

## PRACTICE PROBLEMS

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

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