Question #1 of 42

Question ID: 1469273

In securing the shares for all accounts under her management, Linda Kammel of Northwest Futures purchased three blocks of shares at three different prices. She then allocated these shares by placing shares from the first block in accounts with surnames beginning with A-G. The second was allocated over accounts H-P, and the third over Q-Z. This action is:

A) consistent with her responsibilities under the Code and Standards. ✗

B) not permissible under the Code and Standards. ✓

C) permissible only if the clients are informed of the allocation procedure. ✗

Explanation

Standard III(B) requires a member to deal fairly with all clients when taking investment actions. Since she knew at the outset that she was going to place shares in all accounts, regardless of the first letter of the surname, all accounts must participate on a pro-rata basis in each block in order to conform to the Standard. Her actions constitute a violation of the Standard concerning fair dealing.

Question #2 of 42

Question ID: 1459325

Concerning Standard III(B), Fair Dealing, which of the following actions is NOT a valid procedure for compliance with the Standard?

A) Communicate investment recommendations simultaneously within the firm and to customers, where possible. ✗

B) Communicate investment recommendations to all customers including those accounts for which the securities are not eligible for purchase. ✓

C) Limit the number of people that are involved and are privy to the fact that an investment recommendation is going to be disseminated. ✗

Explanation

To ensure compliance with the Standard, members should seek to communicate investment recommendations to all clients who have indicated an interest and also those for whom the securities are suitable. There is no need to communicate recommendations to clients for whom the securities are deemed unsuitable.

(Module 71.4, LOS 71: III(B))

Question #3 of 42

Question ID: 1459313

While trading on behalf of a pension account, an analyst receives special research reports from the brokerage firm with whom she is doing the trades. Such an activity is:

A) a violation of both Standard III(A), Loyalty, Prudence, and Care, and the Code of Ethics.

B) a violation of only The Code of Ethics.

C) not in itself a violation of Standard III(A), Loyalty, Prudence, and Care, nor the Code of Ethics.

Explanation

An analyst can receive research from a brokerage firm with whom she is trading on behalf of a client. The analyst should inform the client of the arrangement. The analyst is more likely to violate Standard III(A) by obtaining non-research services or, worse yet, personal benefits from the brokerage firm.

(Module 71.4, LOS 71: III(A))

Question #4 of 42

Question ID: 1469261

Sharon Pope has been asked by the Chief Investment Officer to develop a firm-wide policy for proxy voting. Which of the following would NOT be acceptable to include in the policy statement?

A) Portfolio managers of active funds must vote in all proxies; portfolio managers of index funds should vote only when they have a definitive opinion.

B) The value of proxy voting must be maximized.

C) Voting proxies may not be necessary in all instances.

Explanation

Proxies for stocks in passively managed funds must also be voted. A cost-benefit analysis may show that voting all proxies may not benefit all clients.

Question #5 of 42

Question ID: 1459310

An analyst with his own money management firm trades on behalf of several large pension funds. The analyst now performs all trades through a particular brokerage firm because the brokerage provides his firm with a no-interest line of credit if paid within 60 days. The line of credit is available to all brokerage clients. The brokerage provides the analyst with personal account privileges that he would not otherwise be eligible for. The brokerage also provides the analyst with free research reports on many companies. Which of these benefits are violations of Standard III(A), Loyalty, Prudence, and Care?

A) Neither of these. ✗

B) The personal account privileges. ✓

C) The research reports. ✗

Explanation

The personal account privileges are clearly a violation. The no-interest line of credit could be a violation if the analyst does not factor in the benefits when determining the fees of the clients, but it is not a per se violation. Research reports are least likely to be a violation.

(Module 71.4, LOS 71: III(A))

Question #6 of 42

Question ID: 1469266

Which of the following statements about a member's use of client brokerage commissions is NOT correct? Client brokerage commissions:

A) may be directed to pay for the investment manager's operating expenses. ✓

B) should be commensurate with the value of the brokerage and research services received. ✗

C) should be used by the member to ensure that fairness to the client is maintained.

Explanation

Brokerage commissions are the property of the client and may only be used for client benefit.

Question #7 of 42

Question ID: 1459285

Alpha Advisors, Inc., is an investment management firm with a client base that ranges from individuals to large foundations. Which of the following firm policies is *least appropriate* if Alpha adopts the Code and Standards? Alpha:

A) regularly calls larger accounts first after changes in investment recommendations have been faxed to all clients.

B) monitors the personal trading activity of firm personnel and requires them to pre-clear personal trades.

C) excludes client accounts of family members of employees from participating in IPOs.

Explanation

Standard III(B) Fair Dealing requires that all clients be treated fairly. Members and candidates should not discriminate against any client. A family member who is a fee-paying client should not be treated differently from other clients when taking investment action. Following up changes in recommendations with phone calls to larger clients is not a violation of the Standard if the changes have been disseminated fairly.

(Module 71.4, LOS 71.b)

Question #8 of 42

Question ID: 1459305

Bertha Mader, CFA, received proxy material related to a hostile takeover attempt of Danube Industries by Balnet Company. She holds shares of Danube in most of her client accounts. Mader has a high opinion of Danube's management because they have run the company successfully and have always responded directly and honestly to her inquiries. She is not acquainted with Balnet's management team but knows they have a reputation for improving the bottom line at the companies they acquire, partly because they tend to replace upper management at their targets and assume their functions. Balnet's offer is 60% higher than the price of Danube shares before the announcement. Danube's management has contacted Mader and requested that she vote the shares she controls against the takeover because the management is concerned for their jobs and for the welfare of the company. To comply with the Code and Standards, Mader should:

A) delegate her proxy vote to another member of her firm due to the conflict of interest created when she was contacted by management. ✗

B) vote for the takeover if it is in the best interest of Danube's shareholders, regardless of the consequences to current management. ✓

C) vote for the takeover if she can get assurance that Danube's management team will remain in place. ✗

Explanation

Standard III(A), Loyalty, Prudence, and Care, requires that members act for the benefit of their clients. Mader's duty is to her clients, who are shareholders of Danube. She has no duty to Danube's management, nor to the company itself, and must vote the shares accordingly.

(Module 71.4, LOS 71: III(A))

Question #9 of 42

Question ID: 1451339

According to Standard III(A) Loyalty, Prudence and Care, brokerage is an asset of the:

A) managing firm. ✗

B) client. ✓

C) brokerage firm conducting the trades. ✗

Explanation

Brokerage is an asset of the client.

Question #10 of 42

Question ID: 1459287

Art Dodd, CFA, is a registered representative with Owens Securities. He is currently in a dispute with one client, Madge Phillips, about a limit order for her account that she feels was entered incorrectly, resulting in a loss (in her opinion) of $500. Dodd has 1,000 shares of an oversubscribed new issue to allocate to clients. He suggests to Phillips that he will give her 250 shares of this allocation to make up for the supposed trade error. Further, he offers to buy her dinner at a nice restaurant. According to the Standards of Practice, Dodd has *most likely* violated the Standard concerning:

A) misconduct.

B) additional compensation.

C) fair dealing.

Explanation

Dodd has most likely violated Standard III(B) Fair Dealing by giving Phillips an overgenerous allocation of the oversubscribed ("hot") new issue. The problem is not that he is offering compensation to a client to resolve a dispute but that by overallocating the IPO shares to Phillips, he is not treating his other clients fairly. Standard III(B) Fair Dealing requires that members and candidates not use shares of hot issues as an incentive to achieve a reward or benefit. The benefit in this case is that the dispute will be resolved. Dodd's actions do not exhibit any dishonesty that would violate Standard I(D) Misconduct, and Dodd is not receiving any additional compensation.

(Module 71.4, LOS 71.b)

Question #11 of 42

Question ID: 1451352

Which of the following would be a violation of Standard III(B), Fair Dealing?

A) Trading for regular accounts before discretionary accounts.

B) Limiting the number of employees privy to recommendations and changes.

C) Having well defined guidelines for pre-dissemination.

Explanation

Do not discriminate against a client when disseminating investment recommendations. If the firm offers different levels of service, this fact must be offered and disclosed to all clients. The other choices are necessary parts of the Standard. The Standard actually says to have published personal guidelines for pre-dissemination, which implies that the guidelines be well-defined.

Question #12 of 42

Question ID: 1459326

Which of the following statements regarding allocating trades is CORRECT? It is permissible under the Standards to allocate trades:

A) based upon any method the firm deems suitable so long as the allocation procedure has been disclosed to all clients.

B) on a pro-rata basis over all suitable accounts.

C) based upon compensation arrangements.

Explanation

It is permissible to allocate trades on a pro-rata basis over all suitable accounts. It is not permissible to base allocations upon compensation arrangements. Any method is not necessarily suitable, and disclosure does not absolve the member from ensuring that the allocation is necessarily fair.

(Module 71.4, LOS 71: III(B))

Question #13 of 42

Question ID: 1459324

Rey Sanchez, CFA, covers the specialty chemical industry for Rock Advisory Associates. Until today he has had a buy recommendation on ChemStar, and many of the firm's customers have purchased shares based upon his recommendation. The firm's client accounts are divided into two fundamental categories: trading and buy-and-hold accounts. The firm holds discretionary trading authority over the trading accounts, but not the buy-and-hold accounts. Sanchez has recently come to believe that the fundamentals are changing for the worse at ChemStar, and is preparing a sell recommendation. He calls a meeting of the firm's portfolio managers with accounts holding ChemStar and tells them of the pending release of the sell recommendation. On this basis, the portfolio managers sell all positions in the discretionary accounts but not in the buy-and-hold accounts. Sanchez completes and mails the report to all clients two days later, and, shortly thereafter, many of the buy-and-hold accounts sell their ChemStar positions. With regard to these actions, Sanchez is:

A) in violation of the Standard on Fair Dealing; the portfolio managers are in violation of the Standard on Fair Dealing.

B) in violation of the Standard on Fair Dealing; the portfolio managers are not in violation of the Standard on Fair Dealing.

C) not in violation of the Standard on Fair Dealing; the portfolio managers are in violation of the Standard on Fair Dealing.

Explanation

Sanchez is in violation of the Standard III(B), Fair Dealing, since he has disseminated his recommendation preferentially to the portfolio managers in advance of making the report available to all clients who hold shares of ChemStar. The portfolio managers are in violation of the Standard since they are effectively giving preferential treatment to the trading accounts over the buy-and-hold accounts in the placement of orders based upon the change in recommendation.

(Module 71.4, LOS 71: III(B))

Question #14 of 42

Question ID: 1459302

Chuck Hill, CFA, the financial manager of Niseron Corp., has just learned that Niseron's quarterly net income will fall well short of consensus analyst expectations. Hill decides that he should immediately notify analysts covering Niseron of this negative development. He calls two particular analysts first who have followed Niseron stock for several years and have alerted Hill to important developments at competing firms. Failing to notify these analysts might damage Hill's ability to monitor his competition, to the detriment of his own shareholders. Under CFA Institute's Code and Standards, Hill should *most appropriately*:

A) notify no analysts until he is ready to issue the final numbers for the quarter.

B) notify the two analysts first because their information adds value for Niseron's shareholders.

C) issue a press release regarding Niseron's earnings prior to calling analysts.

Explanation

Issuing a press release is the best way to achieve fair public dissemination. Notifying any specific analysts first is a violation of Standard III(B) Fair Dealing, regardless of any help they may have provided in the past. (Module 71.4, LOS 71.b)

Question #15 of 42

Question ID: 1469271

Tony Calaveccio, CFA, is the manager of the TrustCo Small Cap Venture Fund in Toronto. Calaveccio places a trade with Quantco Brokerage. While Calaveccio's part of the transaction was conveyed correctly to Quantco, there was a trading error made in Calaveccio's account due to a slip up within Quantco. Calaveccio realizes that the error has taken place, and informs his contact at Quantco. Calaveccio allows Quantco to cover the error, with no cost to TrustCo. This is:

A) a violation of Calaveccio's duty to his employer.

B) a violation of Calaveccio's fiduciary duties.

C) permissible under CFA Institute Standards.

Explanation

The issue is similar to an allocation of soft dollars. Clearly, if the broker absorbs the loss, they expect to make up the difference in some way. However, since the error was on the part of Quantco Brokerage, Calaveccio is under no obligation to cover the cost of the trading error. Moreover, no reasonable observer expects that there exists any implied future allocation of trades to Quantco in return for correcting their own mistake. There is no violation of Standard III(A), Loyalty, Prudence, and Care.

Question #16 of 42

Question ID: 1469272

Alan Cramer, CFA, practices in a country that does not regulate the investment of company retirement plans. He was retained by Bingham Companies to manage their corporate pension plan. Bingham's management has approached Cramer and requested that Cramer invest the entire plan in Bingham stock.

Cramer may:

A) invest a portion of the retirement plan in Bingham Company stock if the investment is prudent and if he keeps the overall portfolio properly diversified.

B) invest all of the retirement plan assets in Bingham Company stock according to management's request only if Cramer can document that the investment is more prudent than any other investment opportunity he finds.

C) not invest any of Bingham Company's retirement plan in its own stock regardless of the stock's prospects and in spite of management's request.

Explanation

Standard III(A), Loyalty, Prudence, and Care, requires members to comply with their fiduciary duty. Retirement plan managers owe their duty to the plan participants, not to the management of the company sponsoring the plan. The fiduciary duty includes the obligation to diversify the plan's investments, regardless of the quality of the sponsoring company's stock. Investing in the company's stock is not prohibited.

Question #17 of 42

Question ID: 1459286

Fran Lester, CFA, works for a broker based in a country in which participation in any IPO is permitted with her employer's permission. She lives and works in a country that has no restrictions on her participation in IPOs. If Lester's firm is distributing shares of an oversubscribed IPO through the office Lester works in, can Lester receive shares in the IPO?

A) No, not under any circumstances. ✓

B) Yes, because the applicable law is that of her home country. ✗

C) Yes, but she must obtain permission from her employer. ✗

Explanation

Standard I(A) Knowledge of the Law requires members and candidates to comply with the strictest requirement among the law where they reside, the law in the area where they do business, and the Code and Standards. In this case, the Code and Standards is the strictest. Standard III(B) Fair Dealing prohibits members and candidates from withholding shares in oversubscribed IPOs from clients for their own benefit.

(Module 71.4, LOS 71.b)

Question #18 of 42

Question ID: 1459299

Rickard Advisors recently had a trading error in a customer account that was subsequently discovered by Rickard. The firm felt embarrassed by the disclosure of this error, and, in order to induce the client to continue its relationship, Rickard offers the client preferential access to a new issue that is expected to be "hot." Which Standard is violated, if any?

A) The Standard concerning Fair Dealing. ✓

B) The Standard concerning Fiduciary Duty. ✗

C) The Standard concerning Independence and Objectivity. ✗

Explanation

Rickard is in violation of the Standard concerning Fair Dealing by offering the client preferential access to a "hot" new issue. There is no obvious violation of Fiduciary Duty, since there is no evidence that Rickard is placing its own *financial* interest ahead of the client.

(Module 71.4, LOS 71.b)

Question #19 of 42

Question ID: 1459301

The use of client brokerage by an investment manager to obtain certain products and services to aid the manager in the investment decision-making process is called:

A) quid pro quo practices.

B) soft dollar practices.

C) trading practices.

Explanation

Directing client brokerage for research and/or services is called soft dollar practices.

(Module 71.4, LOS 71.b)

Question #20 of 42

Question ID: 1451353

A money management firm has the following policy concerning new recommendations: When a new recommendation is made, each portfolio manager estimates the likely transaction size for each of their clients. Clients are notified of the new recommendation in the order of their estimated transaction size—largest first. All clients have signed a form where they acknowledge and consent to this allocation procedure. With respect to Standard III(B), Fair Dealing, this is:

A) not a violation because the clients have signed the consent form.

B) a violation of the standard.

C) not a violation because the clients are aware of the policy.

Explanation

Such a policy is a violation of the Standard and client acknowledgement and/or consent does not change that fact.

Question #21 of 42

Question ID: 1459320

All of the following are violations of Standard III(B), Fair Dealing, EXCEPT a member:

A) telephones clients in distant cities the day after a buy recommendation is mailed to all clients because their mail service is later than the member's local clients.

B) places a trade for her discretionary accounts before placing a trade for her non-discretionary accounts.

C) places a trade for the firm account before issuing a buy recommendation.

Explanation

Standard III(B) states, "*Members shall deal fairly and objectively with all clients* and prospects *when providing investment analysis, making investment recommendations, taking investment action, or in other professional activities.*"

The term "fairly" implies that members should take care not to discriminate against a client when disseminating investment recommendations. All the responses, except for the telephoning of distant clients (which has the effect of putting them in the same position as local clients), describe a situation in which a client or group of clients is receiving preferential or detrimental treatment that is unfair.

(Module 71.4, LOS 71: III(B))

Question #22 of 42

Question ID: 1469268

A member would *most likely* violate the Standard regarding duties to clients by:

A) adding a risky derivative security to the portfolio of a client with moderate risk tolerance.

B) executing a client order for a security the member believes is greatly overvalued.

C) recommending purchase of securities without a reasonable inquiry into the investment experience of the client.

Explanation

Standard III(A) Loyalty, Prudence, and Care requires members acting as advisors to make a reasonable inquiry into the client's investment experience, risk and return objectives, and financial constraints before making investment recommendations. Investment decisions must be made based on a total portfolio approach, rather than the quality of an individual investment in isolation. Some members are not acting as investment advisors and may only have a duty to provide best execution of client orders.

Question #23 of 42

Question ID: 1469267

Scott Andrews, CFA, is a stockbroker selling an oversubscribed stock issue. Which of the following *best* describes Andrews' actions regarding this sale? Andrews:

A) can offer this security on a prorated basis to all clients for which the security is appropriate.

B) can only offer this security to clients for which it is appropriate on a first come first serve basis.

C) cannot offer an oversubscribed issue of stock to any clients.

Explanation

Standard III(B), Fair Dealing, applies. When new issues or secondary offerings are available or are being offered by the firm or if the firm is part of a selling syndicate, all clients for whom the security is appropriate are to be offered a chance to take part in the issue. *If the issue is oversubscribed, then the issue is to be prorated to all subscribers.*

Question #24 of 42

Question ID: 1469270

An independent analyst has only one client. One of the client's largest holdings is a brokerage firm. Because of the large holding by his client, the brokerage firm recently began allowing the analyst to tap into the firm's computer network to use the firm's research facilities. This is allowable as long as the analyst:

A) discloses the relationship to the client.

B) does both of the actions listed here.

C) uses the resources to help manage the client's account.

Explanation

According to Standard III(A), Loyalty, Prudence, and Care, the analyst must put the client first and inform the client of any possible conflicts of interest. The analyst must channel any benefits derived from his service to the client, back to the client, and inform the client of the benefits.

Question #25 of 42

Question ID: 1469264

Caroline Turner, an analyst for Lansing Asset Management, just completed an investment report in which she recommends changing a "buy" to a "sell" for Gallup Company. Her supervisor at Lansing approves of the change in recommendation. Turner wonders about whether she needs to disseminate this investment recommendation to Lansing's clients and if so, how to distribute this information. According to CFA Institute Standards of Professional Conduct, Turner is:

A) not required to disseminate the change of recommendation from a buy to a sell because the change is not material. ✗

B) required to design an equitable system to disseminate the change in a prior investment recommendation. ✓

C) required to disseminate the change in a prior investment recommendation to all clients and customers on a uniform basis. ✗

Explanation

Standard III(B) – Fair Dealing requires dealing fairly and objectively with all clients and prospects when disseminating material changes in prior investment recommendations. Note that the standard requires the dissemination be fair, but not necessarily equal due to the impossibility of contacting all clients simultaneously. A change of recommendation from "buy" to "sell" is generally material.

Question #26 of 42

Question ID: 1115834

Denise Weaver is a portfolio manager who manages a mutual fund and has pension clients. When Weaver receives a proxy for stock in the mutual fund, she gives it to Susan Griffith, her administrative assistant, to complete. When the proxy is for a stock owned in a pension plan, she asks Griffith to send the proxy on to the sponsor of the pension fund. Weaver has:

A) not violated the Standards. ✗

B) violated the Standards by her policy on mutual fund and pension fund proxies.

C) violated the Standards by her policy on mutual fund proxies, but not her policy on pension fund proxies.

Explanation

Proxies should be taken seriously, and although it is likely that Griffith can understand some of the issues, it is likely that she is not capable of making responsible decisions on all potential proxy issues. Proxies for a pension plan should be voted in the best interests of the beneficiaries, not the plan sponsor. The sponsor's interests will not always be the same as the beneficiary's interest.

Question #27 of 42

Question ID: 1469265

Jack Stevens is employed by a company to provide investment advice to participants in the firm's 401(k) plan. One of the investment options is a stable value fund run by the company. Stevens' research indicates that the fund is far riskier and less liquid than the typical stable value fund and has a fundamental asset value lower than the book value of the assets. He tells Jessica Cox, the head of employee benefits, about his research, and indicates that he will advise new employees to not invest in the fund and will advise employees who already own the fund to reduce their holdings in the fund. Cox points out that the fund is not in any current danger because there are very few redemptions requested of the fund. Cox also states that a sell recommendation may become a self fulfilling prophecy, causing investors to redeem their shares and forcing the fund to liquidate, which in turn will cause the remaining investors to receive less than their promised value. Stevens agrees with this assessment and feels his fiduciary duty is to all employees. Stevens should:

A) continue to recommend that new investors do not invest in the fund and existing investors reduce their holdings.

B) continue to recommend that new investors do not invest in the fund, but not advise existing investors to reduce their holdings.

C) tell investors he cannot give advice on the fund because of a conflict of interest.

Explanation

The employees to whom Stevens owes fiduciary duty are the ones who are seeking his advice, even if acting on that advice hurts other employees who might eventually become clients.

Question #28 of 42

Question ID: 1459322

Bjorn Sandvik, CFA, completes a research report with a buy recommendation for Acorn Properties. In the early afternoon, Sandvik e-mails this recommendation to his clients who had responded to his request that they provide Sandvik with their e-mail addresses. Later that afternoon, the printed recommendation is forwarded to the postal service for normal delivery to all customers, who receive the mailing 1 to 3 days later. Sandvik has:

A) not violated the Code and Standards because he acted fairly in disseminating research information to his clients. ✓

B) violated the Code and Standards by sending the e-mail recommendation in advance of the printed report. ✗

C) violated the Code and Standards by sending the e-mail recommendation to only some of his clients. ✗

Explanation

Standard III(B) Fair Dealing requires that members deal fairly with all clients in disseminating investment recommendations. It does not require uniform or equal treatment. Sandvik's approach in sending e-mail correspondence to those of his clients who had given him their e-mail addresses, having made the request to all of his clients, and sending regular mail correspondence the same day, is fair to all of his clients.

(Module 71.4, LOS 71: III(B))

Question #29 of 42

Question ID: 1459296

Jack Harris, a CFA candidate, is a telecommunications analyst at Hasten Securities. Based upon his analysis of Midwest Telecom, he changes his recommendation of the company's common stock from "hold" to "sell." Before disseminating his recommendation and the reason for the change to Hasten's clients, Harris informs several portfolio managers at Hasten, whom he knows personally own Midwest stock, of the changed recommendation. Several days later, Hasten communicates the change in investment recommendation on Midwest to clients known to have bought Midwest and those who currently hold the stock.

Jane White, CFA, is a broker at Hasten Securities. One of her clients places a buy order contrary to the current recommendation on Midwest. After advising her client of the recommendation, she executes the transaction.

According to Standard III(B), Fair Dealing, which of the following statements about Harris and White's actions is CORRECT?

A) Both Harris and White violated Standard III(B).

B) Harris violated Standard III(B), but White did not violate Standard III(B).

C) Neither Harris nor White violated Standard III(B).

Explanation

Harris violated Standard III(B), Fair Dealing by not treating all customers fairly. Instead, he disclosed the information selectively to some of his firm's portfolio managers. White did not violate Standard III(B) because she communicated to the person placing a buy order on Midwest that the order was contrary to the current recommendation before executing the order.

(Module 71.4, LOS 71.b)

Question #30 of 42

Question ID: 1469263

A company has a defined benefit plan that is currently under-funded. The plan sponsor has instructed the portfolio manager of the plan to invest more aggressively to bring the funding level up to an adequate amount. Which of the following statements *best* describes the course of action the portfolio manager should take? The portfolio manager should:

A) invest more aggressively because his fiduciary duties lie with the plan sponsor.

B) not invest more aggressively because this is not the method used to increase the funding level of a plan.

C) not invest more aggressively since this may expose the plan to too much risk and may not be in the best interest of the plan's beneficiaries.

Explanation

Standard III(A), Loyalty, Prudence, and Care, applies in this situation. According to this Standard, investment actions should be carried out for the sole benefit of the client and in a manner the manager believes to be in the best interest of the client. Here, the client is the plan beneficiaries, not the manager or the entity that hired the manager.

Question #31 of 42

Question ID: 1469274

An investment advisor goes straight from a research seminar to a meeting with a prospective new client with whom she has never been in contact. The advisor is very excited about the information she just received in the seminar and begins showing the prospect the new ideas her firm is coming up with. This is *most likely* a violation of:

A) both of these. ✓

B) Standard III(B), Fair Dealing. ✗

C) Standard III(C), Suitability. ✗

Explanation

It is a violation of Standard III(B) because the advisor should act first on behalf of existing clients whose needs and characteristics she already knows. It is a violation of Standard III(C) because she has never met the prospect and does not know if the new ideas are appropriate for the prospect. Thus, "both of these" is the best response.

Question #32 of 42

Question ID: 1451331

Paul Drake is employed by a company to provide investment advice to participants in the firm's 401(k) plan. Company stock is one of the investment options in the plan. Drake feels that the stock is too risky for employees to own in their 401(k) plan and starts advising them to pull out of the stock. The Treasurer of the company calls Drake and tells him that he will be fired if he continues making such advice because he is violating his fiduciary duty to the company. Drake should:

A) continue to advise employees to sell their stock. ✓

B) make sell recommendations but point out that the company Treasurer has a differing and valid point of view. ✗

C) tell employees that he cannot provide advice on company stock because of a conflict of interest.

Explanation

Although Drake is paid by the company, his fiduciary duty is to the plan participants. His advice cannot be compromised by business considerations, otherwise he will be violating the Standard on loyalty, prudence, and care.

Question #33 of 42

Question ID: 1451354

Which of the following statements is *least* accurate regarding being a part of Standard III(B), Fair Dealing?

A) Maintain a list of clients and their holdings.

B) At the same time notify clients for whom an investment is suitable of a new investment recommendation.

C) Shorten the time between decision and dissemination.

Explanation

All of these are part of Standard III(B) except notifying clients at the same time. Standard III(B) states that clients for whom the investment is suitable should be notified at *approximately* the same time.

Question #34 of 42

Question ID: 1451336

All of the following are required by fiduciaries under Standard III(A), Loyalty, Prudence, and Care, EXCEPT:

A) act solely in the interest of the ultimate beneficiaries.

B) place the client's interest before the employer's interest.

C) support the sponsor's management during proxy fights.

Explanation

Members are required to act in the interest of their clients. In voting proxies, the client's interest must prevail over management's interest.

Question #35 of 42

Question ID: 1459298

Steve Phillips is the new director of equity research for a brokerage company. He receives a call from a reporter at the Financial News, a weekly publication that comes out on Mondays. The reporter explains the relationship she had with his predecessor. They would share information that they both learned on stocks—the former director would benefit the company's clients by news he obtained from the reporter in exchange for information he gave to her. The former director could ask her not to publish any information he gave her until after a certain date, ensuring that the brokerage clients would be informed before the publication date. After the conversation, Phillips called the former director, who confirmed that the reporter was trustworthy with respect to honoring the agreement for delaying publication until clients have been informed. Philips should:

A) disclose research not yet disclosed to clients, as long as the reporter promises not to publish the information until after all clients have received the research, and the reporter provides valuable information of her own. ✗

B) not disclose any research even after it has been disseminated to clients regardless of the value of the information that the reporter may have. ✗

C) only disclose research that has already been disseminated to clients, as long as the reporter is providing valuable information of her own. ✓

Explanation

In no case should information be disclosed to a reporter before all clients are provided with the research—doing so will violate the Standard on fair dealing. However, once clients have been informed, there is no violation in releasing the information to the reporter, and in doing so Phillips might obtain information that can further help his clients.

(Module 71.4, LOS 71.b)

Question #36 of 42

Question ID: 1459321

Calvin Moore, CFA, has been transferred from the brokerage house of the Browning Company to the portfolio management department. In portfolio management, Moore learns that clients are grouped into three divisions according to portfolio value, divided as follows:

- Group 1 up to $10,000
- Group 2 from $10,001 to $100,000
- Group 3 more than $100,000

When recommendations are announced or trades are initiated, a particular sequence is followed in communicating to these groups. At the next monthly meeting, Moore suggests that the sequencing practice is a breach of CFA Institute Standards. One of Moore's co-workers replies that the grouping approach helps the company in applying the Standard regarding portfolio recommendations. He further suggests that because Browning's overall performance is more strongly affected by actions taken on the high value portfolios, that these portfolios should take priority over the small value portfolios. What should Moore do? Moore should:

A) prepare a written report to the CEO describing the problem. ✗

B) do nothing since there is no breach with the Standards. ✗

C) disassociate himself from the problem and seek legal advice. ✓

Explanation

Taking a special approach in disseminating information in relation to initiating trades is a breach of Standard III(B), Fair Dealing. Given the fact that Moore works in the department and has already unsuccessfully tried to prevent the practice from continuing, he needs to disassociate himself and seek legal advice.

(Module 71.4, LOS 71: III(B))

Question #37 of 42

Question ID: 1459323

Which of the following *most accurately* states a limitation that the Fair Dealing standard imposes?

A) Before trading on her own portfolio, a CFA charterholder must wait for employer and client deals to be executed. ✗

B) Clients should not be discriminated against when disseminating investment recommendations. ✓

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

Explanation

Standard III(B) Fair Dealing states that the dissemination of information and recommendations to clients must be handled fairly. The other choices are related to Standard VI(B) Priority of Transactions and Standard VI(C) Referral Fees.

(Module 71.4, LOS 71: III(B))

Question #38 of 42

Question ID: 1459306

Which of the following is *least likely* required of fiduciaries who are responsible for pension plans?

A) Judging investments in the context of the total portfolio.

B) Acting solely in the interest of plan participants.

C) Supporting the sponsor's management during proxy fights.

Explanation

Under Standard III(A) Loyalty, Prudence, and Care, fiduciaries must evaluate management's proposals during proxy fights to see if they are in the best interest of the plan participants. If management's ideas are justifiable and reasonably ensure plan participants' betterment, then fiduciaries can support them. If management is only trying to further its own objectives, especially at the cost of plan participants, then fiduciaries must vote against management in proxy fights.

(Module 71.4, LOS 71: III(A))

Question #39 of 42

Question ID: 1451313

Chuck Thomas is the trustee of a trust of which Jill Wyatt is the main beneficiary. Wyatt's husband is the president of a company. In emptying the recycling bin at home, Wyatt finds some papers that lead her to believe that her husband's company will make a tender offer to acquire another firm. Wyatt takes the information to Thomas, who uses it to purchase shares of the company for the trust, but does not further disclose the information. Thomas has:

A) not violated any Standards.

B) violated the Standards concerning material nonpublic information.

C) violated the Standards concerning loyalty, prudence, and care.

Explanation

Thomas cannot act or cause others to act on material nonpublic information.

Question #40 of 42

Question ID: 1469269

Regarding (1) not voting all client proxies, and (2) using a directed brokerage arrangement, a member would violate the Standards by:

A) engaging in neither of these practices. ✓

B) not voting all proxies for client stocks. ✗

C) using a directed brokerage arrangement. ✗

Explanation

Proxies have economic value to the client. To comply with Standard III(A) Loyalty, Prudence, and Care, the analyst is obligated to vote proxies in an informed and responsible manner. A cost benefit analysis may show that voting all proxies may not benefit the client, so voting proxies may not be necessary in all instances. Directed brokerage occurs when the client requests that a portion of the client's brokerage be used to purchase services that directly benefit the client. Although this may prevent best execution, it does not violate the Standards as it was directed by the client, not the brokerage firm.

Question #41 of 42

Question ID: 1469262

Brenda Simone is a money manager and the Blue Streets Pension Fund is one of her clients. The director of the pension fund calls Simone and asks her to use a particular broker so that the fund can obtain some research services with the soft dollars from that broker. Simone believes that the desired broker will provide the same price and execution as the normal broker that Simone uses. Simone does as the client wishes. Simone has:

A) not violated the Standards as long as the research provided by the broker will benefit Blue Streets. ✗

B) not violated the Standards as long as the research provided by the broker will benefit the plan beneficiaries. ✓

C) violated the Standards. ✗

Explanation

Simone must ensure that the research benefits the parties to whom she owes fiduciary duty, which are the plan participants.

Question #42 of 42

Question ID: 1451335

Tony Calaveccio, CFA, is the manager of the TrustCo Small Cap Venture Fund in Toronto. He places trades for the fund with River City Brokerage. River City provides Calaveccio with soft dollars to purchase research. River City also deals in municipal bonds, some of which Calaveccio holds in his personal portfolio. He periodically uses the soft dollars to request research reports on various small cap stocks and also on the status of the municipal bond market and issues that he holds. These actions are:

A) not in violation of the Code and Standards.

B) in violation of his fiduciary duties regarding both the small cap research and the municipal bond research.

C) in violation of his fiduciary duties regarding the municipal bond research but not so regarding the research on the small cap issues.

Explanation

The issue at hand is the member's fiduciary responsibilities in handling "soft dollars" which are technically the property of the client. Standard III(A), Loyalty, Prudence, and Care, delineates the member's fiduciary responsibilities with regard to soft dollars. Since municipal bond research is clearly not relevant to the Small Cap Fund holders, he is clearly using the soft dollars to obtain research for his personal benefit and is in violation of the Standard.