Question #1 of 61

Question ID: 1459404

Jane Talbot, CFA, is a portfolio manager at Cavalier Investments. Talbot manages the account of Wendall Wilcox. The performance of Wilcox's portfolio has been below that of the benchmark portfolio, the S&P 500, for the past several years. In an effort to enhance his portfolio's performance, Wilcox offers to pay Talbot $2,000 each year that his portfolio's return exceeds that of the S&P 500. Wilcox suggests this arrangement last for the next three years. The amount that Wilcox agrees to pay Talbot is in addition to the compensation that Talbot will receive from his employer and the standard fee that Wilcox will pay Cavalier for managing his portfolio over the three-year period. Talbot agrees to the arrangement proposed by Wilcox and informs Cavalier in writing of the terms of the agreement under which she will receive additional compensation. According to CFA Institute Standards of Professional Conduct Talbot must disclose:

A) the nature and amount of compensation plus the duration of the agreement. ✓

B) both the nature and amount of compensation only. ✗

C) the nature of the compensation only. ✗

Explanation

Procedures for compliance for Standard IV(B) indicate that the written report should state the terms of any oral or written agreement under which Talbot will receive additional compensation including the nature of the compensation, the amount of compensation and the duration of the agreement.

(Module 71.6, LOS 71: IV(B))

Question #2 of 61

Question ID: 1451373

Fernando Abrea, CFA was an analyst for Pacific Investments. In October he left Pacific and joined Global Securities as manager of a local office. Abrea's change of employment came about in the following manner:

- In April, Abrea contacted Global about a possible position he saw advertised in a financial publication and had exploratory meetings with Global.
- In July, Abrea submitted a strategic plan to Global and signed an agreement to join Global. He then contracted for office space on behalf of Global.
- On October 15, Abrea's resignation from Pacific became effective. He did not take any client lists from Pacific.
- On October 16, Abrea mailed a letter that explained his new undertaking with Global to prospective clients, including his former clients at Pacific.

With respect to Standard IV(A) Loyalty, Abrea:

A) violated the Standard by contacting his former clients at Pacific.

B) did not violate the Standard.

C) violated the Standard by contracting for office space on behalf of Global.

Explanation

According to Standard IV(A) Loyalty, preparations to leave employment are not prohibited. Even though Abrea engaged in significant preparatory activities prior to beginning his new venture, none of these actions suggest Abrea did not continue to act in Pacific's interests while he was employed by Pacific. Abrea may contact his former clients on behalf of Global after his employment by Pacific has officially ended, as long as he did not misappropriate their contact information from Pacific.

Question #3 of 61

Question ID: 1451382

Sue Parsons, CFA, works full-time as an investment advisor for the Malloy Group, an asset management firm. To help pay for her children's college expenses, Parsons wants to engage in independent practice in which she would advise individual clients on their portfolios. She would conduct these investment activities only on weekends. She is currently only in the preparation stage and has not started independent practice yet. Which of the following statements about Standard IV(A), Loyalty to Employer, is *most* accurate? Standard IV(A):

A) does not require Parsons to notify Malloy of preparing to undertake independent practice under the current conditions.

B) requires Parsons to notify Malloy in writing about her intention to undertake an independent practice.

C) requires Parsons to obtain written consent from both Malloy and the persons from whom she undertakes independent practice.

Explanation

Standard IV(A), Loyalty to Employer, requires that Parsons obtain written consent only from her employer before she undertakes independent practice that could result in compensation or other benefit in competition with Malloy. It is not required to get permission from your employer when only preparing to go into independent practice.

Question #4 of 61

Question ID: 1115915

May Frost, CFA, is concerned about the comments and activities of several of her coworkers and feels both ethical and legal violations are routinely overlooked. According to the Code and Standards, a recommended first step would *least likely* be to:

A) contact industry regulators.

B) provide her supervisor with a copy of the Code and Standards.

C) review the company's policies and procedures for reporting ethical violations.

Explanation

See Standard IV(A) "Loyalty." Frost should begin by reviewing the company's policies and procedures for reporting ethical violations and provide her supervisor with a copy of the Code and Standards to highlight the high level of ethical conduct she is required to follow.

Question #5 of 61

Question ID: 1459410

For years John Berger, a CFA charterholder and CEO of a company, relied upon a set of reasonable procedures for preventing violations of the Code and Standards of Professional Conduct in the firm. To comply with the Standards, Berger must:

A) do nothing more than have the set of procedures in place as stated.

B) only ensure the procedures are monitored and enforced.

C) both periodically review the procedures and ensure the procedures are monitored and enforced.

Explanation

As a CEO, Berger is responsible for implementing and maintaining appropriate compliance procedures. He must also ensure the procedures are monitored and enforced.

(Module 71.6, LOS 71: IV(C))

Question #6 of 61

Question ID: 1459381

Analysts who undertake an independent consulting practice while employed must get permission from their employer and should disclose all of the following EXCEPT:

A) the compensation or benefit to be received. ✗

B) the anticipated duration of the service to be rendered. ✗

C) the clients contact information. ✓

Explanation

The Member or Candidate is not required to disclose confidential information about his independent clients.

(Module 71.6, LOS 71: IV(A))

Question #7 of 61

Question ID: 1451376

John Hill, CFA, has been working for Advisors, Inc., for eight years. Hill is about to start his own money management business and has given his two-week notice of his resignation from Advisors. A few days before his resignation takes effect, a former client of Advisors calls Hill at his home about his new firm. The former client says that he is very happy that Hill is leaving Advisors because now he and Hill can resume a professional relationship. The client says that he would never become a client of Advisors again. Hill promises to call the client back after he has left Advisors. Hill does not tell his employer about the call. Hill has *most likely*:

A) violated the Standard concerning disclosure of conflicts. ✗

B) not violated the Standards. ✓

C) violated the Standard concerning loyalty to employer. ✗

Explanation

Based on the information here, Hill has done nothing wrong. He took a call at his home, presumably on his own time, and the client made it clear that he would never be a client of Advisors. Therefore, there was no breach of loyalty to Advisors by Hill, nor is there a conflict of interest.

Question #8 of 61

Question ID: 1459387

When a CFA Institute member who is presently employed by a firm undertakes any independent practice, he must do all of the following EXCEPT:

A) disclose the expected duration of the services to be rendered.

B) remand a percentage (to be determined by the employee and employer) of the income earned back to the employer.

C) secure permission from the employer.

Explanation

The member is obligated to get permission from his employer if he will be in any way competing with his current employer. They must provide notification to their employer describing the types of services to be rendered, the expected duration, and compensation for the services.

(Module 71.6, LOS 71: IV(A))

Question #9 of 61

Question ID: 1469291

Francisco Perez, CFA, is an equity research analyst for a long-term investment fund. The fund is seeking new clients, so Perez contacts old clients he knew through his former employer. Which of the following is *most accurate*?

A) Perez can only solicit clients after notifying his former employer.

B) Perez cannot solicit clients from a former employer.

C) Perez is not prevented from soliciting clients as long as he is working from memory and publically available information rather than a list generated while he was still with the former employer.

Explanation

According to Standard IV(A), Perez is not prevented from soliciting clients as long as he is working from memory and publically available information rather than a list generated while he was still with the former employer.

Question #10 of 61

Question ID: 1469293

Chris Babcock, CFA, a portfolio manager for a large Texas investment firm, has been offered compensation in addition to what her firm pays her. The offer is from one of her clients and the additional compensation will be based on her yearly performance in excess of the market index. Babcock should:

A) make written disclosure to all parties involved before she accepts this offer. ✓

B) make written disclosure to her other clients before she accepts this offer. ✗

C) turn down the offer because it represents a clear conflict between this client and Babcock's other clients. ✗

Explanation

Standard IV(B), Additional Compensation Arrangements, applies in this situation. Standard IV(B) states, "No gifts, benefits, compensation, or consideration are to be accepted with may create a conflict of interest with the employer's interest unless written consent is received from all parties."

The key words here are "written consent" - members must obtain written consent because such arrangements may affect loyalties and objectivity and create potential conflicts of interest.

Question #11 of 61

Question ID: 1459376

Bob Douglas, CFA, is considering leaving his current employer to compete in the same field. He did not sign a non-compete clause when he was hired. According to the Code and Standards, he may:

A) not begin competing or prepare to begin competing until his resignation becomes effective. ✗

B) prepare to compete with his current employer, but not begin competing until his resignation is effective. ✓

C) begin competing with his current employer as long as the employer has been informed of Douglas' intentions.

Explanation

Douglas may plan and prepare to compete with his current employer, but may not begin competing until his resignation is effective or he gets permission from his employer. Standard IV(A) Loyalty states that when members and candidates are leaving an employer, they must act in the employer's interests until their separation becomes effective.

(Module 71.6, LOS 71: IV(A))

Question #12 of 61

Question ID: 1459405

Which of the following examples of supervisory responsibility is consistent with the requirements of the Code and Standards?

A) A supervisor's income is partially based on the firm's overall level of trading activity.

B) A firm's compliance policies allow a portfolio manager to designate a trade to an account or portfolio after the outcome of the trade is known.

C) A professional conduct evaluation is part of an employee's performance review.

Explanation

According to Standard IV(C) Responsibilities of Supervisors, supervisors must make reasonable efforts to detect and prevent violations of laws, rules, regulations, and the Code and Standards by anyone under their authority. Incorporating a professional conduct evaluation as part of an employee's performance review is a recommended compliance procedure.

(Module 71.6, LOS 71: IV(C))

Question #13 of 61

Question ID: 1459395

Jill Marsh, CFA, works for Advisors where she manages a portfolio for a wealthy family. Marsh earns 1% of the portfolio's value each year in the form of a commission from Advisors. The family just told her that any year the portfolio she manages earns more than a 10% return, the family will give her the use of the family's vacation home for one week. Hirsh will comply with Standard IV(B), Additional Compensation Arrangements, if she:

A) delivers a typed memo to her supervisor about the vacation home the first time she uses it.

B) does nothing with respect to this.

C) sends an e-mail to her supervisor about the vacation home.

Explanation

Standard IV(B) requires that members disclose to their employer in writing all benefits that they receive in addition to their regular compensation for services they perform on behalf of their employer. E-mail messages qualify. As long as the agreement is in effect, she must inform her employer even if she has yet to use the potential benefit.

(Module 71.6, LOS 71: IV(B))

Question #14 of 61

Question ID: 1459375

Which of the following activities will *least likely* constitute a violation of Standard IV(A), Loyalty?

A) Conspiracy to bring about a mass resignation of other employees.

B) Consulting on your own time and obtaining written permission from your employer.

C) Contacting your current clients and asking them to "come with you" when you resign from your current employer.

Explanation

Consulting on your own time and obtaining written permission from your employer does *not* constitute a violation of Standard IV(A).

(Module 71.6, LOS 71: IV(A))

Question #15 of 61

Question ID: 1469286

Which of the following statements regarding employee/employer relationships is NOT correct?

A) A written contract may or may not exist between employer and employee.

B) An employee is someone in the service of another.

C) There must be monetary compensation for an employer/employee relationship to exist.

Explanation

Monetary compensation is *not* a requirement of the employee/employer relationship.

Question #16 of 61

Question ID: 1459407

Dixie Miller, a Level II CFA candidate, heads the research department of a large brokerage firm. The firm has many analysts, some of whom are subject to the CFA Institute Code of Ethics and Standards of Professional Conduct. If Miller delegates some of her supervisory duties, which statement *best* describes her responsibilities under the CFA Institute Code and Standards?

A) CFA Institute Standards prevent Miller from delegating supervisory duties to subordinates.

B) Miller retains supervisory responsibilities for those duties delegated to her subordinates.

C) Miller's supervisory responsibilities do not apply to those subordinates who are not subject to the CFA Institute Code and Standards.

Explanation

Even though members may delegate supervisory duties, such delegation does not relieve members of the supervisory responsibility.

(Module 71.6, LOS 71: IV(C))

Question #17 of 61

Question ID: 1451389

Grant Starks, CFA, has been working for Advisors, Inc., for eight years. Starks is about to start his own money management business and has given his two-week notice of his resignation. A few days before his resignation takes effect, a current client of Advisors calls him at his office to inquire about some services for her account at Advisors. During the conversation, Starks tells the client that his new business will have lower commissions than Advisors. Starks has *most likely* violated the Standard concerning:

A) loyalty.

B) disclosure of conflicts.

C) communication with clients and prospective clients.

Explanation

Standard IV(A) Loyalty requires members and candidates who are leaving an employer to act in their employer's interest until their departure takes effect.

Question #18 of 61

Question ID: 1451379

An analyst belongs to a nationally recognized charitable organization, which requires dues for membership. The analyst has worked out a deal where he provides money management advice in lieu of paying dues. Which of the following must the analyst do?

A) Must treat the charitable organization as his employer.

B) Resign from the position because the relationship is a conflict with the Standards.

C) Nothing since he is not an employee of the charitable organization.

Explanation

An employee/employer relationship does not necessarily mean monetary compensation for services. If the analyst is performing services for the organization, then the analyst must treat the position as if he were an employee.

Question #19 of 61

Question ID: 1459373

Theresa Hatcher, CFA, is making arrangements to establish her own investment advisory business before terminating her relationship with her current employer, Elite Brokers, Inc. Elite is a small company consisting of only six investment professionals and a small support staff. According to CFA Institute Standards of Professional Conduct, which of the following activities is *least likely* a violation of Hatcher's duty to Elite?

A) Hatcher engages in secret negotiations with two other investment professionals and her administrative assistant to leave Elite in order to join her new business.

B) Hatcher leases office space, furniture, and other equipment for her new business.

C) Hatcher solicits Elite's clients before her termination of employment at Elite.

Explanation

Standard IV(A) permits Hatcher to make preparations to begin a new practice, such as leasing office space, furniture, and other equipment, but not to engage in the other activities that may violate her duty to employer.

(Module 71.6, LOS 71: IV(A))

Question #20 of 61

Question ID: 1469292

An analyst working at an investment firm has a client that rents limousines. The client tells the analyst that as long as he is the client's analyst, he can have free use of a limousine several times a year. The analyst needs to:

A) do nothing since the offer is not linked to the performance of the client's portfolio.

B) explicitly refuse such an offer.

C) inform his supervisor in writing of the offer if the analyst intends to accept the offer.

Explanation

Standard IV(B) requires that members disclose to their employer in writing all benefits that they receive in addition to their regular compensation for services they perform on behalf of their employer. They also need to get consent from their employer in writing. The written report to the employer should include the details of any written or oral agreement for extra compensation. The analyst does not have to refuse the offer.

Question #21 of 61

Question ID: 1459415

Jennifer Stewart, CFA, a supervisor at an investment advisory firm, has tried unsuccessfully to convince top management of the firm's need for a formal, comprehensive compliance program. What is Stewart's *most appropriate* course of action?

A) Decline in writing to accept supervisory responsibility.

B) Rely on the Code and Standards to perform her duties as a supervisor.

C) Resign from the firm if no compliance program is instituted.

Explanation

According to Standard IV(C) Responsibilities of Supervisors, Stewart should decline in writing to accept supervisory responsibility until the firm adopts adequate compliance procedures.

(Module 71.6, LOS 71: IV(C))

Question #22 of 61

Question ID: 1469280

The following information pertains to the Galaxy Trust, a trust established by Stephen P. House and managed by Gamma Investment LLC:

- At the time the trust was established House provided $5 million in cash to fund the trust, but Gamma was aware that 93% of his personal assets were in the form of Oracle stock.
- Gamma has been asked to view his funds and the trust as a single entity for planning purposes, since House's will stipulates that all of his estate will pass to the trust upon his death.
- The investment policy statement, developed in September 1996, stipulates that the trust should maintain a short position in Oracle stock and use the proceeds to diversify the trust more adequately.
- House was able to sell all of his Oracle shares back to the corporation in January 1999 for cash.
- The policy statement redrawn in September 1999 continues to stipulate that the trust hold a short position in Oracle stock.
- House has given the portfolio manager in charge of the trust an all-expenses paid vacation package anywhere in the world each year at Christmas. The portfolio manager has reported this fact in writing to his immediate supervisor at Gamma.

Which of the following is *most* correct? The investment manager is:

A) in violation of the Code and Standards by not properly updating the investment policy statement in light of the change in the circumstances and is in violation with regard to the acceptance of the gift from House.

B) in violation of the Code and Standards by not properly updating the investment policy statement in light of the change in the circumstances but is not in violation with regard to the acceptance of the gift from House.

C) not in violation of the Code and Standards for not properly updating the investment policy statement in light of the change in the circumstances and is not in violation with regard to the acceptance of the gift from House.

Explanation

The investment manager is in violation of the Standard requiring him to make a reasonable inquiry into the client's financial situation and update the investment policy statement since such a dramatic change in the client's circumstances would undoubtedly alter the investment policy statement and would probably eliminate the need to hold a short position in Oracle. The investment manager is not in violation of the Standard concerning additional compensation, since the gift has been reported to his supervisor and has come from a client. If there was a failure to report such a gift, if the firm had a rule in place against the acceptance of gifts from clients, or if the gift had come from a non-client, there would be a violation of the standard.

Question #23 of 61

Question ID: 1459370

Nicholas Brynne, CFA, develops a trading model while working for CE Jones, an investment management firm. By working on the model at home from his personal computer, Brynne is able to devote additional work hours. Although the trading model is successful, Brynne loses his job in a company restructuring, and decides to start his own practice using the trading model. Nicholas is *most likely*:

A) in violation of the Standards because he did not have permission to build the trading model using his home computer.

B) in violation of the Standards because he did not receive permission from his employer to keep or use the files after employment ended.

C) not in violation of the Standards because the trading model was created using his home computer.

Explanation

Brynne is in violation of Standard IV(A) "Loyalty." Employer records include items stored in any medium including home computers.

(Module 71.6, LOS 71: IV(A))

Question #24 of 61

Question ID: 1459386

Jacob Allen, CFA, decides he could make more money if he started his own company. Which of the following steps would *most likely* violate Standard IV(A) Loyalty?

A) Renting space for his new company and interviewing several candidates for the position of manager at the new company.

B) Soliciting, without written permission from his current employer, the business of former clients after he leaves his current employer.

C) Using his notes from prior research of a firm in a creating a new research report on the firm, after leaving his current employer.

Explanation

Allen's notes from his research are employer records and even though he prepared them, it is a violation to take them from his employer without permission. Soliciting former clients' business is not, in itself, a violation as long has Allen has not misappropriated client information from his former employer. Preparations to start a new business are not necessarily a violation of the Standard, although soliciting current clients or recruiting other firm personnel for the new venture, before formally leaving his employer, would be violations of the Standards.

(Module 71.6, LOS 71: IV(A))

Question #25 of 61

Question ID: 1459397

Dick Bowden, a CFA charterholder, receives a free country club membership in exchange for financial advice he can offer the firm. He should:

A) do nothing; it is his business where he spends his free time.

B) disclose the arrangement to his employer.

C) reject the country club membership since it is illegal under CFA Institute rules and regulations to accept outside compensation.

Explanation

Dick should disclose the arrangement to his employer under Standard IV(B), Additional Compensation Arrangements.

(Module 71.6, LOS 71: IV(B))

Question #26 of 61

Question ID: 1469290

Dave Kline, CFA, is a personal investment advisor with 200 individual, family, and corporate accounts. After a dispute with a coworker on margin policy, he formally resigns his position by giving suitable notice. However, he does not follow his firm's established "Transition and Exit Policies" regarding his accounts. The firm's stated policies require him to notify each client of his planned departure and personally introduce them to their new account representative, Greg Potter. Kline sees Potter as a rival and states "...let Potter do his own work and find his own clients." Kline is *most likely*:

A) in violation of Standard I(D) "Misconduct" for leaving clients subject to an account representative he does not find suitable.

B) in violation of Standard IV(A) "Loyalty" for failing to follow the employer’s policies and procedures related to notifying clients of his departure.

C) not in violation of the Code and Standards.

Explanation

Kline is in violation of Standard IV(A) "Loyalty" for failing to follow the employer's policies and procedures related to notifying clients of his departure.

Question #27 of 61

Question ID: 1451399

Bill Fence, CFA, supervises a group of research analysts, none of whom have earned the CFA designation (nor are they CFA candidates). On several occasions he has attempted to get his firm to adopt a compliance system to ensure that applicable laws and regulations are followed. However, the firm's principals have never adopted his recommendations. Fence should *most* appropriately:

A) take no further action, because by encouraging his firm to adopt a compliance system he has fulfilled his obligations under the Code and Standards.

B) report the inadequacy by submitting a complaint in writing to the CFA Institute Professional Conduct Program.

C) refuse supervisory responsibility.

Explanation

According to Standard IV(C), Responsibilities of Supervisors, if the member cannot discharge supervisory responsibilities because of a poor or nonexistent compliance system, the member should decline in writing to accept supervisory responsibility until the firm adopts an adequate system.

Question #28 of 61

Question ID: 1459392

Which of the following statements is *least accurate* with regard to the Standard concerning loyalty to employers?

A) Employees planning to leave an employer must not engage in activities that would conflict with their duty to act in the employer's best interest.

B) Former employees may contact clients of their previous firms if doing so does not violate a non-compete agreement and the contact information is obtained from public sources.

C) Skills and experience a former employee obtained through work at a firm are considered privileged information of that firm.

Explanation

Once an employee leaves a firm, the employee's skills and experience acquired are not considered confidential or privileged. The other two statements are accurate.

(Module 71.6, LOS 71: IV(A))

Question #29 of 61

Question ID: 1459393

Mark Roberts has resigned from a local investment advisory firm and begun working at Benjamin Investments. Without getting approval from his supervisor at Benjamin, Roberts uses a phone book to find the contact information of his old clients and asks for their continued business. Has Roberts violated any CFA Institute Standards of Professional Conduct?

A) No.

B) Yes, because he is not allowed to solicit his former clients.

C) Yes, because he must obtain written consent from his current supervisor.

Explanation

Roberts has not violated the Standards. According to Standard IV(A) Loyalty, Roberts may solicit his old clients providing he does not use any records from his prior employer without permission. Roberts may use publicly available information, such as a phone book, to contact his former clients.

(Module 71.6, LOS 71: IV(A))

Question #30 of 61

Question ID: 1469295

Jill Marsh, CFA, works for Advisors where she manages various portfolios. Marsh's godfather is an accountant and has done Marsh's tax returns every year as a birthday gift. Marsh's godfather has recently become a client of Advisors and asked specifically for Marsh to manage his account. In order to comply Standard IV(B), Disclosure of Additional Compensation Arrangements, she needs to:

A) do neither of the actions listed here. ✓

B) have her godfather cease doing her taxes. ✗

C) liquidate from her personal portfolio any stocks her godfather owns and verbally tell her supervisor about the tax services. ✗

Explanation

Standard IV(B) requires that members disclose to their employer in writing all benefits that they receive in addition to their regular compensation for services they perform on behalf of their employer. It is not unreasonable for an individual's godfather to give them a birthday gift. Moreover, since the tax services were a regular birthday present before her godfather became a client, this implies that they are unrelated to any investment management services.

Question #31 of 61

Question ID: 1469297

A firm recently hired Hal Crane, CFA, to be a supervisor in the firm. Crane has reviewed the procedures for complying with the Code and Standards in the company. It is Crane's belief that the procedures need revision in order to be effective. Crane must:

A) decline supervisory responsibilities in writing until the company adopts an adequate compliance system. ✓

B) exercise his supervisory responsibilities with the greater level of diligence required by the Code and Standards.

C) make reasonable efforts to encourage the company to adopt an adequate compliance system.

Explanation

According to Standard IV(C) Responsibilities of Supervisors, if Crane believes the company's compliance procedures are not adequate, Crane should decline supervisory responsibilities in writing until an adequate system is adopted.

Question #32 of 61

Question ID: 1459356

Linda Schultz, CFA, is an investment advisor at Wheaton Investments. Schultz has been employed there for five years, and has never signed a "non-compete" clause. While at Wheaton, Schultz makes preparations to set up her own money management firm. She does not contact any existing clients before leaving Wheaton and does not take any firm records or files. After her resignation becomes effective, Schultz replicates a list of former clients from memory and uses public sources to get their contact information. She then contacts these former clients and solicits their business for her new firm. Has Schultz violated any CFA Institute Standards?

A) No. Schultz is in compliance with CFA Institute Standards.

B) Yes. Schultz is permitted to notify clients that she has left her old firm, but she cannot encourage them to come with her to the new firm.

C) Yes. Schultz may not contact clients of her old firm.

Explanation

Schultz continued to act in her employer's best interest while still employed and did not engage in any activities that would conflict with this duty until her resignation became effective. Standard IV(A) Loyalty does not prohibit her from contacting clients from her previous firm if she does not get the contact information from the records of her former employer or violate an applicable non-compete agreement.

(Module 71.6, LOS 71.b)

Question #33 of 61

Question ID: 1469287

Which of the following statements is most correct concerning a member's obligation to his or her employer under the Code and Standards?

A) Consent from the employer is necessary to permit independent practice that could result in compensation or other benefits in competition with the member's employer.

B) Members are prohibited from making arrangements or preparations to go into competitive business before terminating their relationship with their employer.

C) Members are prohibited from undertaking independent practice in competition with their employer.

Explanation

There is no blanket prohibition against independent practice in competition with a member's employer. The member must obtain permission from the employer. Members may make preparations to go into a competitive business, but may not solicit clients of the employer as long as members are still employed by the employer.

Question #34 of 61

Question ID: 1459396

To comply with Standard IV(B), Additional Compensation Arrangements, members should do all of the following EXCEPT:

A) immediately make a written report to their employer specifying any compensation benefits they receive.

B) reject any outside compensation immediately because it is not appropriate to accept outside compensation in a business setting.

C) state the terms of oral or written agreements regarding the compensation and the duration of the agreement.

Explanation

There is no reason to reject any outside compensation immediately because it is inappropriate to accept it. However, all outside arrangements must be reported to the member's employer.

(Module 71.6, LOS 71: IV(B))

Question #35 of 61

Question ID: 1459379

When providing outside services, a member should provide all of the following information to her current employer EXCEPT:

A) the types of services to be provided.

B) the compensation she will receive.

C) a promise to remit an agreed-upon percentage of the proceeds to the current employer.

Explanation

She should provide information about the type of services, the compensation arrangement and the expected duration of the project.

(Module 71.6, LOS 71: IV(A))

Question #36 of 61

Question ID: 1462981

Laura Smith, CFA, is an analyst with the trust department of Bright Star Bank. The department's portfolio managers use a proprietary model to select stocks. Bright Star has been purchased by Mega Bank, which does not plan to use Bright Star's model after completing the purchase. A few weeks before the Bright Star/Mega Bank merger date, Smith downloads the model to her laptop and modifies the model for her own use. Do Smith's actions violate the Standards of Professional Conduct?

A) No, because Smith modified the model.

B) Yes, because the model is the property of Mega Bank.

C) No, because Mega Bank has discontinued use of the model.

Explanation

Smith has violated Standard IV(A) Loyalty by copying proprietary computerized information without authorization of the owner, Bright Star Bank and now Mega Bank. Even if Bright Star has been absorbed by Mega Bank, the assets of the trust department, including the model, now belong to Mega Bank, even if it chooses not to use them. Smith would have complied with the Standard if she had obtained permission from Mega Bank to copy the model.

(Module 71.6, LOS 71.b)

Question #37 of 61

Question ID: 1459399

An analyst needs to inform his supervisor in writing of which of the following?

A) A client and the analyst alternate paying for lunch at a local sandwich shop. ✗

B) An annual bonus, sent to the analyst by a client, which varies with the performance of the client's portfolio that the analyst manages as an employee even though no verbal or written agreement exists about the bonus. ✓

C) Both the lunch and the bonus mentioned in the other answers. ✗

Explanation

Standard IV(B) requires that members disclose to their employer in writing all benefits that they receive in addition to their regular compensation for services they perform on behalf of their employer. Since the bonus varies with the performance of the client's portfolio, there is a clear link to the services of the analyst. The analyst is not required to report the lunch since it is not linked to performance.

(Module 71.6, LOS 71: IV(B))

Question #38 of 61

Question ID: 1469289

A CFA Institute member, undertaking independent practice that could result in compensation or other benefit:

A) must notify his employer and clients of the types of service to be rendered and the expected compensation. ✗

B) must notify his employer of the types of service to be rendered, the expected duration, and the expected compensation. ✓

C) must notify the entities for whom he plans to undertake independent practice of the compensation he receives from his employer. ✗

Explanation

According to Standard IV(A), Loyalty to Employer, a CFA Institute member, undertaking independent practice that could result in compensation or other benefit, must notify his employer of the types of service to be rendered, the expected duration, and the expected compensation.

Question #39 of 61

Question ID: 1469279

Chuck Daniels has just been hired to manage a security analysis group for Aaron Asset Management. Daniels performed a similar function at another firm and finds the compliance system at Aaron inadequate. He develops a system that he feels is appropriate, but senior management tells him he will have to wait six months to implement the system. Daniels should:

A) decline in writing to accept supervisory responsibility until a satisfactory compliance system is put into place.

B) protest in writing the delay, listing the potential dangers that can occur.

C) resign his position immediately.

Explanation

According to the Standard on supervisory responsibilities, Daniels should decline in writing to accept supervisory responsibility until a satisfactory compliance system is put into place.

Question #40 of 61

Question ID: 1115909

Brian Bellow, a CFA Institute member, is a portfolio manager for Progressive Trust Company. Several friends asked Bellow to review their investment portfolios. On his own time, Bellow examined their portfolios and made several recommendations. He received no monetary compensation from his friends for his investment advice and provided no future investment counsel to them. According to CFA Institute Standards of Professional Conduct, did Bellow violate his duty to Progressive Trust?

A) Yes, because he undertook an independent practice that could result in compensation or other benefit to him.

B) No, because Bellow provided no ongoing investment advice.

C) No, because Bellow received no compensation for his services.

Explanation

Standard IV(A) Loyalty requires members and candidates to disclose to their employers any independent practice for compensation. In this case, Bellow did not receive any compensation for his advice and therefore did not engage in independent practice.

Question #41 of 61

Question ID: 1115926

Sharon West is a CFA charterholder and trust officer for REO Trust Company. Soon after beginning work for REO, West finds that REO has been conducting all its securities transactions through her brother who is a registered representative. West's brother charges REO commissions that are equal to the lowest available from another broker. West's brother tells her that if she continues doing business with him, he will give her a substantial discount on all personal transactions she conducts through him. West:

A) must inform her employer of the arrangement because she is doing business with a member of her immediate family. ✗

B) does not need to inform her employer of the arrangement because the commissions her brother charges the firm are the lowest possible. ✗

C) must inform her employer of the arrangement because it provides her with additional compensation. ✓

Explanation

Members are required to disclose to their employer in writing all monetary compensation or other benefit they receive in addition to the employer's compensation. The discounting of West's commissions is a benefit that must be disclosed.

Question #42 of 61

Question ID: 1459416

Edwin McNeill, CFA, is a senior trader for Grey Securities. In his monthly review of his team's activity, McNeill notices a series of suspicious trades by one of the traders. McNeill consults his manager, who agrees that these trades are a potential violation. McNeill informs the trader that her duties will be restricted while these trades are being investigated and refers the matter to Grey's compliance officer for further action. McNeill has:

A) not violated the Standards. ✓

B) violated Standard IV(C) Responsibilities of Supervisors by failing to prevent a potential violation. ✗

C) violated Standard IV(C) Responsibilities of Supervisors by restricting the trader’s duties before the investigation is completed. ✗

Explanation

By reviewing the employee's conduct, restricting the employee's activities while investigating a potential violation, and referring the matter to his manager and compliance officer, McNeill acted properly according to Standard IV(C) Responsibilities of Supervisors. Wrongdoing by a subordinate does not mean the manager has violated Standard IV(C) as long as the manager has made reasonable efforts to detect and prevent violations.

(Module 71.6, LOS 71: IV(C))

Question #43 of 61

Question ID: 1469283

Nancy Korthauer, CFA, has launched a new hedge fund called the Korthauer Tautology Fund but has had trouble hiring analysts who are CFA charterholders as well as with finding clients. She offers a $15,000 incentive bonus to any charterholder who joins the firm with over $1 million in committed client investments. Which of the following interpretations of the Code and Standards is *most accurate*?

A) A member or candidate may arrange for current clients to switch to the Korthauer Tautology Fund provided clients are informed of the incentive bonus. ✗

B) A member or candidate may arrange for current clients to switch to the Korthauer Tautology Fund provided the member or candidate refuses to accept the incentive bonus. ✗

C) A member or candidate may not solicit current clients away from their current employer. ✓

Explanation

A member or candidate may not solicit current clients away from their current employer under Standard IV(A) "Loyalty."

Question #44 of 61

Question ID: 1469281

Which of the following statements is most correct under the Code and Standards?

A) CFA Institute members are prohibited from undertaking independent practice in competition with their employer. ✗

B) Consent from the employer is necessary to permit independent practice that could result in compensation or other benefits in competition with the member's employer.

C) Members are prohibited from making arrangements or preparations to go into competitive business before terminating their relationship with their employer.

Explanation

Members are not prohibited from making arrangements or preparations to go into competitive business before terminating their relationship with their employer. CFA Institute members are not prohibited from undertaking independent practice in competition with their employer provided they have consent from their employer. Members must provide notification to their employer describing the types of services to be rendered, the expected duration, and compensation for the services.

Question #45 of 61

Question ID: 1459414

Which of the following is *least* likely a recommended procedure for supervisors and compliance officers to comply with Standard IV(C) Responsibilities of Supervisors?

A) Incorporate a professional conduct evaluation into the employee's performance review.

B) Disseminate the firm's compliance procedures to employees.

C) Hold hearings when violations have occurred to determine the severity of the violations.

Explanation

While a supervisor should respond promptly and investigate violations, there is no obligation to hold hearings when violations have occurred.

(Module 71.6, LOS 71: IV(C))

Question #46 of 61

Question ID: 1469284

Nick O'Donnell, CFA, unsuspectingly joins the research team at Wickett & Co., an investment banking firm controlled by organized crime. None of the managers at Wickett are CFA Institute members. Because of his tenuous situation at Wickett, O'Donnell begins making preparations for independent practice. He knows he will be terminated if he informs management at Wickett that he is preparing to leave. Consequently, he determines that "if he can just hang on for one year, he will likely have a client base sufficient for him to strike out on his own." This action is:

A) a violation of his duty to disclose conflicts to his employer.

B) a violation of his fiduciary duties.

C) not a violation of his duty to employer.

Explanation

O'Donnell is required to obtain consent from his employer if he is attempting to practice in competition with his employer. Merely undertaking preparations to leave, which do not violate a duty, is not a violation of the Code and Standards.

Question #47 of 61

Question ID: 1459403

Selma Brown, CFA, is a portfolio manager for Mainland Securities. Rick Wood, one of her clients and owner of Wood Fitness Centers, offers to permit Brown and her immediate family to use the facilities at his fitness centers at no cost during 2003. To get this benefit, Brown must achieve on Wood's portfolio at least a 2-percentage point return above the total return on the S&P's 500 index during 2002. Brown orally informs her immediate supervisor of the nature and duration of the proposed arrangement.

Arnold Turley, a CFA Institute member, is a portfolio analyst at Mainland Securities. He was just elected to the Board of Directors for Omega Services, which pays him $1,000 plus expenses for attending each of its quarterly board meetings. Turley e-mails Mainland's compliance officer informing her of this arrangement with Omega and receives a reply informing him that the agreement is acceptable.

Did Brown or Turley violate CFA Institute Standards of Professional Conduct?

A) Brown: No, Turley: No.

B) Brown: Yes, Turley: No.

C) Brown: Yes, Turley: Yes.

Explanation

Brown violated Standard IV(B), Additional Compensation Arrangements, because she must disclose *in writing* other benefits to be received for services that are in addition to compensation conferred by her employer. Turley did not violate Standard IV(B) because he received consent from his employer in writing, which includes e-mail.

(Module 71.6, LOS 71: IV(B))

Question #48 of 61

Question ID: 1459408

According to the CFA Institute Standards of Professional Conduct, which of the following statements about members with supervisory responsibility is *least accurate*? Members with supervisory responsibility:

A) are relieved of their supervisory responsibility if they delegate their supervisory duties to other members of CFA Institute. ✓

B) are expected to have in-depth knowledge of the Code and Standards and to apply this knowledge in discharging their supervisory responsibilities. ✗

C) must make reasonable efforts to detect violation of laws, rules, regulations, and the Code and Standards. ✗

Explanation

Although members who supervise large numbers of employees may delegate supervisory duties, such delegation does not relieve them of their supervisory responsibility.

(Module 71.6, LOS 71: IV(C))

Question #49 of 61

Question ID: 1459378

All of the following activities might constitute a violation of Standard IV(A), Loyalty to Employer, EXCEPT:

A) misuse of confidential information. ✗

B) solicitation of the employer's clients following termination of employment. ✓

C) solicitation of the employer's clients prior to termination of employment. ✗

Explanation

Solicitation of the employer's clients *prior to* termination of employment would constitute a violation of Loyalty to Employer, but solicitation of clients *following* termination would not.

(Module 71.6, LOS 71: IV(A))

Question #50 of 61

Question ID: 1451398

Which of the following statements about Standard IV(C) Responsibilities of Supervisors is *least* accurate?

A) If a subordinate violates a securities law, her supervisor is in violation of Standard IV(C). ✓

B) If the supervisor makes a reasonable effort to detect violations, but fails to detect a violation that occurs, she is in compliance with Standard IV(C). ✗

C) If no effort is made to detect violations, the supervisor is in violation of Standard IV(C) even if no violations by her subordinates have occurred. ✗

Explanation

Standard IV(C) Responsibilities of Supervisors requires members to make a reasonable effort to ensure compliance with applicable laws, regulations, and rules by their subordinates. Violations by subordinates do not necessarily mean the supervisor has violated this Standard if the supervisor has made reasonable efforts to detect and prevent violations.

Question #51 of 61

Question ID: 1469285

Janet Thompson, CFA, is employed as an analyst by Nationwide Securities. According to CFA Institute Standards of Professional Conduct, which of the following statements about Thompson's duty to Nationwide is NOT correct? Thompson must refrain from:

A) engaging in any conduct that would injure Nationwide. ✗

B) engaging in independent competitive activity that could conflict with the business of Nationwide unless she receives written consent. ✗

C) making arrangements to go into a competitive business before terminating her relationship with Nationwide. ✓

Explanation

Standard IV(A) permits Thompson to make preparations to go into a competitive business before terminating her relationship with Nationwide provided that such preparations do not breach her duty of loyalty.

Question #52 of 61

Question ID: 1459391

Jack Salyers, CFA, is considering starting his own firm to compete with his current employer. He takes several actions before turning in his resignation. Which of the following actions *least likely* violates the Standard concerning loyalty? Salyers:

A) informs clients he has been serving that he is forming a new firm and offers them a discount on fees if they move their accounts to the new firm.

B) registers his new firm with the government's financial regulators.

C) copies computer models he has been using to form a reasonable basis for his investment recommendations.

Explanation

Under Standard IV(A) Loyalty, making preparations to start a competing business while still employed is acceptable. Soliciting the employer's clients and taking the employer's property (such as computer models) violate the Standard.

(Module 71.6, LOS 71: IV(A))

Question #53 of 61

Question ID: 1469296

Wanda Kirby, CFA, recently joined Allegheny Investments as a senior analyst. Because of her extensive experience in the investments business and knowledge of the Code and Standards, Allegheny's management asked her to assume supervisory responsibility. Kirby reviewed Allegheny's existing compliance system and determined that it was inadequate to allow her to clearly discharge her supervisory responsibility. According to CFA Institute Standards, Kirby should:

A) agree to accept supervisory responsibility and to develop reasonable procedures to allow her to adequately exercise such responsibility.

B) agree to accept supervisory responsibility provided that Allegheny adopts reasonable procedures to allow her to adequately exercise such responsibility.

C) decline in writing to accept supervisory responsibility until Allegheny adopts reasonable procedures to allow her to adequately exercise such responsibility. ✓

Explanation

If Kirby clearly cannot discharge supervisory responsibilities because of an inadequate compliance system, she should decline in writing to accept supervisory responsibility until Allegheny adopts reasonable procedures to allow her to adequately exercise such responsibility.

Question #54 of 61

Question ID: 1451388

Pamela Gee is a portfolio manager. She is planning to establish her own money management firm. She has already informed her employer, Branford, Inc., about her plans. In her remaining time at Branford, she can:

A) inform her current clients about her resignation and let them know how to reach her, in case any problems arise in the future. ✗

B) solicit Branford colleagues but not Branford clients. ✗

C) start the registration of her new company. ✓

Explanation

The only action that will not breach Standard IV(A) Loyalty to Employer, is to start the registration of her new company.

Question #55 of 61

Question ID: 1469282

Bill Valley has been working for Advisors, Inc., for several years, and he just joined CFA Institute. Valley's sister just received a large bonus in the form of stock options in Zephyr, Inc. Valley's sister knows nothing about financial assets and offers Valley a week at her holiday home each year in exchange for Valley monitoring Zephyr and the value of her stock options. In order to comply with the Code and Standards, Valley needs to inform Advisors of:

A) both the use of the holiday home and his sister's options. ✓

B) nothing since no money is involved and it is a favor for a family member. ✗

C) the compensation in the form of the use of the holiday home only. ✗

Explanation

According to Standard IV(A), Loyalty to Employer, Valley must inform Advisors of his outside consultation even if it is not for monetary compensation. According to Standard VI(A), Disclosure of Conflicts, Valley must also disclose possible conflicts of interest, and his sister's position qualifies.

Question #56 of 61

Question ID: 1469294

David Saul, CFA, heads the trust department at Savage National Bank. Fairway Enterprises invites Saul to sit on its Board of Directors. In return for his services on the Board, Fairway offers to provide Saul and his family with access to the facilities at Wilmont Country Club at no cost. Saul will not receive any monetary compensation for his services on the Board. According to CFA Institute Standards of Professional Conduct, which of the following actions must Saul take?

A) Saul must disclose in writing to Savage Bank the terms of the offer whether or not he accepts the offer to serve on the Board of Directors. ✗

B) Saul must obtain written consent from Savage Bank and Fairway Enterprises if he decides to accept the offer to serve on the Board of Directors. ✓

C) Saul must reject the offer to serve on the Board of Directors. ✗

Explanation

Standard IV(B) requires that members obtain written consent from all parties involved before accepting monetary compensation or other benefits that they receive for their services that are in addition to compensation or benefits conferred by a member's employer. The phrase "all parties" is referring to Saul's employer and Fairway's Board of Directors.

Question #57 of 61

Question ID: 1451308

Rachel Young, CFA, is making preparations to start a competitive business before terminating her relationship with her employer, a large money management company. Young asks Dot Wiggins, a colleague, to consider joining her. In subsequent discussions with Young, Wiggins learns that Young has used excerpts from research reports by others with only a slight change in wording without acknowledging the source. According to CFA Institute Standards of Professional Conduct, Young has:

A) violated Standard I(C) Misrepresentation, because she did not acknowledge the source of excepts that she used in research reports.

B) violated Standard IV(A) Loyalty, because she was making preparations to start a competitive business before terminating her relationship with her employer.

C) not violated the Standards.

Explanation

By using excerpts from research reports by others with only a slight change in wording without acknowledging the source, Young committed plagiarism and violated Standard I(C) Misrepresentation. Young did not violate Standard IV(A) Loyalty because preparations to begin an independent business are permitted provided that they do not breach Young's duty of loyalty to her employer. Actions that would violate Standard IV(A) include soliciting clients or taking records or files while still working for the current employer.

Question #58 of 61

Question ID: 1451396

Martin Tripp, CFA, is vice-president of the equity department at Walker Financial, a large money management firm. Of the twenty analysts in his department for whom he has supervisory responsibility, eight are subject to CFA Institute Standards of Professional Conduct. Tripp believes that he cannot personally evaluate the conduct of the twenty analysts on a continuing basis. Therefore, he plans to delegate some of his supervisory duties to Sarah Green, who is subject to the Standards, and some to Bob Brown, who is not subject to the Standards. According to CFA Institute Standards of Professional Conduct, which of the following statements about Tripp's ability to delegate supervisory duties is *most accurate*?

A) Tripp may not delegate any of his supervisory duties to either Green or Brown.

B) Tripp may delegate some or all of his supervisory duties to Brown, even though Brown is not subject to the Standards.

C) Tripp may delegate some or all of his supervisory duties only to Green because she is subject to the Standards.

Explanation

Standard IV(C) Responsibilities of Supervisors permits Tripp to delegate supervisory duties to Green, Brown, or both, but such delegation does not relieve Tripp of his supervisory responsibility.

Question #59 of 61

Question #59 of 61

Question ID: 1451380

Michel Marchant, CFA, recently became an independent money manager. After six months, he has only ten clients, who are family and friends. To supplement his income, Marchant accepted part-time employment as an advisor at Middleton Financial Advisors. According to CFA Institute Standards of Professional Conduct, which of the following statements about Marchant's duty to his new employer is CORRECT?

A) Marchant need not inform Middleton about his existing clients but must inform his existing clients about his new part-time employment at Middleton.

B) Marchant must inform Middleton about his existing clients but need not inform his existing clients about his new part-time employment with Middleton.

C) Marchant must inform Middleton to keep his existing clients and must inform his existing clients of his new part-time employment at Middleton.

Explanation

Standard IV(A) and IV(B) requires that Marchant inform both Middleton and his existing clients.

Question #60 of 61

Question ID: 1459388

May Frost, CFA, is an equity research analyst for a "precious metals mining" exchange traded fund which has recently started significantly outperforming its benchmark after several years of stagnation. Upon investigating the source of the outperformance, Frost learns that the fund has experienced severe style drift, and now has a significant proportion of its resources invested in technology and internet stocks. Frost reviews the fund's prospectus and learns the current sector weighting violates multiple prospectus covenants. Frost contacts her supervisor and the fund's compliance department and is told the portfolio weighting is not her responsibility and that she should not pursue the matter further. Frost reviews the firm's whistleblower policy, contacts personal legal counsel, and then contacts regulatory authorities regarding the style drift and prospectus violations. Frost is *most likely*:

A) not in violation of the Code and Standards.

B) in violation of the Standard on preservation of confidentiality.

C) in violation of the Standard on loyalty.

Explanation

The Code and Standards do not prohibit whistleblowing actions, as long as these actions do not violate applicable laws or regulations.

(Module 71.6, LOS 71: IV(A))

Question #61 of 61

Question ID: 1469288

John Hill, CFA, has been working for Advisors, Inc., for eight years. Hill is about to start his own money management business and has given his two-week notice of his resignation from Advisors. A few days before his resignation takes effect, on his lunch hour, he takes out a loan from a bank on behalf of his new business and uses the money to buy some office equipment for his new business. Since he engaged in these transactions while still an employee of Advisors, Hill violated Standard IV(A), Loyalty to Employer, by:

A) breaching his duty of loyalty to his current employer by making preparations to go into a competitive business.

B) neither taking out the loan nor buying the equipment.

C) preparing to undertake independent practice before giving notice to his current employer of his intent to resign.

Explanation

The Standards of Practice under IV(A) states that a departing employee is "generally free to make arrangements or preparations to go into a competitive business before terminating the relationship with the employee's employer provided that such preparations do not breach the employee's duty of loyalty." Neither of these actions are in conflict with the interests of Advisors, and Hill performed them on his own time.