

Question #1 of 30

Question ID: 412271

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

- ☒ A) **Members shall not knowingly participate or assist in any violation of such laws, rules, or regulations.**
- ☒ B) Members shall not engage in any professional conduct involving dishonesty, fraud, deceit, or misrepresentation or commit any act that reflects adversely on their honesty, trustworthiness, or professional competence.
- ☒ C) Members shall use reasonable care and exercise independent professional judgment.

Explanation

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

Question #2 of 30

Question ID: 412280

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

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

Explanation

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

Question #3 of 30

Question ID: 460624

With respect to the professional conduct of a member or candidate, CFA Institute staff will consider a complaint from:

- ☒ A) **only other members and candidates or professionals in the investment industry.**
- ☒ B) only other members and candidates.
- ☒ C) anyone.

Explanation

Complaints to the Professional Conduct Program may be filed by anyone.

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Question ID: 412275

According to the Code of Ethics, the professional judgment of a member should be:

- ☐ A) **dependent on that of his/her colleagues.**
- ☐ B) guided by the SEC guidelines.
- ☒ C) independent.

Explanation

The Code of Ethics states that the CFA Institute member shall "Use reasonable care and exercise independent professional judgment." None of the other answers resemble anything in the Code.

Question #5 of 30

Question ID: 442247

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

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

Explanation

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

Question #6 of 30

Question ID: 412274

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

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

Explanation

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

Question #7 of 30

Question ID: 460623

Which of the following is *least likely* to be a reason for imposing a suspension on a member or candidate?

- ☒ A) **Misdemeanor charge for possession of narcotics.**

- ☐ B) Failing to return the annual professional conduct statement.
- ☐ C) Discussing a question from the CFA exams on social media.

Explanation

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

Question #8 of 30

Question ID: 412272

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

- ☐ A) **preserve the confidentiality of information communicated by clients, prospects, or employers concerning investment matters.**
- ☐ B) maintain knowledge and comply with all applicable laws, rules and regulations.
- ☒ C) act with integrity, competence, diligence, respect, and in an ethical manner when dealing with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.

Explanation

Acting with integrity, competence, diligence, respect, and in an ethical manner when dealing with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets is one of the six components of the *Code of Ethics*, whereas the other statements are part of the *Standards of Professional Conduct*.

Question #9 of 30

Question ID: 412270

Which of the following is NOT part of the CFA Institute Code of Ethics. Members of CFA Institute will:

- ☐ A) **use reasonable care and exercise independent professional judgment.**
- ☐ B) strive to maintain and improve their competence and the competence of others in the profession.
- ☒ C) recommend investments that maximize returns for a given level of risk.

Explanation

Standard of Professional Conduct III(C), not the Code of Ethics, requires that investments be appropriate and suitable.

Question #10 of 30

Question ID: 412267

The first component of the Code of Ethics does NOT explicitly say that a CFA Institute member will act with which of the following?

- ☐ A) **Integrity.**

- ☐ B) Competence.
- ☒ C) Solemnity.

Explanation

Component one mentions all of these except solemnity.

Question #11 of 30

Question ID: 412281

In dealing with the public and others, the CFA Institute Code of Ethics indicates that CFA Institute members will act with:

- ☒ A) integrity, competence, and respect.
- ☐ B) confidence, knowledge, and high ethical standards.
- ☐ C) honesty, professionalism, and goodwill.

Explanation

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

Question #12 of 30

Question ID: 412269

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

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

Explanation

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

Question #13 of 30

Question ID: 412273

In accordance with Standard III (A) Loyalty, Prudence and Care, which of the following statements is *least* accurate? Members and Candidates should:

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

Explanation

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

Question #14 of 30

Question ID: 460620

The CFA Institute's Professional Conduct Program may learn about potential violations of the Code and Standards by members and candidates:

- ☒ **A) from sources other than written complaints or members and candidates self-reporting.**
- ☐ **B) only from written complaints or members and candidates self-reporting.**
- ☐ **C) only from members and candidates self-reporting.**

Explanation

In addition to self-reporting by members and candidates and written complaints about members and candidates, the Professional Conduct Program may learn about potential violations through public sources such as the news media, through reports from CFA exam proctors, by review of exam results and materials, or through monitoring of online and social media activity.

Question #15 of 30

Question ID: 470995

The first component of the Code of Ethics does NOT explicitly say that a CFA Institute member will act in a certain manner with respect to which of the following groups?

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

Explanation

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

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Question ID: 460621

Steve Jones is a member of CFA Institute but has not earned the CFA designation yet. CFA Institute is investigating Jones' activities. If Jones declines to cooperate, he:

- ☒ **A) may be suspended from membership.**
- ☐ **B) may not be suspended because he does not have the CFA designation yet.**
- ☐ **C) may not be suspended because cooperating could be self incriminating.**

Explanation

Refusing to cooperate with a CFA Institute investigation of a member's behavior could lead to suspension of membership or

participation in the CFA Program.

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Question ID: 412277

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

- ✓ **A) Contractual provisions.**
- ✗ **B) Independent judgment.**
- ✗ **C) Competence.**

Explanation

Contractual provisions are not part of the Code of Ethics.

Question #18 of 30

Question ID: 434181

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

- ✓ **A) strive to maintain and improve their competence and the competence of others in the profession.**
- ✗ **B) disclose to their employer all matters that reasonably could be expected to interfere with their duty to their employer or ability to make unbiased and objective recommendations.**
- ✗ **C) make reasonable efforts to detect and prevent violations by those who are under their supervision.**

Explanation

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

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Question ID: 412279

All of the following are components of the Code of Ethics EXCEPT:

- ✗ **A) using reasonable care and exercising independent professional judgment.**
- ✗ **B) striving to maintain and improve their competence and the competence of others in the profession.**
- ✓ **C) demonstrating diligence, independence, and thoroughness when preparing investment reports.**

Explanation

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

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Question ID: 477247

Michael Malone, CFA, is an investment analyst for a large brokerage firm in New York who covers the airlines industry. After hours in his personal time, Malone maintains an online blog on which he expresses his personal opinions about various investment opportunities, including, but not limited to, the airlines industry. On his blog, he posts a very negative investment opinion about WestAir stock. Malone knows that WestAir's stock will be downgraded to a "sell" by his firm next week. Malone has *most likely* violated:

- ☒ A) Standard VI(B) Priority of Transactions.
- ☒ B) violated Standard IV(A) Loyalty.
- ☒ C) violated Standard II(A) Material Nonpublic Information.

Explanation

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

Question #21 of 30

Question ID: 412276

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

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

Explanation

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

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Question ID: 412282

Which of the following is NOT an act explicitly referred to in the Code of Ethics?

- ☒ A) Giving free introductory seminars on investing to the public.
- ☒ B) Improve professional competence.
- ☒ C) Using reasonable care when making investment recommendations.

Explanation

Although the Code says a member has obligations to the public, educating the general public for whatever reason is not implied.

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Question ID: 460625

With respect to CFA Institute enforcement of the Code and Standards, possible disciplinary sanctions *least likely* include:

- ☐ A) suspension from participation in the CFA Program.
- ☒ B) payment of a fine.
- ☐ C) public censure.

Explanation

CFA Institute does not impose fines. CFA Institute may impose sanctions including public censure, suspension of a candidate from participation in the CFA program, or suspension or revocation of a member's right to use the CFA designation.

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Question ID: 412285

Liam McCoy has lunch with a wealthy client whose portfolio he manages. McCoy advises the client to double his current position in the JKM Corporation due to an anticipated increase in sales. In accordance with Standard (V) Investment Analysis, Recommendations and Actions, when McCoy returns to his office he should:

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

Explanation

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

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Question ID: 412268

According to the Code of Ethics, when practicing in a professional and ethical manner the goal is to:

- ☒ A) reflect credit on members and the profession.
- ☐ B) resolve conflicts between clients and employers.
- ☐ C) increase membership in CFA Institute.

Explanation

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

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Question ID: 412257

The CFA Institute Professional Conduct Program may impose sanctions on:

- ☐ A) CFA charterholders only.
- ☐ B) CFA charterholders, member firms, and candidates for the CFA designation.
- ☒ C) CFA charterholders and candidates for the CFA designation.

Explanation

The CFA Institute Professional Conduct Program may impose sanctions on CFA charterholders and candidates for the CFA designation. Firms are not members of CFA Institute.

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Question ID: 412256

Sanctions that CFA Institute may impose on a member or candidate under the Professional Conduct Program include:

- ☐ A) suspension from employment in the financial services industry.
- ☒ B) public censure.
- ☐ C) returning of all profits gained through violations of the Code and Standards.

Explanation

Sanctions that CFA Institute may impose include public censure, suspension from membership and use of the CFA designation, revocation of the CFA charter, or suspension of a candidate's participation in the CFA program.

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Question ID: 412266

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

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

Explanation

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

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Question ID: 460622

A member or candidate who rejects a disciplinary sanction proposed by the Professional Conduct Program:

- ☐ A) will be suspended from membership or participation in the CFA Program.
- ☐ B) will typically not be subject to further disciplinary procedure unless a new investigation is initiated.

✓ **C)** may request an appeal to a hearing panel.

Explanation

A member or candidate may accept a proposed disciplinary sanction or request an appeal to a hearing panel.

Question #30 of 30

Question ID: 412265

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

- ☒ **A) Reflect credit on the profession.**
- ☒ **B) Act with integrity.**
- ✓ **C) Actively lobby for new laws to protect the public.**

Explanation

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