SS 01 Ethical and Professional Standards

Question #1 of 151

Question ID: 412713

As countries adopt the Global Investment Performance Standards (GIPS), which of the following is *least likely* to occur?

A) The trend toward cross border investments will decline.

B) Competition in the global investment industry will be enhanced.

C) Existing and potential clients will be able to make fair and unambiguous comparisons among investment firms.

Question #2 of 151

Question ID: 412664

Janice Melfi is a portfolio manager for Soprano Advisors. Soprano has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the Soprano model. The model is purely quantitative and screens stocks into buy, hold, and sell categories. The basic philosophy of the model is thoroughly explained to clients. The director of research frequently alters the model based on rigorous research-an aspect that is well explained to clients, although the specific alterations are not continually disclosed. Portfolio managers use the model to assist them in making portfolio decisions, but, based on their own fundamental research, are allowed to purchase securities not recommended by the model. This fact is not disclosed to the clients, because the head of marketing does not think it is relevant. Which of the following statements regarding the portfolio manager's investment decisions is CORRECT?

A) Soprano is violating the Standards by not disclosing the fundamental research aspect of the investment process.

B) There is no violation of the Standards.

C) Melfi is violating the Standards by using two investment processes that are in conflict with each other.

Question #3 of 151

Question ID: 412631

Ralph Lim and Susan Bland have both passed Level I of the CFA Program. Both are currently enrolled to sit for Level II. Lim's business card reads, "Ralph Lim, CFA Level I." Bland's resume states, "Level II Candidate in the CFA Program." According to CFA Institute Standards of Professional Conduct involving use of the professional designation:

A) Both Lim and Bland violated the Standard.

B) Bland violated the Standard, but Lim did not.

C) Lim violated the Standard, but Bland did not.

Question #4 of 151

Question ID: 412662

Dan Jeffries is a portfolio manager who is being sued by one of his clients for inappropriate investment advice. The Professional Conduct Program of CFA Institute is investigating Jeffries for the same offense. Jeffries settles the lawsuit with the client while the Professional Conduct Program investigation is ongoing. When the Professional Conduct Program staff questions Jeffries about the problematic investment advice, Jeffries claims he cannot talk about it because doing so would violate the confidentiality of his client. Jeffries has:

A) violated the Standards by refusing to talk about the case with the Professional Conduct Program, but not by executing the settlement agreement.

B) not violated the Standards by executing the settlement agreement or by refusing to talk about the case with the Professional Conduct Program.

C) violated the Standards by executing the settlement agreement, but not by refusing to talk about the case with the Professional Conduct Program.

Question #5 of 151

Question ID: 412731

When verifying a firm's compliance with Global Performance Investment Standards (GIPS), the verifier must:

A) attest that the firm's processes and procedures are established to present performance in accordance with GIPS requirements.

B) disclose whether the verification was performed by the firm's internal auditors or a third party.

C) clearly identify the composites for which verification has been performed.

Question #6 of 151

Question ID: 412748

All of the following are titles of one of the nine sections of the Global Investment Performance Standards (GIPS) EXCEPT:

A) Implementation.

B) Input Data.

C) Real Estate.

Question #7 of 151

Question ID: 454932

Stephanie Orange, Level II CFA candidate, posts blogs for her exam study group three days after the exam to vent her frustrations over the exam. However, to avoid disclosing what was actually on the exam, she only discusses topic areas she thought would be on the exam that were not. She writes "...the topics selected were unnecessarily obscure. Important items like FCF, DDM, and Residual Income were ignored completely..." Orange is *most likely*:

A) in violation of Standard VII(A) "the Code and Standards" for providing confidential information about the exam.

B) not in violation because the information about the actual exam contents was posted only after the conclusion of the exam.

C) not in violation because the information was only about what was not on the exam.

Question #8 of 151

Question ID: 412683

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 #9 of 151

Question ID: 412633

Which of the following is *least* likely an appropriate use of the CFA designation?

A) Jeremy Salyers, CFA.

B) Jeremy Salyers has earned the CFA designation by passing three exams, all three on his first attempts.

C) Jeremy Salyers, as a CFA charterholder, expects to outperform the market because CFA charterholders have on average outperformed their peers.

Question #10 of 151

Question ID: 412659

Scott Marsh is a research analyst for a brokerage firm following the computer industry. Joe Perry is Marsh's former college roommate and is the head of technology for Mercury, a large software company. Perry informs Marsh on Tuesday that in two days the company will be making an official announcement that its release of its newest version of its software will be moved up one month, from October 1 to September 1. The announcement will be surprising to the industry and will likely be met with skepticism because the company has had trouble meeting release dates in the past. Perry assures Marsh that he is certain that they will meet the September 1 date. Marsh considers Perry to be very honest and highly competent. Marsh should:

A) produce his research report in two days based solely on the official announcement, not taking into consideration the information from Perry.

B) immediately put out a report recommending the stock, but waiting until the official announcement to state his reasons.

C) wait until the public announcement is made, then release a report explaining that he believes the company will make the release date, disclosing that one of the reasons for his opinion is Perry is a friend of his.

Question #11 of 151

Question ID: 412656

Ned Brenan manages two dozen pension accounts, one of which earned over 25% during the past two years. Brenan tells prospective clients that based on past experience they can expect a 25% return on their funds. Which of the following statements is CORRECT?

A) Brenan has violated Standard of Professional Conduct III(D), Performance Presentation, but Brenan has not violated Standard I(C), Misrepresentation.

B) Brenan has not violated Standard of Professional Conduct III(D), Performance Presentation, but Brenan has violated Standard I(C), Misrepresentation.

C) Brenan has violated both Standard of Professional Conduct III(D), Performance Presentation, and Standard I(C), Misrepresentation.

Question #12 of 151

Question ID: 412646

Chuck Daniels has just been hired to manage a security analysis group for Aaron Asset Management. Daniels performed a similar function at another firm and finds the compliance system at Aaron inadequate. He develops a system that he feels is appropriate, but senior management tells him he will have to wait six months to implement the system. Daniels should:

A) protest in writing the delay, listing the potential dangers that can occur.

B) resign his position immediately.

C) decline in writing to accept supervisory responsibility until a satisfactory compliance system is put into place.

Question #13 of 151

Question ID: 412617

Nichole Zeller and Randy Toffler have both passed Level II of the CFA Exam Program and have registered for Level III. Zeller circulates a resume stating that she is a candidate for the CFA designation and has passed Level II of the CFA program. Toffler circulates a resume stating that he is a CFA II. Which of the following statements is CORRECT?

A) Only Toffler has violated the Code of Standards.

B) Both Zeller and Toffler have violated the Code of Standards.

C) Only Zeller has violated the Code of Standards.

Question #14 of 151

Question ID: 412715

In 1995, the CFA Institute sponsored and funded the Global Investment Performance Standards (GIPS) in response to:

A) a need to address issues, such as portability of investment results.

B) an increase in insider trading.

C) both of the reasons listed here.

Question #15 of 151

Question ID: 412645

Brenda Clark is an investment advisor. Two years ago Clark decided to stop calculating a return composite because of the time required to make those calculations. A prospective client asks Clark what she thinks her performance would have been over the past two years. Clark:

A) cannot answer the question, nor can she discuss potential future market returns with the prospective client.

B) cannot answer the question because it would be misleading.

C) can answer the question orally but cannot state the numbers in writing.

Question #16 of 151

Question ID: 412649

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

B) not violated the Standards.

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

Question #17 of 151

Question ID: 485751

Jean Davis and Brian Taylor were recently hired by a local brokerage. Davis is registered for the Level II CFA exam and does not reference the CFA designation on her business card. In her marketing materials, Davis factually describes CFA requirements and notes that she expects to pass in June. Taylor passed the Level II exam and has not yet registered for the Level III CFA exam. Taylor also does not reference the CFA designation on his card and writes in his marketing materials that he passed both Levels I and II of the CFA exam on his first try, which is true. Have Davis or Taylor violated any CFA Institute Standards of Professional Conduct?

A) Only one violated the Standards.

B) Neither violated the Standards.

C) Both violated the Standards.

Question #18 of 151

Question ID: 412635

After a very successful quarter of high investment returns, Judy O'Berry, CFA, receives several gifts from grateful clients. O'Berry considers the gifts to be of novelty or sentimental value only, but she hears rumors that several junior employees are jealous of the attention she received for the group's efforts. She decides to consult the company's compliance rules on gifts and is surprised to learn her firm has no established rules. She consults the Standards of Practice Handbook, and then submits proposed rules on gifts to her company's compliance department. These rules should contain all of the following EXCEPT:

A) a formal value limit based on local customs.

B) restrictions on all types business entertainment.

C) a requirement to disclose the gift.

Question #19 of 151

Question ID: 412717

Which of the following *best* describes the underlying principles upon which the Global Investment Performance Standards (GIPS) are based?

A) Fair and consistent application of a global set of regulatory requirements.

B) Uniformity and consistent application of standards for the global regulation of the securities industry.

C) Full disclosure and fair representation of performance results.

Question #20 of 151

Question ID: 412699

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 to Toby's clients and his employer concurrently, followed by his parent's retirement account, and finally his personal account.

B) Toby's clients and his parent's account equal priority, followed by his employer, and then his personal account.

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

Question #21 of 151

Question ID: 434183

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 Fair Dealing.

B) violate the Standard of Objectivity and Independence.

C) violate the Standards because she trades on inside information.

Question #22 of 151

Question ID: 412654

Maggie McCarthy is an individual investment advisor who uses mutual funds for her clients. She typically chooses from a list of 40 funds that she has thoroughly researched. The Figgs, a married couple that are a client, asked her to consider the Boilermaker fund for their portfolio. McCarthy had not previously considered the fund because when she first conducted her research three years ago, Boilermaker was too small to be considered. However, the fund has now grown in value, and after doing thorough research on Boilermaker, she found the fund was by far the most outstanding large company value fund in her list of funds. She puts the fund in the Figgs' portfolio, and in all new clients portfolios, but not in any of her other clients' portfolios. Her reasoning is that her existing clients were comfortable with their current holdings, and she did not want to risk disturbing their comfort. Has McCarthy violated any Standards? McCarthy has:

A) violated the Standards by not dealing fairly with clients.

B) violated the Standards by not having a reasonable and adequate basis for making the recommendation.

C) not violated the Standards.

Question #23 of 151

Question ID: 412737

Longhorn Investments prepares its performance presentations in accordance with Global Investment Performance Standards (GIPS). As part of its employee benefits package, Longhorn does not charge a fee to its employees for managing their portfolios. When calculating total firm assets for the purpose of GIPS compliance, Longhorn should:

A) only include those employee portfolios that are in discretionary accounts.

B) not include these employee portfolios because they are in non-fee-paying accounts.

C) include these employee portfolios.

Question #24 of 151

Question ID: 460638

Which of the following individuals may refer to himself or herself as a candidate in the CFA Program?

A) Bob Krall passed the Level II exam and intends to register for the next Level III exam.

B) Ed Long has not yet attempted a Level I exam but has registered for the next one.

C) Jane Baker received a passing score in January for the Level I exam but is waiting until the following year to register for the Level II exam.

Question #25 of 151

Question ID: 702535

Rachel Young, CFA, is making preparations to start a competitive business before terminating her relationship with her employer, a large money management company. Young asks Dot Wiggins, a colleague, to consider joining her. In subsequent discussions with Young, Wiggins learns that Young has used excerpts from research reports by others with only a slight change in wording without acknowledging the source. According to CFA Institute Standards of Professional Conduct, Young has:

A) violated Standard IV(A) Loyalty, because she was making preparations to start a competitive business before terminating her relationship with her employer.

B) not violated the Standards.

C) violated Standard I(C) Misrepresentation, because she did not acknowledge the source of excepts that she used in research reports.

Question #26 of 151

Question ID: 412615

Lucy Ackert and Chris Brown prepared the following information to be included in the promotional materials of their employer, Lofton Securities.

- Lucy Ackert is one of five CFAs at Lofton Securities. She satisfied all requirements for the CFA designation in 1998.
- Chris Brown holds a CFA Level I designation, which he passed in 2001. He is registered to take the next scheduled Level II examination.

Are the promotional materials prepared by Ackert and Brown fully consistent with the Standards of Professional Conduct?

A) Ackert: No. Brown: Yes.

B) Ackert: Yes. Brown: No.

C) Ackert: No. Brown: No.

Question #27 of 151

Question ID: 412694

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) not violated any Standards.

C) violated the Standards concerning material nonpublic information.

Question #28 of 151

Question ID: 412698

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

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

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

Question #29 of 151

Question ID: 551100

For the past 5 years, Karen Beckworth, CFA, has served as a proctor for the CFA exam. Beckworth tells her assistant, a Level III CFA candidate, that she normally receives the examinations on the Thursday before the exam. Given the low pass rate at Level III, Beckworth asks her assistant if he would like an advance copy of the next exam. Beckworth's assistant declines the offer.

Beckworth's assistant has been very vocal about expressing his opinions about the low pass rate. The assistant claims, "there are too many charterholders and CFA Institute is deliberately failing candidates because the prestige of the CFA charter is becoming diluted."

With regard to Standard VII(A) Conduct as Participants in CFA Institute Programs, which of the following statements concerning Beckworth's and her assistant's behavior is *most accurate*?

A) Neither Beckworth nor her assistant is in violation of Standard VII(A).

B) Both Beckworth and her assistant are in violation of Standard VII(A).

C) Beckworth is in violation of Standard VII(A), but her assistant is not in violation.

Question #30 of 151

Question ID: 412670

Patricia Young is an individual investment advisor who uses a computer model to place each of her clients into an appropriate portfolio. The model analyzes a range of simulated portfolios and computes for each the probabilities of achieving various levels of return. Young then selects the portfolio that provides the highest probability of achieving the clients' minimum required return. By using this process, Young is:

A) violating Standard I(C) - Misrepresentation.

B) violating Standard III(C) - Suitability.

C) not violating the Standards.

Question #31 of 151

Question ID: 412658

While having a conversation with a prospective client, John Henry states that his performance across all of his past clients over the past five years was over 20%, which was 200 basis points higher than his benchmark. He tells the client that while the benchmark may rise or fall over time, his excess performance will remain consistent. Henry violated the Standards of Professional Conduct because:

A) he cannot discuss prospective future performance in any manner.

B) the statement of excess performance is misleading with respect to its certainty.

C) he cannot discuss performance without clearly stating that the composite does not conform to GIPS.

Question #32 of 151

Question ID: 412725

Jones, Inc., is attempting to qualify for Global Investment Performance Standards (GIPS) compliance. Regarding mandatory disclosures, which of the following disclosures will be insufficient and thus prevent Jones, Inc., from claiming compliance?

A) Jones discloses all non-fee paying portfolios that are included in composites and notes the percentage of composite assets that are non-fee paying portfolios.

B) Jones discloses all firm assets under active management each period.

C) Jones' definition of the firm is that they are a brokerage/portfolio management firm registered with the Securities and Exchange Commission (SEC).

Question #33 of 151

Question ID: 412641

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

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

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

Question #34 of 151

Question ID: 412680

Randal Brooks is the chief economist for a large brokerage firm. In the aftermath of a national tragedy, Brooks feels that it is very possible that the stock market will drop significantly and not recover for several years. However, he does not believe that this is the most likely scenario but merely that the risk of investing in equities has increased. He decides to write a market commentary to the brokerage clients that discusses the reasons why the market will remain stable and talks about why he, as a private citizen, feels patriotic. He does not mention the increase risk in equities. Brooks has:

A) violated the Standards by not including all of the relevant factors in the research report and making patriotic statements.

B) violated the Standards by not including all of the relevant factors in the research report, but not by making patriotic statements.

C) not violated the Standards.

Question #35 of 151

Question ID: 412752

The provisions for each section of the Global Investment Performance Standards (GIPS) are divided between:

A) minimum standards and recommendations.

B) fee-paying and non fee-paying portfolios.

C) requirements and recommendations.

Question #36 of 151

Question ID: 697259

According to the Global Investment Performance Standards (GIPS), where existing laws or regulations conflict with GIPS, firms:

A) are required to comply with local laws and regulations in preparing a compliant presentation.

B) may choose to comply with either GIPS or local laws and regulations, but must make full disclosure of the conflict in any compliant presentation.

C) are required to comply with GIPS in preparing a compliant presentation.

Question #37 of 151

Question ID: 412667

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) must refuse to purchase shares for Gordon.

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

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

Question #38 of 151

Question ID: 412674

Noah Johnson, CFA, is a broker with a money management company, Factor, Inc. In a conversation with Tom Williams, Johnson describes the activities of Factor and discusses the characteristics of portfolio construction. Which of the following statements would NOT, on its face, be considered a misrepresentation?

A) The portfolio securities were carefully selected by Factor to minimize Williams' risk.

B) If Williams is not satisfied with the current target return, Johnson can always improve it by increasing his T-bills share.

C) Factor guarantees the portfolio will achieve its goal return.

Question #39 of 151

Question ID: 412749

Within the Global Investment Performance Standards (GIPS) are supplemental provisions which must be applied to which of the following asset classes?

A) Emerging markets and private equity.

B) Private equity and real estate.

C) Alternative investments and derivatives.

Question #40 of 151

Question ID: 412622

A CFA Institute member puts the following statement on her resume: "I passed each level of the CFA exam on the first try." Is this a violation of Standard VII(B)?

A) Yes, because she incorrectly refers to the CFA exam.

B) Yes, because saying she passed exams on the first try is not appropriate.

C) No, because it is a statement of fact.

Question #41 of 151

Question ID: 412663

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) violated the Standards.

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

Question #42 of 151

Question ID: 412620

When Wes Smith first joined Advisors, Inc., he was excited that all the analysts at the firm had the CFA designation. In letters to prospective clients, he states that this ensures that Advisors can provide better service than their competitors. With respect to Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program, this is:

A) a violation because he cannot guarantee better service.

B) a violation for both mentioning the CFA designation and saying the firm can guarantee better service.

C) a violation because he mentions the CFA designation in the letter.

Question #43 of 151

Question ID: 412721

The Global Investment Performance Standards (GIPS) apply to which of the following parties?

A) An investment management firm located in Indonesia.

B) The chief compliance officer for a regional money manager.

C) A software firm that developed a software package that assists investment firms in achieving GIPS compliance.

Question #44 of 151

Question ID: 412672

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.

Question #45 of 151

Question ID: 412726

Viroqua DeSoto, CFA, is reading a discussion in an online forum about the construction and purpose of composites in performance reporting. She finds these statements from participants:

Statement 1: The purpose of composites is to let investors know how well a firm has performed managing different types of securities or investment strategies.

Statement 2: A managed portfolio should have a performance history of at least one year before the firm assigns it to a composite.

With respect to both statements:

A) both are correct.

B) both are incorrect.

C) only one is correct.

Question #46 of 151

Question ID: 412651

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

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

Question #47 of 151

Question ID: 412729

Which of the following statements *most accurately* describes the requirements for GIPS verification?

A) Verification of GIPS compliance is recommended, but not required.

B) Third-party verification is required for a firm to claim compliance with GIPS.

C) A firm must select a representative set of composites for third-party GIPS verification.

Question #48 of 151

Question ID: 412612

During 2004 Nancy Arnold received an undergraduate business degree with a management major and completed all requirements for the CFA designation imposed by CFA Institute. She is applying for employment at several brokerage firms. Her resume states, "I was awarded the CFA degree in 2004 by CFA Institute." Her resume also states that she graduated "with honors" and majored in finance. Her grade point average was 3.48 but "with honors" requires a 3.50 grade point average. Which of the following statements about Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program, and Standard I(C), Misrepresentation, is CORRECT? Arnold:

A) did not violate either Standard VII(B) or Standard I(C).

B) violated both Standard VII(B) and Standard I(C).

C) violated Standard I(C) but she did not violate Standard VII(B).

Question #49 of 151

Question ID: 412625

An analyst has not paid his CFA Institute dues for several years but has filed a professional conduct statement annually. Which of the following statements is CORRECT regarding his status with CFA Institute? The analyst:

A) is no longer an active member.

B) cannot refer to ever having been a member.

C) is still an active member.

Question #50 of 151

Question ID: 412751

The section of the Global Investment Performance Standards (GIPS) that outlines defining the firm and documenting firm policies and procedures is:

A) Disclosures.

B) Presentation and Reporting.

C) Fundamentals of Compliance.

Question #51 of 151

Question ID: 412636

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) No, McNeal cannot trade on the information.

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

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

Question #52 of 151

Question ID: 412624

Judy Albert and Bob Tye, who recently started their own investment advisory business, plan to take the Level III CFA examination next year. Albert's business card reads, "Judy Albert, CFA Candidate." Tye has not put anything about the CFA on his business card. However, the firm's promotional materials describe the CFA requirements and indicate that Tye participates in the CFA program and has completed Levels I and II. According to CFA Institute Standards of Professional Conduct:

A) Both Albert and Tye have violated the Standards.

B) Albert has violated the Standards but Tye has not.

C) Neither Albert nor Tye has violated the Standards.

Question #53 of 151

Question ID: 412632

Jason Jones, a stock broker who has completed Level I of the CFA program and is registered for the next Level II CFA exam, may:

A) not mention that he is involved in the CFA Program until he has passed all three levels.

B) state that he is a Level II candidate in the CFA Program.

C) use the Level I CFA designation since he has passed the Level I exam.

Question #54 of 151

Question ID: 412642

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) not use the information.

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

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

Question #55 of 151

Question ID: 441014

Which of the following statements is *most accurate* with regard to Global Investment Performance Standards (GIPS)?

A) Firms that adopt GIPS must initially show GIPS-compliant history for a minimum of ten years, or since inception of the firm or composite if in existence less than ten years.

B) GIPS are ethical principles that firms can follow voluntarily where local or country-specific law, regulation, or industry standards may not exist for investment performance presentation.

C) GIPS require managers to include all actual fee-paying and non-fee-paying discretionary portfolios in composites defined according to similar strategy and/or investment objective.

Question #56 of 151

Question ID: 412653

Scott LaRue is a portfolio manager for Washington Advisors. Washington has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the Washington model. The model is purely quantitative and screens stocks into buy, hold, and sell categories. The basic philosophy of the model is thoroughly explained to clients. The director of research frequently alters the model based on rigorous research-an aspect that is well explained to clients, although the specific alterations are not continually disclosed. Portfolio managers then make specific sector and security holding decisions, purchasing only securities that are indicated as "buys" by the model. La Rue feels the model would be improved by adding some factors but he has not fully tested this new version of the model. LaRue discloses his model to his own clients but not to his supervisor. LaRue is:

A) violating the Standards by not considering the appropriateness of the recommendations to clients.

B) not violating the Standards.

C) violating the Standards by not having a reasonable and adequate basis for his investment recommendation.

Question #57 of 151

Question ID: 412696

Albert Long, CFA, manages portfolios of high net worth individuals for HKB Corp. Alice Thurmont, one of his close friends, heads a local charity for homeless children that depends on donations to operate. Because donations have declined during the past year, the charity is experiencing financial difficulty. Thurmont asks Long to give her a partial list of his clients so that she can contact them to make tax-deductible donations. Because Long knows that the charity provides much benefit to the community, he provides Thurmont with the requested list.

Betty Short, CFA, also works for HKB Corp. She receives a letter from CFA Institute's Professional Conduct Program (PCP) requesting that she provide information about one of HKB's clients who is being investigated. Short complies with the request despite the confidential nature of the information requested by the PCP.

Based on Standard III(E), Preservation of Confidentiality, which of the following statements about Long and Short's actions is CORRECT?

A) Short violated Standard III(E) but Long did not violate Standard III(E).
B) Both Long and Short violated Standard III(E).
C) Long violated Standard III(E) but Short did not violate Standard III(E).

Question #58 of 151

Question ID: 454925

Stephanie Irons, Level II CFA candidate, regularly posts in Internet chat rooms dedicated to candidates studying for the Level II exam. Throughout the season, she and other candidates discuss curriculum content in great detail. Three days after the exam, she returns to the site and vents her frustrations over complicated exam questions by posting questions she remembers on the site, and asking others for their responses and reasoning. Other candidates follow suit and post the questions they remember. Within a week, Irons and her fellow candidates are able to reconstruct about 85% of the exam from their collective memory. Irons and her fellow candidates are *most likely*:

A) not in violation because the information about the actual exam contents was posted after the conclusion of the exam.
B) in violation of Standard VII(A) the Code and Standards for discussing curriculum content in a public forum prior to the exam.
C) in violation of Standard VII(A) the Code and Standards for providing confidential information about the exam.

Question #59 of 151

Question ID: 412724

The purpose of composites in a GIPS-compliant performance presentation is to:

A) clearly distinguish the entity that is presented to the public as a GIPS-compliant firm.
B) provide information about a firm's performance in various asset classes.
C) present overall firm performance in a single statistic that is comparable across firms.

Question #60 of 151

Question ID: 412705

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) 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.

C) 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.

Question #61 of 151

Question ID: 412708

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) soft dollar practices.

B) quid pro quo practices.

C) trading practices.

Question #62 of 151

Question ID: 412743

With respect to reporting investment results, Global Investment Performance Standards (GIPS) require a minimum of:

A) five years of historical performance.

B) three years of historical performance.

C) ten years of historical performance.

Question #63 of 151

Question ID: 412747

Which of the following statements regarding GIPS is *least* accurate?

A) To stay GIPS compliant, a firm must abide by GIPS guidelines even when conflicting with local or country-specific regulations.

B) A GIPS objective is to promote global "self-regulation."

C) GIPS allows clients to have more confidence in reported performance.

Question #64 of 151

Question ID: 412704

Sallie Reid, CFA, is asked by her boss, also a CFA charterholder, to use a research report of a competing firm, change a few details, sign it and send it to a large client. He says their firm's researchers will draw the same conclusions but haven't gotten to them yet. If she complies, she is doing all of the following EXCEPT:

A) violating CFA Institute standards dealing with plagiarism.

B) complying with CFA Institute standards because she cannot disobey her boss.

C) obeying her boss, a CFA charterholder, but violating several of the CFA Institute Code and Standards.

Question #65 of 151

Question ID: 412611

Which of the following statements is a violation of Standard VII(B) if it is included on a CFA charterholder's resume?

A) My earning the CFA designation indicates my desire to maintain high standards.

B) Both of these are violations of Standard VII(B).

C) My earning the CFA designation indicates my superior ability.

Question #66 of 151

Question ID: 412687

Jim Kent is an individual investment advisor in San Francisco with 300 clients. Kent uses open-ended mutual funds to implement his investment policy. For most of his clients, Kent has used the Baker fund, a small company growth fund based in Boston, for a portion of their portfolio. As a result he has become very friendly with Keith Dunston, the manager of the fund, whom Kent feels is mainly responsible for Baker's performance. One day Dunston calls Kent and tells him that he will be leaving the fund in four weeks and moving to San Francisco to work for a different money management company. Dunston is seeking suggestions on housing in the area. Baker has not yet announced Dunston's departure. Kent immediately finds a fund that is a suitable replacement for the Baker fund, and over the next two days he calls his 30 clients with the largest dollar investments in the funds and tells them he feels they should switch their holdings. Baker feels the remaining clients' positions are small enough to wait for their annual review to switch funds. Kent has:

A) violated the Standards by not dealing fairly with clients but has not violated the Standards regarding material nonpublic information.

B) violated the Standards by not dealing fairly with clients and regarding material nonpublic information.

C) violated the Standards regarding nonpublic information but has not violated the Standards in failing to deal fairly with clients.

Question #67 of 151

Question ID: 412668

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) may use this information to support an investment recommendation.

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

Question #68 of 151

Question ID: 412630

When using the CFA designation, which of the following is appropriate?

A) "I am a CFA."

B) Jones CFA's, Inc.

C) "I am a CFA charterholder."

Question #69 of 151

Question ID: 492009

To prepare a GIPS-compliant performance presentation, a firm must:

A) disclose which specific performance calculations are made in compliance with GIPS.

B) restate the performance history of its composites if the firm's organization has changed materially.

C) maintain a complete list of the firm's composites and their descriptions.

Question #70 of 151

Question ID: 412676

Jessica French is an individual investment advisor with 200 clients and claims she conforms to Global Investment Performance Standards (GIPS). French includes all of the clients on her books. One of those clients is her father, to whom she charges no fee. However, she manages that portfolio using the same processes as she uses for her paying clients. Another client included in the composite is John Randolph, a wealthy entrepreneur. Randolph is the only client who does not give her discretion over the assets and makes every decision himself, getting suggestions from French and using her to implement decisions. French:

A) has violated GIPS because it includes Randolph's account, but not because it includes her father's account.

B) has violated GIPS because it includes her father's account, but not because it includes Randolph's account.

C) conforms to GIPS, if disclosures are made about the non-fee-paying account.

Question #71 of 151

Question ID: 412643

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.

Question #72 of 151

Question ID: 412727

McGregor Investment Management promotes itself as a fixed-income investment management firm. The vast majority of the portfolios it manages are fixed-income portfolios. McGregor does, however, manage a few portfolios, utilizing a growth equity investment strategy, but the firm has no intention of ever promoting this strategy. Under the Global Investment Performance Standards (GIPS), must these portfolios be included in a composite?

A) No, because the firm does not normally manage portfolios to a growth equity strategy and is not planning to promote it.

B) Yes, because the portfolios are managed to a widely recognized investment strategy.

C) Yes, because the portfolios are discretionary and fee paying.

Question #73 of 151

Question ID: 412681

Which of the following would be the *least* important proxy issue?

A) Election of internal auditors.

B) Takeover defense and related actions.

C) Compensation plans for officers.

Question #74 of 151

Question ID: 412734

Which of the following is NOT an objective of the Global Investment Performance Standards (GIPS)?

A) To encourage self-regulation.

B) To obtain worldwide recognition by securities regulators of a standard for the calculation and presentation of investment performance in a fair, comparable format that provides full disclosure.

C) To encourage full disclosure and fair global competition without barriers to entry.

Question #75 of 151

Question ID: 412707

Preston Partners is an investment management firm that adopted the Code and Standards as part of its policy manual. Gerald Smithson, CFA, has recently added the stock of Utah Biochemical Company and Norgood PLC to all his client's investment portfolios. Shortly afterwards Utah Biochemical and Norgood announced a merger that increased the share price of both companies. Smithson contends he saw the president of Utah Biochemical dining with the chairman of Norgood, but did not overhear their conversation. Smithson researched both companies extensively and determined that each company was a good investment. He put in a block trade for shares in each company. Preston's policies were not clear in this area as he allocated the shares by starting with his largest client accounts and working down to the small accounts. Some of Smithson's clients were very conservative personal trust accounts, others were pension funds who had aggressive investment objectives. Which standard was NOT broken?

A) Standard III(C)-- Suitability.

B) Standard V(A)--Diligence and Reasonable Basis.

C) Standard IV(C)--Responsibilities of Supervisors.

Question #76 of 151

Question ID: 412634

Susan Nielsen, CFA, works for a rating agency which competes directly with S&P and Moody's. Her friend, Lance Parker, works for the same company but in a different department which is involved in advisory services for structured products. Nielsen frequently receives pressure from Parker to "put a positive face" on client ratings to help him sell advisory services. She is reluctant to discuss client ratings with Parker and tries to avoid the topic. She consults her company's compliance department and learns that there are no policies or procedures to discourage Nielsen and Parker from sharing information and is encouraged to consider his advice on company ratings. Nielsen should *most likely*:

A) advise regulators of the potential conflict of interest and seek legal counsel.

B) advise her firm to develop firewalls and protections to allow the different departments to function independently and avoid talking with Parker about client ratings.

C) continue to consult with Parker on company ratings as the compliance department's position is that there is no conflict.

Question #77 of 151

Question ID: 412655

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

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

Question #78 of 151

Question ID: 412650

Nancy Westfall is an individual investment advisor who uses mutual funds for her clients. She typically chooses funds from a list of 40 funds that she has thoroughly researched. The Craigs, a married couple that is a client, asked her to consider the Eligis fund for their portfolio. Westfall had not previously considered the fund because when she first conducted her research three years ago, Eligis was too small to be considered. However, the fund has now grown in value, and after doing thorough research on the fund, she finds the fund has suitable characteristics to be included in her acceptable list of funds. She puts the fund in the Craigs' portfolio but not in any of her other clients' portfolios. The fund ends up being the poorest performing fund in the Craigs' portfolio. Has Westfall violated any Standards? Westfall has:

A) violated the Standards by not dealing fairly with clients.

B) violated the Standards by not having a reasonable and adequate basis for making the recommendation.

C) not violated the Standards.

Question #79 of 151

Question ID: 412660

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) the equity research department for a brokerage firm.

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

C) the corporate finance department for Genco.

Question #80 of 151

Question ID: 697258

While on a business trip, John Hayes, CFA, found a notebook that had apparently been left in the waiting area of an airport. Hayes opened the notebook and read the title: *Confidential: Level II CFA Examination*. Before returning the notebook to CFA

Institute, he made a copy and gave it to Linda Sacket, one of his firm's analysts, who was a candidate for Level II of the CFA examination. Sacket read the questions and guideline answers before taking the Level II examination. According to the CFA Institute Standards of Professional Conduct:

A) Hayes violated the Standards, but Sacket did not.

B) Sacket violated the Standards, but Hayes did not.

C) both Hayes and Sacket violated the Standards.

Question #81 of 151

Question ID: 412735

Which of the following statements regarding Global Investment Performance Standards (GIPS) is *most* accurate?

A) GIPS requires that all fee-paying discretionary portfolios be included in composites defined according to investment objective or similar strategy and firms must show GIPS compliant history for a minimum of five years or since inception if a composite has existed less than five years.

B) GIPS exists as a best or maximum worldwide standard where local or country specific law for investment performance measurement does not exist.

C) GIPS is intended to foster the notion of a world-wide regulatory body to oversee investment performance and measurement on a global scale.

Question #82 of 151

Question ID: 412695

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

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

B) Controlling relevant interdepartmental information.

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

Question #83 of 151

Question ID: 412723

Lora Murphy has an account at Ferrell Investments, a GIPS-compliant firm. Murphy invests in small-cap value stocks and pays Ferrell a standard fee to execute her buy and sell orders. According to GIPS, is Ferrell required to include Murphy's portfolio in their small-cap value stock composite?

A) No, because the portfolio is non-discretionary.

B) Yes, because the portfolio is fee-paying.

C) No, because constructing composites is voluntary.

Question #84 of 151

Question ID: 412671

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 of disclosure of all investment holdings of friends and family members of employees on an annual basis.

B) A requirement that investment personnel should clear all personal investments to identify possible conflicts.

C) A requirement that employees provide duplicate confirmations of personal investing transactions.

Question #85 of 151

Question ID: 441012

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 Independence and Objectivity.

C) The Standard concerning Fair Dealing.

Question #86 of 151

Question ID: 412719

Compliance with the CFA Institute Performance Presentation Standards (PPS) or the Global Investment Performance Standards (GIPS) is:

A) required by the Code of Conduct.

B) the only way to comply with Standard V(B), Performance Presentation.

C) the best way to comply with Standard V(B), Performance Presentation.

Question #87 of 151

Question ID: 412614

Julie Stades retired several years ago and relinquished her membership in CFA Institute. She had the CFA designation up until then. She has decided to go back to work and puts the following statement on her resume: "I earned the CFA designation 10 years ago." Is this a violation of Standard VII(B)?

A) No, as long as she does not indicate she currently has the designation.

B) Yes, she has used the letters "CFA" in an undignified manner.

C) Yes, because she uses "CFA" as a noun.

Question #88 of 151

Question ID: 412619

All of the following statements in promotion of your services are in *violation* of CFA Institute Standards of Practice handbook EXCEPT:

A) I guarantee under my management that you will receive returns in excess of the market index average.

B) I passed Level II of the CFA Program in 2003.

C) based upon my research, you will achieve a 20% compound annual rate of return on small cap stocks over the next 5 years.

Question #89 of 151

Question ID: 412627

Anderson, Baker and Chang all received their CFA charters and ordered new business cards. Their business cards are as follows:

G. J. Anderson, CFA

B. K. Baker, Chartered Financial Analyst

M. S. Chang, C.F.A

Which of the business cards use the CFA marks improperly?

A) Baker and Chang.

B) Anderson and Chang.

C) Chang.

Question #90 of 151

Question ID: 441013

When measuring and presenting their investment performance, GIPS compliant firms are required to:

A) exclude time periods that are unrepresentative of the firm's performance history.

B) include terminated accounts in their performance history.

C) disclose the performance of the best-performing accounts in each composite.

Question #91 of 151

Question ID: 412657

Jennifer Gates is an individual portfolio manager who only uses mutual funds for her clients; she has therefore never created a portfolio of stocks. She enters an Internet chat room on investments and starts answering questions about investments. She states in the chat room that she has a CFA designation. One woman in particular is interested and questions her about the viability of creating her own stock portfolio. Gates feels that this would be a mistake because she only has $150,000 to invest, and states, "I have experience creating stock portfolios, and it does not make sense to do so with only $150,000." The woman she has chatted with sends her an e-mail and eventually becomes a client of hers. Gates has:

A) violated the Standards by soliciting business over the Internet.

B) violated the Standards by misrepresenting her experience.

C) not violated the Standards.

Question #92 of 151

Question ID: 412640

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 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 its board member to her employer.

C) 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 her decision to buy AMD shares for Super Selection's clients, portfolios on James' request, her obligation to AMD took precedence.

Question #93 of 151

Question ID: 412639

While copying some of her research materials at work, Mary Jones comes across a few incomplete research notes written by one of her colleagues. As a result of reading the notes, and without further review, Jones immediately changes one of her stock recommendations from sell to buy. Which of the following CFA Institute Standards has Jones violated?

A) Standard V(A), Diligence and Reasonable Basis.

B) Standard I(B), Independence and Objectivity.

C) Standard III(A), Loyalty, Prudence, and Care.

Question #94 of 151

Question ID: 412718

Which of the following statements *most accurately* describes why the Global Investment Performance Standards (GIPS) were created? To:

A) provide comparability of performance results among nations for which no presentation guidelines currently exist.

B) meet the need for a single globally accepted set of investment performance presentation standards.

C) meet the need for a single globally accepted set of regulatory guidelines among developed securities markets.

Question #95 of 151

Question ID: 412629

Which of the following is an appropriate statement for a Level II CFA candidate to make?

A) I am a Level I CFA charterholder.

B) I am a Level II CFA.

C) I passed the Level I CFA exam last year.

Question #96 of 151

Question ID: 412688

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 legal agreement, but cannot tell him why.

C) inform her supervisor that she cannot work on the portfolio because of a non-compete agreement.

Question #97 of 151

Question ID: 551099

Lindsay Gordon is a Level II CFA candidate living in San Francisco. Gordon's best friend, Steve Haney, also a Level II candidate, is living in Munich. Because of the time difference between Munich and San Francisco, Gordon suggests that Haney call Gordon during the Munich exam lunch break to discuss the morning exam. Haney makes the call on exam day.

Which of the following statements regarding Gordon and Haney is *most accurate*?

A) Both Gordon and Haney are in violation of the Code and Standards.

B) Neither Gordon nor Haney is in violation of the Code and Standards.

C) Gordon is in violation of the Code and Standards, but Haney is not in violation.

Question #98 of 151

Question ID: 412711

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

A) Loyalty, Prudence, and Care.

B) Disclosure of Referral Fees.

C) Disclosure of Conflicts to Clients and Prospects.

Question #99 of 151

Question ID: 536326

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

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

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

Question #100 of 151

Question ID: 412712

A good way to describe the Global Investment Performance Standards (GIPS) is a:

A) screening mechanism for determining appropriate international investments.

B) common yardstick for means of comparison.

C) legal doctrine with criminal penalties.

Question #101 of 151

Question ID: 412722

The Global Investment Performance Standards (GIPS) were designed to apply primarily to which of the following groups?

A) Investment firms located in the 21 countries that have contributed significantly to promoting and developing the GIPS.

B) Investment management firms located worldwide that seek to comprehensively and accurately present historical investment performance.

C) Investment management firms located in countries without locally accepted investment standards already in place.

Question #102 of 151

Question ID: 412740

Which of the following was NOT a motivation for creating the Global Investment Performance Standards (GIPS)?

A) Increase the role of government agencies in the investment industry.

B) Improve the service offered to investment management clients.

C) Achieve greater uniformity and comparability among presentations of performance.

Question #103 of 151

Question ID: 412685

The following information pertains to the Galaxy Trust, a trust established by Stephen P. House and managed by Gamma Investment LLC:

- At the time the trust was established House provided $5 million in cash to fund the trust, but Gamma was aware that 93% of his personal assets were in the form of Oracle stock.

- Gamma has been asked to view his funds and the trust as a single entity for planning purposes, since House's will stipulates that all of his estate will pass to the trust upon his death.
- The investment policy statement, developed in September 1996, stipulates that the trust should maintain a short position in Oracle stock and use the proceeds to diversify the trust more adequately.
- House was able to sell all of his Oracle shares back to the corporation in January 1999 for cash.
- The policy statement redrawn in September 1999 continues to stipulate that the trust hold a short position in Oracle stock.
- House has given the portfolio manager in charge of the trust an all expenses paid vacation package anywhere in the world each year at Christmas. The portfolio manager has reported this fact in writing to his immediate supervisor at Gamma.

Which of the following is *most* correct? The investment manager is:

A) not in violation of the Code and Standards for not properly updating the investment policy statement in light of the change in the circumstances and is not in violation with regard to the acceptance of the gift from House.

B) in violation of the Code and Standards by not properly updating the investment policy statement in light of the change in the circumstances but is not in violation with regard to the acceptance of the gift from House.

C) in violation of the Code and Standards by not properly updating the investment policy statement in light of the change in the circumstances and is in violation with regard to the acceptance of the gift from House.

Question #104 of 151

Question ID: 412679

Steven Wade, CFA, writes an investment newsletter focusing on high-tech companies, which he distributes by e-mail to paid subscribers. Wade does not gather any information about his clients' needs and circumstances. Wade has developed several complex valuation models that serve as the basis for his recommendations. Each month, his newsletter contains a list of "buy" and "sell" recommendations. He states that his recommendations are suitable for all types of portfolios and clients. Because of their proprietary nature, Wade does not disclose, except in general terms, the nature of his valuation models. He conducted numerous statistical tests of these models and they appear to have worked well in the past. In his newsletter, Wade claims that subscribers who follow his recommendations can expect to earn superior returns because of the past success of his models.

Wade violated all of the following CFA Institute Standards of Professional Conduct EXCEPT:

A) Standard III(B), Fair Dealing.

B) Standard V(B), Communication with Clients and Prospective Clients.

C) Standard I(C), Misrepresentation.

Question #105 of 151

Question ID: 412669

Milton Baker, CFA, prepares a research report on the dynamics of a stock price. In his study, he uses a considerable number of information sources, both outside sources and his company's own research papers, prepared for both internal and public use. The report will first be distributed at the monthly department meeting and then later will be published on the company's Internet site. He thinks that he may have neglected to mention some of his sources in his reference list but decides that he needs to be concerned about full disclosure of his sources only for the public version of the report, so he will wait to revise his work until after the monthly meeting but before it is published on the internet site. Which Standards does Baker NOT comply with?

A) Standard I(C), Misrepresentation, only.

B) Standard I(C), Misrepresentation, I(B), Independence and Objectivity, and I(A), Knowledge of the Law.

C) Standard I(C), Misrepresentation, and I(A), Knowledge of the Law.

Question #106 of 151

Question ID: 412684

Ken James has been an independent financial advisor for 15 years. He received his CFA Charter in 1993, but did not feel it helped his business, so he let his dues lapse this year. He still has several hundred business cards with the CFA designation printed on them. His promotional materials state that he received his CFA designation in 1993. James:

A) must cease distributing the cards with the CFA designation, but can continue to use the existing promotional materials.

B) can continue to use the existing promotional materials, and can use the cards until his supply runs out-his new cards cannot have the designation.

C) must cease distributing the cards with the CFA designation and the existing promotional materials.

Question #107 of 151

Question ID: 412692

Victor Logan is a portfolio manager for McCoy Advisors, and Jack Brisco is the Director of Research for McCoy. Brisco has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the McCoy model. The model is purely quantitative and screens stocks into buy, hold, and sell categories. The basic philosophy of the model is thoroughly explained to clients. Brisco frequently alters the model based on rigorous research-an aspect that is well explained to clients, although the specific alterations are not continually disclosed. Portfolio managers then make specific sector and security holding decisions, purchasing only securities that are indicated as "buys" by the model. Logan has conducted very thorough research on his own, using the same process that Brisco uses to validate his findings. Logan feels the model is missing some key elements that would further reduce the list of acceptable securities to purchase, however, Brisco has refused to look at Logan's research. Frustrated by this, Logan applies his own version of the model, with the justification that he is still only purchasing securities on the buy list. Because of the conflict with Brisco, he does not disclose the use of the model to anyone at McCoy or to clients. Which of the following statements regarding Logan and Brisco is CORRECT? Logan is:

A) violating the Standards by applying his version of the model and by not disclosing it to clients. Brisco is violating the Standards by failing to consider Logan's research.

B) not violating the Standards by applying his version of the model, but is violating the Standards by not disclosing it to clients. Brisco is not violating the Standards.

C) violating the Standards by applying his version of the model and by not disclosing it to clients. Brisco is not violating the Standards.

Question #108 of 151

Question ID: 412666

June Carter passed Level III of the CFA examination in June but will not complete her work experience requirement until August of next year. Carter can state on her resume that she:

A) passed Levels I, II, and III of the CFA examination.

B) will be a CFA charterholder in August of next year as long as she is on track to complete her work experience.

C) is a CFA in waiting.

Question #109 of 151

Question ID: 412709

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

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

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

Question #110 of 151

Question ID: 412686

Janine Walker is an individual investment advisor with 200 individual clients. When she first obtains a client, Walker solicits personal data that helps her formulate an investment recommendation, including tax status, income, expenditure needs, and risk tolerance. The Standards:

A) require updating a client's data only when a material change occurs to the personal data.

B) only require to update a client's data when a material change is being made to the clients' portfolio.

C) require Walker to update the data regularly.

Question #111 of 151

Question ID: 412741

Assume that on January 1, 2005, a firm with no Global Investment Performance Standards (GIPS) compliant history since its inception four years ago wishes to claim compliance with GIPS. Which of the following *accurately* reflects the appropriate action for the firm to take?

A) Nothing, a firm must have five years of compliant performance history to claim compliance with GIPS.

B) Comply with GIPS for the year beginning January 1, 2002, and report its performance prior to this date with a disclosure of why the earlier years are not GIPS compliant.

C) Comply with GIPS for all four periods since the firm's inception.

Question #112 of 151

Question ID: 412730

Which of the following statements *most accurately* describes verification under the Global Investment Performance Standards (GIPS)? GIPS verification:

A) requires verification of individual composites.

B) is required for a firm to claim GIPS compliance.

C) requires a verification report to be issued for the entire firm.

Question #113 of 151

Question ID: 412637

The Konkol Company implements a new methodology for portfolio valuation that is licensed to them by ABC Statistics. Konkol complies with the CFA Institute Code and Standards by:

A) discussing the new methodology with the clients, in its entirety.

B) discussing the new methodology with clients only when a change in the security selection process is involved.

C) not discussing the new methodology with clients because there is no need to, as it will not change their risk and yield preferences.

Question #114 of 151

Question ID: 412716

Which of the following statements regarding CFA Institute Global Investment Performance Standards (GIPS) is CORRECT? A firm that employs members of CFA Institute:

A) is not required to conform to the GIPS.

B) must choose to comply with either the Performance Presentation Standards (PPS) or GIPS.

C) must comply with the GIPS only within the United States.

Question #115 of 151

Question ID: 412689

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) present the bottle of wine to her supervisor.

B) inform her supervisor in writing that she received additional compensation in the form of the wine.

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

Question #116 of 151

Question ID: 412742

Which of the following is NOT an important characteristic of how a firm defines itself? The firm definition establishes the:

A) boundaries for what is included when measuring the total firm's assets.

B) entity to which local securities laws apply when they exceed the GIPS requirements.

C) set of portfolios that must be included in at least one of a firm's composites.

Question #117 of 151

Question ID: 412652

If the Chief Investment Officer of an investment advisory firm also is a CFA charterholder, which of the following statements is CORRECT?

A) All performance results that are presented must comply with the CFA Institute Global Investment Performance Standards.

B) The firm must comply with the CFA Institute Global Investment Performance Standards only if it states that it follows the Standards.

C) The firm must present an historical composite.

Question #118 of 151

Question ID: 412697

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, and Donaldson must wait until after the press conference to purchase the stock for his clients.

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

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

Question #119 of 151

Question ID: 412690

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

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

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

Question #120 of 151

Question ID: 460639

Which of the following statements is an acceptable reference to the CFA designation?

A) All members of our research team are CFA charterholders who passed their exams on their first tries.

B) Most of our portfolio managers are CFAs and are committed to the highest ethical standards.

C) Tom and Elizabeth are Chartered Financial Analysts.

Question #121 of 151

Question ID: 412623

John Johnson, portfolio manager at Sunshine Investments, has passed all three levels of the CFA® Program and has completed his work experience requirements. He expects to receive his charter in the near future. He includes the following statement in his firm's brochure: "Johnson has passed all three levels of the exam and has completed the required work experience for the CFA Charter. He is eligible for the CFA Charter and expects to receive the charter in the near future. Over the years, he has demonstrated a superior performance and his CFA Charter will be rightfully awarded." Johnson has:

A) violated CFA Institute Standards of Professional Conduct because he advertised the CFA Charter before actually obtaining it.

B) violated CFA Institute Standards of Professional Conduct because he implied superior performance that would be linked to the CFA Charter.

C) not violated CFA Institute Standards of Professional Conduct because he met all disclosure requirements.

Question #122 of 151

Question ID: 412700

Kim Lee is a research analyst at Superior Investments and is researching a biotech firm specializing in the analysis of "mad cow" disease. While touring company facilities and meeting with management, she learns that they believe they may have found a way to reverse the disease. Moreover, one manager conjectured, "Suppose that we reversed the disease in someone who didn't even have it? We might then be able to boost that individual's IQ into the stratosphere!" After returning to her office, Lee issues a research report describing the compound as an "IQ booster with huge potential." This statement:

- **A)** is reasonable given the information she was provided by the company.
- **B)** is allowable but only if quoted verbatim from her conversations with management.
- **C)** lacks a reasonable and adequate basis in fact.

Question #123 of 151

Question ID: 412626

All of the following situations violate Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program, EXCEPT:

- **A)** Karen Wright received her CFA charter in 1980. In 2001, she stopped paying her annual CFA Institute dues. During her retirement speech in 2002, Wright said, "Although I am no longer an active CFA charterholder, I was awarded the right to use the CFA designation in 1980 and maintained active membership in CFA Institute for 20 years."
- **B)** John Cabell has satisfied all the requirements imposed by CFA Institute for the right to use the Chartered Financial Analyst designation. His business cards say: John Cabell, C.F.A.
- **C)** Barney Latrell, when introducing himself to a prospective client, says, "I completed my CFA in 1995, which required passing three six-hour examinations over a three year period."

Question #124 of 151

Question ID: 696226

Robert Hopkins has earned the right to use the CFA designation and wants to indicate this on his business card. According to CFA Institute Standards of Professional Conduct, which of the following is the proper use of the professional designation on his business card?

- **A)** Robert Hopkins, C.F.A.
- **B)** Robert Hopkins, cfa.
- **C)** Robert Hopkins, Chartered Financial Analyst.

Question #125 of 151

Question ID: 454927

Which of the following actions would be a violation of the Standard VII(A) Conduct as Participants in CFA Institute Programs?

- **A)** Using the CFA designation without submitting a Professional Conduct Statement and paying annual dues.
- **B)** Misrepresenting information on the Professional Conduct Statement.
- **C)** Exaggerating the implications of holding the CFA designation.

Question #126 of 151

Question ID: 412644

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

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

Question #127 of 151

Question ID: 412738

Assume that on January 1, 2005, a 15-year old firm with no Global Investment Performance Standards (GIPS) compliant performance history wishes to claim compliance with the GIPS standards. Which of the following *accurately* reflects the appropriate action for the firm to take?

A) Comply with GIPS for the year beginning January 1, 2004, and report nine additional years of performance history (ten total) and disclose why the earlier years are not GIPS compliant.

B) Comply with the GIPS standards for the 5-year period January 1, 2000, through December 31, 2004, and report five additional years of non-GIPS-compliant performance and disclosure of why the performance in the earlier years is not GIPS compliant.

C) Comply with GIPS for the year beginning January 1, 2004, and report four additional years of performance history (five total) and disclose why the earlier years are not GIPS compliant.

Question #128 of 151

Question ID: 412732

Which of the following is NOT a key characteristic of the Global Investment Performance Standards (GIPS)? GIPS:

A) do not address every aspect of performance measurement, valuation, attribution, or coverage of all assets.

B) require firms to use certain calculation and presentation methods and to make certain disclosures along with the performance record.

C) require managers to include all actual fee-paying and non-fee-paying discretionary portfolios in composites defined according to similar strategy and/or investment objective.

Question #129 of 151

Question ID: 454930

Which of the following is *least likely* a violation of Standard VII(A), Conduct as Participants in CFA Institute Programs?

A) Expressing opinions in disagreement with CFA Institute advocacy positions.

B) Disregarding the rules related to the administration of the CFA examination.

C) Improperly using the CFA Designation to further professional goals.

Question #130 of 151

Question ID: 412678

Jim Crockett is a portfolio manager for Miami Advisors and reports to Vicki Tubbs, the Chief Investment Officer. Miami has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the Miami model. The model is purely quantitative and takes a given set of client characteristics and universe of potential securities and forms a portfolio for the investor. Individual portfolio managers are responsible for selecting securities to fit into the model based on recommendations from the firm's research department and the managers' own judgment. Because of the specific nature of the inputs to the model, each manager is responsible for applying the model on his or her own computer. The basic philosophy of the process is thoroughly explained to clients. Crockett does not understand the basics of the model, but feels that since it provides pure quantitative output, he does not need to understand it. However, he misapplies the model for several of his clients. In reviewing some of Crockett's portfolios, Tubbs finds the errors and points them out to Crockett. Which of the following statements regarding Tubbs and Crockett is CORRECT?

A) Crockett has violated the Standards by not exercising diligence and thoroughness in making investment recommendations.

B) Tubbs has violated the Standards by failing to supervise adequately.

C) Crockett has violated the Standards by not considering the appropriateness and suitability of the investment for his clients.

Question #131 of 151

Question ID: 412647

Steve Jones is a portfolio manager for Gregg Advisors. Gregg has developed a proprietary model that has been thoroughly researched and is known throughout the industry as the Gregg model. The model is purely quantitative and screens stocks into buy, hold, and sell categories. The basic philosophy of the model is thoroughly explained to clients. The director of research frequently alters the model based on rigorous research-an aspect that is well explained to clients, although the specific alterations are not continually disclosed. Portfolio managers then make specific sector and security holding decisions, purchasing only securities that are indicated as "buys" by the model. Jones thoroughly understands the model and uses it with all of his clients. Jones is:

A) not violating the Standards either in purchasing stocks without a thorough research basis or in not disclosing all alterations of the model to clients.

B) violating the Standards in purchasing stocks without a thorough research basis and in not disclosing all alterations of the model to clients.

C) violating the Standards in not disclosing all alterations of the model to clients, but not in purchasing stocks without a thorough research basis.

Question #132 of 151

Question ID: 412665

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) continue to advise employees to sell their stock.

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

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

Question #133 of 151

Question ID: 459983

Cynthia Abbott, a CFA charterholder, is preparing a research report on Boswell Company for her employer, Capital Asset Management. Bob Carter, president of Boswell, invites Abbott and several other analysts to visit his company and offers to pay her transportation and lodging. Abbott pays for her own transportation and lodging, but while visiting the company, accepts an item of small value from Carter. Abbott does not disclose this gift to her supervisor at Capital when she returns. In the course of the company visit, Abbott overhears a conversation between Carter and his chief financial officer that the company's earnings per share (EPS) are expected to be $1.10 for the next quarter. Abbott was surprised that this EPS is substantially above her initial earnings estimate of $0.70 per share. Without further investigation, Abbott decides to include the $1.10 EPS in her research report on Boswell. Using the high EPS positively affects her recommendation of Boswell.

Which of the following statements about whether Abbott violated Standard V(A), Diligence and Reasonable Basis and Standard I(B), Independence and Objectivity is CORRECT? Abbott:

A) violated both Standard V(A) and Standard I(B).

B) did not violate Standard V(A) but she violated Standard I(B).

C) violated Standard V(A) but she did not violate Standard I(B).

Question #134 of 151

Question ID: 551101

Ron Vasquez is registered to sit for the Level II CFA exam. Unfortunately, Vasquez has failed the exam the past two years. In his frustration, Vasquez posted the following comment on a popular internet bulletin board: "I believe that CFA Institute is intentionally limiting the number of charterholders in order to increase its cash flow by continuing to fail candidates. Just look at the pass rates."

Which of the following statements regarding Vasquez's conduct is *most accurate*? Vasquez is:

A) in violation of Standard VII(A) Conduct as Participants in CFA Institute Programs, but not in violation of Standard I(D) Misconduct.

B) in violation of both Standard I(D) Misconduct and Standard VII(A) Conduct as Participants in CFA Institute Programs.

C) not in violation of Standard I(D) Misconduct or Standard VII(A) Conduct as Participants in CFA Institute Programs

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Question #135 of 151

Question ID: 412746

The Global Investment Performance Standards (GIPS) were designed to be applied with the goal of full disclosure and fair representation of investment performance in all instances EXCEPT:

A) when applicable local laws or regulations conflict with the GIPS, in which case, firms must comply with local laws and fully disclose the conflict.

B) when a composite includes nondiscretionary funds to which the GIPS are not applicable.

C) when a firm or composite has been in existence for less than five years, in which case, less stringent standards apply.

Question #136 of 151

Question ID: 412616

Jake Miles, CFA, includes the following phrase on his business card: "Jake Miles is your trusted local CFA." Is this a violation of Standard VII(B)?

A) Yes, because he cannot put the initials "CFA" on his business card.

B) Yes, because he uses CFA as a noun.

C) No, because his CFA Institute membership indicates that he is indeed trustworthy.

Question #137 of 151

Question ID: 412736

Which of the following statements *least* accurately describes a key characteristic of the Global Investment Performance Standards (GIPS)?

A) A firm may not claim compliance with GIPS until it has recorded at least five years of GIPS-compliant performance data.

B) All fee-paying, discretionary portfolios must be included in at least one composite.

C) The distinct business entity that is claiming compliance with GIPS must be defined.

Question #138 of 151

Question ID: 412621

Ted Willis received his CFA designation in 1998 and was employed as an investment counselor until 2003. During the past several years, Willis has been out of work because of a serious illness. He also failed to pay his annual CFA Institute dues during the current year. Willis has now recovered and accepted a position with an investment advisory firm. His new business card says, "Ted Willis, CFA." As part of his job with his new firm, Willis uses PowerPoint® to make presentations to groups of prospective clients. He obtained some of these PowerPoint® slides from web sites, but removed the copyright notice before showing the slides to prospective clients.

Which of the following statements about Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program, and Standard I(C), Misrepresentation, is *most* accurate? Willis:

A) violated both Standard VII(B) and Standard I(C).

B) did not violate either Standard VII(B) or Standard I(C).

C) violated Standard VII(B) but he did not violate Standard I(C).

Question #139 of 151

Question ID: 412728

Advisors, Inc., is in the process of adopting the Global Investment Performance Standards (GIPS). The managers of the firm are combining the results of fee-paying discretionary portfolios into composites for reporting purposes. For purpose of comparison, each fee-paying discretionary portfolio must be included in at least:

A) one composite.

B) three composites.

C) two composites.

Question #140 of 151

Question ID: 412745

The El Rey Investment Company, located in Barcelona, Spain, is in the process of adopting the Global Investment Performance Standards (GIPS) for the current fiscal year. One of the GIPS standards is in direct conflict with Spanish investment reporting regulations. In order to be in full compliance with GIPS, El Rey must:

A) comply with the GIPS standard and make full disclosure of the conflict.

B) choose either the GIPS standard or the local regulation, whichever is the more conservative approach, and make full disclosure of the conflict.

C) comply with the local regulation and make full disclosure of the conflict.

Question #141 of 151

Question ID: 412675

Patricia Cuff is the chief financial officer and compliance officer at Super Selection Investment Advisors, an organization that has incorporated the CFA Institute Code of Standards into the firm's compliance manual. Karen Trader is a portfolio manager for Super Selection. Trader is friendly with Josey James, president of AMD, a rapidly growing biotech company. Trader has served on AMD's board of directors for the last three years. James has asked Trader to commit to a large purchase of AMD stock for Trader's clients' portfolios. Trader had previously determined that AMD was a questionable investment but agreed to reconsider. Her reevaluation deemed the stock to be overpriced, but Trader nevertheless decides to purchase for her portfolios. Which standard was *least likely* violated?

A) III(B) Fair Dealing.

B) V(A) Diligence and Reasonable Basis.

C) III(A) Loyalty, Prudence, and Care.

Question #142 of 151

Question ID: 412750

The nine major sections of the Global Investment Performance Standards (GIPS) *least likely* include:

A) verification procedures.

B) input data requirements.

C) required disclosures.

Question #143 of 151

Question ID: 412661

Patricia Hoolihan is an individual investment advisor who uses mutual funds for her clients. She typically chooses funds from a list of 40 funds that she has thoroughly researched. The Burns, a married couple that are a client, asked her to consider the Hawkeye fund for their portfolio. Hoolihan had not previously considered the fund because when she first conducted her research three years ago, Hawkeye was too small to be considered. However, the fund has now grown in value, and cursory research uncovers no fundamental flaws with the fund. She puts the fund in the Burns' portfolio but not in any of her other clients' portfolios. The fund ends up being the best performing fund on her list. Hoolihan has:

A) violated the Standards by not having a reasonable and adequate basis for making the recommendation.

B) not violated the Standards.

C) violated the Standards by not dealing fairly with clients.

Question #144 of 151

Question ID: 412702

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

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

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

Question #145 of 151

Question ID: 412691

Brian Williams is a portfolio manager with Santo Capital and works on the Banks Company's account. Santo has a policy against accepting gifts over $500 from clients. The Banks' portfolio has a fantastic year, and in appreciation, a Banks manager sends Williams a rare bottle of wine that he estimates is worth $300. Williams must:

A) return the bottle to the client.

B) inform his supervisor in writing that he received additional compensation in the form of the wine.

C) report the pension fund manager to the CFA Institute Professional Conduct Program.

Question #146 of 151

Question ID: 460640

The CFA logo may be used as a certification mark:

A) on a company website.

B) on a personal business card.

C) next to a company logo.

Question #147 of 151

Question ID: 412613

All of the following are required for a CFA Institute member to maintain his or her active status EXCEPT:

A) Passing each exam in no more than two tries.

B) remit a completed Professional Conduct Statement on an annual basis.

C) paying membership dues to CFA Institute on an annual basis.

Question #148 of 151

Question ID: 412682

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

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

C) 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 information of her own.

Question #149 of 151

Question ID: 412706

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

B) Voting proxies may not be necessary in all instances.

C) The value of proxy voting must be maximized.

Question #150 of 151

Question ID: 487757

Which of the following statements about a GIPS-compliant firm's verification of GIPS compliance is *most accurate*? Verification is:

A) required, and may be performed by the firm's internal auditors.

B) required, and must be performed by an independent third party.

C) optional, but if chosen it must be performed by an independent third party.

Question #151 of 151

Question ID: 412739

Which of the following is *least likely* to be a requirement for a firm claiming compliance with Global Investment Performance Standards (GIPS)?

A) List discontinued composites for at least five years.

B) When jointly marketing with a noncompliant firm, make sure the compliant firm is clearly defined as separate from the noncompliant firm.

C) Provide a compliant presentation only to prospects who request one.