

1. Solution: A

A is correct. When a member has reason to suspect that either secondary or third-party research or information comes from a source that lacks a sound basis, the member must not rely on that information as indicated by Standard V(A)—Diligence and Reasonable Basis.

B is incorrect. When a member has reason to suspect that either secondary or third-party research or information comes from a source that lacks a sound basis, the member must refrain from relying on that information.

C is incorrect when a member has reason to suspect that either secondary or third-party research or information comes from a source that lacks a sound basis, the member must refrain from relying on that information.

2. Solution: B

This question relates to Standard V(B)—Communication with Clients and Prospective Clients.

Scott has issued a research report stating that he expects the price of Walkton Industries stock to rise by US\$8 a share “because the dividend will increase” by US\$1.50 per share. He has made this statement knowing that the dividend will increase only if Congress enacts certain legislation, an uncertain prospect. By stating that the dividend will increase, Scott failed to separate fact from opinion.

The information regarding passage of legislation is not material nonpublic information because it is conjecture, and the question does not state whether the US representative gave Scott her opinion on the passage of the legislation in confidence. She could have been offering this opinion to anyone who asked. Therefore, statement A is incorrect. It may be acceptable to base a recommendation, in part, on an expectation of future events, even though they may be uncertain. Therefore, answer C is incorrect.

3. Solution: C

C is correct because O’Keefe can delegate a due diligence exercise to a third party but must ensure the person or company hired to do so is competent with the skills necessary to undertake a thorough and appropriate analysis. While Carlson may be qualified to undertake this assignment, O’Keefe needs to take the necessary steps to ensure that this is the case. Just because a person has a CFA charter does not necessarily mean they are appropriate for the assignment.

A is incorrect. O’Keefe should undertake an analysis of all of the clients in terms of suitability, not just a sampling.

B is incorrect because O’Keefe can delegate a due diligence exercise to a third party as long as she is diligent in assessing who should be appointed to undertake the assignment.

4. Solution: B

B is correct because despite Bosno undertaking a quick and simple analysis to determine the investment would be too risky for the Sovereign Wealth Fund doesn’t necessarily mean he was not diligent and did not have a reasonable basis for making that determination.

A is incorrect because Bosno has a duty to ensure loyalty, prudence, and care to his client, the Sovereign Wealth Fund, not the Fund Official. The Fund's interests must come before the Official's, Bosno's, or his company's.

C is incorrect because the Standard Duties to Employers—Additional Compensation Arrangements calls for a member or candidate to not accept gifts or benefits that compete with or might reasonably be expected to create a conflict of interest with their employer's interests unless they obtain written consent from all parties involved prior to receiving the compensation.

5. Solution: A

This question involves three of the Standards. Anderb, the portfolio manager, has been obtaining more favorable prices for her personal securities transactions than she gets for her clients, which is a breach of Standard III(A)—Loyalty, Prudence, and Care. In addition, she violated Standard I(D)—Misconduct by failing to adhere to company policy and by hiding her personal transactions from her firm. Anderb's supervisor, Bates, violated Standard IV(C)—Responsibilities of Supervisors; although the company had requirements for reporting personal trading, Bates failed to adequately enforce those requirements. Answer B does not represent a violation because Standard VI(B)—Priority of Transactions requires that personal trading in a security be conducted after the trading in that security of clients and the employer. The Code and Standards do not prohibit owning such investments, although firms may establish policies that limit the investment opportunities of members and candidates. Answer C does not represent a violation because the Code and Standards do not contain a prohibition against employees using the same broker for their personal accounts that they use for their client accounts. This arrangement should be disclosed to the employer so that the employer may determine whether a conflict of interest exists.