Question #1 of 187

Michael Bellow, CFA, CAIA, is an investment banker who is involved with an initial public offering (IPO) of NewCo. Because this is Bellow's first involvement in an IPO, he reports to an experienced supervisor. While reviewing past financial statements provided by NewCo, Bellow suspects that NewCo deliberately overstated its earnings for the past several quarters. Bellow seeks the advice of his firm's highly competent general counsel and follows the advice given without deviation. Based on the general counsel's advice, Bellow consults his immediate supervisor about the suspected overstatement of earnings. After reviewing the situation, Bellow's supervisor explains why NewCo's calculations of its earnings are correct. Bellow realizes that his inexperience and exuberance initially led him to an incorrect conclusion about NewCo's earnings.

Which of the following statements about Bellow's actions involving Standard I(A), Knowledge of the law, and Standard I(C), Misrepresentation, is CORRECT? Bellow:

A) violated Standard I(A) but did not violate Standard I(C).

B) violated both Standard I(A) and Standard I(C).

C) did not violate either Standard I(A) or Standard I(C).

Question #2 of 187

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.

Question #3 of 187

Michael Malone, CFA, is an investment analyst for a large brokerage firm in New York who covers the airlines industry. After hours in his personal time, Malone maintains an online blog on which he expresses his personal opinions about various investment opportunities, including, but not limited to, the airlines industry. On his blog, he posts a very negative investment opinion about WestAir stock. Malone knows that WestAir's stock will be downgraded to a "sell" by his firm next week. Malone has *most likely* violated:

A) violated Standard IV(A) Loyalty.

B) Standard VI(B) Priority of Transactions.

C) violated Standard II(A) Material Nonpublic Information.

Question #4 of 187

Harold Klein, CFA, is an expert on ethical conduct in the investment banking industry and has been asked by an association of investment bankers to give a presentation on interpreting codes of ethics and standards of practice such as the *CFA Institute Code of Ethics and Standards of Professional Conduct*. In his presentation, Klein makes two key points:

1. Sound ethical judgment requires careful and thoughtful application of ethical standards which are precise and exacting in nature
2. An ethical professional must begin the ethical decision making process by determining the applicable code and standards that govern the situation.

Determine whether Klein's statements are correct or incorrect and state your conclusion.

	Statement 1	Statement 2
A)	Correct	Correct
B)	Incorrect	Incorrect
C)	Incorrect	Correct

Question #5 of 187

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

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

Question #6 of 187

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

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

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

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

Question #7 of 187

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

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

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

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

Question #8 of 187

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

B) must refuse to purchase shares for Gordon.

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

Michael Pennington Case Scenario

Michael Pennington is Senior Vice President of equity investments at Alpha Investment Advisors, Inc. (AIA). He manages a team of analysts and portfolio managers and is responsible for maintaining and developing client relationships. AIA is located in Belgium and provides investment management services to high net work individuals. Pennington is also a Level III Candidate for the CFA designation.

One of Pennington's clients is the Flanders family. Pennington had a long relationship with Helmut Flanders. Before Flanders's untimely death, he gave Pennington full discretion over his portfolio based on an investment policy statement that had been refined continuously over the years.

- Flanders was the president of a publicly traded manufacturing company, Allux, and 20% of his portfolio's assets were invested in Allux equity. His contract with Allux prohibited selling his Allux shares while he was employed.
- Flanders had little liquidity needs. His children were grown, and his salary at Allux was sufficient to cover his annual expenditures as well as contribute to his investment portfolio.
- A former accountant, Flanders had been extremely knowledgeable and comfortable with the investment decision-making process.
- Pennington owns 10,000 shares of Allux and serves on Allux's board.
- Pennington played golf with Flanders on a regular basis and, with Flanders's help, developed many client relationships from these outings.

AIA has an agreement with a local brokerage firm, First Brokerage, owned by Pennington's sister to place all AIA trades through First Brokerage.

- Flanders agreed in writing that all trades in his portfolio would be directed to First Brokerage.
- Pennington purchased new carpets for his office with soft dollars. He believes that his managers make better investment decisions when their environment is pleasant and comfortable.
- Pennington attended an industry conference in the Bahamas with soft dollars. The program is devoted to improving management of the investment advisory firm. He believes that a well-run firm makes better investment decisions.
- Pennington consistently uses soft dollars to purchase research reports from an independent research firm that does in-depth analysis of a company's financial reporting. Several of his managers have commented on the quality and usefulness of these reports to their analysis and decision making.

Pennington has an appointment to meet with Flanders's widow, Elise, who, as an artist, left management of their financial assets to her husband. She is meeting with Pennington to better understand her financial position.

Question #9 of 187

Which of the following Standards is *most* relevant regarding Pennington's meeting with Elise?

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

B) Standard III(C), Suitability.

C) Standard III(E), Preservation of Confidentiality.

Question #10 of 187

Standard VI(A), Disclosures of Conflicts, requires Pennington to disclose all matters, including beneficial ownership of securities of other investments, that could be expected to impair the member's ability to make unbiased and objective recommendations. Which of the following matters would *least likely* be disclosed to Elise?

A) AIA has a soft dollar arrangement with a brokerage firm owned by Pennington's sister.

B) Pennington owns shares in Allux.

C) Pennington played golf with Helmut Flanders on a regular basis and developed client relationships from those golf outings.

Question #11 of 187

Which of the following *best* describes Pennington's compliance with the CFA Institute Standards regarding his use of soft dollars? The purchase of:

A) research reports and attending the conference are allowable uses of soft dollars.

B) both research reports and carpeting are allowable uses of soft dollars.

C) research reports is an allowable use of soft dollars.

Question #12 of 187

Pennington would like to continue to direct trades from Elise's portfolio to his sister's brokerage firm. In order to continue with this arrangement and comply with the CFA Institute Standards, which of the following disclosures are required?

A) Pennington must clearly disclose that his duty as the investment manager is to continue to seek to obtain best execution.

B) Pennington must disclose policies with respect to all soft dollar arrangements and receive written consent from Elise that she understands the consequences if he is not

C) Pennington must disclose that directed brokerage arrangements that require the investment manager to commit a certain percentage of brokerage might affect his

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Question #13 of 187

After determining Elise's risk and return objectives, liquidity needs, tax considerations, and unique circumstances, Pennington has decided the he must reduce Elise's holding of Allux shares. He has several other clients, whom he met through Flanders, who also have significant holdings in Allux. Pennington has also decided to reduce his own holdings in Allux since his term as a director of Allux will be up in June. He does not plan to seek reappointment, but as a member of the audit committee, he is privy to information about a tender offer. Pennington realizes this is a complex situation.

Of the following Standards, determine which would *least likely* help Pennington decide what actions with respect to selling shares of Allux would be in compliance with the CFA Institute Standards of Practice.

A) Standard III(B), Fair Dealing.

B) Standard III(C), Suitability.

C) Standard VI(A), Disclosure of Conflicts.

Question #14 of 187

Since Pennington is a director of Allux and a member of the audit committee, what additional Standard is specifically applicable to Pennington's decision to sell his and his clients' shares of Allux?

A) Standard IV, Duties to Employers.

B) Standard II, Integrity of Capital Markets.

C) Standard VII, Responsibilities as a CFA Institute Member or CFA Candidate.

Question #15 of 187

John Elliot, CFA, says that in issues of ethics he always puts the clients first according to the guidelines in the *Code of Ethics*. In doing so he is:

A) correct.

B) not correct, because his first duty is to the public.

C) not correct, because no such ordering or priority is given in the Code.

Question #16 of 187

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.

Question #17 of 187

A member would *most likely* violate the Standard regarding duties to clients by:

A) executing a client order for a security the member believes is greatly overvalued.

B) recommending purchase of securities without a reasonable inquiry into the investment experience of the client.

C) adding a risky derivative security to the portfolio of a client with moderate risk tolerance.

Question #18 of 187

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

B) 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.

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

Question #19 of 187

All of the following would be effective components of a formal compliance system EXCEPT:

A) as a fiduciary under ERISA, the firm will strictly follow pension plan instructions and restrictions, which may include concentrating portfolios in a few securities or industries.

B) the firm prohibits analysts and portfolio managers from using material nonpublic information in making investment recommendations or taking investment action.

C) the investor's objectives and constraints should be maintained and reviewed periodically to reflect any changes in the client's circumstances.

Question #20 of 187

The Code of Ethics does *NOT* explicitly say that a CFA Institute member shall do which of the following?

A) Act with integrity.

B) Exercise independent professional judgment.

C) Actively lobby for new laws to protect the public.

Question #21 of 187

Rachel Young, CFA, is making preparations to start a competitive business before terminating her relationship with her employer, a large money management company. Young asks Dot Wiggins, a colleague, to consider joining her. In subsequent discussions with Young, Wiggins learns that Young has used excerpts from research reports by others with only a slight change in wording without acknowledging the source. According to CFA Institute Standards of Professional Conduct, Young has:

A) violated Standard IV(A) Loyalty, because she was making preparations to start a competitive business before terminating her relationship with her employer.

B) not violated the Standards.

C) violated Standard I(C) Misrepresentation, because she did not acknowledge the source of excepts that she used in research reports.

Question #22 of 187

Milton Baker, CFA, prepares a research report on the dynamics of a stock price. In his study, he uses a considerable number of information sources, both outside sources and his company's own research papers, prepared for both internal and public use. The report will first be distributed at the monthly department meeting and then later will be published on the company's Internet site. He thinks that he may have neglected to mention some of his sources in his reference list but decides that he needs to be concerned about full disclosure of his sources only for the public version of the report, so he will wait to revise his work until after the monthly meeting but before it is published on the internet site. Which Standards does Baker NOT comply with?

A) Standard I(C), Misrepresentation, only.

B) Standard I(C), Misrepresentation, and I(A), Knowledge of the Law.

C) Standard I(C), Misrepresentation, I(B), Independence and Objectivity, and I(A), Knowledge of the Law.

Lon Smith is an analyst in the Research Department of Lincoln & Co., a large investment bank. Smith has just completed a temporary assignment in Lincoln's Corporate Finance Department related to underwriting a debt offering for FinSoft, a computer software company. FinSoft's recent operating record has reflected lagging sales volume and heavy product development expenses. Smith has marked his FinSoft notes and work sheets "CONFIDENTIAL / CORPORATE FINANCE DEPARTMENT" and sent them to the company file in the Research Department. This material reveals that FinSoft is about to receive a major contract for an innovative software program that will have a very significant positive impact on earnings as well as on the company's visibility and stature in the industry.

Jay Jones, a CFA candidate and a portfolio manager for Lincoln, has come upon these notes and work sheets while reviewing the FinSoft research file. Jones had been considering sale of the stock from the accounts under his management, but realizes after reading the file material that the recent weakness in operating results is about to be reversed and that the company's prospects are actually quite favorable. Perhaps, he thinks, he should add to his clients' FinSoft positions instead of considering their sale.

Jones briefly reflects on the matter of "inside information" in relation to perhaps buying more of the stock instead of selling it, but his recollection is hazy and Lincoln has no formal guidelines on the subject to which he can refer. Based on the circumstances, Jones believes he is free to use this new knowledge for the benefit of Lincoln's clients.

Question #23 of 187

Based on CFA Institute Standards of Professional Conduct, which of the following is *least accurate*?

A) The information is material because the new software is likely to significantly increase FinSoft's future earnings.

B) There is no breach of duty if traded on Smith's report because Jones did not conduct the research that produced the information.

C) There is misappropriation of information by Jones because the file is marked "Confidential / Corporate Finance Department."

Question #24 of 187

Based on the information presented in this situation, Jones has an obligation to do all of the following EXCEPT:

A) encourage his employer to review the compliance procedures as they relate to material nonpublic information issues.

B) wait to trade on the information until after a reasonable period has passed.

C) encourage public dissemination of the information.

Question #25 of 187

Based on the information presented, Lincoln should adopt a set of guidelines on inside information that include each of the following EXCEPT:

A) develop criteria for identifying inside information.

B) prohibit exchange of personnel, even temporary, between investment banking and institutional money management departments.

C) have in place a supervisor or compliance officer who has the authority and responsibility to decide whether information is material and nonpublic.

Question #26 of 187

Which of the following policies would be the *most appropriate* way for Lincoln & Co. to conform to the CFA Institute Standard II(A) concerning Material Nonpublic Information?

A) Require that the compliance department implement increased scrutiny of the interchange of information between the research department and the investment

B) Prevent the exchange of information between the investment banking and research department by creating information barriers between these groups.

C) Permanently prohibiting the research department from issuing recommendations on FinSoft.

Question #27 of 187

At a local CFA society event, Jones mentions to Mohammed Bamyeh, a friend and financial advisor, that FinSoft is about to receive a major new contract that has yet to be announced. Later that day, Bamyeh takes a large long position in a technology ETF that has a large weight for FinSoft stock. Which of the following statements is *most* accurate?

A) Bamyeh violated the Code and Standards by investing in the ETF.

B) Jones did not violate the Code and Standards because the comments made to Bamyeh were on a personal rather than professional basis.

C) Bamyeh did not violate the Code and Standards because Bamyeh did not directly invest in any FinSoft securities.

Question #28 of 187

When recommending the purchase of FinSoft company shares to Bamyeh, Jones *least likely* violated the Standard relating to:

A) integrity of capital markets.

B) loyalty to employer.

C) diligence and reasonable basis.

Question #29 of 187

Robe Advisory Services operates an office in San Francisco, where it manages portfolios for its clients based in the United States. The firm also maintains an office in Tokyo, where it employs Sam Lee, CFA who researches Japanese stocks. According to the CFA Institute Standards of Professional Conduct, Lee is required to maintain knowledge of and comply with all applicable laws, rules, and regulations in:

A) both the U.S. and Japan and the CFA Institute Standards of Professional Conduct.

B) Japan, but not the U.S., and the CFA Institute Standards of Professional Conduct.

C) both the U.S. and Japan, but not the CFA Institute Standards of Professional Conduct.

Question #30 of 187

Janet Reilly has just approached Betty Miller, CFA, about purchasing 10,000 shares of Brookshire Co., a newly incorporated real estate development firm. Reilly is a retired schoolteacher living off the income from her late husband's life insurance policy. This investment will represent a significant shift in her investment portfolio. Miller believes this trade is unsuitable with respect to Reilly's investment policy statement. Consistent with the Standards, Miller should *most appropriately*:

A) follow her firm's procedures for obtaining Reilly's approval to carry out the unsolicited trade request.

B) not accept the order, because it is not a suitable investment for Reilly.

C) discuss with Reilly whether she wishes to update her investment policy statement.

Question #31 of 187

Which of the following statements is *least* accurate regarding being a part of Standard III(B), Fair Dealing?

A) Maintain a list of clients and their holdings.

B) At the same time notify clients for whom an investment is suitable of a new investment recommendation.

C) Shorten the time between decision and dissemination.

Question #32 of 187

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

B) present the bottle of wine to her supervisor.

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

Question #33 of 187

A CFA Institute member conscientiously maintains records of changes in security regulations. The member notices that his colleagues do not, and does NOT say anything. Is this a violation of Standard I(A)?

A) Yes, and the member should disassociate from these colleagues.

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

C) No, as long as the colleagues do not violate the new rules.

Question #34 of 187

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

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

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

Question #35 of 187

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

A) must divest one of the departments.

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

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

Question #36 of 187

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

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

C) 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

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Question #37 of 187

Sometimes a CFA Institute member simply *feels* a law has been violated by his firm, and sometimes the member *knows* a law has been violated. Which of the following pairs of guidelines is CORRECT with respect to the first step a member should take in each case? The member should first contact:

A) the firm's counsel if he feels a law has been violated and contact his supervisor if he knows a law has been violated.

B) his supervisor in the firm if he feels a law has been violated and contact the firm's counsel if he knows a law has been violated.

C) the firm's counsel if he feels a law has been violated and the SEC if he knows a law has been violated.

Question #38 of 187

A money management firm has the following policy concerning new recommendations: When a new recommendation is made, each portfolio manager estimates the likely transaction size for each of their clients. Clients are notified of the new recommendation in the order of their estimated transaction size—largest first. All clients have signed a form where they acknowledge and consent to this allocation procedure. With respect to Standard III(B), Fair Dealing, this is:

A) not a violation because the clients are aware of the policy.

B) not a violation because the clients have signed the consent form.

C) a violation of the standard.

Question #39 of 187

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

A) deduction theory.

B) assessment theory.

C) mosaic theory.

Question #40 of 187

Regarding (1) not voting all client proxies, and (2) using a directed brokerage arrangement, a member would violate the Standards by:

A) engaging in neither of these practices.

B) using a directed brokerage arrangement.

C) not voting all proxies for client stocks.

Question #41 of 187

Alan Cramer, CFA, practices in a country that does not regulate the investment of company retirement plans. He was retained by Bingham Companies to manage their corporate pension plan. Bingham's management has approached Cramer and requested that Cramer invest the entire plan in Bingham stock.

Cramer may:

A) invest all of the retirement plan assets in Bingham Company stock according to management's request only if Cramer can document that the investment is more

B) not invest any of Bingham Company's retirement plan in its own stock regardless of the stock's prospects and in spite of management's request.

C) invest a portion of the retirement plan in Bingham Company stock if the investment is prudent and if he keeps the overall portfolio properly diversified.

Question #42 of 187

Brenda Clark is an investment advisor. Two years ago Clark decided to stop calculating a return composite because of the time required to make those calculations. A prospective client asks Clark what she thinks her performance would have been over the past two years. Clark:

A) cannot answer the question because it would be misleading.

B) cannot answer the question, nor can she discuss potential future market returns with the prospective client.

C) can answer the question orally but cannot state the numbers in writing.

Question #43 of 187

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) inform her immediate supervisor at WEB of her discovery.

C) keep quiet since this is material non-public inside information.

Question #44 of 187

CFA Institute believes:

A) 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.

B) 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.

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.

Question #45 of 187

Which of the following is a component of the Code of Ethics?

A) Practice and encourage others to practice in a professional and ethical manner that will reflect credit on members and their profession.

B) Transactions for clients and employers have priority over transactions in which a member or candidate is the beneficial owner.

C) Members and candidates must not engage in conduct that compromises the integrity of the CFA designation or the security of the CFA examinations.

Question #46 of 187

Tony Calaveccio, CFA, is the manager of the TrustCo Small Cap Venture Fund in Toronto. He places trades for the fund with Canadian Brokerage. Canadian provides Calaveccio with soft dollars to purchase research. He uses these soft dollars to get research reports from Canadian's research department regarding the issues currently held in the small cap portfolio, and also for firms he is contemplating adding to the portfolio. By using soft dollars in this manner, Calaveccio has:

A) not violated the Code and Standards.

B) violated the Code and Standards by acquiring research on issues that the fund already holds but not by acquiring research on issues contemplated for purchase.

C) violated the Code and Standards by acquiring research on issues contemplated for purchase but not by acquiring research on currently held issues.

Question #47 of 187

In dealing with the public and others, the CFA Institute Code of Ethics requires that CFA Institute members act with:

A) honesty, professionalism, and high ethical standards.

B) candor, skill, and honor.

C) integrity, competence, and respect.

Question #48 of 187

An independent analyst has only one client. One of the client's largest holdings is a brokerage firm. Because of the large holding by his client, the brokerage firm recently began allowing the analyst to tap into the firm's computer network to use the firm's research facilities. This is allowable as long as the analyst:

A) discloses the relationship to the client.

B) uses the resources to help manage the client's account.

C) does both of the actions listed here.

Question #49 of 187

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) Loyalty, Prudence, and Care.

C) Disclosure of Referral Fees.

Question #50 of 187

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

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

Question #51 of 187

Deloris Johnson, CFA, observed that her supervisor has violated a federal securities regulation. Johnson discussed the matter with her company's compliance department but they have taken no action. According to the CFA Institute Code and Standards of Professional Conduct, Johnson is required to:

A) dissociate from the supervisor's activity

B) confront the supervisor and attempt to stop the violation.

C) report the violation to securities regulators.

Question #52 of 187

An investment advisor goes straight from a research seminar to a meeting with a prospective new client with whom she has never been in contact. The advisor is very excited about the information she just received in the seminar and begins showing the prospect the new ideas her firm is coming up with. This is *most likely* a violation of:

A) Standard III(C), Suitability.

B) both of these.

C) Standard III(B), Fair Dealing.

Question #53 of 187

Georgia Jones, CFA, is an analyst for Johnson, Thomas & Co. She also serves as an outside director for Dewey Manufacturing, Inc. In the course of her duties, she begins to believe that Dewey's income statement for the most recent period may have been misstated. Georgia should do all of the following EXCEPT:

A) consult with Johnson, Thomas' legal counsel.

B) inform the Securities and Exchange Commission.

C) consult with Dewey Manufacturing's legal counsel.

Question #54 of 187

Steve Waters, a Level I CFA candidate, has decided to enter into a long position of Farmco stock. Since Farmco is thinly traded, Waters is concerned the order will overwhelm the liquidity of Farmco and the price will surge. Waters engages in a series of block trades in order to accomplish the purchase. According to Standard II(B), Market Manipulation, Waters has engaged in:

A) neither transaction-based manipulation nor information-based manipulation.

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

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

Question #55 of 187

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.

Question #56 of 187

In order to comply with the CFA Institute Standards, an analyst should:

A) use only his own research in making investment recommendations, because anything else would violate Standard I(B), Independence and Objectivity.

B) use outside research only after verifying its accuracy.

C) use only his company's research when making investment recommendations and use outside research for reports and analysis on stocks.

Question #57 of 187

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

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

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

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

Question #58 of 187

Susan Nielsen, CFA, works for a rating agency which competes directly with S&P and Moody's. Her friend, Lance Parker, works for the same company but in a different department which is involved in advisory services for structured products. Nielsen frequently receives pressure from Parker to "put a positive face" on client ratings to help him sell advisory services. She is reluctant to discuss client ratings with Parker and tries to avoid the topic. She consults her company's compliance department and learns that there are no policies or procedures to discourage Nielsen and Parker from sharing information and is encouraged to consider his advice on company ratings. Nielsen should feel *least* obligated to:

A) advise regulators of the potential conflict of interest and seek legal counsel.

B) avoid talking with Parker about client ratings.

C) advise her firm to develop firewalls.

Question #59 of 187

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

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

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

Question #60 of 187

Travis Brown is a partner in a money management firm. He recently attended a seminar and learned about a quantitative model presented by Dixon. Upon returning to his office, Brown began testing the model and making a few minor alterations. He showed the model to his partners who were impressed and decided to promote the model as proof of the firm's value added. In the firm's next newsletter, Brown included a discussion of the model, the results, and financial data on several stocks selected by the model. These factual data were taken from Standard and Poor's publication. According to the *CFA Institute Standards of Professional Conduct*, which of the following actions is Brown required to take?

A) Brown must credit Dixon, no need to credit S&P.

B) Brown must credit both Dixon and S&P.

C) Brown must credit S&P, no need to credit Dixon.

Question #61 of 187

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

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

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

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

Question #62 of 187

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 is located near the facility. When Rosenberg contacts Northwest's management to gather information for a report he is preparing on the company, Northwest's chief financial officer, Thomas Blake, invites Rosenberg to visit Northwest's headquarters and meet with management. Blake offers to send Northwest's corporate jet to pick up Rosenberg from an airport near Rosenberg's home and to 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 accepts Blake's offer and makes the trip to Northwest's headquarters on the corporate jet, Rosenberg:

A) has violated the Code and Standards unless he reimburses Northwest for the cost of the trip.

B) has violated the Code and Standards unless he discloses the trip and the payment of his travel expenses in his report on Northwest.

C) has not violated the Code and Standards.

Question #63 of 187

Which of the following activities would be following a component of the Code of Ethics explicitly?

A) Consulting with colleagues about opinions you reach in your research.

B) Maintaining a list of colleagues who have violated the CFA Institute standards.

C) Attending continuing education seminars on investing and inviting colleagues to come along.

Question #64 of 187

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

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

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

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

Question #65 of 187

June Bird is a pension consultant asked to advise on the Backwater County Pension Plan. Bird notices that 20 percent of the plan's assets are invested in privately held local businesses. Bird is concerned about the lack of liquidity and diversification caused by such an investment. She learns that state law allows investing in local businesses and county law requires at least one-fifth of the plan's assets to be dedicated to investing in local businesses. Bird:

A) should recommend that the trustees resign or risk being sued for violating the Prudent Expert Rule.

B) can continue to advise the pension plan as best she can with the restrictions.

C) should file a written complaint to the Department of Labor pointing out that the law is in conflict with the Employee Retirement Income Security Act (ERISA).

Question #66 of 187

Which of the following would be a violation of Standard III(B), Fair Dealing?

A) Having well defined guidelines for pre-dissemination.

B) Trading for regular accounts before discretionary accounts.

C) Limiting the number of employees privy to recommendations and changes.

Question #67 of 187

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

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

C) disassociate herself from the activity.

Question #68 of 187

Denise Weaver is a portfolio manager who manages a mutual fund and has pension clients. When Weaver receives a proxy for stock in the mutual fund, she gives it to Susan Griffith, her administrative assistant, to complete. When the proxy is for a stock owned in a pension plan, she asks Griffith to send the proxy on to the sponsor of the pension fund. Weaver has:

A) not violated the Standards.

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

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

Question #69 of 187

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 use this information to support an investment recommendation.

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

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

Question #70 of 187

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

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

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

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

Question #71 of 187

Which of the following is a component of the Code of Ethics?

A) Members shall not knowingly participate or assist in any violation of such laws, rules, or regulations.

B) Members shall not engage in any professional conduct involving dishonesty, fraud, deceit, or misrepresentation or commit any act that reflects adversely on their honesty,

C) Members shall use reasonable care and exercise independent professional judgment.

Question #72 of 187

In accordance with Standard III (A) Loyalty, Prudence and Care, which of the following statements is *not* a required or recommended action?

A) Utilize client brokerage to the sole benefit of the client.

B) Submit to clients, at least quarterly, itemized statements detailing all of the period’s transactions.

C) Vote all proxies on behalf of clients in a responsible manner.

Question #73 of 187

According to the *Code of Ethics*, which of the following statements is NOT correct? CFA Institute members are required to:

A) maintain and improve their competence and strive to maintain the competence of others in the profession.

B) use reasonable care and exercise independent professional judgment.

C) comply with the CFA Institute Global Investment Performance Standards.

Question #74 of 187

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.

Question #75 of 187

Perley & Sons is an investment advisor company that just signed a contract with full discretionary power for the management of assets for Bright Future, a charitable fund. Without consultation, portfolio manager Martin Brown, CFA, decides to trade the funds' assets through a brokerage firm that provides, as an additional benefit, research reports for companies in the microchip industry. These companies represent the main investment interest for most of the Perley & Sons clients. The Bright Future portfolio does not hold any equities in the microchip industry, and, because of its risk profile, is unlikely to ever do so. Which of the following activities represents a possible breach with the CFA Institute standards?

A) Exercising a selection principle that does not comply with the idea of best trade price and execution.

B) Lack of action in consulting with the client before choosing the brokerage firm.

C) Accepting research reports from the brokerage firm that do not benefit client portfolios.

Christopher Lance, CFA, Chuck Cunningham, and Lucy Hunt, CFA, went to graduate school together and have remained close friends ever since. Lance and Hunt earned their CFA charters this past June and Cunningham is a Level III candidate. Lance, Cunningham, and Hunt have dinner every month at Cunningham's country club, one of the most prestigious in the metropolitan area where they live.

Lance was a well-respected research analyst covering the pharmaceutical industry at an international broker-dealer before accepting a job as Vice President, Investor Relations, at IMed, a large multinational pharmaceutical company that he covered as an analyst. Since he started coverage of IMed, Lance had consistently been named "top analyst" of the pharmaceutical industry by *Investment Professional*, the leading journal of the investment industry.

In his new position at IMed, Lance is the principal spokesperson on the company's financial performance and is responsible for developing and maintaining good relationships with the company's shareholders, especially large institutional investors, and with approximately 30 research analysts who issue research reports and make recommendations about publicly-traded equity and debt securities. It is April 12th and Lance is preparing to conduct the next conference call following the release on April 15th of IMed's quarterly earnings. Participating in the call will be Lance's former colleague and good friend, Cunningham, and the other analysts who cover IMed. In addition, Hunt, a portfolio manager at Primary Pensions, a major institutional investor, has told Lance she will also be on the call. Primary Pensions has accumulated the largest single holding in IMed equity.

Lance is concerned about this call because IMed's president, Bill Norton, has just told the management team that sales of Mediplex, its new cancer drug, have begun to sag after rumors of serious side effects, including death, have hit the press. Norton told Lance that if sales continue to fall that this year's earnings would be considerably less than the current consensus forecast. Norton is also concerned that the regulatory agency that approves the sale of drugs will repeal IMed's license to market Mediplex.

Cunningham is a research analyst at Lance's former employer and has taken over coverage of IMed following Lance's resignation. Until his promotion to Lance's former position, Cunningham was a junior analyst covering the oil and gas industry. Although knowledgeable about fundamental financial analysis and equity valuation, he is unfamiliar with IMed and the pharmaceutical industry. Cunningham has been reviewing the past 5 years of IMed's financial statements and Lance's research reports in preparation for participating in IMed's quarterly conference call to discuss its quarterly earnings release. Cunningham is under considerable pressure from his employer to meet or exceed Lance's reputation and be rated "top analyst" by *Investment Professional*. His firm's currently rates IMed as a "strong buy" based on Lance's last research report. Based on his own preliminary analysis, Cunningham has a hard time justifying a "hold" recommendation. He is puzzled by several of the earnings adjustments that Lance made to achieve his target share price for IMed. He plans to ask Lance about these adjustments at their dinner on April 14^{th}.

Hunt has been managing a large cap equity portfolio at Primary Pensions for 5 years. Based almost exclusively on Lance's buy recommendations in his research report, she began purchasing IMed several years ago just before it made several major acquisitions that contributed to its phenomenal growth and to her portfolio's performance over the last 5 years. Since Lance moved to IMed, Hunt has been doing some due diligence and has become concerned that the growth of IMed's earnings is overly dependent on sales of Mediplex. Based on her enthusiasm for IMed and her portfolio's performance, other managers at Primary Pensions have also taken considerable positions in IMed to the extent that Primary Pensions is IMed's largest single stockholder. If she is right, Hunt knows that she will need to reduce her portfolio's holdings. Since Primary Pensions prohibits its employees from owning individual equity securities, Hunt has no personal investment in IMed. However, she had boasted about IMed's performance to her mother and is aware that her mother's investment club invested 10 percent of the club's assets in IMed. Hunt is preparing her questions for the upcoming conference call and her exit strategy if the answers confirm her fears.

Lance, Cunningham, and Hunt met for their regular monthly dinner on April 14th. Cunningham opens the after dinner discussion by questioning Lance about his new job and asks him if he and Hunt should anticipate any surprises at tomorrow's conference call. Cunningham specifically asks Lance if IMed will meet or beat analyst expectations and the consensus earnings forecast. Lance responds that, under current securities laws, he is unable to discuss details of IMed's performance with Cunningham and Hunt and that they'll both be briefed with the other analysts and shareholders on tomorrow's call. Shortly thereafter, the three friends say their good-byes. Hunt and Cunningham wish Lance well on the next day's conference call.

Question #76 of 187

What Standard governs Lance's response to Cunningham's question and is he in compliance?

	Standard	Compliance
A)	I: Professionalism	Yes
B)	VII: Responsibilities as a CFA	
C)	III: Duties to Clients	No

Question #77 of 187

Hunt's concerns about IMed increased after her dinner with Cunningham and Lance. She believes that Lance would have told them if IMed's earnings would meet analysts' expectations. She is convinced that Lance's failure to "look her in the eye" when he answered Cunningham's question confirms her suspicions that IMed is in trouble and is determined to start selling Primary Pensions' shares of IMed first thing in the morning.

Based on her conclusions from the dinner with Lance and Cunningham, which of the following *best* describes the actions Hunt should take regarding IMed?

A) Hunt can both tell her mother to sell the investment club's shares of IMed and sell the shares in the Primary Pensions' portfolio.

B) Hunt can sell the IMed shares in the Primary Pensions' portfolio but cannot encourage her mother to sell the investment club's shares.

C) Hunt cannot sell IMed and cannot encourage others to sell IMed.

Question #78 of 187

If Lance had disclosed material that was nonpublic information about the decline of sales of Mediplex and its effect on IMed's earnings, Cunningham would have been *least likely* to be obligated to do which of the following?

A) Not trade in shares of IMed.

B) Make reasonable efforts to achieve public dissemination of material nonpublic information disclosed in a breach of duty.

C) Inform the appropriate regulatory authority that Lance had violated securities laws.

Question #79 of 187

Dinners with Lance, Cunningham and Hunt at Cunningham's exclusive country club usually cost more than $200 per person. When he and Lance worked for the same broker-dealer and Hunt was a client, Cunningham has always paid the bill.

Which Standard will Lance violate if he continues to allow Cunningham to pay for dinner?

A) Standard III(B), Fair Dealing.

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

C) Standard IV(B), Additional Compensation Arrangements.

Question #80 of 187

Cunningham arrives in his office early on the day of the conference call. He has conducted an extensive analysis of IMed's financial statements and has reviewed his assessment of Lance's conclusions in the report that Lance issued before his departure. He regrets having asked Lance about IMed's earnings at the previous night's dinner and decides to ask Lance some very pointed questions in public during the conference call, especially regarding Lance's inclusion of some significant non-recurring gains in operating income. Based on his own knowledge and experience, Cunningham doesn't believe that Lance's target price for IMed would be sustained. He decides that, if he doesn't get clear answers to his questions on the call, he will recommend to client's in his research report that IMed's rating drop to "hold". Cunningham's research report and recommendation is sent to all of his firm's clients and is not directed to a specific client.

In conducting his analysis and developing his recommendation, which of the following requirements of Standard V, Investment Analysis, Recommendations and Actions, would Cunningham *least likely* be concerned with?

A) Exercise diligence and thoroughness in making investment recommendations.

B) Consider the appropriateness and suitability of investment recommendations for each client.

C) Clearly differentiate fact from opinion in making recommendations.

Question #81 of 187

Lance is very nervous before the conference call. Norton, IMed's president, has told him that he must not disclose the decline in sales of Mediplex.

During the call, Hunt asks Lance whether the rumors of the side effects of Mediplex are true and whether these rumors have negatively impacted sales. Lance assures Hunt that Mediplex sales are strong and that IMed is confident that sales will continue to rise for the remainder of the year.

Which of the following *best* describes Lance's actions when he stated that sales of Mediplex were strong?

A) Lance complied with Standard IV(A), Loyalty to Employer.

B) Lance violated Standard III(B), Fair Dealing.

C) Lance violated Standard I(D), Misconduct.

Question #82 of 187

An analyst who is a CFA Institute member receives an invitation from a business associate's firm to spend the weekend in a high-quality resort. In order to abide by the Standards, the analyst should (may):

A) refuse the invitation if the associate is from a firm he analyzes for his employer.

B) obtain written consent from his supervisor if the offer is contingent on achieving a target investment return.

C) do both of the actions listed here.

Question #83 of 187

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

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

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

C) do neither of the actions listed here.

Question #84 of 187

Liam McCoy has lunch with a wealthy client whose portfolio he manages. McCoy advises the client to double his current position in the JKM Corporation due to an anticipated increase in sales. In accordance with Standard (V) Investment Analysis, Recommendations and Actions, when McCoy returns to his office he should:

A) identify other clients for whom JKM may be a suitable investment and notify them immediately of his recommendation.

B) document the details of the conversation with the client with regard to his investment recommendation.

C) verify the suitability of the investment recommendation before placing the client's order.

Question #85 of 187

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

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

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

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

Question #86 of 187

Which of the following is a component of the *Code of Ethics*? CFA Institute members shall:

A) strive to maintain and improve their competence and the competence of others in the profession.

B) disclose to their employer all matters that reasonably could be expected to interfere with their duty to their employer or ability to make unbiased and objective

C) make reasonable efforts to detect and prevent violations by those who are under their supervision.

Question #87 of 187

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.

Question #88 of 187

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. Brynne must:

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

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

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

Question #89 of 187

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

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

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

Question #90 of 187

Tony Calaveccio, CFA, is the manager of the TrustCo Small Cap Venture Fund in Toronto. Calaveccio places a trade with Quantco Brokerage. While Calaveccio's part of the transaction was conveyed correctly to Quantco, there was a trading error made in Calaveccio's account due to a slip up within Quantco. Calaveccio realizes that the error has taken place, and informs his contact at Quantco. Calaveccio allows Quantco to cover the error, with no cost to TrustCo. This is:

A) a violation of Calaveccio's fiduciary duties.

B) permissible under CFA Institute Standards.

C) a violation of Calaveccio's duty to his employer.

Question #91 of 187

An analyst has been writing research reports on a company for many years. As part of the analyst's continuing research efforts, the analyst allows the firm to fly him to the firm's headquarters and put him up in the guest quarters the company has for all corporate visitors. According to Standard I(B), Independence and Objectivity, this is:

A) a violation no matter what the circumstances.

B) not a violation under any circumstances.

C) a violation if the headquarters are within reasonable driving distance from the analyst's home.

Question #92 of 187

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

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

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

Question #93 of 187

All of the following are components of the Code of Ethics EXCEPT:

A) demonstrating diligence, independence, and thoroughness when preparing investment reports.

B) using reasonable care and exercising independent professional judgment.

C) striving to maintain and improve their competence and the competence of others in the profession.

Question #94 of 187

According to the Code of Ethics, a member reflects credit on the profession when a member:

A) practices in a professional and ethical manner.

B) places the clients first.

C) consults with other members on a regular basis.

Question #95 of 187

Which of the following is NOT part of the CFA Institute Code of Ethics?

A) Independent judgment.

B) Contractual provisions.

C) Competence.

Question #96 of 187

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) required to report the activity.

C) strongly encouraged to dissociate from the activity.

Question #97 of 187

Which of the following is a component of the *Code of Ethics*? CFA Institute members shall:

A) use reasonable care and exercise independent professional judgment.

B) not knowingly participate or assist in any violation of laws, rules, or regulations.

C) use particular care in determining applicable fiduciary duty.

Question #98 of 187

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

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

A) not in violation of the Code and Standards.

B) a violation of the Standard concerning fiduciary duties.

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

Question #99 of 187

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

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

Rajiv Singh, a CFA charterholder, works as an equity analyst with Horizon Investments, a large broker/dealer. After ski-resort developer HighLife misses a quarterly earnings target, Singh changes his recommendation on HighLife from buy to hold. Singh has been following HighLife for years. In several previous research reports on HighLife, Singh told clients that, based on his detailed analysis of the financial statements and market position, he believed HighLife had stopped picking up market share. He had mentioned concerns about HighLife several times in his reports and said in the most recent report that he would downgrade the stock if it missed quarterly earnings.

Singh had produced his monthly report on HighLife just a week before the earnings announcement, and because he had just written about his intention to downgrade the stock, he felt he did not need to inform clients of his recommendation change until the next monthly report.

On the same day that the HighLife report was released, Singh initiated coverage on another company with a buy rating, the convenience store operator QuickStop. His research report is distributed that afternoon. A client sends Singh a sell order for QuickStop via e-mail the same day the new recommendation is being disseminated to all Singh's clients and prospects.

John Womack, a Level II CFA candidate, is a trader at Horizon. Womack, walking past the conference room during an investment meeting, learns of the initiation of the buy rating on QuickStop. Prior to the dissemination of the buy rating to Horizon's clients, he buys up a large block of QuickStop shares for Horizon's account in anticipation of clients' interest in the stock. When the rating is released to the firm's customers, he fills the incoming customer orders out of Horizon's inventory, generating a modest profit for the company.

Horizon is drafting trade-allocation guidelines for companywide use. Five regulations the company is considering are listed below:

1. Regular orders are processed and executed on a pro-rata basis.
2. Shares in initial public offerings will be allocated on a pro-rata basis to the firm's portfolio managers according to advance indications of interest from the managers.
3. When the full amount of a block order is not executed, partially executed orders are allocated on a first-in, first-out basis.
4. Orders must be recorded in writing and stamped with the time of the order and the execution.
5. All clients participating in block trades are give the same execution price, and all clients are charged the same commission.

Question #100 of 187

When Singh receives the sell order for QuickStop, he should:

A) tell the client about the buy rating and advise him not to sell the stock.

B) ask the client to delay the order until he sees the new research report.

C) process the sell order immediately to fulfill his fiduciary duty to the client.

Question #101 of 187

Womack's trading actions are a violation of:

A) Standard III(E)—Preservation of Confidentiality and Standard VI(B)—Priority of Transactions.

B) Standard IV(A)—Loyalty to Employer and Standard III(B)—Fair Dealing.

C) Standard III(A)—Loyalty, Prudence, and Care and Standard VI(B)—Priority of Transactions.

Question #102 of 187

With regard to his coverage of HighLife stock, Singh:

A) violated the reasonable basis Standard by downgrading a stock because it missed one quarterly earnings estimate.

B) violated the research reports Standard because he failed to differentiate between facts and opinions.

C) did not violate the Standards for reasonable basis or research reports.

Question #103 of 187

After Singh changed his investment recommendation for HighLife from a "buy" to a "hold," he violated:

A) Standard III(B)—Fair Dealing by not telling clients about the downgrade of HighLife in the wake of his promise to downgrade the stock if it missed estimates.

B) Standard I(C)—Misrepresentation by not exercising diligence and thoroughness in his research.

C) Standard V(A)—Loyalty, Prudence, and Care by not exercising reasonable care and prudent judgment in his research.

Question #104 of 187

Horizon's proposed IPO allocation procedures are:

A) not a violation of Standard III(B)—Fair Dealing if they are disclosed to all clients and prospects.

B) not a violation of Standard I(B)—Independence and Objectivity.

C) a violation of Standard—Loyalty, Prudence, and Care and Standard VI(B)—Priority of Transactions.

Question #105 of 187

Which of the following trade allocation procedures being considered for Horizon's trade allocation policy would *NOT* be consistent with Standard III(B)—Fair Dealing?

A) All clients participating in block trades are give the same execution price and are charged the same commission.

B) When the full amount of a block order is not executed, partially executed orders are allocated on a first-in, first-out basis.

C) Regular orders are processed and executed on a pro-rata basis.

Question #106 of 187

Steve Wynn, CFA, is an investment advisor and Jennifer Carey has been a client of his for three years. Carey has shown an interest in international stocks, so they agree to consider putting a portion of Carey's portfolio in foreign stocks. Wynn makes sure that Carey is aware of the currency and political risks inherent in foreign investing before proceeding. They jointly agree to purchase a small portfolio of stocks in the country of Bellagio because one of the brokerage houses that Wynn uses has a great deal of fundamental research on companies domiciled there. Six months later it is revealed in the news media that Bellagio has had severe insider trading problems which have contributed to the loss on the portfolio. Wynn has:

A) violated the Standards by not informing Carey about the insider trading risks, but not by contributing to the problem of insider trading.

B) not violated the Standards.

C) violated the Standards by not informing Carey about the insider trading risks and contributing to the problem of insider trading.

Question #107 of 187

An analyst provides services for a charitable organization and in return gets free membership in the organization. Part of her job is to manage the liquid assets of the organization, and those assets include stocks. Her supervisor in the organization calls her and tells her to buy a certain stock for the portfolio based upon insider information from a board member in the organization. The analyst objects, but the supervisor says this is what they have always done and sees no reason for changing now. The analyst complies with the request. With respect to Standards IV(A), Loyalty to Employer, and II(A), Material Nonpublic Information, the analyst violated:

A) only Standard IV(A) requiring duty of loyalty.

B) both Standards IV(A) and II(A).

C) only Standard II(A) that prohibits insider trading.

Question #108 of 187

Lance Tuipulotu, CFA, manages investments for 400 individuals and families and often finds his resources stretched. When his largest investors petition him to include a 5% to 7% allocation of non-investment-grade bonds in their portfolios, he decides he needs additional help to meet the request. He considers various independent advisors to use as submanagers, but determines that the most qualified advisors would be too expensive. Reasoning that a lower-cost provider would enable him to pass the savings along to his clients, he chooses that provider to invest the new bond allocation. Tuipulotu has violated:

A) Standard III(C) Suitability by failing to consider the appropriateness of the non-investment-grade bonds.

B) Standard V(A) Diligence and Reasonable Basis by letting fee structure determine the selection of the submanager.

C) Both Standard III(C) Suitability and Standard V(A) Diligence and Reasonable Basis.

Question #109 of 187

Tony Calaveccio, CFA, is the manager of the TrustCo Small Cap Venture Fund in Toronto. He places trades for the fund with River City Brokerage. River City provides Calaveccio with soft dollars to purchase research. River City also deals in municipal bonds, some of which Calaveccio holds in his personal portfolio. He periodically uses the soft dollars to request research reports on various small cap stocks and also on the status of the municipal bond market and issues that he holds. These actions are:

A) in violation of his fiduciary duties regarding the municipal bond research but not so regarding the research on the small cap issues.

B) not in violation of the Code and Standards.

C) in violation of his fiduciary duties regarding both the small cap research and the municipal bond research.

Question #110 of 187

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) Voting proxies may not be necessary in all instances.

C) The value of proxy voting must be maximized.

Question #111 of 187

Which of the following is *least likely* to be a reason for imposing a suspension on a member or candidate?

A) Discussing a question from the CFA exams on social media.

B) Failing to return the annual professional conduct statement.

C) Misdemeanor charge for possession of narcotics.

Michael Smyth is Senior Vice President of equity investments at Systematic Investment Advisors, Inc. (SIA). He manages a team of analysts and portfolio managers and is responsible for maintaining and developing client relationships. SIA is located in a small European country and provides investment management services to high net worth individuals. Smyth is also a Level III Candidate for the CFA designation.

One of Smyth's clients is the Muller-Durand family. He had a long relationship with Helmut Muller. Before Muller's untimely death, he gave Smyth full discretion over his portfolio based on an investment policy statement that had been refined continuously over the years.

- Muller was the president of a publicly traded manufacturing company, Comax, and 20% of his portfolio's assets were invested in Comax equity. His contract with Comax prohibited his selling his Comax shares while he was employed.
- Muller had little liquidity needs. His children were grown and his salary at Comax was sufficient to cover his annual expenditures as well as contribute to his investment portfolio.

- A former Chartered Accountant, Muller had been extremely knowledgeable and comfortable with the investment decision-making process.
- Smyth owns 10,000 shares of Comax and serves on Comax's board.
- Smyth played golf with Muller on a regular basis and, with Muller's help, developed many client relationships from these outings.

SIA has a soft dollar arrangement with a local brokerage firm, First Brokerage, owned by Smyth's sister.

- Muller had agreed in writing that all trades in his portfolio would be directed to First Brokerage.
- Smyth purchased new carpets for his office with client brokerage. He believes that his managers make better investment decisions when their environment is pleasant and comfortable.
- Smyth attended an industry conference in the Bahamas with soft dollars. The program is devoted to improving management of the investment advisory firm. He believes that a well-run firm makes better investment decisions.
- Smyth consistently uses soft dollars to purchase research reports from an independent research firm that does in-depth analysis of a company's financial reporting. Several of his managers have commented on the quality and usefulness of these reports to their analysis and decision-making.

Smyth has an appointment to meet with Muller's widow, Wilhelmina Durand, who, as an artist, left management of their financial assets to her husband. She is meeting with Smyth to better understand her financial position.

Question #112 of 187

Which of the following Standards is *most* relevant regarding Smyth's meeting with Durand?

A) Standard III(C), Suitability.

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

C) Standard III(E), Preservation of Confidentiality.

Question #113 of 187

Standard VI(A), Disclosures of Conflicts, requires Smyth to disclose all matters, including beneficial ownership of securities of other investments, that could be expected to impair the member's ability to make unbiased and objective recommendations. Which of the following matters would *least likely* be disclosed to Durand?

A) SIA has a soft dollar arrangement with a brokerage firm owned by Smyth's sister.

B) Smyth played golf with Muller on a regular basis and developed client relationships.

C) Smyth owns shares in Comax.

Question #114 of 187

Which of the following *best* describes Smyth's compliance with the CFA Institute Soft Dollar Standards in his use of client brokerage?

A) Purchase of research reports is an allowable use of client brokerage.

B) Purchase of research reports and attending the conference are allowable uses of client brokerage.

C) Purchase of both research reports and carpeting are allowable uses of client brokerage.

Question #115 of 187

Smyth would like to continue to direct brokerage from Durand's portfolio to Smyth's sister's brokerage firm. In order to continue the arrangement and comply with the CFA Institute Soft Dollar Standards, which of the following disclosures are required (and not simply recommended)? Smyth is required to disclose:

A) SIA's policies with respect to all Soft Dollar Arrangements.

B) that his duty as the investment manager is to continue to seek to obtain best execution.

C) that directed brokerage arrangements that require the investment manager to commit a certain percentage of brokerage might affect his ability to seek to obtain best

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Question #116 of 187

After determining Durand's risk and return objectives, liquidity needs, tax considerations, and unique circumstances, Smyth has decided that he must reduce Durand's holdings of Comax shares. He has several other clients, whom he met through Muller, who also have significant holdings in Comax. Smyth has also decided to reduce his own holdings in Comax since his term as a director of Comax will be up in June. He does not plan to seek reappointment but as a member of the audit committee he is privy to information about a tender offer. Smyth realizes this is a complex situation.

Of the following Standards, determine which would *least likely* help Smyth decide what actions with respect to selling shares of Comax would be in compliance with the CFA Institute Standards of Practice.

A) Standard III(C), Suitability.

B) Standard III(B), Fair Dealing.

C) Standard VI(A), Disclosure of Conflicts.

Question #117 of 187

Since Smyth is a director of Comax and a member of the audit committee, what additional Standard is specifically applicable to Smyth's decision to sell his and his clients' shares of Comax?

A) Standard II, Integrity of Capital Markets.

B) Standard IV, Duties to Employers.

C) Standard VII, Responsibilities as a CFA Institute Member or CFA Candidate.

Question #118 of 187

A government committee has concluded that investment company fees should be disclosed to clients each quarter and has proposed new legislation to require this. Currently, the legal requirement is to report such data annually. In compliance with current legal requirements, Dolphin Investments discloses its fees annually. Eugene Shin, CFA, Dolphin's compliance officer, learns of the proposed changes but does not convert Dolphin's reporting to a quarterly basis. Shin's decision not to act:

A) constitutes professional misconduct as defined in the Code and Standards.

B) is not a violation of the Code and Standards.

C) is a violation of his duty to employer as defined in the Code and Standards.

Question #119 of 187

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

A) for both of the reasons listed here.

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

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

Question #120 of 187

Which of the following statements about soft dollars is *least* accurate?

A) Directed brokerage are soft dollars to be used for research that benefits the investment firm.

B) Soft dollars are third party research arrangements.

C) Soft dollars are assets of the client.

Question #121 of 187

The CFA Institute Code of Ethics specifies that CFA Institute Members and Candidates must do all of the following EXCEPT:

A) act with integrity, competence, diligence, respect, and in an ethical manner.

B) refrain from any conduct that compromises the reputation or integrity of the CFA designation.

C) use reasonable care and exercise independent professional judgment when engaging in professional activities.

Question #122 of 187

According to the Code of Ethics, when practicing in a professional and ethical manner the goal is to:

A) reflect credit on members and the profession.

B) resolve conflicts between clients and employers.

C) increase membership in CFA Institute.

Question #123 of 187

According to the CFA Institute Code of Ethics, CFA Institute members shall:

A) maintain knowledge and comply with all applicable laws, rules and regulations.

B) act with integrity, competence, diligence, respect, and in an ethical manner when dealing with the public, clients, prospective clients, employers, employees, colleagues in

C) preserve the confidentiality of information communicated by clients, prospects, or employers concerning investment matters.

Question #124 of 187

All of the following are required by fiduciaries under Standard III(A), Loyalty, Prudence, and Care, EXCEPT:

A) support the sponsor's management during proxy fights.

B) place the client's interest before the employer's interest.

C) act solely in the interest of the ultimate beneficiaries.

Question #125 of 187

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

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

Question #126 of 187

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.

Question #127 of 187

Which of the following statements about the CFA Institute Code and Standards is *most* accurate? The Code and Standards:

A) do not require that members report legal violations to the appropriate governmental or regulatory organization.

B) prohibit members from accepting gifts that create a conflict with their employer's interest.

C) require members to persuade the perpetrator to cease illegal activities.

Question #128 of 187

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 but the law in Country B and Country C.

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

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

Question #129 of 187

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. Knowing the data is incorrect, Feldman releases Smith's financial data to investors. This action:

A) constitutes a violation of his fundamental responsibilities under the Code and Standards.

B) constitutes a violation of Standard III(D) concerning performance presentation.

C) constitutes a violation of the Standard concerning duty to employer.

Question #130 of 187

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

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) 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.

Question #131 of 187

An analyst meets with a new client. During the meeting, the analyst sees that the new client's portfolio is heavily invested in one over-the-counter stock. The analyst has been following the stock and thinks it will perform well in the long run. The analyst arranges through a brokerage firm to simultaneously sell a large number of shares of the stock via a series of cross trades from the new client's portfolio to various existing clients. He arranges the trades to be executed at a price that approximates the current market price. This action is:

A) a violation of Standard III(A), Loyalty, Prudence, and Care.

B) not in violation of the Standards.

C) a violation of Standard III(B), Fair Dealing.

Question #132 of 187

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

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

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

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

Question #133 of 187

In securing the shares for all accounts under her management, Linda Kammel of Northwest Futures purchased three blocks of shares at three different prices. She then allocated these shares by placing shares from the first block in accounts with surnames beginning with A-G. The second was allocated over accounts H-P, and the third over Q-Z. This action is:

A) consistent with her responsibilities under the Code and Standards.

B) permissible only if the clients are informed of the allocation procedure.

C) not permissible under the Code and Standards.

Question #134 of 187

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

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

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

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Question #135 of 187

Which of the following is least likely a component of the Code of Ethics? In dealing with the public, clients, prospects, employers, employees, and fellow members, CFA Institute members shall act with:

A) respect.

B) integrity.

C) humility.

Question #136 of 187

Which of the following would be the *least* important proxy issue?

A) Takeover defense and related actions.

B) Election of internal auditors.

C) Compensation plans for officers.

Question #137 of 187

Kenny Barrett, CFA, is working in the Australian office of American Investments Co. From an informal conversation, Barrett learns that the company's most recent investment report was based on misappropriated information. No one at the Australian office expresses concern, however, because there has been no breach of Australian law. Barrett should:

A) seek advice from company counsel to determine appropriate action.

B) do nothing because the branch is outside of U.S. jurisdiction.

C) disassociate himself from the case with a written report to his supervisor.

Hunter Harrison, CFA, is president and chief investment officer (CIO) of Ironclad Investments, an investment adviser and pension consultant for medium and large corporate pension clients. Ironclad recently hired a compliance officer to update its compliance manual, which follows the CFA Institute Code and Standards. Harrison serves as a director on several non-profit and corporate boards of directors, some of which have their pension assets managed by Ironclad. Harrison oversees Ironclad's research analysts and portfolio managers, including Michelle Myers, who passed Level II of the CFA examination last year and plans to sign up for next year's Level III exam as soon as registration opens. Myers is a portfolio manager who regularly meets with clients and prospects. Myers is also a partner in a software company that sells retirement and benefit administration services to institutional clients, some of which are also clients of Ironclad. During her correspondence with prospects and clients, Myers includes reference to her status as a "Level III CFA candidate" in her biographical background to increase her prominence in the industry.

Question #138 of 187

Regarding Myers' references of her status as a candidate in the CFA program, what Standard governs these actions and is she in compliance?

A) Standard I: Professionalism. **Compliance**: No.

B) Standard III: Duties to Clients. **Compliance**: No.

C) Standard VII: Responsibilities as a CFA Member or CFA Candidate. **Compliance**: No.

Question #139 of 187

All of the following *most likely* apply to Myers' participation as a partner in the software company EXCEPT:

A) Standard VI(A) - Disclosure of Conflicts.

B) Standard III(E) - Preservation of Confidentiality.

C) Standard VI(B) - Priority of Transactions.

Question #140 of 187

As part of Ironclad's portfolio management activities on behalf of clients, Harrison and Myers maintain relationships with third party soft dollar providers and commission recapture brokers.

- Better Trading Brokerage ("Better Trading"), one of Ironclad's top ten brokers and soft dollar providers, has offered Harrison two round-trip airline tickets anywhere in the U.S. in appreciation for their two-year relationship with Ironclad.
- One of Harrison's clients, Worldwind Travel ("Worldwind"), who participates in commission recapture, has offered Harrison two round-trip airline tickets anywhere in the U.S. or Europe in appreciation for their two-year relationship with Ironclad.

Which of the following *best* describes Harrison's actions under the Code and Standards? Harrison:

A) cannot accept the offer from either Better Trading or Worldwind.

B) can accept the offer from Worldwind, but cannot accept the offer from Better Trading.

C) can accept the offer from both Better Trading and Worldwind.

Question #141 of 187

Myers has disclosed her partnership interest in the software company to Harrison, including the potential for additional compensation and the possible conflicts of interest.

- One of Myers' software clients, Breakthrough Pharmaceuticals ("Breakthrough"), is a publicly-traded corporation that is also held in portfolios of Ironclad's clients. In the course of their business relationship, Breakthrough's chief executive officer (CEO) informs Myers that the company has been experiencing problems making retirement benefit payments, and its pension plan has recently gone from "overfunded" to "significantly underfunded" as a result of market conditions.
- Breakthrough's CEO indicates to Myers that he is attempting to source additional short-term financing to make retiree benefit payments and will disclose the significant "underfunded status" of the pension plan in the upcoming financial statements.
- Myers, concerned about Ironclad clients holding stock of Breakthrough given the impact on earnings from the current pension troubles and short-term liquidity issues, informs Harrison of the impending disclosure.
- Ironclad sells 1,800,000 shares of Breakthrough for clients, causing the price to drop $4 per share.
- Upon disclosure of the pension troubles, Breakthrough's stock dropped 18%.

According to Standard II—Integrity of Capital Markets, Myers has:

A) not violated the Standard by sharing information with Harrison because the information did not involve a tender offer.

B) violated the Standard.

C) not violated the Standard since the information shared with Harrison was used to fulfill Ironclad's fiduciary duty to avoid significant losses.

Question #142 of 187

Ironclad owns shares in several research and technology companies, including approximately 4% of the outstanding shares of Advanced DSL ("Advanced"), Internet Connections ("Internet"), and approximately 6% of the outstanding shares of Speedy Chip Technology ("Speedy Chip") and Wavelength Digital ("Wavelength").

- Harrison serves on the board of directors for Internet and Wavelength, while Myers provides consulting services for Speedy Chip. Harrison receives cash compensation and stock options for his services, while Myers receives restricted stock and stock options.
- The investment bank that led the public offering of Internet and Speedy Chip and seven of nine sell-side analysts covering the companies have "sell" ratings on the stocks. Ironclad's analysts have also issued "sell" recommendations on the companies due to lack of earnings transparency and quality of earnings, among other issues.
- Harrison increases his position in both Internet and Wavelength citing "growth opportunities" and "consensus opinion."

Which of the following Standards were *least likely* violated by Harrison and Myers?

A) Standard II(A)—Material Nonpublic Information.

B) Standard IV(B)—Additional Compensation Arrangements.

C) Standard III(A)—Loyalty, Prudence, and Care.

Question #143 of 187

Harrison, as CIO, is chairman of Ironclad's proxy voting committee, while Myers is a voting member. Ironclad, as a discretionary investment manager, votes proxies on behalf of clients.

- Ironclad is currently reviewing proxies for several companies covered in research, including technology companies Advanced DSL ("Advanced"), Internet Connections ("Internet"), Speedy Chip Technology ("Speedy Chip") and Wavelength Digital ("Wavelength"), which have all presented the expensing of employee stock options for vote in their current proxies.
- Investment personnel of Ironclad recently participated in an industry forum in support of increased disclosure for company stock options, which Ironclad believes provides investors with a more accurate perspective of corporate earnings.
- Contrary to committee consensus, Harrison and Myers vote client proxies "against" the expensing of employee stock options for Internet, Wavelength and Speedy Chip.

All of the following describe Harrison's actions for compliance with the Code and Standards regarding proxy voting EXCEPT:

A) Harrison should discard all proxies on behalf of Ironclad's clients when there is a conflict of interest.

B) Harrison should vote in accordance with Ironclad's policy and coordinate major proxy issues across all client accounts.

C) Harrison should maintain the confidentiality of voting information on behalf of Ironclad's clients.

Question #144 of 187

According to Standard III(A) Loyalty, Prudence and Care, brokerage is an asset of the:

A) brokerage firm conducting the trades.

B) managing firm.

C) client.

Chandra Patel, CFA, manages private client portfolios for QED Investment Advisers. Part of QED's firm-wide policy is to adhere to CFA Institute Standards of Professional Conduct in the management of all client portfolios, and to this end, the firm requires that client objectives, investment experience, and financial limitations be clearly established at the outset of the relationship. This information is updated at regular intervals not to exceed eighteen months. The information is maintained in a written investment policy statement (IPS) for each client.

Anarudh Singh has been one of Patel's clients ever since she began managing money ten years ago. Shortly after his regular situational update, Singh calls to inform Patel that his uncle is ill, and it is not known how long he will survive. Singh expects to inherit "a sizeable sum of money," mainly in the form of municipal bonds. His existing portfolio allocation guidelines are for 75% to be invested in bonds. Singh believes that the expected inheritance will allow him to assume a more aggressive investment profile and asks Patel to begin moving toward a 75% allocation to equities. He is specifically interested in opening sizable positions in several technology firms, some of which have only recently become publicly traded companies. Patel agrees to begin making the changes to the portfolio and the next day begins selling bonds from the portfolio and purchasing stocks in the technology sector as well as in other sectors. After placing the trade orders, Patel sends Singh an email to request that he come to her office sometime during the next week to update his IPS. Singh replies to Patel, saying that he can meet with her next Friday.

A few days before the meeting, however, Singh's uncle dies and the portfolio of municipal bonds is transferred to Singh's account with QED. Patel sees this as an opportunity to purchase more technology stocks for the portfolio and suggests taking such action during her meeting with Singh, who agrees. Patel reviews her files on technology companies and locates a report on NetWin. The analyst's recommendation is that this stock is a "core holding" in the technology sector. Patel decides to purchase the stock for Singh's account in addition to several other wealthy client accounts with high risk tolerance levels, but due to time constraints she does not review the holdings in each account. Patel does examine the aggregate holdings of the accounts to determine the approximate weight that NetWin should represent in each portfolio.

Since Patel has very recently passed the Level III examination leading to the award of the CFA designation, QED sends a promotional email to all of the firm's clients. The email states "QED is proud to announce that Chandra Patel is now a CFA (Chartered Financial Analyst). This distinction, which is the culmination of many years of work and study, is further evidence of the superior performance you've come to expect at QED." Patel also places phone calls to several brokers that she uses to place trades for her accounts, stating that she "passed all three CFA examinations on the first attempt." One of the people Patel contacts is Max Spellman, a long-time friend and broker with TradeRight Brokers Inc. Patel uses the opportunity to discuss her exclusive trading agreement with TradeRight for Singh's account.

When ordering trades for Singh's account, Patel's agreement with TradeRight for brokerage services requires her to first offer the trade to TradeRight, and then to another broker if TradeRight declines to take the trade. TradeRight never refuses the trades from any manager's clients. Patel established the relationship with TradeRight because Singh, knowing the firm's fee schedule relative to other brokers, asked her to do so. However, because TradeRight is very expensive and offers only moderate quality of execution, Patel is considering directing trades on Singh's account to BullBroker, which charges lower commissions and generally completes trades sooner than TradeRight.

Question #145 of 187

Do QED's policies comply with CFA Institute Standards of Professional Conduct with respect to the information contained within the client IPS' and the frequency with which the information is updated?

	Information	Frequecy
A)	No	No
B)	Yes	No
C)	No	Yes

Question #146 of 187

In light of Singh's comments during his telephone call to Patel prior to his uncle's death, which of the following actions that Patel can take comply with CFA Institute Standards of Professional Conduct?

A) Patel may change the current portfolio strategy and begin trading based upon Singh's expectations because he advised her to do so.

B) Patel must not place any trades in the account until she meets with Singh to develop a new portfolio strategy based on the updated information.

C) Patel must adhere to the existing portfolio strategy until she meets with Singh to develop a new portfolio strategy based upon updated financial information, but may

Question #147 of 187

According to CFA Institute Standards of Professional Conduct, may Patel reallocate Singh's portfolio toward technology stocks after his Uncle dies, but before the meeting with Singh?

A) No—Patel must wait until the next annual meeting to reallocate.

B) Yes—the total value of the municipal bonds received into the account will be too large relative to the other assets in the portfolio.

C) No—Patel and Singh must meet and revise the IPS and portfolio strategy before reallocating.

Question #148 of 187

Did Patel violate any CFA Institute Standards of Professional Conduct when she purchased the NetWin stock for Singh's portfolio or for the other clients' portfolios?

	Singh's portfolio	Other portfolios
A)	No	No
B)	No	Yes
C)	Yes	Yes

Question #149 of 187

Which of the following is *least* accurate regarding the promotional announcement of Patel passing the Level III exam?

A) The promotional announcement uses the letters "CFA" as a noun and hence is an improper use of the designation.

B) The promotional announcement violates the restrictions on misrepresenting the meaning of the CFA designation.

C) The announcement violates the Code of Ethics because it implies that obtaining a CFA charter leads to superior performance.

Question #150 of 187

With respect to the choice of broker, did Patel violate any CFA Institute Standards of Professional Conduct?

A) Yes, since Patel failed to properly notify Singh that using TradeRight would lead to higher commissions and opportunity costs.

B) Yes, since Patel is obligated to seek the best possible price and execution for all clients.

C) No.

William Fleming is an investment advisor for GlobalBank, a large, multinational financial corporation. He is based in the New York office, and his client base consists of medium to large institutional accounts in the United States and Western Europe. Roughly three-quarters of his clients pay performance-based fees, while the remaining one-quarter pay fees based on assets. GlobalBank's investment banking division is an industry leader, and Fleming is able to offer his clients the opportunity to participate in some of the hottest initial public offerings (IPOs) and secondary offerings brought to market. GlobalBank's compliance department formulated and distributed to its employees and clients its policy on how to allocate trades among clients.

The policy states that in order to reward customer loyalty, customers that utilize the services of GlobalBank's divisions other than investment advisory will receive allocations on all trades (including IPOs and secondary offerings) based on the relative size of their order, before clients that utilize only investment advisory services. After filling orders for multi-relationship clients, clients that only utilize investment advisory services will receive trade allocations on all trades, including IPOs and secondary offerings, based on the relative size of their order. This policy reflects GlobalBank's long-term goal of being a full-service provider of financial products and services to all of its clients.

One of Fleming's accounts, Waverly Capital Partners, has contacted him regarding an upcoming secondary offering by DCH Corp., for which GlobalBank will serve as lead underwriter. Waverly has already performed its due diligence on the offering and is interested in purchasing a substantial position in the secondary offering in order to employ the company's current surplus of cash. Waverly's representative tells Fleming over the phone that they would like to purchase 5,000 shares of the offering but gives no other details of its analysis of the offering. Fleming has not read the prospectus for the offering yet and is not familiar with the details, but because he has confidence in Waverly's investment expertise, he tells them that he too believes they should participate in the offering. Because Waverly does a significant amount of business with GlobalBank's other divisions, Fleming assures them that they will be able to obtain their desired allocation of the offering and takes the order.

After taking the purchase order for the Waverly account, Fleming thoroughly reads the prospectus and marketing materials for the offering, as well as past research reports on the issuing company. He determines that DCH shares would be a suitable investment for one of his other clients, The Crockett Foundation. He contacts the Chief Investment Officer (CIO) of the foundation, explains how an investment in DCH would fit with its current risk and return objectives as detailed in the foundation's investment policy statement (IPS) and provides her with the prospectus for the offering. Fleming tells her that GlobalBank was the lead underwriter for DCH's initial public offering three years ago and that since then, the stock has outperformed the S&P 500 by at least 15% every year. Fleming also states that the company's financial position is now even stronger and that the shares will perform at least as well as the lowest return earned on the IPO shares in the last three years. He then proceeds to tell her, "If the foundation is interested in the offering, you should place an order immediately because the issue may be oversubscribed due to strong interest in the offering from Waverly Capital Partners and other clients." This information is enough to motivate Crocket's CIO to call a meeting with the foundation's investment committee.

After a quick meeting with Crockett's investment committee, the CIO calls Fleming to say that the foundation is interested in the offering and would like to place a purchase order. Crockett does not currently conduct any additional business through GlobalBank's other divisions. Because of GlobalBank's trade allocation policy, coupled with the high probability that the offering will be oversubscribed, Crockett is unlikely to be allocated as many shares of the offering as they would like to purchase. In order to obtain the desired number of shares for the client, Fleming devises a plan. He plans to add the Crockett Foundation's order to Waverly's order, and once the order is filled he will re-allocate the extra shares back to the foundation's account at the end of the day. He feels that his action is justified because Crockett has maintained its account with Fleming and GlobalBank for over ten years. In addition, Fleming has traders at GlobalBank sell large blocks of DCH over several days in order to push the stock price lower. The drop in value causes smaller investors at GlobalBank, who are not Fleming's clients, to withdraw their orders for shares of DCH's secondary offering. Fleming determines that the fewer number of purchase orders and the plan to piggyback on Waverly's order will allow Crocket to acquire its desired allocation of shares in DCH's secondary offering. Having achieved his goal, Fleming allows GlobalBank's traders to repurchase the firm's shares of DCH.

Twelve months pass, and the shares of DCH's secondary offering have declined in price by nearly 20%. The CIO of the Crockett Foundation calls a meeting with Fleming to discuss the poor performance of the security and to review the basis upon which Fleming recommended the investment. Fleming prepares Crockett's file to take with him to the meeting. The file contains Crockett's IPS, a detailed account of the purchase order and all conversations held between Fleming and the CIO. In accordance with his own established procedures, however, Fleming maintained the original analysis supporting the purchase of shares in DCH's secondary offering for nine months after the investment was made.

Question #151 of 187

Did GlobalBank's trade allocation policy violate the CFA Institute's Standards of Professional Conduct?

A) No, because the firm is allowed to offer different levels of service to its clients as long as they are disclosed and available to all clients.

B) No, because the firm fully disclosed its allocation policy to all clients and employees.

C) Yes, because the policy favors one group of clients over another and will disadvantage those clients that do not have multiple relationships with the firm.

Question #152 of 187

According to the CFA Institute's Standards of Professional Conduct, Fleming's execution of Waverly's trade order after confirming the appropriateness of the trade is *most likely* in violation of:

A) Standard V(A)—Diligence and Reasonable Basis for not exercising diligence and thoroughness in his analysis of the investment and Standard III(C)—Suitability for

B) Standard I(C)—Misrepresentation for not disclosing to Waverly that he did not read the marketing materials, but is not in violation of Standard III(C)—Suitability because the

C) Standard V(B)—Communication with Clients and Prospective Clients for not separating fact from opinion, but is not in violation of Standard I(C)—Misrepresentation because

Question #153 of 187

According to CFA Institute Standards of Professional Conduct, which of the following of Fleming's actions is *most likely* a violation of Standard I(C)—Misrepresentation? Fleming:

A) executes the trades on DCH Corp. per Waverly's instructions without first referring to Waverly's IPS.

B) tells the CIO of Crocket Foundation that shares of DCH's IPO outperformed the S&P 500 by at least 15% in each of the last three years since the offering.

C) tells the CIO of the Crockett Foundation that DCH's secondary offering will earn at least the lowest return earned on its IPO shares over the last three years.

Question #154 of 187

Which of the following statements *most* accurately assesses Fleming's comment about Waverly during his conversation with the CIO of the Crockett Foundation? According to the Code and Standards, Fleming's statement is:

A) not in violation of any standard because he only disclosed factual information, and he did not disclose the details of Waverly's purchase.

B) in violation of Standard I(C)—Misrepresentation because his statement may be misleading with regard to future performance of the offering.

C) in violation of Standard III(E)—Preservation of Confidentiality because his failure to keep information about a client's investment action confidential.

Question #155 of 187

According to CFA Institute Standards of Professional Conduct, did Fleming's conversation with the CIO of the Crockett Foundation or his decision to sell GlobalBank's position in DCH stock *most likely* violate Standard II(B)—Market Manipulation?

Conversation with CIO	Sell decision

A) Yes Yes

B) No Yes

C) Yes No

Question #156 of 187

Is it *most likely* that Fleming violated any CFA Institute Standards of Professional Conduct related to his meeting with the CIO of the Crockett Foundation?

A) No—he maintained an IPS and followed established procedures in maintaining client records and data.

B) No—he does not have a duty to maintain client records, only his employer does.

C) Yes—he failed to maintain appropriate records to support his investment recommendation.

Question #157 of 187

The CFA Institute Code of Ethics *least likely* requires a Member or Candidate to:

A) Understand and comply with all applicable laws, rules, and regulations.

B) Practice and encourage others to practice in a professional and ethical manner that will reflect credit on members and their profession.

C) Strive to maintain and improve the competence of others in the profession.

Question #158 of 187

The first component of the Code of Ethics does NOT explicitly say that a CFA Institute member will act in a certain manner with respect to which of the following groups?

A) Prospective clients.

B) Colleagues.

C) CFA Institute members and candidates in the CFA Program.

Question #159 of 187

Carl Weather, CFA, is the chief financial officer of Talbot Enterprises. Based on inside information about Talbot's favorable prospects, Weather concludes that Talbot's common stock price is substantially undervalued in the market. With the approval of Talbot's Board of Directors, Weather announces a program for his firm to repurchase $100 million of its own stock in the market. Talbot's stock price rises immediately after the announcement of the repurchase program.

Reese Winter, a CFA Institute member, is Weather's assistant. While waiting in Weather's office, Winter reads an internal memo marked "confidential" from Talbot's chief accountant to Weather. The memo states that Talbot sustained an unexpected substantial profit during the past quarter, and its earnings projections show a substantial increase compared with previous estimates. Winter uses her cell phone to call her brother and discloses this information to him. Her brother immediately buys 1000 shares of Talbot's stock.

Did the actions of Weather and Winter violate Standard II(A): Material Nonpublic Information?

	Weather	Winter
A)	Yes	Yes
B)	Yes	No
C)	No	Yes

Question #160 of 187

Maggie McCarthy is an individual investment advisor who uses mutual funds for her clients. She typically chooses from a list of 40 funds that she has thoroughly researched. The Figgs, a married couple that are a client, asked her to consider the Boilermaker fund for their portfolio. McCarthy had not previously considered the fund because when she first conducted her research three years ago, Boilermaker was too small to be considered. However, the fund has now grown in value, and after doing thorough research on Boilermaker, she found the fund was by far the most outstanding large company value fund in her list of funds. She puts the fund in the Figgs' portfolio, and in all new clients portfolios, but not in any of her other clients' portfolios. Her reasoning is that her existing clients were comfortable with their current holdings, and she did not want to risk disturbing their comfort. Has McCarthy violated any Standards? McCarthy has:

A) violated the Standards by not dealing fairly with clients.

B) not violated the Standards.

C) violated the Standards by not having a reasonable and adequate basis for making the recommendation.

Question #161 of 187

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

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

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

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

Question #162 of 187

According to CFA Institute Standards of Professional Conduct, which of the following is *least likely* a compliance procedure for maintaining independence and objectivity in making investment recommendations or taking investment action?

A) Create a restricted list so that the firm disseminates only factual information about a controversial company.

B) Maintain files to support investment recommendations.

C) Restrict special cost arrangements related to travel.

Question #163 of 187

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

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

B) not in violation of the Standard.

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

Question #164 of 187

Jim Kent is an individual investment advisor in San Francisco with 300 clients. Kent uses open-ended mutual funds to implement his investment policy. For most of his clients, Kent has used the Baker fund, a small company growth fund based in Boston, for a portion of their portfolio. As a result he has become very friendly with Keith Dunston, the manager of the fund, whom Kent feels is mainly responsible for Baker's performance. One day Dunston calls Kent and tells him that he will be leaving the fund in four weeks and moving to San Francisco to work for a different money management company. Dunston is seeking suggestions on housing in the area. Baker has not yet announced Dunston's departure. Kent immediately finds a fund that is a suitable replacement for the Baker fund, and over the next two days he calls his 30 clients with the largest dollar investments in the funds and tells them he feels they should switch their holdings. Baker feels the remaining clients' positions are small enough to wait for their annual review to switch funds. Kent has:

A) violated the Standards regarding nonpublic information but has not violated the Standards in failing to deal fairly with clients.

B) violated the Standards by not dealing fairly with clients but has not violated the Standards regarding material nonpublic information.

C) violated the Standards by not dealing fairly with clients and regarding material nonpublic information.

Question #165 of 187

Bob Hatfield, CFA, has his own money management firm with two clients. The accounts of the two clients are equal in value. One of the clients gets married and the assets of the new spouse and the client are combined. With the larger portfolio of the now married client, Hatfield determines that they can assume a higher level of risk and begins a change in the policy concerning that portfolio. Which of the following would violate Standard III(C), Suitability?

A) Implement a similar policy for the other client who did not just get married.

B) Assess the return objectives of the newly married client and his spouse.

C) Assess the time horizon of the newly married client and his spouse.

Question #166 of 187

According to the Standards of Professional Conduct, investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner. This concept is most directly addressed in:

A) Standard V, Investment Analysis, Recommendations, and Actions

B) Standard VI, Conflicts of Interest

C) Standard I, Professionalism

Bella Brown is an experienced generalist securities analyst employed by Lang & Co., a major U.S. brokerage firm whose clients have a high regard for her research and stock selection abilities. She was visited recently by a Lang managing director who said, "Please take a look at SpecChem Inc., the specialty chemical producer. They are going to need an investment banker soon and, because we make a market in their stock, we will be one of the firms considered for this business. I had lunch with SpecChem's Treasurer today, who told me that their European problems are being resolved and that earnings results are definitely looking good. He likes us and is expecting you to call him for details." The managing director then left Brown's office, saying, "It would be great if you could rate the stock a 'Buy'."

In a subsequent hour-long telephone discussion with the Treasurer, Brown obtained some useful information concerning recent company trends and developments as well as SpecChem's overall view of the outlook for sales and earnings during the next several quarters. Brown began thinking quite positively about the company and its prospects. She then reviewed some general source material on the chemical industry and read the Standard & Poor's Stock Guide on SpecChem Inc. That afternoon, she wrote a report recommending purchase of the stock, shown below as Exhibit B. In accordance with Lang's routine procedures for pre-dissemination review of Research Department recommendations, the report has been sent to the firm's Director of Research, who is aware of the circumstances under which it was prepared.

Exhibit B

LANG & COMPANY Company Report

Industrial: Specialty Chemicals Equity Research

Rating: Buy

SpecChem Inc. (NYSE: SCM)

- We are initiating coverage of SpecChem Inc. with this report.

- Earnings, up to 51% in the first quarter, are expected to be up again in the quarter ending June 30. Higher sales, better margins, an improved geographic sales mix, and savings from reduced pension expense are all contributing to this year's gains.
- Although European production is up only modestly year-over-year, successful cost reduction efforts are limiting the adverse effects of weak volume and pricing. A possible plant closure in September could improve plant utilization by 10%, accompanied by potentially dramatic margin improvement. However, a $30 million after-tax special charge could be taken at the time of the closure.
- We expect a moderate increase in second half 2014 sales. Although management looks for European demand to remain slow, it feels that U.S. sales could be above expectations if auto-related demand strengthens. Management is also optimistic about receiving a sizable U.S. government contract in the next few months.
- Based on the factors noted above, our confidence level concerning earnings levels over the balance of the year is high.
- We think SpecChem stock is undervalued and believe it can easily reach the low 100s on the strength of continuing earnings momentum. The downside is estimated to be in the mid-80s. There is plenty of room for upside earnings surprises if volume and prices improve, which would take the stock up strongly. Purchase is recommended.

Analyst: Bella Brown

Research Department

This report is based upon information which we consider reliable, but we do not represent that it is accurate, and it should not be relied upon as such. We, or persons involved in the preparation or issuance of this material, may, from time to time, have long or short positions in the securities of the company mentioned herein.

Question #167 of 187

Under the CFA Institute Code and Standards, it is the responsibility of the Director of Research, a CFA Institute member to:

A) both of these.

B) not knowingly participate or assist in any violation of laws, rules, or regulations.

C) exercise reasonable supervision over those subject to their supervision or authority to prevent any violation of applicable statues, regulations or provisions of the Code and

Question #168 of 187

Under the current circumstances, the Director of Research should:

A) allow the report to be distributed, as is.

B) require the report to be redone to ensure compliance with CFA Institute Standards.

C) require the report to be redone with a neutral or hold rating pending the outcome of the awarding of the investment banking business.

Question #169 of 187

The research report, as shown, has several aspects which violate CFA Institute Standards of Professional Conduct. Which of the following is NOT an apparent violation of CFA Institute Standards?

A) The report does not distinguish between fact and opinion.

B) The report violates guidelines on investment performance presentation.

C) The report does not adequately discuss the factors important to analysis, recommendations, or action.

Question #170 of 187

As to the process by which Brown's report in Exhibit B came into being, which of the following is *least likely* a procedural error in violation of CFA Institute Standards of Professional Conduct?

A) Brown has violated the Standard relating to independence and objectivity.

B) Brown has violated the Standard relating to disclosure of basic characteristics.

C) Brown has violated the Standard relating to the prohibition against plagiarism.

Question #171 of 187

Brown has been invited to visit the world headquarters of SpecChem. Brown expects that the information that she learns there will help her to flush out some of the fine details in her research on SpecChem's stock. SpecChem plans to pay for all of Brown's expenses trip, including meals, accommodations and lodging. In order to comply with the Code and Standards, which of the following actions should Brown take? Brown should:

A) Accept the reimbursement but disclose the total reimbursed expense-paid trip in the report.

B) Accept the reimbursement if she is confident that her report will still be objective.

C) Pay for all her travel expenses.

Question #172 of 187

Brown submits her report to the Director of Research for review, as required by Lang's procedures. Although the Director of Research supports Brown's general conclusion, he is somewhat more optimistic about SpecChem's near-term prospects, and based on his own thorough investigation believes that the stock could touch $150. The Director of Research changes the report to indicate a target price somewhat higher than originally predicted by Brown. Brown is confident that the Director of Research's conclusion has a reasonable basis, but thinks that $150 is on the high side of what is likely. The Director of Research adds his own name to the report to reflect his contribution.

In order to comply with CFA standards, must Brown request that her name be taken off the report before it is disseminated?

A) Yes, because Brown should dissociate from the report.

B) No.

C) Yes, because the Director of Research has misrepresented his contribution.

Question #173 of 187

Jordan Conomos is the new trustee for the Grant Trust, which has both current beneficiaries and remaindermen. Up until now, the trust has been entirely invested in long-term tax-free municipal bonds. Conomos decides to put 30 percent of the assets in common stocks, with the justification that taxes should be the concern of the trust beneficiaries and not the trust, and the trust needs some diversification and growth. Conomos is:

A) violating his fiduciary duty by not investing solely for the purposes of the current beneficiaries.

B) not violating his fiduciary duty.

C) violating his fiduciary duty by not considering taxes.

Question #174 of 187

The CFA Institute Standards of Practice Handbook requires CFA Institute members to do all the following EXCEPT:

A) to disclose in writing to the proper regulatory authority all observed violations of the securities laws and regulations.

B) receive written permission from both their employer and outside clients to engage in investment consulting outside the firm.

C) to inform employer, clients, and potential clients of benefits received for recommending products or services.

Question #175 of 187

After a very successful quarter of high investment returns, Judy O'Berry, CFA, receives several gifts from grateful clients. O'Berry considers the gifts to be of novelty or sentimental value only, but she hears rumors that several junior employees are jealous of the attention she received for the group's efforts. She decides to consult the company's compliance rules on gifts and is surprised to learn her firm has no established rules. She consults the Standards of Practice Handbook, and then submits proposed rules on gifts to her company's compliance department. These rules should contain all of the following EXCEPT:

A) a formal value limit based on local customs.

B) restrictions on all types business entertainment.

C) a requirement to disclose the gift.

Question #176 of 187

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 but is not in violation with regard

B) 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

C) 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

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Question #177 of 187

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) performs either of the activities listed here.

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

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

Question #178 of 187

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

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

C) No, because the member remedied the situation.

Question #179 of 187

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, urge Venture to persuade Martinez to cease the activity, and inform CFA Institute and regulatory authorities of the violation.

B) disassociate herself from the activity, urge Venture to persuade Martinez to cease the activity, and inform CFA Institute of the violation.

C) disassociate herself from the activity, and urge Venture to persuade Martinez to cease the activity.

Question #180 of 187

Paul Drake is employed by a company to provide investment advice to participants in the firm's 401(k) plan. Company stock is one of the investment options in the plan. Drake feels that the stock is too risky for employees to own in their 401(k) plan 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:

A) continue to advise employees to sell their stock.

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

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

Question #181 of 187

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

A) Wall Street Rule.

B) legal list.

C) fire wall.

Question #182 of 187

Bob Blanford, CFA, is an investment analyst for a large global brokerage firm. He recently moved to Ragatan, a developing country with few securities laws and regulations. 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. If this information becomes public, Blanford believes that Starr's stock price will drop substantially. Blanford suspects that Shanti may have violated Ragatan's securities laws. Which of the following statements is *least likely* to comply with Standard I, Professionalism? Blanford should:

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

B) take no action.

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

Question #183 of 187

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.

Question #184 of 187

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. He decides that any ramifications from such activity is Smith's problem and does not report this fact. According to the *CFA Institute Code and Standards* he should or is required to do all of the following EXCEPT:

A) urge Smith to cease altering the accounting records.

B) determine legality, consulting counsel if necessary.

C) report the activity to the FASB or other relevant regulatory body.

Question #185 of 187

An analyst thinks that a major change in the tax law will benefit holders of utility company stocks. She immediately begins calling all her clients and telling them of the upside potential of investing in such assets now. Based upon this information, this is *most likely*:

A) congruent with Standard V(A), Diligence and Reasonable Basis.

B) a violation of Standard III(C), Suitability.

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

Question #186 of 187

Lee Roth, who is an investment advisor, is riding in a taxi and finds a file of information labeled "Genco Valuation." The folder contains a great deal of financial data, projections and nonpublic information concerning the food products industry that lead Roth to believe that Genco will be worth 50% more than its current stock value. Roth also finds some correspondence that leads him to believe that the file belonged to Tom Hagan. Roth tries to find out where Hagan works so he can return the file. Roth can recommend Genco to his clients unless Hagan works for:

A) Roth cannot recommend Genco to his clients at this time.

B) the corporate finance department for Genco.

C) the equity research department for a brokerage firm.

Question #187 of 187

While having a conversation with a prospective client, John Henry states that his performance across all of his past clients over the past five years was over 20%, which was 200 basis points higher than his benchmark. He tells the client that while the benchmark may rise or fall over time, his excess performance will remain consistent. Henry violated the Standards of Professional Conduct because:

A) the statement of excess performance is misleading with respect to its certainty.

B) he cannot discuss prospective future performance in any manner.

C) he cannot discuss performance without clearly stating that the composite does not conform to GIPS.