

### Question #1 of 39

Question ID: 1115692

Nicholas Brynne, CFA, is a fixed-income analyst who trades in mortgage-backed securities (MBS). The MBS industry has seen sweeping regulatory changes since Brynne took his current position, and he now feels his understanding of applicable laws and regulatory standards is dated. Brynne must:

- A)** update his understanding of applicable laws and regulatory standards relating to his position.
  - B)** rely on his firm's policies and procedures for guidance on legal and regulatory standards.
  - C)** have all trades reviewed by his compliance department until he has obtained an expert level of knowledge in compliance.
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### Question #2 of 39

Question ID: 1459182

Jason Blackwell, CFA, works as an investment manager for Mega Capital, a large multinational brokerage firm. Mega Capital is based in a country whose applicable law is stricter than the CFA Institute Code and Standards, but does business with clients in a country whose applicable law is less strict than the Code and Standards. Blackwell decides to follow the requirements of the Code and Standards for clients in the less strict country, which is sufficient to also comply with that less-strict country's local laws. While Blackwell is still employed at Mega, Lego Associates verbally asks Blackwell to review client portfolios during evenings and weekends for a fee. Blackwell gets written consent from his immediate supervisor at Mega to undertake this independent activity for a one-month trial basis.

Which of the following statements about Blackwell's actions involving Standard I, Professionalism, and Standard IV(A), Loyalty is *most* accurate? Blackwell:

- A)** did not violate either Standard I or Standard IV(A).
  - B)** violated both Standard I and Standard IV(A).
  - C)** violated Standard I but did not violate Standard IV(A).
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### Question #3 of 39

Question ID: 1115690

Bob Blanford, CFA, is an investment analyst for a large global brokerage firm. He recently moved to Ragatan, a developing country with few securities laws and regulations. As part of conducting a company analysis, Blanford interviews Ravi Shanti, vice-president of finance at Starr Industries. Starr is a major industrial firm in Ragatan and a client at Blanford's firm. Based on his analysis, Blanford suspects that Shanti may have deliberately overstated Starr's current earnings and its earnings for the past several quarters. If this information becomes public, Blanford believes that Starr's stock price will drop substantially. Blanford suspects that Shanti may have violated Ragatan's securities laws. Which of the following statements is *least likely* to comply with Standard I, Professionalism? Blanford should:

- A)** take no action.
  - B)** determine the legality of the activity, possibly by consulting counsel.
  - C)** disassociate himself from the client, if the activity is illegal or unethical.
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### Question #4 of 39

Question ID: 1390944

An analyst who is a CFA Institute member receives an invitation from a business associate's firm to spend the weekend in a high-quality resort. In order to abide by the Standards, the analyst should (may):

- A)** refuse the invitation if the associate is from a firm he analyzes for his employer.
  - B)** do both of the actions listed here.
  - C)** obtain written consent from his supervisor if the offer is contingent on achieving a target investment return.
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### Question #5 of 39

Question ID: 1459179

Joan Platt, CFA, operates an investment advisory service in New York but maintains an office in Xania. Xania recently established a stock market, which is not very efficient. None of the Xanian stocks trade in the U.S. market. Xania legally permits the use of material nonpublic information. Platt believes that using nonpublic information would help her compete against other Xanian investment advisors and also help some of her Xanian clients reach their investment objectives. Platt is considering adopting local investment practices in Xania. According to CFA Institute Standards of Professional Conduct, Platt may:

- A)** use material nonpublic information because Xania legally permits this practice.
  - B)** not use material nonpublic information for her own benefit, but may use it to benefit her clients.
  - C)** not use material nonpublic information.
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### Question #6 of 39

Question ID: 1459175

Which of the following is *most accurate* concerning a member's duty under the Code and Standards?

- A)** A member is required to comply only with applicable local laws, rules, regulations, or customs even if the Code and Standards impose a higher degree of responsibility.
  - B)** In the absence of specific applicable law or other regulatory requirements, the Code and Standards govern the member's actions.
  - C)** A member who trades securities in a country with less strict laws, rules, regulations, or customs may follow those laws if he discloses this information to his client.
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### Question #7 of 39

Question ID: 1469239

Shortly after becoming employed by Valco & Co., an investment banking firm, Stan McDowell, CFA, learns that most of Valco's initial public offerings (IPO) are really effected in order to profit management via price manipulation of the shares. McDowell observes an illegal act, sanctioned by senior management, in progress and refuses to sign off on his responsibility. Instead, McDowell takes the documentation to his supervisor and tells him he should sign it in his place. This action is:

- A)** a suitable reaction, and he is in compliance with the Code and Standards.

- B)** a violation of the Code and Standards since he is required not to knowingly participate or assist in such an act.
  - C)** an overreaction. Senior management's sanctioning of the act absolves McDowell from his ordinary responsibility as a CFA Institute member.
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### Question #8 of 39

Question ID: 1469244

The Securities and Exchange Board of India (SEBI) has just enacted a new stock-trading rule. SEBI will give brokers a 10-day grace period, during which violators of the rule will be immediately notified and given a chance to remedy their situation to comply with the new rule. If a CFA Institute member located in India or doing business in India unknowingly violates the rule and then remedies the situation within the 10-day grace period, has the member violated Standard I(A)?

- A)** No, because the member remedied the situation.
  - B)** No, because the member unknowingly broke the rule.
  - C)** Yes, because the member did not maintain knowledge and know of the rule.
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### Question #9 of 39

Question ID: 1459189

What is the rule for members, CFA charterholders, and candidates in the CFA program with regard to the requirements of the Code and Standards and the requirements of local laws? If the applicable laws are:

- A)** less strict, members and candidates are only responsible for complying with the local laws.
  - B)** more strict, members and candidates are only responsible for complying with the Code and Standards.
  - C)** more strict, members and candidates are responsible for complying with the applicable laws.
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### Question #10 of 39

Question ID: 1115688

Robe Advisory Services operates an office in San Francisco, where it manages portfolios for its clients based in the United States. The firm also maintains an office in Tokyo, where it employs Sam Lee, CFA who researches Japanese stocks. According to the CFA Institute Standards of Professional Conduct, Lee is required to maintain knowledge of and comply with all applicable laws, rules, and regulations in:

- A)** Japan, but not the U.S., and the CFA Institute Standards of Professional Conduct.
  - B)** both the U.S. and Japan and the CFA Institute Standards of Professional Conduct.
  - C)** both the U.S. and Japan, but not the CFA Institute Standards of Professional Conduct.
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### Question #11 of 39

Question ID: 1459178

Benito Salvatore, CFA, is licensed in the established country of Oldworld but has clients and makes investments in the emerging country of Newworld. The regulations of Oldworld prohibit licensed investment professionals from taking gifts or gratuities in any amount from vendors or persons connected with potential investments. The laws of Newworld are silent on this issue. Unsolicited, Salvatore is offered a vase worth US \$75 by a Newworld trust company and a bronze statue worth US \$200 by a Newworld company that Salvatore is considering as a potential investment.

Salvatore is:

- A)** permitted to accept both gifts.
  - B)** permitted to accept the vase but not the statue.
  - C)** not permitted to accept either gift.
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### Question #12 of 39

Question ID: 1459201

A member or candidate who produces issuer-paid research should *most appropriately* negotiate:

- A)** compensation in the form of equity or options, but not cash.
- B)** a flat fee prior to writing the report.
- C)** a fee scale based on the subsequent performance of the issuer's securities.

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**Question #13 of 39**

Question ID: 1469242

A CFA Institute member is also a member and the portfolio manager of an environmentalist group. In its charter, the environmentalist group lists a group of companies its members should boycott. The CFA Institute member would violate Standard I(A) concerning obeying all rules and regulations if the member:

- A)** actively protests against a publicly traded firm boycotted by the group.
  - B)** performs either of the activities listed here.
  - C)** purchases stock of a boycotted firm for the group's portfolio.
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**Question #14 of 39**

Question ID: 1469243

Maria Valdes, CFA, is an analyst for Venture Investments in the country of Newamerica, which has laws prohibiting the acceptance of any gift from a vendor if the gift exceeds US \$250. Valdes has evidence that her Venture Investments colleague, Ernesto Martinez, CFA, has been receiving gifts from vendors in excess of US \$250.

Valdes is obligated to:

- A)** disassociate herself from the activity, and urge Venture to persuade Martinez to cease the activity.
  - B)** disassociate herself from the activity, urge Venture to persuade Martinez to cease the activity, and inform CFA Institute and regulatory authorities of the violation.
  - C)** disassociate herself from the activity, urge Venture to persuade Martinez to cease the activity, and inform CFA Institute of the violation.
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**Question #15 of 39**

Question ID: 1459200

CFA Institute members should encourage their employers to do all of the following EXCEPT:

- A)** conduct background checks on potential employees to ensure that they are of good character and eligible to work in the investment industry.
- B)** make clear that dishonest personal behavior reflects poorly on the profession.

C) require employees to write personal ethics statements.

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### Question #16 of 39

Question ID: 1462980

After working 20 years on Wall Street, Jim Gentry, CFA, decides to open his own investment firm on Turtle Island, located in the Caribbean. Turtle Island has securities laws that are much less stringent than U.S. laws or the CFA Institute Standards of Professional Conduct. Many of his U.S.-based clients have agreed to keep Gentry as their portfolio manager and move their assets to his new firm. After a few months of operations, Gentry has encountered several instances in which Turtle Island regulations relieve him of disclosing information to investors that he had been required to disclose while working in New York. According to the CFA Institute Code and Standards, Gentry must adhere to the:

- A) Code and Standards because as a charterholder, he need only adhere to the Code and Standards under all circumstances.
  - B) Code and Standards or U.S. law, whichever is more strict.
  - C) laws of Turtle Island, but disclose any discrepancies to U.S.-based clients.
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### Question #17 of 39

Question ID: 1469245

Mary White, CFA, sits on the board of directors of XYZ Manufacturing, Inc. She discovers that management has knowingly participated in an activity she knows is illegal. According to the CFA Institute Standards of Professional Conduct, White is *least likely* to be required to:

- A) disassociate herself from the activity.
  - B) report the violation to the CFA Institute Professional Conduct Program.
  - C) seek legal advice to determine what actions should be taken.
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### Question #18 of 39

Question ID: 1469240

Allen Parsons, a CFA candidate, suspects a colleague at his firm of engaging in an illegal activity. Which of the following statements about procedures for compliance involving Standard I(A), Knowledge of the law is NOT correct? Parsons:

- is required to report this legal violation to the appropriate governmental or regulatory organizations.
- A)** regulatory organizations.
- B)** should consult counsel to determine whether the conduct is, in fact, illegal.
- C)** should urge his firm to attempt to persuade the perpetrator to cease such conduct.
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### Question #19 of 39

Question ID: 1459180

A member or candidate who suspects that a colleague is violating the law should *most* appropriately:

- A)** consult with the company counsel to determine if in fact a law is being violated.
- B)** report all illegal activities to the appropriate regulatory agency.
- C)** report the illegal activity to CFA Institute Professional Standards Review Board for action.
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### Question #20 of 39

Question ID: 1459202

Susan Nielsen, CFA, is an equity research analyst on a fact-finding property tour with 6 other analysts to learn about Just Kittens, Inc. Just Kittens sells tungsten ball-bearings and has 16 warehouses, and 20 manufacturing, research, and wholesale sales outlets scattered over 8 countries – mostly emerging markets. Because of the remote location of some of the facilities, commercial travel is effectively unavailable. Just Kittens charts a jet and various busses to take the research analysts to the properties. If Nielsen accepts these accommodations, she is *most likely*:

- A)** in violation of Standard I(B) "Independence and Objectivity."
- not in violation of Standard I(B) "Independence and Objectivity" because best
- B)** practices dictate that better access to company executives is likely to lead to more accurate and timely information.
- not in violation of Standard I(B) "Independence and Objectivity" because commercial
- C)** travel is effectively unavailable.
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### Question #21 of 39

Question ID: 1451303

Sometimes a CFA Institute member simply *feels* a law has been violated by his firm, and sometimes the member *knows* a law has been violated. Which of the following pairs of guidelines is CORRECT with respect to the first step a member should take in each case? The member should first contact:

- A) the firm's counsel if he feels a law has been violated and the SEC if he knows a law has been violated.
  - B) his supervisor in the firm if he feels a law has been violated and contact the firm's counsel if he knows a law has been violated.
  - C) the firm's counsel if he feels a law has been violated and contact his supervisor if he knows a law has been violated.
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### Question #22 of 39

Question ID: 1451306

If a CFA Institute member knows that a fellow member has violated the Code and Standards, according to Standard I(A) the member is:

- A) required to dissociate from the activity and strongly encouraged to report it.
  - B) strongly encouraged to dissociate from the activity.
  - C) required to report the activity.
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### Question #23 of 39

Question ID: 1469238

Janet Green, CFA, provides investment advice and other services to clients in several countries. She resides in Country A whose securities laws and regulations are less strict than the Code and Standards. She also conducts business with clients in Country B, which has no securities laws or regulations, and in Country C, which has securities laws and regulations that are stricter than the Code and Standards. Which of the following statements is CORRECT? According to CFA Institute Standards of Professional Conduct, Green must adhere to the Code and Standards in:

- A) Country A and Country B but the law in Country C.
- B) Country A but the law in Country B and Country C.
- C) Country A, Country B, and Country C.

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**Question #24 of 39**

Question ID: 1451304

WEB, an investment-banking firm, is the principal underwriter for MTEX's upcoming debenture issue. Wendy Berry, CFA, an analyst with WEB, has found out from an employee in MTEX's programming department that a serious glitch was recently discovered in the software program of their major new product line. In fact, the glitch is so bad that most of their orders have been canceled. Berry checked the debenture's prospectus and found no mention of this development. The red herring prospectus has already been distributed. Berry's *best* course of action is to:

- A) keep quiet since this is material non-public inside information.
  - B) inform her immediate supervisor at WEB of her discovery.
  - C) notify potential investors of the omission on a fair and equitable basis.
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**Question #25 of 39**

Question ID: 1116108

In order to comply with the CFA Institute Standards, an analyst should:

- A) use only his company's research when making investment recommendations and use outside research for reports and analysis on stocks.
  - B) use only his own research in making investment recommendations, because anything else would violate Standard I(B), Independence and Objectivity.
  - C) use outside research only after verifying its accuracy.
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**Question #26 of 39**

Question ID: 1469246

Under Standard IV(A) Loyalty (to employers):

- A) it is recommended that members deliver a copy of the Code and Standards to their employer.
- B) members are encouraged to leave an employer that does not adopt the Code and Standards as part of its policies and procedures.

- C)** members are required to deliver a copy of the Code and Standards to their employer.
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**Question #27 of 39**

Question ID: 1469237

If an analyst suspects a client or a colleague of planning or engaging in ongoing illegal activities, which of the statements about the actions that the analyst should take is *most correct*? According to the CFA Institute Standards of Professional Conduct, the analyst should:

- consult counsel to determine the legality of the activity and disassociate from any
  - A)** illegal or unethical activity if the member has reasonable grounds to believe that the activity is illegal or unethical.
  - B)** consult counsel to determine the legality of the activity.
  - disassociate from any illegal or unethical activity if the member has reasonable
  - C)** grounds to believe that the activity is illegal or unethical.
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**Question #28 of 39**

Question ID: 1459177

Mary Kim, CFA, practices in the established country of Oldasia as well as in the emerging country of Newasia. By regulation, Oldasia prohibits licensed investment advisors from trading in securities ahead of their clients. Newasia has no laws or regulations in this area. Mary Kim may:

- A)** not trade ahead of her clients in either country.
  - trade ahead of her clients in Newasia only, as long as she has made full disclosure to
  - B)** her clients that she reserves the right to do this.
  - C)** trade ahead of her clients in Newasia only.
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**Question #29 of 39**

Question ID: 1459205

Luis Rodriguez, CFA, is an analyst at XYZ Investments. He covers a company that is located in a region that is not easily accessible. The company invites analysts for their annual analyst meeting and pays for the transportation to the remote location. Rodriguez is:

- A)** allowed to accept the payment for transportation as long as it does not exceed \$100.
  - B)** allowed to accept the payment for transportation because the trip was all business and was out of the way.
  - C)** not allowed to accept the payment for transportation because this is considered a "perk" and may influence his independent judgment.
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### Question #30 of 39

Question ID: 1469236

According to the CFA Institute Standards of Professional Conduct, Standard I(A), Knowledge of the Law, members shall not knowingly participate or assist in any violations of laws, rules, or regulations. An analyst:

- A)** is held responsible for participating in illegal acts when the law is evident to anyone knowing the law and can participate in a violation by having knowledge of the violation and taking no action to stop it or disassociate from it.
  - B)** is held responsible for participating in illegal acts when the law is evident to anyone knowing the law and is held responsible for violations by others when the analyst is unaware of the facts giving rise to the violation.
  - C)** must report all legal violations to the proper regulatory commission and is held responsible for participating in illegal acts when the law is evident to anyone knowing the law.
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### Question #31 of 39

Question ID: 1469241

A CFA Institute member works for Secure Securities, Inc., and plays rugby on the firm's rugby team. Secure Securities' team recently played the team of a rival firm. During the game, a fight broke out and the CFA Institute member was the instigator, but no one was seriously hurt. Is this a violation of I(A) concerning maintaining knowledge and complying with laws, rules, and regulations?

- A)** No, because a fight at a rugby game is not a professional activity.

- B) Yes, because the member could have hurt someone in the fight.
  - C) Yes, because the member is bound by the Code of Ethics.
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### Question #32 of 39

Question ID: 1459183

Ernesto Vivaldo is a CFA candidate. He is working in the branch office of an American-based investment company in Belgium. Vivaldo is a citizen of Venezuela. In his country, a portfolio manager is not required to disclose referral fees. Belgian law does not allow referral fees for portfolio managers. Vivaldo has been offered a deal that involves a referral fee. Vivaldo should follow the requirements of:

- A) Belgium.
  - B) CFA Institute.
  - C) Venezuela.
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### Question #33 of 39

Question ID: 1451291

Jane Dawson, CFA, an analyst at a New York brokerage firm, suspects that Bob Boatman, CFA, another analyst at the same firm, has violated a state securities law. According to the CFA Institute Standards of Professional Conduct, Dawson is:

- A) **NOT** required to report the violation to the appropriate governmental or regulatory organizations.
  - B) required to report the suspected violation to the appropriate state regulatory agency.
  - C) required to report the suspected violation to CFA Institute.
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### Question #34 of 39

Question ID: 1390945

Joshua Rosenberg, CFA, is an equity analyst who covers Northwest Implements, a farm implement manufacturer. Northwest's main factory is located in a sparsely inhabited region six hours by automobile from the nearest airport. Northwest has its own corporate jet and a landing strip is located near the facility. When Rosenberg contacts Northwest's management to gather information for a report he is preparing on the company, Northwest's chief financial officer, Thomas Blake, invites Rosenberg to visit Northwest's headquarters and meet with management. Blake offers to send Northwest's corporate jet to pick up Rosenberg from an airport near Rosenberg's home and to return him home the same evening. Rosenberg estimates that it would require three days for him to make the visit using commercial travel. If Rosenberg accepts Blake's offer and makes the trip to Northwest's headquarters on the corporate jet, Rosenberg:

- A)** has violated the Code and Standards unless he discloses the trip and the payment of his travel expenses in his report on Northwest.
  - B)** has not violated the Code and Standards.
  - C)** has violated the Code and Standards unless he reimburses Northwest for the cost of the trip.
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### Question #35 of 39

Question ID: 1115677

CFA Institute believes:

- that firms should comply with all domestic laws and regulations and that these laws
  - A)** also govern behavior in foreign markets, regardless of foreign laws and requirements.
  - that a minimum level of professional responsibility and conduct dictates that
  - B)** members be aware of and comply with laws, rules, and regulations governing their conduct.
  - that a maximum level of professional responsibility and conduct dictates that
  - C)** members be aware of and comply with laws, rules, and regulations governing their conduct.
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### Question #36 of 39

Question ID: 1459170

Roger Smith, CFA, has been invited to join a group of analysts in touring the riverboats of River Casino Corp. For the tour, River Casino has arranged chartered flights from casino to casino since commercial flight schedules are not practical for the group's time schedule. River Casino has also arranged to pay for the analysts' lodging for the three nights of the tour. According to CFA Institute Standards of Professional Conduct, Smith:

- A)** may accept the flight but is required to pay for his lodging.
  - B)** may accept the arrangements as they are.
  - C)** is required to pay for his flight and lodging.
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### Question #37 of 39

Question ID: 1459171

If a member does business in a country with stricter securities laws and regulations than the Code and Standards, but the member's home country has less strict securities laws or regulations than the Code and Standards, the member must abide by the:

- A)** Code and Standards only.
  - B)** home country's securities laws and regulations only.
  - C)** laws and regulations of the country with stricter securities laws.
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### Question #38 of 39

Question ID: 1459207

An analyst is told by his supervisor that when he feels he should write a buy recommendation he is free to do so, and when he feels he should write a sell recommendation he should check with the supervisor first. This practice is *most likely*:

- A)** in violation of Standard I(B) Independence and Objectivity.
  - B)** in violation of Standard V(B), Communications with Clients and Prospective Clients.
  - C)** consistent with the Code of Ethics and Standards of Professional Conduct.
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### Question #39 of 39

Question ID: 1459188

Bob Smith, CFA, is an independent board member of Atlantic Technologies, but is not paid by the firm for his services. An employee at Atlantic informs Smith that Atlantic has improperly timed the booking of contracts to achieve the desired quarterly financial results. The misleading financial statements would turn losses into profits. Smith confers with the firm's legal counsel who indicates that this conduct is, in fact, illegal. Smith urges Sharon White, Atlantic's chief financial executive, to change the financial statements, but she refuses to do so and indicates the firm's external auditors have approved the method of revenue recognition she has used. According to CFA Institute Standards of Professional Conduct, which of the following actions is *least likely* appropriate for Smith: in this situation?

- A)** Report the illegal activity to CFA Institute.
- B)** Dissociate from the activity by resigning as a director or by reporting the activities to the appropriate authorities.
- C)** Bring his concerns to the other board members.