Question #1 of 48

Question ID: 1459510

Referral fees a member must disclose to a prospective client include:

A) both fees a member receives and fees a member pays.

B) only fees a member pays to others for referrals.

C) only fees a member receives for referrals.

Question #2 of 48

Question ID: 1116026

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) updating disclosures when the policy change is implemented.

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

Question #3 of 48

Question ID: 1451435

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

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

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

Question #4 of 48

Question ID: 1451431

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 shares of Wonder. According to the Standards of Professional Conduct, which of the following actions is Harrow required to take when he writes the research reports?

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

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

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

Question #5 of 48

Question ID: 1451432

Will Lambert, CFA, is a financial analyst for Offshore Investments. He is preparing a purchase recommendation on Burch Corporation. According to the 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 wife owns 2,000 shares of Burch.

C) His son-in-law was formerly employed by Burch.

Question #6 of 48

Question ID: 1469316

An analyst likes to trade commodity futures in her own account. She does not deem any of her client accounts suitable for commodity futures trading. When she identifies a favorable commodity futures position, the Standard concerning priority of transactions suggests she should:

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

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

C) refrain from acting until she notifies her supervisor.

Question #7 of 48

Question ID: 1459471

Ann Dunbar, a portfolio manager, wishes to buy stock of Knight Enterprises for her personal account and for clients. Knight is a thinly traded stock. Dunbar believes her own purchase is too small to affect the price but the purchase for clients is likely to increase the price. According to the Code and Standards, when may Dunbar buy the stock for her personal account?

A) At the same time she enters the buy order for her clients.

B) She may not buy the same stock that she buys for her clients.

C) After the buy order for her clients is executed.

Question #8 of 48

Question ID: 1469317

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 person working in the mail room.

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

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

Question #9 of 48

Question ID: 1459501

Lance Tuipulotu, CFA, is a portfolio manager for an investment advisory firm. He plans to sell 10,000 shares of Park N'Wreck, Inc. to finance his daughter's new restaurant venture, but his firm recently upgraded the stock to "strong buy." In order to remain in compliance with Standard VI(B) "Priority of Transactions," Tuipulotu must:

A) notify his firm of his intention to sell the shares before selling the shares.

B) not sell the shares of Park N'Wreck.

C) delay selling the shares until a firm client makes an offsetting purchase to avoid having a market impact.

Question #10 of 48

Question ID: 1469315

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

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

Question #11 of 48

Question ID: 1451444

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

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

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

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

Question #12 of 48

Question ID: 1459476

An analyst has been covering a particular firm for years. Recently, the analyst's uncle died and left the analyst a sizable position in the firm's stock. To comply with the Code and Standards, the analyst:

A) is not required to act because the analyst did not purchase the stock.

B) is required to disclose the ownership of the stock to his employer.

C) should divest the stock as soon as is practicable.

Question #13 of 48

Question ID: 1469314

Member compliance on issues relating to corporate governance or to soft dollars is primarily addressed by the Standard concerning:

A) Disclosure of Conflicts to Clients and Prospects.

B) Disclosure of Referral Fees.

C) Loyalty, Prudence, and Care.

Question #14 of 48

Question ID: 1469319

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

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

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

Question #15 of 48

Question ID: 1459472

Sean Jones places an order with his investment advisor Lisa Johnson, CFA, to buy 1,000 shares of Orkle Incorporated. Johnson's firm makes a market in Orkle and she executes the trade through her own firm. According to the Code and Standards, Johnson should:

A) contact her firm’s compliance department before accepting the order.

B) disclose her firm’s market making activities to Jones.

C) decline to execute trades in securities for which her firm makes a market.

Question #16 of 48

Question ID: 1451371

Brendan Duval works as a research analyst for Toby Securities. Duval recommends changing a recommendation from "sell" to "buy" on Dalton Company. His firm, which manages several mutual funds, may be interested in buying Dalton's stock. He also manages the retirement account that his parents established with Toby. Duval wants to buy shares of Dalton's stock because it is an appropriate investment for his parent's retirement account and obtains approval from his employer to do so. Duval is also thinking about personally investing in Dalton stock. According to CFA Institute Standards of Professional Conduct, which of the following *best* describes the priority of transactions? Duval should give:

A) Toby's clients and his parent's account equal priority, followed by his employer, and then his personal account.

B) priority to Toby's clients and his employer concurrently, followed by his parent's retirement account, and finally his personal account.

C) priority of transactions to Toby's clients, followed by his employer, then his parent's retirement account, and finally his personal account.

Question #17 of 48

Question ID: 1459504

The Standard concerning referral fees is applicable to:

A) only considerations received for recommending products or services.

B) any consideration received or paid for recommending products or services.

C) only considerations paid for recommending products or services.

Question #18 of 48

Question ID: 1451440

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

A) his clients.

B) his employer.

C) both of these.

Question #19 of 48

Question ID: 1459508

Which of the following statements is *most accurate* about the Standard concerning referral fees?

A) Referral fees must be disclosed after proceeding with an agreement for service.

B) Referral fees must be disclosed before proceeding with an agreement for service.

C) Referral fees may be disclosed before or after proceeding with an agreement for service.

Question #20 of 48

Question ID: 1459475

Ryan Brown, CFA, is an analyst with a large insurance company. His personal portfolio includes a significant investment in QRS common stock. The director of the research department asked Brown to analyze QRS and write a report about its investment potential. Based on the Standards of Professional Conduct, Brown is required to:

A) disclose the ownership of the stock in the report.

B) decline to write the report.

C) sell his shares of QRS before issuing the report.

Question #21 of 48

Question ID: 1469321

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) discontinue his services for Smith.

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

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

Question #22 of 48

Question ID: 1459503

Recommended procedures to comply with the Standard concerning priority of transactions are *least likely* to include:

A) blackout periods.

B) disclosure to clients of the firm’s policies in regard to personal investing.

C) limited front-running by employees.

Question #23 of 48

Question ID: 1469318

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 as long as he does not have a direct personal interest in his brother's account.

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

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

Question #24 of 48

Question ID: 1459466

Juan Lopez manages accounts for Street Capital. Lopez's mother is a client of the firm. Lopez does not make trades in his mother's accounts until all other clients of the firm have been given an opportunity to trade. Lopez has:

A) violated CFA Institute Standards of Professional Conduct because he is not allowed to trade in family accounts.

B) not violated CFA Institute Standards of Professional Conduct because transactions for clients should have priority over personal transactions and transactions for beneficial owners.

C) violated CFA Institute Standards of Professional Conduct because family accounts that are client accounts should be treated like any other firm accounts.

Question #25 of 48

Question ID: 1451433

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

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

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

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

Question #26 of 48

Question ID: 1451430

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) do nothing.

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

Question #27 of 48

Question ID: 1469323

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

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

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

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

Question #28 of 48

Question ID: 1459487

An analyst is serving on the Board of Directors of a local publicly traded company. To avoid violating the CFA Institute Code and Standards, the analyst must disclose this to:

A) both his employer and his clients and prospective clients.

B) no one since it should not cause a conflict of interest for the analyst.

C) only his employer.

Question #29 of 48

Question ID: 1459495

Samuel Goldstein, CFA, is an analyst for Tamarack Securities. Goldstein's father, Reuben, has a client account at Tamarack. In ordering trades, Goldstein should place orders in:

A) all accounts simultaneously.

B) his clients' accounts first, his father's account second, and his account last.

C) his clients' and his father's accounts in the first group and his personal accounts in the second group.

Question #30 of 48

Question ID: 1459486

Fern Baldwin, CFA, as a representative for Fernholz Investment Management, is compensated by a base salary plus a percentage of fees generated. In addition, she receives a quarterly performance bonus on a particular client's fee if the client's account increases in value by more than 2 points over a benchmark index. Baldwin had a meeting with a prospect in which she described the firm's investment approach but did not disclose her base salary, percentage fee, or bonus.

Baldwin has:

A) violated the Standards by not disclosing her performance bonus.

B) not violated the Standards because there is no conflict of interest with a potential prospect in the employment arrangements.

C) violated the Standards by not disclosing her salary, fee percentage, and performance bonus.

Question #31 of 48

Question ID: 1459485

Ray Stone, CFA, follows the Amity Paving Company for his employer, Rubbell Securities. Which of the following scenarios is Stone *least likely* to have to disclose?

A) Rubbell's broker-dealer relationship with Amity.

B) Stone's ownership of Amity securities.

C) The fact that Stone's son worked at Amity as a laborer during the summer while in school.

Question #32 of 48

Question ID: 1459491

Connie Baker, CFA, is an analyst with the brokerage and investment banking firm Hill and Stevens (H&S). Baker's supervisor, John Lewis, has asked her to write a research report on Jagged Rock Brewing. The H&S mergers and acquisitions department has represented Jagged Rock in all of its acquisitions for the past 12 years. Both Hill and Stevens sit on Jagged Rock's board. According to the Standards of Professional Conduct, can Baker write the report?

A) No.

B) Yes, if she discloses the directorships and the mergers-and-acquisitions relationship.

C) Yes, if she maintains her independence and objectivity in its preparation.

Question #33 of 48

Question ID: 1459467

Patricia Spraetz is the chief financial officer and compliance officer at Super Selection Investment Advisors. Super Selection is a medium-sized money management firm which has incorporated the CFA Institute Code of Ethics and Standards of Practice into the firm's compliance manual.

Karen Jackson is a portfolio manager for Super Selection. She is not a CFA charterholder. Jackson is friendly with David James, president of AMD, a rapidly growing biotech company. James has provided Jackson with recommendations in the biotech industry, which she buys for her own portfolio before buying them for her clients. For three years, Jackson has also served on AMD's board of directors but has never notified Super Selection of this fact. She has received options and fees as compensation.

Recently, the board of AMD decided to raise capital by voting to issue shares to the public. This was attractive to board members (including Jackson) who wanted to exercise their stock options and sell their shares to get cash. When the demand for initial public offerings (IPO) diminished, just before AMD's public offering, James asked Jackson to commit to a large purchase of the offering for her portfolios. Jackson had previously determined that AMD was a questionable investment but agreed to reconsider at James' request. Her reevaluation confirmed the stock to be overpriced, but she nevertheless decided to purchase AMD for her clients' portfolios.

Which of the following statements is NOT correct?

A) Jackson did not violate Standard III(A) on Fiduciary Duty to clients because she was bound by her fiduciary duty to AMD and its stockholders as a board member. Therefore, when she reversed her decision to buy AMD shares for Super Selection's clients, portfolios on James' request, her obligation to AMD took precedence.

B) Jackson violated Standard IV(B) regarding Disclosure of Additional Compensation by not disclosing additional compensation in the form of cash and stock options received from AMD, as its board member to her employer.

C) Jackson violated Standard VI(A) regarding Conflicts of interest by not disclosing her board membership and ownership of stock options to her employer.

Question #34 of 48

Question ID: 1451429

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.

Question #35 of 48

Question ID: 1459496

Andy Rock, CFA, is an analyst at Best Trade Co. The company is going to announce a sell recommendation on Biomed stock in one hour. Rock was a member of the team who reached the decision on Biomed. Rock's wife has an account at Best Trade Co. that contains Biomed stock. According to the Code and Standards, trading on Rock's wife's account can begin:

A) only after the recommendation is announced to the general public.

B) only after Rock, as a beneficial owner, has given an appropriate amount of time for clients and his employer to act.

C) as soon as the information is disseminated to all clients.

Question #36 of 48

Question ID: 1459473

Rhonda Morrow, CFA, is an analyst for Waller & Madison, a brokerage and investment banking firm. Waller & Madison is a market maker for CorpEast, and Tim Waller, a principal in Morrow's firm, sits on CorpEast's board. Morrow has been asked to write a research report on CorpEast. According to the Standard regarding disclosure of conflicts, Morrow:

A) must disclose that Waller & Madison is a market maker in CorpEast shares but not that Waller is a board member.

B) must not write the report.

C) may write the report if she discloses both that Waller & Madison is a market maker in CorpEast shares and that Waller sits on the CorpEast board.

Question #37 of 48

Question ID: 1469312

Judy Gonzales is a portfolio manager with Brenly Capital and works on Johnson Company's account. Brenly has a policy against accepting gifts over $25 from clients. The Johnson portfolio has a fantastic year, and in appreciation, the pension fund manager sent Gonzales a rare bottle of wine. Gonzales should:

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

B) present the bottle of wine to her supervisor.

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

Question #38 of 48

Question ID: 1469313

One year ago, Karen Jason left the employment as a portfolio manager of Howe Advisors. The departure was contentious and both parties threatened legal action. As a result, both parties signed a settlement in which Jason was paid a prorated bonus, but agreed not to work on the portfolios of any existing Howe client for two years. The terms of the agreement were that both parties agreed to keep all aspects of the agreement confidential, including the fact that there was hostility surrounding the departure. Jason now works for Torre Advisors, who has the Stein Company as a new client. At the time Jason left Howe, Stein was a client of Howe, although Jason did not personally work on the Stein portfolio. Jason's supervisor at Torre wants Jason to work on the Stein portfolio. Jason should:

A) inform her supervisor that she cannot work on the portfolio because of a legal agreement, but cannot tell him why.

B) inform her supervisor that she cannot work on the portfolio because of a non-compete agreement.

C) work on the portfolio because she did not personally work on the portfolio when she was at Howe.

Question #39 of 48

Question ID: 1459463

Williams and Fudd is a major London-based brokerage and investment banking firm. Heritage Group, a money management firm, is the first, second, or third largest holder of each of the securities listed on Williams & Fudd's "PrimeShare #10" equity security list.

On Tuesday morning, August 22, Williams & Fudd released a research report recommending the purchase of Skelmerdale Industries to the public and to its clients. On Wednesday afternoon, August 23, Heritage Group bought 1.5 million shares of Skelmerdale. This action is:

A) a violation of the Standard concerning fair dealing.

B) a violation of the Standard concerning disclosure of conflicts.

C) in accordance with the CFA Institute Code and Standards.

Question #40 of 48

Question ID: 1469322

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.

Question #41 of 48

Question ID: 1459498

An analyst has a large personal holding of a security, and he has just determined that market conditions warrant selling this security. The analyst contacts clients who have a position in the security and advises them to sell some or all of the security. After waiting 24 hours, he sells the security from his personal accounts. This is:

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

B) a violation of Standard VI(B), Priority of Transactions.

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

Question #42 of 48

Question ID: 1459464

Todd Gregory has been recently hired as the head of compliance for Speed Capital. He decides the firm should precisely follow the recommendations of the CFA Institute Standards of Professional Conduct to ensure integrity within the firm. Which of the following is NOT a compliance procedure that Speed should put in place?

A) A requirement of disclosure of all investment holdings of friends and family members of employees on an annual basis.

B) A requirement that employees provide duplicate confirmations of personal investing transactions.

C) A requirement that investment personnel should clear all personal investments to identify possible conflicts.

Question #43 of 48

Question ID: 1459479

According to Standard VI(A), Disclosures of Conflicts, members must disclose to their clients the member's (or their firm's) material ownership of all of the following EXCEPT:

A) corporate finance relationships.

B) real estate holdings.

C) beneficial ownership of securities.

Question #44 of 48

Question ID: 1459502

Isaac Jones, CFA, wishes to buy Maxima common stock for some of his clients' accounts. Jones also wishes to purchase Maxima for his personal account. In accordance with CFA Institute Standards, Jones:

A) may purchase Maxima at any time, as long as the execution price is not more favorable than the execution price given to the clients.

B) must disclose his personal account purchase, in writing and in advance, to his clients and employer.

C) may purchase Maxima for his personal account, but the transactions for his clients must take priority.

Question #45 of 48

Question ID: 1451434

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

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

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

Question #46 of 48

Question ID: 1451428

Phil Trobb, CFA, is preparing a purchase recommendation on Aneas Lumber for his research firm. Which of the following *least likely* represents a conflict of interest that Trobb should disclose in his report?

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

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

C) Trobb's cousin repairs machines for Aneas.

Question #47 of 48

Question ID: 1469320

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

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

C) 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.

Question #48 of 48

Question ID: 1459482

Jan Hirsh, CFA, is employed as manager of a college endowment fund. The college's board of directors has recently voted to consider divesting from companies located in a country that has a poor civil rights record. Hirsh has personal investments in several firms in the country. Hirsh needs to:

A) do nothing since the board has not made a decision yet.

B) disclose her ownership in the stocks to her supervisor only.

C) disclose her ownership in the stocks to both her supervisor and the board.