

LO.a: Explain the objectives of the Research Objectivity Standards.**LO.b: Evaluate company policies and practices related to research objectivity, and distinguish between changes required and changes recommended for compliance with the Research Objectivity Standards.**

1. Which of the following objectives is *most* important when designing policies for implementation of the CFA Institute-ROS?
 - A. To provide disclosures of potential and actual conflicts of interest of the firm or its employees to all its clients including prospective clients.
 - B. To make investment recommendations, and take investment actions that places the interests of the firm before its employees.
 - C. To regulate the adherence to specific and measurable standards that promote fair and objective research.
2. According to the CFA Institute-ROS, “quiet period” is defined as the period during which covered employees are:
 - A. allowed to issue research reports but must refrain from making a public statement about the subject company.
 - B. barred from making any public statements and prohibited from issuing research reports/recommendations about the subject company.
 - C. restricted from trading in the securities of the subject company.
3. Investment advisory relationships according to the CFA Institute-ROS are defined as:
 - A. supervisory relationships involving upholding the quality of research reports.
 - B. underwriting relationships with an issuing company.
 - C. asset management relationships involving full, shared, or partial investment discretion over client’s capital.
4. GVS, an investment and brokerage firm wants to adopt the CFA Institute ROS. During a presentation to the firm’s investment professionals, Gary Reddy, head of compliance, explains that one of the requirements of the research objectivity standards is:
 - A. to align compensation with the quality of the research and accuracy of the recommendations.
 - B. to discuss with the subject company, the research report and the proposed recommendation prior to publication.
 - C. to ensure that investment banking objectives of the firm are met when producing research reports.
5. Which of the following is *most likely* a requirement of the CFA Institute-ROS? The firm’s policies and procedures should:
 - A. disclose that it holds 1% or more of the outstanding shares of the subject company as of 5 trading days prior to the issuance of the research report.
 - B. not permit covered employees and their immediate families to trade in a manner that is contrary to the firm’s published recommendations, except in situations of extreme monetary hardships.

- C. disclose the terms under which the research report can be purchased by the investors.
6. Which of the following is *least likely* a requirement of the CFA Institute-ROS?
- A. Firms involved in investment banking activities set up policies and procedures that separate research analysts from the investment banking department.
 - B. Firms must have policies that allow immediate families of the covered employees to receive securities before an IPO of a subject company.
 - C. Firms must set up compensation packages for research analysts that are not linked to investment banking activities in which the analyst might have participated.
7. One of the recommended procedures for firms seeking compliance with the CFA Institute-ROS is that:
- A. research analysts of firms that make public appearances are required to disclose to the audience that the analysts are aware whether the subject company is involved in an investment banking or corporate finance relationship with the firm.
 - B. the covered employees attest quarterly in writing that they understand the Policy and are fully abiding by it.
 - C. the research analysts when communicating a recommendation to the public via seminar or electronic forum ensure that the audience present are convinced to invest in the subject company at the conclusion of the presentation.
8. Samia Ali, an analyst at Toplink Securities, is writing a research report on Engro Corporation. She shares sections of her report, exclusive of the recommendations, for verification of certain facts with the subject company. Ali also sends a draft of her report to the compliance department prior to sending her report to the subject company. Has Ali violated the CFA Institute-ROS?
- A. No.
 - B. Yes, she is prohibited from sharing her research report by the research objectivity standards.
 - C. Yes, because she first sent her report to the compliance department.
9. Which of the following is *least likely* a recommended policy for a firm as per the CFA Institute-ROS regarding disclosure in its research reports? To disclose in the research reports:
- A. whether the firm is a market-maker in the securities of the subject company.
 - B. whether the firm management, or the author of the report are directors or serve on the advisory board of the subject company.
 - C. whether the analyst covering the subject company was a recipient of a material gift from the company during the past quarter.
10. Firms that comply with the CFA Institute-ROS, should employ a rating system that includes:
- A. recommendations or rating categories that are either absolute or relative.
 - B. time period categories that measure the time over which target price is expected to be achieved and the risk categories.
 - C. Both A & B.

Solutions

1. A is correct. CFA Institute recommends that one of the objectives while framing policies/procedures for the implementation of the CFA ROS is: ‘to facilitate full, fair, meaningful, and specific disclosures of potential and actual conflicts of interest of the firm or its employees to its current and prospective clients.
2. B is correct. Quiet period means the time period during which the covered employees cannot issue research reports, make recommendations and speak publicly about the subject company.
3. C is correct. Investment advisory relationships are asset management relationship that require entire, shared, or partial investment discretion over client funds.
4. A is correct. One of the requirements of the CFA Institute-ROS is to align the compensation with the quality and accuracy of research and recommendations on a subject company over time.
5. B is correct. A is a recommendation for firms to disclose in their research reports. C is a recommendation for firms to follow during public appearances by their analysts. B is a requirement under personal investments and trading.
6. B is correct. A & C are requirements of the CFA Institute-ROS. B is not a correct requirement of the research objectivity standards *because* firms must establish policies/procedures that *prohibit* covered employees and their immediate families from buying securities prior to an IPO for the subject company.
7. A is correct. Section: Recommended Procedures for Compliance 2.0.
8. A is correct. As per the CFA Institute-ROS she is allowed to share sections of her report without disclosure of recommendations to the subject company for verification of facts. She also rightly sent her report to the compliance department.
9. C is correct. Regarding disclosure as per the Standards, the recommended Policy is to disclose in the research report, if the author of the research report received any material gift in the last 12 months from the subject company.
10. C is correct. The following elements should be part of the rating system that a firm should implement as per the Standards’ recommendations: the recommendations or rating categories that could either be absolute or relative, time horizon measuring the time frame over which the target price would be realized or expected to last, and risk categories.