

CÂU HỎI LUYỆN TẬP

ETHICAL AND PROFESSIONAL STANDARDS

CFA LEVEL 1

Question 1: Which of the following statements most likely reflects one of the six components of the CFA Code of Ethics? Candidates must:

- A. place the integrity of the investment profession above their own interests.
- B. promote the viability of the global capital markets for their employer's benefit.
- C. ignore unprofessional conduct displayed by others within the profession.

Question 2: A profession is most likely described as a group of people that:

- A. has a common level of basic knowledge about a particular subject.
- B. monitors its members based on an agreed-on code of ethics.
- C. puts the interests of its members first.

Question 3: Most societies would least likely consider ethical principles to include:

- A. justice.
- B. duplicity.
- C. diligence.

Question 4: Tibor Figeczky, CFA, is an equity trader at Global Investment Bank (GB). Figeczky traded the bank's investment portfolio profitably for the past three years and earned significant bonuses for his efforts. Subsequently, internal auditors of GB formally accused Figeczky of exceeding his trading authority and engaging in unauthorized trades. According to the CFA Institute Code of Ethics and Standards of Professional Conduct, Figeczky should most likely

- A. disclose the complaint to CFA Institute.
- B. refuse further bonuses until the issue is resolved.
- C. request a temporary suspension of his CFA Institute membership.

Question 5: Lisa Hajak, CFA, specialized in research on real estate companies at Cornerstone Country Bank for the past twenty years. Hajak recently started her own investment research firm, Hajak Investment Advisory. One of her former clients at Cornerstone asks Hajak to update a research report she wrote on a real estate company when she was at Cornerstone. Hajak updates the report, which she had copied to her

personal computer without the bank's knowledge, and replaces references to the bank with her new firm, Hajak Investment Advisory. Hajak also incorporates the conclusions of a real estate study conducted by the Realtors Association that appeared in the Wall Street Journal. She references the Journal as her source in her report. She provides the revised report free of charge along with a cover letter for the bank's client to become a client of her firm. Concerning the reissued research report, Hajak least likely violated the CFA Institute Standards of Professional Conduct because she:

- A. solicited the bank's client.
- B. did not obtain consent to use the bank report.
- C. did not cite the actual source of the real estate study.

Question 6: Dennis Kim, CFA, works at Century Growth Partners (CGP) where he manages an investment account for his client Amelia Frost. Frost tells Kim to invest one percent of her portfolio in biotech stocks. Kim believes such an investment is inconsistent with Frost's investment policy statement. CGP has no policy regarding execution of unsolicited trading requests. Kim discusses his concerns with Frost, but she does not change her instruction. Without amending Frost's investment policy statement, Kim executes the trade afterward. Has Kim violated the Standards?

- A. No
- B. Yes, because Kim executes an unsuitable trade for Frost
- C. Yes , because Kim does not change Frost's investment policy statement before executing the trade

Question 7: Which of the following and care? Members should: is a recommended procedure for compliance with the Standard relating to loyalty, prudence, and care? Members should

- A. eliminate all actual and potential conflicts of interest.
- B. make their clients aware of all forms of manager compensation.
- C. submit to each client, at least annually, an itemized statement showing the funds and securities in custody.

Question 8: According to the Standards, a member who is asked to produce an issuer-paid research report is required to:

- A. avoid cash compensation.
- B. disclose the nature of their compensation in the report.
- C. decline to write the report if the member's firm provides investment banking services to the issuer.

Question 9: Ann Jules, CFA, discovered that her employer, Plutus Investments Inc. (PII), inflates investment performance in PII's marketing brochure. In accordance with firm policy, Jules uses PII's marketing brochure to present to prospective clients. In addition, Jules emails stock recommendations to her clients in capsule form and offers additional information only upon request. Jules has most likely violated the Standards:

- A. by emailing stock recommendations to her clients in capsule form.
- B. only by using Pil's marketing brochure to present to prospective clients.
- C. both by emailing stock recommendations to her clients in capsule form and by using PII's marketing brochure to present to prospective clients.

Question 10: Maria Jennings, CFA, overhears the CEO of United Retail saying that the quarterly report to be released next week will miss analysts' expectations. Jennings immediately calls her brother who owns the stock to tell him what she overheard. One week later, Jennings writes a report on another company, KTD retail. She uses public and nonmaterial nonpublic information for her analysis to issue a "buy" recommendation. Has Jennings most likely violated the Standards?

- A. No
- B. Yes, by calling her brother to tell him what she overheard
- C. Yes, by using public and nonmaterial nonpublic information for her analysis to issue a "buy" recommendation

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1. A	2. B	3. B	4. A	5. A	6. A	7. B	8. B	9. B	10. B
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Question 1: A

A. Correct. CFA charterholders and candidates must place the integrity of the investment profession and the interests of clients above their own personal interests.

B. Incorrect. CFA charterholders and candidates must promote the integrity and viability of the global capital markets for the ultimate benefit of society.

C. Incorrect. Charterholders and candidates must practice and encourage others to participate in a professional and ethical manner that will reflect credit on themselves and the profession. By ignoring unprofessional conduct of others, a member or candidate is not encouraging others to behave in a manner that reflects well on the profession

Ethical and Professional Standards: identify the six components of the Code of Ethics and the seven Standards of Professional Conduct

Question 2: B

A. Incorrect. A profession is based on a specialized knowledge and skills, not basic knowledge.

B. Correct. A profession is practiced by members who share and agree to adhere to a common code of ethics, and a profession is based on a specialized knowledge and skills and service to others.

C. Incorrect. A profession is based on service to others that may not necessarily mean the interests of its members come first.

Ethical and Professional Standards: describe the role of a code of ethics in defining a profession

Question 3: B

A. Incorrect. Justice is often considered an ethical principle in most societies.

B. Correct. Most societies acknowledge the ethical principles of honesty, fairness or justice, diligence, and respect for the rights of others. Duplicity or deception would be in violation of most ethical principles

C. incorrect. Dingencc is often considered an ethical principle in most societies

Ethical and Professional Standards: explain ethics

Question 4: A

A. Correct as 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 a criminal investigation or being the subject of a written complaint

B. Incorrect as the Code and Standards do not prohibit a member from accepting a bonus while an investigation into his professional behavior is conducted. In this case, the member's actions have been questioned but he has not yet had an opportunity to defend his behavior and may in fact have acted within his authority and earned the compensation fairly

C. Incorrect as the Code does not require a member to request a suspension of their membership while a complaint is being investigated.

Ethical and Professional Standards: explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard

Question 5: A

A. **Correct** as soliciting the bank's client did not violate Standard IV(A)-Loyalty because the manager is no longer an employee of the bank and there is no indication she obtained the client information from bank sources. The member, however, has violated Standard V(C)-Record Retention, because when she left the bank she took the property of the bank without express permission to do so. In addition, the analyst violated Standard (C)- Misrepresentation by creating research materials without attribution which is demonstrated when the manager adds to the new report a real estate study she saw in the Wall Street Journal, referencing the Journal only. In all instances, a member or candidate must cite the actual source of the information. If she does not obtain the report and review the information, the manager runs the risk of relying on second-hand information that may misstate facts. Best practice would be either to obtain the complete study from its original author and cite only that author or to use the information provided by the intermediary and cite both sources.

B. Incorrect because according to Standard V(C)-Record Retention, when a member or candidate leaves a firm to seek other employment, the member or candidate cannot take the property of the firm, including originals or copies of supporting records of the member's or candidate's work to the new employer without the express consent of the previous employer.

C. Incorrect because the analyst violated Standard I(C)-Misrepresentation by creating research materials without attribution, which is demonstrated when the manager adds to the new report a real estate study she saw in the Wall Street Journal, referencing the Journal only. In all instances, a member or candidate must cite the actual source of the information. If she does not obtain the report and review the information, the manager runs the risk of relying on second-hand information that may misstate facts: Best practice would be to either obtain the complete study from its original author and cite only that author or to use the information provided by the intermediary and cite both sources.

Ethical and Professional Standards: recommend practices and procedures designed to prevent violations of the Code of Ethics and Standards of Professional Conduct

Question 6: A

A. **Correct** because (1) Kim discusses his concerns with Frost before executing the trade, (2) Frost acknowledges this discussion and accepts the conditions of unsuitability. (3) Kim's firm does not require approval for unsuitable trades since it has no policy on the subject, and (4) the

request does not have a material impact on Frost's portfolio since it represents only one percent of its value, hence no modification of the IPS is required. According to Standard III(C), Suitability, in cases of unsolicited trade requests that a member or candidate knows are unsuitable for a client, the member or candidate should refrain from making the trade until he or she discusses the concerns with the client. Following the discussion, the member or candidate may follow his or her firm's policies regarding the necessary client approval for executing unsuitable trades. At a minimum, the client should acknowledge the discussion and accept the conditions that make the recommendation unsuitable. Should the unsolicited request be expected to have a material impact on the portfolio, the member or candidate should use this opportunity to update the investment policy statement.

B. Incorrect because according to Standard III(C), Suitability, members may execute unsuitable trades to clients under certain conditions, which Kim fulfills, as described in the response rationale for the correct answer.

C. Incorrect because according to Standard III(C) Suitability, Kim is not required to update Frost's IPS since the trade size is immaterial, as described in the response rationale for the correct answer.

Ethical and Professional Standards: demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity

Question 7: B

A. Incorrect because a recommended procedure for Standard III (A), Loyalty, Prudence, and Care is members and candidates must disclose all actual and potential conflicts of interest so that clients can evaluate those conflicts. They do not need to eliminate all actual and potential conflicts of interest.

B. Correct because a recommended procedure for Standard III (A), Loyalty, Prudence, and Care is members and candidates should make their clients aware of all forms of manager compensation.

C. Incorrect because a recommended procedure for Standard III (A), Loyalty, Prudence, and Care is members and candidates with control of client assets (1) should submit to each client, at least quarterly, an itemized statement showing the funds and securities in the custody. It is a recommended procedure to submit at least quarterly, not annually, itemized statements to clients.

Ethical and Professional Standards: recommend practices and procedures designed to prevent violations of the Code of Ethics and Standards of Professional Conduct

Question 8: B

A. Incorrect because according to Standard I (B), Independence and Objectivity, authors of issuer-paid research can accept cash compensation but need to avoid compensation that could influence its research, such as equity. Independent analysts must also strictly limit the type of compensation that they accept for conducting issuer-paid research. Otherwise, the content and conclusions of the reports could reasonably be expected to be determined or affected by

compensation from the sponsoring companies. Compensation that might influence the research report could be direct, such as payment based on the conclusions of the report, or indirect, such as stock warrants or other equity instruments that could increase in value on the basis of positive coverage in the report.

B. Correct because according to Standard I (B), Independence and Objectivity, members are required to disclose their compensation. Members and candidates must adhere to strict standards of conduct that govern how the research is to be conducted and what disclosures must be made in the report. Analysts must engage in thorough, independent, and unbiased analysis and must fully disclose potential conflicts of interest, including the nature of their compensation.

C. Incorrect because according to Standard I (B), Independence and Objectivity, members are not required to decline to write the report if their firm provides investment banking services to the company. Members and candidates must adhere to strict standards of conduct that govern how the research is to be conducted and what disclosures must be made in the report. Analysts must engage in thorough, independent, and unbiased analysis and must fully disclose potential conflicts of interest. So, members need not decline to write the report if a potential conflict of interest exists (such as their firm providing investment banking services), although they do need to disclose such conflicts.

Ethical and Professional Standards: demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity

Question 9: B

A. Incorrect because according to Standard V(B), Communication with Clients and Prospective Clients, if recommendations are contained in capsule form (such as a recommended stock list), members and candidates should notify clients that additional information and analyses are available from the producer of the report. Jules has not violated the Standards by emailing stock recommendations to her clients in capsule form because he offers additional information upon request.

B. Correct because according to Standard I(C), Misrepresentation members and Candidates must not knowingly make any misrepresentations relating to investment analysis recommendations, actions, or other professional activities. By using PII's marketing brochure that inflates performance to present to prospective clients, Jules has violated Standard I(C).

C. Incorrect because according to Standard V(B), Communication with Clients and Prospective Clients, if recommendations are contained in capsule form (such as a recommended stock list), members and candidates should notify clients that additional information and analyses are available from the producer of the report. Jules has not violated the Standards by emailing stock recommendations to her clients in capsule form because he offers additional information upon request.

Ethical and Professional Standards: identify conduct that conforms to the Code and Standards and conduct that violates the Code and Standards.

Question 10: B

A. Incorrect because Jennings violated Standard II (A), Material Nonpublic Information, by sharing what she overheard from United Retail CEO with her sister, as described in the response rationale for the correct answer.

B. Correct because according to Standard II (A), Material Nonpublic Information, 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. Also, Information is "material" if its disclosure would probably have an impact on the price of a security or if reasonable investors would want to know the information before making an investment decision such as the results of an upcoming quarterly report from a reliable source (the CEO), Jennings prompted her sister to act on it, hence, violated the Standard.

C. Incorrect because according to Standard II (A) Material Nonpublic Information. The analyst may use significant conclusions derived from the analysis of public and non material nonpublic Information as the basis for investment recommendations and decisions even if those conclusions would have been material inside information had they been communicated directly to the analyst by a company. Under the "mosaic theory, financial analysts are free to act on this collection, or mosaic, of information without risking violation. In this case, Jennings uses public and material nonpublic information to arrive at her recommendation, hence no violation.

Ethical and Professional Standards: demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity