CFA Level III

1. Theresa Bair, CFA, a portfolio manager for Brinton Investment Company (BIC), has recently been promoted to lead portfolio manager for her firm's new small capitalization closed-end equity fund, the Quaker Fund. BIC is an asset management firm headquartered in Holland with regional offices in several other European countries. After accepting the position, Bair received a letter from the three principals of BIC. The letter congratulated Bair on her accomplishment and new position with the firm and also provided some guidance as to her new role and the firm's expectations. Among other things, the letter stated the following:
"Because our firm is based in Holland and you will have clients located in many European countries, it is essential that you determine what laws and regulations are applicable to the management of this new fund. It is your responsibility to obtain this knowledge and comply with appropriate regulations. This is the first time we have offered a fund devoted solely to small capitalization securities, so we will observe your progress carefully. You will likely need to arrange for our sister companies to quietly buy and sell Quaker Fund shares over the first month of operations. This will provide sufficient price support to allow the fund to trade closer to its net asset value than other small-cap closed-end funds. Because these funds generally trade at a discount to net asset value, if our fund trades close to its net asset value, the market may perceive it as more desirable than similar funds managed by our competitors."
Bair heeded the advice from her firm's principals and collected information on the laws and regulations of three countries: Norway, Sweden, and Denmark. So far, all of the investors expressing interest in the Quaker Fund are from these areas. Based on her research, Bair decides the following policies are appropriate for the fund: Note: Laws mentioned below are assumed for illustrative purposes.
• For clients located in Norway the fund will institute transaction crossing, since, unlike in Holland, the practice is not prohibited by securities laws or regulations. The process will involve internally matching buy and sell orders from Norwegian clients whenever possible. This will reduce brokerage fees and improve the fund's overall performance.
• For clients located in Denmark, account statements that include the value of the clients' holdings, number of trades, and average daily trading volume will be generated on a monthly basis as required by Denmark's securities regulators, even though the laws in Holland only require such reports to be generated on a quarterly basis.
• For clients located in Sweden, the fund will not disclose differing levels of service that are available for investors based upon the size of their investment. This policy is consistent with the laws and regulations in Holland. Sweden's securities regulations do not cover this type of situation.
Three months after the inception of the fund, its market value has grown from $200 million to $300 million and Bair's performance has earned her a quarter-end bonus. Since it is now the end of the quarter, Bair is participating in conference calls with companies in her fund. Bair calls into the conference number for Swift Petroleum. The meeting doesn't start for another five minutes,

however, and as Bair waits, she hears the CEO and CFO of Swift discussing the huge earnings restatement that will be necessary for the financial statement from the previous quarter. The restatement will not be announced until the year's end, six months from now.
Bair does not remind the officers that she can hear their conversation. Once the call has ended, Bair rushes to BIC's compliance officer to inform him of what she has learned during the conference call. Bair ignores the fact that two members of the firm's investment banking division are in the office while she is telling the compliance officer what happened on the conference call. The investment bankers then proceed to sell their personal holdings of Swift Petroleum stock. After her meeting, Bair sells the Quaker Fund's holdings of Swift Petroleum stock.
Do the suggestions in the letter from the principals of BIC violate any CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, because the suggestions are intended to manipulate market data in order to attract investors for the fund.

C. Yes, because the compliance officer should be responsible for knowing applicable laws and regulations, not Bair.

Answer(s): B

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2. Theresa Bair, CFA, a portfolio manager for Brinton Investment Company (BIC), has recently been promoted to lead portfolio manager for her firm's new small capitalization closed-end equity fund, the Quaker Fund. BIC is an asset management firm headquartered in Holland with regional offices in several other European countries. After accepting the position, Bair received a letter from the three principals of BIC. The letter congratulated Bair on her accomplishment and new position with the firm and also provided some guidance as to her new role and the firm's expectations. Among other things, the letter stated the following:
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Bair heeded the advice from her firm's principals and collected information on the laws and regulations of three countries: Norway, Sweden, and Denmark. So far, all of the investors

expressing interest in the Quaker Fund are from these areas. Based on her research, Bair decides the following policies are appropriate for the fund: Note: Laws mentioned below are assumed for illustrative purposes.

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With regard to the treatment of clients in Norway and Denmark, do the policies that Bair has selected for the Quaker Fund violate any CFA Institute Standards of Professional Conduct?

Norway Denmark

A. No Yes

B. Yes No

C. No No

Answer(s): B

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With regard to the treatment of clients in Sweden, does the policy that Bair has selected for the Quaker Fund violate any CFA Institute Standards of Professional Conduct?

A. Yes, Bair's policy will violate Standard 11(B) Fair Dealing.

B. No, because disclosure in Sweden would disadvantage clients residing in other countries.

C. No, because disclosure in any country would break the confidentiality that Bair owes to her clients.

Answer(s): A

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After her conference call with Swift Petroleum, Bair should have:

A. included the information in a research report to make it public before selling the holdings from the Quaker Fund.

B. attempted to have Swift publicly disclose the earnings restatement before informing the compliance officer of the information.

C. informed the compliance officer and then publicly disclosed the information in a research report before selling the Swift stock.

Answer(s): B

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By selling their personal holdings of Swift Petroleum, did the employees of BIC's investment banking division violate any CFA Institute Standards of Professional Conduct?

A. Yes, because they breached their fiduciary duty and were disloyal to the clients of the Quaker Fund.

B. Yes, because they did not maintain the confidentiality of the information they overheard in the compliance officer's office.

C. Yes, because they knowingly traded on information that, if it had been publicly known, would have affected the price of Swift stock.

Answer(s): C

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By selling the Quaker Fund's shares of Swift Petroleum, did Bair violate any CFA Institute Standards of Professional Conduct?

A. Yes, Bair violated Standard II Integrity of Capital Markets.

B. No, because she ensured public dissemination of the earnings restatement information before she traded the shares.

C. Yes, because waiting to trade the stock would severely disadvantage investors in her fund and would have violated her duty of loyalty to her clients.

Answer(s): A

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7. Stephanie Mackley is a portfolio manager for Durango Wealth Management (DWM), a regional money manager catering to wealthy investors in the southwestern portion of the United States. Mackley's clients vary widely in terms of their age, net worth, and investment objectives, but all must have at least $1 million in net assets before she will accept them as clients.
Many of Mackley’s clients are referred to her by Kern & Associates, an accounting and consulting firm. DWM does not provide any direct compensation to Kern & Associates for the referrals, but Mackley’s who is the president of her local CFA Society, invites Kern & Associates to give an annual presentation to the society on the subject of tax planning and minimization strategies that Kern & Associates provides for its clients. Kern & Associates' competitors have never received an invitation to present their services to the society. When Mackley receives a referral, she informs the prospect of the arrangement between DWM and Kern & Associates.

DWM maintains a full research staff that analyzes and recommends equity and debt investments. All of the in- house research is provided to the firm's portfolio managers and their clients. In addition, DWM provides a subscription service to outside investors and portfolio managers. Aaron Welch, CFA, a private contractor, researches and reports on high-tech firms in the U.S. and other developed countries for several portfolio management clients. One of his latest reports rated InnerTech Inc., a small startup that develops microscopic surgical devices, as a strong buy. After reviewing the report carefully, Mackley decides to purchase shares of InnerTech for clients with account values over $6 million. She feels that accounts with less than this amount cannot accept the risk level associated with InnerTech stock.

Two days after purchasing InnerTech for her clients, the stock nearly doubles in value, and the clients are ecstatic about the returns on their portfolios. Several of them give her small bouquets of flowers and boxes of chocolates, which she discloses to her supervisor at DWM. One client even offers her the use of a condo in Vail, Colorado for two weeks during ski season, if she can reproduce the results next quarter. Mackley graciously thanks her clients and asks that they refer any of their friends and relatives who are in need of asset management services. She provides brochures to a few clients who mention that they have friends who would be interested. The brochure contains a description of Mackley's services and her qualifications. At the end of the brochure, Mackley includes her full name followed by "a Chartered Financial Analyst" in bold font of the same size as her name Following is An excerpt from the brochure:

"DWM can provide many of the investment services you are likely to need. For those services that we do not provide directly, such as estate planning, we have standing relationships with companies that do provide such services. 1 have a long history with DWM, serving as an investment analyst for six years and then in my current capacity as a portfolio manager for twelve years. My clients have been very satisfied with my past performance and will likely be very satisfied with my future performance, which I attribute to my significant investment experience as well as my participation in the CFA Program. I earned the right to use the CFA designation thirteen years ago. All CFA charter-holders must pass a series of three rigorous examinations that cover investment management and research analysis."

Two weeks later, some of Mackley's clients request that she provide supporting documentation for the research report on InnerTech, so they can familiarize themselves with how DWM analyzes investment opportunities.

Mackley asks Welch for the documents, but Welch is unable to provide copies of his supporting research since he disposed of them, according to the company's policy, one week after issuing and distributing the report.

Mackley informs Welch that obtaining the supporting documents is of the utmost importance, since one of the clients requesting the materials, Craig Adams, is about to inherit S20 million and as a result will be one of the firm's most important clients. Welch agrees to recreate the research documents in order to support the firm's relationship with Adams.

Does the arrangement between Mackley and Kern & Associates violate any CFA Institute Standards of Professional Conduct?

A. Yes.

B. No, because the referral agreement is fully disclosed to all clients and prospects before they employ Mackley's services.

C. No, because Mackley only accepts clients with net assets above $1 million who are likely to know that the arrangement is common in the industry.

Answer(s): A

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Were any CFA Institute Standards of Professional Conduct violated in conjunction with Welch's report on InnerTech and Mackley's purchase of InnerTech stock?

Welch Mackley

A. No Yes

B. Yes No

C. Yes Yes

Answer(s): C

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Mackley asks Welch for the documents, but Welch is unable to provide copies of his supporting research since he disposed of them, according to the company's policy, one week after issuing and distributing the report.

Mackley informs Welch that obtaining the supporting documents is of the utmost importance, since one of the clients requesting the materials, Craig Adams, is about to inherit S20 million and as a result will be one of the firm's most important clients. Welch agrees to recreate the research documents in order to support the firm's relationship with Adams.

According to the Standards of Professional Conduct, Mackley must do which of the following regarding the gifts offered to her by her clients? She may:

A. accept the flowers and chocolates and the use of the condo without disclosing the gifts to her employer.

B. not accept the flowers and chocolates or the use of the condo without disclosing the gifts to her employer.

C. accept the flowers and chocolates but may not accept the use of the condo without first receiving written approval from her employer.

Answer(s): C

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10. Stephanie Mackley is a portfolio manager for Durango Wealth Management (DWM), a regional money manager catering to wealthy investors in the southwestern portion of the United States. Mackley's clients vary widely in terms of their age, net worth, and investment objectives, but all must have at least $1 million in net assets before she will accept them as clients.
Many of Mackley’s clients are referred to her by Kern & Associates, an accounting and consulting firm. DWM does not provide any direct compensation to Kern & Associates for the referrals, but Mackley’s who is the president of her local CFA Society, invites Kern & Associates to give an annual presentation to the society on the subject of tax planning and minimization strategies that Kern & Associates provides for its clients. Kern & Associates' competitors have never received an invitation to present their services to the society. When Mackley receives a referral, she informs the prospect of the arrangement between DWM and Kern & Associates.
DWM maintains a full research staff that analyzes and recommends equity and debt investments. All of the in- house research is provided to the firm's portfolio managers and their clients. In addition, DWM provides a subscription service to outside investors and portfolio managers. Aaron Welch, CFA, a private contractor, researches and reports on high-tech firms in the U.S. and other developed countries for several portfolio management clients. One of his latest reports rated InnerTech Inc., a small startup that develops microscopic surgical devices, as a strong buy. After reviewing the report carefully, Mackley decides to purchase shares of InnerTech for clients with account values over $6 million. She feels that accounts with less than this amount cannot accept the risk level associated with InnerTech stock.
Two days after purchasing InnerTech for her clients, the stock nearly doubles in value, and the clients are ecstatic about the returns on their portfolios. Several of them give her small bouquets of flowers and boxes of chocolates, which she discloses to her supervisor at DWM. One client even offers her the use of a condo in Vail, Colorado for two weeks during ski season, if she can reproduce the results next quarter. Mackley graciously thanks her clients and asks that they refer any of their friends and relatives who are in need of asset management services. She provides brochures to a few clients who mention that they have friends who would be interested. The brochure contains a description of Mackley's services and her qualifications. At the end of the brochure, Mackley includes her full name followed by "a Chartered Financial Analyst" in bold font of the same size as her name Following is An excerpt from the brochure:
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Does Mackley's signature at the end of her brochure violate any CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, because "a Chartered Financial Analyst" should not be written in bold.

C. Yes, because "a Chartered Financial Analyst" should not be written in bold and should not include "a."

Answer(s): C

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11. Stephanie Mackley is a portfolio manager for Durango Wealth Management (DWM), a regional money manager catering to wealthy investors in the southwestern portion of the United States. Mackley's clients vary widely in terms of their age, net worth, and investment objectives, but all must have at least $1 million in net assets before she will accept them as clients.

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DWM maintains a full research staff that analyzes and recommends equity and debt investments. All of the in- house research is provided to the firm's portfolio managers and their clients. In addition, DWM provides a subscription service to outside investors and portfolio managers. Aaron

Welch, CFA, a private contractor, researches and reports on high-tech firms in the U.S. and other developed countries for several portfolio management clients. One of his latest reports rated InnerTech Inc., a small startup that develops microscopic surgical devices, as a strong buy. After reviewing the report carefully, Mackley decides to purchase shares of InnerTech for clients with account values over $6 million. She feels that accounts with less than this amount cannot accept the risk level associated with InnerTech stock.

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In her marketing brochure, did Mackley violate any CFA Institute Standards of Professional Conduct in her reference to her investment performance or her reference to the CFA Program?

Performance CFA Program

A. Yes Yes

B. No Yes

C. Yes No

Answer(s): C

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In her discussions with Welch, where she asks him to recreate the supporting research for the InnerTech report, has Mackley violated any CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, because the request creates a conflict of interest between Mackley and Welch.

C. Yes, because she failed to preserve the confidentiality of her client's information.

Answer(s): C

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13. Rowan Brothers is a full service investment firm offering portfolio management and investment banking services. For the last ten years, Aaron King, CFA, has managed individual client portfolios for Rowan Brothers, most of which are trust accounts over which King has full discretion. One of King's clients, Shelby Pavlica, is a widow in her late 50s whose husband died and left assets of over $7 million in a trust, for which she is the only beneficiary.
Pavlica's three children are appalled at their mother's spending habits and have called a meeting with King to discuss their concerns. They inform King that their mother is living too lavishly to leave much for them or Pavlica's grandchildren upon her death. King acknowledges their concerns and informs them that, on top of her ever-increasing spending, Pavlica has recently been diagnosed with a chronic illness. Since the diagnosis could indicate a considerable increase in medical spending, he will need to increase the risk of the portfolio to generate sufficient return to cover the medical bills and spending and still maintain the principal. King restructures the portfolio accordingly and then meets with Pavlica a week later to discuss how he has altered the investment strategy, which was previously revised only three months earlier in their annual meeting.
During the meeting with Pavlica, Kang explains his reasoning tor altering the portfolio allocation but does not mention the meeting with Pavlica's children. Pavlica agrees that it is probably the wisest decision and accepts the new portfolio allocation adding that she will need to tell her

children about her illness, so they will understand why her medical spending requirements will increase in the near future. She admits to King that her children have been concerned about her spending. King assures her that the new investments will definitely allow her to maintain her lifestyle and meet her higher medical spending needs.
One of the investments selected by King is a small allocation in a private placement offered to him by a brokerage firm that often makes trades for King's portfolios. The private placement is an equity investment in ShaleCo, a small oil exploration company. In order to make the investment, King sold shares of a publicly traded biotech firm, VNC Technologies. King also held shares of VNC, a fact that he has always disclosed to clients before purchasing VNC for their accounts. An hour before submitting the sell order for the VNC shares in Pavlica's trust account. King placed an order to sell a portion of his position in VNC stock. By the time Pavlica's order was sent to the trading floor, the price of VNC had risen, allowing Pavlica to sell her shares at a better price than received by King.
Although King elected not to take any shares in the private placement, he purchased positions for several of his clients, for whom the investment was deemed appropriate in terms of the clients* objectives and constraints as well as the existing composition of the portfolios. In response to the investment support, ShaleCo appointed King to their board of directors. Seeing an opportunity to advance his career while also protecting the value of his clients' investments in the company, King gladly accepted the offer. King decided that since serving on the board of ShaleCo is in his clients' best interest, it is not necessary to disclose the directorship to his clients or his employer.
For his portfolio management services, King charges a fixed percentage fee based on the value of assets under management. All fees charged and other terms of service are disclosed to clients as well as prospects. In the past month, however. Rowan Brothers has instituted an incentive program for its portfolio managers.
Under the program, the firm will award an all-expense-paid vacation to the Cayman islands for any portfolio manager who generates two consecutive quarterly returns for his clients in excess of 10%. King updates his marketing literature to ensure that his prospective clients are fully aware of his compensation arrangements, but he does not contact current clients to make them aware of the newly created performance incentive.

In discussing Pavlica's spending and medical condition with Pavlica's children, did King violate any CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, because he violated his client's confidentiality.

C. Yes, because he created a conflict of interest between himself and his employer.

Answer(s): B

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14. Rowan Brothers is a full service investment firm offering portfolio management and investment banking services. For the last ten years, Aaron King, CFA, has managed individual client portfolios for Rowan Brothers, most of which are trust accounts over which King has full discretion. One of King's clients, Shelby Pavlica, is a widow in her late 50s whose husband died and left assets of over $7 million in a trust, for which she is the only beneficiary.

Pavlica's three children are appalled at their mother's spending habits and have called a meeting with King to discuss their concerns. They inform King that their mother is living too lavishly to leave much for them or Pavlica's grandchildren upon her death. King acknowledges their concerns and informs them that, on top of her ever-increasing spending, Pavlica has recently been diagnosed with a chronic illness. Since the diagnosis could indicate a considerable increase in medical spending, he will need to increase the risk of the portfolio to generate sufficient return to cover the medical bills and spending and still maintain the principal. King restructures the portfolio accordingly and then meets with Pavlica a week later to discuss how he has altered the investment strategy, which was previously revised only three months earlier in their annual meeting.

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any portfolio manager who generates two consecutive quarterly returns for his clients in excess of 10%. King updates hismarketing literature to ensure that his prospective clients are fully aware of his compensation arrangements, but he does not contact current clients to make them aware of the newly created performance incentive.
In reallocating the portfolio after the meeting with Pavlica's children, did King violate any CFA Institute Standards of Professional Conduct?

A. Yes, he violated Standard III(A) Loyalty, Prudence, and Care.

B. No, because he had a reasonable basis for making adjustments to the portfolio.

C. No, because Pavlica agreed with the investment choices and King has discretion over the portfolio.

Answer(s): A

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15. Rowan Brothers is a full service investment firm offering portfolio management and investment banking services. For the last ten years, Aaron King, CFA, has managed individual client portfolios for Rowan Brothers, most of which are trust accounts over which King has full discretion. One of King's clients, Shelby Pavlica, is a widow in her late 50s whose husband died and left assets of over $7 million in a trust, for which she is the only beneficiary.
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In his statements to Pavlica after the reallocation, did King violate any CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, because he misrepresented the expected performance of the strategy.

C. Yes, because he met with her before their annual meeting which is unfair to clients who only meet with King annually.

Answer(s): B

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Did King's actions with regard to allocating the private placement and the sale of VNC stock violate any CFA Institute Standards of Professional Conduct?

Private placement VNC sale

A. Yes Yes

B. No No

C. No Yes

Answer(s): C

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According to the CFA Institute Standards of Professional Conduct, which of the following statements is correct concerning King's directorship with ShaleCo?

A. King may not accept the directorship since it creates a conflict of interest.

B. King may accept the directorship as long as it is disclosed to clients and prospects.

C. King may accept the directorship as long as it is disclosed to his employer, clients, and prospects.

Answer(s): C

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18. Rowan Brothers is a full service investment firm offering portfolio management and investment banking services. For the last ten years, Aaron King, CFA, has managed individual client portfolios for Rowan Brothers, most of which are trust accounts over which King has full discretion. One of King's clients, Shelby Pavlica, is a widow in her late 50s whose husband died and left assets of over $7 million in a trust, for which she is the only beneficiary.
Pavlica's three children are appalled at their mother's spending habits and have called a meeting with King to discuss their concerns. They inform King that their mother is living too lavishly to leave much for them or Pavlica's grandchildren upon her death. King acknowledges their concerns and informs them that, on top of her ever-increasing spending, Pavlica has recently been diagnosed with a chronic illness. Since the diagnosis could indicate a considerable increase in medical spending, he will need to increase the risk of the portfolio to generate sufficient return to cover the medical bills and spending and still maintain the principal. King restructures the portfolio accordingly and then meets with Pavlica a week later to discuss how he has altered the investment strategy, which was previously revised only three months earlier in their annual meeting.
During the meeting with Pavlica, Kang explains his reasoning tor altering the portfolio allocation

but does not mention the meeting with Pavlica's children. Pavlica agrees that it is probably the wisest decision and accepts the new portfolio allocation adding that she will need to tell her children about her illness, so they will understand why her medical spending requirements will increase in the near future. She admits to King that her children have been concerned about her spending. King assures her that the new investments will definitely allow her to maintain her lifestyle and meet her higher medical spending needs.

One of the investments selected by King is a small allocation in a private placement offered to him by a brokerage firm that often makes trades for King's portfolios. The private placement is an equity investment in ShaleCo, a small oil exploration company. In order to make the investment, King sold shares of a publicly traded biotech firm, VNC Technologies. King also held shares of VNC, a fact that he has always disclosed to clients before purchasing VNC for their accounts. An hour before submitting the sell order for the VNC shares in Pavlica's trust account. King placed an order to sell a portion of his position in VNC stock. By the time Pavlica's order was sent to the trading floor, the price of VNC had risen, allowing Pavlica to sell her shares at a better price than received by King.

Although King elected not to take any shares in the private placement, he purchased positions for several of his clients, for whom the investment was deemed appropriate in terms of the clients* objectives and constraints as well as the existing composition of the portfolios. In response to the investment support, ShaleCo appointed King to their board of directors. Seeing an opportunity to advance his career while also protecting the value of his clients' investments in the company, King gladly accepted the offer. King decided that since serving on the board of ShaleCo is in his clients' best interest, it is not necessary to disclose the directorship to his clients or his employer.

For his portfolio management services, King charges a fixed percentage fee based on the value of assets under management. All fees charged and other terms of service are disclosed to clients as well as prospects. In the past month, however. Rowan Brothers has instituted an incentive program for its portfolio managers.

Under the program, the firm will award an all-expense-paid vacation to the Cayman islands for any portfolio manager who generates two consecutive quarterly returns for his clients in excess of 10%. King updates his marketing literature to ensure that his prospective clients are fully aware of his compensation arrangements, but he does not contact current clients to make them aware of the newly created performance incentive.

Does the fee structure at Rowan Brothers and King's disclosure of the compensation structure violate any CFA Institute Standards of Professional Conduct?

Fee structure Disclosure

A. No Yes

B. Yes No

C. No No

Answer(s): A

19. Johnny Bracco, CFA, is a portfolio manager in the trust department of Canada National (CNL) in Toronto. CNL is a financial conglomerate with many divisions. In addition to the trust department, the firm sells financial products and has a research department, a trading desk, and an investment banking division.

Part of the company's operating procedures manual contains detailed information on how the firm allocates shares in oversubscribed stock offerings. Allocation is effected on a pro rata basis based upon factors such as the size of a client's portfolio, suitability, and previous notification to participate in IPOs. Additionally, company policy discloses to clients that any trade needs to meet a minimum transaction size in an effort to control trading costs and to comply with best execution procedures.

One of Bracco's trust accounts is the Carobilo family trust, which contains a portion of nondiscretionary funds managed by Stephen Carobilo. Carobilo has a friend who runs a brokerage firm called First Trades, to which Carobilo tells Bracco to direct trades from the nondiscretionary accounts. Bracco has learned that First Trades charges a slightly higher trading fee than other brokers providing comparable services, and he discloses this to Carobilo.

Due to high prices and limited supplies of oil, Bracco has been following companies in the energy sector. He believes this area of the economy is in turmoil and should present some mispricing opportunities. One company he has been researching is Stiles Corporation, which is working on a new type of hydrogen fuel cell that uses fusion technology to create energy. To date, no one has been able to successfully sustain a fusion reaction for an extended period of time. Bracco has been in close contact with Stiles' pubic relations department, has toured their laboratories, and has thoroughly researched fusion technology and Stiles' competitors. Bracco is convinced from his research, based upon various public sources, that Stiles is on the verge of perfecting this technology and will be the first firm to bring it to the marketplace. Jerry McNulty, CFA and vice president of the investment banking division of CNL, has been working with Stiles to raise new capital via a secondary offering of Stiles common shares. One day Bracco happened to be in a stall in the bathroom when McNulty and a colleague came in and discussed the fact that Stiles had perfected the fuel-cell technology, which will greatly increase the price of Stiles1 stock.

Stiles Corporation's board of directors includes Dr. Elaine Joachim, who is a physics professor at the University of Toronto. She also works part-time for Stiles Corporation as a consultant in their fusion technology laboratory. Her husband is a materials engineer who recently started performing consulting work for Stiles.

A routine audit by the quality control department at CNL discovered trading errors in several of Bracco's accounts involving an oversubscribed IPO. Some accounts received shares they should not have and others did not receive shares they should have. Bracco and his supervisor Jaime Gun, CFA, are taking responsibility to reverse the incorrect trades. Bracco told Gun, "I'll correct the trades based on our clients' investment policy statements, previous notification of intent, and according to the company's formula for allocating shares on a pro rata basis. In so doing, we will fairly allocate shares so even small accounts that did not meet minimum size requirements will receive some shares of the IPO." Gun replied to Bracco by saying, "I'll credit short-term interest back to the accounts that should not have received the shares and subtract interest from the accounts that should have received the shares."

That evening, Bracco and his wife attended the company holiday party for CNL employees and their spouses. Jerry McNulty, whose wife was ill and could not come to the party, arrived drunk from a meeting with Stiles' upper management. During the party McNulty made inappropriate advances toward many of the female employees and joked about the inadequacies of Stiles' managers.
Has Bracco violated any soft dollar standards regarding the Carobilo family trust? Bracco has:

A. violated soft dollar standards because he did not satisfy the requirement of best execution.

B. violated the soft dollar standards because client brokerage is to be used only for research purposes to benefit the client.

C. not violated any soft dollar standards since Carobilo directed the trades to a specific broker.

Answer(s): C

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If after overhearing McNulty's conversation in the bathroom Bracco placed trades to purchase shares of the Stiles Corporation for some of his clients, would Bracco have violated any of the Standards of Professional conduct?

A. No, because the information regarding the Stiles Corporation was not acquired in a breach of confidence.

B. No, since he performed his own research and is allowed to trade based on the mosaic theory.

C. Yes, since he possesses insider information he is not allowed to trade based on this information.

Answer(s): C
