## Question #1 of 42

Sharon Pope has been asked by the Chief Investment Officer to develop a firm-wide policy for proxy voting. Which of the following would NOT be acceptable to include in the policy statement?

**A)** Voting proxies may not be necessary in all instances.

**B)** Portfolio managers of active funds must vote in all proxies; portfolio managers of index funds should vote only when they have a definitive opinion.

**C)** The value of proxy voting must be maximized.

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## Question #2 of 42

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

**A)** a violation of Calaveccio's duty to his employer.

**B)** permissible under CFA Institute Standards.

**C)** a violation of Calaveccio's fiduciary duties.



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## Question #3 of 42

Rey Sanchez, CFA, covers the specialty chemical industry for Rock Advisory Associates. Until today he has had a buy recommendation on ChemStar, and many of the firm's customers have purchased shares based upon his recommendation. The firm's client accounts are divided into two fundamental categories: trading and buy-and-hold accounts. The firm holds discretionary trading authority over the trading accounts, but not the buy-and-hold accounts. Sanchez has recently come to believe that the fundamentals are changing for the worse at ChemStar, and is preparing a sell recommendation. He calls a meeting of the firm's portfolio managers with accounts holding ChemStar and tells them of the pending release of the sell recommendation. On this basis, the portfolio managers sell all positions in the discretionary accounts but not in the buy-and-hold accounts. Sanchez completes and mails the report to all clients two days later, and, shortly thereafter, many of the buy-and-hold accounts sell their ChemStar positions. With regard to these actions, Sanchez is:

**A)** in violation of the Standard on Fair Dealing; the portfolio managers are not in violation of the Standard on Fair Dealing.

**B)** not in violation of the Standard on Fair Dealing; the portfolio managers are in violation of the Standard on Fair Dealing.

**C)** in violation of the Standard on Fair Dealing; the portfolio managers are in violation of the Standard on Fair Dealing.

## Question #4 of 42

In accordance with Standard III (A) Loyalty, Prudence and Care, which of the following statements is *not* a required or recommended action?

**A)** Submit to clients, at least quarterly, itemized statements detailing all of the period's transactions.

**B)** Utilize client brokerage to the sole benefit of the client.

**C)** Vote all proxies on behalf of clients in a responsible manner.

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## Question #5 of 42

Scott Andrews, CFA, is a stockbroker selling an oversubscribed stock issue. Which of the following *best* describes Andrews' actions regarding this sale? Andrews:

**A)** can offer this security on a prorated basis to all clients for which the security is appropriate.

**B)** can only offer this security to clients for which it is appropriate on a first come first serve basis.

**C)** cannot offer an oversubscribed issue of stock to any clients.

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## Question #6 of 42

While trading on behalf of a pension account, an analyst receives special research reports from the brokerage firm with whom she is doing the trades. Such an activity is:

**A)** a violation of both Standard III(A), Loyalty, Prudence, and Care, and the Code of Ethics.

**B)** a violation of only The Code of Ethics.

**C)** not in itself a violation of Standard III(A), Loyalty, Prudence, and Care, nor the Code of Ethics.

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## Question #7 of 42

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

**A)** managing firm.

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

**C)** client.

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## Question #8 of 42

Jack Stevens is employed by a company to provide investment advice to participants in the firm's 401(k) plan. One of the investment options is a stable value fund run by the company. Stevens' research indicates that the fund is far riskier and less liquid than the typical stable value fund and has a fundamental asset value lower than the book value of the assets. He tells Jessica Cox, the head of employee benefits, about his research, and indicates that he will advise new employees to not invest in the fund and will advise employees who already own the fund to reduce their holdings in the fund. Cox points out that the fund is not in any current danger because there are very few redemptions requested of the fund. Cox also states that a sell recommendation may become a self fulfilling prophecy, causing investors to redeem their shares and forcing the fund to liquidate, which in turn will cause the remaining investors to receive less than their promised value. Stevens agrees with this assessment and feels his fiduciary duty is to all employees. Stevens should:

**A)** continue to recommend that new investors do not invest in the fund and existing investors reduce their holdings.

**B)** tell investors he cannot give advice on the fund because of a conflict of interest.

**C)** continue to recommend that new investors do not invest in the fund, but not advise existing investors to reduce their holdings.

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## Question #9 of 42

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

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

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

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



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## Question #10 of 42

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

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

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

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

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## Question #11 of 42

Rickard Advisors recently had a trading error in a customer account that was subsequently discovered by Rickard. The firm felt embarrassed by the disclosure of this error, and, in order to induce the client to continue its relationship, Rickard offers the client preferential access to a new issue that is expected to be "hot." Which Standard is violated, if any?

**A)** The Standard concerning Fiduciary Duty.

**B)** The Standard concerning Fair Dealing.

**C)** The Standard concerning Independence and Objectivity.

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## Question #12 of 42

Heidi Krueger, CFA, an investment advisor, applies soft dollars generated from client accounts to purchase a report on the economic impact of world events, and to purchase a new conference table for the office she uses to meet with clients and prospects. Do these purchases violate Standard III(A) Loyalty, Prudence, and Care?

**A)** Neither of these purchases violates the Standard.

**B)** Only one of these purchases violates the Standard.

**C)** Both of these purchases violate the Standard.



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## Question #13 of 42

Concerning Standard III(B), Fair Dealing, which of the following actions is NOT a valid procedure for compliance with the Standard?

**A)** Communicate investment recommendations simultaneously within the firm and to customers, where possible.

**B)** Limit the number of people that are involved and are privy to the fact that an investment recommendation is going to be disseminated.

**C)** Communicate investment recommendations to all customers including those accounts for which the securities are not eligible for purchase.

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## Question #14 of 42

Calvin Moore, CFA, has been transferred from the brokerage house of the Browning Company to the portfolio management department. In portfolio management, Moore learns that clients are grouped into three divisions according to portfolio value, divided as follows:

- Group 1 up to $10,000
- Group 2 from $10,001 to $100,000
- Group 3 more than $100,000

When recommendations are announced or trades are initiated, a particular sequence is followed in communicating to these groups. At the next monthly meeting, Moore suggests that the sequencing practice is a breach of CFA Institute Standards. One of Moore's co-workers replies that the grouping approach helps the company in applying the Standard regarding portfolio recommendations. He further suggests that because Browning's overall performance is more strongly affected by actions taken on the high value portfolios, that these portfolios should take priority over the small value portfolios. What should Moore do? Moore should:

**A)** do nothing since there is no breach with the Standards.

**B)** prepare a written report to the CEO describing the problem.

**C)** disassociate himself from the problem and seek legal advice.



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## Question #15 of 42

Bertha Mader, CFA, received proxy material related to a hostile takeover attempt of Danube Industries by Balnet Company. She holds shares of Danube in most of her client accounts. Mader has a high opinion of Danube's management because they have run the company successfully and have always responded directly and honestly to her inquiries. She is not acquainted with Balnet's management team but knows they have a reputation for improving the bottom line at the companies they acquire, partly because they tend to replace upper management at their targets and assume their functions. Balnet's offer is 60% higher than the price of Danube shares before the announcement. Danube's management has contacted Mader and requested that she vote the shares she controls against the takeover because the management is concerned for their jobs and for the welfare of the company. To comply with the Code and Standards, Mader should:

**A)** vote for the takeover if it is in the best interest of Danube's shareholders, regardless of the consequences to current management.

**B)** delegate her proxy vote to another member of her firm due to the conflict of interest created when she was contacted by management.

**C)** vote for the takeover if she can get assurance that Danube's management team will remain in place.

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## Question #16 of 42

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

**A)** Standard III(C), Suitability.

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

**C)** both of these.

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## Question #17 of 42

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

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

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

**C)** a violation of the standard.



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## Question #18 of 42

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

Cramer may:

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

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

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

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## Question #19 of 42

A member would *most likely* violate the Standard regarding duties to clients by:

**A)** executing a client order for a security the member believes is greatly overvalued.

**B)** adding a risky derivative security to the portfolio of a client with moderate risk tolerance.

**C)** recommending purchase of securities without a reasonable inquiry into the investment experience of the client.

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## Question #20 of 42

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

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

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

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

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## Question #21 of 42



The use of client brokerage by an investment manager to obtain certain products and services to aid the manager in the investment decision-making process is called:

**A)** quid pro quo practices.

**B)** soft dollar practices.

**C)** trading practices.

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## Question #22 of 42

Which of the following is *least likely* required of fiduciaries who are responsible for pension plans?

**A)** Acting solely in the interest of plan participants.

**B)** Supporting the sponsor's management during proxy fights.

**C)** Judging investments in the context of the total portfolio.

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## Question #23 of 42

Denise Weaver is a portfolio manager who manages a mutual fund and has pension clients. When Weaver receives a proxy for stock in the mutual fund, she gives it to Susan Griffith, her administrative assistant, to complete. When the proxy is for a stock owned in a pension plan, she asks Griffith to send the proxy on to the sponsor of the pension fund. Weaver has:

**A)** not violated the Standards.

**B)** violated the Standards by her policy on mutual fund and pension fund proxies.

**C)** violated the Standards by her policy on mutual fund proxies, but not her policy on pension fund proxies.

## Question #24 of 42

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

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

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

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

## Question #25 of 42

Which of the following statements about a member's use of client brokerage commissions is NOT correct? Client brokerage commissions:

**A)** should be commensurate with the value of the brokerage and research services received.

**B)** should be used by the member to ensure that fairness to the client is maintained.

**C)** may be directed to pay for the investment manager's operating expenses.



## Question #26 of 42

Which of the following statements regarding allocating trades is CORRECT? It is permissible under the Standards to allocate trades:

**A)** based upon compensation arrangements.

**B)** on a pro-rata basis over all suitable accounts.

**C)** based upon any method the firm deems suitable so long as the allocation procedure has been disclosed to all clients.

## Question #27 of 42

An analyst with his own money management firm trades on behalf of several large pension funds. The analyst now performs all trades through a particular brokerage firm because the brokerage provides his firm with a no-interest line of credit if paid within 60 days. The line of credit is available to all brokerage clients. The brokerage provides the analyst with personal account privileges that he would not otherwise be eligible for. The brokerage also provides the analyst with free research reports on many companies. Which of these benefits are violations of Standard III(A), Loyalty, Prudence, and Care?

**A)** The research reports.

**B)** Neither of these.

**C)** The personal account privileges.

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## Question #28 of 42

Brenda Simone is a money manager and the Blue Streets Pension Fund is one of her clients. The director of the pension fund calls Simone and asks her to use a particular broker so that the fund can obtain some research services with the soft dollars from that broker. Simone believes that the desired broker will provide the same price and execution as the normal broker that Simone uses. Simone does as the client wishes. Simone has:

**A)** not violated the Standards as long as the research provided by the broker will benefit the plan beneficiaries.

**B)** not violated the Standards as long as the research provided by the broker will benefit Blue Streets.

**C)** violated the Standards.

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## Question #29 of 42

All of the following are violations of Standard III(B), Fair Dealing, EXCEPT a member:

**A)** telephones clients in distant cities the day after a buy recommendation is mailed to all clients because their mail service is later than the member's local clients.

**B)** places a trade for her discretionary accounts before placing a trade for her non-discretionary accounts.

**C)** places a trade for the firm account before issuing a buy recommendation.

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## Question #30 of 42

Caroline Turner, an analyst for Lansing Asset Management, just completed an investment report in which she recommends changing a "buy" to a "sell" for Gallup Company. Her supervisor at Lansing approves of the change in recommendation. Turner wonders about whether she needs to disseminate this investment recommendation to Lansing's clients and if so, how to distribute this information. According to CFA Institute Standards of Professional Conduct, Turner is:

**A)** required to disseminate the change in a prior investment recommendation to all clients and customers on a uniform basis.

**B)** required to design an equitable system to disseminate the change in a prior investment recommendation.

**C)** not required to disseminate the change of recommendation from a buy to a sell because the change is not material.

## Question #31 of 42

Paul Drake is employed by a company to provide investment advice to participants in the firm's 401(k) plan. Company stock is one of the investment options in the plan. Drake feels that the stock is too risky for employees to own in their 401(k) plan and starts advising them to pull out of the stock. The Treasurer of the company calls Drake and tells him that he will be fired if he continues making such advice because he is violating his fiduciary duty to the company. Drake should:

**A)** make sell recommendations but point out that the company Treasurer has a differing and valid point of view.

**B)** tell employees that he cannot provide advice on company stock because of a conflict of interest.

**C)** continue to advise employees to sell their stock.

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## Question #32 of 42

Jack Harris, a CFA candidate, is a telecommunications analyst at Hasten Securities. Based upon his analysis of Midwest Telecom, he changes his recommendation of the company's common stock from "hold" to "sell." Before disseminating his recommendation and the reason for the change to Hasten's clients, Harris informs several portfolio managers at Hasten, whom he knows personally own Midwest stock, of the changed recommendation. Several days later, Hasten communicates the change in investment recommendation on Midwest to clients known to have bought Midwest and those who currently hold the stock.



Jane White, CFA, is a broker at Hasten Securities. One of her clients places a buy order contrary to the current recommendation on Midwest. After advising her client of the recommendation, she executes the transaction.

According to Standard III(B), Fair Dealing, which of the following statements about Harris and White's actions is CORRECT?

**A)** Harris violated Standard III(B), but White did not violate Standard III(B).

**B)** Both Harris and White violated Standard III(B).

**C)** Neither Harris nor White violated Standard III(B).

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## Question #33 of 42

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

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

**B)** place the client’s interest before the employer’s interest.

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

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## Question #34 of 42

Amanda Brad, CFA, is a security analyst at UpTrend, Inc. During a routine visit to a beauty salon, she learns that a major cosmetic company, Lorean, is expected to present a revolutionary formula for facial cream. Brad buys Lorean stock for her portfolio and prepares a special report on the company. Brad also makes a call to Hillary Lang, another security analyst at UpTrend, to inform her about the news. Lang starts trading on her clients' portfolios. Brad's report states that given the on-going research activity at Lorean within the last months, investors can expect some successful new products and a sharp increase in the price of the stock. Lang's actions:

**A)** violate the Standard of Objectivity and Independence.

**B)** violate the Standards because she trades on inside information.

**C)** violate the Standard of Fair Dealing.

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## Question #35 of 42

A company has a defined benefit plan that is currently under-funded. The plan sponsor has instructed the portfolio manager of the plan to invest more aggressively to bring the funding level up to an adequate amount. Which of the following statements *best* describes the course of action the portfolio manager should take? The portfolio manager should:

**A)** not invest more aggressively since this may expose the plan to too much risk and may not be in the best interest of the plan's beneficiaries.

**B)** invest more aggressively because his fiduciary duties lie with the plan sponsor.

**C)** not invest more aggressively because this is not the method used to increase the funding level of a plan.



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## Question #36 of 42

Steve Phillips is the new director of equity research for a brokerage company. He receives a call from a reporter at the Financial News, a weekly publication that comes out on Mondays. The reporter explains the relationship she had with his predecessor. They would share information that they both learned on stocks—the former director would benefit the company's clients by news he obtained from the reporter in exchange for information he gave to her. The former director could ask her not to publish any information he gave her until after a certain date, ensuring that the brokerage clients would be informed before the publication date. After the conversation, Phillips called the former director, who confirmed that the reporter was trustworthy with respect to honoring the agreement for delaying publication until clients have been informed. Philips should:

**A)** disclose research not yet disclosed to clients, as long as the reporter promises not to publish the information until after all clients have received the research, and the reporter provides valuable

**B)** only disclose research that has already been disseminated to clients, as long as the reporter is providing valuable information of her own.

**C)** not disclose any research even after it has been disseminated to clients regardless of the value of the information that the reporter may have.

## Question #37 of 42

Which of the following *most accurately* states a limitation that the Fair Dealing standard imposes?

**A)** Clients should not be discriminated against when disseminating investment recommendations.

**B)** Before trading on her own portfolio, a CFA charterholder must wait for employer and client deals to be executed.

**C)** Referral fees may be disclosed after proceeding with an agreement for service.

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## Question #38 of 42

Chuck Thomas is the trustee of a trust of which Jill Wyatt is the main beneficiary. Wyatt's husband is the president of a company. In emptying the recycling bin at home, Wyatt finds some papers that lead her to believe that her husband's company will make a tender offer to acquire another firm. Wyatt takes the information to Thomas, who uses it to purchase shares of the company for the trust, but does not further disclose the information. Thomas has:

**A)** violated the Standards concerning loyalty, prudence, and care.

**B)** violated the Standards concerning material nonpublic information.

**C)** not violated any Standards.



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## Question #39 of 42

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

**A)** Limiting the number of employees privy to recommendations and changes.

**B)** Having well defined guidelines for pre-dissemination.

**C)** Trading for regular accounts before discretionary accounts.

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## Question #40 of 42

Bjorn Sandvik, CFA, completes a research report with a buy recommendation for Acorn Properties. In the early afternoon, Sandvik e-mails this recommendation to his clients who had responded to his request that they provide Sandvik with their e-mail addresses. Later that afternoon, the printed recommendation is forwarded to the postal service for normal delivery to all customers, who receive the mailing 1 to 3 days later. Sandvik has:

**A)** violated the Code and Standards by sending the e-mail recommendation in advance of the printed report.

**B)** violated the Code and Standards by sending the e-mail recommendation to only some of his clients.

**C)** not violated the Code and Standards because he acted fairly in disseminating research information to his clients.

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## Question #41 of 42

Regarding (1) not voting all client proxies, and (2) using a directed brokerage arrangement, a member would violate the Standards by:

**A)** not voting all proxies for client stocks.

**B)** engaging in neither of these practices.

**C)** using a directed brokerage arrangement.

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## Question #42 of 42

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

**A)** At the same time notify clients for whom an investment is suitable of a new investment recommendation.

**B)** Maintain a list of clients and their holdings.

**C)** Shorten the time between decision and dissemination.