the CFA Institute Code of Ethics and Standards of Professional Conduct?

- A. He makes full disclosure to both companies.
- B. He signs confidentiality agreements with both companies.
- C. He receives written permission from the local company.

Q-69. Johannes Meir, CFA, is a compliance officer for Family Estate Planning, LLC, a private wealth consulting firm. Many of his colleagues have family members who have started their own retail businesses. Some of Meir's colleagues have been asked by relatives to serve as non-executive directors or advisors to their companies. Meir should most likely recommend which of the following policies to ensure compliance with the CFA Institute Standards?

- A. Prohibit employees from becoming directors or advisors

- B. Require employees to declare all income sources annually
- C. Require employees to declare all outside business interests

Q-70. Ann, CFA, manages discretionary accounts at a large brokerage firm. She finds a suitable set of the firm's proprietary equity mutual funds for one of her clients. Ann's firm is awarding a special quarterly bonus to managers who use one of the highest-fee funds on the list of suitable funds, so she invests in that fund for her client without contacting. Ann has most likely violated the standard(s) relating:

- A. only to fair dealing.
- B. only to disclosure of conflicts.
- C. both to fair dealing and to disclosure of conflicts.

10.22. Priority of Transaction

10.22.1 重要知识点

10.22.1.1 Investing public > client > employer > individual (Beneficial owner)

- 条款主要强调不能 front running (先于客户而交易)
- Must have enough time to let clients have opportunities to respond to our recommendation.

10.22.1.2 Avoiding potential conflicts

- Conflicts between the client's interest and an investment professional's personal interest may occur.
- Although conflicts of interest exist, it's OK for individual managers, advisers, or fund employees making money from personal investments as long as: 1) the client is not disadvantaged by the trade; 2) the investment professional does not benefit personally from trades undertaken for clients; 3) comply with applicable regulatory requirements.
- Personal trading secondary to trading for clients: aligned interests mustn't adversely affect client investment.

10.22.1.3 Standards for nonpublic information

- Prohibit from conveying nonpublic information to any person whose relationship to the member or candidate makes him a beneficial owner of the person's securities. Must not convey this information to any other person if the nonpublic information can be deemed material.

10.22.1.4 Family accounts

- Family accounts that are client accounts should be treated like any other firm account, should not be disadvantaged because of that relationship.
- Disadvantage parents who are normal fee-paying clients: violate III (B) fair dealing.
- If a member/candidate has a beneficial ownership in the account, however, the member or candidate may be subject to pre-clearance or reporting requirements of the employer or applicable law.

10.22.1.5 Recommended procedures for compliance

- Limited participation in equity IPOs.
- Restrictions on private placements.
- Establish blackout/restricted periods.
- Best method: 1)disclosure of personal holdings/beneficial ownerships upon commencement of the employment relationship and at least annually thereafter; 2)Providing duplicate confirmations of transactions; 3)preclearance of participation in IPOs.
- Once trading restrictions are in place, must be enforced..
- Disclosures of policies.

10.22.2 基础题

Q-71. Margie Germainne, CFA, is a risk management consultant who has been asked by a small investment bank to recommend policies to prevent bank employees from front running client orders. These clients generally invest in one or more of the bank's large cap equity unit trusts. To ensure compliance with the CFA Institute Standards of Professional Conduct, Germainne should least likely recommend which of the following? Employees should be restricted from trading:

- A. equity-related securities.
- B. without prior permission.
- C. during established time periods.

Q-72. Mike, CFA, is a portfolio manager at an investment firm. After comprehensive research, Mike buys ABC stock for all his clients for whom the investment is suitable. He then buys ABC shares for his brother's fee-paying account. ABC's stock price declines significantly after a month, resulting in substantial losses for all his clients. Are Mike's actions consistent with the Standards?

- A. Yes
- B. No, Mike's actions are not consistent with the Standard relating to priority of transactions
- C. No, Mike's actions are not consistent with the Standard relating to diligence and reasonable basis

Q-73. With respect to the standard relating to priority of transactions, which of the following statements is least accurate? Members must ensure that:

- A. the client is not disadvantaged by the member's personal trades.
- B. they do not benefit personally from trades undertaken for clients.
- C. they do not enter into personal transactions that run counter to current recommendations.

Q-74. Dora, CFA, is a portfolio manager. A year after purchasing shares of a thinly traded stock for her clients, Dora sells 10,000 shares of that from her personal account to raise

funds for a down payment on her new home. Her action leads to a temporary decline in the share price, during which time Dora avoids selling any of her clients' shares. Has Dora most likely violated the Standards?

- A. No
- B. Yes, because she did not sell her clients' shares before selling her own shares
- C. Yes, because her trade was counter to her investment actions on behalf of her clients.

10.23. Referral Fees

10.23.1 重要知识点

10.23.1.1 Content: Members and Candidates must disclose to their employer, clients, and prospective clients, as appropriate, any compensation, consideration, or benefit received from, or paid to, others for the recommendation of products or services. 介绍费不一定是现金的形式。

10.23.1.2 Disclosure 的目的在于让客户和雇主评估：1) any partiality shown in any recommendation of services; 2) the full cost of the services;

10.23.1.3 Disclose to the clients being referred and employer if necessary; Disclose nature of consideration.

10.23.1.4 Encourage employers to develop procedures for referral fees.

10.23.1.5 Firm may completely restrict such fees, if not restrict, should indicate the appropriate steps for requesting approval.

10.23.1.6 Employers should have investment professionals provide to the clients notification of approved referral fee programs and provide the employer regular (at least quarterly) updates on the amount and nature of compensation received.

10.23.2 基础题

Q-75. Referral fee should be updated repeatedly at least:

- A. Annually.
- B. Semi-annually.
- C. Quarterly.

Q-76. Claus Holm, CFA, directs most of his clients' trades to RRT Company (RRT), despite RRT's higher-than-average commissions. In return, RRT refers individual clients to Holm for asset management services. Holm does not disclose the arrangement to his clients or prospective clients. Holm has most likely violated the Standard(s) relating:

- A. only to referral fees.
- B. only to loyalty, prudence, and care.
- C. both to referral fees and to loyalty, prudence, and care

10.24. Responsibilities as a CFA Institute Member or CFA Candidate; Reference to CFA Institute, Designation

10.24.1 重要知识点

10.24.1.1 Violations include:

- Cheating on the CFA exam or other CFA Institute's exams.
- Not complying with rules and policies of the CFA program.
- Divulging the confidential information to others.
- Improperly using the designation.
- Misrepresenting information on Professional Conduct Statement of the CFA.
- Cheating on the CFA exam, violate VII(A), I(D).

10.24.1.2 VII(A)会员或候选人的行为 (Conduct as Members and Candidates): 成员或候选人不得从事任何有损于 CFA 协会和 CFA 称号名誉和声望, 以及 CFA 考试公正性和含金量的行为。

10.24.1.3 Over-promise: the competency of an individual 和 over-promise future investment results as lower risk, higher performance 都不可以。

10.24.1.4 The order of CFA and CPA does not matter.

10.24.1.5 如果要获得使用 CFA 称号的权利, 必须满足几个条件: 是 CFA 协会的在册会员, 按时交会费 (membership dues), 依次通过 CFA 的三次考试, 有符合要求的工作年限, 按时完成并提交年度述职报告 (annual conduct report)。

10.24.1.6 在名片上, CFA 的字体大小不能超过自己名字的字体大小。

10.24.1.7 CFA 是形容词, 不是名词, 不能说有几个 cfas.

10.24.1.8 CFA 职称正确的表述是: CFA, Chartered Financial Analyst; 其他说法如 cfa, C.F.A, CFA-typed, China-CFA 均不正确。

10.24.1.9 CFA mustn't be used as part of the name of the firm.

10.24.1.10 Shouldn't cite the expected date of exam completion and award of charter.

10.24.1.11 只通过三级考试, 没有持证的人不可以使用 CFA 职称。

10.24.1.12 可以对外宣称三次考试一次就通过, 只要陈述的是事实; 但是如果说 CFA 持证人就会有高超的投资业绩, 则违反了 VII (B);

10.24.1.13 如果好几年没交会费, 即使曾经是持证人, 若在名片后写 CFA, 违反了 VII (B)。

10.24.2 基础题

Q-77. Which of the following relating to conduct as participants in CFA Institute Programs is most likely violate? A candidate:

- A. Expresses opinions regarding CFA Institute in an online forum.
- B. tells her brother, after taking the exam, how glad she was that no questions about the binomial model were asked.
- C. publishes on a social media website her disappointment about what she thinks is an overly academic CFA Program.

Q-78. Pia Nilsson is a sole proprietor investment adviser. An economic recession has reduced the number of clients she advises and caused revenues to decline. As a result, Nilsson has not paid her CFA Institute membership dues for the past two years. When a national financial publication recently interviewed Nilsson, she indicated that up until two years ago, she had been a CFA charterholder and a CFA Institute member in good standing. In addition, she stated the completion of the CFA Program enhanced her portfolio management skills and enabled her to achieve superior returns on behalf of her clients.

Which of Nilsson's actions most likely violated the CFA Institute Standards of Professional Conduct?

- A. Nonpayment of CFA Institute membership dues.
- B. Indicating that being a CFA charterholder has enhanced her portfolio management skills.
- C. Attributing her superior returns to participation in the CFA Program.

Q-79. David Donnigan enrolled to take the Level II CFA examination in the current year, however he did not take the exam. Donnigan advised his employer he passed Level II. Subsequently, he registered to take the Level II exam the next year. Which CFA Institute Standard of Professional Conduct did Donnigan least likely violate?

- A. Duty to employer
- B. Professional misconduct
- C. Referencing Candidacy in the CFA Program

Q-80. Jeffrey Jones passed the Level I CFA examination in 1997 and the Level II examination in 2009. He is not currently enrolled for the Level III examination. According to the CFA Institute Standards of Professional Conduct, which of the following is the most appropriate way for Jones to refer to his participation in the CFA Program?

- A. Jeffrey Jones, CFA (expected 2014)
- B. Candidate in the CFA Institute CFA Program
- C. Passed Level II of the CFA examination in 2009

10.25. GIPS

10.25.1 重要知识点

10.25.1.1 Misleading practices that hinder performance comparability:

- Representative accounts-showing a top-performing portfolio as representative of firm's results.
- Survivorship bias-excluding wake performance.
- Varying time periods- showing performance for selected time periods with outstanding returns.

10.25.1.2 Complying with the GIPS standards is voluntary.

10.25.1.3 Any firms that actually manage assets can claim compliance with the standards.

- Consultants → can't claim compliance unless actually manage assets.
- Software (and vendor of software) cannot be compliant → can assist firms in compliance with GIPS.

10.25.1.4 Asset owners may comply with the GIPS standards in the same way as firms if they compete for business.

- If they don't compete for business but report their performance to an oversight body, asset owners may choose to comply with the GIPS standards for asset owners.

10.25.1.5 **Firm-wide and full compliance**

- Can't be achieved on a single product or composite.
- Two options: (1) Fully comply with all requirements; (2) Not comply with all requirements and not claim compliance.

10.25.1.6 **Benefit three groups: asset managers, prospective clients and asset owners and their oversight bodies.**

10.25.1.7 **关于 composite**

- A composite is a grouping of individual discretionary portfolios representing a similar investment strategy, objective, or mandate.
- A composite, such as Global Equities, must include all portfolios (current and past) that the firm has managed in accordance with this particular strategy.
- The firm should identify which composite each managed portfolio is to be included in before the portfolio's performance is known.
- All actual, fee-paying, discretionary portfolio must be included in at least one composite. Non-fee-paying discretionary portfolio may be included in a composite. Non-discretionary portfolios must not be included in a firm's composites.

10.25.1.8 **Fundamentals of compliance**

- Compliance cannot be achieved on a single product or composite.
- Two important issues that a firm must consider when becoming compliant with the GIPS standards are:
 - Definition of the firm is the foundation for firm-wide compliance and creates defined boundaries whereby total firm assets can be determined.
 - Firm's definition of discretion establishes criteria to judge which portfolios must be included in a composite and is based on the firm's ability to implement its investment strategies.
- Firms should adopt the broadest, most meaningful definition of the firm. The scope of this definition should include all geographical offices operating under the same brand name, regardless of the actual name of the individual investment management company.

10.25.1.9 **Verification**

- Verification is voluntary.
- Verification is the review of an investment management firm's performance measurement processes and procedures by an independent third-party "verifier".
- Whether the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis.
- Whether the firm's processes and procedures are designed to calculate and present performance results in compliance with the GIPS standards.
- A single verification report is issued in respect of the whole firm; verification cannot be carried out for a single composite.
- Verification does not ensure the accuracy of any specific composite presentation.

10.25.2 **基础题**

Q-81. Which of the following is least likely a requirement of the GIPS standards? Firms are required to:

- A. have their performance records verified by an independent third party.
- B. include all discretionary, fee-paying portfolios in at least one composite.

- C. present a minimum of five years of annual investment performance compliant with GIPS standards.

Q-82. Fundamental asset managers claim compliance with the CFA Institute Global Investment Performance Standards (GIPS®) and manage both discretionary and nondiscretionary segregated accounts. When constructing a single composite for the firm, Juma Dzuya includes all discretionary, fee-paying segregated accounts with both value and growth strategies. Does the composite constructed by Dzuya most likely meet GIPS criteria?

- A. Yes.
- B. No, because of dissimilar investment strategies.
- C. No, because nondiscretionary segregated accounts are not included.

Q-83. The GIPS® standards were most likely developed for the benefit of:

- A. prospective clients.
- B. middle-office operations.
- C. broker/dealers.

Q-84. When making performance presentations to prospective clients, a GIPS®-compliant firm should least likely do which of the following?

- A. Selectively report its top account performance
- B. Include the account performance of former clients
- C. Report performance history for all market cycles under review

Q-85. According to the GIPS standards, which of the following statements is most accurate?

Verification:

- A. brings additional credibility to a firm's claim of compliance
- B. ensures the accuracy of a specific composite presentation
- C. must be performed by the firm in order to claim compliance.

Q-86. Compliance with the GIPS standards can most likely be claimed by:

- A. a mutual fund of an investment firm

- B. a developer of investment performance software.
- C. an asset management firm in existence for two years.

Solutions

10. Ethics and Professional Standards

10.1. 基础题

Q-1. Solution: C

Code of ethics serves as a general guide for how community members should act and the Code is the shared principles and expected behaviors of a profession's members. Standards of conduct serve as benchmarks for the minimally acceptable behavior of community members and can help clarify the code of ethics.

Q-2. Solution: A

As members and candidates must self-disclose on the annual Professional Conduct Statement all matters that question their professional conduct, such as involvement in civil litigation or a criminal investigation or being the subject of a written complaint.

Q-3. Solution: A

Sanctions available to CFA Institute do not include monetary fines. However, sanctions imposed by CFA Institute may have significant consequences; they include public censure, suspension of membership and use of the CFA designation, and revocation of the CFA charter. Candidates enrolled in the CFA Program who have violated the Code and Standards or testing policies may be suspended or prohibited from further participation in the CFA Program.

Q-4. Solution: A

Under Standard I(A) in situations where a member or candidate is aware of employer engagement in unethical or illegal activity, it is recommended that they attempt to stop the behavior by bringing it to the attention of a supervisor or the firm's compliance department.

Q-5. Solution: C

According to Standard I(A), Knowledge of the Law, Members and Candidates must not knowingly participate or assist in and must dissociate from any violation of such laws, rules, or regulations. In this case, by staying silent in a client meeting in which he knows false information is being given to a potential investor that could cause harm to that investor, Myers would be seen as assisting Pellie in providing that false information, even though Myers is not actively engaging in the misconduct himself. Myers should report her conduct to the fund's compliance department

for it to address and should dissociate himself from activities involving Pellie and report Pellie's conduct to the fund's compliance department.

Q-6. Solution: A

In the event of conflict, Members and Candidates must comply with the more strict law, rule, or regulation (including the CFA Institute Code of Ethics and Standards of Professional Conduct).

Q-7. Solution: A

Ducumon should refuse to recommend the shares as her opinion of the Babyskin shares must not be affected by internal pressure. If Ducumon followed the request from the investment banking department at her company, she would be in violation of Standard I(B)—Independence and Objectivity. Ducumon must refuse to recommend the Babyskin shares until they are an attractive purchase based on fundamental analysis and market pricing.

Q-8. Solution: C

Under Standard I(B), members and candidates must protect their independence and objectivity. Agreeing to provide objective research coverage of a company does not constitute a violation of this standard, provided the analyst writing the report is free to come up with his own independent conclusion. Smith can agree to provide research coverage but cannot commit Granite's research department to providing a favorable recommendation.

Q-9. Solution: A

Standard I(B): Independence and Objectivity requires members and candidates to use reasonable care and judgment to maintain their independence and objectivity in their professional activities. Best practice dictates that Kumar only accept transportation to the remote mining sites because it is unlikely he would be able to source commercial flights to the locations and ground transportation may not be viable. Because Kumar would normally visit mining sites around the world as part of his job and because he is combining this trip with trips to other mine sites in different countries, it would be inappropriate for Cerberus to pay for the analyst's travel expenses from London. Although Kumar could go on safari with the group of analysts, he should pay his own way so as to restrict any influence such a gift could possibly have when making his

investment recommendations on Cerberus.

Q-10. Solution: B

To avoid the appearance of compromising their independence and objectivity, best practice dictates that members and candidates always use commercial transportation at their expense or at the expense of their firm rather than accept paid travel arrangements from an outside company. Should commercial transportation be unavailable, members and candidates may accept modestly arranged travel to participate in appropriate information-gathering events, such as a property tour.

External sources may try to influence the investment process by offering analysts and portfolio managers a variety of benefits. Benefits may include gifts, invitations to lavish functions, tickets, favors, or job referrals.

Q-11. Solution: B

Because under Standard I(B), best practice dictates that members and candidates reject any offer of gift or entertainment that could be expected to threaten their independence and objectivity. Windtel has little research coverage and would benefit from having a respected analyst initiate coverage. As per the curriculum, external sources may try to influence the investment process by offering analysts and portfolio managers a variety of benefits. Corporations may seek expanded research coverage. The analyst has to recognize that their independence is potentially being jeopardized by accepting the gift. The note suggesting that they will be working together shows the head of investor relations is trying to influence his decision on what companies to cover. The supervisor's allowance of the gift is immaterial as the analyst has to recognize that they are trying to be influenced and act accordingly.

Q-12. Solution: B

Because according to Standard I(C), Misrepresentation members and Candidates must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities. By using SII's marketing brochure that inflates performance to present to prospective clients, Marsha has violated Standard I(C).

Q-13. Solution: A

Members and candidates must not copy (or represent as their own) original ideas/material without permission. They must acknowledge and identify the source of ideas/material that is not their own. Using factual information from well-known financial institutions without acknowledgment is permitted by Standard I(C).

Q-14. Solution: B

The performance benchmark selection process is another area where misrepresentations may occur. Members and candidates may misrepresent the success of their performance record through presenting benchmarks that are not comparable to their strategies. Further, clients can be misled if the benchmark's results are not reported on a basis comparable to that of the fund's or client's results. Best practice is selecting the most appropriate available benchmark from a universe of available options. The transparent presentation of appropriate performance benchmarks is an important aspect in providing clients with information that is useful in making investment decisions.

Q-15. Solution: A

Members and candidates should discuss with clients on a continuous basis the appropriate benchmark to be used for performance evaluations and related fee calculations. Members and candidates should take reasonable steps to provide accurate and reliable security pricing information to clients on a consistent basis. Changing pricing providers should not be based solely on the justification that the new provider reports a higher current value of a security.

Q-16. Solution: A

According to Standard I (D), Misconduct, personal bankruptcy may not reflect on the integrity or trustworthiness of the person declaring bankruptcy, but if the circumstances of the bankruptcy involve fraudulent or deceitful business conduct, the bankruptcy may be a violation of this standard. Also, generally, Standard I(D) is not meant to cover legal transgressions resulting from acts of civil disobedience in support of personal beliefs because such conduct does not reflect poorly on the member's or candidate's professional reputation, integrity, or competence. Therefore, Emily has not violated Standard I (D). Further, Standard III (A), Loyalty, Prudence, and Care, states that Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests.

Neither Emily 's bankruptcy no nor the act of trespassing during a protest imposes on her duty of loyalty to her clients. She has not violated Standard III (A).

Q-17. Solution: A

Naib knowingly misrepresented his qualifications at the time of his hire by stating he had obtained an MBA when in fact he had not. This action reflects adversely on his professional integrity, violating Standard I(D):Misconduct. Stating he passed his CFA exams in three consecutive years is not a violation of Standard VII(B): Reference to CFA Institute, the CFA Designation, and the CFA Program if it is factual. There is no evidence given to indicate he did not pass as claimed.

Q-18. Solution: A

According to Standard I(D), Misconduct, Members and Candidates must not engage in any professional conduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence. Johnny's actions do not result from fraudulent or deceitful business conduct and personal bankruptcy may not reflect on the integrity or trustworthiness of the person declaring bankruptcy. Also, according to Standard III(A), Loyalty, Prudence, and Care, Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests. There is nothing here to suggest that Johnny has not acted for the benefit of his clients.

Q-19. Solution: B

Given his limited knowledge, Adam is not competent to invest in cryptocurrency for his clients. By investing in cryptocurrency products without understanding the nature of the investment or the suitability of the investment for his clients, Halsey has violated Standard I(E) Competence.

Q-20. Solution: B

Selective disclosure occurs when companies discriminate in making material nonpublic information public. Corporations that disclose information on a limited basis create the potential for insider-trading violations. See Standard II(A).

Q-21. Solution: B

Because according to Standard II (A), Material Nonpublic Information, Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information. Also, Information is “material” if its disclosure would probably have an impact on the price of a security or if reasonable investors would want to know the information before making an investment decision -- such as the results of an upcoming quarterly report from a reliable source (the CEO). Lisa prompted her brother to act on it, hence, violated the Standard.

Q-22. Solution: B

A violation of Standard II(A): Material Nonpublic Information is likely to occur when using information that is selectively disclosed by corporations to a small group of investors, analysts, or other market participants. Earnings estimates given in a one-on-one meeting would likely be considered material and nonpublic information. Information made available to analysts remains nonpublic until it is made available to investors in general. Under the mosaic theory, it is acceptable to use information from industry contacts as long as the analyst uses appropriate methods to arrive at her conclusions. Additionally, it is acceptable to use nonmaterial nonpublic information in her analysis; this use is not a violation of Standard II(A): Material Nonpublic Information.

Q-23. Solution: C

Ronde should refuse to follow his supervisor's request. If Ronde revises his research report based on the information he overheard at the industry conference, he would violate Standard II(A): Material Nonpublic Information. The production delay information is material and considered nonpublic until it is widely distributed. Therefore, it should not be included in Ronde's research report or acted on until it becomes public. Ronde should try to encourage Fulda to make the information public.

Q-24. Solution: A

Standard II(B), Market Manipulation precludes transaction-based manipulation such as attempting to “buy and sell the stock using the accounts in hopes of raising the trading volume and the price.”

Q-25. Solution: C.

According to Standard II(B), Market Manipulation, "[i]nformation-based manipulation includes, but is not limited to, spreading false rumors to induce trading by others. For example, members and candidates must refrain from “pumping up” the price of an investment by issuing misleading positive information or overly optimistic projections of a security’s worth only to later “dump” the investment (i.e., sell it) once the price, fueled by the misleading information’s effect on other market participants, reaches an artificially high level." Chang spreads rumors on social media about a potential acquisition of AEC after buying the stock for his personal account. Therefore, Chang has violated the Standard II(B), Market Manipulation.

In addition, Standard I(D), Misconduct, "addresses all conduct that reflects poorly on the professional integrity, good reputation, or competence of members and candidates. Any act that involves lying, cheating, stealing, or other dishonest conduct is a violation of this standard if the offense reflects adversely on a member’s or candidate’s professional activities." Spreading rumors on social media to push up the stock price reflects poorly on Chang's professional integrity. Therefore, Chang has violated the Standard I(D), Misconduct.

Q-26. Solution: A

Standard III(A): Loyalty, Prudence, and Care stipulates that the client owns the brokerage. Therefore, members and candidates are required to use client brokerage only to the benefit of the clients (soft commissions policy). Because the firm specializes in domestic equities, an offshore investment database service would not benefit the clients.

Q-27. Solution: A

Performing a cost–benefit analysis showing that voting all proxies might not benefit the client and concluding that voting proxies may not be necessary in all instances is not a violation of Standard III(A): Loyalty, Prudence, and Care. However, even though voting proxies may not be necessary in all instances, part of a member's or candidate's duty of loyalty under Standard III(A) includes voting proxies in an informed and responsible manner, which is not being done when Lopez automatically votes with management on the majority of issues. In addition, members and candidates should disclose to clients their proxy-voting policies, including any changes to that

policy, as required by Standard III(A), which has not been done.

Q-28. Solution: A

According to Standard III (A) Loyalty, Prudence, and Care, Gupta's duty of loyalty, prudence, and care is owed to the participants and beneficiaries (members) of the pension plan. As a church plan, the restrictions are appropriate given the objectives and constraints of the portfolio.

Q-29. Solution: C

Members and Candidates must follow any guidelines set by their clients for asset management. In general, the use of leverage constitutes a significant risk and should be disclosed.

Q-30. Solution: B

Clients should be treated fairly and impartially according to Standard III(B). In addition, the flexible trading terms allow the hedge fund manager to enrich itself and are a violation of Standard II(A), which concerns trading on material nonpublic information. This situation is also a conflict of interest, and thus a violation of Standard VI(A)-Disclosure of Conflicts.

Q-31. Solution: B

According to Standard III (B) best practices include allocating pro rata on the basis of order size, not account size. All clients participating in the block trade should receive the same execution price and be charged the same commission.

Q-32. Solution: B

Under Standard III(B) if an investment professional's family member accounts are being managed similarly to other clients of the firm, they should not be excluded from buying such shares as they are considered clients despite their familial relationships.

Q-33. Solution: A

In addition, members and candidates may provide more personal, specialized, or in-depth service to clients who are willing to pay for premium services through higher management fees or higher levels of brokerage. Members and candidates may differentiate their services to clients, but different levels of service must not disadvantage or negatively affect clients. In addition, the different service levels should be disclosed to clients and prospective clients and should be available to everyone (i.e., different service levels should not be offered selectively).

Q-34. Solution: A

Updating the IPS should be repeated at least annually and also prior to material changes to any specific investment recommendations.

Q-35. Solution: B

The client only approved the purchase of one below-investment-grade bond, whereas the portfolio manager has purchased several additional bonds below investment grade without client approval, which is in violation of Standard III(C)–Suitability.

Q-36. Solution: A

According to Standard III (C), Suitability, suitability review can be done most effectively when the client fully discloses his or her complete financial portfolio, including those portions not managed by the member or candidate. If clients withhold information about their financial portfolios, the suitability analysis conducted by members and candidates cannot be expected to be complete; it must be based on the information provided. Amanda may develop an investment program that is suitable for the client without knowing about their other assets, even though the information is not complete. In addition, Standard III (C) also states after formulating long-term capital market expectations, members and candidates can assist in developing an appropriate strategic asset allocation and investment program for the client, whether these are presented in separate documents or incorporated in the IPS or in appendices to the IPS. Amanda may keep these records in a separate document.

Q-37. Solution: C

Suitability review can be done most effectively when the client fully discloses his or her complete financial portfolio, including those portions not managed by the member or candidate. If clients withhold information about their financial portfolios, the suitability analysis conducted by members and candidates cannot be expected to be complete; it must be based on the information provided.

Updating the IPS should be repeated at least annually and also prior to material changes to any specific investment recommendations.

Many times, Unsolicited request may be expected to have only a minimum impact on the entire portfolio because the size of the requested trade is small or the trade would result in a limited change to the portfolio's risk profile. In discussing the trade, the member or candidate should focus on educating the investor on how the request deviates from the current policy statement. Following the discussion, the member or candidate may follow his or her firm's policies regarding the necessary client approval for executing unsuitable trades; Should the unsolicited request expected to have a material impact on the portfolio, the member or candidate should use this opportunity to update the investment policy statement.

Q-38. Solution: C

With the increase in regulatory required suitability tests, members and candidates should encourage their firms to develop related policies and procedures. The procedures will differ according to the size of the firm and the scope of the services offered to its clients.

The test procedures should require the investment professional to look beyond the potential return of the investment and include the following: an analysis of the impact on the portfolio's diversification, a comparison of the investment risks with the client's assessed risk tolerance, and the fit of the investment with the required investment strategy.

Q-39. Solution: B

The Standard III (D) Performance Presentation prohibits members/candidates from making any statements that misrepresent the performance achieved by them or their firms and requires every reasonable effort to be made to ensure that performance information is fair, accurate, and complete. By failing to identify the simulated performance results, Snead violated the standard. Snead should have disclosed the fact that the returns were generated only in one year of the fund's operation and the other performance information is back-tested.

Q-40. Solution: C

Taylor's brochure is in violation of Standard III(D). Taylor should have disclosed that the 25% growth occurred only in one year.

Additionally, Taylor did not include client accounts other than those in the firm's common trust fund. A general claim of firm performance should take into account the performance of all categories of accounts. Finally, by stating that clients can expect a steady 25% annual compound

growth rate, Taylor is also violating Standard I(C)–Misrepresentation, which prohibits assurances or guarantees regarding an investment.

Q-41. Solution: A

Members and candidates can also meet their obligations under Standard III(D) by: considering the knowledge and sophistication of the audience to whom a performance presentation is addressed, presenting the performance of the weighted composite of similar portfolios rather than using a single representative account, including terminated accounts as part of performance history with a clear indication of when the accounts were terminated, including disclosures that fully explain the performance results being reported (for example, stating, when appropriate, that results are simulated when model results are used, clearly indicating when the performance record is that of a prior entity, or disclosing whether the performance is gross of fees, net of fees, or after tax), and maintaining the data and records used to calculate the performance being presented.

Q-42. Solution: B

In order to avoid violating Standard III(E)–Preservation of Confidentiality, Staal should determine whether applicable securities regulations require disclosing the records before she provides the confidential information concerning her client's investments.

Q-43. Solution: C

According to Standard III (E), Preservation of Confidentiality, this standard protects the confidentiality of client information even if the person or entity is no longer a client of the member or candidate. Therefore, members and candidates must continue to maintain the confidentiality of client records even after the client relationship has ended. Thus revealing e-mails of former clients is a violation.

Q-44. Solution: B

Lan's actions do not violate Standard IV (A) – Duties to Employers. Lan does not use company time to make arrangements for his new venture, nor does he misappropriate any information (financial models or client contacts) from his former employer. All of Lan's actions are permissible under Standard IV (A).

Q-45. Solution: C

Standard IV(A): Loyalty calls for employees to be loyal to their employer by not causing harm. If Botha released a contradictory research recommendation report to clients, it could possibly cause confusion amongst clients and embarrassment to the firm.

Q-46. Solution: A

Although departing employees may not take employer property when departing [Standard IV(A)—Duties to Employers (Loyalty)], the model Piedmont presented to his new employer was not Branch’s property. It was created by Piedmont prior to his employment with Branch. The model was not created for Branch in the course of his employment, but was adopted by Branch.

Q-47. Solution: A.

According to Standard IV (A), Loyalty, “does not preclude members or candidates from entering into an independent business while still employed, [but] members and candidates who plan to engage in independent practice for compensation must notify their employer and describe the types of services they will render to prospective independent clients, the expected duration of the services, and the compensation for the services. Members and candidates should not render services until they receive consent from their employer to all of the terms of the arrangement. 'Practice' means any service that the employer currently makes available for remuneration. 'Undertaking independent practice' means engaging in competitive business, as opposed to making preparations to begin such practice.” Additionally, “[a] departing employee is generally free to make arrangements or preparations to go into a competitive business before terminating the relationship with his or her employer as long as such preparations do not breach the employee's duty of loyalty.” Thus, Leopold is free to prepare for his competing business, but not to start competing, or undertaking competitive activity, or violate his duty of loyalty. Therefore, he did not violate the Standard relating to loyalty. With respect to Standard I (D), Misconduct, “Members and Candidates must not engage in any professional conduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence.” There is nothing in this case to suggest a violation of this Standard because members are free to prepare for a competing business and it is not an example of dishonesty, fraud, or deceit.

Q-48. Solution: C

A member or candidate who is contemplating seeking other employment must not contact existing clients or potential clients prior to leaving his or her employer for purposes of soliciting their business for the new employer.

Q-49. Solution: C

According to Standard IV(B) and Standard VI(A), members should disclose all potential conflicts of interest, should disclose the substantial time involved in managing family accounts and, when engaging in independent practice for compensation, should not render services until receiving written consent from all parties.

Q-50. Solution: B

Golf equipment is a business independent of the financial services industry such that any board obligations would not likely be considered a conflict of interest requiring disclosure according to Standard IV(B): Additional Compensation Arrangements. Standard IV(B) requires members and candidates to obtain permission from their employer before accepting compensation or other benefits from third parties for the services that might create a conflict with their employer's interests. Managing investments for family and non-family members could likely create a conflict of interest for Younis's employer and should be disclosed to his employer.

Q-51. Solution: B.

According to the recommended procedures for compliance with Standard IV(B), Additional Compensation Arrangements, "Members and candidates should make an immediate written report to their supervisor and compliance officer specifying any compensation they propose to receive for services..."

Q-52. Solution: C

Both Musa and Kassim violated the Standards of Professional Conduct. Musa violated Standard IV(C)—Responsibilities of Supervisors by not ensuring policies were in place to prevent violations of the Standards of Professional Conduct (in this case, Standard VI(B)—Priority of Transactions)

by someone subject to her supervision. As the head of compliance, Musa supervised Kassim and must meet her supervisory responsibilities outlined in the Standards of Professional Conduct. Kassim violated Standard VI(B)–Priority of Transactions because he did not give sufficient priority to Dunfield's clients before trading on his recommendation.

Q-53. Solution: B

According to guidance for Standard (IV(C), if a member cannot fulfill supervisory responsibilities because of the absence of a compliance system or because of an inadequate compliance system, the member should decline in writing to accept supervisory responsibility until the firm adopts reasonable procedures to allow the member to adequately exercise such responsibility.

Q-54. Solution: A

Once a supervisor learns that an employee has violated or may have violated the law or the Code and Standards, the supervisor must promptly initiate an assessment to determine the extent of the wrongdoing. Relying on an employee's statements about the extent of the violation or assurances that the wrongdoing will not reoccur is not enough. Reporting the misconduct up the chain of command and warning the employee to cease the activity are also not enough. Pending the outcome of the investigation, a supervisor should take steps to ensure that the violation will not be repeated, such as placing limits on the employee's activities or increasing the monitoring of the employee's activities.

To be effective, compliance procedures must be in place prior to the occurrence of a violation of the law or the Code and Standards. Although compliance procedures cannot be designed to anticipate every potential violation, they should be designed to anticipate the activities most likely to result in misconduct.

Q-55. Solution: B

The recommendation is based on a reasonable and adequate research process, so the analyst could follow the research team's opinion, as required by Standard V(A)–Diligence and Reasonable Basis.

Q-56. Solution: B

Standard V(A): Diligence and Reasonable Basis applies to the level of review necessary to select an external adviser or subadviser and would at minimum include reviewing the adviser's adherence to its stated strategy.

Q-57. Solution: A.

Standard III(B)–Fair Dealing concerns the fair treatment of clients when making investment recommendations or taking investment action, but there is no indication that the advisor has discriminated against any clients with regard to his recommendations as he invests all clients in the same universe of stocks. The advisor has violated Standard I(C)–Misrepresentation with his research, which is not independently created and instead relies upon information provided by his broker. This is contrary to the advisor telling clients he does his own independent investment research. In addition, the advisor has violated Standard V(A)–Diligence and Reasonable Basis, as he has not made reasonable and diligent efforts to determine if the third party's research is sound.

Q-58. Solution: B.

There is nothing to suggest that Wong does not have a reasonable basis for his conclusion related to Nolvec [Standard V(A)].

Q-59. Solution: A

Standard V(B)–Communication with Clients and Prospective Clients does not limit the type or number of staff responsible for external communication.

Q-60. Solution: A.

Trimbach has not violated Standard I (C), Misrepresentation, which “does not prohibit members and candidates from providing clients with information on investment products that have guarantees built into the structure of the product itself or for which an institution has agreed to cover any losses.” Here, Trimbach is simply stating that the government is guaranteeing the principal and interest, which is not a misrepresentation.

Nor has Trimbach violated Standard V (B), Communication with Clients and Prospective Clients. Members are required to “distinguish between fact and opinion in the presentation of investment

analyses and recommendations.” Trimbach stated two facts (guaranteed principal and interest, as well as consequences of interest rate fluctuations) and did not represent an opinion as fact and therefore did not violate the Standard.

Q-61. Solution: C.

Standard III(D), Performance Presentation, “requires members and candidates to provide credible performance information to clients and prospective clients and to avoid misstating performance or misleading clients and prospective clients about the investment performance of members or candidates or their firms. This standard encourages full disclosure of investment performance data to clients and prospective clients.” By not disclosing that the results related to the product were simulated Madan has violated Standard III(D). Also, according to Standard V(B), Communication with Clients and Prospective Clients, members must “[d]isclose to clients and prospective clients the basic format and general principles of the investment processes they use to analyze investments, select securities, and construct portfolios and must promptly disclose any changes that might materially affect those processes.” By not disclosing the use of simulated results, Madan has also violated Standard V(B).

Q-62. Solution: C.

In the case of complex quantitative analyses, analysts must clearly separate fact from statistical conjecture and should identify the known limitations of an analysis. Should explicitly discuss with clients and prospective clients the assumptions used in the investment models and processes to generate the analysis. The member or candidate who prepares the report must include those elements that are important to the analysis and conclusions of the report so that the reader can follow and challenge the report’s reasoning. A report writer who has done adequate investigation may emphasize certain areas, touch briefly on others, and omit certain aspects deemed unimportant.

Q-63. Solution: A .

The Standards do not require on-site storage.

Q-64. Solution: C

According to Standard V (C), Record Retention, a member must not re-create supporting records from memory. Standard V(C), Record Retention, states the member or candidate cannot use

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historical recommendations or research reports created at the previous firm because the supporting documentation is unavailable. For future use, the member or candidate must re-create the supporting records at the new firm with information gathered through public sources or directly from the covered company and not from memory or sources obtained at the previous employer.

Q-65. Solution: B

If no regulatory guidance in place, CFA Institute recommends maintaining records for at least 7 years. If there is a legal requirement for retention period, follow the legal requirement.

Q-66. Solution: A

According to Standard VI(A) Disclosure of Conflicts, Grabbo should disclose to her employer her hedge fund development because this activity could possibly interfere with her responsibilities at Atlantic. In setting up a hedge fund, Grabbo was not acting for the benefit of her employer. She should have informed Atlantic she wanted to organize the hedge fund and come to some mutual agreement on how this process would occur.

Q-67. Solution: A

Standard VI(A) requires disclosure of conflicts but does not prohibit members from making recommendations as long as the potential conflicts are appropriately disclosed.

Q-68. Solution: A

Making full and fair disclosure of all matters that could reasonably be expected to impair one's independence and objectivity or interfere with respective duties to one's clients is required by Standard VI(A)–Disclosure of Conflicts.

Q-69. Solution: C

C is correct because Standard VI(A) requires the disclosure of conflicts. For Meir to understand what potential conflicts of interest employees may have with the firm and with their clients, he would need to know the outside interests of each staff member. The staff members themselves may not know enough about the company and its clients to disclose those interests that would present a potential conflict. Therefore, it may be best to have all employees declare their outside business interests on an annual basis so Meir can make the determination as to what outside

business interests need to be disclosed to clients.

Q-70. Solution: B

Common sources for conflict are compensation structures, especially incentive and bonus structures that provide immediate returns for members and candidates with little or no consideration of long-term value creation.

Members or candidates should disclose special compensation arrangements with the employer that might conflict with client interests, such as bonuses based on short-term performance criteria, commissions, incentive fees, performance fees, and referral fees. If the member's or candidate's firm does not permit such disclosure, the member or candidate should document the request and may consider dissociating from the activity.

Q-71. Solution: A

Although Standard VI(B)—Priority of Transactions is designed to prevent any potential conflict of interest or the appearance of a conflict of interest with respect to personal transactions, it does not ban employees from trading securities. A ban on all equity-related securities could be excessively restrictive to employees and unnecessary if appropriate personal transaction policies and procedures are in place.

Q-72. Solution: B

According to Standard VI(B), Priority of Transactions, family accounts that are client accounts should be treated like any other firm account and should neither be given special treatment nor be disadvantaged because of the family relationship. Mike should treat his brother's fee paying account like any other firm account and should not be disadvantaged. Therefore, Mike's actions are not consistent with the Standard relating to priority of transactions.

Q-73. Solution: C

Conflicts between the client's interest and an investment professional's personal interest may occur. Although conflicts of interest exist, nothing is inherently unethical about individual managers, advisers, or mutual fund employees making money from personal investments as long as (1) the client is not disadvantaged by the trade, (2) the investment professional does not benefit personally from trades undertaken for clients, and (3) the investment professional complies with applicable regulatory requirements.

Some situations occur where a member or candidate may need to enter a personal transaction that runs counter to current recommendations or what the portfolio manager is doing for client portfolios. For example, a member or candidate may be required at some point to sell an asset to make a college tuition payment or a down payment on a home, to meet a margin call, or so on. The sale may be contrary to the long-term advice the member or candidate is currently providing to clients. In these situations, the same three criteria given in the preceding paragraph should be applied in the transaction so as to not violate Standard VI(B) – Priority of transactions.

Q-74. Solution: A

Some situations occur where a member or candidate may need to enter a personal transaction that runs counter to current recommendations or what the portfolio manager is doing for client portfolios. For example, a member or candidate may be required at some point to sell an asset to make a college tuition payment or a downpayment on a home, to meet a margin call, or so on. The sale may be contrary to the long-term advice the member or candidate is currently providing to clients. In these situations, the same three criteria given in the preceding paragraph should be applied in the transaction so as to not violate Standard VI(B).

Q-75. Solution: C

Employers should have investment professionals provide to the clients notification of approved referral fee programs at least quarterly.

Q-76. Solution: C.

According to Standard III (A), Loyalty, Prudence and Care, “Conflicts may arise when an investment manager uses client brokerage to purchase research services, a practice commonly called 'soft dollars' or 'soft commissions.' A member or candidate who pays a higher brokerage commission than he or she would normally pay to allow for the purchase of goods or services, without corresponding benefit to the client, violates the duty of loyalty to the client.” Paying higher fees in return for referrals does not represent a corresponding benefit to Holm's clients. Therefore, this arrangement violates the duty of loyalty to his clients. In addition, Holm has violated Standard VI (C), Referral Fees, which states "the responsibility of members and candidates to inform their employer, clients, and prospective clients of any benefit received for

referrals of customers and clients.”

Q-77. Solution: B

According to Standard VII (A), Conduct as Participants in CFA Institute Programs, CFA Institute program rules, regulations, and policies prohibit candidates from disclosing confidential material gained during the exam process. Examples of information that cannot be disclosed by candidates sitting for an exam include the questions and formulas tested or not tested on the exam. Therefore, the candidate has violated Standard VII (A) by telling her brother how glad she was that no questions about the binomial model were asked.

Q-78. Solution: C

It is a violation of Standard VII(B)–Reference to CFA Institute, the CFA Designation, and the CFA Program to claim that the CFA charter helped her to achieve superior returns.

Q-79. Solution: C

Because as he registered to take the exam in the next year he still qualifies to state he is a candidate in the CFA Program. He would not, however, be authorized to reference that he is a Level III candidate and if asked would need to specify that he is a Level II candidate.

Q-80. Solution: C

Because no designation exists for someone who has passed Level I, Level II, or Level III of the CFA exam [Standard VII(B)]. Persons who have passed a certain level of the exam may state that they have completed that level. A person can only state he is a Candidate if he is currently enrolled in the CFA Program. It is also an improper reference to use “expected” a part of the designation.

Q-81. Solution: A

Firms are encouraged to pursue independent verification from a third party on a firm-wide basis, verification is not an obligation.

Q-82. Solution: B

A composite must include all actual, fee-paying, discretionary portfolios managed in accordance

with the same investment mandate, objective, or strategy. By including both the value and growth portfolios, the composite is made up of portfolios with different investment mandates or strategies.

Q-83. Solution: A

The GIPS standards benefit asset managers and their prospective clients and asset owners and their oversight bodies. GIPS reports allow prospective clients to know that the track record of a GIPS-compliant firm is complete and fairly presented.

Q-84. Solution: A

When a firm complies with GIPS standards, it cannot selectively choose its top account performances while excluding weaker-performing accounts. It must include all fee-paying discretionary accounts managed to a similar investment mandate, objective, or strategy.

Q-85. Solution: A

Verification is the review of an investment management firm's performance measurement processes and procedures by an independent third-party "verifier". Third-party verification brings credibility to the claim of compliance and supports the overall guiding principles of full disclosure and fair representation of investment performance.

Q-86. Solution: C

Any firms that actually manage assets can claim compliance with the Standards.