Reading 3-IV: Standards of Professional Conduct & Guidance: Duties to Employers

Question #1 of 63

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) not a violation of his duty to employer.

B) a violation of his fiduciary duties.

C) a violation of his duty to disclose conflicts to his employer.

Question #2 of 63

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) solicit Branford colleagues but not Branford clients.

B) start the registration of her new company.

C) inform her current clients about her resignation and let them know how to reach her, in case any problems arise in the future.

Question #3 of 63

Question ID: 412487

Which of the following activities will *least likely* constitute a violation of Standard IV(A), Loyalty?

A) Conspiracy to bring about a mass resignation of other employees.

B) Contacting your current clients and asking them to "come with you" when you resign from your current employer.

C) Consulting on your own time and obtaining written permission from your employer.

Question #4 of 63

Question ID: 454922

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

A) 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).

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

C) 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.

Question #5 of 63

Question ID: 412516

For years, John Berger, a CFA charterholder and CEO of a company, relied upon a set of reasonable procedures for preventing violations of the Standards of Practice in the firm. The company has recently arranged to have members of CFA Institute as mid-level supervisors throughout the firm. With this arrangement Berger has delegated the supervision of employees with respect to the Code and Standards to the mid-level managers. With this action Berger:

A) is relieved of his obligation to supervise the employees under the mid-level supervisors.

B) is still responsible for seeing that procedures are in place to prevent violations of the Code and Standards.

C) has violated Standard IV(C), Responsibilities of Supervisors.

Question #6 of 63

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) refuse supervisory responsibility.

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

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

Question #7 of 63

Question ID: 412477

Mary Hiller, CFA, is a senior analyst at a mutual fund. She is also a member of the Board of the Directors of her daughter's Skating Club. She is often asked for advice about the management of the club budget and about possible short-term investments, but she is not paid for this advice. She does not undertake any research to answer these questions, providing information based only on the general practices of the mutual fund at that moment. The only benefit she receives is a free monthly membership for her daughter that would usually cost $182. What should she do before making any recommendations, in order to comply with the CFA Institute requirements?

A) Consult only on her free time and do not accept any benefit greater than $100.

B) Obtain prior permission from her employer.

C) Inform her current clients about her outside consulting.

Question #8 of 63

Question ID: 412490

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

A) An employee is someone in the service of another.

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

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

Question #9 of 63

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 IV(A), Loyalty to Employer.

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

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

Question #10 of 63

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

B) did not violate the Standard.

C) violated the Standard by contracting for office space on behalf of Global.

Question #11 of 63

Question ID: 412475

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

A) CFA Institute members are prohibited from undertaking independent practice in competition 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 making arrangements or preparations to go into competitive business before terminating their relationship with their employer.

Question #12 of 63

Question ID: 454920

For years John Berger, a CFA charterholder and CEO of a company, relied upon a set of reasonable procedures for preventing violations of the Code and Standards of Professional Conduct in the firm. To comply with the Standards, Berger must:

A) only ensure the procedures are monitored and enforced.

B) both periodically review the procedures and ensure the procedures are monitored and enforced.

C) do nothing more than have the set of procedures in place as stated.

Question #13 of 63

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

B) make written disclosure to her other clients before she accepts this offer.

C) make written disclosure to all parties involved before she accepts this offer.

Question #14 of 63

Question ID: 454923

Which of the following examples of supervisory responsibility is consistent with the requirements of the Code and Standards?

A) A professional conduct evaluation is part of an employee's performance review.

B) A supervisor's income is partially based on the firm's overall level of trading activity.

C) A firm's compliance policies allow a portfolio manager to designate a trade to an account or portfolio after the outcome of the trade is known.

Question #15 of 63

Question ID: 412491

Nicholas Brynne, CFA, develops a trading model while working for CE Jones, an investment management firm. By working on the model at home from his personal computer, Brynne is able to devote additional work hours. Although the trading model is successful, Brynne losses his job in a company restructuring, and decides to start his own practice using the trading model. Nicholas is *most likely*:

A) not in violation of the Standards because the trading model was created using his home computer.

B) in violation of the Standards because he did not receive permission from his employer to keep or use the files after employment ended.

C) in violation of the Standards because he did not have permission to build the trading model using his home computer.

Question #16 of 63

Question ID: 697255

Jacob Allen, CFA, decides he could make more money if he started his own company. Which of the following steps would *most likely* violate Standard IV(A) Loyalty?

A) Renting space for his new company and interviewing several candidates for the position of manager at the new company.

B) Soliciting, without written permission from his current employer, the business of former clients after he leaves his current employer.

C) Using his notes from prior research of a firm in a creating a new research report on the firm, after leaving his current employer.

Question #17 of 63

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 independent competitive activity that could conflict with the business of Nationwide unless she receives written consent.

C) engaging in any conduct that would injure Nationwide.

Question #18 of 63

Question ID: 485747

Mark Roberts has resigned from a local investment advisory firm and begun working at Benjamin Investments. Without getting approval from his supervisor at Benjamin, Roberts uses a phone book to find the contact information of his old clients and asks for their continued business. Has Roberts violated any CFA Institute Standards of Professional Conduct?

A) No.

B) Yes, because he is not allowed to solicit his former clients.

C) Yes, because he must obtain written consent from his current supervisor.

Question #19 of 63

Question ID: 412501

Dick Bowden, a CFA charterholder, receives a free country club membership in exchange for financial advice he can offer the firm. He should:

A) disclose the arrangement to his employer.

B) reject the country club membership since it is illegal under CFA Institute rules and regulations to accept outside compensation.

C) do nothing; it is his business where he spends his free time.

Question #20 of 63

Question ID: 454915

Dixie Miller, a Level II CFA candidate, heads the research department of a large brokerage firm. The firm has many analysts, some of whom are subject to the CFA Institute Code of Ethics and Standards of Professional Conduct. If Miller delegates some of her supervisory duties, which statement *best* describes her responsibilities under the CFA Institute Code and Standards?

A) CFA Institute Standards prevent Miller from delegating supervisory duties to subordinates.

B) Miller's supervisory responsibilities do not apply to those subordinates who are not subject to the CFA Institute Code and Standards.

C) Miller retains supervisory responsibilities for those duties delegated to her subordinates.

Question #21 of 63

Question ID: 412484

When providing outside services, a member should provide all of the following information to her current employer EXCEPT:

A) the types of services to be provided.

B) a promise to remit an agreed-upon percentage of the proceeds to the current employer.

C) the compensation she will receive.

Question #22 of 63

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.

Question #23 of 63

Question ID: 412479

When a CFA Institute member who is presently employed by a firm undertakes any independent practice, he must do all of the following EXCEPT:

- **A)** disclose the expected duration of the services to be rendered.
- **B)** secure permission from the employer.
- **C)** remand a percentage (to be determined by the employee and employer) of the income earned back to the employer.

Question #24 of 63

Question ID: 412462

May Frost, CFA, is an equity research analyst for a "precious metals mining" exchange traded fund which has recently started significantly outperforming its benchmark after several years of stagnation. Upon investigating the source of the outperformance, Frost learns that the fund has experienced severe style drift, and now has a significant proportion of its resources invested in technology and Internet stocks. Frost reviews the fund's prospectus and learns the current sector weighting violates multiple prospectus covenants. Frost contacts her supervisor and the fund's compliance department and is told the portfolio weighting is not her responsibility and that she should not pursue the matter further. Frost reviews the firm's whistleblower policy, contacts personal legal counsel, and then contacts regulatory authorities regarding the style drift and prospectus violations. Frost 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 III(E) "Preservation of Confidentiality."

Question #25 of 63

Question ID: 412489

Theresa Hatcher, CFA, is making arrangements to establish her own investment advisory business before terminating her relationship with her current employer, Elite Brokers, Inc. Elite is a small company consisting of only six investment professionals and a small support staff. According to CFA Institute Standards of Professional Conduct, which of the following activities is *least likely* a violation of Hatcher's duty to Elite?

- **A)** Hatcher solicits Elite's clients before her termination of employment at Elite.
- **B)** Hatcher engages in secret negotiations with two other investment professionals and her administrative assistant to leave Elite in order to join her new business.
- **C)** Hatcher leases office space, furniture, and other equipment for her new business.

Question #26 of 63

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 undertaking independent practice in competition with their employer.

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

C) 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.

Question #27 of 63

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

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

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

Question #28 of 63

Question ID: 412495

Selma Brown, CFA, is a portfolio manager for Mainland Securities. Rick Wood, one of her clients and owner of Wood Fitness Centers, offers to permit Brown and her immediate family to use the facilities at his fitness centers at no cost during 2003. To get this benefit, Brown must achieve on Wood's portfolio at least a 2-percentage point return above the total return on the S&P's 500 index during 2002. Brown orally informs her immediate supervisor of the nature and duration of the proposed arrangement.

Arnold Turley, a CFA Institute member, is a portfolio analyst at Mainland Securities. He was just elected to the Board of Directors for Omega Services, which pays him $1,000 plus expenses for attending each of its quarterly board meetings. Turley e-mails Mainland's compliance officer informing her of this arrangement with Omega and receives a reply informing him that the agreement is acceptable.

Did Brown or Turley violate CFA Institute Standards of Professional Conduct?

A) Brown: Yes, Turley: Yes.

B) Brown: No, Turley: No.

C) Brown: Yes, Turley: No.

Question #29 of 63

Question ID: 412485

All of the following activities might constitute a violation of Standard IV(A), Loyalty to Employer, EXCEPT:

A) solicitation of the employer's clients following termination of employment.

B) solicitation of the employer's clients prior to termination of employment.

C) misuse of confidential information.

Question #30 of 63

Question ID: 460635

Which of the following statements is *least accurate* with regard to the Standard concerning loyalty to employers?

A) Former employees may contact clients of their previous firms if doing so does not violate a non-compete agreement and the contact information is obtained from public sources.

B) Skills and experience a former employee obtained through work at a firm are considered privileged information of that firm.

C) Employees planning to leave an employer must not engage in activities that would conflict with their duty to act in the employer's best interest.

Question #31 of 63

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) not violated the Standards.

B) violated the Standard concerning disclosure of conflicts.

C) violated the Standard concerning loyalty to employer.

Question #32 of 63

Question ID: 412499

An analyst needs to inform his supervisor in writing of which of the following?

A) A client and the analyst alternate paying for lunch at a local sandwich shop.

B) Both the lunch and the bonus mentioned in the other answers.

C) An annual bonus, sent to the analyst by a client, which varies with the performance of the client's portfolio that the analyst manages as an employee even though no verbal or written agreement exists about the bonus.

Question #33 of 63

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

B) explicitly refuse such an offer.

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

Question #34 of 63

Question ID: 412524

A manager has pointed out that his firm has experienced significant expansion over the past few years. Until recently, its Legal Department was responsible for the firm's compliance activities. Now, however, the legal and compliance functions have been separated. A compliance officer has been formally designated and a comprehensive compliance program has been put in place.

In order to function effectively, the compliance officer must have the authority:

A) to hire and fire personnel.

B) which is consistent with the most senior partner or executive officer in the firm.

C) to affect, control, and guide employee behavior and to respond to employee misconduct.

Question #35 of 63

Question ID: 735151

Jill Marsh, CFA, works for Advisors where she manages a portfolio for a wealthy family. Marsh earns 1% of the portfolio's value each year in the form of a commission from Advisors. The family just told her that any year the portfolio she manages earns more than a 10% return, the family will give her the use of the family's vacation home for one week. Marsh will comply with Standard IV(B), Additional Compensation Arrangements, if she:

A) sends an e-mail to her supervisor about the vacation home.

B) does nothing with respect to this.

C) delivers a typed memo to her supervisor about the vacation home the first time she uses it.

Question #36 of 63

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) disseminate the contents of the compliance program to the eight analysts.

B) issue periodic reminders of the procedures to all analysts under his supervision.

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

Question #37 of 63

Question ID: 454924

Edwin McNeill, CFA, is a senior trader for Grey Securities. In his monthly review of his team's activity, McNeill notices a series of suspicious trades by one of the traders. McNeill consults his manager, who agrees that these trades are a potential violation. McNeill informs the trader that her duties will be restricted while these trades are being investigated and refers the matter to Grey's compliance officer for further action. McNeill has:

A) violated Standard IV(C) Responsibilities of Supervisors by failing to prevent a potential violation.

B) violated Standard IV(C) Responsibilities of Supervisors by restricting the trader's duties before the investigation is completed.

C) not violated the Standards.

Question #38 of 63

Question ID: 412483

Analysts who undertake an independent consulting practice while employed must get permission from their employer and should disclose all of the following EXCEPT:

A) the anticipated duration of the service to be rendered.

B) the clients contact information.

C) the compensation or benefit to be received.

Question #39 of 63

Question ID: 412461

Dave Kline, CFA, is a personal investment advisor. 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 discussion of the reason for his departure. During his final two weeks of employment, Kline routinely discusses the margin policy dispute, stating "...anyone who would lend that much money on securities of such low quality does not belong in this business..." Kline's statements are in direct violation of the firm's "Transition and Exit Policies," but he considers it a free-speech issue. Kline is *most likely*:

A) not in violation of the Code and Standards.

B) in violation of Standard IV(A) "Loyalty" recommended procedures for failing to follow the employer's policies and procedures related to termination policy.

C) in violation of Standard IV(A) "Loyalty" recommended procedures for failing to notify regulators of the dangerous margin policy.

Question #40 of 63

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 arrange for current clients to switch to the Korthauer Tautology Fund provided clients are informed of the incentive bonus.

C) A member or candidate may not solicit current clients away from their current employer.

Question #41 of 63

Question ID: 412486

Bob Douglas, CFA, is considering leaving his current employer to compete in the same field. He did not sign a non-compete clause when he was hired. He may:

A) may not prepare to compete, begin competing, or anything related to competing with his current employer.

B) begin competing with his current employer as long as the employer has been informed of Douglas' future intentions.

C) plan and prepare to compete with his current employer, but not begin competing until his resignation is effective.

Question #42 of 63

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

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

C) make reasonable efforts to encourage the company to adopt an adequate compliance system.

Question #43 of 63

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

B) nothing since no money is involved and it is a favor for a family member.

C) the compensation in the form of the use of the holiday home only.

Question #44 of 63

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 need not inform Middleton about his existing clients but must inform his existing clients about his new part-time employment at Middleton.

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

Question #45 of 63

Question ID: 412494

Jane Talbot, CFA, is a portfolio manager at Cavalier Investments. Talbot manages the account of Wendall Wilcox. The performance of Wilcox's portfolio has been below that of the benchmark portfolio, the S&P 500, for the past several years. In an effort to enhance his portfolio's performance, Wilcox offers to pay Talbot $2,000 each year that his portfolio's return exceeds that of the S&P 500. Wilcox suggests this arrangement last for the next three years. The amount that Wilcox agrees to pay Talbot is in addition to the compensation that Talbot will receive from his employer and the standard fee that Wilcox will pay Cavalier for managing his portfolio over the three-year period. Talbot agrees to the arrangement proposed by Wilcox and informs Cavalier in writing of the terms of the agreement under which she will receive additional compensation. According to CFA Institute Standards of Professional Conduct Talbot must disclose:

A) the nature and amount of compensation plus the duration of the agreement.

B) the nature of the compensation only.

C) both the nature and amount of compensation only.

Question #46 of 63

Question ID: 412505

Jan Hirsh, CFA, is employed as manager of a college endowment fund. The college's endowment is held by the brokerage firm Advisors, Inc. Over the years, Hirsh has developed a solid relationship with Advisors. Because of this relationship, Advisors has given her their Platinum level service for her personal account. Advisors ordinarily gives the Platinum level only to clients who do a minimum of $2,500 of commission business in a year. Hirsh has never reached the $2,500 commission level and probably will never do so. According to Standard IV(B), Additional Compensation Arrangements, Hirsh needs to:

A) inform her supervisor in writing about the Platinum account.

B) inform her supervisor verbally about the Platinum account.

C) do none of the actions listed here.

Question #47 of 63

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 obtain written consent from both Malloy and the persons from whom she undertakes independent practice.

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

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

Question #48 of 63

Question ID: 599983

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 obtain written consent from Savage Bank and Fairway Enterprises if he decides to accept the offer to serve on the Board of Directors.

B) 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.

C) Saul must reject the offer to serve on the Board of Directors.

Question #49 of 63

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) liquidate from her personal portfolio any stocks her godfather owns and verbally tell her supervisor about the tax services.

C) have her godfather cease doing her taxes.

Question #50 of 63

Question ID: 412481

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

A) must notify his employer of the types of service to be rendered, the expected duration, and the expected compensation.

B) must notify the entities for whom he plans to undertake independent practice of the compensation he receives from his employer.

C) must notify his employer and clients of the types of service to be rendered and the expected compensation.

Question #51 of 63

Question ID: 485748

Jennifer Stewart, CFA, a supervisor at an investment advisory firm, has tried unsuccessfully to convince top management of the firm's need for a formal, comprehensive compliance program. What is Stewart's *most appropriate* course of action?

A) Resign from the firm if no compliance program is instituted.

B) Rely on the Code and Standards to perform her duties as a supervisor.

C) Decline in writing to accept supervisory responsibility.

Question #52 of 63

Question ID: 454917

Which of the following is *least* likely a recommended procedure for supervisors and compliance officers to comply with Standard IV(C) Responsibilities of Supervisors?

A) Disseminate the firm's compliance procedures to employees.

B) Hold hearings when violations have occurred to determine the severity of the violations.

C) Incorporate a professional conduct evaluation into the employee's performance review.

Question #53 of 63

Question ID: 412478

Jack Salyers, CFA, is considering starting his own firm to compete with his current employer. He takes several actions before turning in his resignation. Which of the following actions is NOT in violation of Standard IV(A), Loyalty to Employer?

A) Jack copied the employer's computer models and other property.

B) Before leaving, Jack solicits his employer's current clients.

C) Jack told his employer that he was considering leaving and requested that the employer write him a letter of recommendation.

Question #54 of 63

Question ID: 697254

Isabella Travelli, CFA, is a research analyst for Worldwide Investments in Rome, Italy. Travelli was contacted by Seaside Partners of Milan, Italy, a regional brokerage firm, about doing research on companies in the beverage industry on a contract basis. Travelli may do the contract work without violating the Standards:

A) only after receiving consent from both Worldwide and Seaside.

B) if Worldwide does not follow the beverage industry.

C) if Worldwide has no clients in the same geographic area as Seaside.

Question #55 of 63

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

B) provide her supervisor with a copy of the Code and Standards.

C) contact industry regulators.

Question #56 of 63

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

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

Question #57 of 63

Question ID: 721176

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) breaching his duty of loyalty to his current employer by making preparations to go into a competitive business. engaging

B) preparing to undertake independent practice before giving notice to his current employer of his intent to resign.

C) neither taking out the loan nor buying the equipment.

Question #58 of 63

Question ID: 412502

To comply with Standard IV(B), Additional Compensation Arrangements, members should do all of the following EXCEPT:

A) state the terms of oral or written agreements regarding the compensation and the duration of the agreement.

B) reject any outside compensation immediately because it is not appropriate to accept outside compensation in a business setting.

C) immediately make a written report to their employer specifying any compensation benefits they receive.

Question #59 of 63

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) not in violation of the Code and Standards.

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

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

Question #60 of 63

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 provided no ongoing investment advice.

B) No, because Bellow received no compensation for his services.

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

Question #61 of 63

Question ID: 454921

According to the CFA Institute Standards of Professional Conduct, which of the following statements about members with supervisory responsibility is *least accurate*? Members with supervisory responsibility:

A) are relieved of their supervisory responsibility if they delegate their supervisory duties to other members of CFA Institute.

B) must make reasonable efforts to detect violation of laws, rules, regulations, and the Code and Standards.

C) are expected to have in-depth knowledge of the Code and Standards and to apply this knowledge in discharging their supervisory responsibilities.

Question #62 of 63

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) Nothing since he is not an employee of the charitable organization.

B) Must treat the charitable organization as his employer.

C) Resign from the position because the relationship is a conflict with the Standards.

Question #63 of 63

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 cannot solicit clients from a former employer.

C) 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.