Question #1 of 67

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

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

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

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

Question #2 of 67

The following information pertains to the Galaxy Trust, a trust established by Stephen P. House and managed by Gamma Investment LLC:

- At the time the trust was established House provided $5 million in cash to fund the trust, but Gamma was aware that 93% of his personal assets were in the form of Oracle stock.
- Gamma has been asked to view his funds and the trust as a single entity for planning purposes, since House's will stipulates that all of his estate will pass to the trust upon his death.
- The investment policy statement, developed in September 1996, stipulates that the trust should maintain a short position in Oracle stock and use the proceeds to diversify the trust more adequately.
- House was able to sell all of his Oracle shares back to the corporation in January 1999 for cash.
- The policy statement redrawn in September 1999 continues to stipulate that the trust hold a short position in Oracle stock.
- House has given the portfolio manager in charge of the trust an all expenses paid vacation package anywhere in the world each year at Christmas. The portfolio manager has reported this fact in writing to his immediate supervisor at Gamma.

Which of the following is *most* correct? The investment manager is:

A) not in violation of the Code and Standards for not properly updating the investment policy statement in light of the change in the circumstances and is not in violation with regard to the

B) in violation of the Code and Standards by not properly updating the investment policy statement in light of the change in the circumstances but is not in violation with regard to the acceptance of the

C) in violation of the Code and Standards by not properly updating the investment policy statement in light of the change in the circumstances and is in violation with regard to the acceptance of the gift

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Question #3 of 67

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 leases office space, furniture, and other equipment for her new business.

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 solicits Elite's clients before her termination of employment at Elite.

Question #4 of 67

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. Hirsh will comply with Standard IV(B), Additional Compensation Arrangements, if she:

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

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

C) does nothing with respect to this.

Question #5 of 67

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

B) No.

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

Question #6 of 67

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 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.

B) Perez can only solicit clients after notifying his former employer.

C) Perez cannot solicit clients from a former employer.

Question #7 of 67

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

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

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

Question #8 of 67

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

B) if Worldwide does not follow the beverage industry.

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

Question #9 of 67

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) his supervisor in his regular place of work only.

B) both his supervisor in the organization and his regular place of work.

C) his supervisor in the organization only.

Question #10 of 67

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

Question #11 of 67

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 #12 of 67

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

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

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

Question #13 of 67

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.

Question #14 of 67

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

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

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

Question #15 of 67

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

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

Question #16 of 67

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 of the compensation only.

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

C) both the nature and amount of compensation only.

Question #17 of 67

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) Inform her current clients about her outside consulting.

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

C) Obtain prior permission from her employer.

Question #18 of 67

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 all parties involved before she accepts this offer.

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

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

Question #19 of 67

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

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

C) not in violation of the Code and Standards.

Question #20 of 67

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 #21 of 67

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

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

Question #22 of 67

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

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

B) the compensation she will receive.

C) the types of services to be provided.

Question #23 of 67

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

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

Question #24 of 67

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

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

Question #25 of 67

Which of the following statements is *most correct* concerning a member's obligation to his or her employer 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) Members are prohibited from making arrangements or preparations to go into competitive business before terminating their relationship with their employer.

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

Question #26 of 67

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

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

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

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

Question #27 of 67

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 retains supervisory responsibilities for those duties delegated to her subordinates.

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

Question #28 of 67

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) engaging in any conduct that would injure Nationwide.

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

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

Question #29 of 67

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) secure permission from the employer.

B) remand a percentage (to be determined by the employee and employer) of the income earned back to the employer.

C) disclose the expected duration of the services to be rendered.

Question #30 of 67

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

B) Decline in writing to accept supervisory responsibility.

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

Question #31 of 67

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

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

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

Question #32 of 67

Brian Williams is a portfolio manager with Santo Capital and works on the Banks Company's account. Santo has a policy against accepting gifts over $500 from clients. The Banks' portfolio has a fantastic year, and in appreciation, a Banks manager sends Williams a rare bottle of wine that he estimates is worth $300. Williams must:

A) inform his supervisor in writing that he received additional compensation in the form of the wine.

B) report the pension fund manager to the CFA Institute Professional Conduct Program.

C) return the bottle to the client.

Question #33 of 67

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

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

B) 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.

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 #34 of 67

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 #35 of 67

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

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

Question #36 of 67

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.

Question #37 of 67

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 she is doing business with a member of her immediate family.

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

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

Question #38 of 67

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

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

Question #39 of 67

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 #40 of 67

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 #41 of 67

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 loses his job in a company restructuring, and decides to start his own practice using the trading model. Nicholas is *most likely*:

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

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

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

Question #42 of 67

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 #43 of 67

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

A) 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

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

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

Question #44 of 67

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

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

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

C) disclose the arrangement to his employer.

Question #45 of 67

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

C) Must treat the charitable organization as his employer.

Question #46 of 67

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

B) do neither of the actions listed here.

C) have her godfather cease doing her taxes.

Question #47 of 67

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 #48 of 67

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 duty to disclose conflicts to his employer.

C) a violation of his fiduciary duties.

Question #49 of 67

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 #50 of 67

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 #51 of 67

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 verbally about the Platinum account.

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

C) do none of the actions listed here.

Question #52 of 67

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 clients contact information.

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

C) the compensation or benefit to be received.

Question #53 of 67

Chuck Daniels has just been hired to manage a security analysis group for Aaron Asset Management. Daniels performed a similar function at another firm and finds the compliance system at Aaron inadequate. He develops a system that he feels is appropriate, but senior management tells him he will have to wait six months to implement the system. Daniels should:

A) decline in writing to accept supervisory responsibility until a satisfactory compliance system is put into place.

B) resign his position immediately.

C) protest in writing the delay, listing the potential dangers that can occur.

Question #54 of 67

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

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

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

Question #55 of 67

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) in violation of Standard IV(A) "Loyalty."

B) in violation of Standard III(E) "Preservation of Confidentiality."

C) not in violation of the Code and Standards.

Question #56 of 67

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 restricting the trader's duties before the investigation is completed.

B) not violated the Standards.

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

Question #57 of 67

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

A) misuse of confidential information.

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

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

Question #58 of 67

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.

Question #59 of 67

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

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

C) not in violation of the Code and Standards.

Question #60 of 67

Rachel Young, CFA, is making preparations to start a competitive business before terminating her relationship with her employer, a large money management company. Young asks Dot Wiggins, a colleague, to consider joining her. In subsequent discussions with Young, Wiggins learns that Young has used excerpts from research reports by others with only a slight change in wording without acknowledging the source. According to CFA Institute Standards of Professional Conduct, Young has:

A) not violated the Standards.

B) violated Standard I(C) Misrepresentation, because she did not acknowledge the source of excepts that she used in research reports.

C) violated Standard IV(A) Loyalty, because she was making preparations to start a competitive business before terminating her relationship with her employer.

Question #61 of 67

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

B) only ensure the procedures are monitored and enforced.

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

Question #62 of 67

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) explicitly refuse such an offer.

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

Question #63 of 67

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

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

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

Question #64 of 67

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 to Brown, even though Brown is not subject to the Standards.

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

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

Question #65 of 67

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

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

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

Question #66 of 67

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.

Question #67 of 67

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: No, Turley: No.

B) Brown: Yes, Turley: Yes.

C) Brown: Yes, Turley: No.