42 CODE OF ETHICS

1. Which of the following Standards is most relevant regarding Pennington's meeting with Elise?
   (A) Standard III(A), Loyalty, Prudence, and Care.
   (B) Standard III(C), Suitability.
   (C) Standard III(E), Preservation of Confidentiality.

2. Standard VI(A), Disclosures of Conflicts, requires Pennington to disclose all matters, including beneficial ownership of securities of other investments, that could be expected to impair the member's ability to make unbiased and objective recommendations. Which of the following matters would least likely be disclosed to Elise?
   (A) AIA has a soft dollar arrangement with a brokerage firm owned by Pennington's sister.
   (B) Pennington owns shares in Allux.
   (C) Pennington played golf with Helmut Flanders on a regular basis and developed client relationships from those golf outings.

3. Which of the following best describes Pennington's compliance with the CFA Institute Standards regarding his use of soft dollars? The purchase of:
   (A) both research reports and carpeting are allowable uses of soft dollars.
   (B) research reports and attending the conference are allowable uses of soft dollars.
   (C) research reports is an allowable use of soft dollars.

4. What additional Standard is specifically applicable to Pennington's decision to sell his and his clients' shares of Allux?
   (A) Standard II, Integrity of Capital Markets.
   (B) Standard IV, Duties to Employers.
   (C) Standard VII, Responsibilities as a CFA Institute Member or CFA Candidate.

5. A CFA Institute member puts the following statement on her resume: "I passed each level of the CFA exam on the first try." Is this a violation of Standard VII(B)?
   (A) Yes, because saying she passed exams on the first try is not appropriate.
   (B) Yes, because she incorrectly refers to the CFA exam.
   (C) No, because it is a statement of fact.

6. Bill Valley has been working for Advisors, Inc., 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, Inc. 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:

(A) both the use of the holiday home and his sister's options.

(B) nothing since no money is involved and it is a favor for a family member.

(C) the compensation in the form of the use of the holiday home only.

7. For the past 5 years, Karen Beckworth, CFA, has served as a proctor for the CFA exam. Beckworth tells her assistant, a Level III CFA candidate, that she normally receives the examinations on the Thursday before the exam. Given the low pass rate at Level III, Beckworth asks her assistant if he would like an advance copy of the next exam. Beckworth's assistant declines the offer.

Beckworth's assistant has been very vocal about expressing his opinions about the low pass rate. The assistant claims, "there are too many charterholders and CFA Institute is deliberately failing candidates because the prestige of the CFA charter is becoming diluted."

With regard to Standard VII(A) Conduct as Participants in CFA Institute Programs, which of the following statements concerning Beckworth's and her assistant's behavior is most accurate?

(A) Beckworth is in violation of Standard VII(A), but her assistant is not in violation.

(B) Both Beckworth and her assistant are in violation of Standard VII(A).

(C) Neither Beckworth nor her assistant is in violation of Standard VII(A).

8. Nick O’Donnell, CFA, unsuspectingly joins the research team at Wickett & Co., 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:

(A) a violation of his fiduciary duties.

(B) a violation of his duty to disclose conflicts to his employer.

(C) not a violation of his duty to employer.

9. Karen Dalby, CFA, volunteers on her church's finance board but receives no cash compensation so she does not report the arrangement to her employer. Board compensation is limited to an annual retreat to Hawaii, but the accommodations are modest. Dalby does not enjoy the retreat and often considers skipping the event entirely. Dalby is most likely:
   (A) not in violation of the Code and Standards.
   (B) in violation of Standard IV(B) "Additional Compensation Arrangements."
   (C) in violation of Standard IV(A) "Loyalty."

10. Wes Smith, CFA, refers many of his clients to Bill Towers, CPA, for accounting services. In return, Towers performs routine services for Smith, such as his tax returns, for no charge. Towers has just become a member of CFA Institute. With this development, Towers must:
   (A) only reveal to the prospects referred by Smith that he performs services for Smith.
   (B) discontinue his services for Smith.
   (C) reveal to the prospects referred by Smith that he performs services for Smith, along with the estimated value of those services.

Michael Pennington Case Scenario

Michael Pennington is Senior Vice President of equity investments at Alpha Investment Advisors, Inc. (AIA). He manages a team of analysts and portfolio managers and is responsible for maintaining and developing client relationships. AIA is located in Belgium and provides investment management services to high net worth individuals. Pennington is also a Level Ill Candidate in the CFA Program.

One of Pennington's clients is the Flanders family. Pennington had a long relationship with Helmut Flanders. Before Flanders's untimely death, he gave Pennington full discretion over his portfolio based on an investment policy statement that had been refined continuously over the years.

- Flanders was the president of a publicly traded manufacturing company, Allux, and 20% of his portfolio's assets were invested in Allux equity. His contract with Allux prohibited selling his Allux shares while he was employed.
- Flanders had little liquidity needs. His children were grown, and his salary at Allux was sufficient to cover his annual expenditures as well as contribute to his investment portfolio.
- A former accountant, Flanders had been extremely knowledgeable and comfortable with the investment decision-making process.

- Pennington owns 10,000 shares of Allux and serves on Allux's board and is part of the board's audit committee. Pennington came to know about some aggressive accounting choices made by Allux's CFO.
- Pennington played golf with Flanders on a regular basis and, with Flanders's help, developed many client relationships from these outings.

AIA has an agreement with a local brokerage firm, First Brokerage, owned by Pennington's sister to place all AIA trades through First Brokerage.

- Flanders agreed in writing that all trades in his portfolio would be directed to First Brokerage.
- Pennington purchased new carpets for his office with soft dollars. He believes that his managers make better investment decisions when their environment is pleasant and comfortable.
- Pennington attended an industry conference in the Bahamas with soft dollars. The program is devoted to improving management of the investment advisory firm. He believes that a well-run firm makes better investment decisions.
- Pennington consistently uses soft dollars to purchase research reports from an independent research firm that does in-depth analysis of a company's financial reporting. Several of his managers have commented on the quality and usefulness of these reports to their analysis and decision making.
- After Flander's death, Pennington decided to sell all of his and his clients' holding of Allux shares.

Pennington has an appointment to meet with Flanders's widow, Elise, who, as an artist, left management of their financial assets to her husband. She is meeting with Pennington to better understand her financial position.

11. 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:
    (A) inform the clients of the change and tell them it is based upon an opinion and not a fact.
    (B) make sure that the change is identical for both clients.
    (C) perform both of these functions.

12. Nicole Wise, CFA, is an analyst at Chicago Securities. She attends a meeting with management of one the companies that she covers. During the meeting,

management expresses great optimism about the company's recent acquisition of a new business. Wise is excited about these prospects and issues a research report that states that the company is about to achieve significant success with the new acquisition. Wise has:

(A) not violated CFA Standards of Professional Conduct because she had reasonable reason to believe that the statements in her report were true.

(B) violated CFA Institute Standards of Professional Conduct because she did not check the accuracy of the statements that management made.

(C) violated CFA Institute Standards of Professional Conduct because she misrepresented the optimism by turning it to certainty.

13. Jess Green, CFA is the research director for Castle Investment, Inc., and has supervisory responsibility over eight analysts, including three CFA charterholders. Castle has a compliance program in place. According to CFA Institute Standards of Professional Conduct, which of the following is least likely an action that Green should take to adhere to the compliance procedures involving responsibilities of supervisors? Green should:

(A) disseminate the contents of the compliance program to the eight analysts.

(B) issue periodic reminders of the procedures to all analysts under his supervision.

(C) incorporate a professional conduct evaluation as part of the performance review only three CFA charterholders.

14. Grant Starks, CFA, has been working for Advisors, Inc., for eight years. Starks is about to start his own money management business and has given his two-week notice of his resignation. A few days before his resignation takes effect, a current client of Advisors calls him at his office to inquire about some services for her account at Advisors. During the conversation, Starks tells the client that his new business will have lower commissions than Advisors. Starks has most likely violated the Standard concerning:

(A) loyalty.

(B) communication with clients and prospective clients.

(C) disclosure of conflicts.

15. An analyst belongs to a nationally recognized charitable organization, which requires dues for membership. The analyst has worked out a deal that he provides money management advice in lieu of paying dues. For this arrangement to comply with the standards, the analyst needs consent from:

(A) his supervisor in the organization only.

(B) his supervisor in his regular place of work only.

(C) both his supervisor in the organization and his regular place of work.

16. Standard V(B), Communication with Clients and Prospective Clients, least likely requires members to:

(A) use reasonable judgment regarding the inclusion or exclusion of relevant factors in research reports.

(B) disclose the general principles of investment processes used to analyze and select securities, and construct portfolios.

(C) make clear buy or sell recommendations on the securities covered in research reports.

17. According to CFA Institute Standards of Professional Conduct, members are least likely required to:

(A) make diligent efforts to determine whether third party research relied on is sound.

(B) distribute a detailed research report to clients with any recommendation.

(C) analyze the investment's basic characteristics before recommending a specific investment to a broad client group.

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 healthcare 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, which 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 informations.

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 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, longtime 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.

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

(A) 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.

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

(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.

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

(A) neither Montpier nor Taylor is in compliance.

(B) both Montpier and Taylor are in compliance.

(C) only Taylor is in compliance.

20. Which of the following statements regarding Standard IV(A) - Loyalty to Employer is CORRECT

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

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

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

21. Taylor's actions regarding Breakthrough Corp.:

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

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

(C) did not violate Standard I(D) - Misconduct because he did not misappropriate the information.

22. Roger Halpert, CFA, prepares a company research report in which he recommends a strong "buy." He has been careful to ensure that his report complies with the CFA Institute Standard on research reports. According to CFA Institute Standards of Professional Conduct, which of the following statements about how Halpert can communicate the report is most correct?

(A) Halpert can make his report in person, by telephone, or by computer on the internet.

(B) Halpert can make his report in person.

(C) Halpert can transmit his report by computer on the internet.

23. Patricia Spraetz is the chief financial officer and compliance officer at Super Selection Investment Advisors. Super Selection is a medium-sized money management firm

which has incorporated the CFA Institute Code of Ethics and Standards of Practice into the firm's compliance manual.

Karen Jackson is a portfolio manager for Super Selection. She is not a CFA charterholder. Jackson is friendly with David James, president of AMD, a rapidly growing biotech company. James has provided Jackson with recommendations in the biotech industry, which she buys for her own portfolio before buying them for her clients. For three years, Jackson has also served on AMD's board of directors. She has received options and fees as compensation.

Recently, the board of AMD decided to raise capital by voting to issue shares to the public. This was attractive to board members (including Jackson) who wanted to exercise their stock options and sell their shares to get cash. When the demand for initial public offerings (IPO) diminished, just before AMD's public offering, James asked Jackson to commit to a large purchase of the offering for her portfolios. Jackson had previously determined that AMD was a questionable investment but agreed to reconsider at James' request. Her reevaluation confirmed the stock to be overpriced, but she nevertheless decided to purchase AMD for her clients' portfolios.

Which of the following actions are most appropriate for Spraetz?

(A) Even though Spraetz does not supervise Jackson, as the compliance officer of the firm she is responsible for identifying violations. Spraetz is not responsible for preventing them and should not go beyond their documentation for senior management. Thus, she should record the violations but need not take any further action.

(B) If, after her investigation Spraetz finds that Jackson has committed violations, Spraetz must report them to senior management and seek legal counsel for possible legal and regulatory implications. If the upper management does not follow through and take action, Spraetz has fulfilled her supervisory duties and need not take any further action.

(C) Spraetz, as the chief compliance officer, must set company policy in clear terms and monitor the actions of the employees. In case of violations, she should investigate thoroughly, initiate disciplinary action, and issue guidelines that must be followed in order to prevent future violations. She must not only detect violations through a continuous monitoring process but also provide guidance for proper conduct consistent with the firm's policy manual.

24. An analyst has constructed an investment policy statement (IPS) and a portfolio for a new client, Stephanie Sasser. He has also provided written guidelines on the processes used to make investment management decisions. Six month later, Sasser questions the analyst about several portfolio holdings. Due to a large allocation in financial services stocks during a severe market downturn, her portfolio has underperformed the benchmark by a large margin. Although the analyst remembers discussing the over-allocation with Sasser, and receiving her approval, he is unable to find supporting documents. Which of the following Standards has the analyst most likely violated?

(A) Standard V(A) Diligence and Reasonable Basis.

(B) Standard V(B) Communications with Clients and Prospective Clients.

(C) Standard V(C) Record Retention.

25. Which of the following statements is a violation of Standard VII(B) if it is included on a CFA charterholder's resume?
   (A) My earning the CFA designation indicates my superior ability.
   (B) Both of these are violations of Standard VII(B).
   (C) My earning the CFA designation indicates my desire to maintain high standards.

26. Which of the following statements about Standard IV(C) Responsibilities of Supervisors is least accurate?
   (A) If a subordinate violates a securities law, her supervisor is in violation of Standard IV(C).
   (B) If no effort is made to detect violations, the supervisor is in violation of Standard IV(C) even if no violations by her subordinates have occurred.
   (C) If the supervisor makes a reasonable effort to detect violations, but fails to detect a violation that occurs, she is in compliance with Standard IV(C).

27. The following scenarios involve two analysts at Dupree Asset Management, a small New York-based company with about $150 million in assets under management. Dupree restricts personal trading of stocks analyzed, corporate directorships, trustee positions, and other special relationships that could reasonably be considered a conflict of interest with their responsibilities to their employer.
   - Ray Bolt, CFA, is a senior investment analyst. Bolt was recently elected to the board of trustees of his alma mater, Midwest University, and was appointed as the chairman of the University's endowment committee. Midwest has more than $2 billion in its endowment. Bolt must travel from New York to Chicago eight times a year to attend meetings of the board of trustees and endowment committee. Bolt did not inform Dupree of his involvement with Midwest University.
   - Wanda Delvecco, a candidate in the CFA Program, is a junior investment analyst. She recently wrote a research report on Aveco Communications and recommended the stock for Dupree's "buy" list. Delvecco bought 200 shares of Aveco stock for her personal account 12 months before she wrote her research report. Over the past 12 months, the stock's price has been in the $20-42 price range. Delvecco has not informed Dupree of her ownership of Aveco stock.

   According to CFA Institute Standards of Professional Conduct, which the following statements about Bolt and Delvecco's actions is CORRECT?
   (A) Neither Bolt nor Delvecco violated the Standards.
   (B) Both Bolt and Delvecco violated the Standards.

(C) Delvecco violated the Standards, but Bolt did not.

28. Scott LaRue is a portfolio manager for Washington Advisors. Washington has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the Washington 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. La Rue feels the model would be improved by adding some factors but he has not fully tested this new version of the model. LaRue discloses his model to his own clients but not to his supervisor. LaRue is:

(A) violating the Standards by not considering the appropriateness of the recommendations to clients.

(B) not violating the Standards.

(C) violating the Standards by not having a reasonable and adequate basis for his investment recommendation.

29. Nichole Zeller and Randy Toffler have both passed Level II of the CFA Exam Program and have registered for Level Ill. Zeller circulates a resume stating that she is a candidate for the CFA designation and has passed Level II of the CFA program. Toffler circulates a resume stating that he is a CFA II. Which of the following statements is CORRECT?

(A) Only Zeller has violated the Code of Standards.

(B) Only Toffler has violated the Code of Standards.

(C) Both Zeller and Toffler have violated the Code of Standards.

30. Brian Bellow, a CFA Institute member, is a portfolio manager for Progressive Trust Company. Several friends asked Bellow to review their investment portfolios. On his own time, Bellow examined their portfolios and made several recommendations. He received no monetary compensation from his friends for his investment advice and provided no future investment counsel to them. According to CFA Institute Standards of Professional Conduct, did Bellow violate his duty to Progressive Trust?

(A) Yes, because he undertook an independent practice that could result in compensation or other benefit to him.

(B) No, because Bellow provided no ongoing investment advice.

(C) No, because Bellow received no compensation for his services.

31. A CFA charterholder coaches a fellow employee as that colleague studies for the CFA exams. The charterholder tells the colleague all that she remembers from her exams and how they were constructed. This is:
    (A) a violation of Standard VII(B) concerning use of the designation.
    (B) a violation of Standard I(D) concerning professional misconduct.
    (C) not a violation of the standards.

32. 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:
    (A) that he is being considered for a job at Paulsen.
    (B) his brother-in-law's holding of Paulsen stock and that he is being considered for a job at Paulsen.
    (C) his brother-in-law's holding of Paulsen stock.

33. May Frost, CFA, is concerned about the comments and activities of several of her coworkers and feels both ethical and legal violations are routinely overlooked. According to the Code and Standards, a recommended first step would least likely be to:
    (A) review the company's policies and procedures for reporting ethical violations.
    (B) provide her supervisor with a copy of the Code and Standards.
    (C) contact industry regulators.

34. Jim Taylor works as a portfolio manager for Rose Capital and also serves as president of the Little League board of directors in his town. He receives no money from Little League, however the local golf club provides him with a free membership for volunteering his time on the Little League board. Taylor's involvement with Little League is in his company biography, but the club membership has not been disclosed to Rose or his clients. Taylor has:
    (A) violated the Standards by not disclosing the club membership to Rose, but not by failing to disclose it to clients.
    (B) not violated the Standards.
    (C) violated the Standards by not disclosing the club membership to Rose and failing to disclose it to clients.

35. Chris Babcock, CFA, a portfolio manager for a large Texas investment firm, has been offered compensation in addition to what her firm pays her. The offer is from one of her clients and the additional compensation will be based on her yearly performance in excess of the market index.

    Babcock should:
    (A) turn down the offer because it represents a clear conflict between this client and Babcock's other clients.
    (B) make written disclosure to all parties involved before she accepts this offer.
    (C) make written disclosure to her other clients before she accepts this offer.

Rolf Lindquist, a CFA charterholder, is a portfolio manager at Midwestern Investment Management, a firm catering to high-net-worth individual clients. Lindquist has worked in the investment industry for 10 years, the first four years with KMGR and the last six with Midwestern. In advertising material, Lindquist reports his investment performance over the last 10 years without identifying the first four years as being achieved at KMGR.

Lindquist sits on the board of directors of Western Inns, a hotel chain. In return for his services on the board, he receives free lodging from Western when he travels for business and pleasure. He currently holds no Western stock in any of his clients' portfolios, although in the recent past some of these portfolios have included Western. Lindquist discusses his Western directorship with his supervisor, but because he does not receive any monetary compensation, he does not formally disclose this arrangement in writing to his employer or his clients.

Lindquist manages the portfolio of Martha Olson. Last year, Lindquist beat the benchmark portfolio for Olson by 180 basis points. In appreciation for that performance, Olson gives Lindquist two third-row tickets to the NCAA basketball championship. Lindquist discloses this gift to his employer. Lindquist also receives a two-week, expense-paid trip to Paris from Boston and Co., a brokerage firm, in return for providing Boston with business during the year.

Lindquist also manages the portfolio of Jerry Chandler, a conservative investor with a low tolerance for risk. Lindquist recommends the purchase of equity index put options on the equity portion of Chandler's portfolio. Lindquist educates Chandler on the risks and rewards of such a strategy, including the risk that equity prices will increase and that this would cause the value of the put options will fall.

Midwestern has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the Midwestern 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 disclosed 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. Lindquist modifies the model on an experimental basis by adding factors he reads about in the financial press, but does not back test the results. When making trading decisions, he applies his own version of the model, which is occasionally in conflict with the Midwestern model. Lindquist discloses his use of this experimental model to his own clients, but not to his supervisor.

36. Regarding the Paris trip, Lindquist:
    (A) can accept the gift if he determines, in consultation with his employer, that accepting the gift would not compromise his objectivity.
    (B) cannot accept the gift under any circumstances.
    (C) cannot accept the gift without disclosing it to his employer.

37. With regard to the Chandler portfolio, Lindquist violated:
    (A) Standard III(A): Loyalty, Prudence, and Care, but not Standard I(D): Misconduct.
    (B) neither Standard III(C): Suitability, nor Standard III(A): Loyalty, Prudence, and Care.
    (C) Standard III(C): Suitability, but not Standard III(A): Loyalty, Prudence, and Care.

38. With regard to Lindquist's seat on the board of Western Inns, he violated:
    (A) no standards.
    (B) Standard VI(A): Disclosure of Conflicts, and Standard IV(B): Additional Compensation Arrangements.
    (C) Standard VI(A): Disclosure of Conflicts, but not Standard IV(B): Additional Compensation Arrangements.

39. Which of the following standards is most likely violated in Lindquist's use of his experimental version of the Midwestern model?
    (A) Standard I(C): Misrepresentation (plagiarism).
    (B) Standard V(A): Diligence and Reasonable Basis.
    (C) Standard IV(C): Responsibilities of Supervisors.

40. Lindquist's actions in advertising his investment performance:
    (A) violate Standard III(D): Performance Presentation.
    (B) conform to all standards.
    (C) conform to standards concerning performance presentation as long as Lindquist does not claim compliance with CFA Institute Global Investment Performance Standards.

41. Regarding the NCAA tickets, what action must Lindquist take to avoid a violation of Standard I(B) Independence and Objectivity?
    (A) Obtain written consent from all parties involved.
    (B) Disclose his receipt of the tickets to all other clients with the same investment objective as the Olson account.
    (C) Informing his employer is sufficient.

42. Bill Fence, CFA, supervises a group of research analysts, none of whom have earned the CFA designation (nor are they CFA candidates). On several occasions he has attempted to get his firm to adopt a compliance system to ensure that applicable laws and regulations are followed. However, the firm's principals have never adopted his recommendations. Fence should most appropriately:

(A) take no further action, because by encouraging his firm to adopt a compliance system he has fulfilled his obligations under the Code and Standards.

(B) report the inadequacy by submitting a complaint in writing to the CFA Institute Professional Conduct Program.

(C) refuse supervisory responsibility.

43. Janet Olson, CFA, is an analyst at Quantech Associates. Olson attended a conference at which Brian Wright presented several proprietary computerized spreadsheets that he had developed to value high-tech stocks. While at the conference, Olson copied the spreadsheets without Wright's knowledge. Later, Olson made several minor changes to Wright's initial model. After testing the revised model, Olson was impressed with the results. As inputs for the model, she used factual materials supplied by Moody's Investors Service, a recognized financial and statistical reporting service. Olson wrote a research report describing the revised model and its results and distributed the report to Quantech's clients. According to CFA Institute Standards of Professional Conduct, which of the following actions is Olson required to take? Olson is:

(A) required to seek the authorization from Wright to copy the spreadsheets, acknowledge Wright for developing the initial model but is not required to acknowledge Moody's Investors Service as the source of the data.

(B) required to seek authorization from Wright to copy the spreadsheets and acknowledge Wright for developing the initial model and Moody's Investors Service as the source of the data.

(C) required to acknowledge Moody's Investors Service as the source of the data but is not required to seek authorization from Wright to copy the spreadsheets or to acknowledge Wright for developing the initial model.

44. 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?

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

45. An analyst, who is a CFA Institute member, manages a high-grade bond mutual fund. This is his only professional responsibility. When the analyst comes across a speculative stock investment that he feels is a good investment for his personal portfolio, the analyst:
(A) may invest in the stock because the analyst would not purchase the stock for the bond portfolio he manages.
(B) is in violation of Standard IV(A), Loyalty to Employer, by spending time analyzing stocks when he should only analyze bonds.
(C) must notify his supervisor about the stock according to Standard VI(B), Priority of Transactions, to see if it is appropriate for the portfolio that he manages.

46. Futura Investments Co. decides to diversify its current portfolio with stocks from three companies in a new segment of the biotechnology industry. William Burgin, CFA, is an analyst at Futura and had previously bought shares of the same three companies for his own portfolio, well before his employer started researching them. Burgin has already disclosed the composition of his personal portfolio to Futura Investments, to be in compliance with the Code & the Standards. Which of the following actions should Burgin take?
(A) Hire a full discretionary power or blind trust manager for his portfolio.
(B) Diversify his personal portfolio so, in this way, these stocks will no longer represent a substantial portion of the portfolio.
(C) Open an account that will be managed by someone else but will allow him to maintain his investment preferences.

47. Janice Melfi is a portfolio manager for Soprano Advisors. Soprano has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the Soprano 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 use the model to assist them in making portfolio decisions, but, based on their own fundamental research, are allowed to purchase securities not recommended by the model. This fact is not disclosed to the clients, because the head of marketing does not think it is relevant. Which of the following statements regarding the portfolio manager's investment decisions is CORRECT?
(A) There is no violation of the Standards.
(B) Soprano is violating the Standards by not disclosing the fundamental research aspect of the investment process.
(C) Melfi is violating the Standards by using two investment processes that are in conflict with each other.

48. 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:
    (A) will definitely include more basic facts.
    (B) may generally exclude more basic facts.
    (C) will not be allowed because it violates the Standard III(B), Fair Dealing.

49. While servicing his clients' accounts, an analyst who is a CFA charterholder, determines that one client is probably involved in illegal activities. According to Standard III(E), Preservation of Confidentiality, the analyst may NOT do which of the following?
    (A) Contact CFA Institute about the determination.
    (B) Contact the appropriate governmental authorities about the determination.
    (C) There are no exceptions in this list.

50. If a CFA charterholder receives a referral fee, he must:
    (A) disclose the fee to the supervisor, in written form, as an additional benefit.
    (B) consult with the firm's compliance officer, and follow his or her instructions concerning disclosure.
    (C) disclose the nature of the fee arrangement to the client before entering into a formal agreement.

51. Sharon West is a CFA charterholder and trust officer for REO Trust Company. Soon after beginning work for REO, West finds that REO has been conducting all its securities transactions through her brother who is a registered representative. West's brother charges REO commissions that are equal to the lowest available from another broker. West's brother tells her that if she continues doing business with him, he will give her a substantial discount on all personal transactions she conducts through him. West:
    (A) must inform her employer of the arrangement because it provides her with additional compensation.
    (B) must inform her employer of the arrangement because she is doing business with a member of her immediate family.
    (C) does not need to inform her employer of the arrangement because the commissions her brother charges the firm are the lowest possible.

52. Dave Kline, CFA, is a personal investment advisor with 200 individual, family, and corporate accounts. After a dispute with a coworker on margin policy, he formally resigns his position by giving suitable notice. However, he does not follow his firm's established "Transition and Exit Policies" regarding his accounts. The firm's stated policies require him to notify each client of his planned departure and personally introduce them to their new account representative, Greg Potter. Kline sees Potter as

a rival and states "...let Potter do his own work and find his own clients." Kline is most likely:

(A) in violation of Standard IV(A) "Loyalty" for failing to follow the employer's policies and procedures related to notifying clients of his departure.

(B) not in violation of the Code and Standards.

(C) in violation of Standard I(D) "Misconduct" for leaving clients subject to an account representative he does not find suitable.

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

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

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

54. Standard III(E), Preservation of Confidentiality, applies to the information that an analyst learns from:

(A) current clients and former clients only.

(B) current clients and prospects only.

(C) current clients, former clients, and prospects.

55. Nancy Korthauer, CFA, has launched a new hedge fund called the Korthauer Tautology Fund but has had trouble hiring analysts who are CFA charterholders as well as with finding clients. She offers a $15,000 incentive bonus to any charterholder who joins the firm with over $1 million in committed client investments. Which of the following interpretations of the Code and Standards is most accurate?

(A) A member or candidate may not solicit current clients away from their current employer.

(B) A member or candidate may arrange for current clients to switch to the Korthauer Tautology Fund provided the member or candidate refuses to accept the incentive bonus.

(C) A member or candidate may arrange for current clients to switch to the Korthauer Tautology Fund provided clients are informed of the incentive bonus.

56. All of the following situations violate Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program, EXCEPT:

(A) Karen Wright received her CFA charter in 1980. In 2001, she stopped paying her annual CFA Institute dues. During her retirement speech in 2002, Wright said, "Although I am no longer an active CFA charterholder, I was awarded the right to use the CFA designation in 1980 and maintained active membership in CFA Institute for 20 years."

(B) Barney Latrell, when introducing himself to a prospective client, says, "I completed my CFA in 1995, which required passing three six-hour examinations over a three year period."

(C) John Cabell has satisfied all the requirements imposed by CFA Institute for the right to use the Chartered Financial Analyst designation. His business cards say: John Cabell, C.F.A.

57. With regard to Global Investment Performance standards (GIPS), if the Chief Investment Officer of an investment advisory firm also is a CFA charterholder:

(A) the charterholder is required to comply with GIPS.

(B) the firm is required to comply with GIPS.

(C) neither the firm nor the charterholder are required to comply with GIPS.

58. Albert Long, CFA, manages portfolios of high net worth individuals for HKB Corp. Alice Thurmont, one of his close friends, heads a local charity for homeless children that depends on donations to operate. Because donations have declined during the past year, the charity is experiencing financial difficulty. Thurmont asks Long to give her a partial list of his clients so that she can contact them to make tax-deductible donations. Because Long knows that the charity provides much benefit to the community, he provides Thurmont with the requested list.

Betty Short, CFA, also works for HKB Corp. She receives a letter from CFA Institute's Professional Conduct Program (PCP) requesting that she provide information about one of HKB's clients who is being investigated. Short complies with the request despite the confidential nature of the information requested by the PCP.

Based on Standard III(E), Preservation of Confidentiality, which of the following statements about Long and Short's actions is CORRECT?

(A) Long violated Standard III(E) but Short did not violate Standard III(E).

(B) Both Long and Short violated Standard III(E).

(C) Short violated Standard III(E) but Long did not violate Standard III(E).

59. In the preparation of a research report, a CFA Institute member may emphasize certain matters, touch briefly on others, and omit some altogether:

(A) provided that the analyst has a reasonable basis for his or her actions.

(B) under no circumstances.

(C) provided that the analyst both has a reasonable basis and is unconstrained by the Mosaic theory.

60. Will Lambert, CFA, is a financial analyst for Offshore Investments. He is preparing a purchase recommendation on Burch Corporation for internal use. According to the CFA Institute Standards of Professional Conduct, which of the following statements

about disclosure of conflicts is not required? Lambert would NOT need to disclose to his employer that:

(A) Offshore is an OTC market maker for Burch Corporation's stock.

(B) his wife owns 2,000 shares of Burch Corporation.

(C) he is a beneficiary of a pension plan of his former employer that owns a large number of shares of Burch's stock.

Glenarm Case Study (Refer to CFA Institute Standards of Practice Casebook for details.

Peter Sherman, CFA, has recently joined Glenarm Company after spending 5 years at Pearl Investment Management. He is responsible for identifying potential Latin American investments. Previously, Sherman held jobs as a consultant for many Latin American companies and had plans to continue such consulting jobs without disclosing anything to Glenarm.

After resigning, but before leaving his employment at Pearl, Sherman had encouraged Pearl customers to move their accounts to Glenarm. He contacted accounts Pearl had been soliciting for business. He also contacted potential clients that Pearl had rejected in the past as too small or incompatible with the firm's business. Furthermore, he convinced several of Pearl's clients and prospects to hire Glenarm after he joined Glenarm. He also identified materials from Pearl to take with him, such as:

1. Sample marketing presentations he had prepared.
2. Computer program models for stock selection.
3. Research materials on companies he had been following.
4. A list of companies recommended by Sherman for potential investment which were rejected by Pearl.
5. News articles for potential research ideas.

61. Which of the following statements concerning Sherman's actions is CORRECT?

(A) Sherman did not violate Standard IV(A) by soliciting clients that were rejected by Pearl either because they were too small or unsuitable as long as winning their business did not adversely affect Pearl.

(B) Sherman did not violate any Standard by taking away the news articles from his previous employer, Pearl, for potential research ideas.

(C) Sherman did not violate Standard IV(A) since members can engage in independent consulting practice as long as their employer policy does not specifically prohibit it.

62. Sherman's attempt to lure away clients from Pearl while he was still employed at Pearl is:

(A) a violation of Standard IV(A) because it undermined Pearl's business and its profit opportunities and caused damage to Pearl's business.

(B) not a violation of Standard V(A) because it was conducted "after hours" on Sherman's own time.

(C) not a violation of Standard IV(A) because they would have followed Sherman to his new firm anyway, and no harm to Pearl was done as a result.

63. Which of the following statements is most correct under the Code and Standards?

(A) Consent from the employer is necessary to permit independent practice that could result in compensation or other benefits in competition with the member's employer.

(B) CFA Institute members are prohibited from undertaking independent practice in competition with their employer.

(C) Members are prohibited from making arrangements or preparations to go into competitive business before terminating their relationship with their employer.

64. A firm recently hired Hal Crane, CFA, to be a supervisor in the firm. Crane has reviewed the procedures for complying with the Code and Standards in the company. It is Crane's belief that the procedures need revision in order to be effective. Crane must:

(A) decline supervisory responsibilities in writing until the company adopts an adequate compliance system.

(B) make reasonable efforts to encourage the company to adopt an adequate compliance system.

(C) exercise his supervisory responsibilities with the greater level of diligence required by the Code and Standards.

65. When an analyst makes an investment recommendation, which of the following statements must be disclosed to clients?

(A) An employee of the firm holds a directorship with the recommended company.

(B) Both of these statements must be disclosed to clients.

(C) The firm is a market maker in the stock of the recommended company.

66. 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):

(A) does not require Parsons to notify Malloy of preparing to undertake independent practice under the current conditions.

(B) requires Parsons to notify Malloy in writing about her intention to undertake an independent.

(C) requires Parsons to obtain written consent from both Malloy and the persons from it whom she undertakes independent practice.

67. Anderson, Baker and Chang all received their CFA charters and ordered new business cards. Their business cards are as follows:

G. J. Anderson, CFA

B. K. Baker, Chartered Financial Analyst

M. S. Chang, C.F.A

Which of the business cards use the CFA marks improperly:

(A) Chang.

(B) Baker and Chang.

(C) Anderson and Chang.

68. Toni Florence, CFA, CAIA, leases office space to her best friend, Tom Rigs. Florence is and independent investment advisor specializing in high net worth clients and Rigs is a licensed real estate broker. In lieu of paying rent, Rigs refers his real estate clients to Florence, but only with the clients' permission.

For clients referred by Rigs, Florence:

(A) must disclose the terms of the lease arrangement.

(B) need not disclose the referral fee if Rigs discloses the lease arrangement to the clients first.

(C) need not disclose the terms of the lease arrangement because Rigs obtained the clients' permission for the referral.

69. Brendan Duval works as a research analyst for Toby Securities. Duval recommends changing a recommendation from "sell" to "buy" on Dalton Company. His firm, which manages several mutual funds, may be interested in buying Dalton's stock. He also manages the retirement account that his parents established with Toby. Duval wants to buy shares of Dalton's stock because it is an appropriate investment for his parent's retirement account and obtains approval from his employer to do so. Duval is also thinking about personally investing in Dalton stock. According to CFA Institute Standards of Professional Conduct, which of the following best describes the priority of transactions? Duval should give.

(A) priority of transactions to Toby's clients, followed by his employer, then his parent's retirement account, and finally his personal account.

(B) Toby's clients and his parent's account equal priority, followed by his employer, and then his personal account.

(C) priority to Toby's clients and his employer concurrently, followed by his parent's; retirement account, and finally his personal account.

70. Ned Brenan manages two dozen pension accounts, one of which earned over 25% during the past two years. Brenan tells prospective clients that based on past experience they can expect a 25% return on their funds. Which of the following statements is CORRECT?

(A) Brenan has violated both Standard of Professional Conduct III(D), Performance Presentation, and Standard I(C), Misrepresentation.

(B) Brenan has not violated Standard of Professional Conduct III(D), Performance Presentation, but Brenan has violated Standard I(C), Misrepresentation.

(C) Brenan has violated Standard of Professional Conduct III(D), Performance Presentation, but Brenan has not violated Standard I(C), Misrepresentation.

Joan Platt, CFA, operates an investment firm in New York, but maintains an office in Xania. Platt's firm invests on its clients' behalf in both domestic and international stocks and bonds. Platt's employees include two analysts, Paula Linstrom, CFA, and Hershel Wadel, a member of the CFA Institute. Both analysts report to Platt directly. Thorvald Knudsen, CFA, manages the international bond portfolio.

Xania recently established a stock market, which is not very efficient. None of the Xanian stocks trade in the U.S. market. Xania legally permits the use of material inside information. Platt believes that using inside information would help her compete against other Xanian investment advisers, and also help some of her Xanian clients reach their investment objectives.

Platt instructs Wadel to write a research report on Gamma Company. Wadel's wife inherited 500 shares of Gamma Company from her father when he died five years ago. Gamma stock currently sells for $35 a share. Wadel does not believe that informing Platt about his wife's inheritance is necessary.

Doris Black, one of Wadel's long-time clients, verbally promised Wadel that he could use her vacation home in Aspen, Colo., for a week during skiing season if the return on her portfolio exceeded its benchmark by two percentage points during the next year. Black also promised to reimburse Wadel for his travel expenses. Because Wadel is the sole manager of Black's portfolio, he says nothing to Platt about his arrangement with Black.

Platt instructs Linstrom to write a research report on Delta Enterprises. Delta's stock is widely held by institutional and individual investors. Linstrom does not own any Delta shares, though one of her friends owns 100 shares of Delta. Linstrom does not believe that informing Platt about her friend's ownership of Delta shares is necessary.

Platt suspects that one of the firm's unpaid interns has violated a federal securities regulation.

71. Regarding their research reports, which of the following statements about Linstrom and Wadel's conduct is CORRECT?
   (A) Both Linstrom and Wadel violated Standard VI(A)—Disclosure of Conflicts.
   (B) Wadel violated Standard VI(A)—Disclosure of Conflicts, and Linstrom did not violate Standard VI(A).
   (C) Wadel did not violate Standard VI(A)—Disclosure of Conflicts, and Linstrom did violate Standard VI(A).

72. What is the obligation, if any, to disclose Wadel's arrangement with Black?
   (A) Wadel must disclose the arrangement to Platt but is not required to disclose the arrangement to his other clients.
   (B) Wadel need not disclose anything to his clients or to Platt because he is violating no fiduciary duty.
   (C) Wade! must disclose the arrangements to his clients and to Platt only if he believes it will create a conflict with his responsibilities to other clients.

73. According to the Standards, how must Platt deal with the intern's alleged illegal activity?
   (A) Initiate an investigation and place limits on the intern's activities pending the outcome.
   (B) Report the intern's behavior to the appropriate regulatory authority.
   (C) Tell the intern to stop the conduct.

74. Platt is renouncing her U.S. citizenship and becoming a citizen of Xania. According to the Standards, if Platt renounces her U.S. citizenship, she may then:
   (A) use material inside information when trading in Xania only if the information does not relate to a tender offer.
   (B) not use material inside information when trading in Xania.
   (C) not use material inside information unless trading Xanian stocks exclusively.

75. Midland Investment Banking issues a prospectus for its open-end Midland Gold Fund. In the prospectus, the investment policy is disclosed as, "We will maintain an investment posture of 50% or more in gold stocks and/or bullion, depending upon market conditions." This policy is maintained until the price of gold falls by 20%, leaving the fund 40% invested in gold stocks and bullion. Management decides that since the allocation was affected by market conditions, no action to either change the investment policy or to rebalance the portfolio is required. This decision is:
   (A) under the circumstances, not in violation of the Code and Standards.
   (B) in violation of the Standard concerning disclosure of investment processes.
   (C) in violation of the Standard concerning fiduciary duties to clients.

Vera Sandro recently joined Seamark Securities as a portfolio manager. Sandro also recently took the Level Ill examination in the Chartered Financial Analyst program, but has not yet received her results. Seamark is a medium-sized firm that employs many CFA Institute members.

Sandro has been asked by her supervisor, Ledia Ferrazzo, CFA, to write a brief biography to be included in the promotional brochure Sandro hands out to prospective clients. Sandro included the following sentences in her biography: "Vera Sandro, a Chartered Financial Analyst Level Ill candidate, has focused educational and investment experience in the small-cap stock market. She has consistently achieved better-than-average market returns and expects to do so in the future as well." The brochure was printed and is being used by Sandro as a marketing tool.

Soon after joining Seamark, Sandro attended a conference at which Liam Wright presented several computerized spreadsheets that he had developed to value high-tech stocks. During the presentation, Sandro copied the spreadsheets on her laptop computer. Later, Sandro made major changes to Wright's initial model. After testing the new model, Sandro was impressed with the results. Wright used Standard & Poor's data as inputs for the model, but Sandro used data supplied by Moody's Investors Service. Sandro wrote a research report describing the revised model and its results in detail and sent the report to her biggest client, along with some stock picks selected by the model.

Ferrazzo, the head portfolio manager for Seamark, often meets corporate executives in the course of her evaluation of potential investments. A week ago, Ferrazzo had lunch with Ralph Henderson, a senior vice president of Kellogg Industries, a maker of luxury linens. Ferrazzo told Henderson that she was looking for an appropriate investment in the fabric industry for her large client, Parker Jones. Henderson responded that he thought his company was well-positioned in the market, though he admitted to underestimating the demand for silk sheets in the region. After lunch, Ferrazzo read a research report that said all of Kellogg's silk plants were running at capacity, and the company might have trouble meeting the long-term demand. Two days later, Ferrazzo observed another senior vice president of Kellogg at a restaurant having dinner with the chief financial officer of Bradley Textiles, a maker of various kinds of silk fabrics. It is widely known in the market that Bradley is seeking a potential merger partner, as the founder and CEO is ready to retire.

Ferrazzo did additional research and concluded that Kellogg Industries and Bradley Textiles had complementary product lines in several areas and similar management cultures. She also remembered reading in Forbes a story in which Kellogg's CFO was quoted as saying the company had the financial wherewithal for a merger and an interest in expansion.

Ferrazzo's research indicated that Bradley's market value exceeded its intrinsic value, suggesting that Kellogg was unlikely to pay a high merger premium. Nonetheless, Ferrazzo proceeded to purchase stock in Bradley on behalf of her clients. Six months later, Kellogg acquired Bradley and paid a 40 percent premium over market price.

Sandro shares a workspace with Don Wilson, a CFA charterholder. Wilson recommends that one of his clients buy Alpha Co. shares based upon detailed research conducted by a Seamark analyst. Sandro recommends that one of her clients sell Alpha Co. shares based upon comprehensive research conducted by another brokerage firm.

Seamark has evaluated prospective brokers to execute trades on behalf of its investment-management clients. The findings are as follows:

- White Brokerage Co. offers best price and execution, charges an average of $99 for a typical trade, and provides generous soft dollars.
- Green Brokers Inc., offers good price and execution, charges an average of $59 for a typical trade, and provides moderate soft dollars.
- Blue Brokerage Services Inc., offers best price and execution, charges an average of $79 for a typical trade, and provides moderate soft dollars.

76. With regard to Ferrazzo's purchase of Bradley stock, she violated:
    (A) Standard V(A): Diligence and Reasonable Basis, but not Standard II(A): Material Nonpublic Information.
    (B) Standard III(E): Preservation of Confidentiality, but not Standard V(A): Diligence and Reasonable Basis.
    (C) Standard III(E): Preservation of Confidentiality and Standard II(A): Material Nonpublic Information.

77. Regarding the high-tech stock model, which of the following actions is least likely to help Sandro avoid violating the standards regarding plagiarism and research reports?

(A) Acknowledging Standard & Poor's as the original data source and Moody's Investors Service as the new data source.

(B) Acknowledging Wright's development of the initial model.

(C) Providing basic information about technology stocks in the research report.

78. The production of the advertising represented a violation of:

(A) Standard IV(C): Responsibilities of Supervisors, but not Standard VII(B): Reference to CFA Institute, the CFA Designation, and the CFA Program.

(B) Standard IV(A): Loyalty to Employer and Standard I(C): Misrepresentation.

(C) Standard VII(B): Reference to CFA Institute, the CFA Designation, and the CFA Program, and Standard I(C): Misrepresentation.

79. Ferrazzo may use which of the following brokers?

(A) Blue only.

(B) Blue and Green only.

(C) White and Blue only.

80. Which of the following statements regarding Alpha Co. is least accurate?

(A) Both Wilson and Sandro have a reasonable basis for their recommendations.

(B) The fair-dealing standard has not been violated.

(C) Sandro has breached a fiduciary duty to her client.

81. Which of the following statements regarding Sandro's biography is least accurate?

(A) Sandro need not deliver a copy of the Code and Standards to Ferrazzo.

(B) Sandro can begin using the CFA designation as soon as she receives her exam results.

(C) Sandro must disclose her stake in a thinly traded, family-owned construction company.

82. Arthur Harrow, CFA, is a pharmaceuticals analyst at Dominion Asset Management. His supervisor directs him to prepare separate research reports on Miracle Drug Company and Wonder Drug Company. Harrow serves on the board of Miracle and owns shares of Wonder. According to the Standards of Professional Conduct, which of the following actions is Harrow required to take when he writes the research reports?

(A) Harrow must disclose both his relationship with Miracle and his ownership of shares in Wonder.

(B) Harrow must disclose his ownership of shares in Wonder but not his relationship with Miracle.

(C) Harrow must disclose his relationship with Miracle but not his ownership of shares in Wonder.

83. Greg Stiles, CFA, keeps a list of his clients' birthdays and has personally sent them a birthday card each year at the appropriate time. With respect to this action, which of the following may be a violation of Standard III(E), Preservation of Confidentiality?

(A) Sending a gift along with the card.

(B) Hiring a company outside the firm to perform the task.

(C) The mere act of sending a birthday card each year.

84. Julie Stades retired several years ago and relinquished her membership in CFA Institute. She had the CFA designation up until then. She has decided to go back to work and puts the following statement on her resume: "I earned the CFA designation 10 years ago." Is this a violation of Standard VII(B)?

(A) Yes, because she is no longer an active member.

(B) Yes, she must state that she no longer holds the CFA designation.

(C) No, as long as she does not indicate she currently has the designation.

85. Nancy Korthauer, CFA, has launched a new hedge fund called the Korthauer Tautology Fund and is actively soliciting clients from competitor's firms. Client presentations are necessarily brief and often take place with the prospective client's current investment advisor in the room. The Code and Standards require that:

(A) member or candidate provide (on request) additional detail information which supports the abbreviated presentation.

(B) a prospective client's current investment advisor not participate in meetings.

(C) all client presentation provide a thorough review of all elements of investment management process. Abbreviated presentations are forbidden.

86. An analyst routinely has the opportunity to offer his clients the opportunity to purchase "hot new issues." He tells his clients that he will distribute each issue equally among those interested, with himself included in the distribution. The clients do not object to this. With respect to Standard VI(B), Priority of Transactions, this:

(A) may be a violation despite the clients' approval.

(B) may be a violation because it is impossible to distribute hot new issues equally.

(C) cannot be a violation because the clients know of the practice and agree.

87. 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 1, relationship with Wings and disseminates the report to the firm's clients. According to CFA Institute Standards of Professional Conduct, these actions are:

(A) not a violation of any Standard.

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

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

88. 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.

89. Janet Thompson, CFA, is employed as an analyst by Nationwide Securities. According to CFA Institute Standards of Professional Conduct, which of the following statements about Thompson's duty to Nationwide is NOT correct? Thompson must refrain from:

(A) engaging in independent competitive activity that could conflict with the business of Nationwide unless she receives written consent.

(B) making arrangements to go into a competitive business before terminating her relationship with Nationwide.

(C) engaging in any conduct that would injure Nationwide.

90. Janet Coleman, CFA, is preparing a research report on Union Power and Light. Due to deregulation, utility companies face increased competition. During the past year, three of the five utility companies in her region have cut their dividends by 50%, on average, to provide more internal funds for investment purposes. In a discussion with Union's chief executive officer, Coleman learned that Union expects to have a record amount of capital expenditures during the next year. Although Union subsequently issued a press release about its capital expenditure plans, it did not make any public statements about a change in dividend policy. Coleman reasons that the management of Union will be under pressure to cut its dividends within the next year to remain competitive. Coleman issues a research report in which she states:

"Union Power and Light will decrease its dividend from $2 to $1 a share by the second quarter. We expect that Union will strengthen its competitive position by using more internally generated funds to finance its investment opportunities. If investors buy the stock now at around $50 a share, their total return could exceed 20% on the stock."

Based on CFA Institute Standards of Professional Conduct, which of the following statements about Coleman's actions is most accurate?

(A) Coleman violated the Standards because she failed to separate opinion from fact in her research report.

(B) Coleman did not violate the Standards.

(C) Coleman violated the Standards because she used material nonpublic information.

91. 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:

(A) the relationship of the historical total risk to return only.

(B) both the historical beta and total risk and return.

(C) the relationship of the historical beta and return only.

92. 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:

(A) Standard II(A), Material Nonpublic Information.

(B) Standard VI(B), Priority of Transactions.

(C) Standard IV(A), Loyalty to Employer.

93. An analyst receives a report from his research department that summarizes and interprets a recent speech from the chairman of the U.S. Federal Reserve. The summary says that the chairman thinks inflation is under control. Based upon this summary, the analyst says in his next newsletter that inflation is under control. This is a violation of:

(A) none of the Standards listed here.

(B) Standard V(A), Diligence and Reasonable Basis, and Standard V(B), Communication with Clients and Prospective Clients.

(C) Standard V(A), Diligence and Reasonable Basis, only.

94. In the process of recommending an investment, in order to comply with Standard V(A), Diligence and Reasonable Basis, a CFA Institute member must:

(A) do both of these.

(B) have a reasonable and adequate basis for the recommendation.

(C) support a recommendation with appropriate research and investigation.

95. Wanda Kirby, CFA, recently joined Allegheny Investments as a senior analyst. Because of her extensive experience in the investments business and knowledge of the Code and Standards, Allegheny's management asked her to assume supervisory responsibility. Kirby reviewed Allegheny's existing compliance system and determined that it was inadequate to allow her to clearly discharge her supervisory responsibility. According to CFA Institute Standards, Kirby should:

(A) decline in writing to accept supervisory responsibility until Allegheny adopts reasonable procedures to allow her to adequately exercise such responsibility.

(B) agree to accept supervisory responsibility provided that Allegheny adopts reasonable procedures to allow her to adequately exercise such responsibility.

(C) agree to accept supervisory responsibility and to develop reasonable procedures to allow her to adequately exercise such responsibility.

96. Rhonda Meyer, CFA, is preparing a research report on Moon Ventures, Inc. 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:

(A) not violated the Code and Standards in her report.

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

(C) violated the Code and Standards by not including the insider trading information in her report.

97. An analyst who is a member of CFA Institute has composed an introductory information packet for her new clients, which includes information on fees she receives for referring clients to other professionals and those she pays for having clients referred to her. With respect to Standard VI(C), Referral Fees, this action:

(A) may not satisfy the Standard if such information is only provided after the receivers of the information have become clients.

(B) exceeds the requirement of the Standard because she does not need to reveal the fees she pays to those that refer clients to her.

(C) is not addressed in the Standard.

98. Bill Valley has been working for Advisors, Inc., for several years, and he just joined CFA Institute. Valley routinely writes research reports on Pharmaceutical firms. Valley has recently been asked to serve on the board of directors of an organization that promotes the search for a cure of a certain cancer. Serving on the board is an unpaid position without any direct benefits other than meeting new people and potential clients. To comply with Standard VI, Disclosure of Conflicts, Valley needs to:

(A) both disclose the position on the board to his supervisor and describe his responsibilities on the board.

(B) only disclose the position on the board to his supervisor.

(C) do nothing.

99. A financial analyst and CFA Institute member sends a preliminary research report on a company to his supervisor. The supervisor approves the report, but then the analyst receives news that causes him to revise downward the earnings estimate of the company. The analyst resubmits the report to the supervisor with the new earnings estimate. The analyst soon finds out that the supervisor plans to release the first version of the report with the first earnings estimate without a reasonable and adequate basis. In response to this the analyst must:

(A) both insist that a follow up report be issued and take up the issue with regulatory authorities.

(B) insist that the supervisor change the earnings forecast or remove his (the analyst's name from the report.
(C) only insist that the first report be followed up by a revision.

100. Which of the following statements is most correct concerning a member's obligation to his or her employer under the Code and Standards?
(A) Members are prohibited from making arrangements or preparations to go into competitive business before terminating their relationship with their employer.
(B) Consent from the employer is necessary to permit independent practice that could result in compensation or other benefits in competition with the member's employer.
(C) Members are prohibited from undertaking independent practice in competition with their employer.

101. John Hill, CFA, has been working for Advisors, Inc., 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:
(A) violated the Standard concerning loyalty to employer.
(B) not violated the Standards.
(C) violated the Standard concerning disclosure of conflicts.

102. Robert Hopkins has earned the right to use the CFA designation and wants to indicate this on his business card. According to CFA Institute Standards of Professional Conduct, which of the following is the proper use of the professional designation on his business card?
(A) Robert Hopkins, cfa.
(B) Robert Hopkins, C.F.A.
(C) Robert Hopkins, Chartered Financial Analyst.

103. Lee Hurst, CFA, is an equity research analyst for a long-term investment fund. His annual bonus is linked to quarterly trading profits. Under a new policy, the quarterly assessment period is switched to a monthly assessment period. According to the Code and Standards, best practices dictate:
(A) keeping the policy change private as a trade secret.
(B) requiring Hurst to obtain permission from each client prior to implementation of the new policy.
(C) updating disclosures when the policy change is implemented.

104. Calvin Doggett, CFA, has been contacted by the CFA Institute Professional Conduct Program (PCP) regarding allegations that he has taken investment actions that were unsuitable for his clients. Doggett is questioned by PCP concerning the identity of his clients he considered suitable for investing in a very risky start-up company that eventually went bankrupt.

Doggett will:

(A) violate the Code and Standards by fully cooperating with a PCP investigation if it means revealing confidential information.

(B) not violate the Code and Standards only if he reveals the financial condition and investment objectives of his clients on an anonymous basis and does not reveal the names of his clients to PCP.

(C) not violate the Code and Standards by revealing the names, financial condition and investment objectives of his clients to PCP.

105. Wes Smith, CFA, works for Advisors, Inc. In order to remain in compliance with Standard V(A), Diligence and Reasonable Basis, Smith may recommend a security in which of the following situations?

(A) Smith reads a favorable review of the security in a widely read periodical.

(B) For either of the reasons listed here.

(C) Advisors' research department recommends a stock.

106. Paul Salyer, a portfolio manager, is making a presentation to a prospective client. Paul says that as a new portfolio manager, he made an average annual rate of return of 50% in the last two years at his previous firm and that based on this, he can guarantee a 50% return to the client. Which of the following statements is in accordance with Standard III(D), Performance Presentation?

(A) Implying that he can guarantee a return.

(B) Stating his past performance as long as it is fact.

(C) Imputing his past performance to future performance.

107. Ralph Lim and Susan Bland have both passed Level I of the CFA Program. Both are currently enrolled to sit for Level II. Lim's business card reads, "Ralph Lim, CFA Level I." Bland's resume states, "Level II Candidate in the CFA Program." According to CFA Institute Standards of Professional Conduct involving use of the professional designation:

(A) Both Lim and Bland violated the Standard.

(B) Bland violated the Standard, but Lim did not.

(C) Lim violated the Standard, but Bland did not.

108. Randal Brooks is the chief economist for a large brokerage firm. In the aftermath of a national tragedy, Brooks feels that it is very possible that the stock market will drop significantly and not recover for several years. However, he does not believe that this is the most likely scenario but merely that the risk of investing in equities has increased. He decides to write a market commentary to the brokerage clients that discusses the reasons why the market will remain stable and talks about why he, as a private citizen, feels patriotic. He does not mention the increase risk in equities. Brooks has:
   (A) violated the Standards by not including all of the relevant factors in the research report and making patriotic statements.
   (B) not violated the Standards.
   (C) violated the Standards by not including all of the relevant factors in the research report, but not by making patriotic statements.

109. 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 complied at his previous employer. He publishes the reports and obtains several new clients. Hurst is most likely:
   (A) not in violation of any Standard.
   (B) in violation of Standard V(C) Record Retention.
   (C) in violation of Standard V(A) Diligence and Reasonable Basis.

110. 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?
   (A) Tripp may delegate some or all of his supervisory duties to Brown, even though Brown is not subject to the Standards.
   (B) Tripp may delegate some or all of his supervisory duties only to Green because she is subject to the Standards.
   (C) Tripp may not delegate any of his supervisory duties to either Green or Brown.

111. All of the following statements in promotion of your services are in violation of CFA Institute Standards of Practice handbook EXCEPT:
   (A) I guarantee under my management that you will receive returns in excess of the market index average.
   (B) I passed Level II of the CFA Program in 2003.
   (C) based upon my research, you will achieve a 20% compound annual rate of return on small cap stocks over the next 5 years.

112. Which of the following statements regarding employee/employer relationships is NOT correct?
   (A) A written contract may or may not exist between employer and employee.
   (B) There must be monetary compensation for an employer/employee relationship to exist.
   (C) An employee is someone in the service of another.

113. Jim Jones is an equity research analyst at Gamma funds. Because of his expertise in the telecommunications field, a Chinese telecommunications provider hires Jones as a consultant to help them identify potential investors. According to the Standards of Professional Conduct IV(A) related to duties to employer, Jones must:
   (A) refuse this consulting arrangement.
   (B) obtain verbal permission from his employer to engage in this consulting arrangement.
   (C) describe to his employer in detail the activities related to this consulting arrangement.

114. An analyst writes a report and includes the forecasts of an econometric model developed by the firm's research department. The analyst identifies the source of the forecast and includes all the relevant statistics concerning the model. With respect to diligence and reasonable basis, the analyst has:
   (A) complied with the Standards.
   (B) violated the Standards by relying on model forecasts.
   (C) violated the Standards by not evaluating the model independently.

115. David Saul, CFA, heads the trust department at Savage National Bank. Fairway Enterprises invites Saul to sit on its Board of Directors. In return for his services on the Board, Fairway offers to provide Saul and his family with access to the facilities at Wilmont Country Club at no cost. Saul will not receive any monetary compensation for his services on the Board. According to CFA Institute Standards of Professional Conduct, which of the following actions must Saul take?
   (A) Saul must reject the offer to serve on the Board of Directors.
   (B) Saul must disclose in writing to Savage Bank the terms of the offer whether or not he accepts the offer to serve on the Board of Directors.
   (C) Saul must obtain written consent from Savage Bank and Fairway Enterprises if he decides to accept the offer to serve on the Board of Directors.

116. Which of the following statements regarding disciplinary procedures is least accurate?
   (A) The sanctions imposed by the Professional Conduct staff are final and conclusive.
   (B) A review panel is created from Disciplinary Review Committee members.
   (C) If the CFA member or candidate rejects the sanction, the charges and sanctions may be reviewed.

LMS Securities is a boutique broker-dealer specializing in private placements for technology companies. The firm also provides aftermarket support for the companies that go public after private rounds of financing. This support includes market making and research coverage.

Susan Jones, CFA, is an analyst at LMS Securities. She is responsible for a subset of the companies for which LMS offers research coverage. She recently received her annual CFA Institute Professional Conduct statement, but has not yet filled it out and turned it in. Steve Brown is an analyst who directs the due diligence process for LMS Securities' private placements. Brown passed the Level II exam five years ago, and has registered for the Level III exam every year since then, but has never taken it. He is registered for the Level III CFA exam next June, but nobody at the office believes he will actually take the test.

Sunrise Technologies is a longtime client of LMS Securities. LMS arranged four levels of private financing, for Sunrise, providing in-depth business consulting as well as handling all of the private placements. Sunrise went public 90 days ago and is currently trading at $14 per share.

Kenneth Karloff, CEO of LMS Securities, instructed Jones to write a favorable research report on Sunrise Technologies right before the company went public, setting a price target of at least $30 per share. Jones has developed a number of alternative cash flow projections for Sunrise Technologies. She picks an optimistic scenario to justify a $30 price target and issues a positive report using those projections.

After Sunrise Technologies has gone public, Karloff decides to help Jones to write a more-detailed research report on the company. Karloff provides Jones with information about the product pipeline and sensitive patent litigation that was given to him in confidence by Sunrise executives while the company was private. Given the product pipeline and legal outlook, Jones revises her cash flow models to reflect greater growth, then writes a positive report and advises LMS's clients to buy the stock.

117. In order to remain an active member of CFA Institute, Jones must annually:
(A) submit her completed Professional Conduct Statement and pay applicable membership dues.
(B) submit her completed Professional Conduct Statement, pay applicable membership dues, and complete forty hours of continuing education.
(C) pay applicable membership dues and complete forty hours of continuing education.

118. Which of the following statements regarding the research report on Sunrise Technologies after the company went public is CORRECT?
   (A) Jones is in compliance with the objectivity Standard because she made her recommendation based facts, not conjecture; Karloff has violated the Standard regarding the use of material nonpublic information.
   (B) Jones has violated the Standard on research reports because she failed to distinguish between fact and opinion; Karloff is in compliance with the supervisory-responsibilities Standard because he is keeping up with Jones' actions and ensuring her report is accurate.
   (C) Jones has violated the misrepresentation Standard with her aggressive growth prediction for Sunrise Technologies; Karloff has violated the plagiarism Standard by disseminating information he received in confidence.

119. According to CFA Institute Standards concerning fair dealing, Jones is required to do which of the following?
   (A) Disclose to all clients whether different levels of service are offered.
   (B) Disseminate new investment recommendations to all clients at the same time.
   (C) Ensure that accounts belonging to her immediate family purchase securities only after other clients have had the chance to buy.

120. Which of the following statements could Brown put on his resume without violating Standard VII(B): Reference to CFA Institute, the CFA Designation, and the CFA Program?
   (A) If I pass the Level III test, I may be eligible for my CFA charter late next year.
   (B) I am a Level III CFA candidate eligible to receive my charter in November 2005.
   (C) I am a Level III CFA and should become a chartered financial analyst next year.

121. When Jones produced the research report on Sunrise Technologies before it went public, she violated:
   (A) Standard I(B): Independence and Objectivity because of her obedience to her CEO, and Standard II(A): Material Nonpublic Information because of Karloff's involvement.
   (B) Standard V(B): Communication with Clients and Prospective Clients by leaving relevant facts out of the report, but not Standard III(A): Loyalty, Prudence, and Care because the CEO cannot pass his fiduciary duty on to her.
   (C) Standard V(A): Diligence and Reasonable Basis because her research report was not thorough, and Standard I(B): Independence and Objectivity because of her obedience to her CEO.

122. Dwight Dawson, a CFA charterholder and portfolio manager at Ascott Investments, was recently appointed to the investments committee at Brightwood College. He will

receive no compensation from Brightwood for serving on this committee. Another person at Ascott manages part of Brightwood's endowment. Dawson does not inform Ascott's compliance office of his involvement with Brightwood, because he does not believe doing so is necessary.

Brenda Hamilton, a CFA candidate, also works for Ascott as an investment analyst. Procedures established at Ascott prohibit personal trading in securities analyzed or recommended by Ascott.

One of these securities is Horizon, a telecommunications firm. Hamilton buys 10 shares of Horizon for her infant son's trust account. She believes that reporting this purchase to Ascott's compliance officer is unnecessary because the amount of the transaction is small and is not for her owner personal account.

Did Dawson or Hamilton's actions violate CFA Institute Standards of Professional Conduct?

(A) Dawson: Yes, Hamilton: Yes.

(B) Dawson: No, Hamilton: Yes.

(C) Dawson: No, Hamilton: No.

123. An analyst receives a research report from a colleague. The colleague's report has an elaborate table with performance data on publicly traded stocks. The colleague says the data in the table consists of measures provided by Standard & Poor's. The analyst finds the table a useful reference for a report she is writing. She uses several pieces of data from the table. The analyst is potentially in violation of:

(A) no particular standard because this is appropriate activity.

(B) Standard I(C), Misrepresentation, concerning the use of the work of others.

(C) Standard V(A), Diligence and Reasonable Basis, if she does not first verify the data in the table is accurate.

124. A money management firm has created a new junk-bond fund. When the firm advertised the new fund at its issuance, they used care to accurately compute the returns from the past 10 years for all assets in the fund. The firm used the current portfolio weights to determine an average annual historical return equal to 18% and claim an 18% annual historical return in their advertising literature. With respect to Standard III(D), Performance Presentation, this is:

(A) a violation because the Standard prohibits computing historical returns on risky assets like junk bonds.

(B) a violation because the advertisement implies the firm generated this return.

(C) in compliance.

125. BlueRock Fund uses a proprietary asset selection model that it believes gives the firm a competitive advantage. The model is applied to a universe of all small-cap

domestic equities and all publicly - traded corporate bonds. The asset allocations generated by this model range from +200 percent in small-cap equities/-100 percent in bonds to +200 percent in bonds/-100 percent in small-cap equities. Since the fund can invest in both equities and bonds, it is classified as a balanced fund. In the prospectus BlueRock describes the fund's investment policy as "a balanced fund, with 50 percent of the assets invested in bonds and 50 percent in equities, on average." On this basis, BlueRock is:

(A) not in violation of any CFA Institute Standard.

(B) in violation of CFA Institute Standards concerning the disclosure of security selection and portfolio construction processes.

(C) in violation of the CFA Institute Standard concerning Fiduciary Duty.

126. The Konkol Company implements a new methodology for portfolio valuation that is licensed to them by ABC Statistics. Konkol complies with the CFA Institute Code and Standards by:

(A) discussing the new methodology with the clients, in its entirety.

(B) discussing the new methodology with clients only when a change in the security selection process is involved.

(C) not discussing the new methodology with clients because there is no need to, as it will not change their risk and yield preferences.

127. The following scenarios refer to recommendations made by two analysts.

- Jean King, CFA, is a quantitative analyst at Quantlogic, Inc. King uses computer-generated screens to differentiate value and growth stocks based on accounting numbers such as sales, cash flow, earnings, and book value. Based on her analysis of all domestically traded stocks in the U.S. over the past year, King concludes that value stocks as a class have underperformed growth stocks over that period. Using only this analysis, she recommends that account executives at Quantlogic sell all value stocks from the portfolios for which they have discretionary authority to trade and replace these stocks with growth stocks.
- James Capelli, CFA, is a fundamental analyst at Wheaton Capital Management, which focuses on regional stocks. His analysis of Branson Wireless includes the investment's basic characteristics such as information about historical earnings, ownership of assets, outstanding contracts, and other business factors. In addition to conducting both a general industry analysis and a company financial analysis, Capelli interviews key executives at Branson. Based on his analysis, he concludes that the company's future prospects are strong and issues a "buy" recommendation.

According to CFA Institute Standards of Professional Conduct, did King and Capelli have reasonable and adequate basis for making their recommendations?

(A) King has a reasonable basis for his recommendation, but Capelli does not.

(B) Capelli has a reasonable basis for his recommendation, but King does not.

(C) Both King and Capelli have a reasonable basis for their recommendations.

128. An analyst likes to trade commodity futures in her own account. She does not deem any of her client accounts suitable for commodity futures trading. When she identifies a favorable commodity futures position, the Standard concerning priority of transactions suggests she should:

(A) act on it on her own behalf as she sees fit.

(B) refrain from acting until she notifies her supervisor.

(C) first tell her clients about it before acting herself.

Hunter Harrison, CFA, has recently been promoted to Chief Investment Officer (CIO) of Ironclad Investments, an investment adviser and pension consultant for medium and large corporate pension clients. Ironclad recently hired a compliance officer to update its compliance manual, which is consistent with the CFA Institute Code and Standards. Harrison serves as a director on several non-profit and corporate boards of directors, some of which have their pension assets managed by Ironclad. As part of his new job duties, Harrison will oversee Ironclad's research analysts and portfolio managers, including Michelle Myers, who passed the Level II CFA examination last year and is registered for the next exam. Myers is a portfolio manager who regularly meets with clients and prospects. Myers is also a partner in a software company that sells retirement and benefit administration services to institutional clients, some of which are also clients of Ironclad to whom Myers has recommended the software company. Myers has disclosed her partnership interest in the software company to Ironclad, including the potential for additional compensation and the possible conflicts of interest, but not to her clients.

One of Myers' software clients, Breakthrough Pharmaceuticals (Breakthrough), is a publicly traded corporation that is also held in many of Ironclad's client portfolios. In the course of their business relationship, Breakthrough's CEO informs Myers that the company has been having difficulty making retirement benefit payments, and its pension plan has recently gone from "overfunded" to "significantly underfunded" as a result of market conditions. Breakthrough's CEO indicates to Myers that he is attempting to source additional short-term financing to make retiree benefit payments and will disclose the significant "underfunded status" of the pension plan in the upcoming financial statements. Myers, concerned that Breakthrough's current pension troubles and short-term liquidity issues will negatively affect its earnings and consequently the performance of the company's stock, informs Harrison of the impending disclosure. Harrison allows Myers to sell 1,800,000 shares of Breakthrough stock for clients, causing the price to drop by 5%. When the pension troubles are later disclosed in the company's financial statements, Breakthrough's stock price drops an additional 18%.

Harrison, as CIO, is chairman of Ironclad's proxy voting committee. Myers is also a member of the committee. Ironclad, as a discretionary investment manager, votes proxies through the proxy voting committee on behalf of clients. Ironclad is currently reviewing proxies for several companies covered in research, including technology companies Advanced DSL (Advanced), InterConnect Inc. (InterConnect), Speedy Chip Technology (Speedy Chip), and Wavelength Digital (Wavelength). Each company's current proxy contains voting proposals pertaining to employee stock option expensing methods. This issue is particularly important to Ironclad because several of its investment personnel recently participated in an industry forum that supported increased disclosure for company stock options. The panel concluded that such disclosure will provide investors with a more complete estimate of corporate earnings. Ironclad, through its clients, owns approximately 4% of the outstanding shares of Advanced and InterConnect and approximately 6% of the outstanding shares of Speedy Chip and Wavelength.

Harrison serves on the board of directors for InterConnect and Wavelength, while Myers provides consulting services for Speedy Chip. Harrison receives cash compensation and stock options for his services, while Myers receives restricted stock and stock options. The investment bank that led the public offering of InterConnect and Speedy Chip and seven of nine sell-side analysts covering the companies have "sell" ratings on the stocks. Ironclad's analysts have also issued "sell" recommendations on the companies due to, among other issues, lack of earnings transparency and low earnings quality. Contrary to committee consensus, Harrison and Myers vote client proxies "against" the expensing of employee stock options for InterConnect, Wavelength, and Speedy Chip. Harrison increases his clients' positions in both InterConnect and Wavelength, citing "growth opportunities" and "consensus opinion." Neither Harrison nor Myers has disclosed these compensation arrangements to Ironclad.

129. Is it likely that Myers violated any CFA Institute Standards of Professional Conduct with respect to her disclosure of the partnership interest in the software company or did Harrison violate any standards with respect to the sale of Breakthrough stock?

	Partnership interest	Breakthrough sale
(A)	No	Yes
(B)	Yes	Yes
(C)	Yes	No

130. Is it likely that Myers violated any CFA Institute Standards of Professional Conduct by selling the Breakthrough stock for her clients' accounts?
   (A) Yes, because the information shared by Breakthrough's CEO was nonpublic.
   (B) No, because Myers is not considered an insider with respect to the information.
   (C) No, because Myers has a fiduciary duty to her clients.

131. With respect to Harrison's directorships with InterConnect and Wavelength and Myers' consulting arrangement with Speedy Chip, is it likely that any CFA Institute Standards of Professional Conduct have been violated?

	Harrison's directorships	**Myers Consulting arrangements**
(A)	Yes	Yes
(B)	Yes	No
(C)	No	No

132. Which of the following least accurately describes Harrison's actions necessary for compliance with the Code and Standards regarding proxy voting? Harrison should:
   (A) discard all proxies on behalf of Ironclad's clients when there is a conflict of interest.
   (B) abstain from voting on matters affecting Internet and Wavelength to avoid conflicts of interest.
   (C) disclose all proxy voting policies to Ironclad's clients including the treatment of routine and non-routine issues.

Lon Smith is an analyst in the Research Department of Lincoln & Co., a large investment bank. Smith has just completed a temporary assignment in Lincoln's Corporate Finance Department related to underwriting a debt offering for FinSoft, a computer software company. FinSoft's recent operating record has reflected lagging sales volume and heavy product development expenses. Smith has marked his FinSoft notes and work sheets "CONFIDENTIAL / CORPORATE FINANCE DEPARTMENT" and sent them to the company file in the Research Department. This material reveals that FinSoft is about to receive a major contract for an innovative software program that will have a very significant positive impact on earnings as well as on the company's visibility and stature in the industry.

Jay Jones, a CFA candidate and a portfolio manager for Lincoln, has come upon these notes and work sheets while reviewing the FinSoft research file. Jones had been considering sale of the stock from the accounts under his management, but realizes after reading the file material that the recent weakness in operating results is about to be reversed and that the company's prospects are actually quite favorable. Perhaps, he thinks, he should add to his clients' FinSoft positions instead of considering their sale.

Jones briefly reflects on the matter of "inside information" in relation to perhaps buying more of the stock instead of selling it, but his recollection is hazy and Lincoln has no formal guidelines on the subject to which he can refer. Based on the circumstances, Jones believes he is free to use this new knowledge for the benefit of Lincoln's clients.

At a local CFA society event, Jones mentions to Mohammed Bamyeh, a friend and financial advisor, that FinSoft is about to receive a major new contract that has yet to be announced. Later that day, Bamyeh takes a large long position in a technology ETF that has a large weight for FinSoft stock.

133. Based on CFA Institute Standards of Professional Conduct, which of the following is least accurate?

(A) There is no breach of duty if traded on Smith's report because Jones did not conduct the research that produced the information.

(B) The information is material because the new software is likely to significantly increase FinSoft's future earnings.

(C) There is misappropriation of information by Jones because the file is marked "Confidential / Corporate Finance Department."

134. Based on the information presented in this situation, Jones has an obligation to do all of the following EXCEPT:

(A) encourage his employer to review the compliance procedures as they relate to material non-public information issues.

(B) wait to trade on the information until after a reasonable period has passed.

(C) encourage public dissemination of the information.

135. Based on the information presented, Lincoln should adopt a set of guidelines on inside information that include each of the following EXCEPT:

(A) have in place a supervisor or compliance officer who has the authority and responsibility to decide whether information is material and nonpublic.

(B) prohibit exchange of personnel, even temporary, between investment banking and institutional money management departments.

(C) develop criteria for identifying inside information.

136. When recommending the purchase of FinSoft company shares to Bamyeh, Jones least likely violated the Standard relating to:

(A) diligence and reasonable basis.

(B) loyalty to employer.

(C) integrity of capital markets.

137. A manager of pooled funds must do all of the following to remain in compliance with the Standards EXCEPT:

(A) Notify potential investors of any changes in investment policy.

(B) Disclose basic security selection processes.

(C) Print the investment policy statement in all quarterly reports.

Rajiv Singh, a CFA charterholder, works as an equity analyst with Horizon Investments, a large broker/dealer. After ski-resort developer HighLife misses a quarterly earnings target, Singh changes his recommendation on HighLife from buy to hold. Singh has been following HighLife for years. In several previous research reports on HighLife, Singh told clients that, based on his detailed analysis of the financial statements and market position, he believed HighLife had stopped picking up market share. He had mentioned concerns about HighLife several times in his reports and said in the most recent report that he would downgrade the stock if it missed quarterly earnings.

Singh had produced his monthly report on HighLife just a week before the earnings announcement, and because he had just written about his intention to downgrade the stock, he felt he did not need to inform clients of his recommendation change until the next monthly report.

On the same day that the HighLife report was released, Singh initiated coverage on another company with a buy rating, the convenience store operator QuickStop. His research report is distributed that afternoon. A client sends Singh a sell order for QuickStop via e-mail the same day the new recommendation is being disseminated to all Singh's clients and prospects.

John Womack, a Level II CFA candidate, is a trader at Horizon. Womack, walking past the conference room during an investment meeting, learns of the initiation of the buy rating on QuickStop. Prior to the dissemination of the buy rating to Horizon's clients, he buys up a large block of QuickStop shares for Horizon's account in anticipation of clients' interest in the stock. When the rating is released to the firm's customers, he fills the incoming customer orders out of Horizon's inventory, generating a modest profit for the company.

Horizon is drafting trade-allocation guidelines for companywide use. Five regulations the company is considering are listed below:

(1) Regular orders are processed and executed on a pro-rata basis.

(2) Shares in initial public offerings will be allocated on a pro-rata basis to the firm's portfolio managers according to advance indications of interest from the managers.

(3) When the full amount of a block order is not executed, partially executed orders are allocated on a first-in, first-out basis.

(4) Orders must be recorded in writing and stamped with the time of the order and the execution.

(5) All clients participating in block trades are given the same execution price, and all clients are charged the same commission.

138. Womack's trading actions are a violation of:
(A) Standard IV(A) — Loyalty to Employer and Standard III(B) — Fair Dealing.
(B) Standard III(E) — Preservation of Confidentiality and Standard VI(B) — Priority of Transactions.
(C) Standard III(A) — Loyalty, Prudence, and Care and Standard VI(B) — Priority of Transactions.

139. With regard to his coverage of HighLife stock, Singh:
(A) did not violate the Standards for reasonable basis or research reports.
(B) violated the research reports Standard because he failed to differentiate between facts and opinions.
(C) violated the reasonable basis Standard by downgrading a stock because it missed one quarterly earnings estimate.

140. After Singh changed his investment recommendation for HighLife from a "buy" to a "hold," he violated:
(A) Standard I(C) — Misrepresentation by not exercising diligence and thoroughness in his research.
(B) Standard III(B) — Fair Dealing by not telling clients about the downgrade of HighLife in the wake of his promise to downgrade the stock if it missed estimates.
(C) Standard V(A) — Loyalty, Prudence, and Care by not exercising reasonable care and prudent judgment in his research.

141. Which of the following trade allocation procedures being considered for Horizon's trade allocation policy would NOT be consistent with Standard III(B)—Fair Dealing?
(A) Regular orders are processed and executed on a pro-rata basis.
(B) When the full amount of a block order is not executed, partially executed orders are allocated on a first-in, first-out basis.
(C) All clients participating in block trades are given the same execution price and are charged the same commission.

142. Which of the following actions would be a violation of the Standard VII(A) Conduct as Participants in CFA Institute Programs?
(A) Using the CFA designation without submitting a Professional Conduct Statement and paying annual dues.
(B) Exaggerating the implications of holding the CFA designation.

(C) Misrepresenting information on the Professional Conduct Statement.

143. Chuck Daniels has just been hired to manage a security analysis group for Aaron Asset Management. Daniels performed a similar function at another firm and finds the compliance system at Aaron inadequate. He develops a system that he feels is appropriate, but senior management tells him he will have to wait six months to implement the system. Daniels should:

(A) resign his position immediately.

(B) decline in writing to accept supervisory responsibility until a satisfactory compliance system is put into place.

(C) protest in writing the delay, listing the potential dangers that can occur.

144. Pamela Gee is a portfolio manager. She is planning to establish her own money management firm. She has already informed her employer, Branford, Inc., about her plans. In her remaining time at Branford, she can:

(A) solicit Branford colleagues but not Branford clients.

(B) start the registration of her new company.

(C) inform her current client about her resignation and let them know how to reach her, in case any problems arise in the future.

145. Michel Marchant, CFA, recently became an independent money manager. After six months, he has only ten clients, who are family and friends. To supplement his income, Marchant accepted part-time employment as an advisor at Middleton Financial Advisors. According to CFA Institute Standards of Professional Conduct, which of the following statements about Marchant's duty to his new employer is CORRECT?

(A) Marchant must inform Middleton about his existing clients but need not inform his existing clients about his new part-time employment with Middleton.

(B) Marchant must inform Middleton to keep his existing clients and must inform his existing clients of his new part-time employment at Middleton.

(C) Marchant need not inform Middleton about his existing clients but must inform his existing clients about his new part-time employment at Middleton.

146. Steve Copper has worked as an independent consultant for the past ten years advising companies on various ways to increase their internal efficiency and thereby increase the firm's stock price as well. Copper recently accepted a job offer from an equity research firm as a senior stock analyst. One of the firms he will be responsible for researching, Johnson Machine Tools (JMT), is also one of his consulting clients. Copper currently has a contract with JMT to provide consulting services for another six months which he plans to honor even though there are no penalties in the contract for early termination on his part. According to CFA Institute Standards of Professional Conduct, which of the following is the most appropriate action for Copper to take? Copper should:

(A) disclose the consulting arrangement to clients considering JMT as an investment.

(B) disclose the arrangement only if he plans to renew the contract in six months.

(C) terminate the contract with JMT prior to issuing any research on the company.

147. When Wes Smith first joined Advisors, Inc., he was excited that all the analysts at the firm had the CFA designation. In letters to prospective clients, he states that this ensures that Advisors can provide better service than their competitors. With respect to Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program, this is:

(A) a violation because he cannot guarantee better service.

(B) a violation because he mentions the CFA designation in the letter.

(C) a violation for both mentioning the CFA designation and saying the firm can guarantee better service.

148. Patricia Spraetz is the chief financial officer and compliance officer at Super Selection Investment Advisors. Super Selection is a medium-sized money management firm which has incorporated the CFA Institute Code of Ethics and Standards of Practice into the firm's compliance manual.

Karen Jackson is a portfolio manager for Super Selection. She is not a CFA charterholder. Jackson is friendly with David James, president of AMD, a rapidly growing biotech company. James has provided Jackson with recommendations in the biotech industry, which she buys for her own portfolio before buying them for her clients. For three years, Jackson has also served on AMD's board of directors. She has received options and fees as compensation.

Recently, the board of AMD decided to raise capital by voting to issue shares to the public. This was attractive to board members (including Jackson) who wanted to exercise their stock options and sell their shares to get cash. When the demand for initial public offerings (IPO) diminished, just before AMD's public offering, James asked Jackson to commit to a large purchase of the offering for her portfolios. Jackson had previously determined that AMD was a questionable investment but agreed to reconsider at James' request. Her reevaluation confirmed the stock to be overpriced, but she nevertheless decided to purchase AMD for her clients' portfolios.

Which of the following statements concerning Super Selection is CORRECT?

(A) Jackson did not violate the CFA Institute Code of Ethics and Standards since she is not a CFA charterholder.

(B) All employees of a firm are bound by CFA Institute's Code and Standards if they are incorporated in the company's policies manual, and the firm subscribes to them explicitly.

(C) Spraetz, in her capacity as a supervisor, violated Standard IV(C) by not preventing violations by jackson.

149. Greg Stiles, CFA, may withhold from CFA Institute information about a client acquired in the regular performance of his duties:

(A) for neither of the reasons listed.

(B) only if Stiles is a relative of the client.

(C) only if Stiles has a special confidentiality agreement with the client.

150. A money manager is meeting with a prospect. She gives the client a list of stocks and says, "These are the winners I picked this past year for my clients. Their double-digit returns indicate the type of returns I can earn for you." The list includes stocks the manager had picked for her clients, and each stock has listed with it an accurately measured return that exceeds 10%. Is this a violation of Standard III(D), Performance Presentation?

(A) No, because the manager had the historical information in writing.

(B) Yes, unless the positions listed constitute a complete presentation (i.e., there were no stocks omitted that did not perform in the double digits).

(C) Yes, because the manager cannot reveal historical returns of recent stock picks.

Bella Brown is an experienced generalist securities analyst employed by Lang & Co., a major U.S. brokerage firm whose clients have a high regard for her research and stock selection abilities. She was visited recently by a Lang managing director who said, "Please take a look at SpecChem Inc., the specialty chemical producer. They are going to need an investment banker soon and, because we make a market in their stock, we will be one of the firms considered for this business. I had lunch with SpecChem's Treasurer today, who told me that their European problems are being resolved and that earnings results are definitely looking good. He likes us and is expecting you to call him for details." The managing director then left Brown's office, saying, "It would be great if you could rate the stock a 'Buy'."

In a subsequent hour-long telephone discussion with the Treasurer, Brown obtained some useful information concerning recent company trends and developments as well as SpecChem's overall view of the outlook for sales and earnings during the next several quarters. Brown began thinking quite positively about the company and its prospects. She then reviewed some general source material on the chemical industry and read the Standard & Poor's Stock Guide on SpecChem Inc. That afternoon, she wrote a report recommending purchase of the stock, shown below as Exhibit B. In accordance with Lang's routine procedures for pre-dissemination review of Research Department recommendations, the report has been sent to the firm's Director of Research, who is aware of the circumstances under which it was prepared.

Exhibit B

LANG & COMPANY Company Report

Industrial: Specialty Chemicals Equity Research

Rating: Buy

SpecChem Inc. (NYSE: SCM)

- We are initiating coverage of SpecChem Inc. with this report.
- Earnings, up to 51% in the first quarter, are expected to be up again in the quarter ending June 30. Higher sales, better margins, an improved geographic sales mix, and savings from reduced pension expense are all contributing to this year's gains.
- Although European production is up only modestly year-over-year, successful cost reduction efforts are limiting the adverse effects of weak volume and pricing. A possible plant closure in September could improve plant utilization by 10%, accompanied by potentially dramatic margin improvement. However, a $30 million after-tax special charge could be taken at the time of the closure.
- We expect a moderate increase in second half 2014 sales. Although management looks for European demand to remain slow, it feels that U.S. sales could be above expectations if auto-related demand strengthens. Management is also optimistic about receiving a sizable U.S. government contract in the next few months.
- Based on the factors noted above, our confidence level concerning earnings levels over the balance of the year is high.
- We think SpecChem stock is undervalued and believe it can easily reach the low 100s on the strength of continuing earnings momentum. The downside is estimated to be in the mid-80s. There is plenty of room for upside earnings surprises if volume and prices improve, which would take the stock up strongly. Purchase is recommended.

Analyst: Bella Brown
Research Department
This report is based upon information which we consider reliable, but we do not represent that it is accurate, and it should not be relied upon as such. We, or persons involved in the preparation or issuance of this material, may, from time to time, have long or short positions in the securities of the company mentioned herein.

151. Under the CFA Institute Code and Standards, it is responsibility of the Director of Research, a CFA Institute member to:
(A) exercise reasonable supervision over those subject to their supervision or authority to prevent any violation of applicable statues, regulations or provisions of the Code and Standards.
(B) both of these.
(C) not knowingly participate or assist in any violation of laws, rules, or regulations.

152. Under the current circumstances, the Director of Research should:

(A) allow the report to be distributed, as is.

(B) require the report to be redone to ensure compliance with CFA Institute Standards.

(C) require the report to be redone with a neutral or hold rating pending the outcome of the awarding of the investment banking business.

153. The research report, as shown, has several aspects which violate CFA Institute Standards of Professional Conduct. Which of the following is NOT an apparent violation of CFA Institute Standards?

(A) The report does not adequately discuss the factors important to analysis, recommendations, or action.

(B) The report violates guidelines on investment performance presentation.

(C) The report does not distinguish between fact and opinion.

154. As to the process by which Brown's report in Exhibit B came into being, which of the following is least likely a procedural error in violation of CFA Institute Standards of Professional Conduct?

(A) Brown has violated the Standard relating to the prohibition against plagiarism.

(B) Brown has violated the Standard relating to disclosure of basic characteristics.

(C) Brown has violated the Standard relating to independence and objectivity.

155. Will Lambert, CFA, is a financial analyst for Offshore Investments. He is preparing a purchase recommendation on Burch Corporation. According to the Standards of Professional Conduct, which of the following relationships with Burch is Lambert least likely required to disclose?

(A) His wife owns 2,000 shares of Burch.

(B) He has a material beneficial ownership of Burch through a family trust.

(C) His son-in-law was formerly employed by Burch.

156. Standard VI(B), Priority of Transactions, applies to transactions an analyst takes on behalf of:

(A) his clients.

(B) both of these.

(C) his employer.

157. Wanda Brunner, CFA, is preparing for her first meeting with the Johnsons—her firm's newest clients. She makes notes regarding disclosure of the investment process. These notes most likely include reminders to:

(A) anticipate changes in her clients' investment objectives that could cause them to leave her firm.

(B) adequately disclose the basic security selection and portfolio construction process.

(C) notify her supervisors of any potential change in the security selection and portfolio construction process.

158. Marc Feldman, CFA, is manager of corporate investor relations for a high-tech startup, zippy.com, in Boise, Idaho. Feldman is well-known in the high tech community in Boise, and Dragon.com has asked if he will help them organize their investor relations function on a consulting basis. They offer him an all-expenses-paid two-week holiday for two on Australia's Gold Coast in payment. Regarding this offer as a CFA Institute member Feldman is:

(A) not allowed to accept such an offer since it effectively places him in competition with his employer.

(B) allowed to accept the offer only with written approval from zippy and from Dragon.

(C) allowed to accept the offer only with written approval from zippy.

159. Todd Gable, CFA, was attending a noon luncheon when he overheard two software executives talking about a common vendor, Datagen, about how wonderful they thought the company was, and about a rumor that a major brokerage firm was preparing to issue a strong buy recommendation on the stock. Gable returned to the office, checked a couple of online sources, and then placed an order to purchase Datagen in all of his discretionary portfolios. The orders were filled within an hour. Three days later, a brokerage house issued a strong buy recommendation and Datagen's share price went up 20%. Gable then proceeded to gather data on the stock and prepared a report that he dated the day before the stock purchase.

Gable has:

(A) violated the Standards by not having a reasonable basis for making the purchase of Datagen.

(B) violated the Standards by improper use of inside information.

(C) violated the Standards by using the recommendation of another brokerage firm in his, violated report.

160. John Johnson, portfolio manager at Sunshine Investments, has passed all three levels of the CFA® Program and has completed his work experience requirements. He expects to receive his charter in the near future. He includes the following statement in his firm's brochure: "Johnson has passed all three levels of the exam and has completed the required work experience for the CFA Charter. He is eligible for the CFA Charter and expects to receive the charter in the near future. Over the years, he has demonstrated a superior performance and his CFA Charter will be rightfully awarded." Johnson has:

(A) violated CFA Institute Standards of Professional Conduct because he advertised the CFA Charter before actually obtaining it.

(B) violated CFA Institute Standards of Professional Conduct because he implied superior performance that would be linked to the CFA Charter.

(C) not violated CFA Institute Standards of Professional Conduct because he met all disclosure requirements.

161. Which of the following is least likely a violation of Standard VII(A), Conduct as Participants in CFA Institute Programs?

(A) Expressing opinions in disagreement with CFA Institute advocacy positions.

(B) Disregarding the rules related to the administration of the CFA examination.

(C) Improperly using the CFA Designation to further professional goals.

162. 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:

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

(B) in violation of both Standard I(D) Misconduct and Standard VII(A) Conduct as Participants in CFA Institute Programs.

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

William Fleming is an investment advisor for GlobalBank, a large, multinational financial corporation. He is based in the New York office, and his client base consists of medium to large institutional accounts in the United States and Western Europe. Roughly three-quarters of his clients pay performance-based fees, while the remaining one-quarter pay fees based on assets. GlobalBank's investment banking division is an industry leader, and Fleming is able to offer his clients the opportunity to participate in some of the hottest initial public offerings (IPOs) and secondary offerings brought to market.

One of Fleming's accounts, Waverly Capital Partners, has contacted him regarding an upcoming secondary offering by DCH Corp., for which GlobalBank will serve as lead underwriter. Waverly has already performed its due diligence on the offering and is interested in purchasing a substantial position in the secondary offering in order to employ the company's current surplus of cash. Waverly's representative tells Fleming over the phone that they would like to purchase 5,000 shares of the offering but gives no other details of its analysis of the offering. Fleming has not read the prospectus for the offering yet and is not familiar with the details, but because he has confidence in Waverly's investment expertise, he tells them that he too believes they should participate in the offering. Because Waverly does a significant amount of business with GlobalBank's other divisions, Fleming assures them that they will be able to obtain their desired allocation of the offering and takes the order.

After taking the purchase order for the Waverly account, Fleming thoroughly reads the prospectus and marketing materials for the offering, as well as past research reports on the issuing company. He determines that DCH shares would be a suitable investment for one of his other clients, The Crockett Foundation. He contacts the Chief Investment Officer (CIO) of the foundation, explains how an investment in DCH would fit with its current risk and return objectives as detailed in the foundation's investment policy statement (IPS) and provides her with the prospectus for the offering. Fleming tells her that GlobalBank was the lead underwriter for DCH's initial public offering three years ago and that since then, the stock has outperformed the S&P 500 by at least 15% every year. Fleming also states that the company's financial position is now even stronger and that the shares will perform at least as well as the lowest return earned on the IPO shares in the last three years. He then proceeds to tell her, "If the foundation is interested in the offering, you should place an order immediately because the issue may be oversubscribed due to strong interest in the offering from Waverly Capital Partners and other clients." This information is enough to motivate Crocket's CIO to call a meeting with the foundation's investment committee.

After a quick meeting with Crockett's investment committee, the CIO calls Fleming to say that the foundation is interested in the offering and would like to place a purchase order. Crockett does not currently conduct any additional business through GlobalBank's other divisions. Because of GlobalBank's trade allocation policy, coupled with the high probability that the offering will be oversubscribed, Crockett is unlikely to be allocated as many shares of the offering as they would like to purchase. In order to obtain the desired number of shares for the client, Fleming devises a plan. He plans to add the Crockett Foundation's order to Waverly's order, and once the order is filled he will re-allocate the extra shares back to the foundation's account at the end of the day. He feels that his action is justified because Crockett has maintained its account with Fleming and GlobalBank for over ten years. In addition, Fleming has traders at GlobalBank sell large blocks of DCH over several days in order to push the stock price lower. The drop in value causes smaller investors at GlobalBank, who are not Fleming's clients, to withdraw their orders for shares of DCH's secondary offering. Fleming determines that the fewer number of purchase orders and the plan to piggyback on Waverly's order will allow Crocket to acquire its desired allocation of shares in DCH's secondary offering. Having achieved his goal, Fleming allows GlobalBank's traders to repurchase the firm's shares of DCH.

Twelve months pass, and the shares of DCH's secondary offering have declined in price by nearly 20%. The CIO of the Crockett Foundation calls a meeting with Fleming to discuss the poor performance of the security and to review the basis upon which Fleming recommended the investment. Fleming prepares Crockett's file to take with him to the meeting. The file contains Crockett's IPS, a detailed account of the purchase order and all conversations held between Fleming and the CIO. In accordance with his own established procedures, however, Fleming maintained the original analysis supporting the purchase of shares in DCH's secondary offering for nine months after the investment was made.

163. According to the CFA Institute's Standards of Professional Conduct, Fleming's execution of Waverly's trade order after confirming the appropriateness of the trade is most likely in violation of:

(A) Standard I(C)—Misrepresentation for not disclosing to Waverly that he did not read the marketing materials, but is not in violation of Standard III(C)—Suitability because the client analyzed the investment thoroughly.

(B) Standard V(B) – Communication with Clients and Prospective Clients for not separating his guarantee of future investment performance was not a written representation.

(C) Standard V(A) – Diligence and Reasonable Basis for not exercising diligence and thoroughness in his analysis of the investment and Standard III(C) – Suitability for recommending an investment before determining if the investment was appropriate for the client.

164. According to CFA Institute Standards of Professional Conduct, which of the following of Fleming's actions is most likely a violation of Standard I(C) – Misrepresentation? Fleming:

(A) tells the CIO of Crocket Foundation that shares of DCH's IPO outperformed the S&P 500 by at least 15% in each of the last three years since the offering.

(B) executes the trades on DCH Corp. per Waverly's instructions without first referring to Waverly's IPS.

(C) tells the CIO of the Crockett Foundation that DCH's secondary offering will earn at least the lowest return earned on its IPO shares over the last three years.

165. According to CFA Institute Standards of Professional Conduct, did Fleming's conversation with the CIO of the Crockett Foundation or his decision to sell GlobalBank's position in DCH stock most likely violate Standard II(B) — Market Manipulation?

	Conversation with CIO	Sell decision
(A)	Yes	No
(B)	Yes	Yes
(C)	No	Yes

166. Is it most likely that Fleming violated any CFA Institute Standards of Professional Conduct related to his meeting with the CIO of the Crockett Foundation?
   (A) No – he maintained an IPS and followed established procedures in maintaining client records and data.
   (B) Yes – he failed to maintain appropriate records to support his investment recommendation.
   (C) No – he does not have a duty to maintain client records, only his employer does.

167. An analyst has constructed an investment policy statement (IPS) and a portfolio for a new client. Susan Stevens. He has also provided written guidelines on the processes used to make investment management decisions. Six month later, Stevens questions the analyst about several portfolio holdings. Although the analyst cannot remember his reasoning for recommending specific securities, and cannot find supporting documents, he assures her that the recommendations were made within the limits of her IPS and the firm's stated processes for making investment management decisions. Stevens is not satisfied by this response, but leaves the portfolio unchanged. The analyst has most likely violated:
   (A) Standard lll(C) Suitability.
   (B) Standard V(C) Record Retention.
   (C) Standard V(B) Communication with Clients and Prospective Clients.

168. Using as his universe all companies in the steel industry, Reynold Anderson analyses the performance of stock prices for the industry. He succeeds in developing a regression model with excellent statistical control measures. The extrapolation from the model shows low risk variance of the securities in this industry. Without the inclusion of non-steel stocks in the portfolio, Anderson concludes that, based on these results, every portfolio can use the steel industry securities to diversify and lower its risk. He persuades his clients to change their current portfolios. Anderson states that, as the model's results show, some particular industries, such as car manufacturers, have underpriced stocks, and investors should take advantage of it. Anderson has violated the Standards because he:
   (A) does not distinguish the opinion, based on his model, from the fact.
   (B) does not consider the suitability of the investment.
   (C) is not clear enough about the model results.

169. Several years ago, Hilton and Ross, a full service investment firm, managed the initial public offering of eCom, Inc. Now, eCom wants Hilton and Ross to underwrite its secondary public offering. A senior manager at Hilton and Ross asks Brent Whitman, CFA, one of its equity analysts, to write a favorable research report on eCom to help make the underwriting a success. Whitman conducts a thorough analysis of eCom and concludes that the company has serious problems that do not suggest a

favorable financial outlook. Nevertheless, Whitman writes a favorable report because he is fearful of losing his job. Hilton and Ross publicly distribute a report that only contains a buy recommendation and a brief description of the basic characteristics of eCom. Whitman has violated:

(A) Standard V(A) Diligence and Reasonable Basis only.
(B) Both Standard I(B) Independence and Objectivity and Standard V(A) Diligence and Reasonable Basis.
(C) Standard I(B) Independence and Objectivity, only.

170. 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 prorated 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:

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

171. 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:

(A) 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.
(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) should revise the recommendation based on this new information.

172. A firm produces regular proprietary research reports on various companies. According to Standard VI(B), Priority of Transactions, which of the following would be an "access person"?

(A) A supervisory analyst who reviews all research reports prior to dissemination.

(B) An independent auditor with access to material, non-public information on a company being analyzed.

(C) A person working in the mail room.

173. Marc Feldman, a CFA Institute member, is treasurer of zippy.com, and is also Larry Goldman's boss. Feldman is informed of "accounting irregularities of an unknown origin" during an audit by zippy's external accounting firm. There are 3 individuals, including Goldman, handling the accounting function. According to the Code and Standards, Feldman should do all of the following EXCEPT:

(A) terminate the accounting staff immediately and issue a press release describing the situation.

(B) conduct a thorough investigation of activities.

(C) leave the staff in their current jobs and increase supervision while the external auditors complete their work.

174. 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?

(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.

175. 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:

(A) violated the Standards by not dealing fairly with clients.

(B) not violated the Standards.

(C) violated the Standards by not having a reasonable and adequate basis for making the recommendation.

176. Standard VI(C), Referral Fees, requires the member to do all of the following EXCEPT:

(A) disclose to the referred client the percentage of the member's business that comes from referrals.

(B) make required disclosures to the referred client before an agreement is made to provide services to the referred client.

(C) disclose to the referred client how much the referral source was paid to refer the client.

177. Fernando Abrea, CFA was an analyst for Pacific Investments. In October he left Pacific and joined Global Securities as manager of a local office. Abrea's change of employment came about in the following manner:

- In April, Abrea contacted Global about a possible position he saw advertised in a financial publication and had exploratory meetings with Global.
- In July, Abrea submitted a strategic plan to Global and signed an agreement to join Global. He then contracted for office space on behalf of Global.
- On October 15, Abrea's resignation from Pacific became effective. He did not take any client lists from Pacific.
- On October 16, Abrea mailed a letter that explained his new undertaking with Global to prospective clients, including his former clients at Pacific.

With respect to Standard IV(A) Loyalty, Abrea:

(A) did not violate the Standard.

(B) violated the Standard by contacting his former clients at Pacific.

(C) violated the Standard by contracting for office space on behalf of Global.

178. 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:

(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.

179. Four months ago Lance Tuipuloto, CFA, analyzed three equity securities for Janet Scadden. However, Scadden decided to invest in bonds instead. Tuipuloto now wants to destroy the records from the stock analysis. Is this action in compliance with Standard V(C)?

(A) Yes. Tuipuloto does not need to keep the records because his advice was not followed.

(B) Yes. Tuipuloto only needs to keep the records for 90 days.

(C) No.

180. Ten years ago Lance Tuipuloto, CFA, met with Horace and Nichole Scadden to discuss potential investments, but these prospects never became clients. Tuipuloto

now wants to destroy the records from the meeting with the prospective clients. Is this action in compliance with Standard V(C)?

(A) Yes; the prospects never became clients.

(B) Yes; A sufficient number of years have passed since the meeting.

(C) No.

181. Claudel's statement about his education background is:

(A) truthful, but not in accord with the Code and Standards.

(B) truthful, and in accord with the Code and Standards.

(C) not truthful, and not in accord with the Code and Standards.

182. Which of the following statements is CORRECT?

(A) Bonnet has violated Standard III(B): Fair Dealing, and Claudel has violated Standard I(B): Independence and Objectivity.

(B) Bonnet has violated Standard II(A): Material Nonpublic Information, and Claudel has not violated Standard III(A): Loyalty, Prudence, and Care.

(C) Bonnet has violated Standard IV(A): Loyalty to Employer, and Claudel has violated Standard I(A): Knowledge of the Law.

183. Assuming that both Ace Equity Traders and the Parlay Group offer best execution, Claudel:

(A) must disclose to clients whether client-directed brokerage will prevent him from getting the best execution.

(B) must direct all the trades for clients who do not wish to own health-care stocks to the Parlay Group.

(C) can select the broker that refers the most business back to him, as long as any research purchased benefits the client whose account is being traded.

184. 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?

(A) Standard IV(C) – Responsibilities of Supervisors

(B) Standard III(C) – Suitability.

(C) Standard V(A) – Diligence and Reasonable Basis.

185. An analyst working at an investment firm has a client that rents limousines. The client tells the analyst that as long as he is the client's analyst, he can have free use of a limousine several times a year. The analyst needs to:

(A) do nothing since the offer is not linked to the performance of the client's portfolio.

(B) explicitly refuse such an offer.

(C) inform his supervisor in writing of the offer if the analyst intends to accept the offer.

186. A CFA charterholder may disclose confidential information about a client when:

(A) it is a necessary step in proceeding with research on client preferences.

(B) the CFA Institute Professional Conduct Program requests it.

(C) the information is nonmaterial.

187. A CFA Institute member, undertaking independent practice that could result in compensation or other benefit:

(A) must notify the entities for whom he plans to undertake independent practice of the compensation he receives from his employer.

(B) must notify his employer of the types of service to be rendered, the expected duration, and the expected compensation.

(C) must notify his employer and clients of the types of service to be rendered and the expected compensation.

188. Bill Fox, CFA, has been preparing a research report on New London Wire and Cable, one of his major investment clients. He had completed much of his analysis and had planned on having his report typed and bound today. Unfortunately, his briefcase was stolen while he ate breakfast, and he lost all his notes and working papers. The lost materials included his notes from management interviews, conversations with suppliers and competitors, dates of company visits, and his computer diskette containing much of his quantitative analysis. Fox's client needs this report tomorrow. In a panic, Fox called New London's vice president of finance and was faxed a copy of the company's most recent financial projections. Fox remembered that his own analysis showed that management's estimates were too high. He did not remember the exact amount, so he revised New London's figures downward 10%. Fox incorporated some charts and graphs on New London from a research report he received last week from a small regional research firm and some information from a Standard & Poor's reference work in his report, without reference to their sources. Fox has:

(A) violated none of the Standards.

(B) violated the requirement to have a reasonable basis for a recommendation and the prohibition against plagiarism.

(C) violated the requirement to have a reasonable basis for a recommendation, the prohibition against plagiarism, and the requirement to maintain appropriate records.

189. Jill Marsh, CFA, works for Advisors where she manages various portfolios. Marsh's godfather is an accountant and has done Marsh's tax returns every year as a birthday gift. Marsh's godfather has recently become a client of Advisors and asked specifically for Marsh to manage his account. In order to comply Standard IV(B), Disclosure of Additional Compensation Arrangements, she needs to:

(A) have her godfather cease doing her taxes.

(B) do neither of the actions listed here.

(C) liquidate from her personal portfolio any stocks her godfather owns and verbally tell her supervisor about the tax services.

190. In order to remain in compliance when managing private client accounts, members must do all of the following EXCEPT:

(A) Seek authorization for changes in investment policy.

(B) Conduct regular reviews of client circumstances.

(C) Use a risk-factor model to assess the client's risk tolerance.

191. The following scenarios refer to two analysts who are employed at Global Securities, a large brokerage firm.

- Paula Linstrom, CFA, is instructed by her supervisor to write a research report on Delta Enterprises. Delta's stock is widely held by institutional and individual investors. Although Linstrom does not own any of Delta's stocks, she believes that one of her friends may own 10 shares of Delta. The stock currently sells for $25 per share. Linstrom does not believe that informing her employer about her friend's possible ownership of Delta shares is necessary.
- Hershel Wadel, a member of CFA Institute, is asked by his supervisor to write a research report on Gamma Company. Wadel's wife inherited 500 shares of Gamma Company from her father when he died five years ago. Gamma stock currently sells for $35 per share. Wadel does not believe that informing his employer about his wife's ownership of Gamma shares is necessary.

According to CFA Institute Standards of Professional Conduct, which the following statements about Linstrom and Wadel's conduct is most accurate?

(A) Both of these analysts must disclose a potential conflict of interest.

(B) Neither of these analysts must disclose a potential conflict of interest.

(C) Only one of these analysts must disclose a potential conflict of interest.

192. A CFA Institute member makes a recommendation of a stock in which his firm has a material ownership, but neglects to inform clients of that ownership. The candidate has most clearly violated:

(A) Standard V(B) - Communication with Clients and Prospective Clients.

(B) Standard VI(A) - Disclosure of Conflicts.

(C) Standard III(B) - Fair Dealing.

193. 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 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) Neither Albert nor Tye has violated the Standards.

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

(C) Both Albert and Tye have violated the Standards.

194. Francisco Perez, CFA, is an equity research analyst for a long-term investment fund. The fund is seeking new clients, so Perez contacts old clients he knew through his former employer. Which of the following is most accurate?

(A) Perez cannot solicit clients from a former employer.

(B) Perez is not prevented from soliciting clients as long as he is working from memory and publically available information rather than a list generated while he was still with the former employer.

(C) Perez can only solicit clients after notifying his former employer.

195. Alpha Asset Management manages portfolios for clients with more than $10 million in assets. Bob Smith, a portfolio manager at Alpha, is planning to leave Alpha to set up company Beta Investment Management, to focus exclusively on clients with less than $10 million in assets. While he is still employed at Alpha, Smith begins to solicit (on his own time) potential clients with less than $10 million in assets — clients that Alpha has previously rejected for being too small. According to the Standards of Professional Conduct IV(A) related to duties to employer, Smith's solicitation of these clients is:

(A) acceptable as he is not in competition with his current employer.

(B) unacceptable since the fact the Beta will not be in competition with Alpha is irrelevant.

(C) unacceptable as he may not engage in any activities to go into business while he is still employed by Alpha.

196. An analyst has the opportunity to offer his clients shares in a "hot new issue." One of the analyst's clients is his brother. When the new issue comes out, for those clients he deems it would be appropriate, he offers them an equal share. He includes his brother in that group. With respect to-

Standard VI(B), Priority of Transactions, this is:

(A) congruent with the Standard even if he has a direct personal interest in his brother's account.

(B) congruent with the Standard as long as he does not have a direct personal interest in his brother's account.

(C) congruent with the Standard if his brother is not a 'covered person'.

197. Patricia Spraetz is the chief financial officer and compliance officer at Super Selection Investment Advisors. Super Selection is a medium-sized money management firm which has incorporated the CFA Institute Code of Ethics and Standards of Practice into the firm's compliance manual.

Karen Jackson is a portfolio manager for Super Selection. She is not a CFA charterholder. Jackson is friendly with David James, president of AMD, a rapidly growing biotech company. James has provided Jackson with recommendations in the biotech industry, which she buys for her own portfolio before buying them for her clients. For three years, Jackson has also served on AMD's board of directors but has never notified Super Selection of this fact. She has received options and fees as compensation.

Recently, the board of AMD decided to raise capital by voting to issue shares to the public. This was attractive to board members (including Jackson) who wanted to exercise their stock options and sell their shares to get cash. When the demand for initial public offerings (IPO) diminished, just before AMD's public offering, James asked Jackson to commit to a large purchase of the offering for her portfolios. Jackson had previously determined that AMD was a questionable investment but agreed to reconsider at James' request. Her reevaluation confirmed the stock to be overpriced, but she nevertheless decided to purchase AMD for her clients' portfolios.

Which of the following statements is NOT correct?

(A) Jackson violated Standard VI(A) regarding Conflicts of interest by not disclosing her board membership and ownership of stock options to her employer.

(B) Jackson violated Standard IV(B) regarding Discolosure of Additional Compensation by not disclosing additional compensation in the form of cash and stock options received from AMD, as its board member to her employer.

(C) Jackson did not violate Standard III(A) on Fiduciary Duty to clients because she was bound by her fiduciary duty to AMD and its stockholders as a board member. Therefore, when she reversed her decision to buy AMD shares for Super Selection's clients, portfolios on James' request, her obligation to AMD took precedence.

198. John Hill, CFA, has been working for Advisors, Inc., 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, on his lunch hour, he takes out a loan from a bank on behalf of his new business and uses the money to buy some office equipment for his new business. Since he engaged in these transactions while still an employee of Advisors, Hill violated Standard IV(A), Loyalty to Employer, by:

(A) preparing to undertake independent practice before giving notice to his current employer of his intent to resign.

(B) breaching his duty of loyalty to his current employer by making preparations to go into a competitive business.

(C) neither taking out the loan nor buying the equipment.

199. 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:

(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.

Jacques Claudel, a CFA Institute member, represents Vector Funds, a U.S.-based fund manager, in Canada. Although Vector Funds is properly licensed to deal in all Canadian and U.S. securities, its primary objective is to sell United States funds to Canadian institutional investors seeking diversification into the U.S. dollar. While it would be willing to do so if requested by its clients, Vector has not placed trades in Canadian securities since Claudel began working there two years ago.

Prior to joining Vector's Canadian operations, Claudel was an independent asset manager handling the funds of wealthy individuals and small institutions. Most of these accounts remain under his management, under the business name Coup de Gras. Claudel is unclear as to whether his consulting work is in competition with his new employer, as the accounts under his management are invested strictly in Canadian securities, while Vector has not traded Canadian securities. However, just to be on the safe side, he obtained written permission from Vector to continue serving his former clients. His former clients were not notified.

Claudel receives cash compensation for most of the accounts he handles independently, but for one he receives a new car for his personal use every two years, and for another he is compensated with a one-week, expenses-paid holiday in the European country of his choice.

As part of his responsibility, Claudel makes trades for some of his Canadian clients. He runs all of his trades through two brokers, Ace Equity Traders and the Parlay Group. Ace offers some of the best research available on health-care stocks, but charges fairly hefty commissions. Parley has some of the cheapest commissions in Toronto, but provides no research of value to Claudel.

Henri Bonnet, CFA, a friend of Claudel's, works on the floor of the Vancouver Stock Exchange. He asks Claudel to establish an account for him at Coup de Gras. Claudel learns that it is Bonnet's intention to manipulate the prices of penny stocks he trades on the exchange, and profit from the price movements in the account at Coup de Gras. Claudel sets up the account, but advises Bonnet that he "will have nothing to do" with the manipulation scheme beyond placing trades as Bonnet directs.

Claudel is currently pursuing a master's degree in financial economics in the evenings. During the interview with Vector and on his resume he indicated that he "attended Victoria University," giving his estimated date of graduation. He is not sure whether Vector understood that he did not have his master's degree.

200. Which of the following statements about consulting work is CORRECT?

(A) In some circumstances the employee must receive the employer's written permission prior to receiving additional compensation from parties other than the firm. This requirement applies to both monetary and non-monetary compensation.

(B) In all cases the employee must receive the employer's written permission prior to receiving additional compensation from parties other than the firm. This requirement applies to both monetary and non-monetary compensations".

(C) In some circumstances the employee must receive the employer's written permission prior to receiving additional compensation from parties other than the firm. This requirement applies to monetary compensation only.