LO.a: Evaluate the practices and policies presented.

LO.b: Explain the appropriate action to take in response to conduct that violates the CFA Institute Code of Ethics and Standards of Professional Conduct.

1. Does Sherman violate *any* CFA Institute Standards, while accepting a job offer from Glenarm Company, a competitor of Sherman's existing employer?
   A. No.
   B. Yes, loyalty to employer.
   C. Yes, disclosure of conflicts.

2. While at Pearl, did Sherman violate *any* CFA Institute Standards, by working as an independent consultant?
   A. Yes, additional compensation arrangements.
   B. No.
   C. Yes, disclosure of conflicts.

3. In preparing to leave Pearl, did Sherman violate any CFA Institute Standards, while soliciting clients for Glenarm?
   A. Yes, by soliciting the existing and potential clients.
   B. No, because he conducted social calls after "office hours."
   C. No, because he told several of Pearl's clients and prospects to delay their move until he joined Glenarm.

4. In his transition from Pearl to Glenarm, did Sherman violate *any* CFA Institute Standards by taking material that he had worked on with him to his new employment?
   A. Yes, only the material that consisted of marketing presentations, and computer program models.
   B. No, because he had developed or prepared this material on his own.
   C. Yes, all material because he misappropriated his current employer's property.

5. Sherman's consulting business while at Glenarm, *least likely* violates the CFA Institute Standard relating to:
   A. independence and objectivity.
   B. disclosure of additional compensation arrangements.
   C. referral fees.

6. What is the appropriate action required by Glenarm according to the CFA Institute Standards in view of their employees pursuing independent practice? Glenarm should make it a firm policy for all employees to:
   A. conduct their independent business after office hours.
   B. disclose in writing in advance all monetary and non-monetary benefits received in addition to the compensation received from the firm.
   C. declare any gifts that they receive from the existing clients.

Solutions

1. A is correct. No CFA Standard precludes its members or candidates from joining a competing business. However, employees often have to sign non-compete agreements that prohibit them from taking part in certain activities after leaving their employer. A departing employee has to refrain from activities that would not be in the best interests of his employer.

2. B is correct. No because Sherman disclosed his consulting business to Pearl.

3. A is correct. Sherman's solicitations of Pearl's existing and potential clients while still at Pearl is a violation of Standard IV(A) – Loyalty. Even though the activity was conducted after business hours or socially it caused harm to Pearl by attempting to lure its business away.

4. C is correct. Sherman violated Standard IV(A) - Loyalty by taking material without Pearl's permission since all work done for Pearl was the exclusive property of Pearl. Sherman's efforts in researching or developing this work was in the context of his employment with Pearl and was done for its benefit, inclusive of the ideas/research rejected by Pearl.

5. C is correct. Sherman violated IV(B) – Disclosure of Additional Compensation Arrangements by not disclosing his consultancy to Glenarm and not obtaining written consent from them. He also violated Standards I(B) – Independence and Objectivity and Standard VI(A) – Disclosure of Conflicts. He must disclose to Glenarm his independent practice which could compromise his independence and objectivity or interfere with his duties to his current employer and clients.

6. B is correct. As a matter of policy, Glenarm should require all its employees to give in writing in advance any compensation or benefits received from work done outside the firm (independent practice).