58 GUIDANCE FOR STANDARDS IV–VII

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

2. Which of the following activities will *least likely constitute* a violation of Standard IV(A), Loyalty?
   (A) Conspiracy to bring about a mass resignation of other employees.
   (B) Contacting your current clients and asking them to "come with you" when you resign from your current employer.
   (C) Consulting on your own time and obtaining written permission from your employer.

3. Francisco Perez, CFA, is an equity research analyst for a long-term investment fund. The fund is seeking new clients, so Perez contacts old clients he knew through his former employer. Which of the following is *most accurate?*
   (A) Perez can only solicit clients after notifying his former employer.
   (B) Perez cannot solicit clients from a former employer.
   (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.

4. An analyst has found an investment with what appears to be a great return-to-risk ratio. The analyst double-checks the data for accuracy, keeps careful records, and is careful to not make any misrepresentations as he simultaneously sends an e-mail to all his clients with a "buy" recommendation. According to Standard V(A), Diligence and Reasonable Basis, the analyst has:
   (A) fulfilled all obligations.
   (B) violated the Standard by communicating the recommendation via e-mail.
   (C) violated the Standard if he does not verify whether the investment is appropriate for all the clients.

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

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

   (B) Standard 1(C), Misrepresentation, concerning the use of the work of others.

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

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

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

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

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

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

   (C) did not violate the Standard.

7. Jake Miles, CFA, includes the following phrase on his business card: "Jake Miles is your trusted local CFA." Is this a violation of Standard VII(B)?

   (A) No, because his CFA Institute membership indicates that he is indeed trustworthy.

   (B) Yes, because he cannot put the initials "CFA" on his business card.

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

8. Dixie Miller, a Level II CFA candidate, heads the research department of a large brokerage firm. The firm has many analysts, some of whom are subject to the CFA Institute Code of Ethics and Standards of Professional Conduct. If Miller delegates some of her supervisory duties, which statement *best* describes her responsibilities under the CFA Institute Code and Standards?

   (A) CFA Institute Standards prevent Miller from delegating supervisory duties to subordinates.

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

   (C) Miller's supervisory responsibilities do not apply to those subordinates who are not subject to the CFA Institute Code and Standards.

9. Bill Valley has been working for Advisors, Inc., for several years, and he just joined CFA Institute. Valley routinely writes research reports on Pharmaceutical firms. Valley has recently been asked to serve on the board of directors of an organization that promotes the search for a cure of a certain cancer. Serving on the board is an unpaid position without any direct benefits other than meeting new people and potential clients. To comply with Standard VI, Disclosure of Conflicts, Valley needs to:
   (A) do nothing.
   (B) both disclose the position on the board to his supervisor and describe his responsibilities on the board.
   (C) only disclose the position on the board to his supervisor.

10. A firm recently hired Hal Crane, CFA, to be a supervisor in the firm. Crane has reviewed the procedures for complying with the Code and Standards in the company. It is Crane's belief that the procedures need revision in order to be effective. Crane must:
   (A) decline supervisory responsibilities in writing until the company adopts an adequate compliance system.
   (B) exercise his supervisory responsibilities with the greater level of diligence required by the Code and Standards.
   (C) make reasonable efforts to encourage the company to adopt an adequate compliance system.

11. 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) Disclosure of Referral Fees.
   (C) Loyalty, Prudence, and Care.

12. Linda Schultz, CFA, is an investment advisor at Wheaton Investments. Schultz has been employed there for five years, and has never signed a "non-compete" clause. While at Wheaton, Schultz makes preparations to set up her own money management firm. She does not contact any existing clients before leaving Wheaton and does not take any firm records or files. After her resignation becomes effective, Schultz replicates a list of former clients from memory and uses public sources to get their contact information. She then contacts these former clients and solicits their business for her new firm. Has Schultz violated any CFA Institute Standards?
   (A) Yes. Schultz may not contact clients of her old firm.
   (B) No. Schultz is in compliance with CFA Institute Standards.
   (C) Yes. Schultz is permitted to notify clients that she has left her old firm, but she cannot encourage them to come with her to the new firm.

13. Lance Tuipulotu, CFA, is a portfolio manager for an investment advisory firm. He plans to sell 10,000 shares of Park N'Wreck, Inc. to finance his daughter's new restaurant venture, but his firm recently upgraded the stock to "strong buy." In order to remain in compliance with Standard VI(B) "Priority of Transactions," Tuipulotu must:
    - (A) delay selling the shares until a firm client makes an offsetting purchase to avoid having a market impact.
    - (B) notify his firm of his intention to sell the shares before selling the shares.
    - (C) not sell the shares of Park N'Wreck.

14. In preparing research reports, which of the following is *least likely* required or recommended by the Code and Standards?
    - (A) Attribute paraphrases and summaries of material prepared by others.
    - (B) Maintain copies of materials that were relied on in preparing the research report.
    - (C) Send all reports to the firm's legal counsel to ensure compliance with securities laws.

15. An analyst finds a stock with historical returns that are not correlated with interest rate changes. The analyst writes a report for his clients that have large allocations in fixed-income instruments and emphasizes the observed lack of correlation. He feels the stock would be of little value to investors whose portfolios are composed primarily of equities. The clients with allocations of fixed income instruments are the only clients to see the report. According to Standard V(B), Communication with Clients and Prospective Clients, the analyst has:
    - (A) violated the Standard concerning fair dealings with all clients.
    - (B) not violated the Standard.
    - (C) violated the article in the Standard concerning facts and opinions.

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

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

    Recently, the board of AMD decided to raise capital by voting to issue shares to the public. This was attractive to board members (including Jackson) who wanted to exercise their stock options and sell their shares to get cash. When the demand for initial public offerings (IPO) diminished, just before AMD's public offering, James asked

Jackson to commit to a large purchase of the offering for her portfolios. Jackson had previously determined that AMD was a questionable investment but agreed to reconsider at James' request. Her reevaluation confirmed the stock to be overpriced, but she nevertheless decided to purchase AMD for her clients' portfolios.

Which of the following statements is NOT correct?

(A) Jackson 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.

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

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

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

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

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

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

18. Lee Hurst, CFA, is an equity research analyst for a long-term investment fund. His annual bonus is linked to quarterly trading profits. Under a new policy, the quarterly assessment period is switched to a monthly assessment period. According to the Code and Standards, best practices dictate:

(A) keeping the policy change private as a trade secret.

(B) requiring Hurst to obtain permission from each client prior to implementation of the new policy.

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

19. Jane Talbot, CFA, is a portfolio manager at Cavalier Investments. Talbot manages the account of Wendall Wilcox. The performance of Wilcox's portfolio has been below that of the benchmark portfolio, the S&P 500, for the past several years. In an effort to enhance his portfolio's performance, Wilcox offers to pay Talbot $2,000 each year that his portfolio's return exceeds that of the S&P 500. Wilcox suggests this arrangement last for the next three years. The amount that Wilcox agrees to pay Talbot is in addition to the compensation that Talbot will receive from his employer and the standard fee that Wilcox will pay Cavalier for managing his portfolio over the three-year period. Talbot agrees to the arrangement proposed by Wilcox and informs Cavalier in writing of the terms of the agreement under which she will receive additional compensation. According to CFA Institute Standards of Professional Conduct Talbot must disclose:
    (A) the nature of the compensation only.
    (B) both the nature and amount of compensation only.
    (C) the nature and amount of compensation plus the duration of the agreement.

20. An analyst has not paid his CFA Institute dues for several years but has filed a professional conduct statement annually. Which of the following statements regarding his status with CFA Institute is *most accurate?* The analyst:
    (A) may not refer to having been a CFA charterholder.
    (B) may not use the CFA designation.
    (C) is still considered an active member of CFA Institute.

21. Nancy Korthauer, CFA, has launched a new hedge fund called the Korthauer Tautology Fund but has had trouble hiring analysts who are CFA charterholders as well as with finding clients. She offers a $15,000 incentive bonus to any charterholder who joins the firm with over $1 million in committed client investments. Which of the following interpretations of the Code and Standards is *most accurate?*
    (A) A member or candidate may arrange for current clients to switch to the Korthauer Tautology Fund provided clients are informed of the incentive bonus.
    (B) A member or candidate may arrange for current clients to switch to the Korthauer Tautology Fund provided the member or candidate refuses to accept the incentive bonus.
    (C) A member or candidate may not solicit current clients away from their current employer.

22. Jill Marsh, CFA, works for Advisors where she manages a portfolio for a wealthy family. Marsh earns 1% of the portfolio's value each year in the form of a commission from Advisors. The family just told her that any year the portfolio she manages earns more than a 10% return, the family will give her the use of the family's vacation home for one week. Hirsh will comply with Standard IV(B), Additional Compensation Arrangements, if she:
    (A) sends an e-mail to her supervisor about the vacation home.
    (B) does nothing with respect to this.
    (C) delivers a typed memo to her supervisor about the vacation home the first time she uses it.

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

    Which of the following statements about Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program, and Standard 1(C), Misrepresentation, is CORRECT? Arnold:

    (A) did not violate either Standard VII(B) or Standard 1(C).

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

    (C) violated Standard 1(C) but she did not violate Standard VII(B).

24. Will Lambert, CFA, is a financial analyst for Offshore Investments. He is preparing a purchase recommendation on Burch Corporation for internal use. According to the CFA Institute Standards of Professional Conduct, which of the following statements about disclosure of conflicts is not required? Lambert would NOT need to disclose to his employer that:

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

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

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

25. Ray Stone, CFA, follows the Amity Paving Company for his employer, Rubbell Securities. Which of the following scenarios is Stone *least likely to* have to disclose?

    (A) Stone's ownership of Amity securities.

    (B) Rubbell's broker-dealer relationship with Amity.

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

26. The CFA logo may be used as a certification mark:

    (A) on a company website.

    (B) on a personal business card.

    (C) next to a company logo.

27. Bertrand Greene, CFA, is preparing a report on Blanding, Inc. Blanding's earnings have increased in each of the last six years by an average of 11.8%. Based on his analysis, Greene projects that Blanding's earnings will increase by 12.5% in each of the next two years. When he refers to this projection in his report, Greene will violate the Code and Standards if he states:

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

    (B) "We expect Blanding's earnings growth to increase to 12.5% annually in the next two years."

    (C) "Blanding's earnings have been compounding at approximately 11.8% annually."

28. While on a business trip, John Hayes, CFA, found a notebook that had apparently been left in the waiting area of an airport. Hayes opened the notebook and read the title: Confidential: Level II CFA Examination. Before returning the notebook to CFA Institute, he made a copy and gave it to Linda Sacket, one of his firm's analysts, who was a candidate for Level II of the CFA examination. Sacket read the questions and guideline answers before taking the Level II examination. According to the CFA Institute Standards of Professional Conduct:
   (A) Sacket violated the Standards, but Hayes did not.
   (B) both Hayes and Sacket violated the Standards.
   (C) Hayes violated the Standards, but Sacket did not.

29. When an analyst makes an investment recommendation, which of the following statements *must* be disclosed to clients?
   (A) The firm is a market maker in the stock of the recommended company.
   (B) Both of these statements must be disclosed to clients.
   (C) An employee of the firm holds a directorship with the recommended company.

30. Nichole Zeller and Randy Toffler have both passed Level II of the CFA Exam Program and have registered for Level III. Zeller circulates a resume stating that she is a candidate for the CFA designation and has passed Level II of the CFA program. Toffler circulates a resume stating that he is a CFA II. Which of the following statements is CORRECT?
   (A) Only Zeller has violated the Code of Standards.
   (B) Both Zeller and Toffler have violated the Code of Standards.
   (C) Only Toffler has violated the Code of Standards.

31. Jim Crockett is a portfolio manager for Miami Advisors and reports to Vicki Tubbs, the Chief Investment Officer. Miami has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the Miami model. The model is purely quantitative and takes a given set of client characteristics and universe of potential securities and forms a portfolio for the investor. Individual portfolio managers are responsible for selecting securities to fit into the model based on recommendations from the firm's research department and the managers' own judgment. Because of the specific nature of the inputs to the model, each manager is responsible for applying the model on his or her own computer. The basic philosophy of the process is thoroughly explained to clients. Crockett does not understand the basics of the model, but feels that since it provides pure quantitative output, he does not need to understand it. However, he misapplies the model for several of his clients. In reviewing some of Crockett's portfolios, Tubbs finds the errors and points them out to Crockett. Which of the following statements regarding Tubbs and Crockett is CORRECT?
   (A) Crockett has violated the Standards by not exercising diligence and thoroughness in making investment recommendations.
   (B) Crockett has violated the Standards by not considering the appropriateness and suitability of the investment for his clients.
   (C) Tubbs has violated the Standards by failing to supervise adequately.

32. Standard VI(B), Priority of Transactions, applies to transactions an analyst takes on behalf of:
    (A) his clients.
    (B) his employer.
    (C) both of these

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

34. Williams and Fudd is a major London-based brokerage and investment banking firm. Heritage Group, a money management firm, is the first, second, or third largest holder of each of the securities listed on Williams & Fudd's "PrimeShare #10" equity security list.

    On Tuesday morning, August 22, Williams & Fudd released a research report recommending the purchase of Skelmerdale Industries to the public and to its clients. On Wednesday afternoon, August 23, Heritage Group bought 1.5 million shares of Skelmerdale. This action is:
    (A) a violation of the Standard concerning fair dealing.
    (B) in accordance with the CFA Institute Code and Standards.
    (C) a violation of the Standard concerning disclosure of conflicts.

35. 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) violated Standard I(C) Misrepresentation, because she did not acknowledge the source of excepts that she used in research reports.
    (B) not violated the Standards.
    (C) violated Standard IV(A) Loyalty, because she was making preparations to start a competitive business before terminating her relationship with her employer.

36. For years John Berger, a CFA charterholder and CEO of a company, relied upon a set of reasonable procedures for preventing violations of the Code and Standards of Professional Conduct in the firm. To comply with the Standards, Berger must:
    (A) both periodically review the procedures and ensure the procedures are monitored and enforced.
    (B) do nothing more than have the set of procedures in place as stated.
    (C) only ensure the procedures are monitored and enforced.

37. Peggy Green, CFA, is a research analyst following Brown Co. All the information she has gathered suggests the stock should be rated a weak "hold." During a recent lunch, Green overheard another analyst say that the stock should be rated a "buy." Green returns to her office and issues a "buy" recommendation. Green has *most* likely violated the Code and Standards by:

(A) acting or causing others to act on material nonpublic information.

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

(C) failing to distinguish between fact and opinion.

38. A client calls his money manager and asks the manager to liquidate a large portion of his assets under management for an emergency. The manager warns the client of the risk of selling many assets quickly but says that he will try to get the client the best possible price. This is a violation of:

(A) none of the Standards listed here.

(B) Standard III(C), Suitability.

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

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

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

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

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

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

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

40. According to Standard VI(A), Disclosures of Conflicts, members must disclose to their clients the member's (or their firm's) material ownership of all of the following EXCEPT:
    (A) beneficial ownership of securities.
    (B) real estate holdings.
    (C) corporate finance relationships.

41. Which of the following examples of supervisory responsibility is consistent with the requirements of the Code and Standards?
    (A) A professional conduct evaluation is part of an employee's performance review.
    (B) A supervisor's income is partially based on the firm's overall level of trading activity.
    (C) A firm's compliance policies allow a portfolio manager to designate a trade to an account or portfolio after the outcome of the trade is known.

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 pro rated 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. An analyst likes to trade commodity futures in her own account. She does not deem any of her client accounts suitable for commodity futures trading. When she identifies a favorable commodity futures position, the Standard concerning priority of transactions suggests she should:
    (A) act on it on her own behalf as she sees fit.
    (B) first tell her clients about it before acting herself.
    (C) refrain from acting until she notifies her supervisor.

44. Sean Jones places an order with his investment advisor Lisa Johnson, CFA, to buy 1,000 shares of Orkle Incorporated. Johnson's firm makes a market in Orkle and she executes the trade through her own firm. According to the Code and Standards, Johnson should:
    (A) contact her firm's compliance department before accepting the order.
    (B) decline to execute trades in securities for which her firm makes a market.
    (C) disclose her firm's market making activities to Jones.

45. When providing outside services, a member should provide all of the following information to her current employer EXCEPT:
    (A) a promise to remit an agreed-upon percentage of the proceeds to the current employer.
    (B) the types of services to be provided.
    (C) the compensation she will receive.

46. Nancy Westfall is an individual investment advisor who uses mutual funds for her clients. She typically chooses funds from a list of 40 funds that she has thoroughly researched. The Craigs, a married couple that is a client, asked her to consider the Eligis fund for their portfolio. Westfall had not previously considered the fund because when she first conducted her research three years ago, Eligis was too small to be considered. However, the fund has now grown in value, and after doing thorough research on the fund, she finds the fund has suitable characteristics to be included in her acceptable list of funds. She puts the fund in the Craigs' portfolio but not in any of her other clients' portfolios. The fund ends up being the poorest performing fund in the Craigs' portfolio. Has Westfall violated any Standards? Westfall has:
    (A) not violated the Standards.
    (B) violated the Standards by not having a reasonable and adequate basis for making the recommendation.
    (C) violated the Standards by not dealing fairly with clients.

47. According to the CFA Institute Standards of Professional Conduct, which of the following statements about members with supervisory responsibility is least accurate? Members with supervisory responsibility:
    (A) are relieved of their supervisory responsibility if they delegate their supervisory duties to other members of CFA Institute.
    (B) must make reasonable efforts to detect violation of laws, rules, regulations, and the Code and Standards.
    (C) are expected to have in-depth knowledge of the Code and Standards and to apply this knowledge in discharging their supervisory responsibilities.

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

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

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

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

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

(A) do neither of the actions listed here.

(B) have her godfather cease doing her taxes.

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

50. Which of the following is *least* likely an appropriate use of the CFA designation?

(A) Jeremy Salyers has earned the CFA designation by passing three exams, all three on his first attempts.

(B) Jeremy Salyers, CFA.

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

51. An analyst writes a report and includes the forecasts of an econometric model developed by the firm's research department. The analyst identifies the source of the forecast and includes all the relevant statistics concerning the model. With respect to diligence and reasonable basis, the analyst has:

(A) complied with the Standards.

(B) violated the Standards by not evaluating the model independently.

(C) violated the Standards by relying on model forecasts.

52. An analyst is serving on the Board of Directors of a local publicly traded company. To avoid violating the CFA Institute Code and Standards, the analyst must disclose this to:

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

(B) no one since it should not cause a conflict of interest for the analyst.

(C) only his employer.

53. Rhonda Meyer, CFA, is preparing a research report on Moon Ventures, Inc. In the course of her research she learns the following:

- Moon had its credit rating downgraded by a prominent rating agency 3 years ago due to sales pressure in the industry. The rating was restored 3 months later when the pressure resolved.
- Moon's insider trading has been substantial over the last 3 months. Holdings of Moon shares by officers, directors, and key employees were reduced by 50% during that period.

In Meyer's detailed report making a buy recommendation for Moon, both the credit rating downgrade and the insider trading were omitted from the report.

Meyer has:

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

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

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

54. June Carter passed Level III of the CFA examination in June but will not complete her work experience requirement until August of next year. Carter can state on her resume that she:

(A) is a CFA in waiting.

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

(C) will be a CFA charterholder in August of next year as long as she is on track to complete her work experience.

55. Ted Riczek, CFA, is an independent investment advisor. Riczek often makes investment recommendations to clients based on research from several third-party sources. The Code and Standards *most likely* require Riczek to:

(A) disclose to his clients the sources of any third-party research that supports his recommendations.

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

(C) perform his own research rather than relying on third-party research.

56. To comply with Standard IV(B), Additional Compensation Arrangements, members should do all of the following EXCEPT:

(A) immediately make a written report to their employer specifying any compensation benefits they receive.

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

(C) state the terms of oral or written agreements regarding the compensation and the duration of the agreement.

57. John Hill, CFA, has been working for Advisors, Inc., for eight years. Hill is about to start his own money management business and has given his two-week notice of his resignation from Advisors. A few days before his resignation takes effect, a former client of Advisors calls Hill at his home about his new firm. The former client says that he is very happy that Hill is leaving Advisors because now he and Hill can resume a professional relationship. The client says that he would never become a client of Advisors again. Hill promises to call the client back after he has left Advisors. Hill does not tell his employer about the call. Hill has *most likely*.
    (A) violated the Standard concerning disclosure of conflicts.
    (B) violated the Standard concerning loyalty to employer.
    (C) not violated the Standards.

58. Which of the following statements is *least accurate* with regard to the Standard concerning loyalty to employers?
    (A) Employees planning to leave an employer must not engage in activities that would conflict with their duty to act in the employer's best interest.
    (B) Former employees may contact clients of their previous firms if doing so does not violate a non-compete agreement and the contact information is obtained from public sources.
    (C) Skills and experience a former employee obtained through work at a firm are considered privileged information of that firm.

59. Wes Smith, CFA, works for Advisors, Inc. In order to remain in compliance with Standard V(A), Diligence and Reasonable Basis, Smith may recommend a security in which of the following situations?
    (A) Advisors' research department recommends a stock.
    (B) For either of the reasons listed here.
    (C) Smith reads a favorable review of the security in a widely read periodical.

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

61. Several years ago, Hilton and Ross, a full service investment firm, managed the initial public offering of eCom, Inc. Now, eCom wants Hilton and Ross to underwrite its secondary public offering. A senior manager at Hilton and Ross asks Brent Whitman, CFA, one of its equity analysts, to write a favorable research report on eCom to help

make the underwriting a success. Whitman conducts a thorough analysis of eCom and concludes that the company has serious problems that do not suggest a favorable financial outlook. Nevertheless, Whitman writes a favorable report because he is fearful of losing his job. Hilton and Ross publicly distribute a report that only contains a buy recommendation and a brief description of the basic characteristics of eCom. Whitman has violated:

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

(B) Standard 1(B) Independence and Objectivity, only.

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

62. Sharon West is a CFA charterholder and trust officer for REO Trust Company. Soon after beginning work for REO, West finds that REO has been conducting all its securities transactions through her brother who is a registered representative. West's brother charges REO commissions that are equal to the lowest available from another broker. West's brother tells her that if she continues doing business with him, he will give her a substantial discount on all personal transactions she conducts through him. West:

(A) does not need to inform her employer of the arrangement because the commissions her brother charges the firm are the lowest possible.

(B) must inform her employer of the arrangement because she is doing business with a member of her immediate family.

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

63. David Saul, CFA, heads the trust department at Savage National Bank. Fairway Enterprises invites Saul to sit on its Board of Directors. In return for his services on the Board, Fairway offers to provide Saul and his family with access to the facilities at Wilmont Country Club at no cost. Saul will not receive any monetary compensation for his services on the Board. According to CFA Institute Standards of Professional Conduct, which of the following actions must Saul take?

(A) Saul must disclose in writing to Savage Bank the terms of the offer whether or not he accepts the offer to serve on the Board of Directors.

(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.

(C) Saul must reject the offer to serve on the Board of Directors.

64. An analyst belongs to a nationally recognized charitable organization, which requires dues for membership. The analyst has worked out a deal where he provides money management advice in lieu of paying dues. Which of the following must the analyst do?

(A) Nothing since he is not an employee of the charitable organization.

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

(C) Resign from the position because the relationship is a conflict with the Standards.

65. Janice Melfi is a portfolio manager for Soprano Advisors. Soprano has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the Soprano model. The model is purely quantitative and screens stocks into buy, hold, and sell categories. The basic philosophy of the model is thoroughly explained to clients. The director of research frequently alters the model based on rigorous research-an aspect that is well explained to clients, although the specific alterations are not continually disclosed. Portfolio managers use the model to assist them in making portfolio decisions, but, based on their own fundamental research, are allowed to purchase securities not recommended by the model. This fact is not disclosed to the clients, because the head of marketing does not think it is relevant. Which of the following statements regarding the portfolio manager's investment decisions is CORRECT?
   (A) Melfi is violating the Standards by using two investment processes that are in conflict with each other.
   (B) Soprano is violating the Standards by not disclosing the fundamental research aspect of the investment process.
   (C) There is no violation of the Standards.

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

67. Pamela Gee is a portfolio manager. She is planning to establish her own money management firm. She has already informed her employer, Branford, Inc., about her plans. In her remaining time at Branford, she can:
   (A) solicit Branford colleagues but not Branford clients.
   (B) inform her current clients about her resignation and let them know how to reach her, in case any problems arise in the future.
   (C) start the registration of her new company.

68. Dick Bowden, a CFA charterholder, receives a free country club membership in exchange for financial advice he can offer the firm. He should:
   (A) disclose the arrangement to his employer.
   (B) do nothing; it is his business where he spends his free time.
   (C) reject the country club membership since it is illegal under CFA Institute rules and regulations to accept outside compensation.

69. Martin Tripp, CFA, is vice-president of the equity department at Walker Financial, a large money management firm. Of the twenty analysts in his department for whom he has supervisory responsibility, eight are subject to CFA Institute Standards of Professional Conduct. Tripp believes that he cannot personally evaluate the conduct of the twenty analysts on a continuing basis. Therefore, he plans to delegate some of his supervisory duties to Sarah Green, who is subject to the Standards, and some to Bob Brown, who is not subject to the Standards. According to CFA Institute Standards of Professional Conduct, which of the following statements about Tripp's ability to delegate supervisory duties is *most accurate?*
    (A) Tripp may not delegate any of his supervisory duties to either Green or Brown.
    (B) Tripp may delegate some or all of his supervisory duties only to Green because she is subject to the Standards.
    (C) Tripp may delegate some or all of his supervisory duties to Brown, even though Brown is not subject to the Standards.

70. An analyst finds a stock that has had a low beta given its historical return, but its total risk has been commensurate with its return. When writing a research report about the stock for clients with well-diversified portfolios, according to Standard V(B), Communication with Clients and Prospective Clients, the analyst needs to mention:
    (A) the relationship of the historical total risk to return only.
    (B) both the historical beta and total risk and return.
    (C) the relationship of the historical beta and return only.

71. Dave Kline, CFA, is a personal investment advisor with 200 individual, family, and corporate accounts. After a dispute with a coworker on margin policy, he formally resigns his position by giving suitable notice. However, he does not follow his firm's established "Transition and Exit Policies" regarding his accounts. The firm's stated policies require him to notify each client of his planned departure and personally introduce them to their new account representative, Greg Potter. Kline sees Potter as a rival and states "...let Potter do his own work and find his own clients." Kline is *most likely*
    (A) in violation of Standard I(D) "Misconduct" for leaving clients subject to an account representative he does not find suitable.
    (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.
    (C) not in violation of the Code and Standards.

72. Mark Roberts has resigned from a local investment advisory firm and begun working at Benjamin Investments. Without getting approval from his supervisor at Benjamin, Roberts uses a phone book to find the contact information of his old clients and asks for their continued business. Has Roberts violated any CFA Institute Standards of Professional Conduct?
    (A) No.
    (B) Yes, because he is not allowed to solicit his former clients.
    (C) Yes, because he must obtain written consent from his current supervisor.

73 Fern Baldwin, CFA, as a representative for Fernholz Investment Management, is compensated by a base salary plus a percentage of fees generated. In addition, she receives a quarterly performance bonus on a particular client's fee if the client's account increases in value by more than 2 points over a benchmark index. Baldwin had a meeting with a prospect in which she described the firm's investment approach but did not disclose her base salary, percentage fee, or bonus.

Baldwin has:

(A) not violated the Standards because there is no conflict of interest with a potential prospect in the employment arrangements.

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

(C) violated the Standards by not disclosing her salary, fee percentage, and performance bonus.

74. Cynthia Abbott, a CFA charterholder, is preparing a research report on Boswell Company for her employer, Capital Asset Management. Bob Carter, president of Boswell, invites Abbott and several other analysts to visit his company and offers to pay her transportation and lodging. Abbott pays for her own transportation and lodging, but while visiting the company, accepts an item of small value from Carter. Abbott does not disclose this gift to her supervisor at Capital when she returns. In the course of the company visit, Abbott overhears a conversation between Carter and his chief financial officer that the company's earnings per share (EPS) are expected to be $1.10 for the next quarter. Abbott was surprised that this EPS is substantially above her initial earnings estimate of $0.70 per share. Without further investigation, Abbott decides to include the $1.10 EPS in her research report on Boswell. Using the high EPS positively affects her recommendation of Boswell.

Which of the following statements about whether Abbott violated Standard V(A), Diligence and Reasonable Basis and Standard 1(B), Independence and Objectivity is CORRECT? Abbott:

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

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

(C) violated both Standard V(A) and Standard 1(B).

75. Jason Jones, a stock broker who has completed Level I of the CFA program and is registered for the next Level II CFA exam, may:

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

(B) not mention that he is involved in the CFA Program until he has passed all three levels.

(C) use the Level I CFA designation since he has passed the Level I exam.

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

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

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

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

77. Phil Trobb, CFA, is preparing a purchase recommendation on Aneas Lumber for his research firm. Which of the following *least likely* represents a conflict of interest that Trobb should disclose in his report?

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

(B) Aneas hires Trobb as a consultant to analyze Aneas' financial statements.

(C) Trobb's research firm has a large stake of ownership in Aneas.

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

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

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

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

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

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

79. Patricia Hoolihan is an individual investment advisor who uses mutual funds for her clients. She typically chooses funds from a list of 40 funds that she has thoroughly researched. The Burns, a married couple that are a client, asked her to consider the Hawkeye fund for their portfolio. Hoolihan had not previously considered the fund because when she first conducted her research three years ago, Hawkeye was too small to be considered. However, the fund has now grown in value, and cursory research uncovers no fundamental flaws with the fund. She puts the fund in the Burns' portfolio but not in any of her other clients' portfolios. The fund ends up being the best performing fund on her list. Hoolihan has:

(A) not violated the Standards.

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

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

80. Todd Gregory has been recently hired as the head of compliance for Speed Capital. He decides the firm should precisely follow the recommendations of the CFA Institute Standards of Professional Conduct to ensure integrity within the firm. Which of the following is NOT a compliance procedure that Speed should put in place?

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

(B) A requirement that employees provide duplicate confirmations of personal investing transactions.

(C) A requirement that investment personnel should clear all personal investments to identify possible conflicts.

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

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

(B) Halpert can transmit his report by computer on the Internet.

(C) Halpert can make his report in person.

82. Abner Flome, CFA, is writing a research report on Paulsen Group, an investment advisory firm. Flome's brother-in-law holds shares of Paulsen stock. Flome has recently interviewed for a position with Paulsen and expects a second interview. According to the Standards, Flome's *most appropriate* action is to disclose in the research report:

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

(B) his brother-in-law's holding of Paulsen stock.

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

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

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

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

(C) Neither Albert nor Tye has violated the Standards.

84. Bob Hatfield, CFA, has his own money management firm with two clients. The accounts of the two clients are equal in value. It is Hatfield's opinion that interest rates will fall in the near future. Based upon this, Hatfield begins increasing the bond allocation of each portfolio. In order to comply with Standard V(B), Communication with Clients and Prospective Clients, the analyst needs to:

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

(B) make sure that the change is identical for both clients.

(C) perform both of these functions.

85. Isaac Jones, CFA, wishes to buy Maxima common stock for some of his clients' accounts. Jones also wishes to purchase Maxima for his personal account. In accordance with CFA Institute Standards, Jones:

(A) must disclose his personal account purchase, in writing and in advance, to his clients and employer.

(B) may purchase Maxima at any time, as long as the execution price is not more favorable than the execution price given to the clients.

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

86. 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 and is 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 but is not 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.

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

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

(B) explicitly refuse such an offer.

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

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

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

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

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

89. Sue Parsons, CFA, works full-time as an investment advisor for the Malloy Group, an asset management firm. To help pay for her children's college expenses, Parsons wants to engage in independent practice in which she would advise individual clients on their portfolios. She would conduct these investment activities only on weekends. She is currently only in the preparation stage and has not started independent practice yet. Which of the following statements about Standard IV(A), Loyalty to Employer, is mostaccurate? Standard IV(A):

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

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

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

90. Preston Partners is an investment management firm that adopted the Code and Standards as part of its policy manual. Gerald Smithson, CFA, has recently added the stock of Utah Biochemical Company and Norgood PLC to all his client's investment portfolios. Shortly afterwards Utah Biochemical and Norgood announced a merger that increased the share price of both companies. Smithson contends he saw the president of Utah Biochemical dining with the chairman of Norgood, but did not overhear their conversation. Smithson researched both companies extensively and determined that each company was a good investment. He put in a block trade for shares in each company. Preston's policies were not clear in this area as he allocated the shares by starting with his largest client accounts and working down to the small accounts. Some of Smithson's clients were very conservative personal trust accounts, others were pension funds who had aggressive investment objectives. Which standard was NOT broken?

(A) Standard III(C) - Suitability.

(B) Standard IV(C) - Responsibilities of Supervisors.

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

91. Which of the following is *least* likely a recommended procedure for supervisors and compliance officers to comply with Standard IV(C) Responsibilities of Supervisors?

(A) Incorporate a professional conduct evaluation into the employee's performance review.

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

(C) Disseminate the firm's compliance procedures to employees.

92. Stephanie Irons, a Level II CFA candidate, regularly posts in Internet chat rooms dedicated to candidates studying for the Level II exam. Throughout the season, she and other candidates discuss curriculum content in great detail. Three days after her exam window ends, she returns to the site and vents her frustrations over complicated exam questions by posting questions she remembers on the site, and asking others for their responses and reasoning. Other candidates follow suit and post the questions they remember. Irons and her fellow candidates are most likely.

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

(B) in violation of the Code and Standards for discussing curriculum content in a public forum prior to the exam.

(C) not in violation because the information about the actual exam contents was posted after the close of the exam window.

93. Which of the following individuals may refer to himself or herself as a candidate in the CFA Program?
   (A) Bob Krall passed the Level II exam and intends to register for the next Level III exam.
   (B) Ed Long has not yet attempted a Level I exam but has registered for the next one.
   (C) Jane Baker received a passing score in January for the Level I exam but is waiting until the following year to register for the Level II exam.

94. Kim Lee is a research analyst at Superior Investments and is researching a biotech firm specializing in the analysis of "mad cow" disease. While touring company facilities and meeting with management, she learns that they believe they may have found a way to reverse the disease. Moreover, one manager conjectured, "Suppose that we reversed the disease in someone who didn't even have it? We might then be able to boost that individual's IQ into the stratosphere!" After returning to her office, Lee issues a research report describing the compound as an "IQ booster with huge potential." This statement:
   (A) lacks a reasonable and adequate basis in fact.
   (B) is allowable but only if quoted verbatim from her conversations with management.
   (C) is reasonable given the information she was provided by the company.

95. Steve Jones is a portfolio manager for Gregg Advisors. Gregg has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the Gregg model. The model is purely quantitative and screens stocks into buy, hold, and sell categories. The basic philosophy of the model is thoroughly explained to clients. The director of research frequently alters the model based on rigorous research—an aspect that is well explained to clients, although the specific alterations are not continually disclosed. Portfolio managers then make specific sector and security holding decisions, purchasing only securities that are indicated as "buys" by the model. Jones thoroughly understands the model and uses it with all of his clients. Jones is:
   (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.
   (B) violating the Standards in not disclosing all alterations of the model to clients, but not in purchasing stocks without a thorough research basis.
   (C) violating the Standards in purchasing stocks without a thorough research basis and in not disclosing all alterations of the model to clients.

96. An analyst notices that for most years that a given class of assets has an abnormally high rate of return, the asset class often has an abnormally low rate of return the next year. Based upon this information, according to Standard V(A), Diligence and Reasonable Basis, the analyst can recommend:
   (A) an increased allocation of Treasury bills (T-bills) for all portfolios of assets that have increased dramatically in the previous year.
   (B) short selling assets that have had a good previous year to all clients.
   (C) neither of these choices.

97. An analyst has a large personal holding of a security, and he has just determined that market conditions warrant selling this security. The analyst contacts clients who have a position in the security and advises them to sell some or all of the security. After waiting 24 hours, he sells the security from his personal accounts. This is:

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

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

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

98. Analysts who undertake an independent consulting practice while employed must get permission from their employer and should disclose all of the following EXCEPT:

(A) the clients contact information.

(B) the anticipated duration of the service to be rendered.

(C) the compensation or benefit to be received.

99. While copying some of her research materials at work, Mary Jones comes across a few incomplete research notes written by one of her colleagues. As a result of reading the notes, and without further review, Jones immediately changes one of her stock recommendations from sell to buy. Which of the following CFA Institute Standards has Jones violated?

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

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

(C) Standard 1(B), Independence and Objectivity.

100. Which of the following statements is a violation of Standard VII(B) if it is included on a CFA charterholder's resume?

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

(B) Both of these are violations of Standard VII(B).

(C) My earning the CFA designation indicates my desire to maintain high standards.

101. Ann Dunbar, a portfolio manager, wishes to buy stock of Knight Enterprises for her personal account and for clients. Knight is a thinly traded stock. Dunbar believes her own purchase is too small to affect the price but the purchase for clients is likely to increase the price. According to the Code and Standards, when may Dunbar buy the stock for her personal account?

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

(B) At the same time she enters the buy order for her clients.

(C) She may not buy the same stock that she buys for her clients.

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

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

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

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

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

(C) Coleman did not violate the Standards.

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

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

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

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

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

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

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

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

105. Andy Rock, CFA, is an analyst at Best Trade Co. The company is going to announce a sell recommendation on Biomed stock in one hour. Rock was a member of the team who reached the decision on Biomed. Rock's wife has an account at Best Trade Co. that contains Biomed stock. According to the Code and Standards, trading on Rock's wife's account can begin:

(A) only after the recommendation is announced to the general public.

(B) only after Rock, as a beneficial owner, has given an appropriate amount of time for clients and his employer to act.

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

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

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

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

(C) only insist that the first report be followed up by a revision.

107. The Standard concerning referral fees is applicable to:

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

(B) only considerations paid for recommending products or services.

(C) only considerations received for recommending products or services.

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

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

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

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

108. Jean Davis and Brian Taylor were recently hired by a local brokerage. Davis is registered for the Level II CFA exam and does not reference the CFA designation on her business card. In her marketing materials, Davis factually describes CFA requirements and notes that she expects to pass in June. Taylor passed the Level II exam and has not yet

registered for the Level III CFA exam. Taylor also does not reference the CFA designation on his card and writes in his marketing materials that he passed both Levels I and II of the CFA exam on his first try, which is true. Have Davis or Taylor violated any CFA Institute Standards of Professional Conduct?

(A) Neither violated the Standards.

(B) Only one violated the Standards.

(C) Both violated the Standards.

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

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

(C) not violated the Standards.

111. Juan Lopez manages accounts for Street Capital. Lopez's mother is a client of the firm. Lopez does not make trades in his mother's accounts until all other clients of the firm have been given an opportunity to trade. Lopez has:

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

(B) not violated CFA Institute Standards of Professional Conduct because transactions for clients should have priority over personal transactions and transactions for beneficial owners.

(C) violated CFA Institute Standards of Professional Conduct because he is not allowed to trade in family accounts.

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

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

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

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

113. Amanda Brad, CFA, is a security analyst at UpTrend, Inc. During a routine visit to a beauty salon, she learns that a major cosmetic company, Lorean, is expected to present a revolutionary formula for facial cream. Brad buys Lorean stock for her portfolio and prepares a special report on the company. Brad also makes a call to Hillary Lang, CFA, another security analyst at UpTrend, to inform her about the news. Lang starts trading on her clients' portfolios. Brad's report states that given the on-going research activity at Lorean within the last months, investors can expect some successful new products and a sharp increase in the price of the stock. It is most likely that:

(A) Brad violated the Standard concerning material nonpublic information.

(B) Neither analyst violated the Standards.

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

114. When a CFA Institute member who is presently employed by a firm undertakes any independent practice, he must do all of the following EXCEPT:

(A) disclose the expected duration of the services to be rendered.

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

(C) secure permission from the employer.

115. Patricia Cuff is the chief financial officer and compliance officer at Super Selection Investment Advisors, an organization that has incorporated the CFA Institute Code of Standards into the firm's compliance manual. Karen Trader is a portfolio manager for Super Selection. Trader is friendly with Josey James, president of AMD, a rapidly growing biotech company. Trader has served on AMD's board of directors for the last three years. James has asked Trader to commit to a large purchase of AMD stock for Trader's clients' portfolios. Trader had previously determined that AMD was a questionable investment but agreed to reconsider. Her reevaluation deemed the stock to be overpriced, but Trader nevertheless decides to purchase for her portfolios. Which standard was least likely violated?

(A) III(A) Loyalty, Prudence, and Care.

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

(C) III(B) Fair Dealing.

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

117. All of the following are required for a CFA Institute member to maintain his or her active status EXCEPT:
    (A) Passing each exam in no more than two tries.
    (B) paying membership dues to CFA Institute on an annual basis.
    (C) remit a completed Professional Conduct Statement on an annual basis.

118. All of the following activities might constitute a violation of Standard IV(A), Loyalty to Employer, EXCEPT:
    (A) misuse of confidential information.
    (B) solicitation of the employer's clients following termination of employment.
    (C) solicitation of the employer's clients prior to termination of employment.

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

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

121. Which of the following is least likely a violation of Standard VII(A), Conduct as Participants in CFA Institute Programs?
   (A) Improperly using the CFA Designation to further professional goals.
   (B) Expressing opinions in disagreement with CFA Institute advocacy positions.
   (C) Disregarding the rules related to the administration of the CFA examination.

122. An analyst needs to inform his supervisor in writing of which of the following?
   (A) A client and the analyst alternate paying for lunch at a local sandwich shop.
   (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.
   (C) Both the lunch and the bonus mentioned in the other answers.

123. Chris Babcock, CFA, a portfolio manager for a large Texas investment firm, has been offered compensation in addition to what her firm pays her. The offer is from one of her clients and the additional compensation will be based on her yearly performance in excess of the market index. Babcock should:
   (A) make written disclosure to all parties involved before she accepts this offer.
   (B) make written disclosure to her other clients before she accepts this offer.
   (C) turn down the offer because it represents a clear conflict between this client and Babcock's other clients.

124. Ken Koski, CFA, issues a press release that includes the following statement:
   We are proud to announce that two of our managers have earned the right to use the CFA designation. In addition, four of our junior analysts have become Level III CFA candidates. These individuals have proven their dedication to the investment community and shown commitment to the highest ethical standards.
   With regard to the statements in the press release:
   (A) Koski has violated the Code and Standards by implying superior performance results.
   (B) all these statements are in compliance with CFA Institute Standards.
   (C) Koski has violated the Code and Standards by improperly referencing the managers' right to use the CFA designation.

125. Joni Black, CFA, works for a portfolio management firm. Black is a partner of the firm and is primarily responsible for managing several large pension plans. Black has just finished a research report in which she recommends Zeta Corporation as a "Strong Buy." Her rating is based on solid management in a growing and expanding industry. She just handed the report to the marketing department of the firm for immediate dissemination. Upon returning to her desk she notices a news flash by CNN reporting

that management for Zeta Corporation is retiring. Black wishes she did not recommend Zeta Corporation as a "Strong Buy," but believes the corporation is still a good investment regardless of the management. What course of action for Black is best? Black:

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

(B) should report the new information to her immediate supervisor so that they can determine whether or not the marketing department should send out the report as written.

(C) may send out the report as written as long as a follow up is disseminated within a reasonable amount of time reflecting the changes in management.

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

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

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

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

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

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

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

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

128. An analyst has been covering a particular firm for years. Recently, the analyst's uncle died and left the analyst a sizable position in the firm's stock. To comply with the Code and Standards, the analyst:

(A) is not required to act because the analyst did not purchase the stock.

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

(C) should divest the stock as soon as is practicable.

129. A CFA Institute member puts the following statement on her resume: "I passed each level of the CFA exam on the first try." Is this a violation of Standard VII(B)?

(A) Yes, because saying she passed exams on the first try is not appropriate.

(B) Yes, because she incorrectly refers to the CFA exam.

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

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

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

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

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

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

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

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

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

132. Lucy Ackert and Chris Brown prepared the following information to be included in the promotional materials of their employer, Lofton Securities.

- Lucy Ackert is one of five CFAs at Lofton Securities. She satisfied all requirements for the CFA designation in 1998.
- Chris Brown holds a CFA Level I designation, which he passed in 2001. He is registered to take the next scheduled Level II examination.

Are the promotional materials prepared by Ackert and Brown fully consistent with the Standards of Professional Conduct?

(A) Ackert: No. Brown: No.

(B) Ackert: Yes. Brown: No.

(C) Ackert: No. Brown: Yes.

133. May Frost, CFA, is an equity research analyst for a "precious metals mining" exchange traded fund which has recently started significantly outperforming its benchmark after several years of stagnation. Upon investigating the source of the outperformance, Frost learns that the fund has experienced severe style drift, and now has a significant proportion of its resources invested in technology and Internet stocks. Frost reviews the fund's prospectus and learns the current sector weighting violates multiple prospectus covenants. Frost contacts her supervisor and the fund's compliance department and is

told the portfolio weighting is not her responsibility and that she should not pursue the matter further. Frost reviews the firm's whistleblower policy, contacts personal legal counsel, and then contacts regulatory authorities regarding the style drift and prospectus violations. Frost is most likely.

(A) in violation of the Standard on loyalty.

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

(C) in violation of the Standard on preservation of confidentiality.

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

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

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

135. Ethyl Redd recently joined Bloomington Investments as a research analyst. After spending an afternoon looking through the research team's archives, Redd is not sure Bloomington maintains the records that support the team's analysis and recommendations for the minimum 7-year period called for by Standard V(C), Record Retention. What is Redd's most appropriate course of action?

(A) Decline to participate in any new research until she can verify that the firm is in compliance with the Standard.

(B) Keep her own copies of the relevant records and maintain them at home for a minimum 7-year holding period. Review the firm's record retention procedures with her supervisor or compliance.

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

136. Jack Salyers, CFA, is considering starting his own firm to compete with his current employer. He takes several actions before turning in his resignation. Which of the following actions least likely violates the Standard concerning loyalty? Salyers:

(A) copies computer models he has been using to form a reasonable basis for his investment recommendations.

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

(C) informs clients he has been serving that he is forming a new firm and offers them a discount on fees if they move their accounts to the new firm.

137. Jan Hirsh, CFA, is employed as manager of a college endowment fund. The college's board of directors has recently voted to consider divesting from companies located in a country that has a poor civil rights record. Hirsh has personal investments in several firms in the country. Hirsh needs to:

(A) disclose her ownership in the stocks to both her supervisor and the board.

(B) disclose her ownership in the stocks to her supervisor only.

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

138. Selma Brown, CFA, is a portfolio manager for Mainland Securities. Rick Wood, one of her clients and owner of Wood Fitness Centers, offers to permit Brown and her immediate family to use the facilities at his fitness centers at no cost during 2003. To get this benefit, Brown must achieve on Wood's portfolio at least a 2-percentage point return above the total return on the S&P's 500 index during 2002. Brown orally informs her immediate supervisor of the nature and duration of the proposed arrangement.

Arnold Turley, a CFA Institute member, is a portfolio analyst at Mainland Securities. He was just elected to the Board of Directors for Omega Services, which pays him $1,000 plus expenses for attending each of its quarterly board meetings. Turley e-mails Mainland's compliance officer informing her of this arrangement with Omega and receives a reply informing him that the agreement is acceptable.

Did Brown or Turley violate CFA Institute Standards of Professional Conduct?

(A) Brown: No, Turley: No.

(B) Brown: Yes, Turley: No.

(C) Brown: Yes, Turley: Yes.

139. Recommended procedures to comply with the Standard concerning priority of transactions are least likely to include:

(A) blackout periods.

(B) disclosure to clients of the firm's policies in regard to personal investing.

(C) limited front-running by employees.

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

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

(B) is not addressed in the Standard.

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

141. Theresa Hatcher, CFA, is making arrangements to establish her own investment advisory business before terminating her relationship with her current employer, Elite Brokers, Inc. Elite is a small company consisting of only six investment professionals and a small support staff. According to CFA Institute Standards of Professional Conduct, which of the following activities is least likely a violation of Hatcher's duty to Elite?

(A) Hatcher engages in secret negotiations with two other investment professionals and her administrative assistant to leave Elite in order to join her new business.

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

(C) Hatcher solicits Elite's clients before her termination of employment at Elite.

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

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

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

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

143. 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) 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.

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

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

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

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

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

(C) not a violation of any Standard.

145. Graham Carson, CFA, is an investment advisor to Ron Grayson, a client with moderate risk tolerance and an investment horizon of 15 years. Grayson calls Carson to complain about two stocks in his account that have performed poorly. He feels that one stock was too risky for him as it paid no dividend and had a beta of 1.4. The other stock had a beta of 0.9 and paid a dividend of 3%, but financial regulators have indicated that the firm's reported earnings were incorrectly stated. Based on this information, Carson has most likely:
   (A) violated both the Standard on suitability and the Standard on diligence and reasonable basis.
   (B) violated only the Standard on suitability.
   (C) not violated the Standards.

146. Bob Douglas, CFA, is considering leaving his current employer to compete in the same field. He did not sign a non-compete clause when he was hired. According to the Code and Standards, he may:
   (A) begin competing with his current employer as long as the employer has been informed of Douglas' intentions.
   (B) not begin competing or prepare to begin competing until his resignation becomes effective.
   (C) prepare to compete with his current employer, but not begin competing until his resignation is effective.

147. A firm produces regular proprietary research reports on various companies. According to Standard VI(B), Priority of Transactions, which of the following would be an "access person?"
   (A) An independent auditor with access to material, non-public information on a company being analyzed.
   (B) A person working in the mail room.
   (C) A supervisory analyst who reviews all research reports prior to dissemination.

148. When Wes Smith first joined Advisors, Inc., he was excited that all the analysts at the firm had the CFA designation. In letters to prospective clients, he states that this ensures that Advisors can provide better service than their competitors. With respect to Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program, this is:
   (A) a violation because he mentions the CFA designation in the letter.
   (B) a violation because he cannot guarantee better service.
   (C) a violation for both mentioning the CFA designation and saying the firm can guarantee better service.

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

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

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

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

150. Which of the following statements is most accurate about the Standard concerning referral fees?

(A) Referral fees may be disclosed before or after proceeding with an agreement for service.

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

(C) Referral fees must be disclosed after proceeding with an agreement for service.

151. Nicole Wise, CFA, is an analyst at Chicago Securities. She attends a meeting with management of one of the companies that she covers. During the meeting, management expresses great optimism about the company's recent acquisition of a new business. Wise is excited about these prospects and issues a research report that states that the company is about to achieve significant success with the new acquisition. Wise has:

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

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

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

152. Stephanie Orange, Level II CFA candidate, posts blogs for her exam study group three days after the exam to vent her frustrations over the exam. However, to avoid disclosing what was actually on the exam, she only discusses topic areas she thought would be on the exam that were not. She writes "...the topics selected were unnecessarily obscure. Important items like FCF, DDM, and Residual Income were ignored completely..." Orange is most likely.

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

(B) not in violation because the information about the actual exam contents was posted only after the conclusion of the exam.

(C) not in violation because the information was only about what was not on the exam.

153. Chuck Daniels has just been hired to manage a security analysis group for Aaron Asset Management. Daniels performed a similar function at another firm and finds the compliance system at Aaron inadequate. He develops a system that he feels is appropriate, but senior management tells him he will have to wait six months to implement the system. Daniels should:
   (A) decline in writing to accept supervisory responsibility until a satisfactory compliance system is put into place.
   (B) protest in writing the delay, listing the potential dangers that can occur.
   (C) resign his position immediately.

154. Jennifer Stewart, CFA, a supervisor at an investment advisory firm, has tried unsuccessfully to convince top management of the firm's need for a formal, comprehensive compliance program. What is Stewart's most appropriate course of action?
   (A) Decline in writing to accept supervisory responsibility.
   (B) Rely on the Code and Standards to perform her duties as a supervisor.
   (C) Resign from the firm if no compliance program is instituted.

155. Which of the following is an appropriate statement for a Level II CFA candidate to make?
   (A) I am a Level I CFA charterholder.
   (B) I passed the Level I CFA exam.
   (C) I am a Level II CFA.

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

157. Victor Logan is a portfolio manager for McCoy Advisors, and Jack Brisco is the Director of Research for McCoy. Brisco has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the McCoy model. The model is purely quantitative and screens stocks into buy, hold, and sell categories. The basic philosophy of the model is thoroughly explained to clients. Brisco frequently alters the model based on rigorous research—an aspect that is well explained to clients, although the specific alterations are not continually disclosed. Portfolio managers then

make specific sector and security holding decisions, purchasing only securities that are indicated as "buys" by the model. Logan has conducted very thorough research on his own, using the same process that Brisco uses to validate his findings. Logan feels the model is missing some key elements that would further reduce the list of acceptable securities to purchase, however, Brisco has refused to look at Logan's research. Frustrated by this, Logan applies his own version of the model, with the justification that he is still only purchasing securities on the buy list. Because of the conflict with Brisco, he does not disclose the use of the model to anyone at McCoy or to clients. Which of the following statements regarding Logan and Brisco is CORRECT? Logan is:

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

(B) violating the Standards by applying his version of the model and by not disclosing it to clients. Brisco is not violating the Standards.

(C) violating the Standards by applying his version of the model and by not disclosing it to clients. Brisco is violating the Standards by failing to consider Logan's research.

158. Don Wilson and Nadine Chavis, both CFA charterholders, are investment advisors at Uptown Securities. Wilson recommends that one of his clients buy Alpha Company based on research conducted by Uptown. Chavis recommends that one of her clients sell Alpha Company based on research conducted by another brokerage firm for general distribution. Both recommendations are consistent with each client's investment objectives and within the context of their entire portfolios. Neither Wilson nor Chavis has reason to suspect that any information contained in the research reports from these two sources is inaccurate or inadequately supported. According to Standard V(A) Diligence and Reasonable Basis, do Wilson and Chavis have a reasonable basis for making their investment recommendations?

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

(B) Neither of these advisors has a reasonable basis for their recommendations.

(C) Only one of these advisors has a reasonable basis for his or her recommendation.

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

G. J. Anderson, CFA

B. K. Baker, Chartered Financial Analyst

M. S. Chang, C.F.A

Which of the business cards use the CFA marks improperly?

(A) Anderson and Chang.

(B) Chang.

(C) Baker and Chang.

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

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

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

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

161. An analyst has the opportunity to offer his clients shares in a "hot new issue." One of the analyst's clients is his brother. When the new issue comes out, for those clients he deems it would be appropriate, he offers them an equal share. He includes his brother in that group. With respect to Standard VI(B), Priority of Transactions, this is:

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

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

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

162. Referral fees a member must disclose to a prospective client include:

(A) only fees a member receives for referrals.

(B) only fees a member pays to others for referrals.

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

163. Samuel Goldstein, CFA, is an analyst for Tamarack Securities. Goldstein's father, Reuben, has a client account at Tamarack. In ordering trades, Goldstein should place orders in:

(A) all accounts simultaneously.

(B) his clients' accounts first, his father's account second, and his account last.

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

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

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

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

(C) under no circumstances.

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

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

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

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

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

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

166. Rhonda Morrow, CFA, is an analyst for Waller & Madison, a brokerage and investment banking firm. Waller & Madison is a market maker for CorpEast, and Tim Waller, a principal in Morrow's firm, sits on CorpEast's board. Morrow has been asked to write a research report on CorpEast. According to the Standard regarding disclosure of conflicts, Morrow:

(A) must disclose that Waller & Madison is a market maker in CorpEast shares but not that Waller is a board member.

(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.

(C) must not write the report.

167. An analyst has several groups of clients who are categorized according to their specific needs. Compared to research reports distributed to all of the clients, reports for a specific group:

(A) will not be allowed because it violates the Standard III(B), Fair Dealing.

(B) will definitely include more basic facts.

(C) may generally exclude more basic facts.

168. Dwight Dawson, a CFA charterholder and portfolio manager at Ascott Investments, was recently appointed to the investments committee at Brightwood College. He will receive no compensation from Brightwood for serving on this committee. Another person at Ascott manages part of Brightwood's endowment. Dawson does not inform Ascott's compliance office of his involvement with Brightwood, because he does not believe doing so is necessary.

Brenda Hamilton, a CFA candidate, also works for Ascott as an investment analyst. Procedures established at Ascott prohibit personal trading in securities analyzed or recommended by Ascott. One of these securities is Horizon, a telecommunications firm. Hamilton buys 10 shares of Horizon for her infant son's trust account. She believes that reporting this purchase to Ascott's compliance officer is unnecessary because the amount of the transaction is small and is not for her own personal account.

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

(A) Dawson: No, Hamilton: Yes.

(B) Dawson: No, Hamilton: No.

(C) Dawson: Yes, Hamilton: Yes.

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

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

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

(C) violated none of the Standards.

170. John Hill, CFA, has been working for Advisors, Inc., for eight years. Hill is about to start his own money management business and has given his two-week notice of his resignation from Advisors. A few days before his resignation takes effect, on his lunch hour, he takes out a loan from a bank on behalf of his new business and uses the money to buy some office equipment for his new business. Since he engaged in these transactions while still an employee of Advisors, Hill violated Standard IV(A), Loyalty to Employer, by:

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

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

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

171. 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 1(C), Misrepresentation.

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

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

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

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

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

(C) refuse supervisory responsibility.

173. Connie Baker, CFA, is an analyst with the brokerage and investment banking firm Hill and Stevens (H&S). Baker's supervisor, John Lewis, has asked her to write a research report on Jagged Rock Brewing. The H&S mergers and acquisitions department has represented Jagged Rock in all of its acquisitions for the past 12 years. Both Hill and Stevens sit on Jagged Rock's board. According to the Standards of Professional Conduct, can Baker write the report?

(A) No.

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

(C) Yes, if she maintains her independence and objectivity in its preparation.

174. If a CFA charterholder receives a referral fee, he must:

(A) disclose the fee to the supervisor, in written form, as an additional benefit.

(B) consult with the firm's compliance officer, and follow his or her instructions concerning disclosure.

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

175. Ron Vasquez is registered to sit for the Level II CFA exam. Unfortunately, Vasquez has failed the exam the past two years. In his frustration, Vasquez posted the following comment on a popular Internet bulletin board: "I believe that CFA Institute is intentionally limiting the number of charterholders in order to increase its cash flow by continuing to fail candidates. Just look at the pass rates."

Which of the following statements regarding Vasquez's conduct is most accurate? Vasquez is:

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

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

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

176. Edwin McNeill, CFA, is a senior trader for Grey Securities. In his monthly review of his team's activity, McNeill notices a series of suspicious trades by one of the traders. McNeill consults his manager, who agrees that these trades are a potential violation. McNeill informs the trader that her duties will be restricted while these trades are being investigated and refers the matter to Grey's compliance officer for further action. McNeill has:

(A) not violated the Standards.

(B) violated Standard IV(C) Responsibilities of Supervisors by failing to prevent a potential violation.

(C) violated Standard IV(C) Responsibilities of Supervisors by restricting the trader's duties before the investigation is completed.

177. Wes Smith, CFA, refers many of his clients to Bill Towers, CPA, for accounting services. In return, Towers performs routine services for Smith, such as his tax returns, for no charge. Towers has just become a member of CFA Institute. With this development, Towers must:

(A) discontinue his services for Smith.

(B) only reveal to the prospects referred by Smith that he performs services for Smith.

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

178. Lee Hurst, CFA, is an equity research analyst who has recently left a large firm to start independent practice. He is able to re-create several of his previous recommendation reports, based on his clear recollection of supporting documentation he compiled at his previous employer. He publishes the reports and obtains several new clients. Hurst is most likely.

(A) not in violation of any Standard.

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

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

179. Which of the following actions would be a violation of the Standard VII(A) Conduct as Participants in CFA Institute Programs?

(A) Misrepresenting information on the Professional Conduct Statement.

(B) Using the CFA designation without submitting a Professional Conduct Statement and paying annual dues.

(C) Exaggerating the implications of holding the CFA designation.

180. An analyst, who is a CFA Institute member, manages a high-grade bond mutual fund. This is his only professional responsibility. When the analyst comes across a speculative stock investment that he feels is a good investment for his personal portfolio, the analyst:

(A) is in violation of Standard IV(A), Loyalty to Employer, by spending time analyzing stocks when he should only analyze bonds.

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

(C) must notify his supervisor about the stock according to Standard VI(B), Priority of Transactions, to see if it is appropriate for the portfolio that he manages.

181. Ryan Brown, CFA, is an analyst with a large insurance company. His personal portfolio includes a significant investment in QRS common stock. The director of the research department asked Brown to analyze QRS and write a report about its investment potential. Based on the Standards of Professional Conduct, Brown is required to:

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

(B) decline to write the report.

(C) sell his shares of QRS before issuing the report.

182. Bill Valley has been working for Advisors, Inc., for several years, and he just joined CFA Institute. Valley's sister just received a large bonus in the form of stock options in Zephyr, Inc. Valley's sister knows nothing about financial assets and offers Valley a week at her holiday home each year in exchange for Valley monitoring Zephyr and the value of her stock options. In order to comply with the Code and Standards, Valley needs to inform Advisors of:

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

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

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

183. Nick O'Donnell, CFA, unsuspectingly joins the research team at Wickett & Co., an investment banking firm controlled by organized crime. None of the managers at Wickett are CFA Institute members. Because of his tenuous situation at Wickett, O'Donnell begins making preparations for independent practice. He knows he will be terminated if he informs management at Wickett that he is preparing to leave. Consequently, he determines that "if he can just hang on for one year, he will likely have a client base sufficient for him to strike out on his own." This action is:

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

(B) a violation of his fiduciary duties.

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

184. Jacob Allen, CFA, decides he could make more money if he started his own company. Which of the following steps would most likely violate Standard IV(A) Loyalty?

(A) Renting space for his new company and interviewing several candidates for the position of manager at the new company.

(B) Soliciting, without written permission from his current employer, the business of former clients after he leaves his current employer.

(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.