

SS 01 Ethical and Professional Standards

Question #1 of 163

Question ID: 683825

Challenges to ethical behavior are *most likely* to arise from:

- A) internal motivations.
 - B) situational influences.
 - C) inadequate training.
-

Question #2 of 163

Question ID: 412399

Mark Williamson is "bearish" on ABC Manufacturing Company. Williamson is so convinced that ABC is overpriced, two weeks ago, he shorted 100,000 shares. Today, Williamson is "surfing" several popular investment bulletin boards on the internet and posting false derogatory comments about company management. According to Standard II(B), Market Manipulation, Williamson has engaged in:

- A) information-based manipulation, but not transaction-based manipulation.
 - B) both transaction-based manipulation and information-based manipulation.
 - C) transaction-based manipulation, but not information-based manipulation.
-

Question #3 of 163

Question ID: 477247

Michael Malone, CFA, is an investment analyst for a large brokerage firm in New York who covers the airlines industry. After hours in his personal time, Malone maintains an online blog on which he expresses his personal opinions about various investment opportunities, including, but not limited to, the airlines industry. On his blog, he posts a very negative investment opinion about WestAir stock. Malone knows that WestAir's stock will be downgraded to a "sell" by his firm next week. Malone has *most likely* violated:

- A) Standard VI(B) Priority of Transactions.
 - B) violated Standard II(A) Material Nonpublic Information.
 - C) violated Standard IV(A) Loyalty.
-

Question #4 of 163

Question ID: 412381

Which one of the following constitutes the illegal use of material nonpublic information?

- A) Trading immediately after attending the firm's annual shareholders' meeting.
 - B) Trading based on your analytical review of the firm's future prospects.
 - C) Trading on information your sister, the firm's attorney, told you over dinner.
-

Question #5 of 163

Question ID: 470995

The first component of the Code of Ethics does NOT explicitly say that a CFA Institute member will act in a certain manner with respect to which of the following groups?

- A) Prospective clients.
 - B) CFA Institute members and candidates in the CFA Program.
 - C) Colleagues.
-

Question #6 of 163

Question ID: 683834

A framework for ethical decision making is *most appropriately* applied to:

- A) determine whether actions are legal.
 - B) reduce the need to maintain a large compliance department.
 - C) aid decision makers in considering alternatives and their potential impacts.
-

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Question ID: 460624

With respect to the professional conduct of a member or candidate, CFA Institute staff will consider a complaint from:

- A) only other members and candidates or professionals in the investment industry.
 - B) anyone.
 - C) only other members and candidates.
-

Question #8 of 163

Question ID: 460633

Which of the following is an example of information-based market manipulation?

- A) Spreading false rumors about a stock on social media to influence its price.
 - B) Influencing futures prices by obtaining a dominant position in the underlying commodity.
 - C) Entering large offsetting buy and sell orders to inflate trading volume.
-

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Question ID: 683836

Paul Thomas, CFA, is designing a new layout for research reports his firm writes and issues on individual stocks. In his design, Thomas includes a stock chart on the first page of each report. He does not reference that the charts are copied from the Standard & Poor's web site. Thomas has:

- A) not violated CFA Institute Standards of Professional Conduct because these charts are widely available over the Internet.
 - B) violated CFA Institute Standards of Professional Conduct because he did not state the source of the charts.
 - C) violated CFA Institute Standards of Professional Conduct because he did not make sure that the information in these charts is accurate.
-

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Question ID: 412357

A copyrighted technique for measuring the downside risk of an investment has just been revealed to the public. If an analyst adopts the technique, he must cite the use of the technique in all research reports in which the technique is used EXCEPT:

- A) if the analyst does not modify the technique at all.
 - B) if the analyst uses reasonable care and verifies that the technique provides superior results.
 - C) Neither of these answers provide grounds for an exception.
-

Question #11 of 163

Question ID: 683824

Which of the following statements about a code of ethics is *most accurate*? A code of ethics:

- A) does not need to include standards of conduct.
 - B) must include principles-based standards of conduct.
 - C) must include rules-based standards of conduct.
-

Question #12 of 163

Question ID: 412273

In accordance with Standard III (A) Loyalty, Prudence and Care, which of the following statements is *least* accurate? Members and Candidates should:

- A) submit to clients, at least quarterly, itemized statements detailing all of the period's transactions.
 - B) utilize client brokerage to the sole benefit of the client.
 - C) vote all proxies on behalf of clients in a responsible manner.
-

Question #13 of 163

Question ID: 683823

A code of ethics:

- A) should not be used for marketing purposes.
 - B) provides the public with assurance of a minimum level of ethical behavior.
 - C) may be rules-based or principles-based.
-

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Question ID: 412285

Liam McCoy has lunch with a wealthy client whose portfolio he manages. McCoy advises the client to double his current position in the JKM Corporation due to an anticipated increase in sales. In accordance with Standard (V) Investment Analysis, Recommendations and Actions, when McCoy returns to his office he should:

- A) document the details of the conversation with the client with regard to his investment recommendation.
 - B) identify other clients for whom JKM may be a suitable investment and notify them immediately of his recommendation.
 - C) verify the suitability of the investment recommendation before placing the client's order.
-

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Question ID: 412373

Andrea Waters is an investment analyst who has accumulated and analyzed several pieces of nonpublic information through her contacts with drug firms. Although no one piece of the information she collected is "material," Waters correctly concluded that the earnings of one of the drug companies would be unexpectedly high in the coming year. According to CFA Institute Standards of Professional Conduct, Waters:

- A) cannot legally invest or make recommendations based on this information.
 - B) can use the information to make investment recommendations and decisions.
 - C) may use the information, but only after approval from a compliance officer or supervisor.
-

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Question ID: 412335

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) obtain written consent from his supervisor if the offer is contingent on achieving a target investment return.
 - C) do both of the actions listed here.
-

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Question ID: 412279

All of the following are components of the Code of Ethics EXCEPT:

- A) striving to maintain and improve their competence and the competence of others in the profession.
 - B) demonstrating diligence, independence, and thoroughness when preparing investment reports.
 - C) using reasonable care and exercising independent professional judgment.
-

Question #18 of 163

Question ID: 412380

Marion Klatt, CFA, is a representative for Thiel Financial Network. Klatt received a phone call at home from William Kind, a junior executive at Westtown Development Company, asking whether Klatt had heard that Westtown had just reached an agreement to acquire a major shopping mall chain at a very favorable price. (Klatt had not heard this news, and Klatt was able to confirm that the information had not yet been made public.) Kind requested that Klatt acquire 10,000 shares of Westtown for Kind's personal account.

Klatt should:

- A) not acquire the shares until he has contacted Westtown's management and encouraged them to publicly announce the merger discussion.
 - B) not acquire the shares until the information is made public.
 - C) not acquire the shares.
-

Question #19 of 163

Question ID: 412314

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 ID: 412301

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) disassociate himself from the client, if the activity is illegal or unethical.
 - C) determine the legality of the activity, possibly by consulting counsel.
-

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Question ID: 470998

Which of the following actions *most likely* violates Standard I(D) Misconduct?

- A) A member pursues an employment opportunity with a competing firm, primarily as a means of securing a salary increase from her current employer.
 - B) A Level I candidate submits a request to her employer for auto travel reimbursement using inflated mileage totals
 - C) An analyst is arrested for trespassing while participating in an anti-abortion protest.
-

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Question ID: 412308

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) not permitted to accept either gift.
 - C) permitted to accept the vase but not the statue.
-

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Question ID: 460625

With respect to CFA Institute enforcement of the Code and Standards, possible disciplinary sanctions *least likely* include:

- A) payment of a fine.
 - B) suspension from participation in the CFA Program.
 - C) public censure.
-

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Question ID: 412348

Marc Randall, CFA, is an investment analyst. During a meeting with a potential client, Randall's boss states that, "You can be sure our investments will always outperform Treasury Bonds because of our fine research staff members, like Marc." Randall knows that this statement is:

- A) not in violation of the Code and Standards.
 - B) a violation of the Standard concerning prohibition against misrepresentation.
 - C) a violation of fiduciary duties owed to clients under the Standards.
-

Question #25 of 163

Question ID: 412324

Josh LeBlanc, a CFA charterholder, is an investment analyst for a small stock brokerage firm. He wants to acquire and maintain knowledge about applicable laws, rules, and regulations relating to his professional activities. According to the CFA Institute Standards of Professional Conduct, which of the following ways is *least likely* to meet compliance procedures?

- A) Review written compliance procedures on a regular basis.
 - B) Rely on past practices followed within his firm.
 - C) Keep informed about changes in applicable laws, rules, and regulations.
-

Question #26 of 163

Question ID: 683833

Which of the following *best* describes elements of a framework for ethical decision making?

- A) Identify relevant facts; consider influences and alternatives; decide and act; reflect on outcomes.
 - B) State the objective; gather, process, and interpret the data; report the conclusions; update the analysis.
 - C) Relevance; faithful representation; transparency; comprehensiveness; consistency.
-

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Question ID: 412304

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 ID: 412347

Which of the following *would be permissible* under Standard I(C), Misrepresentation?

- A) Reporting statistics prepared by an outside firm, identifying the source but omitting caveats and qualifying statements.
 - B) Including a graph showing the Fed's discount rates over the previous 12 months in a report that goes to clients.
 - C) Using excerpts from a report prepared by a well known outside research firm without acknowledgement.
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Question ID: 412340

According to CFA Institute Standards of Professional Conduct, which of the following statements about the prohibition against plagiarism is *most correct*? The prohibition against plagiarism applies to written materials:

- A) oral communications, and telecommunications.
 - B) only.
 - C) and oral communications only.
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Question ID: 412315

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) Yes, because the member could have hurt someone in the fight.
 - B) No, because a fight at a rugby game is not a professional activity.
 - C) Yes, because the member is bound by the Code of Ethics.
-

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Question ID: 412351

A CFA charterholder gathers the closing prices of a security from a widely read publication. The charterholder uses the data as part of a report she is preparing and fails to report the data source in the report. This is:

- A) not a violation of Standard I(C) if the data can be gathered from several public sources.
 - B) a violation of Standard I(C).
 - C) not a violation of Standard I(C) if the data cannot be gathered from several public sources.
-

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Question ID: 412288

CFA Institute believes:

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

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Question ID: 412291

The Standards of Professional Conduct explicitly outlines responsibilities to four groups. Which of the following is NOT a group mentioned in that list?

- A) The investing public.
 - B) The Federal Reserve.
 - C) The profession.
-

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Question ID: 412257

The CFA Institute Professional Conduct Program may impose sanctions on:

- A) CFA charterholders, member firms, and candidates for the CFA designation.
 - B) CFA charterholders only.
 - C) CFA charterholders and candidates for the CFA designation.
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Question ID: 412393

Klaus Gerber, CFA, is a regular contributor to the Internet site WizeGuy. This past week Gerber has been incorrectly quoted as recommending that investors buy shares in Bradford, Inc. He is unaware that this message has been placed on the site as the quote was placed as a prank by an unknown source. This is the third time this has happened over the past month and each time the stock being mentioned moved in price according to the buy or sell recommendation.

Fritz Fox, CFA, maintains and updates the WizeGuy site and has learned how to determine if the quotes being attributed to Gerber are actually valid. Several days later, he observes an investment recommendation, posted on the site, to buy Gresham, Inc. The investment recommendation is purported to be from Gerber, but Fox actually knows it to be bogus. He immediately sells 1,000 Gresham short and e-mails Gerber to inform him of the bogus recommendation. Gerber immediately issues a rebuttal, and Gresham falls by 14%. Fox's action is:

- A) not in violation of the Code and Standards.
 - B) a violation of the Standard concerning fiduciary duties.
 - C) a violation of the Standard concerning use of material nonpublic information.
-

Question #36 of 163

Question ID: 412325

Don Roberts, a CFA Institute member, resides in Country L, where the securities laws and regulations are less strict than the CFA Institute Code and Standards. Roberts also does business in Country N, which has no securities laws or regulations. Thus, Country N has no laws prohibiting the use of material nonpublic information. Roberts has clients in both Country L and N.

Country L's law states that the law of the locality where business is conducted governs. According to CFA Institute Standards of Professional Conduct about the use of material nonpublic information, Roberts may:

- A) not take investment action on the basis of this information.
 - B) take investment action based on this information only for his clients in Country N but not for his clients in Country L or himself.
 - C) take investment action based on this information for clients in both Country N and Country L and for himself.
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Question #37 of 163

Question ID: 412388

Which of the following statements concerning Standard II(A), Material Nonpublic Information, is CORRECT? A member:

- A) can trade on material non-public information if the information was not obtained through a breach of duty.
 - B) cannot trade on material non-public information.
 - C) can trade on material non-public information if the information has not been misappropriated.
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Question ID: 460631

Wallace Manaugh, CFA, is analyzing the stock of a manufacturer of fishing boats. By analyzing public information, speaking with the firm's suppliers and customers, and counting the new boats in the company's boat yard, Manaugh concludes that the company's new fishing boat is not meeting sales expectations. Anticipating that this will cause the stock price to decline, Manaugh takes a short position in the stock. Manaugh has:

- A) an obligation under the Standards to make reasonable efforts to achieve public dissemination of the nonpublic information.
 - B) violated the Standards by acting on nonpublic information.
 - C) not violated CFA Institute Standards.
-

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Question ID: 412398

All of the following are violations of Standard II(B) Market Manipulation EXCEPT:

- A) securing a controlling interest in an equity security in order to influence the price of a related derivative instrument.
- B) disseminating misleading information about the development of new products and technologies.
- C) exploiting differences in market inefficiencies.

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Question ID: 412307

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 inside information. Platt believes that using inside 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) not use material inside information.
- B) use material inside information because Xania legally permits this practice.
- C) use material inside information, but only after notifying CFA Institute.

Question #41 of 163

Question ID: 412267

The first component of the Code of Ethics does NOT explicitly say that a CFA Institute member will act with which of the following?

- A) Competence.
- B) Solemnity.
- C) Integrity.

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Question ID: 412345

Which of the following is NOT expressly prohibited by Standard I(C), Misrepresentation?

- A) providing information on guaranteed investment products.
- B) misrepresenting the services a member is capable of performing.
- C) misrepresenting a member's academic or professional credentials.

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Question ID: 683821

Which of the following characteristics distinguishes a profession from an occupation? Members of a profession:

- A) abide by a code of ethics.
- B) are better compensated for their services.
- C) view their work as a calling.

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Question ID: 412321

The CFA Institute Standards of Practice Handbook requires CFA Institute members to do all the following EXCEPT:

- A) to inform employer, clients, and potential clients of benefits received for recommending products or services.
- B) receive written permission from both their employer and outside clients to engage in investment consulting outside the firm.
- C) to disclose in writing to the proper regulatory authority all observed violations of the securities laws and regulations.

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Question ID: 442247

Which of the following is a component of the Code of Ethics?

- A) Practice and encourage others to practice in a professional and ethical manner that will reflect credit on members and their profession.
- B) Members and candidates must not engage in conduct that compromises the integrity of the CFA designation or the security of the CFA examinations.
- C) Transactions for clients and employers have priority over transactions in which a member or candidate is the beneficial owner.

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Question ID: 412385

Don Benjamin, CFA, is the compliance officer for a large brokerage firm. He wants to prevent the communication of material nonpublic information and other sensitive information from his firm's investment banking and corporate finance departments to its sales and research departments. The most common and widespread approach that Benjamin can use to prevent insider trading by employees is the:

- A) fire wall.
- B) Wall Street Rule.
- C) legal list.

Question #47 of 163

Question ID: 412277

Which of the following is NOT part of the CFA Institute Code of Ethics?

- A) Competence.

- B) Contractual provisions.
 - C) Independent judgment.
-

Question #48 of 163

Question ID: 412280

Which of the following is a component of the *Code of Ethics*? CFA Institute members shall:

- A) use reasonable care and exercise independent professional judgment.
 - B) not knowingly participate or assist in any violation of laws, rules, or regulations.
 - C) use particular care in determining applicable fiduciary duty.
-

Question #49 of 163

Question ID: 683822

Standards of conduct are *most* accurately described as:

- A) providing the public with the values and general expectations for a group of professionals.
 - B) giving members of a group a minimum level of acceptable behavior.
 - C) a necessary part of any ethical code.
-

Question #50 of 163

Question ID: 412266

According to the Code of Ethics, a member reflects credit on the profession when a member:

- A) consults with other members on a regular basis.
 - B) places the clients first.
 - C) practices in a professional and ethical manner.
-

Question #51 of 163

Question ID: 412306

An analyst, who is a CFA charterholder, is working in a foreign country. Which of the following statements is CORRECT? The analyst is:

- A) governed by the laws and standards of the country in which he is living and working.
 - B) governed by CFA Institute's Code and Standards.
 - C) covered by the strictest of the following laws and rules: his own country's, the foreign country's or CFA Institute's Code and Standards.
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Question ID: 460630

Mark Guenin, CFA, covers the textile industry for a brokerage firm. While at his golf club on Saturday, he notices several executives from two of his covered companies entering a private dining room and sees a pro forma balance sheet combining the two companies projected onto a screen. The executives greet Guenin and confirm that their companies intend to merge. Guenin's *most appropriate* course of action should be to:

- A) divest his personal holdings of both companies.
 - B) encourage the companies to announce the merger.
 - C) write a research report updating the outlook for both companies.
-

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Question ID: 551096

Steve Waters, a Level I CFA candidate, has decided to enter into a long position of Farmco stock. Since Farmco is thinly traded, Waters is concerned the order will overwhelm the liquidity of Farmco and the price will surge. Waters engages in a series of block trades in order to accomplish the purchase. According to Standard II(B), Market Manipulation, Waters has engaged in:

- A) neither transaction-based manipulation nor information-based manipulation.
 - B) both transaction-based manipulation and information-based manipulation.
 - C) transaction-based manipulation, but not information-based manipulation.
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Question ID: 412338

An analyst preparing a report needs to cite which of the following?

- A) The individual who developed a chart from the same firm.
 - B) A recent quote from the Federal Reserve Chairman.
 - C) Estimates of betas provided by Standard & Poor's.
-

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Question ID: 412274

Which of the following activities would be following a component of the Code of Ethics explicitly?

- A) Maintaining a list of colleagues who have violated the CFA Institute standards.
 - B) Attending continuing education seminars on investing and inviting colleagues to come along.
 - C) Consulting with colleagues about opinions you reach in your research.
-

Question #56 of 163

Question ID: 442248

All of the following violate Standard I(C), Misrepresentation, EXCEPT:

- A) presenting factual information published by recognized statistical reporting services without acknowledgment.
 - B) copying a proprietary computerized spreadsheet without seeking authorization from the creators.
 - C) citing quotes attributable to "investment experts" without specific references.
-

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Question ID: 412344

Sandra Bulow, CFA, is responsible for updating her employing firm's website to include changes in analysis techniques and trading procedures. She is often very delinquent in making these changes, despite working extensive hours. She is aware clients are using the website to make investment decisions, and has received complaints from the sales department as the information on the website is often different from what is presented in sales meetings. Bulow is *most likely*:

- A) in violation of Standard I(C) "Misrepresentation."
 - B) in violation of Standard III(B) "Fair Dealing."
 - C) not in violation of any Standard.
-

Question #58 of 163

Question ID: 697250

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.
-

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Question ID: 412300

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 contact his supervisor 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 the SEC if he knows a law has been violated.
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Question ID: 412366

A CFA charterholder in a managerial position is in the process of hiring new analysts. If the charterholder conducts background checks on the job applicants with respect to their character, the charterholder has:

- A) complied with Standard I(D) concerning professional misconduct.
 - B) complied with Standard VII(A) concerning conduct of members and candidates in the CFA Program.
 - C) violated the Code of Ethics by invading the applicants' privacy.
-

Question #61 of 163

Question ID: 460620

The CFA Institute's Professional Conduct Program may learn about potential violations of the Code and Standards by members and candidates:

- A) only from members and candidates self-reporting.
 - B) only from written complaints or members and candidates self-reporting.
 - C) from sources other than written complaints or members and candidates self-reporting.
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Question #62 of 163

Question ID: 412360

An investment advisor takes a trip for which his firm will pay the expenses. Upon his return he alters some of the numbers on restaurant receipts to inflate the expenses by \$64. Is this a violation of Standard I(D)?

- A) Yes, because it reflects adversely on the charterholder's professional reputation.
 - B) No, if such a crime carries less than a one-year prison term.
 - C) Yes, because the amount involved is over \$50.
-

Question #63 of 163

Question ID: 412372

Which of the following statements regarding Standard II(A), Material, Nonpublic Information, is *least* accurate?

- A) Information received from an insider who is not breaching his fiduciary responsibility may be traded on.
 - B) Material, non-public information regarding a tender offer may not be traded on.
 - C) If you receive the information in a public forum, it has been disseminated, and you can trade on it.
-

Question #64 of 163

Question ID: 412322

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) notify potential investors of the omission on a fair and equitable basis.
 - C) inform her immediate supervisor at WEB of her discovery.
-

Question #65 of 163

Question ID: 412287

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

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

Question #66 of 163

Question ID: 412397

Which of the following is a violation of Standard II(B), Market Manipulation?

- A) Implementing a trading strategy to exploit differences in market power and information.
 - B) Engaging in a block trade to limit the effect on the price of a thinly traded security.
 - C) Overstating an earnings projection in order to increase the price of a stock.
-

Question #67 of 163

Question ID: 665436

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 report the activity.
 - B) required to dissociate from the activity and strongly encouraged to report it.
 - C) strongly encouraged to dissociate from the activity.
-

Question #68 of 163

Question ID: 412355

A money manager works for a full-service brokerage firm. After meeting with a new client and gathering all relevant information, the money manager says that she thinks her firm can perform all the financial services the new client needs. With respect to Standard I(C), Misrepresentation, this:

- A) is a violation because she cannot make statements like this under any circumstances.
 - B) may not be a violation if the manager's opinion is based upon the factual information gathered.
 - C) may not be a violation if the representation was made orally.
-

Question #69 of 163

Question ID: 683826

Surveys have shown that, compared to other professions, the trust the public has in financial services professionals is:

- A) near the bottom of all professions.
 - B) higher than for other professions.
 - C) only average among professions.
-

Question #70 of 163

Question ID: 412336

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

Question #71 of 163

Question ID: 412346

At the time of its initial public offering (IPO), a mutual fund is invested primarily in junk bonds. As part of its strategy, it is also invested in some zero-coupon U.S. Treasury bonds. The amount of the investment in the Treasury bonds is such that their maturity value equals 90% of the current value of the fund. Which of the following may a CFA Institute member say to her clients concerning the fund at issuance?

- A) A CFA Institute member may not make either of these statements.
 - B) Since the fund is backed by the U.S. government, you know you will get your money back.
 - C) The fund is virtually default risk free.
-

Question #72 of 163

Question ID: 412265

The Code of Ethics does NOT explicitly say that a CFA Institute member shall do which of the following?

- A) Act with integrity.
 - B) Actively lobby for new laws to protect the public.
 - C) Reflect credit on the profession.
-

Question #73 of 163

Question ID: 412382

An analyst provides services for a charitable organization and in return gets free membership in the organization. Part of her job is to manage the liquid assets of the organization, and those assets include stocks. Her supervisor in the organization calls her and tells her to buy a certain stock for the portfolio based upon insider information from a board member in the organization. The analyst objects, but the supervisor says this is what they have always done and sees no reason for changing now. The analyst complies with the request. With respect to Standards IV(A), Loyalty to Employer, and II(A), Material Nonpublic Information, the analyst violated:

- A) only Standard II(A) that prohibits insider trading.

- B) both Standards IV(A) and II(A).
 - C) only Standard IV(A) requiring duty of loyalty.
-

Question #74 of 163

Question ID: 412320

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) required to report the suspected violation to the appropriate state regulatory agency.
 - B) required to report the suspected violation to CFA Institute.
 - C) **NOT** required to report the violation to the appropriate governmental or regulatory organizations.
-

Question #75 of 163

Question ID: 412330

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

Question #76 of 163

Question ID: 683828

Unethical behavior by a financial professional harms:

- A) only clients.
 - B) clients, other employees, and society.
 - C) only clients and other employees.
-

Question #77 of 163

Question ID: 412302

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

Question #78 of 163

Question ID: 412282

Which of the following is NOT an act explicitly referred to in the Code of Ethics?

- A) Improve professional competence.
 - B) Giving free introductory seminars on investing to the public.
 - C) Using reasonable care when making investment recommendations.
-

Question #79 of 163

Question ID: 412323

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:

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

Question #80 of 163

Question ID: 442249

Which of the following is *most likely* permitted under Standard I(C), Misrepresentation?

- A) Citing quotes attributed to "investment experts" without specific reference.
 - B) Including data showing the current government bond yield curve in a report to a client without stating its source.
 - C) Using excerpts from reports prepared by others without acknowledgement.
-

Question #81 of 163

Question ID: 412389

An analyst is allowed to trade on information that he has predicted, such as a corporate action or event, using perceptive assembly and analysis of material public information or nonmaterial, non-public information. This is called the:

- A) mosaic theory.
 - B) deduction theory.
 - C) assessment theory.
-

Question #82 of 163

Question ID: 470996

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

Question #83 of 163

Question ID: 412394

Lisa Pierce, CFA, has been researching Lander Manufacturing for the past three weeks. She likes the company's history of fulfilling its contracts on time and within budget. She learns from the uncle of a maintenance worker at Lander's headquarters that a group of well-dressed individuals arrived at headquarters in a lime green-colored limousine. Pierce knows from publicly available information that Gilbert Controls needs a large supply of specialized motors in its domestic division. She also knows that the executive officers of Gilbert usually travel in a lime green limousine. Pierce concludes that it is very likely that Gilbert will offer a large contract to Lander. Based on this development and her prior research Pierce would like to acquire Lander Manufacturing shares for her client accounts.

Pierce should:

- A) proceed to acquire the shares.
 - B) not acquire the shares because she possesses material nonpublic information.
 - C) not acquire the shares until after she has contacted Lander's management and encouraged them to publicly announce information about the Gilbert Controls contract. She should also wait until Lander has made the announcement and the public has had time to react to it and then make the acquisition.
-

Question #84 of 163

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:

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

Question #85 of 163

Question ID: 412270

Which of the following is NOT part of the CFA Institute Code of Ethics. Members of CFA Institute will:

- A) recommend investments that maximize returns for a given level of risk.
 - B) use reasonable care and exercise independent professional judgment.
 - C) strive to maintain and improve their competence and the competence of others in the profession.
-

Question #86 of 163

Question ID: 412343

Wes Smith, CFA, has been working toward the completion of a Master of Science in Finance. He has passed all the necessary courses and written the necessary thesis. He still must defend the thesis in one month. Smith's thesis advisor assures him that he will pass the thesis defense. Smith has new business cards printed with "M.S. in Finance" after his name. This is a violation of:

- A) none of the Standards if Smith does not make the cards public until after he defends his thesis and receives his degree.
 - B) Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program.
 - C) Standard I(C), Misrepresentation.
-

Question #87 of 163

Question ID: 412369

An analyst belongs to a nationally recognized charitable organization, which requires dues for membership. The analyst has worked out a deal under which he provides money management advice in lieu of paying dues. While performing services for the organization, the analyst discovers some useful computer programs that his predecessor developed and left as the property of the organization. The analyst decides to use the computer programs in his consulting business. This action is:

- A) a violation of Standard I(D) concerning misconduct.
- B) appropriate since the analyst is technically an employee of the organization.
- C) a violation of Standard III(B) concerning fair dealing.

Question #88 of 163

Question ID: 412387

A CFO who is a CFA Institute member is careful to make his press releases-some of them containing material and previously undisclosed information-clear and understandable to his readers. While writing a new release, he often has his current intern proofread rough drafts. He also sends electronic copies to his brother, an English teacher, to get suggestions concerning style and grammar. With respect to Standard II(A), Material Nonpublic Information, the CFO is:

- A) only in violation by e-mailing the pre-release version to his brother but not the intern, because the intern is in essence an employee of the firm.
- B) violating the standard by either showing the pre-release version to his intern or sending it to his brother.
- C) not in violation of the Standard.

Question #89 of 163

Question ID: 460621

Steve Jones is a member of CFA Institute but has not earned the CFA designation yet. CFA Institute is investigating Jones' activities. If Jones declines to cooperate, he:

- A) may be suspended from membership.
- B) may not be suspended because he does not have the CFA designation yet.
- C) may not be suspended because cooperating could be self incriminating.

Question #90 of 163

Question ID: 412281

In dealing with the public and others, the CFA Institute Code of Ethics indicates that CFA Institute members will act with:

- A) integrity, competence, and respect.
- B) confidence, knowledge, and high ethical standards.
- C) honesty, professionalism, and goodwill.

Question #91 of 163

Question ID: 412391

The *mosaic theory* is the idea that an analyst can:

- A) base his recommendations on nonpublic material information only for the clients of the company, but not for the general public.

- B) make recommendations or trade based on several pieces of public or nonpublic information, each piece by itself being nonmaterial, but when compiled the information becomes material.
 - C) make investment recommendations on the basis of several pieces of nonpublic information as long as the aggregate information remains nonmaterial.
-

Question #92 of 163

Question ID: 412275

According to the Code of Ethics, the professional judgment of a member should be:

- A) dependent on that of his/her colleagues.
 - B) guided by the SEC guidelines.
 - C) independent.
-

Question #93 of 163

Question ID: 683820

Ethics *least likely* refers to:

- A) the study of good and bad behavior.
 - B) moral principles to guide behavior.
 - C) a person's beliefs about right and wrong behavior.
-

Question #94 of 163

Question ID: 412310

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.
-

Question #95 of 163

Question ID: 460626

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.
-

Question #96 of 163

Question ID: 412316

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

Question #97 of 163

Question ID: 460627

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

- A) flat fee prior to writing the report.
 - B) fee that may include equity or warrants.
 - C) fee based on the performance of the issuer's shares.
-

Question #98 of 163

Question ID: 412326

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) 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.
- C) 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.

Question #99 of 163

Question ID: 460632

Darlene Hess, CFA, manages a pension fund that has a sizeable position in Knoll Corporation common stock. Hess also holds Knoll common stock in her personal account. Hess participates in an analyst conference call in which Knoll's chief financial officer advises that the company's current-quarter earnings will slip below consensus forecast. Knoll has not disclosed this to the public. Hess believes news of the poor earnings will reduce the stock's value significantly. Hess may:

- A) sell Knoll stock from the pension fund but may not sell it from her personal account.
 - B) not sell Knoll stock from either the pension fund or her personal account.
 - C) sell Knoll stock from her personal account but may not sell it from the pension fund.
-

Question #100 of 163

Question ID: 412392

While working on her report, Jean Paul, CFA, learns from her friend in the investment banking department that the company she is analyzing can expect a tender offer very soon. Concerning this conclusion, Paul can:

- A) trade on it, because it is public information.
 - B) not trade on it because it is material nonpublic information.
 - C) trade on it, because she figured it out by herself.
-

Question #101 of 163

Question ID: 412276

According to the *Code of Ethics*, which of the following statements is NOT correct? CFA Institute members are required to:

- A) use reasonable care and exercise independent professional judgment.
 - B) comply with the CFA Institute Global Investment Performance Standards.
 - C) maintain and improve their competence and strive to maintain the competence of others in the profession.
-

Question #102 of 163

Question ID: 412303

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) CFA Institute.

- B) Venezuela.
 - C) Belgium.
-

Question #103 of 163

Question ID: 460629

During a conference call with 30 analysts, a company's management discloses that its quarterly earnings, which will be announced at the end of the week, are equal to the consensus forecast. The analysts participating in the conference call should consider this information:

- A) nonpublic, but not material.
 - B) material and nonpublic.
 - C) material, but public.
-

Question #104 of 163

Question ID: 412290

For an employee with the CFA designation who works for a firm, which of the following is NOT necessary to meet the requirements of the Code and Standards?

- A) It is recommended that their employer is aware of the Code and Standards.
 - B) Deliver a copy of the Code and Standards to their employer.
 - C) Recommend notifying their employer of their responsibility to follow the Code and Standards.
-

Question #105 of 163

Question ID: 412296

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) purchases stock of a boycotted firm for the group's portfolio.
 - C) performs either of the activities listed here.
-

Question #106 of 163

Question ID: 412329

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.
-

Question #107 of 163

Question ID: 442250

According to CFA Institute Standards of Professional Conduct, which of the following is least likely a form of misrepresentation?

- A) Using factual information published by recognized financial and statistical reporting services or similar sources without acknowledgment.
 - B) Attributing specific quotations to "leading analysts" and "investment experts" without specific reference.
 - C) Presenting statistical estimates of forecasts prepared by others with the source identified, but without qualifying statements or caveats that may have been used.
-

Question #108 of 163

Question ID: 412268

According to the Code of Ethics, when practicing in a professional and ethical manner the goal is to:

- A) resolve conflicts between clients and employers.
 - B) increase membership in CFA Institute.
 - C) reflect credit on members and the profession.
-

Question #109 of 163

Question ID: 683829

Unethical behavior by financial professionals:

- A) increases incomes for the profession.
- B) does not affect allocation of capital.
- C) increases risk and the cost of capital.

Question #110 of 163

Question ID: 434181

Which of the following is a component of the *Code of Ethics*? CFA Institute members shall:

- A) make reasonable efforts to detect and prevent violations by those who are under their supervision.
 - B) disclose to their employer all matters that reasonably could be expected to interfere with their duty to their employer or ability to make unbiased and objective recommendations.
 - C) strive to maintain and improve their competence and the competence of others in the profession.
-

Question #111 of 163

Question ID: 412269

The CFA Institute Code of Ethics specifies that CFA Institute Members and Candidates must do all of the following EXCEPT:

- A) act with integrity, competence, diligence, respect, and in an ethical manner.
 - B) use reasonable care and exercise independent professional judgment when engaging in professional activities.
 - C) refrain from any conduct that compromises the reputation or integrity of the CFA designation.
-

Question #112 of 163

Question ID: 412395

Trude Front, CFA, is a portfolio manager. While in the normal course of her duties, she happens to overhear material non-public information concerning the stock of VTT Bowser. She purchases several exchange traded funds which contain VTT Bowser, while shorting similar exchange traded funds which do not contain VTT Bowser. This is *most likely*:

- A) a violation of Standard II(A) "Material Non-Public Information."
 - B) not a violation of Standard II(A) "Material Non-Public Information."
 - C) only a violation of Standard II(A) "Material Non-Public Information" because Front is simultaneously shorting the funds which do not contain VTT Bowser.
-

Question #113 of 163

Question ID: 412256

Sanctions that CFA Institute may impose on a member or candidate under the Professional Conduct Program include:

- A) returning of all profits gained through violations of the Code and Standards.
 - B) suspension from employment in the financial services industry.
 - C) public censure.
-

Question #114 of 163

Question ID: 412337

Francisco Perez, CFA, CPA, is a portfolio manager for an investment advisory firm. Due to the prominence of his position, he is often invited to attend free marketing and educational events hosted by firms which seek to inform the investment community about their investment processes. One such firm, Unlimited Horizons, has invited Perez to attend free educational events which qualify for Continuing Education credits which could help Perez maintain his CPA designation. Perez should *most likely*:

- A) decline to attend the event as it could result in a violation of Standard I(B) "Independence and Objectivity."
 - B) decline to attend the event as it could result in a violation of Standard I(A) "Knowledge of the Law."
 - C) accept the invitation as no cash compensation is involved and the primary intent is to educate and inform the investment community.
-

Question #115 of 163

Question ID: 412309

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.
 - B) trade ahead of her clients in Newasia only.
 - C) trade ahead of her clients in Newasia only, as long as she has made full disclosure to her clients that she reserves the right to do this.
-

Question #116 of 163

Question ID: 683831

Which of the following statements about legal and ethical standards is *most* accurate?

- A) Ethical and legal standards often intersect, but not always.
 - B) Ethical standards are a subset of legal standards.
 - C) Legal standards are a subset of ethical standards.
-

Question #117 of 163

Question ID: 412299

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) both the U.S. and Japan, but not the CFA Institute Standards of Professional Conduct.
 - B) both the U.S. and Japan and the CFA Institute Standards of Professional Conduct.
 - C) Japan, but not the U.S., and the CFA Institute Standards of Professional Conduct.
-

Question #118 of 163

Question ID: 412377

A stockbroker who is a member of CFA Institute has a part-time housekeeper who also works for the CEO of Festival, Inc. One day the housekeeper mentions to the broker that she saw the CEO of Festival having a conversation at his home with John Tater, who is a nationally known corporate lawyer and consultant. The stockbroker is restricted from trading on this information:

- A) only if the broker knows that the meeting is non-public information.
 - B) if the housekeeper says the meeting concerned a tender offer and the broker knows that it is non-public information.
 - C) for both of the reasons listed here.
-

Question #119 of 163

Question ID: 713345

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 unknowingly broke the rule.
 - B) Yes, because the member did not maintain knowledge and know of the rule.
 - C) No, because the member remedied the situation.
-

Question #120 of 163

Question ID: 412317

What is the rule of thumb for members, CFA charterholders and candidates in the CFA program when weighing the requirements of the CFA Institute Code and Standards and the requirements of local laws? If the applicable laws are:

- A) more strict, they must still follow the Code and Standards.
 - B) less strict, they should make a judgment call on which to follow, the Code and Standards or the local laws and requirements.
 - C) more strict, they must adhere to the applicable laws.
-

Question #121 of 163

Question ID: 460623

Which of the following is *least likely* to be a reason for imposing a suspension on a member or candidate?

- A) Misdemeanor charge for possession of narcotics.
 - B) Discussing a question from the CFA exams on social media.
 - C) Failing to return the annual professional conduct statement.
-

Question #122 of 163

Question ID: 412295

Mega Securities, a multinational investment advisor based in the United States, employs the following analysts who practice in multiple jurisdictions.

- Melissa Black, CFA, resides in Country N, which has no securities laws or regulations, but does business in Country L, which has securities laws and regulations that are less strict than the Code and Standards.
- Tom White, a CFA Institute member, resides in Country L, but does business in Country S, which has securities laws and regulations that are stricter than the Code and Standards.

According to the CFA Institute Code and Standards, which of the following statements about Black and White is CORRECT?

Black must adhere to the White must adhere to the

- A) Code and Standards law of Country S
 - B) law of Country N law of Country L
 - C) law of Country L law of Country S
-

Question #123 of 163

Question ID: 412379

Regarding non-public information, which one of the following statements is NOT correct?

- A) An analyst may use some types of non-public information.
 - B) A member can be summarily suspended for having received material non-public information.
 - C) Disclosing material non-public information would have an impact on the price of a security or be of interest to a reasonable investor.
-

Question #124 of 163

Question ID: 412341

The following information involves two research analysts at a brokerage firm.

- Erik Bagenot, CFA, is preparing a research report on Global Enterprises, Inc. In preparing the report, he uses materials from many sources. For example, he uses factual information published by Standard & Poor's Corporation without acknowledging the source. He also uses excerpts from a research report prepared by another analyst. Bagenot makes only a slight change in wording for these excerpts, but acknowledges the source.
- Sally Wain, who is currently enrolled in the CFA program, is preparing a research report on Manson Telecommunications. She attends a conference in which several investment experts provide their views about the future prospects of this company. Wain cites several quotations from these investment experts in her report without specific reference.

According to CFA Institute Standards of Professional Conduct involving prohibition against plagiarism, which of the following statements is CORRECT?

- A) Wain violated the Standards, but Bagenot did not.
 - B) Bagenot violated the Standards, but Wain did not.
 - C) Both Bagenot and Wain violated the Standards.
-

Question #125 of 163

Question ID: 412305

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.
-

Question #126 of 163

Question ID: 412386

A stockbroker who is a CFA Institute member is called on the telephone by the CEO of a large company. The CEO asks to buy shares of the CEO's company for the accounts of the CEO's children. In the course of the conversation, the CEO says this will really pay off when the upcoming takeover goes through. The stockbroker checks her sources and finds no information about the takeover. In this case the broker should:

- A) execute the order for all clients as required by Standard III(B), Fair Dealing.
 - B) do neither of the actions listed here.
 - C) only execute the order in compliance with Standard III(A), Loyalty, Prudence, and Care. Since the client is buying the stock for the children, there is not a problem.
-

Question #127 of 163

Question ID: 697251

A CFA Institute member is a citizen of Abdhari and lives and works in Balwalla for a company based in Abdhari. Balwalla has no laws against the use of material non-public information. Based on this information, the CFA Institute member may:

- A) trade using material non-public information.
 - B) not trade using material non-public information.
 - C) trade using material non-public information in Balwalla but not in Abdhari.
-

Question #128 of 163

Question ID: 472404

Nancy McCoy, CFA, is preparing a report on Gourmet Food Mart. As part of her research, she contacts the company's contractors, suppliers, and competitors. McCoy is told by the CEO of a major produce vendor that he is about to file a lawsuit against Gourmet Food Mart, seeking significant damages. McCoy incorporates this information into her research report, which projects a decline in profitability for Gourmet Food Mart due to the impending litigation. According to the CFA Institute Standards of Professional Conduct, McCoy:

- A) has violated the Standards by disseminating confidential information.
 - B) has not violated any Standard.
 - C) has violated the Standards by utilizing material nonpublic information.
-

Question #129 of 163

Question ID: 412328

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

Question #130 of 163

Question ID: 412349

Jamie Pyles, a portfolio management trainee for a money management firm, is trying to create a client base. He phones prospective clients, telling them that he is a portfolio manager. He informs prospective clients that based on the last five years of performance of his firm, he can guarantee the client at least a 75% return. He informs them that his firm can provide all of the services that they will ever need. What is the minimum number of misrepresentations Jamie has made to the prospective clients in violation of Standard I(C), Misrepresentation?

- A) 3.
 - B) 2.
 - C) 5.
-

Question #131 of 163

Question ID: 412371

A CFA charterholder who comes to work intoxicated is:

- A) in violation of Standard IV(A) concerning duties to employer.
 - B) in violation of Standard I(D) concerning professional misconduct.
 - C) not in violation of the standards.
-

Question #132 of 163

Question ID: 460622

A member or candidate who rejects a disciplinary sanction proposed by the Professional Conduct Program:

- A) will be suspended from membership or participation in the CFA Program.
 - B) will typically not be subject to further disciplinary procedure unless a new investigation is initiated.
 - C) may request an appeal to a hearing panel.
-

Question #133 of 163

Question ID: 412272

According to the CFA Institute Code of Ethics, CFA Institute members shall:

- A) act with integrity, competence, diligence, respect, and in an ethical manner when dealing with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
 - B) maintain knowledge and comply with all applicable laws, rules and regulations.
 - C) preserve the confidentiality of information communicated by clients, prospects, or employers concerning investment matters.
-

Question #134 of 163

Question ID: 412384

Which one of the following *least* accurately describes the CFA Institute Standard about using material nonpublic information?

- A) An analyst may violate this Standard by passing information to others even when it has been obtained from outside the company.
 - B) An analyst may use nonmaterial nonpublic information as long as it has been developed under the Mosaic Theory.
 - C) An analyst using material nonpublic information may be fined by CFA Institute.
-

Question #135 of 163

Question ID: 412319

Which of the following is a CORRECT statement of a member'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 actions.
 - B) A member is required to comply only with applicable local laws, rules, regulations, or customs even though the CFA Institute Code and Standards may impose a higher degree of responsibility or a higher duty on the member.
 - C) A member who trades securities in a foreign securities market where no applicable local laws or stock exchange rules regulate the use of material nonpublic information may take investment action based on this information.
-

Question #136 of 163

Question ID: 412298

Michael Bellow, CFA, CAIA, is an investment banker who is involved with an initial public offering (IPO) of NewCo. Because this is Bellow's first involvement in an IPO, he reports to an experienced supervisor. While reviewing past financial statements provided by NewCo, Bellow suspects that NewCo deliberately overstated its earnings for the past several quarters. Bellow seeks the advice of his firm's highly competent general counsel and follows the advice given without deviation. Based on the general counsel's advice, Bellow consults his immediate supervisor about the suspected overstatement of earnings. After reviewing the situation, Bellow's supervisor explains why NewCo's calculations of its earnings are correct. Bellow realizes that his inexperience and exuberance initially led him to an incorrect conclusion about NewCo's earnings.

Which of the following statements about Bellow's actions involving Standard I(A), Knowledge of the law, and Standard I(C), Misrepresentation, is CORRECT? Bellow:

- A) did not violate either Standard I(A) or Standard I(C).
 - B) violated both Standard I(A) and Standard I(C).
 - C) violated Standard I(A) but did not violate Standard I(C).
-

Question #137 of 163

Question ID: 412362

Hillary Jones, CFA, sometimes promises clients that she will allocate more shares from oversubscribed initial public offerings (IPOs) than she knows she will actually be able to deliver. Her employer has reprimanded her in the past for similar behavior. Which of the following statements is *least* accurate regarding Jones' behavior?

- A) Her actions are a violation of the standard concerning misrepresentation, because she promised something she knew the firm could not deliver.
 - B) Her actions are a violation of the standard concerning professional misconduct because she deceived her clients.
 - C) Her actions are a violation of the Standards only if prosecution results in a felony conviction.
-

Question #138 of 163

Question ID: 412312

Which of the following is a CORRECT statement of a member'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 actions.
 - B) 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.
 - C) A member is required to comply only with applicable local laws, rules, regulations, or customs even though the CFA Institute code and Standards may impose a higher degree of responsibility or a higher duty on the member.
-

Question #139 of 163

Question ID: 551097

Ron Taylor, a Level I CFA candidate, trades cotton contracts for a small commodity broker. Taylor convinces a government cotton inspector to issue a warning that the Texas cotton crop is in danger from insect infestation. The price of cotton soars. Taylor immediately shorts cotton futures. Once the position is created, the government inspector issues a second report reversing his original opinion and cotton prices plummet.

Cedric Sims, a Level III CFA candidate, would like to generate a tax loss on a security held in his personal portfolio; however, he believes the security has significant upside potential. To avoid the wash sale provisions of the income tax code, Sims sells the security and simultaneously creates a synthetic long position using derivatives.

With regard to Standard II(B) Market Manipulation, which of the following statements concerning Taylor's and Sims's conduct is CORRECT?

- A) Taylor is in violation of Standard II(B), but Sims is not in violation.
 - B) Neither Taylor nor Sims is in violation of Standard II(B).
 - C) Both Taylor and Sims are in violation of Standard II(B).
-

Question #140 of 163

Question ID: 498312

Which of the following are recommended procedures of compliance according to Standard I(D), Misconduct?

- A) Enroll employees in a continuing education program that would provide updates on required ethical behavior.
 - B) Refer to the Professional Conduct Program for arbitration of disputes with other members or candidates.
 - C) Conduct background checks on potential employees to ensure that they are of good character.
-

Question #141 of 163

Question ID: 412363

Nancy Hall, a candidate in the CFA program, is an analyst for a mutual fund. As part of her job she makes company visits to interview executives. On a recent trip she stayed with her sister instead of at a hotel. In her expenses Hall included a hotel charge of \$100, which was less than the amount allowed by her employer. After receiving a check for her expenses, Hall disclosed to her supervisor that she had stayed with her sister instead of at a hotel. She also returned the \$100 to her employer. According to CFA Institute Standards of Professional Conduct, which of the following statements *best* describes Hall's professional conduct?

- A) Hall did not engage in professional misconduct because she eventually disclosed this information and returned the \$100 to her employer.
 - B) Hall engaged in professional misconduct.
 - C) Hall did not engage in professional misconduct because she did not meet all of the requirements to use the CFA designation.
-

Question #142 of 163

Question ID: 412354

Based on CFA Institute Standards of Professional Conduct, which of the following statements is a violation of Standard I(C), Misrepresentation?

- A) A broker says XYZ stock is very likely to double in value over the next six months.
 - B) An investment manager recommends to a prospective client an investment in GNMA bonds because they are guaranteed by the federal government.
 - C) A young trainee bond trader tells a prospective client that she can assist the client in all the client's investment needs: equity, fixed income, and derivatives and based on her years of experience as an analyst in the business that an investment looks like it has lots of potential.
-

Question #143 of 163

Question ID: 412376

A brokerage firm has a trading department and an investment-banking department. Often the investment-banking department receives material non-public information that would be valuable in advising the firm's brokerage clients. In order to comply with the Standards, the firm:

- A) must divest one of the departments.
 - B) should restrict employee trading in securities for which the firm is in possession of material non-public information.
 - C) should record the exchange of information between the investment-banking department and the brokerage department.
-

Question #144 of 163

Question ID: 412311

Which of the following statements about the responsibilities of CFA charterholders is CORRECT? CFA charterholders:

- A) are only obligated to comply with securities laws in the U.S.
 - B) must comply with the laws and rules governing their profession and must not engage in any individual behavior that reflects adversely on the entire profession.
 - C) need not comply with the laws and rules governing their profession or must not engage in any individual behavior that reflects adversely on the entire profession.
-

Question #145 of 163

Question ID: 412313

A CFA Institute member conscientiously maintains records of changes in security regulations. The member notices that his colleagues do not, and does NOT say anything. Is this a violation of Standard I(A)?

- A) Yes, and the member should disassociate from these colleagues.
 - B) Yes, because the member is bound by the Code of Ethics.
 - C) No, as long as the colleagues do not violate the new rules.
-

Question #146 of 163

Question ID: 412365

Which of the following is *least likely* a violation of Standard I(D), Misconduct? Being:

- A) convicted of a felony.
 - B) intoxicated at the office.
 - C) convicted of a misdemeanor traffic offense.
-

Question #147 of 163

Question ID: 683830

CFA Institute Standards of Professional Conduct are *most* accurately described as being based on:

- A) the best interests of members and candidates.
 - B) a code of ethics.
 - C) accepted legal standards.
-

Question #148 of 163

Question ID: 460628

Jerry Brock, CFA, is a partner in a small investment advisory firm that caters to high net worth individuals. He has experienced a number of personal and financial setbacks over the past two years and has filed for bankruptcy protection. Has Brock violated CFA Institute Standards of Professional Conduct?

- A) No, but he must disclose the bankruptcy filing to his clients.
 - B) No, unless his personal financial difficulties result from actions that reflect adversely on his honesty and integrity.
 - C) Yes, because a member must conduct both their personal and professional business in a manner that protects their reputation and integrity.
-

Question #149 of 163

Question ID: 412370

Timothy Hooper, CFA, is a security analyst at an investment firm. In his spare time, Hooper serves as a volunteer for City Pride, which collects clothes for the homeless. Hooper has occasionally given some of the clothes to his friends or sold the clothes instead of returning all of the clothing to City Pride. City Pride discovers what he has been doing and dismisses him. Later, City Pride learns that other volunteer organizations have dismissed Hooper for similar actions. Has Hooper violated Standard I(D) on professional misconduct in the CFA Institute Standards of Professional Conduct?

- A) No, because Hooper volunteers his services to City Pride.
 - B) No, because Hooper's conduct is unrelated to his professional activities as a security analyst.
 - C) Yes.
-

Question #150 of 163

Question ID: 412368

A CFA charterholder is caught shoplifting and is sentenced to nine months in prison. Is this a violation of Standard I(D) Misconduct?

- A) Yes, because the crime involved stealing.

- B) Yes, because the prison sentence is more than six months.
 - C) No, because the crime does not relate to the investment profession.
-

Question #151 of 163

Question ID: 412378

The investment-banking department of the XYZ Brokerage House often has information that would be of significant use to the firm's brokerage clients. In order to conform to CFA Institute Standards of Professional Conduct, which of the following policies should XYZ adopt?

According to Standard:

- A) II(A), Material Nonpublic Information, XYZ should encourage their investment banking clients to publicly disseminate this information.
 - B) II(A), Material Nonpublic Information, XYZ should establish physical and informational barriers within the firm to prevent the exchange of information between the investment banking and the brokerage operations.
 - C) III(B), Fair Dealing, all clients should be informed of the information at the same time.
-

Question #152 of 163

Question ID: 412390

Insider trading can be defined as information that is:

- A) material and nonpublic.
 - B) nonmaterial and nonpublic.
 - C) material and public.
-

Question #153 of 163

Question ID: 683832

Which of the following statements about legal and ethical standards is *most* accurate?

- A) Illegal acts are always unethical.
 - B) Some illegal acts are considered ethical.
 - C) Unethical acts are always illegal.
-

Question #154 of 163

Question ID: 702534

Deloris Johnson, CFA, observed that her supervisor has violated a federal securities regulation. Johnson discussed the matter

with her company's compliance department but they have taken no action. According to the CFA Institute Code and Standards of Professional Conduct, Johnson is required to:

- A) dissociate from the supervisor's activity
 - B) report the violation to securities regulators.
 - C) confront the supervisor and attempt to stop the violation.
-

Question #155 of 163

Question ID: 683819

Ethics are *most accurately* defined as:

- A) a written code of standards.
 - B) the study of moral principles.
 - C) a belief about proper conduct.
-

Question #156 of 163

Question ID: 683835

An ethical decision-making framework:

- A) primarily addresses compliance with regulatory issues.
 - B) focuses on the near term impact on all stakeholders.
 - C) considers alternative actions and unintended consequences.
-

Question #157 of 163

Question ID: 412331

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.
-

Question #158 of 163

Question ID: 412271

Which of the following is a component of the Code of Ethics?

- A) Members shall use reasonable care and exercise independent professional judgment.
 - B) Members shall not engage in any professional conduct involving dishonesty, fraud, deceit, or misrepresentation or commit any act that reflects adversely on their honesty, trustworthiness, or professional competence.
 - C) Members shall not knowingly participate or assist in any violation of such laws, rules, or regulations.
-

Question #159 of 163

Question ID: 412374

The term "material" in the phrase "material nonpublic information" refers to information that is likely to affect significantly the market price of the issuing company's securities or that:

- A) is acquired by the financial analyst from a special or confidential relationship with the issuing company.
 - B) is likely to be considered important by reasonable investors in determining whether to trade a particular security.
 - C) is derived by the financial analyst from direct communication with an issuing company's management.
-

Question #160 of 163

Question ID: 412367

Which of the following does NOT violate Standard I(D), Misconduct? Roland Lawson, a financial analyst:

- A) drinks excessively during business meetings with clients and returns to work under the influence of alcohol.
 - B) committed perjury in connection with a lawsuit against his firm.
 - C) is arrested for participating in a nonviolent protest.
-

Question #161 of 163

Question ID: 412359

All of the following are violations of Standard I(D), Misconduct, EXCEPT:

- A) conviction of a misdemeanor involving civil disobedience in support of one's personal beliefs.
 - B) conviction of a crime involving fraud.
 - C) any conduct that undermines confidence that the CFA charter represents a level of achievement based on merit and ethical conduct.
-

Question #162 of 163

Question ID: 683827

Unethical behavior by individuals in the investment industry is *most likely* to:

- A) decrease the rate of economic growth.
 - B) decrease financing costs for businesses.
 - C) increase the overall profits of financial services firms.
-

Question #163 of 163

Question ID: 412375

According to CFA Institute Standards of Professional Conduct, which of the following statements about material nonpublic information is NOT correct? Information is:

- A) nonpublic until it has been disseminated to a select group of investors.
- B) nonpublic until it has been disseminated to the marketplace in general.
- C) material if reasonable investors would want to know the information before making an investment decision.