




## Question #1 of 52

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. 

### Explanation




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

(Study Session 1, Module 3.8, LOS 3-VI.(A))

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## Question #2 of 52

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. With respect to this relationship, Smith:

- A) must disclose to his clients that Towers provides services for Smith's personal benefit. 
- B) is in violation of both Standard V(B) and III(B). 
- C) is only in violation of Standard III(B), Fair Dealing, by not putting the client first. 

### Explanation




According to VI(C), Referral Fees, Smith must disclose to his clients that Towers provides services for Smith's personal benefit. Neither of the Standards listed in the other answers apply.

(Study Session 1, Module 3.8, LOS 3-VI.(C))

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## Question #3 of 52

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) requiring Hurst to obtain permission from each client prior to implementation of the new policy. 
- B) updating disclosures when the policy change is implemented. 
- C) keeping the policy change private as a trade secret. 

### Explanation

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

(Study Session 1, Module 3.8, LOS 3-VI.(A))

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### Question #4 of 52

To comply with the CFA Institute Standards, employees have a duty to disclose possible conflicts of interest to:

- A) neither employers nor clients, but the member must use "prudent judgment."
- B) both their employer and their clients.
- C) only their employer.



### Explanation

According to Standard VI(A), Disclosure of Conflicts, employees have a duty to disclose to both their employer and their clients all matters which may impair their independence and objectivity or interfere with their duties to employer, clients, and prospects.

(Study Session 1, Module 3.8, LOS 3-VI.(A))

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### Question #5 of 52

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. The analyst needs to:

- A) do nothing since the analyst did not purchase the stock.
- B) refuse to receive the stock in the first place.
- C) disclose the ownership of the stock to his supervisor.



### Explanation

The only thing the analyst needs to do is to disclose the ownership of the stock to his supervisor in accordance to Standard VI(A), Disclosure of Conflicts. Refusing to receive the stock could be acceptable option, but is not required.

(Study Session 1, Module 3.8, LOS 3-VI.(A))

(Study Session 1, Module 3.6, LOS 3-VI.(A))

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### Question #6 of 52

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.



#### Explanation

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

(Study Session 1, Module 3.8, LOS 3-VI.(A))

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### Question #7 of 52

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: Yes, Hamilton: Yes.
- B)** Dawson: No, Hamilton: No.
- C)** Dawson: No, Hamilton: Yes.



#### Explanation

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




(Study Session 1, Module 3.8, LOS 3-VI.(A))

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## Question #8 of 52

Joe James, CAIA, CPA, is a Level II CFA candidate living in Boston. In the course of his accounting practice, James often refers clients to a local law firm specializing in estate planning. James does not violate client confidentiality and does not receive compensation for the referral. However, the law firm often gives James tickets to the theater and major sporting events.

Which of the following statements regarding disclosure is CORRECT? James:

- A)** need not disclose the benefits received for referring clients because no compensation is received. 
- B)** must disclose the benefits received for referring clients to the law firm. 
- C)** need not disclose the benefits received for referring clients because the clients were developed in the course of his accounting practice. 

### 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 a client or prospect. James has received a benefit (free tickets), which must be disclosed to the clients referred by James. Disclosure will allow the clients to determine any partiality of the recommendation.




(Study Session 1, Module 3.8, LOS 3-VI.(C))

(Study Session 1, Module 3.6, LOS 3-VI.(C))

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## Question #9 of 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)** only his employer. 
- B)** no one since it should not cause a conflict of interest for the analyst. 
- C)** both his employer and his clients and prospective clients. 

### Explanation

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

(Study Session 1, Module 3.8, LOS 3-VI.(A))

(Study Session 1, Module 3.6, LOS 3-VI.(A))

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### Question #10 of 52

A member or candidate that receives consideration from others for the recommendation of products or services, must disclose the estimated dollar value of the consideration paid in:

**A)** cash, soft dollars, or in kind.



**B)** cash only.



**C)** cash or soft dollars only.



#### Explanation

According to Standard VI(C), Referral Fees, consideration includes all fees that are paid in cash, soft dollars, and in kind. Referral fees must be disclosed to the client or employer before engaging in an agreement to provide services.

(Study Session 1, Module 3.8, LOS 3-VI.(C))

(Study Session 1, Module 3.6, LOS 3-VI.(C))

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### Question #11 of 52

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 2000 shares of Wonder, which is currently trading at \$25 per share. According to CFA Institute Standards of Professional Conduct, which of the following actions, if any, is Harrow required to take if he writes the research reports?

**A)** Harrow must disclose to Dominion his relationship with Miracle but not his ownership of shares in Wonder.



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



**C)** Harrow must disclose to Dominion both his relationship with Miracle and his ownership of shares in Wonder.



#### Explanation

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

(Study Session 1, Module 3.8, LOS 3-VI.(A))

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### Question #12 of 52

The following scenarios involve two analysts at Dupree Asset Management, a small New York-based company with about \$150 million in assets under management. Dupree restricts personal trading of stocks analyzed, corporate directorships, trustee positions, and other special relationships that could reasonably be considered a conflict of interest with their responsibilities to their employer.

- Ray Bolt, CFA, is a senior investment analyst. Bolt was recently elected to the board of trustees of his alma mater, Midwest University, and was appointed as the chairman of the University's endowment committee. Midwest has more than \$2 billion in its endowment. Bolt must travel from New York to Chicago eight times a year to attend meetings of the board of trustees and endowment committee. Bolt did not inform Dupree of his involvement with Midwest University.
- Wanda Delvecco, a candidate in the CFA Program, is a junior investment analyst. She recently wrote a research report on Aveco Communications and recommended the stock for Dupree's "buy" list. Delvecco bought 200 shares of Aveco stock for her personal account 12 months before she wrote her research report. Over the past 12 months, the stock's price has been in the \$20-42 price range. Delvecco has not informed Dupree of her ownership of Aveco stock.

According to CFA Institute Standards of Professional Conduct, which the following statements about Bolt and Delvecco's actions is CORRECT?

- A)** Neither Bolt nor Delvecco violated the Standards.
- B)** Both Bolt and Delvecco violated the Standards.
- C)** Delvecco violated the Standards, but Bolt did not.



#### 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.

(Study Session 1, Module 3.8, LOS 3-VI.(A))

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### Question #13 of 52

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



#### Explanation




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

(Study Session 1, Module 3.8, LOS 3-VI.(A))

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### Question #14 of 52

When an analyst makes an investment recommendation, which of the following statements *must* be disclosed to clients?

- A) Both of these statements must be disclosed to clients. 
- B) The firm is a market maker in the stock of the recommended company. 
- C) An employee of the firm holds a directorship with the recommended company. 

#### Explanation

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

(Study Session 1, Module 3.8, LOS 3-VI.(A))

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### Question #15 of 52

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) corporate finance relationships. 
- B) beneficial ownership of securities. 
- C) real estate holdings. 

#### Explanation

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

(Study Session 1, Module 3.8, LOS 3-VI.(A))

(Study Session 1, Module 3.6, LOS 3-VI.(A))

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### Question #16 of 52

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

#### Explanation



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

(Study Session 1, Module 3.8, LOS 3-VI.(C))

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## Question #17 of 52

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)** not violated CFA Institute Standards of Professional Conduct because transactions for clients should have priority over personal transactions and transactions for beneficial owners. 
- B)** violated CFA Institute Standards of Professional Conduct because family accounts that are client accounts should be treated like any other firm accounts. 



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



#### Explanation

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

(Study Session 1, Module 3.8, LOS 3-VI.(C))

(Study Session 1, Module 3.8, LOS 3.a, 3.b, 3.c)

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### Question #18 of 52

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

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



B) blackout periods.



C) limited front-running by employees.



#### Explanation

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

(Study Session 1, Module 3.8, LOS 3-VI.(C))

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### Question #19 of 52

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



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



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.



#### Explanation

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




(Study Session 1, Module 3.8, LOS 3-VI.(B))

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## Question #20 of 52

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)** in accordance with the CFA Institute Code and Standards. 
- B)** a violation of the Standard concerning disclosure of conflicts. 
- C)** a violation of the Standard concerning fair dealing. 

### Explanation




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

(Study Session 1, Module 3.8, LOS 3-VI.(C))

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## Question #21 of 52

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)** work on the portfolio because she did not personally work on the portfolio when she was at Howe. 
- B)** inform her supervisor that she cannot work on the portfolio because of a non-compete agreement. 
- C)** inform her supervisor that she cannot work on the portfolio because of a legal agreement, but cannot tell him why. 

### Explanation




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

(Study Session 1, Module 3.8, LOS 3-VI.(C))

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## Question #22 of 52

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) his clients' accounts first, his father's account second, and his account last. 
- B) all accounts simultaneously. 
- C) his clients' and his father's accounts in the first group and his personal accounts in the second group. 

**Explanation**

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




(Study Session 1, Module 3.8, LOS 3-VI.(B))

(Study Session 1, Module 3.6, LOS 3-VI.(B))

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### Question #23 of 52

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. 

**Explanation**

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

(Study Session 1, Module 3.8, LOS 3-VI.(B))




(Study Session 1, Module 3.6, LOS 3-VI.(B))

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### Question #24 of 52

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)** violated the Standards by not disclosing her salary, fee percentage, and performance bonus. 
- B)** not violated the Standards because there is no conflict of interest with a potential prospect in the employment arrangements. 
- C)** violated the Standards by not disclosing her performance bonus. 

**Explanation**




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

(Study Session 1, Module 3.8, LOS 3-VI.(A))

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**Question #25 of 52**

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)** The fact that Stone's son worked at Amity as a laborer during the summer while in school. 
- C)** Rubbell's broker-dealer relationship with Amity. 

**Explanation**

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




(Study Session 1, Module 3.8, LOS 3-VI.(A))

(Study Session 1, Module 3.6, LOS 3-VI.(A))

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**Question #26 of 52**

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 that investment personnel should clear all personal investments to identify possible conflicts. 
- B)** A requirement that employees provide duplicate confirmations of personal investing transactions. 
- C)** A requirement of disclosure of all investment holdings of friends and family members of employees on an annual basis. 

**Explanation**

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

(Study Session 1, Module 3.8, LOS 3-VI.(C))

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### Question #27 of 52

Gordon McKinney, CFA, works in the trust department of a bank. The bank's trust account holds a large block of a particular company. McKinney learns that this company is going to buy back one million shares at a 15% premium to the market price on a first-come-first-served basis. McKinney immediately tells his mother-in-law to tender her shares but waits until the end of the day to tender the trust's shares. McKinney has *most* likely violated:

- A) Standard IV(A), Loyalty to Employer.
- B) Standard VI(B), Priority of Transactions.
- C) Standard II(A), Material Nonpublic Information.



#### 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.

(Study Session 1, Module 3.8, LOS 3-VI.(B))

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### Question #28 of 52

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) make required disclosures to the referred client before an agreement is made to provide services to the referred client.
- C) disclose to the referred client the percentage of the member's business that comes from referrals.



#### Explanation

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

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

(Study Session 1, Module 3.8, LOS 3-VI.(C))

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### Question #29 of 52

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

- A)** disclose the nature of the fee arrangement to the client before entering into a formal agreement. ✔
- B)** consult with the firm's compliance officer, and follow his or her instructions concerning disclosure. ✘
- C)** disclose the fee to the supervisor, in written form, as an additional benefit. ✘

#### Explanation

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

(Study Session 1, Module 3.8, LOS 3-VI.(C))

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### Question #30 of 52

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)** only reveal to the prospects referred by Smith that he performs services for Smith. ✘
- B)** reveal to the prospects referred by Smith that he performs services for Smith, along with the estimated value of those services. ✔
- C)** discontinue his services for Smith. ✘

#### Explanation




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

(Study Session 1, Module 3.8, LOS 3-VI.(C))

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### Question #31 of 52

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)** notify his firm of his intention to sell the shares before selling the shares. 
- B)** not sell the shares of Park N'Wreck. 
- C)** delay selling the shares until a firm client makes an offsetting purchase to avoid having a market impact. 

#### Explanation

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




(Study Session 1, Module 3.8, LOS 3-VI.(B))

(Study Session 1, Module 3.6, LOS 3-VI.(B))

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### Question #32 of 52

Ryan Brown, CFA, is an analyst with a large insurance company. His personal portfolio includes a significant investment in QRS common stock that his firm does not currently follow. The director of the research department asked Brown to analyze QRS and write a report about its investment potential. Based on CFA Institute Standards of Professional Conduct, Brown is required to:

- A)** disclose the ownership of the stock to his employer and in the report. 
- B)** decline to write the report without specific approval of his supervisor. 
- C)** sell his shares of QRS before completing the report. 

#### Explanation

Standard VI(A) (Disclosure of Conflicts) requires that Brown make full disclosure of all matters that could impair his objectivity. Brown needs to disclose his personal holding in QRS stock not only to his employer, but also in any subsequent reports that he authors. Getting the approval of his supervisor does not solve this conflict problem for Brown. Selling his shares of QRS would be one solution to Brown's situation, however this action is not required by the Standards.

(Study Session 1, Module 3.8, LOS 3-VI.(A))

(Study Session 1, Module 3.6, LOS 3-VI.(A))

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### Question #33 of 52

Member compliance on issues relating to corporate governance or to soft dollars is primarily addressed by the Standard concerning:

- A)** Disclosure of Referral Fees. 
- B)** Loyalty, Prudence, and Care. 

C) Disclosure of Conflicts to Clients and Prospects.



**Explanation**

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

(Study Session 1, Module 3.8, LOS 3-VI.(C))

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**Question #34 of 52**

An analyst likes to trade options in her own account. She does not deem any of her client accounts suitable for option trading. When she finds a favorable options position, in accordance to Standard VI(B), Priority of Transactions, she should:

A) refrain from acting until she notifies her supervisor.



B) act on it on her own behalf as she sees fit.



C) first tell her clients about it before acting herself.



**Explanation**

This is not a violation of Standard VI(B), Priority of Transactions, because the investment is not suitable for her clients. If the analyst believes that none of her clients should trade options, she is not obligated to advise them in this instance.

(Study Session 1, Module 3.8, LOS 3-VI.(B))

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**Question #35 of 52**

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



C) present the bottle of wine to her supervisor.



**Explanation**

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

(Study Session 1, Module 3.8, LOS 3-VI.(C))

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**Question #36 of 52**

Standard VI(B), Priority of Transactions, applies to transactions an analyst takes on behalf of:

A) his employer.





**B)** both of these.



**C)** his clients.



**Explanation**

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

(Study Session 1, Module 3.8, LOS 3-VI.(B))

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### Question #37 of 52

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 if his brother is not a 'covered person'.



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



**Explanation**

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

(Study Session 1, Module 3.8, LOS 3-VI.(B))

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### Question #38 of 52

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



**B)** disclose her ownership in the stocks to both her supervisor and the board.



**C)** disclose her ownership in the stocks to her supervisor only.



**Explanation**

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




(Study Session 1, Module 3.8, LOS 3-VI.(A))

(Study Session 1, Module 3.6, LOS 3-VI.(A))

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### Question #39 of 52

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. 

#### Explanation

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




(Study Session 1, Module 3.8, LOS 3-VI.(B))

(Study Session 1, Module 3.6, LOS 3-VI.(B))

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### Question #40 of 52

Phil Trobb, CFA, is preparing a purchase recommendation on Aneas Lumber for his research firm. All of the following are potential conflicts of interest EXCEPT:

- A) Trobb's research firm has a large stake of ownership in Aneas Lumber. 
- B) Trobb's cousin repairs machines for Aneas. 
- C) Aneas hires Trobb as a consultant to analyze Aneas' financial statements. 

#### Explanation

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

(Study Session 1, Module 3.8, LOS 3-VI.(A))

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### Question #41 of 52

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) A person working in the mail room. 

**B)** An independent auditor with access to material, non-public information on a company being analyzed.



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



**Explanation**

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

(Study Session 1, Module 3.8, LOS 3-VI.(B))

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**Question #42 of 52**

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



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



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



**Explanation**

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

(Study Session 1, Module 3.8, LOS 3-VI.(B))

(Study Session 1, Module 3.6, LOS 3-VI.(B))

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**Question #43 of 52**

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



**C)** is not addressed in the Standard.



**Explanation**

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

(Study Session 1, Module 3.8, LOS 3-VI.(C))

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### Question #44 of 52

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

**A)** only fees a member receives for referrals.



**B)** both fees a member receives and fees a member pays.



**C)** only fees a member pays to others for referrals.



#### Explanation

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

(Study Session 1, Module 3.8, LOS 3-VI.(C))

(Study Session 1, Module 3.6, LOS 3-VI.(C))

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### Question #45 of 52

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



**B)** may be a violation despite the clients' approval.



**C)** cannot be a violation because the clients know of the practice and agree.



#### Explanation




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

(Study Session 1, Module 3.8, LOS 3-VI.(B))

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### Question #46 of 52

Vijay Gill, CFA, leases office space from Land Bank in exchange for an agreement that Gill will pay Land 20% of any fees paid by Land customers to Gill for investment management services. Gill also has an arrangement with Bloom Insurance Advisors whereby Gill receives a fee for each client referred. Gill only refers clients that request insurance products. Gill meets with Randolph Song, a Land Bank customer, who is interested in Gill's asset management services as well as insurance products. Gill is required to disclose to Song:

- A) the terms of the arrangement with Bloom, but not the terms of the arrangement with Land Bank. 
- B) neither the Land Bank nor Bloom arrangements, but may disclose them if he chooses to do so. 
- C) 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.




(Study Session 1, Module 3.8, LOS 3-VI.(C))

(Study Session 1, Module 3.6, LOS 3-VI.(C))

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### Question #47 of 52

Standard VI(C), Referral Fees, is applicable to:

- A) only consideration paid in soft dollars for the recommendation of products or services. 
- B) only cash consideration received for the recommendation of products or services. 
- C) all consideration received or paid for the recommendation of products or services. 

#### Explanation

According to Standard VI(C), Referral Fees, consideration includes all fees that are paid in cash, soft dollars, and in kind. Referral fees must be disclosed to the client or employer whether the consideration is received by or paid to others for the recommendation.




(Study Session 1, Module 3.8, LOS 3-VI.(C))

(Study Session 1, Module 3.6, LOS 3-VI.(C))

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### Question #48 of 52

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

- A) his son-in-law was formerly employed by Burch. 
- B) he has a material beneficial ownership of Burch through a family trust. 
- C) his wife owns 2,000 shares of Burch. 

### Explanation




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

(Study Session 1, Module 3.8, LOS 3-VI.(A))

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### Question #49 of 52

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) priority of transactions to Toby's clients, followed by his employer, then his parent's retirement account, and finally 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) Toby's clients and his parent's account equal priority, followed by his employer, and then his personal account. 

### Explanation




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

(Study Session 1, Module 3.8, LOS 3-VI.(C))

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### Question #50 of 52

Which of the following statements about Standard VI(C), Referral Fees, is CORRECT?

- A) Referral fees may be disclosed before or after proceeding with an agreement for service. 
- B) Referral fees must be disclosed after proceeding with an agreement for service. 
- C) Referral fees must be disclosed before proceeding with an agreement for service. 

### Explanation

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

(Study Session 1, Module 3.8, LOS 3-VI.(C))

(Study Session 1, Module 3.6, LOS 3-VI.(C))

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## Question #51 of 52

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



**B)** No.



**C)** Yes, if she discloses the directorships and the mergers-and-acquisitions relationship.



### Explanation

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

(Study Session 1, Module 3.8, LOS 3-VI.(A))

(Study Session 1, Module 3.6, LOS 3-VI.(A))

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## Question #52 of 52

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)** only disclose the position on the board to his supervisor.



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



**C)** do nothing.



### Explanation

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

(Study Session 1, Module 3.8, LOS 3-VI.(A))

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