Ethics and Professional Standards

CFA一级培训项目

讲师：Vincent

101% Contribution Breeds Professionalism

Ethics and Professional Standards（1）

- Allen Watson, an analyst in a rating agency has been accused of violations of Codes and Standards. However, he refuses the charges and does not accept the proposed sanctions. Which of the parties has the responsibility of dealing with this matter?

  A. the hearing panel

  B. the CFA institute board of governors

  C. Professional Conduct Program

Ethics and Professional Standards（1）

- **Solution: A**

  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.

  The Professional Conduct staff may conclude the inquiry with no disciplinary sanction, issue a cautionary letter, or continue proceedings to discipline the member or candidate. The CFA institute board of governors maintains oversight and responsibility for the Professional Conduct Program (PCP), which, in conjunction with the Disciplinary Review Committee (DRC), is responsible for enforcement of the Code and Standards.

Ethics and Professional Standards (2)

- Joyce Mitchell, a CFA charter holder, is a portfolio manager working for an investment firm. She discovered some evidence of money laundering of one of her clients. However, local law doesn't require disclosure. But when CFA institute started to investigate this illegal activity, Joyce provided the information of the client to CFA institute. Does Joyce violate any CFA Institute Standards?
  A. No.
  B. Yes, with respect to Loyalty to Clients.
  C. Yes, with respect to Preservation of Confidentiality.

- **Solution: A**
  A is correct because Joyce is not obliged to disclose since applicable law doesn't require disclosure. Cooperating with the investigation of CFA institute doesn't violate Preservation of Confidentiality.

Ethics and Professional Standards (3)

- When Puppey, CFA, sees that his colleague Todd is divulging the firm's confidential data, he should firstly:
  A. dissociate from this action.
  B. write a report to the CFA institution.
  C. bring it to the attention of firm's compliance department.

- **Solution: C**
  When members and candidates are confronted with violations of applicable law, the first step is to report these behaviors to a supervisor or the firm's compliance department. If this attempt is unsuccessful, then members and candidates have a responsibility to step away and dissociate from the activity.

Ethics and Professional Standards (4)

- Kavily Poven recently left his job as a research analyst for a large investment adviser. While looking for a new position, he was hired by an investor-relations firm to write a research report on one of its clients, a small educational software company. The investor-relations firm hopes to generate investor interest in the technology company. The firm will pay Poven a flat fee plus a bonus if any new investors buy stock in the company as a result of Poven's report. If Poven accepts this payment arrangement, he most likely violates the Code and Standards with respect to:
  A. Disclosure of Conflicts.
  B. Misconduct.
  C. Independence and Objectivity.

Ethics and Professional Standards（4）

- **Solution: C**

  If Poven accepts this payment arrangement, he will be in violation of Standard I(B) because the compensation arrangement can reasonably be expected to compromise his independence and objectivity. Poven will receive a bonus for attracting investors, which provides an incentive to draft a positive report regardless of the facts and to ignore or play down any negative information about the company. Poven should accept only a flat fee that is not tied to the conclusions or recommendations of the report. Issuer-paid research that is objective and unbiased can be done under the right circumstances as long as the analyst takes steps to maintain his or her objectivity and includes in the report proper disclosures regarding potential conflicts of interest.

Ethics and Professional Standards（5）

- Elizabeth Levenson is a performance analyst for Torrey Investment Funds. Elizabeth once completed a report with Frank who was a previous employee in Torrey Investment Funds and released this report solely under her name. Does Elizebeth violate any CFA Institute Standards of Professional Conduct?

  A. Yes, related to Misconduct.

  B. Yes, related to Mispresentation.

  C. No.

Ethics and Professional Standards（5）

- **Solution: C**

  According to Standard I(C) Misrepresentation, members or candidates may use research conducted or models developed by others within the same firm without committing a violation. However, research and models developed while employed by a firm are the property of the firm. The firm retains the right to continue using the work completed after a member or candidate has left the organization. Nonetheless, member or candidate cannot, however, reissue a previously released report solely under his or her name. In this case, the report was finished by Elizabeth and Frank. Hence, Elizabeth has the right to issue the report solely under her name.

Ethics and Professional Standards（6）

- Adam, a fund manager, works in an investment firm in US and holds 10,000 shares of AAA Inc. in his personal account. He finds that the market trend goes down, and the AAA shares price is experiencing a great fall. With the pressure to repay the mortgage, Adam sells all the shares of AAA Inc. immediately even though he has to assume the loss. Does Adam violate the CFA standards?

  A. No.

  B. Yes, about misconduct.

  C. Yes, about market manipulation.

Ethics and Professional Standards（6）

- **Solution: A**

  Standard “misconduct” is related to any professional conduct involving dishonesty, fraud, or deceit or commits any act that reflects adversely on their professional reputation, integrity, or competence. In this case, the fund manager wants to sell the shares because he needs capital to repay the mortgage loan, so it does not violate “misconduct”. Besides, the fund manager does not violate the “market manipulation” for the same reason above.

Ethics and Professional Standards（7）

- Andrews, a private wealth manager, is conducting interviews for a new research analyst for his firm. One of the candidates is Wright, an analyst with a local investment bank. During the interview, while Wright is describing his analytical skills, he mentions a current merger in which his firm is acting as the adviser. Andrews has heard rumors of a possible merger between the two companies, but no releases have been made by the companies concerned. Which of the following actions by Andrews is least likely a violation of the Code and Standards?

  A. Waiting until the next day before trading on the information to allow time for it to become public.

  B. Notifying all investment managers in his firm of the new information so none of their clients are disadvantaged.

  C. Placing the securities mentioned as part of the merger on the firm's restricted trading list.

Ethics and Professional Standards（7）

- **Solution: C**

  The guidance to Standard II(A)—Material Nonpublic Information recommends adding securities to the firm's restricted list when the firm has or may have material nonpublic information. By adding these securities to this list, Andrews would uphold this standard. Because waiting until the next day will not ensure that news of the merger is made public, answer A is incorrect. Negotiations may take much longer between the two companies, and the merger may never happen. Andrews must wait until the information is disseminated to the market before he trades on that information. Answer B is incorrect because Andrews should not disclose the information to other managers; no trading is allowed on material nonpublic information.

Ethics and Professional Standards（8）

- In a private conference of the analysts, Bill, CFA, announced that the company released the increase in EPS before a public release in a few days and told them not to divulge such information in the guideline distributed to the analysts. When should the analysts release the material information?

  A. after the private conference.

  B. after the release of guideline.

  C. after the public release.

- **Solution: C**

  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. Members and candidates should encourage the issuing company to make the information public. Analysts must be aware that a disclosure made to a room full of analysts does not necessarily make the disclosed information "public".

Ethics and Professional Standards（9）

- ABC brokerage firm, which is the market maker, has a long-term business relationship with DD Company, a listed company. Recently, the capital market volume remains thin. DD Company approached their market maker, ABC brokerage firm, to negotiate maintaining a minimum trading volume to keep up the share price. Does the listed company violate the market manipulation?

  A. No, because the market maker need to remain passive to market.

  B. No, because the listed company did not disseminate the misleading information.

  C. Yes.

Ethics and Professional Standards（9）

- **Solution: C**

  The intent of the action is critical to determine whether it is a violation of this standard. In this case, the listed company discussed with their dealer to maintain the trading volume to keep the share price not decreased, so it's a violation.

Ethics and Professional Standards（10）

- Veronica, a fund manager, manages several institutions including a trust sponsored by a National Museum Institution. The purpose of the trust is to maintain the purchase power of its capital to preserve and service the exhibitions around the country. Which of the following entity is Veronica's actual client?

  A. The trust beneficiary.

  B. The Museum Institution.

  C. Both.

- **Solution: A**

  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. In this case, Veronica manages the trust. So, the actual client is not the sponsor, but the beneficiary.

Ethics and Professional Standards（11）

- 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.

Ethics and Professional Standards（11）

- **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.

Ethics and Professional Standards（12）

- Jimmy Stark, a portfolio manager at Rolling Stone Investment, manages several accounts including his parents. His parents pay normal fees as well as clients. After thorough research, he found that the Lighting Company is appropriate for some clients including his parents. To avoid conflicts of interest, Jimmy executes the trades for other clients prior to his parents' account. Jimmy would most likely:

  A. violate fair dealing.

  B. violate fair dealing and loyalty to clients.

  C. violate loyalty to clients.

- **Solution: B**

  As a normal fee-paying account, Jimmy's parents are entitled the same treatment as other clients. Trading other clients prior to his parents will harm the interest of his parents and thus violate fair dealing, loyalty to clients.

Ethics and Professional Standards（13）

- 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. On a first-in, first-out basis with consideration of bundling orders for efficiency.

  B. Across the participating client accounts at the same execution price.

  C. Across the participating client accounts pro rata on the basis of account size.

Ethics and Professional Standards（13）

- **Solution: C**

  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.

Ethics and Professional Standards（14）

- Bradley Ames, a well-known and respected analyst, follows the high-tech industry. In the course of his research, he found that a small, relatively unknown company whose shares are traded over the counter has just signed significant contracts with some company he follows. After considerable amount of investigation, he wrote a research report on the small company and recommend purchase of its shares. He sent his report to all clients through email and then made some telephone calls with VIPs. According to the CFA Institute Code of Ethics and Standards of Professional Conduct, Bradley most likely violate:

  A. Fair Dealing.

  B. Priority of transaction.

  C. None.

Ethics and Professional Standards（14）

- **Solution: C**

  Based on Standard III(B) Fair Dealing, 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. In this case, Bradley fairly deals with the information to his clients.

Ethics and Professional Standards（15）

- Caleb Smith, an investment adviser, has a client Larry Robertson who has a comparative low risk tolerance and she wants only to archive a steady rate of return with low volatility. One day, Caleb got a precious opportunity to invest in X stock which could generate high rate of return with corresponding low price. After comprehensive analyzing and assessing, to grab this chance, Caleb immediately decided to purchase X stock for Larry. According to the CFA Institute Code of Ethics and Standards of Professional Conduct, Caleb most likely violate:

  A. Loyalty, Prudence, and Care.

  B. Suitability.

  C. Both of above.

Ethics and Professional Standards（15）

- **Solution: C**

  Standard III(A) Loyalty, Prudence, and Care: Members and candidates operating in this blended context would comply with their obligations by recommending the allowable products that are consistent with the client's objectives and risk tolerances. Standard III(C) Suitability: The responsibilities of members and candidates to gather information and make a suitability analysis prior to making a recommendation or taking investment action fall on those members and candidates who provide investment advice in the course of an advisory relationship with a client. Under this circumstance, Smith violates Standard III(A) Loyalty, Prudence, and Care and Standard III(C) Suitability.

Ethics and Professional Standards（16）

- Paper was recently terminated as one of a team of five managers of an equity fund. The fund had two value-focused managers and terminated one of them to reduce costs. In a letter sent to prospective employers, Paper presents, with written permission of the firm, the performance history of the fund to demonstrate his past success.

  A. Paper did not violate the Code and Standards.

  B. Paper violated the Code and Standards by claiming the performance of the entire fund as his own.

  C. Paper violated the Code and Standards by including the historical results of his prior employer.

Ethics and Professional Standards（16）

- **Solution: B**

  Paper has violated Standard III(D)–Performance Presentation by not disclosing that he was part of a team of managers that achieved the results shown. If he had also included the return of the portion he directly managed, he would not have violated the standard. Thus, answer A is incorrect. Answer C is incorrect because Paper received written permission from his prior employer to include the results.

Ethics and Professional Standards（17）

- 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.

Ethics and Professional Standards（17）

- **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.

Ethics and Professional Standards（18）

- David works as a portfolio manager for 10 years, and he is planning to leave his current company and to start his own business. Before his leaving, he informs his current clients that he is going to leave the company and open up a new firm running similar business without his employer's permission. In addition, David handles some registration affairs for his new firm after his work. David would most likely violate:

  A. informing his current clients of his resignation.

  B. dealing with registration things for his new firm before leaving.

  C. both A and B.

Ethics and Professional Standards（18）

- **Solution: A**

  David is allowed to deal with registration affairs of his firm as long as it does not breach duty to employers. However, notifying clients of his departure without employer's permission is not permitted and would be considered a soliciting behavior.

Ethics and Professional Standards（19）

- Alexandra Zagoreos, CFA, is the head of a government pension plan. Whenever Zagoreos hires a money management firm to work with the pension plan, she finalizes the deal over dinner at a nice restaurant. At these meals, Zagoreos also arranges for the money manager to provide her payments equal to 10% of the management fee the manager receives from the pension plan. Zagoreos keeps half of the payments for her own use and distributes the remainder as cash incentives to a handful of her most trusted staff. Zagoreos least likely violated which of the following CFA Institute Code of Ethics and Standards of Professional Conduct?

  A. Referral fees.

  B. Loyalty, Prudence and Care.

  C. Additional Compensation Arrangements.

Ethics and Professional Standards（19）

- **Solution：A**

  As the money should not be accepted without receiving written consent from all parties involved, therefore Zagoreos is in violation of Standard IV (B) Additional Compensation Arrangements. However, there is no indication that the member has received compensation, consideration, or benefit received from, or paid to, others for the recommendation of products or services and therefore has not violated Standard VI (C) Referral Fees.

Ethics and Professional Standards（20）

- Wayne RUBY, a CFA charter holder, is a director of brokerage department of a large investment bank who established a strict compliance system regarding investment process. Someone told him that a member of his team, Max CHANG, trading with material nonpublic information. Did Wayne comply with the CFA Institute Code of Ethics and Standards of Professional Conduct?

  A. It depends on whether Wayne makes reasonable efforts to prevent and detect violations.

  B. It depends on whether Wayne adopts the material nonpublic information.

  C. Wayne does not violate any standards since he has already established a strict compliance system.

Ethics and Professional Standards（20）

- **Solution: A**

  According to Standard IV (C) Responsibilities of Supervisors, supervisors should make reasonable efforts to prevent and detect violations by ensuring the establishment of effective compliance systems. Members or candidates should implement education and training programs and establish incentives for employees. In this case, Wayne should not only established compliance system but also implement it during his daily supervision.

Ethics and Professional Standards（21）

- 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.

Ethics and Professional Standards（21）

- **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.

Ethics and Professional Standards（22）

A. Peter Morgan, CFA, has just established a new investment company. The company is lacking experienced researcher so he is considering relying on third-party researches. According to the Codes and Standards, when Peter selects third-party advisors, he would least likely conduct due diligence on:
  A. the investment process and adherence to its stated strategy.
  B. the quality of the previous reports the third-party provides before.
  C. the detailed background of every employees in the third-party entities.

- **Solution: C**

  Firms should have standardized criteria for selecting external advisers like 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, etc.

  Assessing the detailed background of every employees in the external advisors is not needed.

Ethics and Professional Standards（23）

- Scott Campbell, CFA, who did not master relevant skills in developing quantitative model but he utilized a complex one for selecting corporate bonds. Nevertheless, Campbell carefully documented all assumptions of this model with reasoned assumptions. Does Campbell violate any CFA Institute Standards?
  A. No.
  B. Yes, with respect to diligence and reasonable basis.
  C. Yes, with respect to loyalty, prudence and care.

- **Solution: A**
  The Standards do not required being experts in technical aspects of the models, but quantitative model users 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.

Ethics and Professional Standards（24）

- Amanda Chinn is the investment director for Diversified Asset Management, which manages the endowment of a charitable organization. Because of some legal issues may be involved in recent investing projects, Chinn seek a legal service agency for help, which could provide the professional services. To exchange free service, Chinn is agreed to introduce his customers to this agency. And then, the relevant information is disclosed to Diversified Asset Management's customers. According to the CFA Institute Code of Ethics and Standards of Professional Conduct, Chinn:
  A. has not violated any standards.
  B. has violated Standard VI(C) Referral Fees.
  C. should disclose relevant information to customers prior to the agreement reached.

Ethics and Professional Standards（24）

- **Solution: C**
  Because the introduction of a legal service agency does not represent a material change in the investment process, but the best execution is disclose relevant information to customers prior to the agreement reached.

Ethics and Professional Standards（25）

- CX Investment firm adopts the record retention policy of 4 years in hard copy and 7 years in electronic form, while the local policy requires a minimum of 5 years retention in hard copy but no legal requirement of electronic form. According to the Codes and Standards, CX would most likely keep record retention of:

  A. 4 years for hard copy, 7 years for electronic form

  B. 5 years for hard copy, 7 years for electronic form

  C. 5 years for hard copy, no requirement for electronic form

- **Solution: B**

  According to the Codes and Standards, CFA Institute requires a minimum of 7 years in record retention if no applicable laws exist. However, if applicable laws requires 5 years, we should follow the local law.

Ethics and Professional Standards（26）

- Mallon, CFA, specialize in emerging market stocks in a global investment company. He found out a new position in a large insurance company recently and planned to take away his research materials while he left the current company. Although the employer denied his requirement, he re-created these materials by memory and used them in a new research report. Mallon violates the Code and Standards with respect to:

  A. Record Retention.

  B. Misrepresentation.

  C. Both.

Ethics and Professional Standards（26）

- **Solution: A**

  As a general matter, records created as part of a member's or candidate's professional activity on behalf of his or her employer are the property of the firm. When a member or candidate leaves a firm to seek other employment, the member or candidate cannot take the property of the firm.

  Members and Candidates 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.

Ethics and Professional Standards（27）

- Sam Michael, a sell-side analyst, has been asked to write a research report on the stock of XYZ Company. As well as some other clients, his parents also own $30,000 in XYZ stock of which the actual beneficiary is Sam himself. To comply with Codes and Standards, Sam would most likely:
  A. not disclose his parents' stock ownership in XYZ stock and write the report.
  B. not disclose his parents' stock ownership in XYZ because it is his parents account.
  C. disclose his parents' stock ownership to his employer and in the report or ask the employer to assign another analyst to finish the report.

- **Solution: C**
  The personal stock ownership in the target company will jeopardize the analyst's independence and objectivity. Though the account holding XYZ shares is Sam's parents account, however the beneficial owner in fact is Sam. It would create a conflict of interest if Sam does not disclose the relationship and writes the report.

Ethics and Professional Standards（28）

- Jamison is a junior research analyst with Howard & Howard, a brokerage and investment banking firm. Howard & Howard's mergers and acquisitions department has represented the Britland Company in all of its acquisitions for the past 20 years. Two of Howard & Howard's senior officers are directors of various Britland subsidiaries. Jamison has been asked to write a research report on Britland. What is the best course of action for her to follow?
  A. Jamison may write the report but must refrain from expressing any opinions because of the special relationships between the two companies.
  B. Jamison should not write the report because the two Howard & Howard officers serve as directors for subsidiaries of Britland.
  C. Jamison may write the report if she discloses the special relationships with the company in the report.

Ethics and Professional Standards（28）

- **Solution：C**
  This question involves Standard VI(A)—Disclosure of Conflicts. The question establishes a conflict of interest in which an analyst, Jamison, is asked to write a research report on a company that is a client of the analyst's employer. In addition, two directors of the company are senior officers of Jamison's employer. Both facts establish that there are conflicts of interest that must be disclosed by Jamison in her research report. Answer B is incorrect because an analyst is not prevented from writing a report simply because of the special relationship the analyst's employer has with the company as long as that relationship is disclosed. Answer A is incorrect because whether or not Jamison expresses any opinions in the report is irrelevant to her duty to disclose a conflict of interest. Not expressing opinions does not relieve the analyst of the responsibility to disclose the special relationships between the two companies.

Ethics and Professional Standards（29）

- Spencer Rivers, CFA charter holder, manages the accounts of an institution, the employer and his parents. His father does not pay for the investment service fee. When oversubscribed IPOs become available, how should he do?
  A. Allocate to the institution client and to the employer.
  B. Allocate to the institution client, his father and the employer.
  C. Allocate to the institution client, the employer and his father.

- **Solution: A**
  Investment transaction for clients must have priory over investment transactions for employers. Although his father does not pay for the investment service fee, his father's account still is not client comparable to other clients (normal fee-paying account).

Ethics and Professional Standards（30）

- Lin YAO, an analyst in a brokerage firm, can get a bonus at the end of every year based on the performance of the firm. Besides his salaries got from his own firm, he can also get some additional compensation from his clients in writing recommendations and referral fee from another companies. Lin disclosed all of the compensation, including his bonus, additional compensation and referral fees, and got written permission from all parties involved. Which of these actions violate standards?
  A. Additional compensation from clients who he is making a recommendation.
  B. Referral fees.
  C. None of them.

Ethics and Professional Standards（30）

- **Solution: C**
  The correct answer is C because he has disclosed all arrangement and got permission from all parties involved.
  - Members and candidates must disclose when they pay a fee or provide compensation to others who have referred prospective clients to the member or candidate.
  - Appropriate disclosure means that members and candidates must advise the client or prospective client, before entry into any formal agreement for services, of any benefit given or received for the recommendation of any services provided by the member or candidate.
  - In addition, the member or candidate must disclose the nature of the consideration or benefit—for example, flat fee or percentage basis, one-time or continuing benefit, based on performance, benefit in the form of provision of research or other noncash benefit—together with the estimated dollar value. Consideration includes all fees, whether paid in cash, in soft dollars, or in kind.

Ethics and Professional Standards（31）

- Nikki, Mikey, and Minnie have just finished the CFA Level I exam. Nikki posts the comment:" I am so glad that there were no questions about the binominal model!" Mikey writes complaints on the discussion board that CFA examination is very academic, while Minnie expresses that she feels she has done well in the exam. Who would mostly violate Codes and Standards?
  A. Nikki.
  B. Mikey.
  C. Minnie.

- **Solution: A**
  It is permitted to express one's own feelings on CFA exam, however, disclosing any details concerning the content of the exam will be deemed as a violations of Codes and Standards.

Ethics and Professional Standards（32）

- Mike has passed all three level CFA exams and has earned the right to use the CFA designation granted by CFA. Which of the following is the least correct usage of CFA designation?
  A. Mike, CFA.
  B. Mike, Chartered Financial Analyst.
  C. Mike is a Chartered Financial Analyst.

- **Solution: C**
  The CFA and Chartered Financial Analyst designations must always be used as adjectives, never as nouns or common names.

Ethics and Professional Standards（33）

- According to the GIPS, which of the following statements about composite construction is least accurate?
  A. All actual, fee-paying, discretionary portfolio must be included in at least one composite.
  B. Non-fee-paying discretionary portfolio may be included in a composite.
  C. Non-discretionary portfolios may be included in a firm's composites.

- **Solution: C**
  C is correct because non-discretionary portfolios must not be included in a firm's composites.

Ethics and Professional Standards（34）

- AAA investment firm recently claimed to comply with the GIPS standards. Alan who is responsible for the GIPS compliance considers about the policy of the composite construction. Which of the following performance should be included in the composite?
  A. Historical performance.
  B. Expected performance.
  C. Both.

- **Solution: A**
  According with GIPS standards, composites cannot include simulated, backtested, or model portfolios (The GIPS Guidance Statement on the Use of Supplemental Information states that model, hypothetical, backtested, or simulated returns can be shown as supplemental information but cannot be linked to actual composite returns). The expected performance is considered for future period, which cannot include in the composite.

Ethics and Professional Standards（35）

- When a company complies with Global Investment Police Standards (GIPS), which scope of the firm should apply GIPS?
  A. The whole company which is held out to be distinct unit.
  B. One subsidiary of the firm.
  C. One segment with high profitability.

- **Solution: A**
  Compliance is a firm-wide process that cannot be achieved on a single product or composite. A firm has only two options with regard to compliance with the GIPS standards: fully comply with all requirements of the GIPS standards and claim compliance through the use of the GIPS Compliance Statement; or not comply with all requirements of the GIPS standards and not claim compliance with, or make any reference to, the GIPS standards.

Ethics and Professional Standards（36）

- Which of the following statements about verification of GIPS compliance by an independent third-party is most likely correct?
  A. Verification is required if a composite is performed with some special portfolios.
  B. Firms must be verified by an independent third-party to claim comply with the GIPS standards.
  C. Verification can enhance the accuracy of the performance report.

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