

Portfolio Management

PRACTICE PROBLEMS

1. Which of the following is *least* important as a reason for a written investment policy statement (IPS)?
 - A. The IPS may be required by regulation.
 - B. Having a written IPS is part of best practice for a portfolio manager.
 - C. Having a written IPS ensures the client's risk and return objectives can be achieved.
2. Which of the following *best* describes the underlying rationale for a written investment policy statement (IPS)?
 - A. A written IPS communicates a plan for trying to achieve investment success.
 - B. A written IPS provides investment managers with a ready defense against client lawsuits.
 - C. A written IPS allows investment managers to instruct clients about the proper use and purpose of investments.
3. A written investment policy statement (IPS) is *most* likely to succeed if:
 - A. it is created by a software program to assure consistent quality.
 - B. it is a collaborative effort of the client and the portfolio manager.
 - C. it reflects the investment philosophy of the portfolio manager.
4. The section of the investment policy statement (IPS) that provides information about how policy may be executed, including restrictions and exclusions, is *best* described as the:
 - A. *Investment Objectives*.
 - B. *Investment Guidelines*.
 - C. *Statement of Duties and Responsibilities*.
5. Which of the following is *least* likely to be placed in the appendices to an investment policy statement (IPS)?
 - A. *Rebalancing Policy*.
 - B. *Strategic Asset Allocation*.
 - C. *Statement of Duties and Responsibilities*.
6. Which of the following typical topics in an investment policy statement (IPS) is *most* closely linked to the client's "distinctive needs"?
 - A. *Procedures*.
 - B. *Investment Guidelines*.
 - C. *Statement of Duties and Responsibilities*.

7. An investment policy statement that includes a return objective of outperforming the FTSE 100 by 120 basis points is *best* characterized as having a(n):
- A. relative return objective.
 - B. absolute return objective.
 - C. arbitrage-based return objective.
8. Risk assessment questionnaires for investment management clients are *most* useful in measuring:
- A. value at risk.
 - B. ability to take risk.
 - C. willingness to take risk.
9. Which of the following is *best* characterized as a relative risk objective?
- A. Value at risk for the fund will not exceed US\$3 million.
 - B. The fund will not underperform the DAX by more than 250 basis points.
 - C. The fund will not lose more than €2.5 million in the coming 12-month period.
10. In preparing an investment policy statement, which of the following is *most* difficult to quantify?
- A. Time horizon.
 - B. Ability to accept risk.
 - C. Willingness to accept risk.
11. A client who is a 34-year old widow with two healthy young children (aged 5 and 7) has asked you to help her form an investment policy statement. She has been employed as an administrative assistant in a bureau of her national government for the previous 12 years. She has two primary financial goals—her retirement and providing for the college education of her children. This client's time horizon is *best* described as being:
- A. long term.
 - B. short term.
 - C. medium term.
12. The timing of payouts for property and casualty insurers is unpredictable ("lumpy") in comparison with the timing of payouts for life insurance companies. Therefore, in general, property and casualty insurers have:
- A. lower liquidity needs than life insurance companies.
 - B. greater liquidity needs than life insurance companies.
 - C. a higher return objective than life insurance companies.
13. A client who is a director of a publicly listed corporation is required by law to refrain from trading that company's stock at certain points of the year when dis-

closure of financial results are pending. In preparing a written investment policy statement (IPS) for this client, this restriction on trading:

- A. is irrelevant to the IPS.
- B. should be included in the IPS.
- C. makes it illegal for the portfolio manager to work with this client.

14. After interviewing a client in order to prepare a written investment policy statement (IPS), you have established the following:

- The client has earnings that vary dramatically between £30,000 and £70,000 (pre-tax) depending on weather patterns in Britain.
- In three of the previous five years, the after-tax income of the client has been less than £20,000.
- The client's mother is dependent on her son (the client) for approximately £9,000 per year support.
- The client's own subsistence needs are approximately £12,000 per year.
- The client has more than 10 years' experience trading investments including commodity futures, stock options, and selling stock short.
- The client's responses to a standard risk assessment questionnaire suggest he has above average risk tolerance.

The client is *best* described as having a:

- A. low ability to take risk, but a high willingness to take risk.
- B. high ability to take risk, but a low willingness to take risk.
- C. high ability to take risk and a high willingness to take risk.

15. After interviewing a client in order to prepare a written investment policy statement (IPS), you have established the following:

- The client has earnings that have exceeded €120,000 (pre-tax) each year for the past five years.
- She has no dependents.
- The client's subsistence needs are approximately €45,000 per year.
- The client states that she feels uncomfortable with her lack of understanding of securities markets.
- All of the client's current savings are invested in short-term securities guaranteed by an agency of her national government.
- The client's responses to a standard risk assessment questionnaire suggest she has low risk tolerance.

The client is *best* described as having a:

- A. low ability to take risk, but a high willingness to take risk.
- B. high ability to take risk, but a low willingness to take risk.
- C. high ability to take risk and a high willingness to take risk.

16. Returns on asset classes are *best* described as being a function of:

- A. the failure of arbitrage.

- B. exposure to the idiosyncratic risks of those asset classes.
- C. exposure to sets of systematic factors relevant to those asset classes.

17. Consider the pairwise correlations of monthly returns of the following asset classes:

	Brazilian Equities	East Asian Equities	European Equities	US Equities
Brazilian equities	1.00	0.70	0.85	0.76
East Asian equities	0.70	1.00	0.91	0.88
European equities	0.85	0.91	1.00	0.90
US equities	0.76	0.88	0.90	1.00

Based solely on the information in the above table, which equity asset class is *most* sharply distinguished from US equities?

- A. Brazilian equities.
 - B. European equities.
 - C. East Asian equities.
18. In defining asset classes as part of the strategic asset allocation decision, pairwise correlations within asset classes should generally be:
- A. equal to correlations among asset classes.
 - B. lower than correlations among asset classes.
 - C. higher than correlations among asset classes.
19. Tactical asset allocation is *best* described as:
- A. attempts to exploit arbitrage possibilities among asset classes.
 - B. the decision to deliberately deviate from the policy portfolio.
 - C. selecting asset classes with the desired exposures to sources of systematic risk in an investment portfolio.

PRACTICE PROBLEMS

1. Under-diversified portfolios are not a potential implication of which of the following behavioral biases?
 - A. Representativeness
 - B. Illusion of control
 - C. Confirmation
2. The advice “Don’t confuse brains with a bull market” is aimed at mitigating which of the following behavioral biases?
 - A. Self-control
 - B. Conservatism
 - C. Overconfidence
3. Status quo bias is least similar to which of the following behavioral biases?
 - A. Endowment
 - B. Regret aversion
 - C. Confirmation
4. Which strategy would best mitigate or prevent endowment bias?
 - A. Actively seeking out information that challenges existing beliefs
 - B. When new information is presented, asking “How does this information change my forecast?”
 - C. Asking “Would you buy this security today at the current price?”
5. Jun Park, CFA, works at a hedge fund. Most of Park’s colleagues are also CFA charterholders. At an event with recent university graduates, Park comments, “Most CFA charterholders work at hedge funds.” Park’s remark exhibits which behavioral bias?
 - A. Availability
 - B. Conservatism
 - C. Framing
6. In the 1980s, Japan was viewed by many FMPs as the model economy. Although its growth began to decelerate sharply by 1990, it was not until the mid to late 1990s that FMPs’ GDP forecasts were consistently achieved. By taking several years to adapt their forecasts to the lower growth environment, FMPs exhibited which behavioral bias?
 - A. Mental accounting
 - B. Overconfidence
 - C. Conservatism

The following information relates to questions 7-10

Caitríona Daosri is a portfolio manager for an international bank, where she advises high-net-worth clients. Daosri is meeting with a new client, Estêvão Kai, a 40-year-old surgeon with €4 million across various accounts and a salary of €500,000 per annum. Kai explains to Daosri that he has four accounts at four different banks, each with specific sources and uses of funds, as shown in the following table:

Bank Account	Source of Deposits	Use of Funds
1	Salary	Living expenses
2	Bonus	Charitable gifts
3	Portfolio interest	Savings for retirement
4	Portfolio dividends	Mother's living expenses

7. Based on the description of how Kai manages his finances as outlined in Exhibit 1, Kai most likely exhibits the behavioral bias of:
 - A. endowment.
 - B. mental accounting.
 - C. framing.
8. Which of the following is a likely consequence of Kai's approach to managing his finances?
 - A. Concentrated portfolio positions
 - B. Forgone opportunities to reduce risk by combining assets with low correlations
 - C. Excessive trading
9. Which strategy should Daosri use or recommend to Kai?
 - A. Keep written records of investment decisions.
 - B. Ask questions such as, "Is the decision the result of focusing on a net gain or net loss position?"
 - C. Aggregate all accounts and portfolios into a single spreadsheet.
10. Which of the following individual behavioral biases is most strongly associated with market bubbles?
 - A. Overconfidence
 - B. Representativeness
 - C. Framing
11. The halo effect, which may be evident in FMP's assessments of a company with a history of high revenue growth, is a form of which behavioral bias?
 - A. Endowment

- B. Representativeness
 - C. Regret aversion
12. All of the following are reasons that an apparent deviation from the efficient market hypothesis might not be anomalous except:
- A. The abnormal returns represent compensation for exposure to risk.
 - B. Changing the asset pricing model makes the deviation to disappear.
 - C. The deviation is well known or documented.
13. Investment managers incentivized or accountable for short-term performance by current and prospective clients is a potentially rational explanation for which of the following?
- A. Home bias
 - B. Bubbles
 - C. Value stocks outperforming growth stocks
14. Momentum, can be partly explained by the following behavioral biases except:
- A. availability.
 - B. home bias.
 - C. regret.
15. All of the following are reasons that the historical outperformance of value stocks versus growth stocks may not be anomalous except:
- A. Abnormal returns represent compensation for risk exposures, such as the heightened risk of value stocks to suffer distress during downturns.
 - B. Companies with strong historical growth rates are viewed as good investments, with higher expected returns than risk characteristics merit.
 - C. The deviation disappears by incorporating a three-factor asset pricing model.

PRACTICE PROBLEMS

1. Risk management in the case of individuals is *best* described as concerned with:
 - A. hedging risk exposures.
 - B. maximizing utility while bearing a tolerable level of risk.
 - C. maximizing utility while avoiding exposure to undesirable risks.
2. Which of the following may be controlled by an investor?
 - A. Risk
 - B. Raw returns
 - C. Risk-adjusted returns
3. The process of risk management includes:
 - A. minimizing risk.
 - B. maximizing returns.
 - C. defining and measuring risks being taken.
4. The factors a risk management framework should address include all of the following *except*:
 - A. communications.
 - B. policies and processes.
 - C. names of responsible individuals.
5. Which of the following *best* describes activities that are supported by a risk management infrastructure?
 - A. Risk tolerance, budgeting, and reporting
 - B. Risk tolerance, measurement, and monitoring
 - C. Risk identification, measurement, and monitoring
6. Risk governance:
 - A. aligns risk management activities with the goals of the overall enterprise.
 - B. defines the qualitative assessment and evaluation of potential sources of risk in an organization.
 - C. delegates responsibility for risk management to all levels of the organization's hierarchy.
7. Effective risk governance in an enterprise provides guidance on all of the following *except*:
 - A. unacceptable risks.
 - B. worst losses that may be tolerated.

- C. specific methods to mitigate risk for each subsidiary in the enterprise.
8. A firm's risk management committee would be expected to do all of the following *except*:
- A. approving the governing body's proposed risk policies.
 - B. deliberating the governing body's risk policies at the operational level.
 - C. providing top decision-makers with a forum for considering risk management issues.
9. Once an enterprise's risk tolerance is determined, the role of risk management is to:
- A. analyze risk drivers.
 - B. align risk exposures with risk appetite.
 - C. identify the extent to which the enterprise is willing to fail in meeting its objectives.
10. Which factor should *most* affect a company's ability to tolerate risk?
- A. A stable market environment
 - B. The beliefs of the individual board members
 - C. The ability to dynamically respond to adverse events
11. Which of the following is the correct sequence of events for risk governance and management that focuses on the entire enterprise? Establishing:
- A. risk tolerance, then risk budgeting, and then risk exposures.
 - B. risk exposures, then risk tolerance, and then risk budgeting.
 - C. risk budgeting, then risk exposures, and then risk tolerance.
12. Risk budgeting includes all of the following *except*:
- A. determining the target return.
 - B. quantifying tolerable risk by specific metrics.
 - C. allocating a portfolio by some risk characteristics of the investments.
13. A benefit of risk budgeting is that it:
- A. considers risk tradeoffs.
 - B. establishes a firm's risk tolerance.
 - C. reduces uncertainty facing the firm.
14. Which of the following risks is *best* described as a financial risk?
- A. Credit
 - B. Solvency
 - C. Operational

15. Liquidity risk is *most* associated with:

- A. the probability of default.
- B. a widening bid–ask spread.
- C. a poorly functioning market.

16. An example of a non-financial risk is:

- A. market risk.
- B. liquidity risk.
- C. settlement risk.

17. If a company has a one-day 5% Value at Risk of \$1 million, this means:

- A. 5% of the time the firm is expected to lose at least \$1 million in one day.
- B. 95% of the time the firm is expected to lose at least \$1 million in one day.
- C. 5% of the time the firm is expected to lose no more than \$1 million in one day.

18. An organization choosing to accept a risk exposure may:

- A. buy insurance.
- B. enter into a derivative contract.
- C. establish a reserve fund to cover losses.

19. The choice of risk-modification method is based on:

- A. minimizing risk at the lowest cost.
- B. maximizing returns at the lowest cost.
- C. weighing costs versus benefits in light of the organization's risk tolerance.

PRACTICE PROBLEMS

1. Technical analysis relies most importantly on:
 - A. price and volume data.
 - B. accurate financial statements.
 - C. fundamental analysis to confirm conclusions.
2. Which of the following is *not* an assumption of technical analysis?
 - A. Security markets are efficient.
 - B. The security under analysis is freely traded.
 - C. Market trends and patterns tend to repeat themselves.
3. Drawbacks of technical analysis include which of the following?
 - A. It identifies changes in trends only after the fact.
 - B. Deviations from intrinsic value can persist for long periods.
 - C. It usually requires detailed knowledge of the financial instrument under analysis.
4. Why is technical analysis especially useful in the analysis of commodities and currencies?
 - A. Valuation models cannot be used to determine fundamental intrinsic value for these securities.
 - B. Government regulators are more likely to intervene in these markets.
 - C. These types of securities display clearer trends than equities and bonds do.
5. Technical analysis is a form of security analysis that:
 - A. assesses past price action to project future prices.
 - B. requires in-depth knowledge of financial instruments.
 - C. is ineffective when evaluating long-term price movements.
6. One principle of technical analysis is that a security's price:
 - A. tends to move in a random fashion.
 - B. moves in patterns that tend to reoccur.
 - C. does not reflect all known factor information relating to the security.
7. A daily bar chart provides:
 - A. a logarithmically scaled horizontal axis.
 - B. a horizontal axis that represents changes in price.
 - C. high and low prices during the day and the day's opening and closing prices.

8. A candlestick chart is similar to a bar chart *except* that the candlestick chart:
- A. represents upward movements in price with X's.
 - B. also graphically shows the range of the period's highs and lows.
 - C. has a body that is light or dark depending on whether the security closed higher or lower than its open.
9. In a candlestick chart, a shaded candlestick body indicates that the opening price was:
- A. equal to the closing price.
 - B. lower than the closing price.
 - C. higher than the closing price.
10. A chart constructed with a single data point per time interval is a:
- A. bar chart.
 - B. line chart.
 - C. candlestick chart.
11. In constructing a chart, using a logarithmic scale on the vertical axis is likely to be *most useful* for which of the following applications?
- A. The price of gold for the past 100 years.
 - B. The share price of a company over the past month.
 - C. Yields on 10-year US Treasuries for the past 5 years.
12. A linear price scale is:
- A. inappropriate for a candlestick chart.
 - B. better suited for analysis of short-term price movements.
 - C. constructed with equal vertical distances corresponding to an equal percentage price change.
13. Relative strength analysis typically compares the performance of an asset with that of a benchmark or other security using a:
- A. bar chart that reflects the two assets' price history.
 - B. line chart that reflects the ratio of the two assets' prices.
 - C. candlestick chart that reflects ratios measuring the magnitude of each asset's up days versus down days.
14. In analyzing a price chart, high or increasing volume *most likely* indicates which of the following?
- A. Predicts a reversal in the price trend.
 - B. Predicts that a trendless period will follow.
 - C. Confirms a rising or declining trend in prices.

15. A downtrend line is constructed by drawing a line connecting:
- the lows of the price chart.
 - the highs of the price chart.
 - the highest high to the lowest low of the price chart.
16. Exhibit 1 depicts ABC Co., Ltd., ordinary shares, traded on the Shenzhen Stock Exchange, for the months of November through September in renminbi (RMB).

Exhibit 1: Candlestick Chart: ABC Co., Ltd. Price Data, November–September (Price Measured in RMB × 10)

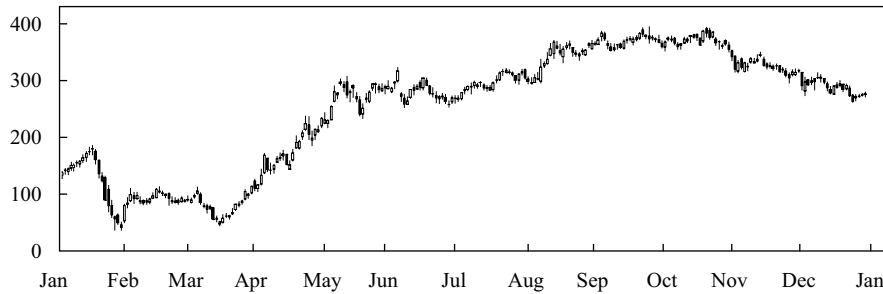


Based on Exhibit 1, the uptrend was *most likely* broken at a price level nearest to:

- 7 RMB.
 - 8.5 RMB.
 - 10 RMB.
17. The “change in polarity” principle states which of the following?
- Once an uptrend is broken, it becomes a downtrend.
 - Once a resistance level is breached, it becomes a support level.
 - The short-term moving average has crossed over the longer-term moving average.
18. Exhibit 2 depicts XYZ Co. ordinary shares, traded on the London Stock Ex-

change, in British pence.

Exhibit 2: Candlestick Chart: XYZ Co. Price Data, January–January (Price Measured in British Pence)



Based on Exhibit 2, Barclays appears to show resistance at a level nearest to:

- A. 50p.
 - B. 275p.
 - C. 390p.
19. When a security is not trending, it is considered to be in a:
- A. breakout.
 - B. retracement.
 - C. consolidation.
20. A technical analyst who observes a downtrending security break out of a consolidation range on the downside will *most likely* predict that the downtrend will:
- A. resume.
 - B. reverse trend with an upside breakout.
 - C. retrace back to the consolidation range.
21. Which of the following statements regarding technical support and resistance is correct?
- A. A breached support level becomes a new level of resistance.
 - B. Support is a price range where selling activity is sufficient to stop a rise in price.
 - C. Resistance is a price range where buying activity is sufficient to stop a decline in price.
22. Exhibit 3 depicts DGF Company common shares, traded on the New York Stock

Exchange, for five years in US dollars.

Exhibit 3: Candlestick Chart: DGF Company, five years, February–February

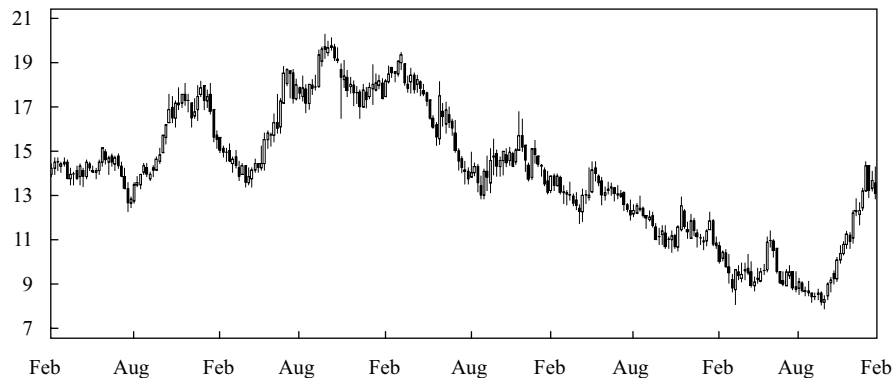


Exhibit 3 illustrates *most* clearly which type of pattern?

- A. Triangle.
 - B. Triple top.
 - C. Head and shoulders.
23. A triangle chart pattern that indicates a consolidation period and has bullish trading implications would *most likely* be classified as a(n):
- A. ascending triangle.
 - B. descending triangle.
 - C. symmetrical triangle.
24. In an inverted head and shoulders pattern, if the neckline is at €100, the shoulders at €90, and the head at €75, the price target is *closest* to which of the following?
- A. €50.
 - B. €110.
 - C. €125.
25. Which of the following chart patterns signals the end of an uptrend in price?
- A. Bearish rectangle
 - B. Head and shoulders
 - C. Symmetrical triangle
26. An inverse head and shoulders acts as a reversal pattern for a preceding:
- A. uptrend.
 - B. downtrend.

- C. consolidation.
27. A fully formed head and shoulders pattern is *most likely* an indicator to:
- A. buy.
 - B. sell.
 - C. hold.
28. To profit from a head and shoulders formation, a technician often sets a price target below the neckline price by an increment equal to the:
- A. head minus neckline.
 - B. head minus top of right shoulder.
 - C. top of right shoulder minus neckline.
29. A “healthy correction” chart pattern:
- A. is classified as a type of reversal pattern.
 - B. does not change long-term price trends since supply and demand remain in balance.
 - C. is formed when the price reaches a low, rebounds, and then sells off back to the first low level.
30. Which of the following is a continuation pattern?
- A. Triangle.
 - B. Triple top.
 - C. Head and shoulders.
31. Which of the following is a reversal pattern?
- A. Pennant.
 - B. Rectangle.
 - C. Double bottom.
32. Which of the following is generally true of the head and shoulders pattern?
- A. Volume is important in interpreting the data.
 - B. The neckline, once breached, becomes a support level.
 - C. Head and shoulders patterns are generally followed by an uptrend in the security’s price.
33. If the 5-day moving average for AZB Company crossed over its 60-day moving average from underneath, it would be considered a:
- A. bullish indicator.
 - B. bearish indicator.
 - C. new level of resistance.

34. A trader observes that the 50-day moving average for the S&P 500 Index recently crossed below its long-term 200-day moving average. This situation is referred to as a:
- A. death cross.
 - B. golden cross.
 - C. Bollinger Band.
35. Bollinger Bands are constructed by plotting:
- A. a MACD line and a signal line.
 - B. a moving-average line with an uptrend line above and downtrend line below.
 - C. a moving-average line with upper and lower lines that are at a set number of standard deviations apart.
36. A Bollinger Band “squeeze” occurs when volatility:
- A. falls to low levels as the Bollinger Band widens.
 - B. falls to low levels as the Bollinger Band narrows.
 - C. rises to high levels as the Bollinger Band narrows.
37. Which of the following is *not* a momentum oscillator?
- A. MACD.
 - B. Stochastic oscillator.
 - C. Bollinger Bands.
38. Intermarket analysis focuses on the:
- A. valuation drivers of intermarket asset price relationships.
 - B. bottom-up economic fundamentals of intermarket relationships.
 - C. identification of inflection points in intermarket relationships using relative strength indicators.
39. A technical analyst following a bottom-up investing approach focusing on momentum and breakout strategies should favor long positions in stocks with:
- A. shorter consolidation periods.
 - B. high Bollinger Band readings.
 - C. low volatility prior to an upside breakout.

PRACTICE PROBLEMS

1. A correct description of fintech is that it:
 - A. is driven by rapid growth in data and related technological advances.
 - B. increases the need for intermediaries.
 - C. is at its most advanced state using systems that follow specified rules and instructions.
2. A characteristic of Big Data is that:
 - A. one of its traditional sources is business processes.
 - B. it involves formats with diverse structures.
 - C. real-time communication of it is uncommon due to vast content.
3. In the use of ML:
 - A. some techniques are termed “black box” due to data biases.
 - B. human judgment is not needed because algorithms continuously learn from data.
 - C. training data can be learned too precisely, resulting in inaccurate predictions when used with different datasets.
4. Text analytics is appropriate for application to:
 - A. economic trend analysis.
 - B. large, structured datasets.
 - C. public but not private information.
5. In providing investment services, robo-advisers are *most likely* to:
 - A. rely on their cost effectiveness to pursue active strategies.
 - B. offer fairly conservative advice as easily accessible guidance.
 - C. be free from regulation when acting as fully automated wealth managers.
6. Which of the following statements on fintech’s use of data as part of risk analysis is correct?
 - A. Stress testing requires precise inputs and excludes qualitative data.
 - B. ML ensures that traditional and alternative data are fully segregated.
 - C. For real-time risk monitoring, data can be aggregated for reporting and used as model inputs.
7. A factor associated with the widespread adoption of algorithmic trading is increased:
 - A. market efficiency.

- B.** average trade sizes.
 - C.** trading destinations.
8. A benefit of DLT favoring its use by the investment industry is its:
- A.** scalability of underlying systems.
 - B.** ease of integration with existing systems.
 - C.** streamlining of current post-trade processes.
9. What is a DLT application suited for physical assets?
- A.** Tokenization
 - B.** Cryptocurrencies
 - C.** Permissioned networks

Ethical and Professional Standards

PRACTICE PROBLEMS

1. Benchmarks for minimally acceptable behaviors of community members are:
 - A. a code of ethics.
 - B. laws and regulations.
 - C. standards of conduct.
2. Specialized knowledge and skills, a commitment to serve others, and a shared code of ethics *best* characterize a(n):
 - A. vocation.
 - B. profession.
 - C. occupation.
3. 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.
4. High ethical standards are distinguishing features of which of the following bodies?
 - A. Craft guilds
 - B. Trade bodies
 - C. Professional bodies
5. Fiduciary duty is a standard *most likely* to be upheld by members of a(n):
 - A. employer.
 - B. profession.
 - C. not-for-profit body.
6. 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
7. 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.
8. 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.
9. To maintain trust, the investment management profession must be interdependent with:
- A. regulators.
 - B. employers.
 - C. investment firms.
10. 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
11. An ethical decision-making framework will *most likely*:
- A. include a pre-determined, uniform sequence.
 - B. focus exclusively on confirmable facts and relationships.
 - C. help avoid a decision that has unanticipated ethical consequences.
12. When an ethical dilemma occurs, an investment professional should *most likely* first raise the issue with a:
- A. mentor outside the firm.
 - B. professional body's hotline.
 - C. senior individual in the firm.

PRACTICE PROBLEMS

1. The Standards of Practice Handbook provides guidance:
 - A. regarding the penalties incurred as a result of ethical violations.
 - B. to which all CFA Institute members and candidates must adhere.
 - C. through explanatory material and examples intended to be all inclusive.
2. Which of the following statements *best* describes an aspect of the Professional Conduct Program process?
 - A. Inquiries are not initiated in response to information provided by the media.
 - B. Investigations result in Disciplinary Review Committee panels for each case.
 - C. Investigations may include requesting a written explanation from the member or candidate.
3. A current Code of Ethics principle reads in full, "Promote the integrity:
 - A. and viability of the global capital markets."
 - B. of and uphold the rules governing capital markets."
 - C. and viability of the global capital markets for the ultimate benefit of society."
4. As stated in the revised 11th edition, the Standards of Professional Conduct:
 - A. require supervisors to focus on the detection and prevention of violations.
 - B. adopt separate ethical considerations for programs such as CIPM and Investment Foundations.
 - C. address the risks and limitations of recommendations being made to clients.
5. According to the Code of Ethics, members of CFA Institute and candidates for the CFA designation must:
 - A. maintain their professional competence to exercise independent professional judgment.
 - B. place the integrity of the investment profession and the interests of clients above their own personal interests.
 - C. practice in a professional and ethical manner with the public, clients, and others in the global capital markets.
6. Which of the following statements *best* describes an aspect of the Standards of Professional Conduct? Members and candidates are required to:
 - A. ensure any portfolio mandate followed is fair, accurate, and complete.
 - B. promptly disclose changes that might materially affect investment processes.
 - C. have a reasonable and adequate basis for decisions about client confidentiality.

7. Which of the following responses most completely represents an ethical principle of CFA Institute as outlined in the *Standards of Practice Handbook*?
- A. Individual professionalism
 - B. Responsibilities to clients and employers
 - C. Ethics involved in investment analysis and recommendations
8. A CFA Institute member would violate the standard for material nonpublic information by:
- A. conducting price distortion practices.
 - B. inappropriately causing others to act.
 - C. inadequately maintaining investment records.
9. According to the Duties to Clients standard, suitability requires members and candidates in an advisory relationship with a client to:
- A. place their clients' interests before their own interests.
 - B. consider investments in the context of the client's total portfolio.
 - C. not knowingly make misrepresentations relating to recommendations.
10. As part of the Duties to Clients standard, members and candidates must:
- A. document client financial constraints after an initial investment action.
 - B. maintain an equal balance of interests owed to their clients and employers.
 - C. deal fairly and objectively with all clients when engaging in professional activities.
11. The Duties to Employers standard states that members and candidates must not:
- A. accept any gifts that might compromise their independence and objectivity.
 - B. deprive their employer of their skills and abilities as related to their employment.
 - C. accept compensation competing with their employer's interest and with the written consent of all parties involved.
12. The Investment Analysis, Recommendations, and Actions standard states that members and candidates must:
- A. find an investment suitable for their client before making a recommendation.
 - B. make reasonable efforts to ensure that performance presentation is fair, accurate, and complete.
 - C. distinguish between fact and opinion in the presentation of investment analysis and recommendations.

13. Based on the Conflicts of Interest standard, members and candidates must:
- A. disclose, as required by law, those conflicts interfering with their professional duties.
 - B. disclose, as appropriate, any benefit paid to others for the recommendation of products.
 - C. seek employer approval before prioritizing their investment transactions over those clients.
14. The Responsibilities as a CFA Institute Member or CFA Candidate Standard explicitly states a requirement regarding:
- A. loyalty.
 - B. responsibility of supervisors.
 - C. reference to the CFA Program.

PRACTICE PROBLEMS

Unless otherwise stated in the question, all individuals in the following questions are CFA Institute members or candidates in the CFA Program and, therefore, are subject to the CFA Institute Code of Ethics and Standards of Professional Conduct.

1. Smith, a research analyst with a brokerage firm, decides to change his recommendation for the common stock of Green Company, Inc., from a “buy” to a “sell.” He mails this change in investment advice to all the firm’s clients on Wednesday. The day after the mailing, a client calls with a buy order for 500 shares of Green Company. In this circumstance, Smith should:
 - A. Accept the order.
 - B. Advise the customer of the change in recommendation before accepting the order.
 - C. Not accept the order because it is contrary to the firm’s recommendation.
2. Which statement about a manager’s use of client brokerage commissions violates the Code and Standards?
 - A. A client may direct a manager to use that client’s brokerage commissions to purchase goods and services for that client.
 - B. Client brokerage commissions should be used to benefit the client and should be commensurate with the value of the brokerage and research services received.
 - C. Client brokerage commissions may be directed to pay for the investment manager’s operating expenses.
3. Jamison is a junior research analyst with Howard & Howard, a brokerage and investment banking firm. Howard & Howard’s mergers and acquisitions department has represented the Britland Company in all of its acquisitions for the past 20 years. Two of Howard & Howard’s senior officers are directors of various Britland subsidiaries. Jamison has been asked to write a research report on Britland. What is the best course of action for her to follow?
 - A. Jamison may write the report but must refrain from expressing any opinions because of the special relationships between the two companies.
 - B. Jamison should not write the report because the two Howard & Howard officers serve as directors for subsidiaries of Britland.
 - C. Jamison may write the report if she discloses the special relationships with the company in the report.
4. Which of the following statements clearly *conflicts* with the recommended procedures for compliance presented in the CFA Institute *Standards of Practice Handbook*?
 - A. Firms should disclose to clients the personal investing policies and procedures established for their employees.

- B. Prior approval must be obtained for the personal investment transactions of all employees.
 - C. For confidentiality reasons, personal transactions and holdings should not be reported to employers unless mandated by regulatory organizations.
- 5. Bronson provides investment advice to the board of trustees of a private university endowment fund. The trustees have provided Bronson with the fund's financial information, including planned expenditures. Bronson receives a phone call on Friday afternoon from Murdock, a prominent alumnus, requesting that Bronson fax him comprehensive financial information about the fund. According to Murdock, he has a potential contributor but needs the information that day to close the deal and cannot contact any of the trustees. Based on the CFA Institute Standards, Bronson should:
 - A. Send Murdock the information because disclosure would benefit the client.
 - B. Not send Murdock the information to preserve confidentiality.
 - C. Send Murdock the information, provided Bronson promptly notifies the trustees.
- 6. Willier is the research analyst responsible for following Company X. All the information he has accumulated and documented suggests that the outlook for the company's new products is poor, so the stock should be rated a weak "hold." During lunch, however, Willier overhears a financial analyst from another firm whom he respects offer opinions that conflict with Willier's forecasts and expectations. Upon returning to his office, Willier releases a strong "buy" recommendation to the public. Willier:
 - A. Violated the Standards by failing to distinguish between facts and opinions in his recommendation.
 - B. Violated the Standards because he did not have a reasonable and adequate basis for his recommendation.
 - C. Was in full compliance with the Standards.
- 7. 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.
- 8. Albert and Tye, who recently started their own investment advisory business, have registered to take the Level III CFA examination. Albert's business card reads, "Judy Albert, CFA Level II." Tye has not put anything about the CFA designation on his business card, but promotional material that he designed for the business describes the CFA requirements and indicates that Tye participates in

the CFA Program and has completed Levels I and II. According to the Standards:

- A. Albert has violated the Standards, but Tye has not.
 - B. Tye has violated the Standards, but Albert has not.
 - C. Both Albert and Tye have violated the Standards.
9. Scott works for a regional brokerage firm. He estimates that Walkton Industries will increase its dividend by US\$1.50 a share during the next year. He realizes that this increase is contingent on pending legislation that would, if enacted, give Walkton a substantial tax break. The US representative for Walkton's home district has told Scott that, although she is lobbying hard for the bill and prospects for its passage are favorable, concern of the US Congress over the federal deficit could cause the tax bill to be voted down. Walkton Industries has not made any statements about a change in dividend policy. Scott writes in his research report, "We expect Walkton's stock price to rise by at least US\$8.00 a share by the end of the year because the dividend will increase by US\$1.50 a share. Investors buying the stock at the current time should expect to realize a total return of at least 15% on the stock." According to the Standards:
- A. Scott violated the Standards because he used material inside information.
 - B. Scott violated the Standards because he failed to separate opinion from fact.
 - C. Scott violated the Standards by basing his research on uncertain predictions of future government action.
10. Which one of the following actions will help to ensure the fair treatment of brokerage firm clients when a new investment recommendation is made?
- A. Informing all people in the firm in advance that a recommendation is to be disseminated.
 - B. Distributing recommendations to institutional clients prior to individual accounts.
 - C. Minimizing the time between the decision and the dissemination of a recommendation.
11. 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 nonmaterial nonpublic information in the analyst's analysis.
 - C. Should use all available and relevant information in support of an investment recommendation.
12. Jurgen is a portfolio manager. One of her firm's clients has told Jurgen that he will compensate her beyond the compensation provided by her firm on the basis of the capital appreciation of his portfolio each year. Jurgen should:
- A. Turn down the additional compensation because it will result in conflicts with the interests of other clients' accounts.
 - B. Turn down the additional compensation because it will create undue pressure on her to achieve strong short-term performance.

- C. Obtain permission from her employer prior to accepting the compensation arrangement.
13. One of the discretionary accounts managed by Farnsworth is the Jones Corporation employee profit-sharing plan. Jones, the company president, recently asked Farnsworth to vote the shares in the profit-sharing plan in favor of the slate of directors nominated by Jones Corporation and against the directors sponsored by a dissident stockholder group. Farnsworth does not want to lose this account because he directs all the account's trades to a brokerage firm that provides Farnsworth with useful information about tax-free investments. Although this information is not of value in managing the Jones Corporation account, it does help in managing several other accounts. The brokerage firm providing this information also offers the lowest commissions for trades and provides best execution. Farnsworth investigates the director issue, concludes that the management-nominated slate is better for the long-run performance of the company than the dissident group's slate, and votes accordingly. Farnsworth:
- A. Violated the Standards in voting the shares in the manner requested by Jones but not in directing trades to the brokerage firm.
 - B. Did not violate the Standards in voting the shares in the manner requested by Jones or in directing trades to the brokerage firm.
 - C. Violated the Standards in directing trades to the brokerage firm but not in voting the shares as requested by Jones.
14. Brown works for an investment counseling firm. Green, a new client of the firm, is meeting with Brown for the first time. Green used another counseling firm for financial advice for years, but she has switched her account to Brown's firm. After spending a few minutes getting acquainted, Brown explains to Green that she has discovered a highly undervalued stock that offers large potential gains. She recommends that Green purchase the stock. Brown has committed a violation of the Standards. What should she have done differently?
- A. Brown should have determined Green's needs, objectives, and tolerance for risk before making a recommendation of any type of security.
 - B. Brown should have thoroughly explained the characteristics of the company to Green, including the characteristics of the industry in which the company operates.
 - C. Brown should have explained her qualifications, including her education, training, and experience and the meaning of the CFA designation.
15. 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.
16. Anderb, a portfolio manager for XYZ Investment Management Company—a registered investment organization that advises investment firms and private accounts—was promoted to that position three years ago. Bates, her supervisor, is responsible for reviewing Anderb’s portfolio account transactions and her required monthly reports of personal stock transactions. Anderb has been using Jonelli, a broker, almost exclusively for brokerage transactions for the portfolio account. For securities in which Jonelli’s firm makes a market, Jonelli has been giving Anderb lower prices for personal purchases and higher prices for personal sales than Jonelli gives to Anderb’s portfolio accounts and other investors. Anderb has been filing monthly reports with Bates only for those months in which she has no personal transactions, which is about every fourth month. Which of the following is *most likely* to be a violation of the Code and Standards?
- A. Anderb failed to disclose to her employer her personal transactions.
 - B. Anderb owned the same securities as those of her clients.
 - C. Bates allowed Anderb to use Jonelli as her broker for personal trades.
17. 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.
18. 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.
19. Which of the following statements is *correct* under the Code and Standards?
- A. CFA Institute members and candidates are prohibited from undertaking independent practice in competition with their employer.
 - B. Written consent from the employer is necessary to permit independent practice that could result in compensation or other benefits in competition with a member’s or candidate’s employer.

- C. Members and candidates are prohibited from making arrangements or preparations to go into a competitive business before terminating their relationship with their employer.
20. Smith is a financial analyst with XYZ Brokerage Firm. She is preparing a purchase recommendation on JNI Corporation. Which of the following situations is *most likely* to represent a conflict of interest for Smith that would have to be disclosed?
- A. Smith frequently purchases items produced by JNI.
 - B. XYZ holds for its own account a substantial common stock position in JNI.
 - C. Smith's brother-in-law is a supplier to JNI.
21. 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.
22. 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.
23. Stewart has been hired by Goodner Industries, Inc., to manage its pension fund. Stewart's duty of loyalty, prudence, and care is owed to:
- A. The management of Goodner.
 - B. The participants and beneficiaries of Goodner's pension plan.
 - C. The shareholders of Goodner.
24. Which of the following statements is a stated purpose of disclosure in Standard

VI(C)–Referral Fees?

- A. Disclosure will allow the client to request discounted service fees.
 - B. Disclosure will help the client evaluate any possible partiality shown in the recommendation of services.
 - C. Disclosure means advising a prospective client about the referral arrangement once a formal client relationship has been established.
25. Rose, a portfolio manager for a local investment advisory firm, is planning to sell a portion of his personal investment portfolio to cover the costs of his child's academic tuition. Rose wants to sell a portion of his holdings in Household Products, but his firm recently upgraded the stock to "strong buy." Which of the following describes Rose's options under the Code and Standards?
- A. Based on his firm's "buy" recommendation, Rose cannot sell the shares because he would be improperly prospering from the inflated recommendation.
 - B. Rose is free to sell his personal holdings once his firm is properly informed of his intentions.
 - C. Rose can sell his personal holdings but only when a client of the firm places an order to buy shares of Household.
26. A former hedge fund manager, Jackman, has decided to launch a new private wealth management firm. From his prior experiences, he believes the new firm needs to achieve US\$1 million in assets under management in the first year. Jackman offers a \$10,000 incentive to any adviser who joins his firm with the minimum of \$200,000 in committed investments. Jackman places notice of the opening on several industry web portals and career search sites. Which of the following is *correct* according to the Code and Standards?
- A. A member or candidate is eligible for the new position and incentive if he or she can arrange for enough current clients to switch to the new firm and if the member or candidate discloses the incentive fee.
 - B. A member or candidate may not accept employment with the new firm because Jackman's incentive offer violates the Code and Standards.
 - C. A member or candidate is not eligible for the new position unless he or she is currently unemployed because soliciting the clients of the member's or candidate's current employer is prohibited.
27. Carter works for Invest Today, a local asset management firm. A broker that provides Carter with proprietary research through client brokerage arrangements is offering a new trading service. The broker is offering low-fee, execution-only trades to complement its traditional full-service, execution-and-research trades. To entice Carter and other asset managers to send additional business its way, the broker will apply the commissions paid on the new service toward satisfying the brokerage commitment of the prior full-service arrangements. Carter has always been satisfied with the execution provided on the full-service trades, and the new low-fee trades are comparable to the fees of other brokers currently used for the accounts that prohibit soft dollar arrangements.
- A. Carter can trade for his accounts that prohibit soft dollar arrangements under the new low-fee trading scheme.

- B. Carter cannot use the new trading scheme because the commissions are prohibited by the soft dollar restrictions of the accounts.
 - C. Carter should trade only through the new low-fee scheme and should increase his trading volume to meet his required commission commitment.
28. Rule has worked as a portfolio manager for a large investment management firm for the past 10 years. Rule earned his CFA charter last year and has decided to open his own investment management firm. After leaving his current employer, Rule creates some marketing material for his new firm. He states in the material, "In earning the CFA charter, a highly regarded credential in the investment management industry, I further enhanced the portfolio management skills learned during my professional career. While completing the examination process in three consecutive years, I consistently received the highest possible scores on the topics of Ethics, Alternative Investments, and Portfolio Management." Has Rule violated Standard VII(B)—Reference to CFA Institute, the CFA Designation, and the CFA Program in his marketing material?
- A. Rule violated Standard VII(B) in stating that he completed the exams in three consecutive years.
 - B. Rule violated Standard VII(B) in stating that he received the highest scores in the topics of Ethics, Alternative Investments, and Portfolio Management.
 - C. Rule did not violate Standard VII(B).
29. Stafford is a portfolio manager for a specialized real estate mutual fund. Her firm clearly describes in the fund's prospectus its soft dollar policies. Stafford decides that entering the CFA Program will enhance her investment decision-making skill and decides to use the fund's soft dollar account to pay the registration and exam fees for the CFA Program. Which of the following statements is *most likely* correct?
- A. Stafford did not violate the Code and Standards because the prospectus informed investors of the fund's soft dollar policies.
 - B. Stafford violated the Code and Standards because improving her investment skills is not a reasonable use of the soft dollar account.
 - C. Stafford violated the Code and Standards because the CFA Program does not meet the definition of research allowed to be purchased with brokerage commissions.
30. Long has been asked to be the keynote speaker at an upcoming investment conference. The event is being hosted by one of the third-party investment managers currently used by his pension fund. The manager offers to cover all conference and travel costs for Long and make the conference registrations free for three additional members of his investment management team. To ensure that the conference obtains the best speakers, the host firm has arranged for an exclusive golf outing for the day following the conference on a local championship-caliber course. Which of the following is *least likely* to violate Standard I(B)?
- A. Long may accept only the offer to have his conference-related expenses paid by the host firm.
 - B. Long may accept the offer to have his conference-related expenses paid and may attend the exclusive golf outing at the expense of the hosting firm.

- C. Long may accept the entire package of incentives offered to speak at this conference.
31. 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 following 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.
32. Pietro, president of Local Bank, has hired the bank's market maker, Vogt, to seek a merger partner. Local is currently 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.
33. ABC Investment Management acquires a new, very large account with two concentrated positions. The firm's current policy is to add new accounts for the purpose of performance calculation after the first full month of management. Cupp is responsible for calculating the firm's performance returns. Before the end of the initial month, Cupp notices that one of the significant holdings of the new accounts is acquired by another company, causing the value of the investment to double. Because of this holding, Cupp decides to account for the new portfolio as of the date of transfer, thereby allowing ABC Investment to reap the positive impact of that month's portfolio return.
- A. Cupp did not violate the Code and Standards because the GIPS standards allow composites to be updated on the date of large external cash flows.
 - B. Cupp did not violate the Code and Standards because companies are allowed to determine when to incorporate new accounts into their composite calculation.

- C. Cupp violated the Code and Standards because the inclusion of the new account produces an inaccurate calculation of the monthly results according to the firm's stated policies.
34. Cannan has been working from home on weekends and occasionally saves correspondence with clients and completed work on her home computer. Because of worsening market conditions, Cannan is one of several employees released by her firm. While Cannan is looking for a new job, she uses the files she saved at home to request letters of recommendation from former clients. She also provides to prospective clients some of the reports as examples of her abilities.
- A. Cannan violated the Code and Standards because she did not receive permission from her former employer to keep or use the files after her employment ended.
- B. Cannan did not violate the Code and Standards because the files were created and saved on her own time and computer.
- C. Cannan violated the Code and Standards because she is prohibited from saving files on her home computer.
35. Quinn sat for the Level III CFA exam this past weekend. He updates his resume with the following statement: "In finishing the CFA Program, I improved my skills related to researching investments and managing portfolios. I will be eligible for the CFA charter upon completion of the required work experience."
- A. Quinn violated the Code and Standards by claiming he improved his skills through the CFA Program.
- B. Quinn violated the Code and Standards by incorrectly stating that he is eligible for the CFA charter.
- C. Quinn did not violate the Code and Standards with his resume update.
36. 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.
37. Park is very frustrated after taking her Level II exam. While she was studying for the exam, to supplement the curriculum provided, she ordered and used study material from a third-party provider. Park believes the additional material focused her attention on specific topic areas that were not tested while ignoring other areas. She posts the following statement on the provider's discussion board: "I am very dissatisfied with your firm's CFA Program Level II material. I found the exam extremely difficult and myself unprepared for specific questions after using your product. How could your service provide such limited instructional resources on the analysis of inventories and taxes when the exam had multiple

questions about them? I will not recommend your products to other candidates.”

- A. Park violated the Code and Standards by purchasing third-party review material.
 - B. Park violated the Code and Standards by providing her opinion on the difficulty of the exam.
 - C. Park violated the Code and Standards by providing specific information on topics tested on the exam.
38. Paper was recently terminated as one of a team of five managers of an equity fund. The fund had two value-focused managers and terminated one of them to reduce costs. In a letter sent to prospective employers, Paper presents, with written permission of the firm, the performance history of the fund to demonstrate his past success.
- A. Paper did not violate the Code and Standards.
 - B. Paper violated the Code and Standards by claiming the performance of the entire fund as his own.
 - C. Paper violated the Code and Standards by including the historical results of his prior employer.
39. Townsend was recently appointed to the board of directors of a youth golf program that is the local chapter of a national not-for-profit organization. The program is beginning a new fund-raising campaign to expand the number of annual scholarships it provides. Townsend believes many of her clients make annual donations to charity. The next week in her regular newsletter to all clients, she includes a small section discussing the fund-raising campaign and her position on the organization’s board.
- A. Townsend did not violate the Code and Standards.
 - B. Townsend violated the Code and Standards by soliciting donations from her clients through the newsletter.
 - C. Townsend violated the Code and Standards by not getting approval of the organization before soliciting her clients.

PRACTICE PROBLEMS

1. A firm that does not adopt the GIPS standards could mischaracterize its overall performance by presenting a performance history:
 - A. that includes terminated portfolios.
 - B. composed of a single top-performing portfolio.
 - C. for an investment mandate over all periods since the firm's inception.
2. Which of the following statements regarding GIPS compliance is correct?
 - A. Asset owners that manage assets can claim compliance with the GIPS standards.
 - B. Software that calculates performance in a manner consistent with the GIPS standards can claim compliance with the GIPS standards.
 - C. Firms can comply with the GIPS standards by limiting their compliance claims to the provisions they have chosen to follow.
3. Each composite of a GIPS-compliant firm must consist of:
 - A. multiple portfolios.
 - B. portfolios selected on an *ex post* basis.
 - C. portfolios managed according to a similar investment mandate, objective, or strategy.
4. Verification:
 - A. must be performed on a firm-wide basis.
 - B. may be provided by the firm's compliance department.
 - C. ensures the accuracy of a specific composite presentation.
5. Which of the following *cannot* claim compliance with the GIPS standards?
 - A. Investment management firms
 - B. Software vendors
 - C. Private pension funds
6. Which of the following is an abusive practice that the GIPS standards were designed to avoid?
 - A. Presenting performance results that include terminated portfolios
 - B. Comparing performance results with an appropriate benchmark
 - C. Presenting performance results for select time periods
7. The process of testing a firm or asset owner that claims compliance with the

GIPS standards is referred to as a:

- A. verification.
 - B. validation.
 - C. certification.
8. Firms that claim compliance with the GIPS standards are required to receive a verification:
- A. before the firm can initially claim compliance.
 - B. after the firm has claimed compliance for 12 months.
 - C. never; verification is not required.
9. Which of the following is not a commonly perceived benefit of the GIPS standards?
- A. Comparability of results across managers that claim compliance
 - B. Adherence to regulatory requirements
 - C. Increased confidence by investors and beneficiaries
10. When defining the firm, the GIPS standards recommend that firms should:
- A. adopt the narrowest, most relevant definition of the firm.
 - B. adopt the broadest, most meaningful definition of the firm.
 - C. exclude offices operating under different brand names.
11. A composite return reflects the performance of:
- A. all portfolios managed by the firm, regardless of investment strategy.
 - B. all discretionary portfolios that meet the composite definition.
 - C. all discretionary and non-discretionary portfolios that meet the composite definition.