CHAPTER 58

GUIDANCE FOR STANDARDS IV–VII

1. (A) **loyalty.**

   Explanation

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

   (Study Session 19, Module 58.6, LOS 58: IV(A))

   Related Material

   SchweserNotes - Book 5

2. (C) **Consulting on your own time and obtaining written permission from your employer.**

   Explanation

   Consulting on your own time and obtaining written permission from your employer does *not* constitute a violation of Standard IV(A).

   (Study Session 19, Module 58.6, LOS 58: IV(A))

   Related Material

   SchweserNotes - Book 5

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

   Explanation

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

   (Study Session 19, Module 58.6, LOS 58: IV(A))

   Related Material

   SchweserNotes - Book 5

4. (A) **fulfilled all obligations.**

   Explanation

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

   (Study Session 19, Module 58.7, LOS 58: V(A))

   Related Material

   SchweserNotes - Book 5

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

Explanation

Since the data in the table supposedly comes from Standard & Poor's, a recognized data source, the analyst does not have to cite the source of the data. However, the analyst needs to use reasonable care and verify that the data is accurate by going back to the source. Had the analyst printed the table prepared by her colleague without acknowledgement, the analyst would have violated Standard 1(C), Misrepresentation.

(Study Session 19, Module 58.7, LOS 58: V(A))

Related Material

SchweserNotes - Book 5

6. (C) **did not violate the Standard.**

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

7. (C) **Yes, because he uses CFA as a noun.**

Explanation

The initials CFA cannot be used as a noun. The initials can appear on a business card but cannot be used to exaggerate the meaning or implications of membership.

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

8. (B) **Miller retains supervisory responsibilities for those duties delegated to her subordinates.**

Explanation

Even though members may delegate supervisory duties, such delegation does not relieve members of the supervisory responsibility.

(Study Session 19, Module 58.6, LOS 58: IV(C))

Related Material

SchweserNotes - Book 5

9. (B) **both disclose the position on the board to his supervisor and describe his responsibilities on the board.**

Explanation

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

(Study Session 19, Module 58.8, LOS 58: VI(A))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(C))

Related Material

SchweserNotes - Book 5

11. (C) **Loyalty, Prudence, and Care.**

Explanation

Fiduciary duty on issues relating to corporate governance or to soft dollars is primarily addressed by Standard III(A), Loyalty, Prudence, and Care.

(Study Session 19, Module 58.8, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

12. (B) **No. Schultz is in compliance with CFA Institute Standards.**

Explanation

Schultz continued to act in her employer's best interest while still employed and did not engage in any activities that would conflict with this duty until her resignation became effective. Standard IV(A) Loyalty does not prohibit her from contacting clients from her previous firm if she does not get the contact information from the records of her former employer or violate an applicable non-compete agreement.

Related Material

SchweserNotes - Book 5

13. (B) **notify his firm of his intention to sell the shares before selling the shares.**

Explanation

Standard VI(B) "Priority of Transactions" does not prohibit Tuipulotu from trading opposite the firm's recommendation, but he should notify his firm first. Note that if Tuipulotu were a research analyst covering Park N'Wreck, he may be prevented from selling the security if his firm claims compliance with the CFA Institute's Research Objectivity Standards.

(Study Session 19, Module 58.8, LOS 58: VI(B))

Related Material

SchweserNotes - Book 5

14. (C) **Send all reports to the firm's legal counsel to ensure compliance with securities laws.**

Explanation

Members do not need to send all reports to the firm's legal counsel to ensure compliance with securities laws.

(Study Session 19, Module 58.7, LOS 58: V(B))

Related Material

SchweserNotes - Book 5

15. (B) **not violated the Standard.**

Explanation

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

(Study Session 19, Module 58.7, LOS 58: V(B))

Related Material

SchweserNotes - Book 5

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

Explanation

Jackson has violated Standard III(A) because her first obligation is to her firm's clients. Standard VI(A) addresses precisely these kinds of situations regarding potential conflict of interest. Given this conflict of interest, Jackson also compromised her objectivity in violation of Standard 1(B). Her fiduciary duty to her clients takes precedence over her fiduciary duty to AMD's stockholders under the CFA Institute Code and Standards. By not disclosing her relationship with AMD, she also violated Standard IV(B). Making past personal security transactions ahead of purchase of the same securities for her clients has put Jackson in violation of Standard VI(B). This standard clearly prohibits such actions.

(Study Session 19, Module 58.8, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.8, LOS 58: VI(A))

Related Material

SchweserNotes - Book 5

19. (C) **the nature and amount of compensation plus the duration of the agreement.**

Explanation

Procedures for compliance for Standard IV(B) indicate that the written report should state the terms of any oral or written agreement under which Talbot will receive additional compensation including the nature of the compensation, the amount of compensation and the duration of the agreement.

(Study Session 19, Module 58.6, LOS 58: IV(B))

Related Material

SchweserNotes - Book 5

20. (B) may not use the CFA designation.

Explanation

Standard VII(B) Reference to CFA Institute, the CFA Designation, and the CFA Program, applies. To remain an active member and maintain the right use the CFA designation, the member must pay annual dues and submit a yearly Professional Conduct Statement. Nothing in the Standard prohibits factual references to one's past status as a CFA charterholder.

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

22. (A) sends an e-mail to her supervisor about the vacation home.

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(B))

Related Material

SchweserNotes - Book 5

23. (B) violated both Standard VII(B) and Standard 1(C).

Explanation

Arnold violated Standard VII(B). The CFA designation should not be referred to as a degree. Arnold also violated Standard 1(C) because her claim that she graduated "with honors" is not true.

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

24. (B) **Offshore is an OTC market maker for Burch Corporation's stock.**

Explanation

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

(Study Session 19, Module 58.8, LOS 58: VI(A))

Related Material

SchweserNotes - Book 5

25. (C) **The fact that Stone's son worked at Amity as a laborer during the summer while in school.**

Explanation

Members are required to disclose all matters that reasonably could interfere with their objectivity. Personal ownership of securities or a broker-dealer relationship with a covered firm could reasonably interfere with objectivity, but it is unlikely that a child's past employment would reasonably interfere with Stone's objectivity.

(Study Session 19, Module 58.8, LOS 58: VI(A))

Related Material

SchweserNotes - Book 5

26. (B) **on a personal business card.**

Explanation

Individual charterholders may use the CFA logo on a business card or letterhead. The CFA logo may not be used by a company or firm.

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

27. (A) **"Blanding's earnings will grow at 12.5% annually in each of the next two years."**

Explanation

Standard V(B) Communication with Clients and Prospective Clients requires members to distinguish between fact and opinion. "Blanding's earnings will grow at 12.5% annually in each of the next two years" violates the Standard by stating an uncertain future outcome as a fact. Preceding the statement with a qualifier such as "We expect..." identifies the forecast as an opinion.

(Study Session 19, Module 58.7, LOS 58: V(B))

Related Material

SchweserNotes - Book 5

28. (B) **both Hayes and Sacket violated the Standards.**

Explanation

Both violated Standard VII(A) Conduct as Participants in CFA Institute Programs because they compromised the validity of the examinations.

(Study Session 19, Module 58.9, LOS 58: VIKA))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.8, LOS 58: VI(A))

Related Material

SchweserNotes - Book 5

30. (C) **Only Toffler has violated the Code of Standards.**

Explanation

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

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

31. (A) **Crockett has violated the Standards by not exercising diligence and thoroughness in making investment recommendations.**

Explanation

Crockett had a responsibility to know the model well enough to detect the mistakes that could occur from misapplication, so he violated the Standard of diligence and reasonable basis.

(Study Session 19, Module 58.7, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

32. (C) **both of these**

Explanation

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

(Study Session 19, Module 58.8, LOS 58: VI(B))

Related Material

SchweserNotes - Book 5

33. (C) **There must be monetary compensation for an employer/employee relationship to exist.**

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

34. (B) **in accordance with the CFA Institute Code and Standards.**

Explanation

These actions are in accordance with both Standards III(B), Fair Dealing, and VI(B), Priority of Transactions. There is no violation.

(Study Session 19, Module 58.8, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

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

Explanation

By using excerpts from research reports by others with only a slight change in wording without acknowledging the source, Young committed plagiarism and violated Standard 1(C) Misrepresentation. Young did not violate Standard IV(A) Loyalty because preparations to begin an independent business are permitted provided that they do not breach Young's duty of loyalty to her employer. Actions that would violate Standard IV(A) include soliciting clients or taking records or files while still working for the current employer.

(Study Session 19, Module 58.6, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

36. (A) **both periodically review the procedures and ensure the procedures are monitored and enforced.**

Explanation

As a CEO, Berger is responsible for implementing and maintaining appropriate compliance procedures. He must also ensure the procedures are monitored and enforced.

(Study Session 19, Module 58.6, LOS 58: IV(C))

Related Material

SchweserNotes - Book 5

37. (B) **recommending an investment action without a reasonable basis.**

Explanation

Standard V(A) Diligence and Reasonable Basis requires members and candidates to have a reasonable and adequate basis, supported by appropriate research and investigation, for their recommendations.

(Study Session 19, Module 58.7, LOS 58: V(A))

Related Material

SchweserNotes - Book 5

38. (A) **none of the Standards listed here.**

Explanation

The money manager has done his duty. He has warned the client of the risk and made no explicit promises concerning what he can and cannot do.

(Study Session 19, Module 58.7, LOS 58: V(A))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.7, LOS 58: V(A))

Related Material

SchweserNotes - Book 5

40. (B) **real estate holdings.**

Explanation

Unless the firm's real estate holdings would impair their independence and objectivity, they need not be disclosed.

(Study Session 19, Module 58.8, LOS 58: VI(A))

Related Material

SchweserNotes - Book 5

41. (A) **A professional conduct evaluation is part of an employee's performance review.**

Explanation

According to Standard IV(C) Responsibilities of Supervisors, supervisors must make reasonable efforts to detect and prevent violations of laws, rules, regulations, and the Code and Standards by anyone under their authority. Incorporating a professional conduct evaluation as part of an employee's performance review is a recommended compliance procedure.

(Study Session 19, Module 58.6, LOS 58: IV(C))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.8, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.8, LOS 58: VI(B))

Related Material

SchweserNotes - Book 5

44. (C) **disclose her firm's market making activities to Jones.**

Explanation

Standard VI(A) Disclosure of Conflicts states that broker-dealer market making activities must be disclosed to clients.

(Study Session 19, Module 58.8, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

45. (A) **a promise to remit an agreed-upon percentage of the proceeds to the current employer.**

Explanation

She should provide information about the type of services, the compensation arrangement and the expected duration of the project.

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

46. (A) **not violated the Standards.**

Explanation

Because Westfall performed the same degree of research as she did for the other funds on her list, she provided a reasonable and adequate basis for her recommendation. There is not enough information given about the Eligis fund and how it fits in with the other funds on Westfall's list to determine whether or not the standard on Fair Dealing was broken. It was the Craigs who wanted the Eligis fund and Westfall found it to be acceptable for them and thus added it to her list of acceptable funds. If the Eligis fund was found to possess unique characteristics that were not found in any of the other funds on Westfall's list and the Eligis fund was suitable for some of Westfall's other clients and Westfall hadn't added it to their portfolios after their periodic review then a violation of fair dealing would have occurred.

(Study Session 19, Module 58.7, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

47. (A) are relieved of their supervisory responsibility if they delegate their supervisory duties to other members of CFA Institute.

Explanation

Although members who supervise large numbers of employees may delegate supervisory duties, such delegation does not relieve them of their supervisory responsibility.

(Study Session 19, Module 58.6, LOS 58: IV(C))

Related Material

SchweserNotes - Book 5

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

Explanation

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

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

(Study Session 19, Module 58.8, LOS 58: VI(C))

Related Material

SchweserNotes - Book 5

49. (A) do neither of the actions listed here.

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(B))

Related Material

SchweserNotes - Book 5

50. (C) **Jeremy Salyers, as a CFA charterholder, expects to outperform the market because CFA charterholders have on average outperformed their peers.**

Explanation

Members may not over-promise their performance as CFA charterholders. They may follow their name with the designation and describe, factually, the requirements for becoming a charterholder.

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

51. (A) **complied with the Standards.**

Explanation

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

(Study Session 19, Module 58.7, LOS 58: V(A))

Related Material

SchweserNotes - Book 5

52. (A) **both his employer and his clients and prospective clients.**

Explanation

Serving on a Board of Directors should be disclosed to both the employer and clients and prospective clients.

(Study Session 19, Module 58.8, LOS 58: VI(A))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.7, LOS 58: V(B))

Related Material

SchweserNotes - Book 5

54. (B) **passed Levels I, II, and III of the CFA examination.**

Explanation

A candidate cannot use any form of the CFA designation until receiving her charter.

(Study Session 19, Module 58.9, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

55. (B) **make a reasonable effort to verify that the third-party research is sound.**

Explanation

Standard V(A) Diligence and Reasonable Basis states that members and candidates who rely on third-party research must make reasonable efforts to ensure that the research has a sound basis. According to Standard 1(C) Misrepresentation, if members and candidates use third-party research they should disclose this fact to clients, but the Standards do not require disclosure of the specific sources.

(Study Session 19, Module 58.7, LOS 58: V(A))

Related Material

SchweserNotes - Book 5

56. (B) **reject any outside compensation immediately because it is not appropriate to accept outside compensation in a business setting.**

Explanation

There is no reason to reject any outside compensation immediately because it is inappropriate to accept it. However, all outside arrangements must be reported to the member's employer.

(Study Session 19, Module 58.6, LOS 58: IV(B))

Related Material

SchweserNotes - Book 5

57. (C) **not violated the Standards.**

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

58. (C) **Skills and experience a former employee obtained through work at a firm are considered privileged information of that firm.**

Explanation

Once an employee leaves a firm, the employee's skills and experience acquired are not considered confidential or privileged. The other two statements are accurate.

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

59. (A) **Advisors' research department recommends a stock.**

Explanation

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

(Study Session 19, Module 58.7, LOS 58: V(A))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(C))

Related Material

SchweserNotes - Book 5

61. (A) **Both Standard 1(B) Independence and Objectivity and Standard V(A) Diligence and Reasonable Basis.**

Explanation

Whitman violated Standard V(A) Diligence and Reasonable Basis because he did not have a reasonable and adequate basis for issuing a favorable recommendation. Whitman violated Standard 1(B) Independence and Objectivity because he did not act independently in issuing his recommendation but instead was influenced by senior management at Hilton and Ross.

(Study Session 19, Module 58.7, LOS 58: V(A))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(B))

Related Material

SchweserNotes - Book 5

63. (B) **Saul must obtain written consent from Savage Bank and Fairway Enterprises if he decides to accept the offer to serve on the Board of Directors.**

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(B))

Related Material

SchweserNotes - Book 5

64. (B) **Must treat the charitable organization as his employer.**

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.7, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

66. (B) **contact industry regulators.**

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

67. (C) **start the registration of her new company.**

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

68. (A) **disclose the arrangement to his employer.**

Explanation

Dick should disclose the arrangement to his employer under Standard IV(B), Additional Compensation Arrangements.

(Study Session 19, Module 58.6, LOS 58: IV(B))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(C))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.7, LOS 58: V(B))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

72. (A) **No.**

Explanation

Roberts has not violated the Standards. According to Standard IV(A) Loyalty, Roberts may solicit his old clients providing he does not use any records from his prior employer without permission. Roberts may use publicly available information, such as a phone book, to contact his former clients.

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

73 (B) **violated the Standards by not disclosing her performance bonus.**

Explanation

Standard VI(A) requires members to disclose all matters that could reasonably be expected to impair the member's ability to make unbiased and objective recommendations. Compensation based on a percentage of fees generated does not create an inherent bias. If, however, a performance bonus is paid for investment results, it may unduly encourage the manager to take more risk than is proper and prudent, and so the existence of the bonus opportunity must be disclosed to the client.

(Study Session 19, Module 58.8, LOS 58: VI(A))

Related Material

SchweserNotes - Book 5

74. (A) **violated Standard V(A) but she did not violate Standard 1(B).**

Explanation

Abbott violated Standard V(A), Diligence and Reasonable Basis, because she did not have a reasonable and adequate basis to support the $1.10 EPS without further investigation. By including the $1.10 EPS in her report, she did not exercise diligence and thoroughness to ensure that any research report finding is accurate. If Abbott suspects that any information in a source is not accurate, she should refrain from relying on that information. Abbott did not violate Standard 1(B), Independence and Objectivity, because the gift from Carter would not reasonably be expected to compromise her independent judgment.

(Study Session 19, Module 58.7, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

75. (A) **state that he is a Level II candidate in the CFA Program.**

Explanation

According to Standard VII(B) Reference to CFA Institute, the CFA Designation, and the CFA Program, Jason may refer to his participation in the program but must state that he is a candidate and specify the level of the exam for which he is registered. There is no partial designation.

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.8, LOS 58: VI(A))

Related Material

SchweserNotes - Book 5

77. (A) **Trobb's cousin repairs machines for Aneas.**

Explanation

Standard VI(A) Disclosure of Conflicts defines what constitutes a conflict of interest with regard to clients, prospective clients, and employers. All of these represent potential conflicts of interest with the exception of the cousin working for Aneas Lumber in a job that is unrelated to the Aneas' financing.

(Study Session 19, Module 58.8, LOS 58: VI(A))

Related Material

SchweserNotes - Book 5

78. (A) **Only one of these analysts must disclose a potential conflict of interest.**

Explanation

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

(Study Session 19, Module 58.8, LOS 58: VI(A))

Related Material

SchweserNotes - Book 5

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

Explanation

Despite the fact the addition of the fund was successful, Hoolihan acted improperly in not conducting the same degree of research as she did for the other funds on her list.

(Study Session 19, Module 58.7, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

80. (A) **A requirement of disclosure of all investment holdings of friends and family members of employees on an annual basis.**

Explanation

Members and Candidates are not required to disclose investment holdings of friends unless those holdings create a conflict of interest.

(Study Session 19, Module 58.8, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.7, LOS 58: V(B))

Related Material

SchweserNotes - Book 5

82. (C) **that he is being considered for a job at Paulsen.**

Explanation

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

(Study Session 19, Module 58.8, LOS 58: VI(A))

Related Material

SchweserNotes - Book 5

83. (A) **Albert has violated the Standards but Tye has not.**

Explanation

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

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.7, LOS 58: V(B))

Related Material

SchweserNotes - Book 5

85. (C) may purchase Maxima for his personal account, but the transactions for his clients must take priority.

Explanation

In accordance with Standard VI(B) Priority of Transactions, employer and client transactions must take priority over any personal transactions, meaning any transactions in which the member or candidate is the beneficial owner. Disclosure is not enough; in this instance the personal transaction would take priority over the clients' transactions, which is a violation. "May purchase Maxima at any time, as long as the execution price is not more favorable than the execution price given to the clients" is incorrect because Jones could be purchasing the stock ahead of clients, which is not permitted.

(Study Session 19, Module 58.8, LOS 58: VI(B))

Related Material

SchweserNotes - Book 5

86. (B) 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.

Explanation

The investment manager is in violation of the Standard requiring him to make a reasonable inquiry into the client's financial situation and update the investment policy statement since such a dramatic change in the client's circumstances would undoubtedly alter the investment policy statement and would probably eliminate the need to hold a short position in Oracle. The investment manager is not in violation of the Standard concerning additional compensation, since the gift has been reported to his supervisor and has come from a client. If there was a failure to report such a gift, if the firm had a rule in place against the acceptance of gifts from clients, or if the gift had come from a non-client, there would be a violation of the standard.

(Study Session 19, Module 58.6, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

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

Explanation

Standard IV(B) requires that members disclose to their employer in writing all benefits that they receive in addition to their regular compensation for services they perform on behalf of their employer. They also need to get consent from their employer in writing. The written report to the employer should include the details of any written or oral agreement for extra compensation. The analyst does not have to refuse the offer.

(Study Session 19, Module 58.6, LOS 58: IV(B))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

90. (C) Standard V(A) - Diligence and Reasonable Basis.

Explanation

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

(Study Session 19, Module 58.7, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

91. (B) Hold hearings when violations have occurred to determine the severity of the violations.

Explanation

While a supervisor should respond promptly and investigate violations, there is no obligation to hold hearings when violations have occurred.

(Study Session 19, Module 58.6, LOS 58: IV(C))

Related Material

SchweserNotes - Book 5

92. (A) **in violation of the Code and Standards for providing confidential information about the exam.**

Explanation

Standard VII(A) Conduct as Participants in CFA Institute Programs prohibits members and candidates from providing confidential information about the exam even after the conclusion of the exam.

(Study Session 19, Module 58.9, LOS 58: VII(A))

Related Material

SchweserNotes - Book 5

93. (B) **Ed Long has not yet attempted a Level I exam but has registered for the next one.**

Explanation

To refer to oneself as a CFA candidate, an individual must be registered to sit for a CFA exam or waiting for results of a CFA exam taken.

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

94. (A) **lacks a reasonable and adequate basis in fact.**

Explanation

Standard V(A) requires that a member have a "reasonable and adequate basis" before making an investment recommendation. Extrapolating on the basis of the conjecture of one member of the management team, without independent corroboration, is clearly in violation of this Standard. She is also in violation of Standard V(B) concerning the use of reasonable judgment regarding what is included or excluded in a communication with a client or prospective client.

(Study Session 19, Module 58.7, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

95. (A) **not violating the Standards either in purchasing stocks without a thorough research basis or in not disclosing all alterations of the model to clients.**

Explanation

Jones and Gregg are using reasonable judgment in not continually disclosing all of the alterations of the model. It is acceptable to use a pure quantitative model as a sole basis for purchasing stocks, as long as it is thoroughly researched.

(Study Session 19, Module 58.7, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

96. (C) **neither of these choices.**

Explanation

An analyst should not make a recommendation based only upon a statistical anomaly. Furthermore, none of the other choices would be appropriate. Clients with low risk tolerance should not short sell assets. The analyst cannot make a recommendation to all clients because each client has different characteristics and portfolios. The one answer that may have some merit is to increase the allocation of T-bills in portfolios that have had recent, dramatic increases. This would be for the purposes of maintaining a balanced portfolio. But the decision to rebalance must be made on a case-by-case basis and not for all portfolios.

(Study Session 19, Module 58.7, LOS 58: V(A))

Related Material

SchweserNotes - Book 5

97. (C) **congruent with Standard VI(B), Priority of Transactions.**

Explanation

According to Standard VI(B), an analyst must give clients the first opportunity to buy or sell a security before the analyst acts on his own behalf. A 24-hour waiting period seems reasonable under the circumstances presented. The analyst seems to have a reasonable basis, and there is no reason to believe that he is violating Standard III(B) since he contacted all of the clients who have a position in the security.

(Study Session 19, Module 58.8, LOS 58: VI(B))

Related Material

SchweserNotes - Book 5

98. (A) **the clients contact information.**

Explanation

The Member or Candidate is not required to disclose confidential information about his independent clients.

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

99. (B) **Standard V(A), Diligence and Reasonable Basis.**

Explanation

Jones has violated Standard V(A) by failing to exercise diligence and thoroughness.

(Study Session 19, Module 58.7, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

101. (A) **After the buy order for her clients is executed.**

Explanation

Standard VI(B) Priority of Transactions requires that transactions for clients take precedence over a personal transactions of a member or candidate. Members and candidates should not benefit personally from client transactions, as would occur in this case if the manager enters her personal trade at the same time as the trade for clients. The Standard does not prohibit members and candidates from investing in the same securities they recommend for clients.

(Study Session 19, Module 58.8, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.7, LOS 58: V(B))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

104. (C) **discussing the new methodology with the clients, in its entirety.**

Explanation

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

(Study Session 19, Module 58.7, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

105. (C) **as soon as the information is disseminated to all clients.**

Explanation

Family accounts that are client accounts should be treated like any other firm account and should neither be given special treatment nor be disadvantaged because of an existing family relationship with the member or candidate. Members or candidates may undertake transactions in accounts for which they are a beneficial owner only after their clients and employers have had adequate opportunity to act on the recommendation. Personal transactions include those made for the member or candidate's own account, for family (including spouse, children, and other immediate family members) accounts, and for accounts in which the member or candidate has a direct or indirect pecuniary interest, such as a trust or retirement account. It could be argued that Rock is a beneficial owner of his wife's account and the reason why his wife's account should be treated like any other client account is because it does not state that Rock makes the trades in his wife's account. From that we are to infer that another person other than Rock is managing his wife's account thus she should be treated like any other client.

(Study Session 19, Module 58.8, LOS 58: VI(B))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.7, LOS 58: V(A))

Related Material

SchweserNotes - Book 5

107. (A) any consideration received or paid for recommending products or services.

Explanation

Standard VI(C) Referral Fees requires members and candidates to disclose any consideration received or paid for a recommendation.

(Study Session 19, Module 58.8, LOS 58: VI(C))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

108. (B) Only one violated the Standards.

Explanation

Davis violated Standard VII(B) Reference to the CFA Institute, the CFA Designation, and the CFA Program because she stated a future date in which she expected to pass. Candidates who imply partial designations or expected completion dates violate this Standard. Stating a fact about having passed each of the first two levels on the first try does not violate the Standard.

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

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

Explanation

The fund should have been considered for the existing clients' portfolios. There may have been reasons not to add the fund to their portfolios, such as tax consequences or a lack of suitability, but disturbing their comfort is not sufficient.

(Study Session 19, Module 58.7, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

111. (A) **violated CFA Institute Standards of Professional Conduct because family accounts that are client accounts should be treated like any other firm accounts.**

Explanation

Standard VI(B) Priority of Transactions. Family accounts that are client accounts should be treated like any other firm accounts. Lopez should refrain from exercising excess caution since his mother is a client of the firm like all other clients.

(Study Session 19, Module 58.8, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

113. (C) **Lang violated the Standard concerning diligence and reasonable basis.**

Explanation

Lang violated Standard V(A) Diligence and Reasonable Basis, which imposes the requirement to have a reasonable and adequate basis when making investment decisions for clients. Based only on what is given in the question, we have no reason to assume the information about Lorean is material and nonpublic.

(Study Session 19, Module 58.7, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

114. (B) **remand a percentage (to be determined by the employee and employer) of the income earned back to the employer.**

Explanation

The member is obligated to get permission from his employer if he will be in any way competing with his current employer. They must provide notification to their employer describing the types of services to be rendered, the expected duration, and compensation for the services.

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

115. (C) III(B) Fair Dealing.

Explanation

Standard III(B) Fair Dealing is not directly applicable to this situation; that standard prohibits members and candidates from discriminating against any clients when disseminating recommendations or taking investment action. Trader has clearly violated standard III(A) Loyalty, Prudence, and Care, which requires that members and candidates act for the benefit of their clients and place their clients' interests before their own interests. Trader has also violated standard V(A) Diligence and Reasonable Basis, which requires members and candidates to have a reasonable and adequate basis for any investment recommendation or action.

(Study Session 19, Module 58.7, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.8, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

117. (A) Passing each exam in no more than two tries.

Explanation

Passing each exam in two or fewer tries is not required to maintain active status as a member of the CFA Institute. CFA Institute imposes both of the other choices.

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

118. (B) **solicitation of the employer's clients following termination of employment.**

Explanation

Solicitation of the employer's clients prior to termination of employment would constitute a violation of Loyalty to Employer, but solicitation of clients following termination would not.

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

119. (C) **I passed Level II of the CFA Program in 2003.**

Explanation

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

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

121. (B) **Expressing opinions in disagreement with CFA Institute advocacy positions.**

Explanation

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

(Study Session 19, Module 58.9, LOS 58: VII(A))

Related Material

SchweserNotes - Book 5

122. (B) **An annual bonus, sent to the analyst by a client, which varies with the performance of the client's portfolio that the analyst manages as an employee even though no verbal or written agreement exists about the bonus.**

Explanation

Standard IV(B) requires that members disclose to their employer in writing all benefits that they receive in addition to their regular compensation for services they perform on behalf of their employer. Since the bonus varies with the performance of the client's portfolio, there is a clear link to the services of the analyst. The analyst is not required to report the lunch since it is not linked to performance.

(Study Session 19, Module 58.6, LOS 58: IV(B))

Related Material

SchweserNotes - Book 5

123. (A) **make written disclosure to all parties involved before she accepts this offer.**

Explanation

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

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

(Study Session 19, Module 58.6, LOS 58: IV(B))

Related Material

SchweserNotes - Book 5

124. (B) **all these statements are in compliance with CFA Institute Standards.**

Explanation

All of the statements are acceptable according to Standard VII(B), Reference to CFA Institute, the CFA designation, and the CFA Program. Koski is allowed to make a statement of fact such as the managers' right to use the CFA designation. Koski may reference the participation of his employees in the CFA program if the employees are currently registered to take one of the exams. The statements regarding dedication to the investment community and commitment to the highest ethical standards are proper references regarding the CFA program.

(Study Session 19, Module 58.9, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

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

Explanation

This question is related to Standard V(B) which states that CFA Institute members should use reasonable judgment regarding the inclusion or exclusion of relevant factors in research reports. The change in management was a relevant factor and must be disclosed before dissemination.

(Study Session 19, Module 58.7, LOS 58: V(B))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(C))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

128. (B) **is required to disclose the ownership of the stock to his employer.**

Explanation

The analyst is required to disclose the ownership of the stock to his employer by Standard VI(A) Disclosure of Conflicts. The analyst must also disclose the stock ownership in any subsequent coverage of the company. The Standard does not require or recommend that the analyst divest the stock.

(Study Session 19, Module 58.8, LOS 58: VI(A))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.7, LOS 58: V(C))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.8, LOS 58: VI(A))

Related Material

SchweserNotes - Book 5

132. (A) **Ackert: No. Brown: No.**

Explanation

Neither statement is fully consistent with Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program. The CFA designation must always be used as an adjective and never as a noun as Ackert used in her promotional description. Correct use of the CFA designation would be: "Lucy Ackert is one of five CFA charterholders at Lofton Securities." No designation exists for someone who has passed Level I of the CFA examination. Thus, Brown's statement saying that he "holds a CFA Level I designation" represents incorrect use. A correct statement would be: "Chris Brown passed Level I of the CFA examination in 2001."

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

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

Explanation

The Code and Standards do not prohibit whistleblowing actions, as long as these actions do not violate applicable laws or regulations.

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

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

Explanation

By not returning the bottle she would be violating the Standard on disclosure of conflicts to the employer, which states that employees must comply with prohibitions imposed by their employer.

(Study Session 19, Module 58.8, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

135. (C) officer to ensure that they comply with the Standard, or suggest ways to bring them into compliance.

Explanation

Standard V(C), Record Retention requires that members maintain all records supporting analysis, recommendations, actions, and all other investment related communications with clients and prospects. The recommended procedures for compliance with Standard V(C) state that the record-keeping requirement is generally the firm's responsibility. These records are the property of the firm, so Redd keeping her own copies at home could potentially violate Standard IV(A), Loyalty. Redd's best course of action is to review the firm's procedures with her supervisor and recommend any improvements that are necessary to bring them into compliance with Standard V(C).

(Study Session 19, Module 58.7, LOS 58: V(C))

Related Material

SchweserNotes - Book 5

136. (B) registers his new firm with the government's financial regulators.

Explanation

Under Standard IV(A) Loyalty, making preparations to start a competing business while still employed is acceptable. Soliciting the employer's clients and taking the employer's property (such as computer models) violate the Standard.

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

137. (C) **do nothing since the board has not made a decision yet.**

Explanation

From the given information, there is no conflict of interest and no violation of Standard VI(A), Disclosure of Conflicts. A conflict could arise if the board were to ask Hirsh what the effect on the college's endowment would be if they were to divest. At that time she would have to reveal her ownership in the stocks to make known the possible conflict of interest.

(Study Session 19, Module 58.8, LOS 58: VI(A))

Related Material

SchweserNotes - Book 5

138. (B) **Brown: Yes, Turley: No.**

Explanation

Brown violated Standard IV(B), Additional Compensation Arrangements, because she must disclose in writing other benefits to be received for services that are in addition to compensation conferred by her employer. Turley did not violate Standard IV(B) because he received consent from his employer in writing, which includes e-mail.

(Study Session 19, Module 58.6, LOS 58: IV(B))

Related Material

SchweserNotes - Book 5

139. (C) **limited front-running by employees.**

Explanation

Standard VI(B) Priority of Transactions. Front-running is the purchase or sale of securities in advance of client trades to take advantage of knowledge of client activity and should be completely prohibited, not simply limited. Blackout periods and pre-clearance of employee trades are ways of accomplishing this.

(Study Session 19, Module 58.8, LOS 58: VI(B))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.8, LOS 58: VI(C))

Related Material

SchweserNotes - Book 5

141. (B) **Hatcher leases office space, furniture, and other equipment for her new business.**

Explanation

Standard IV(A) permits Hatcher to make preparations to begin a new practice, such as leasing office space, furniture, and other equipment, but not to engage in the other activities that may violate her duty to employer.

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

142. (C) **may be a violation despite the clients' approval.**

Explanation

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

(Study Session 19, Module 58.8, LOS 58: VI(B))

Related Material

SchweserNotes - Book 5

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

Explanation

Use of the CFA designation must be stopped immediately, however, the receipt of the Charter is a matter of fact.

(Study Session 19, Module 58.9, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

144. (C) **not a violation of any Standard.**

Explanation

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

(Study Session 19, Module 58.7, LOS 58: V(A))

Related Material

SchweserNotes - Book 5

145. (C) **not violated the Standards.**

Explanation

Carson has not violated either Standard based on the information given. The suitability of an investment is to be determined based on the risk and return characteristics of the portfolio and not on the risk and return characteristics of each individual security. The fact that a security does not pay a dividend and has a beta higher than the market is not enough to determine its suitability in a portfolio context. The fact that regulators have called previously reported earnings into question does not necessarily mean that Carson's analysis was not diligent or that he did not have a reasonable basis for his selection of this security.

(Study Session 19, Module 58.7, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

146. (C) **prepare to compete with his current employer, but not begin competing until his resignation is effective.**

Explanation

Douglas may plan and prepare to compete with his current employer, but may not begin competing until his resignation is effective or he gets permission from his employer. Standard IV(A) Loyalty states that when members and candidates are leaving an employer, they must act in the employer's interests until their separation becomes effective.

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.8, LOS 58: VI(B))

Related Material

SchweserNotes - Book 5

148. (B) **a violation because he cannot guarantee better service.**

Explanation

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

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

149. (B) **No, because Bellow received no compensation for his services.**

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

150. (B) **Referral fees must be disclosed before proceeding with an agreement for service.**

Explanation

According to Standard VI(C) Referral Fees, such fees must be disclosed before proceeding with an agreement for service. This gives the client or employer the opportunity to compute the full cost of the service and to evaluate any potential partiality in the recommendation.

(Study Session 19, Module 58.8, LOS 58: VI(C))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.7, LOS 58: V(B))

Related Material

SchweserNotes - Book 5

152. (A) **in violation of the Code and Standards for providing confidential information about the exam.**

Explanation

Standard VII(A) Conduct as Participants in CFA Institute Programs prohibits members and candidates from providing confidential information about the exam - even after the conclusion of the exam. Examples include broad topical areas tested or not tested.

(Study Session 19, Module 58.9, LOS 58: VII(A))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.6, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

154. (A) **Decline in writing to accept supervisory responsibility.**

Explanation

According to Standard IV(C) Responsibilities of Supervisors, Stewart should decline in writing to accept supervisory responsibility until the firm adopts adequate compliance procedures.

(Study Session 19, Module 58.6, LOS 58: IV(C))

Related Material

SchweserNotes - Book 5

155. (B) **I passed the Level I CFA exam.**

Explanation

The only appropriate statement is "I passed the Level I CFA exam." It is a factual statement and does not imply a partial designation.

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

157. (A) **not violating the Standards by applying his version of the model, but is violating the Standards by not disclosing it to clients. Brisco is not violating the Standards.**

Explanation

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

(Study Session 19, Module 58.7, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

158. (A) **Both of these advisors have a reasonable basis for their recommendations.**

Explanation

Wilson and Chavis have a reasonable and adequate basis if they recommend an investment transaction based on sound research prepared by their firm or an independent third party.

(Study Session 19, Module 58.7, LOS 58: V(A))

Related Material

SchweserNotes - Book 5

159. (B) **Chang.**

Explanation

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

(Study Session 19, Module 58.9, LOS 58: VII(B))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.7, LOS 58: V(B))

Related Material

SchweserNotes - Book 5

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

Explanation

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

Study Session 19, Module 58.8, LOS 58: VI(B))

Related Material

SchweserNotes - Book 5

162. (C) **both fees a member receives and fees a member pays.**

Explanation

Members and candidates must disclose all referral arrangements to their employer, clients, and prospective clients.

(Study Session 19, Module 58.8, LOS 58: VI(C))

Related Material

SchweserNotes - Book 5

163. (C) **his clients' and his father's accounts in the first group and his personal accounts in the second group.**

Explanation

Standard VI(B), Priority of Transactions, provides that transactions for clients have priority over personal trades. Family accounts that are considered client accounts receive the same treatment as client accounts.

(Study Session 19, Module 58.8, LOS 58: VI(B))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.7, LOS 58: V(B))

Related Material

SchweserNotes - Book 5

165. (B) **Beckworth is in violation of Standard VIKA), but her assistant is not in violation.**

Explanation

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

(Study Session 19, Module 58.9, LOS 58: VIKA))

Related Material

SchweserNotes - Book 5

166. (B) **may write the report if she discloses both that Waller & Madison is a market maker in CorpEast shares and that Waller sits on the CorpEast board.**

Explanation

To comply with Standard VI(A) Disclosure of Conflicts, both the market-making activities by the firm and the directorship held by a principal in the firm must be disclosed.

(Study Session 19, Module 58.8, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

167. (C) **may generally exclude more basic facts.**

Explanation

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

(Study Session 19, Module 58.7, LOS 58: V(B))

Related Material

SchweserNotes - Book 5

168. (C) **Dawson: Yes, Hamilton: Yes.**

Explanation

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

(Study Session 19, Module 58.8, LOS 58: VI(A))

Related Material

SchweserNotes - Book 5

169. (A) **Violated the requirement to have a reasonable basis for a recommendation, the prohibition against plagiarism, and the requirement to maintain appropriate records.**

Explanation

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

(Study Session 19, Module 58.7, LOS 58: V(A))

Related Material

SchweserNotes - Book 5

170. (B) **neither taking out the loan nor buying the equipment.**

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

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

Explanation

Wade did not violate Standard III(B), Fair Dealing, because this situation does not indicate that he failed to deal fairly and objectively with all clients when disseminating his newsletter containing investment recommendations.

Wade violated Standard V(B), Communication with Clients and Prospective Clients, because he failed to include all relevant factors behind his recommendations. Without providing the basis for his recommendations, clients cannot evaluate the limitations or the risks inherent in his recommendations.

Wade violated Standard I(C), Misrepresentation, because his claims about gaining superior expected returns are misleading to potential investors.

(Study Session 19, Module 58.7, LOS 58.a, 58.b, 58.c)

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(C))

Related Material

SchweserNotes - Book 5

173. (B) **Yes, if she discloses the directorships and the mergers-and-acquisitions relationship.**

Explanation

Standard VI(A) Disclosure of Conflicts requires that members disclose to clients and prospects any potential conflicts of interest that could reasonably expect to impair their objectivity. It does not prohibit analysts with potential conflicts from writing the reports.

(Study Session 19, Module 58.8, LOS 58: VI(A))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.8, LOS 58: VI(C))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.9, LOS 58: VII(A))

Related Material

SchweserNotes - Book 5

176. (A) not violated the Standards.

Explanation

By reviewing the employee's conduct, restricting the employee's activities while investigating a potential violation, and referring the matter to his manager and compliance officer, McNeill acted properly according to Standard IV(C) Responsibilities of Supervisors. Wrongdoing by a subordinate does not mean the manager has violated Standard IV(C) as long as the manager has made reasonable efforts to detect and prevent violations.

(Study Session 19, Module 58.6, LOS 58: IV(C))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.8, LOS 58: VI(C))

Related Material

SchweserNotes - Book 5

178. (B) in violation of Standard V(C) Record Retention.

Explanation

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

(Study Session 19, Module 58.7, LOS 58: V(C))

Related Material

SchweserNotes - Book 5

179. (A) Misrepresenting information on the Professional Conduct Statement.

Explanation

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

(Study Session 19, Module 58.9, LOS 58: VIKA))

Related Material

SchweserNotes - Book 5

180. (B) **may invest in the stock because the analyst would not purchase the stock for the bond portfolio he manages.**

Explanation

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

(Study Session 19, Module 58.8, LOS 58: VI(B))

Related Material

SchweserNotes - Book 5

181. (A) **disclose the ownership of the stock in the report.**

Explanation

Standard VI(A) Disclosure of Conflicts requires that Brown make full disclosure of all matters that could impair his objectivity. Brown needs to disclose his personal holding in QRS stock. Neither of the other choices describes an action that the Standard requires.

(Study Session 19, Module 58.8, LOS 58: VI(A))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

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

Explanation

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

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5

184. (C) Using his notes from prior research of a firm in a creating a new research report on the firm, after leaving his current employer.

Explanation

Allen's notes from his research are employer records and even though he prepared them, it is a violation to take them from his employer without permission. Soliciting former clients' business is not, in itself, a violation as long has Allen has not misappropriated client information from his former employer. Preparations to start a new business are not necessarily a violation of the Standard, although soliciting current clients or recruiting other firm personnel for the new venture, before formally leaving his employer, would be violations of the Standards.

(Study Session 19, Module 58.6, LOS 58: IV(A))

Related Material

SchweserNotes - Book 5