# Standards of Professional Conduct & Guidance: Duties to Employers

**Test ID: 7440154**

## Question #1 of 40

Question ID: 412498

David Saul, CFA, heads the trust department at Savage National Bank. Fairway Enterprises invites Saul to sit on its Board of Directors. In return for his services on the Board, Fairway offers to provide Saul and his family with access to the facilities at Wilmont Country Club at no cost. Saul will not receive any monetary compensation for his services on the Board. According to CFA Institute Standards of Professional Conduct, which of the following actions must Saul take?

✗ **A) Saul must reject the offer to serve on the Board of Directors.**

✓ **B)** Saul must obtain written consent from all parties to only if he decides to accept the offer to serve on the Board of Directors.

✗ **C)** Saul must disclose in writing to Savage Bank the terms of the offer whether or not he accepts the offer to serve on the Board of Directors.

Explanation

Standard IV(B) requires that members obtain written consent from all parties involved before accepting monetary compensation or other benefits that they receive for their services that are in addition to compensation or benefits conferred by a member's employer. In this situation, Saul may also be obligated to disclose his participation on Fairway's Board to clients, prospective clients, and employer under Standard VI(A), Disclosure of Conflicts.

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## Question #2 of 40

Question ID: 412492

Nancy Korthauer, CFA, has launched a new hedge fund called the Korthauer Tautology Fund but has had trouble hiring analysts who are CFA charterholders as well as with finding clients. She offers a $15,000 incentive bonus to any charterholder who joins the firm with over $1 million in committed client investments. Which of the following interpretations of the Code and Standards is *most* accurate?

✗ **A) A member or candidate may arrange for current clients to switch to the Korthauer Tautology Fund provided the member or candidate refuses to accept the incentive bonus.**

✓ **B)** A member or candidate may not solicit current clients away from their current employer.

✗ **C)** A member or candidate may arrange for current clients to switch to the Korthauer Tautology Fund provided clients are informed of the incentive bonus.

Explanation

A member or candidate may not solicit current clients away from their current employer under Standard IV(A) "Loyalty."

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## Question #3 of 40

Question ID: 454922

Which of the following statements about Standard IV(C) Responsibilities of Supervisors is *least* accurate?

✓ **A) If a subordinate violates a securities law, her supervisor is in violation of Standard IV(C).**

✗ **B)** If no effort is made to detect violations, the supervisor is in violation of Standard IV(C) even if no violations by her subordinates have occurred.

✗ **C)** If the supervisor makes a reasonable effort to detect violations, but fails to detect a violation that occurs, she is in compliance with Standard IV(C).

Explanation

Standard IV(C) Responsibilities of Supervisors requires members to make a reasonable effort to ensure compliance with applicable laws, regulations, and rules by their subordinates. Violations by subordinates do not necessarily mean the supervisor has violated this Standard if the supervisor has made reasonable efforts to detect and prevent violations.

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## Question #4 of 40

Question ID: 412496

Sharon West is a CFA charterholder and trust officer for REO Trust Company. Soon after beginning work for REO, West finds that REO has been conducting all its securities transactions through her brother who is a registered representative. West's brother charges REO commissions that are equal to the lowest available from another broker. West's brother tells her that if she continues doing business with him, he will give her a substantial discount on all personal transactions she conducts through him. West:

✗ **A) does not need to inform her employer of the arrangement because the commissions her brother charges the firm are the lowest possible.**

✓ **B)** must inform her employer of the arrangement because it provides her with additional compensation.

✗ **C)** must inform her employer of the arrangement because she is doing business with a member of her immediate family.

Explanation

Members are required to disclose to their employer in writing all monetary compensation or other benefit they receive in addition to the employer's compensation. The discounting of West's commissions is a benefit that must be disclosed.

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## Question #5 of 40

Question ID: 412463

May Frost, CFA, is concerned about the comments and activities of several of her coworkers and feels both ethical and legal violations are routinely overlooked. According to the Code and Standards, a recommended first step would *least likely* be to:

✗ **A) provide her supervisor with a copy of the Code and Standards.**

✗ **B)** review the company's policies and procedures for reporting ethical violations.

✓ **C)** contact industry regulators.

Explanation

See Standard IV(A) "Loyalty." Frost should begin by reviewing the company's policies and procedures for reporting ethical violations and provide her supervisor with a copy of the Code and Standards to highlight the high level of ethical conduct she is required to follow.

## Question #6 of 40

Question ID: 412474

Bill Valley has been working for Advisors, Inc., for several years, and he just joined CFA Institute. Valley's sister just received a large bonus in the form of stock options in Zephyr, Inc. Valley's sister knows nothing about financial assets and offers Valley a week at her holiday home each year in exchange for Valley monitoring Zephyr and the value of her stock options. In order to comply with the Code and Standards, Valley needs to inform Advisors of:

✗ **A)** **the compensation in the form of the use of the holiday home only.**

✓ **B)** both the use of the holiday home and his sister's options.

✗ **C)** nothing since no money is involved and it is a favor for a family member.

Explanation

According to Standard IV(A), Loyalty to Employer, Valley must inform Advisors of his outside consultation even if it is not for monetary compensation. According to Standard VI(A), Disclosure of Conflicts, Valley must also disclose possible conflicts of interest, and his sister's position qualifies.

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## Question #7 of 40

Question ID: 412490

Which of the following statements regarding employee/employer relationships is NOT correct?

✗ **A)** **A written contract may or may not exist between employer and employee.**

✗ **B)** An employee is someone in the service of another.

✓ **C)** There must be monetary compensation for an employer/employee relationship to exist.

Explanation

Monetary compensation is *not* a requirement of the employee/employer relationship.

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## Question #8 of 40

Question ID: 412470

Janet Thompson, CFA, is employed as an analyst by Nationwide Securities. According to CFA Institute Standards of Professional Conduct, which of the following statements about Thompson's duty to Nationwide is NOT correct? Thompson must refrain from:

✓ **A)** **making arrangements to go into a competitive business before terminating her relationship with Nationwide.**

✗ **B)** engaging in any conduct that would injure Nationwide.

✗ **C)** engaging in independent competitive activity that could conflict with the business of Nationwide unless she receives written consent.

Explanation

Standard IV(A) permits Thompson to make preparations to go into a competitive business before terminating her relationship with Nationwide provided that such preparations do not breach her duty of loyalty.

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## Question #9 of 40

Question ID: 412471

Michel Marchant, CFA, recently became an independent money manager. After six months, he has only ten clients, who are family and friends. To supplement his income, Marchant accepted part-time employment as an advisor at Middleton Financial Advisors. According to CFA Institute Standards of Professional Conduct, which of the following statements about Marchant's duty to his new employer is CORRECT?

✗ **A) Marchant must inform Middleton about his existing clients but need not inform his existing clients about his new part-time employment with Middleton.**

✓ **B)** Marchant must inform Middleton to keep his existing clients and must inform his existing clients of his new part-time employment at Middleton.

✗ **C)** Marchant need not inform Middleton about his existing clients but must inform his existing clients about his new part-time employment at Middleton.

Explanation

Standard IV(A) and IV(B) requires that Marchant inform both Middleton and his existing clients.

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## Question #10 of 40

Question ID: 471000

Grant Starks, CFA, has been working for Advisors, Inc., for eight years. Starks is about to start his own money management business and has given his two-week notice of his resignation. A few days before his resignation takes effect, a current client of Advisors calls him at his office to inquire about some services for her account at Advisors. During the conversation, Starks tells the client that his new business will have lower commissions than Advisors. Starks has *most likely* violated:

✗ **A) Standard VI(B), Priority of Transactions.**

✗ **B)** Standard V(B), Communication with Clients and Prospecitve Clients.

✓ **C)** Standard IV(A), Loyalty to Employer.

Explanation

This is a breach of loyalty to his current employer. By telling a current client of his employer about the lower commissions he will charge in his new business, Starks is placing himself in direct competition with Advisors, and this is a violation of Standard IV(A).

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## Question #11 of 40

Question ID: 471001

Bill Fence, CFA, supervises a group of research analysts, none of whom have earned the CFA designation (nor are they CFA candidates). On several occasions he has attempted to get his firm to adopt a compliance system to ensure that applicable laws and regulations are followed. However, the firm's principals have never adopted his recommendations. Fence should *most* appropriately:

✗ **A) take no further action, because by encouraging his firm to adopt a compliance system he has fulfilled his obligations under the Code and Standards.**

✓ **B)** refuse supervisory responsibility.

✗ **C)** report the inadequacy by submitting a complaint in writing to the CFA Institute Professional Conduct Program.

Explanation

According to Standard IV(C), Responsibilities of Supervisors, if the member cannot discharge supervisory responsibilities because of a poor or nonexistent compliance system, the member should decline in writing to accept supervisory responsibility until the firm adopts an adequate system.

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## Question #12 of 40

Question ID: 412519

Wanda Kirby, CFA, recently joined Allegheny Investments as a senior analyst. Because of her extensive experience in the investments business and knowledge of the Code and Standards, Allegheny's management asked her to assume supervisory responsibility. Kirby reviewed Allegheny's existing compliance system and determined that it was inadequate to allow her to clearly discharge her supervisory responsibility. According to CFA Institute Standards, Kirby should:

✗ **A)** **agree to accept supervisory responsibility and to develop reasonable procedures to allow her to adequately exercise such responsibility.**

✗ **B)** agree to accept supervisory responsibility provided that Allegheny adopts reasonable procedures to allow her to adequately exercise such responsibility.

✓ **C)** decline in writing to accept supervisory responsibility until Allegheny adopts reasonable procedures to allow her to adequately exercise such responsibility.

Explanation

If Kirby clearly cannot discharge supervisory responsibilities because of an inadequate compliance system, she should decline in writing to accept supervisory responsibility until Allegheny adopts reasonable procedures to allow her to adequately exercise such responsibility.

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## Question #13 of 40

Question ID: 412493

Karen Dalby, CFA, volunteers on her church's finance board but receives no cash compensation so she does not report the arrangement to her employer. Board compensation is limited to an annual retreat to Hawaii, but the accommodations are modest. Dalby does not enjoy the retreat and often considers skipping the event entirely. Dalby is *most likely*:

✗ **A)** **not in violation of the Code and Standards.**

✗ **B)** in violation of Standard IV(A) "Loyalty."

✓ **C)** in violation of Standard IV(B) "Additional Compensation Arrangements."

Explanation

Dalby is in violation of Standard IV(B) "Additional Compensation Arrangements." Nonmonetary compensation may still create a conflict of interest.

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## Question #14 of 40

Question ID: 412473

An analyst belongs to a nationally recognized charitable organization, which requires dues for membership. The analyst has worked out a deal where he provides money management advice in lieu of paying dues. Which of the following must the analyst do?

- ✗ **A)** **Resign from the position because the relationship is a conflict with the Standards.**
- ✗ **B)** Nothing since he is not an employee of the charitable organization.
- ✓ **C)** Must treat the charitable organization as his employer.

Explanation

An employee/employer relationship does not necessarily mean monetary compensation for services. If the analyst is performing services for the organization, then the analyst must treat the position as if he were an employee.

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## Question #15 of 40

Question ID: 412469

John Hill, CFA, has been working for Advisors, Inc., for eight years. Hill is about to start his own money management business and has given his two-week notice of his resignation from Advisors. A few days before his resignation takes effect, a former client of Advisors calls Hill at his home about his new firm. The former client says that he is very happy that Hill is leaving Advisors because now he and Hill can resume a professional relationship. The client says that he would never become a client of Advisors again. Hill promises to call the client back after he has left Advisors. Hill does not tell his employer about the call. Hill has *most likely:*

- ✗ **A)** **violated the Standard concerning loyalty to employer.**
- ✗ **B)** violated the Standard concerning disclosure of conflicts.
- ✓ **C)** not violated the Standards.

Explanation

Based on the information here, Hill has done nothing wrong. He took a call at his home, presumably on his own time, and the client made it clear that he would never be a client of Advisors. Therefore, there was no breach of loyalty to Advisors by Hill, nor is there a conflict of interest.

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## Question #16 of 40

Question ID: 412497

Jill Marsh, CFA, works for Advisors where she manages various portfolios. Marsh's godfather is an accountant and has done Marsh's tax returns every year as a birthday gift. Marsh's godfather has recently become a client of Advisors and asked specifically for Marsh to manage his account. In order to comply Standard IV(B), Disclosure of Additional Compensation Arrangements, she needs to:

- ✓ **A)** **do neither of the actions listed here.**
- ✗ **B)** have her godfather cease doing her taxes.
- ✗ **C)** liquidate from her personal portfolio any stocks her godfather owns and verbally tell her supervisor about the tax services.

Explanation

Standard IV(B) requires that members disclose to their employer in writing all benefits that they receive in addition to their regular compensation for services they perform on behalf of their employer. It is not unreasonable for an individual's godfather to give them a birthday gift. Moreover, since the tax services were a regular birthday present before her godfather became a client, this implies that they are unrelated to any investment management services.

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## Question #17 of 40

Question ID: 454918

Martin Tripp, CFA, is vice-president of the equity department at Walker Financial, a large money management firm. Of the twenty analysts in his department for whom he has supervisory responsibility, eight are subject to CFA Institute Standards of Professional Conduct. Tripp believes that he cannot personally evaluate the conduct of the twenty analysts on a continuing basis. Therefore, he plans to delegate some of his supervisory duties to Sarah Green, who is subject to the Standards, and some to Bob Brown, who is not subject to the Standards. According to CFA Institute Standards of Professional Conduct, which of the following statements about Tripp's ability to delegate supervisory duties is *most accurate*?

✗ **A) Tripp may delegate some or all of his supervisory duties only to Green because she is subject to the Standards.**

✓ **B)** Tripp may delegate some or all of his supervisory duties to Brown, even though Brown is not subject to the Standards.

✗ **C)** Tripp may not delegate any of his supervisory duties to either Green or Brown.

Explanation

Standard IV(C) Responsibilities of Supervisors permits Tripp to delegate supervisory duties to Green, Brown, or both, but such delegation does not relieve Tripp of his supervisory responsibility.

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## Question #18 of 40

Question ID: 461194

Jill Fiedler, CFA, is a portfolio manager for Aspire Investments, Inc. She has agreed to help manage the endowment fund for her children's private day school. She believes it will only take a couple of hours each weekend, and she will receive a discount on tuition for her two children. To comply with the Standards of Practice, Fiedler must:

✗ **A) do nothing; it's her own time and won't interfere with her work.**

✓ **B)** inform her employer of all the details of this arrangement and receive permission before beginning.

✗ **C)** inform her employer of the arrangement but need not get permission as the work is on her own time.

Explanation

Fiedler's arrangement with the school can be viewed as independent practice under Standard IV(A) Loyalty, and the discount she receives on tuition can be seen as an additional compensation arrangement under Standard IV(B). Under either Standard, she needs to obtain her employer's permission because the arrangement creates a potential conflict with her employer's interests.

(Study Session 1, LOS 1.b,c; Study Session 1, LOS 2.a,b,c)

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## Question #19 of 40

Question ID: 454916

Jess Green, CFA is the research director for Castle Investment, Inc., and has supervisory responsibility over eight analysts, including three CFA charterholders. Castle has a compliance program in place. According to CFA Institute Standards of Professional Conduct, which of the following is *least likely* an action that Green should take to adhere to the compliance procedures involving responsibilities of supervisors? Green should:

✗ **A)** **issue periodic reminders of the procedures to all analysts under his supervision.**

✗ **B)** disseminate the contents of the compliance program to the eight analysts.

✓ **C)** incorporate a professional conduct evaluation as part of the performance review only for the three CFA charterholders.

Explanation

Green should incorporate a professional conduct evaluation as part of his review of all eight analysts under his supervision, not just the three CFA charterholders.

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## Question #20 of 40

Question ID: 436849

Brian Bellow, a CFA Institute member, is a portfolio manager for Progressive Trust Company. Several friends asked Bellow to review their investment portfolios. On his own time, Bellow examined their portfolios and made several recommendations. He received no monetary compensation from his friends for his investment advice and provided no future investment counsel to them. According to CFA Institute Standards of Professional Conduct, did Bellow violate his duty to Progressive Trust?

✓ **A)** **No, because Bellow received no compensation for his services.**

✗ **B)** No, because Bellow provided no ongoing investment advice.

✗ **C)** Yes, because he undertook an independent practice that could result in compensation or other benefit to him.

Explanation

Standard IV(A) Loyalty requires members and candidates to disclose to their employers any independent practice for compensation. In this case, Bellow did not receive any compensation for his advice and therefore did not engage in independent practice.

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## Question #21 of 40

Question ID: 412467

John Hill, CFA, has been working for Advisors, Inc., for eight years. Hill is about to start his own money management business and has given his two-week notice of his resignation from Advisors. A few days before his resignation takes effect, on his lunch hour, he takes out a loan from a bank on behalf of his new business and uses the money to buy some office equipment for his new business. Since he engaged in these transactions while still an employee of Advisors, Hill violated Standard IV(A), Loyalty to Employer, by:

✗ **A)** **both taking out the loan and purchasing the office equipment.**

✗ **B)** engaging in a financial transaction, like taking out a loan, only.

✓ **C)** neither of these actions.

Explanation

The Standards of Practice under IV(A) expressly says that a departing employee is "generally free to make arrangements or preparations to go into a competitive business before terminating the relationship with the employee's employer provided that such preparations do not breach the employee's duty of loyalty." Neither of these actions are in conflict with the interests of Advisors, and Hill performed them on his own time.

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## Question #22 of 40

Question ID: 412500

Chris Babcock, CFA, a portfolio manager for a large Texas investment firm, has been offered compensation in addition to what her firm pays her. The offer is from one of her clients and the additional compensation will be based on her yearly performance in excess of the market index. Babcock should:

✗ **A) make written disclosure to her other clients before she accepts this offer.**

✓ **B)** make written disclosure to all parties involved before she accepts this offer.

✗ **C)** turn down the offer because it represents a clear conflict between this client and Babcock's other clients.

Explanation

Standard IV(B), Additional Compensation Arrangements, applies in this situation. Standard IV(B) states, "No gifts, benefits, compensation, or consideration are to be accepted with may create a conflict of interest with the employer's interest unless written consent is received from all parties."

The key words here are "written consent" - members must obtain written consent because such arrangements may affect loyalties and objectivity and create potential conflicts of interest.

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## Questions #23-28 of 40

Rolf Lindquist, a CFA charterholder, is a portfolio manager at Midwestern Investment Management, a firm catering to high-net-worth individual clients. Lindquist has worked in the investment industry for 10 years, the first four years with KMGR and the last six with Midwestern. In advertising material, Lindquist reports his investment performance over the last 10 years without identifying the first four years as being achieved at KMGR.

Lindquist sits on the board of directors of Western Inns, a hotel chain. In return for his services on the board, he receives free lodging from Western when he travels for business and pleasure. He currently holds no Western stock in any of his clients' portfolios, although in the recent past some of these portfolios have included Western. Lindquist discusses his Western directorship with his supervisor, but because he does not receive any monetary compensation, he does not formally disclose this arrangement in writing to his employer or his clients.

Lindquist manages the portfolio of Martha Olson. Last year, Lindquist beat the benchmark portfolio for Olson by 180 basis points. In appreciation for that performance, Olson gives Lindquist two third-row tickets to the NCAA basketball championship. Lindquist discloses this gift to his employer. Lindquist also receives a two-week, expense-paid trip to Paris from Boston and Co., a brokerage firm, in return for providing Boston with business during the year.

Lindquist also manages the portfolio of Jerry Chandler, a conservative investor with a low tolerance for risk. Lindquist recommends the purchase of equity index put options on the equity portion of Chandler's portfolio. Lindquist educates

Chandler on the risks and rewards of such a strategy, including the risk that equity prices will increase and that this would cause the value of the put options will fall.

Midwestern has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the Midwestern model. The model is purely quantitative and screens stocks into buy, hold, and sell categories. The basic philosophy of the model is thoroughly explained to clients. The director of research frequently alters the model based on rigorous research-an aspect that is disclosed to clients, although the specific alterations are not continually disclosed. Portfolio managers then make specific sector and security holding decisions, purchasing only securities that are indicated as "buys" by the model. Lindquist modifies the model on an experimental basis by adding factors he reads about in the financial press, but does not back test the results. When making trading decisions, he applies his own version of the model, which is occasionally in conflict with the Midwestern model. Lindquist discloses his use of this experimental model to his own clients, but not to his supervisor.

## Question #23 of 40

Question ID: 461196

Regarding the Paris trip, Lindquist:

✓ **A)** **cannot accept the gift under any circumstances.**

✗ **B)** can accept the gift if he determines, in consultation with his employer, that accepting the gift would not compromise his objectivity.

✗ **C)** cannot accept the gift without disclosing it to his employer.

Explanation

According to Standard I(B) concerning independence and objectivity, Lindquist cannot accept gifts that reasonably could be expected to compromise his independence and objectivity. Acceptance of such a gift would call into question his independence and objectivity; his first obligation is to his clients, not to Boston and Co. (Study Session 1, LOS 2.a,b)

## Question #24 of 40

Question ID: 461197

With regard to the Chandler portfolio, Lindquist violated:

✓ **A)** **neither Standard III(C): Suitability, nor Standard III(A): Loyalty, Prudence, and Care.**

✗ **B)** Standard III(A): Loyalty, Prudence, and Care, but not Standard I(D): Misconduct.

✗ **C)** Standard III(C): Suitability, but not Standard III(A): Loyalty, Prudence, and Care.

Explanation

Lindquist's actions conform to Standard III(C): Suitability, Standard V(A): Diligence and Reasonable Basis, and Standard III(A): Loyalty, Prudence, and Care. Lindquist must take into account the risk level of the portfolio in its entirety, not individual securities within the portfolio. Although purchasing index put options is, by itself, inherently risky, in the context of a diversified portfolio it may well conform to a conservative client's risk tolerance by hedging some of the risk of owning equities. Lindquist may rightly determine that such a strategy is consistent with Chandler's investment policy statement. If properly constructed originally and properly explained to the client, no change in the investment policy statement is needed. (Study Session 1, LOS 2.a,b)

## Question #25 of 40

Question ID: 461198

With regard to Lindquist's seat on the board of Western Inns, he violated:

✓ **A) Standard VI(A): Disclosure of Conflicts, and Standard IV(B): Additional Compensation Arrangements.**

✗ **B)** Standard VI(A): Disclosure of Conflicts, but not Standard IV(B): Additional Compensation Arrangements.

✗ **C)** no standards.

Explanation

Under Standard IV(B), Lindquist is required to disclose in writing to his employer any benefits (monetary or non-monetary) he receives for services that are in addition to compensation or benefits provided by his employer. An informal discussion with his supervisor does not conform to the requirement that the notice be in writing. Under Standard VI(A), he is also required to disclose the arrangement to his clients because a directorship is a conflict of interest that could reasonably be expected to impair his objectivity. He must do so even if he currently holds no shares of Western in his clients' portfolios because it may impair his objectivity in recommending the stock for inclusion in clients' portfolios in the future. Lindquist violated Standard I(B) because clients could reasonably assume his objectivity is in question. (Study Session 1, LOS 2.a,b)

## Question #26 of 40

Question ID: 461199

Which of the following standards is *most likely* violated in Lindquist's use of his experimental version of the Midwestern model?

✗ **A) Standard I(C): Misrepresentation (plagiarism).**

✗ **B)** Standard IV(C): Responsibilities of Supervisors.

✓ **C)** Standard V(A): Diligence and Reasonable Basis.

Explanation

Lindquist's experimental model is not part of the formal research process and has not been adequately researched or tested. So, Lindquist does not have a reasonable basis for his recommendations. Lindquist's supervisor is required to make reasonable efforts to detect and prevent violations of applicable laws and the Code and Standards, but cannot be held responsible for all of Lindquist's actions when there is deliberate deceit involved. Plagiarism is not relevant here, because Lindquist has permission to use the model, and is not misrepresenting the work of others as his own work. (Study Session 1, LOS 2.a,b)

## Question #27 of 40

Question ID: 461200

Lindquist's actions in advertising his investment performance:

✓ **A) violate Standard III(D): Performance Presentation.**

✗ **B)** conform to standards concerning performance presentation as long as Lindquist does not claim compliance with CFA Institute Global Investment Performance Standards.

✗ **C)** conform to all standards.

Explanation

Lindquist failed to conform to Standard III(D) by releasing misleading information concerning his historical performance at Midwestern. KMGR may use a different management style than Midwestern, rendering historical performance of little value to Midwestern clients. Claiming compliance with CFA Institute GIPS would only compound the problem. Misrepresenting performance results as occurring at one firm when they actually occurred at a previous employer is a violation of the presentation standards. (Study Session 1, LOS 2.a,b)

## Question #28 of 40

Question ID: 461201

Regarding the NCAA tickets, what action must Lindquist take to avoid a violation of Standard I(B): Independence and Objectivity?

- ✗ **A)** **Disclose his receipt of the tickets to all other clients with the same investment objective as the Olson account.**
- ✗ **B)** Obtain written consent from all parties involved.
- ✓ **C)** Informing his employer is sufficient.

Explanation

Lindquist may accept this gift from a client for past performance as long as he informs his employer. (Study Session 1, LOS 2.a,b)

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## Question #29 of 40

Question ID: 412481

A CFA Institute member, undertaking independent practice that could result in compensation or other benefit:

- ✗ **A)** **must notify the entities for whom he plans to undertake independent practice of the compensation he receives from his employer.**
- ✓ **B)** must notify his employer of the types of service to be rendered, the expected duration, and the expected compensation.
- ✗ **C)** must notify his employer and clients of the types of service to be rendered and the expected compensation.

Explanation

According to Standard IV(A), Loyalty to Employer, a CFA Institute member, undertaking independent practice that could result in compensation or other benefit, must notify his employer of the types of service to be rendered, the expected duration, and the expected compensation.

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## Question #30 of 40

Question ID: 412476

Pamela Gee is a portfolio manager. She is planning to establish her own money management firm. She has already informed her employer, Branford, Inc., about her plans. In her remaining time at Branford, she can:

- ✗ **A)** **inform her current clients about her resignation and let them know how to reach her, in case any problems arise in the future.**
- ✗ **B)** solicit Branford colleagues but not Branford clients.
- ✓ **C)** start the registration of her new company.

Explanation

The only action that will not breach Standard IV(A) Loyalty to Employer, is to start the registration of her new company.

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## Question #31 of 40

Question ID: 412488

Which of the following statements is *most correct* concerning a member's obligation to his or her employer under the Code and Standards?

✗ **A)** **Members are prohibited from making arrangements or preparations to go into competitive business before terminating their relationship with their employer.**

✓ **B)** Consent from the employer is necessary to permit independent practice that could result in compensation or other benefits in competition with the member's employer.

✗ **C)** Members are prohibited from undertaking independent practice in competition with their employer.

Explanation

There is no blanket prohibition against independent practice in competition with a member's employer. The member must obtain permission from the employer. Members may make preparations to go into a competitive business, but may not solicit clients of the employer as long as members are still employed by the employer.

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## Question #32 of 40

Question ID: 412466

Sue Parsons, CFA, works full-time as an investment advisor for the Malloy Group, an asset management firm. To help pay for her children's college expenses, Parsons wants to engage in independent practice in which she would advise individual clients on their portfolios. She would conduct these investment activities only on weekends. She is currently only in the preparation stage and has not started independent practice yet. Which of the following statements about Standard IV(A), Loyalty to Employer, is *most* accurate? Standard IV(A):

✗ **A)** **requires Parsons to notify Malloy in writing about her intention to undertake an independent practice.**

✓ **B)** does not require Parsons to notify Malloy of preparing to undertake independent practice under the current conditions.

✗ **C)** requires Parsons to obtain written consent from both Malloy and the persons from whom she undertakes independent practice.

Explanation

Standard IV(A), Loyalty to Employer, requires that Parsons obtain written consent only from her employer before she undertakes independent practice that could result in compensation or other benefit in competition with Malloy. It is not required to get permission from your employer when only preparing to go into independent practice.

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## Question #33 of 40

Question ID: 412464

Fernando Abrea, CFA was an analyst for Pacific Investments. In October he left Pacific and joined Global Securities as manager of a local office. Abrea's change of employment came about in the following manner:

- In April, Abrea contacted Global about a possible position he saw advertised in a financial publication and had exploratory meetings with Global.
- In July, Abrea submitted a strategic plan to Global and signed an agreement to join Global. He then contracted for office

space on behalf of Global.

- On October 15, Abrea's resignation from Pacific became effective. He did not take any client lists from Pacific.
- On October 16, Abrea mailed a letter that explained his new undertaking with Global to prospective clients, including his former clients at Pacific.

With respect to Standard IV(A) Loyalty, Abrea:

✓ **A) did not violate the Standard.**

✗ **B)** violated the Standard by contracting for office space on behalf of Global.

✗ **C)** violated the Standard by contacting his former clients at Pacific.

Explanation

According to Standard IV(A) Loyalty, preparations to leave employment are not prohibited. Even though Abrea engaged in significant preparatory activities prior to beginning his new venture, none of these actions suggest Abrea did not continue to act in Pacific's interests while he was employed by Pacific. Abrea may contact his former clients on behalf of Global after his employment by Pacific has officially ended, as long as he did not misappropriate their contact information from Pacific.

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## Question #34 of 40

Question ID: 412460

Dave Kline, CFA, is a personal investment advisor with 200 individual, family, and corporate accounts. After a dispute with a coworker on margin policy, he formally resigns his position by giving suitable notice. However, he does not follow his firm's established "Transition and Exit Policies" regarding his accounts. The firm's stated policies require him to notify each client of his planned departure and personally introduce them to their new account representative, Greg Potter. Kline sees Potter as a rival and states "...let Potter do his own work and find his own clients." Kline is *most likely*:

✓ **A) in violation of Standard IV(A) "Loyalty" for failing to follow the employer's policies and procedures related to notifying clients of his departure.**

✗ **B)** not in violation of the Code and Standards.

✗ **C)** in violation of Standard I(D) "Misconduct" for leaving clients subject to an account representative he does not find suitable.

Explanation

Kline is in violation of Standard IV(A) "Loyalty" for failing to follow the employer's policies and procedures related to notifying clients of his departure.

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## Question #35 of 40

Question ID: 412557

An analyst belongs to a nationally recognized charitable organization, which requires dues for membership. The analyst has worked out a deal that he provides money management advice in lieu of paying dues. For this arrangement to comply with the standards, the analyst needs consent from:

✓ **A) both his supervisor in the organization and his regular place of work.**

✗ **B)** his supervisor in the organization only.

✗ **C)** his supervisor in his regular place of work only.

Explanation

An employee/employer relationship does not necessarily mean monetary compensation for services. If the analyst is performing services for the organization, then the analyst must treat the position as if he were an employee and obtain consent from both his supervisor in the organization and in his regular place of work.

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## Question #36 of 40

Question ID: 454919

A firm recently hired Hal Crane, CFA, to be a supervisor in the firm. Crane has reviewed the procedures for complying with the Code and Standards in the company. It is Crane's belief that the procedures need revision in order to be effective. Crane must:

✗ **A)** **make reasonable efforts to encourage the company to adopt an adequate compliance system.**

✓ **B)** decline supervisory responsibilities in writing until the company adopts an adequate compliance system.

✗ **C)** exercise his supervisory responsibilities with the greater level of diligence required by the Code and Standards.

Explanation

According to Standard IV(C) Responsibilities of Supervisors, if Crane believes the company's compliance procedures are not adequate, Crane should decline supervisory responsibilities in writing until an adequate system is adopted.

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## Question #37 of 40

Question ID: 412504

An analyst working at an investment firm has a client that rents limousines. The client tells the analyst that as long as he is the client's analyst, he can have free use of a limousine several times a year. The analyst needs to:

✗ **A)** **do nothing since the offer is not linked to the performance of the client's portfolio.**

✓ **B)** inform his supervisor in writing of the offer if the analyst intends to accept the offer.

✗ **C)** explicitly refuse such an offer.

Explanation

Standard IV(B) requires that members disclose to their employer in writing all benefits that they receive in addition to their regular compensation for services they perform on behalf of their employer. They also need to get consent from their employer in writing. The written report to the employer should include the details of any written or oral agreement for extra compensation. The analyst does not have to refuse the offer.

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## Question #38 of 40

Question ID: 412459

Francisco Perez, CFA, is an equity research analyst for a long-term investment fund. The fund is seeking new clients, so Perez contacts old clients he knew through his former employer. Which of the following is *most* accurate?

✗ **A) Perez can only solicit clients after notifying his former employer.**

✓ **B)** Perez is not prevented from soliciting clients as long as he is working from memory and publically available information rather than a list generated while he was still with the former employer.

✗ **C)** Perez cannot solicit clients from a former employer.

Explanation

According to Standard IV(A), Perez is not prevented from soliciting clients as long as he is working from memory and publically available information rather than a list generated while he was still with the former employer.

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## Question #39 of 40

Question ID: 412472

Nick O'Donnell, CFA, unsuspectingly joins the research team at Wickett & Co., an investment banking firm controlled by organized crime. None of the managers at Wickett are CFA Institute members. Because of his tenuous situation at Wickett, O'Donnell begins making preparations for independent practice. He knows he will be terminated if he informs management at Wickett that he is preparing to leave. Consequently, he determines that "if he can just hang on for one year, he will likely have a client base sufficient for him to strike out on his own." This action is:

✗ **A) a violation of his duty to disclose conflicts to his employer.**

✓ **B)** not a violation of his duty to employer.

✗ **C)** a violation of his fiduciary duties.

Explanation

O'Donnell is required to obtain consent from his employer if he is attempting to practice in competition with his employer. Merely undertaking preparations to leave, which do not violate a duty, is not a violation of the Code and Standards.

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## Question #40 of 40

Question ID: 412475

Which of the following statements is *most correct* under the Code and Standards?

✓ **A) Consent from the employer is necessary to permit independent practice that could result in compensation or other benefits in competition with the member's employer.**

✗ **B)** CFA Institute members are prohibited from undertaking independent practice in competition with their employer.

✗ **C)** Members are prohibited from making arrangements or preparations to go into competitive business before terminating their relationship with their employer.

Explanation

Members are not prohibited from making arrangements or preparations to go into competitive business before terminating their relationship with their employer. CFA Institute members are not prohibited from undertaking independent practice in competition with their employer provided they have consent from their employer. Members must provide notification to their employer describing the types of services to be rendered, the expected duration, and compensation for the services.