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Exam : CFA Level 3

Title : CFA Level 3 Exam

Version : DEMO

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: B
Explanation:
Standard 11(B) Market Manipulation prohibits members and candidates from misleading investors through manipulated securities prices or volume. BIC's principals have suggested to Bair that she artificially inflate the Quaker Fund's price to alter the market's perception of the fund and mislead investors.

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.
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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:
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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.
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: B
Explanation:
Standard 1(A) Knowledge of the Law requires members and candidates to know and comply with rules, laws, and regulations that apply to their professional activities. If there is a conflict, members and candidates are expected to adhere to the stricter of applicable laws, rules, and regulations or the Code and Standards. Because the Quaker Fund is located in Holland, which does not allow crossing trades (a law that is stricter than the Code and Standards), the fund is not allowed to utilize such a practice even for clients that live in countries with less strict regulations. Thus, the policy for clients in Norway violates Standard 1(A). In the case of the policy for clients located in Denmark, no violation has occurred since the fund is going to comply with Denmark's law, which is stricter than the Code and Standards. (Study Session 1, LOS I.b)

3.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.
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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:

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• 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.

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: A

Explanation:

According to Standard III(B) Fair Dealing, members and candidates are allowed to offer different levels of service but must offer all levels of service to all clients and must disclose the existence of different levels of

service to all clients and prospects. By not disclosing the levels of service to Swedish investors, Bair is adhering to local law, which is less strict than the Code and Standards and thus is in violation of Standard I {A) Knowledge of the Law, which requires she adhere to the stricter of the two. She also violated Standard III(B) by not disclosing the service levels. (Study Session 1, LOS l.b)

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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: B
Explanation:
According co Standard 11(A) Material Nonpublic Information, it is appropriate procedure for the member or candidate who possesses material nonpublic information to first attempt to have the subject company disclose the information publicly themselves. If this is not possible, then the appropriate supervisor and/or compliance officer should be made aware of the situation- (Study Session 11 LOS 1 .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: C
Explanation:
Standard 11(A) Material Nonpublic Information prohibits trading on material nonpublic information in all situations. The investment bankers should have known char the information was material and nonpublic and have thus violated Standard 11(A) by trading on the information. (Study Session 1, LOS I.b)