CODE OF ETHICS

1. Janet Reilly has just approached Betty Miller, CFA, about purchasing 10,000 shares of Brookshire Co., a newly incorporated real estate development firm. Reilly is a retired schoolteacher living off the income from her late husband's life insurance policy. This investment will represent a significant shift in her investment portfolio. Miller believes this trade is unsuitable with respect to Reilly's investment policy statement. Consistent with the Standards, Miller should most appropriately:
   (A) discuss with Reilly whether she wishes to update her investment policy statement.
   (B) follow her firm's procedures for obtaining Reilly's approval to carry out the unsolicited trade request.
   (C) not accept the order, because it is not a suitable investment for Reilly.

2. Sharon Pope has been asked by the Chief Investment Officer to develop a firm-wide policy for proxy voting. Which of the following would NOT be acceptable to include in the policy statement?
   (A) Portfolio managers of active funds must vote in all proxies; portfolio managers of index funds should vote only when they have a definitive opinion.
   (B) Voting proxies may not be necessary in all instances.
   (C) The value of proxy voting must be maximized.

3. Brenda Simone is a money manager and the Blue Streets Pension Fund is one of her clients. The director of the pension fund calls Simone and asks her to use a particular broker so that the fund can obtain some research services with the soft dollars from that broker. Simone believes that the desired broker will provide the same price and execution as the normal broker that Simone uses.
   Simone does as the client wishes. Simone has:
   (A) violated the Standards.
   (B) not violated the Standards as long as the research provided by the broker will benefit the plan beneficiaries.
   (C) not violated the Standards as long as the research provided by the broker will benefit Blue Streets.

4. Which of the following is a component of the Code of Ethics? CFA Institute members shall:
   (A) use reasonable care and exercise independent professional judgment.
   (B) not knowingly participate or assist in any violation of laws, rules, or regulations.
   (C) use particular care in determining applicable fiduciary duty.

5. Concerning Standard III(B), Fair Dealing, which of the following actions is NOT a valid procedure for compliance with the Standard?
   (A) Communicate investment recommendations simultaneously within the firm and to customers, where possible.
   (B) Limit the number of people that are involved and are privy to the fact that an investment recommendation is going to be disseminated.
   (C) Communicate investment recommendations to all customers including those accounts for which are not eligible for purchase.

6. Jack Stevens is employed by a company to provide investment advice to participants in the firm's 401(k) plan. One of the investment options is a stable value fund run by the company. Stevens' research indicates that the fund is far riskier and less liquid than the typical stable value fund and has a fundamental asset value lower than the book value of the assets. He tells Jessica Cox, the head of employee benefits, about his research, and indicates that he will advise new employees to not invest in the fund and will advise employees who already own the fund to reduce their holdings in the fund. Cox points out that the fund is not in any current danger because there are very few redemptions requested of the fund. Cox also states that a sell recommendation may become a self fulfilling prophecy, causing investors to redeem their shares and forcing the fund to liquidate, which in turn will cause the remaining investors to receive less than their promised value. Stevens agrees with this assessment and feels his fiduciary duty is to all employees. Stevens should:
   (A) continue to recommend that new investors do not invest in the fund and existing investors reduce their holdings.
   (B) tell investors he cannot give advice on the fund because of a conflict of interest.
   (C) continue to recommend that new investors do not invest in the fund, but not advise existing investors to reduce their holdings.

7. Sometimes a CFA Institute member simply feels a law has been violated by his firm, and sometimes the member knows a law has been violated. Which of the following pairs of guidelines is CORRECT with respect to the first step a member should take in each case? The member should first contact:
   (A) the firm's counsel if he feels a law has been violated and contact his supervisor if he knows a law has been violated.
   (B) the firm's counsel if he feels a law has been violated and the SEC if he knows a law has been violated.

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

8. All of the following are required by fiduciaries under Standard III(A), Loyalty, Prudence, and Care, EXCEPT:
   (A) support the sponsor's management during proxy fights.
   (B) place the client's interest before the employer's interest.
   (C) act solely in the interest of the ultimate beneficiaries.

9. Travis Brown is a partner in a money management firm. He recently attended a seminar and learned about a quantitative model presented by Dixon. Upon returning to his office, Brown began testing the model and making a few minor alterations. He showed the model to his partners who were impressed and decided to promote the model as proof of the firm's value added. In the firm's next newsletter, Brown included a discussion of the model, the results, and financial data on several stocks selected by the model. These factual data were taken from Standard and Poor's publication. According to the CFA Institute Standards of Professional Conduct, which of the following actions is Brown required to take?
   (A) Brown must credit S&P, no need to credit Dixon.
   (B) Brown must credit Dixon, no need to credit S&P.
   (C) Brown must credit both Dixon and S&P.

10. Kenny Barrett, CFA, is working in the Australian office of American Investments Co. From an informal conversation, Barrett learns that the company's most recent investment report was based on misappropriated information. No one at the Australian office expresses concern, however, because there has been no breach of Australian law. Barrett should:
   (A) do nothing because the branch is outside of U.S. jurisdiction.
   (B) disassociate himself from the case with a written report to his supervisor.
   (C) seek advice from company counsel to determine appropriate action.

11. Which of the following would be a violation of Standard III(B), Fair Dealing?
   (A) Having well defined guidelines for pre-dissemination.
   (B) Trading for regular accounts before discretionary accounts.
   (C) Limiting the number of employees privy to recommendations and changes.

12. Greg Stiles, CFA, keeps a list of his clients' birthdays and has personally sent them a birthday card each year at the appropriate time. With respect to this action, which of the following may be a violation of Standard III(E), Preservation of Confidentiality?
   (A) Sending a gift along with the card.
   (B) Hiring a company outside the firm to perform the task.
   (C) The mere act of sending a birthday card each year.

13. An analyst manages the assets of a charitable organization. Her supervisor tells her to buy a certain stock because the company's chief executive, who is also a board member in the organization, told her the company's earnings will exceed the market forecast when they are released next week. The analyst objects, but the supervisor says this is what they have always done and sees no reason for changing now. The analyst complies with the request. With respect to Standard IV(A) Loyalty and Standard II(A) Material Nonpublic Information, the analyst violated:
    (A) only one of these Standards.
    (B) both of these Standards.
    (C) neither of these Standards.

14. Which of the following statements is least accurate? It is permissible under the Standards to allocate trades:
    (A) on a pro rata basis over all suitable accounts on the basis of an advance indication of interest and indicated order size.
    (B) on a pro rata basis over all accounts.
    (C) on a pro rata basis over all suitable accounts based upon account value.

15. Bob Hatfield, CFA, has his own money management firm with two clients. The accounts of the two clients are equal in value. One of the clients gets married and the assets of the new spouse and the client are combined. With the larger portfolio of the now married client, Hatfield determines that they can assume a higher level of risk and begins a change in the policy concerning that portfolio. Which of the following would violate Standard III(C), Suitability?
    (A) Assess the time horizon of the newly married client and his spouse.
    (B) Assess the return objectives of the newly married client and his spouse.
    (C) Implement a similar policy for the other client who did not just get married.

16. Liam McCoy has lunch with a wealthy client whose portfolio he manages. McCoy advises the client to double his current position in the JKM Corporation due to an anticipated increase in sales. In accordance with Standard (V) Investment Analysis, Recommendations and Actions, when McCoy returns to his office he should:
    (A) identify other clients for whom JKM may be a suitable investment and notify them immediately of his recommendation.
    (B) verify the suitability of the investment recommendation before placing the client's order.
    (C) document the details of the conversation with the client with regard to his investment recommendation.

17. Michael Malone, CFA, is an investment analyst for a large brokerage firm in New York who covers the airlines industry. After hours in his personal time, Malone maintains an online blog on which he expresses his personal opinions about various investment opportunities, including, but not limited to, the airlines industry. On his blog, he posts a very negative investment opinion about WestAir stock. Malone knows that WestAir's stock will be downgraded to a "sell" by his firm next week. Malone has most likely violated:
    (A) Standard VI(B) Priority of Transactions.
    (B) violated Standard II(A) Material Nonpublic Information.
    (C) violated Standard IV(A) Loyalty.

Hunter Harrison, CFA, is president and chief investment officer (CIO) of Ironclad Investments, an investment adviser and pension consultant for medium and large corporate pension clients. Ironclad recently hired a compliance officer to update its compliance manual, which follows the CFA Institute Code and Standards. Harrison serves as a director on several non-profit and corporate boards of directors, some of which have their pension assets managed by Ironclad. Harrison oversees Ironclad's research analysts and portfolio managers, including Michelle Myers, who passed Level II of the CFA examination last year and plans to sign up for next year's Level III exam as soon as registration opens. Myers is a portfolio manager who regularly meets with clients and prospects. Myers is also a partner in a software company that sells retirement and benefit administration services to institutional clients, some of which are also clients of Ironclad. During her correspondence with prospects and clients, Myers includes reference to her status as a "Level III CFA candidate" in her biographical background to increase her prominence in the industry.

18. Regarding Myers' references of her status as a candidate in the CFA program, what Standard governs these actions and is she in compliance?
    (A) Standard VII: Responsibilities as a CFA Member or CFA Candidate. Compliance: No.
    (B) Standard III: Duties to Clients. Compliance: No.
    (C) Standard I: Professionalism. Compliance: No.

19. All of the following most likely apply to Myers' participation as a partner in the software company EXCEPT:
    (A) Standard VI(A) - Disclosure of Conflicts.
    (B) Standard III(E) - Preservation of Confidentiality.
    (C) Standard VI(B) - Priority of Transactions.

20. As part of Ironclad's portfolio management activities on behalf of clients, Harrison and Myers maintain relationships with third party soft dollar providers and commission recapture brokers.
    - Better Trading Brokerage ("Better Trading"), one of Ironclad's top ten brokers and soft dollar providers, has offered Harrison two round-trip airline tickets anywhere in the U.S. in appreciation for their two-year relationship with Ironclad.
    - One of Harrison's clients, Worldwind Travel ("Worldwind"), who participates in commission recapture, has offered Harrison two round-trip airline tickets anywhere in the U.S. or Europe in appreciation for their two-year relationship with Ironclad.

    Which of the following best describes Harrison's actions under the Code and Standards? Harrison:

    (A) can accept the offer from Worldwind, but cannot accept the offer from Better Trading.

    (B) can accept the offer from both Better Trading and Worldwind.

    (C) cannot accept the offer from either Better Trading or Worldwind.

21. Myers has disclosed her partnership interest in the software company to Harrison, including the potential for additional compensation and the possible conflicts of interest.
    - One of Myers' software clients, Breakthrough Pharmaceuticals ("Breakthrough"), is a publicly-traded corporation that is also held in portfolios of Ironclad's clients. In the course of their business relationship, Breakthrough's chief executive officer (CEO) informs Myers that the company has been experiencing problems making retirement benefit payments, and its pension plan has recently gone from "overfunded" to "significantly underfunded" as a result of market conditions.
    - Breakthrough's CEO indicates to Myers that he is attempting to source additional short-term financing to make retiree benefit payments and will disclose the significant "underfunded status" of the pension plan in the upcoming financial statements.
    - Myers, concerned about Ironclad clients holding stock of Breakthrough given the impact on earnings from the current pension troubles and short-term liquidity issues, informs Harrison of the impending disclosure.
    - Ironclad sells 1,800,000 shares of Breakthrough for clients, causing the price to drop $4 per share.
    - Upon disclosure of the pension troubles, Breakthrough's stock dropped 18%.

    According to Standard II – Integrity of Capital Market, Myers has:

    (A) not violated the Standard by sharing information with Harrison because the information did not involve a tender offer.

    (B) not violated the Standard since the information shared with Harrison was used to fulfill Ironclad's fiduciary duty to avoid significant losses.

    (C) violated the Standard.

22. Ironclad owns shares in several research and technology companies, including approximately 4% of the outstanding shares of Advanced DSL ("Advanced"), Internet Connections ("Internet"), and approximately 6% of the outstanding shares of Speedy Chip Technology ("Speedy Chip") and Wavelength Digital ("Wavelength").
    - Harrison serves on the board of directors for Internet and Wavelength, while Myers provides consulting services for Speedy Chip. Harrison receives cash compensation and stock options for his services, while Myers receives restricted stock and stock options.
    - The investment bank that led the public offering of Internet and Speedy Chip and seven of nine sell-side analysts covering the companies have "sell" ratings on the stocks. Ironclad's analysts have also issued "sell" recommendations on the companies due to lack of earnings transparency and quality of earnings, among other issues.
    - Harrison increases his position in both Internet and Wavelength citing "growth opportunities"

    Which of the following Standards were least likely violated by Harrison and Myers?

    (A) Standard IV(B) — Additional Compensation Arrangements.

    (B) Standard II(A) — Material Nonpublic Information.

    (C) Standard III(A) — Loyalty, Prudence, and Care.

23. Harrison, as CIO, is chairman of Ironclad's proxy voting committee, while Myers is a voting member. Ironclad, as a discretionary investment manager, votes proxies on behalf of clients.
    - Ironclad is currently reviewing proxies for several companies covered in research, including technology companies Advanced DSL ("Advanced"), Internet Connections ("Internet"), Speedy Chip Technology ("Speedy Chip") and Wavelength Digital ("Wavelength"), which have all presented the expensing of employee stock options for vote in their current proxies.
    - Investment personnel of Ironclad recently participated in an industry forum in support of increased disclosure for company stock options, which Ironclad believes provides investors with a more accurate perspective of corporate earnings.
    - Contrary to committee consensus, Harrison and Myers vote client proxies "against" the expensing of employee stock options for Internet, Wavelength and Speedy Chip.

      All of the following describe Harrison's actions for compliance with the Code and Standards regarding proxy voting EXCEPT:

    (A) Harrison should vote in accordance with Ironclad's policy and coordinate major proxy issues across all client account.

    (B) Harrison should maintain the confidentiality of voting information on behalf of Ironclad's clients.

    (C) Harrison should discard all proxies on behalf of Ironclad's clients when there is a conflict of interest.

24. Wanda Brunner, CFA, is reviewing a draft fund prospectus for her new "Leveraged Long Coffee" (LLC), a closed-end fund. LLC uses a of combination fundamental and technical trading models to evaluate individual securities. She notes the LLC prospectus has several disclosures which cause her to worry that prospective clients will avoid her fund.
    - Disclosure 1: "LLC charges a flat 3.00% of assets under management."
    - Disclosure 2: "LLC may invest up to 40% of the fund's assets in securities which are not related to coffee or other consumer products."
    - Disclosure 3: "LLC relies only on fundamental valuation of individual securities."

    Which of the following standards will most likely be violated by distribution of the prospectus?

    (A) Standard III(C) Duties to Clients: Suitability because the fund can hold an excessive ty portion of the portfolio inn on-core assets.

    (B) Standard III(C) Duties to Clients: Suitability because it misleads the reader as to the process by which securities are selected.

    (C) Standard III(C) Duties to Clients: Suitability because the fees are exorbitant.

25. Scott Andrews, CFA, is a stockbroker selling an oversubscribed stock issue. Which of the following best describes Andrews' actions regarding this sale? Andrews:

    (A) cannot offer an oversubscribed issue of stock to any clients.

    (B) can offer this security on a prorated basis to all clients for which the security is appropriate.

    (C) can only offer this security to clients for which it is appropriate on a first come first serve basis.

26. According to the Code of Ethics, a member reflects credit on the profession when a member:

    (A) practices in a professional and ethical manner.

    (B) places the clients first.

    (C) consults with other members on a regular basis.

27. According to Standard III(A) Loyalty, Prudence and Care, brokerage is an asset of the:

    (A) managing firm.

    (B) client.

    (C) brokerage firm conducting the trades.

28. Which of the following statements regarding allocating trades is CORRECT? It is permissible under the Standards to allocate trades:
    (A) on a pro-rata basis over all suitable accounts.
    (B) based upon compensation arrangements.
    (C) based upon any method the firm deems suitable so long as the allocation procedure has been disclosed to all clients.

29. Tony Calaveccio, CFA, is the manager of the TrustCo Small Cap Venture Fund in Toronto. He places trades for the fund with River City Brokerage. River City provides Calaveccio with soft dollars to purchase research. River City also deals in municipal bonds, some of which Calaveccio holds in his personal portfolio. He periodically uses the soft dollars to request research reports on various small cap stocks and also on the status of the municipal bond market and issues that he holds. These actions are:
    (A) not in violation of the Code and Standards.
    (B) in violation of his fiduciary duties regarding the municipal bond research but not so regarding the research on the small cap issues.
    (C) in violation of his fiduciary duties regarding both the small cap research and the municipal bond research.

30. Steve Wynn, CFA, is an investment advisor and Jennifer Carey has been a client of his for three years. Carey has shown an interest in international stocks, so they agree to consider putting a portion of Carey's portfolio in foreign stocks. Wynn makes sure that Carey is aware of the currency and political risks inherent in foreign investing before proceeding. They jointly agree to purchase a small portfolio of stocks in the country of Bellagio because one of the brokerage houses that Wynn uses has a great deal of fundamental research on companies domiciled there. Six months later it is revealed in the news media that Bellagio has had severe insider trading problems which have contributed to the loss on the portfolio. Wynn has:
    (A) violated the Standards by not informing Carey about the insider trading risks, but not by contributing to the problem of insider trading.
    (B) not violated the Standards.
    (C) violated the Standards by not informing Carey about the insider trading risks and contributing to the problem of insider trading.

31. Nancy Korthauer, CFA, has launched a new hedge fund called the Korthauer Tautology Fund and is actively soliciting clients from competitor's firms. Client presentations are necessarily brief and often take place with the prospective client's current investment advisor in the room. The Code and Standards require that:
    (A) a prospective client's current investment advisor not participate in meetings.

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

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

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

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

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

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

33. The first component of the Code of Ethics does NOT explicitly say that a CFA Institute member will act in a certain manner with respect to which of the following groups?

(A) Colleagues.

(B) Prospective clients.

(C) CFA Institute members and candidates in the CFA Program.

34. An independent analyst has only one client. One of the client's largest holdings is a brokerage firm. Because of the large holding by his client, the brokerage firm recently began allowing the analyst to tap into the firm's computer network to use the firm's research facilities. This is allowable as long as the analyst:

(A) discloses the relationship to the client.

(B) does both of the actions listed here.

(C) uses the resources to help manage the client's account.

35. Which of the following activities would be following a component of the Code of Ethics explicitly?

(A) Attending continuing education seminars on investing and inviting colleagues to come along.

(B) Consulting with colleagues about opinions you reach in your research.

(C) Maintaining a list of colleagues who have violated the CFA Institute standards.

36. Which of the following is least likely a component of the Code of Ethics? In dealing with the public, clients, prospects, employers, employees, and fellow members, CFA Institute members shall act with:

(A) respect.

(B) integrity.

(C) humility.

37. In dealing with the public and others, the CFA Institute Code of Ethics requires that CFA Institute members act with:

(A) candor, skill, and honor.

(B) honesty, professionalism, and high ethical standards.

(C) integrity, competence, and respect.

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

(A) must cease distributing the cards with the CFA designation, but can continue to use the existing promotional materials.

(B) can continue to use the existing promotional materials, and can use the cards until his supply runs out - his new cards cannot have the designation.

(C) must cease distributing the cards with the CFA designation and the existing promotional materials.

39. Which of the following would be the least important proxy issue?

(A) Takeover defense and related actions.

(B) Compensation plans for officers.

(C) Election of internal auditors.

40. Georgia Jones, CFA, is an analyst for Johnson, Thomas & Co. She also serves as an outside director for Dewey Manufacturing, Inc. In the course of her duties, she begins to believe that Dewey's income statement for the most recent period may have been misstated. Georgia should do all of the following EXCEPT:

(A) consult with Dewey Manufacturing's legal counsel.

(B) inform the Securities and Exchange Commission.

(C) consult with Johnson, Thomas' legal counsel.

41. Mary White, CFA, sits on the board of directors of XYZ Manufacturing, Inc. She discovers that management has knowingly participated in an activity she knows is illegal. According to the CFA Institute Standards of Professional Conduct, White is least likely to be required to:

(A) report the violation to the CFA Institute Professional Conduct Program.

(B) disassociate herself from the activity.

(C) seek legal advice to determine what actions should be taken.

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

(A) inform her supervisor that she cannot work on the portfolio because of a legal agreement, but cannot tell him why.

(B) inform her supervisor that she cannot work on the portfolio because of a non-compete agreement.

(C) work on the portfolio because she did not personally work on the portfolio when she was at Howe.

43. A stockbroker who is a CFA Institute member is called on the telephone by the CEO of a large company. The CEO asks to buy shares of the CEO's company for the accounts of the CEO's children. In the course of the conversation, the CEO says this will really pay off when the upcoming takeover goes through. The stockbroker checks her sources and finds no information about the takeover. In this case the broker should:

(A) do neither of the actions listed here.

(B) execute the order for all clients as required by Standard III(B), Fair Dealing.

(C) only execute the order in compliance with Standard III(A), Loyalty, Prudence, and Care. Since the client is buying the stock for the children, there is not a problem.

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

(A) using a directed brokerage arrangement.

(B) engaging in neither of these practices.

(C) not voting all proxies for client stocks.

45. Ned Brenan manages two dozen pension accounts, one of which earned over 25% during the past two years. Brenan tells prospective clients that based on past

experience they can expect a 25% return on their funds. Which of the following statements is CORRECT?

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

(B) Brenan has violated both Standard of Professional Conduct III(D), Performance Presentation, and Standared I(C), misrepresentation.

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

46. Andrea Waters is an investment analyst who has accumulated and analyzed several pieces of nonpublic information through her contacts with drug firms. Although no one piece of the information she collected is "material," Waters correctly concluded that the earnings of one of the drug companies would be unexpectedly high in the coming year. According to CFA Institute Standards of Professional Conduct, Waters:

(A) can use the information to make investment recommendations and decisions.

(B) cannot legally invest or make recommendations based on this information.

(C) may use the information, but only after approval from a compliance officer or supervisor.

47. Klaus Gerber, CFA, is a regular contributor to the website WizeGuy. This past week Gerber has been incorrectly quoted as recommending that investors buy shares in Bradford, Inc. He is unaware that this message has been placed on the site as the quote was placed as a prank by an unknown source. This is the third time this has happened over the past month and each time the stock being mentioned moved in price according to the buy or sell recommendation.

Fritz Fox, CFA, maintains and updates the WizeGuy site and has learned how to determine if the quotes being attributed to Gerber are actually valid. Several days later, he observes an investment recommendation, posted on the site, to buy Gresham, Inc. The investment recommendation is purported to be from Gerber, but Fox actually knows it to be bogus. He immediately sells 1,000 Gresham short and e-mails Gerber to inform him of the bogus recommendation. Gerber immediately issues a rebuttal, and Gresham falls by 14%. Fox's action is:

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

(B) a violation of the Standard concerning fiduciary duties.

(C) a violation of the Standard concerning use of material nonpublic information.

48. The CFA Institute Code of Ethics likely requires a Member or Candidate to:

(A) Strive to maintain and improve the competence of others in the profession.

(B) Understand and comply with all applicable laws, rules, and regulations.

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

49. Denise Weaver is a portfolio manager who manages a mutual fund and has pension clients. When Weaver receives a proxy for stock in the mutual fund, she gives it to Susan Griffith, her administrative assistant, to complete. When the proxy is for a stock owned in a pension plan, she asks Griffith to send the proxy on to the sponsor of the pension fund. Weaver has:
   (A) not violated the Standards.
   (B) violated the Standards by her policy on mutual fund and pension fund proxies.
   (C) violated the Standards by her policy on mutual fund proxies, but not her policy on pension fund proxies.

50. Which of the following statements about soft dollars is least accurate?
   (A) Soft dollars are third party research arrangements.
   (B) Soft dollars are assets of the client.
   (C) Directed brokerage are soft dollars to be used for research that benefits the investment firm.

51. Alan Cramer, CFA, practices in a country that does not regulate the investment of company retirement plans. He was retained by Bingham Companies to manage their corporate pension plan. Bingham's management has approached Cramer and requested that Cramer invest the entire plan in Bingham stock.
   Cramer may:
   (A) not invest any of Bingham Company's retirement plan in its own stock regardless of the stock's prospects and in spite of management's request.
   (B) invest all of the retirement plan assets in Bingham Company stock according to management's request only if Cramer can document that the investment is more prudent than any other investment opportunity he finds.
   (C) invest a portion of the retirement plan in Bingham Company stock if the investment is prudent and if he keeps the overall portfolio properly diversified.

52. John Elliot, CFA, says that in issues of ethics he always puts the clients first according to the guidelines in the Code of Ethics. In doing so he is:
   (A) not correct, because his first duty is to the public.
   (B) not correct, because no such ordering or priority is given in the Code.
   (C) correct.

53. An analyst thinks that a major change in the tax law will benefit holders of utility company stocks. She immediately begins calling all her clients and telling them of the

upside potential of investing in such assets now. Based upon this information, this is most likely:

(A) a violation of Standard III(C), Suitability.

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

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

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

(A) Vote all proxies on behalf of clients in a responsible manner.

(B) Utilize client brokerage to the sole benefit of the client.

(C) Submit to clients, at least quarterly, itemized statements detailing all of the period's transactions.

55. Regarding non-public information, which one of the following statements is NOT correct?

(A) A member can be summarily suspended for having received material non-public information.

(B) Disclosing material non-public information would have an impact on the price of a security or be of interest to a reasonable investor.

(C) An analyst may use some types of non-public information.

56. Which of the following statements regarding allocating trades is CORRECT? It is:

(A) never permissible to deviate from a proportional account value weighting method of trade allocation, unless this is done on the basis of an advance indication of interest in the issue.

(B) permissible under the standards to allocate trades on the basis of a predetermined formula that may deviate from a pro rata basis but is inherently fair.

(C) never permissible to deviate from a pro rata basis, unless this is done on the basis of an advance indication of interest in the issue.

Christopher Lance, CFA, Chuck Cunningham, and Lucy Hunt, CFA, went to graduate school together and have remained close friends ever since. Lance and Hunt earned their CFA charters this past June and Cunningham is a Level III candidate. Lance, Cunningham, and Hunt have dinner every month at Cunningham's country club, one of the most prestigious in the metropolitan area where they live.

Lance was a well-respected research analyst covering the pharmaceutical industry at an international broker-dealer before accepting a job as Vice President, Investor Relations, at IMed, a large multinational pharmaceutical company that he covered as an analyst. Since he started coverage of IMed, Lance had consistently been named "top analyst" of the pharmaceutical industry by Investment Professional, the leading journal of the investment industry.

In his new position at IMed, Lance is the principal spokesperson on the company's financial performance and is responsible for developing and maintaining good relationships with the company's shareholders, especially large institutional investors, and with approximately 30 research analysts who issue research reports and make recommendations about publicly-traded equity and debt securities. It is April 12th and Lance is preparing to conduct the next conference call following the release on April 15th of IMed's quarterly earnings. Participating in the call will be Lance's former colleague and good friend, Cunningham, and the other analysts who cover IMed. In addition, Hunt, a portfolio manager at Primary Pensions, a major institutional investor, has told Lance she will also be on the call. Primary Pensions has accumulated the largest single holding in IMed equity.

Lance is concerned about this call because IMed's president, Bill Norton, has just told the management team that sales of Mediplex, its new cancer drug, have begun to sag after rumors of serious side effects, including death, have hit the press. Norton told Lance that if sales continue to fall that this year's earnings would be considerably less than the current consensus forecast. Norton is also concerned that the regulatory agency that approves the sale of drugs will repeal IMed's license to market Mediplex.

Cunningham is a research analyst at Lance's former employer and has taken over coverage of IMed following Lance's resignation. Until his promotion to Lance's former position, Cunningham was a junior analyst covering the oil and gas industry. Although knowledgeable about fundamental financial analysis and equity valuation, he is unfamiliar with IMed and the pharmaceutical industry. Cunningham has been reviewing the past 5 years of IMed's financial statements and Lance's research reports in preparation for participating in IMed's quarterly conference call to discuss its quarterly earnings release. Cunningham is under considerable pressure from his employer to meet or exceed Lance's reputation and be rated "top analyst" by Investment Professional. His firm's currently rates IMed as a "strong buy" based on Lance's last research report. Based on his own preliminary analysis, Cunningham has a hard time justifying a "hold" recommendation. He is puzzled by several of the earnings adjustments that Lance made to achieve his target share price for IMed. He plans to ask Lance about these adjustments at their dinner on April 14th.

Hunt has been managing a large cap equity portfolio at Primary Pensions for 5 years. Based almost exclusively on Lance's buy recommendations in his research report, she began purchasing IMed several years ago just before it made several major acquisitions that contributed to its phenomenal growth and to her portfolio's performance over the last 5 years. Since Lance moved to IMed, Hunt has been doing some due diligence and has become concerned that the growth of IMed's earnings is overly dependent on sales of Mediplex. Based on her enthusiasm for IMed and her portfolio's performance, other managers at Primary Pensions have also taken considerable positions in IMed to the extent that Primary Pensions is IMed's largest single stockholder. If she is right, Hunt knows that she will need to reduce her portfolio's holdings. Since Primary Pensions prohibits its employees from owning individual equity securities, Hunt has no personal investment in IMed. However, she had boasted about IMed's performance to her mother and is aware that her mother's investment club invested 10 percent of the club's assets in IMed. Hunt is preparing her questions for the upcoming conference call and her exit strategy if the answers confirm her fears.

Lance, Cunningham, and Hunt met for their regular monthly dinner on April 14th. Cunningham opens the after dinner discussion by questioning Lance about his new job and asks him if he and Hunt should anticipate any surprises at tomorrow's conference call. Cunningham specifically asks Lance if IMed will meet or beat analyst expectations and the consensus earnings forecast. Lance responds that, under current securities laws, he is unable to discuss details of IMed's performance with Cunningham and Hunt and that they'll both be briefed with the other analysts and shareholders on tomorrow's call. Shortly thereafter, the three friends say their good-byes. Hunt and Cunningham wish Lance well on the next day's conference call.

57. What Standard governs Lance's response to Cunningham's question and is he in compliance?

Standard	Compliance
(A) VII: Responsibilities as CFA Institute Member or CFA Candidate	Yes
(B) I: Professionalism	Yes
(C) III: Duties to Clients	No

58. If Lance had disclosed material that was nonpublic information about the decline of sales of Mediplex and its effect on IMed's earnings, Cunningham would have been least likely to be obligated to do which of the following?
   (A) Make reasonable efforts to achieve public dissemination of material non-public information disclosed in a breach of duty.
   (B) Inform the appropriate regulatory authority that Lance had violated securities laws.
   (C) Not trade in shares of IMed.

59. Dinners with Lance, Cunningham and Hunt at Cunningham's exclusive country club usually cost more than $200 per person. When he and Lance worked for the same broker-dealer and Hunt was a client, Cunningham has always paid the bill. Which Standard will Lance violate if he continues to allow Cunningham to pay for dinner?
   (A) Standard I(B), Independence and Objectivity.

(B) Standard IV(B), Additional Compensation Arrangements.
(C) Standard III(B), Fair Dealing.

60. Lance is very nervous before the conference call. Norton, IMed's president, has told him that he must not disclose the decline in sales of Mediplex.
During the call, Hunt asks Lance whether the rumors of the side effects of Mediplex are true and whether these rumors have negatively impacted sales. Lance assures Hunt that Mediplex sales are strong and that IMed is confident that sales will continue to rise for the remainder of the year. Which of the following best describes Lance's actions when he stated that sales of Mediplex were strong?
(A) Lance complied with Standard IV(A), Loyalty to Employer.
(B) Lance violated Standard I(D), Misconduct.
(C) Lance violated Standard III(B), Fair Dealing.

61. Harold Klein, CFA, is an expert on ethical conduct in the investment banking industry and has been asked by an association of investment bankers to give a presentation on interpreting codes of ethics and standards of practice such as the CFA Institute Code of Ethics and Standards of Professional Conduct. In his presentation, Klein makes two key points:
(1) Sound ethical judgment requires careful and thoughtful application of ethical standards which are precise and exacting in nature
(2) An ethical professional must begin the ethical decision making process by determining the applicable code and standards that govern the situation.
Determine whether Klein's statements are correct or incorrect and state your conclusion.

	Statement 1	**Statement 2**
(A)	Incorrect	Correct
(B)	Incorrect	Incorrect
(C)	Correct	Correct

62. According to the CFA Institute Code of Ethics, CFA Institute members shall:
(A) preserve the confidentiality of information communicated by clients, prospects, or employers concerning investment matters.
(B) maintain knowledge and comply with all applicable laws, rules and regulations.,
(C) act with integrity, competence, diligence, respect, and in an ethical manner when dealing with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.

63. Under Standard IV(A) Loyalty (to employers):
(A) members are required to deliver a copy of the Code and Standards to their employer.

(B) members are encouraged to leave an employer that does not adopt the Code and Standards as part of its policies and procedures.

(C) it is recommended that members deliver a copy of the Code and Standards to their employer.

64. Michael Bellow, CFA, CAIA, is an investment banker who is involved with an initial public offering (IPO) of NewCo. Because this is Bellow's first involvement in an IPO, he reports to an experienced supervisor. While reviewing past financial statements provided by NewCo, Bellow suspects that NewCo deliberately overstated its earnings for the past several quarters. Bellow seeks the advice of his firm's highly competent general counsel and follows the advice given without deviation. Based on the general counsel's advice, Bellow consults his immediate supervisor about the suspected overstatement of earnings. After reviewing the situation, Bellow's supervisor explains why NewCo's calculations of its earnings are correct. Bellow realizes that his inexperience and exuberance initially led him to an incorrect conclusion about NewCo's earnings.

Which of the following statements about Bellow's actions involving Standard I(A), Knowledge of the law, and Standard I(C), Misrepresentation, is CORRECT? Bellow:

(A) violated Standard I(A) but did not violate Standard I(C).

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

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

65. According to the Code of Ethics, when practicing in a professional and ethical manner the goal is to:

(A) reflect credit on members and the profession.

(B) resolve conflicts between clients and employers.

(C) increase membership in CFA Institute.

66. Member compliance on issues relating to corporate governance or to soft dollars is primarily addressed by the Standard concerning:

(A) Disclosure of Conflicts to Clients and Prospects.

(B) Loyalty, Prudence, and Care.

(C) Disclosure of Referral Fees.

67. Marc Feldman, CFA, is manager of corporate investor relations for a high-tech startup, zippy.com, in Boise, Idaho. Feldman learns that Larry Smith, controller, is altering the accounting records. Knowing the data is incorrect, Feldman releases Smith's financial data to investors. This action:

(A) constitutes a violation of the Standard concerning duty to employer.

(B) constitutes a violation of Standard III (D) concerning performance presentation.'

(C) constitutes a violation of his fundamental responsibilities under the Code and Standards.

68. Which one of the following least accurately describes the CFA Institute Standard about using material nonpublic information?

(A) An analyst may violate this Standard by passing information to others even when it has been obtained from outside the company.

(B) An analyst using material nonpublic information may be fined by CFA Institute.

(C) An analyst may use nonmaterial nonpublic information as long as it has been developed under the Mosaic Theory.

69. A brokerage firm has a trading department and an investment-banking department. Often the investment-banking department receives material non-public information that would be valuable in advising the firm's brokerage clients. In order to comply with the Standards, the firm:

(A) must divest one of the departments.

(B) should restrict employee trading in securities for which the firm is in possession of material non-public information.

(C) should record the exchange of information between the investment-banking department and the brokerage department.

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

Doggett will:

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

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

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

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

(A) current clients and former clients only.

(B) current clients and prospects only.

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

72. Greg Allen is a security analyst and visits David Dawson, the Chief Financial Officer of Edmonds Company. Dawson reveals a great deal of nonmaterial financial data to Allen, data that Dawson routinely reveals to all security analysts who visit him. From this data and other industry information, Allen conjectures that Edmonds is likely to make a tender offer for another company in the industry, a fact that if true would be considered material to the value of the company. Allen:

(A) can publish his conclusion in a research report.

(B) should send a copy of the report to Dawson for verification before disseminating the report to clients.

(C) must not disseminate the information or use it for trading purposes until the tender offer is announced.

73. Bob Blanford, CFA, is an investment analyst for a large global brokerage firm. He recently moved to Ragatan, a developing country with few securities laws and regulations. As part of conducting a company analysis, Blanford interviews Ravi Shanti, vice-president of finance at Starr Industries. Starr is a major industrial firm in Ragatan and a client at Blanford's firm. Based on his analysis, Blanford suspects that Shanti may have deliberately overstated Starr's current earnings and its earnings for the past several quarters. If this information becomes public, Blanford believes that Starr's stock price will drop substantially. Blanford suspects that Shanti may have violated Ragatan's securities laws. Which of the following statements is least likely to comply with Standard I, Professionalism? Blanford should:

(A) take no action.

(B) determine the legality of the activity, possibly by consulting counsel.

(C) disassociate himself from the client, if the activity is illegal or unethical.

74. According to the CFA Institute Standards of Professional Conduct, Standard 1(A), Knowledge of the Law, members shall not knowingly participate or assist in any violations of laws, rules, or regulations. An analyst:

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

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

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

75. The CFA Institute Code of Ethics specifies that CFA Institute Members and Candidates must do all of the following EXCEPT:
   (A) refrain from any conduct that compromises the reputation or integrity of the CFA designation.
   (B) use reasonable care and exercise independent professional judgment when engaging in professional activities.
   (C) act with integrity, competence, diligence, respect, and in an ethical manner.

76. Steve Waters, a Level I CFA candidate, has decided to enter into a long position of Farmco stock. Since Farmco is thinly traded, Waters is concerned the order will overwhelm the liquidity of Farmco and the price will surge. Waters engages in a series of block trades in order to accomplish the purchase. According to Standard II(B), Market Manipulation, Waters has engaged in:
   (A) both transaction-based manipulation and information-based manipulation.
   (B) transaction-based manipulation, but not information-based manipulation.
   (C) neither transaction-based manipulation nor information-based manipulation.

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

   Which of the following is most correct? The investment manager is:
   (A) in violation of the Code and Standards by not properly updating the investment policy statement in light of the change in the circumstances but is not in violation with regard to the acceptance of the gift from House.

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

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

78. In securing the shares for all accounts under her management, Linda Kammel of Northwest Futures purchased three blocks of shares at three different prices. She then allocated these shares by placing shares from the first block in accounts with surnames beginning with A-G. The second was allocated over accounts H-P, and the third over Q-Z. This action is:

(A) not permissible under the Code and Standards.

(B) permissible only if the clients are informed of the allocation procedure.

(C) consistent with her responsibilities under the Code and Standards.

79. Robe Advisory Services operates an office in San Francisco, where it manages portfolios for its clients based in the United States. The firm also maintains an office in Tokyo, where it employs Sam Lee, CFA who researches Japanese stocks. According to the CFA Institute Standards of Professional Conduct, Lee is required to maintain knowledge of and comply with all applicable laws, rules, and regulations in:

(A) both the U.S. and Japan, but not the CFA Institute Standards of Professional Conduct.

(B) Japan, but not the U.S., and the CFA Institute Standards of Professional Conduct.

(C) both the U.S. and Japan and the CFA Institute Standards of Professional Conduct.

80. Alba Vasquez allocates trades of hot new IPOs as follows: $m \times p/(p + s)$ shares to performance-based fee accounts, $m \times s/(p + s)$ shares to standard fee accounts, where there are p suitable performance based fee accounts, s suitable standard fee accounts, and m shares available. This action is:

(A) permissible since it effectively amounts to a strict pro rata basis of allocation.

(B) not permissible since it is based upon a formula that is not inherently fair.

(C) not permissible since it effectively favors the performance-based fee accounts.

81. WEB, an investment-banking firm, is the principal underwriter for MTEX's upcoming debenture issue. Wendy Berry, CFA, an analyst with WEB, has found out from an employee in MTEX's programming department that a serious glitch was recently discovered in the software program of their major new product line. In fact, the glitch

is so bad that most of their orders have been canceled. Berry checked the debenture's prospectus and found no mention of this development. The red herring prospectus has already been distributed. Berry's best course of action is to:

(A) notify potential investors of the omission on a fair and equitable basis.

(B) inform her immediate supervisor at WEB of her discovery

(C) keep quiet since this is material non-public inside information.

82. Steven Wade, CFA, writes an investment newsletter focusing on high-tech companies, which he distributes by e-mail to paid subscribers. Wade does not gather any information about his clients' needs and circumstances. Wade has developed several complex valuation models that serve as the basis for his recommendations. Each month, his newsletter contains a list of "buy" and "sell" recommendations. He states that his recommendations are suitable for all types of portfolios and clients. Because of their proprietary nature, Wade does not disclose, except in general terms, the nature of his valuation models. He conducted numerous statistical tests of these models and they appear to have worked well in the past. In his newsletter, Wade claims that subscribers who follow his recommendations can expect to earn superior returns because of the past success of his models.

Wade violated all of the following CFA Institute Standards of Professional Conduct EXCEPT:

(A) Standard I(C), Misrepresentation.

(B) Standard III(B), Fair Dealing.

(C) Standard V(B), Communication with Clients and Prospective Clients.

83. Which of the following statements about the CFA Institute Code and Standards is most accurate? The Code and Standards:

(A) require members to persuade the perpetrator to cease illegal activities.

(B) prohibit members from accepting gifts that create a conflict with their employer's interest.

(C) do not require that members report legal violations to the appropriate governmental or regulatory organization.

84. Deloris Johnson, CFA, observed that her supervisor has violated a federal securities regulation. Johnson discussed the matter with her company's compliance department but they have taken no action. According to the CFA Institute Code and Standards of Professional Conduct, Johnson is required to:

(A) report the violation to securities regulators.

(B) dissociate from the supervisor's activity.

(C) confront the supervisor and attempt to stop the violation.

85. Which of the following statements regarding Standard II(A), Material, Nonpublic Information, is least accurate?
   (A) Information received from an insider who is not breaching his fiduciary responsibility may be traded on.
   (B) If you receive the information in a public forum, it has been disseminated, and you can trade on it.
   (C) Material, non-public information regarding a tender offer may not be traded on.

86. Don Benjamin, CFA, is the compliance officer for a large brokerage firm. He wants to prevent the communication of material nonpublic information and other sensitive information from his firm's investment banking and corporate finance departments to its sales and research departments. The most common and widespread approach that Benjamin can use to prevent insider trading by employees is the:
   (A) fire wall.
   (B) legal list.
   (C) Wall Street Rule.

87. Milton Baker, CFA, prepares a research report on the dynamics of a stock price. In his study, he uses a considerable number of information sources, both outside sources and his company's own research papers, prepared for both internal and public use. The report will first be distributed at the monthly department meeting and then later will be published on the company's Internet site. He thinks that he may have neglected to mention some of his sources in his reference list but decides that he needs to be concerned about full disclosure of his sources only for the public version of the report, so he will wait to revise his work until after the monthly meeting but before it is published on the internet site. Which Standards does Baker NOT comply with?
   (A) Standard I(C), Misrepresentation, I(B) Independence and Objectively, and I(A), Knowledge of the Law.
   (B) Standard I(C), Misrepresentation, only.
   (C) Standard I(C), Misrepresentation, and I(A), Knowledge of the Law.

88. If an analyst suspects a client or a colleague of planning or engaging in ongoing illegal activities, which of the statements about the actions that the analyst should take is most correct? According to the CFA Institute Standards of Professional Conduct, the analyst should:
   (A) disassociate from any illegal or unethical activity if the member has reasonable grounds to believe that the activity is illegal or unethical.
   (B) consult counsel to determine the legality of the activity.

(C) illegal or unethical activity if the member has reasonable grounds to believe that the activity is illegal or unethical.

89. While having a conversation with a prospective client, John Henry states that his performance across all of his past clients over the past five years was over 20%, which was 200 basis points higher than his benchmark. He tells the client that while the benchmark may rise or fall over time, his excess performance will remain consistent. Henry violated the Standards of Professional Conduct because:
(A) he cannot discuss prospective future performance in any manner.
(B) he cannot discuss performance without clearly stating that the composite does not conform to GIPS.
(C) the statement of excess performance is misleading with respect to its certainty.

90. A CFO who is a CFA Institute member is careful to make his press releases—some of them containing material and previously undisclosed information—clear and understandable to his readers. While writing a new release, he often has his current intern proofread rough drafts. He also sends electronic copies to his brother, an English teacher, to get suggestions concerning style and grammar. With respect to Standard II(A), Material Nonpublic Information, the CFO is:
(A) not in violation of the Standard.
(B) violating the standard by either showing the pre-release version to his intern or sending it to his brother.
(C) only in violation by e-mailing the pre-release version to his brother but not the intern, because the intern is in essence an employee of the firm.

91. The mosaic theory is the idea that an analyst can:
(A) base his recommendations on nonpublic material information only for the clients of the company, but not for the general public.
(B) make investment recommendations on the basis of several pieces of nonpublic information as long as the aggregate information remains nonmaterial.
(C) make recommendations or trade based on several pieces of public or nonpublic. information, each piece by itself being nonmaterial, but when compiled the information becomes material.

92. An analyst has been writing research reports on a company for many years. As part of the analyst's continuing research efforts, the analyst allows the firm to fly him to the firm's headquarters and put him up in the guest quarters the company has for all corporate visitors. According to Standard I(B), Independence and Objectivity, this is:
(A) not a violation under any circumstances.
(B) a violation if the headquarters are within reasonable driving distance from the analyst's home.
(C) a violation no matter what the circumstances.

93. According to the Code of Ethics, which of the following statements is NOT correct? CFA Institute members are required to:
    (A) maintain and improve their competence and strive to maintain the competence of others in the profession.
    (B) comply with the CFA Institute Global Investment Performance Standards.
    (C) use reasonable care and exercise independent professional judgment.

94. Mohawk Asset Management buys on-the-run Treasuries at auction for its standard fee accounts. When these move off-the-run, they are placed in performance-based accounts via in-house cross-trades at prevailing market prices, and replaced in the standard fee accounts with new on-the-run issues. Which standard is violated, if any?
    (A) The Standard concerning Priority of Transactions.
    (B) The Standard concerning Fiduciary Duty.
    (C) No Standard is violated.

95. Brenda Clark is an investment advisor. Two years ago Clark decided to stop calculating a return composite because of the time required to make those calculations. A prospective client asks Clark what she thinks her performance would have been over the past two years. Clark:
    (A) cannot answer the question, nor can she discuss potential future market returns with the prospective client.
    (B) can answer the question orally but cannot state the numbers in writing.
    (C) cannot answer the question because it would be misleading.

96. Greg Allen is a security analyst and visits David Dawson, the Chief Financial Officer of Edmonds Company. Dawson reveals a great deal of nonmaterial financial data to Allen, data that Dawson routinely reveals to all security analysts who visit him. From this data and other industry information, Allen conjectures that Edmonds is likely to make a tender offer for another company in the industry, a fact that if true would be considered material to the value of the company. Allen:
    (A) must not disseminate the information or use it for trading purposes until the tender offer is announced.
    (B) can publish his conclusion in a research report.
    (C) should send a copy of the report to Dawson for verification before disseminating the report to clients.

97. Which of the following is least likely to be a reason for imposing a suspension on a member or candidate?
    (A) Discussing a question from the CFA exams on social media.
    (B) Misdemeanor change for possession of narcotics.
    (C) Failing to return the annual professional conduct statement.

98. Paul Drake is employed by a company to provide investment advice to participants in the firm's 401(k) plan. Company stock is one of the investment options in the plan. Drake feels that the stock is too risky for employees to own in their 401(k) plan and starts advising them to pull out of the stock. The Treasurer of the company calls Drake and tells him that he will be fired if he continues making such advice because he is violating his fiduciary duty to the company. Drake should:
    (A) continue to advise employees to sell their stock.
    (B) tell employees that he cannot provide advice on company stock because of a conflict of interest.
    (C) make sell recommendations but point out that the company Treasurer has a differing and valid point of view.

99. According to CFA Institute Standards of Professional Conduct, which of the following is least likely a compliance procedure for maintaining independence and objectivity in making investment recommendations or taking investment action?
    (A) Maintain files to support investment recommendations.
    (B) Restrict special cost arrangements related to travel.
    (C) Create a restricted list so that the firm disseminates only factual information about a controversial company.

100. With regard to Global Investment Performance standards (GIPS), if the Chief Investment Officer of an investment advisory firm also is a CFA charterholder:
    (A) the charterholder is required to comply with GIPS.
    (B) neither the firm nor the charterholder are required to comply with GIPS.
    (C) the firm is required to comply with GIPS.

101. The Securities and Exchange Board of India (SEBI) has just enacted a new stock-trading rule. SEBI will give brokers a 10-day grace period, during which violators of the rule will be immediately notified and given a chance to remedy their situation to comply with the new rule. If a CFA Institute member located in India or doing business in India unknowingly violates the rule and then remedies the situation within the 10-day grace period, has the member violated Standard 1(A)?
    (A) Yes, because the member did not maintain knowledge and know of the rule.
    (B) No, because the member remedied the situation.
    (C) No, because the member unknowingly broke the rule.

102. CFA Institute believes:

(A) that a maximum level of professional responsibility and conduct dictates that members be aware of and comply with laws, rules, and regulations governing their conduct.

(B) that firms should comply with all domestic laws and regulations and that these laws also govern behavior in foreign markets, regardless of foreign laws and requirements.

(C) that a minimum level of professional responsibility and conduct dictates that members be aware of and comply with laws, rules, and regulations governing their conduct.

103. A stockbroker who is a member of CFA Institute has a part-time housekeeper who also works for the CEO of Festival, Inc. One day the housekeeper mentions to the broker that she saw the CEO of Festival having a conversation at his home with John Tater, who is a nationally known corporate lawyer and consultant. The stockbroker is restricted from trading on this information:

(A) only if the broker knows that the meeting is non-public information.

(B) if the housekeeper says the meeting concerned a tender offer and the broker knows that it is non-public information.

(C) for both of the reasons listed here.

104. Jim Kent is an individual investment advisor in San Francisco with 300 clients. Kent uses open-ended mutual funds to implement his investment policy. For most of his clients, Kent has used the Baker fund, a small company growth fund based in Boston, for a portion of their portfolio. As a result he has become very friendly with Keith Dunston, the manager of the fund, whom Kent feels is mainly responsible for Baker's performance. One day Dunston calls Kent and tells him that he will be leaving the fund in four weeks and moving to San Francisco to work for a different money management company. Dunston is seeking suggestions on housing in the area. Baker has not yet announced Dunston's departure. Kent immediately finds a fund that is a suitable replacement for the Baker fund, and over the next two days he calls his 30 clients with the largest dollar investments in the funds and tells them he feels they should switch their holdings. Baker feels the remaining clients' positions are small enough to wait for their annual review to switch funds. Kent has:

(A) violated the Standards regarding nonpublic information but has not violated the Standards in failing to deal fairly with clients.

(B) violated the Standards by not dealing fairly with clients but has not violated the Standards regarding material nonpublic information.

(C) violated the Standards by not dealing fairly with clients and regarding material nonpublic information.

105. Tony Calaveccio, CFA, is the manager of the TrustCo Small Cap Venture Fund in Toronto Calaveccio places a trade with Quantco Brokerage. While Calaveccio's part of the transaction was conveyed correctly to Quantco, there was a trading error made in Calaveccio's account due to a slip up within Quantco. Calaveccio realizes that the error has taken place, and informs his contact at le Quantco. Calaveccio allows Quantco to cover the error, with no cost to TrustCo. This is:

(A) a violation of Calaveccio's fiduciary duties.

(B) a violation of Calaveccio's duty to his employer.

(C) permissible under CFA Institute Standards.

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

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

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

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

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

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

107. Which of the following is least likely part of the CFA Institute Code of Ethics?

(A) Competence.

(B) Independent judgment.

(C) Contractual provisions.

108. Which of the following is a component of the Code of Ethics? CFA Institute members shall:

(A) disclose to their employer all matters that reasonably could be expected to interfere with their duty to their employer or ability to make unbiased and objective recommendations.

(B) make reasonable efforts to detect and prevent violations by those who are under their supervision.

(C) strive to maintain and improve their competence and the competence of others in the profession.

109. Maria Valdes, CFA, is an analyst for Venture Investments in the country of Newamerica, which has laws prohibiting the acceptance of any gift from a vendor if the gift exceeds US $250. Valdes has evidence that her Venture Investments colleague, Ernesto Martinez, CFA, has been receiving gifts from vendors in excess of US $250.

Valdes is obligated to:

(A) disassociate herself from the activity, and urge Venture to persuade Martinez to cease the activity.

(B) disassociate herself from the activity, urge Venture to persuade Martinez to cease the activity, and inform CFA Institute and regulatory authorities of the violation.

(C) disassociate herself from the activity, urge Venture to persuade Martinez to cease the activity, and inform CFA Institute of the violation.

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

(A) obtain written consent from his supervisor if the offer is contingent on achieving a target investment return.

(B) do both of the actions listed here.

(C) refuse the invitation if the associate is from a firm he analyzes for his employer.

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

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

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

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

112. A money management firm has the following policy concerning new recommendations: When a new recommendation is made, each portfolio manager estimates the likely transaction size for each of their clients. Clients are notified of the new recommendation in the order of their estimated transaction size—largest first. All clients have signed a form where they acknowledge and consent to this allocation procedure. With respect to Standard III(B), Fair Dealing, this is:

(A) not a violation because the clients are aware of the policy.
(B) not a violation because the clients have signed the consent form.
(C) a violation of the standard.

113. Allen Parsons, a CFA candidate, suspects a colleague at his firm of engaging in an illegal activity. Which of the following statements about procedures for compliance involving Standard 1(A), Knowledge of the law is NOT correct? Parsons:
(A) is required to report this legal violation to the appropriate governmental or regulatory organizations.
(B) should urge his firm to attempt to persuade the perpetrator to cease such conduct.
(C) should consult counsel to determine whether the conduct is, in fact, illegal.

114. Which of the following statements about a member's use of client brokerage commissions is NOT correct? Client brokerage commissions:
(A) may be directed to pay for the investment manager's operating expenses.
(B) should be used by the member to ensure that fairness to the client is maintained.
(C) should be commensurate with the value of the brokerage and research services received.

115. Lee Roth, who is an investment advisor, is riding in a taxi and finds a file of information labeled "Genco Valuation." The folder contains a great deal of financial data, projections and nonpublic information concerning the food products industry that lead Roth to believe that Genco will be worth 50% more than its current stock value. Roth also finds some correspondence that leads him to believe that the file belonged to Tom Hagan. Roth tries to find out where Hagan works so he can return the file. Roth can recommend Genco to his clients unless Hagan works for:
(A) the equity research department for a brokerage firm.
(B) the corporate finance department for Genco.
(C) Roth cannot recommend Genco to his clients at this time.

116. Maggie McCarthy is an individual investment advisor who uses mutual funds for her clients. She typically chooses from a list of 40 funds that she has thoroughly researched. The Figgs, a married couple that are a client, asked her to consider the Boilermaker fund for their portfolio. McCarthy had not previously considered the fund because when she first conducted her research three years ago, Boilermaker was too small to be considered. However, the fund has now grown in value, and after doing thorough research on Boilermaker, she found the fund was by far the most outstanding large company value fund in her list of funds. She puts the fund in the Figgs' portfolio, and in all new clients' portfolios, but not in any of her other clients' portfolios. Her reasoning is that her existing clients were comfortable with their current holdings, and she did not want to risk disturbing their comfort. Has McCarthy violated any Standards? McCarthy has:

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

117. An analyst is allowed to trade on information that he has predicted, such as a corporate action or event, using perceptive assembly and analysis of public information and nonmaterial nonpublic information. This is called the:
(A) assessment theory.
(B) mosaic theory.
(C) deduction theory.

118. Susan Nielsen, CFA, works for a rating agency which competes directly with S&P and Moody's. Her friend, Lance Parker, works for the same company but in a different department which is involved in advisory services for structured products. Nielsen frequently receives pressure from Parker to "put a positive face" on client ratings to help him sell advisory services. She is reluctant to discuss client ratings with Parker and tries to avoid the topic. She consults her company's compliance department and learns that there are no policies or procedures to discourage Nielsen and Parker from sharing information and is encouraged to consider his advice on company ratings. Nielsen should feel least obligated to:
(A) advise regulators of the potential conflict of interest and seek legal counsel.
(B) avoid talking with Parker about client ratings.
(C) advise her firm to develop firewalls.

119. Joshua Rosenberg, CFA, is an equity analyst who covers Northwest Implements, a farm implement manufacturer. Northwest's main factory is located in a sparsely inhabited region six hours by automobile from the nearest airport. Northwest has its own corporate jet and a landing strip is located near the facility. When Rosenberg contacts Northwest's management to gather information for a report he is preparing on the company, Northwest's chief financial officer, Thomas Blake, invites Rosenberg to visit Northwest's headquarters and meet with management. Blake offers to send Northwest's corporate jet to pick up Rosenberg from an airport near Rosenberg's home and to return him home the same evening. Rosenberg estimates that it would require three days for him to make the visit using commercial travel. If Rosenberg accepts Blake's offer and makes the trip to Northwest's headquarters on the corporate jet, Rosenberg:
(A) has violated the Code and Standards unless he reimburses Northwest for the cost of the trip.
(B) has not violated the Code and Standards.
(C) has violated the Code and Standards unless he discloses the trip and the payment of his travel expenses in his report on Northwest.

120. The Code of Ethics does NOT explicitly say that a CFA Institute member shall do which of the following?
   (A) Act with integrity.
   (B) Exercise independent professional judgment.
   (C) Actively lobby for new laws to protect the public.

121. A company has a defined benefit plan that is currently under-funded. The plan sponsor has instructed the portfolio manager of the plan to invest more aggressively to bring the funding level upto an adequate amount. Which of the following statements best describes the course of action the portfolio manager should take? The portfolio manager should:
   (A) not invest more aggressively because this is not the method used to increase the funding level of a plan.
   (B) invest more aggressively because his fiduciary duties lie with the plan sponsor.
   (C) not invest more aggressively since this may expose the plan to too much risk and may not be in the best interest of the plan's beneficiaries.

122. Greg Stiles, CFA, may withhold from CFA Institute information about a client acquired in the regular performance of his duties:
   (A) only if Stiles is a relative of the client.
   (B) for neither of the reasons listed.
   (C) only if Stiles has a special confidentiality agreement with the client.

123. In order to comply with the CFA Institute Standards, an analyst should:
   (A) use only his company's research when making investment recommendations and use outside research for reports and analysis on stocks.
   (B) use only his own research in making investment recommendations, because anything else would violate Standard I(B), Independence and Objectivity.
   (C) use outside research only after verifying its accuracy.

124. Rachel Young, CFA, is making preparations to start a competitive business before terminating her relationship with her employer, a large money management company. Young asks Dot Wiggins, a colleague, to consider joining her. In subsequent discussions with Young, Wiggins learns that Young has used excerpts from research reports by others with only a slight change in wording without acknowledging the source. According to CFA Institute Standards of Professional Conduct, Young has:
   (A) not violated the Standards.

(B) violated Standard IV(A) Loyalty, because she was making preparations to start a competitive business before terminating her relationship with her employer.

(C) violated Standard I(C) Misrepresentation, because she did not acknowledge the source of excepts that she used in research reports.

125. According to the Standards of Professional Conduct, investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner. This concept is most directly addressed in:

(A) Standard VI, Conflicts of Interest.

(B) Standard I, Professionalism.

(C) Standard V, Investment Analysis, Recommendations, and Actions.

126. Which of the following trade allocation procedures is improper? Allocation:

(A) based upon a predetermined formula.

(B) on a strict pro rata basis over all suitable accounts.

(C) based upon past participation in IPOs.

127. Shortly after becoming employed by Valco & Co., an investment banking firm, Stan McDowell, CFA, learns that most of Valco's initial public offerings (IPO) are really effected in order to profit management via price manipulation of the shares. McDowell observes an illegal act, sanctioned by senior management, in progress and refuses to sign off on his responsibility. Instead, McDowell takes the documentation to his supervisor and tells him he should sign it in his place. This action is:

(A) a violation of the Code and Standards since he is required not to knowingly participate or assist in such an act.

(B) a suitable reaction, and he is in compliance with the Code and Standards.

(C) an overreaction Senior management's sanctioning of the act absolves McDowell from his ordinary responsibility as a CFA Institute member.

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

(A) Standard V(A) Diligence and Reasonable Basis by letting fee structure determine the selection of the submanager.

(B) Standard III(C) Suitability by failing to consider the appropriateness of the non-investment-grade bonds.

(C) Both Standard III(C) Suitability and Standard V(A) Diligence and Reasonable Basis.

129. Mark Williamson is "bearish" on ABC Manufacturing Company. Williamson is so convinced that ABC is overpriced, two weeks ago, he shorted 100,000 shares. Today, Williamson is "surfing" several popular investment bulletin boards on the internet and posting false derogatory comments about company management. According to Standard II(B), Market Manipulation, Williamson has engaged in:

(A) both transaction-based manipulation and information-based manipulation.

(B) transaction-based manipulation, but not information-based manipulation.

(C) information-based manipulation, but not transaction-based manipulation.

130. Nicholas Brynne, CFA, is a fixed-income analyst who trades in mortgage-backed securities (MBS). The MBS industry has seen sweeping regulatory changes since Brynne took his current position, and he now feels his understanding of applicable laws and regulatory standards is dated. Brynne must:

(A) update his understanding of applicable laws and regulatory standards relating to his position.

(B) rely on his firm's policies and procedures for guidance on legal and regulatory standards.

(C) have all trades reviewed by his compliance department until he has obtained an expert level of knowledge in compliance.

131. When a firm seeks to allocate a disproportionate number of shares of a hot IPO to performance-based fee accounts this constitutes a violation of the Standard concerning:

(A) priority of transactions.

(B) fiduciary duty

(C) additional compensation arrangements.

132. Carl Weather, CFA, is the chief financial officer of Talbot Enterprises. Based on inside information about Talbot's favorable prospects, Weather concludes that Talbot's common stock price is substantially undervalued in the market. With the approval of Talbot's Board of Directors, Weather announces a program for his firm to repurchase $100 million of its own stock in the market. Talbot's stock price rises immediately after the announcement of the repurchase program.

Reese Winter, a CFA Institute member, is Weather's assistant. While waiting in Weather's office, Winter reads an internal memo marked "confidential" from Talbot's chief accountant to Weather. The memo states that Talbot sustained an unexpected substantial profit during the past quarter, and its earnings projections show a substantial increase compared with previous estimates. Winter uses her cell phone to call her brother and discloses this information to him. Her brother immediately buys 1000 shares of Talbot's stock.

Did the actions of Weather and Winter violate Standard II(A): Material Nonpublic Information?

	Weather	Winter
(A)	No	Yes
(B)	Yes	Yes
(C)	Yes	No

In August 2005, the following events occurred related to Aggregate pportunities, Inc.:

- Aug. 8: The Wall Street Journal reported that Aggregate Opportunities had inflated its 2004 earnings due to questionable accounting practices. The story was based on interviews with unnamed sources within Aggregate and its auditor, Millennium Partners. On that day the stock fell 42 percent to $12.50 from $21.55.
- Aug. 10: At 9 a.m., Aggregate revealed in a conference call to analysts a restatement of earnings for the previous three fiscal years that almost completely erased the reported net income for fiscal years 2002, 2003, and 2004. Aggregate's chief financial officer personally selected the small group of analysts participating in this call. Company officers said the restatement resulted from questionable accounting practices for off-balance sheet limited partnerships. At 1 p.m., the company issued a news release containing the information provided in the conference call. By the end of the trading day the stock had fallen 74 percent to $3.25.
- Aug. 11: At 10 a.m., Aggregate's Chief Financial Officer Buster Lockhart, CFA, publicly announced his resignation, and the Securities and Exchange Commission said it was pursuing an investigation.

During July and August of 2005, the following actions were taken:

- July 20: Michael Cho, CFA, a highly respected analyst with 25 years of experience covering Aggregate's industry, had spent several days reading Aggregate's 10-K and 10-Q documents and other analysis published by some of his competitors at major brokerage houses. Based on his reading and conversations with Aggregate management concerning nonmaterial, nonpublic information, Cho concluded that Aggregate had inflated its earnings. On July 20, Cho issued a detailed research report to his clients and concluded that Aggregate should be sold. He subsequently participated in the Aug. 10 conference call, although it only confirmed what he had already detailed in his July research report.

Aug. 2: Equity analyst Harold Black, a CFA charterholder, received from his brother information that Aggregate might restate its earnings. Black's brother is a senior partner at Millennium Partners. Based on this information, Black immediately prepared a new research report that advised his clients to sell Aggregate, but did not liquidate his personal holdings in the company.

Aug. 4: Bob Watkins, a CFA Level II candidate and portfolio manager, was golfing at his club. Approaching the third tee, he heard the chief executive officer and chief financial officer of Aggregate discussing company finances. Concealing himself behind a tree, Watkins overheard them discussing the upcoming Wall Street Journal article and the earnings restatement. Based on this conversation, he immediately sold all Aggregate holdings in his clients' portfolios. Later that day, Watkins told his friend Juan Martinez, CFA, what he learned about Aggregate and how he learned it. Martinez, a subscriber to Cho's research, then read Cho's report on Aggregate. Immediately after finishing Cho's report, Martinez sold the fund's entire stake in Aggregate. Watkins and Martinez were not participants in the Aug. 10 conference call.

- Aug. 8: Barb Henderson, a CFA charterholder, read the Wall Street Journal article in the morning and after going over her research papers, issued a sell recommendation for Aggregate. On Aug. 10, she participated in the conference call and heard the details of the earnings restatement.
- Aug. 10: Lisa Sanders, CFA, participated in the Aggregate conference call. At 10 a.m., she changed her recommendation on Aggregate from hold to sell and informed all of her clients. At 1 p.m., Sanders sold Aggregate from her personal account.

133. In selling his clients' holdings in Aggregate, Watkins:
(A) did not violate Standard II(A): Material Nonpublic Information because the information did not involve a tender offer.
(B) violated Standard II(A): Material Nonpublic Information by taking investment action.
(C) did not violate Standard II(A): Material Nonpublic Information because there was no breach of duty.

134. After changing her recommendation on Aggregate, Sanders:
(A) violated Standard VI(B): Priority of Transactions by trading Aggregate from her own account.
(B) violated Standard II(A): Material Nonpublic Information by taking investment action based on information not accessible to the public.
(C) did not violate Standard II(A): Material Nonpublic Information because the information was disclosed to a select group of analysts.

135. In selling his fund's stake in Aggregate, Martinez:
   (A) violated Standard III(A): Loyalty, Prudence, and Care by using information obtained from Watkins.
   (B) violated no standards.
   (C) violated Standard II(A): Material Nonpublic Information by using information obtained from Watkins.

136. Which statement about violations of the Code and Standards is CORRECT?
   (A) Henderson violated the reasonable-basis standard, but Sanders did not violate the Standard regarding use of material nonpublic information.
   (B) Aggregate's CFO violated the fair-dealing Standard, but Black did not violate the fiduciary-duties Standard.
   (C) Martinez did not violate the Standard regarding use of material nonpublic information and did not violate the fiduciary-duties standard.

137. Jane Dawson, CFA, an analyst at a New York brokerage firm, suspects that Bob Boatman, CFA, another analyst at the same firm, has violated a state securities law. According to the CFA Institute Standards of Professional Conduct, Dawson is:
   (A) required to report the suspected violation to CFA Institute.
   (B) NOT required to report the violation to the appropriate governmental or regulatory organizations.
   (C) required to report the suspected violation to the appropriate state regulatory agency.

138. Chuck Thomas is the trustee of a trust of which Jill Wyatt is the main beneficiary. Wyatt's husband is the president of a company. In emptying the recycling bin at home, Wyatt finds some papers that lead her to believe that her husband's company will make a tender offer to acquire another firm.

   Wyatt takes the information to Thomas, who uses it to purchase shares of the company for the trust) but does not further disclose the information. Thomas has:
   (A) violated the Standards concerning loyalty, prudence, and care.
   (B) not violated any Standards.
   (C) violated the Standards concerning material non-public information.

139. In the course of reviewing the Corn Co., an analyst has received comments from management that, while not meaningful by themselves, when pieced together with data he has accumulated from outside sources, lead him to recommend placing Corn Co. on his firm's sell list. What should the analyst do?
   (A) Not issue the report until the comments are publicly announced.

(B) Show his report to his own manager and counsel for their review since this information has become material once it was combined with his analysis.

(C) The comments are non material and the report can be issued as long as he maintains a file of the facts as supplied by management.

140. Tony Calaveccio, CFA, is the manager of the TrustCo Small Cap Venture Fund in Toronto. He places trades for the fund with Canadian Brokerage. Canadian provides Calaveccio with soft dollars to purchase research. He uses these soft dollars to get research reports from Canadian's research department regarding the issues currently held in the small cap portfolio, and also for firms he is contemplating adding to the portfolio. By using soft dollars in this manner, Calaveccio has:

(A) not violated the Code and Standards.

(B) violated the Code and Standards by acquiring research on issues that the fund already holds but not by acquiring research on issues contemplated for purchase.

(C) violated the Code and Standards by acquiring research on issues contemplated for purchase but not by acquiring research on currently held issues.

141. Rey Sanchez, CFA, covers the specialty chemical industry for Rock Advisory Associates. Until today he has had a buy recommendation on ChemStar, and many of the firm's customers have purchased shares based upon his recommendation. The firm's client accounts are divided into two fundamental categories: trading and buy-and-hold accounts. The firm holds discretionary trading authority over the trading accounts, but not the buy-and-hold accounts. Sanchez has recently come to believe that the fundamentals are changing for the worse at ChemStar, and is preparing a sell recommendation. He calls a meeting of the firm's portfolio managers with accounts holding ChemStar and tells them of the pending release of the sell recommendation. On this basis, the portfolio managers sell all positions in the discretionary accounts but not in the buy-and-hold accounts. Sanchez completes and mails the report to all clients two days later, and, shortly thereafter, many of the buy-and-hold accounts sell their ChemStar positions. With regard to these actions, Sanchez is:

(A) in violation of the Standard on Fair Dealing; the portfolio managers are in violation of the Standard on Fair Dealing.

(B) not in violation of the Standard on Fair Dealing; the portfolio managers are in violation of the Standard on Fair Dealing.

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

142. A CFA Institute member is also a member and the portfolio manager of an environmentalist group. In its charter, the environmentalist group lists a group of companies its members should boycott. The CFA Institute member would violate Standard I(A) concerning obeying all rules and regulations if the member:

(A) actively protests against a publicly traded firm boycotted by the group.

(B) performs either of the activities listed here.

(C) purchases stock of a boycotted firm for the group's portfolio.

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

(A) the information is nonmaterial.

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

(C) the CFA Institute Professional Conduct Program request it.

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

(A) a violation of Standard III(B), Fair Dealing.

(B) a violation of Standard III(A), Loyalty, Prudence, and Care.

(C) not in violation of the Standards.

145. Janet Green, CFA, provides investment advice and other services to clients in several countries. She resides in Country A whose securities laws and regulations are less strict than the Code and Standards. She also conducts business with clients in Country B, which has no securities laws or regulations, and in Country C, which has securities laws and regulations that are stricter than the Code and Standards. Which of the following statements is CORRECT? According to CFA Institute Standards of Professional Conduct, Green must adhere to the Code and Standards in:

(A) Country A, Country B, and Country C.

(B) Country A and Country B but the law in Country C.

(C) Country A but the law in Country B and Country C.

Chandra Patel, CFA, manages private client portfolios for QED Investment Advisers. Part of QED's firm-wide policy is to adhere to CFA Institute Standards of Professional Conduct in the management of all client portfolios, and to this end, the firm requires that client objectives, investment experience, and financial limitations be clearly established at the outset of the relationship. This information is updated at regular intervals not to exceed eighteen months. The information is maintained in a written policy statement (IPS) for each clients.

Anarudh Singh has been one of Patel's clients ever since she began managing money ten years ago. Shortly after his regular situational update, Singh calls to inform Patel that his uncle is ill, and it is not known how long he will survive. Singh expects to inherit "a sizeable sum of money," mainly in the form of municipal bonds. His existing portfolio allocation guidelines are for 75% to be invested in bonds. Singh believes that the expected inheritance will allow him to assume a more aggressive investment profile and asks Patel to begin moving toward a 75% allocation to equities. He is specifically interested in opening sizable positions in several technology firms, some of which have only recently become publicly traded companies. Patel agrees to begin making the changes to the portfolio and the next day begins selling bonds from the portfolio and purchasing stocks in the technology sector as well as in other sectors. After placing the trade orders, Patel sends Singh an email to request that he come to her office sometime during the next week to update his IPS. Singh replies to Patel, saying that he can meet with her next Friday.

A few days before the meeting, however, Singh's uncle dies and the portfolio of municipal bonds is transferred to Singh's account with QED. Patel sees this as an opportunity to purchase more technology stocks for the portfolio and suggests taking such action during her meeting with Singh, who agrees. Patel reviews her files on technology companies and locates a report on NetWin. The analyst's recommendation is that this stock is a "core holding" in the technology sector. Patel decides to purchase the stock for Singh's account in addition to several other wealthy client accounts with high risk tolerance levels, but due to time constraints she does not review the holdings in each account. Patel does examine the aggregate holdings of the accounts to determine the approximate weight that NetWin should represent in each portfolio.

Since Patel has very recently passed the Level III examination, QED sends a promotional email to all of the firm's clients. The email states that "QED is proud to announce that Chandra Patel is now a CFA (Chartered Financial Analyst). This distinction, which is the culmination of many years of work and study, is further evidence of the superior performance you've come to expect at QED." Patel also places phone calls to several brokers that she uses to place trades for her accounts, stating that she "passed all three CFA examinations on the first attempt." One of the people Patel contacts is Max Spellman, a long-time friend and broker with TradeRight Brokers Inc. Patel uses the opportunity to discuss her exclusive trading agreement with TradeRight for Singh's account.

When ordering trades for Singh's account, Patel's agreement with TradeRight for brokerage services requires her to first offer the trade to TradeRight, and then to another broker if TradeRight declines to take the trade. TradeRight never refuses the trades from any manager's clients. Patel established the relationship with TradeRight because Singh, knowing the firm's fee schedule relative to other brokers, asked her to do so. However, because TradeRight is very expensive and offers only moderate quality of execution, Patel is considering directing trades on Singh's account to BullBroker, which charges lower commissions and generally completes trades sooner than TradeRight.

146. Do QED's policies comply with CFA Institute Standards of Professional Conduct with respect to the information contained within the client IPS' and the frequency with which the information is updated?

	Information	**Frequecy**
(A)	No	No
(B)	No	Yes
(C)	Yes	No

147. In light of Singh's comments during his telephone call to Patel prior to his uncle's death, which of the following actions that Patel can take comply with CFA Institute Standards of Professional Conduct?

(A) Patel may change the current portfolio strategy and begin trading based upon Singh's expectations because he advised her to do so.

(B) Patel must adhere to the existing portfolio strategy until she meets with Singh to develop a new portfolio strategy based upon updated financial information, but may place trades which are consistent with the existing strategy.

(C) Patel must not place any trades in the account until she meets with Singh to develop a new portfolio strategy based on the updated information.

148. According to CFA Institute Standards of Professional Conduct, may Patel reallocate Singh's portfolio toward technology stocks after his Uncle dies, but before the meeting with Singh?

(A) Yes — the total value of the municipal bonds received into the account will be too large relative to the other assets in the portfolio.

(B) No — Patel and Singh must meet and revise the IPS and portfolio strategy before reallocating.

(C) C) No — Patel must wait until the next annual meeting to reallocate.

149. Did Patel violate any CFA Institute Standards of Professional Conduct when she purchased the le NetWin stock for Singh's portfolio or for the other clients' portfolios?

	Singh's portfolio	Other portfolios
(A)	No	No
(B)	No	Yes

(C) Yes Yes

150. Which of the following is least accurate regarding the promotional announcement of Patel passing the Level III exam?
   (A) The announcement violates the Code of Ethics because it implies that obtaining a CFA charter leads to superior performance.
   (B) The promotional announcement assumes that passing of the Level III examination of the CFA program allows one to use the CFA designation.
   (C) The promotional announcement violates the restrictions on misrepresenting the meaning of the CFA designation.

151. With respect to the choice of broker, did Patel violate any CFA Institute Standards of Professional Conduct?
   (A) Yes, since Patel is obligated to seek the best possible price and execution for all clients.
   (B) No.
   (C) Yes, since Patel failed to properly notify Singh that using Trade Right would lead to higher commissions and opportunity costs.

152. If a CFA Institute member knows that a fellow member has violated the Code and Standards, go, according to Standard 1(A) the member is:
   (A) required to report the activity.
   (B) required to dissociate from the activity and strongly encouraged to report it.
   (C) strongly encouraged to dissociate from the activity.

153. While servicing his clients' accounts, an analyst who is a CFA charterholder, determines that one client is probably involved in illegal activities. According to Standard 111(E), Preservation of Confidentiality, the analyst may NOT do which of the following?
   (A) Contact CFA Institute about the determination.
   (B) There are no exceptions in this list.
   (C) Contact the appropriate governmental authorities about the determination.

154. All of the following would be effective components of a formal compliance system EXCEPT:
   (A) the firm prohibits analysts and portfolio managers from using material nonpublic information in making investment recommendations or taking investment action.
   (B) as a fiduciary under ERISA, the firm will strictly follow pension plan instructions and restrictions, which may include concentrating portfolios in a few securities or industries.

(C) the investor's objectives and constraints should be maintained and reviewed periodically to reflect any changes in the client's circumstances.

155. A member would most likely violate the Standard regarding duties to clients by:
(A) recommending purchase of securities without a reasonable inquiry into the investment experience of the client.
(B) adding a risky derivative security to the portfolio of a client with moderate risk tolerance.
(C) executing a client order for a security the member believes is greatly overvalued.

156. Rickard Advisors recently had a trading error in a customer account that was subsequently discovered by Rickard. The firm felt embarrassed by the disclosure of this error, and, in order to induce the client to continue its relationship, Rickard offers the client preferential access to a new issue that is expected to be "hot." Which Standard is violated, if any?
(A) The Standard concerning Fiduciary Duty.
(B) The Standard concerning Independence and Objectivity.
(C) The Standard concerning Fair Dealing.

157. The CFA Institute Standards of Practice Handbook requires CFA Institute members to do all the following EXCEPT:
(A) to inform employer, clients, and potential clients of benefits received for recommending products or services.
(B) to disclose in writing to the proper regulatory authority all observed violations of the securities laws and regulations.
(C) receive written permission from both their employer and outside clients to engage in investment consulting outside the firm.

158. A CFA Institute member works for Secure Securities, Inc., and plays rugby on the firm's rugby team. Secure Securities' team recently played the team of a rival firm. During the game, a fight broke out and the CFA Institute member was the instigator, but no one was seriously hurt. Is this a violation of 1(A) concerning maintaining knowledge and complying with laws, rules, and regulations?
(A) Yes, because the member is bound by the Code of Ethics.
(B) No, because a fight at a rugby game is not a professional activity.
(C) Yes, because the member could have hurt someone in the fight.

159. An investment advisor goes straight from a research seminar to a meeting with a prospective new client with whom she has never been in contact. The advisor is very excited about the information she just received in the seminar and begins showing the prospect the new ideas her firm is coming up with. This is most likely a violation of:

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

160. While visiting the CSI Company, Mark Ramsey, CFA, overheard management make comments that were not public information, but were not really meaningful by themselves. However, when this information is combined with his own analysis and other outside sources, Ramsey decides to change his recommendation on CSI from buy to sell. According to CFA Institute Standards of Professional Conduct, Ramsey should:
(A) issue his sell report because the facts are nonmaterial, but maintain a file of the facts and documents leading to this conclusion.
(B) not issue his report until these comments are made public.
(C) report these events to his immediate supervisor and legal counsel, since they have become material in combination with his analysis.

161. Caroline Turner, an analyst for Lansing Asset Management, just completed an investment report in which she recommends changing a "buy" to a "sell" for Gallup Company. Her supervisor at Lansing approves of the change in recommendation. Turner wonders about whether she needs to disseminate this investment recommendation to Lansing's clients and if so, how to distribute this information. According to CFA Institute Standards of Professional Conduct, Turner is:
(A) not required to disseminate the change of recommendation from a buy to a sell because the change is not material.
(B) required to design an equitable system to disseminate the change in a prior investment recommendation.
(C) required to disseminate the change in a prior investment recommendation to all clients and customers on a uniform basis.

162. Which of the following is a component of the Code of Ethics?
(A) Members shall not engage in any professional conduct involving dishonesty, fraud, deceit, or misrepresentation or commit any act that reflects adversely on their honesty, trustworthiness, or professional competence.
(B) Members shall not knowingly participate or assist in any violation of such laws, rules, or regulations.
(C) Members shall use reasonable care and exercise independent professional judgment.

163. Perley & Sons is an investment advisor company that just signed a contract with full discretionary power for the management of assets for Bright Future, a charitable fund. Without consultation, portfolio manager Martin Brown, CFA, decides to trade

the funds' assets through a brokerage firm that provides, as an additional benefit, research reports for companies in the microchip industry. These companies represent the main investment interest for most of the Perley & Sons clients. The Bright Future portfolio does not hold any equities in the microchip industry, and, because of its risk profile, is unlikely to ever do so. Which of the following activities represents a possible breach with the CFA Institute standards?

(A) Accepting research reports from the brokerage firm that do not benefit client portfolios.

(B) Lack of action in consulting with the client before choosing the brokerage firm.

(C) Exercising a selection principle that does not comply with the idea of best trade price and execution.

164. Lynne Jennings is a chemical industry research analyst for a large brokerage company. That industry is currently seeing an increase in mergers and acquisitions. While flying through Chicago, Jennings sees several senior officers who she knows are from the largest and fourth largest chemical companies walk into a conference room. She concludes that negotiations for an acquisition might be taking place. Jennings:

(A) should inform her compliance officer that she has material nonpublic information on firms she covers.

(B) may not act or cause others to act on this information.

(C) may use this information to support an investment recommendation.

165. Marc Feldman, CFA, is manager of corporate investor relations for a high-tech startup, zippy.com, in Boise, Idaho. Feldman learns that Larry Smith, controller, is altering the accounting records. He decides that any ramifications from such activity is Smith's problem and does not report this fact. According to the CFA Institute Code and Standards he should or is required to do all of the y following EXCEPT:

(A) determine legality, consulting counsel if necessary.

(B) urge Smith to cease altering the accounting records.

(C) report the activity to the FASB or other relevant regulatory body.

166. After a very successful quarter of high investment returns, Judy O'Berry, CFA, receives several gifts from grateful clients. O'Berry considers the gifts to be of novelty or sentimental value only, but she hears rumors that several junior employees are jealous of the attention she received for the group's efforts. She decides to consult the company's compliance rules on gifts and is surprised to learn her firm has no established rules. She consults the Standards of Practice Handbook, and then submits proposed rules on gifts to her company's compliance department. These rules should contain all of the following EXCEPT:

(A) restrictions on all types business entertainment.

(B) a requirement to disclose the gift.

(C) a formal value limit based on local customs.

167. A government committee has concluded that investment company fees should be disclosed to clients each quarter and has proposed new legislation to require this. Currently, the legal requirement is to report such data annually. In compliance with current legal requirements, Dolphin Investments discloses its fees annually. Eugene Shin, CFA, Dolphin's compliance officer, learns of the proposed changes but does not convert Dolphin's reporting to a quarterly basis. Shin's decision not to act:
   (A) is not a violation of the Code and Standards.
   (B) is a violation of his duty to employer as defined in the Code and Standards.
   (C) constitutes professional misconduct as defined in the Code and Standards.

168. Betsy Fox is an investment advisor who has a client, Don Gordon, who is an employment lawyer. At lunch, Fox noticed Gordon and the Chief Financial Officer of Blue Star Company at the next table. She overhears them talking and ascertains that Blue Star is about to announce higher than expected earnings. Before the earnings release, Gordon contacts Fox and asks her to purchase 3,000 shares for his portfolio. Fox:
   (A) can purchase shares for Gordon, but cannot ever purchase shares for her personal account.
   (B) can only purchase shares for her personal account after informing all of her clients about the potential of the increase in earnings.
   (C) must refuse to purchase shares for Gordon.

169. Which of the following statements is least accurate regarding being a part of Standard III(B), Fair Dealing?
   (A) At the same time notify clients for whom an investment is suitable of a new investment recommendation.
   (B) Maintain a list of clients and their holdings.
   (C) Shorten the time between decision and dissemination.

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

171. June Bird is a pension consultant asked to advise on the Backwater County Pension Plan. Bird notices that 20 percent of the plan's assets are invested in privately held local businesses. Bird is concerned about the lack of liquidity and diversification caused by such an investment. She learns that state law allows investing in local businesses and county law requires at least one-fifth of the plan's assets to be dedicated to investing in local businesses. Bird:

(A) should recommend that the trustees resign or risk being sued for violating the Prudent Expert Rule.

(B) should file a written complaint to the Department of Labor pointing out that the law is in conflict with the Employee Retirement Income Security Act (ERISA).

(C) can continue to advise the pension plan as best she can with the restrictions.

172. A CFA Institute member conscientiously maintains records of changes in security regulations. The member notices that his colleagues do not, and does NOT say anything. Is this a violation of Standard I(A)?

(A) No, as long as the colleagues do not violate the new rules.

(B) Yes, and the member should disassociate from these colleagues.

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

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

(A) present the bottle of wine to her supervisor.

(B) inform her supervisor in writing that she received additional compensation in the form of the wine.

(C) return the bottle to the client explaining Brenly's policy.

174. The term "material" in the phrase "material nonpublic information" refers to information that is likely to affect significantly the market price of the issuing company's securities or that:

(A) is derived by the financial analyst from direct communication with an issuing company's management.

(B) is acquired by the financial analyst from a special or confidential relationship with the issuing company.

(C) is likely to be considered important by reasonable investors in determining whether to trade a particular security.

175. Concerning Standard III(B), Fair Dealing, which of the following statements is CORRECT? The Standard:

(A) concerns the dissemination of investment recommendations but is not concerned with the taking of investment action.

(B) is not concerned with the dissemination of investment recommendations so long as the taking of investment action is inherently fair.

(C) concerns the dissemination of investment recommendations and the taking of investment action.

176. Jordan Conomos is the new trustee for the Grant Trust, which has both current beneficiaries and remaindermen. Up until now, the trust has been entirely invested in long-term tax-free municipal bonds. Conomos decides to put 30 percent of the assets in common stocks, with the justification that taxes should be the concern of the trust beneficiaries and not the trust, and the trust needs some diversification and growth. Conomos is:

(A) violating his fiduciary duty by not considering taxes.

(B) violating his fiduciary duty by not investing solely for the purposes of the current beneficiaries.

(C) not violating his fiduciary duty.

177. All of the following are components of the Code of Ethics EXCEPT:

(A) striving to maintain and improve their competence and the competence of others in the profession.

(B) demonstrating diligence, independence, and thoroughness when preparing investment reports.

(C) using reasonable care and exercising independent professional judgment.

178. Paul Clark, CFA, has just learned from a financial analyst at Corvac Industries that orders for their core products are running ahead of last year's orders by 15%, information that has not been publicly disclosed by the company. Clark currently has a hold rating on Corvac based on his expectation of a 5% increase in revenues for the current year. Based on Standard II(A) Material Non-public Information, Clark's most appropriate course of action is to:

(A) encourage Corvac to publicly release the order information and not act on that information until it is publicly dislcosed.

(B) put Corvac on his firm’s restricted list and not make a recommendation until the increase in orders is publicly disclosed.

(C) disclose the information publicly prior to making any changes in his recommendation.

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

(A) Implying that he can guarantee a return.

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

(C) Imputing his past performance to future performance.

180. Pro rata allocation on the basis of an advance indication of interest means each account for which the shares are suitable:

(A) and which has expressed an advance indication of interest, shall receive m/n fraction of their indication, where there are m shares available and indications of interest for n shares.

(B) and which has expressed an advance indication of interest, shall receive w*m shares, where w is the account's proportional value of all such accounts and there are m shares available.

(C) shall receive m/n shares, where there are m shares available and n such accounts.

181. Dick Charles is a security analyst with a large brokerage company. Sean Donaldson is a money manager. They both listen in on a conference call for security analysts with the president of Stoppard, Inc., who states that in two days the company will be holding a press conference announcing a new product. Both Charles and Donaldson feel the news will increase the value of Stoppard.

(A) Charles must wait until after the press conference to disseminate the information to clients, and Donaldson must wait until after the press conference to purchase the stock for his clients.

(B) Charles can disseminate the information to clients, and Donaldson can purchase the stock for his clients immediately.

(C) Charles must wait until after the press conference to disseminate the information to clients, but Donaldson can purchase the stock for his clients immediately.