Question #1 of 30

Question ID: 1581425

Klaus Gerber, CFA, is a regular contributor to the website WizeGuy. This past week Gerber has been incorrectly quoted as recommending that investors buy shares in Bradford, Inc. He is unaware that this message has been placed on the site as the quote was placed as a prank by an unknown source. This is the third time this has happened over the past month and each time the stock being mentioned moved in price according to the buy or sell recommendation.

Fritz Fox, CFA, maintains and updates the WizeGuy site and has learned how to determine if the quotes being attributed to Gerber are actually valid. Several days later, he observes an investment recommendation, posted on the site, to buy Gresham, Inc. The investment recommendation is purported to be from Gerber, but Fox actually knows it to be bogus. He immediately sells 1,000 Gresham short and e-mails Gerber to inform him of the bogus recommendation. Gerber immediately issues a rebuttal, and Gresham falls by 14%. Fox's action is:

A) a violation of the Standard concerning use of material nonpublic information.

B) not in violation of the Code and Standards.

C) a violation of the Standard concerning fiduciary duties.

Question #2 of 30

Question ID: 1581429

A stockbroker who is a CFA Institute member is called on the telephone by the CEO of a large company. The CEO asks to buy shares of the CEO's company for the accounts of the CEO's children. In the course of the conversation, the CEO says this will really pay off when the upcoming takeover goes through. The stockbroker checks her sources and finds no information about the takeover. In this case the broker should:

A) do neither of the actions listed here.

B) execute the order for all clients as required by Standard III(B), Fair Dealing.

C) only execute the order in compliance with Standard III(A), Loyalty, Prudence, and Care. Since the client is buying the stock for the children, there is not a problem.

Question #3 of 30

Question ID: 1581426

The *mosaic theory* is the idea that an analyst can:

A) base his recommendations on nonpublic material information only for the clients of the company, but not for the general public.

B) make recommendations or trade based on several pieces of public or nonpublic information, each piece by itself being nonmaterial, but when compiled the information becomes material.

C) make investment recommendations on the basis of several pieces of nonpublic information as long as the aggregate information remains nonmaterial.

Question #4 of 30

Question ID: 1581435

A brokerage firm has a trading department and an investment-banking department. Often the investment-banking department receives material non-public information that would be valuable in advising the firm's brokerage clients. In order to comply with the Standards, the firm:

A) must divest one of the departments.

B) should restrict employee trading in securities for which the firm is in possession of material non-public information.

C) should record the exchange of information between the investment-banking department and the brokerage department.

Question #5 of 30

Question ID: 1574829

Darlene Hess, CFA, manages a pension fund that has a sizeable position in Knoll Corporation common stock. Hess also holds Knoll common stock in her personal account. Hess participates in an analyst conference call in which Knoll's chief financial officer advises that the company's current-quarter earnings will slip below consensus forecast. Knoll has not disclosed this to the public. Hess believes news of the poor earnings will reduce the stock's value significantly. Hess may:

A) sell Knoll stock from her personal account but may not sell it from the pension fund.

B) not sell Knoll stock from either the pension fund or her personal account.

C) sell Knoll stock from the pension fund but may not sell it from her personal account.

Question #6 of 30

Question ID: 1574834

Which of the following is a violation of Standard II(B), Market Manipulation?

A) Engaging in a block trade to limit the effect on the price of a thinly traded security.

B) Implementing a trading strategy to exploit differences in market power and information.

C) Overstating an earnings projection in order to increase the price of a stock.

Question #7 of 30

Question ID: 1574820

The investment banking department of the XYZ Brokerage House often has information that would be of significant use to the firm's brokerage clients. To comply with CFA Institute Standards of Professional Conduct, which of the following policies should XYZ adopt?

A) Disseminate this information to all clients at the same time.

B) Encourage their investment banking clients to publicly disseminate this information.

C) Establish physical and informational barriers to prevent the exchange of information between the investment banking and the brokerage operations.

Question #8 of 30

Question ID: 1574835

Ron Taylor, a Level I CFA candidate, trades cotton contracts for a small commodity broker. Taylor convinces a government cotton inspector to issue a warning that the Texas cotton crop is in danger from insect infestation. The price of cotton soars. Taylor immediately shorts cotton futures. Once the position is created, the government inspector issues a second report reversing his original opinion and cotton prices plummet.

Cedric Sims, a Level III CFA candidate, would like to generate a tax loss on a security held in his personal portfolio; however, he believes the security has significant upside potential. To avoid the wash sale provisions of the income tax code, Sims sells the security and simultaneously creates a synthetic long position using derivatives.

With regard to Standard II(B) Market Manipulation, which of the following statements concerning Taylor's and Sims's conduct is CORRECT?

A) Both Taylor and Sims are in violation of Standard II(B).

B) Neither Taylor nor Sims is in violation of Standard II(B).

C) Taylor is in violation of Standard II(B), but Sims is not in violation.

Question #9 of 30

Question ID: 1574828

Wallace Manaugh, CFA, is analyzing the stock of a manufacturer of fishing boats. By analyzing public information, speaking with the firm's suppliers and customers, and counting the new boats in the company's boat yard, Manaugh concludes that the company's new fishing boat is not meeting sales expectations. Anticipating that this will cause the stock price to decline, Manaugh takes a short position in the stock. Manaugh has:

A) an obligation under the Standards to make reasonable efforts to achieve public dissemination of the nonpublic information.

B) not violated CFA Institute Standards.

C) violated the Standards by acting on nonpublic information.

Question #10 of 30

Question ID: 1581433

Regarding non-public information, which one of the following statements is NOT correct?

A) A member can be summarily suspended for having received material non-public information.

B) An analyst may use some types of non-public information.

C) Disclosing material non-public information would have an impact on the price of a security or be of interest to a reasonable investor.

Question #11 of 30

Question ID: 1574818

Marion Klatt, CFA, is a representative for Thiel Financial Network. Klatt received a phone call at home from William Kind, a junior executive at Westtown Development Company, asking whether Klatt had heard that Westtown had just reached an agreement to acquire a major shopping mall chain at a very favorable price. (Klatt had not heard this news, and Klatt was able to confirm that the information had not yet been made public.) Kind requested that Klatt acquire 10,000 shares of Westtown for Kind's personal account.

Klatt should:

A) not acquire the shares until he has contacted Westtown's management and encouraged them to publicly announce the merger discussion.

B) not acquire the shares until the information is made public.

C) not acquire the shares.

Question #12 of 30

Question ID: 1581438

Which of the following statements regarding Standard II(A), Material, Nonpublic Information, is *least* accurate?

A) If you receive the information in a public forum, it has been disseminated, and you can trade on it.

B) Information received from an insider who is not breaching his fiduciary responsibility may be traded on.

C) Material, non-public information regarding a tender offer may not be traded on.

Question #13 of 30

Question ID: 1574827

Mark Guenin, CFA, covers the textile industry for a brokerage firm. While at his golf club on Saturday, he notices several executives from two of his covered companies entering a private dining room and sees a pro forma balance sheet combining the two companies projected onto a screen. The executives greet Guenin and confirm that their companies intend to merge. Guenin's *most appropriate* course of action should be to:

A) divest his personal holdings of both companies.

B) encourage the companies to announce the merger.

C) write a research report updating the outlook for both companies.

Question #14 of 30

Question ID: 1581432

An analyst manages the assets of a charitable organization. Her supervisor tells her to buy a certain stock because the company's chief executive, who is also a board member in the organization, told her the company's earnings will exceed the market forecast when they are released next week. The analyst objects, but the supervisor says this is what they have always done and sees no reason for changing now. The analyst complies with the request. The analyst violated the Standard(s) concerning:

A) only loyalty.

B) both loyalty and material nonpublic information.

C) only material nonpublic information.

Question #15 of 30

Question ID: 1581427

An analyst is allowed to trade on information that he has predicted, such as a corporate action or event, using perceptive assembly and analysis of public information and nonmaterial nonpublic information. This is called the:

A) deduction theory.

B) assessment theory.

C) mosaic theory.

Question #16 of 30

Question ID: 1581430

Don Benjamin, CFA, is the compliance officer for a large brokerage firm. He wants to prevent the communication of material nonpublic information and other sensitive information from his firm's investment banking and corporate finance departments to its sales and research departments. The most common and widespread approach that Benjamin can use to prevent insider trading by employees is the:

A) fire wall.

B) legal list.

C) Wall Street Rule.

Question #17 of 30

Question ID: 1574806

During a conference call with 30 analysts, a company's management discloses that its quarterly earnings, which will be announced at the end of the week, are equal to the consensus forecast. The analysts participating in the conference call should consider this information:

A) nonpublic, but not material.

B) material and nonpublic.

C) material, but public.

Question #18 of 30

Question ID: 1581437

Andrea Waters is an investment analyst who has accumulated and analyzed several pieces of nonpublic information through her contacts with drug firms. Although no one piece of the information she collected is "material," Waters correctly concluded that the earnings of one of the drug companies would be unexpectedly high in the coming year. According to CFA Institute Standards of Professional Conduct, Waters:

A) can use the information to make investment recommendations and decisions.

B) cannot legally invest or make recommendations based on this information.

C) may use the information, but only after approval from a compliance officer or supervisor.

Question #19 of 30

Question ID: 1574830

Nancy McCoy, CFA, is preparing a report on Gourmet Food Mart. As part of her research, she contacts the company's contractors, suppliers, and competitors. McCoy is told by the CEO of a major produce vendor that he is about to file a lawsuit against Gourmet Food Mart, seeking significant damages. McCoy incorporates this information into her research report, which projects a decline in profitability for Gourmet Food Mart due to the impending litigation. According to the CFA Institute Standards of Professional Conduct, McCoy:

A) has violated the Standards by utilizing material nonpublic information.

B) has violated the Standards by disseminating confidential information.

C) has not violated any Standard.

Question #20 of 30

Question ID: 1574817

Trude Front, CFA, is a portfolio manager. While in the normal course of her duties, she happens to overhear material non-public information concerning the stock of VTT Bowser. She purchases several exchange traded funds which contain VTT Bowser, while shorting similar exchange traded funds which do not contain VTT Bowser. This is *most likely*:

A) not a violation of Standard II(A) "Material Non-Public Information."

B) only a violation of Standard II(A) "Material Non-Public Information" because Front is simultaneously shorting the funds which do not contain VTT Bowser.

C) a violation of Standard II(A) "Material Non-Public Information."

Question #21 of 30

Question ID: 1581436

The term "material" in the phrase "material nonpublic information" refers to information that is likely to affect significantly the market price of the issuing company's securities or that:

A) is acquired by the financial analyst from a special or confidential relationship with the issuing company.

B) is likely to be considered important by reasonable investors in determining whether to trade a particular security.

C) is derived by the financial analyst from direct communication with an issuing company's management.

Question #22 of 30

Question ID: 1574833

All of the following are violations of Standard II(B) Market Manipulation EXCEPT:

A) disseminating misleading information about the development of new products and technologies.

B) exploiting differences in market inefficiencies.

C) securing a controlling interest in an equity security in order to influence the price of a related derivative instrument.

Question #23 of 30

Question ID: 1581434

A stockbroker who is a member of CFA Institute has a part-time housekeeper who also works for the CEO of Festival, Inc. One day the housekeeper mentions to the broker that she saw the CEO of Festival having a conversation at his home with John Tater, who is a nationally known corporate lawyer and consultant. The stockbroker is restricted from trading on this information:

A) for both of the reasons listed here.

B) if the housekeeper says the meeting concerned a tender offer and the broker knows that it is non-public information.

C) only if the broker knows that the meeting is non-public information.

Question #24 of 30

Question ID: 1574823

According to CFA Institute Standards of Professional Conduct, which of the following statements about material nonpublic information is NOT correct? Information is:

A) material if reasonable investors would want to know the information before making an investment decision.

B) nonpublic until it has been disseminated to a select group of investors.

C) nonpublic until it has been disseminated to the marketplace in general.

Question #25 of 30

Question ID: 1581439

Mark Williamson is "bearish" on ABC Manufacturing Company. Williamson is so convinced that ABC is overpriced, two weeks ago, he shorted 100,000 shares. Today, Williamson is "surfing" several popular investment bulletin boards on the internet and posting false derogatory comments about company management. According to Standard II(B), Market Manipulation, Williamson has engaged in:

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

B) transaction-based manipulation, but not information-based manipulation.

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

Question #26 of 30

Question ID: 1574811

Which of the following statements concerning material nonpublic information is *most accurate*? A member or candidate may not act or cause others to act on material nonpublic information:

A) until the information becomes available to the public.

B) if the information was obtained through a breach of duty.

C) if the information has been misappropriated.

Question #27 of 30

Question ID: 1574809

Insider trading can be defined as information that is:

A) material and nonpublic.

B) material and public.

C) nonmaterial and nonpublic.

Question #28 of 30

Question ID: 1581431

Which one of the following *least* accurately describes the CFA Institute Standard about using material nonpublic information?

A) An analyst may violate this Standard by passing information to others even when it has been obtained from outside the company.

B) An analyst may use nonmaterial nonpublic information as long as it has been developed under the Mosaic Theory.

C) An analyst using material nonpublic information may be fined by CFA Institute.

Question #29 of 30

Question ID: 1581428

A CFO who is a CFA Institute member is careful to make his press releases—some of them containing material and previously undisclosed information—clear and understandable to his readers. While writing a new release, he often has his current intern proofread rough drafts. He also sends electronic copies to his brother, an English teacher, to get suggestions concerning style and grammar. With respect to Standard II(A), Material Nonpublic Information, the CFO is:

A) not in violation of the Standard.

B) only in violation by e-mailing the pre-release version to his brother but not the intern, because the intern is in essence an employee of the firm.

C) violating the standard by either showing the pre-release version to his intern or sending it to his brother.

Question #30 of 30

Question ID: 1574831

Which of the following is an example of information-based market manipulation?

A) Influencing futures prices by obtaining a dominant position in the underlying commodity.

B) Spreading false rumors about a stock on social media to influence its price.

C) Entering large offsetting buy and sell orders to inflate trading volume.