Student name:\_\_\_\_\_\_\_\_\_\_

**MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.  
1)** An analyst finds a stock that has had a low beta given its historical return, but its total risk has been commensurate with its return. When writing a research report about the stock for clients with well- diversified portfolios, according to Standard V(B), Communication with Clients and Prospective Clients, the analyst needs to mention:

1) \_\_\_\_\_\_

A) the relationship of the historical beta and return only.   
 B) the relationship of the historical total risk to return only.  
 C) both the historical beta and total risk and return.

**2)** Jan Hirsh, CFA, is employed as manager of a college endowment fund. The college’s board of directors has recently voted to consider divesting from companies located in a country that has a poor civil rights record. Hirsh has personal investments in several firms in the country. Hirsh needs to:

2) \_\_\_\_\_\_

A) disclose her ownership in the stocks to her supervisor only.   
 B) do nothing since the board has not made a decision yet.  
 C) disclose her ownership in the stocks to both her supervisor and the board.

**3)** An analyst meets with a new client. During the meeting, the analyst sees that the new client’s portfolio is heavily invested in one over-the-counter stock. The analyst has been following the stock and thinks it will perform well in the long run. The analyst arranges through a brokerage firm to simultaneously sell a large number of shares of the stock via a series of cross trades from the new client’s portfolio to various existing clients. He arranges the trades to be executed at a price that approximates the current market price. This action is:

3) \_\_\_\_\_\_

A) not in violation of the Standards.   
 B) a violation of Standard III(B), Fair Dealing.  
 C) a violation of Standard III(A), Loyalty, Prudence, and Care.

**4)** Carol Hull, CFA, is an investment advisor whose prospective client, Frank Peters, presents special requirements. To construct an investment policy statement for Peters, Hull inquires about Peters’ investment experience, risk and return objectives, and financial constraints. Peters states that he has a great deal of investment experience in the capital markets and does not wish to answer questions about his tolerance for risk or his other holdings. Under Standard III(C), Suitability, Hull:

4) \_\_\_\_\_\_

A) may accept Peters’ account but may only manage his portfolio to a benchmark or index.   
 B) must decline to enter into an advisory relationship with Peters.  
 C) is permitted to manage Peters’ account without any knowledge of his risk preferences.

**5)** Michael Malone, CFA, is an investment analyst for a large brokerage firm in New York who covers the airlines industry. After hours in his personal time, Malone maintains an online blog on which he expresses his personal opinions about various investment opportunities, including, but not limited to, the airlines industry. On his blog, he posts a very negative investment opinion about WestAir stock.  
 Malone knows that WestAir's stock will be downgraded to a “sell” by his firm next week. Malone has *most likely* violated:

5) \_\_\_\_\_\_

A) violated Standard IV(A) Loyalty.   
 B) Standard VI(B) Priority of Transactions.  
 C) violated Standard II(A) Material Nonpublic Information.

**6)** Which of the following actions would be a violation of the Standard VII(A) Conduct as Participants in CFA Institute Programs?

6) \_\_\_\_\_\_

A) Misrepresenting information on the Professional Conduct Statement.   
 B) Using the CFA designation without submitting a Professional Conduct Statement and paying annual dues.  
 C) Exaggerating the implications of holding the CFA designation.

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

7) \_\_\_\_\_\_

A) At the same time notify clients for whom an investment is suitable of a new investment recommendation.   
 B) Shorten the time between decision and dissemination.  
 C) Maintain a list of clients and their holdings.

**8)** Francisco Perez, CFA, CPA, is a portfolio manager for an investment advisory firm. Due to the prominence of his position, he is often invited to attend free marketing and educational events hosted by firms which seek to inform the investment community about their investment processes. One such firm, Unlimited Horizons, has invited Perez to attend free educational events which qualify for Continuing Education credits which could help Perez maintain his CPA designation. Perez should *most likely*:

8) \_\_\_\_\_\_

A) decline to attend the event as it could result in a violation of Standard I(A) "Knowledge of the Law."   
 B) accept the invitation as no cash compensation is involved and the primary intent is to educate and inform the investment community.  
 C) decline to attend the event as it could result in a violation of Standard I(B) "Independence and Objectivity."

**9)** Lucy Ackert and Chris Brown prepared the following information to be included in the promotional materials of their employer, Lofton Securities.  
 ● Lucy Ackert is one of five CFAs at Lofton Securities. She satisfied all requirements for the CFA designation in 1998.  
 ● Chris Brown holds a CFA Level I designation, which he passed in 2001. He is registered to take the next scheduled Level II examination.  
 Are the promotional materials prepared by Ackert and Brown fully consistent with the Standards of Professional Conduct?

9) \_\_\_\_\_\_

A) Ackert: No. Brown: Yes.   
 B) Ackert: Yes. Brown: No.  
 C) Ackert: No. Brown: No.

**10)** Victor Logan is a portfolio manager for McCoy Advisors, and Jack Brisco is the Director of Research for McCoy. Brisco has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the McCoy model. The model is purely quantitative and screens stocks into buy, hold, and sell categories. The basic philosophy of the model is thoroughly explained to clients. Brisco frequently alters the model based on rigorous research—an aspect that is well explained to clients, although the specific alterations are not continually disclosed. Portfolio managers then make specific sector and security holding decisions, purchasing only securities that are indicated as "buys" by the model. Logan has conducted very thorough research on his own, using the same process that Brisco uses to validate his findings. Logan feels the model is missing some key elements that would further reduce the list of acceptable securities to purchase, however, Brisco has refused to look at Logan's research. Frustrated by this, Logan applies his own version of the model, with the justification that he is still only purchasing securities on the buy list. Because of the conflict with Brisco, he does not disclose the use of the model to anyone at McCoy or to clients. Which of the following statements regarding Logan and Brisco is CORRECT? Logan is:

10) \_\_\_\_\_\_

A) not violating the Standards by applying his version of the model, but is violating the Standards by not disclosing it to clients. Brisco is not violating the Standards.   
 B) violating the Standards by applying his version of the model and by not disclosing it to clients. Brisco is violating the Standards by failing to consider Logan's research.  
 C) violating the Standards by applying his version of the model and by not disclosing it to clients. Brisco is not violating the Standards.

**11)** Sometimes a CFA Institute member simply *feels* a law has been violated by his firm, and sometimes the member *knows* a law has been violated. Which of the following pairs of guidelines is CORRECT with respect to the first step a member should take in each case? The member should first contact:

11) \_\_\_\_\_\_

A) the firm's counsel if he feels a law has been violated and the SEC if he knows a law has been violated.   
 B) his supervisor in the firm if he feels a law has been violated and contact the firm's counsel if he knows a law has been violated.  
 C) the firm's counsel if he feels a law has been violated and contact his supervisor if he knows a law has been violated.

**12)** Amanda Brad, CFA, is a security analyst at UpTrend, Incorporated During a routine visit to a beauty salon, she learns that a major cosmetic company, Lorean, is expected to present a revolutionary formula for facial cream. Brad buys Lorean stock for her portfolio and prepares a special report on the company. Brad also makes a call to Hillary Lang, another security analyst at UpTrend, to inform her about the news.   
 Lang starts trading on her clients’ portfolios. Brad’s report states that given the on-going research activity at Lorean within the last months, investors can expect some successful new products and a sharp increase in the price of the stock. Lang’s actions:

12) \_\_\_\_\_\_

A) violate the Standard of Objectivity and Independence.   
 B) violate the Standards because she trades on inside information.  
 C) violate the Standard of Fair Dealing.

**13)** An analyst preparing a report needs to cite which of the following?

13) \_\_\_\_\_\_

A) A recent quote from the Federal Reserve Chairman.   
 B) The individual who developed a chart from the same firm.  
 C) Estimates of betas provided by Standard & Poor's.

**14)** Sue Parsons, CFA, works full-time as an investment advisor for the Malloy Group, an asset management firm. To help pay for her children’s college expenses, Parsons wants to engage in independent practice in which she would advise individual clients on their portfolios. She would conduct these investment activities only on weekends. She is currently only in the preparation stage and has not started independent practice yet. Which of the following statements about Standard IV(A), Loyalty to Employer, is *most* accurate? Standard IV(A):

14) \_\_\_\_\_\_

A) does not require Parsons to notify Malloy of preparing to undertake independent practice under the current conditions.   
 B) requires Parsons to obtain written consent from both Malloy and the persons from whom she undertakes independent practice.  
 C) requires Parsons to notify Malloy in writing about her intention to undertake an independent practice.

**15)** 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:

15) \_\_\_\_\_\_

A) not in violation of the Standard.   
 B) violating the standard by either showing the pre-release version to his intern or sending it to his brother.  
 C) 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.

**16)** An analyst who is a CFA Institute member receives an invitation from a business associate’s firm to spend the weekend in a high-quality resort. In order to abide by the Standards, the analyst should (may):

16) \_\_\_\_\_\_

A) do both of the actions listed here.   
 B) obtain written consent from his supervisor if the offer is contingent on achieving a target investment return.  
 C) refuse the invitation if the associate is from a firm he analyzes for his employer.

**17)** One year ago, Karen Jason left the employment as a portfolio manager of Howe Advisors. The departure was contentious and both parties threatened legal action. As a result, both parties signed a settlement in which Jason was paid a pro rated bonus, but agreed not to work on the portfolios of any existing Howe client for two years. The terms of the agreement were that both parties agreed to keep all aspects of the agreement confidential, including the fact that there was hostility surrounding the departure. Jason now works for Torre Advisors, who has the Stein Company as a new client. At the time Jason left Howe, Stein was a client of Howe, although Jason did not personally work on the Stein portfolio. Jason's supervisor at Torre wants Jason to work on the Stein portfolio. Jason should:

17) \_\_\_\_\_\_

A) inform her supervisor that she cannot work on the portfolio because of a legal agreement, but cannot tell him why.   
 B) work on the portfolio because she did not personally work on the portfolio when she was at Howe.  
 C) inform her supervisor that she cannot work on the portfolio because of a non-compete agreement.

**18)** Nick O'Donnell, CFA, unsuspectingly joins the research team at Wickett & Company, an investment banking firm controlled by organized crime. None of the managers at Wickett are CFA Institute members.  
 Because of his tenuous situation at Wickett, O'Donnell begins making preparations for independent practice. He knows he will be terminated if he informs management at Wickett that he is preparing to leave. Consequently, he determines that "if he can just hang on for one year, he will likely have a client base sufficient for him to strike out on his own." This action is:

18) \_\_\_\_\_\_

A) a violation of his duty to disclose conflicts to his employer.   
 B) not a violation of his duty to employer.  
 C) a violation of his fiduciary duties.

**19)** Gordon McKinney, CFA, works in the trust department of a bank. The bank's trust account holds a large block of a particular company. McKinney learns that this company is going to buy back one million shares at a 15% premium to the market price on a first-come-first-served basis. McKinney immediately tells his mother-in-law to tender her shares but waits until the end of the day to tender the trust's shares. McKinney has *most* likely violated:

19) \_\_\_\_\_\_

A) Standard VI(B), Priority of Transactions.   
 B) Standard IV(A), Loyalty to Employer.  
 C) Standard II(A), Material Nonpublic Information.

**20)** 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:

20) \_\_\_\_\_\_

A) for both of the reasons listed here.   
 B) only if the broker knows that the meeting is non-public information.  
 C) if the housekeeper says the meeting concerned a tender offer and the broker knows that it is non-public information.

**21)** In accordance with Standard III (A) Loyalty, Prudence and Care, which of the following statements is *not* a required or recommended action?

21) \_\_\_\_\_\_

A) Submit to clients, at least quarterly, itemized statements detailing all of the period’s transactions.   
 B) Vote all proxies on behalf of clients in a responsible manner.  
 C) Utilize client brokerage to the sole benefit of the client.

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

22) \_\_\_\_\_\_

A) engaging in neither of these practices.   
 B) using a directed brokerage arrangement.  
 C) not voting all proxies for client stocks.

**23)** 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:

23) \_\_\_\_\_\_

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

**24)** Liam McCoy has lunch with a wealthy client whose portfolio he manages. McCoy advises the client to double his current position in the JKM Corporation due to an anticipated increase in sales. In accordance with Standard (V) Investment Analysis, Recommendations and Actions, when McCoy returns to his office he should:

24) \_\_\_\_\_\_

A) document the details of the conversation with the client with regard to his investment recommendation.   
 B) verify the suitability of the investment recommendation before placing the client’s order.  
 C) identify other clients for whom JKM may be a suitable investment and notify them immediately of his recommendation.

**25)** Rhonda Meyer, CFA, is preparing a research report on Moon Ventures, Incorporated In the course of her research she learns the following:  
 ● Moon had its credit rating downgraded by a prominent rating agency 3 years ago due to sales pressure in the industry. The rating was restored 3 months later when the pressure resolved.  
 ● Moon’s insider trading has been substantial over the last 3 months. Holdings of Moon shares by officers, directors, and key employees were reduced by 50% during that period.  
 In Meyer’s detailed report making a buy recommendation for Moon, both the credit rating downgrade and the insider trading were omitted from the report.  
 Meyer has:

25) \_\_\_\_\_\_

A) not violated the Code and Standards in her report.   
 B) violated the Code and Standards by not including the insider trading information in her report.  
 C) violated the Code and Standards by not including the insider trading information and by not including the credit rating downgrade in her report.

**26)** Member compliance on issues relating to corporate governance or to soft dollars is primarily addressed by the Standard concerning:

26) \_\_\_\_\_\_

A) Disclosure of Conflicts to Clients and Prospects.   
 B) Loyalty, Prudence, and Care.  
 C) Disclosure of Referral Fees.

**27)** Steve Jones is a portfolio manager for Gregg Advisors. Gregg has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the Gregg model. The model is purely quantitative and screens stocks into buy, hold, and sell categories. The basic philosophy of the model is thoroughly explained to clients. The director of research frequently alters the model based on rigorous research—an aspect that is well explained to clients, although the specific alterations are not continually disclosed. Portfolio managers then make specific sector and security holding decisions, purchasing only securities that are indicated as "buys" by the model. Jones thoroughly understands the model and uses it with all of his clients. Jones is:

27) \_\_\_\_\_\_

A) violating the Standards in purchasing stocks without a thorough research basis and in not disclosing all alterations of the model to clients.   
 B) not violating the Standards either in purchasing stocks without a thorough research basis or in not disclosing all alterations of the model to clients.  
 C) violating the Standards in not disclosing all alterations of the model to clients, but not in purchasing stocks without a thorough research basis.

**28)** A code of ethics:

28) \_\_\_\_\_\_

A) provides the public with assurance of a minimum level of ethical behavior.   
 B) should not be used for marketing purposes.  
 C) may be rules-based or principles-based.

**29)** 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:

29) \_\_\_\_\_\_

A) may not act or cause others to act on this information.   
 B) should inform her compliance officer that she has material nonpublic information on firms she covers.  
 C) may use this information to support an investment recommendation.

**30)** Joni Black, CFA, works for a portfolio management firm. Black is a partner of the firm and is primarily responsible for managing several large pension plans. Black has just finished a research report in which she recommends Zeta Corporation as a “Strong Buy.” Her rating is based on solid management in a growing and expanding industry. She just handed the report to the marketing department of the firm for immediate dissemination. Upon returning to her desk she notices a news flash by CNN reporting that management for Zeta Corporation is retiring. Black wishes she did not recommend Zeta Corporation as a “Strong Buy,” but believes the corporation is still a good investment regardless of the management. What course of action for Black is *best*?  
 Black:

30) \_\_\_\_\_\_

A) should revise the recommendation based on this new information.   
 B) should report the new information to her immediate supervisor so that they can determine whether or not the marketing department should send out the report as written.  
 C) may send out the report as written as long as a follow up is disseminated within a reasonable amount of time reflecting the changes in management.

**31)** Recommended procedures to comply with the Standard concerning priority of transactions are *least likely* to include:

31) \_\_\_\_\_\_

A) limited front-running by employees.   
 B) disclosure to clients of the firm’s policies in regard to personal investing.  
 C) blackout periods.

**32)** An analyst finds a stock with historical returns that are not correlated with interest rate changes. The analyst writes a report for his clients that have large allocations in fixed-income instruments and emphasizes the observed lack of correlation. He feels the stock would be of little value to investors whose portfolios are composed primarily of equities. The clients with allocations of fixed income instruments are the only clients to see the report. According to Standard V(B), Communication with Clients and Prospective Clients, the analyst has:

32) \_\_\_\_\_\_

A) not violated the Standard.   
 B) violated the Standard concerning fair dealings with all clients.  
 C) violated the article in the Standard concerning facts and opinions.

**33)** Patricia Hoolihan is an individual investment advisor who uses mutual funds for her clients. She typically chooses funds from a list of 40 funds that she has thoroughly researched. The Burns, a married couple that are a client, asked her to consider the Hawkeye fund for their portfolio. Hoolihan had not previously considered the fund because when she first conducted her research three years ago, Hawkeye was too small to be considered. However, the fund has now grown in value, and cursory research uncovers no fundamental flaws with the fund. She puts the fund in the Burns' portfolio but not in any of her other clients' portfolios. The fund ends up being the best performing fund on her list.  
 Hoolihan has:

33) \_\_\_\_\_\_

A) violated the Standards by not having a reasonable and adequate basis for making the recommendation.   
 B) not violated the Standards.  
 C) violated the Standards by not dealing fairly with clients.

**34)** Which of the following statements about a code of ethics is *most accurate*? A code of ethics:

34) \_\_\_\_\_\_

A) must include rules-based standards of conduct.   
 B) does not need to include standards of conduct.  
 C) must include principles-based standards of conduct.

**35)** An analyst has found an investment with what appears to be a great return-to-risk ratio. The analyst double-checks the data for accuracy, keeps careful records, and is careful to not make any misrepresentations as he simultaneously sends an e-mail to all his clients with a “buy” recommendation. According to Standard V(A), Diligence and Reasonable Basis, the analyst has:

35) \_\_\_\_\_\_

A) fulfilled all obligations.   
 B) violated the Standard if he does not verify whether the investment is appropriate for all the clients.  
 C) violated the Standard by communicating the recommendation via e-mail.

**36)** Abner Flome, CFA, is writing a research report on Paulsen Group, an investment advisory firm. Flome’s brother-in-law holds shares of Paulsen stock. Flome has recently interviewed for a position with Paulsen and expects a second interview. According to the Standards, Flome’s *most appropriate* action is to disclose in the research report:

36) \_\_\_\_\_\_

A) his brother-in-law’s holding of Paulsen stock and that he is being considered for a job at Paulsen.   
 B) that he is being considered for a job at Paulsen.  
 C) his brother-in-law’s holding of Paulsen stock.

**37)** Lance Tuipulotu, CFA, manages investments for 400 individuals and families and often finds his resources stretched. When his largest investors petition him to include a 5% to 7% allocation of non- investment-grade bonds in their portfolios, he decides he needs additional help to meet the request. He considers various independent advisors to use as submanagers, but determines that the most qualified advisors would be too expensive. Reasoning that a lower-cost provider would enable him to pass the savings along to his clients, he chooses that provider to invest the new bond allocation. Tuipulotu has violated:

37) \_\_\_\_\_\_

A) Both Standard III(C) Suitability and Standard V(A) Diligence and Reasonable Basis.   
 B) Standard III(C) Suitability by failing to consider the appropriateness of the non-investment-grade bonds.  
 C) Standard V(A) Diligence and Reasonable Basis by letting fee structure determine the selection of the submanager.

**38)** Cynthia Abbott, a CFA charterholder, is preparing a research report on Boswell Company for her employer, Capital Asset Management. Bob Carter, president of Boswell, invites Abbott and several other analysts to visit his company and offers to pay her transportation and lodging. Abbott pays for her own transportation and lodging, but while visiting the company, accepts an item of small value from Carter. Abbott does not disclose this gift to her supervisor at Capital when she returns. In the course of the company visit, Abbott overhears a conversation between Carter and his chief financial officer that the company’s earnings per share (EPS) are expected to be $1.10 for the next quarter. Abbott was surprised that this EPS is substantially above her initial earnings estimate of $0.70 per share. Without further investigation, Abbott decides to include the $1.10 EPS in her research report on Boswell. Using the high EPS positively affects her recommendation of Boswell.  
 Which of the following statements about whether Abbott violated Standard V(A), Diligence and Reasonable Basis and Standard I(B), Independence and Objectivity is CORRECT? Abbott:

38) \_\_\_\_\_\_

A) violated Standard V(A) but she did not violate Standard I(B).   
 B) did not violate Standard V(A) but she violated Standard I(B).  
 C) violated both Standard V(A) and Standard I(B).

**39)** Ken James has been an independent financial advisor for 15 years. He received his CFA Charter in 1993, but did not feel it helped his business, so he let his dues lapse this year. He still has several hundred business cards with the CFA designation printed on them. His promotional materials state that he received his CFA designation in 1993. James:

39) \_\_\_\_\_\_

A) must cease distributing the cards with the CFA designation, but can continue to use the existing promotional materials.   
 B) must cease distributing the cards with the CFA designation and the existing promotional materials.  
 C) can continue to use the existing promotional materials, and can use the cards until his supply runs out—his new cards cannot have the designation.

**40)** 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:

40) \_\_\_\_\_\_

A) both of these.   
 B) Standard III(C), Suitability.  
 C) Standard III(B), Fair Dealing.

**41)** Lee Hurst, CFA, is an equity research analyst who has recently left a large firm to start independent practice. He is able to re-create several of his previous recommendation reports, based on his clear recollection of supporting documentation he compiled at his previous employer. He publishes the reports and obtains several new clients. Hurst is *most likely*:

41) \_\_\_\_\_\_

A) in violation of Standard V(C) Record Retention.   
 B) in violation of Standard V(A) Diligence and Reasonable Basis.  
 C) not in violation of any Standard.

**42)** Martin Tripp, CFA, is vice-president of the equity department at Walker Financial, a large money management firm. Of the twenty analysts in his department for whom he has supervisory responsibility, eight are subject to CFA Institute Standards of Professional Conduct. Tripp believes that he cannot personally evaluate the conduct of the twenty analysts on a continuing basis. Therefore, he plans to delegate some of his supervisory duties to Sarah Green, who is subject to the Standards, and some to Bob Brown, who is not subject to the Standards. According to CFA Institute Standards of Professional Conduct, which of the following statements about Tripp's ability to delegate supervisory duties is *most accurate*?

42) \_\_\_\_\_\_

A) Tripp may delegate some or all of his supervisory duties only to Green because she is subject to the Standards.   
 B) Tripp may not delegate any of his supervisory duties to either Green or Brown.  
 C) Tripp may delegate some or all of his supervisory duties to Brown, even though Brown is not subject to the Standards.

**43)** Andy Rock, CFA, is an analyst at Best Trade Company The company is going to announce a sell recommendation on Biomed stock in one hour. Rock was a member of the team who reached the decision on Biomed. Rock’s wife has an account at Best Trade Comapany that contains Biomed stock. According to the Code and Standards, trading on Rock’s wife’s account can begin:

43) \_\_\_\_\_\_

A) only after the recommendation is announced to the general public.   
 B) as soon as the information is disseminated to all clients.  
 C) only after Rock, as a beneficial owner, has given an appropriate amount of time for clients and his employer to act.

**44)** Jacob Allen, CFA, decides he could make more money if he started his own company. Which of the following steps would *most likely* violate Standard IV(A) Loyalty?

44) \_\_\_\_\_\_

A) Using his notes from prior research of a firm in a creating a new research report on the firm, after leaving his current employer.   
 B) Soliciting, without written permission from his current employer, the business of former clients after he leaves his current employer.  
 C) Renting space for his new company and interviewing several candidates for the position of manager at the new company.

**45)** An analyst has several groups of clients who are categorized according to their specific needs. Compared to research reports distributed to all of the clients, reports for a specific group:

45) \_\_\_\_\_\_

A) may generally exclude more basic facts.   
 B) will not be allowed because it violates the Standard III(B), Fair Dealing.  
 C) will definitely include more basic facts.

**46)** Ron Vasquez is registered to sit for the Level II CFA exam. Unfortunately, Vasquez has failed the exam the past two years. In his frustration, Vasquez posted the following comment on a popular internet bulletin board: “I believe that CFA Institute is intentionally limiting the number of charterholders in order to increase its cash flow by continuing to fail candidates. Just look at the pass rates.”  
 Which of the following statements regarding Vasquez’s conduct is *most accurate*? Vasquez is:

46) \_\_\_\_\_\_

A) in violation of both Standard I(D) Misconduct and Standard VII(A) Conduct as Participants in CFA Institute Programs.   
 B) not in violation of Standard I(D) Misconduct or Standard VII(A) Conduct as Participants in CFA Institute Programs  
 C) in violation of Standard VII(A) Conduct as Participants in CFA Institute Programs, but not in violation of Standard I(D) Misconduct.

**47)** Judy Gonzales is a portfolio manager with Brenly Capital and works on Johnson Company's account. Brenly has a policy against accepting gifts over $25 from clients. The Johnson portfolio has a fantastic year, and in appreciation, the pension fund manager sent Gonzales a rare bottle of wine. Gonzales should:

47) \_\_\_\_\_\_

A) inform her supervisor in writing that she received additional compensation in the form of the wine.   
 B) return the bottle to the client explaining Brenly's policy.  
 C) present the bottle of wine to her supervisor.

**48)** 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:

48) \_\_\_\_\_\_

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

**49)** 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:

49) \_\_\_\_\_\_

A) only disclose research that has already been disseminated to clients, as long as the reporter is providing valuable information of her own.   
 B) 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.  
 C) not disclose any research even after it has been disseminated to clients regardless of the value of the information that the reporter may have.

**50)** Preston Partners is an investment management firm that adopted the Code and Standards as part of its policy manual. Gerald Smithson, CFA, has recently added the stock of Utah Biochemical Company and Norgood PLC to all his client's investment portfolios. Shortly afterwards Utah Biochemical and Norgood announced a merger that increased the share price of both companies. Smithson contends he saw the president of Utah Biochemical dining with the chairman of Norgood, but did not overhear their conversation. Smithson researched both companies extensively and determined that each company was a good investment. He put in a block trade for shares in each company. Preston's policies were not clear in this area as he allocated the shares by starting with his largest client accounts and working down to the small accounts. Some of Smithson's clients were very conservative personal trust accounts, others were pension funds who had aggressive investment objectives. Which standard was NOT broken?

50) \_\_\_\_\_\_

A) Standard III(C)—Suitability.   
 B) Standard V(A)—Diligence and Reasonable Basis.  
 C) Standard IV(C)—Responsibilities of Supervisors.

**51)** Jason Blackwell, CFA, works as an investment manager for Mega Capital, a large multinational brokerage firm. Mega Capital is based in a country whose applicable law is stricter than the CFA Institute Code and Standards, but does business with clients in a country whose applicable law is less strict than the Code and Standards. Blackwell decides to follow the requirements of the Code and Standards for clients in the less strict country, which is sufficient to also comply with that less-strict country’s local laws. While Blackwell is still employed at Mega, Lego Associates verbally asks Blackwell to review client portfolios during evenings and weekends for a fee. Blackwell gets written consent from his immediate supervisor at Mega to undertake this independent activity for a one-month trial basis.  
 Which of the following statements about Blackwell’s actions involving Standard I, Professionalism, and Standard IV(A), Loyalty is *most* accurate? Blackwell:

51) \_\_\_\_\_\_

A) violated Standard I but did not violate Standard IV(A).   
 B) violated both Standard I and Standard IV(A).  
 C) did not violate either Standard I or Standard IV(A).

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

52) \_\_\_\_\_\_

A) on a pro-rata basis over all suitable accounts.   
 B) based upon any method the firm deems suitable so long as the allocation procedure has been disclosed to all clients.  
 C) based upon compensation arrangements.

**53)** 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:

53) \_\_\_\_\_\_

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.

**54)** Paul Thomas, CFA, is designing a new layout for research reports his firm writes and issues on individual stocks. In his design, Thomas includes a stock chart on the first page of each report. He does not reference that the charts are copied from the Standard & Poor's web site. Thomas has:

54) \_\_\_\_\_\_

A) violated CFA Institute Standards of Professional Conduct because he did not state the source of the charts.   
 B) violated CFA Institute Standards of Professional Conduct because he did not make sure that the information in these charts is accurate.  
 C) not violated CFA Institute Standards of Professional Conduct because these charts are widely available over the Internet.

**55)** Klaus Gerber, CFA, is a regular contributor to the Internet site WizeGuy. This past week Gerber has been incorrectly quoted as recommending that investors buy shares in Bradford, Incorporated. 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, Incorporated. 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:

55) \_\_\_\_\_\_

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.

**56)** 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:

56) \_\_\_\_\_\_

A) not required to disseminate the change of recommendation from a buy to a sell because the change is not material.   
 B) required to disseminate the change in a prior investment recommendation to all clients and customers on a uniform basis.  
 C) required to design an equitable system to disseminate the change in a prior investment recommendation.

**57)** Fern Baldwin, CFA, as a representative for Fernholz Investment Management, is compensated by a base salary plus a percentage of fees generated. In addition, she receives a quarterly performance bonus on a particular client’s fee if the client’s account increases in value by more than 2 points over a benchmark index. Baldwin had a meeting with a prospect in which she described the firm’s investment approach but did not disclose her base salary, percentage fee, or bonus.  
 Baldwin has:

57) \_\_\_\_\_\_

A) not violated the Standards because there is no conflict of interest with a potential prospect in the employment arrangements.   
 B) violated the Standards by not disclosing her salary, fee percentage, and performance bonus.  
 C) violated the Standards by not disclosing her performance bonus.

**58)** The CFA Institute Professional Conduct Program may impose sanctions on:

58) \_\_\_\_\_\_

A) CFA charterholders, member firms, and candidates for the CFA designation.   
 B) CFA charterholders and candidates for the CFA designation.  
 C) CFA charterholders only.

**59)** An analyst belongs to a nationally recognized charitable organization, which requires dues for membership. The analyst has worked out a deal where he provides money management advice in lieu of paying dues. Which of the following must the analyst do?

59) \_\_\_\_\_\_

A) Must treat the charitable organization as his employer.   
 B) Resign from the position because the relationship is a conflict with the Standards.  
 C) Nothing since he is not an employee of the charitable organization.

**60)** 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:

60) \_\_\_\_\_\_

A) violated the Code and Standards by sending the e-mail recommendation to only some of his clients.   
 B) not violated the Code and Standards because he acted fairly in disseminating research information to his clients.  
 C) violated the Code and Standards by sending the e-mail recommendation in advance of the printed report.

**61)** A profession is *most accurately* described as an occupational group that requires its members to:

61) \_\_\_\_\_\_

A) put client interests first.   
 B) have specialized expert knowledge.  
 C) abide by a code of ethical conduct.

**62)** Which of the following is *least likely* to be a reason for imposing a suspension on a member or candidate?

62) \_\_\_\_\_\_

A) Discussing a question from the CFA exams on social media.   
 B) Misdemeanor charge for possession of narcotics.  
 C) Failing to return the annual professional conduct statement.

**63)** John Hill, CFA, has been working for Advisors, Incorporated, for eight years. Hill is about to start his own money management business and has given his two-week notice of his resignation from Advisors. A few days before his resignation takes effect, a former client of Advisors calls Hill at his home about his new firm. The former client says that he is very happy that Hill is leaving Advisors because now he and Hill can resume a professional relationship. The client says that he would never become a client of Advisors again. Hill promises to call the client back after he has left Advisors. Hill does not tell his employer about the call. Hill has *most likely*:

63) \_\_\_\_\_\_

A) not violated the Standards.   
 B) violated the Standard concerning loyalty to employer.  
 C) violated the Standard concerning disclosure of conflicts.

**64)** 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:

64) \_\_\_\_\_\_

A) has not violated any Standard.   
 B) has violated the Standards by disseminating confidential information.  
 C) has violated the Standards by utilizing material nonpublic information.

**65)** The following information pertains to the Galaxy Trust, a trust established by Stephen P. House and managed by Gamma Investment LLC:  
 ● At the time the trust was established House provided $5 million in cash to fund the trust, but Gamma was aware that 93% of his personal assets were in the form of Oracle stock.  
 ● Gamma has been asked to view his funds and the trust as a single entity for planning purposes, since House’s will stipulates that all of his estate will pass to the trust upon his death.  
 ● The investment policy statement, developed in September 1996, stipulates that the trust should maintain a short position in Oracle stock and use the proceeds to diversify the trust more adequately.  
 ● House was able to sell all of his Oracle shares back to the corporation in January 1999 for cash.  
 ● The policy statement redrawn in September 1999 continues to stipulate that the trust hold a short position in Oracle stock.  
 ● House has given the portfolio manager in charge of the trust an all expenses paid vacation package anywhere in the world each year at Christmas. The portfolio manager has reported this fact in writing to his immediate supervisor at Gamma.  
 Which of the following is *most* correct? The investment manager is:

65) \_\_\_\_\_\_

A) in violation of the Code and Standards by not properly updating the investment policy statement in light of the change in the circumstances but is not in violation with regard to the acceptance of the gift from House.   
 B) in violation of the Code and Standards by not properly updating the investment policy statement in light of the change in the circumstances and is in violation with regard to the acceptance of the gift from House.  
 C) not in violation of the Code and Standards for not properly updating the investment policy statement in light of the change in the circumstances and is not in violation with regard to the acceptance of the gift from House.

**66)** Bob Hatfield, CFA, has his own money management firm with two clients. The accounts of the two clients are equal in value. It is Hatfield’s opinion that interest rates will fall in the near future. Based upon this, Hatfield begins increasing the bond allocation of each portfolio. In order to comply with Standard V(B), Communication with Clients and Prospective Clients, the analyst needs to:

66) \_\_\_\_\_\_

A) inform the clients of the change and tell them it is based upon an opinion and not a fact.   
 B) perform both of these functions.  
 C) make sure that the change is identical for both clients.

**67)** Bill Valley has been working for Advisors, Incorporated, for several years, and he just joined CFA Institute. Valley’s sister just received a large bonus in the form of stock options in Zephyr, Incorporated. Valley’s sister knows nothing about financial assets and offers Valley a week at her holiday home each year in exchange for Valley monitoring Zephyr and the value of her stock options. In order to comply with the Code and Standards, Valley needs to inform Advisors of:

67) \_\_\_\_\_\_

A) both the use of the holiday home and his sister's options.   
 B) the compensation in the form of the use of the holiday home only.  
 C) nothing since no money is involved and it is a favor for a family member.

**68)** Roger Smith, CFA, has been invited to join a group of analysts in touring the riverboats of River Casino Corporation. For the tour, River Casino has arranged chartered flights from casino to casino since commercial flight schedules are not practical for the group’s time schedule. River Casino has also arranged to pay for the analysts’ lodging for the three nights of the tour. According to CFA Institute Standards of Professional Conduct, Smith:

68) \_\_\_\_\_\_

A) is required to pay for his flight and lodging.   
 B) may accept the arrangements as they are.  
 C) may accept the flight but is required to pay for his lodging.

**69)** 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?

69) \_\_\_\_\_\_

A) Contact East Street’s management and urge them to make the information public and make the trade if they refuse.   
 B) Post the information about the drop in sales on an internet bulletin board to achieve public dissemination and inform his supervisor of the posting.  
 C) Request that the firm place East Street’s stock on a restricted list and decline to make any trades of the company’s stock.

**70)** Graham Carson, CFA, is an investment advisor to Ron Grayson, a client with moderate risk tolerance and an investment horizon of 15 years. Grayson calls Carson to complain about two stocks in his account that have performed poorly. He feels that one stock was too risky for him as it paid no dividend and had a beta of 1.4. The other stock had a beta of 0.9 and paid a dividend of 3%, but financial regulators have indicated that the firm’s reported earnings were incorrectly stated. Based on this information, Carson has *most likely*:

70) \_\_\_\_\_\_

A) not violated the Standards.   
 B) violated both the Standard on suitability and the Standard on diligence and reasonable basis.  
 C) violated only the Standard on suitability.

**71)** 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?

71) \_\_\_\_\_\_

A) Yes, because the applicable law is that of her home country.   
 B) No, not under any circumstances.  
 C) Yes, but she must obtain permission from her employer.

**72)** Recommended procedures to comply with the Standard related to fair dealing are *most likely* to include:

72) \_\_\_\_\_\_

A) publishing personnel guidelines for pre-dissemination that prohibit those who know about a pending recommendation from discussing or acting on it.   
 B) simultaneously informing all investment representatives in the firm about pending recommendation changes.  
 C) requiring investment committee approval for all recommendation changes.

**Answer Key**Test name: Ethical and Professional Standards

1) A

Using reasonable judgment, an analyst may exclude certain factors from research reports. Since the report will be delivered to clients with well-diversified portfolios, total risk is not as important as beta. Given that the total risk has been only commensurate with historical return, furthermore, then the analyst is not negligent by not mentioning it.

2) B

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

3) A

There is no violation. It is in the best interest of the client to be diversified and selling via a series of cross trades will likely reduce price impact costs when compared to selling directly into the market. The analyst appears to have reasonable basis for putting the securities in the accounts of other clients.

4) C

Hull would not violate Standard III(C), Suitability, by managing Peters’ account without knowledge of his risk preferences. She made a reasonable inquiry into Peters’ investment experience, risk and return objectives, and financial constraints, as the Standard requires. If a client chooses not to provide some of this information, the member or candidate can only be responsible for assessing the suitability of investments based on the information the client does provide.

5) A

By expressing his investment analysis on his personal blog ahead of his employer, Malone deprived his employer of the benefits of his skills and abilities and therefore violated Standard IV(A) Loyalty. Malone did not possess material nonpublic information about WestAir and no transactions have taken place.

6) A

Misrepresenting information on the Professional Conduct Statement is a direct violation of Standard VII(A) Conduct as Participants in CFA Institute Programs. The other choices are violations of Standard VII(B) Reference to CFA Institute, the CFA Designation, and the CFA Program.

7) A

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.

8) C

Perez should decline the invitation as it creates the impression of lack of independence. If he does not accept the free continuing education courses, he would have to pay for them some other way so the free courses are a form of compensation. Nothing in the vignette suggests the free classes are illegal.

9) C

Neither statement is fully consistent with Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program. The CFA designation must always be used as an adjective and never as a noun as Ackert used in her promotional description. Correct use of the CFA designation would be: “Lucy Ackert is one of five CFA charterholders at Lofton Securities.” No designation exists for someone who has passed Level I of the CFA examination. Thus, Brown’s statement saying that he “holds a CFA Level I designation” represents incorrect use. A correct statement would be: “Chris Brown passed Level I of the CFA examination in 2001.”

10) A

Because the research is thoroughly conducted, and Logan has authority to make individual security selection decisions, Logan is not violating the Standards by applying his model. However, Logan is violating the Standard on communication with clients and prospective clients by excluding relevant factors of the investment process. The use of his model is an important aspect of the investment process and should be disclosed to clients. Brisco is not violating the Standards by not considering Logan’s research.

11) C

Standard I(A) says that when a member feels a law has been broken, the member should seek advice from the firm’s counsel. If the member feels the advice is unbiased and competent, the member should follow it. If the member knows a law has been violated, the member should contact a supervisor.

12) C

Lang violates Standard III(B), Fair Dealing, which imposes the requirement to start trading on the clients’ portfolios only after the information is disseminated to all clients. We don't know if the information is non-public which would make it insider information if it were.

13) A

Statistics provided by a recognized agency, such as Standard and Poor’s, do not need to be cited. Charts, quotes, and algorithms developed by the firm would need to be cited when they are used but the individual(s) who developed the materials within the firm do not need to be cited.

14) A

Standard IV(A), Loyalty to Employer, requires that Parsons obtain written consent only from her employer before she undertakes independent practice that could result in compensation or other benefit in competition with Malloy. It is not required to get permission from your employer when only preparing to go into independent practice.

15) B

Standard II(A), Material Nonpublic Information, says that a member must be careful about handling material non-public information. As a member of CFA Institute, the CFO must limit the people who see important information before it is released. It would not be appropriate to involve an intern or a relative in the process.

16) A

According to Standard I(B) Independence and Objectivity, the analyst should refuse the invitation if it is from a firm the analyst covers for his employer. The analyst can accept the invitation if it is from a client but the analyst must get written consent from his employer if the offer is contingent on future performance, to comply with Standard IV(B) Additional Compensation Arrangements.

17) A

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

18) B

O’Donnell is required to obtain consent from his employer if he is attempting to practice in competition with his employer. Merely undertaking preparations to leave, which do not violate a duty, is not a violation of the Code and Standards.

19) A

Standard VI(B), Priority of Transactions, applies. If an analyst decides to make a recommendation about the purchase or sale of a security, he must give his customers or employer adequate opportunity to act on this recommendation before acting on his own behalf. Personal transactions include those made for the member's own account and family accounts. Here, McKinney violated Standard VI(B) by acting on his mother-in-law's behalf and then waiting until the end of the day to act on his employer's behalf.  
 *Explanations for other responses*:  
 ● Standard IV(A), Loyalty to Employer, does not apply. This standard concerns a member competing with his/her employer (independent practice), for example a member who engages in outside consulting.  
 ● Standard II(A), Material Nonpublic Information, does not apply. The question does not indicate that the information is not public.

20) C

Standard II(A), Material Nonpublic Information, states “a member cannot trade or cause others to trade in a security while the member possesses material nonpublic information” A tender offer would certainly be material nonpublic information. Knowing that the meeting took place, and nothing else, does not restrict the broker. A reasonable investor would need to know more to determine if the information was material.

21) B

Because of the time and expense involved in voting a proxy, Members and Candidates are not required to vote every proxy. A cost benefit analysis can be performed to determine if it is necessary to vote a proxy. Standard III(A) requires that client brokerage be used to benefit the client. Quarterly statements to clients are recommended.

22) A

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.

23) A

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.

24) A

Standard V(C) Record Retention requires that Members and Candidates document all recommendation and communications with clients. McCoy should document the details of the conversation, including any resulting investment decisions and/or actions. The suitability of the investment should have already been considered before the recommendation and McCoy should not execute the order until the client instructs him to. Identifying other clients for this investment would fall under Standard III(B) Fair Dealing.

25) B

Standard V(B), Communication with Clients and Prospective Clients, requires analysts to use reasonable judgment regarding the inclusion or exclusion of relevant factors in their research reports. It would not be unreasonable to exclude the temporary credit downgrade from 3 years earlier.

26) B

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

27) B

Jones and Gregg are using reasonable judgment in not continually disclosing all of the alterations of the model. It is acceptable to use a pure quantitative model as a sole basis for purchasing stocks, as long as it is thoroughly researched.

28) C

A code of ethics may be rules-based or principles-based. There can be no assurance that none of a group or professionals will violate a code of ethics. There is no requirement that a group of professionals agreeing to a code of ethics cannot be held out to the public as a positive thing for clients.

29) C

The fact that the company officers met is not material nonpublic information. As long as she bases her investment recommendation on her own independent research, Jennings will not violate any Standards if she uses this additional information to support it.

30) A

This question is related to Standard V(B) which states that CFA Institute members should use reasonable judgment regarding the inclusion or exclusion of relevant factors in research reports. The change in management was a relevant factor and must be disclosed before dissemination.

31) A

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

32) A

Recommending a stock whose return is uncorrelated with interest rate changes is appropriate for the clients described in the problem. Emphasizing the lack of correlation is appropriate as long as the analyst makes no guarantees concerning the relationship in the future. Reporting historical correlation is a presentation of fact, and is not in violation. The analyst is free to show the report only to investors for whom the investment is appropriate.

33) A

Despite the fact the addition of the fund was successful, Hoolihan acted improperly in not conducting the same degree of research as she did for the other funds on her list.

34) B

A code of ethics may include standards of conduct, but does not require them.

35) A

If the analyst had been an investment manager, it would have been inappropriate for him to make a blanket recommendation for all of his clients without considering the unique needs of each. However, the analyst is merely stating that given the qualities of the investment, it is an attractive buy. He has kept adequate records, and made fair disclosure of his rating decision.

36) B

The possibility of employment with Paulsen creates a potential conflict of interest which Flome must disclose. Standard VI(A) Disclosure of Conflicts does not require disclosure of his brother-in-law’s ownership of Paulsen stock.

37) A

Both Standard III(C) Suitability and Standard V(A) Diligence and Reasonable Basis were violated. Tuipulotu must perform a full IPS review to determine the appropriateness of the new portfolio allocations. Submanagers should not be selected by cost structure alone, as the quality and appropriateness of the submanager is Tuipulotu’s responsibility.

38) A

Abbott violated Standard V(A), Diligence and Reasonable Basis, because she did not have a reasonable and adequate basis to support the $1.10 EPS without further investigation. By including the $1.10 EPS in her report, she did not exercise diligence and thoroughness to ensure that any research report finding is accurate. If Abbott suspects that any information in a source is not accurate, she should refrain from relying on that information. Abbott did not violate Standard I(B), Independence and Objectivity, because the gift from Carter would not reasonably be expected to compromise her independent judgment.

39) A

Use of the CFA designation must be stopped immediately, however, the receipt of the Charter is a matter of fact.

40) A

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.

41) A

Hurst is most likely in violation of Standard V(C) Record Retention because the supporting documentation is unavailable. He needs to recreate the supporting records based on information gathered through public sources or the covered company. He may have a reasonable basis for his recommendations and have been diligent in his analysis, but must reconstruct the records of this analysis before issuing the reports.

42) C

Standard IV(C) Responsibilities of Supervisors permits Tripp to delegate supervisory duties to Green, Brown, or both, but such delegation does not relieve Tripp of his supervisory responsibility.

43) B

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

44) A

Allen’s notes from his research are employer records and even though he prepared them, it is a violation to take them from his employer without permission. Soliciting former clients’ business is not, in itself, a violation as long has Allen has not misappropriated client information from his former employer. Preparations to start a new business are not necessarily a violation of the Standard, although soliciting current clients or recruiting other firm personnel for the new venture, before formally leaving his employer, would be violations of the Standards.

45) A

According to Standard V(B), an analyst can use reasonable judgment regarding the exclusion of some facts and should include more basic facts for reports to wider audiences. The key issue is that analysts should tailor their reports to the intended audience.

46) B

Standard VII(A) Conduct as Participants in CFA Institute Programs does not prohibit expressing opinions about the program or the CFA Institute. Thus, Vasquez is not in violation. Nothing in the facts indicates a violation of Standard I(D, Misconduct. Standard I(D) deals with professional conduct involving dishonesty, fraud, or deceit.

47) B

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

48) B

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.

49) A

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.

50) B

Standard V(A)—Diligence and Reasonable Basis was not broken because Smithson conducted thorough and diligent research. Standard III(C)—Suitability, Smithson failed to consider the needs of his conservative and aggressive clients. Standard IV(C)—Responsibilities of Supervisors, Preston Partners didn't have policies explaining how to allocate shares among clients.

51) A

Blackwell violated Standard I, Professionalism. Jameson must comply with the strictest requirements among the laws of the country where his firm is based, the CFA Institute Code and Standards, and the laws of the country where he is doing business. Because the applicable laws in Mega Capital’s home country are stricter than the Code and Standards, Jameson must additionally adhere to that more strict law.

52) A

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.

53) A

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.

54) A

Standard I(C) Misrepresentation. Members should not copy or use material prepared by others without acknowledging and identifying the source of such material. Using charts and graphs without stating their source is a violation of the Standard. Data from recognized statistical reporting services may be used without attribution, but charts, analysis, and other such creative content may not.

55) B

Even though the information is false, this fact is known only to Fox and is thus nonpublic information. Since such recommendations have in the past had a significant effect on the price of the security in question, the information is clearly material. Fox is in violation of Standard II(A) Material Nonpublic Information.

56) C

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.

57) C

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

58) B

The CFA Institute Professional Conduct Program may impose sanctions on CFA charterholders and candidates for the CFA designation. Firms are not members of CFA Institute.

59) A

An employee/employer relationship does not necessarily mean monetary compensation for services. If the analyst is performing services for the organization, then the analyst must treat the position as if he were an employee.

60) B

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.

61) B

A profession is an occupational group (e.g., doctors or lawyers) that has requirements of specialized expert knowledge, and often a focus on ethical behavior and service to the larger community or society. While many professions require their members to put clients first or encourage them to serve the wider community, these are not defining characteristics of a profession.

62) B

A misdemeanor charge not related to professional conduct is not grounds for a suspension. The other choices are violations of the Code and Standards and may result in CFA Institute imposing a suspension of membership or participation.

63) A

Based on the information here, Hill has done nothing wrong. He took a call at his home, presumably on his own time, and the client made it clear that he would never be a client of Advisors. Therefore, there was no breach of loyalty to Advisors by Hill, nor is there a conflict of interest.

64) C

According to Standard II(A) Material Nonpublic Information, an analyst must not act or cause others to act on material nonpublic information. The information is material to the company’s future profitability, and is nonpublic because the lawsuit has not yet been filed and is not yet a matter of public record.

65) A

The investment manager is in violation of the Standard requiring him to make a reasonable inquiry into the client’s financial situation and update the investment policy statement since such a dramatic change in the client’s circumstances would undoubtedly alter the investment policy statement and would probably eliminate the need to hold a short position in Oracle. The investment manager is not in violation of the Standard concerning additional compensation, since the gift has been reported to his supervisor and has come from a client. If there was a failure to report such a gift, if the firm had a rule in place against the acceptance of gifts from clients, or if the gift had come from a non-client, there would be a violation of the standard.

66) A

According to Standard V(B), the analyst must inform the clients of the change and tell them it is based upon an opinion and not a fact. Making an identical change in two portfolios may be a violation of this standard if the needs of the clients are not identical.

67) A

According to Standard IV(A), Loyalty to Employer, Valley must inform Advisors of his outside consultation even if it is not for monetary compensation. According to Standard VI(A), Disclosure of Conflicts, Valley must also disclose possible conflicts of interest, and his sister’s position qualifies.

68) B

Because the itinerary required charter flights due to a lack of commercial transportation, River Casino can appropriately provide them. While Standard I(B) Independence and Objectivity recommends that members pay their own room costs, it is not required and it is not unusual for members to accept accommodations.

69) A

Standard II(A) Material Nonpublic Information requires that members and candidates who possess material nonpublic information not act or cause others to act on the information. Refusing the trade would violate this Standard because it would be acting or causing others to act on the nonpublic information. Dean should seek to have East Street make the information public. If East Street does not do so, Dean must act as he would have acted if he did not possess the information. Refusing to make the trade he was instructed to make would be “acting” on the information in this case. The obligation here is to the integrity of financial markets.

70) A

Carson has not violated either Standard based on the information given. The suitability of an investment is to be determined based on the risk and return characteristics of the portfolio and not on the risk and return characteristics of each individual security. The fact that a security does not pay a dividend and has a beta higher than the market is not enough to determine its suitability in a portfolio context. The fact that regulators have called previously reported earnings into question does not necessarily mean that Carson’s analysis was not diligent or that he did not have a reasonable basis for his selection of this security.

71) B

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.

72) A

Recommended procedures for compliance with Standard III(B) Fair Dealing include limiting the number of people in the firm who know that a change in recommendation will be made. Requiring investment committee approval for all recommendation changes is not among the recommended procedures.