Quiz Questions for Standards of Professional Conduct

[
{
"type": "Quiz",
"standard": "Introduction",
"content": "Benchmarks for minimally acceptable behaviors of community members are: A a code of ethics.
B laws and regulations.
C standards of conduct.",
"answer": "C",
"explanation": "Standards of conduct are applied to specific communities or societal groups and identify specific behaviors required of community members. These standards of conduct serve as benchmarks for the minimally acceptable behavior of community members. Codes of ethics serve as a general guide for how community members should act; they communicate the organization’s values and overall expectations regarding member behavior, but they do not identify specific behaviors required of community members. Laws and regulations are rules of conduct defined by governments and related entities about obligatory and forbidden conduct broadly applicable for individuals and entities under their jurisdiction."
}

{
"type": "Quiz",
"standard": "Introduction",
"content": "Which of the following best identifies an internal trait that may lead to poor ethical decision making?
A Overconfidence
B Loyalty to employer
C Promise of money or prestige",
"answer": "A",
"explanation": "An overconfidence bias can lead individuals to put too much importance on internal traits and intrinsic motivations, such as their own perceptions of personal honesty, that can lead to faulty decision making. Loyalty to an employer and promise of money or prestige are situational influences that can lead to faulty decision making."
}

{
"type": "Quiz",
"standard": "Introduction",
"content": "Situational influences in decision making will most likely be minimized if:
A strong compliance programs are in place.
B longer-term consequences are considered.
C individuals believe they are truthful and honest.",
"answer": "B",

"explanation": "Consciously considering long-term consequences will help off-set situational influences. We more easily recognize and consider short-term situational influences than longer-term considerations because longer-term considerations have fewer immediate consequences than situational influences do. When decision making is too narrowly focused on short-term factors, we tend to ignore longer-term risks and consequences, and the likelihood of poor ethical decision making increases. A strong compliance policy is a good first step toward developing an ethical culture; a focus on rules adherence may not be sufficient. Emphasis on compliance may not encourage decision makers to consider the larger picture and can oversimplify decision making. Taken to the extreme, a strong compliance culture can become another situational influence that blinds employees to other important considerations. An overconfidence bias can place too much importance on internal traits and intrinsic motivations, such as “I’m honest and would not lie,” even though studies have shown that internal traits are generally not the main determinant of whether or not some-one will behave ethically in a given situation."
}

{
"type": "Quiz",
"standard": "Introduction",
"content": "Decision makers who use a compliance approach are most likely to:
A avoid situational influences.
B oversimplify decision making.
C consider more factors than when using an ethical decision-making approach.",
"answer": "B",
"explanation": "A compliance approach can oversimplify decision making and may not encourage decision makers to consider the larger picture. A strong compliance culture may be a good start in developing an ethical culture but can become another situational influence that may result in employees failing to consider other important factors."
}

{
"type": "Quiz",
"standard": "Introduction",
"content": "When unethical behavior erodes trust in an investment firm, that firm is more likely to experience:
A lower revenues only.
B higher expenses only.
C lower revenues and higher expenses.",
"answer": "C",
"explanation": "Unethical behavior ultimately harms investment firms. Clients are not attracted if they suspect unethical behavior, leading to less business and lower revenues. Investment firms may also experience higher relative costs because regulators are more likely to have cause to initiate costly investigations."
}

{
"type": "Quiz",
"standard": "Introduction",
"content": "Which is an example of an activity that may be legal but that CFA Institute considers unethical?
A Making legally required disclosures in marketing materials
B Trading while in possession of material nonpublic information
C Disclosure by an employee of his or her own company’s dishonest activity.",
"answer": "B",
"explanation": "The investment industry has examples of conduct that may be legal but that CFA Institute considers unethical. Trading while in possession of material nonpublic information is not prohibited by law worldwide and can, therefore, be legal, but CFA Institute considers such trading unethical."
}

{
"type": "Quiz",
"standard": "GIPS standards",
"content": "With respect to the Global Investment Performance Standards, which of the following is one of the nine sections containing investment performance provisions?
A Real Estate.
B Derivatives.
C Legal and Ethical Considerations.",
"answer": "A",
"explanation": "Real Estate is one of the nine sections in the 2010 edition of the GIPS standards. Derivatives and Legal and Ethical Considerations are not sections of the Standards."
}

{
"type": "Quiz",
"standard": "GIPS standards",
"content": "According to the Fundamentals of Compliance section of the Global Investment Performance Standards, issues that a firm must consider when claiming compliance include all of the following except:
A replicating performance.
B properly defining the firm.
C documenting firm policies and procedures used in establishing and maintaining compliance with the Standards.",
"answer": "A",
"explanation": "Replication of performance is not included in the Fundaments of Compliance section within the GIPS standards."
}

{
"type": "Quiz",
"standard": "GIPS standards",
"content": "G&F Advisors claims compliance with the Global Investment Performance Standards (GIPS) in its marketing materials. The compliant presentation includes a footnote which indicates that the firm has been verified by an independent third party. An additional note states that G&F is in compliance with the GIPS standards except for its private equity investments. Is it likely that G&F violated the GIPS standards?
A No, because the footnotes meet the requirements of the Standards.
B No, because the provisions do not apply to the private equity investments. C Yes, because they cannot claim compliance unless all requirements of the Standard are met.",
"answer": "C",
"explanation": "Firms must meet all the requirements set forth in the GIPS standards and cannot claim partial compliance."
}

{
"type": "Quiz",
"standard": "GIPS standards",
"content": "When local laws and regulations governing calculation and presentation of investment performance conflict with GIPS standards, firms are:
A. required to calculate and maintain two sets of performance data in order to claim GIPS compliance.
B. required to comply with local laws and regulations and make full disclose of the conflict to claim GIPS compliance.
C. not eligible to participate in GIPS reporting.",
"answer": "B",
"explanation": "In cases where applicable local laws and regulations governing calculation and presentation of investment performance conflict with the GIPS standards, firms are required to comply with local laws and regulations and make full disclose of the conflict in the compliant presentation."
}

{
"type": "Quiz",
"standard": "GIPS standards",
"content": "According to the GIPS standards, a verification does not test whether:
A. specific composite presentations are accurate.
B. a firm has complied with all composite construction requirements on a firm-wide basis.
C. policies and procedures are designed to present compliant performance results.",
"answer": "A",
"explanation": "According to the Global Investment Performance Standards (GIPS), verification does not ensure the accuracy of any specific composite presentations. Verification tests if (1) the FIRM has complied with all the composite construction requirements of the GIPS standards on a

firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not, in any way, provide assurance about the results of a specific composite. That level of assurance is provided through an additional level of testing of a specific composite, called a performance examination."
}

{
"type": "Quiz",
"standard": "GIPS standards",
"content": "According to the GIPS standards, a firm must do all of the following except:
A. comply with all requirements of the GIPS standards, such as updates, Guidance Statements, and clarifications.
B. adhere to specific calculation methodologies and make specific disclosures along with their performance.
C. undergo a third-party verification of its claim of compliance.",
"answer": "C",
"explanation": "Firms may choose (but are not required) to have an independent third-party verification to claim compliance with the GIPS standards."
}

{
"type": "Quiz",
"standard": "Standard I(B) Independence and Objectivity",
"content": "An investment management firm has been hired by ETV Corporation to work on an additional public offering for the company. The firm's brokerage unit now has a "sell" recommendation on ETV, but the head of the investment banking department has asked the head of the brokerage unit to change the recommendation from "sell" to "buy." According to the Standards, the head of the brokerage unit would be permitted to:
A Increase the recommendation by no more than one increment (in this case, to a "hold" recommendation).
B Place the company on a restricted list and give only factual information about the company.
C Assign a new analyst to decide if the stock deserves a higher rating.",
"answer": "B",
"explanation": "This question relates to Standard I(B)–Independence and Objectivity. When asked to change a recommendation on a company stock to gain business for the firm, the head of the brokerage unit must refuse in order to maintain his independence and objectivity in making recommendations. He must not yield to pressure by the firm's investment banking department. To avoid the appearance of a conflict of interest, the firm should dis-continue issuing recommendations about the company. Answer A is incorrect; changing the recommendation in any manner that is contrary to the analyst's opinion violates the duty to maintain independence and objectivity. Answer C is incorrect because merely assigning a new analyst to decide whether the stock deserves a higher rating will not address the conflict of interest."
}

{
"type": "Quiz",
"standard": "Standard I(C) Misrepresentation",
"content": "Grey recommends the purchase of a mutual fund that invests solely in long-term US Treasury bonds. He makes the following statements to his clients: I. “The payment of the bonds is guaranteed by the US government; therefore, the default risk of the bonds is virtually zero.” II. “If you invest in the mutual fund, you will earn a 10% rate of return each year for the next several years based on historical performance of the market.” Did Grey’s statements violate the CFA Institute Code and Standards?
A Neither statement violated the Code and Standards.
B Only statement I violated the Code and Standards.
C Only statement II violated the Code and Standards.",
"answer": "C",
"explanation": "This question involves Standard I(C)–Misrepresentation. Statement I is a factual statement that discloses to clients and prospects accurate information about the terms of the investment instrument. Statement II, which guarantees a specific rate of return for a mutual fund, is an opinion stated as a fact and, therefore, violates Standard I(C). If statement II were rephrased to include a qualifying statement, such as “in my opinion, investors may earn . . . ,” it would not be in violation of the Standards."
}

{
"type": "Quiz",
"standard": "Standard I(A) Knowledge of the Law",
"content": "Which of the following is a correct statement of a member’s or candidate’s duty under the Code and Standards?
A In the absence of specific applicable law or other regulatory requirements, the Code and Standards govern the member’s or candidate’s actions.
B A member or candidate is required to comply only with applicable local laws, rules, regulations, or customs, even though the Code and Standards may impose a higher degree of responsibility or a higher duty on the member or candidate.
C A member or candidate who trades securities in a securities market where no applicable local laws or stock exchange rules regulate the use of material nonpublic information may take investment action based on material non-public information.",
"answer": "A",
"explanation": "This question relates to Standard I(A)–Knowledge of the Law—specifically, global application of the Code and Standards. Members and candidates who practice in multiple jurisdictions may be subject to various securities laws and regulations. If applicable law is more strict than the requirements of the Code and Standards, members and candidates must adhere to applicable law; otherwise, members and candidates must adhere to the Code and Standards. Therefore, answer A is correct. Answer B is incorrect because members and candidates must adhere to the higher standard set by the Code and Standards if local applicable law is less strict. Answer C is incorrect because when no applicable law exists, members and candidates are required to adhere to the Code and Standards, and the Code and Standards prohibit the use of

material nonpublic information."
}

{
"type": "Quiz",
"standard": "Standard I(B) Independence and Objectivity",
"content": "Ward is scheduled to visit the corporate headquarters of Evans Industries. Ward expects to use the information he obtains there to complete his research report on Evans stock. Ward learns that Evans plans to pay all of Ward's expenses for the trip, including costs of meals, hotel room, and air transportation. Which of the following actions would be the best course for Ward to take under the Code and Standards?
A Accept the expense-paid trip and write an objective report.
B Pay for all travel expenses, including costs of meals and incidental items.
C Accept the expense-paid trip but disclose the value of the services accepted in the report.",
"answer": "B",
"explanation": "The best course of action under Standard I(B)–Independence and Objectivity is to avoid a conflict of interest whenever possible. Therefore, for Ward to pay for all his expenses is the correct answer. Answer C details a course of action in which the conflict would be disclosed, but the solution is not as appropriate as avoiding the conflict of interest.
"
}

{
"type": "Quiz",
"standard": "Standard I(C) Misrepresentation",
"content": "Michelieu tells a prospective client, "I may not have a long-term track record yet, but I'm sure that you'll be very pleased with my recommendations and service. In the three years that I've been in the business, my equity-oriented clients have averaged a total return of more than 26% a year." The statement is true, but Michelieu only has a few clients, and one of his clients took a large position in a penny stock (against Michelieu's advice) and realized a huge gain. This large return caused the average of all of Michelieu's clients to exceed 26% a year. Without this one investment, the average gain would have been 8% a year. Has Michelieu violated the Standards?
A No, because Michelieu is not promising that he can earn a 26% return in the future.
B No, because the statement is a true and accurate description of Michelieu's track record.
C Yes, because the statement misrepresents Michelieu's track record.",
"answer": "C",
"explanation": "This question relates to Standard I(C)–Misrepresentation. Although Michelieu's statement about the total return of his clients' accounts on average may be technically true, it is misleading because the majority of the gain resulted from one client's large position taken against Michelieu's advice. Therefore, this statement misrepresents the investment performance the member is responsible for. He has not taken steps to present a fair, accurate, and complete presentation of performance. Answer B is thus incorrect. Answer A is incorrect because although Michelieu is not guaranteeing future results, his words are still a misrepresentation of his

performance history."
}

{
"type": "Quiz",
"standard": "Standard I(C) Misrepresentation",
"content": "Mamadou prepares a general report on the US stock market for potential clients. The report includes an excerpt of general information on the stock market taken from an academic textbook he used in school and a chart of annual average returns of the New York Stock Exchange (NYSE) for the past 100 years taken from the Wall Street Journal. He does not provide a citation for either source. Mamadou has violated the CFA Institute Code and Standards by using:
l. the general information on the US stock market.
Il. the chart of annual average NYSE returns over the past 100 years
I only.
B. Both l and ll.
C. Neither l or ll.",
"answer": "B",
"explanation": "Mamadou violates Standard I(C): Misrepresentation by using the chart of annual average returns of the NYSE from the Wall Street Journal as well as the general information from the textbook without citing the sources because both are examples of plagiarism."
}

{
"type": "Quiz",
"standard": "Standard I(C) Misrepresentation",
"content": "Yvette is a successful money manager who is confident of her stock-picking ability and claims in her marketing brochures that her clients "will obtain a significant return on principal" by following her advice. Yvette's statement:
A. misrepresents her ability as an investment manager.
B. improperly implies a guaranteed investment return.
C. states an opinion and therefore is not a misrepresentation.",
"answer": "B",
"explanation": "Yvette violates Standard I(C): Misrepresentation because her statement that her clients "will obtain a significant return on principal" improperly implies a guaranteed investment return."
}

{
"type": "Quiz",
"standard": "Standard I(C) Misrepresentation",
"content": "Miriam prepares a research report on the global automobile industry for her employer just prior to leaving for another position at a new firm. After Miriam is gone, Mehdi takes over Miriam's area of responsibility and republishes the report that Miriam prepared, without Miriam's name. Mehdi lists himself as the contact person for those with questions about the report. Mehdi's

actions:
A. violate the CFA Institute Code and Standards.
B. do not violate the CFA Institute Code and Standards because the research report that Miriam prepared is the property of the firm.
C. do not violate the CFA Institute Code and Standards only if Mehdi reviews the report and agrees with Miriam's analysis.",
"answer": "B",
"explanation": "Mehdi does not violate Standard I(C): Misrepresentation by republishing the report that Miriam wrote without Miriam's name because he has taken over as the contact person for the report after Miriam's departure and he is not claiming to be the author of the report."
}

{
"type": "Quiz",
"standard": "Standard I(D) Performance Presentation",
"content": "Which of the following examples of conduct is least likely to violate the CFA Institute Standard of Professional Conduct related to performance presentation?
A. Eliminating accounts that have been terminated when calculating aggregate performance history.
B. Using simulated performance history from a hypothetical account to show typical investment performance.
C. Presenting the performance history of a composite of accounts rather than a single "representative" account.",
"answer": "C",
"explanation": "Presenting the performance history of a composite of accounts rather than a single "representative" account complies with Standard I(D): Performance Presentation and would lead to a more complete and accurate reflection of performance history."
}

{
"type": "Quiz",
"standard": "Standard I(A) Knowledge of the Law",
"content": "Which statement is NOT part of CFA Institute Standard I(A): Knowledge of the Law? CFA Institute members must:
A. comply with the more strict applicable law, rule, or regulation in the event of conflict.
B. not knowingly participate or assist in and must dissociate from any violation of the law.
C. report violations of the law by their colleagues to CFA Institute.",
"answer": "C",
"explanation": "Standard I(A): Knowledge of the Law does not require CFA Institute members to report violations of the law by the colleagues to CFA Institute."
}

{
"type": "Quiz",

"standard": "Standard I(A) Knowledge of the Law",
"content": "Failure to report legal and ethical violations by others:
A. is a violation of CFA Institute Standard I(A): Knowledge of the Law.
B. is considered a failure to dissociate from the violation.
C. may harm clients or the investing public.",
"answer": "C",
"explanation": "Failure to report legal and ethical violations by others may harm clients or the investing public and reporting is thus recommended, but reporting is not mandated by the Code and Standards unless it is required by law."
}

{
"type": "Quiz",
"standard": "Standard I(B): Independence and Objectivity",
"content": "Ward is scheduled to visit the corporate headquarters of Evan Industries. Ward expects to use the information obtained to complete his research report on Evans stock. Ward learns that Evans plans to pay all of Ward's expenses, including meals, hotel room, and air transportation. Which of the following actions by Ward would be the best course of action under the Code and Standards?
A. Write the report without taking the trip.
B. Pay for all travel expenses, including cost of meals and incidental items
C. Accept the expense-paid trip but disclose the value of the services accepted in the report.",
"answer": "B",
"explanation": "To comply with Standard I(B): Independence and Objectivity, Ward should pay for all travel expenses, including cost of meals and incidental items."
}

{
"type": "Quiz",
"standard": "Standard II(B) Market Manipulation",
"content": "Agustin places multiple, non-bona fide limit orders on one side of the market for a security at various price levels away from the best bid or offer to create the impression of a change in the levels of supply and demand. This action moves the price of the security. He then executes a trade on the opposite side of the market at the artificially created price and orders are immediately cancelled. Agustin's actions most likely:
A. violate the CFA Institute Standard of Professional Conduct related to market manipulation.
B. comply with the Code and Standards if the action is taken to benefit clients
C. comply with the Code and Standards if the action is disclosed to his employer.",
"answer": "A",
"explanation": "Agustin's conduct is an example of trading-based market manipulation and is a violation of Standard II(B): Market Manipulation."
}

{
"type": "Quiz",
"standard": "Standard II(A) Material Nonpublic Information",
"content": "Winifred is an investment analyst who has accumulated and analyzed several pieces of nonpublic information through her contacts with drug firms. Although none of the information is"material," Winifred correctly concluded that the earnings of one of the drug firms would be unexpectedly high in the coming year. According to the Code and Standards, Winifred:
A. can use the information to make investment recommendations and decisions.
B. should publish the information before she uses it in her investment recommendations and decisions.
C. should urge the drug firm to publicly disseminate the information immediately.",
"answer": "A",
"explanation": "Under Standard II(A): Material Nonpublic Information, Winifred can use the non-material nonpublic information she obtained to inform her investment recommendations and decisions."
}

{
"type": "Quiz",
"standard": "Standard II(A) Material Nonpublic Information",
"content": "Which of the following is most likely to be considered a "material" piece of information regarding a company?
A. A competitor's CEO speculating about a pending management change at their company.
B. The loss of a customer representing a significant portion of a company's gross sales.
C. A former CFO of a company predicting long-term decline in the company's stock.",
"answer": "B",
"explanation": "Under Standard II(A): Material Nonpublic Information, the loss of a customer representing a significant portion of a company's gross sales is most likely to be considered a "material" piece of information regarding a company because the information will likely affect the price of the security and a reasonable investor would like to know about the information prior to making an investment decision."
}

{
"type": "Quiz",
"standard": "Standard II(A) Material Nonpublic Information",
"content": "Which of the following would result from prolific trading on material nonpublic information?
l. Erosion of investor confidence in investment professionals and institutions.
Il. Efficient allocation of information to the investing public.
Ill. Efficient allocation of capital to worthy investments.
A. I only.
B. Il and Ill.
C. l, Il, and lll.",

"answer": "A",
"explanation": "Trading on material nonpublic information leads to the erosion of investor confidence in the fairness of capital markets and investment professionals and institutions because only "insiders" with special access to confidential material information are fully able to make informed investment decisions."
}

{
"type": "Quiz",
"standard": "Standard II(B) Market Manipulation",
"content": "Which of these actions would be considered a violation of the CFA Institute Standard on market manipulation?
A. Issuing false rumors about an investment to induce trading by others so you can benefit from the change in share price.
B. Trading of low-volume securities to exploit market inefficiencies.
C. Selling a stock and immediately buying it back to capture specific tax incentives.",
"answer": "A",
"explanation": "Issuing false rumors about an investment to induce trading by others so you can benefit from the change in share price is a violation of Standard II(B): Market Manipulation because the conduct is designed to deceive the market."
}

{
"type": "Quiz",
"standard": "Standard II(A) Material Nonpublic Information",
"content": "The mosaic theory holds that an analyst:
A Violates the Code and Standards if the analyst fails to have knowledge of and comply with applicable laws.
B Can use material public information and non-material nonpublic information in the analyst's analysis.
C Should use all available and relevant information in support of an investment recommendation.",
"answer": "B",
"explanation": "This question deals with Standard II(A)–Material Nonpublic Information. The mosaic theory states that an analyst may use material public information and non-material nonpublic information in creating a larger picture than shown by any individual piece of information and the conclusions the analyst reaches become material only after the pieces are assembled. Answers A and C are accurate statements relating to the Code and Standards but do not describe the mosaic theory."
}

{
"type": "Quiz",
"standard": "Standard II(A) Material Nonpublic Information",

"content": "An investment banking department of a brokerage firm often receives material nonpublic information that could have considerable value if used in advising the firm’s brokerage clients. In order to conform to the Code and Standards, which one of the following is the best policy for the brokerage firm? A Permanently prohibit both “buy” and “sell” recommendations of the stocks of clients of the investment banking department.
B Establish physical and informational barriers within the firm to prevent the exchange of information between the investment banking and brokerage operations.
C Monitor the exchange of information between the investment banking department and the brokerage operation.",
"answer": "B",
"explanation": "The best policy to prevent violation of Standard II(A)–Material Nonpublic Information is the establishment of firewalls in a firm to prevent exchange of insider information. The physical and informational barrier of a firewall between the investment banking department and the brokerage operation prevents the investment banking department from providing information to analysts on the brokerage side who may be writing recommendations on a company stock. Prohibiting recommendations of the stock of companies that are clients of the investment banking department is an alternative, but answer A states that this prohibition would be permanent, which is not the best answer. Once an offering is complete and the material nonpublic information obtained by the investment banking department becomes public, resuming publishing recommendations on the stock is not a violation of the Code and Standards because the information of the investment banking department no longer gives the brokerage operation an advantage in writing the report. Answer C is incorrect because no exchange of information should be occurring between the investment banking department and the brokerage operation, so monitoring of such exchanges is not an effective compliance procedure for preventing the use of material nonpublic information."
}

{
"type": "Quiz",
"standard": "Standard II(A) Material Nonpublic Information",
"content": "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 fol-lowing 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.",
"answer": "C",
"explanation": "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."
}

{
"type": "Quiz",
"standard": "Standard II(B) Market Manipulation",
"content": "Pietro, president of Local Bank, has hired the bank’s market maker, Vogt, to seek a merger partner. Local is currently not listed on a stock exchange and has not reported that it is seeking strategic alternatives. Vogt has discussed the possibility of a merger with several firms, but they have all decided to wait until after the next period’s financial data are available. The potential buyers believe the results will be worse than the results of prior periods and will allow them to pay less for Local Bank. Pietro wants to increase the likelihood of structuring a merger deal quickly. Which of the following actions would most likely be a violation of the Code and Standards?
A Pietro could instruct Local Bank to issue a press release announcing that it has retained Vogt to find a merger partner.
B Pietro could place a buy order for 2,000 shares (or four times the average weekly volume) through Vogt for his personal account.
C After confirming with Local’s chief financial officer, Pietro could instruct Local to issue a press release reaffirming the firm’s prior announced earnings guidance for the full fiscal year.",
"answer": "B",
"explanation": "Through placing a personal purchase order that is significantly greater than the average volume, Pietro is violating Standard II(B)–Market Manipulation. He is attempting to manipulate an increase in the share price and thus bring a buyer to the negotiating table. The news of a possible merger and confirmation of the firm’s earnings guidance may also have positive effects on the price of Local Bank, but Pietro’s actions in instructing the release of the information does not represent a violation through market manipulation. Announcements of this nature are common and practical to keep investors informed. Thus, answers A and C are incorrect."
}

{
"type": "Quiz",
"standard": "Standard II(A) Material Nonpublic Information",
"content": "During a round of golf, Rodriguez, chief financial officer of Mega Retail, mentions to Hart, a local investment adviser and long-time personal friend, that Mega is having an exceptional sales quarter. Rodriguez expects the results to be almost 10% above the current estimates. The next day, Hart initiates the purchase of a large stake in the local exchange-traded retail fund for her personal account.
A Hart violated the Code and Standards by investing in the exchange-traded fund that included

Mega Retail.
B Hart did not violate the Code and Standards because she did not invest directly in securities of Mega Retail.
C Rodriguez did not violate the Code and Standards because the comments made to Hart were not intended to solicit an investment in Mega Retail.",
"answer": "A",
"explanation": "Hart's decision to invest in the retail fund appears directly correlated with Rodriguez's statement about the successful quarter of Mega Retail and thus violates Standard II(A)–Material Nonpublic Information. Rodriguez's information would be considered material because it would influence the share price of Mega Retail and probably influence the price of the entire exchange-traded retail fund. Thus, answer B is incorrect. Answer C is also incorrect because Rodriguez shared information that was both material and nonpublic. Company officers regularly have such knowledge about their firms, which is not a violation. The sharing of such information, however, even in a conversation between friends, does violate Standard II(A)."
}

{
"type": "Quiz",
"standard": "Standard III(D) Performance Presentation",
"content": "Which of the following examples of conduct is least likely to violate the CFA Institute Standard of Professional Conduct related to presenting investment performance?
Presenting performance in compliance with the Global Investment Performance Standards (GIPS).
B. Using a "representative" account to show overall investment performance of all accounts.
C. Using the performance history you achieved at a previous employer to represent your expected record at a new firm.",
"answer": "A",
"explanation": "Presenting performance in compliance with the Global Investment Performance Standards (GIPS) is unlikely to violate Standard III(D): Performance Presentation and is a good way to comply with the Standard."
}

{
"type": "Quiz",
"standard": "Standard III(D) Performance Presentation",
"content": "Which of the following is most likely a violation by a CFA Institute member in meeting his or her obligations with regard to presenting investment performance under the Code and Standards?
A. Presenting the performance of the weighted composite of similar portfolios.
B. Making disclosures that explain the performance results being reported.
C. Presenting the performance of a new investment strategy by applying the strategy to historical performance data.",
"answer": "C",
"explanation": "Presenting the performance of a new investment strategy by applying the strategy to historical performance data without disclosing that to investors is most likely a violation of

Standard III(D): Performance Presentation."
}

{
"type": "Quiz",
"standard": "Standard III(A) Loyalty, Prudence, and Care",
"content": "One of the discretionary accounts managed by Finn is the pension fund of a local manufacturing company. The company president asks Finn to vote the shares in the plan for the company-nominated slate of directors and against the directors sponsored by a dissident stockholder group. Finn investigates the proxy fight issue, concludes that management's slate of directors is better for the long-run performance of the firm than those recommended by the dissident group, and votes accordingly. Finn:
A. violated the Code and Standards in voting the shares in the manner requested by the company president.
B. did not violate the Code and Standards in voting for the company-nominated directors because Finn determined that it was in the best interests of the firm after investigating the issue.
C. did not violate the Code and Standards in following whatever was requested by the company president because the voting of proxies is not an integral part of managing investments.",
"answer": "B",
"explanation": "Finn did not violate Standard III(A): Loyalty, Prudence, and Care because after an investigation, he determined that voting for the company-nominated directors was in the best interest of his client."
}

{
"type": "Quiz",
"standard": "Standard III(A) Loyalty, Prudence, and Care",
"content": "The duty of loyalty, prudence, and care requires CFA Institute members to:
I. seek best execution of security trades
Il. use soft dollars or soft commissions to pay for investment research.
Ill. vote proxies in an informed manner.
A. I only.
B. Il and lll.
C. I and lll.",
"answer": "C",
"explanation": "Under Standard III(A): Loyalty, Prudence, and Care, CFA Institute members must seek best execution of security trades and vote proxies in an informed manner."
}

{
"type": "Quiz",
"standard": "Standard III(B) Fair Dealing",
"content": "To encourage fair dealing among clients, CFA Institute members should:
A. limit the number of people who are privy to the fact that a recommendation is going to be

disseminated to clients.
B. increase the amount of time that elapses between the decision to make an investment recommendation and the time the actual recommendation is disseminated to clients.
C. adopt procedures for disseminating trade recommendations on a case-by-case basis and disclose them to affected clients.",
"answer": "A",
"explanation": "Under Standard III(B): Fair Dealing, CFA Institute members should limit the number of people who are privy to the fact that a recommendation is going to be disseminated to clients to ensure fairness to all clients."
}

{
"type": "Quiz",
"standard": "Standard III(B) Fair Dealing",
"content": "Reza is an investment manager whose clients include his parents, his wife's parents, and his brother and sister. Under the Code and Standards, Reza should treat all his clients fairly by:
A. giving priority to his other clients over his family members.
B. not treating his family member accounts any differently from other client accounts.
C. giving priority to his family members over his other clients.",
"answer": "B",
"explanation": "Under Standard III(B): Fair Dealing, Reza should not treat his family member accounts any different from other client accounts because they are fee paying clients Just like all his other clients."
}

{
"type": "Quiz",
"standard": "Standard III(C) Suitability",
"content": "An investment policy statement should:
A. identify and describe the roles and responsibilities of the parties in the advisory relationship.
B. be updated only after any material changes to the client's investment objectives.
C. be updated only on an annual basis.",
"answer": "A",
"explanation": "An investment policy statement should identify and describe the roles and responsibilities of the parties in the advisory relationship."
}

{
"type": "Quiz",
"standard": "Standard III(E) Preservation of Confidentiality",
"content": "With regard to the confidentiality of electronically stored client information, a CFA Institute member:
A. must become well versed in the technological and regulatory requirements relevant to the

electronic storage of information.
B. is not responsible for the security of the information because firm policies and procedures govern electronic storage issues.
C. must endeavor to avoid disclosure of electronically stored confidential client information.",
"answer": "C",
"explanation": "A is incorrect. Under Standard III(E): Preservation of Confidentiality, a CFA Institute member does not need to be well versed in the technological and regulatory requirements relevant to the electronic storage of information and may rely on compliance professionals inside or outside their firm to ensure adequate information protection policies and procedures.B is incorrect. Under Standard III(E): Preservation of Confidentiality, a CFA Institute member is responsible for the security of the information by adopting and complying with firm policies and procedures that govern electronic storage issues."
}

{
"type": "Quiz",
"standard": "Standard III(E) Preservation of Confidentiality",
"content": "Which of the following is least likely to be a reason to disclose information about a former client under the Code and Standards?
A. The information concerns illegal activities by the client.
B. The information is required by law.
C. The client's new investment adviser requests the information.",
"answer": "C",
"explanation": "Under Standard III(E): Preservation of Confidentiality, if the client's new investment adviser requests information of a former client, CFA Institute members must refuse to disclose that information without the permission of the client."
}

{
"type": "Quiz",
"standard": "Standard III(E) Preservation of Confidentiality",
"content": "Through a friend at a different asset management firm, Jessica becomes aware of a new investment opportunity that she believes will interest many of her advisory clients. Jessica's best course of action is to:
A. share the list of clients and their contact information with her friend so they can be made aware of the investment.
B. give the information about the new investment to the clients who may be interested.
C. not pursue the investment opportunity for her clients because their interest would be confidential.",
"answer": "B",
"explanation": "Jessica should give the information about the new investment to the clients who may be interested because there is nothing in the facts to indicate that the investment information disclosed to her violated confidentiality or that doing so would violate Standard III(E): Preservation of Confidentiality."

}

{
"type": "Quiz",
"standard": "Standard III(B) Fair Dealing",
"content": "When Kamila receives an allocation of a highly sought-after initial public offering (IPO) to distribute to her clients, she can distribute the allocation:
A. only to her largest clients as long as this allocation procedure is fully disclosed to all her clients.
B. only to those who have expressed prior interest in the investment.
C. only in a fair manner to all clients for whom the investments are appropriate.",
"answer": "C",
"explanation": "Under Standard III(B): Fair Dealing, Kamila should distribute highly sought after initial public offering (IPO) shares in a fair manner to all clients for whom the investments are appropriate."
}

{
"type": "Quiz",
"standard": "Standard III(A) Loyalty, Prudence, and Care",
"content": "The conduct required of members and candidates in fulfilling their obligations under CFA Institute Standard III(A): Loyalty, Prudence, and Care depends on:
l. the nature of their professional responsibilities.
Il. the relationships they have with clients.
Ill. the nature of the services being provided.
A. I only.
B. I and III.
C. I, II, and III.",
"answer": "C",
"explanation": "The relationship CFA Institute members have with clients and the nature of services they provide in addition to the nature of their professional responsibilities are all factors for determining the conduct required of CFA Institute Members under Standard III(A): Loyalty, Prudence, and Care."
}

{
"type": "Quiz",
"standard": "Standard III(C) Suitability",
"content": "Which of the following is likely to be relevant to an assessment of the suitability of an investment?
I. Liquidity of the investment.
II. Use of leverage in the client portfolio.
III. Other investments in the client portfolio.
A. I only.

B. II and III.
C. I, II, and III.",
"answer": "C",
"explanation": "The factors in statements I. II. and III are all relevant to the assessment of the suitability of an investment."
}

{
"type": "Quiz",
"standard": "Standard II(A) Loyalty, Prudence, and Care",
"content": "An asset adviser managing the investments of individual clients must ensure that
A. the client's investment objectives and expectations are met.
B. investment strategies focus on short-term preservation of capital with low levels of risk.
C. investment decisions are judged in the context of the client's total portfolio rather than by individual investments in the portfolio.",
"answer": "C",
"explanation": "Under Standard II(A): Loyalty, Prudence, and Care, an investment manager must ensure investment decisions are judged in the context of the client's total portfolio rather than by individual investments in the portfolio."
}

{
"type": "Quiz",
"standard": "Standard III(B) Fair Dealing",
"content": "Elias is a well-known analyst whose area of expertise is the telecommunications industry. He has decided to change his recommendation on one of the dominant companies in the market from "buy" to "hold." Elias's best course of action is to disclose this changed recommendation.
A. to his most loyal clients first.
B. to his longest-tenured clients first.
C. on his firm's website first.",
"answer": "C",
"explanation": "Under CFA Institute Standard III(B): Fair Dealing, Elias would be treating clients unfairly if he disclosed the changed recommendation to only his most loyal clients or only his longest-tenured clients first."
}

{
"type": "Quiz",
"standard": "Standard III(B) Fair Dealing",
"content": "Smith, a research analyst with a brokerage firm, decides to change his recommendation for the common stock of Green Company, Inc., from a “buy” to a “sell.” He mails this change in investment advice to all the firm’s clients on Wednesday. The day after the mailing, a client calls with a buy order for 500 shares of Green Company. In this circumstance,

Smith should:
A Accept the order.
B Advise the customer of the change in recommendation before accepting the order.
C Not accept the order because it is contrary to the firm’s recommendation.",
"answer": "B",
"explanation": " Smith disseminated a change in the stock recommendation to his clients but then received a request contrary to that recommendation from a client who probably had not yet received the recommendation. Prior to executing the order, Smith should take additional steps to ensure that the customer has received the change of recommendation. Answer A is incorrect because the client placed the order prior to receiving the recommendation and, therefore, does not have the benefit of Smith’s most recent recommendation. Answer C is also incorrect; simply because the client request is contrary to the firm’s recommendation does not mean a member can override a direct request by a client. After Smith contacts the client to ensure that the client has received the changed recommendation, if the client still wants to place a buy order for the shares, Smith is obligated to comply with the client’s directive."
}

{
"type": "Quiz",
"standard": "Standard III(A) Loyalty, Prudence, and Care",
"content": "Which statement about a manager’s use of client brokerage commissions violates the Code and Standards?
A client may direct a manager to use that client’s brokerage commissions to purchase goods and services for that client.
B Client brokerage commissions should be used to benefit the client and should be commensurate with the value of the brokerage and research services received.
C Client brokerage commissions may be directed to pay for the investment manager’s operating expenses.",
"answer": "C",
"explanation": "Answer C is the correct choice because client brokerage commissions may not be directed to pay for the investment manager’s operating expenses. Answer B describes how members and candidates should determine how to use brokerage commissions—that is, if the use is in the best interests of clients and is commensurate with the value of the services provided. Answer A describes a practice that is commonly referred to as “directed brokerage.” Because brokerage is an asset of the client and is used to benefit the client, not the manager, such practice does not violate a duty of loyalty to the client. Members and candidates are obligated in all situations to disclose to clients their practices in the use of client brokerage commissions."
}

{
"type": "Quiz",
"standard": "Standard III(A) Loyalty, Prudence, and Care, Standard III(E) Preservation of Confidentiality",
"content": "Bronson provides investment advice to the board of trustees of a private university

endowment fund. The trustees have provided Bronson with the fund's financial information, including planned expenditures. Bronson receives a phone call on Friday afternoon from Murdock, a prominent alumnus, requesting that Bronson fax him comprehensive financial information about the fund. According to Murdock, he has a potential contributor but needs the information that day to close the deal and cannot contact any of the trustees. Based on the CFA Institute Standards, Bronson should:
A Send Murdock the information because disclosure would benefit the client. B Not send Murdock the information to preserve confidentiality.
C Send Murdock the information, provided Bronson promptly notifies the trustees.",
"answer": "B",
"explanation": "In this case, the member manages funds of a private endowment. Clients, who are, in this case, the trustees of the fund, must place some trust in members and candidates. Bronson cannot disclose confidential financial information to anyone without the permission of the fund, regardless of whether the disclosure may benefit the fund. Therefore, answer A is incorrect. Answer C is incorrect because Bronson must notify the fund and obtain the fund's permission before publicizing the information."
}

{
"type": "Quiz",
"standard": "Standard III(B) Fair Dealing",
"content": "Which one of the following actions will help to ensure the fair treatment of brokerage firm clients when a new investment recommendation is made?
A Informing all people in the firm in advance that a recommendation is to be disseminated.
B Distributing recommendations to institutional clients prior to individual accounts.
C Minimizing the time between the decision and the dissemination of a recommendation.",
"answer": "C",
"explanation": "The step listed in C will help ensure the fair treatment of clients. Answer A may have negative effects on the fair treatment of clients. The more people who know about a pending change, the greater the chance that someone will inform some clients before the information's release. The firm should establish policies that limit the number of people who are aware in advance that a recommendation is to be disseminated. Answer B, distributing recommendations to institutional clients before distributing them to individual accounts, discriminates among clients on the basis of size and class of assets and is a violation of Standard III(B)."
}

{
"type": "Quiz",
"standard": "Standard III(C) Suitability.",
"content": "Brown works for an investment counseling firm. Green, a new client of the firm, is meeting with Brown for the first time. Green used another counseling firm for financial advice for years, but she has switched her account to Brown's firm. After spending a few minutes getting acquainted, Brown explains to Green that she has discovered a highly undervalued stock that offers large potential gains. She recommends that Green purchase the stock. Brown has committed

a violation of the Standards. What should she have done differently?
A Brown should have determined Green’s needs, objectives, and tolerance for risk before making a recommendation of any type of security.
B Brown should have thoroughly explained the characteristics of the company to Green, including the characteristics of the industry in which the company operates.
C Brown should have explained her qualifications, including her education, training, and experience and the meaning of the CFA designation.",
"answer": "A",
"explanation": "In this question, Brown is providing investment recommendations before making inquiries about the client’s financial situation, investment experience, or investment objectives. Brown is thus violating Standard III(C)–Suitability. Answers B and C provide examples of information members and candidates should discuss with their clients at the outset of the relationship, but these answers do not constitute a complete list of those factors. Answer A is the best answer."
}

{
"type": "Quiz",
"standard": "Standard III(A) Loyalty, Prudence, and Care",
"content": "Stewart has been hired by Goodner Industries, Inc., to manage its pension fund. Stewart’s duty of loyalty, prudence, and care is owed to:
A The management of Goodner.
B The participants and beneficiaries of Goodner’s pension plan.
C The shareholders of Goodner.",
"answer": "B",
"explanation": "Under Standard III(A)–Loyalty, Prudence, and Care, members and candidates who manage a company’s pension fund owe these duties to the participants and beneficiaries of the pension plan, not the management of the company or the company’s shareholders."
}

{
"type": "Quiz",
"standard": "Standard III(A) Loyalty, Prudence, and Care",
"content": "Carter works for Invest Today, a local asset management firm. A broker that provides Carter with proprietary research through client brokerage arrangements is offering a new trading service. The broker is offering low-fee, execution-only trades to complement its traditional full-service, execution-and-research trades. To entice Carter and other asset managers to send additional business its way, the broker will apply the commissions paid on the new service toward satisfying the brokerage commitment of the prior full-service arrangements. Carter has always been satisfied with the execution provided on the full-service trades, and the new low-fee trades are comparable to the fees of other brokers currently used for the accounts that prohibit soft dollar arrangements.
A Carter can trade for his accounts that prohibit soft dollar arrangements under the new low-fee trading scheme.

B Carter cannot use the new trading scheme because the commissions are prohibited by the soft dollar restrictions of the accounts.
C Carter should trade only through the new low-fee scheme and should increase his trading volume to meet his required commission commitment.",
"answer": "A",
"explanation": "The question relates to Standard III(A)–Loyalty, Prudence, and Care. Carter believes the broker offers effective execution at a fee that is comparable with those of other brokers, so he is free to use the broker for all accounts. Answer B is incorrect because the accounts that prohibit soft dollar arrangements do not want to fund the purchase of research by Carter. The new trading scheme does not incur additional commissions from clients, so it would not go against the prohibitions. Answer C is incorrect because Carter should not incur unnecessary or excessive “churning” of the portfolios (excessive trading) for the purpose of meeting the brokerage commitments of soft dollar arrangements.
"
}

{
"type": "Quiz",
"standard": "Standard III(A) Loyalty, Prudence, and Care",
"content": "Stafford is a portfolio manager for a specialized real estate mutual fund. Her firm clearly describes in the fund’s prospectus its soft dollar policies. Stafford decides that entering the CFA Program will enhance her investment decision-making skill and decides to use the fund’s soft dollar account to pay the registration and exam fees for the CFA Program. Which of the following statements is most likely correct? A Stafford did not violate the Code and Standards because the prospectus informed investors of the fund’s soft dollar policies.
B Stafford violated the Code and Standards because improving her investment skills is not a reasonable use of the soft dollar account.
C Stafford violated the Code and Standards because the CFA Program does not meet the definition of research allowed to be purchased with brokerage commissions.",
"answer": "C",
"explanation": "According to Standard III(A)–Loyalty, Prudence, and Care, the CFA Program would be considered a personal or firm expense and should not be paid for with the fund’s brokerage commissions. Soft dollar accounts should be used only to purchase research services that directly assist the investment manager in the investment decision-making process, not to assist the management of the firm or to further education. Thus, answer A is incorrect. Answer B is incorrect because the reasonableness of how the money is used is not an issue; the issue is that educational expense is not research."
}

{
"type": "Quiz",
"standard": "Standard III(D) Performance Presentations",
"content": "ABC Investment Management acquires a new, very large account with two concentrated positions. The firm’s current policy is to add new accounts for the purpose of

performance calculation after the first full month of management. Cupp is responsible for calculating the firm's performance returns. Before the end of the initial month, Cupp notices that one of the significant holdings of the new accounts is acquired by another company, causing the value of the investment to double. Because of this holding, Cupp decides to account for the new portfolio as of the date of transfer, thereby allowing ABC Investment to reap the positive impact of that month's portfolio return.
A Cupp did not violate the Code and Standards because the GIPS standards allow composites to be updated on the date of large external cash flows.
B Cupp did not violate the Code and Standards because companies are allowed to determine when to incorporate new accounts into their composite calculation.
C Cupp violated the Code and Standards because the inclusion of the new account produces an inaccurate calculation of the monthly results according to the firm's stated policies.",
"answer": "C",
"explanation": "Cupp violated Standard III(D)–Performance Presentations when he deviated from the firm's stated policies solely to capture the gain from the holding being acquired. Answer A is incorrect because the firm does not claim GIPS compliance and the GIPS standards require external cash flows to be treated in a consistent manner with the firm's documented policies. Answer B is incorrect because the firm does not state that it is updating its composite policies. If such a change were to occur, all cash flows for the month would have to be reviewed to ensure their consistent treatment under the new policy."
}

{
"type": "Quiz",
"standard": "Standard III(D) Performance Presentation",
"content": "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.",
"answer": "B",
"explanation": "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."
}

{
"type": "Quiz",

"standard": "Standard III(E) Preservation of Confidentiality",
"content": "Townsend was recently appointed to the board of directors of a youth golf program that is the local chapter of a national not-for-profit organization. The program is beginning a new fund-raising campaign to expand the number of annual scholarships it provides. Townsend believes many of her clients make annual donations to charity. The next week in her regular newsletter to all clients, she includes a small section discussing the fund-raising campaign and her position on the organization's board.
A Townsend did not violate the Code and Standards.
B Townsend violated the Code and Standards by soliciting donations from her clients through the newsletter.
C Townsend violated the Code and Standards by not getting approval of the organization before soliciting her clients.",
"answer": "A",
"explanation": "Townsend has not provided any information about her clients to the leaders or managers of the golf program; thus, she has not violated Standard III(E)–Preservation of Confidentiality. Providing contact information about her clients for a direct-mail solicitation would have been a violation. Answer B is incorrect because the notice in the newsletter does not violate Standard III(E). Answer C is incorrect because the golf program's fund-raising campaign had already begun, so discussing the opportunity to donate was appropriate."
}

{
"type": "Quiz",
"standard": "Standard IV(C) Responsibilities of Supervisors",
"content": "The BEST course of action for a CFA Institute member when exercising supervisory authority is to adopt a code of ethics that:
A.includes comprehensive compliance policies and procedures.
B.consists of fundamental, principle based ethical concepts that are applicable to the
firm's employees
C. is focused on the firm's outward-facing employees who have direct contact with
clients.",
"answer": "B",
"explanation": "Under Standard IV(C): Responsibilities of Supervisors, CFA Institute
members should adopt a code of ethics that is separate and distinct from
comprehensive compliance policies and procedures. CFA Institute
members should adopt a code of ethics focused on all employees of the firm, not just
outward-facing employees who have direct access to clients."
}

{
"type": "Quiz",
"standard": "Standard V(B) Additional Compensation Arrangements",
"content": "Bojing is an investment adviser who operates as a sole proprietor and has five
clients. If Bojing obtains employment with a brokerage firm, he:

A. does not have to advise his old clients in writing of his employment with the
brokerage firm or get written consent from his new employer to keep his old clients
B. must get written consent from his new employer to keep his old clients but does
not have to advise his old clients in writing of his employment with the brokerage
firm.
C. must get written consent from his new employer to keep his old clients and must
advise his old clients in writing of his employment with the brokerage firm.",
"answer": "C",
"explanation": "Under Standard V(B): Additional Compensation Arrangements, Bojing must get written consent from all parties involved (the brokerage firm as his new employer and his old clients) of his employment with the brokerage firm because he is accepting compensation for work that could reasonably create a conflict with client interests."
}

{
"type": "Quiz",
"standard": "Standard IV(B) Additional Compensation Arrangements",
"content": "Under the Code and Standards, if you plan to engage in outside work for
compensation independent of the work for your employer, you must:
l. describe to your employer the types of services you will render.
Il. describe to your employer the compensation you expect to receive for the services.
Ill. obtain consent from your employer
A. I and ll.
B.Ill only.
C.l, ll, and lll.",
"answer": "C",
"explanation": "All three statements are requirements of Standard IV(B): Additional
Compensation Arrangements. CFA Institute members must describe to their employer
the types of services they will render describe to
their employer the compensation they expect to receive for the services, and obtain
consent from their employer before entering into any additional compensation
arrangements."
}

{
"type": "Quiz",
"standard": "Standard V(B) Communication with Clients and Prospective Clients",
"content": "Under the Code and Standards, CFA Institute members must:
disclose to clients the basic format and general principles of the investment process.
II. disclose to clients the significant limitations and risks associated with the investment process.
III. distinguish between facts and opinions when communicating with clients.
A. I.
B. I and II.
C. I, II, and III.",

"answer": "C",
"explanation": "Under Standard V(B): Communication with Clients and Prospective Clients, CFA Institute members must take each of the steps listed in statements I, II, and III."
}

{
"type": "Quiz",
"standard": "Standard V(B) Communication with Clients and Prospective Clients",
"content": "Under the Code and Standards, which of the following investment risks is least likely required to be disclosed to clients?
A. the use of leverage as part of the investment strategy.
B. risks that are unknown to the investment adviser at the time of the recommendation.
C.general market-related risks.",
"answer": "B",
"explanation": "Under Standard V(B): Communication with Clients and Prospective Clients an investment adviser is not required to disclose risks that are not known at the time of the recommendation."
}

{
"type": "Quiz",
"standard": "Standard V(B) Communication with Clients and Prospective Clients",
"content": "Investment professionals will most likely violate the CFA Institute Standard of Professional Conduct related to client communication if they:
A. fail to identify the limits of statistically developed projections.
B. separate their professional opinions from the underlying research and information that support their opinions.
C. cast doubt on the accuracy of their opinions by stating that an estimate of future results is not a certainty.",
"answer": "A",
"explanation": "Investment professionals will most likely violate Standard V(B):Communication with Clients and Prospective Clients if they fail to identify the limits of statistically developed projections."
}

{
"type": "Quiz",
"standard": "Standard V(A) Diligence and Reasonable Basis",
"content": "The specific conduct required to meet the level of diligence and thoroughness of the research required by Standard V(A): Diligence and Reasonable Basis depends on all of the following factors EXCEPT:
A. the investment professional's role in the investment decision-making process.
B. the support and resources provided by the investment professional's employer.
C. the fees paid by the client.",

"answer": "C",
"explanation": "Both the investment professional's role in the investment decision-making process and the support and resources provide by the investment professional's employer are factors when determining the specific conduct required to meet the level of diligence and thoroughness of the research required by Standard V(A): Diligence and Reasonable Basis."
}

{
"type": "Quiz",
"standard": "Standard V(A) Diligence and Reasonable Basis",
"content": "Charles is a part of a group of investment professionals who draft a research report for clients that includes a recommendation to purchase a particular security. Charles does not agree with the research or the recommendation that is the consensus of the group. Under the Code and Standards, Charles's best course of action is to:
A. draft and publish his own dissenting report and recommendation for the client to consider.
B. dissociate from the report and not let his name be associated with it
C. allow his name to be associated with the report and recommendation if he is confident in the process and believes the opinion has a reasonable and adequate basis and is independent and objective.",
"answer": "C",
"explanation": "Under Standard V(A): Diligence and Reasonable Basis, even if Charles does not agree with the group's conclusions, he may allow his name to be associated with the report and recommendation if he is confident in the process and believes the opinion has a reasonable and adequate basis and is independent and objective."
}

{
"type": "Quiz",
"standard": "Standard V(C) Record Retention",
"content": "Bartolo, a sell-side research analyst, recently published a report with a "buy" recommendation on the firm Electronic Coins. Bartolo collected information from a variety of traditional and new media sources. Which of the following should she retain in her files to support her
recommendation?
A blog post discussing the current landscape of virtual products, such as the one offered by Electronic Coins.
Il. Digital versions of Electronic Coins' five most recent regulatory financial reports.
Ill. A copy of the investment model with Bartolo's inputs and adjustments to future growth prospects.
A. I and Il.
B. I and lll.
C. l, Il, and lll.",
"answer": "C",
"explanation": "Under Standard V(C): Record Retention, Bartolo should keep the records

described in all three statements."
}

{
"type": "Quiz",
"standard": "Standard V(A) Diligence and Reasonable Basis",
"content": "Sven has a client who wants to increase his holdings of fixed-income securities because the risks of owning equity investments were becoming too much for him. The client is open to all securities with very high investment-grade credit ratings and rates better than government secured notes. Sven recently read an article discussing the profitability and success of asset-backed securities, which led him to believe these securities would meet the client's request. He searched the firm's list of available securities and recommended a particular issue that was rated AAA and had a rating 250 basis points higher than the comparable government note. Several months after purchasing, the security missed a scheduled interest payment because the assets underlying the investment experienced a larger than expected level of defaults. This was followed by downgrades to credit ratings and ultimately a decline in the value of the investments. Which of the following statements is most likely true?
A. Sven violated the CFA Institute Standard of Professional Conduct related to reasonable basis by relying solely on the security's investment rating as the basis for recommending the security.
B. Sven did not violate the CFA Institute Standard of Professional Conduct related to reasonable basis because his reading of the asset-backed security article provided an adequate understanding of the risks of the security.
C. Sven did not violate the CFA Institute Standard of Professional Conduct related to reasonable basis because investment advisers do not have to review the securities placed on the firm's approved lists.",
"answer": "A",
"explanation": "Sven violated Standard V(A): Diligence and Reasonable Basis by relying solely on the security's investment rating as the basis for recommending the security and should have investigated the security further."
}
{
"type": "Quiz",
"standard": "Standard V(A) Diligence and Reasonable Basis",
"content": "In a firm, one person is often responsible for developing a quantitative analytical model while others may use the model to make recommendations to clients. Would the level of diligence required in testing the functioning of such a model differ for the person responsible for the development versus those using the model to advise clients?
A. The developer would need to exhibit a greater level of diligence because he or she would understand the technical nature of the model.
B. The user would need to exhibit a greater level of diligence because he or she is ultimately engaged with the client.
C. The level of diligence in testing the model would be equal for both the developer and the user.",
"answer": "A",
"explanation": "Under Standard V(A): Diligence and Reasonable Basis, developers would need to

exhibit a greater level of diligence in creating the model because they would know that their colleagues using the model to recommend securities may not have the ability to understand its technical nature or how it was created. The user of the model developed by a colleague can rely on the diligence of the model developer even though the developer may not be engaged with clients directly."
}

{
"type": "Quiz",
"standard": "Standard V(A) Diligence and Reasonable Basis",
"content": "Chuen recently began his professional career as an investment adviser. Prior to joining his firm. Chuen went back to school, earned an MBA. and passed all three levels of the CFA exam.Initially, he discusses all recommendations being made to his clients with his supervisor to ensure they are suitable with the clients' investment policy statements. Chuen recommends one particular international growth fund to several clients that focused on several of the larger emerging market countries. The fund has fees comparable to its peers' fees, has a stable portfolio management team, and has consistently ranked in the top percentile for quarterly and annual returns. Within the first year of having clients invest in this fund. one of the countries experiences a major economic collapse brought on by a global pandemic. which causes the fund to fall by 55%. Which of the following statements is most likely true?
A. Chuen's recommendation violated the CFA Institute Standard of Professional Conduct related to diligence because he did not anticipate the economic collapse brought on by the global pandemic.
B. Chuen's recommendation complied with the CFA Institute Standard of Professional Conduct related to diligence because the global pandemic was not known at the time of the recommendation.
C. Chuen's recommendation violated the CFA Institute Standard of Professional Conduct related to diligence because it included an investment with potential downside risk.",
"answer": "B",
"explanation": "Chuen appears to have been thorough and diligent in researching the international growth fund for his clients and did not violate Standard V(A): Diligence and Reasonable Basis in failing to anticipate the global pandemic."
}

{
"type": "Quiz",
"standard": "Standard V(C) Record Retention",
"content": "Emily is an investment adviser with a number of individual clients. One of her clients emails Emily to inform her that because of serious health issues necessitating expensive medical care his risk tolerance, income requirements, and investment horizon have changed. According to the Code and Standards.Emily should:
A. update the client's records to reflect the changed circumstances at her earliest opportunity.
B. wait to update the client's records to reflect the changed circumstances only after she has an in-person meeting with the client to confirm the information

C. wait to update the client's records only when she determines the client's deteriorating health condition is long term and the changes to his financial circumstances are permanent.",
"answer": "A",
"explanation": "Given the client's changed circumstances, under Standard V(C): Record Retention, Emily should update the client's records to reflect the changed circumstances at her earliest opportunity."
}

{
"type": "Quiz",
"standard": "Standard V(C) Record Retention",
"content": "James, a research analyst, leaves his employer to join another investment management firm as senior research analyst. According to the Code and Standards, James:
A. must copy and take the records that support any investment research he plans to use in his new position.
B. cannot take copies of supporting records of his work to his new employer without the express consent of the previous employer.
C. cannot recreate his prior research analysis at his new firm because the original research is the property of his previous employer.",
"answer": "B",
"explanation": "Under Standard V(C): Record Retention, James cannot take copies of supporting records of his work to his new employer without the express consent of the previous employer because they are the property of the firm."
}

{
"type": "Quiz",
"standard": "V(C) Record Retention",
"content": "Which of the following information is least likely to be documented and saved under the record retention requirements of the Code and Standards?
A. Personal notes that support investment recommendations or actions.
B. Outside research reports used in the investment decision-making process.
C. Computer-based models or outputs used in the investment decision-making process at the previous employer.",
"answer": "C",
"explanation": "Under Standard V(C): Record Retention, computer-based models or outputs used in the investment decision-making process at a previous employer should not be documented and saved without the express consent of the previous employer because they are the property of the firm."
}

{
"type": "Quiz",
"standard": "Standard VI.(C) Referral Fees",

"content": "With respect to referral fees, the Code and Standards require CFA Institute members to disclose all the following EXCEPT:
A. the referral arrangement once there is a formal client relationship
B. the general nature of the referral fee
C. the estimated monetary value of the referral fee.",
"answer": "A",
"explanation": "Standard VI(C): Referral Fees requires CFA Institute members to disclose referral arrangements to potential clients as well as those in a formal client relationship."
}

{
"type": "Quiz",
"standard": "Standard VI.(C) Referral Fees",
"content": "Stephan discounts his fees to current clients if they recommend his services to others who eventually ask Stephan to manage their investments. This arrangement:
A. violates the Code and Standards.
B. is private information about the fees Stephan charges his clients and must be kept confidential.
C. must be disclosed to the new clients who have received the recommendation.",
"answer": "C",
"explanation": "Under Standard VI(C): Referral Fees, Stephan must disclose this referral arrangement to the new clients who have received the recommendation."
}

{
"type": "Quiz",
"standard": "Standard VI.(A) Avoid or Disclose Conflicts",
"content": "Disclosure of conflicts of interest accomplishes all the following EXCEPT.
A. allowing clients to judge independence and objectivity.
B. allowing prospective clients to judge motivations and possible biases.
C. allowing investment professionals to engage in otherwise inappropriate activity.",
"answer": "C",
"explanation": "Disclosure of conflicts allows clients and prospective clients to judge independence and objectivity as well as motivation and possible biases, but it does not allow investment professionals to engage in otherwise inappropriate activity."
}

{
"type": "Quiz",
"standard": "Standard VI.(C) Referral Fees",
"content": "Guillermo sells insurance-based securities to investors seeking long-term, stable income investments. He enters into agreements with several local financial planners to refer clients to him as part of their investment advice. Guillermo has:
A. violated the Code and Standards by entering into a referral arrangement of this type.
B. violated the Code and Standards if he fails to inform investors of these referral arrangements

C. not violated the Code and Standards because the financial planners, not Guillermo, are required to disclose the referral arrangements.",
"answer": "B",
"explanation": "Guillermo violates Standard V(C): Referral Fees if he fails to inform investors of these referral arrangements."
}

{
"type": "Quiz",
"standard": "Standard VI(A) Avoid or Disclosure of Conflicts",
"content": "Powell is a research analyst with Rossington & Collin (R&C), a brokerage and investment banking firm. R&C's mergers and acquisitions department has represented Wilkenson Company in all its investment banking deals. Two of R&C's senior officers are directors of several Wilkenson subsidiaries. Powell has been asked to write a research report on Wilkenson. What is Powell's best course of action?
A. Powell can write a factual report but must refrain from expressing any opinions because of the special relationship between the two companies
B. Powell should not write the report because the senior officers are “constructive insiders.”
C. Powell can write the report if she discloses in the report the senior officers special relationships with the company and the fact that R&C has served as Wilkenson's investment banker.",
"answer": "C",
"explanation": "Standard VI(A): Avoid or Disclosure of Conflicts allows Powell to write a full report including opinions if the potential conflicts regarding the senior officers’ special relationships with the company and the fact that R&C has served as Wilkenson's investment banker are disclosed. B is incorrect because Powell does not receive inside information."
}

{
"type": "Quiz",
"standard": "Standard VI(C) Referral Fees",
"content": "Martin is an investment consultant hired by pension plans to help select investment managers to manage plan assets. The investment managers provide Martin with free investment research to assist him with investing his personal assets. Under the Code and Standards, Martin:
A. must disclose the arrangement to the pensions who hire him as a consultant.
B. does not need to disclose the arrangement because it does not involve monetary payment.
C. must disclose the arrangement only if the investment research proves useful for his personal investments.",
"answer": "A",
"explanation": "Under Standard VI(C): Referral Fees, Martin must disclose to the pensions who hire him as a consultant the research arrangement with the investment managers."
}

{

"type": "Quiz",
"standard": "Standard VI(B) Priority of Transactions ",
"content": "When a conflict of interest exists, the Code and Standards prohibit investment professionals from which of the following?
A. Profiting from personal investments.
B. Benefiting personally from client trades.
C. Engaging in trades for their personal investment account.",
"answer": "B",
"explanation": "When a conflict of interest exists, Standard VI(B): Priority of Transactions prohibits investment professionals from personally benefiting from client trades."
}

{
"type": "Quiz",
"standard": "Standard VI(B) Priority of Transactions",
"content": "Under the Code and Standards, which of the following is NOT considered a personal account of an investment professional?
A. An account in which you have a direct personal interest.
B. An account in which you have an indirect personal interest.
C. The account of a distant family relative.",
"answer": "C",
"explanation": "Under Standard VI(B): Priority of Transactions, the account of a distant family relative is not considered a personal account of an investment professional."
}

{
"type": "Quiz",
"standard": "Standard VII.(B) Responsibilities as a CFA Institute Member or CFA Candidate",
"content": "Albert and Tye, who recently started their own investment advisory business, have registered to take the Level III CFA examination. Albert’s business card reads, “Judy Albert, CFA Level II.” Tye has not put anything about the CFA designation on his business card, but promotional material that he designed for the business describes the CFA requirements and indicates that Tye participates in the CFA Program and has completed Levels I and II. According to the Standards:
A. Albert has violated the Standards, but Tye has not.
B. Tye has violated the Standards, but Albert has not.
C. Both Albert and Tye have violated the Standards.",
"answer": "A",
"explanation": "Reference to CFA Institute, the CFA Designation, and the CFA Program is the subject of this question. The reference on Albert’s business card implies that there is a “CFA Level II” designation; Tye merely indicates in promotional material that he is participating in the CFA Program and has completed Levels I and II. Candidates may not imply that there is some sort of partial designation earned after passing a level of the CFA exam. Therefore, Albert has violated

Standard VII(B). Candidates may communicate that they are participating in the CFA Program, however, and may state the levels that they have completed. Therefore, Tye has not violated Standard VII(B)."
}

{
"type": "Quiz",
"standard": "Standard VII.(B) Responsibilities as a CFA Institute Member or CFA Candidate",
"content": "Rule has worked as a portfolio manager for a large investment management firm for the past 10 years. Rule earned his CFA charter last year and has decided to open his own investment management firm. After leaving his current employer, Rule creates some marketing material for his new firm. He states in the material, “In earning the CFA charter, a highly regarded credential in the investment management industry, I further enhanced the portfolio management skills learned during my professional career. While completing the examination process in three consecutive years, I consistently received the highest possible scores on the topics of Ethics, Alternative Investments, and Portfolio Management.” Has Rule violated Standard VII(B)–Reference to CFA Institute, the CFA Designation, and the CFA Program in his marketing material?
A Rule violated Standard VII(B) in stating that he completed the exams in three consecutive years.
B Rule violated Standard VII(B) in stating that he received the highest scores in the topics of Ethics, Alternative Investments, and Portfolio Management.
C Rule did not violate Standard VII(B).",
"answer": "B",
"explanation": "according to Standard VII(B)–Reference to CFA Institute, the CFA Designation, and the CFA Program. CFA Program candidates do not receive their actual scores on the exam. Topic and subtopic results are grouped into three broad categories, and the exam is graded only as “pass” or “fail.” Although a candidate may have achieved a topical score of “above 70%,” she or he cannot factually state that she or he received the highest possible score because that information is not reported. Thus, answer C is incorrect. Answer A is incorrect as long as the member or candidate actually completed the exams consecutively. Standard VII(B) does not prohibit the communication of factual information about completing the CFA Program in three consecutive years."
}

{
"type": "Quiz",
"standard": "Standard VII.(B) Responsibilities as a CFA Institute Member or CFA Candidate",
"content": "Quinn sat for the Level III CFA exam this past weekend. He updates his resume with the following statement: “In finishing the CFA Program, I improved my skills related to researching investments and managing portfolios. I will be eligible for the CFA charter upon completion of the required work experience.”
A Quinn violated the Code and Standards by claiming he improved his skills through the CFA Program.
B Quinn violated the Code and Standards by incorrectly stating that he is eligible for the CFA

charter.
C Quinn did not violate the Code and Standards with his resume update.",
"answer": "B",
"explanation": "According to Standard VII(B)–Reference to CFA Institute, the CFA Designation, and the CFA Program, Quinn cannot claim to have finished the CFA Program or be eligible for the CFA charter until he officially learns that he has passed the Level III exam. Until the results for the most recent exam are released, those who sat for the exam should continue to refer to themselves as “candidates.” Thus, answer C is incorrect. Answer A is incorrect because members and candidates may discuss areas of practice in which they believe the CFA Program improved their personal skills."
}

{
"type": "Quiz",
"standard": "Standard VII.(A) Conduct as Members and Candidates in the CFA Program",
"content": "Park is very frustrated after taking her Level II exam. While she was studying for the exam, to supplement the curriculum provided, she ordered and used study material from a third-party provider. Park believes the additional material focused her attention on specific topic areas that were not tested while ignoring other areas. She posts the following statement on the provider’s discussion board: “I am very dissatisfied with your firm’s CFA Program Level II material. I found the exam extremely difficult and myself unprepared for specific questions after using your product. How could your service provide such limited instructional resources on the analysis of inventories and taxes when the exam had multiple questions about them? I will not recommend your products to other candidates.”
A Park violated the Code and Standards by purchasing third-party review material.
B Park violated the Code and Standards by providing her opinion on the difficulty of the exam.
C Park violated the Code and Standards by providing specific information on topics tested on the exam.",
"answer": "C",
"explanation": "Standard VII(A)–Conduct as Members and Candidates in the CFA Program prohibits providing information to candidates or the public that is considered confidential to the CFA Program. In revealing that questions related to the analysis of inventories and analysis of taxes were on the exam, Park has violated this standard. Answer B is incorrect because the guidance for the standard explicitly acknowledges that members and candidates are allowed to offer their opinions about the CFA Program. Answer A is incorrect because candidates are not prohibited from using outside resources."
}