Question #1 of 40

Question ID: 1553355

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

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

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

Explanation

This is a violation of Standard II(A) "Material Non-Public Information" irrespective of whether Front is simultaneously shorting the funds which do not contain VTT Bowser. Her trades are motivated by material non-public information.

(Module 30.3, LOS 30: II(A))

Question #2 of 40

Question ID: 1553515

Nicholas Brynne, CFA, develops a trading model while working for CE Jones, an investment management firm. By working on the model at home from his personal computer, Brynne is able to devote additional work hours. Although the trading model is successful, Brynne loses his job in a company restructuring, and decides to start his own practice using the trading model. Nicholas is *most likely*:

A) in violation of the Standards because he did not have permission to build the trading model using his home computer.

B) in violation of the Standards because he did not receive permission from his employer to keep or use the files after employment ended.

C) not in violation of the Standards because the trading model was created using his home computer.

Explanation

Brynne is in violation of Standard IV(A) "Loyalty." Employer records include items stored in any medium including home computers.

(Module 30.6, LOS 30: IV(A))

Question #3 of 40

Question ID: 1553333

Jennifer Gates is an individual portfolio manager who only uses mutual funds for her clients; she has therefore never created a portfolio of stocks. She enters an internet chat room on investments and starts answering questions about investments. She states in the chat room that she has a CFA designation. One woman in particular is interested and questions her about the viability of creating her own stock portfolio. Gates feels that this would be a mistake because she only has $150,000 to invest, and states, "I have experience creating stock portfolios, and it does not make sense to do so with only $150,000." The woman she has chatted with sends her an email and eventually becomes a client of hers. Gates has:

A) violated the Standards by misrepresenting her experience. ✓

B) not violated the Standards. ✗

C) violated the Standards by soliciting business over the internet. ✗

Explanation

One cannot misrepresent their experience, even over the internet.

(Module 30.2, LOS 30.a)

Question #4 of 40

Question ID: 1553411

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

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

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

C) a violation of only The Code of Ethics. ✗

Explanation

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

(Module 30.4, LOS 30: III(A))

Question #5 of 40

Question ID: 1553425

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

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

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

C) **should be commensurate with the value of the brokerage and research services received.**

Explanation

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

(Module 30.4, LOS 30.a)

Question #6 of 40

Question ID: 1553319

A CFA charterholder is caught shoplifting and is sentenced to nine months in prison. Is this a violation of Standard I(D): Misconduct?

A) **Yes, because the crime involved stealing.**

B) Yes, because the prison sentence is more than six months.

C) No, because the crime does not relate to the investment profession.

Explanation

Any act involving lying, cheating, stealing, or other dishonest conduct that reflects adversely on the charterholder's professional activities is a violation of Standard I(D). Although the crime did not relate to the investment profession, it certainly reflected adversely on the charterholder professionally.

(Module 30.2, LOS 30: I(D))

Question #7 of 40

Question ID: 1553843

Mesa Asset Management has claimed compliance with the Global Investment Performance Standards (GIPS®) for several years and it is now January 14, 2021. This week, Mesa acquired another investment firm, Koven Asset Managers (KAM), that was not GIPS compliant. Going forward, Robert Flay, managing director for Mesa wants to consolidate the reporting for KAM's and Mesa's assets. Flay asks two of his performance analysts, Catherine Cora and Luigi Batali for suggestions as to how Mesa can maintain ongoing compliance.

Cora:	"To be GIPS compliant and consolidate the reporting for KAM's and Mesa's assets going forward, Mesa is required to bring KAM's assets into compliance for future reporting no later than the end of the quarter, March 31, 2021."
Batali:	"In our reports, we include the ex post standard deviation of composite returns, which is required so that prospective clients can observe the fluctuation of composite returns over time."

After listening to their statements, Flay should:

A) disagree with Cora, but agree with Batali. ✓

B) disagree with both Cora and Batali. ✗

C) agree with Cora, but disagree with Batali. ✗

Explanation

Flay should disagree with Cora, but agree with Batali.

If two firms merge, then the new firm has one year, not one quarter, to bring a previous firm's assets into compliance for future reporting. To be GIPS compliant, a firm should present the historical dispersion for the composite, using the *ex post* standard deviation. This allows prospective and current clients to observe the composite's historical risk over time.

(Module 33.5, LOS 33.i)

Question #8 of 40

Question ID: 1553797

Under GIPS, the presented gross-of-fees return must be calculated after the deduction of transactions costs which can include:

A) both advisory and custody fees.

B) custody fees but not advisory fees.

C) advisory fees but not custody fees.

Explanation

Under GIPS, the presented gross-of-fees return must be calculated after the deduction of transactions costs. For private market investments, they include legal, advisory, and other fees. Custody fees should not be included.

(Module 33.3, LOS 33.b)

Question #9 of 40

Question ID: 1553771

Which of the following *best* describes the Global Investment Performance Standards (GIPS)? The objectives of GIPS are to:

A) create a globally accepted standard for the determination of investment performance. But due to country-specific preferences, they do not create a globally accepted standard for the presentation of investment performance.

B) create a globally accepted standard for the presentation of investment performance. But due to country-specific preferences, they do not create a globally accepted standard for the determination of investment performance.

C) create a globally accepted standard for the determination and presentation of investment performance.

Explanation

The objectives of GIPS include creating a globally accepted standard for the determination and presentation of investment performance, which facilitates fair competition among global investment managers.

(Module 33.1, LOS 33.a)

Question #10 of 40

Question ID: 1553380

Scott Marsh is a research analyst for a brokerage firm following the computer industry. Joe Perry is Marsh's former college roommate and is the head of technology for Mercury, a large software company. Perry informs Marsh on Tuesday that in two days the company will be making an official announcement that its release of its newest version of its software will be moved up one month, from October 1 to September 1. The announcement will be surprising to the industry and will likely be met with skepticism because the company has had trouble meeting release dates in the past. Perry assures Marsh that he is certain that they will meet the September 1 date. Marsh considers Perry to be very honest and highly competent. Marsh should:

A) **produce his research report in two days based solely on the official announcement, not taking into consideration the information from Perry.**

B) immediately put out a report recommending the stock, but waiting until the official announcement to state his reasons.

C) wait until the public announcement is made, then release a report explaining that he believes the company will make the release date, disclosing that one of the reasons for his opinion is Perry is a friend of his.

Explanation

The research report cannot be released until the official announcement is made, otherwise he will be violating the Standard on prohibition against the use of material nonpublic information. Once it is made public, Marsh can disclose the nature of the conversation without violating that Standard because the information will now be public. However, he should disclose the relationship with Perry or he will be violating the Standard on communications with clients and prospective clients.

(Module 30.3, LOS 30.a)

Question #11 of 40

Question ID: 1553823

The Strausburg Investment Management (SIM) manages portfolios of publicly traded securities that are represented in more than 15 composites. Assume that SIM is notified to stop trading a portfolio on 25 August, 2021 because the portfolio will be terminated. At the end of which of the following dates should the terminated portfolio be removed from its composite in order to be compliant with the Global Investment Performance Standards (GIPS)?

A) 31 July, 2021.

B) 30 August, 2021.

C) 31 December, 2020.

Explanation

Terminated portfolios should be included in a composite through the last full measurement period in which the firm had discretion, 31 July, 2021. Firms must calculate monthly returns for non-private market investment portfolios so the measurement period here is monthly.

(Module 33.4, LOS 33.g)

Question #12 of 40

Question ID: 1553525

Jill Marsh, CFA, works for Advisors where she manages a portfolio for a wealthy family. Marsh earns 1% of the portfolio's value each year in the form of a commission from Advisors. The family just told her that any year the portfolio she manages earns more than a 10% return, the family will give her the use of the family's vacation home for one week. Marsh will comply with Standard IV(B), Additional Compensation Arrangements, if she:

A) does nothing with respect to this.

B) sends an email to her supervisor about the vacation home.

C) delivers a typed memo to her supervisor about the vacation home the first time she uses it.

Explanation

Standard IV(B) requires that members disclose to their employer in writing all benefits that they receive in addition to their regular compensation for services they perform on behalf of their employer. Email messages qualify. As long as the agreement is in effect, she must inform her employer even if she has yet to use the potential benefit.

(Module 30.6, LOS 30: IV(B))

Question #13 of 40

Question ID: 1553833

All of the following are requirements of the Global Investment Performance Standards (GIPS) *EXCEPT*:

A) a firm is required to present, at a minimum, 10 years of annual investment performance upon GIPS adoption.

B) returns must be calculated monthly for non-private market investment portfolios.

C) **returns from cash and cash equivalents held in portfolios must be included in total-return calculations.**

Explanation

Upon GIPS adoption, firms are required to present annual performance for at least 5 years, unless the firm has been in existence for less than 5 years. It then must be extended each year until the firm builds a 10-year GIPS compliant history. For non-private market investment portfolios, returns must be calculated monthly. Returns must reflect the manager's allocations to cash and cash equivalents.

(Module 33.5, LOS 33.h)

Question #14 of 40

Question ID: 1553249

According to the CFA Institute Standards of Professional Conduct, Standard I(A): Knowledge of the Law, members shall not knowingly participate or assist in any violations of laws, rules, or regulations. An analyst:

A) **is held responsible for participating in illegal acts when the law is evident to anyone knowing the law and can participate in a violation by having knowledge of the violation and taking no action to stop it or disassociate from it.**

B) is held responsible for participating in illegal acts when the law is evident to anyone knowing the law and is held responsible for violations by others when the analyst is unaware of the facts giving rise to the violation.

C) must report all legal violations to the proper regulatory commission and is held responsible for participating in illegal acts when the law is evident to anyone knowing the law.

Explanation

If you suspect someone is planning or engaging in illegal activities, you should:

1. Determine the legality of the activities. Consult your supervisor and legal counsel.
2. Take appropriate action. Disassociate, attempt to persuade the perpetrator to stop. CFA Institute does not require you to report them to the authorities, but the law might.

(Module 30.1, LOS 30: I(A))

Question #15 of 40

Question ID: 1553782

According to the GIPS standards, when calculating returns, the delineation of a large external cash flow is determined by:

A) each firm for each composite. ✓

B) the GIPS specified minimum cash flow guideline. ✗

C) the CFA Institute. ✗

Explanation

The definition of a large external cash flow is determined by each firm for each composite. Generally, a large external cash flow is that large enough to affect the return calculation. The firm's policy for the determination of a large cash flow must be documented.

(Module 33.3, LOS 33.b)

Question #16 of 40

Question ID: 1553777

All of the following are objectives of the Global Investment Performance Standards (GIPS) *EXCEPT* enhancing:

A) investor confidence. ✗

B) market efficiency. ✓

C) competition in global markets. ✗

Explanation

The objectives of GIPS are to:

- Advance the interests of investors and increase their confidence in the investment industry.
- Provide accurate and comparable data to investors.
- Create a globally accepted standard for the determination and presentation of investment performance.
- Facilitate fair competition among global investment managers.
- Encourage self-regulation in the global investment industry.

(Module 33.1, LOS 33.a)

Question #17 of 40

Question ID: 1553234

Which of the following is a component of the *Code of Ethics*?

A) **Transactions for clients and employers have priority over transactions in which a member or candidate is the beneficial owner.**

B) Members and candidates must not engage in conduct that compromises the integrity of the CFA designation or the security of the CFA examinations.

C) Practice and encourage others to practice in a professional and ethical manner that will reflect credit on members and their profession.

Explanation

This is a component of the Code of Ethics. Others pertain to the Standards of Practice.

(Module 29.1, LOS 29.b)

Kyle Hogue, CFA, is an emerging market analyst for Garrison Equity Funds, a U.S.-based mutual fund manager. Hogue has been covering the South American markets for five years and generally makes several one-week trips per year to visit various countries and businesses in his assigned markets. As part of his trips, Hogue meets with government officials to discuss economic policies of the country, and with executives of firms within the country to gather information on both short- and long-term prospects for the companies.

During Hogue's latest data-gathering trip, he spent most of his time in Brazil. Brazilian legislators and economic policymakers informed Hogue that the country's taxation system was about to be restructured and that trade barriers were going to be relaxed. Under the new tax structure, foreign entities with operations in Brazil will face an increase in effective tax rates, while local firms will be given a 5-year reduction in their effective tax rate, which can be extended up to a maximum of 15 years. New policies regarding foreign trade will reduce tariffs on foreign imports of consumer goods, but high tariffs will remain in effect for industrial and agricultural products, Brazil's largest contributors to its growing GDP. The policymakers give Hogue to read and return a confidential economic report used internally by government officials. The report contains detailed data on the general trends he had been discussing with the government and economic officials. Hogue photocopies the report and then returns the original as requested by his hosts.

Hogue also met with several Brazilian brokerage firms and members of the Brazilian stock exchange. During their first meeting, Hogue informed them that his research on the Brazilian market was being purchased by outside clients in record numbers. Hogue mentions that American investors are very excited about one company in particular, Brazil AgriTech, Inc. (BAI). Hogue notes that 3,000 investors have expressed great interest in purchasing BAI stock either directly or through Garrison's Brazil Fund within the next two months. He does not mention that only 600 investors actually expressed interest in purchasing the stock directly and that the remaining investors were existing clients who had expressed interest in purchasing shares of the Brazil Fund but had no specific opinions about the individual holdings.

During his final meeting with the exchange members, Hogue convinced two exchange specialists to enter into a contract with the exchange to increase their daily trading volume of BAI stock as well as the stock of Banc de Brazil (BDB), the country's largest private banking institution. BDB provides both commercial and investment banking services and has recently added brokerage services to its product mix. The trading contract will be effective the following day and will last for one year, but it will not be renewable at the end of its term. It is disclosed to potential investors in the marketing collateral.

Two days later, after returning to his office in the United States, Hogue has noticed that the stock price of BAI has risen and the bid-ask spread of BDB has narrowed, which he fully expected to occur. Hogue puts together a sell recommendation on BAI stock, noting in the report that sharply lower growth in agricultural technological innovation and the increase in foreign-owned farms with access to better technologies developed outside of Brazil. He also constructs a buy recommendation on BDB stock, citing several key fundamental factors that make the stock attractive as well as a "deepening level of local market liquidity that will create attractive price entry points as a result of a temporary one-year contract to increase market liquidity for BDB." Hogue releases the recommendation reports first to his Tier 1 clients that pay the highest fees. He then issues shorter versions of the reports to the rest of his Tier 2 clients later that day with a disclosure that more information is available upon request. Hogue also sells all holdings of BAI stock in the Brazil Fund and purchases shares of BDB with the proceeds the day after the recommendations are released.

Hogue's supervisor, Marianne Jones, CFA, questions him regarding his method of distributing recommendations to his clients. Jones is relatively new to the firm and wants to make sure everything is on the "up and up." Hogue explains that he offers different levels of service to his clients, and that to receive a lesser subscription to his research reports, they must sign a waiver. He goes on to say the following:

"All clients are offered both levels of service so that clients are fully informed before making a decision. The details of the service levels, including fees charged for both, are contained in my marketing brochures along with 10-year performance figures for the Brazil Fund. Because I have only been managing the fund for 5 years, I have included my predecessor's performance to present a full 10-year period. Our management styles are very similar, however, so this minor detail is only disclosed to those clients who ask. I generally find that my clients are only interested in the last five years of data, anyway. The brochure presents market-value-weighted return data before any fees or taxes are deducted. These return calculation methods are disclosed in clear language in the brochure."

Question #18 - 23 of 40

Question ID: 1572059

Did Hogue violate any CFA Institute Standards of Professional Conduct by meeting with Brazilian economic and government officials or by photocopying the economic report?

	Meeting	Photocopying
A)	No	No
B)	**No**	**Yes**
C)	Yes	Yes

Explanation

In meeting with the officials, Hogue is performing proper due diligence on the Brazilian market to support his recommendations to clients. This is entirely appropriate. There is no indication that he is being inappropriately influenced by the policymakers, and the meeting is not a violation of the Standards. By photocopying the report, however, Hogue has violated Standard I(D): Misconduct. Under the Standard, he is not to commit any professional act involving dishonesty or deceit or conduct himself in a way that reflects poorly on his professional reputation, integrity, or competence. The report was marked confidential, and Hogue was instructed to return it after he had a chance to read it. The intent was not to distribute the report for Hogue's professional benefit. He has, therefore, deceived the officials by photocopying the report without receiving permission.

(Module 30.3, LOS 30.a)

Question #19 - 23 of 40

Question ID: 1572060

During his first meeting with the Brazilian brokers and stock exchange members, did Hogue violate any CFA Institute Standards of Professional Conduct?

A) **Yes, as he broke client confidentiality by revealing their plans to purchase BAI stock.** ✗

B) Yes, as he attempted to manipulate the market price of a Brazilian security. ✓

C) No. ✗

Explanation

Hogue clearly exaggerated the American investors' interest in BAI stock in an attempt to get local market participants to buy the stock in anticipation of increased American investment. By pumping the stock, the price rose, and Hogue sold the Brazil Fund position and recommended investors do the same to take advantage of the artificially high prices. Hogue cites poor business prospects in his sell recommendation, a clear indication of his devious intent in claiming the high level of interest from American investors. By manipulating market prices in Brazil, Hogue has violated Standard II(B): Market Manipulation.

(Module 30.3, LOS 30.a)

Question #20 - 23 of 40

Question ID: 1572061

Did the increased trading volume contract that Hogue negotiated between the Brazilian market specialists for the BDB stock violate any CFA Institute Standards of Professional Conduct?

A) Yes, as the contract allows the traders to place their transactions ahead of client transactions.

B) No.

C) Yes, as the intent of the contract is to distort the trading volume of BDB to attract investors.

Explanation

The contract is fully disclosed to potential investors in the marketing collateral. Thus, investors can evaluate for themselves the true cost of the transactions. Therefore, the intent of the increased liquidity is not to deceive investors, but to increase the market liquidity and ease of trading for foreign investors. The contract does not violate Standard II(B): Market Manipulation because it is disclosed. If it were not disclosed, however, it would constitute a violation.

(Module 30.3, LOS 30.a)

Question #21 - 23 of 40

Question ID: 1572062

When he distributed his buy and sell recommendations on BDB and BAI, respectively, did Hogue violate any CFA Institute Standards of Professional Conduct?

A) Yes, as he has released the two versions of the report at different times.

B) No.

C) Yes, as he has issued two versions of the same report, which disadvantages clients paying lower fees.

Explanation

Standard III(B): Fair Dealing requires members and candidates to deal fairly with their clients. Hogue can offer different levels of service, so long as it is disclosed to his clients and all service levels are available to all clients. Because his Tier 1 clients pay higher fees, the depth of research they receive may be greater than the Tier 2 clients without violating the Standard. By releasing the reports at different times, however, the Tier 2 clients are put at a great disadvantage simply because they subscribe to a lesser level of service. This is a violation of Standard III(B), which says that members can offer different services to clients, but different levels of service must not disadvantage clients.

(Module 30.3, LOS 30.a)

Question #22 - 23 of 40

Question ID: 1572063

Has Hogue violated any CFA Institute Standards of Professional Conduct with respect to the time period of returns and method of calculating returns used in his performance presentation?

	Time period	Calculation method
A)	Yes	No
B)	No	Yes
C)	**Yes**	**Yes**

Explanation

According to Standard III(D): Performance Presentation, Hogue must disclose the fact that the 10-year performance history of the fund comprises 5 years of his performance and 5 years of his predecessor's performance. By not disclosing this, the presentation is misleading and violates Standard III(D). It does not matter that the investment styles are similar or that he believes most investors are only interested in the last five years of data. Performance presentations need to be fair, accurate, and complete. His method of calculating returns before fees and taxes on a market-value-weighted basis is acceptable and fully disclosed. Therefore, the calculation methodology does not constitute a violation of Standard III(D).

(Module 30.3, LOS 30.a)

Question #23 - 23 of 40

Question ID: 1572064

By charging Tier 1 and Tier 2 clients different fees, has Hogue violated any CFA Institute Standards of Professional Conduct?

A) Yes, as having two classes of clients is a form of investment fraud.

B) Yes, as having two classes of clients inappropriately discriminates against the lower-fee clients.

C) No.

Explanation

Hogue is allowed to offer different levels of service without violating Standard III(B): Fair Dealing as long as the different levels of service are fully disclosed and offered to all clients and prospects. Hogue has his Tier 2 clients sign a waiver indicating they are aware of the different levels of service offered by the firm. Thus, he has complied with the Standard.

(Module 30.3, LOS 30.a)

Question #24 of 40

Question ID: 1553676

During 2004 Nancy Arnold received an undergraduate business degree with a management major and completed all requirements for the CFA designation imposed by CFA Institute. She is applying for employment at several brokerage firms. Her resume states, "I was awarded the CFA degree in 2004 by CFA Institute." Her resume also states that she graduated "with honors" and majored in finance. Her grade point average was 3.48 but "with honors" requires a 3.50 grade point average.

Which of the following statements about Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program, and Standard I(C), Misrepresentation, is correct? Arnold:

A) did not violate either Standard VII(B) or Standard I(C). ✗

B) violated Standard I(C) but she did not violate Standard VII(B). ✗

C) violated both Standard VII(B) and Standard I(C). ✓

Explanation

Arnold violated Standard VII(B). The CFA designation should not be referred to as a degree. Arnold also violated Standard I(C) because her claim that she graduated "with honors" is not true.

(Module 30.9, LOS 30: VII(B))

Question #25 of 40

Question ID: 1553573

Susan Plumb is the supervisor of her firm's research department. Her firm has been seeking the mandate to underwrite Wings Industries' proposed secondary stock offering. Without mentioning that the firm is seeking the mandate, she asks Jack Dawson to analyze Wings common stock and prepare a research report. After reasonable effort, Dawson produces a favorable report on Wings stock. After reviewing the report, Plumb then adds a footnote describing the underwriting relationship with Wings and disseminates the report to the firm's clients. According to CFA Institute Standards of Professional Conduct, these actions are:

A) a violation of Standard VI(A), Disclosure of Conflicts. ✗

B) a violation of Standard V(A), Diligence and Reasonable Basis. ✗

C) not a violation of any Standard.

Explanation

The fact that the firm is seeking the mandate does not preclude the research department from performing analytical work on the security. As long as the final recommendation is based upon reasonable facts, not the desire to obtain the mandate, there is no violation.

(Module 30.7, LOS 30: V(A))

Mary Montpier, CFA, is an equity analyst located in the Malaysia office of World Class Advisers. The firm provides investment advice and financial planning services globally to institutional and retail clients. The Malaysia office was opened last year to provide additional international investment opportunities for U.S. clients. Montpier covers small-cap stocks in the region. Montpier's supervisor, Rick Reynolds, CFA, works in New York.

Jim Taylor is an analyst in New York who works at World Class Broker-Dealer, a sister company of World Class Advisers. Taylor covers health care and biotech stocks for the firm. Taylor recently completed Level I of the CFA examination and is registered for the Level II examination next year. Taylor works for John James, CFA.

Through her interaction with other analysts in Malaysia, Montpier learns that the use of material, nonpublic information is common practice in analyst research reports and recommendations, and is not prohibited by law in Malaysia. Montpier has acquired material, nonpublic information on the research pipeline of Circuit Secrets, a Malaysian semiconductor company. The nonpublic information makes the company seem like a fine investment. After extensive research through traditional means, Circuit Secrets appeared to be fully valued relative to its growth potential—until Montpier found the nonpublic information.

In preparation for a client meeting, James asks Taylor to prepare a research report on attractive companies in the health care industry. Because Taylor is busy preparing for company conference calls, James tells him to "throw something together." To meet James's request, Taylor obtains reports on Immune Health Care and Remedy Corp., two companies that he likes, but has not researched in depth. Taylor takes the original reports (which were prepared by a small brokerage firm in the Netherlands), adds some general industry information, incorporates World Class's proprietary earnings-growth model, and submits "strong buy" recommendations to James for the stocks. Although written procedures require James to review all analyst reports before release, time constraints consistently prevent him from reviewing the reports before distribution.

Montpier is proud of her CFA charter. In fact, she often boasts that she is one of the elite members of the CFA Institute that passed all three exams consecutively without failing. Taylor is also proud of the CFA program. He told his friends and family that the CFA designation is globally recognized in the field of investment management and research. Furthermore, Taylor states that he believes the program will enhance his portfolio management skills and further his career development.

In her free time, Montpier has begun consultation for members of a local investment club. The club is in the process of developing an appropriate compensation package for her services, which to date have included financial planning activities and investment research. Montpier informs the investment club that she has a full-time job at World Class Advisers, which offers similar services. The investment club gave Montpier written permission to consult for them despite her full-time work.

To gain insight on biotech stocks, Taylor registers for an upcoming asthma study conducted by Breakthrough Corp., through which he and others will be the subject of testing for the efficacy of several new drugs. On his application, long-time asthma sufferer Taylor indicates that he has the appropriate medical condition for the study and signs a confidentiality agreement. During the study, a researcher shows Taylor a spreadsheet detailing the progress of Breakthrough's research pipeline. Two of the new drugs on which Breakthrough is awaiting regulatory approval have serious negative side effects in patient testing. This information confirms suspicions Taylor had developed after extensive research and conversations with company executives regarding nonmaterial, nonpublic information, though he was not certain about the names of the drugs until he saw the spreadsheet. At the conclusion of the study, Taylor releases a report detailing the drugs' side effects and recommends that clients "sell" Breakthrough Corp.

Over the next two weeks, Breakthrough releases information that the drugs in question have been held up by a regulatory agency pending additional investigation. The stock plunges more than 30% on the news.

Question #26 - 31 of 40

Question ID: 1572066

Which of the following is a violation of the Code and Standards?

A) Reynolds approves Montpier’s report on Circuit Secrets immediately, but tells his traders to wait a week before buying the stock themselves. ✓

B) **Taylor sends out a resume referring to himself as a Level II CFA candidate and indicating his intention to take the Level II test in June.** ✗

C) James has dinner with Taylor and promises to provide Taylor with three weeks off in May to study for the CFA exam and offer some test-taking tips.

Explanation

An immediate approval of Montpier's report implies that Reynolds did not check the facts or talk to Montpier about the recommendation, which was dependent on the use of insider information. Reynolds violated the Standard relating to supervisory responsibilities. Side work that is not in competition with the intern's firm is not a violation unless the side job interferes with her work for World Class. The statement on Taylor's resume is appropriate, and James's plans to help Taylor are well within the requirements of the Standards.

(Module 30.3, LOS 30.a)

Question #27 - 31 of 40

Question ID: 1572067

Which of the following statements about Montpier's analysis of Circuit Secrets is correct?

A) If Montpier prepares a research report for all World Class clients recommending Circuit Secrets as a buy, but does not reveal the nonpublic information, she has still violated Standard II(A): Material Nonpublic Information.

B) **Montpier's best course of action is to initiate coverage of Circuit Secrets as a "hold" and attempt to get the company to disclose the nonpublic information.**

C) Montpier could satisfy the requirements of Standard II(A): Material Nonpublic Information by producing a research report on Circuit Secrets for Malaysian clients, but not making it available to U.S. clients.

Explanation

Standard II(A) prohibits not only the revelation of nonpublic information, but also trading on the basis of that information. The buy rating itself is a product of the nonpublic information, and as such, is a violation. Montpier must comply with the Code and Standards regardless of the laxness of regulations in her country. If Montpier believes the stock is a buy, initiating it as a hold would be inappropriate. Analysts cannot be expected to have a recommendation on every stock, so failing to recommend a potentially good stock is not a breach of fiduciary duty.

(Module 30.3, LOS 30.a)

Question #28 - 31 of 40

Question ID: 1553386

With regard to Standard VII(B): Reference to CFA Institute, the CFA Designation, and the CFA Program:

A) Montpier is in compliance, and Taylor is in compliance.

B) neither Montpier nor Taylor is in compliance.

C) Montpier is not in compliance, and Taylor is in compliance.

Explanation

Both Montpier, as a CFA charterholder, and Taylor, as a CFA candidate, are subject to the Standards. Montpier violated Standard VII(B) by exaggerating the implications of passing the exam in three years. Taylor's comments comply with the standard.

(Module 30.3, LOS 30.a)

Question #29 - 31 of 40

Question ID: 1572068

Which of the following actions could Taylor take to ensure he is not in violation of Standard I(C): Misrepresentation?

A) Base his report on information from Value Line and Standard & Poor’s reports rather than research from rival analysts.

B) Just use excerpts from the original reports, rather than copying the whole reports.

C) Initiate coverage of Immune Health Care and Remedy Corp. as holds, not strong buys, until he has time to do further research.

Explanation

Value Line and Standard & Poor's are "recognized financial or statistical reporting services," and, as such, can be used as the basis for reports without acknowledgment. The caveat is that those publications are copyrighted, and copying directly from them may be illegal in some circumstances—even if it does not technically violate the plagiarism Standard. Using excerpts is still plagiarism, and changing the stock recommendation will not change that fact. It is unlikely that a Dutch research report would not be protected under U.S. copyright, and even if it were not, using the material without attribution still violates the Standard.

(Module 30.3, LOS 30.a)

Question #30 - 31 of 40

Question ID: 1572069

Which of the following statements regarding Standard IV(A): Loyalty to Employer is correct?

A) **By accepting compensation for his role in the medical study, Taylor is violating the Standard.**

B) Despite getting written permission from her client to consult, Montpier is not in compliance with the Standard.

C) Neither Taylor nor Montpier is in violation of the Standard.

Explanation

Montpier needs to get permission from both the client and her employer before she can begin to consult. Thus, Montpier is not in compliance, as she has not received permission from World Class. Neither Taylor's use of rivals' research nor his participation in a medical study violate the Standard. Standard IV(A) addresses outside income, not research methods. And while the medical study payment is certainly income, it is not in competition with his firm —and as such, does not violate the Standard.

(Module 30.3, LOS 30.a)

Question #31 - 31 of 40

Question ID: 1572070

Taylor's actions regarding Breakthrough Corp.:

A) do not violate Standard II(A): Material Nonpublic Information because he was only confirming what he already suspected.

B) did not violate Standard I(D): Misconduct because he did not misappropriate the information.

C) **violate Standard II(A): Material Nonpublic Information because the information was not in the public domain.**

Explanation

Taylor's use of the material nonpublic information provided to him in confidence by a researcher is a clear violation of Standard II(A). The professional misconduct Standard prohibits actions that reflect negatively on "professional reputation, integrity, or competence." Because Taylor has signed a confidentiality agreement, his violation of the agreement definitely says something about his honesty. Thus, he is in violation of Standard I(D). Standard IV(A) only applies to work in competition with the employer.

(Module 30.3, LOS 30.a)

Question #32 of 40

Question ID: 1553320

Which of the following does not violate Standard I(D): Misconduct? Roland Lawson, a financial analyst:

A) committed perjury in connection with a lawsuit against his firm.

B) is arrested for participating in a nonviolent protest.

C) drinks excessively during business meetings with clients and returns to work under the influence of alcohol.

Explanation

Any professional conduct that involves dishonesty, fraud, or deceit is a violation of Standard I(D): Misconduct. One must refrain from activities that reflect poorly on integrity, reputation, trustworthiness, or professional conduct. The focus of the Standard is on professional, not personal, conduct.

(Module 30.2, LOS 30: I(D))

Question #33 of 40

Question ID: 1553269

Mary Kim practices in the economically advanced country of Oldasia as well as in the emerging market country of Newasia. By regulation, Oldasia prohibits licensed investment advisors from trading in securities ahead of their clients. Newasia has no laws or regulations in this area. According to the CFA Institute Standards of Professional Conduct, Kim may:

A) not trade ahead of her clients in either country.

B) trade simultaneously with her clients in Newasia only, as long as she has made full disclosure to her clients that she reserves the right to do this.

C) trade ahead of her clients in Newasia only.

Explanation

Under Standard I(A): Knowledge of the Law must apply the CFA Institute Code and Standards or the controlling law, whichever is stricter. Because Standard VI(B) Priority of Transactions requires members to put client trades ahead of their own transactions, Kim must follow the standard in the absence of governing law or where the law is less strict than the Standard.

(Module 30.1, LOS 30: I(A))

Question #34 of 40

Question ID: 1553595

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:

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. ✗

Explanation

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.

(Module 30.7, LOS 30.a)

Question #35 of 40

Question ID: 1553708

Kimberly Olson has recently become a CFA charterholder, and has just started a new job at Securities Online as a junior analyst. After preparing her first research report, Olson decides to consult with one of the senior analysts who make minor corrections to improve the content of the report. Olson makes changes to the report according to the senior analyst. Upon presentation of the report, Olson finds that statements made by the senior analyst contained incorrect information. Which of the following statements is correct?

A) **If Olson attributes those comments to the senior analyst, she cannot be held responsible for incorrect information.** ✗

B) Olson should have checked the accuracy of the comments. ✓

C) Olson did not need to check the additional comments. ✗

Explanation

It is the responsibility of the analyst to confirm that information provided is accurate. The fact that the person editing the report is a senior analyst is irrelevant.

(Module 31.1, LOS 31.a)

Question #36 of 40

Question ID: 1553323

An investment advisor takes a trip for which his firm will pay the expenses. Upon his return he alters some of the numbers on restaurant receipts to inflate the expenses by $64. Is this a violation of Standard I(D)?

A) Yes, because the amount involved is over $50. ✗

B) **Yes, because it reflects adversely on the charterholder’s professional reputation.** ✓

C) No, if such a crime carries less than a one-year prison term. ✗

Explanation

Professional conduct involving dishonesty, fraud, or deceit is a direct violation of Standard I(D): Misconduct.

(Module 30.2, LOS 30: I(D))

Question #37 of 40

Question ID: 1553290

Tony Calaveccio, CFA, is the manager of the TrustCo Small Cap Venture Fund in Toronto. He places trades for the fund with River City Brokerage. River City presents Calaveccio with a bottle of inexpensive wine at Christmas each year. Calaveccio does not disclose this fact in the prospectus of the small cap venture fund. This action is:

A) not in violation of the Code and Standards.

B) in violation of the Standard concerning disclosure of conflicts to clients and prospects.

C) in violation of the Standard concerning disclosure of additional compensation arrangements.

Explanation

Under Standard I(B): Independence and Objectivity, members are advised to "use reasonable care" in order to maintain independence. While it is clearly understood that gifts from various entities have the potential to affect a member's independence and objectivity, a member can accept token gifts as long as they are not intended to influence or reward.

(Module 30.1, LOS 30: I(B))

Question #38 of 40

Question ID: 1553667

Judy Albert and Bob Tye, who recently started their own investment advisory business, plan to take the Level III CFA examination next year. Albert's business card reads, "Judy Albert, CFA level II candidate." Tye has not put anything about the CFA on his business card. However, the firm's promotional materials describe the CFA requirements and indicate that Tye participates in the CFA program and has completed Levels I and II. According to CFA Institute Standards of Professional Conduct:

A) Both Albert and Tye have violated the Standards.

B) Albert has violated the Standards but Tye has not.

C) Neither Albert nor Tye has violated the Standards.

Explanation

On letterheads and business cards and in directory listings, only the mark CFA or the words Chartered Financial Analyst should appear after the charterholder's name. It would be acceptable for Judy to make a factual statement that she is a CFA level II candidate but it cannot be presented in the format as given immediately after her name. It would have to be a separate statement and not after her name. Having the letters CFA after her name may imply some sort of "partial designation", which is not permissible.

(Module 30.9, LOS 30: VII(B))

Question #39 of 40

Question ID: 1553265

A CFA Institute member works for Secure Securities, Inc., and plays rugby on the firm's rugby team. Secure Securities' team recently played the team of a rival firm. During the game, a fight broke out and the CFA Institute member was the instigator, but no one was seriously hurt. Is this a violation of I(A) concerning maintaining knowledge and complying with laws, rules, and regulations?

A) Yes, because the member is bound by the Code of Ethics.

B) Yes, because the member could have hurt someone in the fight.

C) No, because a fight at a rugby game is not a professional activity.

Explanation

Standard I(A) covers members' professional activity only. Violations outside professional activity that involve fraud, theft or deceit would potentially be violations.

(Module 30.1, LOS 30: I(A))

Question #40 of 40

Question ID: 1553242

Which of the following is a component of the Code of Ethics?

A) Members shall not knowingly participate or assist in any violation of such laws, rules, or regulations.

B) Members shall not engage in any professional conduct involving dishonesty, fraud, deceit, or misrepresentation or commit any act that reflects adversely on their honesty, trustworthiness, or professional competence.

C) Members shall use reasonable care and exercise independent professional judgment.

Explanation

This is a component of the Code of Ethics. Others pertain to the Standards of Professional Conduct.

(Module 29.1, LOS 29.b)