

CFA 一级百题预测

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10. Ethical and Professional Standards

10.1. Ethics and Trust in the Investment Profession

10.1.1. 重要知识点

10.1.1.1. Definition:

- **Ethics**
 - The guiding beliefs or ideals characterizing a society or societal group.
- **Ethical conduct**
 - Behavior that follows moral principles and balances self-interest with both the direct and the indirect consequences of the behavior on others.
- **Code of ethics**
 - Specific communities or societal groups in which we live and work sometimes codify their beliefs about obligatory and forbidden conduct in a written set of principles, often called a code of ethics.
 - Serves as a general guide for how community members should act.
- **Standards**
 - Some communities will also expand on their codes of ethics and adopt explicit rules or standards that identify specific behaviors required of community members.
 - Serve as benchmarks for the minimally acceptable behavior of community members and can help clarify the code of ethics.

10.1.1.2. Ethics and professionalism

- **Explain professionalism**
 - A profession is an occupational community that has specific education, expert knowledge, and a framework of practice and behavior that underpins community trust, respect, and recognition.
 - The requirement to uphold high ethical standards is one clear difference between professions and craft guilds or trade bodies.
 - A primary goal of profession is to establish trust among clients and among society in general.
- **Common characteristics of professions to establish trust**
 - Professions normalize practitioner behavior.
 - Professions provide a service to society.
 - Professions are client focused.
 - Professions have high entry standards.
 - Professions possess a body of expert knowledge.
 - Professions encourage and facilitate continuing education.

- Professions monitor professional conduct.
- Professions are collegial, they should be respectful to each other, even when they are competing.
- Professions are recognized oversight bodies.
- Professions encourage the engagement of members.
- **Professions are evolving**
 - The investment management profession has become increasingly global, driven by the opening of capital markets, coordination of regulation across borders, and the emergence of technology.
- Investment management professionals are trusted to draw on a body of formal knowledge and apply that knowledge with care and judgement.
- Investment management professionals are likely to encounter dilemmas, including those with ethical implications.
- High ethical standards always matter and are of particular importance in the investment management profession, which is based almost entirely on trust.

10.1.1.3. Challenges to ethical conduct

- **Overconfidence** can lead to faulty decision making.
- **Situational influences** have a very powerful and often unrecognized effect on our thinking and behavior.
 - External factors, such as environmental or cultural elements, that shapes our thinking, decision making, and behavior.
 - Factors: Money, Promotions, Prestige, Loyalty to employer and colleagues, a strong compliance culture.

10.1.1.4. Trust

- **Trust** is the very foundation of the financial markets.
- Reasons:
 - The nature of the client relationship
 - Differences in knowledge and access to information
 - The nature of investment products and services

10.1.1.5. Effects of ethical & unethical behavior

- **Effects of ethical behavior:**
 - Lead to broader participation in the markets
 - Protection of clients' interests
 - More opportunities for investment professionals and their firms
 - Lead to higher levels of success and profitability
 - Enjoy lower relative costs
- **Effects of unethical behavior:**

- Erodes and can even destroy trust

- ◆ Diminished trust in financial markets can reduce growth in the investment industry and tarnish the reputation of firms and individuals in the industry, even if they did not participate in the unethical behavior.

10.1.1.6. Legal and ethical conduct are not always the same.

- Many types of conduct are both legal and ethical, but some conduct may be one and not the other.

- The law is **not always the best mechanism** to reduce unethical behavior.

- Laws typically follow market practices.

- Regulators' responses typically take significant time, during which the problematic practice may continue or even grow.

- A new law may be vague, conflicting, and/or too narrow in scope.

- Laws vary across countries or jurisdictions, allowing questionable practices to move to places that lack laws relevant to the questionable practice.

- Laws are also subject to interpretation and compliance by market participants, who may choose to interpret the law in the most advantageous way possible or delay compliance until a later date.

- Ethical conduct goes beyond what is legally required and encompasses what different societal groups or communities, including professional associations, consider to be ethically correct behavior.

10.1.1.7. Framework for ethical decision making

- Steps are as follows:

- **Identify:** Relevant facts, stakeholders and duties owed, ethical principles, conflicts of interest;

- **Consider:** Situational influences, additional guidance, alternative actions;

- **Decide and act;**

- **Reflect:** Was the outcome as anticipated? Why or why not?

10.1.2. 基础题

Q-1. Which of the following statements is least accurate about Code of ethics?

- A. The shared principles and expected behaviors of a profession's members.
- B. The general guide for how community members should act.
- C. The benchmarks for the minimally acceptable behavior.

Q-2. The following choices describe the importance of trust except:

- A. Since the nature of investment products and services is intangible, trust is essential to the

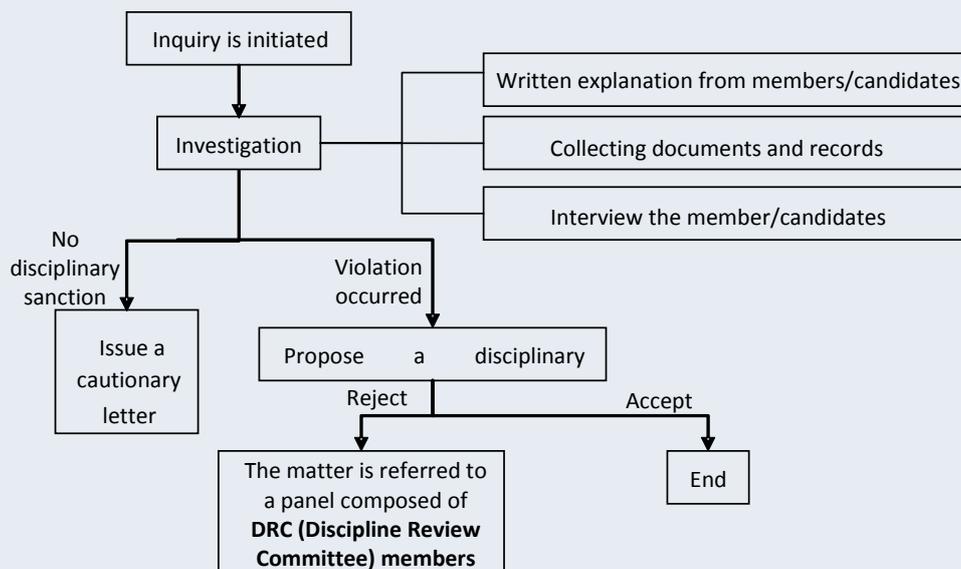
increase of investment willing.

- B. Trust can be replaced by laws since laws are always the best mechanism to reduce unethical behaviors.
- C. Trust is the very foundation of the relationship between investors and investment managers.

10.2. The Process for the Enforcement of the Code and Standards

10.2.1. 重要知识点

10.2.1.1. The process for the enforcement of the code and standards :



10.2.1.2. Primary principles:

- Fairness of the process to members and candidates.
- Confidentiality of the proceedings.

10.2.1.3. The CFA Institute board of governors maintains oversight and responsibility for the Professional Conduct Program (PCP).

10.2.1.4. PCP and Disciplinary Review Committee (DRC) are responsible for enforcement of the Code and Standards.

10.2.1.5. How to detect

- Self-disclosure
- Written complaints
- Public sources
- CFA exam proctor

10.2.1.6. The designated officer may decide

- That no disciplinary sanctions are appropriate.
- To issue a cautionary letter.

- To discipline the member or candidate.

10.2.1.7. Hearing panel

- If the member or candidate does not accept the charges and proposed sanction, the matter is referred to a panel composed of DRC (Discipline Review Committee) members.
- The hearing panel's task is to determine whether a violation of the Code and Standards occurred and, if so, what sanction should be imposed.

10.2.1.8. Sanctions 由轻到重依次为 : public censure, suspension of membership and use of the CFA designation, revocation of the CFA charter

10.2.1.9. AMC & Code and standards

- AMC was drafted specifically for firms.
- Code and standards is aimed at individual investment professionals.

10.2.1.10. Code of ethics

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Place the integrity of the investment profession and the interests of clients above their own personal interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
- Promote the integrity and viability of the global capital markets for the ultimate benefit of society.
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

10.2.2. 基础题

Q-3. From the point of view of an investor, unethical behavior by investment professionals can most likely lead to which of the following?

- A. Increased willingness to accept risk.
- B. Rise in the demand for investments.
- C. Demand for a higher return.

- Q-4.** Which of the following least likely reflects the two primary principles of the CFA Institute Rules of Procedure for Professional Conduct?
- A. Fair process to the member and candidate.
 - B. Public disclosure of disciplinary sanctions.
 - C. Confidentiality of proceedings.
- Q-5.** Which of the following is not a component of the CFA Institute Code of Ethics?
- A. Place the integrity of the investment profession and the interests of clients above your own personal interests.
 - B. Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
 - C. Promote financial integrity and seek to prevent and punish abuses in the financial markets.
- Q-6.** Carolina Ochoa, CFA, is the chief financial officer at Pantagonia Computing. Ochoa is currently the subject of an inquiry by Pantagonia's corporate investigations department. The inquiry is the result of an anonymous complaint accusing Ochoa of falsifying travel expenses for senior management related to a government contract. According to the CFA Institute Code of Ethics and Standards of Professional Conduct, it is most appropriate for Ochoa to disclose the allegations:
- A. on her Professional Conduct Statement.
 - B. to CFA Institute if the allegations are proven correct.
 - C. to CFA Institute when the investigation concludes.
- Q-7.** An analyst in a rating agency has been accused of violations of Codes and Standards. However, he refuses the charges and does not accept the proposed sanctions. Which of the parties has the responsibility of dealing with this matter?
- A. the hearing panel.
 - B. the CFA institute board of governors.
 - C. Professional Conduct Program.
- Q-8.** Which of the following groups is most likely responsible for maintaining oversight and responsibility for the Professional Conduct Program (PCP)?
- A. CFA Institute Board of Governors
 - B. Disciplinary Review Committee
 - C. Professional Conduct Division

10.3. Knowledge of the law

10.3.1. 重要知识点

10.3.1.1. Content

- 必须了解并遵守与工作相关(governing their professional activities) 的法律法规，但不必成为 expert on compliance;
- must comply with the more strict law, rule, or regulation;
- 不能故意(knowingly)参与或协助违法违规行为，并应当使自己与违规行为脱离；

10.3.1.2. Relationship between the code and standards and applicable Law

- 如果法律法规之间存在冲突,总是遵守最严格的要求；
- 如果有传递关系，遵循最后一个生效的 law or regulation;

工作地	居住地	Comply with
More strict, 但要求遵守 居住地法律	Less strict	遵循居住地法律,若 less strict than Code → 遵循 Code
Less strict	More strict	遵循居住地法律, 若 more strict than Code → 遵循居住 地法律

10.3.1.3. Participation or association with violations by others

- 如果你知道(know)有人在违法，应当：向公司里的适当人员 (supervisor or compliance department) 汇报，也可以选择直面当事人 (confronting wrongdoers)，如果仍没有改进，则必须与违法行为划清界限并且保存相关记录 (disassociate and document)，甚至辞职 (quit)；
- 当发现有违法行为时，CFA Institute 并不要求向政府管理机构汇报。是否汇报

取决于适用法律(applicable law)是否有相关要求。

- Inaction combined with continuing association with those involved in illegal or unethical conduct may be construed as participation or assistance in the illegal or unethical conduct.

10.3.1.4. Investment Products and Applicable Laws

- 投资产品的开发者、销售及维护人员要注意产品销售地和来源地的法律；对于分销商，同样要注意其是否遵守了法律。
- 跨境业务需要 due diligence，为了保证公司及自身的声誉，要了解适用的法律

10.3.1.5. Recommended Procedures for Compliance

- 对于个人：
 - stay informed;
 - encourage 公司时常对合规程序进行 review;
 - 保存 readily accessible current reference copies of applicable statutes, rules, regulations;
- 对于公司：
 - The formality and complexity of compliance procedures for firms depend on the nature and size of the organization and the nature of its investment operations;
 - Develop or adopt a code of ethics, provide information on applicable laws, establish procedures for reporting violations.

10.3.2. 基础题

Q-9. James Woods, CFA, is a portfolio manager at ABC Securities. Woods has reasonable grounds to believe his colleague, Sandra Clarke, a CFA Level II candidate, is engaged in unethical trading activities that may also be in violation of local securities laws. Woods is not Clarke's supervisor, and her activities do not impact Woods or any of the portfolios for which he is responsible. Based on the Code and Standards, the recommended course of action is for Woods to:

- A. report Sandra Clarke to ABC's trading supervisor or compliance department.
- B. not take any action because he is not directly involved.
- C. report Sandra Clarke to the appropriate governmental or regulatory organization.

Q-10. A central bank fines a commercial bank it supervises for not following statutory regulations regarding nonperforming loan provisions on three large loans as a result of the bank's loan provisioning policy. Louis Marie Buffet, CFA, sits on the board of directors of the commercial bank as a non-executive director, representing minority shareholders. He also chairs the bank's internal audit committee that determines the loan provisioning policy of the bank. Mercy Gatabaki, CFA, is the bank's external auditor and follows international auditing standards whereby she tests the loan portfolio by randomly selecting loans to check for compliance in all aspects of central bank regulations. Which charterholder is *most likely* in violation of the Code and Standards?

- A. Gatabaki.
- B. Buffet.
- C. Both.

Q-11. Linda Chin, CFA, is a member of a political group advocating less governmental regulation in all aspects of life. She works in a country where local securities laws are minimal and insider trading is not prohibited. Chin's politics are reflected in her investment strategy, where she follows her country's mandatory legal and regulatory requirements. Which of the following actions by Chin is most consistent with the CFA Institute Standards of Professional Conduct?

- A. Follow the CFA Code and Standards.
- B. Continue her current investment strategy.
- C. Disclose her political advocacy to clients.

10.4. Independence and Objectivity

10.4.1. 重要知识点

10.4.1.1. Content

- must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities.
- Must not offer, solicit, or accept any gift, benefit, compensation, or consideration that reasonably could be expected to compromise their own or another's independence and objectivity.

10.4.1.2. Gifts from corporate and clients

- 最好能拒绝所有会 compromise independence and objectivity 的礼物。 Modest

gift is OK, as long as its purpose is not to compromise the objectivity.

- 判断的原则：第一是礼物的金额很少 (modest) ；第二是礼物不能是特地准备的(not unusual arrangement)。
- Gift from client 可以接受，但必须披露，否则违反 I(B)。尽量在接受前披露，如果实在没法披露，也要事后披露。

10.4.1.3. Buy-side clients

- Sell-side analyst should not be pressured by buy-side firms to issue favorable research on current or prospective investment-banking clients.
- It is improper for portfolio managers to threaten or engage in retaliatory practices.

10.4.1.4. Fund manager relationships and Custodial Relationships

- Members and candidates who are responsible for hiring and retaining outside managers should not accept gifts, entertainment, or travel funding that may be perceived as impairing their decisions.
- For meeting sponsored funds, members and candidates must review the merits of each offer individually in determining whether they may attend yet maintain their independence of conduct regarding the analytic process and the distribution of their reports.

10.4.1.5. Investment banking

- Firewall between research and investment banking should be built to minimize conflicts of interest.
 - Separate reporting structures for personnel on the research side and personnel on the investment banking side;
 - Compensation should not link analyst remuneration directly to investment banking assignments in which analyst may participate as a team member.
- It is appropriate to have analysts work with investment bankers only when the conflicts are adequately and effectively managed and disclosed.
- Firms should also regularly review policies and procedures to determine whether analysts are adequately safeguarded.

10.4.1.6. Performance measurement and attribution

- As performance analysts, their analysis may reveal instances where managers may appeared to stray from their mandate.
- The performance analyst may receive requests to alter the construction of composite indices due to negative results for a selected account or fund.
- The member or candidate must not allow internal or external influences to affect

their independence and objectivity as they faithfully complete their performance calculation and analysis related responsibilities.

10.4.1.7. Public companies

- Analysts should not be pressured to issue favorable research by the companies they follow. Can promise to cover the firm, should not promise favorable report about the firm.
- Due diligence in financial research and analysis involves gathering information from public disclosure documents and also company management and investor-relations personnel, suppliers, customers, competitors, and other relevant sources.

10.4.1.8. Credit rating agencies

- Members and candidates at rating agencies should ensure that procedures at the agencies prevent undue influences from a sponsoring company during the analysis.
- Abide by their agencies' and the industry's standards of conduct regarding the analytical process and the distribution of their reports
- Develop the necessary firewalls and protections to allow the independent operations of their different business lines.
- When using information provided by credit rating agencies, members and candidates should be mindful of the potential conflicts of interest.

10.4.1.9. Influence during the manager selection/procurement process

- When hiring or firing of those who provide many business services beyond investment management or when working to earn a new investment allocation, members and candidates should not receive, solicit or offer gifts, contributions, or other compensation to influence the decision of the hiring representative.

10.4.1.10. Issuer-paid research

- Analysts' compensation for preparing such research should be limited, and the preference is for a flat fee that is not linked to their conclusions or recommendations (directly or indirectly).
- Must fully disclose potential conflict of interest, including the nature of compensation. If not → misleading investors.
- Conduct a thorough analysis of the company's financial statements based on public information, benchmarking within a peer group, and industry analysis. (Distinguish between fact and opinion).

10.4.1.11. Travel funding

- Best practice: always use commercial transportation rather than accept paid travel arrangements from an outside company.
- Should commercial transportation be unavailable, members and candidates may

accept modestly arranged travel to participate in appropriate information-gathering events, such as a property tour.

- May be influenced by discussions exclusively with the company executives when flying on a corporate or chartered jet.

10.4.1.12. Social Activities

- When seeking corporate financial support for conventions, seminars, weekly society luncheons, evaluate both the actual effect on independence and whether objectivity might be perceived to be compromised in the eyes of clients.

10.4.1.13. 雇主可能为了与其他公司保持业务关系，可能会要求研究人员 issue favorable research reports, 正确的做法是保持客观独立，按照客观事实撰写报告。

10.4.1.14. Procedures for compliance

- Protect the integrity of opinions: unbiased, design compensation systems with integrity.
- Create a restricted list: if unwilling to issue unfavorable, put it on a restricted list and only issue factual information.
- Restrict special cost arrangement: pay charges by themselves when visiting headquarter, not reimbursed for air fees by corporate issuer, limit use firm's aircraft only when no commercial transportation. Should not always be hosted by issuer.
- Limit gifts: Customary, business-related entertainment is okay as long as its purpose is not to influence professional independence or objectivity; 礼物的价值要参考 local customs 并且说明价值限制是 per gift or annual total amount.
- Restrict investments: develop formal policies about employee purchases of equity or equity-related ipos, require prior approval for employee to participate in ipos, disclose timely investment actions following the offering, strict limit on investment personnel acquiring securities in private placements.
- Review procedures: implement effective supervisory and review procedures about personal investment activities.
- Independence policy: formal written policy, not influenced by any parties that could compromise their independence.
- Appointed officer: to supervise for compliance; provide procedures and policies for reporting violation to every employee.

10.4.2. 基础题

Q-12. Jennifer Ducumon, CFA, is a portfolio manager for high-net-worth individuals at Northeast Investment Bank. Northeast holds a large number of shares in Babyskin Care Inc., a manufacturer of baby care products. Northeast obtained the Babyskin shares when they underwrote the company's recent IPO. Ducumon has been asked by the investment banking department to recommend Babyskin to her clients, who currently do not hold any shares in their portfolios. Although Ducumon has a favorable opinion of Babyskin, she does not consider the shares a buy at the IPO price nor at current price levels. According to the CFA Institute Code of Ethics and Standards of Professional Conduct the most appropriate action for Ducumon is to:

- A. ignore the request.
- B. recommend the shares after additional analysis.
- C. follow the request as soon as the share price declines.

Q-13. Jiro Sato, CFA, deputy treasurer for May College, manages the Student Scholarship Trust. Sato issued a request for proposal (RFP) for domestic equity managers. Pamela Peters, CFA, a good friend of Sato, introduces him to representatives from Capital Investments, which submitted a proposal. Sato selected Capital as a manager based on the firm's excellent performance record. Shortly after the selection, Peters, who had outstanding performance as an equity manager with another firm, accepted a lucrative job with Capital. Which of the CFA charterholders violated the CFA Institute Standards of Professional Conduct?

- A. Both.
- B. Neither.
- C. Peters.

Q-14. Andrew Smith, CFA, works for Granite, a commercial bank that also has a sizable sell-side research division. Smith is presenting financing solutions to a potential business client, Dynamic Materials Corp. As part of his presentation, Smith mentions that Granite will initiate research coverage on Dynamic. Is Smith's arrangement most likely appropriate with regard to the Code and Standards?

- A. No, because Smith cannot offer to provide research coverage on a company if it becomes a Corporate finance client.
- B. No, because Granite cannot provide research coverage on a corporate finance client because it constitutes a violation of research independence
- C. Yes

Q-15. Dilshan Kumar, CFA, is a world-renowned mining analyst based in London. Recently, he received an invitation from Cerberus Mining, a company listed on the London Stock

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Exchange with headquarters in Johannesburg, South Africa. Cerberus asked Kumar to join a group of prominent analysts from around the world on a tour of its mines in South Africa, some of which are in remote locations and not easily accessible. The invitation also includes an arranged wildlife safari to Krueger National Park for the analysts. Kumar accepts the invitation, planning to visit other mining companies he covers in Namibia and Botswana after the safari. To prevent violating any CFA Institute Standards of Professional Conduct, it is most appropriate for Kumar to only accept which type of paid travel arrangements from Cerberus?

- A. Flights on a private airplane to the remote mining sites in South Africa.
- B. Economy class round trip ticket from London to Johannesburg.
- C. Ground transportation to Krueger National Park.

10.5. Misrepresentation

10.5.1. 重要知识点

10.5.1.1. Content

- Must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities. Once finding misrepresentation (e.g. typographical error), correct the error as soon as possible, or violate I (C).
- A misrepresentation is any untrue statement or omission of a fact or any statement that is otherwise false or misleading.
 - Must not knowingly omit or misrepresent information or give a false impression of a firm, organization, or security in oral representations, advertising (whether in the press or through brochures), electronic communications, or written materials (whether publicly disseminated or not).
 - “Knowingly” means that either know or should have known that the misrepresentation was being made or that omitted information could alter the investment decision-making process.
 - Should ensure that the analyses incorporate a broad range of assumptions—from very positive scenarios to extremely negative scenarios.

10.5.1.2. Impact on investment practice

- **不能保证** specific return which is inherently volatile.
- **Not prohibit** from guaranteeing return which is built into the structure of the product or for which an institution has agreed to cover any losses. 如联邦储蓄利

率是 2%，那么保证 2%利率是可以的。

- 不可以对客户说“我们可以提供你需要的所有服务”，正确的做法是提供一个公司所能提供的服务清单；
- 不能 misrepresent qualifications, 一旦发现要立即改正，如果过了很长时间不改正，就会被定义为 misrepresent（如名片打印错误一年后才发现就算违反）。
- 如果通过 outside managers 进行投资，must disclose intended use of external managers, members and candidates must not represent outside managers' investment practices as their own.
- 使用第三方信息要注意：Exercise care and diligence，同时如果影响到了投资的专业性，investment professional 要对此负责。

10.5.1.3. Omission

- The omission of a fact or an outcome can be misleading. Findings from models shall not be presented as fact.
- Member and candidates should encourage their firms to develop strict policies for composite development to prevent “cherry picking”.

10.5.1.4. Performance reporting

- Members and candidates may misrepresent the success of their performance record.
- Clients can be misled if the benchmark's results are not reported on a basis comparable to that of the fund's or client's results.
- 不一定每一个投资组合都要选择一个 benchmark，一些复杂的投资策略可能难以找到基准。
- 虚假陈述还会出现在对不流通证券(illiquid securities)进行定价的时候。当出现多个不同的信息来源时，Members and candidates 应该为客户提供准确并且可靠的证券定价信息。定价机构的选择应当保持一致性，不能因为新的定价机构提供了一个较高的证券报价信息而随意更换现在的定价机构。信息的一致性在一定程度上也限制了虚假陈述。

10.5.1.5. Social media

- Members and candidates 在社交媒体上为客户所提供的信息必须要和通过其他传统交流方式所提供的信息一致，并且也同样不能出现一些虚假或者内幕消息。
- Members and candidates 还必须遵守一些专门针对一些社交媒体交流所制定的 Code and Standards。在社交媒体上故意散播错误的投资建议或者虚假陈述专业投资活动的信息，都会被视为违反了 Standard I(C)。

10.5.1.6. Plagiarism

- **Plagiarism 定义为**：Copying or using in substantially the same form materials prepared by others without acknowledging the source of the material or identifying the author and publisher of such material.
- **适用于任何场合，包括口头交流，媒体采访等。**
- **未经许可 copy (or represent as their own) original ideas/material 就算违反**，必须 acknowledge and identify the source of ideas/material.
- **常见形式**：Using excerpts from others' reports without acknowledgement; Citing quotations as "leading analysts" and "investment experts" without naming specific reference; Using charts and graphs without stating sources; Presenting statistical estimates of forecasts prepared by others and identifying the sources without including the qualifying statements or caveats that may have been used ; Copying proprietary computerized spreadsheets or algorithms without authorization; Preparation of research reports based on multiple sources without acknowledging the sources.
- **引用别人的思想需要鸣谢(credit or acknowledgement), 否则就是 Plagiarism;**
- **引用他人的模型**，分析师作了少许修改，把模型作为自己的，属于 plagiarism 行为，违反了 I(C)，正确的做法是标注这个模型的出处来源；
- **引用媒体的转载**, obtain the information directly from the author and cite only

that author 或者 use the information provided by the intermediary and cite both sources , 不能 only cite the information from the intermediary.

- 无心的打印错误不违反 misrepresentation, 但是如果发现错误, 却没有纠正, 那么就违反了 misrepresentation.

10.5.1.7. Work completed for employer

- The firm retains the right to continue using the work completed after a member or candidate has left the organization. 公司可以 issue future reports without providing attribution to the prior analysts, 但公司内其他员工不能 reissue a previously released report solely under his name.

10.5.1.8. Recommended procedures

- **Factual presentations:** written list of available services and a description of qualifications , 并且指定专人作为公司发言人。
- **Qualification summary:** 对于 representations of qualifications , 公司要定期检查 employee correspondence and documents.
- **Verify outside information:** 对于第三方要 verify, 防止其因为错误陈述而影响公司声誉. Encourage to develop policy to verify.
- **Maintain webpage:** 保存网页; Protect site's integrity, confidentiality, and security; not misrepresent and fully disclose.
- **Plagiarism policy:**
 - maintain copies of all research reports with research ideas, material with new methodologies, and other materials being relied on in preparing the research report;
 - attribute to sources any direct quotations, including projections, tables, statistics, model/product ideas, and new methodologies prepared by persons other than recognized financial and statistical reporting services or similar sources.
 - attribute to sources any paraphrases or summaries of material prepared by others.

10.5.2. 基础题

Q-16. Belen Zapata, CFA, is the owner of Kawah Investments. Kawah promises investors returns of up to 12% per year and claims to achieve these returns by investing in non-investment-grade bonds and other fixed-income instruments. Over the next 12 months, bond market yields reach unprecedented lows and Zapata finds it impossible to achieve the returns she expected. No investments are ever made by Kawah, and clients are completely paid back all of their original investment. Zapata most likely violated the CFA Institute Standards of Professional Conduct because of the:

- A. investment mandate.
- B. return of capital.
- C. promised returns.

Q-17. Solomon Sulzberg, CFA, is a research analyst at Blue Water Management. Sulzberg's recommendations typically go through a number of internal reviews before they are published. In developing his recommendations, Sulzberg uses a model developed by a quantitative analyst within the firm. Sulzberg made some minor changes to the model but retained the primary framework. In his reports, Sulzberg attributes the model to both the quantitative analyst and himself. Before the internal reviews of his reports are completed, Sulzberg buys shares in one of the companies. After the internal review is complete, he fails to recommend the purchase of the stock to his clients and erases all of his research related to this company. Sulzberg least likely violated the CFA Institute Standards of Professional Conduct related to:

- A. Misrepresentation.
- B. Record Retention.
- C. Priority of Transactions.

Q-18. Bryan Barrett, CFA, runs an investment advisory service providing advice on gold and other commodities to several large retail banks. Barrett advertises his services in widely read publications to broaden his business to include retail clients. Because the client base for the institutions that Barrett serves is large, he is comfortable stating in the ads that thousands of his clients have benefited from his advice. Does Barrett's ads most likely violate any CFA Institute Standards of Professional Conduct?

- A. Yes, related to Communication with Clients and Prospective Clients.
- B. Yes, related to Misrepresentation.
- C. No.

Q-19. Jean-Luc Schlumberger, CFA, is an independent research analyst providing equity research on listed companies. He incorporates factual information published by State Statistics Bureau without acknowledging the source into the body of his research reports. In addition, Schlumberger issues a buy recommendation of Baby-skin Care Inc. basing on the conclusions and models from a well-known analyst Rebecca Wong's research without any indications or disclosures. Schlumberger has least likely violated the Standards by?

- A. Using factual information published by State Statistics Bureau.
- B. Using the conclusions from a well-known analyst.
- C. Using the models established by a well-known analyst.

10.6. Misconduct

10.6.1 重要知识点

10.6.1.1 Scope of application

- 凡是有关于欺诈的 (dishonesty, fraud, or deceit) , 或者影响到 professional reputation, integrity, or competence 的行为都是 misconduct.
- 与职业行为无关的、除欺诈以外的行为不违反 misconduct , 比如作为环保组织的成员参加游行。
- Excessive drinking at lunch during work that has negative effect on your ability to make sound investment decisions is a violation of Standard I (D).

10.6.1.2 个人破产 may not reflect on the integrity or trustworthiness of the person declaring bankruptcy

- 如果是经营破产 (如与欺诈无关) , 免责 ;
- 如果是因欺诈 (fraudulent or deceitful business conduct) 导致的破产 , 不能免责。

10.6.1.3 Recommended procedures

- Code of ethics: every employee should subscribe and make clear that the unethical activities will not be tolerated.
- List of violations: potential violations and associated disciplinary sanctions.
- Employee references: check potential employee's character and eligible for work in the investment industry because of past infractions of the law.

10.6.2 基础题

- Q-20.** As a condition of his employment with an investment bank, Abasi Hasina, CFA, was required to sign an employment contract, including a non-compete clause restricting him from working for a competitor for three years after leaving the employer. After one year, Hasina quits his job for a comparable position with an investment bank in a country where non-compete clauses are illegal. Lawyers with whom he consulted prior to taking the new position determined the non-compete clause was a violation of human rights and thus illegal. Did Hasina most likely violate the CFA Institute Code of Ethics?
- A. Yes.
 - B. No, because the non-compete clause violates his human rights.
 - C. No, because the non-compete clause is illegal in the new country of employment.

Q-21. Abdul Naib, CFA, was recently asked by his employer to submit an updated document providing the history of his employment and qualifications. The existing document on file was submitted when he was hired five years ago. His employer notices the updated version shows Naib obtained his MBA two years ago, whereas the earlier version indicated he had already obtained his MBA at the time of his hire. Because the position Naib was hired for had a minimum qualification of an MBA, Naib is asked to explain the discrepancy. He justifies his actions by stating: "I knew you would not hire me if I did not have an MBA, but I already had my CFA designation. Knowing you required an MBA, I went back to school on a part-time basis after I was hired to obtain it. I graduated at the top of my class, but this should not come as any surprise because you have seen evidence I passed all of my CFA exams on the first attempt." Did Naib most likely violate the CFA Institute Standards of Professional Conduct?

- A. Yes, with regard to Misconduct
- B. No
- C. Yes, with regard to Reference to the CFA Designation

Q-22. Nicholas Bennett, CFA, is a trader at a stock exchange. Another trader approached Bennett on the floor of the exchange and verbally harassed him about a poorly executed trade. In response, Bennett pushed the trader and knocked him to the ground. After investigating the incident, the exchange cleared Bennett from any wrongdoing. Which of the following best describes Bennett's conduct in relation to the CFA Institute Code of Ethics or Standards of Professional Conduct? Bennett:

- A. violated the standard relating to professionalism.
- B. did not violate any of the Code of Ethics or Standards of Professional Conduct.
- C. violated both the standard relating to professionalism and integrity of capital markets.

10.7. Material Nonpublic Information

10.7.1 重要知识点

10.7.1.1 Content: 如果持有 MNI , 自己不能利用或促使他人利用 MNI 进行投资

10.7.1.2 判断 material 的条件: 来源可靠 , 对股价影响明确 , substance and specificity determines the materiality

➤ Company-related information

- Earnings.
- M&A, acquisitions, tender offers, or joint ventures.

- Changes in assets, Changes in management.
- Innovative products, processes, or discoveries.
- New licenses, patents, registered trademarks, or regulatory approval/rejection of a product.
- Developments regarding customers or suppliers.
- Changes in auditor notification.
- Events regarding the issuer's securities.
- Bankruptcies.
- Significant legal disputes.
- New or changing equity or debt rating issued by third party
- Government reports of economic trends
- Orders for large trades before they are executed
- Reports from well known analyst
- Qualified personnel: information about trials of a new drug, product, or service under development from qualified personnel involved in the trials is likely to be material, whereas educated conjecture by subject experts not connected to the trials is unlikely to be material.
- 竞争对手的预测不能认为是 MNI.

10.7.1.3 其他情形：

- 有名的公司或者分析师对股价的研究对市场有影响，算是 material.
- Suppliers：从供应商处了解到一个公司的信息，如果来源是可靠的，则算是 MNI，不能使用；如果是自己观察到的，属于 Mosaic 理论范畴，可以使用。竞争者的分析，不算 material.
- 不管通过什么途径，公开发行的报告就是 public（失误引起的提前发行，也算作公开发布，can use for trading）.
- 如果公司在分析师会议上泄露了内幕信息，can't use.
- Selective disclosure may violate MNI. If MNI was disclosed **selectively**, the listed company should issue a press release or reach public dissemination.

10.7.1.4 可以使用内幕消息的情况：如果 members or candidats 在商业活动中（如兼并收购、

信用评级等) 做尽职调查, 用到对方公司合理提供的没有公开的内部消息, 不算违背 Standard II(A)。如果为了其他目的使用内幕信息, 尤其是为了诱导他人对该公司的证券进行交易, 则违背了 Standard II(A)。

10.7.1.5 Mosaic theory : 可以使用 material public information and non-material non-public information, 但必须 save and document all the research.

10.7.1.6 Social media: 一些社交媒体平台只能把信息提供给注册会员。Members and candidates 需要确认这些信息能否从其他公开渠道获得。Members and candidates 在通过这些社交媒体平台和客户进行交流时, 只要其他投资大众也有权查阅这类信息, 那么这就不违背 standard II(A)。

10.7.1.7 Industry expert : Members and candidates 需要对外部聘用的行业专家所提供的信息负责, 不能用一些 material nonpublic information。如果行业专家提供了一些企业的 material nonpublic information, 在这些信息被公开之前, members and candidates 不能使用这些信息进行投资。

10.7.1.8 Investment Research Reports: Simply because the public in general find the conclusions material does not require that the analyst make his/her work public. Investors who are not clients of the analyst can either do the work themselves or become clients of the analyst for access to the analyst's expertise.

10.7.1.9 Achieve public dissemination

- If material, should try to achieve public dissemination.
- Encourage the firm to make it public, if not possible, report only to designated supervisory and compliance personnel within her firm.
- not invest on MNI, or induce insider to disclose MNI.
- Recommended procedures - Adopt compliance procedures
- Encourage firms to adopt compliance procedures to prevent the misuse of MNI.
- Particularly important is improving compliance in such areas as the review of employee and proprietary trading, documentation of firm procedures, and the supervision of interdepartmental communications in multi-service firms.
- Compliance procedures should suit the particular characteristics of a firm,

including its size and the nature of its business.

10.7.1.10 Adopt disclosure procedures

- members and candidates should encourage the development of and compliance with procedures for distributing new and updated investment opinions to clients.
- Recommendations of this nature may represent material market moving information that needs to be communicated to all clients fairly.

10.7.1.11 Issue press releases

- Companies should consider issuing press releases prior to analyst meetings and conference calls and scripting those meetings and calls to decrease the chance that further information will be disclosed.
- If MNI is disclosed for the first time in an analyst meeting or call, the company should promptly issue a press release or otherwise make the information publicly available.

10.7.1.12 Firewall Elements

- substantial control of interdepartmental communications, preferably through a clearance area in either the compliance or legal department;
- Review of employee trading through the maintenance of “watch,” “restricted,” and “rumor” lists;
- Documentation of the procedures designed to limit the flow of information between departments and of the actions taken to enforce those procedures;
- heightened review or restriction of proprietary trading while a firm is in possession of material nonpublic information.

10.7.1.13 Physical separation of departments

10.7.1.14 Prevention of personnel overlap

10.7.1.15 A reporting system

- Authorized people review and approve communications between departments.
- Consult a designated compliance officer to determine whether sharing the information is necessary and how much information should be shared.
- If the sharing is necessary, the compliance officer should coordinate the process of “looking over the wall”.
- A single supervisor or compliance officer should have the specific authority and responsibility of deciding whether or not information is material and whether it is sufficiently public to be used as the basis for investment decisions.
- Ideally, the officer is independent.

10.7.1.16 Personal trading limitations.

- Consider restrictions or prohibitions on personal trading and carefully monitor proprietary trading and personal trading.

- Require employees to make periodic reports of their own transactions and transactions made for the benefit of family members.
- Securities should be placed on a restricted list when a firm has or may have MNI.
- A watch list shown to only the few people responsible for compliance should be used to monitor transactions in specified securities.

10.7.1.17 Record maintenance.

- Multi-service firms should maintain written records of the communications between various departments.
- Firms should place a high priority on training and should consider instituting comprehensive training programs, particularly for employees in sensitive areas.

10.7.1.18 Proprietary trading procedures (自营业务)

- Monitor and restrict proprietary trading when holding MNI.
- 公司如果拥有 MNI，不必禁止所有自营交易 (Proprietary trading)
 - 如果是做市商 market maker, remain passive to the market, take only the contra side of unsolicited customer trades;
 - In risk arbitrage trading, best to stop; If not stop, prove the adequacy of their internal procedures and must document firm trades.

10.7.1.19 Communication to all employees.

- Written compliance policies and guidelines should be circulated to all employees of a firm.
- Policies and guidelines should be used in conjunction with training programs aimed at enabling employees to recognize MNI.
- Sufficient training to either make an informed decision or to realize they need to consult a supervisor or compliance officer before engaging in questionable transactions.

10.7.2 基础题

Q-23. James Simone, CFA, the chief financial officer of a publicly listed company, seeks to improve the quality of his company's communication with institutional fund managers. He holds an investor briefing with this group the evening before the company earnings are announced. The company's quarterly earnings are broadcast in a press release the next day before the market opens. The earnings information in the investor briefing is identical to that in the press release. Did Simone most likely violate the CFA Institute Standards of Professional Conduct?

- A. Yes.
- B. No, because the company releases information while the market is closed.
- C. No, because investor briefing and press release information are identical.

Q-24. During an on-site company visit, Marsha Ward, CFA, accidentally overheard the chief executive officer of Stargazer, Inc. discussing the company's tender offer to purchase Dynamica Enterprises, a retailer of Stargazer products. According to the CFA Institute Standards of Professional Conduct, Ward most likely cannot use the information because:

- A. it was overheard and might be considered unreliable.
- B. she does not have a reasonable and adequate basis for taking investment action.
- C. it relates to a tender offer.

Q-25. When a client asks her how she makes investment decisions, Petra Vogler, CFA, tells the client she uses mosaic theory. According to Vogler, the theory involves analyzing public and nonmaterial nonpublic information, including the evaluation of statements made to her by company insiders in one-on-one meetings in which management discusses new earnings projections not known to the public. Vogler also gathers general industry information from industry experts she has contacted. Vogler most likely violates the CFA Institute Standards of Professional Conduct because of her use of:

- A. nonmaterial nonpublic information.
- B. one-on-one meeting information.
- C. industry expert information.

Q-26. Diana Fairbanks, CFA, is married to an auditor who is employed at a large accounting firm. When her husband mentions that a computer firm he audits will receive a qualified opinion, she thinks nothing of it. Later that week, when she reviews a new client account, she notices there are substantial holdings of this computer firm. When she does a thorough internet search for news on the company, she does not find anything about its most recent audit or any other adverse information. Which of the following actions concerning the computer stock should Fairbanks most likely take to avoid violating the CFA Institute Standards of Professional Conduct?

- A. Complete a thorough and diligent analysis of the company and then sell the stock.
- B. Sell the stock immediately because she has a reasonable basis for taking this investment action.
- C. Take no investment action.

10.8. Market Manipulation

10.8.1 重要知识点

10.8.1.1 Content: Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.

10.8.1.2 The intent of the action is critical to determine whether it is a violation of this standard.

如果目的不是操纵市场，不违反准则要求。

- 一家交易所与做市商签署协议，要求做市商保证最低交易量，同时，交易所承诺佣金折扣。如果他们的目的旨在操纵市场，则违反了 II(B); 如果他们的目的旨在活跃市场，且此协议对外公布，则不违反 II(B).

10.8.1.3 以操纵为目的的信息发布(information based)和交易(transaction based)都违反准则要求；

- Info-based: spreading false or misleading information.
- Transaction-based: transactions that deceive or would be likely to mislead market participants by distorting the price-setting mechanism of financial instruments.

10.8.2 基础题

Q-27. Justin Blake, CFA, a retired portfolio manager, owns 20,000 shares of a small public company that he would like to sell because he is worried about the company's prospects. He posts messages on several internet bulletin boards. The messages read, "This stock is going up once the pending patents are released, so now is the time to buy. The stock is a buy at anything below \$3. I have done some close research on these guys." According to the Standards of Practice Handbook, Blake most likely violated the Code and Standards associated with:

- A. Integrity of Capital Markets, but not Conflicts of Interest.
- B. neither Integrity of Capital Markets nor Conflicts of Interest.
- C. Integrity of Capital Markets, and Conflicts of Interest.

Q-28. Richard Cardinal, CFA, is the founder of Volcano Capital Research, an investment management firm whose sole activity is short selling. Cardinal seeks out companies whose stocks have had large price increases. Cardinal also pays several lobbying firms

to update him immediately on any legislative or regulatory changes that may impact his target companies. Cardinal sells short those target companies he estimates are near the peak of their sales and earnings and that his sources identify as facing legal or regulatory challenges. Immediately after he sells a stock, Cardinal conducts a public relations campaign to disclose all of the negative information he has gathered on the company, even if the information is not yet public. Which of Cardinal's actions is least likely to be in violation of the CFA Institute Standards of Professional Conduct?

- A. Selling stock short.
- B. Trading on information from lobbyists.
- C. Disclosing information about target companies.

10.9. Loyalty, Prudence and Care

10.9.1. 重要知识点

10.9.1.1. 信托义务和 loyalty, prudence, and care 的区别。

- 不管和客户有没有建立信托关系，members and candidates 都必须对客户尽有 loyalty, prudence, and care 的责任。
- 信托关系可以增加与客户之间的信任度。虽然 Members and candidates 必须遵守合法的信托义务，但是 Code and Standards 并不要求每一个 members and candidates 都成为信托人。
- Standard III(A)要求 members and candidates 为客户争取最大利益。

10.9.1.2. 作为交易的执行者，但不需要为客户提供建议时：

- Use their skills and diligence to execute trades in the most favorable terms that can be achieved. (争取达到最好的结果)

10.9.1.3. 作为交易的执行者同时为客户提供投资建议时：

- The extent of the advisory arrangement and limitations should be outlined in the agreement with the client at the outset of the relationship. 必须根据客户自身的 objectives and risk tolerances, 以及自身需求给出建议。

10.9.1.4. 四类客户

- Individuals: An investment manager manages the personal assets of an individual.
- Beneficiary: When the manager is responsible for the portfolios of **pension plans or trusts**, the client is the beneficiaries of the plan or trust. The duty of loyalty is owed to **the ultimate beneficiaries**.
- Mandate: In some situations, the actual client or beneficiaries may not exist. Members and candidates managing a fund to an index or an expected mandate owe the duty of loyalty, prudence, and care to the stated mandate.
- Investing public: The client may be the investing public as a whole, the goals of independence and objectivity of research surpass the goal of loyalty to a single organization.

10.9.1.5. Develop client's portfolios

- Should ensure that the client's objectives and expectations of the account are realistic and suitable to their circumstances and that the risks involved are appropriate.
- Recommended investment strategies should relate to the long-term objectives and circumstances of the client.
- 检查 investment manager or the firm 的利益是否 conflict with the best interests and objectives of the client.
- Must follow any guidelines set by their clients for asset management.
- 投资决策要基于整个 portfolio.

10.9.1.6. Soft commission policies

- "Soft dollars" or "soft commissions" should benefit clients, not investment manager.
- If pay a higher commission without corresponding benefit to the client, violate.
- **"directed brokerage" is ok**, but still obligated to seek "best price" and "best execution", and be assured by the client that the goods or services purchased from the brokerage will benefit the account beneficiaries. In addition, should disclose to the client that the client may not be getting best execution from the directed brokerage.
- "Best execution" refers to a trading process that seeks to maximize the value of the client's portfolio within the client's stated investment objectives and constraints. 如果客户执意要求 directed brokerage , 而不考虑利益的最大化 , 应该取得客户的

书面同意。

10.9.1.7. Proxy Voting Policies

- vote without considering the impact of the question, or votes blindly with management on non-routine governance issues may violate III(A).
- 并不是任何时候使用 vote proxies 都是有益的 ,如果 好处不足以覆盖成本(cost-benefit analysis) ,可以放弃投票。
- Should determine who is authorized and for the benefit of beneficiaries, should disclose any change in voting proxy policy.

10.9.1.8. Regular account information should submit to each client, at least quarterly, an itemized statement showing:

- The funds and securities in the custody or possession plus all debits, credits, and transactions that occurred during the period;
- Where the assets are to be maintained, as well as where or when they are moved;
- Should separate the client's assets from any others' and their own assets.

10.9.1.9. Client approval.

- If uncertain, should ask what he/she would expect or demand if the member/candidate was the client.
- If in doubt, should disclose questionable matter in writing to the client and obtain client approval.

10.9.1.10. Should diversify unless diversification is not consistent with plan guidelines or is contrary to the account objectives

10.9.2. 基础题

Q-29. David Bravoria, CFA, is an independent financial advisor for a high-net-worth client with whom he had not had contact in more than two years. During a recent brief telephone conversation, the client states that he wants to increase his risk exposure. Bravoria subsequently recommends and invests in several high-risk venture capital funds on behalf of the client. Bravoria continues, as he has done in the past, to send to his client monthly, detailed, itemized investment statements. Did Bravoria most likely violate any CFA Standards?

- A. No.
- B. Yes, with regard to investment statements.
- C. Yes, with regard to purchasing venture capital funds.

Q-30. Jack Steyn, CFA, recently became the head of the trading desk at a large investment management firm that specializes in domestic equities. While reviewing the firm's trading operations, he notices clients give discretion to the manager to select brokers on the basis of their overall services to the management firm. Despite the client directive, Steyn would most likely violate Standard III(A): Loyalty, Prudence, and Care if he pays soft commissions for which of the following services from the brokers?

- A. Database services for offshore investments.
- B. Equity research reports.
- C. Investment conference attendance.

Q-31. Jorge Lopez, CFA, is responsible for proxy voting on behalf of his bank's asset management clients. Lopez recently performed a cost-benefit analysis that showed the proxy-voting policies might not benefit the bank's clients. As a result, Lopez immediately changes the proxy-voting policies and procedures without informing anyone. Lopez now votes client proxies on the side of management on all issues, with the exception of major mergers in which a significant impact on the stock price is expected. Lopez least likely violated the CFA Institute Standards of Professional Conduct in regard to:

- A. cost-benefit analysis.
- B. voting with management.
- C. proxy-voting policy disclosures.

Q-32. Henrietta Huerta, CFA, writes a weekly investment newsletter to market her services and obtain new asset management clients. A third party distributes the free newsletter on her behalf to those individuals on its mailing list. As a result, it is widely read by thousands of individual investors. The newsletter recommendations reflect most of Huerta's investment actions. After completing further research on East-West Coffee Roasters, Huerta decides to change her initial buy recommendation to a sell. To avoid violating the CFA Institute Standards of Professional Conduct, it would be most appropriate for Huerta to distribute the new investment recommendation to:

- A. newsletter recipients and asset management clients simultaneously.
- B. asset management clients first.
- C. newsletter recipients first.

Q-33. Sanjay Gupta, CFA, is interviewed by the First Faithful Church to manage the church's voluntary retirement plan's equity portfolio based upon his superior return history. Each church staff member chooses whether to opt in or out of the retirement plan

according to his or her own investment objectives. The plan trustees tell Gupta that stocks of companies involved in the sale of alcohol, tobacco, gambling, or firearms are not acceptable investments given the objectives and constraints of the portfolio. Gupta tells the trustees he cannot reasonably execute his strategy with these restrictions and that all his other accounts hold shares of companies involved in these businesses because he believes they have the highest alpha. By agreeing to manage the account according to the Trustees' wishes, does Gupta violate the CFA Institute Standards of Professional Conduct?

- A. No.
- B. Yes, because the manager was hired based upon his previous investment strategy.
- C. Yes, because the restrictions provided by the Trustees are not in the best interest of the members.

10.10. Fair Dealing

10.10.1 重要知识点

10.10.1.1 Fair 不等于 equal ; 如果 treat clients equally , 有可能违反 fair dealing.

10.10.1.2 可以为不同的客户设置不同的服务等级 , 但是必须不对顾客造成负面影响。需要满足前提:不损害其他客户的利益、向所有客户披露并且所有满足条件的客户都可以获得高等级的服务。

10.10.1.3 Investment recommendation 的发表可以有多种方式 : brief update report, by addition to or deletion from a recommended list, or simply by oral communication , 都必须确保 all clients have a fair opportunity to act on every recommendation.

- 提供投资建议时 , disclosure of inequitable allocation system, even accepted by clients, can't be exempt from fair dealing for disclosure and acceptance. Disclose trade allocation procedures 需要注意 disclosure of inequitable allocation methods does not relieve the member of this obligation.

10.10.1.4 Should not give favored clients advance information when such advance notification may disadvantage other clients. 如 : 发现某个股票是 hot issue,为自己喜欢的顾客多配了一些 , 违反了 fair dealing;

10.10.1.5 Once this distribution has occurred, the member or candidate may follow up separately with individual clients. 如：把新的投资建议 e-mail 给顾客之后找大机构客户讨论细节，不一定违反 fair dealing;

10.10.1.6 Investment action

- When making investments in new offerings or in secondary financings, should distribute the issues to all customers who are suitable for the investment and consistent with the policies of allocating blocks of stock.
- 对于 oversubscribed issues : round-lot basis , forgo any sales to themselves or immediate families in order to free up additional shares for clients→not violate.
- If the investment professional's family-member accounts are managed similarly to the accounts of other clients of the firm, these accounts should not be excluded from buying such shares.
- Must make every effort to treat all individual and institutional clients in a fair and impartial manner.
- Disclose to clients and prospective clients the documented allocation procedures in place and how the procedures would affect them.
- Should not take advantage of their position to the detriment of clients.

10.10.1.7 Recommended procedures

- Limit the number of people who are privy to the fact that a recommendation is going to be disseminated.
- Shorten the time frame between decision and dissemination, disseminate a short summary report including the conclusion might be published in advance.
- Publish guideline for pre-dissemination behavior.
- Communicate recommendations both within the firm and to customers simultaneously.
- Maintain a list of clients and their holdings.
- Processing and executing orders on a first-in, first-out basis.
- Giving all client accounts participating in a block trade the same execution price and charging the same commission.
- When the full amount of the block order is not executed, allocating partially executed orders among the participating client accounts pro rata on the basis of order size while not going below an established minimum lot size for some securities.
- Allocate partially executed orders among client accounts **pro rata based on order size (not account size)**, not below a minimum lot size.

- When allocating trades for new issues, obtaining advance indications of interest, allocating securities by client (rather than portfolio manager), and providing for a method for calculating allocations.

10.10.2 基础题

Q-34. Robin Herring, CFA, is a government bond research analyst at an independent credit rating agency. A competitor credit rating agency just downgraded the bonds of a government Herring follows. Herring notes that all of the information in the competitor's report was covered in his analysis published last week. In the past, Herring has been slow to downgrade bonds, so he starts to doubt his own analysis after seeing the competitor's report. Herring decides to reissue his credit rating of this government bond and match the competitor's downgrade. In his revised report, Herring states that new information has been made available to justify the downgrade. Herring posts the revision on the credit rating agency's website and provides it by e-mail to all clients who received the original. Herring's rating change least likely violated which of the following CFA Institute Code of Ethics and Standards of Professional Conduct?

- A. Fair Dealing.
- B. Communication with Clients.
- C. Diligence and Reasonable Basis.

Q-35. Alexander Newton, CFA, is the chief compliance officer for Mills Investment Limited. Newton institutes a new policy requiring the pro rata distribution of new security issues to all established discretionary accounts for which the new issues are appropriate. The policy also provides for the exclusion of newly established discretionary accounts from the distribution until they have reached their one-month anniversary date. This policy is disclosed to all existing and potential clients. Did Newton most likely violate any CFA Institute Standards of Professional Conduct?

- A. No, because the policy has been adequately disclosed to all existing and potential clients.
- B. Yes.
- C. No, because the allocation policy is not inequitable under the standards.

Q-36. Miranda Grafton, CFA, purchased a large block of stock at varying prices during the trading session. The stock realized a significant gain in value before the close of the trading day, so Grafton reviewed her purchase prices to determine what prices should be assigned to each specific account. According to the Standards of Practice Handbook,

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Grafton's least appropriate action is to allocate the execution prices:

- A. across the participating client accounts at the same execution price.
- B. across the participating client accounts pro rata on the basis of account size.
- C. on a first-in, first-out basis with consideration of bundling orders for efficiency.

Q-37. Sheila Schleif, CFA, is an equity analyst at an investment banking division of Mokara Financial Group, a full service financial group. Schleif uses a multifactor computer model to make stock recommendations for all clients of Mokara. Schleif discovers the model contains an error. If the error were corrected, her most recent buy recommendation communicated to all clients would change to a sell. Schleif corrects the error, changing the buy to a sell recommendation, and then simultaneously distributes via e-mail the revision to all investment banking clients who received the initial recommendation. A week later, Schleif sells the same shares she held in her personal portfolio. Concerning her actions, Schleif most likely violated which of the following CFA Institute Standards of Professional Conduct?

- A. Priority of Transactions
- B. Diligence and Reasonable Basis
- C. Fair Dealing

Q-38. Bailey Watson, CFA, manages 25 emerging market pension funds. He recently had the opportunity to buy 100,000 shares in a publicly listed company whose prospects are considered "above industry norm" by most analysts. The company's shares rarely trade because most managers use a buy-and-hold strategy because of the company's small free float. Before placing the order with his dealer, Watson allocated the shares to be purchased according to the weighted value of each of his clients' portfolios. When it came time to execute the trades, the dealer was able to purchase only 50,000 shares. To prevent violating Standard III(B): Fair Dealing, it would be most appropriate for Watson to reallocate the 50,000 shares purchased by:

- A. reducing each pension fund's allocation proportionately.
- B. distributing them equally among all the pension fund portfolios.
- C. allocating randomly but giving funds left out priority on the next similar type trade.

10.11 Suitability

10.11.1 重要知识点

10.11.1.1 Content

- When in an advisory relationship

- Make a reasonable inquiry into a client or prospective client's investment experience, risk and return objectives, and financial constraints prior to making any investment recommendation or taking investment action, must reassess and update regularly.
- Determine that an investment is suitable to the client's financial situation and consistent with written objectives, mandates, and constraints before making an investment recommendation or taking investment action.
- Judge the suitability in the context of the client's total portfolio.
- When responsible for managing a portfolio
 - must only make investment recommendations or take investment actions that are consistent with the stated objectives and constraints of the portfolio.

10.11.1.2 Developing an investment policy

- In an advisory relationship, must gather client information at the inception of the relationship.

10.11.1.3 Understanding the client's risk profile

- One of the most important factors to be considered in matching appropriateness and suitability of an investment with a client's needs and circumstances is measuring that client's tolerance for risk.

10.11.1.4 Updating an investment policy

- Updating the IPS should be repeated at least annually and also prior to material changes to any specific investment recommendations.

10.11.1.5 The need for diversification

- An investment with high relative risk may be suitable in the context of the entire portfolio or when the client's stated objectives contemplate speculative or risky investments.
- The manager may be responsible for only a portion of the client's total portfolio, or the client may not have provided a full financial picture.
 - Members and candidates can be responsible for assessing the suitability of an investment only on the basis of the information and criteria actually provided by the client.

10.11.1.6 Managing to an index or mandate

- Responsibility is to invest in a manner consistent with the stated mandate.
- Those who manage pooled assets to a specific mandate are not responsible for any individual investor.
 - Only those who have advisory relationship are responsible for individual clients.

10.11.1.7 Addressing unsolicited trade requests. The member or candidate should refrain from

making the trade until he or she discusses the concerns with the client.

- An unsolicited request may be expected to have only a minimum impact on the entire portfolio because the size of the requested trade is small or the trade would result in a limited change to the portfolio's risk profile.
 - Necessary client approval is needed for executing unsuitable trades.
 - At a minimum, the client should acknowledge the discussion and accept the conditions that make the recommendation unsuitable.
- When unsolicited request is expected to have a material impact on the portfolio, the member or candidate should use this opportunity to update the investment policy statement.
 - Some clients that decline to modify their policy statements while insisting an unsolicited trade be made. Members or candidates will need to evaluate the effectiveness of their services to the client and ultimately determine whether they should continue the advisory arrangement with the client.
 - Some firms may allow for the trade to be executed in a new unmanaged account.

10.11.1.8 Developing an investment policy

- Gather client information at the inception of the advisory relationship.
- Information should be incorporated into a written investment policy statement (IPS).

10.11.1.9 Updating an investment policy

- Repeated at least annually and also prior to material changes.
- Client should fully disclose complete financial portfolio, including those portions not managed by the member or candidate,如果客户不如实汇报，无法进行 suitability analysis. Analysis only based on provided information.

10.11.1.10 Investment Policy Statement, in formulating an investment policy for the client, the member or candidate should take the following into consideration.

- Client identification—(1) type and nature of client, (2) the existence of separate beneficiaries, and (3) approximate portion of total client assets under management.
- Investor objectives—(1) return objectives and (2) risk tolerance.
- Investor constraints—(1) liquidity needs, (2) expected cash flows, (3) investable funds, (4) time horizon, (5) tax considerations, (6) regulatory and legal circumstances, (7) investor preferences, prohibitions, circumstances, and unique needs, and (8) proxy voting responsibilities and guidance.
- Performance measurement benchmarks.

10.11.1.11 Regular updates

- Objectives and constraints should be maintained and reviewed periodically to reflect any changes in the client's circumstances.
- Should regularly compare constraints with capital market expectations to arrive at an appropriate asset allocation.
- Annual review is reasonable unless business or other reasons, such as a major change in market conditions, dictate more frequent review.
- Should document attempts to carry out review if circumstances prevent it.
- **The suitability test procedures** should require the investment professionals to look beyond the potential return of the investment and include the following:
 - An analysis on the impact on the portfolio's diversification.
 - A comparison of the investment risks with the client's assessed risk tolerance.
 - The fit of the investment with the required investment strategy.

10.11.2 基础题

Q-39. IPS should be updated repeatedly at least:

- A. Annually.
- B. Semi-annually.
- C. Quarterly.

Q-40. Reiko Kimisaki, CFA, is an investment adviser for a national social security fund in a frontier market with a very limited and illiquid capital market. The labor force is young and has an investment time horizon of 25 to 30 years. Kimisaki has been asked to suggest ways to increase the investment return of the overall portfolio. After careful assessment of the fund's previous investment history, and available asset classes, she considers investment in private equity. What is Kimisaki's lowest priority to avoid any Code and Standards violations prior to making this investment recommendation?

- A. Assess the risk tolerance of the fund.
- B. Analyze the expected returns of private equity in the market.
- C. Determine whether the investment policy statement allows for alternative investments.

Q-41. Leng Bo, CFA, is a bond portfolio manager for individual investors. Last year, a client whose portfolio is limited to investment-grade bonds approved Bo's purchase of a below-investment-grade bond. Because yields in the high-grade fixed-income markets declined, Bo subsequently decides to enhance the client's portfolio by investing in

several additional bonds with ratings one or two notches below investment grade. The investment strategy implemented by Bo most likely violated which of the following CFA Institute Standards of Professional Conduct?

- A. Independence and Objectivity.
- B. Suitability.
- C. Communication with Clients and Prospective Clients.

Q-42. Sherry Buckner, CFA, manages equity accounts for government entities whose portfolios are classified as being conservative and risk averse. Since the objective of her clients is to maximize returns with the lowest possible risk, Buckner considers adding to their holdings a new, thinly traded, leveraged derivative product that she believes has the potential for high returns. To make her investment decision, Buckner relies upon comprehensive research from an investment bank with a solid reputation for top quality research. After her review of that research, Buckner positions her accounts so each has a 10% allocation to the derivative product. Did Buckner most likely violate any CFA Institute Standards of Professional Conduct by purchasing the derivative product for her clients?

- A. No.
- B. Yes, related to Suitability.
- C. Yes, related to Loyalty, Prudence, and Care.

Q-43. Kelly Amadon, CFA, an investment adviser, has two clients: Ryan Randolph, 65 years old, and Keiko Kitagawa, 45 years old. Both clients earn the same amount in salary. Randolph, however, has a large amount of assets, whereas Kitagawa has few assets outside her investment portfolio. Randolph is single and willing to invest a portion of his assets very aggressively; Kitagawa wants to achieve a steady rate of return with low volatility so she can pay for her child's current college expenses. Amadon recommends investing 20% of both clients' portfolios in the stock of very low-yielding small-cap companies. Amadon least likely violated the CFA Institute Standards of Professional Conduct in regard to his investment recommendations for:

- A. only Randolph's portfolio.
- B. only Kitagawa's portfolio.
- C. both clients' portfolios.

10.12 Performance Presentation

10.12.1 重要知识点

10.12.1.1 Should be accurate, complete and fair;

- Not misrepresent past performance or reasonably expected performance.
- 不可以说明或暗示可以获得与过去业绩相同的收益;
- Include terminated portfolio as part of performance history.
- Weighted rate of return rather than a single performance.

10.12.1.2 If the presentation is brief.

- Make available to clients and prospects, on request, the detailed information supporting that communication.
- **Best practice:** brief presentations include a reference to the limited nature of the information provided.

10.12.1.3 推荐 apply GIPS standards , 如果不遵循 GIPS 也可以。 Compliance without applying

GIPS standards. Can also meet obligations under Standard III(D) by:

- Considering the knowledge and sophistication of the audience to whom a performance presentation is addressed.
- Presenting the performance of the weighted composite of similar portfolios rather than using a single representative account.
- Including terminated accounts as part of performance history with a clear indication of when the accounts were terminated.
- Including disclosures that fully explain the performance results being reported: 是否是用模型模拟出来的业绩? 获得该业绩时所担任的职位? Performance record from prior entity? Gross of fees (investment management fee), net of fees, or after tax?
- Maintaining the data and records.

10.12.2 基础题

Q-44. Sam Snead, CFA, is the founder and portfolio manager of the Everglades Fund. In its first year the fund generated a return of 30%. Building on the fund's performance, Snead created new marketing materials that showed the fund's gross 1-year return as well as the 3-, and 5-year returns which he calculated by using back-tested performance information. As the marketing material is used only for presentations to institutional clients, Snead did not mention the inclusion of back-tested data. According to the Standards of Practice Handbook, did Snead violate any CFA Institute Standards of Professional Conduct?

- A. No.
- B. Yes, because he did not disclose the use of back-tested data.
- C. Yes, because he failed to deduct all fees and expenses before calculating the fund's track record.

Q-45. Which of the following is an appropriate benchmark?

- A. Select a small-cap stocks index as a benchmark for high risk-averse clients.
- B. Display hedge fund's performance to clients who mainly invest in money market securities.
- C. Suggest clients who have high risk aversion take S&P500 index as return objective.

Q-46. Kyle Taylor of Taylor Trust Company, noting the performance of Taylor's common trust fund for the past two years, states in a brochure sent to his potential clients, "You can expect steady 25% annual compound growth of the value of your investments over the year." Taylor Trust's common trust fund did increase at the rate of 25% per year for the past year, which mirrored the increase of the entire market. The fund has never averaged that growth for more than one year, however, and the average rate of growth of all of its trust accounts for five years is 5% per year. Taylor least likely violates the CFA Institute Standard of Professional Conduct concerning:

- A. Performance presentation
- B. Misrepresentation
- C. Suitability

10.13 Preservation of Confidentiality

10.13.1. 重要知识点

10.13.1.1. Keep information about current, former, and prospective clients confidential unless

- The information concerns illegal activities on the part of the client;
- Disclosure is required by law; or
- The client or prospective client permits disclosure of the information.

10.13.1.2. III(E) is applicable when

- Receiving information because of special ability to conduct a portion of the client's business or personal affairs, and
- Receiving information that arises from or is relevant to that portion of the client's business that is the subject of the special or confidential relationship.

10.13.1.3. Status of client

- Maintain the confidentiality of client records even after the client relationship has ended. **If a client or former client expressly authorizes the disclosure, may follow the terms of the authorization and provide the information.**

10.13.1.4. 遵守法律规定

- If applicable law requires disclosure of client information in certain circumstances, members and candidates must comply with the law.
- **If applicable law requires maintaining confidentiality, even if the information concerns illegal** activities on the part of the client, should not disclose.
- When in doubt, should consult with compliance personnel or legal counsel before disclosing confidential information about clients.

10.13.1.5. Electronic information and security

- Not require members or candidates to become experts in information security technology, but they should have a thorough understanding of the policies of their employers.

10.13.1.6. When permissible under applicable law, shall consider the PCP an extension of themselves when requested to provide information about a client in support of a PCP investigation into their own conduct

- Encouraged to cooperate with investigations into the conduct of others.
- Any information turned over to the PCP is kept in the strictest confidence.
- Will not be considered in violation of this standard by forwarding confidential information to the PCP.

10.13.1.7. The simplest, most conservative and effective way to comply with III(E) is to avoid disclosing any information received from a client except to authorized fellow employees who are also working for the client.

10.13.1.8. **Electronic information and security:** 很多雇主对于通过电子设备交流以及存放的客户信息都有严格的规定。近几年，对于移动远程数字通信，法规机构建立了更为严格的数据安全法律。Members and candidates 应该鼓励公司对人员进行定期的关于保密流程的训练。

10.13.1.9. **Communication to clients: Members and candidates** 应当确认公司有相应的合规政策能够防止客户信息外泄，并告诉客户合理的传递保密信息的方式。

10.13.1.10. **In some instances, may want to disclose information from clients that is outside the scope of the confidential relationship and does not involve illegal activities.**

Before making such a disclosure, should ask the following:

- In what context was the information disclosed? If disclosed, is the information relevant to the work?
- Is the information background material that, if disclosed, will enable better service to the client?

10.13.1.11. Communication with clients: Members and candidates should be diligent in discussing with clients the appropriate methods for providing confidential information. It is important to convey to clients that not all firm-sponsored resources may be appropriate for such communications.

10.13.2. 基础题

Q-47. Sergio Morales, CFA, believes he has found evidence that his supervisor is engaged in fraudulent activity involving a client's account. When Morales confronts his supervisor, he is told the client is fully aware of the issue. Later that day, Morales contacts the client and after disclosing the fraudulent activity, he is told by the client to mind his own business. Following the requirements of local law, Morales provides all of his evidence, along with copies of the client's most recent account statements, to a government whistleblower program. Has Morales most likely violated the CFA Institute Standards of Professional Conduct?

- A. Yes, concerning Duties to Employers.
- B. Yes, concerning Preservation of Confidentiality.
- C. No.

Q-48. While at a bar in the financial district after work, Ellen Miffitt, CFA, overhears several employees of a competitor discuss how they will manipulate down the price of a thinly traded micro-cap stock's price over the next few days. Miffitt's clients have large positions of this stock, so when she arrives at work the next day, she immediately sells all of these holdings. Because she had determined the micro-cap stock was suitable for all of her accounts at its previously higher price, Miffitt buys back her client's original exposure at the end of the week at the new, lower price. Which CFA Institute Standards of Professional Conduct did Miffitt least likely violate?

- A. Material Nonpublic Information.
- B. Preservation of Confidentiality.
- C. Market Manipulation.

Q-49. Teresa Staal, CFA, is an investment officer in a bank trust department. She manages money for celebrities and public figures, including an influential local politician. She

receives a request from the politician's political party headquarters to disclose his stock holdings. The request indicates local law requires the disclosure. What steps should Staal most likely take to ensure she does not violate any CFA Institute Standards of Professional Conduct?

- A. Provide the information and inform her client.
- B. Check with her firm's compliance department to determine her legal responsibilities.
- C. Send the requested documents and inform her supervisor.

10.14 Loyalty to Employer

10.14.1 重要知识点

10.14.1.1 Core rule is not to injure the firm, deprive of its profit, or deprive of the employee's advantage of ability and skills.

10.14.1.2 Independent practice

- “Undertaking independent practice” means engaging in competitive business, as opposed to making preparations to begin such practice.
- Should abstain from independent competitive activity that could conflict with the interests of their employer, 必须向雇主披露：
 - Types of services they will render to prospective independent clients,
 - The expected duration of the services,
 - The compensation for the services,
- 没有得到雇主同意不能进行 independent practice.
- 兼职工作，如投资分析师同时担任市长、兼职教师等，考虑是否会影响到本职工作。

10.14.1.3 在职揭发(whistleblowing)

- Personal interests, and interests of employer, are secondary to protecting the integrity of capital markets and the interests of clients.
- 如果出于保护客户利益、市场诚信和其他非个人利益目的，可以在职揭发；
When an employer is engaged in illegal or unethical activities, activities that would normally violate a member's/candidate's duty to his/her employer (such as contradicting employer instructions, violating certain policies and procedures, or preserving a record by copying employer records) may be justified.

10.14.1.4 独立的合同签约人(independent contractors)必须遵守与雇主所达成的协议。(oral or written agreement)

10.14.1.5 在辞职前，雇员不可以做的行为包括但不限于以下所列：

- 盗用(misappropriation)客户的商业秘密(trade secrets)；
- 盗用(misappropriation)客户名单 (client lists)。 Memorizing client lists (name and address) is not permitted, unless the info does not come from the records of former employer or violate non-compete agreement.
- 滥用(misuse)保密信息(confidential information)；
- 辞职前招揽(solicit)客户转移业务；
- 盗用(misappropriation)客户资料；
- Self-dealing (appropriating for one's own property a business opportunity or information belonging to one's employer), 不可以将属于雇主的商业机会或信息据为己有。如果离职前开展的个人业务尚未运营，不一定会违规。

10.14.1.6 离职以后，以下行为可能会构成违规：

- Violation of terms in existing non-compete contract
- Taking records or files (even rejected idea list) to a new employer without the written permission of the previous employer

10.14.1.7 在雇主那儿学习的工作经验和技能是可以使用的。但是，在职过程中自己开发的模

型不可以带走。the skills and experience that an employee obtained while employed are not “confidential” or “privileged” information.

- IV(A) does not prohibit experience or knowledge gained at one employer from being used at another employer.

10.14.1.8 仅仅知道原雇主的客户名字不属于机密 unless deemed such by contract or law;

10.14.1.9 自己电脑上或者纸质文件保存的工作资料要删除或归还公司。

10.14.1.10 Protocol for broker recruiting: 雇主和雇员会签署一份协议，同意雇员辞职后可以带走一部分信息。

- Individuals are allowed to take some general client contact information when departing.
- A copy of the information the individual is taking must be provided to the local management team for review.
- The specific client information may only be used by the departing employee and not others employed by the new firm.

10.14.1.11 Use of social media: 社交媒体对 loyalty to employer 的影响。

- 通过社交媒体通知员工离职的信息需要符合公司的规章制度。以提供专业服务为目的而建立起来的用户账号应当被视为公司资产的一部分。
- 员工离职的时候需要根据公司的章程规定对账号进行转移或者删除。最好的方法是把个人账号和以提供专业服务为目的的公司账号分开，如果不能分开，需要和公司讨论到底应该怎样处理。

10.14.1.12 推荐公司执行 Competition policy:

- Must understand any restrictions placed by the employer on offering similar services outside the firm while still employed.
- If an employer elects to have its employees sign a non-compete agreement, should ensure that the details are clear and fully explained prior to signing the agreement.

10.14.1.13 推荐公司执行 termination policy:

- Should establish clear procedures regarding the resignation process, including addressing how the termination will be disclosed to clients and staff.
- May also outline the procedures for transferring responsibilities of ongoing research responsibilities and account management.

10.14.1.14 推荐公司执行 incident-reporting procedures

- Should be aware of firm's policies related to whistleblowing and encourage firms to adopt industry best practices. Many firms are required by regulatory mandates to establish confidential and anonymous reporting procedures that allow employees to report potentially unethical and illegal activities in the firm.
- Firms are encouraged to adopt a standardized classification structure for employees and indicate how each of the policies applies to each employee class.

10.14.2 基础题

- Q-50.** Jimmy Lan, CFA, is a technology analyst at Pacific Securities, Inc. and is a leading authority on Japanese technology companies. Lan's clients include many leading Japanese equity managers. While still employed at Pacific, Lan makes plans during the weekends to start a new company, JL Consulting. His plans consist of contracting office space, interviewing potential employees, and purchasing office equipment. Once he feels ready to launch his new firm, Lan provides Pacific with his resignation notice. After leaving, Lan constructs earnings models of the technology companies he previously covered, using the knowledge and experience gained while at Pacific. He then contacts former clients by using public sources and encourages them to become clients of his new firm. Are Lan's actions in compliance with the Code and Standards?
- A. No, because the names of former clients, modeling skills, and experience gained by Lan are confidential information of Pacific Securities.
 - B. Yes, assuming he is not in breach of any non-compete agreement signed while at Pacific Securities.
 - C. No, because he is prohibited from engaging in activities related to starting his new business while still employed by Pacific Securities.
- Q-51.** When Jefferson Piedmont, CFA, joined Branch Investing, Branch began using a quantitative stock selection model Piedmont had developed on his own personal time prior to his employment with Branch. One year later when Piedmont left Branch Investing, he found the original copy of the model he had developed in a file at his home and presented it to his new employer, which immediately began using the model. According to the Standards of Practice Handbook, did Piedmont most likely violate any CFA Institute Standards of Professional Conduct?
- A. No.
 - B. Yes, because he misappropriated property now belonging to Branch.
 - C. Yes, because he failed to inform his new employer the model was the same one used by his previous employer.
- Q-52.** Elbie Botha, CFA, an equity research analyst at an investment bank, disagrees with her research team's buy recommendation for a particular company's rights issue. She acknowledges the team's recommendation is based on a well-developed process and extensive research, but she feels the valuation is overpriced based on her assumptions. Despite her contrarian view, her name is included on the research report to be distributed to all of the investment bank's clients. To avoid violating any CFA Institute

Standards of Professional Conduct, it would be least appropriate for Botha to undertake which of the following?

- A. Insist her name be removed from the report.
- B. Leave her name on the report.
- C. Issue a new report.

Q-53. Thomas Turkman recently hired Georgia Viggen, CFA, as a portfolio manager for North South Bank. Although Viggen worked many years for a competitor, West Star Bank, the move was straightforward because she did not have a non-compete agreement with her previous employer. Once Viggen starts working for Turkman, the first thing she does is bring to her new employer a trading software package she developed and used at West Star. Using public information, Viggen contacts all of her former clients to convince them to move with her to North South. Viggen also convinces one of the analysts she worked with at West Star to join her at her new employer. Viggen most likely violated the CFA Institute Standards of Professional Conduct concerning her actions involving:

- A. clients.
- B. trading software.
- C. the analyst.

Q-54. Which of the following is most likely correct regarding the use of social media account?

- A. To promote asset management business, members and candidates can create specific accounts and user profiles for themselves.
- B. Members and candidates can keep social media accounts created by their former employers since personal profiles have been developed on public platforms.
- C. There is no need for members and candidates to discuss with their employers how profiles should be treated when a single account includes personal connections since employees can maintain separate accounts for their personal social media activities.

10.15 Additional Compensation Arrangement

10.15.1 重要知识点

10.15.1.1 No gifts, benefits, compensation or consideration are to be accepted ; 只要额外报酬

造成了利益冲突，就不能收，除非 obtain written consent from all parties involved.

10.15.1.2 所有安排必须得到雇主的同意(No arrangement without the employer's approval) ,

从雇主之外收取的其他收益必须立即以书面形式(immediate written report)向雇主说明(amount and nature of consideration) ;

10.15.1.3 披露的目的在于：雇主能够客观地判断员工的工作是否会受到影响。

10.15.1.4 Make an immediate written report to employer specifying any compensation they propose to receive for services in addition to the compensation or benefits received from their employer.

10.15.1.5 The details of the report should be confirmed by the party offering the additional compensation, including performance incentives by clients.

10.15.1.6 Members and candidates must obtain permission for additional compensation or benefits because such arrangements may affect loyalty and objectivity and create potential conflicts of interest.

10.15.1.7 The written report should state the terms of any agreement under which a member or candidate will receive additional compensation.

- Include the nature of the compensation, the approximate amount of compensation, and the duration of the agreement.

10.15.2 基础题

Q-55. Jefferson Piedmont, CFA, a portfolio manager for Park Investments, plans to manage the portfolios of several family members in exchange for a percentage of each portfolio's profits. Because his family members have extensive portfolios requiring substantial attention, they have requested that Piedmont provide the services outside of his employment with Park. Piedmont notifies his employer in writing of his prospective outside employment. Two weeks later, Piedmont begins managing the family members' portfolios. By managing these portfolios, which of the following CFA Institute Standards of Professional Conduct has Piedmont violated?

- A. Conflicts of Interest.
- B. Additional Compensation.
- C. Both Additional Compensation and Conflicts of Interest.

Q-56. When Abdullah Younis, CFA, was hired as a portfolio manager at an asset management firm two years ago, he was told he could allocate his work hours as he saw fit. At that time, Younis served on the board of three non-public golf equipment companies and

managed a pooled investment fund for several members of his immediate family. Younis was not compensated for his board service or for managing the pooled fund. Younis's investment returns attract interest from friends and co-workers who persuade him to include their assets in his investment pool. Younis recently retired from all board responsibilities and now spends more than 80% of his time managing the investment pool for which he charges non-family members a management fee. Younis has never told his employer about any of these activities. To comply with the CFA Institute Standards of Professional Conduct with regard to his business activities over the past two years, Younis would least likely be required to disclose which of the following to his employer?

- A. Family investment pool management.
- B. Board activities.
- C. Non-family member management fees.

10.16 Responsibility of Supervisors

10.16.1 重要知识点

10.16.1.1 Make reasonable efforts to detect and prevent violations by anyone subject to their supervision.

10.16.1.2 通过 establishing and implementing the written compliance system and ensuring such system is followed through periodic review 来执行 reasonable supervision.

10.16.1.3 在建立制度时，必须明确：What an adequate system is.

10.16.1.4 如果将管理的职责委托给 (delegate) 他人，管理者 不能免除 监督管理的职责，且必须 instruct 被委托的人 how to detect and prevent the violations of laws, rules and code.

10.16.1.5 对于 inadequate 的管理制度，管理者应提请上层注意并 提出改进 (corrective) 建议。

10.16.1.6 如果由于不存在 (nonexistent) 制度或制度不完善 (poor)，管理者必须 以书面形式 拒绝接受管理职责 until the firm adopts adequate system.

10.16.1.7 Once knowing a potential violation, supervisor must promptly initiate an investigation.

- Relying on employee's statements or assurances that the wrongdoing will not recur is not enough.
- Reporting the misconduct up the chain of command and warning the employee to cease the activity are also not enough.
- Should take steps to ensure that the violation will not be repeated, by placing limits on the employee's activities or increasing the monitoring of the employee's activities.

10.16.1.8 Detection procedures

- If adopted reasonable procedures and took steps to institute an effective compliance program, may not violate IV(C) if he does not detect violations that occur despite these efforts.
- May violate IV(C) if he knows or should know that the procedures designed to detect and prevent violations are not being followed.

10.16.1.9 Enforcement of non-investment-related policies.

- Those who have supervisory responsibility should enforce policies related to investment and non-investment-related activities equally.
- Establish policies related to attendance and acceptable workplace actions, such as mandatory vacations for specific positions.

10.16.1.10 Adequate procedure.

- Be clearly written and tailored to the firm's operations;
- In plain language, easy to understand;
- Designate a compliance officer;
- Describe hierarchy of supervision and assign duties among supervisors;
- Create a system of checks and balances;
- Outline the scope of the procedures and procedures to document the monitoring and testing of compliance procedures;
- Outline permissible conduct;
- Delineate procedure for reporting violations and sanctions.

10.16.1.11 Once the compliance program is instituted, the supervisor should:

- Disseminate the contents of the program to personnel;
- Periodically update procedures to ensure that the measures are adequate under the law;
- Continually educate personnel regarding compliance procedures;
- Issue periodic reminders of procedures to personnel;
- Incorporate professional conduct evaluation in employee's performance review;
- Review the actions of employees;
- Take steps to enforce procedures once violation occurred.

10.16.1.12 Once violation is discovered, a supervisor should

- Promptly respond;
- Thoroughly investigate to determine the scope of the wrongdoing;
- Increase supervision or place appropriate limitations on the wrongdoer pending the outcome of the investigation.

10.16.2 基础题

Q-57. Ileana Inkster, CFA, was recently offered a senior management position within the trust department at a regional bank. The department is new, but the bank has plans to expand it significantly over the next few months. Inkster has been told she will be expected to help grow the client base of the trust department. She is informed that the trust department plans to conduct educational seminars and pursue the attendees as new clients. Inkster notices that recent seminar advertisements prepared by the bank's marketing department do not mention investment products will be for sale at the seminar. The ads indicate attendees can "learn how to immediately add \$100,000 to their net worth." What should Inkster most likely do to avoid violating any CFA Institute Standards of Professional Conduct?

- A. Accept the position and revise the marketing material.
- B. Accept the position and inform senior management of inadequate compliance procedures.
- C. Decline to accept the new position.

Q-58. Ron Dunder, CFA, is the CIO for Bling Trust (BT), an investment adviser. Dunder recently assigned one of his portfolio managers, Doug Chetch, to manage several accounts that primarily invest in thinly traded micro-cap stocks. Dunder soon notices that Chetch places many stock trades for these accounts on the last day of the month, toward the market's close. Dunder finds this trading activity unusual and speaks to Chetch, who explains that the trading activity was completed at the client's request. Dunder does not investigate further. Six months later, regulatory authorities sanction BT for manipulating micro-cap stock prices at month end in order to boost account values. Did Dunder violate any CFA Institute Standards of Professional Conduct?

- A. Yes, because he failed to reasonably supervise Chetch.
- B. Yes, because he did not report his findings to regulatory authorities.
- C. No.

Q-59. Madeline Smith, CFA, was recently promoted to senior portfolio manager. In her new position, Smith is required to supervise three portfolio managers. Smith asks for a

copy of her firm's written supervisory policies and procedures but is advised that no such policies are required by regulatory standards in the country where Smith works. According to the Standards of Practice Handbook, Smith's most appropriate course of action would be to:

- A. require her firm to adopt the CFA Institute Code of Ethics and Standards of Professional Conduct.
- B. decline to accept supervisory responsibility until her firm adopts procedures to allow her to adequately exercise such responsibility.
- C. require the employees she supervises to adopt the CFA Institute Code of Ethics and Standards of Professional Conduct.

Q-60. Eileen Fisher, CFA, has been a supervisory analyst at SL Advisers for the past 10 years. Recently, one of her analysts was found to be in violation of the CFA Institute Standards of Professional Conduct. Fisher has placed limits on the analyst's activities and is now monitoring all of his investment activities. Although SL did not have any compliance procedures up to this point, to avoid future violations, Fisher has put in place procedures industry standards. Did Fisher most likely violate any CFA Institute Standards of Professional Conduct?

- A. No, because she is taking steps to implement compliance procedures that are more than adequate.
- B. Yes.
- C. No, because she has taken steps to ensure the violations will not be repeated by the analyst.

Q-61. Kim Klausner, CFA, monitors several hundred employees as head of compliance for a large investment advisory firm. Klausner has always ensured that his company's compliance program met or exceeded those of its competitors. Klausner, who is going on a long vacation, has delegated his supervisory responsibilities to Sue Chang. Klausner informs Chang that her responsibilities include detecting and preventing violations of any capital market rules and regulations and the CFA Institute Standards of Professional Conduct. Klausner least likely violated the CFA Institute Standards of Professional Conduct by failing to instruct Chang to also consider:

- A. industry standards.
- B. firm policies.
- C. legal restrictions.

10.17 Diligence and Reasonable Basis

10.17.1 重要知识点

10.17.1.1 The requirements for research conclusions vary in relation to the role in investment decision-making process, but must make reasonable efforts to cover all pertinent issues when arriving at a recommendation.

10.17.1.2 Provide supporting information to clients → enhance transparency

10.17.1.3 Defining diligence and reasonable basis.

- In providing investment service, often use a variety of resources.
- 考虑 : current stage of the industry's business cycle; company's operating and financial history; mutual fund's fee structure and management history; output and potential limitations of quantitative models; quality of the assets included in a securitization; appropriateness of selected peer-group comparisons.
- Can base decisions only on the information available at the time the decision is made. The steps taken in developing a diligent and reasonable recommendation should minimize unexpected downside events.

10.17.1.4 Secondary or third-party research

- 检查 Criteria in forming an opinion on whether research is sound, if suspect the soundness, must not rely on that information.
- May rely on others in the firm to determine soundness and use the information in good faith assuming the due diligence process was deemed adequate.
- Should verify that the firm has a policy about the timely and consistent review of approved research providers to ensure the quality of the research.
- If such policy not in place, should encourage development and adoption.

10.17.1.5 Quantitatively oriented research

- Need to have an understanding of the parameters used in the model or quantitative research.
- Although not required to be experts in technical aspects of the models, must be able to explain to their clients the importance of the quantitative research and how the results were used in the decision-making process.
- Need to consider the time horizon of data input in financial models.
- In development of a recommendation, may need to test the models by using volatility and performance expectations that represent scenarios outside the observable databases.
- In reviewing computer models or the resulting output, pay attention to the assumptions and rigor of the analysis to ensure that the model incorporates negative market events.
- Members and candidates 需要对投资分析和建议报告所用到的数据来源进行调

查,保证这些数据的准确性。对通过网络搜集到的信息, members and candidates 需要进行更为严格的审核。如果公司没有这项制度,应当鼓励公司建立相关制度。

- 新模型的创建者需要比模型最终使用者具备更高的审慎原则,即模型开发者要比模型使用者更懂模型。
- 负责创建并且检验模型的 members and candidates 需要对产品的技术有彻底的了解。在模型发布之前需要对模型以及模型运行结果进行全面彻底的检验。

10.17.1.6 Selecting external advisers and subadvisers

- Ensure that the firm has standardized criteria for reviewing external advisers,包含以下几方面:
 - Reviewing the adviser's established code of ethics;
 - Understanding the adviser's compliance and internal control procedures;
 - Assessing the quality of the published return information;
 - Reviewing the adviser's adherence to its stated strategy.

10.17.1.7 Group research

- The conclusions or recommendations of the group report represent the consensus of the group, but may not necessarily be the views of the member or candidate, even though his name is included on the report.
- 如果不同意结论,但是 consensus opinion has a reasonable and adequate basis and is independent and objective,那么 need not decline to be identified with the report.
- 如果不同意结论,而且 not confident in the process, should dissociate from the report whether it does not reflect his opinion or not.
- Always recommending "hot" issue indicates without sound analysis→ **NO** reasonable basis.

10.17.1.8 Establish a policy requiring that research reports, credit ratings, and investment recommendations have a basis that can be substantiated as reasonable and adequate.

10.17.1.9 Develop detailed, written guidance for analysts and review committees for judging

reasonable and adequate basis of a particular recommendation.

10.17.1.10 Develop measurable criteria for assessing the quality of research, the reasonableness and adequacy of the basis for any recommendation or rating, and the accuracy of recommendations over time.

10.17.1.11 Develop detailed, written guidance that establishes minimum levels of scenario testing of all computer-based models used in developing, rating, and evaluating financial instruments.

10.17.1.12 Develop measurable criteria for assessing outside providers.

- Adopt a standardized set of criteria for evaluating the adequacy of external advisers. The policy should include how often and on what basis the allocation of funds to the adviser will be reviewed.

10.17.2 基础题

Q-62. Kirsten Kelso, CFA, is a research analyst at an independent research firm. Kelso is part of a team of analysts who focus on the automobile industry. Recently, Kelso disagreed with two research sell recommendations written by her team, even though she felt confident the research process was properly conducted. In a webcast open to all institutional but not retail clients, Kelso states, "Even though my name is on the sell reports, these stocks are a buy in part because sales and share prices for both auto companies will rise significantly because of strong demand for their vehicles." Kelso's actions would least likely violate which of the following CFA Institute Standards of Professional Conduct?

- A. Communication with Clients.
- B. Diligence and Reasonable Basis.
- C. Fair Dealing.

Q-63. Rodney Rodrigues, CFA, is responsible for identifying professionals to manage specific asset classes for his firm. In selecting external advisers, Rodrigues reviews the adviser's investment process, established code of ethics, the quality of the published return information, and the compliance and integrated control framework of the organization. In completing his review, Rodrigues most likely violated the CFA Institute Standards of Professional Conduct with regard to his due diligence on:

- A. internal control procedures.
- B. adherence to strategy.
- C. performance measures.

Q-64. Barry Cannon is the lead quantitative analyst at a Hedge Fund. He found some intriguing research that can be used in his model through an internet blog, run by Expert CFA. Under the pressure of his company, Barry includes these online research factors to his new model without further research and recommends it to several fund managers. Did Cannon violate the CFA Institute Code and Standards?

- A. Yes, related to Diligence and Reasonable Basis.
- B. Yes, related to Independence and Objectivity.
- C. No.

Q-65. Wouter Duyck, CFA, is the sole proprietor of an investment advisory firm serving several hundred middle class retail clients. Duyck claims to be different from his competitors because he conducts research himself. He discloses that to simplify the management of all these accounts he has created a recommended list of stocks, from which he selects investments for all of his clients based on their suitability. Duyck's recommended list of stocks is obtained from his primary broker, who has completed due diligence on each stock. Duyck's recommended list least likely violates which of the following CFA Institute Standards of Professional Conduct?

- A. Fair Dealing.
- B. Misrepresentation.
- C. Diligence and Reasonable Basis.

10.18 Communication with Clients and Prospect Clients

10.18.1 重要知识点

10.18.1.1 Key points of communication with clients and prospective clients:

- Distinguish between fact and opinion.
 - "...Will be..." → fact.
 - "...May be ..." → opinion.
- Informing clients of the investment process.
- Keep clients informed on an ongoing basis about changes to the investment process.
- Understanding the basic characteristics of an investment is important in judging suitability on a stand-alone basis, it's especially important in determining the impact each investment will have on the characteristics of a portfolio.
- Should inform clients about the specialization or diversification expertise of external advisers.

10.18.1.2 交流有很多方式，包括 in person, over the call, or by the computer. If recommendations are in capsule form (such as a recommended stock list), should notify clients that additional information and analyses are available upon request.

10.18.1.3 内容包括：

- Include limitations of the analysis and conclusions in the report.
- Distinction between facts and opinions in reports.
- If not indicate that earnings estimates, changes in the dividend outlook, and future market price information are opinions subject to future circumstances, thus fail to separate past from future and violate V(B).
- In the case of complex quantitative analyses, analysts must clearly separate fact from statistical conjecture and should identify the known limitations of an analysis
- Changes in style, ceilings, committee, universe of investment should disclose to the clients and prospect clients. 如果投资过程发生了改变，如改变了投资方法、决策主体等，都必须向客户披露。投资流动性、投资上限也应当披露。
- Capacity is the investment amount beyond which returns will be negatively affected by new investments.
- Communicate significant risk and limitation of analysis:
 - Members and candidates 需要告诉客户在这些投资产品中所存在的风险。一般来说，使用杠杆的风险，市场相关的风险，使用复杂的金融工具所产生的风险都属于比较重要的风险，都需要告知客户。投资中所产生的局限性也要告知客户，比如投资流动性和投资最大份额。
 - 在投资之前，member 和 candidate 需要把自己已经意识到的风险向客户披露，没有意识到的风险无需向客户披露。在合规的过程中，对于谣传的风险和局限性要有一定的认知。在衡量风险和局限性的时候，一次性的投资损失不能作为长期的因素来进行考量。如果是因为一些没有意识到的风险或限制导致了损失并不违背 V(B)。
 - Report presentation: member or candidate 的分析报告必须包括对分析以及报

告的结论有重要影响的因素，这样读者就清楚的知道报告的投资逻辑并且可以对投资逻辑进行挑战和质疑。如果报告撰写者已经做了充分的调研，只要将局限性披露给投资者就不违反准则要求。投资意见应当基于数量模型的分析结果，这些数量模型以及分析需要得到现有的参考资料的支持。模型使用的方法需要保持一致性，若发生变动，需强调说明。

10.18.2 基础题

Q-66. Colin Caldwell, CFA, is the chief investment officer of Northwest Mutual Fund, whose investment objective is to invest in fixed income emerging market securities. Caldwell allocates the fund's assets primarily to bonds of commodity producers in emerging markets and invests in a combination of several different investments to ensure an acceptable level of risk. The allocation is clearly disclosed in all fund communications. High volatility in the commodities markets at the start of the year makes Caldwell pessimistic about returns, so he shifts the fund into emerging market and U.S. government securities, positions he maintains at the end of the year. This change is noted in the next annual report to fund shareholders. Caldwell's investment change least likely violated the CFA Institute Code of Ethics and Standards of Professional Conduct concerning:

- A. Diversification.
- B. Communication with clients.
- C. Investments outside his mandate.

Q-67. Which of the following statements concerning requirements under Standard V(B)—Communication with Clients and Prospective Clients is least likely accurate? This standard requires members and candidates to:

- A. divulge the number of investment related personnel responsible for external communication.
- B. distinguish between fact and opinion in the presentation of investment analysis and recommendations.
- C. disclose the basic format and general principles of the investment process.

10.19 Record Retention

10.19.1 重要知识点

10.19.1.1 必须保留得出投资结论和投资操作的所有研究记录，这些记录是公司的财产；

- 如果当地没有明确的规定，CFA 协会要求记录必须保留 7 年；
- If applicable law requires 5-year record, 保存 5 年。

10.19.1.2 Records can be maintained either in hard copy or electronic form;

10.19.1.3 Records are property of the firm

- Records created in professional activities are the property of the firm. When leaving the firm, cannot take those records, including originals or copies of supporting records of his work, to the new employer without the express consent of the previous employer.
- Cannot use historical recommendations or research reports created at the previous firm because the supporting documentation is unavailable.
- For future use, must re-create the supporting records at the new firm through public sources, or directly from covered company, and not from memory or sources through previous employer unless with permission.

10.19.1.4 The responsibility to maintain records that support investment action generally falls with the firm rather than individuals.

- Must archive research notes and other documents, either electronically or in hard copy, that support their current investment-related communications.
- Doing so will assist their firms in complying with requirements for preservation of internal or external records.

10.19.1.5 New media record: 随着科技进步，新的社交媒体对记录保存带来挑战。

- 会员以及候选人需要理解虽然雇主以及当地的监管者会对新媒体中记录的保存出台相关政策，但这些规定往往会滞后于新传播途径的诞生。
- 这种滞后就要求会员以及候选人自己确保所有的相关信息记录得到保存。这些无纸质形式的媒体类型包括但不限于：邮件、短信、博客、微博上的资料。

10.19.2 基础题

Q-68. Guillermo Sandoval, CFA, owns an asset management firm with offices downtown. To minimize rent expenses, each year Sandoval ships the previous year's research records to a nearby warehouse. There, the reports are digitized and stored in both electronic and hard-copy forms. After five years, all paper copies are destroyed and only electronic copies are retained. Are Sandoval's record-retention procedures in compliance with the CFA Institute Standards of Practice?

- A. Yes.
- B. No, because he did not retain the copies in his offices.
- C. No, because he failed to retain the original documents.

Q-69. Martin Blank develops an analytical model while he is employed by Green Partners Investment Management, LLP (GPIM). While at the firm, he systematically documents the assumptions that make up the model as well as his reasoning behind the assumptions. As a result of the success of his model, Blank is hired to be the head of the research department of one of GPIM's competitors. Blank takes copies of the records supporting his model to his new firm. Blank least likely violates the CFA Institute Standard of Professional Conduct concerning:

- A. Record retention
- B. Loyalty to employer.
- C. Independence and objectivity.

10.20 Disclosure of Conflicts

10.20.1 重要知识点

10.20.1.1 Must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and their employer.

10.20.1.2 Ensure that such disclosures are prominent, are delivered in plain language, and communicate the relevant information effectively.

- Best practice is to update disclosures when the nature of a conflict of interest changes materially.

10.20.1.3 If an analyst was asked to cover the company, when inherit the shares of the company in subject:

- Must disclose if continue to follow.
- Best practice: assign another analyst to follow up the company.

10.20.1.4 Restrict personal trading, outside board membership, and related activities to prevent situations that could give the appearance of a conflict of interest.

10.20.1.5 Disclosure to clients: corporate financing; market making relationship; security holding; directorship; individual relationship.

10.20.1.6 Also disclose fee arrangements, subadvisory arrangements or situations involving nonstandard fee structures. Equally important is to disclose arrangements in which the firm benefits directly from recommendations.

10.20.1.7 部门间的冲突

- Internal conflict between R&D and investment banking.
- External conflict with listed firms.
- Broker-sponsored limited partnerships to invest venture capital.

10.20.1.8 持股的冲突

- The easiest method: prohibit from owning any such securities → overly burdensome and discriminates against members and candidates.
- Sell-side members and candidates should disclose ownership in stock recommended, buy-side members and candidates should disclose procedures for reporting requirements for personal transactions.

10.20.1.9 Conflicts as a director

- Duties owed to clients and to shareholders of the company.
- Investment personnel as a director receive the securities or options.
- Board service receiving MNI.

10.20.1.10 Performance arrangement 的披露

- Firms are encouraged to include information on compensation package in firms' promotional literature.
- If fee is based on capital gains or capital appreciation (performance fee), should disclose;
- If outstanding options exist for incentives, should disclose the amount and expiration date of these options as a footnote to any research report published.

10.20.1.11 Incentive fees should not be in conflict with the interests of clients.

- If Yes, should disclose special compensation arrangements to clients;
- If the member's or candidate's firm does not permit such disclosure, the member or candidate should document the request and may consider dissociating from the activity.

10.20.2 基础题

Q-70. Umi Grabbo, CFA, is a highly regarded portfolio manager for Atlantic Advisors, a mid-sized mutual fund firm investing in domestic securities. She has watched the hedge fund boom and on numerous occasions suggested her firm create such a fund. Senior management has refused to commit resources to hedge funds. Attracted by potential higher fees associated with hedge funds, Grabbo and several other employees begin development of their own hedge fund to invest in international securities. Grabbo and her colleagues are careful to work on the fund development only on their own time. Because Atlantic management thinks hedge funds are a fad, she does not inform her supervisor about the hedge fund creation. According to the Standards of Practice Handbook, Grabbo should most likely address which one of the Codes and Standards immediately?

- A. Disclosure of Conflicts.
- B. Additional Compensation Arrangements.
- C. Priority of Transactions.

Q-71. Heidi Katz is a CFA candidate and an analyst at a pension consulting firm. Her father is a major shareholder and managing director at Saturn Partners, a large hedge fund. When assisting in an alternative manager search for a pension client, Katz plans to recommend Saturn's market-neutral strategy because she believes it meets all of the pension plan's criteria. Given this situation, the best course of action for Katz is to:

- A. disclose the potential conflict to the pension client when discussing this recommendation.
- B. disclose the potential conflict to her employer and follow their guidance regarding disclosure of her relationship to the client.
- C. not present this strategy to the client and recommend another strategy.

Q-72. Adira Badawi, CFA, who owns a research and consulting company, is an independent board member of a leading cement manufacturer in a small local market. Because of Badawi's expertise in the cement industry, a foreign cement manufacturer looking to enter the local market has hired him to undertake a feasibility study. Under what circumstances can Badawi most likely undertake the assignment without violating the CFA Institute Code of Ethics and Standards of Professional Conduct?

- A. He makes full disclosure to both companies.
- B. He signs confidentiality agreements with both companies.
- C. He receives written permission from the local company.

Q-73. Ian O'Sullivan, CFA, is the owner and sole employee of two companies, a public relations firm and a financial research firm. The public relations firm entered into a contract with Mallory Enterprises to provide public relations services, with O'Sullivan receiving 40,000 shares of Mallory stock in payment for his services. Over the next 10 days, the public relations firm issued several press releases that discussed Mallory's excellent growth prospects. O'Sullivan, through his financial research firm, also published a research report recommending Mallory stock as a "buy." According to the CFA Institute Standards of Professional Conduct, O'Sullivan is most likely required to disclose his ownership of Mallory stock in:

- A. the press releases only.
- B. both the press release and the research report.
- C. the research report only.

10.21 Priority of Transaction

10.21.1 重要知识点

10.21.1.1 Investing public > client > employer > individual (Beneficial owner)

10.21.1.2 Avoiding potential conflicts

- Conflicts between the client's interest and an investment professional's personal interest may occur.
- Although conflicts of interest exist, it's OK for individual managers, advisers, or fund employees making money from personal investments as long as: 1)the client is not disadvantaged by the trade; 2)the investment professional does not benefit personally from trades undertaken for clients; 3)comply with applicable regulatory requirements.

10.21.1.3 Standards for nonpublic information

- Prohibit from conveying nonpublic information to any person **whose relationship to the member or candidate makes him a beneficial owner of the person's securities.** Must not convey this information to any other person if the nonpublic information can be deemed material.

10.21.1.4 Family accounts

- Family accounts that are client accounts should be treated like any other firm account, should not be disadvantaged because of that relationship.
- Disadvantage parents who are normal fee-paying clients: violate III (B) fair dealing.
- If a member/candidate has a beneficial ownership in the account, however, the member or candidate may be subject to pre-clearance or reporting requirements

of the employer or applicable law.

10.21.1.5 Recommended procedures for compliance

- Limited participation in equity IPOs.
- Restrictions on private placements.
- Establish blackout/restricted periods.
- Best method: 1)disclosure of personal holdings/beneficial ownerships upon commencement of the employment relationship and at least annually thereafter; 2)Providing duplicate confirmations of transactions; 3)preclearance of participation in IPOs.
- Once trading restrictions are in place, must be enforced..
- Disclosures of policies.

10.21.2 基础题

Q-74. Several years ago, Leo Peek, CFA, co-founded an investment club. The club is fully invested but has not actively traded its account for at least a year and does not plan to resume active trading of the account. Peek's employer requires an annual disclosure of employee stock ownership. Peek discloses all of his personal trading accounts but does not disclose his holdings in the investment club. Peek's actions are least likely to be a violation of which of the CFA Institute Standards of Professional Conduct?

- A. Misrepresentation.
- B. Transaction priority.
- C. Conflicts of interest.

Q-75. Margie Germaine, CFA, is a risk management consultant who has been asked by a small investment bank to recommend policies to prevent bank employees from front running client orders. These clients generally invest in one or more of the bank's large cap equity unit trusts. To ensure compliance with the CFA Institute Standards of Professional Conduct, Germaine should least likely recommend which of the following? Employees should be restricted from trading:

- A. equity-related securities.
- B. without prior permission.
- C. during established time periods.

Q-76. Lin Liang, CFA, is an investment manager and an auto industry expert. Last month, Liang sent securities regulators an anonymous letter outlining various accounting

irregularities at Road Rubber Company. Shortly before he sent the letter to the regulators, Liang shorted Road stock for his clients. Once the regulators opened an investigation, which Liang learned about from his sources inside the company, Liang leaked this information to multiple sources in the media. When news of the investigation became public, the share price of Road immediately dropped 30%. Liang then covered the short positions and made \$5 per share for his clients. Liang least likely violated which of the CFA Institute Standards of Professional Conduct?

- A. Priority of Transactions.
- B. Misconduct.
- C. Market Manipulation.

10.22 Referral Fees

10.22.1 重要知识点

10.22.1.1 Content: Members and Candidates must disclose to their employer, clients, and prospective clients, as appropriate, **any compensation, consideration, or benefit** received from, or paid to, others for the recommendation of products or services. 介绍费不一定是现金的形式。

10.22.1.2 Disclosure 的目的在于让客户和雇主评估：1) any partiality shown in any recommendation of services; 2) the full cost of the services;

10.22.1.3 Disclose to the clients being referred and employer if necessary; Disclose nature of consideration.

10.22.1.4 Encourage employers to develop procedures for referral fees.

10.22.1.5 Firm may completely restrict such fees, if not restrict, should indicate the appropriate steps for requesting approval.

10.22.1.6 Employers should have investment professionals provide to the clients notification of approved referral fee programs and provide the employer regular (at least quarterly) updates on the amount and nature of compensation received.

10.22.2 基础题

Q-77. Referral fee should be updated repeatedly at least:

- A. Annually.
- B. Semi-annually.
- C. Quarterly.

- Q-78.** Jackson Barnes, CFA, works for an insurance company providing financial planning services to clients for a fee. Barnes has developed a network of specialists, including accountants, lawyers, and brokers who contribute their expertise to the financial planning process. Each of the specialists is an independent contractor. Each contractor bills Barnes separately for the work he or she performs, providing a discount based upon the number of clients Barnes has referred. What steps should Barnes take to be consistent with the CFA Institute Standards of Professional Conduct?
- A. Have his independent contractors approved by the insurance company
 - B. List the consideration he receives from the specialists on monthly client invoices
 - C. Inform potential clients about his arrangement with the contractors before they agree to hire him

10.23 Responsibilities as a CFA Institute Member or CFA Candidate; Reference to CFA Institute, Designation

10.23.1 重要知识点

10.23.1.1 Violations include:

- Cheating on the CFA exam or other CFA Institute's exams.
- Not complying with rules and policies of the CFA program.
- Divulging the confidential information to others.
- Improperly using the designation.
- Misrepresenting information on Professional Conduct Statement of the CFA.
- Cheating on the CFA exam, violate VII(A), I(D).

10.23.1.2 VII(A)会员或候选人的行为 (Conduct as Members and Candidates) : 成员或候选人不得从事任何有损于 CFA 协会和 CFA 称号名誉和声望, 以及 CFA 考试公正性和含金量的行为。

10.23.1.3 Over-promise: the competency of an individual 和 over-promise future investment results as lower risk, higher performance 都不可以。

10.23.1.4 The order of CFA and CPA does not matter.

10.23.1.5 如果要获得使用 CFA 称号的权利, 必须满足几个条件: 是 CFA 协会的在册会员, 按时交会费 (membership dues), 依次通过 CFA 的三次考试, 按时完成并提交年

度述职报告 (annual conduct report)。

10.23.1.6 在名片上，CFA 的字体大小不能超过自己名字的字体大小。

10.23.1.7 CFA 是形容词，不是名词，不能说有几个 cfas.

10.23.1.8 CFA 职称正确的表述是：CFA, Chartered Financial Analyst；其他说法如 cfa, C.F.A, CFA-typed, China-CFA 均不正确。

10.23.1.9 CFA mustn't be used as part of the name of the firm.

10.23.1.10 Shouldn't cite the expected date of exam completion and award of charter.

10.23.1.11 只通过三级考试，没有持证的人不可以使用 CFA 职称。

10.23.1.12 可以对外宣称三次考试一次就通过，只要陈述的是事实；但是如果说 CFA 持证人有高超的投资业绩，则违反了 VII (B)；

10.23.1.13 如果好几年没交会费，即使曾经是持证人，若在名片后写 CFA，违反了 VII (B)。

10.23.1.14 持证人可以在个人的名片和个人的 letterhead 上使用 CFA logo，但公司不可以。

10.23.2 基础题

Q-79. Millicent Plain has just finished taking Level II of the CFA examination. Upon leaving the examination site, she meets with four Level III candidates who also just sat for their exams. Curious about their examination experience, Plain asks the candidates how difficult the Level III exam was and how they did on it. The candidates say the essay portion of the examination was much harder than they had expected and they were not able to complete all questions as a result. The candidates go on to tell Plain about broad topic areas that were tested and complain about specific formulas they had memorized what did not appear on the exam. The Level III candidates least likely violated the CFA Institute Standards of Professional Conduct by discussing:

- A. specific formulas.
- B. broad topic areas.
- C. the examination essays.

Q-80. Pia Nilsson is a sole proprietor investment adviser. An economic recession has reduced the number of clients she advises and caused revenues to decline. As a result, Nilsson

has not paid her CFA Institute membership dues for the past two years. When a national financial publication recently interviewed Nilsson, she indicated that up until two years ago, she had been a CFA charterholder and a CFA Institute member in good standing. In addition, she stated the completion of the CFA Program enhanced her portfolio management skills and enabled her to achieve superior returns on behalf of her clients. Which of Nilsson's actions most likely violated the CFA Institute Standards of Professional Conduct?

- A. Nonpayment of CFA Institute membership dues.
- B. Indicating that being a CFA charterholder has enhanced her portfolio management skills.
- C. Attributing her superior returns to participation in the CFA Program.

Q-81. Vishal Chandarana, an unemployed research analyst, recently registered for the CFA Level I exam. After two months of intense interviewing, he accepts a job with a stock brokerage company in a different region of the country. Chandarana posts on a blog how being a CFA candidate really helped him get a job. He also notes how relieved he was when his new employer did not ask him about being fired from his former employer. Which CFA Institute Standards of Professional Conduct did Chandarana least likely violate?

- A. Loyalty to Employers.
- B. Reference to CFA Institute, the CFA Designation, and the CFA Program.
- C. Misconduct.

10.24 GIPS

10.24.1 重要知识点

10.24.1.1 Misleading practices that hinder performance comparability:

- Representative accounts-showing a top-performing portfolio as representative of firm's results.
- Survivorship bias-excluding wake performance.
- Varying time periods- showing performance for selected time periods with outstanding returns.

10.24.1.2 Complying with the GIPS standards is voluntary.

10.24.1.3 Any firms that actually manage assets can claim compliance with the standards.

- Consultants → can't claim compliance unless actually manage assets.
- Software (and vendor of software) cannot be compliant → can assist firms in compliance with GIPS.

10.24.1.4 Firm-wide and full compliance

- Can't be achieved on a single product or composite.
- Two options: (1) Fully comply with all requirements; (2) Not comply with all requirements and not claim compliance.

10.24.1.5 Benefit three groups: asset managers, prospective clients and asset owners and their oversight bodies.

10.24.1.6 关于 composite

- A composite is a grouping of individual discretionary portfolios representing a similar investment strategy, objective, or mandate.
- A composite, such as Global Equities, must include all portfolios (current and past) that the firm has managed in accordance with this particular strategy.
- The firm should identify which composite each managed portfolio is to be included in before the portfolio's performance is known.
- All actual, fee-paying, discretionary portfolio must be included in at least one composite. Non-fee-paying discretionary portfolio may be included in a composite. Non-discretionary portfolios must not be included in a firm's composites.

10.24.1.7 Fundamentals of compliance

- Compliance cannot be achieved on a single product or composite.
- Two important issues that a firm must consider when becoming compliant with the GIPS standards are:
 - Definition of the firm is the foundation for firm-wide compliance and creates defined boundaries whereby total firm assets can be determined.
 - Firm's definition of discretion establishes criteria to judge which portfolios must be included in a composite and is based on the firm's ability to implement its investment strategies.
- Firms should adopt the broadest, most meaningful definition of the firm. The scope of this definition should include all geographical offices operating under the same brand name, regardless of the actual name of the individual investment management company.

10.24.1.8 Verification

- Verification is the review of an investment management firm's performance measurement processes and procedures by an independent third-party "verifier".
- Whether the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis.
- Whether the firm's processes and procedures are designed to calculate and present performance results in compliance with the GIPS standards.
- A single verification report is issued in respect of the whole firm; verification

cannot be carried out for a single composite.

10.24.2 基础题

- Q-82.** In cases where applicable local laws governing calculation and presentation of investment performance conflict with the GIPS standards, firms are:
- A. required to comply with local regulations and make full disclosure of the conflict to claim GIPS compliance.
 - B. unable to claim GIPS compliance in cases where local regulations prohibit accurate calculation.
 - C. required to calculate and maintain two sets of performance data in order to claim GIPS compliance.
- Q-83.** According the GIPS standards, for periods beginning on or after 1 January 2011, the aggregate fair value of total firm assets most likely includes all:
- A. fee- and non-fee-paying discretionary and non-discretionary accounts.
 - B. fee-paying discretionary accounts.
 - C. fee- and non-fee-paying discretionary accounts.
- Q-84.** Which of the following is least likely a requirement of the GIPS standards? Firms are required to:
- A. have their performance records verified by an independent third party.
 - B. include all discretionary, fee-paying portfolios in at least one composite.
 - C. present a minimum of five years of annual investment performance compliant with GIPS standards.

10.25 进阶题

Q-1. Grey recommends the purchase of a mutual fund that invests solely in long-term U.S. Treasury bonds. He makes the following statements to his clients:

Statement 1: "The payment of the bonds is guaranteed by the U.S. government; therefore, the default risk of the bonds is virtually zero."

Statement 2: "If you invest in the mutual fund, you will earn a 10 percent rate of return each year for the next several years based on historical performance of the market."

Did Grey's statements violate the CFA Institute Code and Standards?

- A. Neither statement violated the Code and Standards.
- B. Only Statement 1 violated the Code and Standards.
- C. Only Statement 2 violated the Code and Standards.

Q-2. Yao Tsang, CFA, has a large percentage of his net worth invested in the Australian mining company Outback Mines, which he has held for many years. Tsang is in the process of moving to a new employer where he will be responsible for initiating research on U.S. domestic mining companies. Shortly after his move, Tsang is asked to complete a research report on Outback Mines. In order to meet the CFA Institute Standards of Professional Conduct concerning his stock holding, which of the following is the most appropriate action for Tsang to take?

- A. Disclose his stock holding to his employer and to clients.
- B. Sell his stock holdings to eliminate any potential conflict of interest.
- C. Refuse to write the report and ask his employer to assign another analyst to complete the analysis.

Q-3. Dorian Solot, CFA, is responsible for a team of research analysts at Apac Bank, located in a country with strict laws prohibiting intellectual property transfers. Solot believes the work of one of her analysts, Blaine Paddock, CFA, is not completed as carefully and thoroughly as it should be. Solot completely reviews all of Paddock's research and confirms her suspicions. Solot then confronts Paddock about his poor quality research and tells him he can leave Apac voluntarily or be fired. Paddock chooses to leave the bank, walking out with his personal papers and research notes that were created prior to his joining Apac. Subsequently, Paddock uses this intellectual property to help establish a high-net-worth investment advisory firm. When a prospective client asks Paddock if he left Apac because of questions on the quality of his work, Paddock says it was to start his own business. Paddock least likely violated the CFA Institute Standards of Professional Conduct concerning his:

- A. Research.
- B. Intellectual property.

C. Prospective client disclosure.

Q-4. ABC Investment Management acquires a new, very large account with two concentrated positions. The firm's current policy is to add new accounts for the purpose of performance calculation after the first full month of management. Cupp is responsible for calculating the firm's performance returns. Before the end of the initial month, Cupp noticed that one of the significant holdings of the new accounts was acquired by another company, causing the value of the investment to double. Because of this holding, Cupp decided to account for the new portfolio as of the date of transfer, thereby allowing ABC Investment to reap the positive impact of that month's portfolio return.

- A. Cupp did not violate the Code and Standards because the GIPS standards allow composites to be updated on the date of large external cash flows.
- B. Cupp did not violate the Code and Standards because companies are allowed to determine when to incorporate new accounts into their composite calculation.
- C. Cupp violated the Code and Standards because the inclusion of the new account produces an inaccurate calculation of the monthly results according to the firm's stated policies.

Q-5. David Gunard, CFA, is an equity analyst at Curry Securities. He received an assignment to analyze Enterloch Corporation, of which the stocks were held by several of Curry's clients. Gunard completed a thorough, fundamental analysis of Enterloch. Given his analysis and the sharp rise in the company's stock price during the past year, Gunard concluded that the shares were substantially overvalued. After the approval of the report by Gunard's supervisor, but prior to the release, Gunard called his father to suggest that he sell his Enterloch shares immediately. Gunard's father informed him that he had disposed of his holding. According to the Standards of Practice Handbook, has Gunard violated the CFA Institute Standard of Professional Conduct relating to:

Duties to clients? Reasonable basis?

- A. No Yes
- B. Yes No
- C. Yes Yes

Q-6. Yip Wai Yin, a CFA Candidate, is an independent mutual fund sales agent. For every front-end load product she promotes, Yip receives a portion of the front-end fee as commission at the time of sale. For every back-end load fund she sells, Yip receives a smaller commission paid at the end of the year. Yip always informs her clients she is paid a commission as an agent, but does not provide details of the compensation structure. When pitching her favored front-end load product line, she tells clients 20%

of her commission is always invested in the same fund as proof of her confidence in the fund she recommends. Which CFA Code of Standards with regard to Conflicts of Interest does Yip least likely violate?

- A. Referral Fees.
- B. Disclosure of Conflicts.
- C. Priority of Transactions.

Q-7. Kazuya Kato, CFA, is a widely followed economist at a global investment bank. When Kato opines on economic trends, markets react by moving stock valuations considerably. When Kato received information of a temporary oversupply of rare earth metals, he issued a forecast that price trends for rare earth metals would be down significantly on a long-term basis. Kato also secretly sold his report to a widely followed Internet site. Prior to issuing this forecast, Kato emailed all portfolio managers at his bank with a copy of his report indicating that his opinion would be reversed shortly so there would be trading opportunities. Kato least likely violated which of the following CFA Institute Code of Ethics and Standards of Professional Conduct?

- A. Market Manipulation.
- B. Priority of Transactions.
- C. Additional Compensation Arrangements.

Q-8. According to the Fundamentals of Compliance section of the Global Investment Performance Standards, issues that a firm must consider when claiming compliance include all of the following except:

- A. Replicating performance.
- B. Properly defining the firm.
- C. Documenting firm policies and procedures used in establishing and maintaining compliance with the Standards.

Q-9. According to the GIPS standards a verification report confirms all of the following except whether:

- A. specific composite presentations are accurate.
- B. processes and procedures are designed to calculate and present compliant performance results.
- C. a firm has complied with all firm-wide composite construction requirements.

Q-10. Which of the following statements is least likely correct with regard to the nine major sections of the Global Investment Performance Standards (GIPS)?

- A. All requirements must be met in order to be fully compliant with the GIPS standards.
- B. Firms are encouraged to adopt and implement the recommendations.
- C. To claim compliance, firms need to calculate only their performance according to GIPS requirements.

Solutions

10. Ethics and Professional Standards

10.1. 基础题

Q-1. Solution: C

Code of ethics serves as a general guide for how community members should act and the Code is the shared principles and expected behaviors of a profession's members. Standards of conduct serve as benchmarks for the minimally acceptable behavior of community members and can help clarify the code of ethics.

Q-2. Solution: B

The law is not always the best mechanism to reduce unethical behavior. Ethical conduct goes beyond what is legally required and encompasses what different societal groups or communities, including professional associations, consider to be ethically correct behavior.

Q-3. Solution: C

Unethical behavior erodes and destroys trust. Investors with low levels of trust are less willing to accept risk and, therefore, will likely demand a higher return for the use of their capital. They may also choose to invest elsewhere or to not invest at all.

Q-4. Solution: B

The two principles of the Rules of Procedure for Professional Conduct are confidentiality of proceedings and fair process to the member or candidate.

Q-5. Solution: C

Punishing abuse in the financial markets is not one of the six components of the Code of Ethics.

Q-6. Solution: A

Members and candidates must self-disclose on the annual Professional Conduct Statement all matters that question their professional conduct, such as involvement in civil litigation or criminal investigations or being the subject of a written complaint.

Q-7. Solution: A

The hearing panel's task is to determine whether a violation of the Code and Standards occurred and, if so, what sanction should be imposed.

The Professional Conduct staff may conclude the inquiry with no disciplinary sanction, issue a cautionary letter, or continue proceedings to discipline the member or candidate. The CFA institute board of governors maintains oversight and responsibility for the Professional Conduct

Program (PCP), which, in conjunction with the Disciplinary Review Committee (DRC), is responsible for enforcement of the Code and Standards.

Q-8. Solution: A

A is correct. All CFA Institute members and candidates enrolled in the CFA Program are required to comply with the Code and Standards. The CFA Institute Board of Governors maintains oversight and responsibility for the Professional Conduct Program (PCP).

B is incorrect. The Disciplinary Review Committee (DRC) works in conjunction with the PCP and is responsible for enforcement of the Code and Standards.

C is incorrect. The Professional Conduct Division works with the DRC to establish and review professional conduct policies and is also responsible for enforcing testing policies of other CFA Institute education programs as well as the professional conduct of Certificate in Investment Performance Measurement (CIPM) certificants.

Q-9. Solution: A

Under Standard I(A) in situations where a member or candidate is aware of employer engagement in unethical or illegal activity, it is recommended that they attempt to stop the behavior by bringing it to the attention of a supervisor or the firm's compliance department.

Q-10. Solution: B

Buffet sat on the audit committee that determined the bank's provisioning policies that were contrary to the statutory regulations of the central bank. As a result, he most likely violated Standard I—Professionalism by not abiding by regulations of a regulatory body. Gatabaki did not violate Standard I—Professionalism because it is not apparent she knowingly facilitated the incorrect provisioning policy.

Q-11. Solution: A

A is correct because Standard I (A) Knowledge of the Law requires members and candidates to comply with the more strict law, rules, or regulations and follow the highest requirement, which in this case would be the CFA Institute Standards of Professional Conduct. Standard II (A) Material Nonpublic Information would also apply because members and candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information. Disclosure that she meets local mandatory legal requirements, not the more strict law rule or regulation of the Code and Standards, would not excuse the member from following the Code and Standards.

Q-12. Solution: A

A is correct because Ducumon should refuse to recommend the shares as her opinion of the Babyskin shares must not be affected by internal pressure. If Ducumon followed the request from

the investment banking department at her company, she would be in violation of Standard I(B)—Independence and Objectivity. Ducumon must refuse to recommend the Babyskin shares until they are an attractive purchase based on fundamental analysis and market pricing.

Q-13. Solution: B

Members should use reasonable care and judgment to maintain independence and objectivity, as stated in Standard I (B). There is no indication of inappropriate behavior in the selection of the equity manager or in the acceptance of employment with that manager; both decisions were based on the excellent performance records of the manager and the member, respectively.

Q-14. Solution: C

Under Standard I(B), members and candidates must protect their independence and objectivity. Agreeing to provide objective research coverage of a company does not constitute a violation of this standard, provided the analyst writing the report is free to come up with his own independent conclusion. Smith can agree to provide research coverage but cannot commit Granite's research department to providing a favorable recommendation.

Q-15. Solution: A

Standard I(B): Independence and Objectivity requires members and candidates to use reasonable care and judgment to maintain their independence and objectivity in their professional activities. Best practice dictates that Kumar only accept transportation to the remote mining sites because it is unlikely he would be able to source commercial flights to the locations and ground transportation may not be viable. Because Kumar would normally visit mining sites around the world as part of his job and because he is combining this trip with trips to other mine sites in different countries, it would be inappropriate for Cerberus to pay for the analyst's travel expenses from London. Although Kumar could go on safari with the group of analysts, he should pay his own way so as to restrict any influence such a gift could possibly have when making his investment recommendations on Cerberus.

Q-16. Solution: C

The member misrepresented the returns she could realistically achieve for her clients, violating Standard I(C)—Misrepresentation, which prohibits members and candidates from guaranteeing clients any specific return on volatile investments.

Q-17. Solution: A

The research analyst has not violated Standard I(C): Misrepresentation because he has not knowingly made any misrepresentations related to investment analysis, recommendations, actions, or other professional activities. The research analyst has correctly attributed the model

to both the quantitative analyst and to himself because he has revised the original model. Research developed while employed by a firm is the property of the firm, and the analyst is in violation of Standard V(C): Record Retention because members and candidates must develop and maintain appropriate records to support their investment analysis, recommendations, actions, and other investment-related communications with clients and prospective clients. As a general matter, records created as part of a member's or candidate's professional activity on behalf of his or her employer are the property of the firm. The analyst also violated Standard VI(B): Priority of Transactions by taking advantage of his knowledge of the stock's value before allowing his employer to benefit from that information.

Q-18. Solution: B

Barrett's client base is only several large institutions, indicating his client base is small, so stating in the advertisement that his client base is a larger number (i.e., thousands) is a misrepresentation and a violation of Standard I(C). In addition, because the advertisement focuses only on the benefits and does not mention the potential risks of these investments, it is also potentially misleading to clients.

Q-19. Solution: A

Members and candidates must not copy (or represent as their own) original ideas/material without permission. They must acknowledge and identify the source of ideas/material that is not their own. Using factual information from well-known financial institutions without acknowledgment is permitted by Standard I(C).

Q-20. Solution: A

A is correct because by failing to adhere to the non-compete clause he agreed to abide by when signing his employment contract, Hasina shows a lack of professional integrity toward his employer. This behavior reflects poorly on the good reputation of members and is a violation of the Code of Ethics, which states that members and candidates must act with integrity, and Standard I (D) Misconduct, which states that members and candidates must not engage in any professional conduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence. The Code of Ethics at times requires a member or candidate to uphold a higher standard than that required by law, rule, or regulation, or in this case the strict application of the employment agreement.

Q-21. Solution: A

Naib knowingly misrepresented his qualifications at the time of his hire by stating he had obtained an MBA when in fact he had not. This action reflects adversely on his professional integrity, violating Standard I(D):Misconduct. Stating he passed his CFA exams in three

consecutive years is not a violation of Standard VII(B): Reference to CFA Institute, the CFA Designation, and the CFA Program if it is factual. There is no evidence given to indicate he did not pass as claimed.

Q-22. Solution: A

The CFA Institute Code of Ethics requires members to act with integrity, competence, diligence, respect, and in an ethical and professional manner. The Standards of Professional Conduct relating to professional misconduct state members and candidates must not commit any act reflecting adversely on their professional reputation, integrity, or competence. Bennett's actions violated the

Code of Ethics and Standard I(D)—Professionalism, but not Standard II—Integrity of Capital Markets.

Q-23. Solution: A

Simone violated Standard II(A)—Material Nonpublic Information by giving institutional fund managers access to material nonpublic information prior to public dissemination (i.e., the press release). By releasing earnings results to a select group of institutional fund managers prior to a public press release, Simone allows the institutional fund managers a time advantage over other investors not invited to the investor briefing.

Q-24. Solution: C

Trading on the information is restricted given that it relates to a tender offer; it is clearly material, nonpublic information as stated in Standard II(A).

Q-25. Solution: B

A violation of Standard II(A): Material Nonpublic Information is likely to occur when using information that is selectively disclosed by corporations to a small group of investors, analysts, or other market participants. Earnings estimates given in a one-on-one meeting would likely be considered material and nonpublic information. Information made available to analysts remains nonpublic until it is made available to investors in general. Under the mosaic theory, it is acceptable to use information from industry contacts as long as the analyst uses appropriate methods to arrive at her conclusions. Additionally, it is acceptable to use nonmaterial nonpublic information in her analysis; this use is not a violation of Standard II(A): Material Nonpublic Information.

Q-26. Solution: C

The information concerning the qualified opinion is material. It is also nonpublic because it has

not been released and is not available online, so the mosaic theory would not hold up in this case. As a result, she would be in violation of Standard II(A)—Material Nonpublic Information if she took investment action based on this information. She should also make reasonable efforts to achieve public dissemination of the information.

Q-27. Solution: A

Blake violated Standard II(B) regarding the Integrity of Capital Markets by engaging in a practice that is likely to artificially inflate trading volume.

Q-28. Solution: A

Selling stock short is a management strategy and does not necessarily violate any aspect of the Standards of Professional Conduct.

Q-29. Solution: C

C is correct because Bravoria violated Standard III(A)—Loyalty, Prudence, and Care as he had not updated his client's profile in more than two years and thus should not have made further investments, particularly in high-risk investments, until such time as he updated the client's risk and return objectives, financial constraints, and financial position. Bravoria provided his client with investment statements more frequently than that which is required, i.e., quarterly, so was not in violation of regular account information.

A is incorrect because Bravoria violated Standard III(A)—Loyalty, Prudence, and Care.

B is incorrect because Bravoria provided his client with investment statements more frequently than required, i.e., quarterly.

Q-30. Solution: A

Standard III(A): Loyalty, Prudence, and Care stipulates that the client owns the brokerage. Therefore, members and candidates are required to use client brokerage only to the benefit of the clients (soft commissions policy). Because the firm specializes in domestic equities, an offshore investment database service would not benefit the clients.

Q-31. Solution: A

Performing a cost-benefit analysis showing that voting all proxies might not benefit the client and concluding that voting proxies may not be necessary in all instances is not a violation of Standard III(A): Loyalty, Prudence, and Care. However, even though voting proxies may not be necessary in all instances, part of a member's or candidate's duty of loyalty under Standard III(A) includes voting proxies in an informed and responsible manner, which is not being done when Lopez automatically votes with management on the majority of issues. In addition, members and

candidates should disclose to clients their proxy-voting policies, including any changes to that policy, as required by Standard III(A), which has not been done.

Q-32. Solution: B

According to Standard III(A): Loyalty, Prudence, and Care, members and candidates must place their clients' interests before their own interests. The temptation may be to release the changed recommendation to newsletter recipients simultaneously with or even before the asset management clients to try to obtain new clients. But to avoid violating Standard III(A), Huerta must ensure any change in an investment recommendation is first distributed to her asset management clients before any newsletter recipients, who are not necessarily clients (that is, they receive the newsletter for free from a third-party distribution list).

Q-33. Solution: A

A is correct. According to Standard III (A) Loyalty, Prudence, and Care, Gupta's duty of loyalty, prudence, and care is owed to the participants and beneficiaries (members) of the pension plan. As a church plan, the restrictions are appropriate given the objectives and constraints of the portfolio.

Q-34. Solution: A

A is correct because the analyst has dealt fairly with all clients by sending them an e-mail and posting his rating change on the credit rating agency's website when making material changes to his prior investment recommendation; therefore, he has not violated Standard III(B)—Fair Dealing. Clients should be treated fairly when material changes in a member's or candidate's prior investment recommendations are disseminated, which has been done.

Q-35. Solution: B

Under Standard III(B)-Fair Dealing, members and candidates should disclose to clients and prospective clients how they select accounts to participate in and how they determine the amount of securities each account will buy or sell. Trade allocation procedures must be fair and equitable, and disclosure of inequitable allocation methods does not relieve the member or candidate of this obligation. All discretionary accounts should be treated in the same manner. Treating newer accounts differently would be considered inequitable regardless of whether this policy is disclosed.

Q-36. Solution: B

According to Standard III (B) best practices include allocating pro rata on the basis of order size, not account size. All clients participating in the block trade should receive the same execution price and be charged the same commission.

Q-37. Solution: C

The analyst violated Standard III(B): Fair Dealing by selectively distributing the revised recommendation only to investment banking clients despite being responsible for making investment recommendations to all group clients. Schleif should distribute the change in recommendation to all clients who received the initial recommendation, not just those within the investment banking division of the group.

Q-38. Solution: A

Standard III(B): Fair Dealing requires members and candidates to deal fairly and objectively with all clients. Certain clients cannot be favored over other clients when their investment objectives and circumstances are similar. Therefore, the most appropriate way to handle the reallocation of an illiquid share is to reduce each client's proportion on a pro rata, or weighted, basis.

Q-39. Solution: A

Updating the IPS should be repeated at least annually and also prior to material changes to any specific investment recommendations.

Q-40. Solution: B

Prior to undertaking analysis with regard to expected returns, an adviser must determine the suitability of an investment class, including whether it fits within the client's risk tolerance and whether it is an allowable asset class as per the client's investment policy statement. Only after these factors have been determined should she proceed, if appropriate, to analyze expected returns to determine a particular investment recommendation.

Q-41. Solution: B

The client only approved the purchase of one below-investment-grade bond, whereas the portfolio manager has purchased several additional bonds below investment grade without client approval, which is in violation of Standard III(C)–Suitability.

Q-42. Solution: B

B is correct as Buckner is in violation of Standard III(C) since she did not consider issues such as the limited liquidity or any potential leverage of this new product when she invested a substantial percentage of her clients' portfolios in these instruments.

Q-43. Solution: A

In Randolph's case, the investment may be appropriate given this client's financial circumstances and aggressive investment position. This investment would not be suitable for Kitagawa because of her need for a steady rate of return and her low-risk profile.

Q-44. Solution: B

The Standard III (D) Performance Presentation prohibits members/candidates from making any statements that misrepresent the performance achieved by them or their firms and requires every reasonable effort to be made to ensure that performance information is fair, accurate, and complete. By failing to identify the simulated performance results, Snead violated the standard. Snead should have disclosed the fact that the returns were generated only in one year of the fund's operation and the other performance information is back-tested.

Q-45. Solution: C.

Clients can be misled if the benchmark's results are not reported on a basis comparable to that of the fund's or client's results. The best practice is that selecting the most appropriate available benchmark from a universe of available options.

Q-46. Solution: C

Taylor's brochure is in violation of Standard III(D). Taylor should have disclosed that the 25% growth occurred only in one year.

Additionally, Taylor did not include client accounts other than those in the firm's common trust fund. A general claim of firm performance should take into account the performance of all categories of accounts. Finally, by stating that clients can expect a steady 25% annual compound growth rate, Taylor is also violating Standard I(C)—Misrepresentation, which prohibits assurances or guarantees regarding an investment.

Q-47. Solution: C

Because Morales believes his supervisor and potentially the client are engaged in fraudulent activity and following the requirements of local law, he has not violated Standard III(E)—Preservation of Confidentiality or Standard (V)—Duties to Employers.

Q-48. Solution: B

Miffitt has not violated Standard III (E)—Preservation of Confidentiality, which involves information about former, current, and prospective clients.

Q-49. Solution: B

In order to avoid violating Standard III(E)—Preservation of Confidentiality, Staal should determine whether applicable securities regulations require disclosing the records before she provides the confidential information concerning her client's investments.

Q-50. Solution: B

Lan's actions do not violate Standard IV (A) – Duties to Employers. Lan does not use company time to make arrangements for his new venture, nor does he misappropriate any information (financial models or client contacts) from his former employer. All of Lan's actions are permissible under Standard IV (A).

Q-51. Solution: A

Although departing employees may not take employer property when departing, as the guidance for Standard IV(A) – Loyalty outlines, the model Piedmont presented to his new employer was not Branch's property. It was created by Piedmont prior to his employment with Branch. The model was not created for Branch in the course of his employment, even though it was adopted by Branch.

Q-52. Solution: C

Standard IV(A): Loyalty calls for employees to be loyal to their employer by not causing harm. If Botha released a contradictory research recommendation report to clients, it could possibly cause confusion amongst clients and embarrassment to the firm.

Q-53. Solution: B

The portfolio manager violated Standard IV(A): Loyalty by taking proprietary trading software from her former employer. Although the manager created the software, it was during a period of time when she was employed at West Star, so the software is not her property to take with her to her new employer. The member contacted clients using public information, so she did not violate Standard IV(A): Loyalty. Because Viggen was not obligated to abide by a non-compete agreement that would likely restrict recruitment of former colleagues, Viggen is most likely free to recruit the analyst from her former employer.

Q-54. Solution: A

A is correct. Members and candidates may have developed profiles on these platforms that include connections with individuals who are clients of the firm, as well as individuals unrelated to their employer. Specific accounts and user profiles of members and candidates may be created for solely professional reasons.

B is in correct. Firm-approved business-related accounts would be considered part of the firm's assets, thus requiring members and candidates to transfer or delete the accounts as directed by their firm's policies and procedures.

C is in correct. Members and candidates should discuss with their employers how profiles should be treated when a single account includes personal connections and also is used to conduct aspects of their professional activities.

Q-55. Solution: C

According to Standard IV(B) and Standard VI(A), members should disclose all potential conflicts of interest, should disclose the substantial time involved in managing family accounts and, when engaging in independent practice for compensation, should not render services until receiving written consent from all parties.

Q-56. Solution: B

Golf equipment is a business independent of the financial services industry such that any board obligations would not likely be considered a conflict of interest requiring disclosure according to Standard IV(B): Additional Compensation Arrangements. Standard IV(B) requires members and candidates to obtain permission from their employer before accepting compensation or other benefits from third parties for the services that might create a conflict with their employer's interests. Managing investments for family and non-family members could likely create a conflict of interest for Younis's employer and should be disclosed to his employer.

Q-57. Solution: C

The prospective supervisor's first step should be to not take the position. Accepting the position with inadequate procedures in place or improper marketing material would leave Inkster at risk of incurring a violation of Standard IV(C)—Responsibilities of Supervisors. She could agree to be hired as an interim consultant with the bank in order to implement adequate procedures before taking on any supervisory role.

Q-58. Solution: A

The CFA Institute Code and Standard on Responsibilities of Supervisors, Standard IV (C), requires members/candidates to take steps to detect and prevent violations of laws, rules and regulations. Dunder failed in his supervisory role when he accepted Chetch's explanation of the unusual trading activity. Dunder should have reviewed the client's goals and objectives, as well as records, to see whether the client in fact requested month-end trading. Regardless of the explanation provided by Chetch, Dunder should have investigated further.

Q-59. Solution: B

According to guidance for Standard (IV(C), if a member cannot fulfill supervisory responsibilities because of the absence of a compliance system or because of an inadequate compliance system, the member should decline in writing to accept supervisory responsibility until the firm adopts reasonable procedures to allow the member to adequately exercise such responsibility.

Q-60. Solution: B

Under Standard IV(C)—Responsibility of Supervisors, a member should exercise reasonable supervision by establishing and implementing compliance procedures in place prior to the

possibility of any violation occurring, which has not been done in this case.

Q-61. Solution: A

The requirement under Standard IV(C): Responsibilities of Supervisors does not include any reference to industry standards. Standard IV(C) requires supervisors to instruct those subordinate to them to whom supervision is delegated about detection methods to prevent violations of laws, rules, regulations, firm policies, and the CFA Institute Code and Standards.

Q-62. Solution: B

The recommendation is based on a reasonable and adequate research process, so the analyst could follow the research team's opinion, as required by Standard V(A)–Diligence and Reasonable Basis.

Q-63. Solution: B

Standard V(A): Diligence and Reasonable Basis applies to the level of review necessary to select an external adviser or subadviser and would at minimum include reviewing the adviser's adherence to its stated strategy.

Q-64. Solution: A

Cannon has violated Standard V(A)-diligence and reasonable basis by failing to have a reasonable basis for the new recommendations made to the portfolio managers. Barry should fully test the factors put into his model and determine the effect on the model before he make recommendation for it.

Q-65. Solution: A

A is correct because Standard III(B)–Fair Dealing concerns the fair treatment of clients when making investment recommendations or taking investment action, but there is no indication that the advisor has discriminated against any clients with regard to his recommendations as he invests all clients in the same universe of stocks. The advisor has violated Standard I(C)–Misrepresentation with his research, which is not independently created and instead relies upon information provided by his broker. This is contrary to the advisor telling clients he does his own independent investment research. In addition, the advisor has violated Standard V(A)–Diligence and Reasonable Basis, as he has not made reasonable and diligent efforts to determine if the third party's research is sound.

B is incorrect, as the advisor has violated Standard I(C)–Misrepresentation with his research, which is not independently created and instead relies upon information provided by his broker.

C is incorrect, as the advisor has violated Standard V(A)—Diligence and Reasonable Basis as he does not have a reasonable basis for making his investment recommendations and relies solely on his broker’s research to create his list of stock investments. This is directly contrary to telling clients that he does his own independent investment research.

Q-66. Solution: A

A is correct because the investment officer has invested in a combination of several different investments to ensure an acceptable level of risk rather than having all assets in a single investment, and he has sought a reasonable amount of diversification. However, the shift into emerging market and U.S. government securities was communicated to clients in the annual report and not on an ongoing basis, in violation of Standard V(B) Communication with Clients and Prospective Clients. Additionally, the investment officer has not followed the investment style previously communicated to fund investors (i.e., to invest in fixed income emerging market securities), specifically, when he invested in U.S. government securities, a violation of Standard III (C) Suitability.

Q-67. Solution: A

Standard V(B)—Communication with Clients and Prospective Clients does not limit the type or number of staff responsible for external communication.

Q-68. Solution: A .

The Standards do not require on-site storage.

Q-69. Solution: C

The records created by Blank supporting the research model he developed at GPIM are the records of GPIM. Taking the documents with him to his new employer without GPIM’s permission violates Standard V(C)-Record retention and IV(A)-Loyalty to employer. To use the model in the future, Blank must re-create the records supporting his model at the new firm.

Q-70. Solution: A

According to Standard VI(A) Disclosure of Conflicts, Grabbo should disclose to her employer her hedge fund development because this activity could possibly interfere with her responsibilities at Atlantic. In setting up a hedge fund, Grabbo was not acting for the benefit of her employer. She should have informed Atlantic she wanted to organize the hedge fund and come to some mutual agreement on how this process would occur.

Q-71. Solution: A

Standard VI(A) requires disclosure of conflicts but does not prohibit members from making recommendations as long as the potential conflicts are appropriately disclosed.

Q-72. Solution: A

Making full and fair disclosure of all matters that could reasonably be expected to impair one's independence and objectivity or interfere with respective duties to one's clients is required by Standard VI(A)—Disclosure of Conflicts.

Q-73. Solution: B

Members should disclose all matters that reasonably could be expected to impair the member's objectivity as outlined in Standard I(B), and Standard VI(A).

Q-74. Solution: B

There is no indication that the investment club is trading ahead of clients. See Standard VI(B).

Q-75. Solution: A

Although Standard VI(B)—Priority of Transactions is designed to prevent any potential conflict of interest or the appearance of a conflict of interest with respect to personal transactions, it does not ban employees from trading securities. A ban on all equity-related securities could be excessively restrictive to employees and unnecessary if appropriate personal transaction policies and procedures are in place.

Q-76. Solution: A

The member has not violated Standard VI(B): Priority of Transactions because this standard concerns client investment transactions having priority over member or candidate investment transactions and is not applicable here. The member has engaged in information-based manipulation of Road stock in violation of Standard II(B): Market Manipulation and Standard I(D): Misconduct. Members and candidates must refrain from "pumping up" (or down, in this case) the price of an investment by issuing misleading positive (or negative) information for their or their clients' benefit.

Q-77. Solution: C

Employers should have investment professionals provide to the clients notification of approved referral fee programs at least quarterly.

Q-78. Solution: C

Recommend practices and procedures designed to prevent violations of the Code of Ethics and

Standards of Professional Conduct.

C is correct because the referral arrangements should be disclosed to potential clients “before entry into any formal agreement for services” and not after the fact. This allows potential clients to consider whether the arrangement causes them any potential harm as a result of the arrangement (e.g., higher fees and potential conflicts of interests).

Q-79. Solution: C

C is correct because discussing the level of difficulty of the essay portion of the examination did not violate Standard VII (A) Conduct as Members and Candidates in the CFA Program. Standard VII (A) and the Candidate Pledge were violated by candidates revealing broad topical areas and formulas tested or not tested on the exam.

Q-80. Solution: C

It is a violation of Standard VII(B)–Reference to CFA Institute, the CFA Designation, and the CFA Program to claim that the CFA charter helped her to achieve superior returns.

Q-81. Solution: B

There is no evidence Chandarana violated Standard VII(B)–Reference to CFA Institute, the CFA Designation, and the CFA Program with regard to his being a CFA candidate. Specifically, Chandarana does not overstate his competency or imply he will achieve superior performance as a result of his CFA designation. It does appear, however, Chandarana did not act with integrity when he hid information that could potentially harm his new employer's reputation, thus violating Standard I(D)–Misconduct and Standard IV(A)–Loyalty.

Q-82. Solution: A

In cases where applicable local laws governing calculation and presentation of investment performance conflict with the GIPS standards, firms must comply with local regulations and fully disclose the conflict in the compliant presentation.

Q-83. Solution: A

For periods beginning on or after 1 January 2011, total firm assets must include the aggregate fair value of all discretionary and non-discretionary assets managed by the firm. This includes both fee-paying and non-fee-paying portfolios.

Q-84. Solution: A

Firms are encouraged to pursue independent verification from a third party on a firm-wide basis, verification is not an obligation.

10.2. 进阶题

Q-1. Solution: C

This question involves Standard I(C)—Misrepresentation. Statement 1 is a factual statement that discloses to clients and prospects accurate information about the terms of the investment instrument. Statement 2, which guarantees a specific rate of return for a mutual fund, is an opinion stated as a fact and, therefore, violates Standard I(C). If Statement 2 were rephrased to include a qualifying statement, such as "in my opinion, investors may earn. . .," it would not be in violation of the Standards.

Q-2. Solution: A

Even though the best practice is to avoid conflicts, when conflicts cannot be reasonably avoided, full disclosure should be made as required by Standard VI (A). As the stock in question has been held for many years, it may not be practical to sell it due to things like tax consequences. Since the analyst has been hired to initiate coverage of mining companies, it is unlikely that another analyst at that firm would be as competent in completing a research report on mining companies.

Q-3. Solution: B

B is correct because the analyst has not violated Standard related to intellectual property because there is no indication the analyst was ignorant of, or has violated, any law related to intellectual property, because these documents were created by the analyst prior to his employment at Apac.

Q-4. Solution: C

Cupp violated Standard III (D)-Performance Presentations when he deviated from the firm's stated policies solely to capture the gain from the holding being acquired. Answer A is incorrect because the firm does not claim GIPS compliance and the GIPS standards require external cash flows to be treated in a consistent manner with the firm's documented policies. Answer B is incorrect because the firm does not state that it is updating its composite policies. If such a change were to occur, all cash flows for the month would have to be reviewed to ensure their consistent treatment under the new policy.

Q-5. Solution: B

By communicating this information to his father prior to the release of the report, Gunard failed to put the firm's clients' interests above his own. Nothing in the question indicates that he did not have a reasonable basis for his recommendation; he conducted a thorough fundamental

analysis and his report was approved. The fact that Gunard's father had disposed of the shares does not negate the fact that Gunard violated a duty to the firm's clients.

Q-6. Solution: C

Yip's investments do not adversely affect the interest of the clients and therefore do not violate the Priority of Transactions requirement. A Candidate having the same investment positions does not always create a conflict of interest and in some instances, having an aligned investment portfolio can be beneficial to the client.

Q-7. Solution: B

The Priority of Transactions Standard has not been violated as it relates to investment transactions for clients and employers having priority over Member/Candidate transactions. There is no indication in this case that transactions have occurred as a result of the report being issued by the economist. Although it is reasonable to expect there will be transactions, it is only when these happen that a violation will have occurred.

Q-8. Solution: A

Replication of performance is not included in the Fundamentals of Compliance section within the GIPS standards.

Q-9. Solution: A

GIPS verification does not ensure the accuracy of any specific composite presentations.

Q-10. Solution: C

To claim compliance, firms must meet all GIPS requirements, not just calculate their performance according to GIPS requirements