

LO.a: Evaluate trade allocation practices and determine whether they comply with the CFA Institute Standards of Professional Conduct addressing fair dealing and client loyalty.

LO.b: Describe appropriate actions to take in response to trade allocation practices that do not adequately respect client interests.

1. The trade allocation policies of McKenzie Walker clearly favored the firm's performance-based fee accounts as opposed to its asset-based fee accounts. The Standard *most likely* violated due to the inequitable trade allocation practices of McKenzie is:
 - A. priority of transactions.
 - B. disclosure of conflicts.
 - C. fair dealing.
2. Which of the following is *least likely* a measure suggested by CFA Institute *Standards of Practice Handbook*, to ensure that appropriate trade allocation practices are followed by members and their firms?
 - A. To obtain advance notifications from clients for new issues.
 - B. New issues should be allocated by portfolio manager rather than by accounts.
 - C. To adopt an objective method such as a pro rata basis or similar formula for trade allocations.
3. Which of the following is *most likely* a measure suggested by CFA Institute for members and their firms to ensure that fair trade allocation procedures are observed?
 - A. To keep records of exiting or retiring client accounts.
 - B. To periodically review accounts which show losses.
 - C. To provide impartial trade execution order and price to all clients.
4. McKenzie Walker deliberately assigned profitable trades and hot initial public offerings to certain accounts in anticipation of additional future business or higher fee generation. The Standard *most likely* violated in this regard is:
 - A. loyalty, prudence, and care.
 - B. loyalty to employer.
 - C. additional compensation arrangements.
5. Regarding the violations committed by McKenzie Walker, the *corrective* measures according to the Standards involve:
 - A. establishing fair and equitable trade allocation procedures.
 - B. ensuring full and fair disclosure of the firm's allocation procedures to all clients.
 - C. Both.

Solutions

1. C is correct. McKenzie Walker violated Standard III(B) – Fair Dealing. According to this standard, “members must deal fairly and objectively with all clients.....” Therefore, McKenzie Walker needed to review its trade allocation procedures and set up policies for its employees to follow to ensure that allocation was fair and equitable for all clients for whom the investments were appropriate.
2. B is correct. The corrective measure given by CFA Institute Standards of Practice Handbook is to “allocate new issues by client rather than by portfolio manager.”
3. C is correct. The CFA Institute *Standards of Practice Handbook* suggests that investment professionals should “treat clients fairly in terms of both trade execution order and price.”
4. A is correct. McKenzie Walker violated Standard III(A) – Loyalty, Prudence, and Care. Members and candidates are expected to place their clients’ interests above their employer’s or their own and ensure that their investment decisions/actions benefit their clients. By allocating new profitable issues to select clients in the hope of receiving additional business or increased fees, creates a conflict of interest and breaches members’ duty to remaining clients. Such practices harm the interests of those clients that are not given the opportunity to take part in the IPOs or profitable trades.
5. C is correct. Both A & B are minimum steps required by CFA Institute members and their firms toward meeting the goal of fair dealing.