Question #1 of 46

Question ID: 1459284

Ron Taylor, a Level I CFA candidate, trades cotton contracts for a small commodity broker. Taylor convinces a government cotton inspector to issue a warning that the Texas cotton crop is in danger from insect infestation. The price of cotton soars. Taylor immediately shorts cotton futures. Once the position is created, the government inspector issues a second report reversing his original opinion and cotton prices plummet.

Cedric Sims, a Level III CFA candidate, would like to generate a tax loss on a security held in his personal portfolio; however, he believes the security has significant upside potential. To avoid the wash sale provisions of the income tax code, Sims sells the security and simultaneously creates a synthetic long position using derivatives.

With regard to Standard II(B) Market Manipulation, which of the following statements concerning Taylor's and Sims's conduct is CORRECT?

A) Both Taylor and Sims are in violation of Standard II(B).

B) Neither Taylor nor Sims is in violation of Standard II(B).

C) Taylor is in violation of Standard II(B), but Sims is not in violation.

Question #2 of 46

Question ID: 1459266

Which one of the following constitutes the illegal use of material nonpublic information?

A) Trading on information your sister, the firm's attorney, told you over dinner.

B) Trading based on your analytical review of the firm's future prospects.

C) Trading immediately after attending the firm's annual shareholders’ meeting.

Question #3 of 46

Question ID: 1459239

Ken Howell, CFA, plans to issue a buy recommendation for Glazer Oil, Inc., based on his analysis and forecasts. Howell suspects that the company will soon announce merger plans with a Japanese oil company. To investigate, Howell attempts to call three executives at Glazer. Different secretaries inform Howell that the executives are "attending a conference overseas" or "traveling in Japan." Howell is able to confirm that all three are in the same city in Japan where the potential merger partner is headquartered. Howell feels confident that the merger will go forward. According to CFA Institute Standards of Professional Conduct, Howell may issue a buy recommendation on the oil company:

A) immediately.

B) only after allowing the companies a reasonable time to disclose their merger plans.

C) only after encouraging the companies' managements to publicly disclose their merger plans.

Question #4 of 46

Question ID: 1459279

Nancy McCoy, CFA, is preparing a report on Gourmet Food Mart. As part of her research, she contacts the company's contractors, suppliers, and competitors. McCoy is told by the CEO of a major produce vendor that he is about to file a lawsuit against Gourmet Food Mart, seeking significant damages. McCoy incorporates this information into her research report, which projects a decline in profitability for Gourmet Food Mart due to the impending litigation. According to the CFA Institute Standards of Professional Conduct, McCoy:

A) has violated the Standards by disseminating confidential information.

B) has violated the Standards by utilizing material nonpublic information.

C) has not violated any Standard.

Question #5 of 46

Question ID: 1451318

The term "material" in the phrase "material nonpublic information" refers to information that is likely to affect significantly the market price of the issuing company's securities or that:

A) is likely to be considered important by reasonable investors in determining whether to trade a particular security.

B) is derived by the financial analyst from direct communication with an issuing company's management.

C) is acquired by the financial analyst from a special or confidential relationship with the issuing company.

Question #6 of 46

Question ID: 1469248

Lynne Jennings is a chemical industry research analyst for a large brokerage company. That industry is currently seeing an increase in mergers and acquisitions. While flying through Chicago, Jennings sees several senior officers who she knows are from the largest and fourth largest chemical companies walk into a conference room. She concludes that negotiations for an acquisition might be taking place. Jennings:

A) may not act or cause others to act on this information.

B) may use this information to support an investment recommendation.

C) should inform her compliance officer that she has material nonpublic information on firms she covers.

Question #7 of 46

Question ID: 1451319

An analyst is allowed to trade on information that he has predicted, such as a corporate action or event, using perceptive assembly and analysis of public information and nonmaterial nonpublic information. This is called the:

A) deduction theory.

B) assessment theory.

C) mosaic theory.

Question #8 of 46

Question ID: 1459257

Insider trading can be defined as information that is:

A) material and nonpublic.

B) material and public.

C) nonmaterial and nonpublic.

Question #9 of 46

Question ID: 1469259

Andrea Waters is an investment analyst who has accumulated and analyzed several pieces of nonpublic information through her contacts with drug firms. Although no one piece of the information she collected is "material," Waters correctly concluded that the earnings of one of the drug companies would be unexpectedly high in the coming year. According to CFA Institute Standards of Professional Conduct, Waters:

A) can use the information to make investment recommendations and decisions.

B) cannot legally invest or make recommendations based on this information.

C) may use the information, but only after approval from a compliance officer or supervisor.

Question #10 of 46

Question ID: 1451320

An analyst manages the assets of a charitable organization. Her supervisor tells her to buy a certain stock because the company's chief executive, who is also a board member in the organization, told her the company's earnings will exceed the market forecast when they are released next week. The analyst objects, but the supervisor says this is what they have always done and sees no reason for changing now. The analyst complies with the request. With respect to Standard IV(A) Loyalty and Standard II(A) Material Nonpublic Information, the analyst violated:

A) only one of these Standards.

B) both of these Standards.

C) neither of these Standards.

Question #11 of 46

Question ID: 1451322

The *mosaic theory* is the idea that an analyst can:

A) make recommendations or trade based on several pieces of public or nonpublic information, each piece by itself being nonmaterial, but when compiled the information becomes material.

B) base his recommendations on nonpublic material information only for the clients of the company, but not for the general public.

C) make investment recommendations on the basis of several pieces of nonpublic information as long as the aggregate information remains nonmaterial.

Question #12 of 46

Question ID: 1469252

Dick Charles is a security analyst with a large brokerage company. Sean Donaldson is a money manager. They both listen in on a conference call for security analysts with the president of Stoppard, Inc., who states that in two days the company will be holding a press conference announcing a new product. Both Charles and Donaldson feel the news will increase the value of Stoppard.

A) Charles can disseminate the information to clients, and Donaldson can purchase the stock for his clients immediately.

B) Charles must wait until after the press conference to disseminate the information to clients, and Donaldson must wait until after the press conference to purchase the stock for his clients.

C) Charles must wait until after the press conference to disseminate the information to clients, but Donaldson can purchase the stock for his clients immediately.

Question #13 of 46

Question ID: 1469256

Don Benjamin, CFA, is the compliance officer for a large brokerage firm. He wants to prevent the communication of material nonpublic information and other sensitive information from his firm's investment banking and corporate finance departments to its sales and research departments. The most common and widespread approach that Benjamin can use to prevent insider trading by employees is the:

A) fire wall.

B) legal list.

C) Wall Street Rule.

Question #14 of 46

Question ID: 1459246

John McNeal, CFA, has a friend named Stan Green, a journalist at Investment News, a weekly magazine. In one of their conversations, Green tells McNeal he has written an article about undisclosed financial problems at Brightstar Company. Green says the article will appear in the issue of Investment News that will be released tomorrow. According to the Standards, McNeal:

A) should ask Green to disseminate the information immediately.

B) may not act on this information.

C) may act on this information because it is in the process of becoming public.

Question #15 of 46

Question ID: 1459272

According to CFA Institute Standards of Professional Conduct, which of the following statements about material nonpublic information is NOT correct? Information is:

A) material if reasonable investors would want to know the information before making an investment decision.

B) nonpublic until it has been disseminated to a select group of investors.

C) nonpublic until it has been disseminated to the marketplace in general.

Question #16 of 46

Question ID: 1469257

Regarding non-public information, which one of the following statements is NOT correct?

A) A member can be summarily suspended for having received material non-public information.

B) An analyst may use some types of non-public information.

C) Disclosing material non-public information would have an impact on the price of a security or be of interest to a reasonable investor.

Question #17 of 46

Question ID: 1459283

Which of the following is a violation of Standard II(B), Market Manipulation?

A) Engaging in a block trade to limit the effect on the price of a thinly traded security.

B) Implementing a trading strategy to exploit differences in market power and information.

C) Overstating an earnings projection in order to increase the price of a stock.

Question #18 of 46

Question ID: 1451312

In the course of reviewing the Corn Co., an analyst has received comments from management that, while not meaningful by themselves, when pieced together with data he has accumulated from outside sources, lead him to recommend placing Corn Co. on his firm's sell list. What should the analyst do?

A) Show his report to his own manager and counsel for their review since this information has become material once it was combined with his analysis.

B) Not issue the report until the comments are publicly announced.

C) The comments are non material and the report can be issued as long as he maintains a file of the facts as supplied by management.

Question #19 of 46

Question ID: 1469251

Greg Allen is a security analyst and visits David Dawson, the Chief Financial Officer of Edmonds Company. Dawson reveals a great deal of nonmaterial financial data to Allen, data that Dawson routinely reveals to all security analysts who visit him. From this data and other industry information, Allen conjectures that Edmonds is likely to make a tender offer for another company in the industry, a fact that if true would be considered material to the value of the company. Allen:

A) can publish his conclusion in a research report.

B) must not disseminate the information or use it for trading purposes until the tender offer is announced.

C) should send a copy of the report to Dawson for verification before disseminating the report to clients.

Question #20 of 46

Question ID: 1469260

Which of the following statements regarding Standard II(A), Material, Nonpublic Information, is *least* accurate?

A) If you receive the information in a public forum, it has been disseminated, and you can trade on it.

B) Information received from an insider who is not breaching his fiduciary responsibility may be traded on.

C) Material, non-public information regarding a tender offer may not be traded on.

Question #21 of 46

Question ID: 1469254

A CFO who is a CFA Institute member is careful to make his press releases—some of them containing material and previously undisclosed information—clear and understandable to his readers. While writing a new release, he often has his current intern proofread rough drafts. He also sends electronic copies to his brother, an English teacher, to get suggestions concerning style and grammar. With respect to Standard II(A), Material Nonpublic Information, the CFO is:

A) not in violation of the Standard.

B) only in violation by e-mailing the pre-release version to his brother but not the intern, because the intern is in essence an employee of the firm.

C) violating the standard by either showing the pre-release version to his intern or sending it to his brother.

Question #22 of 46

Question ID: 1459249

Marc Feldman, CFA, is manager of corporate investor relations for a high-tech startup, zippy.com, in Boise, Idaho. Feldman learns that Larry Smith, controller, is altering the accounting records. Feldman advises some of his personal friends to sell short zippy.com. This action:

A) constitutes a violation of the Standard concerning prohibition against misrepresentation.

B) constitutes professional misconduct but not the use of nonpublic information and is a violation of the Code and Standards.

C) constitutes the use of material nonpublic information and is a violation of the Code and Standards.

Question #23 of 46

Question ID: 1469249

While visiting the CSI Company, Mark Ramsey, CFA, overheard management make comments that were not public information, but were not really meaningful by themselves. However, when this information is combined with his own analysis and other outside sources, Ramsey decides to change his recommendation on CSI from buy to sell. According to CFA Institute Standards of Professional Conduct, Ramsey should:

A) issue his sell report because the facts are nonmaterial, but maintain a file of the facts and documents leading to this conclusion.

B) not issue his report until these comments are made public.

C) report these events to his immediate supervisor and legal counsel, since they have become material in combination with his analysis.

Question #24 of 46

Question ID: 1451326

Mark Williamson is "bearish" on ABC Manufacturing Company. Williamson is so convinced that ABC is overpriced, two weeks ago, he shorted 100,000 shares. Today, Williamson is "surfing" several popular investment bulletin boards on the internet and posting false derogatory comments about company management. According to Standard II(B), Market Manipulation, Williamson has engaged in:

A) transaction-based manipulation, but not information-based manipulation.

B) information-based manipulation, but not transaction-based manipulation.

C) both transaction-based manipulation and information-based manipulation.

Question #25 of 46

Question ID: 1459265

Trude Front, CFA, is a portfolio manager. While in the normal course of her duties, she happens to overhear material non-public information concerning the stock of VTT Bowser. She purchases several exchange traded funds which contain VTT Bowser, while shorting similar exchange traded funds which do not contain VTT Bowser. This is *most likely*:

A) only a violation of Standard II(A) "Material Non-Public Information" because Front is simultaneously shorting the funds which do not contain VTT Bowser.

B) a violation of Standard II(A) "Material Non-Public Information."

C) not a violation of Standard II(A) "Material Non-Public Information."

Question #26 of 46

Question ID: 1459259

Which of the following statements concerning material nonpublic information is *most accurate*? A member or candidate may not act or cause others to act on material nonpublic information:

A) until the information becomes available to the public.

B) if the information has been misappropriated.

C) if the information was obtained through a breach of duty.

Question #27 of 46

Question ID: 1469255

A stockbroker who is a CFA Institute member is called on the telephone by the CEO of a large company. The CEO asks to buy shares of the CEO's company for the accounts of the CEO's children. In the course of the conversation, the CEO says this will really pay off when the upcoming takeover goes through. The stockbroker checks her sources and finds no information about the takeover. In this case the broker should:

A) do neither of the actions listed here.

B) execute the order for all clients as required by Standard III(B), Fair Dealing.

C) only execute the order in compliance with Standard III(A), Loyalty, Prudence, and Care. Since the client is buying the stock for the children, there is not a problem.

Question #28 of 46

Question ID: 1459267

Marion Klatt, CFA, is a representative for Thiel Financial Network. Klatt received a phone call at home from William Kind, a junior executive at Westtown Development Company, asking whether Klatt had heard that Westtown had just reached an agreement to acquire a major shopping mall chain at a very favorable price. (Klatt had not heard this news, and Klatt was able to confirm that the information had not yet been made public.) Kind requested that Klatt acquire 10,000 shares of Westtown for Kind's personal account.

Klatt should:

A) not acquire the shares until he has contacted Westtown's management and encouraged them to publicly announce the merger discussion.

B) not acquire the shares until the information is made public.

C) not acquire the shares.

Question #29 of 46

Question ID: 1459269

The investment-banking department of the XYZ Brokerage House often has information that would be of significant use to the firm's brokerage clients. In order to conform to CFA Institute Standards of Professional Conduct, which of the following policies should XYZ adopt?

According to Standard:

A) III(B), Fair Dealing, all clients should be informed of the information at the same time.

B) II(A), Material Nonpublic Information, XYZ should establish physical and informational barriers within the firm to prevent the exchange of information between the investment banking and the brokerage operations.

C) II(A), Material Nonpublic Information, XYZ should encourage their investment banking clients to publicly disseminate this information.

Question #30 of 46

Question ID: 1459282

All of the following are violations of Standard II(B) Market Manipulation EXCEPT:

A) disseminating misleading information about the development of new products and technologies.

B) exploiting differences in market inefficiencies.

C) securing a controlling interest in an equity security in order to influence the price of a related derivative instrument.

Question #31 of 46

Question ID: 1459278

Darlene Hess, CFA, manages a pension fund that has a sizeable position in Knoll Corporation common stock. Hess also holds Knoll common stock in her personal account. Hess participates in an analyst conference call in which Knoll's chief financial officer advises that the company's current-quarter earnings will slip below consensus forecast. Knoll has not disclosed this to the public. Hess believes news of the poor earnings will reduce the stock's value significantly. Hess may:

A) sell Knoll stock from her personal account but may not sell it from the pension fund.

B) sell Knoll stock from the pension fund but may not sell it from her personal account.

C) not sell Knoll stock from either the pension fund or her personal account.

Question #32 of 46

Question ID: 1469250

Betsy Fox is an investment advisor who has a client, Don Gordon, who is an employment lawyer. At lunch, Fox noticed Gordon and the Chief Financial Officer of Blue Star Company at the next table. She overhears them talking and ascertains that Blue Star is about to announce higher than expected earnings. Before the earnings release, Gordon contacts Fox and asks her to purchase 3,000 shares for his portfolio. Fox:

A) can only purchase shares for her personal account after informing all of her clients about the potential of the increase in earnings.

B) can purchase shares for Gordon, but cannot ever purchase shares for her personal account.

C) must refuse to purchase shares for Gordon.

Question #33 of 46

Question ID: 1459248

Randy Wesson is a research analyst for a large brokerage company following the chemical industry. Wesson receives a phone call from his nephew who works part-time in an airport hospitality center for an airline while going to business school. Many meetings take place at the center on any given day. The nephew tells Wesson that while bringing some faxes into a conference room, he overheard executives of Hunt Chemical talking about the likely divestiture of one of their subsidiaries. His nephew wants to know whether that will be good for Hunt. Wesson should:

A) write a research report describing the possibility of a divestiture, but not mention how he learned about it.

B) write a research report describing that he learned about the likely divestiture from his nephew who works at the hospitality center.

C) not use the information.

Question #34 of 46

Question ID: 1469258

A stockbroker who is a member of CFA Institute has a part-time housekeeper who also works for the CEO of Festival, Inc. One day the housekeeper mentions to the broker that she saw the CEO of Festival having a conversation at his home with John Tater, who is a nationally known corporate lawyer and consultant. The stockbroker is restricted from trading on this information:

A) for both of the reasons listed here.

B) if the housekeeper says the meeting concerned a tender offer and the broker knows that it is non-public information.

C) only if the broker knows that the meeting is non-public information.

Question #35 of 46

Question ID: 1459252

John Farr, CFA, has accumulated several pieces of nonmaterial nonpublic information about CattleCorp from his contacts with the company. From analysis based on this information, together with public information, Farr concludes that CattleCorp will have unexpectedly low earnings this year. Farr has contacted the company, but they will not confirm his conclusion. According to CFA Institute Standards of Professional Conduct, Farr:

A) may not trade or make recommendations based on his analysis.

B) may trade or make recommendations based on his analysis only if his company's compliance officer determines that the nonpublic information he used was not material.

C) may trade or make recommendations based on his analysis.

Question #36 of 46

Question ID: 1115752

A brokerage firm has a trading department and an investment-banking department. Often the investment-banking department receives material non-public information that would be valuable in advising the firm's brokerage clients. In order to comply with the Standards, the firm:

A) should record the exchange of information between the investment-banking department and the brokerage department.

B) must divest one of the departments.

C) should restrict employee trading in securities for which the firm is in possession of material non-public information.

Question #37 of 46

Question ID: 1469253

Klaus Gerber, CFA, is a regular contributor to the website WizeGuy. This past week Gerber has been incorrectly quoted as recommending that investors buy shares in Bradford, Inc. He is unaware that this message has been placed on the site as the quote was placed as a prank by an unknown source. This is the third time this has happened over the past month and each time the stock being mentioned moved in price according to the buy or sell recommendation.

Fritz Fox, CFA, maintains and updates the WizeGuy site and has learned how to determine if the quotes being attributed to Gerber are actually valid. Several days later, he observes an investment recommendation, posted on the site, to buy Gresham, Inc. The investment recommendation is purported to be from Gerber, but Fox actually knows it to be bogus. He immediately sells 1,000 Gresham short and e-mails Gerber to inform him of the bogus recommendation. Gerber immediately issues a rebuttal, and Gresham falls by 14%. Fox's action is:

A) not in violation of the Code and Standards.

B) a violation of the Standard concerning use of material nonpublic information.

C) a violation of the Standard concerning fiduciary duties.

Question #38 of 46

Question ID: 1459254

During a conference call with 30 analysts, a company's management discloses that its quarterly earnings, which will be announced at the end of the week, are equal to the consensus forecast. The analysts participating in the conference call should consider this information:

A) nonpublic, but not material.

B) material and nonpublic.

C) material, but public.

Question #39 of 46

Question ID: 1459276

Mark Guenin, CFA, covers the textile industry for a brokerage firm. While at his golf club on Saturday, he notices several executives from two of his covered companies entering a private dining room and sees a pro forma balance sheet combining the two companies projected onto a screen. The executives greet Guenin and confirm that their companies intend to merge. Guenin's *most appropriate* course of action should be to:

A) divest his personal holdings of both companies.

B) encourage the companies to announce the merger.

C) write a research report updating the outlook for both companies.

Question #40 of 46

Question ID: 1469247

Paul Clark, CFA, has just learned from a financial analyst at Corvac Industries that orders for their core products are running ahead of last year's orders by 15%, information that has not been publicly disclosed by the company. Clark currently has a hold rating on Corvac based on his expectation of a 5% increase in revenues for the current year. Based on Standard II(A) Material Non-public Information, Clark's *most appropriate* course of action is to:

A) disclose the information publicly prior to making any changes in his recommendation.

B) put Corvac on his firm’s restricted list and not make a recommendation until the increase in orders is publicly disclosed.

C) encourage Corvac to publicly release the order information and not act on that information until it is publicly disclosed.

Question #41 of 46

Question ID: 1459251

Fred Dean, CFA, has just taken a job as trader for LPC. One of his first assignments is to execute the purchase of a block of East Street Industries. While working with East Street on an assignment for his previous employer, he learned that East Street's sales have weakened and will likely be significantly below the LPC analyst's estimate, but no public announcement of this has been made. Which of the following actions would be the *most appropriate* for Dean to take according to the Standards?

A) Request that the firm place East Street’s stock on a restricted list and decline to make any trades of the company’s stock.

B) Contact East Street's management and urge them to make the information public and make the trade if they refuse.

C) Post the information about the drop in sales on an internet bulletin board to achieve public dissemination and inform his supervisor of the posting.

Question #42 of 46

Question ID: 1459253

Which of the following actions is *least* likely to prevent the misuse of insider information?

A) Controlling relevant interdepartmental information.

B) Monitoring all the phone calls made by the brokers.

C) Placing securities on a restricted list when the firm is in possession of material nonpublic information.

Question #43 of 46

Question ID: 1459280

Which of the following is an example of information-based market manipulation?

A) Influencing futures prices by obtaining a dominant position in the underlying commodity.

B) Entering large offsetting buy and sell orders to inflate trading volume.

C) Spreading false rumors about a stock on social media to influence its price.

Question #44 of 46

Question ID: 1459245

While attending his wife's office party, Donald North, CFA, overhears two top executives from Parker Industries discussing that the company's Board of Directors just approved to omit its cash dividend due to unexpected losses during the quarter. Parker has paid a quarterly dividend for the past ten years. The next day, North calls his broker and instructs her to sell short Parker's common stock.

While in a coffee shop, Diane South, CFA, overhears two top executives from Ryland Products say that their company is about to be acquired by another company for a substantial premium over the market price. The next day, South calls her broker and instructs him to buy 500 shares of Ryland's common stock.

With regard to North's and South's compliance with the Standard concerning material nonpublic information:

A) only one of them violated the Standard.

B) both of them violated the Standard.

C) neither of them violated the Standard.

Question #45 of 46

Question ID: 1451317

Which one of the following *least* accurately describes the CFA Institute Standard about using material nonpublic information?

A) An analyst using material nonpublic information may be fined by CFA Institute.

B) An analyst may violate this Standard by passing information to others even when it has been obtained from outside the company.

C) An analyst may use nonmaterial nonpublic information as long as it has been developed under the Mosaic Theory.

Question #46 of 46

Question ID: 1459277

Wallace Manaugh, CFA, is analyzing the stock of a manufacturer of fishing boats. By analyzing public information, speaking with the firm's suppliers and customers, and counting the new boats in the company's boat yard, Manaugh concludes that the company's new fishing boat is not meeting sales expectations. Anticipating that this will cause the stock price to decline, Manaugh takes a short position in the stock. Manaugh has:

A) an obligation under the Standards to make reasonable efforts to achieve public dissemination of the nonpublic information.

B) not violated CFA Institute Standards.

C) violated the Standards by acting on nonpublic information.