

LO.a: Evaluate the practices and policies presented.

LO.b: Explain the appropriate action to take in response to conduct that violates the CFA Institute Code of Ethics and Standards of Professional Conduct.

1. By buying stocks for her own account prior to purchasing them for her clients, Trader *most likely* violated the CFA Institute Standard relating to:
 - A. suitability.
 - B. priority of transactions.
 - C. fair dealing.
2. By failing to disclose to Super Selection, her ownership of AMD stock options, and cash compensation she received as a director of AMD, Trader *most likely* violated the CFA Institute Standard relating to:
 - A. disclosure of conflicts.
 - B. loyalty to employer.
 - C. misconduct.
3. Did Trader violate *any* CFA Institute Standards by changing her decision in favor of purchasing the AMD stock offering and influencing its price?
 - A. Yes, relating to diligence and reasonable basis.
 - B. Yes, relating to loyalty, prudence, and care.
 - C. Both A & B.
4. When Trader bought a large percentage of the AMD offering for her clients, she *most likely* violated the CFA Institute Standard relating to:
 - A. priority of transactions.
 - B. communication with clients and prospective clients.
 - C. suitability.
5. What actions should be undertaken by Cuff as a CFO/compliance officer and a member of the CFA Institute, on discovering the violations committed by Trader? Cuff should:
 - A. conduct an investigation of Trader's investment actions, and impose limitations on her activities.
 - B. implement procedures to prevent future misconduct and ensure compliance with applicable regulations and the CFA Institute Standards.
 - C. Both.

Solutions

1. B is correct. Trader violated Standard VI (B) – Priority of Transactions, by purchasing shares for her personal account before buying them for her clients. She may have benefited due to the effect on stock price from her clients' trades.
2. A is correct. Trader violated Standard VI (A) – Disclosure of Conflicts, by not reporting her directorship, stock ownership and cash compensation that she received on account of her position as a director of AMD to her employer and clients. This disclosure was important, as it would provide her employer and clients to assess her objectivity when making an investment decision or carrying out a trade.
3. C is correct. Trader changed her previous decision of investment in AMD, based on James' suggestion and invested in the AMD stock offering on behalf of her clients despite its high stock price. By investing a higher percentage in AMD stock for her Super Selection portfolios, she provided support to the AMD stock price, thus breaching her loyalty to her clients. She placed her own interest before the interest of her clients.
4. C is correct. Trader breached Standard III (C) – Suitability, by purchasing the AMD stock offering for her clients. She did not consider their investment objectives, goals, needs and circumstances. Instead she conducted the transaction because it benefited her and her friends.
5. C is correct. Cuff's role as a member of the CFA Institute, CFO and a compliance officer puts her in charge of taking corrective action after finding out about Trader's violations. As per Standard IV(C) – Responsibilities of Supervisors, she has to oversee and conduct a thorough investigation into Trader's actions and impose sanctions/fines. Cuff has to ensure that proper procedures and policies are framed and followed by employees under her charge so that such actions are not repeated.