Question #1 of 18

Question ID: 1581543

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) confront the supervisor and attempt to stop the violation.

B) dissociate from the supervisor's activity.

C) report the violation to securities regulators.

Explanation

Johnson must dissociate herself from her supervisor's activity, for example by 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 #2 of 18

Question ID: 1581545

Calvin Doggett, CFA, has been contacted by the CFA Institute Professional Conduct Program (PCP) regarding allegations that he has taken investment actions that were unsuitable for his clients. Doggett is questioned by PCP concerning the identity of his clients he considered suitable for investing in a very risky start-up company that eventually went bankrupt.

Doggett will:

A) not violate the Code and Standards by revealing the names, financial condition and investment objectives of his clients to PCP.

B) not violate the Code and Standards only if he reveals the financial condition and investment objectives of his clients on an anonymous basis and does not reveal the names of his clients to PCP.

C) violate the Code and Standards by fully cooperating with a PCP investigation if it means revealing confidential information.

Explanation

Standard III(E) requires members to preserve client confidentiality. An exception to this standard is a PCP investigation. Because PCP will also keep the clients' information confidential, members are expected to fully cooperate with PCP investigations.

Question #3 of 18

Question ID: 1575037

Seminole Equity Fund has been in existence for eight years. In a brief presentation to potential investors, the fund's manager reports its performance history for the most recent five years, and notes that more detailed information is available on request. This action is:

A) a violation of the Standard concerning performance presentation. ✗

B) in accordance with the Code and Standards. ✓

C) a violation of the Standard concerning misrepresentation. ✗

Explanation

Standard III(D) Performance Presentation states that members and candidates may make brief presentations and offer more detailed information on request, as long as the presentation does not mislead clients and prospects about the performance of the fund or manager.

(Module 93.1, LOS 93.b)

Question #4 of 18

Question ID: 1575028

Heidi Krueger, CFA, an investment advisor, applies soft dollars generated from client accounts to purchase a report on the economic impact of world events, and to purchase a new conference table for the office she uses to meet with clients and prospects. Do these two purchases violate the Standard related to loyalty, prudence, and care?

A) Neither of these purchases violates the Standard. ✗

B) Only one of these purchases violates the Standard. ✓

C) Both of these purchases violate the Standard. ✗

Explanation

Using soft dollars for the purchase of office furniture does not benefit clients and is a violation. Purchasing research reports with soft dollars is not a violation, but the advisor should ensure that research purchased with client brokerage will benefit her clients.

(Module 93.1, LOS 93.a)

Question #5 of 18

Question ID: 1575035

Nancy Hall, a candidate in the CFA program, is an analyst for a mutual fund. As part of her job she makes company visits to interview executives. On a recent trip she stayed with her sister instead of at a hotel. In her expenses Hall included a hotel charge of $100, which was less than the amount allowed by her employer. After receiving a check for her expenses, Hall disclosed to her supervisor that she had stayed with her sister instead of at a hotel. She also returned the $100 to her employer. According to CFA Institute Standards of Professional Conduct, which of the following statements *best* describes Hall's professional conduct?

A) Hall did not engage in professional misconduct because she eventually disclosed this information and returned the $100 to her employer.

B) Hall did not engage in professional misconduct because she did not meet all of the requirements to use the CFA designation.

C) Hall engaged in professional misconduct.

Explanation

Hall engaged in professional misconduct because her act involved dishonesty, fraud, and deceit.

(Module 93.1, LOS 93.b)

Question #6 of 18

Question ID: 1575038

Mary Hiller, CFA, is a senior analyst at a mutual fund. She is also a member of the Board of the Directors of her daughter's Skating Club. She is often asked for advice about the management of the club budget and about possible short-term investments, but she is not paid for this advice. She does not undertake any research to answer these questions, providing information based only on the general practices of the mutual fund at that moment. The only benefit she receives is a free monthly membership for her daughter that would usually cost $182. What should she do before making any recommendations, in order to comply with the CFA Institute requirements?

A) Consult only on her free time and do not accept any benefit greater than $100.

B) Inform her current clients about her outside consulting.

C) Obtain prior permission from her employer.

Explanation

According to Standard IV(A) Loyalty to Employer, it is the employee's duty to inform the employer about any type of outside consulting service, including duration and any compensation. Only after receiving permission from her employer, can she proceed.

(Module 93.1, LOS 93.b)

Question #7 of 18

Question ID: 1575040

Robert Hamilton, a CFA candidate, is preparing a research report on Pets-R-Us for public distribution. Hamilton's preliminary report contains unfavorable earnings forecasts for the next four quarters. As part of his analysis, Hamilton met with Linda Brisson, the president of Pets-R-Us, and asked her to review the preliminary report for factual inaccuracies. Brisson revised Hamilton's earnings forecasts so that the quarterly earnings showed an upward trend and resulted in positive earnings by the fourth quarter. Hamilton included the revised earnings figures in his report without further review. Although the final report included the basic characteristics of Pets-R-Us, it emphasized certain areas such as projected quarterly earnings but only briefly touched on others. According to CFA Institute Standards of Professional Conduct on research reports, Hamilton:

A) violated the Standard because he did not thoroughly review and analyze any information provided by Brisson. ✓

B) did not violate the Standard. ✗

C) violated the Standard because the report did not give similar attention to all areas but instead emphasized quarterly earnings at the expense of other areas. ✗

Explanation

Standard V(B) permits Hamilton to ask company management to review his report for factual inaccuracies, but Hamilton should have taken care to thoroughly review and analyze any information provided by the company. Hamilton is not required to give equal emphasis to all areas but can emphasize certain areas, touch briefly on others, and omit certain aspects deemed unimportant.

(Module 93.1, LOS 93.b)

Question #8 of 18

Question ID: 1575033

Vijay Gill, CFA, leases office space from Land Bank in exchange for an agreement that Gill will pay Land 20% of any fees paid by Land customers to Gill for investment management services. Gill also has an arrangement with Bloom Insurance Advisors whereby Gill receives a fee for each client referred. Gill only refers clients that request insurance products. Gill meets with Randolph Song, a Land Bank customer, who is interested in Gill's asset management services as well as insurance products. Gill is required to disclose to Song:

A) the terms of the arrangement with Bloom, but not the terms of the arrangement with Land Bank.

B) the terms of the arrangements with both Land Bank and Bloom.

C) neither the Land Bank nor Bloom arrangements, but may disclose them if he chooses to do so.

Explanation

Standard VI(C) Referral Fees requires members to 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. Gill is delivering a benefit to Land Bank and receiving a benefit from Bloom, both of which must be disclosed to Song.

(Module 93.1, LOS 93.a)

Question #9 of 18

Question ID: 1581547

Ralph Lim and Susan Bland have both passed Level I of the CFA Program. Both are currently enrolled to sit for Level II. Lim's business card reads, "Ralph Lim, CFA Level I." Bland's resume states, "Level II Candidate in the CFA Program." According to CFA Institute Standards of Professional Conduct involving use of the professional designation:

A) Bland violated the Standard, but Lim did not.

B) Both Lim and Bland violated the Standard.

C) Lim violated the Standard, but Bland did not.

Explanation

There is no designation for someone who has passed Level I, Level II, or Level III of the CFA examination. Candidates may state, however, that they have completed Level I, II, or III, as the case may be, in the CFA Program. Thus, Lim violated the Standard, but Bland did not.

Question #10 of 18

Question ID: 1575026

Paul Thomas, CFA, is designing a new layout for research reports his firm writes and issues on individual stocks. In his design, Thomas includes a stock chart on the first page of each report. He does not reference that the charts are copied from an unrecognizable finance website. Thomas has:

A) violated CFA Institute Standards of Professional Conduct because he did not state the source of the charts. ✓

B) not violated CFA Institute Standards of Professional Conduct because these charts are widely available over the internet. ✗

C) violated CFA Institute Standards of Professional Conduct because he did not make sure that the information in these charts is accurate. ✗

Explanation

Standard I(C) Misrepresentation. Members should not copy or use material prepared by others without acknowledging and identifying the source of such material. Using charts and graphs without stating their source is a violation of the Standard.

(Module 93.1, LOS 93.a)

Question #11 of 18

Question ID: 1575042

Lindsay Gordon is a Level II CFA candidate. Gordon's best friend, Steve Haney, is also a Level II candidate and has registered for the same exam window as Gordon. Because Haney's exam appointment is the day before Gordon's appointment, Gordon suggests that Haney try to remember some of the exam questions and let her know what they asked. After Haney takes his exam, he reminds Gordon that the Code and Standards prohibit candidates from disclosing specific exam questions, and only gives her a general idea of what topics were tested or not tested. Which of the following statements regarding Gordon and Haney is *most accurate*?

A) Gordon is in violation of the Code and Standards, but Haney is not in violation. ✗

B) Both Gordon and Haney are in violation of the Code and Standards. ✓

C) Neither Gordon nor Haney is in violation of the Code and Standards. ✗

Explanation

Both Gordon and Haney violated Standard VII(A) Conduct as Participants in CFA Institute Programs by compromising the integrity of the exam. The Standard prohibits candidates from discussing specific exam questions or which topics were tested or not tested.

(Module 93.1, LOS 93.b)

Question #12 of 18

Question ID: 1575031

Jan Hirsh, CFA, is employed by a college to manage its endowment fund. The endowment carries out its transactions primarily through the brokerage firm Advisors, Inc. Over the years, Hirsh has developed a solid relationship with Advisors. Advisors offers Hirsh their highest level of service for her personal account if the endowment continues to exceed a minimum number of transactions per year with Advisors. The Code and Standards *most likely* require Hirsh to:

A) disclose this benefit to the college, but it does not require her to receive the college's permission.

B) receive the college's permission before accepting this benefit.

C) decline this benefit because it represents a conflict of interest with the college.

Explanation

Standard IV(B) Additional Compensation Arrangements requires Hirsh to receive her employer's permission in writing before she can accept the offer from Advisors, because it can reasonably be expected to create a conflict with the college's interests in that it may induce Hirsh not to seek better execution from other brokers.

(Module 93.1, LOS 93.a)

Question #13 of 18

Question ID: 1581544

Lance Tuipulotu, CFA, manages investments for 400 individuals and families and often finds his resources stretched. When his largest investors petition him to include a 5% to 7% allocation of non-investment-grade bonds in their portfolios, he decides he needs additional help to meet the request. He considers various subadvisers who specialize in that asset class. To have a reasonable basis for selecting a subadviser, criteria that Tuipulotu should use should *least likely* include:

A) their internal controls.

B) adherence to their stated strategies.

C) consistently high historical returns.

Explanation

Guidance for Standard V(A) Diligence and Reasonable Basis states that when reviewing external advisers, members and candidates should (at a minimum) evaluate the adviser's code of ethics, its compliance procedures and internal controls, its investment processes and adherence to its stated strategies, and the quality of its published information on returns.

Question #14 of 18

Question ID: 1581546

The following scenarios involve two analysts at Dupree Asset Management, a small New York-based company with about $150 million in assets under management. Dupree restricts personal trading of stocks analyzed, corporate directorships, trustee positions, and other special relationships that could reasonably be considered a conflict of interest with their responsibilities to their employer.

- Ray Bolt, CFA, is a senior investment analyst. Bolt was recently elected to the board of trustees of his alma mater, Midwest University, and was appointed as the chairman of the University's endowment committee. Midwest has more than $2 billion in its endowment. Bolt must travel from New York to Chicago eight times a year to attend meetings of the board of trustees and endowment committee. Bolt did not inform Dupree of his involvement with Midwest University.
- Wanda Delvecco, a candidate in the CFA Program, is a junior investment analyst. She recently wrote a research report on Aveco Communications and recommended the stock for Dupree's "buy" list. Delvecco bought 200 shares of Aveco stock for her personal account 12 months before she wrote her research report. Over the past 12 months, the stock's price has been in the $20-42 price range. Delvecco has not informed Dupree of her ownership of Aveco stock.

According to CFA Institute Standards of Professional Conduct, which the following statements about Bolt and Delvecco's actions is CORRECT?

A) Neither Bolt nor Delvecco violated the Standards.

B) Delvecco violated the Standards, but Bolt did not.

C) Both Bolt and Delvecco violated the Standards.

Explanation

Standard VI(A), Disclosure of Conflicts, requires that Bolt inform Dupree of his involvement with Midwest University given that Bolt's new role can be expected to be time consuming and possibly affect his responsibilities at Dupree. Delvecco is required to disclose her ownership of Aveco stock before conducting the research report because such ownership could bias her objectivity in making a recommendation. She should have discussed owning the stock with her supervisor before beginning to write the research report on Aveco.

Question #15 of 18

Question ID: 1575027

Lisa Pierce, CFA, has been researching Lander Manufacturing for the past three weeks. She likes the company's history of fulfilling its contracts on time and within budget. She learns from the uncle of a maintenance worker at Lander's headquarters that a group of well-dressed individuals arrived at headquarters in a lime green-colored limousine. Pierce knows from publicly available information that Gilbert Controls needs a large supply of specialized motors in its domestic division. She also knows that the executive officers of Gilbert usually travel in a lime green limousine. Pierce concludes that it is very likely that Gilbert will offer a large contract to Lander. Based on this development and her prior research Pierce would like to acquire Lander Manufacturing shares for her client accounts.

Pierce should:

A) not acquire the shares because she possesses material nonpublic information.

B) not acquire the shares until after she has contacted Lander's management and encouraged them to publicly announce information about the Gilbert Controls contract. She should also wait until Lander has made the announcement and the public has had time to react to it and then make the acquisition.

C) proceed to acquire the shares.

Explanation

Standard II(A) prohibits members from taking investment action if they possess material nonpublic information. Pierce combined information that was not misappropriated, with her knowledge of the company, to reach a conclusion under the mosaic theory, which is permissible under the standards. She can proceed to buy the shares.

(Module 93.1, LOS 93.a)

Question #16 of 18

Question ID: 1581549

Jess Green, CFA, is the research director for Castle Investment, Inc., and has supervisory responsibility over eight analysts, including three CFA charterholders. Castle has a compliance program in place. According to CFA Institute Standards of Professional Conduct, which of the following is *least likely* an action that Green should take to adhere to the compliance procedures involving responsibilities of supervisors? Green should:

A) disseminate the contents of the compliance program to the eight analysts.

B) incorporate a professional conduct evaluation as part of the performance review only for the three CFA charterholders.

C) issue periodic reminders of the procedures to all analysts under his supervision.

Explanation

Green should incorporate a professional conduct evaluation as part of his review of all eight analysts under his supervision, not just the three CFA charterholders.

Question #17 of 18

Question ID: 1581550

Gordon McKinney, CFA, works in the trust department of a bank. The bank's trust account holds a large block of a particular company. McKinney learns from a market news service that this company is going to buy back one million shares at a 15% premium to the market price on a first-come-first-served basis. McKinney immediately tells his mother-in-law to tender her shares but waits until the end of the day to tender the trust's shares. McKinney has *most* likely violated the Standard concerning:

A) loyalty.

B) priority of transactions.

C) material nonpublic information.

Explanation

Standard VI(B) Priority of Transactions applies. If an analyst decides to make a recommendation about the purchase or sale of a security, he must give his customers or employer adequate opportunity to act on this recommendation before acting on his own behalf. Personal transactions include those made for the member's own account and family accounts. Here, McKinney violated Standard VI(B) by acting on his mother-in-law's behalf and then waiting until the end of the day to act on his employer's behalf.

Explanations for other responses:

- Standard IV(A), Loyalty to Employer, does not apply. This standard concerns a member competing with his/her employer (independent practice), for example a member who engages in outside consulting.
- Standard II(A), Material Nonpublic Information, does not apply. The question does not indicate that the information is not public.

Question #18 of 18

Question ID: 1581548

Steve Waters, a Level I CFA candidate, has decided to enter into a long position of Farmco stock. Since Farmco is thinly traded, Waters is concerned the order will overwhelm the liquidity of Farmco and the price will surge. Waters engages in a series of block trades in order to accomplish the purchase. According to Standard II(B), Market Manipulation, Waters has engaged in:

A) both transaction-based manipulation and information-based manipulation. ✗

B) neither transaction-based manipulation nor information-based manipulation. ✓

C) transaction-based manipulation, but not information-based manipulation. ✗

Explanation

Waters is not in violation of Standard II(B), Market Manipulation. Transaction-based manipulation includes, but is not limited to, transactions that artificially distort prices or volume. Information-based manipulation includes, but is not limited to, spreading false rumors about a firm in order to induce others to trade.