Standards of Professional Conduct & Guidance: Duties to Clients

Test ID: 7440148

Question #1 of 35

Question ID: 412449

Nancy Korthauer, CFA, has launched a new hedge fund called the Korthauer Tautology Fund and is actively soliciting clients from competitor's firms. Client presentations are necessarily brief and often take place with the prospective client's current investment advisor in the room. The Code and Standards require that:

✗ **A)** **all client presentations provide a thorough review of all elements of the investment management process. Abbreviated presentations are forbidden.**

✗ **B)** a prospective client's current investment advisor not participate in meetings.

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

Explanation

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

Question #2 of 35

Question ID: 412448

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

✗ **A)** **Implying that he can guarantee a return.**

✗ **B)** Imputing his past performance to future performance.

✓ **C)** Stating his past performance as long as it is fact.

Explanation

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

Question #3 of 35

Question ID: 412445

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

✗ **A)** **Yes, because the manager cannot reveal historical returns of recent stock picks.**

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

✗ **C)** No, because the manager had the historical information in writing.

Explanation

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

Question #4 of 35

Question ID: 412456

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

✓ **A)** **current clients, former clients, and prospects.**

✗ **B)** current clients and prospects only.

✗ **C)** current clients and former clients only.

Explanation

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

Question #5 of 35

Question ID: 412406

Which of the following is a possible breach of fiduciary duties by a CFA Institute member who manages assets on behalf of a client?

✗ **A)** **Neither of these breach fiduciary duties.**

✓ **B)** Voting all proxies of stocks the client owns.

✗ **C)** Using directed brokerage.

Explanation

Proxies have economic value to the client. To comply with Standard III(A), the analyst is obligated to vote proxies in an informed and responsible manner. A cost benefit analysis may show that voting all proxies may not benefit the client, so voting proxies may not be necessary in all instances. Directed brokerage occurs when the client requests that a portion of the client's brokerage be used to purchase services that directly benefit the client. Although, this may prevent best execution, it does not violate the Standards as it was directed by the client, not the brokerage firm.

Question #6 of 35

Question ID: 454913

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

- ✗ **A)** **Standard III(C) Suitability by failing to consider the appropriateness of the non-investment-grade bonds.**
- ✓ **B)** Both Standard III(C) Suitability and Standard V(A) Diligence and Reasonable Basis.
- ✗ **C)** Standard V(A) Diligence and Reasonable Basis by letting fee structure determine the selection of the submanager.

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.

Question #7 of 35

Question ID: 412418

Which of the following statements is *least* accurate regarding being a part of Standard III(B), Fair Dealing?

- ✗ **A)** **Maintain a list of clients and their holdings.**
- ✓ **B)** At the same time notify clients for whom an investment is suitable of a new investment recommendation.
- ✗ **C)** Shorten the time between decision and dissemination.

Explanation

All of these are part of Standard III(B) except notifying clients at the same time. Standard III(B) states that clients for whom the investment is suitable should be notified at *approximately* the same time.

Question #8 of 35

Question ID: 472458

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

- ✗ **A)** **violated the Code and Standards by acquiring research on issues contemplated for purchase but not by acquiring research on currently held issues.**
- ✗ **B)** violated the Code and Standards by acquiring research on issues that the fund already holds but not by acquiring research on issues contemplated for purchase.
- ✓ **C)** not violated the Code and Standards.

Explanation

"Soft dollars" are the property of the client (in this case the holders of the shares of the Small Cap Venture Fund). Standard III(A) Loyalty, Prudence, and Care delineates the member's responsibilities. Since he is clearly using the soft dollars to obtain research that is directly applicable to his professional duties, there is no violation of the Standard.

Question #9 of 35

Question ID: 412407

Tony Calaveccio, CFA, is the manager of the TrustCo Small Cap Venture Fund in Toronto. He places trades for the fund with River City Brokerage. River City provides Calaveccio with soft dollars to purchase research. River City also deals in municipal bonds, some of which Calaveccio holds in his personal portfolio. He periodically uses the soft dollars to request research reports on various small cap stocks and also on the status of the municipal bond market and issues that he holds. These actions are:

✗ **A)** **not in violation of the Code and Standards.**

✗ **B)** in violation of his fiduciary duties regarding both the small cap research and the municipal bond research.

✓ **C)** in violation of his fiduciary duties regarding the municipal bond research but not so regarding the research on the small cap issues.

Explanation

The issue at hand is the member's fiduciary responsibilities in handling "soft dollars" which are technically the property of the client. Standard III(A), Loyalty, Prudence, and Care, delineates the member's fiduciary responsibilities with regard to soft dollars. Since municipal bond research is clearly not relevant to the Small Cap Fund holders, he is clearly using the soft dollars to obtain research for his personal benefit and is in violation of the Standard.

Question #10 of 35

Question ID: 412458

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

Doggett will:

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

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

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

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.

Question #11 of 35

Question ID: 412436

Bob Hatfield, CFA, has his own money management firm with two clients. The accounts of the two clients are equal in value. One of the clients gets married and the assets of the new spouse and the client are combined. With the larger portfolio of the now married client, Hatfield determines that they can assume a higher level of risk and begins a change in the policy concerning that portfolio. Which of the following would violate Standard III(C), Suitability?

✗ **A) Assess the time horizon of the newly married client and his spouse.**

✗ **B)** Assess the return objectives of the newly married client and his spouse.

✓ **C)** Implement a similar policy for the other client who did not just get married.

Explanation

According to Standard III(C), Suitability, the analyst must assess the time horizon, return objectives, tax considerations, and liquidity needs of a client before changing an investment policy. The analyst must notify the client of the new policy. Implementing the policy for the other client may be a violation of the Standard unless that client's needs are totally reassessed and determined to be identical to the needs of the newly married client.

Question #12 of 35

Question ID: 412417

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

✗ **A) Standard III(B), Fair Dealing.**

✗ **B)** Standard III(C), Suitability.

✓ **C)** both of these.

Explanation

It is a violation of Standard III(B) because the advisor should act first on behalf of existing clients whose needs and characteristics she already knows. It is a violation of Standard III(C) because she has never met the prospect and does not know if the new ideas are appropriate for the prospect. Thus, "both of these" is the best response.

Question #13 of 35

Question ID: 412457

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

✗ **A) it is a necessary step in proceeding with research on client preferences.**

✗ **B)** the information is nonmaterial.

✓ **C)** the CFA Institute Professional Conduct Program requests it.

Explanation

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

Question #14 of 35

Question ID: 470999

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

- ✗ **A)** **a violation of Calaveccio's fiduciary duties.**
- ✗ **B)** a violation of Calaveccio's duty to his employer.
- ✓ **C)** permissible under CFA Institute Standards.

Explanation

The issue is similar to an allocation of soft dollars. Clearly, if the broker absorbs the loss, they expect to make up the difference in some way. However, since the error was on the part of Quantco Brokerage, Calaveccio is under no obligation to cover the cost of the trading error. Moreover, no reasonable observer expects that there exists any implied future allocation of trades to Quantco in return for correcting their own mistake. There is no violation of Standard III(A), Loyalty, Prudence, and Care.

Question #15 of 35

Question ID: 412452

Greg Stiles, CFA, may withhold from CFA Institute information about a client acquired in the regular performance of his duties:

- ✗ **A)** **only if Stiles is a relative of the client.**
- ✗ **B)** only if Stiles has a special confidentiality agreement with the client.
- ✓ **C)** for neither of the reasons listed.

Explanation

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

Question #16 of 35

Question ID: 412413

Jason Reynolds meets Jack Parker, CFA, at a social engagement and asks for some "hot stock tips." Parker declines, but sets up an appointment to review Reynolds' risk and return objectives and financial constraints. At the conclusion of their appointment, Parker recommends three securities he has thoroughly researched: ACK, D-Wing, and Ophus-Littbinger. Parker is *least likely*:

- ✗ **A)** **in violation of Standard III(A) "Loyalty, Prudence, and Care" for failing to make a reasonable inquiry into the client's investment experience.**
- ✗ **B)** in violation of Standard III(A) "Loyalty, Prudence, and Care" for failing to consider the three securities in the context of the whole portfolio.
- ✓ **C)** not in violation.

Explanation

Standard III(A) "Loyalty, Prudence, and Care" requires Parker to make a reasonable inquiry into the client's investment experience, risk and return objectives, and financial constraints. Investment decisions must be made based on a total portfolio approach, rather than the quality of an individual investment in isolation.

Question #17 of 35

Question ID: 461183

An analyst thinks that a major change in the tax law will benefit holders of utility company stocks. She immediately begins calling all her clients and telling them of the upside potential of investing in such assets now. Based upon this information, this is *most likely*:

- ✗ **A)** **congruent with Standard V(A), Diligence and Reasonable Basis.**
- ✗ **B)** a violation of Standard V(A), Diligence and Reasonable Basis.
- ✓ **C)** a violation of Standard III(C), Suitability.

Explanation

According to Standard III(C), the analyst needs to determine the suitability of an investment for each client. It is doubtful that all her clients are identical in their needs. According to the information, the analyst mentions the upside potential but does not mention the downside risk. Although the information says that she thinks that the change in the tax law will benefit holders of utility company stocks and says nothing of how she arrived at this conclusion, we do not know if she has or has not made her decision on a reasonable basis.

Question #18 of 35

Question ID: 412415

Which of the following would be a violation of Standard III(B), Fair Dealing?

- ✓ **A)** **Trading for regular accounts before discretionary accounts.**
- ✗ **B)** Limiting the number of employees privy to recommendations and changes.
- ✗ **C)** Having well defined guidelines for pre-dissemination.

Explanation

Do not discriminate against a client when disseminating investment recommendations. If the firm offers different levels of service, this fact must be offered and disclosed to all clients. The other choices are necessary parts of the Standard. The Standard actually says to have published personal guidelines for pre-dissemination, which implies that the guidelines be well-defined.

Question #19 of 35

Question ID: 412419

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

✗ **A)** **not a violation because the clients are aware of the policy.**

✓ **B)** a violation of the standard.

✗ **C)** not a violation because the clients have signed the consent form.

Explanation

Such a policy is a violation of the Standard and client acknowledgement and/or consent does not change that fact.

Question #20 of 35

Question ID: 412411

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

✓ **A)** **client.**

✗ **B)** brokerage firm conducting the trades.

✗ **C)** managing firm.

Explanation

Brokerage is an asset of the client.

Question #21 of 35

Question ID: 412453

Greg Stiles, CFA, keeps a list of his clients' birthdays and has personally sent them a birthday card each year at the appropriate time. With respect to this action, which of the following may be a violation of Standard III(E), Preservation of Confidentiality?

✗ **A)** **Sending a gift along with the card.**

✗ **B)** The mere act of sending a birthday card each year.

✓ **C)** Hiring a company outside the firm to perform the task.

Explanation

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

Question #22 of 35

Question ID: 412408

All of the following are required by fiduciaries under Standard III(A), Loyalty, Prudence, and Care, EXCEPT:

✓ **A)** **support the sponsor's management during proxy fights.**

✗ **B)** place the client's interest before the employer's interest.

✗ **C)** act solely in the interest of the ultimate beneficiaries.

Explanation

Members are required to act in the interest of their clients. In voting proxies, the client's interest must prevail over management's interest.

Question #23 of 35

Question ID: 412420

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

✓ **A) not permissible under the Code and Standards.**

✗ **B)** consistent with her responsibilities under the Code and Standards.

✗ **C)** permissible only if the clients are informed of the allocation procedure.

Explanation

Standard III(B) requires a member to deal fairly with all clients when taking investment actions. Since she knew at the outset that she was going to place shares in all accounts, regardless of the first letter of the surname, all accounts must participate on a pro-rata basis in each block in order to conform to the Standard. Her actions constitute a violation of the Standard concerning fair dealing.

Question #24 of 35

Question ID: 412416

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

✓ **A) not in violation of the Standards.**

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

✗ **C)** a violation of Standard III(A), Loyalty, Prudence, and Care.

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.

Question #25 of 35

Question ID: 412446

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

✗ **A)** **a violation because the Standard prohibits computing historical returns on risky assets like junk bonds.**

✗ **B)** in compliance.

✓ **C)** a violation because the advertisement implies the firm generated this return.

Explanation

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

Question #26 of 35

Question ID: 412401

Alan Cramer, CFA, practices in a country that does not regulate the investment of company retirement plans. He was retained by Bingham Companies to manage their corporate pension plan. Bingham's management has approached Cramer and requested that Cramer invest the entire plan in Bingham stock.

Cramer may:

✗ **A)** **invest all of the retirement plan assets in Bingham Company stock according to management's request only if Cramer can document that the investment is more prudent than any other investment opportunity he finds.**

✗ **B)** not invest any of Bingham Company's retirement plan in its own stock regardless of the stock's prospects and in spite of management's request.

✓ **C)** invest a portion of the retirement plan in Bingham Company stock if the investment is prudent and if he keeps the overall portfolio properly diversified.

Explanation

Standard III(A), Loyalty, Prudence, and Care, requires members to comply with their fiduciary duty. Retirement plan managers owe their duty to the plan participants, not to the management of the company sponsoring the plan. The fiduciary duty includes the obligation to diversify the plan's investments, regardless of the quality of the sponsoring company's stock. Investing in the company's stock is not prohibited.

Question #27 of 35

Question ID: 412404

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

✗ **A)** **uses the resources to help manage the client's account.**

✓ **B)** does both of the actions listed here.

✗ **C)** discloses the relationship to the client.

Explanation

According to Standard III(A), Loyalty, Prudence, and Care, the analyst must put the client first and inform the client of any possible conflicts of interest. The analyst must channel any benefits derived from his service to the client, back to the client, and inform the client of the benefits.

Questions #28-33 of 35

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

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

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

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

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

Question #28 of 35

Question ID: 461186

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

	Information	Frequency
✓ **A)**	**Yes**	**No**
✗ **B)**	No	No
✗ **C)**	No	Yes

Explanation

According to Standard III(C)-Suitability, members and candidates must consider investment experience, objectives (risk and return), and constraints before investing funds on the client's behalf or recommending investments to the client. The firm has complied with the information content. The investment policy statement must be updated at least annually, or after significant changes in client circumstances, however, according to the guidance statement accompanying Standard III(C). Thus, the firm has not complied with Standard III(C) in this regard. (Study Session 1, LOS 2.a,b)

Question #29 of 35

Question ID: 461187

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

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

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

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

Explanation

According to Standard III(C)-Suitability, Patel must observe the written investment objectives now in effect as determined in cooperation with the client and may trade only on that basis. Because the anticipated change in Singh's financial condition was subject to an event of indeterminable timing, she should continue to honor the existing written investment objectives until a change is warranted by an actual increase in the client's total financial assets and has been agreed upon with her client. (Study Session 1, LOS 2.a,b)

Question #30 of 35

Question ID: 461188

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

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

✗ **B)** No-Patel must wait until the next annual meeting to reallocate.

✓ **C)** No-Patel and Singh must meet and revise the IPS and portfolio strategy before reallocating.

Explanation

According to Standard III(C)-Suitability, investment recommendations and actions must be consistent with a client's written objectives and constraints (typically in the form of an IPS). Because Singh's written IPS would not allow the large allocation to technology stocks prior to receiving the inheritance, the IPS must be updated by Singh and Patel prior to taking any actions that deviate from the original IPS. Patel will violate Standard III(C) by reallocating the portfolio before meeting with Singh. (Study Session 1, LOS 2.a,b)

Question #31 of 35

Question ID: 461189

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

	Singh's portfolio	Other portfolios
✗ A)	**No**	**No**
✗ B)	No	Yes
✓ C)	Yes	Yes

Explanation

According to Standard III(C)-Suitability, Patel must analyze the appropriateness and suitability of NetWin.com stock on a case-by-case basis before buying it. This will necessarily consider the basic characteristics of the security and how these will affect overall portfolio characteristics relative to the existing investment strategy for each portfolio. Patel has not analyzed the effect that the stock will have on any of the individual portfolios in question and has thus violated the Standard. Patel cannot look at aggregate measures to determine the appropriate weight that the security should represent in the individual portfolios because the portfolios are being managed individually, not in aggregate. (Study Session 1, LOS 2.a,b)

Question #32 of 35

Question ID: 461190

Which of the following is *least* accurate regarding the promotional announcement of Patel passing the Level III exam?

✓ A) **The promotional announcement violates the restrictions on misrepresenting the meaning of the CFA designation.**

✗ B) The promotional announcement uses the letters "CFA" as a noun and hence is an improper use of the designation.

✗ C) The announcement violates the Code of Ethics because it implies that obtaining a CFA charter leads to superior performance.

Explanation

An announcement that a member of a firm has received the right to use the CFA® designation is not a violation of the Code or Standards. However, Standard VII(B) requires that any reference to the charter must not misrepresent or exaggerate the meaning or implications of the CFA designation. A charterholder cannot claim that holding a charter leads to superior performance results. The letters "CFA" can only be used as an adjective (never a noun, as in "he is a CFA"). Finally, passing all three exams does not give one the right to use the designation. All criteria must be met (e.g., experience requirements) before Patel can use the designation. (Study Session 1, LOS 2.a,b)

Question #33 of 35

Question ID: 461191

With respect to the choice of broker, did Patel violate any CFA Institute Standards of Professional Conduct?

✓ **A)** **No.**

✗ **B)** Yes, since Patel is obligated to seek the best possible price and execution for all clients.

✗ **C)** Yes, since Patel failed to properly notify Singh that using TradeRight would lead to higher commissions and opportunity costs.

Explanation

Since Singh directed Patel to use TradeRight, this should be considered client-directed brokerage. While Patel should inform Singh of the implications of that choice, Patel has no option but to follow the client's direction according to Standard III(A)-Loyalty, Prudence, and Care. Singh was fully aware of the fees charged by TradeRight relative to other brokerage firms, but elected to use them anyway. Investment managers are obligated to seek the best price and execution in the absence of client direction. (Study Session 1, LOS 2.a,b)

Question #34 of 35

Question ID: 412451

While servicing his clients' accounts, an analyst who is a CFA charterholder, determines that one client is probably involved in illegal activities. According to Standard III(E), Preservation of Confidentiality, the analyst may NOT do which of the following?

✓ **A)** **There are no exceptions in this list.**

✗ **B)** Contact CFA Institute about the determination.

✗ **C)** Contact the appropriate governmental authorities about the determination.

Explanation

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

Question #35 of 35

Question ID: 454910

Janet Reilly has just approached Betty Miller, CFA, about purchasing 10,000 shares of Brookshire Co., a newly incorporated real estate development firm. Reilly is a retired schoolteacher living off the income from her late husband's life insurance policy. This investment will represent a significant shift in her investment portfolio. Miller believes this trade is unsuitable with respect to Reilly's investment policy statement. Consistent with the Standards, Miller should *most appropriately*:

✗ **A)** **not accept the order, because it is not a suitable investment for Reilly.**

✓ **B)** discuss with Reilly whether she wishes to update her investment policy statement.

✗ **C)** follow her firm's procedures for obtaining Reilly's approval to carry out the unsolicited trade request.

Explanation

According to the guidance for Standard III(C) Suitability, a member who receives an unsolicited trade request that is not suitable for the client should discuss the trade with the client before carrying it out. The nature of this discussion depends on whether the trade has a material effect on the client's portfolio. Because this trade will have a material effect, Miller's most appropriate action is to discuss with the client whether this trade request reflects a change in her investment objectives and risk tolerance and thus whether she wishes to update her IPS.