Question #1 of 104

Question ID: 1574709

Steve Phillips is the new director of equity research for a brokerage company. He receives a call from a reporter at the Financial News, a weekly publication that comes out on Mondays. The reporter explains the relationship she had with his predecessor. They would share information that they both learned on stocks—the former director would benefit the company's clients by news he obtained from the reporter in exchange for information he gave to her. The former director could ask her not to publish any information he gave her until after a certain date, ensuring that the brokerage clients would be informed before the publication date. After the conversation, Phillips called the former director, who confirmed that the reporter was trustworthy with respect to honoring the agreement for delaying publication until clients have been informed. Philips should:

A) disclose research not yet disclosed to clients, as long as the reporter promises not to publish the information until after all clients have received the research, and the reporter provides valuable information of her own. ✗

B) not disclose any research even after it has been disseminated to clients regardless of the value of the information that the reporter may have. ✗

C) only disclose research that has already been disseminated to clients, as long as the reporter is providing valuable information of her own. ✓

Explanation

In no case should information be disclosed to a reporter before all clients are provided with the research—doing so will violate the Standard on fair dealing. However, once clients have been informed, there is no violation in releasing the information to the reporter, and in doing so Phillips might obtain information that can further help his clients.

(Module 91.1, LOS 91.b)

Question #2 of 104

Question ID: 1574742

June Carter passed Level III of the CFA examination in June but will not complete her work experience requirement until August of next year. Carter can state on her resume that she:

A) is a CFA in waiting. ✗

B) passed Levels I, II, and III of the CFA examination. ✓

C) will be a CFA charterholder in August of next year as long as she is on track to complete her work experience.

Explanation

A candidate cannot use any form of the CFA designation until receiving her charter.

(Module 91.1, LOS 91.b)

Question #3 of 104

Question ID: 1581376

While visiting the CSI Company, Mark Ramsey, CFA, overheard management make comments that were not public information, but were not really meaningful by themselves. However, when this information is combined with his own analysis and other outside sources, Ramsey decides to change his recommendation on CSI from buy to sell. According to CFA Institute Standards of Professional Conduct, Ramsey should:

A) issue his sell report because the facts are nonmaterial, but maintain a file of the facts and documents leading to this conclusion.

B) not issue his report until these comments are made public.

C) report these events to his immediate supervisor and legal counsel, since they have become material in combination with his analysis.

Explanation

The use of security analysis combined with nonmaterial nonpublic information to arrive at significant conclusions is legal and is called the mosaic theory.

Question #4 of 104

Question ID: 1574745

Which of the following actions is *least* likely to prevent the misuse of insider information?

A) Controlling relevant interdepartmental information.

B) Monitoring all the phone calls made by the brokers.

C) Placing securities on a restricted list when the firm is in possession of material nonpublic information.

Explanation

Standard II(A), Material Nonpublic Information, applies in this situation. Standard II(A) suggests the use of "fire walls" to protect the firm and to conform to the Standards. A fire wall is an information barrier designed to prevent the communication of material nonpublic information between departments of a firm. Although the fire wall system should provide a means to review transactions, *it is not feasible to monitor all communications into/out of departments*. Placing sensitive securities/firms on "watch, "restricted," or "rumor" lists helps management target monitoring of transactions.

(Module 91.1, LOS 91.b)

Question #5 of 104

Question ID: 1574727

Kim Lee is a research analyst at Superior Investments and is researching a biotech firm that is developing a treatment for a brain disease. While touring company facilities and meeting with management, she learns that they believe they may have found a way to reverse the disease. Moreover, one manager conjectured, "Suppose that we reversed the disease in someone who didn't even have it? We might then be able to boost that individual's IQ into the stratosphere!" After returning to her office, Lee issues a research report describing the treatment as an "IQ booster with huge potential." In the context of the Code and Standards, this statement:

A) is reasonable given the information she was provided by the company. ✗

B) lacks a reasonable and adequate basis. ✓

C) is allowable only if quoted verbatim from her conversations with management. ✗

Explanation

Standard V(A) Diligence and Reasonable Basis requires that a member have a "reasonable and adequate basis, supported by appropriate research and investigation" before making an investment recommendation. Extrapolating on the basis of the conjecture of one member of the management team, without research and investigation, violates this Standard. She may also have violated Standard V(B) Communication with Clients and Prospective Clients by failing to distinguish between fact and opinion.

(Module 91.1, LOS 91.b)

Question #6 of 104

Question ID: 1574735

Juan Lopez manages accounts for Street Capital. Lopez's mother is a client of the firm. Lopez does not make trades in his mother's accounts until all other clients of the firm have been given an opportunity to trade. Lopez has:

A) violated CFA Institute Standards of Professional Conduct because family accounts that are client accounts should be treated like any other firm accounts.

B) not violated CFA Institute Standards of Professional Conduct because transactions for clients should have priority over personal transactions and transactions for beneficial owners.

C) violated CFA Institute Standards of Professional Conduct because he is not allowed to trade in family accounts.

Explanation

Standard VI(B) Priority of Transactions. Family accounts that are client accounts should be treated like any other firm accounts. Lopez should refrain from exercising excess caution since his mother is a client of the firm like all other clients.

(Module 91.1, LOS 91.b)

Question #7 of 104

Question ID: 1581375

Lynne Jennings is a chemical industry research analyst for a large brokerage company. That industry is currently seeing an increase in mergers and acquisitions. While flying through Chicago, Jennings sees several senior officers who she knows are from the largest and fourth largest chemical companies walk into a conference room. She concludes that negotiations for an acquisition might be taking place. Jennings:

A) may not act or cause others to act on this information.

B) may use this information to support an investment recommendation.

C) should inform her compliance officer that she has material nonpublic information on firms she covers.

Explanation

The fact that the company officers met is not material nonpublic information. As long as she bases her investment recommendation on her own independent research, Jennings will not violate any Standards if she uses this additional information to support it.

Question #8 of 104

Question ID: 1581409

Jane Dawson, CFA, an analyst at a New York brokerage firm, suspects that Bob Boatman, CFA, another analyst at the same firm, has violated a state securities law. According to the CFA Institute Standards of Professional Conduct, Dawson is:

A) required to report the suspected violation to the appropriate state regulatory agency.

B) required to report the suspected violation to CFA Institute.

C) **NOT** required to report the violation to the appropriate governmental or regulatory organizations.

Explanation

The Code and Standards **do not** require that members report legal violations to the appropriate governmental or regulatory organizations, but such disclosure may be prudent in certain circumstances. Dawson should consult legal counsel and disassociate from the activity.

Question #9 of 104

Question ID: 1581389

Paul Drake, CFA, is employed by Muskie Company to provide investment advice to participants in the firm's defined contribution pension plan. Muskie stock is one of the investment options in the plan. Drake feels that the stock is too risky for employees to own and starts advising them to pull out of the stock. The Treasurer of the company calls Drake and tells him that he will be fired if he continues making such advice because he is violating his fiduciary duty to the company. Drake should *most* appropriately:

A) make sell recommendations but point out that the company Treasurer has a differing and valid point of view.

B) tell employees that he cannot provide advice on company stock because of a conflict of interest.

C) continue to advise employees to sell their stock.

Explanation

Although Drake is paid by the company, his fiduciary duty is to the plan participants. His advice cannot be compromised by business considerations, otherwise he will be violating the Standard on loyalty, prudence, and care.

Question #10 of 104

Question ID: 1574756

A member or candidate who suspects that a colleague is violating the law should *most* appropriately:

A) consult with the company counsel to determine if in fact a law is being violated.

B) report all illegal activities to the appropriate regulatory agency.

C) report the illegal activity to CFA Institute Professional Standards Review Board for action.

Explanation

According to Standard I(A) Knowledge of the Law, members and candidates shall not knowingly participate or assist in any violation of laws, rules, regulations, or the Code and Standards.

When members suspect a client or a colleague of *planning or engaging in ongoing illegal activities*, members should take the following actions:

- **Consult counsel** to determine if the conduct is, in fact, illegal.
- **Disassociate** from any illegal or unethical activity. When members have reasonable grounds to believe that a client's or employee's activities are illegal or unethical, the members should disassociate from these activities and urge their firm to attempt to persuade the perpetrator to cease such activity.

Note: The Code and Standards do not require that members report legal violations to the appropriate governmental or regulatory organizations, but such disclosure may be prudent in certain circumstances.

(Module 91.1, LOS 91: I(A))

Question #11 of 104

Question ID: 1574692

While attending his wife's office party, Donald North, CFA, overhears two top executives from Parker Industries discussing that the company's Board of Directors just approved to omit its cash dividend due to unexpected losses during the quarter. Parker has paid a quarterly dividend for the past ten years. The next day, North calls his broker and instructs her to sell short Parker's common stock.

While in a coffee shop, Diane South, CFA, overhears two top executives from Ryland Products say that their company is about to be acquired by another company for a substantial premium over the market price. The next day, South calls her broker and instructs him to buy 500 shares of Ryland's common stock.

With regard to North's and South's compliance with the Standard concerning material nonpublic information:

A) neither of them violated the Standard.

B) only one of them violated the Standard.

C) both of them violated the Standard.

Explanation

According to Standard II(A) Material Nonpublic Information, a member or candidate must not act or cause others to act on material nonpublic information until that same information is made public. In both cases, the information was material nonpublic information; therefore, both North and South are in violation.

(Module 91.1, LOS 91.b)

Question #12 of 104

Question ID: 1574733

Todd Gregory has been recently hired as the head of compliance for Speed Capital. He decides the firm should precisely follow the recommendations of the CFA Institute Standards of Professional Conduct to ensure integrity within the firm. Which of the following is NOT a compliance procedure that Speed should put in place?

A) A requirement of disclosure of all investment holdings of friends and family members of employees on an annual basis.

B) A requirement that employees provide duplicate confirmations of personal investing transactions.

C) A requirement that investment personnel should clear all personal investments to identify possible conflicts.

Explanation

Members and Candidates are not required to disclose investment holdings of friends unless those holdings create a conflict of interest.

(Module 91.1, LOS 91.b)

Question #13 of 104

Question ID: 1581401

Judy Gonzales is a portfolio manager with Brenly Capital and works on Johnson Company's account. Brenly has a policy against accepting gifts over $25 from clients. The Johnson portfolio has a fantastic year, and in appreciation, the pension fund manager sent Gonzales a rare bottle of wine. Gonzales should:

A) inform her supervisor in writing that she received additional compensation in the form of the wine.

B) present the bottle of wine to her supervisor.

C) return the bottle to the client explaining Brenly's policy.

Explanation

By not returning the bottle she would be violating the Standard on disclosure of conflicts to the employer, which states that employees must comply with prohibitions imposed by their employer.

Question #14 of 104

Question ID: 1574780

David Martin, CFA, recently joined Arc Financial as a portfolio manager of an emerging markets mutual fund. For the past three years, he managed an emerging markets mutual fund for Landmark Investments. Upon Martin's arrival, Arc Financial announces to existing and prospective clients, "While at Landmark Investments, Martin was the senior portfolio manager of Alpha Emerging Markets Fund. In Martin's three years as manager, this fund outperformed its benchmark each year, as documented in recent reports by Landmark." Does this statement violate the CFA Institute Standard of Professional Conduct related to performance presentation?

A) No.

B) Yes, because the Standards prohibit showing past performance at a prior firm.

C) Yes, because Arc must present at least five years of Martin's performance history.

Explanation

Standard III(D) Performance Presentation does not prohibit showing past performance of funds managed at a previous firm as part of a performance track record if accompanied by appropriate disclosures. In this instance, Arc clearly detailed that the performance occurred while Martin was the manager of Alpha Emerging Markets Fund. A minimum 5-year performance history is not required by Standard III(D).

(Module 91.1, LOS 91.c)

Question #15 of 104

Question ID: 1581400

Brendan Duval works as a research analyst for Toby Securities. Duval recommends changing a recommendation from "sell" to "buy" on Dalton Company. His firm, which manages several mutual funds, may be interested in buying Dalton's stock. He also manages the retirement account that his parents established with Toby. Duval wants to buy shares of Dalton's stock because it is an appropriate investment for his parent's retirement account and obtains approval from his employer to do so. Duval is also thinking about personally investing in Dalton stock. According to CFA Institute Standards of Professional Conduct, which of the following *best* describes the priority of transactions? Duval should give:

A) priority of transactions to Toby's clients, followed by his employer, then his parent's retirement account, and finally his personal account.

B) Toby's clients and his parent's account equal priority, followed by his employer, and then his personal account.

C) priority to Toby's clients and his employer concurrently, followed by his parent's retirement account, and finally his personal account.

Explanation

According Standard VI(B) Priority of Transactions, Duval should give transactions for clients and employers priority over his personal transactions. Because his parent's retirement account represents a client account at Toby, Duval should treat this account just like any other firm account. His parent's retirement account should neither be given special treatment nor disadvantaged because of an existing family relationship with Duval. If Duval treats his parent's retirement account differently from other accounts at Toby, he would breach his fiduciary duty to his parents.

Question #16 of 104

Question ID: 1574747

If a member does business in a country with stricter securities laws and regulations than the Code and Standards, but the member's home country has less strict securities laws or regulations than the Code and Standards, the member must abide by the:

A) Code and Standards only.

B) home country’s securities laws and regulations only.

C) laws and regulations of the country in which the member is doing business.

Explanation

The member must abide by the laws and regulations of the country in which he is doing business if these laws are stricter than his home country's laws or the Code and Standards. According to Standard I(A) Knowledge of the Law, a member or candidate must adhere to the strictest applicable law or regulation.

(Module 91.1, LOS 91: I(A))

Question #17 of 104

Question ID: 1581373

In the course of reviewing the Corn Co., an analyst has received comments from management that, while not meaningful by themselves, when pieced together with data he has accumulated from outside sources, lead him to recommend placing Corn Co. on his firm's sell list. What should the analyst do?

A) Show his report to his own manager and counsel for their review since this information has become material once it was combined with his analysis.

B) The comments are non material and the report can be issued as long as he maintains a file of the facts as supplied by management.

C) Not issue the report until the comments are publicly announced.

Explanation

This is an example of the mosaic theory where separate pieces of nonmaterial information are pieced together to make an investment recommendation.

Question #18 of 104

Question ID: 1574714

Patricia Young is an individual investment advisor who uses a computer model to place each of her clients into an appropriate portfolio. The model analyzes a range of simulated portfolios and computes for each the probabilities of achieving various levels of return. Young then selects the portfolio that provides the highest probability of achieving the clients' minimum required return. By using this process, Young is:

A) violating Standard III(C) - Suitability.

B) not violating the Standards.

C) violating Standard I(C) - Misrepresentation.

Explanation

Standard III(C) Suitability requires that Young select investments that are consistent with clients' risk and return objectives. However risk tolerance is not adequately addressed by Young's process.

(Module 91.1, LOS 91.b)

Question #19 of 104

Question ID: 1574736

Patricia Spraetz is the chief financial officer and compliance officer at Super Selection Investment Advisors. Super Selection is a medium-sized money management firm which has incorporated the CFA Institute Code of Ethics and Standards of Practice into the firm's compliance manual.

Karen Jackson is a portfolio manager for Super Selection. She is not a CFA charterholder. Jackson is friendly with David James, president of AMD, a rapidly growing biotech company. James has provided Jackson with recommendations in the biotech industry, which she buys for her own portfolio before buying them for her clients. For three years, Jackson has also served on AMD's board of directors but has never notified Super Selection of this fact. She has received options and fees as compensation.

Recently, the board of AMD decided to raise capital by voting to issue shares to the public. This was attractive to board members (including Jackson) who wanted to exercise their stock options and sell their shares to get cash. When the demand for initial public offerings (IPO) diminished, just before AMD's public offering, James asked Jackson to commit to a large purchase of the offering for her portfolios. Jackson had previously determined that AMD was a questionable investment but agreed to reconsider at James' request. Her reevaluation confirmed the stock to be overpriced, but she nevertheless decided to purchase AMD for her clients' portfolios.

Which of the following statements is NOT correct?

A) Jackson did not violate Standard III(A) on Fiduciary Duty to clients because she was bound by her fiduciary duty to AMD and its stockholders as a board member. Therefore, when she reversed her decision to buy AMD shares for Super Selection's clients, portfolios on James' request, her obligation to AMD took precedence.

B) Jackson violated Standard IV(B) regarding Disclosure of Additional Compensation by not disclosing additional compensation in the form of cash and stock options received from AMD, as its board member to her employer.

C) Jackson violated Standard VI(A) regarding Conflicts of interest by not disclosing her board membership and ownership of stock options to her employer.

Explanation

Jackson has violated Standard III(A) because her first obligation is to her firm's clients. Standard VI(A) addresses precisely these kinds of situations regarding potential conflict of interest. Given this conflict of interest, Jackson also compromised her objectivity in violation of Standard I(B). Her fiduciary duty to her clients takes precedence over her fiduciary duty to AMD's stockholders under the CFA Institute Code and Standards. By not disclosing her relationship with AMD, she also violated Standard IV(B). Making past personal security transactions ahead of purchase of the same securities for her clients has put Jackson in violation of Standard VI(B). This standard clearly prohibits such actions.

(Module 91.1, LOS 91.b)

Question #20 of 104

Question ID: 1581402

One year ago, Karen Jason left the employment as a portfolio manager of Howe Advisors. The departure was contentious and both parties threatened legal action. As a result, both parties signed a settlement in which Jason was paid a prorated bonus, but agreed not to work on the portfolios of any existing Howe client for two years. The terms of the agreement were that both parties agreed to keep all aspects of the agreement confidential, including the fact that there was hostility surrounding the departure. Jason now works for Torre Advisors, who has the Stein Company as a new client. At the time Jason left Howe, Stein was a client of Howe, although Jason did not personally work on the Stein portfolio. Jason's supervisor at Torre wants Jason to work on the Stein portfolio. Jason should:

A) inform her supervisor that she cannot work on the portfolio because of a legal agreement, but cannot tell him why.

B) inform her supervisor that she cannot work on the portfolio because of a non-compete agreement.

C) work on the portfolio because she did not personally work on the portfolio when she was at Howe.

Explanation

Jason must inform her supervisor of the conflict, but she cannot violate the terms of the confidentiality agreement and she cannot work on the portfolio.

Question #21 of 104

Question ID: 1581395

Steven Wade, CFA, writes an investment newsletter focusing on high-tech companies, which he distributes by e-mail to paid subscribers. Wade does not gather any information about his clients' needs and circumstances. Wade has developed several complex valuation models that serve as the basis for his recommendations. Each month, his newsletter contains a list of "buy" and "sell" recommendations. He states that his recommendations are suitable for all types of portfolios and clients. Because of their proprietary nature, Wade does not disclose, except in general terms, the nature of his valuation models. He conducted numerous statistical tests of these models and they appear to have worked well in the past. In his newsletter, Wade claims that subscribers who follow his recommendations can expect to earn superior returns because of the past success of his models.

Wade violated all of the following CFA Institute Standards of Professional Conduct EXCEPT:

A) Standard I(C), Misrepresentation.

B) Standard III(B), Fair Dealing.

C) Standard V(B), Communication with Clients and Prospective Clients.

Explanation

Wade did not violate Standard III(B), Fair Dealing, because this situation does not indicate that he failed to deal fairly and objectively with all clients when disseminating his newsletter containing investment recommendations.

Wade violated Standard V(B), Communication with Clients and Prospective Clients, because he failed to include all relevant factors behind his recommendations. Without providing the basis for his recommendations, clients cannot evaluate the limitations or the risks inherent in his recommendations.

Wade violated Standard I(C), Misrepresentation, because his claims about gaining superior expected returns are misleading to potential investors.

Question #22 of 104

Question ID: 1574744

John Farr, CFA, has accumulated several pieces of nonmaterial nonpublic information about CattleCorp from his contacts with the company. From analysis based on this information, together with public information, Farr concludes that CattleCorp will have unexpectedly low earnings this year. Farr has contacted the company, but they will not confirm his conclusion. According to CFA Institute Standards of Professional Conduct, Farr:

A) may not trade or make recommendations based on his analysis.

B) may trade or make recommendations based on his analysis.

C) may trade or make recommendations based on his analysis only if his company's compliance officer determines that the nonpublic information he used was not material.

Explanation

According to Standard II(A) Material Nonpublic Information, Farr is free to act under the mosaic theory because nonmaterial nonpublic information does not fall within the prohibition on trading based on material nonpublic information. He should keep detailed documentation of his analysis to document that he did not advise or act based on material nonpublic information.

(Module 91.1, LOS 91.b)

Question #23 of 104

Question ID: 1574684

Fran Lester, CFA, works for a broker based in a country in which participation in any IPO is permitted with her employer's permission. She lives and works in a country that has no restrictions on her participation in IPOs. If Lester's firm is distributing shares of an oversubscribed IPO through the office Lester works in, can Lester receive shares in the IPO?

A) Yes, because the applicable law is that of her home country.

B) No, not under any circumstances.

C) Yes, but she must obtain permission from her employer.

Explanation

Standard I(A) Knowledge of the Law requires members and candidates to comply with the strictest requirement among the law where they reside, the law in the area where they do business, and the Code and Standards. In this case, the Code and Standards is the strictest. Standard III(B) Fair Dealing prohibits members and candidates from withholding shares in oversubscribed IPOs from clients for their own benefit. (Module 3.1, 3.4)

(Module 91.1, LOS 91.b)

Question #24 of 104

Question ID: 1574730

While copying some of her research materials at work, Mary Jones comes across a few incomplete research notes written by one of her colleagues. As a result of reading the notes, and without further review, Jones immediately changes one of her stock recommendations from sell to buy. Which of the following CFA Institute Standards has Jones violated?

A) Standard I(B), Independence and Objectivity.

B) Standard III(A), Loyalty, Prudence, and Care.

C) Standard V(A), Diligence and Reasonable Basis.

Explanation

Jones has violated Standard V(A) by failing to exercise diligence and thoroughness.

(Module 91.1, LOS 91.b)

Question #25 of 104

Question ID: 1574775

A member or candidate who produces issuer-paid research should *most appropriately* negotiate:

A) a flat fee prior to writing the report.

B) a fee scale based on the subsequent performance of the issuer's securities.

C) compensation in the form of equity or options, but not cash.

Explanation

Standard I(B) Independence and Objectivity states that the best practice for issuer-paid research is to negotiate a flat fee before writing the report. Compensation that depends on the performance of the issuer's securities can compromise an analyst's objectivity by creating an incentive to write a positive recommendation.

(Module 91.1, LOS 91: I(B))

Question #26 of 104

Question ID: 1574680

Linda Schultz, CFA, is an investment advisor at Wheaton Investments. Schultz has been employed there for five years, and has never signed a "non-compete" clause. While at Wheaton, Schultz makes preparations to set up her own money management firm. She does not contact any existing clients before leaving Wheaton and does not take any firm records or files. After her resignation becomes effective, Schultz replicates a list of former clients from memory and uses public sources to get their contact information. She then contacts these former clients and solicits their business for her new firm. Has Schultz violated any CFA Institute Standards?

A) No. Schultz is in compliance with CFA Institute Standards. ✔

B) Yes. Schultz may not contact clients of her old firm. ✘

C) Yes. Schultz is permitted to notify clients that she has left her old firm, but she cannot encourage them to come with her to the new firm. ✘

Explanation

Schultz continued to act in her employer's best interest while still employed and did not engage in any activities that would conflict with this duty until her resignation became effective. Standard IV(A) Loyalty does not prohibit her from contacting clients from her previous firm if she does not get the contact information from the records of her former employer or violate an applicable non-compete agreement.

(Module 91.1, LOS 91.b)

Question #27 of 104

Question ID: 1574740

Ann Dunbar, a portfolio manager, wishes to buy stock of Knight Enterprises for her personal account and for clients. Knight is a thinly traded stock. Dunbar believes her own purchase is too small to affect the price but the purchase for clients is likely to increase the price. According to the Code and Standards, when may Dunbar buy the stock for her personal account?

A) At the same time she enters the buy order for her clients. ✘

B) She may not buy the same stock that she buys for her clients. ✘

C) After the buy order for her clients is executed. ✔

Explanation

Standard VI(B) Priority of Transactions requires that transactions for clients take precedence over a personal transactions of a member or candidate. Members and candidates should not benefit personally from client transactions, as would occur in this case if the manager enters her personal trade at the same time as the trade for clients. The Standard does not prohibit members and candidates from investing in the same securities they recommend for clients.

(Module 91.1, LOS 91.b)

Question #28 of 104

Question ID: 1574696

Marc Feldman, CFA, is manager of corporate investor relations for a high-tech startup, zippy.com, in Boise, Idaho. Feldman learns that Larry Smith, controller, is altering the accounting records. Feldman advises some of his personal friends to sell short zippy.com. This action:

A) constitutes a violation of the Standard concerning prohibition against misrepresentation.

B) constitutes professional misconduct but not the use of nonpublic information and is a violation of the Code and Standards.

C) constitutes the use of material nonpublic information and is a violation of the Code and Standards.

Explanation

The information is apparently nonpublic, and is clearly material since the valuation of securities in the market place is predicated upon financial data and other relevant information. Trading or inducing others to trade is a clear violation of Standard II(A).

(Module 91.1, LOS 91.b)

Question #29 of 104

Question ID: 1574693

John McNeal, CFA, has a friend named Stan Green, a journalist at Investment News, a weekly magazine. In one of their conversations, Green tells McNeal he has written an article about undisclosed financial problems at Brightstar Company. Green says the article will appear in the issue of Investment News that will be released tomorrow. According to the Standards, McNeal:

A) should ask Green to disseminate the information immediately.

B) may act on this information because it is in the process of becoming public.

C) may not act on this information.

Explanation

To comply with Standard II(A) Material Nonpublic Information, McNeal may not act or cause others to act on the information until it becomes public.

(Module 91.1, LOS 91.b)

Question #30 of 104

Question ID: 1574762

Bob Smith, CFA, is an independent board member of Atlantic Technologies, but is not paid by the firm for his services. An employee at Atlantic informs Smith that Atlantic has improperly timed the booking of contracts to achieve the desired quarterly financial results. The misleading financial statements would turn losses into profits. Smith confers with the firm's legal counsel who indicates that this conduct is, in fact, illegal. Smith urges Sharon White, Atlantic's chief financial executive, to change the financial statements, but she refuses to do so and indicates the firm's external auditors have approved the method of revenue recognition she has used. According to CFA Institute Standards of Professional Conduct, which of the following actions is *least likely* appropriate for Smith: in this situation?

A) Bring his concerns to the other board members.

B) Dissociate from the activity by resigning as a director or by reporting the activities to the appropriate authorities.

C) Report the illegal activity to CFA Institute.

Explanation

Reporting violations of the Standards to the CFA Institute may be appropriate for concerns about a member's conduct, but is not the proper avenue for reporting corporate malfeasance in general. Members must dissociate from any activity they know is illegal and if Smith cannot get his firm for correct the misleading financial report he must leave the board. There are intermediate steps that Smith can take in order to remedy the situation. Smith may bring his concerns to the other board members in order to get the firm to stop the illegal activity. If the board will not remedy the situation, dissociating from the board may be Smith's only way to remain in compliance with the Code and Standards.

(Module 91.1, LOS 91: I(A))

Question #31 of 104

Question ID: 1581374

Paul Clark, CFA, has just learned from a financial analyst at Corvac Industries that orders for their core products are running ahead of last year's orders by 15%, information that has not been publicly disclosed by the company. Clark currently has a hold rating on Corvac based on his expectation of a 5% increase in revenues for the current year. Based on Standard II(A) Material Non-public Information, Clark's *most appropriate* course of action is to:

A) disclose the information publicly prior to making any changes in his recommendation.

B) encourage Corvac to publicly release the order information and not act on that information until it is publicly disclosed.

C) put Corvac on his firm’s restricted list and not make a recommendation until the increase in orders is publicly disclosed.

Explanation

The Standard recommends that an analyst who possesses material non-public information encourage the company to release the information publicly. The Standards prohibit Clark from acting on the information until it is publicly disclosed. Since the information is only known by Clark, putting it on a restricted list is not necessary. Public disclosure of material non-public information by an analyst would likely be considered a violation of the Standard.

Question #32 of 104

Question ID: 1574753

Mary Kim, CFA, practices in the established country of Oldasia as well as in the emerging country of Newasia. By regulation, Oldasia prohibits licensed investment advisors from trading in securities ahead of their clients. Newasia has no laws or regulations in this area. Mary Kim may:

A) not trade ahead of her clients in either country.

B) trade ahead of her clients in Newasia only, as long as she has made full disclosure to her clients that she reserves the right to do this.

C) trade ahead of her clients in Newasia only.

Explanation

Under Standard I(A), Mary Kim, as a CFA charterholder, must apply the CFA Institute Code and Standards or the controlling law, whichever is stricter. Because Standard VI(B) requires members to put client trades ahead of their own transactions, Mary Kim must follow the standard in the absence of governing law, or where the law is less strict than the standard.

(Module 91.1, LOS 91: I(A))

Question #33 of 104

Question ID: 1574681

Ken Koski, CFA, issues a press release that includes the following statement:

> We are proud to announce that two of our managers have earned the right to use the CFA designation. In addition, four of our junior analysts have become Level III CFA candidates. These individuals have proven their dedication to the investment community and shown commitment to the highest ethical standards.

With regard to the statements in the press release:

A) Koski has violated the Code and Standards by improperly referencing the managers’ right to use the CFA designation. ✗

B) Koski has violated the Code and Standards by implying superior performance results. ✗

C) all these statements are in compliance with CFA Institute Standards. ✓

Explanation

All of the statements are acceptable according to Standard VII(B), Reference to CFA Institute, the CFA designation, and the CFA Program. Koski is allowed to make a statement of fact such as the managers' right to use the CFA designation. Koski may reference the participation of his employees in the CFA program if the employees are currently registered to take one of the exams. The statements regarding dedication to the investment community and commitment to the highest ethical standards are proper references regarding the CFA program.

(Module 91.1, LOS 91.b)

Question #34 of 104

Question ID: 1581394

The following information pertains to the Galaxy Trust, a trust established by Stephen P. House and managed by Gamma Investment LLC:

- At the time the trust was established House provided $5 million in cash to fund the trust, but Gamma was aware that 93% of his personal assets were in the form of Oracle stock.
- Gamma has been asked to view his funds and the trust as a single entity for planning purposes, since House's will stipulates that all of his estate will pass to the trust upon his death.
- The investment policy statement, developed in September 1996, stipulates that the trust should maintain a short position in Oracle stock and use the proceeds to diversify the trust more adequately.
- House was able to sell all of his Oracle shares back to the corporation in January 1999 for cash.
- The policy statement redrawn in September 1999 continues to stipulate that the trust hold a short position in Oracle stock.
- House has given the portfolio manager in charge of the trust an all-expenses paid vacation package anywhere in the world each year at Christmas. The portfolio manager has reported this fact in writing to his immediate supervisor at Gamma.

Which of the following is *most* correct? The investment manager is:

A) in violation of the Code and Standards by not properly updating the investment policy statement in light of the change in the circumstances and is in violation with regard to the acceptance of the gift from House.

B) in violation of the Code and Standards by not properly updating the investment policy statement in light of the change in the circumstances but is not in violation with regard to the acceptance of the gift from House.

C) not in violation of the Code and Standards for not properly updating the investment policy statement in light of the change in the circumstances and is not in violation with regard to the acceptance of the gift from House.

Explanation

The investment manager is in violation of the Standard requiring him to make a reasonable inquiry into the client's financial situation and update the investment policy statement since such a dramatic change in the client's circumstances would undoubtedly alter the investment policy statement and would probably eliminate the need to hold a short position in Oracle. The investment manager is not in violation of the Standard concerning additional compensation, since the gift has been reported to his supervisor and has come from a client. If there was a failure to report such a gift, if the firm had a rule in place against the acceptance of gifts from clients, or if the gift had come from a non-client, there would be a violation of the standard.

Question #35 of 104

Question ID: 1574741

Sean Jones places an order with his investment advisor Lisa Johnson, CFA, to buy 1,000 shares of Orkle Incorporated. Johnson's firm makes a market in Orkle and she executes the trade through her own firm. According to the Code and Standards, Johnson should:

A) decline to execute trades in securities for which her firm makes a market. ✗

B) contact her firm’s compliance department before accepting the order. ✗

C) disclose her firm’s market making activities to Jones. ✓

Explanation

Standard VI(A) Disclosure of Conflicts states that broker-dealer market making activities must be disclosed to clients.

(Module 91.1, LOS 91.b)

Question #36 of 104

Question ID: 1581411

Bob Blanford, CFA, is an investment analyst for a large global brokerage firm. He recently moved to Ragatan, a developing country. As part of conducting a company analysis, Blanford interviews Ravi Shanti, vice president of finance at Starr Industries. Starr is a major industrial firm in Ragatan and a client at Blanford's firm. Based on his analysis, Blanford suspects that Shanti may have deliberately overstated Starr's current earnings and its earnings for the past several quarters. Blanford suspects that Shanti may have violated Ragatan's securities laws. To comply with the Code and Standards, Blanford should *least likely*:

A) disassociate himself from the client, if the activity is illegal or unethical. ✗

B) determine the legality of the activity, possibly by consulting counsel. ✗

C) take no action. ✓

Explanation

Because Blanford suspects Shanti of engaging in ongoing illegal activities, Blanford should take action by determining the legality of the suspected action, disassociating from any illegal activity, and urging his firm to attempt to persuade Shanti to cease such conduct if such an activity is illegal or unethical.

Question #37 of 104

Question ID: 1581404

Ken James has been an independent financial advisor for 15 years. He received his CFA Charter in 2013, but did not feel it helped his business, so he let his dues lapse this year. He still has several hundred business cards with the CFA designation printed on them. His promotional materials state that he received his CFA designation in 2013. James:

A) may continue to use the existing promotional materials, and may use the cards until his supply runs out—his new cards cannot have the designation.

B) must cease distributing the cards with the CFA designation and the existing promotional materials.

C) must cease distributing the cards with the CFA designation, but may continue to use the existing promotional materials.

Explanation

Because he is not currently a dues-paying member, James must stop using the CFA designation immediately. However, the year he was awarded the Charter is a fact.

Question #38 of 104

Question ID: 1581413

Nicholas Brynne, CFA, is a fixed-income analyst who trades in mortgage-backed securities (MBS). The MBS industry has seen sweeping regulatory changes since Brynne took his current position, and he now feels his understanding of applicable laws and regulatory standards is dated. To comply with the Code and Standards, Brynne is required to:

A) have all trades reviewed by his compliance department until he has obtained an expert level of knowledge in compliance.

B) rely on his firm's policies and procedures for guidance on legal and regulatory standards.

C) update his understanding of applicable laws and regulatory standards relating to his position.

Explanation

To comply with Standard I(A) Knowledge of the Law, Brynne should update his understanding of applicable laws and regulatory standards relating to his position, although he is not required to be an expert in compliance. Relying only on firm policies and procedures is not sufficient.

Question #39 of 104

Question ID: 1574721

Laura Smith, CFA, is an analyst with the trust department of Bright Star Bank. The department's portfolio managers use a proprietary model to select stocks. Bright Star has been purchased by Mega Bank, which does not plan to use Bright Star's model after completing the purchase. A few weeks before the Bright Star/Mega Bank merger date, Smith downloads the model to her laptop and modifies the model for her own use. Do Smith's actions violate the Standards of Professional Conduct?

A) No, because Smith modified the model. ✗

B) Yes, because the model is the property of Mega Bank. ✓

C) No, because Mega Bank has discontinued use of the model. ✗

Explanation

Smith has violated Standard IV(A) Loyalty by copying proprietary computerized information without authorization of the owner, Bright Star Bank and now Mega Bank. Even if Bright Star has been absorbed by Mega Bank, the assets of the trust department, including the model, now belong to Mega Bank, even if it chooses not to use them. Smith would have complied with the Standard if she had obtained permission from Mega Bank to copy the model.

(Module 91.1, LOS 91.b)

Question #40 of 104

Question ID: 1574683

Roger Smith, CFA, has been invited to join a group of analysts in touring the riverboats of River Casino Corp. For the tour, River Casino has arranged chartered flights from casino to casino since commercial flight schedules are not practical for the group's time schedule. River Casino has also arranged to pay for the analysts' lodging for the three nights of the tour. According to CFA Institute Standards of Professional Conduct, Smith:

A) may accept the arrangements as they are. ✓

B) may accept the flight but is required to pay for his lodging. ✗

C) is required to pay for his flight and lodging. ✗

Explanation

Because the itinerary required charter flights due to a lack of commercial transportation, River Casino can appropriately provide them. While Standard I(B) Independence and Objectivity recommends that members pay their own room costs, it is not required and it is not unusual for members to accept accommodations.

(Module 91.1, LOS 91.b)

Question #41 of 104

Question ID: 1581378

Greg Allen is a security analyst and visits David Dawson, the Chief Financial Officer of Edmonds Company. Dawson reveals a great deal of nonmaterial financial data to Allen, data that Dawson routinely reveals to all security analysts who visit him. From this data and other industry information, Allen conjectures that Edmonds is likely to make a tender offer for another company in the industry, a fact that if true would be considered material to the value of the company. Allen:

A) can publish his conclusion in a research report. ✓

B) must not disseminate the information or use it for trading purposes until the tender offer is announced. ✗

C) should send a copy of the report to Dawson for verification before disseminating the report to clients. ✗

Explanation

While the information that Allen received from the Edmonds CEO may be non-public, we are also told that it is non-material. Because Allen has reached his investment conclusion through an analysis of public information together with items of non-material non-public information (i.e., "mosaic theory"), publishing this conclusion is not a violation of the Code and Standards.

Question #42 of 104

Question ID: 1574695

Randy Wesson is a research analyst for a large brokerage company following the chemical industry. Wesson During a visit to Hunt Chemical Company, Wesson overhears two executives talking about an upcoming divestiture of a significant subsidiary, which has not been announced to the public. Wesson should:

A) not use the information. ✓

B) write a research report describing the possibility of a divestiture, but not mention that the company has decided to carry it out.

C) inform his company's clients of the divestiture.

Explanation

The information is material and nonpublic; therefore, Wesson must not act or cause others to act on the information. To do so would violate Standard II(A) Material Nonpublic Information.

(Module 91.1, LOS 91.b)

Question #43 of 104

Question ID: 1581424

Joshua Rosenberg, CFA, is an equity analyst who covers Northwest Implements, a farm implement manufacturer. Northwest's main factory is located in a sparsely inhabited region six hours by automobile from the nearest airport. Northwest has its own corporate jet and a landing strip near its facility. When Rosenberg contacts Northwest's management to arrange a visit for a report he is preparing on the company, Northwest's chief financial officer offers to send Northwest's corporate jet to pick up Rosenberg from an airport near his home and return him home the same evening. Rosenberg estimates that it would require three days for him to make the visit using commercial travel. If Rosenberg makes the trip to Northwest's headquarters on the corporate jet, the Standard concerning independence and objectivity:

A) requires him to disclose in his report on Northwest the company's payment of his travel expenses.

B) requires him or his employer to reimburse Northwest for the cost of the trip.

C) permits him to do so.

Explanation

According to Standard I(B) Independence and Objectivity, a visit by an analyst to an out-of-the-way site may be provided by a company host if commercial transportation is unavailable or inefficient. If the use of such transportation creates the appearance of a conflict of interest or interferes with an analyst's ability to provide unbiased opinions, Standard VI(A) Disclosure of Conflicts would require the analyst to disclose it to his employer and clients.

Question #44 of 104

Question ID: 1574682

After working 20 years on Wall Street, Jim Gentry, CFA, decides to open his own investment firm on Turtle Island, located in the Caribbean. Turtle Island has securities laws that are much less stringent than U.S. laws or the CFA Institute Standards of Professional Conduct. Many of his U.S.-based clients have agreed to keep Gentry as their portfolio manager and move their assets to his new firm. After a few months of operations, Gentry has encountered several instances in which Turtle Island regulations relieve him of disclosing information to investors that he had been required to disclose while working in New York. According to the CFA Institute Code and Standards, Gentry must adhere to the:

A) laws of Turtle Island, but disclose any discrepancies to U.S.-based clients.

B) Code and Standards or U.S. law, whichever is more strict.

C) Code and Standards because as a charterholder, he need only adhere to the Code and Standards under all circumstances.

Explanation

Standard I(A) Knowledge of the Law states that when applicable law and the Code and Standards have differing requirements, candidates and members must follow the strictest of the law where they reside, the law where they do business, or the Code and Standards.

(Module 91.1, LOS 91.b)

Question #45 of 104

Question ID: 1581388

Scott Andrews, CFA, is a stockbroker selling an oversubscribed stock issue. Which of the following *best* describes Andrews' actions regarding this sale? Andrews:

A) can offer this security on a prorated basis to all clients for which the security is appropriate.

B) can only offer this security to clients for which it is appropriate on a first come first serve basis.

C) cannot offer an oversubscribed issue of stock to any clients.

Explanation

Standard III(B), Fair Dealing, applies. When new issues or secondary offerings are available or are being offered by the firm or if the firm is part of a selling syndicate, all clients for whom the security is appropriate are to be offered a chance to take part in the issue. *If the issue is oversubscribed, then the issue is to be prorated to all subscribers.*

Question #46 of 104

Question ID: 1581410

Shortly after becoming employed by Valco & Co., an investment banking firm, Stan McDowell, CFA, learns that most of Valco's initial public offerings (IPO) are really put in place to profit management via price manipulation of the shares. McDowell observes an illegal act, sanctioned by senior management, in progress and refuses to sign off on his responsibility. Instead, McDowell takes the documentation to his supervisor and tells him he should sign it in his place. This action is:

A) a suitable reaction, and he is in compliance with the Code and Standards.

B) a violation of the Code and Standards since he is required not to knowingly participate or assist in such an act.

C) an overreaction. Senior management's sanctioning of the act absolves McDowell from his ordinary responsibility as a CFA Institute member.

Explanation

McDowell, by his action in taking the documentation to his supervisor, is knowingly participating in and/or assisting in an illegal act. This is clearly prohibited under Standard I(A), and he is in violation of the Standard.

Question #47 of 104

Question ID: 1574678

Chuck Hill, CFA, the financial manager of Niseron Corp., has just learned that Niseron's quarterly net income will fall well short of consensus analyst expectations. Hill decides that he should immediately notify analysts covering Niseron of this negative development. He calls two particular analysts first who have followed Niseron stock for several years and have alerted Hill to important developments at competing firms. Failing to notify these analysts might damage Hill's ability to monitor his competition, to the detriment of his own shareholders. Under CFA Institute's Code and Standards, Hill should *most appropriately*:

A) notify no analysts until he is ready to issue the final numbers for the quarter.

B) notify the two analysts first because their information adds value for Niseron's shareholders.

C) issue a press release regarding Niseron's earnings prior to calling analysts.

Explanation

Issuing a press release is the best way to achieve fair public dissemination. Notifying any specific analysts first is a violation of Standard III(B) Fair Dealing, regardless of any help they may have provided in the past. (Module 91.1, LOS 91.b)

Question #48 of 104

Question ID: 1581383

Denise Weaver, CFA, manages a mutual fund and several pension plans. When Weaver receives a proxy for stock held by the mutual fund, she gives it to Susan Griffith, her administrative assistant, to vote according to the recommendations of the company's management. When the proxy is for a stock held by one of the pension plans, she asks Griffith to send the proxy on to the pension fund's sponsor to vote. Weaver has:

A) violated the Standards by her policy on mutual fund and pension fund proxies. ✓

B) violated the Standards by her policy on mutual fund proxies, but not her policy on pension fund proxies. ✗

C) not violated the Standards with her policies on voting proxies. ✗

Explanation

Guidance for Standard III(A) Loyalty, Prudence, and Care states that informed and responsible voting of proxies is a responsibility of members and candidates. Neither of Weaver's proxy voting policies meets this Standard. Proxies should not be voted blindly in agreement with company management. Proxies for a pension plan should be voted in the best interests of the beneficiaries, not the plan sponsor. The sponsor's interests will not always be the same as the beneficiaries' interests.

Question #49 of 104

Question ID: 1574712

The use of client brokerage by an investment manager to obtain certain products and services to aid the manager in the investment decision-making process is called:

A) quid pro quo practices. ✗

B) soft dollar practices. ✓

C) trading practices. ✗

Explanation

Directing client brokerage for research and/or services is called soft dollar practices.

(Module 91.1, LOS 91.b)

Question #50 of 104

Question ID: 1574701

Amanda Bradford is a security analyst at UpTrend, Inc. During a routine visit to a beauty salon, she learns that a major cosmetic company, Lorean, is expected to present a revolutionary formula for facial cream. Bradford begins writing a research report on the company. Bradford also calls Hillary Lang, CFA, an investment advisor at UpTrend, to inform her about the news and her forthcoming report. Lang buys Lorean stock for her clients' portfolios. Bradford's report, which is distributed two days later to all UpTrend clients, states that given the ongoing research activity at Lorean, investors can expect some successful new products and a sharp increase in its share price.

Lang's actions *least likely* violate the Standard concerning:

A) fair dealing.

B) material nonpublic information.

C) independence and objectivity.

Explanation

Relying on research from another analyst in the firm is acceptable under Standard I(B) Independence and Objectivity. However, Lang violated Standard III(B) Fair Dealing by acting on Bradford's research for her own clients before it has been disseminated to all clients. .While the scenario given in this question does not suggest the information about Lorean is nonpublic, Standard II(A) Material Nonpublic Information states that research recommendations may be material because they have the potential to affect security prices. Thus Lang may have violated this Standard as well by acting on Bradford's report before it became public.

(Module 91.1, LOS 91.b)

Question #51 of 104

Question ID: 1574746

Rhonda Morrow, CFA, is an analyst for Waller & Madison, a brokerage and investment banking firm. Waller & Madison is a market maker for CorpEast, and Tim Waller, a principal in Morrow's firm, sits on CorpEast's board. Morrow has been asked to write a research report on CorpEast. According to the Standard regarding disclosure of conflicts, Morrow:

A) must disclose that Waller & Madison is a market maker in CorpEast shares but not that Waller is a board member.

B) may write the report if she discloses both that Waller & Madison is a market maker in CorpEast shares and that Waller sits on the CorpEast board.

C) must not write the report.

Explanation

To comply with Standard VI(A) Disclosure of Conflicts, both the market-making activities by the firm and the directorship held by a principal in the firm must be disclosed.

(Module 91.1, LOS 91.b)

Question #52 of 104

Question ID: 1581420

Mary White, CFA, sits on the board of directors of XYZ Manufacturing, Inc. She discovers that management has knowingly participated in an activity she knows is illegal. According to the CFA Institute Standards of Professional Conduct, White is *least likely* to be required to:

A) disassociate herself from the activity.

B) report the violation to the CFA Institute Professional Conduct Program.

C) seek legal advice to determine what actions should be taken.

Explanation

Members are encouraged -- but not required -- to report violations of others. Standard I(A), Knowledge of the Law. Prohibition against knowingly practicing or assisting in violation of laws, rules, and regulations. If White knows that someone has engaged in a possible illegal activity, she should: (1) report the finding to the appropriate supervisory person at her firm, (2) if the situation is not remedied, disassociate herself from the situation, and (3) seek legal advice to see what other actions, such as notifying the proper regulatory agency, should be taken.

Question #53 of 104

Question ID: 1581422

CFA Institute believes:

A) that a minimum level of professional responsibility and conduct dictates that members be aware of and comply with laws, rules, and regulations governing their conduct.

B) that a maximum level of professional responsibility and conduct dictates that members be aware of and comply with laws, rules, and regulations governing their conduct.

C) that firms should comply with all domestic laws and regulations and that these laws also govern behavior in foreign markets, regardless of foreign laws and requirements.

Explanation

CFA Institute's Code and Standards dictate a *minimum* level of conduct. Standards should not be based on ethics of upper management and the board of directors of a company. Firms must comply with the strictest applicable standards, whether they be foreign or domestic laws and regulations.

Question #54 of 104

Question ID: 1581417

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 US $250. Valdes has evidence that her Venture Investments colleague, Ernesto Martinez, CFA, has been receiving gifts from vendors in excess of US $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.

Explanation

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 #55 of 104

Question ID: 1581384

Caroline Turner, an analyst for Lansing Asset Management, just completed an investment report in which she recommends changing a "buy" to a "sell" for Gallup Company. Her supervisor at Lansing approves of the change in recommendation. Turner wonders about whether she needs to disseminate this investment recommendation to Lansing's clients and if so, how to distribute this information. According to CFA Institute Standards of Professional Conduct, Turner is:

A) not required to disseminate the change of recommendation from a buy to a sell because the change is not material.

B) required to design an equitable system to disseminate the change in a prior investment recommendation.

C) required to disseminate the change in a prior investment recommendation to all clients and customers on a uniform basis.

Explanation

Standard III(B) – Fair Dealing requires dealing fairly and objectively with all clients and prospects when disseminating material changes in prior investment recommendations. Note that the standard requires the dissemination be fair, but not necessarily equal due to the impossibility of contacting all clients simultaneously. A change of recommendation from "buy" to "sell" is generally material.

Question #56 of 104

Question ID: 1574754

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 US $75 by a Newworld trust company and a bronze statue worth US $200 by a Newworld company that Salvatore is considering as a potential investment.

Salvatore is:

A) not permitted to accept either gift.

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

C) permitted to accept both gifts.

Explanation

Under Standard I(A) Knowledge of the Law, Salvatore must, as a CFA charterholder, apply the strictest applicable law or regulation. 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.

(Module 91.1, LOS 91: I(A))

Question #57 of 104

Question ID: 1581418

The Securities and Exchange Board of India (SEBI) has just enacted a new stock-trading rule. SEBI will give brokers a 10-day grace period, during which violators of the rule will be immediately notified and given a chance to remedy their situation to comply with the new rule. If a CFA Institute member located in India or doing business in India unknowingly violates the rule and then remedies the situation within the 10-day grace period, has the member violated Standard I(A)?

A) No, because the member remedied the situation. ✗

B) No, because the member unknowingly broke the rule. ✗

C) Yes, because the member did not maintain knowledge and know of the rule. ✓

Explanation

Standard I(A) explicitly says that a member shall maintain knowledge and comply with laws, rules, and regulations. By not knowing of the rule, the member broke the standard.

Question #58 of 104

Question ID: 1574763

What is the rule for members, CFA charterholders, and candidates in the CFA program with regard to the requirements of the Code and Standards and the requirements of local laws? If the applicable laws are:

A) less strict, members and candidates are only responsible for complying with the local laws. ✗

B) more strict, members and candidates are only responsible for complying with the Code and Standards. ✗

C) more strict, members and candidates are responsible for complying with the applicable laws.

Explanation

According to Standard I(A) Knowledge of the Law, members and candidates must comply with the stricter of local laws or the Code and Standards.

(Module 91.1, LOS 91: I(A))

Question #59 of 104

Question ID: 1574685

Lynn Black, CFA, is an analyst with the underwriter for an upcoming issue of Mtex Software debentures. Black learns from an employee in Mtex's programming department that there is a serious problem with Mtex's newest software program and that many customers have canceled their orders with Mtex. There is no mention of these problems in the prospectus for the debentures, which has been circulated. According to the CFA Institute Standards of Professional Conduct, Black's *best* course of action is to:

A) take no action because this is material nonpublic information.

B) inform her supervisor of her discovery.

C) notify potential investors of the omission on a fair and equitable basis.

Explanation

Black is in possession of material nonpublic information, and her most appropriate course of action is to inform her supervisor (or the firm's compliance officer) of what she has learned. Underwriters and investment bankers routinely possess material nonpublic information about their client firms, and it is acceptable to share this information within the department when doing so is necessary to carry out an issuance of the client firm's securities. If Black's firm determines that the information affects the value of the debentures, they must revise and recirculate the prospectus. Failing to do so may violate Standard I(C) Misrepresentation. Not informing her employer may be detrimental to her firm's interests and reputation if proceeding with the new issue without disclosure would violate regulations or laws. Black may not, however, share the material nonpublic information with prospective buyers, or with anyone in her firm outside the underwriting department.

(Module 91.1, LOS 91.b)

Question #60 of 104

Question ID: 1574710

Rickard Advisors recently had a trading error in a customer account that was subsequently discovered by Rickard. The firm felt embarrassed by the disclosure of this error, and, in order to induce the client to continue its relationship, Rickard offers the client preferential access to a new issue that is expected to be "hot." Which Standard is violated, if any?

A) The Standard concerning Fair Dealing.

B) The Standard concerning Fiduciary Duty.

C) The Standard concerning Independence and Objectivity.

Explanation

Rickard is in violation of the Standard concerning Fair Dealing by offering the client preferential access to a "hot" new issue. There is no obvious violation of Fiduciary Duty, since there is no evidence that Rickard is placing its own *financial* interest ahead of the client.

(Module 91.1, LOS 91.b)

Question #61 of 104

Question ID: 1574717

Janine Walker is an individual investment advisor with 200 individual clients. When she first obtains a client, Walker solicits personal data that helps her formulate an investment recommendation, including tax status, income, expenditure needs, and risk tolerance. The Standards:

A) only require to update a client's data when a material change is being made to the clients' portfolio.

B) require updating a client's data only when a material change occurs to the personal data.

C) require Walker to update the data regularly.

Explanation

According to Standard III(C), Suitability, Members and Candidates must reassess client information and update regularly.

(Module 91.1, LOS 91.b)

Question #62 of 104

Question ID: 1581403

Member compliance on issues relating to corporate governance or to soft dollars is primarily addressed by the Standard concerning:

A) Disclosure of Conflicts to Clients and Prospects.

B) Disclosure of Referral Fees.

C) Loyalty, Prudence, and Care.

Explanation

Fiduciary duty on issues relating to corporate governance or to soft dollars is primarily addressed by Standard III(A), Loyalty, Prudence, and Care.

Question #63 of 104

Question ID: 1574774

CFA Institute members should encourage their employers to do all of the following EXCEPT:

A) conduct background checks on potential employees to ensure that they are of good character and eligible to work in the investment industry.

B) make clear that dishonest personal behavior reflects poorly on the profession.

C) require employees to write personal ethics statements.

Explanation

There is no reason to have employees write personal ethics statements. CFA Institute encourages all of the other actions.

(Module 91.1, LOS 91: I(A))

Question #64 of 104

Question ID: 1574751

Which of the following is *most accurate* concerning a member's duty under the Code and Standards?

A) A member is required to comply only with applicable local laws, rules, regulations, or customs even if the Code and Standards impose a higher degree of responsibility.

B) In the absence of specific applicable law or other regulatory requirements, the Code and Standards govern the member's actions.

C) A member who trades securities in a country with less strict laws, rules, regulations, or customs may follow those laws if he discloses this information to his client.

Explanation

Members are always, at a minimum, subject to the Code and Standards. Members and candidates are responsible for complying with the stricter of local laws and regulations or the Code and Standards.

(Module 91.1, LOS 91: I(A))

Question #65 of 104

Question ID: 1581393

Chuck Daniels has just been hired to manage a security analysis group for Aaron Asset Management. Daniels performed a similar function at another firm and finds the compliance system at Aaron inadequate. He develops a system that he feels is appropriate, but senior management tells him he will have to wait six months to implement the system. Daniels should:

A) decline in writing to accept supervisory responsibility until a satisfactory compliance system is put into place.

B) protest in writing the delay, listing the potential dangers that can occur.

C) resign his position immediately.

Explanation

According to the Standard on supervisory responsibilities, Daniels should decline in writing to accept supervisory responsibility until a satisfactory compliance system is put into place.

Question #66 of 104

Question ID: 1574718

Graham Carson, CFA, is an investment advisor to Ron Grayson, a client with moderate risk tolerance and an investment horizon of 15 years. Grayson calls Carson to complain about two stocks in his account that have performed poorly. He feels that one stock was too risky for him as it paid no dividend and had a beta of 1.4. The other stock had a beta of 0.9 and paid a dividend of 3%, but financial regulators have indicated that the firm's reported earnings were incorrectly stated. Based on this information, Carson has *most likely*:

A) not violated the Standards.

B) violated both the Standard on suitability and the Standard on diligence and reasonable basis.

C) violated only the Standard on suitability.

Explanation

Carson has not violated either Standard based on the information given. The suitability of an investment is to be determined based on the risk and return characteristics of the portfolio and not on the risk and return characteristics of each individual security. The fact that a security does not pay a dividend and has a beta higher than the market is not enough to determine its suitability in a portfolio context. The fact that regulators have called previously reported earnings into question does not necessarily mean that Carson's analysis was not diligent or that he did not have a reasonable basis for his selection of this security.

(Module 91.1, LOS 91.b)

Question #67 of 104

Question ID: 1581397

The Konkol Company implements a new methodology for portfolio valuation that is licensed to them by ABC Statistics. To comply with the Code and standards, Konkol should:

A) not discuss the new methodology with clients because doing so would fail to preserve ABC's confidentiality.

B) discuss the new methodology only with clients whose security selection process will change as a result.

C) discuss the new methodology with its clients.

Explanation

Standard V(B) Communication with Clients and Prospective Clients requires any change in the scope, valuation methodology, or focus of the portfolio to be discussed with clients. No information is given that would suggest the methodology is confidential.

Question #68 of 104

Question ID: 1574698

Fred Dean, CFA, has just taken a job as trader for LPC. One of his first assignments is to execute the purchase of a block of East Street Industries. While working with East Street on an assignment for his previous employer, he learned that East Street's sales have weakened and will likely be significantly below the LPC analyst's estimate, but no public announcement of this has been made. Which of the following actions would be the *most appropriate* for Dean to take according to the Standards?

A) Contact East Street's management and urge them to make the information public and make the trade if they refuse. ✓

B) Request that the firm place East Street's stock on a restricted list and decline to make any trades of the company's stock. ✗

C) Post the information about the drop in sales on an internet bulletin board to achieve public dissemination and inform his supervisor of the posting. ✗

Explanation

Standard II(A) Material Nonpublic Information requires that members and candidates who possess material nonpublic information not act or cause others to act on the information. Refusing the trade would violate this Standard because it would be acting or causing others to act on the nonpublic information. Dean should seek to have East Street make the information public. If East Street does not do so, Dean must act as he would have acted if he did not possess the information. Refusing to make the trade he was instructed to make would be "acting" on the information in this case. The obligation here is to the integrity of financial markets.

(Module 91.1, LOS 91.b)

Question #69 of 104

Question ID: 1581421

Under Standard IV(A) Loyalty (to employers):

A) it is recommended that members deliver a copy of the Code and Standards to their employer. ✓

B) members are encouraged to leave an employer that does not adopt the Code and Standards as part of its policies and procedures. ✗

C) members are required to deliver a copy of the Code and Standards to their employer. ✗

Explanation

Standard IV(A) Loyalty recommends (not requires) that members and candidates provide their employer with a copy of the Code and Standards and notify their employer that they are required to follow the Code and Standards. There is no recommendation to leave a firm simply because the Code and Standards have not been adopted by the firm in its policies and procedures.

Question #70 of 104

Question ID: 1581412

Sam Lecheval, a Level I CFA candidate, resides in a European Union (EU) country and does business in Japan. Lecheval is required to maintain knowledge of and comply with all applicable laws, rules, and regulations in:

A) the EU, Japan, and the CFA Institute Standards of Professional Conduct. ✔

B) both the EU and Japan, but not the CFA Institute Standards of Professional Conduct. ✘

C) the EU and the CFA Institute Standards of Professional Conduct, but not Japan. ✘

Explanation

Members and candidates are required to apply the strictest law, rule, or regulation that applies where they reside, applies where they do business, or is included in the CFA Institute standards, in all cases where any of these differ.

Question #71 of 104

Question ID: 1581396

Janice Melfi is a portfolio manager for Soprano Advisors. Soprano has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the Soprano model. The model is purely quantitative and screens stocks into buy, hold, and sell categories. The basic philosophy of the model is thoroughly explained to clients. The director of research frequently alters the model based on rigorous research—an aspect that is well explained to clients, although the specific alterations are not continually disclosed. Portfolio managers use the model to assist them in making portfolio decisions, but, based on their own fundamental research, are allowed to purchase securities not recommended by the model. This fact is not disclosed to the clients, because the head of marketing does not think it is relevant. Which of the following statements regarding the portfolio manager's investment decisions is CORRECT?

A) Soprano is violating the Standards by not disclosing the fundamental research aspect of the investment process.

B) Melfi is violating the Standards by using two investment processes that are in conflict with each other.

C) There is no violation of the Standards.

Explanation

Soprano is violating the Standard on portfolio investment recommendations and actions by excluding relevant factors of the investment process. The fundamental research aspect is highly relevant to the process and should be disclosed to clients. It is acceptable for Melfi to use two investment processes that may be in conflict with each other and to use a process that was not developed by her.

Question #72 of 104

Question ID: 1581415

A CFA Institute member works for Secure Securities, Inc., and plays rugby on the firm's rugby team. Secure Securities' team recently played the team of a rival firm. During the game, a fight broke out and the CFA Institute member was the instigator, but no one was seriously hurt. Is this a violation of I(A) concerning maintaining knowledge and complying with laws, rules, and regulations?

A) No, because a fight at a rugby game is not a professional activity.

B) Yes, because the member could have hurt someone in the fight.

C) Yes, because the member is bound by the Code of Ethics.

Explanation

Standard I(A) covers members' professional activity only. Violations outside professional activity that involve fraud, theft or deceit would potentially be violations.

Question #73 of 104

Question ID: 1581399

Preston Partners is an investment management firm that adopted the Code and Standards as part of its policy manual. Gerald Smithson, CFA, has recently added the stock of Utah Biochemical Company and Norgood PLC to all his client's investment portfolios. Shortly afterwards Utah Biochemical and Norgood announced a merger that increased the share price of both companies. Smithson contends he saw the president of Utah Biochemical dining with the chairman of Norgood, but did not overhear their conversation. Smithson researched both companies extensively and determined that each company was a good investment. He put in a block trade for shares in each company. Preston's policies were not clear in this area as he allocated the shares by starting with his largest client accounts and working down to the small accounts. Some of Smithson's clients were very conservative personal trust accounts, others were pension funds who had aggressive investment objectives. Which standard was NOT broken?

A) Standard III(C)—Suitability.

B) Standard IV(C)—Responsibilities of Supervisors.

C) Standard V(A)—Diligence and Reasonable Basis.

Explanation

Standard V(A)—Diligence and Reasonable Basis was not broken because Smithson conducted thorough and diligent research. Standard III(C)—Suitability, Smithson failed to consider the needs of his conservative and aggressive clients. Standard IV(C)—Responsibilities of Supervisors, Preston Partners didn't have policies explaining how to allocate shares among clients.

Question #74 of 104

Question ID: 1581377

Betsy Fox is an investment advisor who has a client, Don Gordon, who is an employment lawyer. At lunch, Fox noticed Gordon and the Chief Financial Officer of Blue Star Company at the next table. She overhears them talking and ascertains that Blue Star is about to announce higher than expected earnings. Before the earnings release, Gordon contacts Fox and asks her to purchase 3,000 shares for his portfolio. Fox:

A) can only purchase shares for her personal account after informing all of her clients about the potential of the increase in earnings.

B) can purchase shares for Gordon, but cannot ever purchase shares for her personal account.

C) must refuse to purchase shares for Gordon.

Explanation

According to Standard II(A), Material Nonpublic Information, Fox cannot act or cause others to act on material nonpublic information until the information is made public. The information overheard at lunch was material and nonpublic; therefore, Fox must wait until the information is made public before accepting Gordon's order.

Question #75 of 104

Question ID: 1574778

Luis Rodriguez, CFA, is an analyst at XYZ Investments. He covers a company that is located in a region that is not easily accessible. The company invites analysts for their annual analyst meeting and pays for the transportation to the remote location. Rodriguez is:

A) allowed to accept the payment for transportation as long as it does not exceed $100.

B) allowed to accept the payment for transportation because the trip was all business and was out of the way.

C) not allowed to accept the payment for transportation because this is a considered a “perk” and may influence his independent judgment.

Explanation

Standard I(B) Independence and Objectivity. Analysts should pay for their own travel accommodations if the location is accessible by normal means. In this situation payment is acceptable because the location is out of the way and the purpose of the trip is all business.

(Module 91.1, LOS 91: I(B))

Question #76 of 104

Question ID: 1574686

Art Dodd, CFA, is a registered representative with Owens Securities. He is currently in a dispute with one client, Madge Phillips, about a limit order for her account that she feels was entered incorrectly, resulting in a loss (in her opinion) of $500. Dodd has 1,000 shares of an oversubscribed new issue to allocate to clients. He suggests to Phillips that he will give her 250 shares of this allocation to make up for the supposed trade error. Further, he offers to buy her dinner at a nice restaurant. According to the Standards of Practice, Dodd has *most likely* violated the Standard concerning:

A) additional compensation.

B) fair dealing.

C) misconduct.

Explanation

Dodd has most likely violated Standard III(B) Fair Dealing by giving Phillips an overgenerous allocation of the oversubscribed ("hot") new issue. The problem is not that he is offering compensation to a client to resolve a dispute but that by overallocating the IPO shares to Phillips, he is not treating his other clients fairly. Standard III(B) Fair Dealing requires that members and candidates not use shares of hot issues as an incentive to achieve a reward or benefit. The benefit in this case is that the dispute will be resolved. Dodd's actions do not exhibit any dishonesty that would violate Standard I(D) Misconduct, and Dodd is not receiving any additional compensation.

(Module 91.1, LOS 91.b)

Question #77 of 104

Question ID: 1574677

Alpha Advisors, Inc., is an investment management firm with a client base that ranges from individuals to large foundations. Which of the following firm policies is *least appropriate* if Alpha adopts the Code and Standards? Alpha:

A) regularly calls larger accounts first after changes in investment recommendations have been faxed to all clients.

B) excludes client accounts of family members of employees from participating in IPOs.

C) monitors the personal trading activity of firm personnel and requires them to pre-clear personal trades.

Explanation

Standard III(B) Fair Dealing requires that all clients be treated fairly. Members and candidates should not discriminate against any client. A family member who is a fee-paying client should not be treated differently from other clients when taking investment action. Following up changes in recommendations with phone calls to larger clients is not a violation of the Standard if the changes have been disseminated fairly.

(Module 91.1, LOS 91.b)

Question #78 of 104

Question ID: 1574707

Jack Harris, a CFA candidate, is a telecommunications analyst at Hasten Securities. Based upon his analysis of Midwest Telecom, he changes his recommendation of the company's common stock from "hold" to "sell." Before disseminating his recommendation and the reason for the change to Hasten's clients, Harris informs several portfolio managers at Hasten, whom he knows personally own Midwest stock, of the changed recommendation. Several days later, Hasten communicates the change in investment recommendation on Midwest to clients known to have bought Midwest and those who currently hold the stock.

Jane White, CFA, is a broker at Hasten Securities. One of her clients places a buy order contrary to the current recommendation on Midwest. After advising her client of the recommendation, she executes the transaction.

According to Standard III(B), Fair Dealing, which of the following statements about Harris and White's actions is CORRECT?

A) Both Harris and White violated Standard III(B).

B) Harris violated Standard III(B), but White did not violate Standard III(B).

C) Neither Harris nor White violated Standard III(B).

Explanation

Harris violated Standard III(B), Fair Dealing by not treating all customers fairly. Instead, he disclosed the information selectively to some of his firm's portfolio managers. White did not violate Standard III(B) because she communicated to the person placing a buy order on Midwest that the order was contrary to the current recommendation before executing the order.

(Module 91.1, LOS 91.b)

Question #79 of 104

Question ID: 1581407

WEB, an investment-banking firm, is the principal underwriter for MTEX's upcoming debenture issue. Wendy Berry, CFA, an analyst with WEB, has found out from an employee in MTEX's programming department that a serious glitch was recently discovered in the software program of their major new product line. In fact, the glitch is so bad that most of their orders have been canceled. Berry checked the debenture's prospectus and found no mention of this development. The red herring prospectus has already been distributed. Berry's *best* course of action is to:

A) notify potential investors of the omission on a fair and equitable basis.

B) take no action because this is material non-public information.

C) inform her immediate supervisor at WEB of her discovery.

Explanation

Berry should report this information only to her immediate supervisor. Subsequently, she and her supervisor may consult with legal counsel concerning the competing issues in this situation. For the present, she should avoid disclosure to colleagues who do not need to know the information and she should also avoid disclosure to clients.

Question #80 of 104

Question ID: 1581390

Ned Brenan manages two dozen pension accounts, one of which earned over 25% during the past two years. Brenan tells prospective clients that based on past experience they can expect a 25% return on their funds. Which of the following statements is CORRECT?

A) Brenan has not violated Standard of Professional Conduct III(D), Performance Presentation, but Brenan has violated Standard I(C), Misrepresentation.

B) Brenan has violated both Standard of Professional Conduct III(D), Performance Presentation, and Standard I(C), Misrepresentation.

C) Brenan has violated Standard of Professional Conduct III(D), Performance Presentation, but Brenan has not violated Standard I(C), Misrepresentation.

Explanation

Brenan violated Standard of Professional Conduct III(D) by using only one portfolio's results to create a false impression of all the portfolios, and Brenan violated Standard of Professional Conduct I(C) by creating the impression that a certain return was assured (he should have used the words "might" or "could" instead of "can").

Question #81 of 104

Question ID: 1581382

A company has a defined benefit plan that is currently under-funded. The plan sponsor has instructed the portfolio manager of the plan to invest more aggressively to bring the funding level up to an adequate amount. Which of the following statements *best* describes the course of action the portfolio manager should take? The portfolio manager should:

A) invest more aggressively because his fiduciary duties lie with the plan sponsor.

B) not invest more aggressively because this is not the method used to increase the funding level of a plan.

C) not invest more aggressively since this may expose the plan to too much risk and may not be in the best interest of the plan's beneficiaries.

Explanation

Standard III(A), Loyalty, Prudence, and Care, applies in this situation. According to this Standard, investment actions should be carried out for the sole benefit of the client and in a manner the manager believes to be in the best interest of the client. Here, the client is the plan beneficiaries, not the manager or the entity that hired the manager.

Question #82 of 104

Question ID: 1581405

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) 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.

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) 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.

Explanation

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 #83 of 104

Question ID: 1574724

Jim Crockett is a portfolio manager for Miami Advisors and reports to Vicki Tubbs, the Chief Investment Officer. Miami has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the Miami model. The model is purely quantitative and takes a given set of client characteristics and universe of potential securities and forms a portfolio for the investor. Individual portfolio managers are responsible for selecting securities to fit into the model based on recommendations from the firm's research department and the managers' own judgment. Because of the specific nature of the inputs to the model, each manager is responsible for applying the model on his or her own computer. The basic philosophy of the process is thoroughly explained to clients. Crockett does not understand the basics of the model, but feels that since it provides pure quantitative output, he does not need to understand it. However, he misapplies the model for several of his clients. In reviewing some of Crockett's portfolios, Tubbs finds the errors and points them out to Crockett. Which of the following statements regarding Tubbs and Crockett is CORRECT?

A) Crockett has violated the Standards by not exercising diligence and thoroughness in making investment recommendations.

B) Crockett has violated the Standards by not considering the appropriateness and suitability of the investment for his clients.

C) Tubbs has violated the Standards by failing to supervise adequately.

Explanation

Crockett had a responsibility to know the model well enough to detect the mistakes that could occur from misapplication, so he violated the Standard of diligence and reasonable basis.

(Module 91.1, LOS 91.b)

Question #84 of 104

Question ID: 1581408

Janet Green, CFA, provides investment advice and other services to clients in several countries. She resides in Country A whose securities laws and regulations are less strict than the Code and Standards. She also conducts business with clients in Country B, which has no securities laws or regulations, and in Country C, which has securities laws and regulations that are stricter than the Code and Standards. Which of the following statements is CORRECT? According to CFA Institute Standards of Professional Conduct, Green must adhere to the Code and Standards in:

A) Country A and Country B but the law in Country C.

B) Country A but the law in Country B and Country C.

C) Country A, Country B, and Country C.

Explanation

Green needs to follow Standard I(A) -- Knowledge of the law. In Country A, Green must adhere to the Code and Standards because Country A's laws are less strict. In Country B, Green must also adheres to the Code and Standards because Country B has no securities laws. Because Country C's applicable law is stricter than the requirements of the Code and Standards, Green must adhere to the laws of Country C.

Question #85 of 104

Question ID: 1574679

Ken Howell, CFA, plans to issue a buy recommendation for Glazer Oil, Inc., based on his analysis and forecasts. Howell suspects that the company will soon announce merger plans with a Japanese oil company. To investigate, Howell attempts to call three executives at Glazer. Different secretaries inform Howell that the executives are "attending a conference overseas" or "traveling in Japan." Howell is able to confirm that all three are in the same city in Japan where the potential merger partner is headquartered. Howell feels confident that the merger will go forward. According to CFA Institute Standards of Professional Conduct, Howell may issue a buy recommendation on the oil company:

A) immediately.

B) only after allowing the companies a reasonable time to disclose their merger plans.

C) only after encouraging the companies' managements to publicly disclose their merger plans.

Explanation

Howell is using publicly available financial reports as well as non-material nonpublic information regarding the travel plans of the company's executive officers that led him to suspect that the company is planning a merger with a Japanese oil company. Thus, Howell formed his conclusion using the mosaic theory and did not violate Standard II(A) Material Nonpublic Information. (Module 91.1, LOS 91.b)

Question #86 of 104

Question ID: 1574758

Ernesto Vivaldo is a CFA candidate. He is working in the branch office of an American-based investment company in Belgium. Vivaldo is a citizen of Venezuela. In his country, a portfolio manager is not required to disclose referral fees. Belgian law does not allow referral fees for portfolio managers. Vivaldo has been offered a deal that involves a referral fee. Vivaldo should follow the requirements of:

A) Belgium.

B) CFA Institute.

C) Venezuela.

Explanation

According to Standard I(A) Knowledge of the Law, CFA candidates and current CFA Institute members must follow whichever law is stricter. In this case, the strictest laws are those of Belgium.

(Module 91.1, LOS 91: I(A))

Question #87 of 104

Question ID: 1574725

Cynthia Abbott, a CFA charterholder, is preparing a research report on Boswell Company for her employer, Capital Asset Management. Bob Carter, president of Boswell, invites Abbott and several other analysts to visit his company and offers to pay her transportation and lodging. While visiting the company, Abbott accepts an item of small value from Carter. Abbott does not disclose this gift to her supervisor at Capital when she returns. According to the Standard related to independence and objectivity, Abbott *most likely*:

A) is required to refuse both the gift and the offer to pay for her transportation and lodging.

B) should have her employer pay for her transportation and lodging, but is not required to disclose the gift.

C) may allow Carter to pay for her transportation and lodging but is required to disclose the gift.

Explanation

Standard I(B) Independence and Objectivity states that travel to outside companies by members and candidates should be paid for by their employers or themselves, except in cases where commercial transportation is unavailable. Modest gifts that would not reasonably be expected to compromise a member or candidate's independent judgment are acceptable and the Standard does not require these to be disclosed to employers.

(Module 91.1, LOS 91.b)

Question #88 of 104

Question ID: 1581386

Jack Stevens is employed by a company to provide investment advice to participants in the firm's 401(k) plan. One of the investment options is a stable value fund run by the company. Stevens' research indicates that the fund is far riskier and less liquid than the typical stable value fund and has a fundamental asset value lower than the book value of the assets. He tells Jessica Cox, the head of employee benefits, about his research, and indicates that he will advise new employees to not invest in the fund and will advise employees who already own the fund to reduce their holdings in the fund. Cox points out that the fund is not in any current danger because there are very few redemptions requested of the fund. Cox also states that a sell recommendation may become a self fulfilling prophecy, causing investors to redeem their shares and forcing the fund to liquidate, which in turn will cause the remaining investors to receive less than their promised value. Stevens agrees with this assessment and feels his fiduciary duty is to all employees. Stevens should:

A) continue to recommend that new investors do not invest in the fund and existing investors reduce their holdings. ✓

B) continue to recommend that new investors do not invest in the fund, but not advise existing investors to reduce their holdings. ✗

C) tell investors he cannot give advice on the fund because of a conflict of interest. ✗

Explanation

The employees to whom Stevens owes fiduciary duty are the ones who are seeking his advice, even if acting on that advice hurts other employees who might eventually become clients.

Question #89 of 104

Question ID: 1574729

Steve Jones is a portfolio manager for Gregg Advisors. Gregg has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the Gregg model. The model is purely quantitative and screens stocks into buy, hold, and sell categories. The basic philosophy of the model is thoroughly explained to clients. The director of research frequently alters the model based on rigorous research—an aspect that is well explained to clients, although the specific alterations are not continually disclosed. Portfolio managers then make specific sector and security holding decisions, purchasing only securities that are indicated as "buys" by the model. Jones thoroughly understands the model and uses it with all of his clients. Jones is:

A) not violating the Standards either in purchasing stocks without a thorough research basis or in not disclosing all alterations of the model to clients.

B) violating the Standards in not disclosing all alterations of the model to clients, but not in purchasing stocks without a thorough research basis.

C) violating the Standards in purchasing stocks without a thorough research basis and in not disclosing all alterations of the model to clients.

Explanation

Jones and Gregg are using reasonable judgment in not continually disclosing all of the alterations of the model. It is acceptable to use a pure quantitative model as a sole basis for purchasing stocks, as long as it is thoroughly researched.

(Module 91.1, LOS 91.b)

Question #90 of 104

Question ID: 1581387

Which of the following statements about a member's use of client brokerage commissions is NOT correct? Client brokerage commissions:

A) may be directed to pay for the investment manager's operating expenses.

B) should be commensurate with the value of the brokerage and research services received.

C) should be used by the member to ensure that fairness to the client is maintained.

Explanation

Brokerage commissions are the property of the client and may only be used for client benefit.

Question #91 of 104

Question ID: 1581380

Sharon Pope has been asked by the Chief Investment Officer to develop a firm-wide policy for proxy voting. Which of the following would NOT be acceptable to include in the policy statement?

A) Portfolio managers of active funds must vote in all proxies; portfolio managers of index funds should vote only when they have a definitive opinion.

B) The value of proxy voting must be maximized.

C) Voting proxies may not be necessary in all instances.

Explanation

Proxies for stocks in passively managed funds must also be voted. A cost-benefit analysis may show that voting all proxies may not benefit all clients.

Question #92 of 104

Question ID: 1581419

If a CFA Institute member knows that a fellow member has violated the Code and Standards, according to Standard I(A) the member is:

A) required to dissociate from the activity and strongly encouraged to report it.

B) strongly encouraged to dissociate from the activity.

C) required to report the activity.

Explanation

Standard I(A) does not require a CFA Institute member to report potential violations by others, but "strongly encourages members and candidates to report potential violations of the Code and Standards committed by fellow members and candidates."

Question #93 of 104

Question ID: 1581379

Dick Charles is a security analyst with a large brokerage company. Sean Donaldson is a money manager. They both listen in on a conference call for security analysts with the president of Stoppard, Inc., who states that in two days the company will be holding a press conference announcing a new product. Both Charles and Donaldson feel the news will increase the value of Stoppard.

A) Charles can disseminate the information to clients, and Donaldson can purchase the stock for his clients immediately.

B) Charles must wait until after the press conference to disseminate the information to clients, and Donaldson must wait until after the press conference to purchase the stock for his clients.

C) Charles must wait until after the press conference to disseminate the information to clients, but Donaldson can purchase the stock for his clients immediately.

Explanation

By waiting until after the press conference the information would then be considered public information and can then be disseminated to clients and traded on without there being any issues of insider trading.

Question #94 of 104

Question ID: 1581416

A CFA Institute member is also a member and the portfolio manager of an environmentalist group. In its charter, the environmentalist group lists a group of companies its members should boycott. The CFA Institute member would violate Standard I(A) concerning obeying all rules and regulations if the member:

A) actively protests against a publicly traded firm boycotted by the group.

B) performs either of the activities listed here.

C) purchases stock of a boycotted firm for the group's portfolio.

Explanation

Standard I(A) says the member must be guided by all applicable rules and regulations of professional associations governing the member's professional activities. Purchasing the stock for the firm would be a violation because it involves the member's professional activities and the rules of a group to which the member belongs and works for. Actively protesting would not be covered by that standard.

Question #95 of 104

Question ID: 1581381

Brenda Simone is a money manager and the Blue Streets Pension Fund is one of her clients. The director of the pension fund calls Simone and asks her to use a particular broker so that the fund can obtain some research services with the soft dollars from that broker. Simone believes that the desired broker will provide the same price and execution as the normal broker that Simone uses. Simone does as the client wishes. Simone has:

A) not violated the Standards as long as the research provided by the broker will benefit Blue Streets. ✗

B) not violated the Standards as long as the research provided by the broker will benefit the plan beneficiaries. ✓

C) violated the Standards. ✗

Explanation

Simone must ensure that the research benefits the parties to whom she owes fiduciary duty, which are the plan participants.

Question #96 of 104

Question ID: 1574755

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 nonpublic information. Platt believes that using nonpublic 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 nonpublic information because Xania legally permits this practice. ✗

B) not use material nonpublic information for her own benefit, but may use it to benefit her clients.

C) not use material nonpublic information.

Explanation

Because applicable law involving material nonpublic information is less strict than the Code and Standards, Platt must adhere to the Code and Standards. Standard II(A) Material Nonpublic Information prohibits members and candidates from acting or causing others to act on such information.

(Module 91.1, LOS 91: I(A))

Question #97 of 104

Question ID: 1581391

Albert Long, CFA, manages portfolios of high-net-worth individuals for HKB Corp. One of his close friends, who heads a local charity for homeless children, asks Long to give her a partial list of his clients so that she can contact them to make tax-deductible donations. Because Long knows that the charity provides much benefit to the community, he provides the requested list.

Betty Short, CFA, also works for HKB Corp. She receives a letter from CFA Institute's Professional Conduct Program (PCP) requesting that she provide information about one of HKB's clients who is being investigated. Short complies with the request despite the confidential nature of the information requested by the PCP.

With regard to Standard III(E) Preservation of Confidentiality:

A) Long violated the Standard but Short did not.

B) Short violated the Standard but Long did not.

C) Both Long and Short violated the Standard.

Explanation

Long violated Standard III(E) Preservation of Confidentiality because he did not preserve the confidentiality of information communicated by clients. Short did not violate Standard III(E) because this standard does not prevent members from cooperating with an investigation by CFA Institute's Professional Conduct Program. Thus, Short can forward confidential information to the PCP.

Question #98 of 104

Question ID: 1581398

Victor Logan is a portfolio manager for McCoy Advisors, and Jack Brisco is the Director of Research for McCoy. Brisco has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the McCoy model. The model is purely quantitative and screens stocks into buy, hold, and sell categories. The basic philosophy of the model is thoroughly explained to clients. Brisco frequently alters the model based on rigorous research—an aspect that is well explained to clients, although the specific alterations are not continually disclosed. Portfolio managers then make specific sector and security holding decisions, purchasing only securities that are indicated as "buys" by the model. Logan has conducted very thorough research on his own, using the same process that Brisco uses to validate his findings. Logan feels the model is missing some key elements that would further reduce the list of acceptable securities to purchase, however, Brisco has refused to look at Logan's research. Frustrated by this, Logan applies his own version of the model, with the justification that he is still only purchasing securities on the buy list. Because of the conflict with Brisco, he does not disclose the use of the model to anyone at McCoy or to clients. Which of the following statements regarding Logan and Brisco is CORRECT? Logan is:

A) not violating the Standards by applying his version of the model, but is violating the Standards by not disclosing it to clients. Brisco is not violating the Standards.

B) violating the Standards by applying his version of the model and by not disclosing it to clients. Brisco is not violating the Standards.

C) violating the Standards by applying his version of the model and by not disclosing it to clients. Brisco is violating the Standards by failing to consider Logan's research.

Explanation

Because the research is thoroughly conducted, and Logan has authority to make individual security selection decisions, Logan is not violating the Standards by applying his model. However, Logan is violating the Standard on communication with clients and prospective clients by excluding relevant factors of the investment process. The use of his model is an important aspect of the investment process and should be disclosed to clients. Brisco is not violating the Standards by not considering Logan's research.

Question #99 of 104

Question ID: 1581406

If an analyst suspects a client or a colleague of planning or engaging in ongoing illegal activities, which of the statements about the actions that the analyst should take is *most correct*? According to the CFA Institute Standards of Professional Conduct, the analyst should:

A) consult counsel to determine the legality of the activity and disassociate from any illegal or unethical activity if the member has reasonable grounds to believe that the activity is illegal or unethical.

B) consult counsel to determine the legality of the activity.

C) disassociate from any illegal or unethical activity if the member has reasonable grounds to believe that the activity is illegal or unethical.

Explanation

According to the procedures for compliance involving Standard I(A), CFA Institute members should determine legality and disassociate from any illegal or unethical activity.

Question #100 of 104

Question ID: 1581392

Rachel Young, CFA, is making preparations to start a competitive business before terminating her relationship with her employer, a large money management company. Young has used excerpts from research reports by others with only a slight change in wording without acknowledging the source. Which of these actions violate the Code and Standards?

A) Neither of these actions.

B) Only one of these actions.

C) Both of these actions.

Explanation

By using excerpts from research reports by others with only a slight change in wording without acknowledging the source, Young committed plagiarism and violated Standard I(C) Misrepresentation. Young did not violate Standard IV(A) Loyalty because preparations to begin an independent business are permitted provided that they do not breach Young's duty of loyalty to her employer. Actions that would violate Standard IV(A) include soliciting clients or taking records or files while still working for the current employer.

Question #101 of 104

Question ID: 1581385

Chuck Thomas is the trustee of a trust of which Jill Wyatt is the main beneficiary. Wyatt's husband is the president of a company. In emptying the recycling bin at home, Wyatt finds some papers that lead her to believe that her husband's company will make a tender offer to acquire another firm. Wyatt takes the information to Thomas, who uses it to purchase shares of the company for the trust, but does not further disclose the information. Thomas has:

A) not violated any Standards.

B) violated the Standards concerning loyalty, prudence, and care.

C) violated the Standards concerning material nonpublic information.

Explanation

Thomas cannot act or cause others to act on material nonpublic information.

Question #102 of 104

Question ID: 1581414

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 consult counsel to determine whether the conduct is, in fact, illegal.

C) should urge his firm to attempt to persuade the perpetrator to cease such conduct.

Explanation

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 #103 of 104

Question ID: 1574776

Susan Nielsen, CFA, is an equity research analyst on a fact-finding property tour with 6 other analysts to learn about Just Kittens, Inc. Just Kittens sells tungsten ball-bearings and has 16 warehouses, and 20 manufacturing, research, and wholesale sales outlets scattered over 8 countries – mostly emerging markets. Because of the remote location of some of the facilities, commercial travel is effectively unavailable. Just Kittens charters a jet and various busses to take the research analysts to the properties. If Nielsen accepts these accommodations, she is *most likely*:

A) in violation of Standard I(B) "Independence and Objectivity."

B) not in violation of Standard I(B) "Independence and Objectivity" because best practices dictate that better access to company executives is likely to lead to more accurate and timely information.

C) not in violation of Standard I(B) "Independence and Objectivity" because commercial travel is effectively unavailable.

Explanation

Nielsen is not in violation of Standard I(B) "Independence and Objectivity" because commercial travel is effectively unavailable.

(Module 91.1, LOS 91: I(B))

Question #104 of 104

Question ID: 1581423

To comply with the Standard on independence and objectivity, an analyst making investment recommendations:

A) may use outside research only after verifying its accuracy.

B) must use only his own research.

C) must use only his own or his company's research.

Explanation

Standard I(B), Independence and Objectivity: the analyst is allowed to use outside research only after an insightful review. There are no restrictions regarding the exclusive use of in-house information.