Quiz Questions for Standards of Professional Conduct Part 1

[
{
"type": "Quiz",
"standard": "Introduction",
"content": "Benchmarks for minimally acceptable behaviors of community members are: A a code of ethics.
B laws and regulations.
C standards of conduct.",
"answer": "C",
"explanation": "Standards of conduct are applied to specific communities or societal groups and identify specific behaviors required of community members. These standards of conduct serve as benchmarks for the minimally acceptable behavior of community members. Codes of ethics serve as a general guide for how community members should act; they communicate the organization's values and overall expectations regarding member behavior, but they do not identify specific behaviors required of community members. Laws and regulations are rules of conduct defined by governments and related entities about obligatory and forbidden conduct broadly applicable for individuals and entities under their jurisdiction."
}

{
"type": "Quiz",
"standard": "Introduction",
"content": "Which of the following best identifies an internal trait that may lead to poor ethical decision making?
A Overconfidence
B Loyalty to employer
C Promise of money or prestige",
"answer": "A",
"explanation": "An overconfidence bias can lead individuals to put too much importance on internal traits and intrinsic motivations, such as their own perceptions of personal honesty, that can lead to faulty decision making. Loyalty to an employer and promise of money or prestige are situational influences that can lead to faulty decision making."
}

{
"type": "Quiz",
"standard": "Introduction",
"content": "Situational influences in decision making will most likely be minimized if:
A strong compliance programs are in place.
B longer-term consequences are considered.
C individuals believe they are truthful and honest.",
"answer": "B",

"explanation": "Consciously considering long-term consequences will help off-set situational influences. We more easily recognize and consider short-term situational influences than longer-term considerations because longer-term considerations have fewer immediate consequences than situational influences do. When decision making is too narrowly focused on short-term factors, we tend to ignore longer-term risks and consequences, and the likelihood of poor ethical decision making increases. A strong compliance policy is a good first step toward developing an ethical culture; a focus on rules adherence may not be sufficient. Emphasis on compliance may not encourage decision makers to consider the larger picture and can oversimplify decision making. Taken to the extreme, a strong compliance culture can become another situational influence that blinds employees to other important considerations. An overconfidence bias can place too much importance on internal traits and intrinsic motivations, such as “I'm honest and would not lie,” even though studies have shown that internal traits are generally not the main determinant of whether or not some-one will behave ethically in a given situation."
}

{
"type": "Quiz",
"standard": "Introduction",
"content": "Decision makers who use a compliance approach are most likely to:
A avoid situational influences.
B oversimplify decision making.
C consider more factors than when using an ethical decision-making approach.",
"answer": "B",
"explanation": "A compliance approach can oversimplify decision making and may not encourage decision makers to consider the larger picture. A strong compliance culture may be a good start in developing an ethical culture but can become another situational influence that may result in employees failing to consider other important factors."
}

{
"type": "Quiz",
"standard": "Introduction",
"content": "When unethical behavior erodes trust in an investment firm, that firm is more likely to experience:
A lower revenues only.
B higher expenses only.
C lower revenues and higher expenses.",
"answer": "C",
"explanation": "Unethical behavior ultimately harms investment firms. Clients are not attracted if they suspect unethical behavior, leading to less business and lower revenues. Investment firms may also experience higher relative costs because regulators are more likely to have cause to initiate costly investigations."
}

{
"type": "Quiz",
"standard": "Introduction",
"content": "Which is an example of an activity that may be legal but that CFA Institute considers unethical?
A Making legally required disclosures in marketing materials
B Trading while in possession of material nonpublic information
C Disclosure by an employee of his or her own company's dishonest activity.",
"answer": "B",
"explanation": "The investment industry has examples of conduct that may be legal but that CFA Institute considers unethical. Trading while in possession of material nonpublic information is not prohibited by law worldwide and can, therefore, be legal, but CFA Institute considers such trading unethical."
}

{
"type": "Quiz",
"standard": "GIPS standards",
"content": "With respect to the Global Investment Performance Standards, which of the following is one of the nine sections containing investment performance provisions?
A Real Estate.
B Derivatives.
C Legal and Ethical Considerations.",
"answer": "A",
"explanation": "Real Estate is one of the nine sections in the 2010 edition of the GIPS standards. Derivatives and Legal and Ethical Considerations are not sections of the Standards."
}

{
"type": "Quiz",
"standard": "GIPS standards",
"content": "According to the Fundamentals of Compliance section of the Global Investment Performance Standards, issues that a firm must consider when claiming compliance include all of the following except:
A replicating performance.
B properly defining the firm.
C documenting firm policies and procedures used in establishing and maintaining compliance with the Standards.",
"answer": "A",
"explanation": "Replication of performance is not included in the Fundaments of Compliance section within the GIPS standards."
}

{
"type": "Quiz",
"standard": "GIPS standards",
"content": "G&F Advisors claims compliance with the Global Investment Performance Standards (GIPS) in its marketing materials. The compliant presentation includes a footnote which indicates that the firm has been verified by an independent third party. An additional note states that G&F is in compliance with the GIPS standards except for its private equity investments. Is it likely that G&F violated the GIPS standards?
A No, because the footnotes meet the requirements of the Standards.
B No, because the provisions do not apply to the private equity investments. C Yes, because they cannot claim compliance unless all requirements of the Standard are met.",
"answer": "C",
"explanation": "Firms must meet all the requirements set forth in the GIPS standards and cannot claim partial compliance."
}

{
"type": "Quiz",
"standard": "GIPS standards",
"content": "When local laws and regulations governing calculation and presentation of investment performance conflict with GIPS standards, firms are:
A. required to calculate and maintain two sets of performance data in order to claim GIPS compliance.
B. required to comply with local laws and regulations and make full disclose of the conflict to claim GIPS compliance.
C. not eligible to participate in GIPS reporting.",
"answer": "B",
"explanation": "In cases where applicable local laws and regulations governing calculation and presentation of investment performance conflict with the GIPS standards, firms are required to comply with local laws and regulations and make full disclose of the conflict in the compliant presentation."
}

{
"type": "Quiz",
"standard": "GIPS standards",
"content": "According to the GIPS standards, a verification does not test whether:
A. specific composite presentations are accurate.
B. a firm has complied with all composite construction requirements on a firm-wide basis.
C. policies and procedures are designed to present compliant performance results.",
"answer": "A",
"explanation": "According to the Global Investment Performance Standards (GIPS), verification does not ensure the accuracy of any specific composite presentations. Verification tests if (1) the FIRM has complied with all the composite construction requirements of the GIPS standards on a

firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not, in any way, provide assurance about the results of a specific composite. That level of assurance is provided through an additional level of testing of a specific composite, called a performance examination."
}

{
"type": "Quiz",
"standard": "GIPS standards",
"content": "According to the GIPS standards, a firm must do all of the following except:
A. comply with all requirements of the GIPS standards, such as updates, Guidance Statements, and clarifications.
B. adhere to specific calculation methodologies and make specific disclosures along with their performance.
C. undergo a third-party verification of its claim of compliance.",
"answer": "C",
"explanation": "Firms may choose (but are not required) to have an independent third-party verification to claim compliance with the GIPS standards."
}

{
"type": "Quiz",
"standard": "Standard I(B) Independence and Objectivity",
"content": "An investment management firm has been hired by ETV Corporation to work on an additional public offering for the company. The firm’s brokerage unit now has a “sell” recommendation on ETV, but the head of the investment banking department has asked the head of the brokerage unit to change the recommendation from “sell” to “buy.” According to the Standards, the head of the brokerage unit would be permitted to:
A Increase the recommendation by no more than one increment (in this case, to a “hold” recommendation).
B Place the company on a restricted list and give only factual information about the company.
C Assign a new analyst to decide if the stock deserves a higher rating.",
"answer": "B",
"explanation": "This question relates to Standard I(B)–Independence and Objectivity. When asked to change a recommendation on a company stock to gain business for the firm, the head of the brokerage unit must refuse in order to maintain his independence and objectivity in making recommendations. He must not yield to pressure by the firm’s investment banking department. To avoid the appearance of a conflict of interest, the firm should dis-continue issuing recommendations about the company. Answer A is incorrect; changing the recommendation in any manner that is contrary to the analyst’s opinion violates the duty to maintain independence and objectivity. Answer C is incorrect because merely assigning a new analyst to decide whether the stock deserves a higher rating will not address the conflict of interest."
}

{
"type": "Quiz",
"standard": "Standard I(C) Misrepresentation",
"content": "Grey recommends the purchase of a mutual fund that invests solely in long-term US Treasury bonds. He makes the following statements to his clients: I. “The payment of the bonds is guaranteed by the US government; therefore, the default risk of the bonds is virtually zero.” II. “If you invest in the mutual fund, you will earn a 10% rate of return each year for the next several years based on historical performance of the market.” Did Grey’s statements violate the CFA Institute Code and Standards?
A Neither statement violated the Code and Standards.
B Only statement I violated the Code and Standards.
C Only statement II violated the Code and Standards.",
"answer": "C",
"explanation": "This question involves Standard I(C)–Misrepresentation. Statement I is a factual statement that discloses to clients and prospects accurate information about the terms of the investment instrument. Statement II, which guarantees a specific rate of return for a mutual fund, is an opinion stated as a fact and, therefore, violates Standard I(C). If statement II were rephrased to include a qualifying statement, such as “in my opinion, investors may earn . . . ,” it would not be in violation of the Standards."
}

{
"type": "Quiz",
"standard": "Standard I(A) Knowledge of the Law",
"content": "Which of the following is a correct statement of a member’s or candidate’s duty under the Code and Standards?
A In the absence of specific applicable law or other regulatory requirements, the Code and Standards govern the member’s or candidate’s actions.
B A member or candidate is required to comply only with applicable local laws, rules, regulations, or customs, even though the Code and Standards may impose a higher degree of responsibility or a higher duty on the member or candidate.
C A member or candidate who trades securities in a securities market where no applicable local laws or stock exchange rules regulate the use of material nonpublic information may take investment action based on material non-public information.",
"answer": "A",
"explanation": "This question relates to Standard I(A)–Knowledge of the Law—specifically, global application of the Code and Standards. Members and candidates who practice in multiple jurisdictions may be subject to various securities laws and regulations. If applicable law is more strict than the requirements of the Code and Standards, members and candidates must adhere to applicable law; otherwise, members and candidates must adhere to the Code and Standards. Therefore, answer A is correct. Answer B is incorrect because members and candidates must adhere to the higher standard set by the Code and Standards if local applicable law is less strict. Answer C is incorrect because when no applicable law exists, members and candidates are required to adhere to the Code and Standards, and the Code and Standards prohibit the use of

material nonpublic information."
}

{
"type": "Quiz",
"standard": "Standard I(B) Independence and Objectivity",
"content": "Ward is scheduled to visit the corporate headquarters of Evans Industries. Ward expects to use the information he obtains there to complete his research report on Evans stock. Ward learns that Evans plans to pay all of Ward’s expenses for the trip, including costs of meals, hotel room, and air transportation. Which of the following actions would be the best course for Ward to take under the Code and Standards?
A Accept the expense-paid trip and write an objective report.
B Pay for all travel expenses, including costs of meals and incidental items.
C Accept the expense-paid trip but disclose the value of the services accepted in the report.",
"answer": "B",
"explanation": "The best course of action under Standard I(B)–Independence and Objectivity is to avoid a conflict of interest whenever possible. Therefore, for Ward to pay for all his expenses is the correct answer. Answer C details a course of action in which the conflict would be disclosed, but the solution is not as appropriate as avoiding the conflict of interest.
"
}

{
"type": "Quiz",
"standard": "Standard I(C) Misrepresentation",
"content": "Michelieu tells a prospective client, “I may not have a long-term track record yet, but I’m sure that you’ll be very pleased with my recommendations and service. In the three years that I’ve been in the business, my equity-oriented clients have averaged a total return of more than 26% a year.” The statement is true, but Michelieu only has a few clients, and one of his clients took a large position in a penny stock (against Michelieu’s advice) and realized a huge gain. This large return caused the average of all of Michelieu’s clients to exceed 26% a year. Without this one investment, the average gain would have been 8% a year. Has Michelieu violated the Standards?
A No, because Michelieu is not promising that he can earn a 26% return in the future.
B No, because the statement is a true and accurate description of Michelieu’s track record.
C Yes, because the statement misrepresents Michelieu’s track record.",
"answer": "C",
"explanation": "This question relates to Standard I(C)–Misrepresentation. Although Michelieu’s statement about the total return of his clients’ accounts on average may be technically true, it is misleading because the majority of the gain resulted from one client’s large position taken against Michelieu’s advice. Therefore, this statement misrepresents the investment performance the member is responsible for. He has not taken steps to present a fair, accurate, and complete presentation of performance. Answer B is thus incorrect. Answer A is incorrect because although Michelieu is not guaranteeing future results, his words are still a misrepresentation of his

performance history."
}

{
"type": "Quiz",
"standard": "Standard I(C) Misrepresentation",
"content": "Mamadou prepares a general report on the US stock market for potential clients. The report includes an excerpt of general information on the stock market taken from an academic textbook he used in school and a chart of annual average returns of the New York Stock Exchange (NYSE) for the past 100 years taken from the Wall Street Journal. He does not provide a citation for either source. Mamadou has violated the CFA Institute Code and Standards by using:
l. the general information on the US stock market.
Il. the chart of annual average NYSE returns over the past 100 years
I only.
B. Both l and ll.
C. Neither l or ll.",
"answer": "B",
"explanation": "Mamadou violates Standard I(C): Misrepresentation by using the chart of annual average returns of the NYSE from the Wall Street Journal as well as the general information from the textbook without citing the sources because both are examples of plagiarism."
}

{
"type": "Quiz",
"standard": "Standard I(C) Misrepresentation",
"content": "Yvette is a successful money manager who is confident of her stock-picking ability and claims in her marketing brochures that her clients "will obtain a significant return on principal" by following her advice. Yvette's statement:
A. misrepresents her ability as an investment manager.
B. improperly implies a guaranteed investment return.
C. states an opinion and therefore is not a misrepresentation.",
"answer": "B",
"explanation": "Yvette violates Standard I(C): Misrepresentation because her statement that her clients "will obtain a significant return on principal" improperly implies a guaranteed investment return."
}

{
"type": "Quiz",
"standard": "Standard I(C) Misrepresentation",
"content": "Miriam prepares a research report on the global automobile industry for her employer just prior to leaving for another position at a new firm. After Miriam is gone, Mehdi takes over Miriam's area of responsibility and republishes the report that Miriam prepared, without Miriam's name. Mehdi lists himself as the contact person for those with questions about the report. Mehdi's

actions:
A. violate the CFA Institute Code and Standards.
B. do not violate the CFA Institute Code and Standards because the research report that Miriam prepared is the property of the firm.
C. do not violate the CFA Institute Code and Standards only if Mehdi reviews the report and agrees with Miriam's analysis.",
"answer": "B",
"explanation": "Mehdi does not violate Standard I(C): Misrepresentation by republishing the report that Miriam wrote without Miriam's name because he has taken over as the contact person for the report after Miriam's departure and he is not claiming to be the author of the report."
}

{
"type": "Quiz",
"standard": "Standard I(D) Performance Presentation",
"content": "Which of the following examples of conduct is least likely to violate the CFA Institute Standard of Professional Conduct related to performance presentation?
A. Eliminating accounts that have been terminated when calculating aggregate performance history.
B. Using simulated performance history from a hypothetical account to show typical investment performance.
C. Presenting the performance history of a composite of accounts rather than a single "representative" account.",
"answer": "C",
"explanation": "Presenting the performance history of a composite of accounts rather than a single "representative" account complies with Standard I(D): Performance Presentation and would lead to a more complete and accurate reflection of performance history."
}

{
"type": "Quiz",
"standard": "Standard I(A) Knowledge of the Law",
"content": "Which statement is NOT part of CFA Institute Standard I(A): Knowledge of the Law? CFA Institute members must:
A. comply with the more strict applicable law, rule, or regulation in the event of conflict.
B. not knowingly participate or assist in and must dissociate from any violation of the law.
C. report violations of the law by their colleagues to CFA Institute.",
"answer": "C",
"explanation": "Standard I(A): Knowledge of the Law does not require CFA Institute members to report violations of the law by the colleagues to CFA Institute."
}

{
"type": "Quiz",

"standard": "Standard I(A) Knowledge of the Law",
"content": "Failure to report legal and ethical violations by others:
A. is a violation of CFA Institute Standard I(A): Knowledge of the Law.
B. is considered a failure to dissociate from the violation.
C. may harm clients or the investing public.",
"answer": "C",
"explanation": "Failure to report legal and ethical violations by others may harm clients or the investing public and reporting is thus recommended, but reporting is not mandated by the Code and Standards unless it is required by law."
}

{
"type": "Quiz",
"standard": "Standard I(B): Independence and Objectivity",
"content": "Ward is scheduled to visit the corporate headquarters of Evan Industries. Ward expects to use the information obtained to complete his research report on Evans stock. Ward learns that Evans plans to pay all of Ward's expenses, including meals, hotel room, and air transportation. Which of the following actions by Ward would be the best course of action under the Code and Standards?
A. Write the report without taking the trip.
B. Pay for all travel expenses, including cost of meals and incidental items
C. Accept the expense-paid trip but disclose the value of the services accepted in the report.",
"answer": "B",
"explanation": "To comply with Standard I(B): Independence and Objectivity, Ward should pay for all travel expenses, including cost of meals and incidental items."
}

{
"type": "Quiz",
"standard": "Standard II(B) Market Manipulation",
"content": "Agustin places multiple, non-bona fide limit orders on one side of the market for a security at various price levels away from the best bid or offer to create the impression of a change in the levels of supply and demand. This action moves the price of the security. He then executes a trade on the opposite side of the market at the artificially created price and orders are immediately cancelled. Agustin's actions most likely:
A. violate the CFA Institute Standard of Professional Conduct related to market manipulation.
B. comply with the Code and Standards if the action is taken to benefit clients
C. comply with the Code and Standards if the action is disclosed to his employer.",
"answer": "A",
"explanation": "Agustin's conduct is an example of trading-based market manipulation and is a violation of Standard II(B): Market Manipulation."
}

{
"type": "Quiz",
"standard": "Standard II(A) Material Nonpublic Information",
"content": "Winifred is an investment analyst who has accumulated and analyzed several pieces of nonpublic information through her contacts with drug firms. Although none of the information is"material," Winifred correctly concluded that the earnings of one of the drug firms would be unexpectedly high in the coming year. According to the Code and Standards, Winifred:
A. can use the information to make investment recommendations and decisions.
B. should publish the information before she uses it in her investment recommendations and decisions.
C. should urge the drug firm to publicly disseminate the information immediately.",
"answer": "A",
"explanation": "Under Standard II(A): Material Nonpublic Information, Winifred can use the non-material nonpublic information she obtained to inform her investment recommendations and decisions."
}

{
"type": "Quiz",
"standard": "Standard II(A) Material Nonpublic Information",
"content": "Which of the following is most likely to be considered a "material" piece of information regarding a company?
A. A competitor's CEO speculating about a pending management change at their company.
B. The loss of a customer representing a significant portion of a company's gross sales.
C. A former CFO of a company predicting long-term decline in the company's stock.",
"answer": "B",
"explanation": "Under Standard II(A): Material Nonpublic Information, the loss of a customer representing a significant portion of a company's gross sales is most likely to be considered a "material" piece of information regarding a company because the information will likely affect the price of the security and a reasonable investor would like to know about the information prior to making an investment decision."
}

{
"type": "Quiz",
"standard": "Standard II(A) Material Nonpublic Information",
"content": "Which of the following would result from prolific trading on material nonpublic information?
l. Erosion of investor confidence in investment professionals and institutions.
Il. Efficient allocation of information to the investing public.
Ill. Efficient allocation of capital to worthy investments.
A. I only.
B. Il and Ill.
C. l, Il, and lll.",

"answer": "A",
"explanation": "Trading on material nonpublic information leads to the erosion of investor confidence in the fairness of capital markets and investment professionals and institutions because only "insiders" with special access to confidential material information are fully able to make informed investment decisions."
}

{
"type": "Quiz",
"standard": "Standard II(B) Market Manipulation",
"content": "Which of these actions would be considered a violation of the CFA Institute Standard on market manipulation?
A. Issuing false rumors about an investment to induce trading by others so you can benefit from the change in share price.
B. Trading of low-volume securities to exploit market inefficiencies.
C. Selling a stock and immediately buying it back to capture specific tax incentives.",
"answer": "A",
"explanation": "Issuing false rumors about an investment to induce trading by others so you can benefit from the change in share price is a violation of Standard II(B): Market Manipulation because the conduct is designed to deceive the market."
}

{
"type": "Quiz",
"standard": "Standard II(A) Material Nonpublic Information",
"content": "The mosaic theory holds that an analyst:
A Violates the Code and Standards if the analyst fails to have knowledge of and comply with applicable laws.
B Can use material public information and non-material nonpublic information in the analyst’s analysis.
C Should use all available and relevant information in support of an investment recommendation.",
"answer": "B",
"explanation": "This question deals with Standard II(A)–Material Nonpublic Information. The mosaic theory states that an analyst may use material public information and non-material nonpublic information in creating a larger picture than shown by any individual piece of information and the conclusions the analyst reaches become material only after the pieces are assembled. Answers A and C are accurate statements relating to the Code and Standards but do not describe the mosaic theory."
}

{
"type": "Quiz",
"standard": "Standard II(A) Material Nonpublic Information",

"content": "An investment banking department of a brokerage firm often receives material nonpublic information that could have considerable value if used in advising the firm’s brokerage clients. In order to conform to the Code and Standards, which one of the following is the best policy for the brokerage firm? A Permanently prohibit both “buy” and “sell” recommendations of the stocks of clients of the investment banking department.
B Establish physical and informational barriers within the firm to prevent the exchange of information between the investment banking and brokerage operations.
C Monitor the exchange of information between the investment banking department and the brokerage operation.",
"answer": "B",
"explanation": "The best policy to prevent violation of Standard II(A)–Material Nonpublic Information is the establishment of firewalls in a firm to prevent exchange of insider information. The physical and informational barrier of a firewall between the investment banking department and the brokerage operation prevents the investment banking department from providing information to analysts on the brokerage side who may be writing recommendations on a company stock. Prohibiting recommendations of the stock of companies that are clients of the investment banking department is an alternative, but answer A states that this prohibition would be permanent, which is not the best answer. Once an offering is complete and the material nonpublic information obtained by the investment banking department becomes public, resuming publishing recommendations on the stock is not a violation of the Code and Standards because the information of the investment banking department no longer gives the brokerage operation an advantage in writing the report. Answer C is incorrect because no exchange of information should be occurring between the investment banking department and the brokerage operation, so monitoring of such exchanges is not an effective compliance procedure for preventing the use of material nonpublic information."
}

{
"type": "Quiz",
"standard": "Standard II(A) Material Nonpublic Information",
"content": "Andrews, a private wealth manager, is conducting interviews for a new research analyst for his firm. One of the candidates is Wright, an analyst with a local investment bank. During the interview, while Wright is describing his analytical skills, he mentions a current merger in which his firm is acting as the adviser. Andrews has heard rumors of a possible merger between the two companies, but no releases have been made by the companies concerned. Which of the fol-lowing actions by Andrews is least likely a violation of the Code and Standards?
A Waiting until the next day before trading on the information to allow time for it to become public.
B Notifying all investment managers in his firm of the new information so none of their clients are disadvantaged.
C Placing the securities mentioned as part of the merger on the firm’s restricted trading list.",
"answer": "C",
"explanation": "The guidance to Standard II(A)–Material Nonpublic Information recommends adding securities to the firm’s restricted list when the firm has or may have material nonpublic

information. By adding these securities to this list, Andrews would uphold this standard. Because waiting until the next day will not ensure that news of the merger is made public, answer A is incorrect. Negotiations may take much longer between the two companies, and the merger may never happen. Andrews must wait until the information is disseminated to the market before he trades on that information. Answer B is incorrect because Andrews should not disclose the information to other managers; no trading is allowed on material nonpublic information."
}

{
"type": "Quiz",
"standard": "Standard II(B) Market Manipulation",
"content": "Pietro, president of Local Bank, has hired the bank's market maker, Vogt, to seek a merger partner. Local is currently not listed on a stock exchange and has not reported that it is seeking strategic alternatives. Vogt has discussed the possibility of a merger with several firms, but they have all decided to wait until after the next period's financial data are available. The potential buyers believe the results will be worse than the results of prior periods and will allow them to pay less for Local Bank. Pietro wants to increase the likelihood of structuring a merger deal quickly. Which of the following actions would most likely be a violation of the Code and Standards?
A Pietro could instruct Local Bank to issue a press release announcing that it has retained Vogt to find a merger partner.
B Pietro could place a buy order for 2,000 shares (or four times the average weekly volume) through Vogt for his personal account.
C After confirming with Local's chief financial officer, Pietro could instruct Local to issue a press release reaffirming the firm's prior announced earnings guidance for the full fiscal year.",
"answer": "B",
"explanation": "Through placing a personal purchase order that is significantly greater than the average volume, Pietro is violating Standard II(B)–Market Manipulation. He is attempting to manipulate an increase in the share price and thus bring a buyer to the negotiating table. The news of a possible merger and confirmation of the firm's earnings guidance may also have positive effects on the price of Local Bank, but Pietro's actions in instructing the release of the information does not represent a violation through market manipulation. Announcements of this nature are common and practical to keep investors informed. Thus, answers A and C are incorrect."
}

{
"type": "Quiz",
"standard": "Standard II(A) Material Nonpublic Information",
"content": "During a round of golf, Rodriguez, chief financial officer of Mega Retail, mentions to Hart, a local investment adviser and long-time personal friend, that Mega is having an exceptional sales quarter. Rodriguez expects the results to be almost 10% above the current estimates. The next day, Hart initiates the purchase of a large stake in the local exchange-traded retail fund for her personal account.
A Hart violated the Code and Standards by investing in the exchange-traded fund that included

Mega Retail.
B Hart did not violate the Code and Standards because she did not invest directly in securities of Mega Retail.
C Rodriguez did not violate the Code and Standards because the comments made to Hart were not intended to solicit an investment in Mega Retail.",
"answer": "A",
"explanation": "Hart’s decision to invest in the retail fund appears directly correlated with Rodriguez’s statement about the successful quarter of Mega Retail and thus violates Standard II(A)–Material Nonpublic Information. Rodriguez’s information would be considered material because it would influence the share price of Mega Retail and probably influence the price of the entire exchange-traded retail fund. Thus, answer B is incorrect. Answer C is also incorrect because Rodriguez shared information that was both material and nonpublic. Company officers regularly have such knowledge about their firms, which is not a violation. The sharing of such information, however, even in a conversation between friends, does violate Standard II(A)."
}
]