Question #1 of 67

Question ID: 1208092

A CFA Institute member makes a recommendation of a stock in which his firm has a material ownership, but neglects to inform clients of that ownership. The candidate has most clearly violated:

A) Standard III(B) - Fair Dealing.

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

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

Explanation

Standard VI(A)requires that members fully disclose all potential conflicts of interest, including ownership of stock in companies that the member recommends or that clients hold. Standard III(B), Fair Dealing, forbids members and Candidates from discriminating against any clients when disseminating recommendations or taking investment action. Standard V(B), Communication with Clients and Prospective Clients, requires that members disclose the general principles of the investment processes used, and distinguish between opinions and facts.

(Study Session 1, Module 2.9, LOS 2: VI(A))

Related Material

SchweserNotes - Book 1

Question #2 of 67

Question ID: 1212450

All of the following statements in promotion of your services are in *violation* of CFA Institute Standards of Practice handbook EXCEPT:

A) I passed Level II of the CFA Program in 2003.

B) based upon my research, you will achieve a 20% compound annual rate of return on small cap stocks over the next 5 years.

C) I guarantee under my management that you will receive returns in excess of the market index average.

Explanation

Candidates may refer to the CFA level(s) passed and the associated dates as long as a partial designation is not implied. They may not guarantee or promise a given level of return.

(Study Session 1, Module 2.10, LOS 2: VII(B))

Related Material

SchweserNotes - Book 1

Question #3 of 67

Question ID: 1212435

Wes Smith, CFA, refers many of his clients to Bill Towers, CPA, for accounting services. In return, Towers performs routine services for Smith, such as his tax returns, for no charge. Towers has just become a member of CFA Institute. With this development, Towers must:

A) reveal to the prospects referred by Smith that he performs services for Smith, along with the estimated value of those services. ✓

B) discontinue his services for Smith. ✗

C) only reveal to the prospects referred by Smith that he performs services for Smith. ✗

Explanation

According to VI(C), Referral Fees, as a member of CFA Institute, Towers must tell his clients about the payment in kind to Smith along with an estimate of the value of those services.

(Study Session 1, Module 2.9, LOS 2: VI(C))

Related Material

SchweserNotes - Book 1

Question #4 of 67

Question ID: 1212451

Nichole Zeller and Randy Toffler have both passed Level II of the CFA Exam Program and have registered for Level III. Zeller circulates a resume stating that she is a candidate for the CFA designation and has passed Level II of the CFA program. Toffler circulates a resume stating that he is a CFA II. Which of the following statements is CORRECT?

A) Both Zeller and Toffler have violated the Code of Standards. ✗

B) Only Toffler has violated the Code of Standards. ✓

C) Only Zeller has violated the Code of Standards. ✗

Explanation

The Code and Standards permit an individual to state that he or she is a candidate for the CFA designation as long as the person is registered for the next CFA exam. The same individual may state the fact that he or she has passed Level I or II of the CFA program. There is no partial designation, such as CFA II.

(Study Session 1, Module 2.10, LOS 2: VII(B))

Related Material

SchweserNotes - Book 1

Question #5 of 67

Question ID: 1212443

During 2004 Nancy Arnold received an undergraduate business degree with a management major and completed all requirements for the CFA designation imposed by CFA Institute. She is applying for employment at several brokerage firms. Her resume states, "I was awarded the CFA degree in 2004 by CFA Institute." Her resume also states that she graduated "with honors" and majored in finance. Her grade point average was 3.48 but "with honors" requires a 3.50 grade point average.

Which of the following statements about Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program, and Standard I(C), Misrepresentation, is CORRECT? Arnold:

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

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

C) violated Standard I(C) but she did not violate Standard VII(B).

Explanation

Arnold violated Standard VII(B). The CFA designation should not be referred to as a degree. Arnold also violated Standard I(C) because her claim that she graduated "with honors" is not true.

(Study Session 1, Module 2.10, LOS 2: VII(B))

Related Material

SchweserNotes - Book 1

Question #6 of 67

Question ID: 1212421

Bill Valley has been working for Advisors, Inc., for several years, and he just joined CFA Institute. Valley routinely writes research reports on Pharmaceutical firms. Valley has recently been asked to serve on the board of directors of an organization that promotes the search for a cure of a certain cancer. Serving on the board is an unpaid position without any direct benefits other than meeting new people and potential clients. To comply with Standard VI, Disclosure of Conflicts, Valley needs to:

A) only disclose the position on the board to his supervisor.

B) both disclose the position on the board to his supervisor and describe his responsibilities on the board.

C) do nothing.

Explanation

Valley could be affected by his position on the board because he may tend to favor investments in firms that do cancer research. To comply with Standard VI(A), Disclosure of Conflicts, Valley must inform his supervisor of this relationship and describe his responsibilities on the board. Even if his supervisor does not find the relationship troublesome, any subsequent action that could lead to a conflict of interest should be discussed with the firm's compliance officer.

(Study Session 1, Module 2.9, LOS 2: VI(A))

Related Material

SchweserNotes - Book 1

Question #7 of 67

Question ID: 1212429

An analyst routinely has the opportunity to offer his clients the opportunity to purchase "hot new issues." He tells his clients that he will distribute each issue equally among those interested, with himself included in the distribution. The clients do not object to this. With respect to Standard VI(B), Priority of Transactions, this:

A) may be a violation because it is impossible to distribute hot new issues equally.

B) may be a violation despite the clients' approval.

C) cannot be a violation because the clients know of the practice and agree.

Explanation

Just because the clients know of a practice does not make it right. The analyst must put the clients first. It is a violation for the analyst to participate in a "hot new issue" which can lower the allocation to any given client below what that client would prefer. This is tantamount to putting the analyst's interests ahead of the clients' interests.

(Study Session 1, Module 2.9, LOS 2: VI(B))

Related Material

SchweserNotes - Book 1

Question #8 of 67

Question ID: 1212422

Arthur Harrow, CFA, is a pharmaceuticals analyst at Dominion Asset Management. His supervisor directs him to prepare separate research reports on Miracle Drug Company and Wonder Drug Company. Harrow serves on the board of Miracle and owns 2000 shares of Wonder, which is currently trading at $25 per share. According to CFA Institute Standards of Professional Conduct, which of the following actions, if any, is Harrow required to take if he writes the research reports?

A) Harrow must disclose to Dominion his ownership of shares in Wonder but not his relationship with Miracle. ✗

B) Harrow must disclose to Dominion his relationship with Miracle but not his ownership of shares in Wonder. ✗

C) Harrow must disclose to Dominion both his relationship with Miracle and his ownership of shares in Wonder. ✓

Explanation

Standard VI(A) requires that Harrow disclose to Dominion conflicts that reasonably could be expected to interfere with his independence and objectivity. Both Harrow's relationship with Miracle and his ownership of a substantial dollar amount of Wonder's shares represent potential conflicts of interest and must be disclosed prominently and in clear language in the research report, giving clients the ability to weigh the possible effects of these potential conflicts on his analysis and conclusions.

(Study Session 1, Module 2.9, LOS 2: VI(A))

Related Material

SchweserNotes - Book 1

Question #9 of 67

Question ID: 1212418

The following scenarios involve two analysts at Dupree Asset Management, a small New York-based company with about $150 million in assets under management. Dupree restricts personal trading of stocks analyzed, corporate directorships, trustee positions, and other special relationships that could reasonably be considered a conflict of interest with their responsibilities to their employer.

- Ray Bolt, CFA, is a senior investment analyst. Bolt was recently elected to the board of trustees of his alma mater, Midwest University, and was appointed as the chairman of the University's endowment committee. Midwest has more than $2 billion in its endowment. Bolt must travel from New York to Chicago eight times a year to attend meetings of the board of trustees and endowment committee. Bolt did not inform Dupree of his involvement with Midwest University.
- Wanda Delvecco, a candidate in the CFA Program, is a junior investment analyst. She recently wrote a research report on Aveco Communications and recommended the stock for Dupree's "buy" list. Delvecco bought 200 shares of Aveco stock for her personal account 12 months before she wrote her research report. Over the past 12 months, the stock's price has been in the $20-42 price range. Delvecco has not informed Dupree of her ownership of Aveco stock.

According to CFA Institute Standards of Professional Conduct, which the following statements about Bolt and Delvecco's actions is CORRECT?

A) Neither Bolt nor Delvecco violated the Standards. ✗

B) Delvecco violated the Standards, but Bolt did not. ✗

C) Both Bolt and Delvecco violated the Standards. ✓

Explanation

Standard VI(A), Disclosure of Conflicts, requires that Bolt inform Dupree of his involvement with Midwest University given that Bolt's new role can be expected to be time consuming and possibly affect his responsibilities at Dupree. Delvecco is required to disclose her ownership of Aveco stock before conducting the research report because such ownership could bias her objectivity in making a recommendation. She should have discussed owning the stock with her supervisor before beginning to write the research report on Aveco.

(Study Session 1, Module 2.9, LOS 2: VI(A))

Related Material

SchweserNotes - Book 1

Question #10 of 67

Question ID: 1212445

Anderson, Baker and Chang all received their CFA charters and ordered new business cards. Their business cards are as follows:

G. J. Anderson, CFA

B. K. Baker, Chartered Financial Analyst

M. S. Chang, C.F.A

Which of the business cards use the CFA marks improperly?

A) Baker and Chang.

B) Anderson and Chang.

C) Chang.

Explanation

Consistent with Standard VII(B), members must use the CFA marks in a proper manner. Members may indicate "CFA" or "Chartered Financial Analyst" after their names, but the designation should not be given more prominence than that used in printing the name itself. Also, periods should not be used to separate the letters.

(Study Session 1, Module 2.10, LOS 2: VII(B))

Related Material

SchweserNotes - Book 1

Question #11 of 67

Question ID: 1212440

Which of the following actions would be a violation of the Standard VII(A) Conduct as Participants in CFA Institute Programs?

A) Using the CFA designation without submitting a Professional Conduct Statement and paying annual dues.

B) Misrepresenting information on the Professional Conduct Statement.

C) Exaggerating the implications of holding the CFA designation.

Explanation

Misrepresenting information on the Professional Conduct Statement is a direct violation of Standard VII(A) Conduct as Participants in CFA Institute Programs. The other choices are violations of Standard VII(B) Reference to CFA Institute, the CFA Designation, and the CFA Program.

(Study Session 1, Module 2.10, LOS 2: VII(A))

Related Material

SchweserNotes - Book 1

Question #12 of 67

Question ID: 1208118

Janet Olson, CFA, is an analyst at Quantech Associates. Olson attended a conference at which Brian Wright presented several proprietary computerized spreadsheets that he had developed to value high-tech stocks. While at the conference, Olson copied the spreadsheets without Wright's knowledge. Later, Olson made several minor changes to Wright's initial model. After testing the revised model, Olson was impressed with the results. As inputs for the model, she used factual materials supplied by Moody's Investors Service, a recognized financial and statistical reporting service. Olson wrote a research report describing the revised model and its results and distributed the report to Quantech's clients. According to CFA Institute Standards of Professional Conduct, which of the following actions is Olson required to take? Olson is:

A) required to seek authorization from Wright to copy the spreadsheets and acknowledge Wright for developing the initial model and Moody's Investors

B) required to acknowledge Moody's Investors Service as the source of the data but is not required to seek authorization from Wright to copy the spreadsheets or to

C) required to seek the authorization from Wright to copy the spreadsheets, acknowledge Wright for developing the initial model but is not required to

Explanation

To comply with Standard I(C) Misrepresentation, Olson should have gotten the authorization from Wright to copy the spreadsheets. The prohibition against plagiarism requires that Olson identify Wright as the source of the initial model. However, the Standard permits publishing factual information from Moody's Investors Service without acknowledgment because Moody's is recognized as a source of factual materials.

(Study Session 1, Module 2.10, LOS 2: VII(B))

Related Material

SchweserNotes - Book 1

Question #13 of 67

Question ID: 1212425

When an analyst makes an investment recommendation, which of the following statements *must* be disclosed to clients?

A) An employee of the firm holds a directorship with the recommended company.

B) The firm is a market maker in the stock of the recommended company.

C) Both of these statements must be disclosed to clients.

Explanation

Both of these items are explicitly listed in the discussion of Standard VI(A), Disclosure of Conflicts.

(Study Session 1, Module 2.9, LOS 2: VI(A))

Related Material

SchweserNotes - Book 1

Question #14 of 67

Question ID: 1212430

Gordon McKinney, CFA, works in the trust department of a bank. The bank's trust account holds a large block of a particular company. McKinney learns that this company is going to buy back one million shares at a 15% premium to the market price on a first-come-first-served basis. McKinney immediately tells his mother-in-law to tender her shares but waits until the end of the day to tender the trust's shares. McKinney has *most* likely violated:

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

B) Standard IV(A), Loyalty to Employer.

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

Explanation

Standard VI(B), Priority of Transactions, applies. If an analyst decides to make a recommendation about the purchase or sale of a security, he must give his customers or employer adequate opportunity to act on this recommendation before acting on his own behalf. Personal transactions include those made for the member's own account and family accounts. Here, McKinney violated Standard VI(B) by acting on his mother-in-law's behalf and then waiting until the end of the day to act on his employer's behalf.

Explanations for other responses:

- Standard IV(A), Loyalty to Employer, does not apply. This standard concerns a member competing with his/her employer (independent practice), for example a member who engages in outside consulting.
- Standard II(A), Material Nonpublic Information, does not apply. The question does not indicate that the information is not public.

(Study Session 1, Module 2.9, LOS 2: VI(B))

Related Material

SchweserNotes - Book 1

Question #15 of 67

Question ID: 1212455

Robert Hopkins has earned the right to use the CFA designation and wants to indicate this on his business card. According to CFA Institute Standards of Professional Conduct, which of the following is the proper use of the professional designation on his business card?

A) Robert Hopkins, cfa.

B) Robert Hopkins, Chartered Financial Analyst.

C) Robert Hopkins, C.F.A.

Explanation

The CFA designation should always be capitalized and shown without periods. The CFA designation should not be referred to as a degree. Placing the designation "CFA" or "Chartered Financial Analyst" after one's name on a resume, business card, brochure, or other published material is appropriate.

(Study Session 1, Module 2.10, LOS 2: VII(B))

Related Material

SchweserNotes - Book 1

Question #16 of 67

Question ID: 1212434

Standard VI(C), Referral Fees, requires the member to do all of the following EXCEPT:

A) make required disclosures to the referred client before an agreement is made to provide services to the referred client.

B) disclose to the referred client the percentage of the member's business that comes from referrals.

C) disclose to the referred client how much the referral source was paid to refer the client.

Explanation

The applicable Standard, VI(C), *does not require* a member to disclose the percentage of their business that comes from referrals.

Standard VI(C) states, *"Members shall disclose to clients and prospects any consideration or benefit received by the member or delivered to others for the recommendation of any services to the client or prospect."* Appropriate disclosure means telling the client or prospect, before agreeing to perform services, of any benefit given or received for recommending the member's services.

(Study Session 1, Module 2.9, LOS 2: VI(C))

Related Material

SchweserNotes - Book 1

Question #17 of 67

Question ID: 1212448

A CFA Institute member puts the following statement on her resume: "I passed each level of the CFA exam on the first try." Is this a violation of Standard VII(B)?

A) Yes, because she incorrectly refers to the CFA exam.

B) Yes, because saying she passed exams on the first try is not appropriate.

C) No, because it is a statement of fact.

Explanation

The statement is not a violation because it is a fact. However, the member must not go on to claim superior performance.

(Study Session 1, Module 2.10, LOS 2: VII(B))

Related Material

SchweserNotes - Book 1

Question #18 of 67

Question ID: 1212420

Dwight Dawson, a CFA charterholder and portfolio manager at Ascott Investments, was recently appointed to the investments committee at Brightwood College. He will receive no compensation from Brightwood for serving on this committee. Another person at Ascott manages part of Brightwood's endowment. Dawson does not inform Ascott's compliance office of his involvement with Brightwood, because he does not believe doing so is necessary.

Brenda Hamilton, a CFA candidate, also works for Ascott as an investment analyst. Procedures established at Ascott prohibit personal trading in securities analyzed or recommended by Ascott. One of these securities is Horizon, a telecommunications firm. Hamilton buys 10 shares of Horizon for her infant son's trust account. She believes that reporting this purchase to Ascott's compliance officer is unnecessary because the amount of the transaction is small and is not for her own personal account.

Did Dawson or Hamilton's actions violate CFA Institute Standards of Professional Conduct?

A) Dawson: No, Hamilton: No.

B) Dawson: No, Hamilton: Yes.

C) Dawson: Yes, Hamilton: Yes.

Explanation

Dawson violated Standard VI(A), Disclosure of Conflicts, by failing to inform Ascott of her involvement with Brightwood College. Dawson could reasonably be expected to be involved with investment policy decisions at Brightwood that could affect Ascott because Ascott manages a portion of Brightwood's endowment. Hamilton also violated Standard VI(A), because she ignored a directive of her employer. Her purchase of Horizon stock has an appearance of impropriety. Hamilton could discuss the purchase of Horizon stock with her firm's compliance officer and request an exception to the prohibition against personal trading in securities analyzed or recommended by Ascott.

(Study Session 1, Module 2.9, LOS 2: VI(A))

Related Material

SchweserNotes - Book 1

Question #19 of 67

Question ID: 1208070

Jim Taylor works as a portfolio manager for Rose Capital and also serves as president of the Little League board of directors in his town. He receives no money from Little League, however the local golf club provides him with a free membership for volunteering his time on the Little League board. Taylor's involvement with Little League is in his company biography, but the club membership has not been disclosed to Rose or his clients. Taylor has:

A) violated the Standards by not disclosing the club membership to Rose, but not by failing to disclose it to clients.

B) violated the Standards by not disclosing the club membership to Rose and failing to disclose it to clients.

C) not violated the Standards.

Explanation

He must disclose any compensation to his employer if it conflicts with his employers/clients interests. However, this relationship does not likely represent any conflict of interest.

(Study Session 1, Module 2.9, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #20 of 67

Question ID: 1212424

Will Lambert, CFA, is a financial analyst for Offshore Investments. He is preparing a purchase recommendation on Burch Corporation. According to CFA Institute Standards of Professional Conduct, which of the following relationships with Burch is Lambert *least likely* required to disclose?

A) he has a material beneficial ownership of Burch through a family trust.

B) his son-in-law was formerly employed by Burch.

C) his wife owns 2,000 shares of Burch.

Explanation

Standard VI(A) requires that Members and Candidates fully disclose all matters which may impair their independence or objectivity or interfere with their duties to their employer, clients and prospects. Beneficial ownership of shares in a firm on which a member is making investment recommendations is an example of such a matter.

(Study Session 1, Module 2.9, LOS 2: VI(A))

Related Material

SchweserNotes - Book 1

Question #21 of 67

Question ID: 1212441

Ron Vasquez is registered to sit for the Level II CFA exam. Unfortunately, Vasquez has failed the exam the past two years. In his frustration, Vasquez posted the following comment on a popular internet bulletin board: "I believe that CFA Institute is intentionally limiting the number of charterholders in order to increase its cash flow by continuing to fail candidates. Just look at the pass rates."

Which of the following statements regarding Vasquez's conduct is *most accurate*? Vasquez is:

A) in violation of Standard VII(A) Conduct as Participants in CFA Institute Programs, but not in violation of Standard I(D) Misconduct. ✗

B) not in violation of Standard I(D) Misconduct or Standard VII(A) Conduct as Participants in CFA Institute Programs ✓

C) in violation of both Standard I(D) Misconduct and Standard VII(A) Conduct as Participants in CFA Institute Programs. ✗

Explanation

Standard VII(A) Conduct as Participants in CFA Institute Programs does not prohibit expressing opinions about the program or the CFA Institute. Thus, Vasquez is not in violation. Nothing in the facts indicates a violation of Standard I(D, Misconduct. Standard I(D) deals with professional conduct involving dishonesty, fraud, or deceit.

(Study Session 1, Module 2.10, LOS 2: VII(A))

Related Material

SchweserNotes - Book 1

Question #22 of 67

Question ID: 1212426

Will Lambert, CFA, is a financial analyst for Offshore Investments. He is preparing a purchase recommendation on Burch Corporation for internal use. According to the CFA Institute Standards of Professional Conduct, which of the following statements about disclosure of conflicts is not required? Lambert would NOT need to disclose to his employer that:

A) his wife owns 2,000 shares of Burch Corporation. ✗

B) he is a beneficiary of a pension plan of his former employer that owns a large number of shares of Burch's stock.

C) Offshore is an OTC market maker for Burch Corporation's stock.

Explanation

Standard VI(A), Disclosure of Conflicts, requires members to disclose to their employer all matters, including beneficial ownership of securities, that reasonably could be expected to interfere with their duty to their employer or ability to make unbiased and objective recommendations. Disclosure of an employer's own involvement with the security is not necessary in this instance. If the report had been for external use, it would have been necessary to make all of the disclosures given as choices.

(Study Session 1, Module 2.9, LOS 2: VI(A))

Related Material

SchweserNotes - Book 1

Question #23 of 67

Question ID: 1212433

A firm produces regular proprietary research reports on various companies. According to Standard VI(B), Priority of Transactions, which of the following would be an "access person?"

A) A supervisory analyst who reviews all research reports prior to dissemination.

B) An independent auditor with access to material, non-public information on a company being analyzed.

C) A person working in the mail room.

Explanation

Persons with access to information during the normal preparation of research recommendations are subject to Standard VI(B). An independent auditor is not involved in the normal preparation of research recommendations.

(Study Session 1, Module 2.9, LOS 2: VI(B))

Related Material

SchweserNotes - Book 1

Greg Hartsburg, a CFA charterholder, is a leading health-care industry analyst for Reynolds and Co., a New York-based brokerage firm. He has ten years of industry experience and has appeared on the *Wall Street Journal's* roster of all-star analysts for four straight years.

Hartsburg initiates coverage on Northern Lights Medical Equipment, a Minnesota-based company that designs medical equipment. Hartsburg owns shares of Northern Lights in his personal trading account, a stake of which his company is aware.

Maria Voltaire, a junior analyst working under Hartsburg, has asked the senior analyst to help her prepare for the 2009 Level III CFA exam. He makes himself available to answer her questions on specific topics during the course of her study and gives her two days off, with pay, to study during the week before the exam. He also discusses with her in detail his recollection of the topical areas covered on the 2007 Level III exam, which he took and passed.

One of Reynolds' traders tells Hartsburg that he believes Voltaire is trading in her own account based on information she gathers from research reports written by analysts in the office before the reports are publicly released.

Hartsburg attends an analysts' conference in Toronto. At dinner he is seated close to a table that includes a number of leading analysts in the health-care industry. Hartsburg overhears parts of the conversation, in which the group discusses new trends in the health-care industry as a result of the changing political climate in Washington. The consensus at the table is that trends in the industry are favorable over the next four or five years.

Hartsburg has been in the process of preparing his own detailed industry analysis in which he reaches similar conclusions. The conversation he overhears confirms his own analysis, though one of the analysts, Phil Houston, makes some points about competition in the medical-device area that Hartsburg had not considered. On the plane home that evening, Hartsburg rereads the financial statements of two companies he covers, then concludes that Houston's points about competition are correct.

When he returns home, Hartsburg completes his industry report. In the report he wants to use Houston's ideas. But Houston works for a rival firm, and as a matter of policy, Reynolds does not refer to rival companies in its reports. So Hartsburg pulls some numbers from 10-K reports for context, starts with Houston's premise, and makes a similar point in his own words.

Hartsburg is planning to leave Reynolds at the end of the month to take a position as a portfolio manager at Lone Pine Investments. He has disclosed to Reynolds, in the form of an e-mail message to his supervisor, his intention to take with him to his new position a fundamental factor model that he developed before coming to Reynolds and further refined during his time at Reynolds.

He also discloses plans to take with him three sample client investment policy statements (with the client names eliminated) to use as templates in the development of policy statements for his new clients at Lone Pine. In the e-mail to his supervisor, Hartsburg promises he will not solicit the business of these three clients.

Reynolds hires an outside firm to create a company website. Hartsburg is featured in promotional materials touting the firm's performance. The material reads, in part, "Greg Hartsburg is a Chartered Financial Analyst (CFA) with 10 years of experience in the investment industry. He has appeared on the *Wall Street Journal's* roster of all-star analysts for four years in a row."

Question #24 - 29 of 67

Question ID: 1208079

In order to conform to the Code and Standards with relation to Northern Lights stock, Hartsburg *MUST*:

A) directly disclose his holdings or have his company issue a generic disclaimer about analyst stock ownership.

B) ask the company to assign another analyst to cover the stock in an effort to avoid the conflict of interest.

C) sell the shares before issuing the report.

Explanation

If the brokerage uses language related to the analysts' potential stock ownership, that should satisfy the requirements of Standard VI(A): Disclosure of Conflicts. The other answers would satisfy the Standard, but are not REQUIRED. Requiring the selling of shares or requesting another analyst is overkill, as analysts are not prohibited from owning stocks they cover.

(Study Session 1, Module 2.9, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #25 - 29 of 67

Question ID: 1208080

Hartsburg's efforts to help Voltaire pass the CFA exam:

A) conform to Standard I(D): Misconduct, but violate Standard VII(A): Conduct as Members and Candidates in the CFA Program.

B) conform to all relevant standards.

C) violate both Standard I(D): Misconduct and Standard VII(A): Conduct as Members and Candidates in the CFA Program.

Explanation

Hartsburg violated Standard VII(A) when he discussed with Voltaire in detail his recollection of the topical areas covered on the 2007 Level III exam.

(Study Session 1, Module 2.10, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #26 - 29 of 67

Question ID: 1208081

With respect to the allegation that Voltaire is front-running research recommendations, Hartsburg's first priority, under CFA Institute Standard IV(C) concerning supervisory responsibilities, should be to:

A) promptly initiate an investigation.

B) freeze Voltaire's trading account and begin documenting her conduct as a precursor to possible termination.

C) report the situation to his supervisor.

Explanation

Standard IV(C) calls for supervisors to "prevent any violation of applicable statutes, regulation, or provisions of the Code and Standards." While reporting the situation to a superior and discussing the situation with Voltaire are good ideas, he should first investigate the situation to see if these actions are warranted. Freezing Voltaire's trading account is premature, as Hartsburg has not yet investigated the situation to find out whether a violation is actually taking place.

(Study Session 1, Module 2.7, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #27 - 29 of 67

Question ID: 1208082

Regarding Hartsburg's report on the health-care industry, his actions:

A) fail to conform to Standard I(C) concerning misrepresentation; but conform to Standard V(A) concerning diligence and reasonable basis.

B) fail to conform to Standard II(A) concerning the use of nonpublic information; and conform to Standard V(A) concerning diligence and reasonable basis.

C) conform to Standard I(C) concerning misrepresentation; and conform to Standard II(A) concerning the use of nonpublic information.

Explanation

While Hartsburg used Houston's ideas in his report, he did not quote or paraphrase Houston. That is not a violation of the plagiarism standard. Houston's statement was innocently overheard in a public place, and as such is not material nonpublic information. Hartsburg has a reasonable basis for his research, and the conversation he overheard merely confirmed his own analysis. The independence standard does not apply in this situation.

(Study Session 1, Module 2.8, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #28 - 29 of 67

Question ID: 1208083

Which statement about Hartsburg's actions prior to his leaving Reynolds is *most* accurate? His actions regarding the factor model:

A) do not conform to Standard IV(A): Loyalty to Employer, nor do his actions regarding the investment-policy statements.

B) conform to Standard IV(A): Loyalty to Employer, as do his actions regarding the investment-policy statements.

C) do not conform to Standard IV(A): Loyalty to Employer, but his actions regarding the investment-policy statements do.

Explanation

According to Standard IV(A): Loyalty to Employer, Hartsburg cannot, without the consent of Reynolds, his current employer, take with him any property that rightfully belongs to Reynolds. Merely disclosing to his supervisor his intention to take the model and the investment policy statements with him does not constitute consent on the part of Reynolds, and as such could be considered misappropriation. Therefore his actions regarding both the model and the policy statements fail to conform to Standard IV(A).

(Study Session 1, Module 2.7, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #29 - 29 of 67

Question ID: 1208084

Reynolds' promotional material conforms to:

A) Standard I(C) regarding misrepresentation and Standard III(D) concerning performance presentation, but violates at least one other standard.

B) Standard I(C) regarding misrepresentation, but not Standard III(D) concerning performance presentation.

C) all Standards.

Explanation

The material fails to conform to Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program. The Chartered Financial Analyst designation should always be used as an adjective, never as a noun. It would be proper, for instance, to print, "Greg Hartsburg is a CFA charterholder." The statements about industry experience and the all-star analyst list are statements of fact. Reynolds has not misrepresented the services the company or Hartsburg is capable of performing, its qualifications, or Hartsburg's professional credentials. Hence they conform to Standard I(C). The statement also does not contradict Standard III(D) concerning performance presentation in any way.

(Study Session 1, Module 2.10, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #30 of 67

Question ID: 1212427

The following scenarios refer to two analysts who are employed at Global Securities, a large brokerage firm.

- Paula Linstrom, CFA, is instructed by her supervisor to write a research report on Delta Enterprises. Delta's stock is widely held by institutional and individual investors. Although Linstrom does not own any of Delta's stocks, she believes that one of her friends may own 10 shares of Delta. The stock currently sells for $25 per share. Linstrom does not believe that informing her employer about her friend's possible ownership of Delta shares is necessary.
- Hershel Wadel, a member of CFA Institute, is asked by his supervisor to write a research report on Gamma Company. Wadel's wife inherited 500 shares of Gamma Company from her father when he died five years ago. Gamma stock currently sells for $35 per share. Wadel does not believe that informing his employer about his wife's ownership of Gamma shares is necessary.

According to CFA Institute Standards of Professional Conduct, which the following statements about Linstrom and Wadel's conduct is *most* accurate?

A) Only one of these analysts must disclose a potential conflict of interest.

B) Both of these analysts must disclose a potential conflict of interest.

C) Neither of these analysts must disclose a potential conflict of interest.

Explanation

The possibility that Linstrom's friend may own shares of Delta's stock does not create a conflict of interest for Linstrom, who has no beneficial interest in these shares. On the other hand, Wadel has a beneficial interest in his wife's ownership of Gamma shares. Standard VI(A) Disclosure of Conflicts requires that Wadel disclose this information so that his employer can make the proper determination.

(Study Session 1, Module 2.9, LOS 2: VI(A))

Related Material

SchweserNotes - Book 1

Question #31 of 67

Question ID: 1212431

An analyst, who is a CFA Institute member, manages a high-grade bond mutual fund. This is his only professional responsibility. When the analyst comes across a speculative stock investment that he feels is a good investment for his personal portfolio, the analyst:

A) may invest in the stock because the analyst would not purchase the stock for the bond portfolio he manages.

B) must notify his supervisor about the stock according to Standard VI(B), Priority of Transactions, to see if it is appropriate for the portfolio that he manages.

C) is in violation of Standard IV(A), Loyalty to Employer, by spending time analyzing stocks when he should only analyze bonds.

Explanation

The problem says the analyst "came across" the speculative stock investment. We do not know if the analyst neglected his duties. Since such an investment is clearly not appropriate for a high-grade bond fund, the analyst may invest in the stock without any restrictions relating to the fund.

(Study Session 1, Module 2.9, LOS 2: VI(B))

Related Material

SchweserNotes - Book 1

Question #32 of 67

Question ID: 1212428

An analyst likes to trade options in her own account. She does not deem any of her client accounts suitable for option trading. When she finds a favorable options position, in accordance to Standard VI(B), Priority of Transactions, she should:

A) refrain from acting until she notifies her supervisor.

B) act on it on her own behalf as she sees fit.

C) first tell her clients about it before acting herself.

Explanation

This is not a violation of Standard VI(B), Priority of Transactions, because the investment is not suitable for her clients. If the analyst believes that none of her clients should trade options, she is not obligated to advise them in this instance.

(Study Session 1, Module 2.9, LOS 2: VI(B))

Related Material

SchweserNotes - Book 1

Question #33 of 67

Question ID: 1212446

Judy Albert and Bob Tye, who recently started their own investment advisory business, plan to take the Level III CFA examination next year. Albert's business card reads, "Judy Albert, CFA Candidate." Tye has not put anything about the CFA on his business card. However, the firm's promotional materials describe the CFA requirements and indicate that Tye participates in the CFA program and has completed Levels I and II. According to CFA Institute Standards of Professional Conduct:

A) Neither Albert nor Tye has violated the Standards.

B) Albert has violated the Standards but Tye has not.

C) Both Albert and Tye have violated the Standards.

Explanation

On letterheads and business cards and in directory listings, only the mark CFA or the words Chartered Financial Analyst should appear after the charterholder's name.

(Study Session 1, Module 2.10, LOS 2: VII(B))

Related Material

SchweserNotes - Book 1

Question #34 of 67

Question ID: 1212419

Phil Trobb, CFA, is preparing a purchase recommendation on Aneas Lumber for his research firm. All of the following are potential conflicts of interest EXCEPT:

A) Aneas hires Trobb as a consultant to analyze Aneas' financial statements.

B) Trobb's cousin repairs machines for Aneas.

C) Trobb's research firm has a large stake of ownership in Aneas Lumber.

Explanation

Standard VI(A) defines what constitutes a conflict of interest with regard to clients, prospective clients, and employers. All of these represent potential conflicts of interest with the exception of the cousin working for Aneas Lumber in a job that is unrelated to the Aneas' financing.

(Study Session 1, Module 2.9, LOS 2: VI(A))

Related Material

SchweserNotes - Book 1

Question #35 of 67

Question ID: 1212439

For the past 5 years, Karen Beckworth, CFA, has served as a proctor for the CFA exam. Beckworth tells her assistant, a Level III CFA candidate, that she normally receives the examinations on the Thursday before the exam. Given the low pass rate at Level III, Beckworth asks her assistant if he would like an advance copy of the next exam. Beckworth's assistant declines the offer.

Beckworth's assistant has been very vocal about expressing his opinions about the low pass rate. The assistant claims, "there are too many charterholders and CFA Institute is deliberately failing candidates because the prestige of the CFA charter is becoming diluted."

With regard to Standard VII(A) Conduct as Participants in CFA Institute Programs, which of the following statements concerning Beckworth's and her assistant's behavior is *most accurate*?

A) Beckworth is in violation of Standard VII(A), but her assistant is not in violation. ✔

B) Neither Beckworth nor her assistant is in violation of Standard VII(A). ✘

C) Both Beckworth and her assistant are in violation of Standard VII(A). ✘

Explanation

Beckworth is in violation of Standard VII(A), Conduct as Participants in CFA Institute Programs. Beckworth compromised the integrity of the exam by offering her assistant an advance copy. Beckworth's assistant is allowed to express his opinion without violation of any Standards.

(Study Session 1, Module 2.10, LOS 2: VII(A))

Related Material

SchweserNotes - Book 1

Question #36 of 67

Question ID: 1212452

Ralph Lim and Susan Bland have both passed Level I of the CFA Program. Both are currently enrolled to sit for Level II. Lim's business card reads, "Ralph Lim, CFA Level I." Bland's resume states, "Level II Candidate in the CFA Program." According to CFA Institute Standards of Professional Conduct involving use of the professional designation:

A) Both Lim and Bland violated the Standard. ✘

B) Bland violated the Standard, but Lim did not. ✘

C) Lim violated the Standard, but Bland did not. ✔

Explanation

There is no designation for someone who has passed Level I, Level II, or Level III of the CFA examination. Candidates may state, however, that they have completed Level I, II, or III, as the case may be, in the CFA Program. Thus, Lim violated the Standard, but Bland did not.

(Study Session 1, Module 2.10, LOS 2: VII(B))

Related Material

SchweserNotes - Book 1

Question #37 of 67

Question ID: 1208116

Which of the following statements regarding disciplinary procedures is *least* accurate?

A) If the CFA member or candidate rejects the sanction, the charges and sanctions may be reviewed. ✗

B) A review panel is created from Disciplinary Review Committee members. ✗

C) The sanctions imposed by the Professional Conduct staff are final and conclusive. ✓

Explanation

In the event of misconduct by a member or candidate the CFA Institute Professional Conduct staff decides whether a violation occurred and what action to take. If the Professional Conduct staff decides a disciplinary sanction is appropriate the member or candidate may decide to reject the sanction. In this case the matter is referred to a panel of Disciplinary Review Committee members comprised of volunteer CFA charterholders. The panel decides whether a violation of the Code and Standards occurred and what sanction should be imposed.

(Study Session 1, Module 2.10, LOS 2: VII(A))

Related Material

SchweserNotes - Book 1

Question #38 of 67

Question ID: 1152959

Lucy Ackert and Chris Brown prepared the following information to be included in the promotional materials of their employer, Lofton Securities.

- Lucy Ackert is one of five CFAs at Lofton Securities. She satisfied all requirements for the CFA designation in 1998.
- Chris Brown holds a CFA Level I designation, which he passed in 2001. He is registered to take the next scheduled Level II examination.

Are the promotional materials prepared by Ackert and Brown fully consistent with the Standards of Professional Conduct?

A) Ackert: Yes. Brown: No.

B) Ackert: No. Brown: No.

C) Ackert: No. Brown: Yes.

Explanation

Neither statement is fully consistent with Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program. The CFA designation must always be used as an adjective and never as a noun as Ackert used in her promotional description. Correct use of the CFA designation would be: "Lucy Ackert is one of five CFA charterholders at Lofton Securities." No designation exists for someone who has passed Level I of the CFA examination. Thus, Brown's statement saying that he "holds a CFA Level I designation" represents incorrect use. A correct statement would be: "Chris Brown passed Level I of the CFA examination in 2001."

(Study Session 1, Module 2.10, LOS 2: VII(B))

Related Material

SchweserNotes - Book 1

Question #39 of 67

Question ID: 1212436

If a CFA charterholder receives a referral fee, he must:

A) consult with the firm's compliance officer, and follow his or her instructions concerning disclosure.

B) disclose the nature of the fee arrangement to the client before entering into a formal agreement.

C) disclose the fee to the supervisor, in written form, as an additional benefit.

Explanation

According to Standard VI(C), the nature as well as the value of the fee must be disclosed to the client before entering into a formal agreement. The compliance officer and/or the employee's supervisor should be contacted for consultation.

(Study Session 1, Module 2.9, LOS 2: VI(C))

Related Material

SchweserNotes - Book 1

Question #40 of 67

Question ID: 1212447

Julie Stades retired several years ago and relinquished her membership in CFA Institute. She had the CFA designation up until then. She has decided to go back to work and puts the following statement on her resume: "I earned the CFA designation 10 years ago." Is this a violation of Standard VII(B)?

A) Yes, because she is no longer an active member. ✗

B) No, as long as she does not indicate she currently has the designation. ✓

C) Yes, she must state that she no longer holds the CFA designation. ✗

Explanation

Stades is allowed to state that she earned the designation as long as she does not infer that she currently has the designation.

(Study Session 1, Module 2.10, LOS 2: VII(B))

Related Material

SchweserNotes - Book 1

Question #41 of 67

Question ID: 1152917

A CFA charterholder coaches a fellow employee as that colleague studies for the CFA exams. The charterholder tells the colleague all that she remembers from her exams and how they were constructed. This is:

A) a violation of Standard I(D) concerning professional misconduct. ✓

B) a violation of Standard VII(B) concerning use of the designation. ✗

C) not a violation of the standards. ✗

Explanation

This is a violation because even though it does not necessarily compromise the integrity of the next exam, it does violate Standard VII(A) Conduct as Members and Candidates in the CFA Program. At the beginning of the CFA examination, all candidates are required to sign a statement saying they will not divulge any information regarding the exam to anyone. In this question the Code of Ethics was violated because it requires CFA candidates and CFA Institute members to act in an ethical manner.

(Study Session 1, Module 2.10, LOS 2: VII(A))

Related Material

SchweserNotes - Book 1

Question #42 of 67

Question ID: 1212442

Which of the following is *least likely* a violation of Standard VII(A), Conduct as Participants in CFA Institute Programs?

A) Expressing opinions in disagreement with CFA Institute advocacy positions. ✔

B) Improperly using the CFA Designation to further professional goals. ✘

C) Disregarding the rules related to the administration of the CFA examination. ✘

Explanation

Members and Candidates are allowed to express their opinions about the CFA Institute and CFA Program. Both of the other choices violate Standard VII(A) Conduct as Participants in CFA Institute Programs.

(Study Session 1, Module 2.10, LOS 2: VII(A))

Related Material

SchweserNotes - Book 1

Question #43 of 67

Question ID: 1152916

Toni Florence, CFA, CAIA, leases office space to her best friend, Tom Rigs. Florence is an independent investment advisor specializing in high net worth clients and Rigs is a licensed real estate broker. In lieu of paying rent, Rigs refers his real estate clients to Florence, but only with the clients' permission.

For clients referred by Rigs, Florence:

A) need not disclose the terms of the lease arrangement because Rigs obtained the clients' permission for the referral. ✘

B) need not disclose the referral fee if Rigs discloses the lease arrangement to the clients first.

C) must disclose the terms of the lease arrangement.

Explanation

Standard VI(C), Referral Fees, requires members to disclose to clients and prospects any consideration or benefit received by the member or delivered to others for the recommendation of any services to the client or prospect. Florence has delivered a benefit (free rent) to Rigs, which must be disclosed to the clients referred by Rigs. Florence must not rely on Rigs to make the disclosure.

(Study Session 1, Module 2.9, LOS 2: VI(C))

Related Material

SchweserNotes - Book 1

Question #44 of 67

Question ID: 1212417

Abner Flome, CFA, is writing a research report on Paulsen Group, an investment advisory firm. Flome's brother-in-law holds shares of Paulsen stock. Flome has recently interviewed for a position with Paulsen and expects a second interview. According to the Standards, Flome's *most* appropriate action is to disclose in the research report:

A) his brother-in-law's holding of Paulsen stock and that he is being considered for a job at Paulsen.

B) that he is being considered for a job at Paulsen.

C) his brother-in-law's holding of Paulsen stock.

Explanation

The possibility of employment with Paulsen creates a potential conflict of interest which Flome must disclose. Standard VI(A) Disclosure of Conflicts does not require disclosure of his brother-in-law's ownership of Paulsen stock.

(Study Session 1, Module 2.9, LOS 2: VI(A))

Related Material

SchweserNotes - Book 1

Question #45 of 67

Question ID: 1152923

Standard VI(B), Priority of Transactions, applies to transactions an analyst takes on behalf of:

A) his clients.

B) both of these.

C) his employer.

Explanation

Standard VI(B) addresses the treatment of both these accounts. The accounts of clients and employers have priority over personal accounts.

(Study Session 1, Module 2.9, LOS 2: VI(B))

Related Material

SchweserNotes - Book 1

Joan Platt, CFA, operates an investment firm in New York, but maintains an office in Xania. Platt's firm invests on its clients' behalf in both domestic and international stocks and bonds. Platt's employees include two analysts, Paula Linstrom, CFA, and Hershel Wadel, a member of the CFA Institute. Both analysts report to Platt directly. Thorvald Knudsen, CFA, manages the international bond portfolio.

Xania recently established a stock market, which is not very efficient. None of the Xanian stocks trade in the U.S. market. Xania legally permits the use of material inside information. Platt believes that using inside information would help her compete against other Xanian investment advisers, and also help some of her Xanian clients reach their investment objectives.

Platt instructs Wadel to write a research report on Gamma Company. Wadel's wife inherited 500 shares of Gamma Company from her father when he died five years ago. Gamma stock currently sells for $35 a share. Wadel does not believe that informing Platt about his wife's inheritance is necessary.

Doris Black, one of Wadel's long-time clients, verbally promised Wadel that he could use her vacation home in Aspen, Colo., for a week during skiing season if the return on her portfolio exceeded its benchmark by two percentage points during the next year. Black also promised to reimburse Wadel for his travel expenses. Because Wadel is the sole manager of Black's portfolio, he says nothing to Platt about his arrangement with Black.

Platt instructs Linstrom to write a research report on Delta Enterprises. Delta's stock is widely held by institutional and individual investors. Linstrom does not own any Delta shares, though one of her friends owns 100 shares of Delta. Linstrom does not believe that informing Platt about her friend's ownership of Delta shares is necessary.

Linstrom has a client, Mandy Miller, with a large account. Miller has set a return goal for her portfolio, promising Linstrom that if the portfolio exceeded the target return, she would let Linstrom use her time-share in St. Maarten in December. Linstrom sent an e-mail to Platt describing Miller's promise to her. Platt promptly replied to her email granting her permission to enter the agreement.

In February, Linstrom was able to arrange for the purchase of Brady Company bonds at a significant discount to market value. The purchase was made in three blocks at 13%, 15%, and 12% discounts to market value. Linstrom allocated the 15% discount block to Miller's account and the balance to her remaining clients.

Knudsen's uncle, Gustaf Jensen, owns a construction firm that has extra cash. When Jensen saw Knudsen at a family event last November, he asked Knudsen to give him advice about purchasing domestic bonds for the construction firm. In exchange for the advice, the construction firm would pay Knudsen $5,000 per year. At the same event, Knudsen's aunt, Hanna Jorgensen, approached Knudsen and asked if he would manage Jorgensen's apartment building for a fee of 10% of the gross rents. Knudsen agreed to both Jensen's and Jorgensen's proposals. Knudsen informed Platt of Jensen's request, but not about the Jorgensen arrangement.

Platt suspects that one of the firm's unpaid interns has violated a federal securities regulation.

Question #46 - 51 of 67

Question ID: 1208072

Regarding their research reports, which of the following statements about Linstrom and Wadel's conduct is *CORRECT*?

A) Wadel did not violate Standard VI(A)—Disclosure of Conflicts, and Linstrom did violate Standard VI(A).

B) Both Linstrom and Wadel violated Standard VI(A)—Disclosure of Conflicts.

C) Wadel violated Standard VI(A)—Disclosure of Conflicts, and Linstrom did not violate Standard VI(A).

Explanation

Wadel violated Standard VI(A) by not disclosing his wife's holdings. Linstrom is not in violation of the Standard because a friend's ownership of the shares should not be expected to impair her ability to make objective decisions.

(Study Session 1, Module 2.9, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #47 - 51 of 67

Question ID: 1208073

What is the obligation, if any, to disclose Wadel's arrangement with Black?

A) Wadel must disclose the arrangement to Platt but is not required to disclose the arrangement to his other clients.

B) Wadel must disclose the arrangements to his clients and to Platt only if he believes it will create a conflict with his responsibilities to other clients.

C) Wadel need not disclose anything to his clients or to Platt because he is violating no fiduciary duty.

Explanation

Wadel is required to disclose the arrangement between him and Black under Standard IV(B)—Additional Compensation Arrangements, regardless of whether or not the compensation is cash or noncash. Under Standard I(B)—Independence and Objectivity, members may accept bonuses or gifts from clients, so long as they disclose them to their employers, because gifts in a client relationship are deemed less likely to affect a member's objectivity and independence than gifts in other situations. Token gifts need not be disclosed.

(Study Session 1, Module 2.7, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #48 - 51 of 67

Question ID: 1208074

Knudsen violated:

A) Standard IV(B)—Additional Compensation with relation to the Jensen deal, but did not violate the Standard with relation to the Jorgensen deal.

B) no Standards with regard to both the Jensen and Jorgensen deals.

C) Standard IV(B)—Additional Compensation with relation to the Jorgensen deal.

Explanation

Notifying Platt about the Jensen deal is not enough. He needs permission in writing from both parties before accepting the work. Thus, Knudsen violated Standard IV(B) with relation to the Jensen matter. However, it does not appear that the work performed for Jorgensen is in competition with Platt's employer, so this aspect is not in violation of Standard IV(B).

(Study Session 1, Module 2.7, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #49 - 51 of 67

Question ID: 1208075

The handling of the Miller account:

A) violated Standard III(B)—Fair Dealing, but not Standard IV(B)—Additional Compensation Arrangements.

B) violated Standard IV(B)—Additional Compensation Arrangements, Standard III(B)—Fair Dealing, and Standard IV(C)—Responsibilities of Supervisors.

C) did not violate the Code and Standards because the appropriate disclosures were made.

Explanation

Linstrom did not violate Standard IV(B) because she disclosed Miller's offer to Platt. However, her allocation of the best lot of bonds to Miller's account violated Standard III(B).

(Study Session 1, Module 2.5, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #50 - 51 of 67

Question ID: 1208076

According to the Standards, how must Platt deal with the intern's alleged illegal activity?

A) Initiate an investigation and place limits on the intern's activities pending the outcome.

B) Report the intern's behavior to the appropriate regulatory authority.

C) Tell the intern to stop the conduct.

Explanation

Platt must initiate an investigation, and must also take steps to ensure that additional violations do not occur during the investigation. The investigation could be handled internally by the firm's compliance officer, or could involve outside legal counsel. Simply instructing the intern to stop the conduct is not sufficient—the Standards require a more proactive response. Reporting the intern to the authorities is not appropriate because Platt is not sure the intern is violating the law. The fact that the intern is not paid does not absolve Platt or her company from liability for the intern's actions.

(Study Session 1, Module 2.7, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #51 - 51 of 67

Question ID: 1208077

Platt is renouncing her U.S. citizenship and becoming a citizen of Xania. According to the Standards, if Platt renounces her U.S. citizenship, she may then:

A) use material inside information when trading in Xania only if the information does not relate to a tender offer. ✗

B) not use material inside information unless trading Xanian stocks exclusively. ✗

C) not use material inside information when trading in Xania. ✓

Explanation

Standard II(A)—Material Nonpublic Information does not allow the use of material nonpublic information in investment decisions. Platt is bound by the law of the land if it is stricter than the Standards, and by the Standards if they are stricter than the law. Since the Standards are stricter than Xanian law, Platt's Xanian operations are governed by the Standards. Thus, she cannot use material nonpublic information under any circumstances.

(Study Session 1, Module 2.3, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #52 of 67

Question ID: 1208068

Steve Copper has worked as an independent consultant for the past ten years advising companies on various ways to increase their internal efficiency and thereby increase the firm's stock price as well. Copper recently accepted a job offer from an equity research firm as a senior stock analyst. One of the firms he will be responsible for researching, Johnson Machine Tools (JMT), is also one of his consulting clients. Copper currently has a contract with JMT to provide consulting services for another six months which he plans to honor even though there are no penalties in the contract for early termination on his part. According to *CFA Institute Standards of Professional Conduct*, which of the following is the *most appropriate* action for Copper to take? Copper should:

A) disclose the arrangement only if he plans to renew the contract in six months.

B) disclose the consulting arrangement to clients considering JMT as an investment.

C) terminate the contract with JMT prior to issuing any research on the company.

Explanation

Standard VI(A)—Disclosure of Conflicts requires members and candidates to inform clients, prospects, and their employers of any situation that may impair their independence and objectivity or interfere with duties owed to the same groups. The Standard notes that best practice is to avoid conflicts of interest when possible. This best practice recommendation is consistent with Standard I(B) – Independence and Objectivity, which requires that independence and objectivity be maintained. The consulting arrangement with JMT, a company about which Copper will write research reports, divides his loyalty between JMT and the clients purchasing Copper's research on the same company. This is a clear conflict of interest which must be disclosed to clients, prospects, and Copper's employer if the conflict cannot be avoided. However, there is no penalty for ending the consulting relationship and best practice would dictate that Copper terminate the contract with JMT.

(Study Session 1, Module 2.9, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #53 of 67

Question ID: 1208069

Futura Investments Co. decides to diversify its current portfolio with stocks from three companies in a new segment of the biotechnology industry. William Burgin, CFA, is an analyst at Futura and had previously bought shares of the same three companies for his own portfolio, well before his employer started researching them. Burgin has already disclosed the composition of his personal portfolio to Futura Investments, to be in compliance with the Code & the Standards. Which of the following actions should Burgin take?

A) Diversify his personal portfolio so, in this way, these stocks will no longer represent a substantial portion of the portfolio.

B) Open an account that will be managed by someone else but will allow him to maintain his investment preferences.

C) Hire a full discretionary power or blind trust manager for his portfolio.

Explanation

Burgin followed Standard VI(A) and informed his employer about the potential conflict of interest. He needs to follow the CFA Institute Standards in the best interest of his employer. To prevent any future problems with conflict of interest, his best option is to discontinue the active management of his personal portfolio and use a blind trust.

(Study Session 1, Module 2.9, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #54 of 67

Question ID: 1212423

Lee Hurst, CFA, is an equity research analyst for a long-term investment fund. His annual bonus is linked to quarterly trading profits. Under a new policy, the quarterly assessment period is switched to a monthly assessment period. According to the Code and Standards, best practices dictate:

A) keeping the policy change private as a trade secret.

B) requiring Hurst to obtain permission from each client prior to implementation of the new policy.

C) updating disclosures when the policy change is implemented.

Explanation

Standard VI(A) "Disclosures of Conflicts" recognizes this policy as a potential conflict of interest as members and candidates could be incentivized to favor short-term trading gains over long-term value creation. Best practices dictate updating disclosures when the policy change is implemented. The long-term investors should know how members and candidates are compensated, especially when there is the potential for conflicts of interest.

(Study Session 1, Module 2.9, LOS 2: VI(A))

Related Material

SchweserNotes - Book 1

Question #55 of 67

Question ID: 1212437

An analyst who is a member of CFA Institute has composed an introductory information packet for her new clients, which includes information on fees she receives for referring clients to other professionals and those she pays for having clients referred to her. With respect to Standard VI(C), Referral Fees, this action:

A) exceeds the requirement of the Standard because she does not need to reveal the fees she pays to those that refer clients to her. ✗

B) is not addressed in the Standard. ✗

C) may not satisfy the Standard if such information is only provided after the receivers of the information have become clients. ✓

Explanation

Standard VI(C) says that a member must reveal information both on fees she receives for referring clients to other professionals and those she pays for having clients referred to her before a prospect becomes a client. This allows the prospect to evaluate any partiality of a recommendation and the full cost of the services.

(Study Session 1, Module 2.9, LOS 2: VI(C))

Related Material

SchweserNotes - Book 1

Hunter Harrison, CFA, has recently been promoted to 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 is consistent with 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. As part of his new job duties, Harrison will oversee Ironclad's research analysts and portfolio managers, including Michelle Myers, who passed the Level II CFA examination last year and is registered for the next exam. 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 to whom Myers has recommended the software company. Myers has disclosed her partnership interest in the software company to Ironclad, including the potential for additional compensation and the possible conflicts of interest, but not to her clients.

In her correspondence with prospects and clients, Myers normally refers to her status as a candidate in the CFA Program. Her latest brochure includes a reference to her status as a "Level III CFA candidate" in her biographical background to increase her prominence in the industry. Her targeted marketing efforts using these brochures have led to several new accounts in the last few years.

One of Myers' software clients, Breakthrough Pharmaceuticals (Breakthrough), is a publicly traded corporation that is also held in many of Ironclad's client portfolios. In the course of their business relationship, Breakthrough's CEO informs Myers that the company has been having difficulty 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 that Breakthrough's current pension troubles and short-term liquidity issues will negatively affect its earnings and consequently the performance of the company's stock, informs Harrison of the impending disclosure. Harrison allows Myers to sell 1,800,000 shares of Breakthrough stock for clients, causing the price to drop by 5%. When the pension troubles are later disclosed in the company's financial statements, Breakthrough's stock price drops an additional 18%.

As part of Ironclad's portfolio management activities on behalf of its clients, Harrison and Myers maintain relationships with third-party soft dollar providers and commission recapture brokers. Better Trading Brokerage (BTB), 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 its 2-year relationship with Ironclad. One of Harrison's pension clients, Worldwind Travel Inc. (WTI), participates in commission recapture and has offered Harrison two roundtrip airline tickets anywhere in the U.S. or Europe in appreciation for its 2-year relationship with Ironclad. Harrison has disclosed both offers to Ironclad in writing but has not yet responded to either offer because he has been busy with proxy voting duties.

Harrison, as CIO, is chairman of Ironclad's proxy voting committee. Myers is also a member of the committee. Ironclad, as a discretionary investment manager, votes proxies through the proxy voting committee on behalf of clients. Ironclad is currently reviewing proxies for several companies covered in research, including technology companies Advanced DSL (Advanced), InterConnect Inc. (InterConnect), Speedy Chip Technology (Speedy Chip), and Wavelength Digital (Wavelength). Each company's current proxy contains voting proposals pertaining to employee stock option expensing methods. This issue is particularly important to Ironclad because several of its investment personnel recently participated in an industry forum that supported increased disclosure for company stock options. The panel concluded that such disclosure will provide investors with a more complete estimate of corporate earnings. Ironclad, through its clients, owns approximately 4% of the outstanding shares of Advanced and InterConnect and approximately 6% of the outstanding shares of Speedy Chip and Wavelength.

Harrison serves on the board of directors for InterConnect 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 InterConnect 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, among other issues, lack of earnings transparency and low earnings quality. Contrary to committee consensus, Harrison and Myers vote client proxies "against" the expensing of employee stock options for InterConnect, Wavelength, and Speedy Chip. Harrison increases his clients' positions in both InterConnect and Wavelength, citing "growth opportunities" and "consensus opinion." Neither Harrison nor Myers has disclosed these compensation arrangements to Ironclad.

Question #56 - 61 of 67

Question ID: 1208107

Is it *likely* that Myers violated any CFA Institute Standards of Professional Conduct in her reference to her candidacy in the CFA program?

A) Yes, by stating her candidate status using language that is inconsistent with the Standards. ✗

B) No. ✓

C) Yes, by inappropriately using her candidate status to recruit new clients. ✗

Explanation

The actions of Myers are consistent with Standard VII(B), which requires that candidates appropriately reference their participation in the CFA Program, clearly stating their candidate status and not implying the achievement of any type of partial designation. Additionally, to be considered a candidate, an individual must be registered to take the next scheduled exam. Since Myers completed Level II last year and has registered for the next exam, she is in compliance with the Standard. There is also no indication that she has exaggerated the meaning of implications of her candidacy in the CFA program in the promotional brochure by, for example, over promising her competency or future investment results.

(Study Session 1, Module 2.10, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #57 - 61 of 67

Question ID: 1208108

Is it *likely* that Myers violated any CFA Institute Standards of Professional Conduct with respect to her disclosure of the partnership interest in the software company or did Harrison violate any standards with respect to the sale of Breakthrough stock?

	Partnership interest	Breakthrough sale	
A)	No	Yes	✗
B)	Yes	Yes	✓
C)	Yes	No	✗

Explanation

Standard VI(A) – Disclosure of Conflicts, is applicable since Myers is a portfolio manager with fiduciary responsibility for institutional clients of Ironclad who may also be clients of her software company, thereby potentially compromising her ability to make unbiased and objective investment recommendations. Myers should disclose the potential conflict to her clients and to Ironclad and abide by any restrictions imposed by the firm. Myers has not disclosed the conflict to clients and has therefore violated the Standard. Harrison has violated Standard IV(C) – Responsibilities of Supervisors by failing to prevent Myers from trading on material nonpublic information. He has a responsibility as a supervisor to make reasonable efforts to detect and prevent violations of the Standards by his employees.

(Study Session 1, Module 2.9, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #58 - 61 of 67

Question ID: 1208109

Is it *likely* that Myers violated any CFA Institute Standards of Professional Conduct by selling the Breakthrough stock for her clients' accounts?

A) No, because Myers has a fiduciary duty to her clients. ✗

B) Yes, because the information shared by Breakthrough's CEO was nonpublic. ✓

C) No, because Myers is not considered an insider with respect to the information. ✗

Explanation

Although the information shared by Myers may have helped Ironclad's clients avoid losses in shares of Breakthrough, the information was material nonpublic information. Information is "material" if its disclosure would have an impact on the stock or if a reasonable investor would want to know the information prior to making an investment decision. Information is "nonpublic" until it has been generally disseminated to the marketplace and investors have had an opportunity to react to the information. The information about Breakthrough's pension difficulties was both material and nonpublic, as the stock dropped significantly upon disclosure of the information in the market. Therefore, Myers had a duty to keep the information confidential and not to trade or cause others to trade on the information. By sharing the information with Harrison and trading on that information, Myers violated Standard II(A) – Material Nonpublic Information.

(Study Session 1, Module 2.3, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #59 - 61 of 67

Question ID: 1208110

In order to maintain compliance with CFA Institute Standards of Professional Conduct, is it *appropriate* for Harrison to accept, or is he required to reject, the offers of appreciation from BTB and WTI, assuming Ironclad consents to both?

	BTB	WTI
A)	Reject	Reject
B)	Accept	Reject
C)	Reject	Accept

Explanation

Harrison can accept the offer from Worldwind but cannot accept the offer from Better Trading. Harrison's actions are covered by Standard I(B) – Independence and Objectivity and Standard IV (B) – Additional Compensation Arrangements. Under Standard I(B), members shall use reasonable care and judgment to achieve and maintain independence and objectivity in making investment recommendations or taking investment actions. Harrison, as a fiduciary to his investment clients, has an obligation to act in their best interest and must maintain his independence and objectivity when making investment decisions. Harrison's relationship with Better Trading is, among other things, to execute trades in return for soft dollar services for Ironclad. Soft dollars involve the use of client brokerage by an investment manager to obtain products and services that aid the manager in the research and investment decision-making process. As such, Harrison's acceptance of the offer from Better Trading could be perceived to compromise his independence and objectivity on behalf of his clients, as the broker may be trying to influence Harrison to increase the amount of trading that Ironclad executes on behalf of clients. The offer from Worldwind, who is one of Ironclad's clients, if accepted, does not cause Harrison to violate Standard I(B). Gifts from clients are distinguishable from gifts from third parties seeking to influence the activities of an investment manager. Worldwind's offer to Harrison may be accepted, provided it is disclosed to Ironclad. Standard IV(B) – Additional Compensation Arrangements, requires members to disclose in writing any additional compensation or other benefits received for their services in addition to those provided by their employer.

(Study Session 1, Module 2.7, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #60 - 61 of 67

Question ID: 1208111

With respect to Harrison's directorships with InterConnect and Wavelength and Myers' consulting arrangement with Speedy Chip, is it likely that any CFA Institute Standards of Professional Conduct have been violated?

	Harrison's directorships	Myers' consulting arrangements
A)	No	No
B)	Yes	Yes
C)	Yes	No

Explanation

Standard IV(B) – Additional Compensation Arrangements, applies to both Harrison and Myers, as they both receive compensation for their respective outside services in the form of cash, stock, and stock options. There is no indication that either of them have disclosed their compensation arrangements to Ironclad, which constitutes a violation of Standard IV(B). Standard I(B) – Independence and Objectivity also applies to this situation, as both Harrison and Myers have outside activities that have the appearance of compromising their independence and objectivity regarding Ironclad's clients. Harrison's role on the boards of directors for InterConnect and Wavelength and Myers' role as a consultant for Speedy Chip appear to drive their proxy voting decisions, on behalf of Ironclad's clients, regarding the expensing of stock options. Thus both Harrison and Myers have also violated Standard I(B). Harrison and Myers may have also violated Statement VI(A) – Disclosure of Conflict by failing to disclose the conflicts of interest that exist as a result of Harrison's directorships with Interconnect and Wavelength and Myers' consulting arrangement with Speedy Chip. Such conflicts (whether actual or potential) are required to be disclosed prominently and in clear language to clients, prospects, and employers according to Standard VI(A).

(Study Session 1, Module 2.7, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #61 - 61 of 67

Question ID: 1208112

Which of the following *least* accurately describes Harrison's actions necessary for compliance with the Code and Standards regarding proxy voting? Harrison should:

A) abstain from voting on matters affecting Internet and Wavelength to avoid conflicts of interest. ✗

B) discard all proxies on behalf of Ironclad's clients when there is a conflict of interest. ✓

C) disclose all proxy voting policies to Ironclad's clients including the treatment of routine and nonroutine issues. ✗

Explanation

According to Standard III(A) – Loyalty, Prudence, and Care, Ironclad, as a discretionary investment manager, is responsible (unless otherwise stipulated in the client guidelines or agreement) for making informed and reasonable decisions regarding proxy voting on behalf of clients. Among other things, Ironclad should have a proxy voting policy and a process for identifying and reviewing major proxy issues for appropriate clients. Ironclad and Harrison also have an obligation to avoid conflicts of interest when voting proxies. Although Harrison has a conflict of interest in voting issues on behalf of InterConnect and Wavelength due to his role on their board of directors, proxies on non-routine matters should not be discarded under any circumstances, as such action would constitute a breach of fiduciary duty. Harrison should abstain from voting on matters affecting InterConnect and Wavelength to avoid the appearance of a conflict of interest. Harrison should also ensure proper treatment of any confidential information received in his role on the respective boards of directors. Harrison should maintain confidentiality of voting information on behalf of clients and follow Ironclad's proxy voting policy. Clients must be made aware of the firm's policies on voting routine and non-routine proxy issues.

(Study Session 1, Module 2.4, LOS 2.a)

Related Material

SchweserNotes - Book 1

Question #62 of 67

Question ID: 1212444

John Johnson, portfolio manager at Sunshine Investments, has passed all three levels of the CFA® Program and has completed his work experience requirements. He expects to receive his charter in the near future. He includes the following statement in his firm's brochure: "Johnson has passed all three levels of the exam and has completed the required work experience for the CFA Charter. He is eligible for the CFA Charter and expects to receive the charter in the near future. Over the years, he has demonstrated a superior performance and his CFA Charter will be rightfully awarded." Johnson has:

A) not violated CFA Institute Standards of Professional Conduct because he met all disclosure requirements. ✗

B) violated CFA Institute Standards of Professional Conduct because he advertised the CFA Charter before actually obtaining it. ✗

C) violated CFA Institute Standards of Professional Conduct because he implied superior performance that would be linked to the CFA Charter. ✓

Explanation

According to Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program, Johnson may indicate that he has completed the requirements and is eligible for the CFA charter along with an accurate explanation of the requirements. However, he may not imply that the designation would mean superior performance capabilities.

(Study Session 1, Module 2.10, LOS 2: VII(B))

Related Material

SchweserNotes - Book 1

Question #63 of 67

Question ID: 1212453

Which of the following statements is a violation of Standard VII(B) if it is included on a CFA charterholder's resume?

A) My earning the CFA designation indicates my desire to maintain high standards.

B) Both of these are violations of Standard VII(B).

C) My earning the CFA designation indicates my superior ability.

Explanation

A CFA charterholder may not make claims about how earning the designation proves superior capabilities. Saying "my earning the CFA designation indicates my desire to maintain high standards" is allowed because it is a factual statement.

(Study Session 1, Module 2.10, LOS 2: VII(B))

Related Material

SchweserNotes - Book 1

Question #64 of 67

Question ID: 1212454

All of the following situations violate Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program, EXCEPT:

A) Barney Latrell, when introducing himself to a prospective client, says, "I completed my CFA in 1995, which required passing three six-hour examinations

B) Karen Wright received her CFA charter in 1980. In 2001, she stopped paying her annual CFA Institute dues. During her retirement speech in 2002, Wright said,

C) John Cabell has satisfied all the requirements imposed by CFA Institute for the right to use the Chartered Financial Analyst designation. His business cards say:

Explanation

Wright's statement did not violate Standard VII(B). Her right to use the CFA designation was suspended when she stopped paying dues but her statement is a matter of fact. Cabell's violated Standard VII(B) because he improperly used the CFA designation on his business card. Proper usage of the CFA designation on his business card would be: John Cabell, CFA or John Cabell, Chartered Financial Analyst. Latrell violated Standard VII(B) by using the CFA designation as a noun. The CFA mark must be used as an adjective. Latrell could have stated, "I was awarded the CFA charter in 1995."

(Study Session 1, Module 2.10, LOS 2: VII(B))

Related Material

SchweserNotes - Book 1

Question #65 of 67

Question ID: 1212432

An analyst has the opportunity to offer his clients shares in a "hot new issue." One of the analyst's clients is his brother. When the new issue comes out, for those clients he deems it would be appropriate, he offers them an equal share. He includes his brother in that group. With respect to Standard VI(B), Priority of Transactions, this is:

A) congruent with the Standard if his brother is not a 'covered person'.

B) congruent with the Standard as long as he does not have a direct personal interest in his brother's account.

C) congruent with the Standard even if he has a direct personal interest in his brother's account.

Explanation

Client accounts that belong to family members should be treated like any other account so long as there is no direct interest on the part of the analyst. In other words, these types of accounts should not be at a disadvantage relative to other client accounts when there is no direct interest on the part of the analyst overseeing the account.

(Study Session 1, Module 2.9, LOS 2: VI(B))

Related Material

SchweserNotes - Book 1

Question #66 of 67

Question ID: 1212438

Ken James has been an independent financial advisor for 15 years. He received his CFA Charter in 1993, but did not feel it helped his business, so he let his dues lapse this year. He still has several hundred business cards with the CFA designation printed on them. His promotional materials state that he received his CFA designation in 1993. James:

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

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

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

Explanation

Use of the CFA designation must be stopped immediately, however, the receipt of the Charter is a matter of fact.

(Study Session 1, Module 2.10, LOS 2.b)

Related Material

SchweserNotes - Book 1

Question #67 of 67

Question ID: 1212449

When Wes Smith first joined Advisors, Inc., he was excited that all the analysts at the firm had the CFA designation. In letters to prospective clients, he states that this ensures that Advisors can provide better service than their competitors. With respect to Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program, this is:

A) a violation because he mentions the CFA designation in the letter.

B) a violation because he cannot guarantee better service.

C) a violation for both mentioning the CFA designation and saying the firm can guarantee better service.

Explanation

According to Standard VII(B), the analyst cannot guarantee better service. Smith can mention the fact that all analysts have the designation, but he is limited in what he can say with respect to this fact. He could say, for example, that this means the analysts all had to take and pass three rigorous exams.

(Study Session 1, Module 2.10, LOS 2: VII(B))

Related Material

SchweserNotes - Book 1