Question #1 of 48

Lee Roth, who is an investment advisor, is riding in a taxi and finds a file of information labeled "Genco Valuation." The folder contains a great deal of financial data, projections and nonpublic information concerning the food products industry that lead Roth to believe that Genco will be worth 50% more than its current stock value. Roth also finds some correspondence that leads him to believe that the file belonged to Tom Hagan. Roth tries to find out where Hagan works so he can return the file. Roth can recommend Genco to his clients unless Hagan works for:

A) Roth cannot recommend Genco to his clients at this time.

B) the corporate finance department for Genco.

C) the equity research department for a brokerage firm.

Question #2 of 48

Which of the following statements concerning Standard II(A), Material Nonpublic Information, is CORRECT? A member:

A) can trade on material non-public information if the information was not obtained through a breach of duty.

B) cannot trade on material non-public information.

C) can trade on material non-public information if the information has not been misappropriated.

Question #3 of 48

Wallace Manaugh, CFA, is analyzing the stock of a manufacturer of fishing boats. By analyzing public information, speaking with the firm's suppliers and customers, and counting the new boats in the company's boat yard, Manaugh concludes that the company's new fishing boat is not meeting sales expectations. Anticipating that this will cause the stock price to decline, Manaugh takes a short position in the stock. Manaugh has:

A) not violated CFA Institute Standards.

B) violated the Standards by acting on nonpublic information.

C) an obligation under the Standards to make reasonable efforts to achieve public dissemination of the nonpublic information.

Question #4 of 48

Which one of the following *least* accurately describes the CFA Institute Standard about using material nonpublic information?

A) An analyst may use nonmaterial nonpublic information as long as it has been developed under the Mosaic Theory.

B) An analyst using material nonpublic information may be fined by CFA Institute.

C) An analyst may violate this Standard by passing information to others even when it has been obtained from outside the company.

Question #5 of 48

A stockbroker who is a member of CFA Institute has a part-time housekeeper who also works for the CEO of Festival, Inc. One day the housekeeper mentions to the broker that she saw the CEO of Festival having a conversation at his home with John Tater, who is a nationally known corporate lawyer and consultant. The stockbroker is restricted from trading on this information:

A) for both of the reasons listed here.

B) if the housekeeper says the meeting concerned a tender offer and the broker knows that it is non-public information.

C) only if the broker knows that the meeting is non-public information.

Question #6 of 48

Steve Waters, a Level I CFA candidate, has decided to enter into a long position of Farmco stock. Since Farmco is thinly traded, Waters is concerned the order will overwhelm the liquidity of Farmco and the price will surge. Waters engages in a series of block trades in order to accomplish the purchase. According to Standard II(B), Market Manipulation, Waters has engaged in:

A) both transaction-based manipulation and information-based manipulation.

B) transaction-based manipulation, but not information-based manipulation.

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

Question #7 of 48

Paul Clark, CFA, has just learned from a financial analyst at Corvac Industries that orders for their core products are running ahead of last year's orders by 15%, information that has not been publicly disclosed by the company. Clark currently has a hold rating on Corvac based on his expectation of a 5% increase in revenues for the current year. Based on Standard II(A) Material Non-public Information, Clark's *most appropriate* course of action is to:

A) disclose the information publicly prior to making any changes in his recommendation.

B) put Corvac on his firm’s restricted list and not make a recommendation until the increase in orders is publicly disclosed.

C) encourage Corvac to publicly release the order information and not act on that information until it is publicly disclosed.

Question #8 of 48

In the course of reviewing the Corn Co., an analyst has received comments from management that, while not meaningful by themselves, when pieced together with data he has accumulated from outside sources, lead him to recommend placing Corn Co. on his firm's sell list. What should the analyst do?

A) Not issue the report until the comments are publicly announced.

B) Show his report to his own manager and counsel for their review since this information has become material once it was combined with his analysis.

C) The comments are non material and the report can be issued as long as he maintains a file of the facts as supplied by management.

Question #9 of 48

A brokerage firm has a trading department and an investment-banking department. Often the investment-banking department receives material non-public information that would be valuable in advising the firm's brokerage clients. In order to comply with the Standards, the firm:

A) should restrict employee trading in securities for which the firm is in possession of material non-public information.

B) must divest one of the departments.

C) should record the exchange of information between the investment-banking department and the brokerage department.

Question #10 of 48

Marc Feldman, CFA, is manager of corporate investor relations for a high-tech startup, zippy.com, in Boise, Idaho. Feldman learns that Larry Smith, controller, is altering the accounting records. Feldman advises some of his personal friends to sell short zippy.com. This action:

A) constitutes a violation of the Standard concerning prohibition against misrepresentation.

B) constitutes the use of material nonpublic information and is a violation of the Code and Standards.

C) constitutes professional misconduct but not the use of nonpublic information and is a violation of the Code and Standards.

Question #11 of 48

An analyst is allowed to trade on information that he has predicted, such as a corporate action or event, using perceptive assembly and analysis of material public information or nonmaterial, non-public information. This is called the:

A) deduction theory.

B) mosaic theory.

C) assessment theory.

Question #12 of 48

During a conference call with 30 analysts, a company's management discloses that its quarterly earnings, which will be announced at the end of the week, are equal to the consensus forecast. The analysts participating in the conference call should consider this information:

A) nonpublic, but not material.

B) material, but public.

C) material and nonpublic.

Question #13 of 48

A CFA Institute member is a citizen of Abdhari and lives and works in Balwalla for a company based in Abdhari. Balwalla has no laws against the use of material non-public information. Based on this information, the CFA Institute member may:

A) trade using material non-public information in Balwalla but not in Abdhari.

B) not trade using material non-public information.

C) trade using material non-public information.

Question #14 of 48

Which one of the following constitutes the illegal use of material nonpublic information?

A) Trading based on your analytical review of the firm's future prospects.

B) Trading immediately after attending the firm's annual shareholders' meeting.

C) Trading on information your sister, the firm's attorney, told you over dinner.

Question #15 of 48

The *mosaic theory* is the idea that an analyst can:

A) make recommendations or trade based on several pieces of public or nonpublic information, each piece by itself being nonmaterial, but when compiled the information becomes material.

B) make investment recommendations on the basis of several pieces of nonpublic information as long as the aggregate information remains nonmaterial.

C) base his recommendations on nonpublic material information only for the clients of the company, but not for the general public.

Question #16 of 48

While working on her report, Jean Paul, CFA, learns from her friend in the investment banking department that the company she is analyzing can expect a tender offer very soon. Concerning this conclusion, Paul can:

A) trade on it, because it is public information.

B) trade on it, because she figured it out by herself.

C) not trade on it because it is material nonpublic information.

Question #17 of 48

All of the following are violations of Standard II(B) Market Manipulation EXCEPT:

A) exploiting differences in market inefficiencies.

B) securing a controlling interest in an equity security in order to influence the price of a related derivative instrument.

C) disseminating misleading information about the development of new products and technologies.

Question #18 of 48

Mark Guenin, CFA, covers the textile industry for a brokerage firm. While at his golf club on Saturday, he notices several executives from two of his covered companies entering a private dining room and sees a pro forma balance sheet combining the two companies projected onto a screen. The executives greet Guenin and confirm that their companies intend to merge. Guenin's *most appropriate* course of action should be to:

A) divest his personal holdings of both companies.

B) write a research report updating the outlook for both companies.

C) encourage the companies to announce the merger.

Question #19 of 48

Mark Williamson is "bearish" on ABC Manufacturing Company. Williamson is so convinced that ABC is overpriced, two weeks ago, he shorted 100,000 shares. Today, Williamson is "surfing" several popular investment bulletin boards on the internet and posting false derogatory comments about company management. According to Standard II(B), Market Manipulation, Williamson has engaged in:

A) both transaction-based manipulation and information-based manipulation.

B) information-based manipulation, but not transaction-based manipulation.

C) transaction-based manipulation, but not information-based manipulation.

Question #20 of 48

While visiting the CSI Company, Mark Ramsey, CFA, overheard management make comments that were not public information, but were not really meaningful by themselves. However, when this information is combined with his own analysis and other outside sources, Ramsey decides to change his recommendation on CSI from buy to sell. According to CFA Institute Standards of Professional Conduct, Ramsey should:

A) not issue his report until these comments are made public.

B) issue his sell report because the facts are nonmaterial, but maintain a file of the facts and documents leading to this conclusion.

C) report these events to his immediate supervisor and legal counsel, since they have become material in combination with his analysis.

Question #21 of 48

Darlene Hess, CFA, manages a pension fund that has a sizeable position in Knoll Corporation common stock. Hess also holds Knoll common stock in her personal account. Hess participates in an analyst conference call in which Knoll's chief financial officer advises that the company's current-quarter earnings will slip below consensus forecast. Knoll has not disclosed this to the public. Hess believes news of the poor earnings will reduce the stock's value significantly. Hess may:

A) sell Knoll stock from her personal account but may not sell it from the pension fund.

B) sell Knoll stock from the pension fund but may not sell it from her personal account.

C) not sell Knoll stock from either the pension fund or her personal account.

Question #22 of 48

Randy Wesson is a research analyst for a large brokerage company following the chemical industry. Wesson receives a phone call from his nephew who works part-time in an airport hospitality center for an airline while going to business school. Many meetings take place at the center on any given day. The nephew tells Wesson that while bringing some faxes into a conference room, he overheard executives of Hunt Chemical talking about the likely divestiture of one of their subsidiaries. His nephew wants to know whether that will be good for Hunt. Wesson should:

A) write a research report describing that he learned about the likely divestiture from his nephew who works at the hospitality center.

B) not use the information.

C) write a research report describing the possibility of a divestiture, but not mention how he learned about it.

Question #23 of 48

Don Benjamin, CFA, is the compliance officer for a large brokerage firm. He wants to prevent the communication of material nonpublic information and other sensitive information from his firm's investment banking and corporate finance departments to its sales and research departments. The most common and widespread approach that Benjamin can use to prevent insider trading by employees is the:

A) Wall Street Rule.

B) fire wall.

C) legal list.

Question #24 of 48

Klaus Gerber, CFA, is a regular contributor to the Internet site WizeGuy. This past week Gerber has been incorrectly quoted as recommending that investors buy shares in Bradford, Inc. He is unaware that this message has been placed on the site as the quote was placed as a prank by an unknown source. This is the third time this has happened over the past month and each time the stock being mentioned moved in price according to the buy or sell recommendation.

Fritz Fox, CFA, maintains and updates the WizeGuy site and has learned how to determine if the quotes being attributed to Gerber are actually valid. Several days later, he observes an investment recommendation, posted on the site, to buy Gresham, Inc. The investment recommendation is purported to be from Gerber, but Fox actually knows it to be bogus. He immediately sells 1,000 Gresham short and e-mails Gerber to inform him of the bogus recommendation. Gerber immediately issues a rebuttal, and Gresham falls by 14%. Fox's action is:

A) a violation of the Standard concerning fiduciary duties.

B) not in violation of the Code and Standards.

C) a violation of the Standard concerning use of material nonpublic information.

Question #25 of 48

Which of the following is a violation of Standard II(B), Market Manipulation?

A) Implementing a trading strategy to exploit differences in market power and information.

B) Overstating an earnings projection in order to increase the price of a stock.

C) Engaging in a block trade to limit the effect on the price of a thinly traded security.

Question #26 of 48

A stockbroker who is a CFA Institute member is called on the telephone by the CEO of a large company. The CEO asks to buy shares of the CEO's company for the accounts of the CEO's children. In the course of the conversation, the CEO says this will really pay off when the upcoming takeover goes through. The stockbroker checks her sources and finds no information about the takeover. In this case the broker should:

A) execute the order for all clients as required by Standard III(B), Fair Dealing.

B) only execute the order in compliance with Standard III(A), Loyalty, Prudence, and Care. Since the client is buying the stock for the children, there is not a problem.

C) do neither of the actions listed here.

Question #27 of 48

Nancy McCoy, CFA, is preparing a report on Gourmet Food Mart. As part of her research, she contacts the company's contractors, suppliers, and competitors. McCoy is told by the CEO of a major produce vendor that he is about to file a lawsuit against Gourmet Food Mart, seeking significant damages. McCoy incorporates this information into her research report, which projects a decline in profitability for Gourmet Food Mart due to the impending litigation. According to the CFA Institute Standards of Professional Conduct, McCoy:

A) has violated the Standards by utilizing material nonpublic information.

B) has not violated any Standard.

C) has violated the Standards by disseminating confidential information.

Question #28 of 48

John McNeal, CFA, has a friend named Stan Green, a journalist at Investment News, a weekly magazine. In one of their conversations, Green tells McNeal about material nonpublic problems at Brightstar.com, a heavily traded firm. Green has written a special article about Brightstar.com's problems that will appear in the next issue of Investment News. According to the Standards, can McNeal act on the information Green has shared with him?

A) Yes, McNeal can trade on the information but should ask Green to disseminate the information immediately.

B) Yes, McNeal can trade on the information, because it is already public.

C) No, McNeal cannot trade on the information.

Question #29 of 48

Lynne Jennings is a chemical industry research analyst for a large brokerage company. That industry is currently seeing an increase in mergers and acquisitions. While flying through Chicago, Jennings sees several senior officers who she knows are from the largest and fourth largest chemical companies walk into a conference room. She concludes that negotiations for an acquisition might be taking place. Jennings:

A) may not act or cause others to act on this information.

B) should inform her compliance officer that she has material nonpublic information on firms she covers.

C) may use this information to support an investment recommendation.

Question #30 of 48

The investment-banking department of the XYZ Brokerage House often has information that would be of significant use to the firm's brokerage clients. In order to conform to CFA Institute Standards of Professional Conduct, which of the following policies should XYZ adopt?

According to Standard:

A) II(A), Material Nonpublic Information, XYZ should establish physical and informational barriers within the firm to prevent the exchange of information between the investment banking and the brokerage

B) II(A), Material Nonpublic Information, XYZ should encourage their investment banking clients to publicly disseminate this information.

C) III(B), Fair Dealing, all clients should be informed of the information at the same time.

Question #31 of 48

Which of the following is an example of information-based market manipulation?

A) Entering large offsetting buy and sell orders to inflate trading volume.

B) Spreading false rumors about a stock on social media to influence its price.

C) Influencing futures prices by obtaining a dominant position in the underlying commodity.

Question #32 of 48

Dick Charles is a security analyst with a large brokerage company. Sean Donaldson is a money manager. They both listen in on a conference call for security analysts with the president of Stoppard, Inc., who states that in two days the company will be holding a press conference announcing a new product. Both Charles and Donaldson feel the news will increase the value of Stoppard.

A) Charles must wait until after the press conference to disseminate the information to clients, but Donaldson can purchase the stock for his clients immediately.

B) Charles must wait until after the press conference to disseminate the information to clients, and Donaldson must wait until after the press conference to purchase the stock for his clients.

C) Charles can disseminate the information to clients, and Donaldson can purchase the stock for his clients immediately.

Question #33 of 48

According to CFA Institute Standards of Professional Conduct, which of the following statements about material nonpublic information is NOT correct? Information is:

A) nonpublic until it has been disseminated to a select group of investors.

B) nonpublic until it has been disseminated to the marketplace in general.

C) material if reasonable investors would want to know the information before making an investment decision.

Question #34 of 48

While attending his wife's office party, Donald North, CFA, overhears two top executives from Parker Industries discussing that the company's Board of Directors just approved to omit its cash dividend due to unexpected losses during the quarter. Parker has paid a quarterly dividend for the past ten years. The next day, North calls his broker and instructs her to sell short Parker's common stock.

While in a coffee shop, Diane South, CFA, overhears two top executives from Ryland Products say that their company is about to be acquired by another company for a substantial premium over the market price. The next day, South calls her broker and instructs him to buy 500 shares of Ryland's common stock.

Which of the following statements about whether North and South violated Standard II(A), Material Nonpublic Information, is CORRECT?

A) North violated Standard II(A) but South did not violate Standard II(A).

B) Both North and South violated Standard II(A).

C) Neither North nor South violated Standards II(A).

Question #35 of 48

A CFO who is a CFA Institute member is careful to make his press releases—some of them containing material and previously undisclosed information—clear and understandable to his readers. While writing a new release, he often has his current intern proofread rough drafts. He also sends electronic copies to his brother, an English teacher, to get suggestions concerning style and grammar. With respect to Standard II(A), Material Nonpublic Information, the CFO is:

A) violating the standard by either showing the pre-release version to his intern or sending it to his brother.

B) only in violation by e-mailing the pre-release version to his brother but not the intern, because the intern is in essence an employee of the firm.

C) not in violation of the Standard.

Question #36 of 48

Marion Klatt, CFA, is a representative for Thiel Financial Network. Klatt received a phone call at home from William Kind, a junior executive at Westtown Development Company, asking whether Klatt had heard that Westtown had just reached an agreement to acquire a major shopping mall chain at a very favorable price. (Klatt had not heard this news, and Klatt was able to confirm that the information had not yet been made public.) Kind requested that Klatt acquire 10,000 shares of Westtown for Kind's personal account.

Klatt should:

A) not acquire the shares.

B) not acquire the shares until the information is made public.

C) not acquire the shares until he has contacted Westtown's management and encouraged them to publicly announce the merger discussion.

Question #37 of 48

The term "material" in the phrase "material nonpublic information" refers to information that is likely to affect significantly the market price of the issuing company's securities or that:

A) is acquired by the financial analyst from a special or confidential relationship with the issuing company.

B) is likely to be considered important by reasonable investors in determining whether to trade a particular security.

C) is derived by the financial analyst from direct communication with an issuing company's management.

Question #38 of 48

Trude Front, CFA, is a portfolio manager. While in the normal course of her duties, she happens to overhear material non-public information concerning the stock of VTT Bowser. She purchases several exchange traded funds which contain VTT Bowser, while shorting similar exchange traded funds which do not contain VTT Bowser. This is *most likely*:

A) not a violation of Standard II(A) "Material Non-Public Information."

B) a violation of Standard II(A) "Material Non-Public Information."

C) only a violation of Standard II(A) "Material Non-Public Information" because Front is simultaneously shorting the funds which do not contain VTT Bowser.

Question #39 of 48

Betsy Fox is an investment advisor who has a client, Don Gordon, who is an employment lawyer. At lunch, Fox noticed Gordon and the Chief Financial Officer of Blue Star Company at the next table. She overhears them talking and ascertains that Blue Star is about to announce higher than expected earnings. Before the earnings release, Gordon contacts Fox and asks her to purchase 3,000 shares for his portfolio. Fox:

A) can purchase shares for Gordon, but cannot ever purchase shares for her personal account.

B) must refuse to purchase shares for Gordon.

C) can only purchase shares for her personal account after informing all of her clients about the potential of the increase in earnings.

Question #40 of 48

Greg Allen is a security analyst and visits David Dawson, the Chief Financial Officer of Edmonds Company. Dawson reveals a great deal of nonmaterial financial data to Allen, data that Dawson routinely reveals to all security analysts who visit him. From this data and other industry information, Allen conjectures that Edmonds is likely to make a tender offer for another company in the industry, a fact that if true would be considered material to the value of the company. Allen:

A) can publish his conclusion in a research report.

B) must not disseminate the information or use it for trading purposes until the tender offer is announced.

C) should send a copy of the report to Dawson for verification before disseminating the report to clients.

Question #41 of 48

Insider trading can be defined as information that is:

A) material and nonpublic.

B) material and public.

C) nonmaterial and nonpublic.

Question #42 of 48

An analyst provides services for a charitable organization and in return gets free membership in the organization. Part of her job is to manage the liquid assets of the organization, and those assets include stocks. Her supervisor in the organization calls her and tells her to buy a certain stock for the portfolio based upon insider information from a board member in the organization. The analyst objects, but the supervisor says this is what they have always done and sees no reason for changing now. The analyst complies with the request. With respect to Standards IV(A), Loyalty to Employer, and II(A), Material Nonpublic Information, the analyst violated:

A) both Standards IV(A) and II(A).

B) only Standard IV(A) requiring duty of loyalty.

C) only Standard II(A) that prohibits insider trading.

Question #43 of 48

Lisa Pierce, CFA, has been researching Lander Manufacturing for the past three weeks. She likes the company's history of fulfilling its contracts on time and within budget. She learns from the uncle of a maintenance worker at Lander's headquarters that a group of well-dressed individuals arrived at headquarters in a lime green-colored limousine. Pierce knows from publicly available information that Gilbert Controls needs a large supply of specialized motors in its domestic division. She also knows that the executive officers of Gilbert usually travel in a lime green limousine. Pierce concludes that it is very likely that Gilbert will offer a large contract to Lander. Based on this development and her prior research Pierce would like to acquire Lander Manufacturing shares for her client accounts.

Pierce should:

A) not acquire the shares until after she has contacted Lander's management and encouraged them to publicly announce information about the Gilbert Controls contract. She should also wait until Lander

B) not acquire the shares because she possesses material nonpublic information.

C) proceed to acquire the shares.

Question #44 of 48

Andrea Waters is an investment analyst who has accumulated and analyzed several pieces of nonpublic information through her contacts with drug firms. Although no one piece of the information she collected is "material," Waters correctly concluded that the earnings of one of the drug companies would be unexpectedly high in the coming year. According to CFA Institute Standards of Professional Conduct, Waters:

A) may use the information, but only after approval from a compliance officer or supervisor.

B) cannot legally invest or make recommendations based on this information.

C) can use the information to make investment recommendations and decisions.

Question #45 of 48

Ron Taylor, a Level I CFA candidate, trades cotton contracts for a small commodity broker. Taylor convinces a government cotton inspector to issue a warning that the Texas cotton crop is in danger from insect infestation. The price of cotton soars. Taylor immediately shorts cotton futures. Once the position is created, the government inspector issues a second report reversing his original opinion and cotton prices plummet.

Cedric Sims, a Level III CFA candidate, would like to generate a tax loss on a security held in his personal portfolio; however, he believes the security has significant upside potential. To avoid the wash sale provisions of the income tax code, Sims sells the security and simultaneously creates a synthetic long position using derivatives.

With regard to Standard II(B) Market Manipulation, which of the following statements concerning Taylor's and Sims's conduct is *CORRECT*?

A) Neither Taylor nor Sims is in violation of Standard II(B).

B) Both Taylor and Sims are in violation of Standard II(B).

C) Taylor is in violation of Standard II(B), but Sims is not in violation.

Question #46 of 48

Regarding non-public information, which one of the following statements is *NOT* correct?

A) An analyst may use some types of non-public information.

B) Disclosing material non-public information would have an impact on the price of a security or be of interest to a reasonable investor.

C) A member can be summarily suspended for having received material non-public information.

Question #47 of 48

Which of the following statements regarding Standard II(A), Material, Nonpublic Information, is *least* accurate?

A) Material, non-public information regarding a tender offer may not be traded on.

B) If you receive the information in a public forum, it has been disseminated, and you can trade on it.

C) Information received from an insider who is not breaching his fiduciary responsibility may be traded on.

Question #48 of 48

Which of the following actions is *least* likely to prevent the misuse of insider information?

A) Controlling relevant interdepartmental information.

B) Monitoring all the phone calls made by the brokers.

C) Placing securities on a restricted list when the firm is in possession of material nonpublic information.