

CHAPTER 60**ETHICS APPLICATION**

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

Explanation

Both Standard III(C) Suitability and Standard V(A) Diligence and Reasonable Basis were violated. Tuipulotu must perform a full IPS review to determine the appropriateness of the new portfolio allocations. Submanagers should not be selected by cost structure alone, as the quality and appropriateness of the submanager is Tuipulotu's responsibility.

(Study Session 19, Module 60.1, LOS 60.a)

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2. (C) decline to attend the event as it could result in a violation of Standard I(B) "Independence and Objectivity."

Explanation

Perez should decline the invitation as it creates the impression of lack of independence. If he does not accept the free continuing education courses, he would have to pay for them some other way so the free courses are a form of compensation. Nothing in the vignette suggests the free classes are illegal.

(Study Session 19, Module 60.1, LOS 60.b)

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

Explanation

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

Explanations for other responses:

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

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4. (C) Obtain prior permission from her employer.

Explanation

According to Standard IV(A) Loyalty to Employer, it is the employee's duty to inform the employer about any type of outside consulting service, including duration and any compensation. Only after receiving permission from her employer, can she proceed.

(Study Session 19, Module 60.1, LOS 60.b)

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5. (C) in accordance with the Code and Standards since he has indicated the basis in a footnote.

Explanation

Members who communicate performance information must ensure that the information is fair, accurate, and complete. Seminole Equity's presentation meets this standard.

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6. (C) proceed to acquire the shares.

Explanation

Standard II(A) prohibits members from taking investment action if they possess material nonpublic information. Pierce combined information that was not misappropriated, with her knowledge of the company, to reach a conclusion under the mosaic theory, which is permissible under the standards. She can proceed to buy the shares.

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7. (B) Hall engaged in professional misconduct.

Explanation

Hall engaged in professional misconduct because her act involved dishonesty, fraud, and deceit.

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8. (A) violated the Standard because he did not thoroughly review and analyze any information provided by Brisson.

Explanation

Standard V(B) permits Hamilton to ask company management to review his report for factual inaccuracies, but Hamilton should have taken care to thoroughly review and analyze any information provided by the company. Hamilton is not required to give equal emphasis to all areas but can emphasize certain areas, touch briefly on others, and omit certain aspects deemed unimportant.

(Study Session 19, Module 60.1, LOS 60.b)

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9. (C) neither transaction-based manipulation nor information-based manipulation.

Explanation

Waters is not in violation of Standard II(B), Market Manipulation. Transaction-based manipulation includes, but is not limited to, transactions that artificially distort prices or volume. Information-based manipulation includes, but is not limited to, spreading false rumors about a firm in order to induce others to trade.

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10. (A) not in violation of the Standards.

Explanation

There is no violation. It is in the best interest of the client to be diversified and selling via a series of cross trades will likely reduce price impact costs when compared to selling directly into the market. The analyst appears to have reasonable basis for putting the securities in the accounts of other clients.

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11. (A) Only one of these purchases violates the Standard.

Explanation

Using soft dollars for the purchase of office furniture does not benefit clients and is a violation. Purchasing research reports with soft dollars is not a violation, but the advisor should ensure that research purchased with client brokerage will benefit her clients.

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

Explanation

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

(Study Session 19, Module 60.1, LOS 60.a)

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13. (A) the terms of the arrangements with both Land Bank and Bloom.

Explanation

Standard VI(C) Referral Fees requires members to disclose to clients and prospects any consideration or benefit received by the member or delivered to others for the recommendation of any services to the client or prospect. Gill is delivering a benefit to Land Bank and receiving a benefit from Bloom, both of which must be disclosed to Song.

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14. (B) Both Bolt and Delvecco violated the Standards.

Explanation

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

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

Explanation

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

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

Explanation

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

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

Explanation

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

(Study Session 19, Module 60.1, LOS 60.b)

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18. (B) Both Gordon and Haney are in violation of the Code and Standards.

Explanation

Both Gordon and Haney violated Standard VII(A) Conduct as Participants in CFA Institute Programs by compromising the integrity of the exam. The Standard prohibits candidates from discussing specific exam questions or which topics were tested or not tested.

(Study Session 19, Module 60.1, LOS 60.b)

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19. (C) violated CFA Institute Standards of Professional Conduct because he did not state the source of the charts.

Explanation

Standard I(C) Misrepresentation. Members should not copy or use material prepared by others without acknowledging and identifying the source of such material. Using charts and graphs without stating their source is a violation of the Standard.

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20. (B) dissociate from the supervisor's activity.

Explanation

Johnson must dissociate herself from her supervisor's activity, for example by asking to be reassigned. The Code and Standards do not require Johnson to report the violation to governmental or regulatory organizations unless doing so is required by applicable law. Johnson has attempted to stop the violation by discussing it with her compliance department. She is not required by the Code and Standards to confront the supervisor.

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- 21 (A) inform her supervisor in writing about the Platinum account.

Explanation

Having the Platinum account is a benefit from her managing the endowment, which led to the relationship with Advisors. Members should report to their employers any additional compensation or benefits they receive for their services. This must be in writing. Doing \$2,500 in business alone will not negate her obligation unless she explicitly tells Advisors that she is willing to accept whatever penalties accompany a Platinum account when a client does less business.

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