

## Question #1 of 9

Question ID: 461351

At Brown Investment Analysis Inc., all analysts are required to submit a draft copy of all research reports before certain approved portions of the reports are shared or discussed with the company that is the subject of the report. Any changes that are made to research reports after the reports have been reviewed by subject companies must be approved by the compliance department after it receives a written statement from the responsible analyst justifying the changes. Brown also requires documentation of the process to take place at each step to ensure a review of any report would demonstrate clear justification for alterations in reports that have been partially disclosed to subject companies. Which of the following statements regarding the research policies at Brown Investment Analysis Inc. is CORRECT? The policies are:

- ☐ A) required by CFA Institute Research Objectivity Standards.
- ☒ B) recommended by CFA Institute Research Objectivity Standards.
- ☐ C) recommended by CFA Institute Standards of Professional Conduct.

### Explanation

CFA Institute Research Objectivity Standards (ROS) prohibit analysts from sharing with subject companies any sections of a report that may communicate the recommendation, rating, or price target prior to the report's publication. It is recommended by the ROS that firms institute policies that require approval from the firm's compliance department before an analyst shares any information with the subject company. It is also recommended that the firm document and maintain records of information that is shared with subject companies prior to the publication of a research report and any changes that occur subsequent to the information exchange.

## Question #2 of 9

Question ID: 461344

In a meeting with her firm's research director, Janice Mitchell, a proponent of the CFA Institute Research Objectivity Standards (ROS), stated that two of the key objectives of the ROS were to:

1. Assist in meaningful, fair, specific, and complete disclosure of both possible and real conflicts of interest.
2. Create voluntary reporting of research practices that promote independent and objective research to CFA Institute on an annual basis.

Determine whether Mitchell is correct or incorrect with regard to her statements about the objectives of the ROS.

Objective 1

Objective 2

- ☐ A) Correct Correct
- ☐ B) Incorrect Correct
- ☒ C) Correct Incorrect

### Explanation

Mitchell's first statement is correct. Objectives of the CFA Institute Research Objectivity Standards include assisting in full, fair, meaningful, and specific disclosure of potential and actual conflicts of interest. Mitchell's second statement is incorrect. The ROS do not intend to create any sort of reporting to CFA Institute on the research practices of any firm.

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### Question #3 of 9

Question ID: 461347

Greg Hibbert, CFA, is working with his firm's compliance department to implement policies and procedures that comply with the requirements of the CFA Institute Research Objectivity Standards (ROS). Hibbert has informed the compliance officer that in order to meet the ROS requirements, the firm must require a written annual update of personal investments held by covered investment personnel or their families, and must provide a list of activities that violate the firm's policies and the accompanying disciplinary actions to all of the firm's clients and prospects. Are Hibbert's statements regarding personal investments and the disclosure of violating activities CORRECT?

Personal Investments      Violating Activities

- ☒ A) Yes No
- ☒ B) Yes Yes
- ☒ C) No No

#### Explanation

Neither of Hibbert's recommendations to his compliance officer are specific requirements of the ROS. They are recommended policies designed to achieve compliance. While the ROS requires a firm claiming compliance to "manage covered employee's' personal investments and trading activities' effectively", there is no specific requirement related to reporting personal holdings. In addition, firms claiming compliance with the ROS are not explicitly required to disclose to clients and prospects activities that are violations and the resulting punishment for such activities. It is recommended, however, that firms disclose this information to clients and prospects.

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### Question #4 of 9

Question ID: 461343

Bill Williams, CFA, has been tasked by his firm, Null Investments, to ensure that the firm's policies and procedures allow its research department to maintain its independence and objectivity. One of the objectives Williams has outlined for Null's policies and procedures is that they should promote the establishment of a non-governmental regulatory body. This body will be responsible for creating standards that ensure that research firms produce independent and objective research. Is this objective for Null's policies and procedures consistent with the objectives of the CFA Institute Research Objectivity Standards (ROS)?

- ☒ A) No, the ROS are intended to promote self-regulation to ensure independent and objective research.
- ☒ B) No, the ROS support the establishment of laws to ensure independent and objective research but do not support a regulatory body.
- ☒ C) Yes.

#### Explanation

Among the objectives of the CFA Institute Research Objectivity Standards is the goal of promoting industry self-regulation through the voluntary adoption of standards that promote and reward independent and objective research.

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### Question #5 of 9

Question ID: 461348

Perry Smith is a research analyst for Hugley Financial Corp. For the past several weeks, Smith has diligently researched the economic condition of BNS Inc., an international pharmaceuticals manufacturer. Smith has determined that the BNS' secondary common stock offering is a strong buy and has disseminated this opinion to Hugley's research subscribers. One month after issuing the recommendation, the price of BNS' stock had risen by over 13 percent. The director of Hugley's investment banking division, which underwrote BNS' secondary offering, called to thank Smith for his participation in the offering and to notify him he will receive a stock option bonus next week as a result of the outstanding performance of BNS' stock. Has Hugley Financial Corp. violated any CFA Institute Research Objectivity Standards?

- ☒ A) No.
- ☒ B) Yes, since the performance of the secondary offering led to a bonus for the analyst.
- ☒ C) Yes, since the analyst's bonus was inappropriately structured as stock options.

#### Explanation

CFA Institute Research Objectivity Standards (ROS) require that an analyst's compensation not be directly linked with any investment banking activities on which the analyst collaborated. The stock option bonus was inappropriately based upon the performance of the secondary offering of BNS stock and is a violation of the ROS. The ROS have also been violated by Hugley's lack of procedures to separate the research and investment banking functions of the firm.

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### Question #6 of 9

Question ID: 461346

All of the following procedures are recommended to comply with CFA Institute Research Objectivity Standards, EXCEPT:

- ☒ A) restrict employee trades 30 calendar days before and 5 calendar days after the release of a research report.
- ☒ B) prohibit communication between the research employees and investment banking employees before the publication of a research report.
- ☒ C) update research recommendations annually.

#### Explanation

Research reports should be updated regularly. Quarterly updates are recommended by the CFA Institute Research Objectivity Standards.

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### Question #7 of 9

Question ID: 461350

Kevin Bryan is a financial analyst for Summit Investments. Bryan recently completed a research report recommending the stock of Independence Medical Company. Bryan failed to disclose that he has a material ownership interest in Independence Medical through a family trust.

Kim Scott, a CFA Charterholder with Overland Associates, is invited to attend an investment management conference in the Cayman Islands. The sponsor, one of Scott's clients, has offered to reimburse Scott for all of her expenses. Scott accepts the sponsor's offer and discloses the arrangement to her employer in writing.

Based on the CFA Institute Research Objectivity Standards, which of the following statements is CORRECT?

- ☒ A) Summit is in violation of the Research Objectivity Standards but Overland is not in violation.

- ☐ B) Both Summit and Overland are in violation of the Research Objectivity Standards.
- ☐ C) Neither Summit nor Overland is in violation of the Research Objectivity Standards.

Explanation

Summit is in violation because policies and procedures were not in place to prevent Bryan from recommending a stock without disclosing a potential conflict of interest. Overland is not in violation. Scott can accept reimbursement since the sponsor is a client and the reimbursement was disclosed to Overland.

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**Question #8 of 9**

Question ID: 461349

Alexis Capital is a full service investment banking and advisory firm. Jason Beech, head of Alexis' investment banking division, has just received a report from Alexis' research division on a national supply-chain management firm which has used Alexis as the underwriter in several public debt offerings. While reading through the report Beech realizes that the sales projections for the firm have been substantially overestimated in the short-term forecast. Beech calls the author of the report, Steve Henderson, a sell-side equity analyst, to inform him of the error. Henderson confirms that there was a slight error in the forecasting model and agrees to change the sales forecast before publishing the report the following day. Do Alexis Capital's policies violate any CFA Institute Research Objectivity Standards?

- ☐ A) No, since the firm provides multiple layers of review before making research publicly available.
- ☒ B) Yes.
- ☐ C) No, since the firm is able to objectively ensure the accuracy of investment research.

Explanation

CFA Institute Research Objectivity Standards require firms to institute procedures that prevent investment banking divisions from having direct authority over the research department to review, modify, approve, or reject its research as this poses a threat to the independence and objectivity of a firm's research.

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Question ID: 461345

When designing policies and procedures to implement the CFA Institute Research Objectivity Standards, all of the following are objectives, EXCEPT:

- ☐ A) provide a work environment conducive to ethical behavior, fully disclose conflicts of interest, and put the client's interest before the employees' interest.
- ☐ B) put the client's interest before the firm's interest, minimize possible conflicts that may adversely affect the independence and objectivity of research, and support self-regulation.
- ☒ C) fully disclose conflicts of interest, put the client's interest before the firm's interest, and reference CFA Institute membership in a dignified and judicious manner.

Explanation

While important, referencing CFA Institute membership in a dignified and judicious manner is not an objective of the Research Objectivity Standards.

