

CÂU HỎI LUYỆN TẬP

ETHICAL AND PROFESSIONAL STANDARDS

CFA LEVEL 3

1. Bài tập trắc nghiệm

Question 1: Allen Parsons, a CFA candidate, suspects a colleague at his firm of engaging in an illegal activity. Which of the following statements about procedures for compliance involving Standard I(A), Knowledge of the Law is not correct? Parsons:

- A. is required to report this legal violation to the appropriate governmental or regulatory organizations.
- B. should urge his firm to attempt to persuade the perpetrator to cease such conduct.
- C. should consult counsel to determine whether the conduct is, in fact, illegal.

Question 2: An analyst has been writing research reports on a company for many years. As part of the analyst's continuing research efforts, the analyst allows the firm to fly him to the firm's headquarters and put him up in the guest quarters the company has for all corporate visitors. According to Standard I(B): Independence and Objectivity, this is:

- A. a violation, no matter the circumstances.
- B. a violation if the headquarters are within a reasonable driving distance from the analyst's home.
- C. not a violation under any circumstances.

Question 3: An analyst, who is a CFA charterholder, is working in a foreign country. Which of the following statements is correct? The analyst is:

- A. governed by CFA Institute's Code and Standards.
- B. governed by the laws and standards of the country in which he is living and working.
- C. covered by the strictest of the following laws and rules: his own country's, the foreign country's or CFA Institute's Code and Standards.

Question 4: Deloris Johnson, CFA, observed that her supervisor has violated a federal securities regulation. Johnson discussed the matter with her company's compliance department but they have taken no action. According to the CFA Institute Code and Standards of Professional Conduct, Johnson is required to:

- A. dissociate from the supervisor's activity.

B. report the violation to securities regulators.

C. confront the supervisor and attempt to stop the violation.

Question 5: Benito Salvatore, CFA, is licensed in the established country of Oldworld but has clients and makes investments in the emerging country of Newworld. The regulations of Oldworld prohibit licensed investment professionals from taking gifts or gratuities in any amount from vendors or persons connected with potential investments. The laws of Newworld are silent on this issue. Unsolicited, Salvatore is offered a vase worth U.S. \$75 by a Newworld trust company and a bronze statue worth U.S. \$200 by a Newworld company that Salvatore is considering as a potential investment. Salvatore is:

A. permitted to accept both gifts.

B. permitted to accept the vase but not the statue.

C. not permitted to accept either gift.

Question 6: Maria Valdes, CFA, is an analyst for Venture Investments in the country of Newamerica, which has laws prohibiting the acceptance of any gift from a vendor if the gift exceeds U.S. \$250. Valdes has evidence that her Venture Investments colleague, Ernesto Martinez, CFA, has been receiving gifts from vendors in excess of U.S. \$250. Valdes is obligated to:

A. disassociate herself from the activity, and urge Venture to persuade Martinez to cease the activity.

B. disassociate herself from the activity, urge Venture to persuade Martinez to cease the activity, and inform CFA Institute and regulatory authorities of the violation.

C. disassociate herself from the activity, urge Venture to persuade Martinez to cease the activity, and inform CFA Institute of the violation.

Question 7: According to the CFA Institute Standards of Professional Conduct, Standard I(A): Knowledge of the Law, members shall not knowingly participate or assist in any violations of laws, rules, or regulations. An analyst:

A. must report all legal violations to the proper regulatory commission and is held responsible for participating in illegal acts when the law is evident to anyone knowing the law.

B. is held responsible for participating in illegal acts when the law is evident to anyone knowing the law and is held responsible for violations by others when the analyst is unaware of the facts giving rise to the violation.

C. is held responsible for participating in illegal acts when the law is evident to anyone knowing the law and can participate in a violation by having knowledge of the violation and taking no action to stop it or disassociate from it.

Question 8: Jim Johnson is a compliance officer at Rialto Inc. (Rialto), a full-service investment management firm based in New York. The firm has equity analysts who

produce research reports as well portfolio managers who are in constant contact with clients and occasionally receive gifts from clients. The equity analysts are able to perform their due diligence using external sources of information such as public disclosure documents as well as internal sources of information such as those provided by company management. To ensure Rialto's employees are complying with the standard on independence and objectivity, what must Jim do?

- A. Require a strict value limit to be established for acceptable gifts from clients.
- B. Require analysts to be compensated for writing issuer-paid research reports on a xed-fee basis.
- C. Require equity analysts to gather information from both external sources and internal sources.

Question 9: Tony Calaveccio, CFA, is the manager of the TrustCo Small Cap Venture Fund in Toronto. He places trades for the fund with River City Brokerage. River City presents Calaveccio with a bottle of inexpensive wine at Christmas each year. Calaveccio does not disclose this fact in the prospectus of the small cap venture fund. This action is:

- A. in violation of the Standard concerning disclosure of additional compensation arrangements.
- B. not in violation of the Code and Standards
- C. in violation of the Standard concerning disclosure of contracts to clients and prospects.

Question 10: Joan Platt, CFA, operates an investment advisory service in New York but maintains an office in Xania. Xania recently established a stock market, which is not very efficient. None of the Xanian stocks trade in the U.S. market. Xania legally permits the use of material inside information. Platt believes that using inside information would help her compete against other Xanian investment advisors and also help some of her Xanian clients reach their investment objectives. Platt is considering adopting local investment practices in Xania. According to CFA Institute Standards of Professional Conduct, Platt may:

- A. use material inside information because Xania legally permits this practice.
- B. use material inside information, but only after notifying CFA Institute.
- C. not use material inside information.

2. Bài tập tự luận

Stone Mountain Asset Management Case Scenario

Ben Chipwell, senior portfolio manager of Stone Mountain Asset Management (SMAM), prepares to present SMAM's performance to prospective clients. The following exhibit shows the firm's performance with subsequent disclosure notes:

Exhibit 1

Stone Mountain Asset Management

US Mid-Cap Value Equity Composite

Period	Gross Return (%)	Benchmark Return (%)	Internal Dispersion (%)	Number of Accounts	Total Composite Assets (\$ millions)	Total Firm Assets (\$ millions)
2019	26	24	6.10	60	110	650
2018	15	15	4.50	50	95	500
2017	6	2	5.75	40	80	375
2016	-12	-14	5.14	30	75	275
1025	-20	-23	4.35	22	90	150

Notes 1.

1. SMAM has prepared this report in compliance with the Global Investment Performance Standards (GIPS). A qualified third party has independently verified the US Mid-Cap Value Equity Composite to be GIPS compliant. The verification report was issued for the composite only and omitted SMAM. The report states that SMAM complied with all composite construction requirements for the US Mid-Cap Value Equity Composite. It calculates and presents a performance in compliance with GIPS standards.
2. The firm is defined as an independent investment manager that invests exclusively in US large-cap, US midcap, and US small-cap equity securities for US resident clients. A complete list and description of all the firm's composites, valuing portfolios, and calculating performance is available upon request. The firm uses time-weighted rates of return. Subperiod rates of return are geometrically linked. Cash equivalent instruments are included in rate-of-return calculations. Returns are calculated quarterly.
3. The US Mid-Cap Value Composite invests in US mid-cap value equity securities. The composite consists of all fee-paying and non-fee-paying discretionary accounts. It includes companies with a minimum market cap of \$0.5 billion, lower price-to-book ratios, and lower forecasted growth values relative to others in the mid-cap space. Each portfolio position is selected after in-depth analysis. Non discretionary portfolios are not included in any composite. The composite benchmark is the Russell Mid Cap Value Index consisting of 564 stocks with a market cap of stocks ranging from \$0.5 billion to \$19 billion with lower P/E's and P/B ratios than other midcap stocks.
4. Gross-of-fees returns are reduced by any trading expenses incurred during the period but before investment management fees, and trading expenses include custodial fees. All clients pay investment management a flat fee of 1% on the month-end account value plus a 10-basis-

point performance fee whenever the composite return exceeds the benchmark return by 100 basis points.

5. Internal dispersion is the asset-weighted standard deviation of the annual gross returns of the portfolios included in SMAM's US Mid-Cap Value Equity Composite.

Jim Briggs, the chief executive officer of SMAM, asks about using other internal dispersion measures that clients can easily understand. Chipwell responds that the high/low range is not used because of certain disadvantages. Briggs also wants to know about the requirement under GIPS standards for presenting the composite's variability.

Later talking to newly hired analysts, Chipwell explains the firm's time-weighted return calculations methodology. He explains that SMAM uses the following two ways:

- i. asset weighting the individual portfolio returns using beginning-of-period values; or
- ii. using a method that reflects both beginning-of-period values and external cash flows.

He shares the following information with the analysts and asks them to calculate the time-weighted return of a composite of 3 portfolios using the two ways.

Exhibit 2

Beginning assets (31 March)	Cash Flow Weighting Factor	Portfolio (\$ Thousands)			Total
		A	B	C	
		120	100	125	
External cash flows					
8 April	0.73	5.00		-10.00	-5.00
20 April	0.33		15.00	-5.25	9.75
29 April	0.33		-6.50	2.50	-4.00
Ending value of assets (30 April)		125.65	109.00	112.55	347.20

Beginning assets + Weighted cash flows		123.65	104.76	116.04	344.45
time-weighted return for month of April		0.42%	0.36%	0.40%	

Note: Weighted cash flows reflect two-decimal-place precision in the weighting factors.

A. Based on the Notes, **identify** the items included in the SMAM performance report that do not comply with GIPS standards. Justify your response.

B. **Describe** an advantage and a disadvantage of using the high/low range. **State** the requirement under the GIPS standards for presenting the variability of the composite returns. **Justify** your response with one reason.

C. **Calculate** the April composite return by

- Asset-weighting the individual portfolio returns using beginning-of-period values.
- Asset-weighting the individual portfolio returns using a method that reflects both beginning-of-period values and external cash flows.

ĐÁP ÁN

1. Bài tập trắc nghiệm

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

Standard I(A), Knowledge of the Law, does not require that Parsons report legal violations to the appropriate governmental or regulatory organizations, but such disclosures may be appropriate under certain circumstances.

Question 2: B

If such a trip is "out of the way," payment by the company for the trip is acceptable. If the headquarters are within a reasonable driving distance, the analyst should drive there.

Question 3: C

The analyst is covered by the strictest of the following laws and rules: his own country's, the foreign country's, or CFA Institute's Code and Standards.

Question 4: A

Johnson must dissociate herself from her supervisor's activity (e.g., asking to be reassigned). The Code and Standards do not require Johnson to report the violation to governmental or regulatory organizations unless doing so is required by applicable law. Johnson has attempted to stop the violation by discussing it with her compliance department. She is not required by the Code and Standards to confront the supervisor.

Question 5: C

Under Standard I(A), Salvatore must, as a CFA charterholder, apply the CFA Institute Code and Standards or the controlling law, whichever is stricter. In this instance the stricter laws of Oldworld, where Salvatore is licensed, apply to prohibit the gifts, even though the gifts are offered in Newworld.

Question 6: A

Standard I(A): Knowledge of the Law requires members who have knowledge of colleagues engaging in illegal activities to disassociate from the activity and urge their firms to persuade the individual to cease such activity. Reporting to regulatory authorities may be prudent in certain circumstances, but is not required. Reporting to CFA Institute is not required.

Question 7: C

If you suspect someone is planning or engaging in illegal activities, you should:

1. Determine the legality of the activities. Consult your supervisor and legal counsel.

2. Take appropriate action. Disassociate, attempt to persuade the perpetrator to stop. CFA Institute does not require you to report them to the authorities, but the law might.

Question 8: C

Due diligence in financial research and analysis involves gathering information from a wide variety of sources. If both internal and external sources of information are available (as is stated in the case facts), then both sources should be used. For example, if only internal sources of information such as those provided by company management are used (and external sources are not used to corroborate), then the analyst may not be exercising sufficient objectivity in performing due diligence.

For issuer-paid research reports, a recommendation (but not a requirement) is to design a compensation system that protects the integrity of the investment decision process by paying fixed fee to promote an unbiased opinion from the analyst.

A strict value limit for gifts from clients is a recommendation (but not a requirement) under the standard on independence and objectivity.

Question 9: B

Under Standard I(B): Independence and Objectivity, members are advised to "use reasonable care" in order to maintain independence. While it is clearly understood that gifts from various entities have the potential to affect a member's independence and objectivity, a member can accept token gifts as long as they are not intended to influence or reward.

Question 10: C

Because applicable law involving material inside information is less strict than the Code and Standards, Platt must adhere to the Code and Standards. Standard II(A) prohibits against use of material nonpublic information.

2. Bài tập tự luận

Part A

Based on Notes 1 to 4, identify the SMAM performance report items that do not comply with GIPS standards. (Circle the appropriate one)	Justify your response
Third party verification Verification of single composite	A single verification report must be issued for the whole firm for GIPS compliance. Verification cannot be carried out only on a composite and does not assure any specific composite's investment performance.

Including cash equivalents in returns Frequency of return calculations	According to the requirements of the GIPS standards, portfolios must be valued at least monthly. For periods beginning on or after 1 January 2010, portfolios must be valued on the date of all large cash flows. Firms must calculate time-weighted rates of return that adjust for external cash flows. SMAM is valuing its portfolios quarterly.
Gross returns excluding management fees Trading expenses, including custodial fees	Direct trading expenses should be deducted only in calculating gross-of-fee returns. Custody fees should not be considered direct trading expenses [even when charged on a per-transaction basis].

Part B

Describe an advantage and a disadvantage of using the high/low range.	
high/low range	Advantage The high/low disclosure is easy to understand, the simplest method of internal dispersion for an annual period
	Disadvantage The high–low range can be skewed by outliers. In any annual period, an outlier—a portfolio with an abnormally high or low return—may be present, resulting in a dispersion measure that is not entirely representative of the distribution of returns.

State the requirement under the GIPS standards for presenting the variability of the composite returns.	
GIPS Standards require that firms must present: (circle one)	Justify your response with one reason
2-year annualized ex ante standard deviation of only the composite monthly returns.	
3-year annualized ex post standard deviation of composite and benchmark monthly returns.	The rationale is to give prospective clients an indication of the investment strategy's risk as

	executed by the firm under consideration. Because all GIPS Composite Reports include the same risk measure, and the measure is based on historical experience rather than subjective inputs, the GIPS standards allow for comparability among firms claiming compliance.
5-year annualized ex post standard deviation of composite and benchmark monthly returns.	

Part C

i. [To calculate the composite return based on beginning assets, first determine the percentage of beginning composite assets represented by each portfolio; then determine the weighted-average return for the month:]

Beginning composite assets = 345.00

Portfolio A = 120/345 = 34.78%

Portfolio B = 100/345 = 28.99%

Portfolio C = 125/345 = 36.23%

[The composite return is the weighted-average return of the individual portfolios that belong to that composite. Under the “beginning assets” weighting method, the composite return calculation

$$\text{is } r_C = \sum \left[r_{pi} \times \frac{V_{0,pi}}{\sum_{pi=1}^n V_{0,pi}} \right]$$

where r_C is the composite return, r_{pi} is the return of individual portfolio i , $V_{0,pi}$ is the beginning value of portfolio i and $\sum_{pi=1}^n V_{0,pi}$ is the total beginning fair value of all the individual portfolios in the composite.]

$$r_C = (0.0042 \times 0.3478) + (0.0036 \times 0.2899) + (0.0040 \times 0.3623) = 0.3954\%$$

ii. [To calculate the composite return based on beginning assets plus cash flows, first, determine the percentage of total beginning assets plus weighted cash flows represented by each portfolio, then calculate the weighted-average return:]

Portfolio A = 123.65/344.45 = 35.90%

Portfolio B = 104.76/344.45 = 30.41%



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Portfolio C = $116.04 / 344.45 = 33.69\%$

$r_C = (0.0042 \times 0.3590) + (0.0036 \times 0.3041) + (0.0040 \times 0.3369) = 0.3950\%$