

Question #1 of 33

Question ID: 1574986

Which of the following statements is *most accurate* about the Standard concerning referral fees?

- A) Referral fees may be disclosed before or after proceeding with an agreement for service. 
- B) Referral fees must be disclosed after proceeding with an agreement for service. 
- C) Referral fees must be disclosed before proceeding with an agreement for service. 

Explanation

According to Standard VI(C) Referral Fees, such fees must be disclosed before proceeding with an agreement for service. This gives the client or employer the opportunity to compute the full cost of the service and to evaluate any potential partiality in the recommendation.

(Module 91.8, LOS 91: VI(C))

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Question ID: 1581523

An analyst routinely has the opportunity to offer his clients the opportunity to purchase "hot new issues." He tells his clients that he will distribute each issue equally among those interested, with himself included in the distribution. The clients do not object to this. With respect to Standard VI(B), Priority of Transactions, this:

- A) cannot be a violation because the clients know of the practice and agree. 
- B) may be a violation because it is impossible to distribute hot new issues equally. 
- C) may be a violation despite the clients' approval. 

Explanation

Just because the clients know of a practice does not make it right. The analyst must put the clients first. It is a violation for the analyst to participate in a "hot new issue" which can lower the allocation to any given client below what that client would prefer. This is tantamount to putting the analyst's interests ahead of the clients' interests.

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Question ID: 1581517

The following scenarios refer to two analysts who are employed at Global Securities, a large brokerage firm.

- Paula Linstrom, CFA, is instructed by her supervisor to write a research report on Delta Enterprises. Delta's stock is widely held by institutional and individual investors. Although Linstrom does not own any of Delta's stocks, she believes that one of her friends may own 10 shares of Delta. The stock currently sells for \$25 per share. Linstrom does not believe that informing her employer about her friend's possible ownership of Delta shares is necessary.
- Hershel Wadel, a member of CFA Institute, is asked by his supervisor to write a research report on Gamma Company. Wadel's wife inherited 500 shares of Gamma Company from her father when he died five years ago. Gamma stock currently sells for \$35 per share. Wadel does not believe that informing his employer about his wife's ownership of Gamma shares is necessary.

According to CFA Institute Standards of Professional Conduct, which the following statements about Linstrom and Wadel's conduct is *most* accurate?

- A) Both of these analysts must disclose a potential conflict of interest. 
- B) Neither of these analysts must disclose a potential conflict of interest. 
- C) Only one of these analysts must disclose a potential conflict of interest. 

Explanation

The possibility that Linstrom's friend may own shares of Delta's stock does not create a conflict of interest for Linstrom, who has no beneficial interest in these shares. On the other hand, Wadel has a beneficial interest in his wife's ownership of Gamma shares. Standard VI(A) Disclosure of Conflicts requires that Wadel disclose this information so that his employer can make the proper determination.

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Question ID: 1574965

Ray Stone, CFA, follows the Amity Paving Company for his employer, Rubbell Securities. Rubbell is a market maker in Amity's common stock. Stone owns \$10,000 face value of Amity's senior unsecured bonds. Last summer Stone's son, a college student, worked at Amity as a laborer. Which of these facts is Stone *least likely* required to disclose?

- A) Stone's son's employment at Amity. 
- B) Rubbell's broker-dealer relationship with Amity. 

C) Stone's ownership of Amity securities.



Explanation

Members are required to disclose all matters that reasonably could interfere with their objectivity. Personal ownership of securities or a broker-dealer relationship with a covered firm could reasonably interfere with objectivity, but it is unlikely that a family member's past employment would reasonably be expected to interfere with Stone's objectivity.

(Module 91.8, LOS 91: VI(A))

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Question ID: 1581521

Standard VI(B), Priority of Transactions, applies to transactions an analyst takes on behalf of:

A) both of these.



B) his employer.



C) his clients.



Explanation

Standard VI(B) addresses the treatment of both these accounts. The accounts of clients and employers have priority over personal accounts.

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Question ID: 1574970

Connie Baker, CFA, is an analyst with the brokerage and investment banking firm Hill and Stevens (H&S). Baker's supervisor, John Lewis, has asked her to write a research report on Jagged Rock Brewing. The H&S mergers and acquisitions department has represented Jagged Rock in all of its acquisitions for the past 12 years. Both Hill and Stevens sit on Jagged Rock's board. According to the Standards of Professional Conduct, can Baker write the report?

A) No.



B) Yes, if she discloses the directorships and the mergers-and-acquisitions relationship.



C) Yes, if she maintains her independence and objectivity in its preparation.



Explanation

Standard VI(A) Disclosure of Conflicts requires that members disclose to clients and prospects any potential conflicts of interest that could reasonably expect to impair their objectivity. It does not prohibit analysts with potential conflicts from writing the reports.

(Module 91.8, LOS 91: VI(A))

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Question ID: 1581524

An analyst, who is a CFA Institute member, manages a high-grade bond mutual fund. This is his only professional responsibility. When the analyst comes across a speculative stock investment that he feels is a good investment for his personal portfolio, the analyst:

- A) is in violation of Standard IV(A), Loyalty to Employer, by spending time analyzing stocks when he should only analyze bonds. 
- B) may invest in the stock because the analyst would not purchase the stock for the bond portfolio he manages. 
- C) must notify his supervisor about the stock according to Standard VI(B), Priority of Transactions, to see if it is appropriate for the portfolio that he manages. 

Explanation

The problem says the analyst "came across" the speculative stock investment. We do not know if the analyst neglected his duties. Since such an investment is clearly not appropriate for a high-grade bond fund, the analyst may invest in the stock without any restrictions relating to the fund.

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Question ID: 1581514

Dwight Dawson, a CFA charterholder and portfolio manager at Ascott Investments, was recently appointed to the investments committee at Brightwood College. He will receive no compensation from Brightwood for serving on this committee. Another person at Ascott manages part of Brightwood's endowment. Dawson does not inform Ascott's compliance office of his involvement with Brightwood, because he does not believe doing so is necessary.

Brenda Hamilton, a CFA candidate, also works for Ascott as an investment analyst. Procedures established at Ascott prohibit personal trading in securities analyzed or recommended by Ascott. One of these securities is Horizon, a telecommunications firm. Hamilton buys 10 shares of Horizon for her infant son's trust account. She believes that reporting this purchase to Ascott's compliance officer is unnecessary because the amount of the transaction is small and is not for her own personal account.

Did Dawson or Hamilton's actions violate CFA Institute Standards of Professional Conduct?

- A) Dawson: No, Hamilton: Yes. 
- B) Dawson: Yes, Hamilton: Yes. 
- C) Dawson: No, Hamilton: No. 

Explanation

Dawson violated Standard VI(A), Disclosure of Conflicts, by failing to inform Ascott of her involvement with Brightwood College. Dawson could reasonably be expected to be involved with investment policy decisions at Brightwood that could affect Ascott because Ascott manages a portion of Brightwood's endowment. Hamilton also violated Standard VI(A), because she ignored a directive of her employer. Her purchase of Horizon stock has an appearance of impropriety. Hamilton could discuss the purchase of Horizon stock with her firm's compliance officer and request an exception to the prohibition against personal trading in securities analyzed or recommended by Ascott.

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Question ID: 1581525

Wes Smith, CFA, refers many of his clients to Bill Towers, CPA, for accounting services. In return, Towers performs routine services for Smith, such as his tax returns, for no charge. Towers has just become a member of CFA Institute. With this development, Towers must:

- A) discontinue his services for Smith. 
- B) only reveal to the prospects referred by Smith that he performs services for Smith. 
- C) reveal to the prospects referred by Smith that he performs services for Smith, along with the estimated value of those services. 

Explanation

According to VI(C), Referral Fees, as a member of CFA Institute, Towers must tell his clients about the payment in kind to Smith along with an estimate of the value of those services.

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Question ID: 1574981

Recommended procedures to comply with the Standard concerning priority of transactions are *least likely* to include:

- A) blackout periods. 
- B) disclosure to clients of the firm's policies in regard to personal investing. 
- C) limited front-running by employees. 

Explanation

Standard VI(B) Priority of Transactions. Front-running is the purchase or sale of securities in advance of client trades to take advantage of knowledge of client activity and should be completely prohibited, not simply limited. Blackout periods and pre-clearance of employee trades are ways of accomplishing this.

(Module 91.8, LOS 91: VI(B))

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Question ID: 1574977

An analyst has a large personal holding of a security, and he has just determined that market conditions warrant selling this security. The analyst contacts clients who have a position in the security and advises them to sell some or all of the security. After waiting 24 hours, he sells the security from his personal accounts. This is:

- A) a violation of Standard III(B), Fair Dealing. 
- B) a violation of Standard VI(B), Priority of Transactions. 
- C) congruent with Standard VI(B), Priority of Transactions. 

Explanation

According to Standard VI(B), an analyst must give clients the first opportunity to buy or sell a security before the analyst acts on his own behalf. A 24-hour waiting period seems reasonable under the circumstances presented. The analyst seems to have a reasonable basis, and there is no reason to believe that he is violating Standard III(B) since he contacted all of the clients who have a position in the security.

(Module 91.8, LOS 91: VI(B))

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Question ID: 1581516

Will Lambert, CFA, is a financial analyst for Offshore Investments. He is preparing a purchase recommendation on Burch Corporation for internal use. According to the CFA Institute Standards of Professional Conduct, which of the following statements about disclosure of conflicts is not required? Lambert would NOT need to disclose to his employer that:

- A) Offshore is an OTC market maker for Burch Corporation's stock. 
- B) he is a beneficiary of a pension plan of his former employer that owns a large number of shares of Burch's stock. 
- C) his wife owns 2,000 shares of Burch Corporation. 

Explanation

Standard VI(A), Disclosure of Conflicts, requires members to disclose to their employer all matters, including beneficial ownership of securities, that reasonably could be expected to interfere with their duty to their employer or ability to make unbiased and objective recommendations. Disclosure of an employer's own involvement with the security is not necessary in this instance. If the report had been for external use, it would have been necessary to make all of the disclosures given as choices.

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Question ID: 1581510

Abner Flome, CFA, is writing a research report on Paulsen Group, an investment advisory firm. Flome's brother-in-law holds shares of Paulsen stock. Flome has recently interviewed for a position with Paulsen and expects a second interview. According to the Standards, Flome's *most appropriate* action is to disclose in the research report:

- A) his brother-in-law's holding of Paulsen stock and that he is being considered for a job at Paulsen. 
- B) his brother-in-law's holding of Paulsen stock. 

C) that he is being considered for a job at Paulsen.



Explanation

The possibility of employment with Paulsen creates a potential conflict of interest which Flome must disclose. Standard VI(A) Disclosure of Conflicts does not require disclosure of his brother-in-law's ownership of Paulsen stock.

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Question ID: 1574975

Andy Rock, CFA, is an analyst at Best Trade Co. The company is going to announce a sell recommendation on Biomed stock in one hour. Rock was a member of the team who reached the decision on Biomed. Rock's wife has an account at Best Trade Co. that contains Biomed stock. According to the Code and Standards, trading on Rock's wife's account can begin:

- A) only after Rock, as a beneficial owner, has given an appropriate amount of time for clients and his employer to act. 
- B) only after the recommendation is announced to the general public. 
- C) as soon as the information is disseminated to all clients. 

Explanation

Family accounts that are client accounts should be treated like any other firm account and should neither be given special treatment nor be disadvantaged because of an existing family relationship with the member or candidate. Members or candidates may undertake transactions in accounts for which they are a beneficial owner only after their clients and employers have had adequate opportunity to act on the recommendation. Personal transactions include those made for the member or candidate's own account, for family (including spouse, children, and other immediate family members) accounts, and for accounts in which the member or candidate has a direct or indirect pecuniary interest, such as a trust or retirement account. It could be argued that Rock is a beneficial owner of his wife's account and the reason why his wife's account should be treated like any other client account is because it does not state that Rock makes the trades in his wife's account. From that we are to infer that another person other than Rock is managing his wife's account thus she should be treated like any other client.

(Module 91.8, LOS 91: VI(B))

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Question ID: 1581511

Phil Trobb, CFA, is preparing a purchase recommendation on Aneas Lumber for his research firm. Which of the following *least likely* represents a conflict of interest that Trobb should disclose in his report?

- A) Trobb's research firm has a large stake of ownership in Aneas. ✘
- B) Trobb's cousin repairs machines for Aneas. ✔
- C) Aneas hires Trobb as a consultant to analyze Aneas' financial statements. ✘

Explanation

Standard VI(A) Disclosure of Conflicts defines what constitutes a conflict of interest with regard to clients, prospective clients, and employers. All of these represent potential conflicts of interest with the exception of the cousin working for Aneas Lumber in a job that is unrelated to the Aneas' financing.

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Question ID: 1581527

If a CFA charterholder receives a referral fee, he must:

- A) disclose the fee to the supervisor, in written form, as an additional benefit. ✘
- B) consult with the firm's compliance officer, and follow his or her instructions concerning disclosure. ✘
- C) disclose the nature of the fee arrangement to the client before entering into a formal agreement. ✔

Explanation

According to Standard VI(C), the nature as well as the value of the fee must be disclosed to the client before entering into a formal agreement. The compliance officer and/or the employee's supervisor should be contacted for consultation.

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Question ID: 1581515

Arthur Harrow, CFA, is a pharmaceuticals analyst at Dominion Asset Management. His supervisor directs him to prepare separate research reports on Miracle Drug Company and Wonder Drug Company. Harrow serves on the board of Miracle and owns shares of Wonder. According to the Standards of Professional Conduct, which of the following actions is Harrow required to take when he writes the research reports?

- A) Harrow must disclose his relationship with Miracle but not his ownership of shares in Wonder. 
- B) Harrow must disclose his ownership of shares in Wonder but not his relationship with Miracle. 
- C) Harrow must disclose both his relationship with Miracle and his ownership of shares in Wonder. 

Explanation

Standard VI(A) Disclosure of Conflicts requires that Harrow disclose matters that reasonably could be expected to interfere with his independence and objectivity. Both Harrow's relationship with Miracle and his ownership of Wonder's shares represent potential conflicts of interest and must be disclosed prominently and in clear language in the research report, giving clients the ability to weigh the possible effects of these potential conflicts on his analysis and conclusions.

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Question ID: 1574966

An analyst is serving on the Board of Directors of a local publicly traded company. To avoid violating the CFA Institute Code and Standards, the analyst must disclose this to:

- A) both his employer and his clients and prospective clients. 
- B) no one since it should not cause a conflict of interest for the analyst. 
- C) only his employer. 

Explanation

Serving on a Board of Directors should be disclosed to both the employer and clients and prospective clients.

(Module 91.8, LOS 91: VI(A))

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Question ID: 1581522

An analyst has the opportunity to offer his clients shares in a "hot new issue." One of the analyst's clients is his brother. When the new issue comes out, for those clients he deems it would be appropriate, he offers them an equal share. He includes his brother in that group. With respect to Standard VI(B), Priority of Transactions, this is:

- A) congruent with the Standard as long as he does not have a direct personal interest in his brother's account. 
- B) congruent with the Standard even if he has a direct personal interest in his brother's account. 
- C) congruent with the Standard if his brother is not a 'covered person'. 

Explanation

Client accounts that belong to family members should be treated like any other account so long as there is no direct interest on the part of the analyst. In other words, these types of accounts should not be at a disadvantage relative to other client accounts when there is no direct interest on the part of the analyst overseeing the account.

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Question ID: 1574974

Samuel Goldstein, CFA, is an analyst for Tamarack Securities. Goldstein's father, Reuben, has a client account at Tamarack. In ordering trades, Goldstein should place orders in:

- A) all accounts simultaneously. 
- B) his clients' accounts first, his father's account second, and his account last. 
- C) his clients' and his father's accounts in the first group and his personal accounts in the second group. 

Explanation

Standard VI(B), Priority of Transactions, provides that transactions for clients have priority over personal trades. Family accounts that are considered client accounts receive the same treatment as client accounts.

(Module 91.8, LOS 91: VI(B))

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Question ID: 1574980

Isaac Jones, CFA, wishes to buy Maxima common stock for some of his clients' accounts. Jones also wishes to purchase Maxima for his personal account. In accordance with CFA Institute Standards, Jones:

- A) may purchase Maxima for his personal account, but the transactions for his clients must take priority. 
- B) must disclose his personal account purchase, in writing and in advance, to his clients and employer. 
- C) may purchase Maxima at any time, as long as the execution price is not more favorable than the execution price given to the clients. 

Explanation

In accordance with Standard VI(B) Priority of Transactions, employer and client transactions must take priority over any personal transactions, meaning any transactions in which the member or candidate is the beneficial owner. Disclosure is not enough.

(Module 91.8, LOS 91: VI(B))

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Question ID: 1574961

According to Standard VI(A), Disclosures of Conflicts, members must disclose to their clients the member's (or their firm's) material ownership of all of the following EXCEPT:

- A) beneficial ownership of securities. 
- B) real estate holdings. 
- C) corporate finance relationships. 

Explanation

Unless the firm's real estate holdings would impair their independence and objectivity, they need not be disclosed.

(Module 91.8, LOS 91: VI(A))

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Question ID: 1574957

Ryan Brown, CFA, is an analyst with a large insurance company. His personal portfolio includes a significant investment in QRS common stock. The director of the research department asked Brown to analyze QRS and write a report about its investment potential. Based on the Standards of Professional Conduct, Brown is required to:

- A) decline to write the report. 
- B) sell his shares of QRS before issuing the report. 

C) disclose the ownership of the stock in the report.



Explanation

Standard VI(A) Disclosure of Conflicts requires that Brown make full disclosure of all matters that could impair his objectivity. Brown needs to disclose his personal holding in QRS stock. Neither of the other choices describes an action that the Standard requires.

(Module 91.8, LOS 91: VI(A))

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Question ID: 1581528

Standard VI(C), Referral Fees, requires the member to do all of the following EXCEPT:

- A) disclose to the referred client how much the referral source was paid to refer the client. 
- B) disclose to the referred client the percentage of the member's business that comes from referrals. 
- C) make required disclosures to the referred client before an agreement is made to provide services to the referred client. 

Explanation

The applicable Standard, VI(C), *does not require* a member to disclose the percentage of their business that comes from referrals.

Standard VI(C) states, "*Members shall disclose to clients and prospects any consideration or benefit received by the member or delivered to others for the recommendation of any services to the client or prospect.*" Appropriate disclosure means telling the client or prospect, before agreeing to perform services, of any benefit given or received for recommending the member's services.

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Question ID: 1581519

An analyst likes to trade commodity futures in her own account. She does not deem any of her client accounts suitable for commodity futures trading. When she identifies a favorable commodity futures position, the Standard concerning priority of transactions suggests she should:

- A) act on it on her own behalf as she sees fit. 
- B) first tell her clients about it before acting herself. 

C) refrain from acting until she notifies her supervisor.



Explanation

The analyst's commodity futures trading is not a violation of Standard VI(B) Priority of Transactions because the investment is not suitable for her clients. If the analyst believes that none of her clients should trade commodity futures, she is not obligated to advise them of her own investments in them.

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Question ID: 1574988

Referral fees a member must disclose to a prospective client include:

A) only fees a member receives for referrals.



B) only fees a member pays to others for referrals.



C) both fees a member receives and fees a member pays.



Explanation

Members and candidates must disclose all referral arrangements to their employer, clients, and prospective clients.

(Module 91.8, LOS 91: VI(C))

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Question ID: 1581520

A firm produces regular proprietary research reports on various companies. According to Standard VI(B), Priority of Transactions, which of the following would be an "access person"?

A) An independent auditor with access to material, non-public information on a company being analyzed.



B) A person working in the mail room.



C) A supervisory analyst who reviews all research reports prior to dissemination.



Explanation

Persons with access to information during the normal preparation of research recommendations are subject to Standard VI(B). An independent auditor is not involved in the normal preparation of research recommendations.

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Question ID: 1581512

Will Lambert, CFA, is a financial analyst for Offshore Investments. He is preparing a purchase recommendation on Burch Corporation. According to the Standards of Professional Conduct, which of the following relationships with Burch is Lambert *least likely* required to disclose?

- A) His son-in-law was formerly employed by Burch. 
- B) He has a material beneficial ownership of Burch through a family trust. 
- C) His wife owns 2,000 shares of Burch. 

Explanation

Standard VI(A) Disclosure of Conflicts requires that Members and Candidates fully disclose all matters which may impair their independence or objectivity or interfere with their duties to their employer, clients and prospects. Beneficial ownership of shares in a firm on which a member is making investment recommendations is an example of such a matter.

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Question ID: 1581518

Harry Lee, CFA, is an equity research analyst for a long-term investment fund. His annual bonus is linked to the fund's three-year average gains. Under a new policy, the bonus criterion is changed to include a link to the fund's quarterly trading profits. According to the Code and Standards, best practices dictate:

- A) updating disclosures when the policy change is implemented. 
- B) requiring Hurst to obtain permission from each client prior to implementation of the new policy. 
- C) treating the policy change as proprietary information. 

Explanation

Standard VI(A) Disclosures of Conflicts recognizes this policy as a potential conflict of interest as members and candidates could be incentivized to favor short-term trading gains over long-term value creation. Best practices dictate updating disclosures when the policy change is implemented. The long-term investors should know how members and candidates are compensated, especially when there is the potential for conflicts of interest.

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Question ID: 1581513

Rochester Frankfurt is a market maker in the stock of Byrne Brands, Inc. The chairman of Rochester Frankfurt serves on the board of directors of Byrne Brands. If an analyst at Rochester Frankfurt who is a CFA charterholder makes an investment recommendation on Byrne Brands, which of these two facts is the analyst required to disclose?

- A) Neither of these facts. 
- B) Both of these facts. 
- C) Only one of these facts. 

Explanation

Both of these are examples of potential conflicts of interest that Standard VI(A) Disclosure of Conflicts requires members or candidates to disclose.

Question #31 of 33

Question ID: 1581526

An analyst who is a member of CFA Institute has composed an introductory information packet for her new clients, which includes information on fees she receives for referring clients to other professionals and those she pays for having clients referred to her. With respect to Standard VI(C), Referral Fees, this action:

- A) exceeds the requirement of the Standard because she does not need to reveal the fees she pays to those that refer clients to her. 
- B) is not addressed in the Standard. 
- C) may not satisfy the Standard if such information is only provided after the receivers of the information have become clients. 

Explanation

Standard VI(C) says that a member must reveal information both on fees she receives for referring clients to other professionals and those she pays for having clients referred to her before a prospect becomes a client. This allows the prospect to evaluate any partiality of a recommendation and the full cost of the services.

Question #32 of 33

Question ID: 1574958

An analyst has been covering a particular firm for years. Recently, the analyst's uncle died and left the analyst a sizable position in the firm's stock. To comply with the Code and Standards, the analyst:

- A)** is required to disclose the ownership of the stock to his employer. 
- B)** should divest the stock as soon as is practicable. 
- C)** is not required to act because the analyst did not purchase the stock. 

Explanation

The analyst is required to disclose the ownership of the stock to his employer by Standard VI(A) Disclosure of Conflicts. The analyst must also disclose the stock ownership in any subsequent coverage of the company. The Standard does not require or recommend that the analyst divest the stock.

(Module 91.8, LOS 91: VI(A))

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Question ID: 1574982

The Standard concerning referral fees is applicable to:

- A)** only considerations received for recommending products or services. 
- B)** any consideration received or paid for recommending products or services. 
- C)** only considerations paid for recommending products or services. 

Explanation

Standard VI(C) Referral Fees requires members and candidates to disclose any consideration received or paid for a recommendation.

(Module 91.8, LOS 91: VI(C))