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Review Category Ethical and Professional Standards

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Incorrect

Correct Answer	Your Answer
A	
B	
C	X

Time Spent: 3 mins 12 secs

Difficulty Level: Difficult

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Practice Problem

Q. Carter works for Invest Today, a local asset management firm. A broker that provides Carter with proprietary research through client brokerage arrangements is offering a new trading service. The broker is offering low-fee, execution-only trades to complement its traditional full-service, execution-and-research trades. To entice Carter and other asset managers to send additional business its way, the broker will apply the commissions paid on the new service toward satisfying the brokerage commitment of the prior full-service arrangements. Carter has always been satisfied with the execution provided on the full-service trades, and the new low-fee trades are comparable to the fees of other brokers currently used for the accounts that prohibit soft dollar arrangements.

- A. Carter can trade for his accounts that prohibit soft dollar arrangements under the new low-fee trading scheme.
- B. Carter cannot use the new trading scheme because the commissions are prohibited by the soft dollar restrictions of the accounts.
- C. Carter should trade only through the new low-fee scheme and should increase his trading volume to meet his required commission commitment.

Solution

Answer A is correct. The question relates to Standard III(A)—Loyalty, Prudence, and Care. Carter believes the broker offers effective execution at a fee that is comparable with those of other brokers, so he is free to use the broker for all accounts. Answer B is incorrect because the accounts that prohibit soft dollar arrangements do not want to fund the purchase of research by Carter. The new trading scheme does not incur additional commissions from clients, so it would not go against the prohibitions. Answer C is incorrect because Carter should not incur unnecessary or excessive “churning” of the portfolios (excessive trading) for the purpose of meeting the brokerage commitments of soft dollar arrangements.

Guidance for Standards I–VII

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No matter how good the deal is, it should not compromise the basic mandate of an account. It's really disheartening to see this solution after pages of standards telling us "it's not about profit, it's about trust and integrity"

Created 9 days ago by Mumtaza Rizky Iswanda

1 reply | Last Activity: 8 days ago

Answer

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B	
C	X

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