

Question #1 of 23

Question ID: 412271

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

- ☐ A) Members shall not knowingly participate or assist in any violation of such laws, rules, or regulations.
- ☒ B) Members shall use reasonable care and exercise independent professional judgment.
- ☐ C) 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.

Explanation

This is a component of the Code of Ethics. Others pertain to the Standards of Professional Conduct.

Question #2 of 23

Question ID: 412266

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

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

Explanation

Component four of the Code says that a member shall "Practice and encourage others to practice in a professional and ethical manner that will reflect credit on members and the profession." Neither of the other choices are implied by the Code.

Question #3 of 23

Question ID: 412269

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

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

Explanation

Not compromising the reputation or integrity of the CFA designation is a part of the Standards of Professional Conduct, but is not specifically mentioned the Code of Ethics.

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Question ID: 461158

The CFA Institute Code of Ethics *least likely* requires a Member or Candidate to:

- ☐ A) **Strive to maintain and improve the competence of others in the profession.**
- ☒ B) Understand and comply with all applicable laws, rules, and regulations.
- ☐ C) Practice and encourage others to practice in a professional and ethical manner that will reflect credit on members and their profession.

Explanation

Understanding and complying with all applicable laws, rules, and regulations is required by Standard I(A) - Knowledge of the Law. The other choices are included in the Code of Ethics.

Question #5 of 23

Question ID: 412272

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

- ☐ A) **preserve the confidentiality of information communicated by clients, prospects, or employers concerning investment matters.**
- ☒ B) 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.
- ☐ C) maintain knowledge and comply with all applicable laws, rules and regulations.

Explanation

Acting 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 is one of the six components of the *Code of Ethics*, whereas the other statements are part of the *Standards of Professional Conduct*.

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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) reflect credit on members and the profession.
- ☐ C) increase membership in CFA Institute.

Explanation

The Code states that a member shall "Practice and encourage others to practice in a professional and ethical manner that will reflect credit on members and their profession."

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Question ID: 412274

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

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

Explanation

The Code states that a member shall "Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals." None of the other answers qualify.

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

Explanation

Standard V(C) Record Retention requires that Members and Candidates document all recommendation and communications with clients. McCoy should document the details of the conversation, including any resulting investment decisions and/or actions. The suitability of the investment should have already been considered before the recommendation and McCoy should not execute the order until the client instructs him to. Identifying other clients for this investment would fall under Standard III(B) Fair Dealing.

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Question ID: 461162

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

- ☒ **A) Actively lobby for new laws to protect the public.**
- ☐ **B) Exercise independent professional judgment.**
- ☐ **C) Act with integrity.**

Explanation

The Code of Ethics says nothing about a CFA Institute member lobbying for new laws. In fact, legal issues are not a part of the Code. The Standards of Professional Conduct say that the member shall obey laws.

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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.

Explanation

A misdemeanor charge not related to professional conduct is not grounds for a suspension. The other choices are violations of the Code and Standards and may result in CFA Institute imposing a suspension of membership or participation.

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Question ID: 412280

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

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

Explanation

Using reasonable care and exercising independent professional judgment is one of the components of the *Code of Ethics*, whereas the other statements are part of the *Standards of Professional Conduct*.

Question #12 of 23

Question ID: 461163

According to the Standards of Professional Conduct, investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner. This concept is most directly addressed in:

- ☒ A) Standard VI, Conflicts of Interest
- ☐ B) Standard V, Investment Analysis, Recommendations, and Actions
- ☐ C) Standard I, Professionalism

Explanation

Standard VI(B) addresses priority of transactions, and states that "Investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner."

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Question ID: 461161

John Elliot, CFA, says that in issues of ethics he always puts the clients first according to the guidelines in the Code of Ethics. In doing so he is:

- ☐ A) correct.
- ☒ B) not correct, because no such ordering or priority is given in the Code.
- ☐ C) not correct, because his first duty is to the public.

Explanation

Component one of the **Code of Ethics** mentions duties to the public, clients, prospects, employers, employees, and fellow members. No ordering of priorities is given. **Standards of Professional Conduct** on the other hand, does give priority. Standard III.A, Duties to Clients, specifies that clients have priority over employers.

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Question ID: 412277

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

- ☒ A) Contractual provisions.
- ☐ B) Independent judgment.
- ☐ C) Competence.

Explanation

Contractual provisions are not part of the Code of Ethics.

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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 IV(A) Loyalty.
- ☐ C) violated Standard II(A) Material Nonpublic Information.

Explanation

By expressing his investment analysis on his personal blog ahead of his employer, Malone deprived his employer of the benefits of his skills and abilities and therefore violated Standard IV(A) Loyalty. Malone did not possess material nonpublic information about WestAir and no transactions have taken place.

Question #16 of 23

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

Explanation

Because of the time and expense involved in voting a proxy, Members and Candidates are not required to vote every proxy. A cost benefit analysis can be performed to determine if it is necessary to vote a proxy.

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Question ID: 442247

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

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

Explanation

This is a component of the Code of Ethics. Others pertain to the Standards of Practice.

Question #18 of 23

Question ID: 412276

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

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

Explanation

The CFA Institute-GIPS are voluntary standards for the industry. Firms are not required to comply with these standards when presenting performance. The other statements are each components of the CFA Institute *Code of Ethics*.

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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?

- x **A) Colleagues.**

- ☐ B) Prospective clients.
- ☒ C) CFA Institute members and candidates in the CFA Program.

Explanation

Participants in the CFA Program are not specifically mentioned in the Code of Ethics. Component one mentions duties to the public, clients, prospects, employers, employees, colleagues, and other participants in the global capital markets.

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Question ID: 434181

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

- ☐ A) **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.**
- ☐ B) make reasonable efforts to detect and prevent violations by those who are under their supervision.
- ☒ C) strive to maintain and improve their competence and the competence of others in the profession.

Explanation

Striving to maintain and improve their competence and the competence of others in the profession is one of the components of the *Code of Ethics*, whereas the other statements are part of the *Standards of Professional Conduct*.

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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.

Explanation

Demonstrating diligence, independence, and thoroughness when preparing investment reports is found in the Standards of Professional Conduct.

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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) **confidence, knowledge, and high ethical standards.**

- ☐ B) honesty, professionalism, and goodwill.
- ☒ C) integrity, competence, and respect.

Explanation

Integrity, competence, and respect are included in the first component of the Code of Ethics.

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Question ID: 461159

Which of the following is *least likely* a component of the Code of Ethics? In dealing with the public, clients, prospects, employers, employees, and fellow members, CFA Institute members shall act with:

- ☒ A) humility.
- ☐ B) respect.
- ☐ C) integrity.

Explanation

Although acting with humility may be desirable, CFA Institute members are not required to do so. However, they should act in a manner that reflects credit on themselves and their profession.