

## Practice Questions with Answers: Code of Ethics and Standards of Professional Conduct

1. Which one of the following statements is *most* accurate?
  - A. All legal behavior is ethical behavior
  - B. All ethical behavior is legal behavior
  - C. Some ethical behavior may be illegal

**Answer: C**

C is the correct answer. There are many examples in which legal and ethical behavior coincide, but that's not always the case. Civil disobedience, for instance, is considered as ethical behavior, however, it is prohibited by law.

2. *Trust* is the very foundation of the investment profession, *most likely* because:
  - A. Investment professionals give advice related to products and services that are tangible in nature.
  - B. Investment professionals have specialized knowledge and skills, causing them to have less power in the client-advisor relationship.
  - C. Investment professionals manage clients' financial wealth.

**Answer: C**

Financial advisors are professionals entrusted to manage their clients' wealth. Thus, they would not survive if clients didn't trust in their ability and willingness to provide best-in-class services.

Answer A is *incorrect* as products and services offered by investment professionals are usually *intangible* in nature, in the form of advice or recommendations.

Answer B is *incorrect, too* as investment professionals usually have more power in the client-advisor relationship due to their specialized knowledge and skills.

3. Ian is a financial advisor working for an investment management fund in the role of a team supervisor. Which one of the following statements is *not a requirement that he should fulfill in order* to be part of the investment profession?
  - A. He needs to have a specific number of years experience in a supervisory role
  - B. He needs to have specialized knowledge and skills in the industry
  - C. He needs to adhere to a common code of ethics

**Answer: A.**

Ian needs to make sure that he meets the three main requirements when it comes to belonging to a profession.

1. *To have specialized knowledge and skills*
2. *To be dedicated to service to others*
3. *To adhere to a common code of ethics*

Solid experience in a supervisory role will surely benefit his personal development but this is not a requirement for belonging to a profession.

4. Which of the following is *least likely* a potential source of inquiries of the Professional Conduct Program?
- A. Annual Professional Conduct Statements completed by a CFA member
  - B. Exam Proctors' reports from a June exam session
  - C. Exam results of candidates who failed in a June exam session

**Answer: C**

The Professional Conduct Program inquiries come from a number of sources, including:

- Reports by exam proctors regarding testing violations
- Evidence on disclosure of confidential exam information online
- Annual professional Conduct Statements completed by CFA members
- Written complaints by members and candidates

Exam results, whether pass or fail, do not trigger an investigation by the Professional Conduct Program.

5. Which of the following statements is NOT true? If members and candidates are found guilty of violating the Code of Ethics and Standards of Professional Conduct, a Professional Conduct Program investigation may result in:
- A. A prohibition from further participation in the program
  - B. A monetary sanction, depending on the seriousness of the violation
  - C. Suspension of the right to use the CFA designation

**Answer: B**

Sanctions imposed by the CFA Institute may include public censure, suspension of membership and the right to use the CFA designation, and, in extreme cases, revocation of an existing CFA Charter. CFA Candidates may be prohibited from further participation in the program if they are found guilty of violating the Code and Standards. However, fines will never be imposed as sanctions for ethical violations.

6. Understanding the strengths and weaknesses of your decisions is reflected in one of the steps described in the *CFA Institute Ethical Decision-Making Framework*. Which one is that?
- A. Identify
  - B. Consider
  - C. Reflect

**Answer: C**

The last step of the Framework described is to **reflect** on what you have learned from the positive or negative consequences of your decisions. Understanding your strengths and weaknesses is of crucial importance for improving your ethical decision-making process in the future.

7. Which of the following is NOT a component of the CFA Institute Code of Ethics?
- A. Members and candidates should maintain and improve their professional competence
  - B. Members and candidates should submit their annual Professional Conduct Statement
  - C. Members and candidates uphold the reputation and integrity of the investment profession

**Answer: B**

Although members and candidates are required to submit their Annual Professional Conduct Statements on a regular basis, this is not an explicit component of the Code of Ethics.

The six components of the Code of Ethics are:

1. Act in an ethical way
2. Place the integrity of the investment profession and clients' interests above personal interests
3. Use reasonable care and be independent
4. Be a credit to the investment profession
5. Promote the integrity of global capital markets for the ultimate benefit of society
6. Be competent and constantly improve professional competence

8. *Priority of Transactions* is a sub-section of which Standard of Professional Conduct?

- A. VI: Conflicts of Interest
- B. V: Investment Analysis, Recommendations, and Actions
- C. III: Duties to Clients

**Answer: A**

**Standard VI: Conflicts of Interest** is structured in three sections:

*VI (A): Disclosure of Conflicts*

*VI (B): Priority of Transactions*

*VI (C): Referral Fees*

9. Which of the following is NOT a sub-section of **Standard (III): Duties to Clients**?

- A. Suitability
- B. Performance Presentation
- C. Communication with Clients and Prospective Clients

**Answer: C**

**Standard III: Duties to Clients** is structured in five sections:

*III (A): Loyalty, Prudence, and Care*

*III (B): Fair Dealing*

*III (C): Suitability*

*III (D): Performance Presentation*

*III (E): Preservation of Confidentiality*

Please pay attention that the ethical aspects of communication with clients and prospective clients are treated in **Standard V: Investment Analysis, Recommendations, and Actions**.

10. Which of the following is not related to the ethical conduct of **all** participants in the investment industry?

- A. Misconduct
- B. Conduct as Members and Candidates in the CFA Program
- C. Misrepresentation

**Answer: B**

**Standard VII: Responsibilities as a CFA Institute Member or CFA Candidate** does not relate to the ethical responsibilities of all participants in the investment industry.

Rather, it refers to the specific obligations of CFA members and candidates not to compromise the reputation and integrity of the CFA Institute and to make a proper reference to the CFA Institute, the CFA Designation, and the CFA Program.

Misrepresentation and Misconduct are examples of unethical practices that all investment professionals should avoid. They are treated in Section C and Section D of **Standard I: Professionalism** respectively.