

## **Learning Module 2: Code of Ethics and Standards of Professional Conduct**

Q.2 Which of the following statements is *most likely* correct?

- A. If local laws are less strict than the Code and Standards, members must only follow applicable law.
- B. If an applicable law is stricter than the Code and Standards, members must adhere to applicable law.
- C. If an applicable law is stricter than the Code and Standards, members must adhere to either applicable law or the Code and Standards.

The correct answer is **B**.

If applicable laws are stricter than the Code and Standards, members must adhere to applicable laws.

**A is incorrect.** In a conflict, Members must comply with the more strict law, rule, or regulation.

**C is incorrect.** Members must always comply with the more strict law where applicable.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.***

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Q.3 Which of these gifts is *more likely* to affect the Member's independence and objectivity?

- A. Gifts from a client.
- B. Gifts from external sources seeking to influence the member.
- C. All gifts are regarded as the same by the Code and Standards.

The correct answer is **B**.

Gifts from external sources seeking to influence a member are generally regarded as a potentially more serious violation.

**A is incorrect.** Receiving a gift from a client can be distinguished from gifts given by entities seeking to influence a member to the detriment of other clients. The client has already entered into a compensation arrangement with the Member or their firm in a client relationship. A gift from a client could be considered additional compensation. The potential for obtaining influence to the detriment of other clients, although present, is not as great as in situations where no compensation arrangement exists. Client gifts must be disclosed to the Member's employer before acceptance, if possible, but after acceptance, if not.

**C is incorrect.** Members are extremely advised not to offer, solicit, or accept any gift, benefit, compensation, or consideration that reasonably could be expected to compromise their own, or another's independence and objectivity.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (b): Identify the six components of the Code of Ethics and the seven Standards of Professional Conduct.***

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Q.4 Kelvin Charmer, CFA, plans to allocate shares to his clients following a recent IPO by a fast-growing IT Company. According to the CFA Institute Code of Ethics and Standards of Professional Conduct, Charmer, in case of oversubscription of the issue, will *most likely* breach his duty to clients by:

- A. Avoiding odd-lot distributions.
- B. Not forgoing any sales to himself.
- C. Prorating to all clients for whom the issue is appropriate.

The correct answer is **B**.

According to Standard III (B), fair dealing requires that members treat all clients fairly based on their investment objectives and circumstances. If the issue is oversubscribed, members and candidates should forgo any sales to themselves to free up additional shares for clients.

**A is incorrect.** It is not a breach if the issue is oversubscribed; then the issue should be prorated to all subscribers and should be taken on a round-lot basis to avoid odd-lot distributions.

**C is incorrect.** Members should distribute the issues to all customers for whom the investments are appropriate and consistent with the firm's policies for allocating blocks of stock.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (b): Identify the six components of the Code of Ethics and the seven Standards of Professional Conduct.***

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Q.891 Which of the following statements is *most likely* inaccurate?

- A. An ethical violation reflects not only on the conduct of that employee but also on his supervisor.
- B. Reasonable supervision is typically determined as a function of the number of employees supervised and the specific jobs being done.
- C. It is not the supervisor's responsibility to ensure that investment reports of a research effort are compliant with the Code and Standards.

The correct answer is **C**.

It is the supervisor's responsibility to take specific preventative actions in the course of guiding the conduct of others.

**A is incorrect.** An ethical violation indeed reflects not only on the conduct of that employee but also on his supervisor.

**B is incorrect.** Reasonable supervision is typically determined and is required as a function of the number of employees supervised and the specific jobs being done.

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Q.892 Which of the following statements is *most likely* inaccurate?

- A. Material Public Information may consist of discussions with management that may reveal information that isn't material but may give valuable clues.
- B. A firewall is a common term applied to the barriers created to prevent sensitive information from being disseminated between departments of a firm.
- C. A compliance program is incomplete if all it does is create awareness of the definition of insider trading and the fines and jail sentences to which the employee could be liable.

The correct answer is **A**.

Discussions with management may reveal information that isn't material but may give valuable clues called NON-MATERIAL NONPUBLIC INFORMATION.

**B is incorrect.** It is correct to say that a firewall is a common term applied to the barriers created to prevent sensitive information from being disseminated between departments of a firm.

**C is incorrect.** A compliance program is indeed incomplete if all it does is create awareness of the definition of insider trading and the fines and jail sentences to which the employee could be liable.

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Q.894 If an activity is legal in a given country or jurisdiction, what is the *most appropriate* action taken by a CFA member?

- A. The activity can be pursued even if it violates the Standards.
- B. The activity can be pursued only if it does not violate the Standards.
- C. There is no need to verify what the Standards have to say since the activity is legal.

The correct answer is **B**.

The activity should be pursued if only it does not violate the Standards. Even if an activity is legal, a CFA Charterholder asks himself if the action aligns with the Standards.

**A is incorrect.** An activity that violates the Standards should not be pursued.

**C is incorrect.** A member may be governed by different rules and regulations among the Standards, the country in which the Member resides, and the country where the Member is doing business. A member must follow the most strict of these or, put another way, do not violate any of the three sets of rules and regulations whether an activity is legal.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (b): Identify the six components of the Code of Ethics and the seven Standards of Professional Conduct.***

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Q.895 Which of the following is *most likely* not a component of the Code of Ethics?

- A. Improving professional competence.
- B. Maintain awareness of new rules of the capital markets.
- C. Enthuse others to follow professional and ethical norms.

The correct answer is **B**.

Maintain awareness for new rules of the capital markets is not a component of the Code of Ethics.

**A is incorrect.** Maintaining and improving Member professional competence and strive to maintain and improve the competence of other investment professionals is a key component of the Code of Ethics.

**C is incorrect.** Practice and encourage others to practice professionally and ethically, reflecting credit on themselves and the profession is a key component of the Code of Ethics.

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Q.896 A CFA Institute Designated Officer is *most likely* to conduct inquiries on which of the following basis/bases?

- I. Receipt of an oral complaint
- II. Self-disclosure by Member

A. I only.

B. II only.

C. I and II.

The correct answer is **B**.

A member's disclosure can form a basis for conducting an inquiry.

**A is incorrect.** A CFA Institute-designated officer can not conduct inquiries based on oral complaints.

**C is incorrect.** An oral complaint cannot form a basis for conducting an inquiry.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.***

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Q.898 In which of the following situations can a CFA Institute Designated Officer is most likely to conduct inquiries?

- I. Evidence received through a media release
- II. Evidence received through a broadcast

- A. Only I.
- B. I and II.
- C. None of the above.

The correct answer is **B**.

A CFA Institute-designated officer can conduct inquiries from the evidence received through a media release or from the evidence received through a broadcast.

**A is incorrect.** Both I and II can be used to conduct inquiries.

**C is incorrect.** Both I and II are correct.

**CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.**

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Q.899 The inquiry process on professional conduct is *least likely* to follow which of these steps?

- A. Interviewing the member.
- B. Interviewing the complainant.
- C. No communication with the member.

The correct answer is **C**.

The inquiry process on professional conduct starts with communicating with the Member.

**A is incorrect.** In an inquiry process, the Member must equally be interviewed.

**B is incorrect.** An inquiry process requires an interview with the complainant.

**CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.**

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Q.904 In a situation of conflict of interests, what should *least likely* be done?

- A. Place the employer's interests above all.
- B. Place the integrity of the investment profession above all.
- C. Place the interests of the clients above the member's own interests.

The correct answer is **A**.

A Member should not place the employer's interest above all.

**B is incorrect.** In a case of conflict of interests, the Member should place the integrity of the Investment professional should be above Member's interest.

**C is incorrect.** Conflict of interest demands that the interests of the clients should be above the Member's interests.

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Q.905 A member is *most likely* required to behave ethically with which of the following shareholders?

- A. Prospective clients.
- B. All participants in the global capital markets.
- C. Both prospective clients and all participants in the global capital markets.

The correct answer is **C**.

Members of the financial industry are required to uphold the highest ethical standards in all their professional dealings. This obligation extends beyond the confines of their immediate client relationships to encompass all participants in the global capital markets. Ethical behavior in this context includes, but is not limited to, honesty, integrity, fairness, and respect for others. These principles are fundamental to maintaining trust and confidence in the financial markets and ensuring their efficient operation.

**A is incorrect.** It suggests that ethical obligations are limited to prospective clients only. While it is true that members must behave ethically towards prospective clients, this view is too narrow. Ethical behavior should not be confined to potential business relationships but should extend to all interactions within the global capital markets. This includes dealings with current clients, competitors, regulators, and any other market participants. Ethical conduct towards prospective clients is crucial for establishing trust and credibility, but it is only a part of the broader ethical responsibilities of financial professionals.

**B is incorrect.** It implies that ethical obligations are exclusive to participants in the global capital markets, excluding prospective clients. This interpretation overlooks the fact that prospective clients are indeed part of the broader ecosystem of the global capital markets. Before formalizing any professional relationship, ethical considerations must guide interactions with prospective clients. These individuals or entities are considering entering into a professional relationship based on trust and the expectation of ethical treatment. Therefore, ethical behavior towards them is not only a matter of professional integrity but also a foundational aspect of building lasting and trustworthy relationships in the financial industry.

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Q.906 For the benefits of society at large, which of the following *most accurately* summarizes the CFA Institute Professional Conduct Program objectives?

- A. Promote the viability of the global capital markets.
- B. Promote the integrity of the global capital markets.
- C. Promotes both the viability and integrity of the global capital markets.

The correct answer is **C**.

The CFA Institute Professional Conduct Program is designed with the overarching goal of ensuring that the global capital markets operate in a manner that is both viable and maintains integrity. This is achieved through a comprehensive set of ethical and professional standards that guide the conduct of finance professionals. By promoting both the viability and integrity of the global capital markets, the program seeks to foster trust among investors, facilitate fair and efficient markets, and contribute to the economic well-being of society at large.

**A is incorrect.** It only mentions the promotion of the viability of the global capital markets. While ensuring the markets are viable is crucial, it is only one aspect of the CFA Institute Professional Conduct Program's objectives. Viability refers to the market's ability to operate effectively, supporting economic growth and innovation. However, without simultaneously promoting integrity, which involves honesty, fairness, and ethical behavior, the markets cannot fully serve the best interests of all participants. Integrity is essential for building and maintaining investor confidence, which in turn supports market viability.

**B is incorrect.** It solely focuses on promoting the integrity of the global capital markets. Integrity is indeed a fundamental component of the program's objectives, as it ensures that the markets operate in a fair and ethical manner. However, focusing exclusively on integrity without considering the importance of market viability overlooks the program's comprehensive approach to fostering a healthy financial ecosystem. Market viability involves ensuring that the markets are capable of facilitating economic activities efficiently, which is equally important for the benefits of society at large. Therefore, the objectives of the CFA Institute Professional Conduct Program encompass both promoting integrity and ensuring the viability of the global capital markets.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.908 Which of the following is *least likely* a part of the sanctions that the Disciplinary Review Committee can impose?

- A. Jail time.
- B. Public Censure.
- C. Suspension from participation in the CFA program.

The correct answer is **A**.

CFA Institute can't impose jail time.

**B is incorrect.** The Disciplinary Review Committee most likely can impose public censure.

**C is incorrect.** The Disciplinary Review Committee is can most likely issue a suspension from participation in the CFA program activities.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.***

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Q.909 Is it *most appropriate* for the Disciplinary Review Committee to be allowed to collect related documents about an inquiry?

- A. Yes, always.
- B. Yes, but only if criminal acts have been committed.
- C. No, documents are the employer's confidential property and hence cannot be collected.

The correct answer is **A**.

The Disciplinary Review Committee is allowed to collect related documents about an inquiry.

**B is incorrect.** The Disciplinary Review Committee is allowed to interview the complainant or other third parties and collect documents and records relevant to the investigation whether a criminal act is committed or not.

**C is incorrect.** The Disciplinary Review Committee is allowed to collect documents and records relevant to the investigation.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.***

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Q.915 Which of the following is *most likely* responsible for enforcing the Codes and Standards?

- A. The CFA Ethics Council (EC).
- B. The CFA Standards of Practice Council (SPC).
- C. The CFA Disciplinary Review Committee (DRC).

The correct answer is **C**.

The DRC is responsible for enforcement of the CFA Institute Code of Ethics and Standards of Professional Conduct and the rules and regulations of the CFA Program to maintain the integrity of CFA Institute membership and the CFA designation.

**A is incorrect.** The CFA Ethics Council (EC) doesn't exist.

**B is incorrect.** The Standards of Practice Council (SPC) is the volunteer committee charged by the CFA Institute Board of Governors to provide continuous oversight of CFA Institute standards and foster the integrity of the capital markets by developing and maintaining the Code of Ethics and Standards of Professional Conduct.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.***

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Q.925 Barbara Bosch is a CFA member and was recently asked to become a supervisor at her firm. Which statement is *most accurate* regarding supervisory responsibilities?

- A. The member cannot delegate the responsibility of supervision to another employee.
- B. The member could violate the Code and Standards if one of the employees of a competing firm violates the Code of Standards.
- C. The member must decline to accept the role if the member does not believe that the firm can install procedures that comply with acceptable standards of compliance.

The correct answer is **C**.

If the Member believes that they cannot implement procedures that meet the acceptable standards, they should not accept supervisory responsibilities.

**A is incorrect.** Members may delegate supervisory duties to subordinates but remain responsible for instructing them about how to detect and prevent violations.

**B is incorrect.** Standard IV (A) on Loyalty requires Members to act for the benefit of their employer and not deprive their employer of the advantage of their skills and abilities, divulge confidential information, or otherwise cause harm to their employer.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.***

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Q.929 Lucas Boski, CFA, currently works at Wealth Succession Management Firm. Boski decides to leave his current employer to join a competing firm, MoneySimple. Which of the following is *most likely* accurate with regards to what Boski can do?

- A. It is permissible for Boski to contact his past employer's clients to gain business for his new employer after his departure.
- B. It is permissible for Boski to take a list of clients' details as long as the employee believes that he might have replicated the list only from public records.
- C. It is permissible for Boski to take a list of clients' details as long as the employee believes that he might have replicated the list from private records and public records.

The correct answer is **B**.

If the information is widely available and can easily be replicated (such as public records), it could be acceptable to take the list. Otherwise, an employee needs written permission from his past employer to use the list in his new role at a competing firm.

**A is incorrect.** Standard IV (A) on Loyalty to the employer, members must continue to act in their employer's best interests until their resignation is effective when leaving an employer. Activities that may constitute a violation include misappropriation of trade secrets, confidential information, soliciting employer's clients before leaving, and self-dealing and misappropriating client lists.

**C is incorrect.** Employer records on any medium (e.g., home computer, tablet, cell phone) are the firm's property.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.934 Which of the following *most likely* has the oversight and responsibility for the Professional Conduct Program?

- A. The CFA Institute Board of Governors.
- B. The CFA Code and Ethics Commission.
- C. The Security and Exchange Commission.

The correct answer is **A**.

The CFA Institute Board of Governors is responsible for the Professional Conduct Program.

**B is incorrect.** The mandate of the CFA Code and Ethics Commission is to ensure adherence to the code of ethics and standards by CFA Members.

**C is incorrect.** The role of the Security and Exchange Commission is to protect investors; maintain fair, orderly, and efficient markets, and facilitate capital formation. The SEC strives to promote a market environment that is worthy of the public's trust.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.937 Which of the following statements is *most likely* correct?

- A. The Mosaic Theory is a strategy used by day traders to gain on short-term basis from market imbalances.
- B. The Mosaic Theory relates to bull and bear market cycles that tend to follow the Elliot business model cycle theory.
- C. There is no prohibition on reaching an investment decision through Public and non-material non-public information.

The correct answer is **C**.

Collecting public and private information to value a company is the Mosaic Theory. It is legal and not considered insider trading.

**A is incorrect.** Under the mosaic theory, reaching an investment conclusion through perceptive analysis of public information combined with non-material nonpublic information is not a violation of the Standard.

**B is incorrect.** Elliott Wave Theory refers to a theory in the technical analysis used to describe price movements in the financial market and does not correlate with the mosaic theory.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.938 The responsibilities as a CFA member or CFA candidate is *most likely* to;

- A. Promote the efficiency and profitability of the capital markets.
- B. Violate the integrity, validity, or security of the CFA examinations.
- C. Not to engage in any conduct that compromises the reputation of the integrity of the CFA Institute or CFA designation.

The correct answer is **C**.

The responsibility as a CFA member or CFA candidate is not to engage in any conduct that compromises the reputation or integrity of the CFA Institute or CFA designation.

**A is incorrect.** It's not the mandate of a CFA member or candidate to promote the efficiency and profitability of the capital markets.

**B is incorrect.** A CFA Member or Candidate should uphold professionalism and good conduct with strict adherence to the security of CFA examinations.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.***

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Q.2439 "Practice and encourage others to practice professionally and ethically that will reflect credit on themselves and the profession" is *most likely* required by:

- A. The Code of Ethics.
- B. The integrity of capital markets.
- C. The Standards of Professional Conduct.

The correct answer is **A**.

"Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession" is one of the six components of the Code of Ethics.

**B is incorrect.** The integrity of capital markets only gives member guidelines on material nonpublic information and market manipulation.

**C is incorrect.** The Standard of Professional Conduct covers legal knowledge, independence, objectivity, misrepresentation, and misconduct.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.***

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Q.2440 The *most appropriate* record retention by CFA Institute is;

- A. 5 years.
- B. 7 years.
- C. 9 years.

The correct answer is **B**.

CFA Institute requires record retention for 7 years. However, stricter laws must be followed if a country's laws are stricter and require more than 7 years of record retention.

**A is incorrect.** Suggesting a 5-year record retention period falls short of the CFA Institute's standard. While a 5-year period might be adequate for certain types of records or in specific jurisdictions, it does not meet the broader, more comprehensive 7-year requirement set by the CFA Institute.

**C is incorrect.** Proposing a 9-year record retention period exceeds the CFA Institute's standard requirement. Although retaining records for longer periods may provide additional security and the ability to reference professional decisions well into the future, it also imposes greater storage and management burdens.

**CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.**

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Q.2441 Standard III: Duties to Clients *least likely* includes:

- A. Loyalty, Prudence, and Care.
- B. Preservation of Confidentiality.
- C. Diligence and Reasonable Basis.

The correct answer is **C**.

Diligence and reasonable basis are part of Standard V: Investment analysis, Recommendation, and Actions.

**A is incorrect.** It is a requirement as per Standard III.

**B is incorrect.** It is a requirement as per Standard III.

**CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.**

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Q.2444 Baktash Attaie, CFA, has been hired by Servest Inc. to manage its pension fund. Attaie *most likely* owes his Loyalty, prudence, and care to:

- A. Servest Inc. shareholders.
- B. Servest Inc. management.
- C. The pension fund's participants.

The correct answer is **C**.

Attaie owes his Loyalty, prudence, and care to the people who have their money invested through the pension fund.

**A is incorrect.** The shareholders are part of the pension fund's participants.

**B is incorrect.** Concerning managing pensions or trusts, Loyalty is not necessarily owed to the client hiring a firm but to the beneficiaries of that account.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.***

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Q.2445 Investment Policy Statements should *most likely* be updated:

- A. At least annually.
- B. At least quarterly.
- C. At least bi-annually.

The correct answer is **A**.

According to Standard III(C): Suitability, Investment Policy Statements (IPS) should be updated at least annually. This recommendation is based on the understanding that an investor's financial situation, risk tolerance, and investment objectives can change over time. An annual review and update of the IPS ensure that the investment strategy remains aligned with the investor's current goals, circumstances, and needs. This practice is crucial for maintaining the relevance and effectiveness of the investment policy, thereby supporting the investor's long-term financial success.

**B is incorrect.** Suggesting that Investment Policy Statements should be updated quarterly may lead to unnecessary adjustments and could potentially cause confusion or misalignment with long-term investment objectives. While it is important to monitor investments regularly, making frequent changes to the IPS could detract from a strategic, long-term approach to investing. Quarterly updates may also impose an impractical administrative burden on both the investor and the investment advisor, without necessarily providing significant benefits.

**C is incorrect.** Recommending bi-annual updates, or updates every two years, may not sufficiently account for the dynamic nature of an investor's life and financial markets. Significant life events such as marriage, the birth of a child, or retirement can occur within a two-year period, potentially necessitating changes to the investment strategy.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.2446 According to The Code of Ethics, Members and candidates should *most appropriately*:

- A. Act with integrity, suitability, diligence, and respect.
- B. Act with integrity, suitability, objectivity, and respect.
- C. Act with integrity, competence, diligence, and respect.

The correct answer is **C**.

According to The Code of Ethics, members and candidates must act with integrity, competence, diligence, and respect.

**A is incorrect.** They are required by the Standards of Professional Conduct but are not components of the Code of Ethics.

**B is incorrect.** They are required by the Standards of Professional Conduct but are not components of the Code of Ethics.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (b): Identify the six components of the Code of Ethics and the seven Standards of Professional Conduct.***

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Q.2447 Roger Ali, CFA, has produced a report by copying some of the historical data from the S&P 500. Ali should *most likely*:

- A. Provide reference to the S&P 500.
- B. Is allowed to use data without acknowledgment.
- C. To break Standard I(C): Misrepresentation if the S&P 500 was not acknowledged.

The correct answer is **B**.

It is an exception to Standard Standard I(C): Misrepresentation. Members and candidates can use recognized sources of factual information such as the S&P 500 without acknowledging the source.

**A is incorrect.** If the information from Ali's report came from a research report (something that is not as public knowledge as the S&P 500), then he would have to cite the source.

**C is incorrect.** Crediting the source is not required when using projections, statistics, and tables from recognized financial and statistical reporting services. When using models developed or research done by other firm members, it is permitted to omit the names of those who are no longer with the firm as long as the Member does not represent work previously done by others as his alone.

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Q.2448 Which of the following is *least likely* a violation of the Code and Standards?

- I. A member anonymously posts on social media, 'Pursuing the CFA charter is not worth the money and effort.'
- II. A Candidate reproduces questions in August from the June Level 1 exam for a friend appearing in the December Level 1 exam.
- III. A member fails to disclose a written complaint from a client on her annual Professional Conduct Statement (PCS).

A. I only.

B. I & III only.

C. II & III only.

The correct answer is **A**.

**Statement I.** Standard VII(A): Conduct as Members and Candidates in the CFA Program do not prohibit members and candidates from expressing negative opinions about the CFA Institute or CFA Program.

**Statement II.** Under Standard VII (A), reproducing exam questions is strictly prohibited.

**Statement III.** Failure to disclose a written complaint on the annual PCS violates Standard VII(A).

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Q.2451 Diligence and Reasonable Basis is *most accurately* a sub-part of:

- A. Standards III: Duties to Clients.
- B. Standards IV: Duties to Employers.
- C. Standards V: Investment Analysis, Recommendations, and Actions.

The correct answer is **C**.

Diligence and Reasonable Basis are part of Standards V: Investment Analysis, Recommendations, and Actions.

**A is incorrect.** Standards III (A) enlists Loyalty, prudence, and Care. Standards III (B) enlists fair dealing etc.

**B is incorrect.** Standards IV (A) enlists Loyalty, Standard IV(B) Additional Compensation Arrangements, and Standard IV(C) Responsibilities of Supervisors.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.2454 "Act with integrity, competence, diligence, respect [...] with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets."

CFA Institute members and candidates are required to *most appropriately* follow the statement as mentioned above according to the:

- A. Code of Ethics.
- B. Standards of Professional Conduct.
- C. None of the above.

The correct answer is **A**.

"Act with integrity, competence, diligence, respect, and ethically with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets" is mentioned in the Code of Ethics.

**B is incorrect.** The Standards of Professional Conduct are standards written by the CFA (Chartered Financial Analyst) Institute to encourage investment managers to invest ethically and professionally.

**C is incorrect.** The statement refers to the Code of Ethics.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (b): Identify the six components of the Code of Ethics and the seven Standards of Professional Conduct.***

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Q.2549 According to Standard III: Duties to Clients and Prospective Clients, when Members and Candidates are in an advisory relationship with a client, they *most appropriately* should:

- A. Not engage in practices that distort prices or artificially inflate trading volume.
- B. Judge the suitability of investments in the context of the client's total portfolio.
- C. Distinguish between fact and opinion in the presentation of investment analysis and recommendations.

The correct answer is **B**.

According to Standard III: Duties to Clients and Prospective Clients, when members and candidates are in an advisory relationship with a client, they must judge the suitability of investments in the context of the client's total portfolio.

**A is incorrect.** It applies to the integrity of capital markets.

**C is incorrect.** It applies to performance presentation.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (b): Identify the six components of the Code of Ethics and the seven Standards of Professional Conduct.***

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Q.2559 "Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information."

The preceding statement relates to which Standard of the CFA Code and Standards?

A. Professionalism.

B. The integrity of Capital Markets.

C. Investment Analysis, Recommendations, and Action.

The correct answer is **B**.

"Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information" is part of Standard II: Integrity of Capital Markets, Sub-section A: Material and Nonpublic Information.

**A is incorrect.** Professionalism requires Members to have sound knowledge of the applicable law, exercise independence and objectivity, and guide members misrepresentation and misconduct.

**C is incorrect.** Standard V offers guidelines on investment analysis, recommendations, and actions.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.2564 Which of the following is *most likely* to cause a violation of Standard VI(A): Disclosure of Conflicts?

- A. Real estate holdings.
- B. Beneficial ownership of securities.
- C. The small business partnership involving antique resale.

The correct answer is **B**.

Ownership of securities is most likely to cause a conflict between self-interest and client loyalty within the marketplace, possibly leading to a violation of Standard VI(A): Disclosure of Conflicts if not handled properly.

**A is incorrect.** Real Estate holdings are required to be disclosed only if they are likely to impair the independence and objectivity of the Member.

**C is incorrect.** It would be applicable if a Disclosure of broker-dealer market-making activities were involved.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.2573 Which of the following statements is *most likely* correct?

- A. Consideration in the form of soft dollars does not have to be disclosed.
- B. Consideration in the form of cash, soft dollars, or in-kind must be disclosed.
- C. An upgrade to a premium service level as a benefit to referral clients does not have to be disclosed.

The correct answer is **B**.

According to Standard VI(C): Referral Fees, referral fees, compensation, consideration, or benefit include all fees that are paid in cash, soft dollars, and in-kind and which must be disclosed.

**A is incorrect.** This option suggests that consideration in the form of soft dollars does not need to be disclosed. However, this is contrary to the ethical standards set forth in the investment industry, specifically Standard VI(C): Referral Fees. The standard mandates the disclosure of all forms of compensation, including soft dollars, to ensure transparency and fairness in the client-advisor relationship. Soft dollars, which refer to the practice of using client brokerage commissions to purchase research or other services, can create potential conflicts of interest. Therefore, disclosing such arrangements is crucial to maintaining trust and integrity in financial advisory services.

**C is incorrect.** This option implies that an upgrade to a premium service level as a benefit to referral clients does not need to be disclosed. Any form of benefit, including upgrades to premium services received as a result of referrals, must be disclosed to clients. This disclosure is essential to ensure that clients are aware of any potential biases or conflicts of interest that may affect the objectivity of the advice they receive.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.2812 According to the CFA Code of Ethics, which of the following are to be completed?

- A. Discussing analysis with other members in a firm to create group consensus.
- B. Tracking co-worker activities to monitor possible violations to the CFA Institute standards.
- C. Attending continuing education seminars on investing and inviting colleagues to come along.

The correct answer is **C**.

The CFA Institute Code of Ethics indicates each member and candidate is to "Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals".

**A is incorrect.** It is a requirement under professional conduct.

**B is incorrect.** It is a requirement under professional conduct.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS a: Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.***

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Q.2813 "Place the integrity of the investment profession and clients' interests above their interests".

The guideline above is *most likely* part of which of the following?

- A. Code of Ethics.
- B. Standard III(A): Loyalty, Prudence, and Care.
- C. Standard I(B): Independence and Objectivity.

The correct answer is **A**.

"Place the integrity of the investment profession and the interests of clients above their interests" is part of the first three rules in the CFA Code of Ethics.

**B is incorrect.** It requires Members and Candidates to act for the benefit of their clients and place their clients' interests before their employer's or their interests.

**C is incorrect.** It requires Members and Candidates not to offer, solicit, or accept any gift, benefit, compensation, or consideration that reasonably could be expected to compromise their own or another's independence and objectivity.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.2814 As a CFA candidate, the refusal to cooperate with an internal CFA investigation can result in which of the following?

- A. Being convicted of a crime.
- B. Suspended by the CFA and disallowed from using the CFA designation.
- C. Nothing. It is within a CFA candidate's right to refuse cooperation with an investigation that could be incriminating.

The correct answer is **B**.

A CFA candidate or Member can be suspended for refusal to cooperate with an internal investigation.

**A is incorrect.** The Standards doesn't make a provision for criminal conviction in such circumstances.

**C is incorrect.** Standard I (D) requires developing and adopting a code of ethics and clarifies that unethical behavior will not be tolerated.

**CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.**

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Q.2815 Which of the following is *least likely* a disciplinary action taken by CFA Institute?

- A. Private reprimand.
- B. Penalized with a fine.
- C. Refusal to allow a candidate to take a CFA exam.

The correct answer is **B**.

CFA Institute does not levy fines as a form of disciplinary action. All other options are viable corrective options.

**A is incorrect.** Private reprimand is a possible disciplinary action by CFA Institute.

**C is incorrect.** The CFA Institute can decline a candidate to take CFA exams as a possible disciplinary action.

**CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.**

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Q.2816 According to the CFA Code of Ethics, a member or candidate should *most appropriately* do the following when creating analysis, making recommendations, or taking investment action?

- A. Consult SEC guidelines.
- B. Make an independent professional judgment.
- C. Act in a way that is congruent with one's supervisor.

The correct answer is **B**.

The Code of Ethics indicates that members and candidates must "Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities."

**A is incorrect.** It is required when communicating investment performance information. Members or Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete.

**C is incorrect.** It falls under duties to employers.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.***

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Q.2817 Which of the following is *least likely* one of the six components to the CFA Code of Ethics?

- A. Maintain and improve professional appearance.
- B. Use reasonable care and exercise independent professional judgment.
- C. Act with integrity, competence, diligence, respect, and in an ethical manner.

The correct answer is **A**.

Rather than "Maintain and improve professional appearance", the CFA Code of Ethics indicates that members and candidates should "Maintain and improve professional competence."

**B and C are incorrect.** They are key components of the CFA Code of Ethics.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (b): Identify the six components of the Code of Ethics and the seven Standards of Professional Conduct.***

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Q.2818 The rules of procedure are *most likely* based on which of the following two principles?

- A. Objective review and due process.
- B. Thorough inquiry and stringent discipline.
- C. The fair process to Member or Candidate and confidentiality of proceedings.

The correct answer is **C**.

The Rules of Procedure for Professional Conduct ("Rules") and CFA Institute Bylaws guide conducting investigations into allegations, determining violations, imposing sanctions, conducting disciplinary proceedings, and disclosing violations.

The rules of procedure are based on two primary principles:

- 1) Fair process to Member or candidate and
- 2) confidentiality of proceedings.

**A is incorrect.** Once an inquiry has begun, the Professional Conduct staff may request (in writing) an explanation from the subject member or candidate and may:

- (1) interview the subject member,
- (2) interview the complainant or other third parties, and or
- (3) collect documents and records relevant to the investigation.

**B is incorrect.** The Professional Conduct staff may decide:

- (1) that no disciplinary sanctions are appropriate,
- (2) to issue a cautionary letter, or
- (3) to discipline the Member or candidate.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (b): Identify the six components of the Code of Ethics and the seven Standards of Professional Conduct.***

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Q.2819 Which of the following *most accurately* describes the role(s) of the Standards of Practice Council?

I. The Standards of Practice Council is a group of charter holders tasked with maintaining and interpreting the Standards of Professional conduct and making sure they are effective.

II. The Standards of Practice Council is a group of charter holders that handles initial inquiries in concert with a Designated Officer.

A. I only.

B. II only.

C. I and II.

The correct answer is **A**.

The Standards of Practice Council helps develop and promulgate the CFA Institute's ethical standards, particularly the Code of Ethics and Standards of Professional Conduct. It does not handle initial inquiries.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.***

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Q.2908 A CFA Institute's professional conduct staff member received evidence of misconduct by a member through a media article. Can he *most likely* initiate an inquiry-based on this media article?

- A. Yes, the inquiry can be initiated by such a source.
- B. No, because the professional conduct staff cannot rely on public sources to initiate an inquiry.
- C. No, only self-disclosure or written complaints about a member or candidate can prompt an inquiry.

The correct answer is **A**.

Professional conduct staff, under the direction of CFA Institute-designated officers, can conduct professional conduct inquiries. Several circumstances can prompt an inquiry such as:

- (I). Self-disclosure by member/candidate
- (II). Written complaints against member/candidates received by professional conduct staff
- (III). Evidence of misconduct received through public sources
- (IV). Report by CFA exam proctor

**B is incorrect.** Professional conduct staff can rely on public sources to initiate an inquiry.

**C is incorrect.** It is not only through self-disclosure or written complaints about a member or candidate that can prompt an inquiry.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.***

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Q.2909 If a member/candidate has reasonable grounds to believe that an employer's activities are illegal, the member/candidate *most likely* should:

- A. Promptly resign.
- B. Dissociate from the activity.
- C. Report violations to the CFA Institute.

The correct answer is **B**.

Standard I(A): Knowledge of the Law requires that if a member/candidate has reasonable grounds to believe that an employer's activities are illegal, the member/candidate must dissociate from the activity.

Dissociation may include: Bringing it to the attention of the firm's compliance department, dissociation from the activity, or in extreme cases, the Member should resign.

**A is incorrect.** A member should not be prompt to resign and should be accorded a fair hearing process.

**C is incorrect.** If illegal activities by a client are involved, members may have an obligation to report the activities to authorities.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.2910 When members/candidates are responsible for managing the portfolio to a specific mandate, they are *most likely* required to;

- A. Judge the suitability of investments in the context of the client's total portfolio.
- B. Make only investment recommendations or take actions consistent with the stated objectives and constraints of the portfolio.
- C. Make a reasonable inquiry into a client's investment experience, risk/return objectives, and constraints before making any investment recommendation or taking action.

The correct answer is **B**.

Standard III(C): Suitability states that "when members/candidates are responsible for managing a portfolio to a specific mandate, they must make only investment recommendations or taking actions that are consistent with the stated objectives and constraints of the portfolio."

**A is incorrect.** The manager should not judge until he has discussed the reasons (based on the IPS) that the trade is unsuitable for the client's account.

**C is incorrect.** Suppose the manager determines that the effect on the risk/return profile of the client's total portfolio is minimal. In that case, after discussing with the client how the trade does not fit the IPS goals and constraints, the manager may follow his firm's policy concerning unsuitable trades. Regardless of firm policy, the client must acknowledge the discussion and understand why the trade is unsuitable.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.2911 Concerning proxy voting policies, Standard III(A): Loyalty, Prudence, and Care *most appropriately* requires members and candidates to:

- A. Vote proxies only after conducting a cost-benefit analysis.
- B. Vote proxies in a manner that benefits the member/candidate.
- C. Avoid voting with management on non-routine governance issues.

The correct answer is **A**.

Standard III(A) requires members and candidates to vote proxies in an informed and responsible manner. Management is not required to vote for all proxies but should conduct a cost-benefit analysis to determine the issues on which proxy voting should be carried out. Furthermore, voting blindly with management on non-routine governance issues is a violation of this Standard. However, this does not mean that the Standard prohibits voting with management on such issues.

Members and candidates must vote proxies to benefit the client and not the member/candidate.

**B is incorrect.** Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their interests.

**C is incorrect.** Members need to deal fairly with all clients concerning investment actions.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.2912 An exam proctor submitted a violation against a CFA Level I candidate. Upon reviewing the matter, the designated officer violated the Code and Standards and proposed a disciplinary sanction. Is it *most appropriate* for the candidate to reject the disciplinary sanction proposed by the designated officer?

- A. Yes, the candidate has the option to accept or reject the disciplinary sanction.
- B. No, the candidate has to accept the disciplinary sanction as the designated officer has the ultimate authority.
- C. No, because if the candidate does not accept the disciplinary sanction, he will be suspended from further participation in the CFA program.

The correct answer is **A**.

The candidate can accept or reject the disciplinary sanction proposed by the designated officer. If the candidate does not accept the proposed sanction, the matter is referred to a hearing panel composed of DRC members and CFA Institute member volunteers affiliated with the DRC.

**B is incorrect.** In a case where the Professional Conduct staff finds a violation has occurred and proposes a disciplinary sanction, the Member or candidate may accept or reject the sanction.

**C is incorrect.** If the Member or candidate chooses to reject the sanction, the matter will be referred to a disciplinary review panel of CFA Institute members for a hearing. Sanctions imposed may include condemnation by the Member's peers or suspension of candidate's continued participation in the CFA Program.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.***

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Q.2913 Which of the following is *most likely* a CFA Institute of Code of Ethics component?

- A. Place the integrity of the investment profession and the interests of clients above their interests.
- B. Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, or taking such actions.
- C. Both A and B.

The correct answer is **C**.

The CFA Institute of Code of Ethics includes:

1. Act with integrity, competence, diligence, and respect and ethically with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
2. Place the integrity of the investment profession and the interests of clients above their interests.
3. Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, or taking such actions.
4. Practice and encourage others to practice professionally and ethically, reflecting credit on themselves and the profession.
5. Promote the integrity and viability of the global capital markets for the ultimate benefit of society.
6. Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (b): Identify the six components of the Code of Ethics and the seven Standards of Professional Conduct.***

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Q.2915 By refraining from practices which artificially distort prices, members and candidates *most likely*:

- A. Avoid conflicts of interest.
- B. Fulfill their duties to clients.
- C. Preserve the integrity of capital markets.

The correct answer is **C**.

By refraining from conduct that involves distorting prices with the intent to mislead market participants, members, and candidates actively seek to avoid market manipulation (Standard II(B): Market Manipulation) and thus aim to preserve the integrity of capital markets.

**A is incorrect.** Avoid conflict of interest is an expected duty of a member to the employer.

**B is incorrect.** The 5 key duties to clients include; Loyalty, Prudence, and Care. Fair Dealing, Suitability, Performance Presentation, and Preservation of Confidentiality.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.2918 To detect disclosure of confidential exam information, the CFA Institute is *most likely* to rely on:

- A. social media only.
- B. regulatory notices only.
- C. social media and regulatory notices.

The correct answer is **C**.

The CFA Institute may rely on social media and regulatory notices to detect disclosure of confidential exam information.

**A is incorrect.** CFA Institute staff may become aware of questionable conduct by a member or candidate through the media, regulatory notices, or another public source.

**B is incorrect.** CFA Institute staff may become aware of questionable conduct by a member or candidate through the media, regulatory notices, or another public source.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.***

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Q.2919 Adherence to the Code and Standards is *most accurately* a requirement for:

- A. Firms in the investment industry only.
- B. Individuals who are members of the CFA Institute only.
- C. Individuals who are members of the CFA Institute and candidates in the CFA program.

The correct answer is **C**.

The Code and Standards apply to individual members of the CFA Institute and candidates in the CFA Program. Firms are encouraged to adopt the Code and Standards as part of their Code of Ethics. However, only the former two individuals are obliged to comply with the Code and Standards.

**A is incorrect.** Firms in the investment industry must adhere to the code of conduct as laid down in the standards of professional conduct governing Investment Analysis, Recommendations, and Actions.

**B is incorrect.** The Code and Standards apply to individual members of the CFA Institute and candidates in the CFA Program.

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Q.2921 Promoting the integrity and viability of capital markets is a requirement for members and candidates who *most likely* comply with:

- A. the Code of Ethics only.
- B. the Standards of Professional Conduct only.
- C. Both the Code of Ethics and Standards of Professional Conduct.

The correct answer is **C**.

The Code of Ethics requires members and candidates to promote the integrity and viability of capital markets for the ultimate benefit of society.

Standard II(B) also requires members and candidates to promote the integrity of capital markets and not to engage in activities that may distort market prices.

**A and B are incorrect.** Both the code of ethics and Standards of Professional Conduct require members and candidates to promote the integrity of capital markets.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (b): Identify the six components of the Code of Ethics and the seven Standards of Professional Conduct.***

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Q.2922 Establishing and reviewing professional conduct policies *least likely* directly falls on the:

- A. CFA Institute Board of Governors.
- B. Disciplinary Review Committee (DRC).
- C. Professional Conduct Program (PCP) Division.

The correct answer is **A**.

The DRC partners with the PCP staff to establish and review professional conduct policies. The CFA Institute Board of Governors does not play a role in this process.

**B is incorrect.** The Disciplinary Review Committee (DRC) plays a significant role in the establishment and review of professional conduct policies. The DRC works closely with the Professional Conduct Program (PCP) staff to ensure that the policies are effectively designed to uphold the ethical standards of the profession.

**C is incorrect.** The Professional Conduct Program (PCP) Division is directly involved in establishing and reviewing professional conduct policies. The PCP Division is tasked with the implementation and enforcement of the CFA Institute's Code of Ethics and Standards of Professional Conduct.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (b): Identify the six components of the Code of Ethics and the seven Standards of Professional Conduct.***

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Q.2925 The CFA Logo certification mark is *least likely* used to directly refer to:

- A. Individual charter holder.
- B. Groups of charter holders.
- C. Firms that employ only charter holders.

The correct answer is **C**.

The CFA Logo certification mark must be used only to directly refer to either individual charter holders or group of charter holders.

**A is incorrect.** The CFA Logo certification mark is indeed used to directly refer to individual charter holders. This is one of the primary purposes of the logo, to allow those who have earned the CFA designation to showcase their achievement and commitment to ethical and professional standards. Individual charter holders are encouraged to use the logo in accordance with the guidelines provided by the CFA Institute to signify their status.

**B is incorrect.** Similarly, the logo can be used to refer to groups of charter holders. This is applicable in scenarios where a team or department within a firm consists entirely of CFA charter holders. The collective use of the logo in this context highlights the expertise and professional commitment of the group to adhering to the high standards set by the CFA Institute.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.***

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Q.2927 Once accepted as a CFA Institute member, the Member should *most appropriately* satisfy the following requirements to maintain his status:

- A. Pay applicable membership dues annually and submit the Professional Conduct Statement once.
- B. Pay applicable membership dues once and submit the Professional Conduct Statement annually.
- C. Pay applicable membership dues on an annual basis and submit annually the Professional Conduct Statement.

The correct answer is **C**.

Once accepted as a CFA Institute member, the member must satisfy the following requirements to maintain his status:

1. Remit annually to CFA Institute a completed Professional Conduct Statement.
2. Pay applicable CFA Institute membership dues on an annual basis.

**A is incorrect.** It suggests that the Professional Conduct Statement needs to be submitted only once. This is not sufficient for maintaining the high standards of professional conduct and ethical commitment expected from CFA Institute members. The Professional Conduct Statement is a critical component that members must submit annually to reaffirm their commitment to the CFA Institute's ethical and professional standards. By submitting this statement annually, members demonstrate their ongoing dedication to upholding these standards in their professional activities.

**B is incorrect.** It suggests that the membership dues need to be paid only once. This is inaccurate as the financial support through annual dues is essential for the CFA Institute to continue its operations, including research, advocacy, and professional development programs. The annual payment of dues is a requirement for maintaining membership status. It supports the Institute's efforts to advance the investment profession, provide continuous education, and uphold the integrity of the CFA designation. Therefore, both the payment of annual dues and the annual submission of the Professional Conduct Statement are indispensable requirements for maintaining membership status in the CFA Institute.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.***

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Q.2932 To deal with over-subscribed IPOs, the *most appropriate* course of action for a member to avoid violation of Standard VI(B): Priority of transactions is to allocate shares:

- A. Equally to all his clients to whom the Investment is appropriate and to himself.
- B. To his clients to whom the Investment is appropriate and not to participate in IPOs personally.
- C. First to his clients to whom the Investment is appropriate and then allocate the remaining shares to himself.

The correct answer is **B**.

In the case of oversubscribed shares, the best course of action for the member/candidate is to allocate shares to his clients to whom the Investment is appropriate and not participate personally. Members and candidates should not benefit from their clients' position in the marketplace through preferred trading, the allocation of limited offerings, and or oversubscription.

**A is incorrect.** Client transactions take priority over personal transactions and transactions made on behalf of the Member's firm. Personal transactions include situations where the Member is a beneficial owner.

**C is incorrect.** Personal transactions may be undertaken only after clients and the Member's employer have had an adequate opportunity to act on a recommendation. Note that family member accounts that are client accounts should be treated just like any client account; they should not be disadvantaged.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.2938 The requirements of Standard III(E): Preservation of Confidentiality is *most likely*:

- A. Intended to preclude members from cooperating with the Professional Conduct Program.
- B. Not intended to preclude members from cooperating with the Professional Conduct Program.
- C. Considered being violated by forwarding confidential information to the Professional Conduct Program.

The correct answer is **B**.

Standard III(E) requirements: Preservation of Confidentiality is not intended to prevent members from cooperating with the Professional Conduct Program.

**A is incorrect.** Suppose a client or former client expressly authorizes the Member or candidate to disclose information. In that case, the Member or candidate may follow the terms of the authorization and provide the information.

**C is incorrect.** Standard III(E) requires that if disclosure of the information is required by law or the information concerns illegal activities by the client, the Member or candidate may have an obligation to report the activities to the appropriate authorities.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.2942 Which of the following is *least likely* a required procedure for compliance with Standard III: Duties to Clients?

- A. Voting proxies in an informed and responsible manner.
- B. Making investment decisions in the context of the total portfolio.
- C. Establish black-out periods in which investment professionals cannot transact for their personal portfolios.

The correct answer is **C**.

This is a procedure for compliance with Standard VI(B): Priority of Transactions.

**A and B are incorrect.** Apply to Standard III (A): Duties to Clients states that members and candidates must make investment decisions in the context of the total portfolio and vote proxies in an informed manner.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.2949 When using secondary or third-party research as a source of information for research reports, Standard V(A): Diligence and Reasonable Basis *least likely* requires members and candidates to:

- A. Determine the extent of analysis performed.
- B. Base analysts' compensation on the quality of research used.
- C. Review assumptions used and independence and objectivity of the recommendations.

The correct answer is **B**.

When using secondary or third-party research, Standard V(A): Diligence and Reasonable Basis requires members and candidates to:

- Review the assumptions used;
- Determine the extent of the analysis;
- Identify the timeliness of research reports; and
- Evaluate the independence and objectivity of the recommendations.

**A is incorrect.** Determining the extent of analysis performed is a critical aspect of adhering to Standard V(A): Diligence and Reasonable Basis. This process involves evaluating how comprehensive and thorough the secondary or third-party research is. Members and candidates are expected to assess the depth of the research, including the methodologies used, the data sources, and the extent to which the analysis covers the relevant aspects of the subject matter. This ensures that the research reports are based on a solid foundation of rigorous analysis and are not merely superficial overviews.

**C is incorrect.** Reviewing the assumptions used and evaluating the independence and objectivity of the recommendations are essential components of Standard V(A): Diligence and Reasonable Basis. This involves critically assessing the premises upon which the research is based, ensuring that they are reasonable, relevant, and supported by empirical evidence. Additionally, evaluating the independence and objectivity of the recommendations is crucial for identifying any potential biases or conflicts of interest that may affect the credibility of the research.

**CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.**

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Q.2950 Which of the following statements *most likely* refers to Standard VII(A): Conduct as Members and Candidates in the CFA Program, members?

- I. Members violate the Standard if they cheat in any of the CFA exams.
- II. Members are permitted to state that they were charterholders for the periods they paid their dues and signed the Professional Conduct Statement (PCS).
- III. Members are permitted to make the statement: "The CFA Program is a rigorous program, which is comparable to investment banking programs offered by other institutes. However, compared to other professional designations, the failure rate of candidates participating in the CFA Program examinations is quite high."

A. II only.

B. I & III only.

C. All of the above.

The correct answer is **B**.

Standard VII(A): Conduct as Members and Candidates in the CFA Program requires members and candidates to avoid engaging in any conduct that compromises the reputation or the integrity, validity, or security of the CFA examination. Points I and III refer to Standard VII(A): Conduct as Members and Candidates in the CFA Program, whereas point II is part of Standard VII(B): Reference to CFA Institute, the CFA Designation, and the CFA Program.

Actions such as cheating on the CFA exam or any other exam constitute a violation of this Standard.

Although members may only use the CFA charter holder designation as long as they sign the PCS and pay their dues annually and may state the periods for which they were charter holders in the past in the event of a failure to fulfill these annual requirements, such guidelines are governed by Standard VII(B): Reference to CFA Institute, the CFA Designation, and the CFA Program.

Under Standard VII(A): Conduct as Members and Candidates in the CFA Program, members and candidates are not prohibited from expressing their opinions on the CFA Institute or exam program.

p>***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.2955 A member or candidate fails to fulfill their duty of loyalty, prudence, and care to existing and prospective clients if (s)he *most likely*:

- A. Discloses its proxy voting policies to existing and prospective clients.
- B. Uses client brokerage to purchase securities held in the member/candidate's portfolio.
- C. Directs trade to a particular broker, as requested by clients, which provides average execution while disclosing the fact that such arrangements may not result in the best transaction price or execution for the client directing the trade.

The correct answer is **B**.

Standard III(A): Loyalty, Prudence, and Care require members to have a duty of Loyalty with clients and exercise independent and prudent judgment. Members and candidates fulfill this responsibility if they (amongst other responsibilities):

- Disclose the proxy voting policies;
- Use client brokerage to benefit the client and not fulfill personal or non-client related purposes;
- Disclose to clients wishing to direct trades to a particular broker

Nevertheless, members and candidates have the responsibility to seek out the best price and execution.

**A and C are incorrect.** They are requirements of Standard III (A).

p>***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.2958 Which of the following actions *most likely* represents a violation of the CFA Institute Standards of Professional Conduct concerning misconduct?

- A. A research analyst violates city traffic laws.
- B. An employer racially discriminates against candidates during a job selection process.
- C. An investment manager experiences personal bankruptcy due to poor investment decisions undertaken for his private account.

The correct answer is **B**.

It represents a violation of Standard I(D): Misconduct which requires members and candidates not to take any action which reflects fraud, deceit, or dishonesty or adversely reflects on their professional integrity, reputation, or competence. By discriminating against potential candidates, an employer may be damaging their reputation as a fair employer.

**A is incorrect.** It does not represent a violation because violating traffic laws will not adversely reflect the Member's professional integrity, conduct, or reputation.

**C is incorrect.** It does not represent a violation because undertaking poor investment decisions for a personal account and any related losses experienced does not suggest that the manager has engaged in professional misconduct involving fraud, deceit, or dishonesty.

p>***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.2970 Which of the following actions *least likely* represent a violation of the CFA Institute Standards of Professional Conduct?

- A. A CFA charterholder does not disclose that he holds an MBA degree to his employer.
- B. An investment banker lacks complete knowledge of his country's security trading laws.
- C. A manager discloses detailed financial information concerning a former client to his company's CEO.

The correct answer is **B**.

It does not represent a violation. Standard I(A): Knowledge of the Law requires members and candidates to understand and comply with the laws, rules, and regulations which govern their professional activities. The Standard requires members and candidates to understand the laws and regulations of the countries or regions in which they conduct business. However, members and candidates are not required to become experts in the law. By not possessing full knowledge of his country's trading laws, the investment banker is not in violation.

**A is incorrect.** It represents a violation of Standard I(C): Misrepresentation and Standard IV(A): Loyalty. The charter holder has misrepresented his qualifications, and he may be denying his employer the advantage of his skills and ability as an MBA.

**C is incorrect.** It represents a violation of Standard III(E): Preservation of Confidentiality. The Standard requires members and candidates to keep information about current, former, and prospective clients confidential unless the information concerns illegal activities on the client's part, disclosure is required by law, or the client or prospective clients permit disclosure. By disclosing the former client's financial profile to his company's CEO, the manager violates this Standard.

p>***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.3015 According to the Standards of Practice Handbook, which of the following statements is *most accurate* regarding material nonpublic information?

When in possession of material nonpublic information, a firm should:

- A. Ban all types of propriety activity.
- B. Make a broad distribution of the restricted list.
- C. Ban risk-arbitrage trading for securities placed on a watch list.

The correct answer is **C**.

A firms' most prudent course of action is to suspend arbitrage activity when security is placed on the watch list.

**A is incorrect.** A prohibition of all types of propriety trading when in possession of material nonpublic information is not appropriate. However, a trading prohibition must be considered in risk-arbitrage trading as the potential for illegal profits is greater.

**B is incorrect.** Securities should be placed on a restricted list when a firm possesses material nonpublic information. However, a broad distribution of this list will trigger the type of trading this list was intended to avoid.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.***

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Q.3016 According to the Standards of Practice Handbook, which of the following statements is *most likely* correct regarding the priority of transactions?

Members and candidates:

- A. Should pre-clear their participation in IPOs.
- B. Should not be permitted to trade for three days before and one day after placing a client's trade.
- C. Are not permitted to undertake personal transactions in accounts for which they are a beneficial owner.

The correct answer is **A**.

Standard VI(B): Priority of Transactions encourages members and candidates to pre-clear their participation in IPOs.

**B is incorrect.** The Standard recommends that investment personnel involved in the investment decision-making process establish blackout periods before trading for clients to prevent front-running by managers; however, the duration and severity of the blackout period are contingent on the type of firm (the CFA Institute has not specified the duration).

**C is incorrect.** Members and candidates are permitted to undertake personal transactions in accounts. They are a beneficial owner only after their clients have had an adequate opportunity to act on a recommendation.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.3019 When communicating a brief investment performance presentation to clients, members, or candidates should *most likely*:

- A. Include reference to the limited nature of the information provided.
- B. Make available to clients the detailed information supporting that communication.
- C. Make available to clients and prospective clients the detailed information supporting that communication on request.

The correct answer is **C**.

According to Standard III(D): Performance Presentation, if the presentation is brief, Member or candidate must make available to clients and prospective clients on request the detailed information supporting communication. Best practice (strong Recommendation) dictates that a brief presentation include a reference to the limited nature of the information provided.

**A is incorrect.** When communicating investment performance information, Members and Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete.

**B is incorrect.** For brief presentations, members must make detailed information available on request and indicate that the presentation has offered only limited information.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.3021 According to the Standards of Practice Handbook, the requirement of fulfilling the local regulators' related to record retention is *most likely*:

- A. Satisfies the requirements of Standard V(C): Record Retention.
- B. Does not satisfy the requirements of Standard V(C): Record Retention.
- C. Satisfies Standard V(C) requirements: Record Retention only if records are maintained for at least seven years.

The correct answer is **C**.

This statement is correct. In the absence of local regulation, the CFA Institute recommends retaining records for seven years. Therefore, maintaining records for at least seven years would satisfy the requirements of Standard V(C), assuming that these records are appropriate and support investment-related communications.

**A is incorrect.** This statement is incorrect because it implies that simply adhering to local regulations is sufficient to meet the requirements of Standard V(C). However, the CFA Institute's Standard V(C) requires members and candidates to maintain appropriate records to support their investment-related communications, regardless of local regulations.

**B is incorrect.** This statement is also incorrect. Fulfilling local regulations related to record retention is a part of satisfying Standard V(C), but it's not the whole picture. The standard requires maintaining records that support investment-related communications, and these records can be electronic or hard-copy.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.3028 According to the Standards of Practice Handbook, which of the following standards is *most likely* violated when an analyst's report fails to distinguish between facts and opinions?

A. Misrepresentation.

B. Performance Presentation.

C. Communication with Clients and Prospective Clients.

The correct answer is **C**.

Standard V(B): Communication with Clients and Prospective Clients requires that opinion be separated from fact. Violations occur when reports fail to separate the past from the future by not indicating that they are not facts but opinions subject to future circumstances.

**A is incorrect.** Misrepresentation includes knowingly misleading investors, omitting relevant information, presenting selective data to mislead investors, and plagiarism.

**B is incorrect.** Performance Presentation requires that when communicating investment performance information, Members or Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete.

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Q.3037 If a firm is unwilling to permit dissemination of adverse opinions about a corporate client, members or candidates should *least likely*:

- A. Encourage the firm to remove the controversial company from the research universe.
- B. Put it on a restricted list so that firm disseminates only factual information about the company.
- C. Encourage the firm to disseminate the adverse opinions in a press release or in an oral presentation.

The correct answer is **C**.

The Member should not encourage the firm to disseminate adverse opinions or oral presentations.

**A is incorrect.** If a firm is unwilling to disseminate adverse opinions regarding a corporate client, members or candidates should encourage the firm to remove the controversial company from the research universe.

**B is incorrect.** The Member should encourage the firm to put it on a restricted list to disseminate only factual information about the firm.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.3044 Ignacio Dawson is an investment advisor at Larson Securities Inc. Hubert Padilla, a high-net-worth client, offered Dawson a 2% profit sharing each year on achieving a return above 20%, which Dawson agrees. When Padilla asked about brokerage, Dawson advises Padilla to shift his brokerage Towards Willis Brokers as they are best in town in terms of pricing and service quality. When Padilla left, Dawson wrote an email to his employer regarding his compensation arrangement with Padilla. The next day, Dawson received a cash check on the name of Larson Securities from Willis Brokers for introducing the new client to them.

Dawson has *most likely* violated Standard IV(B): Additional Compensation Arrangements by:

- A. Failing to disclose Padilla about Larson's arrangement with Willis Brokers.
- B. Accepting Padilla's offer before obtaining permission from his employer.
- C. Failing to disclose Padilla regarding his firm's arrangement with Willis and failing to disclose his profit-sharing arrangement prior to obtaining consent from his employer.

The correct answer is C.

Dawson has violated Standard IV(B): Additional Compensation Arrangements by failing to obtain consent from his employer before accepting a profit-sharing arrangement with Padilla. Dawson has also violated Standard VI(C): Referral Fees by failing to disclose to Padilla his firm's referral arrangement with Willis Broker. He should have clearly mentioned his firm's arrangements such as disclosure, which could have caused Padilla to reassess Dawson's recommendation and make a more critical evaluation of Willis Broker's services.

**A is incorrect.** While Dawson did fail to disclose the arrangement between Larson Securities and Willis Brokers to Padilla, this option does not fully capture the extent of Dawson's violations. The primary issue is not just the lack of disclosure to Padilla, but also Dawson's failure to obtain consent from his employer for the profit-sharing arrangement, as well as not disclosing the referral fee arrangement. Therefore, focusing solely on the failure to disclose the brokerage arrangement overlooks the broader ethical breaches Dawson committed.

**B is incorrect.** Accepting Padilla's offer before obtaining permission from his employer is indeed a violation of Standard IV(B): Additional Compensation Arrangements. However, this option does not encompass the full scope of Dawson's ethical violations. It omits the critical aspect of failing to disclose the referral arrangement with Willis Brokers to Padilla, which is a breach of Standard VI(C): Referral Fees. The combination of these violations more accurately represents the ethical breaches committed by Dawson, making this option incomplete in describing the situation's complexity.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.3052 According to the CFA Institute Standards of Professional Conduct, a firm is *most appropriately* required to disclose its trade allocations to:

- A. All clients and prospective clients about their trade allocation procedures.
- B. Clients about their trade allocation procedures only when they become clients.
- C. Neither their clients nor prospective clients about their trade allocation procedures since they are classified as confidential information.

The correct answer is **B**.

Trade allocation procedures should be disclosed to all clients when they become clients.

**A is incorrect.** Only clients who have already become clients have the right to disclosure and not prospective ones.

**C is incorrect.** It's only clients' trade allocations that should be treated as confidential.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.3056 Which of the following is *least likely* a requirement of Standard III(E): Preservation of Confidentiality?

- A. Maintain the confidentiality of client accounts even after the client relationship has ended.
- B. Disclose illegal activities on the part of the client, even if applicable law indicates otherwise.
- C. Despite the increasing use of electronically stored information, members and candidates don't need to be experts in information security technology.

The correct answer is **B**.

Members and Candidates must keep information about current, former, and prospective clients confidential unless:

- The information concerns illegal activities on the part of the client or prospective client,
- Disclosure is required by law, or
- The client or prospective client permits disclosure of the information.

**A is incorrect.** Members or candidates must maintain client records' confidentiality even after the client relationship has ended.

**C is incorrect.** Members and candidates don't need to be experts in information security technology, but they should have a thorough understanding of the policies of their employers.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.3061 A member or candidate with supervisory responsibility should *most appropriately* enforce policies related to investment and non-investment related activities:

- A. Equally.
- B. Differently.
- C. With varied emphasis.

The correct answer is **A**.

Investment and non-investment-related activities should be enforced equally.

**B is incorrect.** Both aspects should be enforced and implemented equally.

**C is incorrect.** Irrespective of the level of emphasis, both Investment and non-investment-related activities should be enforced equally.

**CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.**

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Q.3062 An adequate compliance procedure will *least likely*:

- A. Implement a system of checks and balances.
- B. Be written in an intricate, detailed form that is regularly updated.
- C. Describe the hierarchy of supervision and assign duties among supervisors.

The correct answer is **B**.

Compliance procedures should be written in clear, plain, and understandable language and tailored to a firm's operations.

**A is incorrect.** A compliance procedure must include checks and balances.

**C is incorrect.** An adequate compliance procedure should describe the supervision hierarchy and assign duties among supervisors.

**CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.**

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Q.3064 If an analyst disagrees with the consensus opinion of his portfolio management team about security, for a report published under the team's name, to comply with the Standards, the analyst should *most likely*:

- A. Decline to be identified with the report.
- B. Report the fact to his compliance officer or supervisor and seek instructions on what to do.
- C. Not dissociate from the report as long as the opinion has a reasonable and adequate basis.

The correct answer is **C**.

Suppose the analyst believes that the report has a reasonable and adequate basis. In that case, he needs not to decline to be identified with the report even if it does not reflect their opinion.

**A is incorrect.** The analyst should not decline to be identified with the report.

**B is incorrect.** Members and Candidates must make reasonable efforts to ensure that anyone subject to their supervision or authority complies with applicable laws, rules, regulations, and the Code and Standards.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.3067 Suppose an analyst has agent options to buy stock as part of the compensation package for corporate financing activities. To comply with the CFA Institute Standards of Professional Conduct, the analyst is *most appropriately* required to disclose to clients in any research report published by him:

- A. The amount of these options.
- B. The expiration date of these options.
- C. Both the amount and the expiration date of these options.

The correct answer is **C**.

According to the CFA Institute Standards of Professional Conduct, it is imperative for an analyst to maintain transparency and avoid conflicts of interest when providing research reports to clients. This includes disclosing any personal financial interests that might influence the analyst's recommendations. In the context of receiving stock options as part of compensation for corporate financing activities, the most appropriate action for the analyst is to disclose both the amount and the expiration date of these options. This comprehensive disclosure ensures that clients are fully aware of any potential biases or conflicts of interest that might affect the analyst's objectivity and credibility.

**A is incorrect.** Merely disclosing the amount of the options does not provide a complete picture of the potential conflict of interest. While knowing the amount of options gives some insight into the analyst's vested interest in the company, it lacks the context of time, which is crucial for understanding the urgency or potential motivation behind the analyst's recommendations. Without the expiration date, clients cannot fully assess the immediacy of the analyst's personal financial interests.

**B is incorrect.** Disclosing only the expiration date of the options, while useful, still does not provide a full understanding of the potential conflict of interest. The expiration date indicates when the analyst might feel pressured to act on these options, but without knowing the amount, clients cannot gauge the significance of the potential conflict.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.3068 Regarding the CFA Institute Standards of Professional Conduct, which of the following is *most likely* correct?

- A. Investment personnel should disclose to their firm information about personal holdings at least annually.
- B. Investment personnel is not required to disclose to their firm information about personal holdings since this is considered highly confidential information.
- C. Investment personnel should disclose to their firm information about personal holdings only upon a significant change in their personal holdings, and annually thereafter.

The correct answer is **A**.

Investment personnel should disclose to their firm information about personal holdings upon commencement of the employment relationship and annually after that.

**B is incorrect.** Personal holdings should be disclosed and shouldn't be treated as confidential information.

**C is incorrect.** It deviates from the correct timing of disclosure according to the CFA Institute Standards of Professional Conduct.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.3082 Which of the following would *least likely* be considered material information under the CFA Institute Standards of Professional Conduct?

- A. Government reports of economic trends.
- B. The introduction of an innovative product or production process.
- C. A merger that happened a year ago between two large firms within an industry.

The correct answer is **C**.

Although a merger may be considered material information, one that happened a year ago will not have a material impact on current prices. The information had probably been incorporated into prices a long time ago.

**A is incorrect.** Government reports of economic trends are material since they would significantly alter the total mix of information currently available about security so that the security price would be affected.

**B is incorrect.** Innovative products, processes, or discoveries (e.g., new product trials or research efforts) are considered material information.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.3083 Regarding Standard II: Integrity of Capital Markets, which of the following is *least likely* an element of an appropriate firewall system?

- A. Review of employee trading through the maintenance of 'watch' or 'restricted' lists.
- B. Extensive documentation of firewall procedures by firms regardless of size or target market.
- C. Heightened review of proprietary trading while a firm is in possession of material nonpublic information.

The correct answer is **B**.

Documentation requirements must, for practical reasons, take into account the differences between the activities of small firms and those of large, multi-service firms. Extensive documentation may not be required (or may be impractical) for very small firms.

**A is incorrect.** Review of employee trading through the maintenance of "watch," "restricted," and "rumor" lists are key firewall elements.

**C is incorrect.** Heightened review of restriction of proprietary trading while a firm has material nonpublic information is a key firewall element.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.3087 Which of the following is *most likely* a recommended procedure for compliance with Standard V(B): Communication with Clients and Prospective Clients of the CFA Institute Standards of Professional Conduct?

- A. Members or candidates must maintain records indicating the nature of the research.
- B. Members or candidates should mention the known limitations of their analysis or statistically developed projections.
- C. If the report is in capsule form, members or candidates should notify clients that additional information will be made available upon request.

The correct answer is **B**.

This statement is **correct**. According to Standard V(B), members and candidates should disclose significant limitations and risks associated with the investment process. Mentioning known limitations falls in line with this requirement.

**A is incorrect.** While maintaining records is important, it is not specifically related to Standard V(B) on communication with clients and prospective clients.

**C is incorrect.** Standard V(B) does not specifically address the format of reports (such as capsule form). Instead, it focuses on disclosure and communication practices.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.3091 To ensure best practice, when members or candidates providing investment services also serve as directors for the securities they cover, they should *most appropriately*:

- A. Be isolated from those making investment decisions by the use of firewalls or similar restrictions.
- B. Disclose this fact to clients, prospective clients, and employers to evaluate any conflicts of interest.
- C. Be prohibited from ownership of stock, stock options, or similar forms of compensation in the securities they cover.

The correct answer is **A**.

Suppose members or candidates providing investment services also serve as directors for the securities they cover. In that case, they should be isolated from those making investment decisions using firewalls or similar restrictions.

**B is incorrect.** Such information is not required to be disclosed to prospective clients but rather to existing clients and employers.

**C is incorrect.** Such members should not be prohibited from stock ownership if a conflict of interest is declared.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (c): Explain the ethical responsibilities required by the Code and Standards, including the sub-sections of each Standard.***

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Q.3101 If someone earns both their CFA designation and a Ph.D. in finance, the *most appropriate* way to cite both their accomplishments is:

- A. Either the CFA designation or the Ph.D. could come first.
- B. The Ph.D. should come before citing the CFA designation.
- C. The CFA designation should come before citing the completion of the Ph.D.

The correct answer is **A**.

Either the CFA designation or the Ph.D. may be cited first.

**B is incorrect.** It's not prescribed that any designation is more superior or senior.

**C is incorrect.** Similarly, it's not prescribed that any designation is superior or senior; however, multiple designations must be separated by a comma.

***CFA Level I, Ethics, Learning Module 2: Code of Ethics and Standards of Professional Conduct. LOS (a): Describe the structure of the CFA Institute Professional Conduct Program and the process for the enforcement of the Code and Standards.***

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