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.

Explanation

Members and candidates must disclose all referral arrangements to their employer, clients, and prospective clients.

(Module 71.8, LOS 71: VI(C))

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.

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.

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.

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.

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.

Explanation

Standard VI(A) Disclosure of Conflicts requires that Harrow disclose matters that reasonably could be expected to interfere with his independence and objectivity. Both Harrow's relationship with Miracle and his ownership 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.

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.

Explanation

Standard VI(A) Disclosure of Conflicts 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.

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.

Explanation

The analyst's commodity futures trading 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 commodity futures, she is not obligated to advise them of her own investments in them.

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.

Explanation

Standard VI(B) Priority of Transactions requires that transactions for clients take precedence over a personal transactions of a member or candidate. Members and candidates should not benefit personally from client transactions, as would occur in this case if the manager enters her personal trade at the same time as the trade for clients. The Standard does not prohibit members and candidates from investing in the same securities they recommend for clients.

(Module 71.8, LOS 71.a, 71.c, 71.b)

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.

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.

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.

Explanation

Standard VI(B) "Priority of Transactions" does not prohibit Tuipulotu from trading opposite the firm's recommendation, but he should notify his firm first. Note that if Tuipulotu were a research analyst covering Park N'Wreck, he may be prevented from selling the security if his firm claims compliance with the CFA Institute's Research Objectivity Standards.

(Module 71.8, LOS 71: VI(B))

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.

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.

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.

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.

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.

Explanation

The analyst is required to disclose the ownership of the stock to his employer by Standard VI(A) Disclosure of Conflicts. The analyst must also disclose the stock ownership in any subsequent coverage of the company. The Standard does not require or recommend that the analyst divest the stock.

(Module 71.8, LOS 71: VI(A))

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.

Explanation

Fiduciary duty on issues relating to corporate governance or to soft dollars is primarily addressed by Standard III(A), 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.

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.

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.

Explanation

Standard VI(A) Disclosure of Conflicts states that broker-dealer market making activities must be disclosed to clients.

(Module 71.8, LOS 71.a, 71.c, 71.b)

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.

Explanation

According Standard VI(B) Priority of Transactions, Duval should give transactions for clients and employers priority over his personal transactions. Because his parent's retirement account represents a client account at Toby, Duval should treat this account just like any other firm account. His parent's retirement account should neither be given special treatment nor disadvantaged because of an existing family relationship with Duval. If Duval treats his parent's retirement account differently from other accounts at Toby, he would breach his fiduciary duty to his parents.

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. ✗

Explanation

Standard VI(C) Referral Fees requires members and candidates to disclose any consideration received or paid for a recommendation.

(Module 71.8, LOS 71: VI(C))

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. ✓

Explanation

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

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.

Explanation

According to Standard VI(C) Referral Fees, such fees must be disclosed before proceeding with an agreement for service. This gives the client or employer the opportunity to compute the full cost of the service and to evaluate any potential partiality in the recommendation.

(Module 71.8, LOS 71: VI(C))

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.

Explanation

Standard VI(A) Disclosure of Conflicts requires that Brown make full disclosure of all matters that could impair his objectivity. Brown needs to disclose his personal holding in QRS stock. Neither of the other choices describes an action that the Standard requires.

(Module 71.8, LOS 71: VI(A))

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.

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.

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.

Explanation

Standard VI(B) Priority of Transactions. Front-running is the purchase or sale of securities in advance of client trades to take advantage of knowledge of client activity and should be completely prohibited, not simply limited. Blackout periods and pre-clearance of employee trades are ways of accomplishing this.

(Module 71.8, LOS 71: VI(B))

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'.

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.

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.

Explanation

Standard VI(B) Priority of Transactions. Family accounts that are client accounts should be treated like any other firm accounts. Lopez should refrain from exercising excess caution since his mother is a client of the firm like all other clients.

(Module 71.8, LOS 71.a, 71.c, 71.b)

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.

Explanation

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

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.

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.

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.

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.

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.

Explanation

Serving on a Board of Directors should be disclosed to both the employer and clients and prospective clients.

(Module 71.8, LOS 71: VI(A))

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.

Explanation

Standard VI(B), Priority of Transactions, provides that transactions for clients have priority over personal trades. Family accounts that are considered client accounts receive the same treatment as client accounts.

(Module 71.8, LOS 71: VI(B))

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.

Explanation

Standard VI(A) requires members to disclose all matters that could reasonably be expected to impair the member's ability to make unbiased and objective recommendations. Compensation based on a percentage of fees generated does not create an inherent bias. If, however, a performance bonus is paid for investment results, it may unduly encourage the manager to take more risk than is proper and prudent, and so the existence of the bonus opportunity must be disclosed to the client.

(Module 71.8, LOS 71: VI(A))

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.

Explanation

Members are required to disclose all matters that reasonably could interfere with their objectivity. Personal ownership of securities or a broker-dealer relationship with a covered firm could reasonably interfere with objectivity, but it is unlikely that a child's past employment would reasonably interfere with Stone's objectivity.

(Module 71.8, LOS 71: VI(A))

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.

Explanation

Standard VI(A) Disclosure of Conflicts requires that members disclose to clients and prospects any potential conflicts of interest that could reasonably expect to impair their objectivity. It does not prohibit analysts with potential conflicts from writing the reports.

(Module 71.8, LOS 71: VI(A))

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. ✗

Explanation

Jackson has violated Standard III(A) because her first obligation is to her firm's clients. Standard VI(A) addresses precisely these kinds of situations regarding potential conflict of interest. Given this conflict of interest, Jackson also compromised her objectivity in violation of Standard I(B). Her fiduciary duty to her clients takes precedence over her fiduciary duty to AMD's stockholders under the CFA Institute Code and Standards. By not disclosing her relationship with AMD, she also violated Standard IV(B). Making past personal security transactions ahead of purchase of the same securities for her clients has put Jackson in violation of Standard VI(B). This standard clearly prohibits such actions.

(Module 71.8, LOS 71.a, 71.c, 71.b)

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. ✓

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.

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.

Explanation

Family accounts that are client accounts should be treated like any other firm account and should neither be given special treatment nor be disadvantaged because of an existing family relationship with the member or candidate. Members or candidates may undertake transactions in accounts for which they are a beneficial owner only after their clients and employers have had adequate opportunity to act on the recommendation. Personal transactions include those made for the member or candidate's own account, for family (including spouse, children, and other immediate family members) accounts, and for accounts in which the member or candidate has a direct or indirect pecuniary interest, such as a trust or retirement account. It could be argued that Rock is a beneficial owner of his wife's account and the reason why his wife's account should be treated like any other client account is because it does not state that Rock makes the trades in his wife's account. From that we are to infer that another person other than Rock is managing his wife's account thus she should be treated like any other client.

(Module 71.8, LOS 71: VI(B))

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.

Explanation

To comply with Standard VI(A) Disclosure of Conflicts, both the market-making activities by the firm and the directorship held by a principal in the firm must be disclosed.

(Module 71.8, LOS 71.a, 71.c, 71.b)

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.

Explanation

By not returning the bottle she would be violating the Standard on disclosure of conflicts to the employer, which states that employees must comply with prohibitions imposed by their employer.

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. ✗

Explanation

Jason must inform her supervisor of the conflict, but she cannot violate the terms of the confidentiality agreement and she cannot work on the portfolio.

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. ✓

Explanation

These actions are in accordance with both Standards III(B), Fair Dealing, and VI(B), Priority of Transactions. There is no violation.

(Module 71.8, LOS 71.a, 71.c, 71.b)

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. ✓

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.

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. ✓

Explanation

According to Standard VI(B), an analyst must give clients the first opportunity to buy or sell a security before the analyst acts on his own behalf. A 24-hour waiting period seems reasonable under the circumstances presented. The analyst seems to have a reasonable basis, and there is no reason to believe that he is violating Standard III(B) since he contacted all of the clients who have a position in the security.

(Module 71.8, LOS 71: VI(B))

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. ❌

Explanation

Members and Candidates are not required to disclose investment holdings of friends unless those holdings create a conflict of interest.

(Module 71.8, LOS 71.a, 71.c, 71.b)

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. ❌

Explanation

Unless the firm's real estate holdings would impair their independence and objectivity, they need not be disclosed.

(Module 71.8, LOS 71: VI(A))

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. ✓

Explanation

In accordance with Standard VI(B) Priority of Transactions, employer and client transactions must take priority over any personal transactions, meaning any transactions in which the member or candidate is the beneficial owner. Disclosure is not enough; in this instance the personal transaction would take priority over the clients' transactions, which is a violation. "May purchase Maxima at any time, as long as the execution price is not more favorable than the execution price given to the clients" is incorrect because Jones could be purchasing the stock ahead of clients, which is not permitted.

(Module 71.8, LOS 71: VI(B))

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.

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.

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.

Explanation

Standard VI(A) Disclosure of Conflicts 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.

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.

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.

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.

Explanation

From the given information, there is no conflict of interest and no violation of Standard VI(A), Disclosure of Conflicts. A conflict could arise if the board were to ask Hirsh what the effect on the college's endowment would be if they were to divest. At that time she would have to reveal her ownership in the stocks to make known the possible conflict of interest.

(Module 71.8, LOS 71: VI(A))