WILEY

Guidance for Standards I-VII

not req'd

Practice Question

CFAI

MNPI

not clear

Kermit Washington is a portfolio manager who has reasons to believe that ongoing employer activities are in violation of CFA Institute Standards of Professional Conduct. Washington's initial response should be to:

illegal = SEC

A. Report his suspicions to the relevant regulatory body
B. Report his suspicions to his supervisor or compliance department
C. Resign his position at the firm in order to dissociate from the activity

opine

Step 1 -> Dissociate - g.r.

too extreme

MNPI ×

mosaic theory

Practice Question

Kermit Washington is a portfolio manager who has reasons to believe that ongoing employer activities are in violation of CFA Institute Standards of Professional Conduct. Washington's initial response should be to:

A. Report his suspicions to the relevant regulatory body
B. Report his suspicions to his supervisor or compliance department
C. Resign his position at the firm in order to dissociate from the activity

Answer: B

Standard I(A): Knowledge of the Law recommends that members and candidates take the following intermediate steps to dissociate from ethical violations of others when direct discussions with the person or persons committing the violation are unsuccessful.

1. The first step should be to attempt to stop the behavior by bringing it to the attention of the employer through a supervisor or the firm's compliance department.
2. If this attempt is unsuccessful, then members and candidates have a responsibility to step away and dissociate from the activity.
3. Resignation of their position should be considered as a last resort.

Practice Question

Evan Taylor, CFA, is putting together a presentation of his company's historical investment performance. During the most recent calendar year, the company launched several new mutual funds. CFA Institute guidelines (GIPS) prohibit annualizing the returns of investments held for less than one year, while local law requires that only annualized returns be presented. Taylor's best approach to presenting the returns for these new funds is *most likely*:

A. Present annualized returns

B. Present only actual holding-period returns

C. Present both annualized returns and actual holding-period returns

g.r. go with stricter

→ GIPS exception.

Practice Question

Evan Taylor, CFA, is putting together a presentation of his company's historical investment performance. During the most recent calendar year, the company launched several new mutual funds. CFA Institute guidelines (GIPS) prohibit annualizing the returns of investments held for less than one year, while local law requires that only annualized returns be presented. Taylor's best approach to presenting the returns for these new funds is *most likely*:

gr → more strict

local law

A. Present annualized returns

B. Present only actual holding-period returns

C. Present both annualized returns and actual holding-period returns

Parth - PM

10% → 40%

Correct answer: A. Present annualized returns

Taylor cannot violate local law, so he must present only annualized returns. Best practice is to disclose that this violates CFA Institute guidelines.

Standard I: Professionalism

A. Knowledge of the Law

The Standard

- **Must understand and comply with all applicable laws, rules, and regulations** (including CFA Institute Code of Ethics and Standards of Professional Conduct) governing their professional activities.
- In the event of conflict, members and candidates must comply with the **more strict law**.
- **Must not knowingly participate or assist** in violation of such laws or dissociate otherwise.

Guidance

- When there is a conflict, follow the **more strict law.**
- **Bring it to the attention** of the employer through a supervisor or compliance.
- May consider **directly confronting** the person.
- **Dissociate** from the activity, if necessary.
- **Inaction** may also be construed as participation in the illegal or unethical conduct.
- The Code and Standards **do not require reporting of violations**, but this may be appropriate in some cases.

legal SS

CFS

Local law

Step 1

HK

CFAI

GS

IP

SEC

Client

entity → trust of research

$ + 0

Practice Question

Steven is a portfolio manager for XYZ investments. One of his primary brokers sends him a $40 ticket to a local minor league baseball game. Which of the following is Steven required to do.

< 100

> 100

A. Decline the gift
B. Report the gift to his supervisor
C. Nothing

> $100

trust of research

g. r

$100 rule

vs recommended

cts

Practice Question

Steven is a portfolio manager for XYZ investments. One of his primary brokers sends him a $40 ticket to a local minor league baseball game. Which of the following is Steven required to do.

A. Decline the gift
B. Report the gift to his supervisor
C. Nothing

Answer: C
While **best practices** would be to disclose all gifts, gifts under $100 are generally considered sufficiently modest as to not influence the charter holder.

Remember the question asks for what is required.

Practice Question

Melissa is a CFA charter holder and manages the portfolio of Mark Snowdon, a client of Acorn Investments. Melissa achieves an annual return for Snowdon that is better than that of the benchmark she and the client previously agreed to. As a reward Snowdon offers Melissa two tickets to a U2 concert and a hotel room in New York City the night of the concert. Melissa discloses this gift to her supervisor at Acorn. Which of the following is true:

A. Melissa is not in compliance with Standard I(B) because she may not accept bonuses or gifts from clients.
B. Melissa is in compliance with Standard I(B) because she disclosed the gift from one of her clients.
C. Melissa is in compliance with Standard I(B) because she accepted the gift regardless of whether she disclosed the gift from one of her clients.

Practice Question

Past → D

Melissa is a CFA charter holder and manages the portfolio of Mark Snowdon, a client of Acorn Investments. Melissa achieves an annual return for Snowdon that is better than that of the benchmark she and the client previously agreed to. As a reward Snowdon offers Melissa two tickets to a U2 concert and a hotel room in New York City the night of the concert. Melissa discloses this gift to her supervisor at Acorn. Which of the following is true:

D + P written

A. Melissa is not in compliance with Standard I(B) because she may not accept bonuses or gifts from clients.
B. Melissa is in compliance with Standard I(B) because she disclosed the gift from one of her clients.
C. Melissa is in compliance with Standard I(B) because she accepted the gift regardless of whether she disclosed the gift from one of her clients.

future (contingent)

Answer: B. Melissa is in compliance with Standard I(B) because she disclosed the gift from one of her clients. CFA charter holders may accept bonuses or gifts from clients so long as they disclose them to their employers, ***because gifts in a client relationship are deemed less likely to affect objectivity and independence than gifts in other situations***.
Disclosure is required, however, so that supervisors can monitor such situations to guard against employees favoring a gift-giving client to the detriment of other fee-paying clients.

Practice Question

Melissa is a CFA charter holder newly assigned as the analyst for Gorvack Supplies company. Her supervisor informs her that it would be best for the firm if she maintains the current rating on Gorvack. Which of the following is true?

A. Melissa has a duty to comply with her supervisor's orders, and should maintain the rating.

B. Melissa is bound by the code and standards, and should independently assess Gorvack.

C. Melissa has a duty to her place of employment, and should maintain the rating.

Practice Question

easy

Melissa is a CFA charter holder newly assigned as the analyst for Gorvack Supplies company. Her supervisor informs her that it would be best for the firm if she maintains the current rating on Gorvack. Which of the following is true?

A. Melissa has a duty to comply with her supervisor's orders, and should maintain the rating.

B. Melissa is bound by the code and standards, and should independently assess Gorvack.

C. Melissa has a duty to her place of employment, and should maintain the rating.

Answer B.

While the standards address a duty owed to employer, this does not supersede the responsibility of the charter holder to make unbiased recommendations.

Standard I: Professionalism

$100

MNPI

B. Independence and Objectivity

The Standard

- **Use reasonable care and judgment** to achieve and maintain independence and objectivity.
- Do not offer, solicit, or accept any **gift or compensation** that could compromise independence and objectivity.

Guidance

$100

Firewall

- **Modest gifts** and entertainment are acceptable.
- Distinguish between **gifts from clients** and **gifts from entities** trying to influence a member's behavior.
- **May accept bonuses or gifts** from clients as long as they have been disclosed to employer.
- **Members responsible for hiring outside managers** should not accept gifts, entertainment, or travel funding that could impair their decisions.
- **In investment banking relationships**, members must not bow to issuer favorable research.
- **For issuer-paid research,** best practice is to accept only a flat fee for their work beforehand, regardless of the conclusions or the report's recommendations.
- Members employed at **credit rating agencies** should ensure that procedures prevent undue influence by issuing firms. Further, users of credit rating should be aware of the potential conflict.
- **Best practice** dictates that analysts always use **commercial transportation**.

research

IB

Standard I: Professionalism

10.14

7:14

C. Misrepresentation

The Standard

Do not make misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.

Guidance

- **Must not give false impression** in oral, advertising, electronic communications, or written materials.
- **Must not misrepresent qualifications** or credentials, or services provided by self and firm.
- **Guaranteeing** client's specific **return on investments** is not allowed.
- **No plagiarism is allowed** in any of the written, oral, or electronic communications.
- **Outsourced research report** can be used as long as it is disclosed.

Standard I: Professionalism

D. Misconduct

The Standard

Do not engage in any professional conduct involving dishonesty, fraud, or deceit, or commit any act that reflects adversely on professional reputation, integrity, or competence.

Guidance

- Standard addresses conduct that reflects poorly on **professional integrity**, **reputation,** or **competence**.
- **Conduct due diligence** to understand the nature and risks of an investment before recommendation.

Practice Question

The mosaic theory states that:

A. Analysts should never use material nonpublic information.
B. Analysts can use material nonpublic information as long as it is combined with material public information to reach any conclusion.
C. Analysts can use nonmaterial nonpublic information.

Practice Question

The mosaic theory states that:

A. Analysts should never use material nonpublic information.
B. Analysts can use material nonpublic information as long as it is combined with material public information to reach any conclusion.
C. Analysts can use nonmaterial nonpublic information.

Answer: C

The mosaic theory states that an analyst may use material public information and nonmaterial nonpublic information in creating a larger picture than shown by any individual piece of information and the conclusions the analyst reaches become material only after the pieces are assembled.

Standard II: Integrity of Capital Markets

A. Material Nonpublic Information

The Standard

Members in possession of nonpublic information that could affect an investment's value must not act or cause someone else to act on the information.

Guidance

- **Information is "material"** if it could have impact on price or investor's decision before making an investment.
- **If price effect is ambiguous**, information may not be considered material.
- **Information** made available to analysts is considered **nonpublic until it is made available to investors in general.**

Mosaic Theory—No violation when conclusions have been derived from the analysis of public and nonmaterial nonpublic information as the basis for investment recommendation.

Practice Question

Nigel Rayne, CFA, has developed a currency trading strategy that he is convinced will generate substantial returns. The strategy involves a large number of trades of generally illiquid currencies with numerous brokers, which will likely triple or quadruple the trading volume in those currencies; Rayne's expectation is that the increased volume will narrow the bid-ask spreads enough that he can generate profits. If Rayne implements this strategy, will he *likely* violate the Code and Standards?

A. No

B. Yes, Standard II(A), Material Nonpublic Information

C. Yes, Standard II(B), Market Manipulation

Practice Question

Nigel Rayne, CFA, has developed a currency trading strategy that he is convinced will generate substantial returns. The strategy involves a large number of trades of generally illiquid currencies with numerous brokers, which will likely triple or quadruple the trading volume in those currencies; Rayne's expectation is that the increased volume will narrow the bid-ask spreads enough that he can generate profits. If Rayne implements this strategy, will he *likely* violate the Code and Standards?

A. No

B. Yes, Standard II(A), Material Nonpublic Information

C. Yes, Standard II(B), Market Manipulation

Correct answer: A. No

As long as Rayne's approach represents a legitimate trading strategy, it does not violate the Code and Standards. Rayne is making legitimate trades; the fact that he is making a large number of trades is not, in itself, a violation.

Standard II: Integrity of Capital Markets

B. Market Manipulation

The Standard

Do not engage in practices that **distort prices** or artificially inflate trading volume with the **intent to mislead** market participants.

Guidance

Must not engage in:

- **Transaction-based manipulation:**
  - Artificially distorting prices or volumes
  - Securing a controlling position in a financial instrument to exploit its price
- **Information-based manipulation:**
  - Spreading false rumors to induce trading by others

Practice Question

Judy Coyote, CFA, manages a number of mutual funds. Its policy on voting proxies for the companies whose stock it owns in these funds, which is disclosed in her prospecti, it to estimate the potential benefit of the proxies to the investors and the cost of obtaining the information necessary to vote those proxies properly informed. If the cost is greater than the benefit, Coyote does not research the information and does not vote. Does Coyote's proxy voting policy *likely* violate the Code and Standards?

A. No

B. Yes, Standard III(A), Loyalty, Prudence, and Care

C. Yes, Standard III(B), Fair Dealing

Practice Question

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A. No

B. Yes, Standard III(A), Loyalty, Prudence, and Care

C. Yes, Standard III(B), Fair Dealing

Correct answer: A. No

Coyote's duty to her clients is to act in their best interest. She cannot vote the proxies without proper information, and the cost of that information is too high. It is not in her clients' best interest to spend the money to be properly informed.

Standard III: Duties to Clients

A. Loyalty, Prudence, and Care

The Standard

- **Members have a duty of loyalty to clients** and must act with reasonable care and exercise prudent judgment.
- **Members must act for the benefit of their clients** and place their clients' interests before the employer's own interest.
- **Members must comply with any other fiduciary duty**.

Guidance

- **Must follow guidelines** set out by clients for the management of their assets.
- **Judge investment decisions** in context of the total portfolio.
- **Vote proxies** in an informed and responsible manner and **disclose voting policies** to clients.

Standard III: Duties to Clients

B. Fair Dealing

The Standard

Must deal fairly and objectively with all clients when providing investment analysis, investment recommendations, taking investment actions, or engaging in other professional activities.

Guidance

- **Treat clients fairly** when disseminating investment recommendations or taking investment actions.
- Fair **does not** mean equal.
- **Different levels are appropriate** as long as they are disclosed and do not disadvantage any client.
- All clients must be provided with a **fair opportunity to act** on every recommendation.

- Should **advise clients who are unaware** of the change in recommendation.
- **Treat all clients fairly** in light of their investment objectives and circumstances.
- **Disclose the written allocation procedure** to clients and prospects.
- Must make bona fide distributions of **"hot issue" (IPO) securities.**

Standard III: Duties to Clients

C. Suitability

The Standard

When in an advisory relationship with a client:

- **Make a reasonable inquiry** into a client's investment experience, risk/return objectives, financial constraints prior to making any recommendation or taking investment action.
- **Reassess and update** information regularly.
- **Ensure the investment is suitable** to the client's situation and consistent with written objectives.
- **Judge suitability** in context of the client's total portfolio.

When responsible for managing a portfolio to a **specific mandate**, **strategy**, **or style**, investment recommendations should be consistent with the stated objectives and constraints of the portfolio.

Guidance

- **In an advisory relationship**, members must gather client information at the inception of the relationship and **incorporate this information** into a written prepared investment policy statement (IPS).
- The IPS should be **updated at least annually**.
- **Consider whether a leverage (derivative) is suitable** for the client.
- If managing a fund to an index or an expected mandate, **the investment should be consistent with the stated mandate**.

Standard III: Duties to Clients

D. Performance Presentation

The Standard

- When communicating investment performance information, **make reasonable efforts to ensure that it is fair, accurate, and complete**.
- **If the presentation is brief**, must make detailed information available to clients and prospects upon request.

Guidance

- **Do not misrepresent** past performance.
- **Provide a fair and complete performance presentation**.
- Do not state that clients will obtain the same rate of return that was generated in the past.

Practice Question

Rita Horenson provides retirement planning advice to high-net-worth individuals. One of her clients, Rajesh Singh, is a successful entrepreneur who runs several small businesses locally. Horenson notices that Singh is currently contributing to his pension plan in manner that is very tax inefficient. She consults a colleague, Jonas Sampson, and discusses the sources of income that Singh has and the pension contributions that he makes. Sampson agrees that Singh could make significant tax savings through changing the way he contributes to his personal pension plan, and agrees to contact Singh about his situation. Which of the following statements is most accurate regarding Horenson's behavior? Horenson is:

A. In violation of Standard III(E): Preservation of Confidentiality
B. Not in violation of Standard III(E): Preservation of Confidentiality, since his actions have benefited the client
C. Not in violation of Standard III(E): Preservation of Confidentiality, since Sampson is a colleague of Horenson's

Practice Question

Rita Horenson provides retirement planning advice to high-net-worth individuals. One of her clients, Rajesh Singh, is a successful entrepreneur who runs several small businesses locally. Horenson notices that Singh is currently contributing to his pension plan in manner that is very tax inefficient. She consults a colleague, Jonas Sampson, and discusses the sources of income that Singh has and the pension contributions that he makes. Sampson agrees that Singh could make significant tax savings through changing the way he contributes to his personal pension plan, and agrees to contact Singh about his situation. Which of the following statements is most accurate regarding Horenson's behavior? Horenson is:

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B. Not in violation of Standard III(E): Preservation of Confidentiality, since his actions have benefited the client
C. Not in violation of Standard III(E): Preservation of Confidentiality, since Sampson is a colleague of Horenson's

Answer: **A.** The simplest, most conservative, and most effective way to comply with Standard III(E) is to avoid disclosing any information received from a client ***except to authorized fellow employees who are also working for the client.***
Answer B is not correct because confidentiality must be maintained regardless of the good intentions of Horenson.
Answer C is not correct since Sampson is not currently working for Singh.

Standard III: Duties to Clients

E. Preservation of Confidentiality

The Standard

Keep information about **current , former,** and **prospective** clients confidential, **unless:**

- Information concerns illegal activities
- Disclosure is required by law
- Clients or prospective clients permit disclosure of information

Guidance

- **Must comply with applicable laws** regarding disclosure of client information.

- Standard applies to **existing clients, prospective clients,** and **former clients**.

- **Exception:** May provide confidential information to CFA Institute for an investigation under its Professional Conduct Program.

Standard IV: Duties to Employers

A. Loyalty

The Standard

In matters related to employment, employees must act for the benefit of their employer and **not** deprive their employer of the advantage of their skills/abilities, divulge confidential information, or otherwise cause harm to their employer.

Guidance

- Must always place the interests of clients first, **but** consider effects on the firm's integrity and sustainability.
- **Members are encouraged** to give their employer a copy of the Code and Standards.

1. Independent Practice

Must receive consent from employer and inform employer about the types of services, expected duration, and compensation.

- **Do not proceed** without consent from employer.

2. Leaving an Employer

- **Act in the best interest of employer** until resignation is effective.
- **Employer records** on any medium (e.g., cell phone, PDA, home computer) **are property of the firm**.
- Simple knowledge of the **names** and **existence** of **former clients** is generally **not confidential**.
- The **skills** and **knowledg**e obtained while employed are not confidential.

3. Whistle-blowing

- **Whistle-blowing** is permitted if it is clearly aimed at protecting clients or the integrity of capital markets, and not for personal gain.

4. Nature of Employment

- **Degree of control** over employee.
- **In an independent contractor relationship**, duties are governed by oral or written agreement.
- **Duty to abide** by the terms of agreement.

Practice Question

A client offers their fund manager the use of their private yacht should the manager outperform the Russell 3000 index by five percentage points or more. According to Standard IV(B): Additional Compensation Arrangements, the manager should:

A. Refuse the bonus
B. Obtain consent from their employer to receive the bonus before it is received
C. Obtain consent from their employer to enter into the arrangement regardless of whether any bonus is eventually received

Practice Question

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A. Refuse the bonus
B. Obtain consent from their employer to receive the bonus before it is received
C. Obtain consent from their employer to enter into the arrangement regardless of whether any bonus is eventually received

Answer: C

Standard IV(B): Additional Compensation Arrangements relates to the existence of the arrangements themselves rather than the payments that may result from such arrangements.

Practice Question

Stacey F. Kelta, CFA, is a financial advisor at Basset & Olanti (B&O). Recently, one of Kelta's clients offered her a $50,000 bonus if the annual return on his portfolio exceeded that of the S&P 500 by 150bp. Kelta informed B&O management in writing of this offer, and her supervisor phoned her to say that, as long as she didn't shortchange her other clients, B&O consented to the additional compensation. Will Kelta *likely* violate the Code and Standards by accepting the offer?

A. No

B. Yes, Standard IV(A), Loyalty (to Employer)

C. Yes, Standard IV(B), Additional Compensation Arrangements

Practice Question

Stacey F. Kelta, CFA, is a financial advisor at Basset & Olanti (B&O). Recently, one of Kelta's clients offered her a $50,000 bonus if the annual return on his portfolio exceeded that of the S&P 500 by 150bp. Kelta informed B&O management in writing of this offer, and her supervisor phoned her to say that, as long as she didn't shortchange her other clients, B&O consented to the additional compensation. Will Kelta *likely* violate the Code and Standards by accepting the offer?

A. No

B. Yes, Standard IV(A), Loyalty (to Employer)

C. Yes, Standard IV(B), Additional Compensation Arrangements

Correct answer: C. Yes, Standard IV(B), Additional Compensation Arrangements

Standard IV(B) says nothing about how Kelta must inform her employer of the additional compensation arrangement, but she must receive permission in writing.

Because she received permission only orally, she would violate Standard IV(B).

Standard IV: Duties to Employers

B. Additional Compensation Arrangements

The Standard

Do not accept gifts, benefits, compensation, or consideration that competes with, or creates a conflict of interest with, employer's interest unless written consent is obtained from all parties involved.

Guidance

- Employer's **permission must be obtained** before accepting any compensation or benefits from third parties.
- Compensation and benefits **include direct compensation** by the client **and other benefits** received from third parties.
- **For written consent** from "all parties involved," **email is acceptable**.

Standard IV: Duties to Employers

C. Responsibilities of Supervisors

The Standard

Make reasonable efforts to detect and prevent violations of applicable laws, rules, regulations, and Code and Standards by anyone subject to your supervision or authority.

Guidance

- **Supervisors must make reasonable efforts** to detect violations of laws, rules and regulations, or the Codes and Standards.
- **Ensure that policies concerning investment-related** and non-investment-related activities are enforced equally.

Standard V: Investment Analysis, Recommendations, and Actions

A. Diligence and Reasonable Basis

The Standard

- Exercise diligence, independence, and thoroughness in analyzing investments, making investment recommendations, and taking investment action.
- Have a reasonable and adequate basis, supported by research, for analysis, recommendation, or action.

Guidance

- Factors like the role of employees in the investment decision-making process and the support and resources provided by the employer dictate the **nature of the diligence, thoroughness of the research**, and **level of investigation** required.
- Employees must **make reasonable efforts** to cover all relevant issues when arriving at investment recommendations.
- **Level of diligence** will depend on the product or service offered.

Using secondary or third-party research:

- Determine the soundness of the research—review the assumptions, rigor, timeliness, and independence and objectivity of the analysis.
- Ensure that the firm has a policy of regular reviews of research to ensure that research meets quality standards.

Practice Question

Foxworthy & White Investments (F&W) recently became aware of an investment opportunity on which their clients have to act quickly. William Cable, CFA, an investment advisor with F&W, is on vacation at the time, so he texts his assistant to e-mail all of his clients to inform them of the opportunity, describe the characteristics of the investment, and encourage them to reply immediately. Two hours later, Cable hasn't heard back from his assistant, so he texts her to put in buy orders for his twenty largest clients. Has Cable *likely* violated the Code and Standards by his actions?

A. No

B. Yes, Standard III(C), Suitability

C. Yes, Standard V(B), Communication with Clients and Prospective Clients

Practice Question

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A. No

B. Yes, Standard III(C), Suitability

C. Yes, Standard V(B), Communication with Clients and Prospective Clients

Correct answer: B. Yes, Standard III(C), Suitability

Because Cable did not verify the suitability of the investment for each of his 20 largest clients, he has violated Standard III(C); ***it is unreasonable to think that Cable has memorized the details of the IPSs for 20 clients***, and he was not in his office where he could examine all of those IPSs.

In directing his assistant to describe the characteristics of the investment, Cable has met the requirements of Standard V(B).

Standard V: Investment Analysis, Recommendations, and Actions

B. Communication with Clients and Prospective Clients

The Standard

- **Disclose the basic format/general principles** of investment processes used to analyze investments, select securities, and construct portfolios.
- **Promptly disclose** any changes that may affect those processes materially.
- **Use reasonable judgment** in identifying which factors are important to investment analyses, recommendations, or actions.
- Include those factors in communications with clients/prospective clients.
- **Distinguish between fact and opinion** in presentation of investment analysis and investment recommendations.

Guidance

- **Include basic characteristics** of the security.
- **Inform clients of any change** in investment processes.
- **Suitability of investment**—portfolio context.
- **All communications covered**, not only reports.

Standard V: Investment Analysis, Recommendations, and Actions

C. Record Retention

The Standard

Develop and maintain appropriate records to support investment analysis, recommendations, actions, and other investment-related communications with clients and prospective clients.

Guidance

- **Records are property of the firm**.
- **Must retain records** that substantiate the scope of research, reasons for actions, and conclusions.
- In the absence of local regulatory requirements, **CFA Institute requires retention for at least 7 years.**

Practice Question

Dale Rogers, CFA, a financial advisor, uses her brother-in-law, Lee Grove, as the broker for all of her clients' accounts, and earns referral fees based on the number of transactions each month. Grove is also a client of Rogers, who submits buy and sell orders for his account at the same time as she does for her other clients' accounts. Rogers discloses the familial relationship to all of her clients. Do any of Rogers' actions *likely* violate the Code and Standards?

A. No

B. Yes, Standard VI(A), Disclosure of Conflicts

C. Yes, Standard VI(B), Priority of Transactions

Practice Question

Dale Rogers, CFA, a financial advisor, uses her brother-in-law, Lee Grove, as the broker for all of her clients' accounts, and earns referral fees based on the number of transactions each month. Grove is also a client of Rogers, who submits buy and sell orders for his account at the same time as she does for her other clients' accounts. Rogers discloses the familial relationship to all of her clients. Do any of Rogers' actions *likely* violate the Code and Standards?

A. No

B. Yes, Standard VI(A), Disclosure of Conflicts

C. Yes, Standard VI(B), Priority of Transactions

Correct answer: A. No

As long as Rogers discloses the relationship, she has complied with the requirements of Standard VI(A).

There is no indication that Rogers has a beneficial interest in Grove's account, so she must treat his account the same as other accounts in priority of transactions.

Standard VI: Conflicts of Interest

A. Disclosure of Conflicts

The Standard

Make full and fair disclosure of all matters that could reasonably be expected to impair independence/objectivity or interfere with duties to clients, prospective clients, or employer.
Ensure disclosures are prominent and are delivered in plain language.

Guidance

- **Disclose any known conflicts to clients.**
- Relationship between member firm and issuer, investment banking relations, broker/dealer market-making activities, beneficial ownership of stock, etc., must be disclosed.
- **Conflicts of interest**—Ownership of stocks analyzed or recommended, board participation, financial and other pressures that may influence a decision must be reported.
- **Employer may impose restrictions** on personal trading and outside board representation.

Standard VI: Conflicts of Interest

B. Priority of Transactions

The Standard

Investment transactions for clients and employers must have priority over transactions in which a member or candidate is the beneficial owner.

Guidance

- **"Beneficial owner"**—Has direct/indirect personal interest in the securities.
- Client transactions take priority over the firm's or personal transactions (including beneficial ownership).
- **Family member accounts** that are client accounts must be treated as other client accounts.

Standard VI: Conflicts of Interest

C. Referral Fees

The Standard

Disclose to employer, clients, and prospective clients, as appropriate, any compensation, consideration, benefit received from, or paid to, others for the recommendation of products or services.

Guidance

- **Provide disclosures** to employers, clients, and prospective clients of any benefit received for referrals of customer and clients.
- Disclosure is to be made **prior** to entering into any formal agreement for services.
- **Disclose** the nature of the consideration.

Practice Question

Nicholas Orton, CFA, includes a brief biography in the literature he sends to prospective clients. In that biography he states, truthfully, that he passed each of the three CFA exams the first time he took them, and that, as a charterholder, he is committed to the highest standards of ethics and professional conduct. Do any of Orton's statements actions *likely* violate the Code and Standards?

A. No

B. Yes, the statement about passing each exam on the first attempt

C. Yes, the statement about being committed to the highest standards of ethics and professional conduct

Practice Question

Nicholas Orton, CFA, includes a brief biography in the literature he sends to prospective clients. In that biography he states, truthfully, that he passed each of the three CFA exams the first time he took them, and that, as a charterholder, he is committed to the highest standards of ethics and professional conduct. Do any of Orton's statements actions *likely* violate the Code and Standards?

A. No

B. Yes, the statement about passing each exam on the first attempt

C. Yes, the statement about being committed to the highest standards of ethics and professional conduct

Correct answer: A. No

Neither of these statements violates the Code and Standards, as long as the statement about passing each exam on the first attempt is true.

Standard VII: Responsibilities as a CFA Institute Member or CFA Candidate

A. Conduct as Members and Candidates in the CFA Program

The Standard

Do not engage in any conduct that compromises the reputation or integrity of CFA Institute or CFA designation, or the integrity, validity, or security of the CFA examinations.

Guidance

The following are not allowed:

- Cheating or assisting in the exam
- Disregarding rules and policies
- Giving confidential information to candidates or the public
- Disregarding security measures for the CFA examinations
- Improperly using the CFA designation or any association with CFA Institute
- Misrepresenting information on the Professional Conduct Statement or the CFA Institute Professional Development Program

Don’t disclose:

- Formulas tested or not tested in the exam
- Specific question information
- Topic emphasis on the exam or topics tested

Standard VII: Responsibilities as a CFA Institute Member or CFA Candidate

B. Reference to CFA Institute, the CFA Designation, and the CFA Program

The Standard

When referring to CFA Institute, membership, designation, or candidacy, do not misrepresent or exaggerate the meaning or implications of membership in CFA Institute, holding the CFA designation, or candidacy in the CFA program.

Guidance

CFA Institute membership:
- Complete PCS annually.
- Pay membership dues annually.

Failure to comply with the above results in an inactive member status.

Using the CFA designation:
- Use the marks “Chartered Financial Analyst” or “CFA” in a manner that does not misrepresent or exaggerate the meaning or implications of holding the CFA designation.

Reference to the CFA program:
- Candidates may reference participation in the CFA program, but that must not imply achievement of any type of partial designation.
- Candidates may state the fact that they “passed all levels on first attempt” but must not imply superior ability.

The **“Chartered Financial Analyst”** and **“CFA”** marks must always be used either after a charter holder's name or as adjectives, not as nouns.