

**CHAPTER 42****CODE OF ET...FOR  
STANDARDS I – VII(A) (B)****1. (B) Standard III(C), Suitability.****Explanation**

Standard III(C), Suitability, is most relevant for Pennington's meeting with Elise. This Standard requires Pennington to make a reasonable inquiry into Elise's financial situation, investment experience, and investment objectives prior to making any recommendations about her portfolio. Pennington must also consider the appropriateness of the existing portfolio and investment policy statement for Elise. Standard III(A) also has some relevance since Pennington is in a position of trust with respect to Elise, and Pennington must ensure that his and AIA's goals do not conflict with Elise's.

(Module 43.5, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

**2. (C) Pennington played golf with Helmut Flanders on a regular basis and developed client relationships from those golf outings.****Explanation**

Pennington playing golf with Elise's husband Helmut Flanders is not a conflict with respect to his relationship with Elsie and he need not disclose to her that he played golf with Flanders. Flanders was his client at the time and there was full disclosure that Pennington developed new client relationships. All the other matters must be disclosed.

(Module 43.9, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

**3. (C) research reports is an allowable use of soft dollars.****Explanation**

Brokerage is commission generated from trades and is an asset of the client not the investment manager. Soft dollars is the use of brokerage to purchase research services that benefit the client in the investment decision-making process. The investment manager has an ongoing responsibility to seek to obtain best execution, minimize transaction costs, and use client brokerage to benefit clients. Consequently, contingent on disclosure of a soft dollar arrangement to clients whose portfolios might be affected, the CFA Institute Standards permit client brokerage only to be used to purchase research; that is,

goods and services, the primary use of which directly assists the investment manager in the investment decision making process and not in the management of the firm.

(Module 43.4, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

**4. (A) Standard II, Integrity of Capital Markets.**

**Explanation**

As a director and member of Allux's audit committee, Pennington possesses material nonpublic information about a tender offer. Therefore, Pennington must be particularly concerned about complying with Standard II(A), Material Nonpublic Information.

(Module 43.3, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

**5. (C) No, because it is a statement of fact.**

**Explanation**

The statement is not a violation because it is a fact. However, the member must not go on to claim superior performance.

(Module 43.10, LOS 43: VII(B))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

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

(Module 43.7, LOS 43: IV(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Beckworth is in violation of Standard VII(A), Conduct as Participants in CFA Institute Programs. Beckworth compromised the integrity of the exam by offering her assistant an advance copy. Beckworth's assistant is allowed to express his opinion without violation of any Standards.

(Module 43.10, LOS 43: VII(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

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

(Module 43.7, LOS 43: IV(A))

**Related Material**

[SchweserNotes - Book 5](#)

9. (B) **in violation standard IV(B) "Additional Compensation Arrangements."**

**Explanation**

Dalby is in violation of Standard IV(B) "Additional Compensation Arrangements." Nonmonetary compensation may still create a conflict of interest.

(Module 43.7, LOS 43: IV(B))

**Related Material**

[SchweserNotes - Book 5](#)

10. (C) **reveal to the prospects by Smith that he performs services for Smith, along with the estimated value of those services.**

**Explanation**

According to VI(C), Referral Fees, as a member of CFA Institute, Towers must tell his clients about the payment in kind to Smith along with an estimate of the value of those services.

(Module 43.9, LOS 43: VI(C))

**Related Material**

[SchweserNotes - Book 5](#)

11. (A) **inform the clients of the changes and tell them it is based upon an opinion and not a fact.**

**Explanation**

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

(Module 43.8, LOS 43: V(B))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Standard V(B), Communication with Clients and Prospective Clients. Members must distinguish between fact and opinion in the presentation of a research report or investment recommendation. Wise violated the standard because she misrepresented management's enthusiasm by turning it into certainty.

(Module 43.8, LOS 43: V(B))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Green should incorporate a professional conduct evaluation as part of his review of all eight analysts under his supervision, not just the three CFA charterholders.

(Module 43.7, LOS 43: IV(C))

**Related Material**

[SchweserNotes - Book 5](#)

14. (A) loyalty.

**Explanation**

Standard IV(A) Loyalty requires members and candidates who are leaving an employer to act in their employer's interest until their departure takes effect.

(Module 43.7, LOS 43: IV(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

An employee/employer relationship does not necessarily mean monetary compensation for services. If the analyst is performing services for the organization, then the analyst must treat the position as if he were an employee and obtain consent from both his supervisor in the organization and in his regular place of work.

(Module 43.7, LOS 43: IV(B))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

There is no obligation to make buy or sell recommendations on securities that are covered by research reports.-

(Module 43.8, LOS 43: V(B))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Recommendations can be made in various contexts. For example, an analyst's firm may issue a list of buy recommendations or a brief recommendation that does not contain all the relevant details of the analysis, but clients must be informed that a full analysis supporting the recommendation is available. The other actions are required by the Standards.

(Module 43.8, LOS 43: V(C))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

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

(Module 43.7, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

19. (C) **only Taylor is in compliance.**

**Explanation**

Both Montpier, as a CFA charterholder, and Taylor, as a CFA candidate, are subject to the Standards. Montpier violated Standard VII(B) by exaggerating the

implications of passing the exam in three years. Taylor's comments comply with the Standards.

(Module 43.1, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

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

(Module 43.7, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

- 21. (A) violate standard II(A) - Material Nonpublic Information because the information because he was not in the public domain.**

**Explanation**

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

(Module 43.3, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

A report can be made via any means of communication, including in-person recommendation, telephone conversation, media broadcast, and transmission by computer such as on the internet.

(Module 43.8, LOS 43: V(B))

**Related Material**

[SchweserNotes - Book 5](#)

23. (C) **Spraetz, as the chief compliance officer, must set 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.**

**Explanation**

Since Spraetz has the authority to hire, fire, reward, and punish Jackson, Spraetz has supervisory duties in addition to being the chief compliance officer of Superior Selection. She must investigate Jackson and report her findings to her superiors and possibly the board. If no action is taken, Spraetz must consider resigning under the CFA Institute Code and Standards. Spraetz is also responsible for setting the policy, preventing and detecting violations, and putting into place reasonable procedures to monitor employees' actions. Her role as the chief compliance officer requires her to take disciplinary actions in order to deter further violations.

(Module 44.1, LOS 44.b)

**Related Material**

[SchweserNotes - Book 5](#)

24. (C) **Standard V(C) Record Retention.**

**Explanation**

Standard V(C) Record Retention requires analysts to develop and maintain "...records to support their investment analysis, recommendations...with clients and prospective clients." The analyst is unable to document the over-allocation with respect to the benchmark; this is most likely a violation of Standard V(C).

(Module 43.8, LOS 43: V(C))

**Related Material**

[SchweserNotes - Book 5](#)

25. (A) **My earning the CFA designation indicates my superior ability.**

**Explanation**

A CFA charterholder may not make claims about how earning the designation proves superior capabilities. Saying "my earning the CFA designation indicates my desire to maintain high standards" is allowed because it is a factual statement.

(Module 43.10, LOS 43: VII(B))

**Related Material**

SchweserNotes - Book 5

26. (A) **If a subordinate violates a securities law, her supervisor is in violation Standard IV(C).**

**Explanation**

Standard IV(C) Responsibilities of Supervisors requires members to make a reasonable effort to ensure compliance with applicable laws, regulations, and rules by their subordinates. Violations by subordinates do not necessarily mean the supervisor has violated this Standard if the supervisor has made reasonable efforts to detect and prevent violations.

(Module 43.7, LOS 43: IV(C))

**Related Material**

SchweserNotes - Book 5

27. (B) **Both Bolt and Delvecco violated the standard.**

**Explanation**

Standard VI(A), Disclosure of Conflicts, requires that Bolt inform Dupree of his involvement with Midwest University given that Bolt's new role can be expected to be time consuming and possibly affect his responsibilities at Dupree. Delvecco is required to disclose her ownership of Aveco stock before conducting the research report because such ownership could bias her objectivity in making a recommendation. She should have discussed owning the stock with her supervisor before beginning to write the research report on Aveco.

(Module 43.9, LOS 43: VI(A))

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

The ad hoc model is not part of the formal research process and does not formulate an adequate basis for a recommendation.

(Module 43.8, LOS 43.b)

**Related Material**

SchweserNotes - Book 5

29. (B) **Only Toffler has violated the Code of Standard.**

**Explanation**

The Code and Standards permit an individual to state that he or she is a candidate for the CFA designation as long as the person is registered for the next CFA exam. The same individual may state the fact that he or she has passed Level I or II of the CFA program. There is no partial designation, such as CFA II.

(Module 43.10, LOS 43: VII(B))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Standard IV(A) Loyalty requires members and candidates to disclose to their employers any independent practice for compensation. In this case, Bellow did not receive any compensation for his advice and therefore did not engage in independence practice.

(Module 43.7, LOS 43: IV(A))

**Related Material**

[SchweserNotes - Book 5](#)

**31. (B) a violation of Standard I(D) concerning professional misconduct.**

**Explanation**

This is a violation because even though it does not necessarily compromise the integrity of the next exam, it does violate Standard VII(A) Conduct as Members and Candidates in the CFA Program. At the beginning of the CFA examination, all candidates are required to sign a statement saying they will not divulge any information regarding the exam to anyone. In this question the Code of Ethics was violated because it requires CFA candidates and CFA Institute members to act in an ethical manner.

(Module 43.10, LOS 43: VII(A))

**Related Material**

[SchweserNotes - Book 5](#)

**32. (A) that he is being considered for a job at Paulsen.**

**Explanation**

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

(Module 43.9, LOS 43: VI(A))

**Related Material**

[SchweserNotes - Book 5](#)

**33. (A) contact industry regulators.**

**Explanation**

See Standard IV(A) "Loyalty." Frost should begin by reviewing the company's policies and procedures for reporting ethical violations and provide her supervisor with a copy of the Code and Standards to highlight the high level of ethical conduct she is required to follow.

(Module 43.7, LOS 43: IV(A))

**Related Material**

[SchweserNotes - Book 5](#)

**34. (B) not violated the Standards.****Explanation**

He must disclose any compensation to his employer if it conflicts with his employers/clients interests. However, this relationship does not likely represent any conflict of interest.

(Module 43.9, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

**35. (B) make written disclosure to all parties involved before she accept this offer.****Explanation**

Standard IV(B), Additional Compensation Arrangements, applies in this situation. Standard IV(B) states, "No gifts, benefits, compensation, or consideration are to be accepted with may create a conflict of interest with the employer's interest unless written consent is received from all parties."

The key words here are "written consent" - members must obtain written consent because such arrangements may affect loyalties and objectivity and create potential conflicts of interest.

(Module 43.7, LOS 43: IV(B))

**Related Material**

[SchweserNotes - Book 5](#)

**36. (B) cannot accept the gift under any circumstances.****Explanation**

According to Standard I(B) concerning independence and objectivity, Lindquist cannot accept gifts that reasonably could be expected to compromise his independence and objectivity. Acceptance of such a gift would call into question his independence and objectivity; his first obligation is to his clients, not to Boston and Co.

(Module 43.7, LOS 43: IV(B))

**Related Material**

[SchweserNotes - Book 5](#)

**37. (B) neither Standard III(C): Suitability, nor Standard III(A): Loyalty, Prudence, and Care.****Explanation**

Lindquist's actions conform to Standard III(C): Suitability, Standard V(A): Diligence and Reasonable Basis, and Standard III(A): Loyalty, Prudence, and Care. Lindquist must take into account the risk level of the portfolio in its

entirety, not individual securities within the portfolio. Although purchasing index put options is, by itself, inherently risky, in the context of a diversified portfolio it may well conform to a conservative client's risk tolerance by hedging some of the risk of owning equities. Lindquist may rightly determine that such a strategy is consistent with Chandler's investment policy statement. If properly constructed originally and properly explained to the client, no change in the investment policy statement is needed.

(Module 43.7, LOS 43: IV(B))

**Related Material**

[SchweserNotes - Book 5](#)

**38. (B) Standard VI(A): Disclosure of conflicts, and Standard IV(B): Additional Compensation Arrangements.**

**Explanation**

Under Standard IV(B), Lindquist is required to disclose in writing to his employer any benefits (monetary or non-monetary) he receives for services that are in addition to compensation or benefits provided by his employer. An informal discussion with his supervisor does not conform to the requirement that the notice be in writing. Under Standard VI(A), he is also required to disclose the arrangement to his clients because a directorship is a conflict of interest that could reasonably be expected to impair his objectivity. He must do so even if he currently holds no shares of Western in his clients' portfolios because it may impair his objectivity in recommending the stock for inclusion in clients' portfolios in the future. Lindquist violated Standard I(B) because clients could reasonably assume his objectivity is in question.

(Module 43.7, LOS 43: IV(B))

**Related Material**

[SchweserNotes - Book 5](#)

**39. (B) Standard V(A): Diligence and Reasonable Basis.**

**Explanation**

Lindquist's experimental model is not part of the formal research process and has not been adequately researched or tested. So, Lindquist does not have a reasonable basis for his recommendations. Lindquist's supervisor is required to make reasonable efforts to detect and prevent violations of applicable laws and the Code and Standards, but cannot be held responsible for all of Lindquist's actions when there is deliberate deceit involved. Plagiarism is not relevant here, because Lindquist has permission to use the model, and is not misrepresenting the work of others as his own work.

(Module 43.7, LOS 43: IV(B))

**Related Material**

[SchweserNotes - Book 5](#)

**40. (A) Violate Standard III(D): Performance Presentation.**

**Explanation**

Lindquist failed to conform to Standard III(D) by releasing misleading information concerning his historical performance at Midwestern. KMGR may use a different management style than Midwestern, rendering historical performance of little value to Midwestern clients. Claiming compliance with CFA Institute GIPS would only compound the problem. Misrepresenting performance results as occurring at one firm when they actually occurred at a previous employer is a violation of the presentation standards.

(Module 43.7, LOS 43: IV(B))

**Related Material**

[SchweserNotes - Book 5](#)

**41. (C) Informing his employer's sufficient.**

**Explanation**

Lindquist may accept this gift from a client for past performance as long as he informs his employer.

(Module 43.7, LOS 43: IV(B))

**Related Material**

[SchweserNotes - Book 5](#)

**42. (C) refuse supervisory responsibility.**

**Explanation**

According to Standard IV(C), Responsibilities of Supervisors, if the member cannot discharge supervisory responsibilities because of a poor or nonexistent compliance system, the member should decline in writing to accept supervisory responsibility until the firm adopts an adequate system.

(Module 43.7, LOS 43: IV(C))

**Related Material**

[SchweserNotes - Book 5](#)

**43. (A) require 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.**

**Explanation**

To comply with Standard I(C) Misrepresentation, Olson should have gotten the authorization from Wright to copy the spreadsheets. The prohibition against plagiarism requires that Olson identify Wright as the source of the initial model. However, the Standard permits publishing factual information from Moody's Investors Service without acknowledgment because Moody's is recognized as a source of factual materials.

(Module 43.10, LOS 43: VII(B))

**Related Material**

[SchweserNotes - Book 5](#)

**44. (B) Ackert: Yes. Brown: No.**

**Explanation**

The second statement is not consistent with Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program. Regarding the first statement, using "CFA" as a noun is no longer a violation of the Code of Standards. No designation exists for someone who has passed Level I of the CFA examination. Thus, Brown's statement saying that he "holds a CFA Level I designation" represents incorrect use. A correct statement would be: "Chris Brown passed Level I of the CFA examination in 2001."

(Module 43.10, LOS 43: VII(B))

**Related Material**

[SchweserNotes - Book 5](#)

45. (A) **may invest in the stocks because the analyst would not purchase the stock for the bond portfolio he manages.**

**Explanation**

The problem says the analyst "came across" the speculative stock investment. We do not know if the analyst neglected his duties. Since such an investment is clearly not appropriate for a high-grade bond fund, the analyst may invest in the stock without any restrictions relating to the fund.

(Module 43.9, LOS 43: VI(B))

**Related Material**

[SchweserNotes - Book 5](#)

46. (A) **Hire a full discretionary power or blind trust manager for his portfolio.**

**Explanation**

Burgin followed Standard VI(A) and informed his employer about the potential conflict of interest. He needs to follow the CFA Institute Standards in the best interest of his employer. To prevent any future problems with conflict of interest, his best option is to discontinue the active management of his personal portfolio and use a blind trust.

(Module 43.9, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

47. (B) **Soprano is violating the Standards by not disclosing the fundamental research aspect of the investment process.**

**Explanation**

Soprano is violating the Standard on portfolio investment recommendations and actions by excluding relevant factors of the investment process. The fundamental research aspect is highly relevant to the process and should be disclosed to clients. It is acceptable for Melfi to use two investment processes that may be in conflict with each other and to use a process that was not developed by her.

(Module 43.8, LOS 43: V(B))

**Related Material**

[SchweserNotes - Book 5](#)

48. (B) **may generally exclude more basic facts.**

**Explanation**

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

(Module 43.8, LOS 43: V(B))

**Related Material**

[SchweserNotes - Book 5](#)

49. (C) **There are no exceptions in this list.**

**Explanation**

Standard III(E) allows an analyst to reveal information about a client to CFA Institute since CFA Institute will keep the information confidential. If the analyst is reasonably certain a law has been violated, an analyst may have an obligation to report the activities to the appropriate authorities. Therefore, neither of the listed actions are exceptions from the analyst's options.

(Module 43.6, LOS 43: III(E))

**Related Material**

[SchweserNotes - Book 5](#)

50. (C) **disclose the nature of the free arrangement to the client before entering into a formal agreement.**

**Explanation**

According to Standard VI(C), the nature as well as the value of the fee must be disclosed to the client before entering into a formal agreement. The compliance officer and/or the employee's supervisor should be contacted for consultation.

(Module 43.9, LOS 43: VI(C))

**Related Material**

[SchweserNotes - Book 5](#)

51. (A) **must inform her employer of the arrangement because it provides her with additional compensation.**

**Explanation**

Members are required to disclose to their employer in writing all monetary compensation or other benefit they receive in addition to the employer's compensation. The discounting of West's commissions is a benefit that must be disclosed.

(Module 43.7, LOS 43: IV(B))

**Related Material**

SchweserNotes - Book 5

52. (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.

**Explanation**

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

(Module 43.7, LOS 43: IV(A))

**Related Material**

SchweserNotes - Book 5

53. (B) violation both Standard VII(B) and Standard I(C).

**Explanation**

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

(Module 43.10, LOS 43: VII(B))

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

According to Standard III(E), Preservation of Confidentiality, an analyst must preserve the confidentiality of information communicated by clients, former clients, and prospects.

(Module 43.6, LOS 43: III(E))

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

A member or candidate may not solicit current clients away from their current employer under Standard IV(A) "Loyalty."

(Module 43.7, LOS 43: IV(A))

**Related Material**

SchweserNotes - Book 5

56. (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 in 1980 active membership in CFA Institute for 20 years."**

**Explanation**

Wright's statement did not violate Standard VII(B). Her right to use the CFA designation was suspended when she stopped paying dues but her statement is a matter of fact. Cabell's violated Standard VII(B) because he improperly used the CFA designation on his business card. Proper usage of the CFA designation on his business card would be: John Cabell, CFA or John Cabell, Chartered Financial Analyst. Latrell violated Standard VII(B) by misstating the requirements for obtaining a charter. There is no requirement of passing the three levels of the CFA program over three years. The CFA mark must be used as an adjective. Latrell could have stated, "I was awarded the CFA charter in 1995."

(Module 43.10, LOS 43: VII(B))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Adoption of GIPS is voluntary for firms. GIPS apply to firms, not individuals.

(Module 43.6, LOS 43.b)

**Related Material**

[SchweserNotes - Book 5](#)

- 58. (A) Long violated Standard III(E) Short did not violate Standard III(E).**

**Explanation**

Long violated Standard III(E) because he did not preserve the confidentiality of information communicated by clients. Short did not violate Standard III(E) because this standard does not prevent members from cooperating with an investigation by CFA Institute's Professional Conduct Program. Thus, Short can forward confidential information to the PCP.

(Module 43.6, LOS 43: III(E))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

According to Standard V(B), the analyst must use reasonable judgment in identifying relevant factors when communicating with clients and prospects. The Mosaic theory does not apply here.

(Module 43.8, LOS 43: V(B))

**Related Material**

[SchweserNotes - Book 5](#)

**60. (A) Offshore is an OTC market maker for Burch Corporation stock.****Explanation**

Standard VI(A), Disclosure of Conflicts, requires members to disclose to their employer all matters, including beneficial ownership of securities, that reasonably could be expected to interfere with their duty to their employer or ability to make unbiased and objective recommendations. Disclosure of an employer's own involvement with the security is not necessary in this instance. If the report had been for external use, it would have been necessary to make all of the disclosures given as choices.

(Module 43.9, LOS 43: VI(A))

**Related Material**

[SchweserNotes - Book 5](#)

**61. (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.****Explanation**

Standard IV(A) addresses Loyalty to the Employer and depriving the employer of profit opportunities is a violation of this standard. Because Pearl had no interest in rejected clients and had turned their profit potential down already, soliciting them is not a violation.

Taking away news articles and computer program models is a violation of Standard IV(A) because Sherman took away employer property, which could be used by Pearl or Sherman's replacement. Engaging in independent consulting practice is a violation IV(A) because Sherman not only compromised his independence and objectivity, but also did not obtain explicit written consent of his new employer, Standard IV(B), Additional Compensation Arrangements.-

(Module 44.1, LOS 44.b)

**Related Material**

[SchweserNotes - Book 5](#)

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

An attempt, successful or not, to lure away existing clients of the current employer is a violation of Standard IV(A) as it causes damage to the employer's business.

Others are incorrect because: "After hours" solicitation is not an excuse if it damages the employer's business; the fact that Pearl's clients were agreeable does not absolve Sherman of Standard IV(A) violation; even if Pearl's clients would have followed Sherman to his new employer anyway, Sherman, by soliciting such clients, damaged his employer's business. The focus is on Sherman's actions.

(Module 44.1, LOS 44.b)

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Members are not prohibited from making arrangements or preparations to go into competitive business before terminating their relationship with their employer. CFA Institute members are not prohibited from undertaking independent practice in competition with their employer provided they have consent from their employer. Members must provide notification to their employer describing the types of services to be rendered, the expected duration, and compensation for the services.

(Module 43.7, LOS 43: IV(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

According to Standard IV(C) Responsibilities of Supervisors, if Crane believes the company's compliance procedures are not adequate, Crane should decline supervisory responsibilities in writing until an adequate system is adopted.

(Module 43.7, LOS 43: IV(C))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Both of these items are explicitly listed in the discussion of Standard VI(A), Disclosure of Conflicts.

(Module 43.9, LOS 43: VI(A))

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

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

(Module 43.7, LOS 43: IV(A))

**Related Material**

SchweserNotes - Book 5

67. (A) **Chang.**

**Explanation**

Consistent with Standard VII(B), members must use the CFA marks in a proper manner. Members may indicate "CFA" or "Chartered Financial Analyst" after their names, but the designation should not be given more prominence than that used in printing the name itself. Also, periods should not be used to separate the letters.

(Module 43.10, LOS 43: VII(B))

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

Standard VI(C), Referral Fees, requires members to disclose to clients and prospects any consideration or benefit received by the member or delivered to others for the recommendation of any services to the client or prospect. Florence has delivered a benefit (free rent) to Rigs, which must be disclosed to the clients referred by Rigs. Florence must not rely on Rigs to make the disclosure.

(Module 43.9, LOS 43: VI(C))

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

According to Standard VI(B) Priority of Transactions, Duval should give transactions for clients and employers priority over his personal transactions. Because his parent's retirement account represents a client account at Toby, Duval should treat this account just like any other firm account. His parent's retirement account should neither be given special treatment nor disadvantaged because of an existing family relationship with Duval. If Duval treats his parent's retirement account differently from other accounts at Toby, he would breach his fiduciary duty to his parents.

(Module 43.7, LOS 43.b)

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Brenan violated Standard of Professional Conduct III(D) by using only one portfolio's results to create a false impression of all the portfolios, and Brenan violated Standard of Professional Conduct I(C) by creating the impression that a certain return was assured (he should have used the words "might" or "could" instead of "can").

(Module 43.6, LOS 43.b)

**Related Material**

[SchweserNotes - Book 5](#)

- 71. (B) Wadel violated Standard VI(A) – Disclosure of conflicts and Linstrom did not violate Standard VI(A).**

**Explanation**

Wadel violated Standard VI(A) by not disclosing his wife's holdings. Linstrom is not in violation of the Standard because a friend's ownership of the shares should not be expected to impair her ability to make objective decisions.

(Module 43.9, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

- 72. (A) Wadel must disclose the arrangement to Platt but is not required to disclose the arrangement to his other clients.**

**Explanation**

Wadel is required to disclose the arrangement between him and Black under Standard IV(B)-Additional Compensation Arrangements, regardless of whether or not the compensation is cash or noncash. Under Standard I(B)—

Independence and Objectivity, members may accept bonuses or gifts from clients, so long as they disclose them to their employers, because gifts in a client relationship are deemed less likely to affect a member's objectivity and independence than gifts in other situations. Token gifts need not be disclosed.

(Module 43.7, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

- 73. (A) Initiate an investigation and place limits on the intern's activities pending the outcome.**

**Explanation**

Platt must initiate an investigation, and must also take steps to ensure that additional violations do not occur during the investigation. The investigation could be handled internally by the firm's compliance officer, or could involve outside legal counsel. Simply instructing the intern to stop the conduct is not sufficient—the Standards require a more proactive response. Reporting the intern to the authorities is not appropriate because Platt is not sure the intern is violating the law. The fact that the intern is not paid does not absolve Platt or her company from liability for the intern's actions.

(Module 43.7, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

- 74. (B) not use material inside information when trading in Xania.**

**Explanation**

Standard II(A)—Material Nonpublic Information does not allow the use of material nonpublic information in investment decisions. Platt is bound by the law of the land if it is stricter than the Standards, and by the Standards if they are stricter than the law. Since the Standards are stricter than Xanian law, Platt's Xanian operations are governed by the Standards. Thus, she cannot use material nonpublic information under any circumstances.

(Module 43.3, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

- 75. (B) in violation of the Standard concerning disclosure of investment processes.**

**Explanation**

Standard V(B) Communication with Clients and Prospective Clients requires members to disclose "general principles and investment processes" to clients

and to "promptly disclose any changes that might significantly affect those processes." Under the Standard, Midland management is required either to:

1. rebalance the portfolio in a timely manner so as to maintain compliance with the investment policy or
2. communicate an intended change in that policy well in advance of the actual change so as to afford investors time to act prior to the change in investment policy taking place.

Midland is in violation of the Standard.

(Module 43.8, LOS 43: V(B))

**Related Material**

[SchweserNotes - Book 5](#)

**76. (A) Standard V(A): Diligence and Reasonable Basis, but not standard II(A): Material Nonpublic Information.**

**Explanation**

Ferrazzo's disclosure of the name of her client, Parker Jones, to Henderson violated Standard III(E): Preservation of Confidentiality. Ferrazzo used the mosaic theory to determine that Kellogg was pursuing an acquisition and did not violate Standard II(A): Material Nonpublic Information. The purchase of Bradley violated Standard V(A): Diligence and Reasonable Basis, because Ferrazzo had reason to believe that even if Bradley was going to be acquired, the premium was likely to be low. The fact that she got lucky and guessed right does not satisfy the Standard.

(Module 43.8, LOS 43: V(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

To comply with Standard I(C): Misrepresentation, Sandro should have gotten permission from Wright to copy the spreadsheets. The Standard also requires that Sandro identify Wright as the source of the initial model despite the fact that she made major changes to it. The plagiarism standard permits publishing factual information from Moody's and S&P without acknowledgment, but the use of different data sources could affect the performance of the model, and should be disclosed to satisfy Standard V(B): Communication with Clients and Prospective Clients. Because the report is going to an individual client, Sandro need not provide basic information about technology stocks, according to Standard V(B): Communication with Clients and Prospective Clients.

(Module 43.8, LOS 43: V(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Sandro's description of her CFA standing is truthful in this case because she is still technically a CFA candidate. Sandro is not allowed to imply that she can continue to produce superior returns, and as such violated the misrepresentation standard. Ferrazzo, in her supervisory role, should have prevented the violation but did not. Standard IV(A): Loyalty to Employer refers to independent practice, and is not relevant to this situation.

(Module 43.8, LOS 43: V(A))

**Related Material**

[SchweserNotes - Book 5](#)

**79. (C) White and Blue only.**

**Explanation**

The CFA Institute Soft Dollar Standards dictate members must always seek best price and execution. Soft-dollar arrangements must provide a benefit to clients, be disclosed, and be reasonable in relation to the research and execution services provided. Because both White and Blue provide best price and execution, it is within Ferrazzo's discretion to pay more for White's services as long as the research benefit is reasonable. Both White and Blue may be used.

(Module 43.8, LOS 43: V(A))

**Related Material**

[SchweserNotes - Book 5](#)

**80. (C) Sandro has breached a fiduciary duty or her client.**

**Explanation**

The use of a comprehensive research report is reasonable basis for a buy or sell recommendation. The fair-dealing standard has not been violated, as neither client was put at a disadvantage by the advice, even though the analysts' advice was contradictory. The fair-dealing standard requires the notification of clients who trade in opposition to the firm's official recommendation, so the trade should not be executed until the client is told about the firm's buy rating. While Sandro's advice differs from that of her colleague and is based on a competitor's research, she did not necessarily breach a fiduciary duty, if the investment made sense for the client. There are numerous investments that are appropriate for certain types of clients and inappropriate for others.

(Module 43.8, LOS 43: V(A))

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

Just because Sandro receives her results from CFA Institute, she still must satisfy all of the requirements before she can use the designation. The standard governing use of the CFA mark states that there is no acceptable term for a partial designation. According to the Standards of Practice Handbook, 9th Edition, delivering a copy of the Code and Standards is no longer required. Standard VI(A): Disclosure of Conflicts, requires the disclosure of all security ownership that might interfere with a member's duties. While the stock is thinly traded, it still might be of interest to Seamark clients, and Sandro must disclose her ownership. In addition, if she holds a position in the company or on the board that could take up some of her time, Standard IV(A): Loyalty to Employer, also comes into play.

(Module 43.8, LOS 43: V(A))

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

Standard VI(A) Disclosure of Conflicts requires that Harrow disclose matters that reasonably could be expected to interfere with his independence and objectivity. Both Harrow's relationship with Miracle and his ownership of Wonder's shares represent potential conflicts of interest and must be disclosed prominently and in clear language in the research report, giving clients the ability to weigh the possible effects of these potential conflicts on his analysis and conclusions.

(Module 43.9, LOS 43: VI(A))

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

According to Standard III(E), an analyst should limit the number of persons who have access to clients' personal information. Allowing a company outside the firm to send birthday cards could be a violation. Sending a birthday card is not a violation, nor is sending a gift of reasonable value.

(Module 43.6, LOS 43: III(E))

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

Stades is allowed to state that she earned the designation as long as she does not infer that she currently has the designation.

(Module 43.1 0, LOS 43: VII(B))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

See Standard III(D). When presentations are brief, additional detail which supports the abbreviated presentation information must be provided on request. Best practice dictates that the member or candidate should make reference to the abbreviated nature of the presentation.

(Module 43.6, LOS 43: III(D))

**Related Material**

[SchweserNotes - Book 5](#)

86. (A) **may be a violation despite the client's approval.**

**Explanation**

Just because the clients know of a practice does not make it right. The analyst must put the clients first. It is a violation for the analyst to participate in a "hot new issue" which can lower the allocation to any given client below what that client would prefer. This is tantamount to putting the analyst's interests ahead of the clients' interests.

(Module 43.9, LOS 43: VI(B))

**Related Material**

[SchweserNotes - Book 5](#)

87. (A) **not a violation of any Standard.**

**Explanation**

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

(Module 43.8, LOS 43: V(A))

**Related Material**

SchweserNotes - Book 5

88. (A) not violating the Standard by applying his version of the model, but is violating the standard by not disclosing it to clients, Brisco is not violating the Standard.

**Explanation**

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

(Module 43.8, LOS 43.b)

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

Standard IV(A) permits Thompson to make preparations to go into a competitive business before terminating her relationship with Nationwide provided that such preparations do not breach her duty of loyalty.

(Module 43.7, LOS 43: IV(A))

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

Coleman is required to distinguish between facts and opinions in her research reports. Her statement that Union will decrease its dividend from \$2 to \$1 a share is a prediction, not a fact, and therefore should be distinguished clearly as an opinion.

(Module 43.8, LOS 43: V(B))

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

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

(Module 43.8, LOS 43: V(B))

**Related Material**

[SchweserNotes - Book 5](#)

**92. (B) Standard VI(B). Priority of Transactions.****Explanation**

Standard VI(B), Priority of Transactions, applies. If an analyst decides to make a recommendation about the purchase or sale of a security, he must give his customers or employer adequate opportunity to act on this recommendation before acting on his own behalf. Personal transactions include those made for the member's own account and family accounts. Here, McKinney violated Standard VI(B) by acting on his mother-in-law's behalf and then waiting until the end of the day to act on his employer's behalf.

**Explanations for other responses:**

- Standard IV(A), Loyalty to Employer, does not apply. This standard concerns a member competing with his/her employer (independent practice), for example a member who engages in outside consulting.
- Standard II(A), Material Nonpublic Information, does not apply. The question does not indicate that the information is not public.

(Module 43.9, LOS 43: VI(B))

**Related Material**

[SchweserNotes - Book 5](#)

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

The analyst should verify that the research department has interpreted the chairman's speech correctly. The analyst must make it clear that the statement concerning inflation is only an opinion. No one knows if that is true or not at any point in time. Based upon the given information, we cannot say that the analyst is violating only one standard. The analyst may also be violating plagiarism in accordance with Standard 1(C), Misrepresentation. Hence, the answer citing the two standards and not limiting violations to just those two standards is the best answer.

(Module 43.8, LOS 43: V(A))

**Related Material**

SchweserNotes - Book 5

94. (A) **do both of these.**

**Explanation**

Both of these are explicitly required by Standard V(A).

(Module 43.8, LOS 43: V(A))

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

If Kirby clearly cannot discharge supervisory responsibilities because of an inadequate compliance system, she should decline in writing to accept supervisory responsibility until Allegheny adopts reasonable procedures to allow her to adequately exercise such responsibility.

(Module 43.7, LOS 43: IV(C))

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

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

(Module 43.8, LOS 43: V(B))

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

Standard VI(C) says that a member must reveal information both on fees she receives for referring clients to other professionals and those she pays for having clients referred to her before a prospect becomes a client. This allows the prospect to evaluate any partiality of a recommendation and the full cost of the services.

(Module 43.9, LOS 43: VI(C))

**Related Material**

[SchweserNotes - Book 5](#)

98. (A) **both disclose the position on the board to his supervisor and described his responsibilities on the board.**

**Explanation**

Valley could be affected by his position on the board because he may tend to favor investments in firms that do cancer research. To comply with Standard VI(A), Disclosure of Conflicts, Valley must inform his supervisor of this relationship and describe his responsibilities on the board. Even if his supervisor does not find the relationship troublesome, any subsequent action that could lead to a conflict of interest should be discussed with the firm's compliance officer.

(Module 43.9, LOS 43: VI(A))

**Related Material**

[SchweserNotes - Book 5](#)

99. (B) **insist that the supervisor change the earnings forecast or remove his (the analyst's) name from the report.**

**Explanation**

According to Standard V(A), Diligence and Reasonable Basis, the analyst must exercise diligence, independence, and thoroughness when performing investment analysis, making a recommendation, or taking investment action. The analyst should document the difference in opinion including any request to remove his or her name from the report.

(Module 43.8, LOS 43: V(A))

**Related Material**

[SchweserNotes - Book 5](#)

100. (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.**

**Explanation**

There is no blanket prohibition against independent practice in competition with a member's employer. The member must obtain permission from the employer. Members may make preparations to go into a competitive business, but may not solicit clients of the employer as long as members are still employed by the employer.

(Module 43.7, LOS 43: IV(A))

**Related Material**

SchweserNotes - Book 5**101. (B) not violated the Standards.****Explanation**

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

(Module 43.7, LOS 43: IV(A))

**Related Material**

SchweserNotes - Book 5

**102. (C) Robert Hopkins, Chartered Financial Analyst.****Explanation**

The CFA designation should always be capitalized and shown without periods. The CFA designation should not be referred to as a degree. Placing the designation "CFA" or "Chartered Financial Analyst" after one's name on a resume, business card, brochure, or other published material is appropriate.

(Module 43.10, LOS 43: VII(B))

**Related Material**

SchweserNotes - Book 5

**103. (C) updating disclosures when the policy change is implemented.****Explanation**

Standard VI(A) "Disclosures of Conflicts" recognizes this policy as a potential conflict of interest as members and candidates could be incentivized to favor short-term trading gains over long-term value creation. Best practices dictate updating disclosures when the policy change is implemented. The long-term investors should know how members and candidates are compensated, especially when there is the potential for conflicts of interest.

(Module 43.9, LOS 43: VI(A))

**Related Material**

SchweserNotes - Book 5

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

Standard III(E) requires members to preserve client confidentiality. An exception to this standard is a PCP investigation. Because PCP will also keep the clients' information confidential, members are expected to fully cooperate with PCP investigations.

(Module 43.6, LOS 43: III(E))

**Related Material**

[SchweserNotes - Book 5](#)

**105. (C) Advisors' research department recommends a stock.****Explanation**

Smith will be in violation if he acts solely on the basis of what he read in the periodical. Use of information within the firm can be relied upon unless the Smith has reason to believe the source lacks a sound basis.

(Module 43.6, LOS 43: V(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

There is no evidence that he's lying about his past performance. He is in violation for implying that he can guarantee performance, for using short-term performance, and for imputing the manager's past performance to future performance.

(Module 43.6, LOS 43: III(D))

**Related Material**

[SchweserNotes - Book 5](#)

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

There is no designation for someone who has passed Level I, Level II, or Level III of the CFA examination. Candidates may state, however, that they have completed Level I, II, or III, as the case may be, in the CFA Program. Thus, Lim violated the Standard, but Bland did not.

(Module 43.10, LOS 43: VII(B))

**Related Material**

[SchweserNotes - Book 5](#)

**108. (C) violated the Standards by not including all of the relevant factors in the research report, but not by making patriotic statements.****Explanation**

By not mentioning the increased risk of the market, Brooks has violated the Standard on using a research report. However, the patriotic statements do not violate the Standards.

(Module 43.8, LOS 43: b)

**Related Material**

[SchweserNotes - Book 5](#)

**109. (B) in violation of Standard V(C) Record Retention.****Explanation**

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

(Module 43.8, LOS 43: V(C))

**Related Material**

[SchweserNotes - Book 5](#)

**110. (A) Tripp may delegate some or all of his supervisory duties to Brown, even though Brown is not subject to the Standards.****Explanation**

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

(Module 43.7, LOS 43: IV(C))

**Related Material**

[SchweserNotes - Book 5](#)

**111. (B) I passed Level II of the CFA Program in 2003.****Explanation**

Candidates may refer to the CFA level(s) passed and the associated dates as long as a partial designation is not implied. They may not guarantee or promise a given level of return.

(Module 43.10, LOS 43: VII(B))

**Related Material**

[SchweserNotes - Book 5](#)

**112. (B) There must be monetary compensation for an employer/employee relationship to exist.****Explanation**

Monetary compensation is not a requirement of the employee/employer relationship.

(Module 43.7, LOS 43: IV(A))

**Related Material**

[SchweserNotes - Book 5](#)

- 113. (C) describe to his employer in detail the activities related to this consulting arrangement.**

**Explanation**

According to the Standards of Professional Conduct, Jones must disclose to his employer all outside compensation arrangements, describe to his employer in detail the activities that give rise to outside compensation, and obtain written permission from his employer in advance.

(Module 44.1, LOS 44.b)

**Related Material**

[SchweserNotes - Book 5](#)

- 114. (A) complied with the Standards.**

**Explanation**

Members and candidates may reasonably rely on their firms' research departments for analysis and remain in compliance with Standard V(A) Diligence and Reasonable Basis.

(Module 43.8, LOS 43: V(A))

**Related Material**

[SchweserNotes - Book 5](#)

- 115. (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.**

**Explanation**

Standard IV (B) requires that member obtain written consent from all parties involved before accepting monetary compensation or other benefits that they receive for their services that are in addition to compensation or benefits conferred by a member's employer. The phrase "all parties" is referring to Saul's employer and Fairway's Board of Directors.

(Module 43.7, LOS 43: IV(B))

**Related Material**

[SchweserNotes - Book 5](#)

- 116. (A) The sanctions imposed by the Professional Conduct staff are final and conclusive.**

**Explanation**

In the event of misconduct by a member or candidate the CFA Institute Professional Conduct staff decides whether a violation occurred and what action to take. If the Professional Conduct staff decides a disciplinary sanction

is appropriate the member or candidate may decide to reject the sanction. In this case the matter is referred to a panel of Disciplinary Review Committee members comprised of volunteer CFA charterholders. The panel decides whether a violation of the Code and Standards occurred and what sanction should be imposed.

(Module 43.10, LOS 43: VII(A))

**Related Material**

[SchweserNotes - Book 5](#)

- 117. (A) submit her completed Professional Conduct Statement and pay applicable membership dues.**

**Explanation**

To remain an active member, Jones must agree to abide by the Code and Standards and the Professional Conduct Program. This is accomplished by completing the Professional Conduct Statement on an annual basis. In addition, Jones must pay annual membership dues. Continuing education is encouraged but not required to remain an active member.

(Module 43.8, LOS 43: V(A))

**Related Material**

[SchweserNotes - Book 5](#)

- 118. (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.**

**Explanation**

Jones' second research report made reference to hard facts, and her analysis and revision of the cash flow projections seems thorough and reasonable. This time, Karloff did not press her to express a certain opinion, and she found the information about the company compelling. She projected higher growth in cash flow for Sunrise, but nowhere is it said that she guaranteed a hard target. Jones is in compliance with the misrepresentation, objectivity, reasonable-basis, and research-report Standards. Karloff violated the insider-trading Standard because the information was given to him in confidence. He may also have violated his fiduciary duty to Sunrise, which probably kept the information private for a reason.

(Module 43.8, LOS 43: V(A))

**Related Material**

[SchweserNotes - Book 5](#)

- 119. (A) Disclose to all clients whether different levels of service are offered**

**Explanation**

Jones must disclose different levels of service to all clients. Jones must inform clients about new buy recommendations and advise them not to sell, but she cannot disregard the order if the client still wishes to sell. Family-owned accounts should be handled in the same way as other accounts, and cannot be made to wait until everyone else has acted. The Standard allows for the fact that it is impossible to notify everyone at the same time.

(Module 43.8, LOS 43: V(A))

**Related Material**

[SchweserNotes - Book 5](#)

- 120. (A) If I pass the Level III test, I may be eligible for my CFA charter late next year.**

**Explanation**

This statement is quite literally correct, and complies with the Standards. "Level III CFA" is not an acceptable use of the CFA mark. Candidates should not offer a prediction about the time they will earn their charter. While Brown is not likely to take the test, as long as he is registered, he may refer to himself as a candidate.

(Module 43.8, LOS 43: V(A))

**Related Material**

[SchweserNotes - Book 5](#)

- 121. (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.**

**Explanation**

Jones' research was not thorough, and her report did leave out salient facts. Thus, she violated Standards V(A) and V(B). Her objectivity was certainly in question, so she violated Standard I(B). She also has a fiduciary duty to the clients regardless of what the boss says, so she violated Standard III(A). No nonpublic information was used in this report, so Standard II(A) was not violated.

(Module 43.8, LOS 43: V(A))

**Related Material**

[SchweserNotes - Book 5](#)

- 122. (A) Dawson: Yes, Hamilton: Yes.**

**Explanation**

Dawson violated Standard VI(A), Disclosure of Conflicts, by failing to inform

Ascott of her involvement with Brightwood College. Dawson could reasonably be expected to be involved with investment policy decisions at Brightwood that could affect Ascott because Ascott manages a portion of Brightwood's endowment. Hamilton also violated Standard VI(A), because she ignored a directive of her employer. Her purchase of Horizon stock has an appearance of impropriety. Hamilton could discuss the purchase of Horizon stock with her firm's compliance officer and request an exception to the prohibition against personal trading in securities analyzed or recommended by Ascott.

(Module 43.9, LOS 43: VI(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Since the data in the table supposedly comes from Standard & Poor's, a recognized data source, the analyst does not have to cite the source of the data. However, the analyst needs to use reasonable care and verify that the data is accurate by going back to the source. Had the analyst printed the table prepared by her colleague without acknowledgement, the analyst would have violated Standard I(C), Misrepresentation.

(Module 43.8, LOS 43: V(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Reporting the historical returns of all assets now in the fund introduces a survivorship bias. Also, the advertisement is misleading because the fund just came into existence and has no historical record. Thus, the firm has misled the public as to their performance history.

(Module 43.6, LOS 43: III(D))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Clearly, the risk profile of this fund is much different from a typical balanced fund. In fact, it could be effectively described as a hedge fund if +200/-100 allocations are typical. BlueRock is in violation of the Standard concerning disclosure of security selection and portfolio construction processes.

(Module 43.8, LOS 43: V(B))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Standard V(B), Communication with Clients and Prospects, requires any change in the scope, valuation methodology, or focus of the portfolio to be discussed with clients.

(Module 43.8, LOS 43: V(B))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Capelli appears to have exercised diligence and thoroughness in making his recommendation. King's recommendation is not based on thorough quantitative work because the period used in her study is only one year. Also, her recommendation does not consider the client's specific needs and circumstances.

(Module 43.8, LOS 43: V(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

The analyst's commodity futures trading is not a violation of Standard VI(B) Priority of Transactions because the investment is not suitable for her clients. If the analyst believes that none of her clients should trade commodity futures, she is not obligated to advise them of her own investments in them.

(Module 43.9, LOS 43: VI(B))

**Related Material**

[SchweserNotes - Book 5](#)

- 129. (B) Yes Yes**

**Explanation**

Standard VI(A) — Disclosure of Conflicts, is applicable since Myers is a portfolio manager with fiduciary responsibility for institutional clients of Ironclad who may also be clients of her software company, thereby potentially compromising her ability to make unbiased and objective investment recommendations. Myers should disclose the potential conflict to her clients and to Ironclad and abide by any restrictions imposed by the firm. Myers has not disclosed the conflict to clients and has therefore violated the Standard. Harrison has violated Standard IV(C) — Responsibilities of Supervisors by failing to prevent Myers from trading

on material nonpublic information. He has a responsibility as a supervisor to make reasonable efforts to detect and prevent violations of the Standards by his employees.

(Module 43.9, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

- 130. (A) Yes, because the information shared by Breakthrough's CEO was nonpublic.**

**Explanation**

Although the information shared by Myers may have helped Ironclad's clients avoid losses in shares of Breakthrough, the information was material nonpublic information. Information is "material" if its disclosure would have an impact on the stock or if a reasonable investor would want to know the information prior to making an investment decision. Information is "nonpublic" until it has been generally disseminated to the marketplace and investors have had an opportunity to react to the information. The information about Breakthrough's pension difficulties was both material and nonpublic, as the stock dropped significantly upon disclosure of the information in the market. Therefore, Myers had a duty to keep the information confidential and not to trade or cause others to trade on the information. By sharing the information with Harrison and trading on that information, Myers violated Standard II(A) – Material Nonpublic Information.

(Module 43.3, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

- 131. (A) Yes Yes**

**Explanation**

Standard IV(B) — Additional Compensation Arrangements, applies to both Harrison and Myers, as they both receive compensation for their respective outside services in the form of cash, stock, and stock options. There is no indication that either of them have disclosed their compensation arrangements to Ironclad, which constitutes a violation of Standard IV(B). Standard I(B) — Independence and Objectivity also applies to this situation, as both Harrison and Myers have outside activities that have the appearance of compromising their independence and objectivity regarding Ironclad's clients. Harrison's role on the boards of directors for InterConnect and Wavelength and Myers' role as a consultant for Speedy Chip appear to drive their proxy voting decisions, on behalf of Ironclad's clients, regarding the expensing of stock options. Thus both Harrison and Myers have also violated Standard I(B). Harrison and Myers may have also violated Statement VI(A) — Disclosure of Conflict by failing to disclose the conflicts of interest that exist as a result of Harrison's directorships with Interconnect and Wavelength and Myers' consulting arrangement with

Speedy Chip. Such conflicts (whether actual or potential) are required to be disclosed prominently and in clear language to clients, prospects, and employers according to Standard VI(A).

(Module 43.7, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

- 132. (A) discard all proxies on behalf of Ironclad's clients when there is a conflict of interest.**

**Explanation**

According to Standard III(A) — Loyalty, Prudence, and Care, Ironclad, as a discretionary investment manager, is responsible (unless otherwise stipulated in the client guidelines or agreement) for making informed and reasonable decisions regarding proxy voting on behalf of clients. Among other things, Ironclad should have a proxy voting policy and a process for identifying and reviewing major proxy issues for appropriate clients. Ironclad and Harrison also have an obligation to avoid conflicts of interest when voting proxies. Although Harrison has a conflict of interest in voting issues on behalf of InterConnect and Wavelength due to his role on their board of directors, proxies on non-routine matters should not be discarded under any circumstances, as such action would constitute a breach of fiduciary duty. Harrison should abstain from voting on matters affecting InterConnect and Wavelength to avoid the appearance of a conflict of interest. Harrison should also ensure proper treatment of any confidential information received in his role on the respective boards of directors. Harrison should maintain confidentiality of voting information on behalf of clients and follow Ironclad's proxy voting policy. Clients must be made aware of the firm's policies on voting routine and non-routine proxy issues.

(Module 43.4, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Jones has a duty not to trade or cause others to trade on material nonpublic information. It does not matter that he did not conduct the research.

(Module 43.3, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

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

passed.

**Explanation**

Jones has an obligation to not trade on the information until after he is sure the information has been made public.

(Module 43.3, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

There is no need to avoid transfer of personnel as long as proper safeguards and procedures are observed.

(Module 43.3, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

- 136. (A) diligence and reasonable basis.**

**Explanation**

It is unlikely that Jones violated the Standard relating to diligence and reasonable basis, as Jones appears to have had a reasonable basis for the recommendation as Standard V(A) requires. Once Jones was in possession of material nonpublic information, he was prohibited by Standard II(A) of acting or causing others to act on this information. Jones also violated her duty of loyalty to her employer under Standard IV(A) by encouraging Bamyeh to trade in FinSoft and other securities, possibly harming Lincoln's customer's ability to acquire FinSoft at an attractive price.

(Module 43.8, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

There is no requirement to include the investment policy statement in all quarterly reports.

(Module 43.8, LOS 43: V(B))

**Related Material**

[SchweserNotes - Book 5](#)

- 138. (C) Standard III(A)—Loyalty, Prudence, and Care and Standard VI(B)—Priority**

**of Transactions.****Explanation**

Womack's actions violate the Standards related to fair dealing, priority of transactions, and fiduciary duties. Standard III(A) is about members' duty of loyalty to clients and talks about how members should place their clients' interests before their employers' or their own interests. Womack's actions violate Standard III(A): Womack is essentially front running Horizon's clients. Standard III(E) concerns keeping information about current, former, and prospective clients confidential; QuickStop is not a current, former, or prospective client of Horizon so Standard III(E) does not apply in this case.

(Module 43.4, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

**139. (A) did not violate the Standards for reasonable basis or research reports.****Explanation**

Singh reported a series of facts that led him to draw a conclusion, and identified the conclusion as his own. No nonpublic information was used in the HighLife analysis. While Singh did say that missing an earnings target would spur a downgrade, he made it clear that he had broader concerns about the firm's market share. Missing an earnings target would simply be confirmation of his concerns, and thus be the catalyst to his change of opinion.

(Module 43.8, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

**140. (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.****Explanation**

A change in stock rating is always material, and must always be disclosed to clients. Thus, Singh violated Standard III(B). Singh did not violate a fiduciary duty to his clients because he did not put anyone's interest above theirs. As an analyst, Singh's job is to assess the appeal of an investment, not make investment decisions for individual accounts. As such, he did not violate Standard III(C); Standard I(C) relates to misrepresenting qualifications or guaranteeing investment returns, and is not relevant to this situation.

(Module 43.5, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

**141. (B) When the full amount of a block order is not executed, partially executed**

**orders are allocated on a first-in, first-out basis.**

**Explanation**

All orders should be allocated on a pro rata basis based on order size, not on a first-in, first-out basis. The other regulations satisfy the fair-dealing Standard.

(Module 43.5, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

**142. (C) Misrepresenting information on the Professional Conduct Statement.**

**Explanation**

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

(Module 43.10, LOS 43: VII(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

According to the Standard on supervisory responsibilities, Daniels should decline in writing to accept supervisory responsibility until a satisfactory compliance system is put into place.

(Module 43.7, LOS 43.b)

**Related Material**

[SchweserNotes - Book 5](#)

**144. (B) start the registration of her new company.**

**Explanation**

The only action that will not breach Standard IV(A) Loyalty to Employer, is to start the registration of her new company.

(Module 43.7, LOS 43: IV(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Standard IV(A) and IV(B) requires that Marchant inform both Middleton and his existing clients.

(Module 43.7, LOS 43:IV(A))

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

Standard VI(A)—Disclosure of Conflicts requires members and candidates to inform clients, prospects, and their employers of any situation that may impair their independence and objectivity or interfere with duties owed to the same groups. The Standard notes that best practice is to avoid conflicts of interest when possible. This best practice recommendation is consistent with Standard I(B) – Independence and Objectivity, which requires that independence and objectivity be maintained. The consulting arrangement with JMT, a company about which Copper will write research reports, divides his loyalty between JMT and the clients purchasing Copper's research on the same company. This is a clear conflict of interest which must be disclosed to clients, prospects, and Copper's employer if the conflict cannot be avoided. However, there is no penalty for ending the consulting relationship and best practice would dictate that Copper terminate the contract with JMT.

(Module 43.9, LOS 43.a)

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

According to Standard VII(B), the analyst cannot guarantee better service. Smith can mention the fact that all analysts have the designation, but he is limited in what he can say with respect to this fact. He could say, for example, that this means the analysts all had to take and pass three rigorous exams.

(Module 43.10, LOS 43: VII(B))

**Related Material**

SchweserNotes - Book 5

- 148. (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.**

**Explanation**

Even though Jackson is not a CFA charterholder, she is nevertheless required to follow the Code and Standards since her firm subscribes to them and has incorporated them in its policy manual.

Standard IV(C) violation is not clear or obvious since the case does not say much about a lack of guidelines or explicit gaps in the policy manual. Under this assumption, Spratz is not guilty of any supervisory violation. Even though Jackson did not personally trade ahead of purchasing AMD shares for her clients, she had done so in the past and is in violation of Standard VI(B). Spratz needs to act on it because this violation has only just come to light.

(Module 44.1, LOS 44.a)

**Related Material**

[SchweserNotes - Book 5](#)

**149. (A) for neither of the reasons listed.**

**Explanation**

According to Standard III(E), Preservation of Confidentiality, Stiles may not withhold information under any of the listed reasons. The reason is that CFA Institute will keep the information confidential.

(Module 43.6, LOS 43: III(E))

**Related Material**

[SchweserNotes - Book 5](#)

**150. (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).**

**Explanation**

Standard III(D) requires fair representations concerning past and potential future performance. Unless the list of the "winners" includes all the positions that the firm held, the manager is misrepresenting past performance. The following statement is questionable: "Their double-digit returns indicate the type of returns I can earn for you," but the action of submitting a partial list is clearly a violation. The manager should have information on past performance in writing.

(Module 43.6, LOS 43: III(D))

**Related Material**

[SchweserNotes - Book 5](#)

**151. (B) both of these.**

**Explanation**

The Director of Research, as a CFA Institute member, is bound by the Standards of Professional Conduct. Accordingly, "members shall not knowingly participate or assist in any violation of such laws, rules or regulations" (Standard I(A): Knowledge of the Law). This responsibility is applicable under the circumstances. As a supervisor, the director of research has a responsibility to exercise reasonable supervision over subordinates to prevent violations of laws, regulations, and the provisions of CFA Institute Standards of Professional Conduct (Standard IV(C): Responsibilities of Supervisors).

(Module 43.1, LOS 43.a)

**Related Material**

[SchweserNotes – Book 5](#)

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

Based on the current circumstances, the supervisor (Director of Research) must not allow the report to be distributed. In this situation the overriding responsibility is to ensure that diligence, thoroughness, and independence be exercised in forming the investment judgment and in preparing the research report.

(Module 43.8, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

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

There is no attempt in the report to present data on the firm's performance as an investment manager. Violations relating to the report itself include the following:

- Though SpecChem's current and prospective earnings are mentioned, no real basis of SpecChem's earnings power is discussed, nor are such factors as cash flow, operating strength or financial condition. Brown has violated Standard V(B): Communication with Clients and Prospective Clients.
- The report fails to disclose Lang's market-making activities with SpecChem. This omission violates Standard VI(A): Disclosure of Conflicts.
- Brown is not separating fact from opinion in her comment, "There is plenty of room for upside earnings surprises if volume and prices improve further, which would take the stock up strongly." This is a violation of Standard V(B): Communication with Clients and Prospective Clients. The above-noted comment could also be considered a violation of Standard I(C): Misrepresentation.

(Module 43.6, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

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

There is nothing to indicate that a violation of the Standard on Prohibition against plagiarism has occurred. The word "process" violations include:

- Brown's report and investment conclusions were influenced by a senior member of her firm. In addition, near total reliance was put on the information supplied by SpecChem's management. She has violated

Standard I(B): Independence and Objectivity.

- Brown showed a lack of diligence and thoroughness in forming her investment decision and preparing the report. Her analysis was cursory at best; the report was not objective nor was it based on adequate understanding of company fundamentals. Standard V(A): Diligence and Reasonable Basis was violated by Brown.
- A violation of Standard V(B): Communication with Clients and Prospective Clients has also occurred. Brown failed to investigate SpecChem's basic investment characteristics properly and did not communicate the company's investment characteristics through the research report.

(Module 43.2, LOS 43.a)

**Related Material**

[SchweserNotes – Book 5](#)

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

**Explanation**

Standard VI(A) Disclosure of Conflicts requires that Members and Candidates fully disclose all matters which may impair their independence or objectivity or interfere with their duties to their employer, clients and prospects. Beneficial ownership of shares in a firm on which a member is making investment recommendations is an example of such a matter.

(Module 43.9, LOS 43: VI(A))

**Related Material**

[SchweserNotes - Book 5](#)

**156. (B) both of theses.**

**Explanation**

Standard VI(B) addresses the treatment of both these accounts. The accounts of clients and employers have priority over personal accounts.

(Module 43.9, LOS 43: VI(B))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Wanda should adequately disclose the basic security selection and portfolio construction process. Wanda should generally stick with the stated investment strategy in the IPS, notify clients and prospective clients of any potential change in the security selection and portfolio construction process, and secure

documentation of authorization for proposed changes.

(Module 43.8, LOS 43: V(B))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Under Standard IV(A) Loyalty to Employer, and Standard IV(B) Additional Compensation Arrangements, Feldman is allowed to accept the offer, but only with written permission from both zippy and Dragon.

(Module 43.7, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Standard V(A) requires members to have a reasonable and adequate basis for taking investment actions. Overhearing a conversation does not provide adequate basis. It is not improper to use overheard conversations that do not include inside information, nor is it improper to reference another firm's report to substantiate adequate basis, if the other report is justified.

(Module 43.8, LOS 43: V(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

According to Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA, Program, Johnson may indicate that he has completed the requirements and is eligible for the CFA charter along with an accurate explanation of the requirements. However, he may not imply that the designation would mean superior performance capabilities.

(Module 43.10, LOS 43: VII(B))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Members and Candidates are allowed to express their opinions about the CFA Institute and CFA Program. Both of the other choices violate Standard VII(A) Conduct as Participants in CFA Institute Programs.

(Module 43.10, LOS 43: VII(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

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

(Module 43.10, LOS 43: VII(A))

**Related Material**

[SchweserNotes - Book 5](#)

- 163. (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.**

**Explanation**

Fleming violated Standard V(A)—Diligence and Reasonable Basis because he was not familiar with the specifics of the investment, but made an investment recommendation based upon his confidence in Waverly's investment expertise. Fleming is also in violation of Standard III(C)—Suitability because his agreement with Waverly's investment decision was not based upon the suitability of the offering within the context of Waverly's total portfolio. Standard I(C)—Misrepresentation was also violated when Fleming confirmed that Waverly should purchase shares in DCH's secondary offering, but failed to inform the client that he had not analyzed the investment in any way. Waverly would reasonably expect Fleming to analyze an investment prior to its recommendation and was therefore misled.

(Module 43.8, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

- 164. (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.**

**Explanation**

Standard I(C)—Misrepresentation prohibits members and candidates from making any untrue statements or omissions of facts that may be false or

misleading. Guaranteeing a particular rate of return on an investment is in direct violation of the standard. Fleming has essentially guaranteed a minimum rate of return on the secondary offering equal to the lowest rate of return earned on the IPO shares over the last three years. Even though a specific number isn't mentioned in the question, it would be observable by the Crockett Foundation. The other statements might also be considered violations of the standards but are not specifically violations of I(C)— Misrepresentation as noted in the question.

(Module 43.2, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

**165. (C)                      No                      Yes**

**Explanation**

Standard II(B)—Market Manipulation prohibits practices that distort prices or artificially inflate trading volume with the intent to mislead market participants, including the dissemination of false or misleading information. Although Fleming's conversation included two prohibited comments (a guarantee of performance and an inappropriate disclosure of client information), he did not give the CIO of Crockett information in an attempt to manipulate prices or trading volume and thus did not violate Standard II(B). His decision to sell GlobalBank's shares of DCH, however, was intended to manipulate the price of DCH stock in order to intimidate smaller investors into withdrawing their purchase order in the secondary offering, thereby freeing up shares for his client, the Crockett Foundation. This action is clearly a violation of Standard II(B).

(Module 43.3, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

**166. (B)    Yes—he failed to maintain appropriate records to support his investment recommendation.**

**Explanation**

Standard V(C)—Record Retention states that members and candidate must maintain appropriate records to support their investment recommendations and actions. Fleming maintained an IPS and records of conversations, but he is also required by the standard to keep research and other documentation supporting investment recommendations and actions, which Fleming did not do. When there are no regulatory requirements related to record retention, the Standard recommends that members and candidates keep client records for a minimum of seven years.

(Module 43.8, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

**167. (B)    Standard V(C) Record Retention.**

**Explanation**

Standard V(C) Record Retention requires analysts to develop and maintain "...records to support their investment analysis, recommendations...with clients

and prospective clients." The analyst is unable to explain why securities were added to the portfolio; this is a violation of Standard V(C).

(Module 43.8, LOS 43: V(C))

**Related Material**

[SchweserNotes - Book 5](#)

- 168. (A) does not distinguish the opinion, based on his model, from the fact.**

**Explanation**

While any of the answers can be shown to violate CFA Institute Standards, this cannot be determined conclusively from the information given. However, the scenario clearly indicates that Anderson does not distinguish between opinion and fact in communicating to his clients. Therefore, he violates the Standards on this basis.

(Module 43.8, LOS 43.b)

**Related Material**

[SchweserNotes - Book 5](#)

- 169. (B) Both Standard I(B) Independence and Objectivity and Standard V(A) Diligence and Reasonable Basis.**

**Explanation**

Whitman violated Standard V(A) Diligence and Reasonable Basis because he did not have a reasonable and adequate basis for issuing a favorable recommendation. Whitman violated Standard I(B) Independence and Objectivity because he did not act independently in issuing his recommendation but instead was influenced by senior management at Hilton and Ross.

(Module 43.8, LOS 43: V(A))

**Related Material**

[SchweserNotes - Book 5](#)

- 170. (B) inform her supervisor that she cannot work on the portfolio because of a legal agreement. but cannot tell him why.**

**Explanation**

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

(Module 43.6, LOS 43: III(E))

**Related Material**

[SchweserNotes - Book 5](#)

- 171. (C) should revise the recommendation based on this new information.**

**Explanation**

This question is related to Standard V(B) which states that CFA Institute members should use reasonable judgment regarding the inclusion or exclusion

of relevant factors in research reports. The change in management was a relevant factor and must be disclosed before dissemination.

(Module 43.8, LOS 43: V(B))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Persons with access to information during the normal preparation of research recommendations are subject to Standard VI(B). An independent auditor is not involved in the normal preparation of research recommendations.

(Module 43.9, LOS 43: VI(B))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Standard IV(C) spells out responsibilities of supervisors in the Standards of Practice Handbook. Since the investigation is ongoing, it would clearly be inappropriate to terminate the entire accounting staff until their complicity in the wrongdoing is established.

(Module 43.7, LOS 43.a)

**Related Material**

[SchweserNotes - Book 5](#)

- 174. (A) Must treat the charitable organization as his employer.**

**Explanation**

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

(Module 43.7, LOS 43: IV(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Despite the fact the addition of the fund was successful. Hoolihan acted

improperly in not conducting the same degree of research as she did for the funds on her list.

(Module 43.8, LOS 43: IV(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

The applicable Standard, VI(C), does not require a member to disclose the percentage of their business that comes from referrals.

Standard VI(C) states, "Members shall disclose to clients and prospects any consideration or benefit received by the member or delivered to others for the recommendation of any services to the client or prospect. "Appropriate disclosure means telling the client or prospect, before agreeing to perform services, of any benefit given or received for recommending the member's services.

(Module 43.9, LOS 43: VI(C))

**Related Material**

[SchweserNotes - Book 5](#)

- 177. (A) did not violate the Standard.**

**Explanation**

According to Standard IV(A) Loyalty, preparations to leave employment are not prohibited. Even though Abrea engaged in significant preparatory activities prior to beginning his new venture, none of these actions suggest Abrea did not continue to act in Pacific's interests while he was employed by Pacific. Abrea may contact his former clients on behalf of Global after his employment by Pacific has officially ended, as long as he did not misappropriate their contact information from Pacific.

(Module 43.7, LOS 43: IV(A))

**Related Material**

[SchweserNotes - Book 5](#)

- 178. (A) not violated the Standard.**

**Explanation**

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

(Module 43.8, LOS 43: V(B))

**Related Material**

SchweserNotes - Book 5

**179. (B) No.**

**Explanation**

According to Standard V(C), Record Retention, the files should be not be destroyed. The CFA Institute recommends keeping all records for at least 7 years. (Module 43.8, LOS 43: V(C))

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

According to Standard V(C), Record Retention, the files may be destroyed. The CFA Institute recommends keeping all records for at least 7 years. Given that more than 7 years have passed since Tuipuloto's meeting with the Scaddens, it is not against Standard V(C) to get rid of the records from that meeting. (Module 43.8, LOS 43: V(C))

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

Standard I(C) Misrepresentation states that "members shall not make any statements, orally or in writing, that misrepresent the member's academic or professional credentials." In this case, Claudel's statements are truthful, and are not a violation of the Standard. He could have been more clear, but what he said is undeniably correct. Whether Vector understood what he told them is not his problem, as long as he was truthful and did not attempt to deceive them.

(Module 44.1, LOS 44.b)

**Related Material**

SchweserNotes - Book 5

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

**Explanation**

Bonnet violated several Standards, including IV(A) and II(B), by manipulating stock prices and profiting from that manipulation at the expense of other purchasers. Standard IV(A) requires that employees not act to injure the firm or deprive it of profits, and Bonnet's personal trading and market manipulation crosses well over that line. However, Bonnet did not violate Standard II(A) Material Nonpublic Information because no nonpublic information was involved. Claudel violated Standard I(A) by contributing to Bonnet's plans to break the

law. Under the Code and Standards, Claudel cannot knowingly assist others who are violating the Standards or the law, even if he does not profit personally. While Claudel's ethics are in question, nothing he did for Bonnet is likely to affect his independence, and he did not violate Standard I(B) Independence and Objectivity.

(Module 44.1, LOS 44.b)

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

The Standards require that purchased brokerage directly benefits the client. Clients who do not hold health-care stocks get no benefit from Ace's research, so Claudel is obligated to send their trades to the broker with the lowest transaction costs. While disclosing the risks of client-directed brokerage is a good idea, it is not relevant in this case because we are not given any information about client directed trades. Referrals can play no part in the broker-selection process.

(Module 44.1, LOS 44.b)

**Related Material**

[SchweserNotes - Book 5](#)

- 184. (C) Standard V(A)—Diligence and Reasonable Basis.**

**Explanation**

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

(Module 43.8, LOS 43.b)

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Standard IV(B) requires that members disclose to their employer in writing all benefits that they receive in addition to their regular compensation for services they perform on behalf of their employer. They also need to get consent from their employer in writing. The written report to the employer should include the details of any written or oral agreement for extra compensation. The analyst

does not have to refuse the offer.

(Module 43.7, LOS 43: IV(B))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

According to Standard III(E), Preservation of Confidentiality, a CFA charter holder cannot discuss client information received in the process of performing services for them except when related to an illegal action or when requested by the CFA Institute Professional Conduct Program.

(Module 43.6, LOS 43: III(E))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

According to Standard IV(A), Loyalty to Employer, a CFA Institute member, undertaking, independent practice that could result in compensation or other benefit, must notify his employer, of the types of service to be rendered, the expected duration, and the expected compensation.

(Module 43.7, LOS 43: IV(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

New London's report is potentially self serving, so Fox did not exercise diligence or have an adequate basis for his recommendation. In addition, Fox did not acknowledge his source of the charts and graphs. Finally, he did not maintain adequate records.

(Module 43.8, LOS 43: V(A))

**Related Material**

[SchweserNotes - Book 5](#)

- 189. (B) do neither of the actions listed here.**

**Explanation**

Standard IV(B) requires that members disclose to their employer in writing all benefits that they receive in addition to their regular compensation for services they perform on behalf of their employer. It is not unreasonable for an individual's godfather to give them a birthday gift. Moreover, since the tax services were a regular birthday present before her godfather became a client, this implies that they are unrelated to any investment management services.

(Module 43.7, LOS 43: IV(B))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

There is no requirement to use a specific model in order to assess and document a client's risk tolerance. Risk tolerance is more likely to be addressed implicitly in the asset allocation guidelines that are established and updated based upon client circumstances.

(Module 43.8, LOS 43: V(B))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

The possibility that Linstrom's friend may own shares of Delta's stock does not create a conflict of interest for Linstrom, who has no beneficial interest in these shares. On the other hand, Wadel has a beneficial interest in his wife's ownership of Gamma shares. Standard VI(A) Disclosure of Conflicts requires that Wadel disclose this information so that his employer can make the proper determination.

(Module 43.9, LOS 43: VI(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Standard VI(A) requires that members fully disclose all potential conflicts of interest, including ownership of stock in companies that the member recommends or that clients hold. Standard III(B), Fair Dealing, forbids members and Candidates from discriminating against any clients when disseminating recommendations or taking investment action. Standard V(B), Communication with Clients and Prospective Clients, requires that members disclose the general principles of the investment processes used, and distinguish between opinions and facts.

(Module 43.9, LOS 43: VI(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

On letterheads and business cards and in directory listings, only the mark CFA or the words Chartered Financial Analyst should appear after the charterholder's name.

(Module 43.10, LOS 43: VII(B))

**Related Material**

[SchweserNotes - Book 5](#)

**194. (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.**

**Explanation**

According to Standard IV(A), 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.

(Module 43.7, LOS 43: IV(A))

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

It is acceptable for Smith to solicit clients for his new employer on his own time as long as he is not in any way competing with his employer. Standard IV(A) prohibits only actions that have the potential to cause harm to Smith's employer.

(Module 44.1, LOS 44.a)

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

Client accounts that belong to family members should be treated like any other account so long as there is no direct interest on the part of the analyst. In other words, these types of accounts should not be at a disadvantage relative to other client accounts when there is no direct interest on the part of the analyst overseeing the account.

(Module 43.9, LOS 43: VI(B))

**Related Material**

[SchweserNotes - Book 5](#)

- 197. (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.**

**Explanation**

Jackson has violated Standard III(A) because her first obligation is to her firm's clients. Standard VI(A) addresses precisely these kinds of situations regarding potential conflict of interest. Given this conflict of interest, Jackson also compromised her objectivity in violation of Standard I(B). Her fiduciary duty to her clients takes precedence over her fiduciary duty to AMD's stockholders under the CFA Institute Code and Standards. By not disclosing her relationship with AMD, she also violated Standard IV(B). Making past personal security transactions ahead of purchase of the same securities for her clients has put Jackson in violation of Standard VI(B). This standard clearly prohibits such actions.

(Module 44.1, LOS 44.b)

**Related Material**

[SchweserNotes - Book 5](#)

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

**Explanation**

The Standards of Practice under IV(A) states that a departing employee is "generally free to make arrangements or preparations to go into a competitive business before terminating the relationship with the employee's employer provided that such preparations do not breach the employee's duty of loyalty." Neither of these actions are in conflict with the interests of Advisors, and Hill performed them on his own time.

(Module 43.7, LOS 43: IV(A))

**Related Material**

[SchweserNotes - Book 5](#)

- 199. (A) fulfilled all obligations.**

**Explanation**

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

(Module 43.8, LOS 43: IV(A))

**Related Material**

SchweserNotes - Book 5

- 200. (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.**

**Explanation**

Standard IV(A): Loyalty to Employer requires written permission from both the employer and the consulting customer if the work involves competition with the employer. An example of an instance not requiring permission would be if a CFA charterholder who works for a broker wishes to write grants for a nonprofit foundation. In such case, he need not get permission, nor does he need to disclose the compensation. This Standard applies for work that provides either monetary or nonmonetary compensation.

(Module 44.1, LOS 44.b)

**Related Material**

SchweserNotes - Book 5

