Q.5 Chris Tummings works for a brokerage firm. On Tuesday, one of his analysts has mailed to all of the investors a recommendation for buying the stock of XYZ Company. The following day, Tummings receives a call from one of his clients to sell XYZ at market price.
What should Tummings *most likely* do?

A. Accept the sell order.

B. Not accept the order because it if contrary to the firm's recommendation.

C. Advise the customer of the change in recommendation before accepting the order.

The correct answer is **C.**

Prior to executing the order, Tummings should take additional time to ensure that the customer knows of the change in recommendation so as not to violate Standard III(B): Fair Dealing.

A is incorrect. This approach neglects the necessity of providing the client with the most current information regarding the stock recommendation. In the dynamic world of investments, recommendations can change rapidly, and it is crucial for clients to base their decisions on the latest information. By not informing the client about the recent change, Tummings would fail to ensure that the client's decision is well-informed, thus falling short of the ethical obligations outlined in Standard III(B): Fair Dealing.

B is incorrect. This choice directly violates the principle of acting in the client's best interest. Investment professionals are obligated to respect their clients' autonomy in decision-making, offering objective advice and assistance rather than enforcing their own recommendations or views. By refusing to execute the client's order based on the firm's recommendation, Tummings would be prioritizing the firm's interests over the client's, which is contrary to the ethical practices in investment management. Instead, the appropriate course of action is to provide the client with all relevant information, including any changes in stock recommendations, and respect the client's final decision, whether it aligns with the firm's views or not.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.608 Raynee Beaupre, CFA, works for an investment advisory firm based in the US. However, she is working as a registered adviser in Camrao, a nation in the Indian Ocean. The law of Camrao does not require her to disclose the referral fee received for recommendations of investment products.
Is Beaupre liable to disclose the referral fee?

A. No.

B. Yes, as per Standard I(D): Misconduct.

C. Yes, as per Standard I(A): Knowledge of the Law.

The correct answer is **C.**

As per Standard I-A: Knowledge of the Law, ''When applicable law and the Code and Standards require a different conduct, members and candidates must follow the stricter of the applicable law or the Code and Standards''. Since the Code and Standard require disclosure of referral fee, Beaupre must disclose the existence of such fee.

A is incorrect. Even in jurisdictions where local laws may not explicitly require certain disclosures, the Code and Standards often demand a higher level of transparency and ethical conduct. In this case, the requirement to disclose referral fees is a direct application of the ethical principle aimed at avoiding conflicts of interest and ensuring that clients are fully informed about factors that might influence the advice they receive. Ignoring such requirements undermines the trust and integrity that are foundational to the investment profession.

B is incorrect. This standard prohibits CFA members from engaging in any professional conduct involving dishonesty, fraud, or deceit, or committing any act that reflects adversely on their professional reputation, integrity, or competence. While ethical and professional conduct is crucial, Standard I(D) is more about avoiding actions that are dishonest or fraudulent. In Beaupre's case, not disclosing a referral fee might be seen as unethical but it doesn't necessarily constitute misconduct under Standard I(D) unless it involves deceit or dishonest actions.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.609 Ron Wiseman works as an analyst for an investment advisory firm. A major e-commerce company planned its initial public offering (IPO), and Wiseman decided to hold 1000 shares for himself although the IPO was oversubscribed.
Which of the following standards did Wiseman violate?

A. Misconduct

B. Loyalty

C. Fair dealing

The correct answer is **C.**

Ron Wiseman violated Standard III(B): Fair Dealing by allocating shares of an oversubscribed IPO to himself. This standard mandates that investment professionals and firms must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, and engaging in other professional activities. In the context of an IPO, fair dealing requires that all clients interested in participating have an equitable opportunity to do so. By reserving shares for his personal account in an oversubscribed offering, Wiseman has prioritized his interests over those of his clients, thereby compromising the integrity of the fair dealing process.

A is incorrect. Misconduct, as defined by the CFA Institute's Code of Ethics and Standards of Professional Conduct, refers to actions that involve deceit, misrepresentation, or unethical behavior that would reflect poorly on the professional integrity or competence of the individual. While Wiseman's actions are unethical, they specifically violate the principle of fair dealing rather than constituting misconduct in a broader sense. Misconduct would encompass a wider range of unethical behaviors not limited to issues of fairness in client transactions.

B is incorrect. Loyalty, as a standard, requires that investment professionals act for the benefit of their clients and place their clients' interests before their employer's or their own interests. While Wiseman's actions could also be seen as a breach of loyalty to his clients by not acting in their best interest, the most direct violation is against the principle of fair dealing. The standard of loyalty encompasses a broader range of fiduciary responsibilities, including confidentiality, prudence, and the duty to act in good faith, whereas the violation in question specifically pertains to the equitable treatment of clients in the allocation of IPO shares.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.610 Harry Toulch resigned from an investment research firm where he was working for the past 4 years. He did not sign any non-compete agreement prior to his departure and thus took the contact details of his former clients with him. After a few weeks, he contacted his former clients and told them about his new business as an investment advisor.
Has Toulch violated any standard?

A. No, since he did not sign any non-compete agreement.

B. No, since Harry waited for a week before contacting the former clients.

C. Yes, he violated Standard IV(A): Loyalty.

The correct answer is **C.**

Harry Toulch violated Standard IV(A): Loyalty because he did not obtain contact details from public sources. He should have obtained consent from his former employer prior to taking the contact details with him.

A is incorrect. The absence of a non-compete agreement does not grant Toulch the right to use confidential information obtained from his former employer. Ethical standards require respecting proprietary information and client confidentiality, regardless of contractual agreements related to competition. The key issue here is the unauthorized use of confidential information, not the existence of a non-compete clause.

B is incorrect. The timing of when Toulch contacted the former clients does not mitigate the ethical breach. Waiting for a week or any period does not change the nature of the violation, which is the unauthorized use of confidential information for personal gain. The ethical consideration is not about when the information is used but rather how it was obtained and for what purpose. The principle of loyalty to one's employer and respect for confidential information remains applicable regardless of the time elapsed after leaving the firm.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.613 Lara Kraft recently attended a conference on "Energy conservation and how new and improved solar panels would be cost effective in 5 years." Lara used this information in her report (with statistics) without mentioning the details of the conference.
Has Kraft violated any standard?

A. Yes, she plagiarized the views of the speaker by using them in her report without any acknowledgment.

B. No, plagiarism does not apply to oral communication.

C. Yes, members or candidates are not allowed to rely on other reports or views.

The correct answer is **A.**

As per Standard I(C): Misrepresentation, members or candidates must not copy original ideas or materials without permission and must acknowledge the source.

B is incorrect. This option incorrectly suggests that plagiarism does not apply to information obtained through oral communication. Plagiarism encompasses the unauthorized use or close imitation of the language and thoughts of another author and the representation of them as one's own original work, regardless of the medium through which the information was received.The ethical obligation to acknowledge sources extends beyond written materials to include any form of information, ideas, or data that are not the result of one's independent creation or thought process.

C is incorrect. The statement that members or candidates are not allowed to rely on other reports or views is misleading. Professionals in the finance industry, as well as in many other fields, often rely on the research, reports, and views of others as a foundation for their own work. The critical requirement, however, is that any use of such materials must be appropriately cited, and the sources must be acknowledged.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.614 A non-governmental organization starts a movement to protest against increasing pollution and requests for a relocation of factories. A few activists were arrested. One of the arrested activists was working as an equity analyst in an investment management firm.
Has the analyst violated any standard? If yes, what action should be taken against the analyst?

A. No.

B. Yes, he should be dismissed from his service and the CFA Institute should be notified.

C. Yes, he should be given a letter of warning.

The correct answer is **A.**

Participation in a civil movement based on a personal belief does not account for misconduct and hence action should not be taken.

B is incorrect. Suggesting dismissal and notification to the CFA Institute is an extreme measure that is not warranted in this scenario. Activities that are purely personal and do not affect an individual's professional integrity or the integrity of the market do not fall under the purview of these standards.

C is incorrect. Issuing a letter of warning implies that the analyst has engaged in behavior that is either unprofessional or in violation of specific standards of conduct related to their role as an equity analyst. In this scenario, the analyst's participation in a civil movement, even if it led to their arrest, is a matter of personal belief and action that does not intersect with their professional responsibilities or ethics as defined by the CFA Institute.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.620 After becoming a CFA Charterholder, Rick Rossini changes his Facebook username to 'CFA Rockstar'.
Has Rossini violated any Standard?

A. No, since a username on a social media platform has no relevance.

B. Yes, he has violated Standard VII(B): Reference to CFA Institute, the CFA Designation, and the CFA Program.

C. No, since 'CFA' was correctly used as an adjective.

The correct answer is **B.**

According to Standard VII(B): Reference to CFA Institute, Charterholders should not attach the CFA designation to anonymous or fictitious names meant to conceal their identity.

A is incorrect. This option suggests that a username on a social media platform has no relevance, which is not accurate. Social media is a powerful tool for professional branding and communication. The use of the CFA designation in any public or professional context, including social media usernames, is subject to the guidelines and standards set forth by the CFA Institute.

C is incorrect. The CFA Institute guidelines specify that the CFA designation should be used in a manner that denotes certification and should follow a Charterholder's name, not precede it or be used as part of a pseudonym or nickname. The use of 'CFA' in 'CFA Rockstar' does not adhere to these guidelines, as it does not clearly indicate that it is a designation following the individual's name.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.621 A candidate has passed all 3 levels of CFA. Moreover, he has four years of relevant work experience as an analyst at a large Wall Street bank. He mentioned his qualification in his resume as 'CFA charter pending'.
Has the candidate violated any standard?

A. No.

B. Yes.

C. Standards do not apply to candidates who do not have a charter.

The correct answer is **B.**

Candidates who have not received their charter must not use the CFA designation. However, the candidate might say that he has passed the CFA level III exam.

A is incorrect. It suggests that there is no violation in mentioning 'CFA charter pending' on a resume. By using 'CFA charter pending', the candidate implies a status that has not yet been officially granted, which can mislead employers or clients about the candidate's qualifications.

C is incorrect. It suggests that the standards do not apply to candidates who do not have a charter.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (b): Recommend practices and procedures designed to prevent violations of the Code of Ethics and Standards of Professional Conduct.

Q.622 Front-running is the unethical practice of trading a security based on advanced knowledge of pending orders that has not yet been disseminated to the firm's clients.
Which of the following practice will prevent chances of front-running client trades?

I. A blackout period
II. The disclosure of holdings in which the firm (or firm's employees) has beneficial interests

A. I only

B. II only

C. Both I & II

The correct answer is **A.**

A blackout period or a restricted period can help to prevent instances of front-running client trades whereas disclosure requirements will not help in preventing such situations.

B is incorrect. The statement that only implementing a blackout period can prevent front-running is accurate, making this option correct and not incorrect. A blackout period directly addresses the issue of trading on non-public, material information, which is at the heart of front-running.

C is incorrect. While the disclosure of holdings in which the firm or firm's employees have beneficial interests is an important practice for transparency and conflict of interest management, it does not directly prevent front-running.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.623 What is the recommended time frame for which research-related records should be retained where local regulations do not specify any period?

A. At least 8 years

B. At least 5 years

C. At least 7 years

The correct answer is **C.**

In the absence of regulatory guidelines or firm's policy, the CFA Institute recommends retaining records for at least 7 years.

A is incorrect. Suggesting that records should be retained for at least 8 years exceeds the minimum recommendation provided by the CFA Institute. While retaining records for longer periods may be beneficial in certain circumstances, the CFA Institute's guideline of a 7-year minimum is considered sufficient for ensuring that investment professionals can substantiate their research and recommendations over a substantial timeframe.

B is incorrect. Proposing a minimum retention period of 5 years falls short of the CFA Institute's recommendation. A 5-year period may not be adequate to cover the lifecycle of many investment strategies or to fully account for the potential for long-term outcomes and disputes to arise.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.624 According to the CFA Institute, which of the following should be retained?
I. Emails
II. Text messages
III. Blogs
VI. Twitter posts

A. All of them

B. I, II, and III only

C. I and II only

The correct answer is **A.**

All of the given options are examples of non-print media formats that should be retained.

B is incorrect. Suggesting that only Emails, Text messages, and Blogs should be retained and excluding Twitter posts overlooks the importance of social media in today's financial communication.

C is incorrect. Limiting retention to only Emails and Text messages severely underestimates the role of digital and social media platforms in modern financial communication.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.625 A social network company announces its plan to introduce additional features that would increase its revenues. Matt H. estimated that the expected increase in annual earnings could be $5 billion. The estimate was based on logical assumptions and after a careful evaluation of historical performances. He issues a report stating ''Based on the fact that earnings will increase by $5 billion, I recommend a 'buy' for the stock''.
Has Matt H. violated any Standard?

A. No, since the calculation is based on logical assumptions and a careful assessment of historical performances.

B. Yes, Matt has violated Standard V(B): Communication with Clients and Prospective Clients.

C. Yes, Matt has violated Standard IV(A): Loyalty.

The correct answer is **B.**

The calculation represents Matt H's opinion about the earnings and should not be expressed as a fact.

A is incorrect. While it is true that Matt's calculation is based on logical assumptions and a careful assessment of historical performances, the issue lies in how he communicated his findings.

C is incorrect. Standard IV(A): Loyalty pertains to the duty of loyalty to clients, ensuring that investment professionals act for the benefit of their clients and place their clients' interests before their own or their employer's. Matt's action of miscommunicating his analysis does not directly relate to a breach of loyalty to his clients.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.626 Tara works as an investment advisor. One of her clients informed her about his plan to invest $100,000 in a start-up that has growth potential. Tara's friend had started her e-commerce website selling 70's rock band T-shirts. Tara informed her friend about the plans of her client and asked her to get in touch with him through social media.
Which of the following standards has been violated by Tara?

A. Preservation of Confidentiality

B. Suitability

C. Fair dealing

The correct answer is **A.**

Tara violated Standard III(E): Preservation of Confidentiality by revealing confidential information about her client. By sharing her client's plans without obtaining consent, Tara has not only compromised the trust placed in her as an investment advisor but also potentially exposed her client to unsolicited contact and proposals.

B is incorrect. The principle of suitability requires that investment advisors ensure any investments recommended are appropriate for the client's financial situation, objectives, and risk tolerance.

C is incorrect. Fair dealing pertains to providing clients and prospective clients with fair and equitable treatment. While Tara's actions could potentially lead to unfair advantages or disadvantages for her friend's business, the primary issue at hand is the unauthorized disclosure of confidential information, not the fairness of treatment among clients.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.627 Mike Singer, CFA, an independent financial analyst, has been asked by an investment management firm to write an investment research report about a media company. The firm agrees to pay him a flat fee plus a bonus if investors buy shares based on his report. Given his credentials, position, and the potential conflict of interest, should Singer accept the offer?

A. No, since the compensation is dependent on the outcome of the report.

B. Yes, he may accept the offer in all circumstances.

C. Yes, he may accept the offer in all circumstances, but only if there is a limit to the bonus.

The correct answer is **A.**

Singer would be in violation of Standard I(B): Independence and Objectivity if he accepts the payment arrangement because this arrangement may compromise his independence and objectivity.

B is incorrect. It suggests that Singer may accept the offer under any circumstances, which disregards the ethical considerations tied to the compensation structure. The primary concern here is the potential conflict of interest that arises when an analyst's pay is directly linked to the investment decisions of clients prompted by his or her recommendations.

C is incorrect. While this option introduces the idea of limiting the bonus as a potential safeguard, it does not adequately address the underlying issue of a compensation structure that could impair an analyst's objectivity and independence.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.889 Which of the following statements is *most likely* accurate?

A. Analysts do not have to report their conflict of interest when stating an opinion about a company.

B. The Member can accept an expensive vacation package not paid in cash since it is not a violation of Standard I-B: Independence and Objectivity.

C. Two tickets of $45 to a hockey game not paid in cash can be accepted by the Member since it is not a violation of Standard I-B: Independence and Objectivity.

The correct answer is **C.**

Gifts lower than USD 100 are perceived as sufficiently modest and are thus acceptable.

A is incorrect. Standard VI(B) Priority of Transactions recommends that members and candidates avoid the appearance of a conflict of interest

B is incorrect. As per Standard I (B) on Independence and Objectivity, Members or their firms should pay for their travel to company events or tours when practicable and limit the use of corporate aircraft to trips for which commercial travel is not an alternative.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.890 Which of the following statements is *most likely* accurate?

A. A firm should not disclose any client's information to a third party interested in buying the firm.

B. A manager should not limit the number of employees with access to sensitive information regarding a client.

C. Given Standard III-E: Preservation Of Confidentiality, if a client is involved in illicit money-laundering activities and contributes to a money manager's portfolio, the manager must protect the client's confidentiality.

The correct answer is **A.**

A firm should not disclose any client's information to a third party unless related to ongoing investigations.

B is incorrect. Standard III (B) requires a limit to the number of people aware or accessing sensitive information regarding a client.

C is incorrect. Standard III (E) permits that 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 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.911 Barbara Sanetti, CFA, runs a small asset management company. She decides that she needs to start distributing research to her client base. The manager comes to an agreement with an investment bank that allows Sanetti to receive research notes and pass them on to the asset manager's clients.
Which of the following statements is *most likely* correct?

A. As long as Sanetti attributes the source of the material to the investment bank, then the member is free to pass them onto her clients.

B. Sanetti is free to pass them onto her clients as her own research.

C. Sanetti must give the investment bank credit for producing the material and also verify the material to ensure that it is accurate before passing it on her clients.

The correct answer is **C.**

Sanetti must give the investment bank credit for producing the material and ensure it is accurate before passing it to her clients.

A is incorrect. It suggests that merely attributing the source of the material to the investment bank is sufficient for Sanetti to pass them onto her clients. While giving credit to the original source is necessary to avoid plagiarism and respect intellectual property rights, it does not absolve Sanetti of her responsibility to ensure that the information she provides to her clients is accurate and reliable.

B is incorrect. It implies that Sanetti can present the investment bank's research as her own to her clients. This action would be unethical and misleading, violating principles of honesty, professionalism, and integrity.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.912 Peter Fleming, CFA, manages Julie Arianna's portfolio. Fleming has consistently beaten the benchmark and has done such a good job that Arianna awards him with an all-expenses-paid holiday to a villa the client owns in the south of Greece. Before accepting the gift, Fleming disclosed it to his company.
Has Fleming violated the Code and Standards?

A. No, Fleming has not violated the Code and Standards.

B. Yes, Fleming has violated the standard on disclosures and the standard on independence and objectivity.

C. Yes, Fleming has violated the standard on independence and objectivity.

The correct answer is **A.**

Peter Fleming, CFA, has not violated the Code and Standards by accepting an all-expenses-paid holiday to a villa owned by his client, Julie Arianna, because he disclosed the gift to his company. According to the CFA Institute's Code of Ethics and Standards of Professional Conduct, professionals must strive to maintain and improve their professional competence and strive to maintain the integrity of the investment profession. One of the key aspects of maintaining integrity and professionalism is the disclosure of any potential conflicts of interest, including gifts or benefits received from clients, which could potentially influence their professional judgment.

B is incorrect. It suggests that Fleming violated the standard on disclosures and the standard on independence and objectivity. However, Fleming disclosed the gift to his employer, which aligns with the requirements for managing conflicts of interest and maintaining transparency.

C is incorrect. For similar reasons. It suggests that Fleming violated the standard on independence and objectivity. However, by disclosing the gift, Fleming has taken the necessary steps to maintain his independence and objectivity. The disclosure process is designed to prevent any potential conflicts of interest from influencing professional judgment, ensuring that investment professionals can continue to act in the best interests of their clients.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.917 Nadeem Zumman is preparing to take the CFA level II exam. He is nervous about the Economics section. In the afternoon before the exam, he writes two formulas under his watch wrist and proceeds to the exam center. During the exam, Zumman changes his mind, getting afraid of being caught and decides not to use the formulas.
Has Zumman violated the Code and Standards?

A. No, Zumman has not violated the Code and Standards.

B. Yes, Zumman has violated the standard on responsibilities as a CFA Institute Member or Candidate.

C. Yes, Zumman has violated the standard on Confidentiality Information and the standard on responsibilities as a CFA Institute Member or Candidate.

The correct answer is **B.**

Zumman should not have written the formulas under his watch wrist and entered the exam center. Although Zumman did not cheat, he had intended to do so. Therefore, Zumman has violated the standard on responsibilities as a CFA Institute Member or Candidate.

A is incorrect. He ultimately chose not to use the formulas during the exam. However, the violation occurred the moment Zumman entered the exam center with the formulas written under his watch wrist, as this act demonstrated an intention to cheat. The CFA Institute's Code and Standards require candidates to uphold the highest levels of integrity and professionalism, which includes adhering to all examination rules and regulations.

C is incorrect. While Zumman's actions did indeed violate the latter by compromising the integrity of the examination process, there is no indication that he breached confidentiality. The standard on Confidentiality Information pertains to the protection of confidential information acquired during the course of professional activities.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.920 Bruno Conti, CFA, lives in Italy, which has stricter security laws than the Codes and Standards. Conti was recently hired to work remotely part time as an analyst in Greece, which is governed by less strict laws than the Code and Standards.
Which standards/laws should Conti *most likely* adhere to?

A. Italy

B. Greece

C. CFA's Code and Standards

The correct answer is **C.**

The CFA Institute's Code of Ethics and Standards of Professional Conduct are designed to be a framework for ethical decision-making for investment professionals around the world. These standards often exceed the legal requirements of any single country and are intended to provide a consistent and high level of ethical conduct among its members, regardless of the jurisdiction in which they operate. In situations where the local laws are less strict than the CFA's Code and Standards, members are expected to follow the more stringent guidelines set forth by the CFA Institute.

A is incorrect. While Italy may have stricter security laws than Greece, the question specifically pertains to the standards that a CFA charterholder should adhere to. The CFA Institute's Code and Standards are designed to be applicable globally, superseding local laws when they are less stringent.

B is incorrect. Greece's laws being less strict than the CFA's Code and Standards means that simply adhering to Greek laws would not meet the ethical and professional expectations set for CFA charterholders. The CFA Institute requires its members to uphold the highest standards of ethical conduct, which may necessitate going beyond the minimum legal requirements of the country in which they are working.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.924 Marco Staniski, CFA, covers the technology sector on a reputable financial network. His old friend from college is the president of Microchip Company and offers to fly Stanisky to Kuala Lumpur, Malaysia with the company's private airplane to potentially cover Microchip Company. In order to not violate the standard of independence and objectivity, Staniski should *most likely*:

A. Accept Microchip Company's offer.

B. Decline the private airplane offer and buy his airplane ticket from a commercial airline.

C. Decline to cover Microchip Company because its president is a friend of Staniski.

The correct answer is **B.**

Stanisky should decline the offer and buy his airplane ticket because there are commercial airlines that fly to Malaysia. This way he would not violate the standard of independence and objectivity. However, if the company was to be located in a remote area where no commercial airlines fly, then Stanisky could accept the offer and not violated the Code and Standards.

A is incorrect. Accepting the offer to fly with the company's private airplane could compromise Staniski's perceived independence and objectivity. Accepting significant hospitality or gifts from a company that an analyst is covering can create a conflict of interest or, at the very least, the appearance of a conflict. This could lead stakeholders to question the impartiality of Staniski's analysis and recommendations regarding Microchip Company.

C is incorrect. Its president is a friend of Staniski is an unnecessary measure that could limit the scope of his coverage and deprive his audience of valuable insights into the company. The key issue is not the personal relationship itself, but rather ensuring that this relationship does not influence Staniski's professional judgment.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (b): Recommend practices and procedures designed to prevent violations of the Code of Ethics and Standards of Professional Conduct.

Q.926 Soeil Khan, CFA, is an analyst covering the oil and gas sector. He issues a detailed report to his most important clients about one company that he believes is undervalued. He then calls his best friend, Peter Yong, a Wall Street broker and oil industry expert to discuss the report in detail.
Has the member violated the Code and Standards?

A. Yes, the member violated Standard III(A): Loyalty, Prudence and Care.

B. Yes, the member has violated Standard III(B): Fair Dealing and also violated Standard III(A): Loyalty, Prudence, and Care.

C. No, the member has not have violated the Code and Standards.

The correct answer is **B.**

The member has violated Standard III(B): Fair Dealing: The analyst must distribute the report in a manner that lets all clients receive the information at the same time. In this case, Khan has issued a detailed report to only **his most important clients.**

The analyst has also violated Standard III(A): Loyalty, Prudence, and Care by not placing the interest of his clients first. He should have called Peter Yong, the oil industry expert, to discuss the report and make sure there were no mistakes or blind spots before sending it out to all of his clients. However, this also has to do with Standard V(A): Diligence and Reasonable Basis.

Khan violated the standards in a few different (and arguably pretty close) ways. This is what Khan should have done: (1) Create his own report, (2) discuss it with the industry expert(s) since we know that one of them is his good friend, (3) disseminate the report to all of his clients at the same time.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.939 Steve Carr just filed for an IPO and asked his childhood friend, Peter Smith, CFA member and an analyst for a big Wall Street firm, if he could write a report on his company that is going public in 3 months. In the report, Smith discloses the nature of his relationship with Carr.
Which of the following is the most appropriate action for Carr to take?

A. Smith should charge Carr a flat fee in order to avoid any conflict of interest.

B. Smith should charge Carr a reward based on the report recommendation.

C. Smith should refuse to cover Carr's IPO because of their long-lasting friendship and, therefore, avoid any conflict of interest.

The correct answer is **A.**

Smith should charge Carr a flat fee. Analyst's compensation for such research should be limited (most likely a flat fee). No reward must be attached to the recommendation report.

B is incorrect. Suggesting that Smith should charge Carr a reward based on the report recommendation is fundamentally flawed and unethical. This option introduces a direct conflict of interest, as Smith's compensation would be tied to the nature of the recommendation, potentially incentivizing biased or overly favorable analysis. Such a compensation structure could compromise the objectivity and integrity of the report, undermining investor trust and violating ethical standards in financial analysis.

C is incorrect. While refusing to cover Carr's IPO due to their long-standing friendship might seem like a straightforward way to avoid conflicts of interest, it is not the only or most appropriate action. Disclosure of the relationship, combined with a compensation structure that does not depend on the report's recommendations (such as a flat fee), can adequately address potential conflicts.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2233 J Ahsan, CFA, a resident of a Montenegro which does not have any securities laws and regulations, is managing a portfolio for clients who are based in Serbia that have stricter laws compared to the CFA Institute Code and Standards.
Which of the following is *most likely* correct?

A. J Ahsan, CFA, should adhere to the CFA Institute Code and Standards.

B. J Ahsan, CFA, should adhere to the securities laws and regulations of Montenegro.

C. J Ahsan, CFA, should adhere to securities laws and regulations of Serbia.

The correct answer is **C.**

According to the Code and Standards, when there is a conflict between laws and regulations of different jurisdiction, members and candidates should adhere to the stricter set of laws. In this case, it would be the laws and regulations governing Serbia.

A is incorrect. Serbia has stricter laws and regulations compared to the CFA Institute Code and Standards.

B is incorrect. The clients are based in Serbia, so the laws and regulations of Serbia are applicable.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2245 Rehan Khan, CFA, who was born in Albania, a country that follows stricter laws compared to CFA Institute Code and Standards. Currently, Khan lives and is employed by JD Investments based in Macedonia, with no securities laws or regulations, to manage portfolios for clients that are based in the same country as JD Investments.
Which of the following is *most accurate*?

A. Khan should follow the securities laws and regulations of Albania.

B. Khan should follow the CFA Institute Code and Standards.

C. Khan should follow the securities laws and regulation of Macedonia.

The correct answer is **B.**

According to the Code and Standards, when there is a conflict between laws and regulations of different jurisdictions, members and candidates should adhere to the stricter law. Since JD Investments and the clients are based in Macedonia, the business activities are conducted in Macedonia. In this case, the Code and Standards are stricter than the laws of Macedonia, so Khan should adhere to the Code and Standards.

A is incorrect. Albania has stricter laws and regulations compared to the Code and Ethics and Macedonia does not have any securities laws and regulations. In this case, members and candidates should follow the CFA Institute Code and Standards, because R Khan, CFA, is working in Macedonia for clients who are based in Macedonia.

C is incorrect. Members and candidates should follow the stricter laws. Since Macedonia does not have any securities laws and regulations, the CFA Institute Code and Standards would be appropriate.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2453 Zain Imran, CFA, informs all prospective clients, referred to him by a CPA firm, that he pays the CPAs a flat $1,000 out of his own pocket for the referral. Imran prefers disclosing this arrangement face to face in the first meeting with clients.
Imran has *most likely*:

A. Violated Standard VI(C): Referral Fees.

B. Violated Standard V(B): Communication With Clients And Prospective Clients.

C. Not violated any standards.

The correct answer is **A.**

According to Standard VI(C): Referral Fees, Imran should disclose the arrangement in a written language and fee arrangements should be included as part of the contract that is written and signed by both parties.

B is incorrect. However, by failing to provide written disclosure of the referral fee arrangement, Imran has not adhered to the requirements of Standard VI(C): Referral Fees. The standard is explicit in its requirement for written disclosure to ensure transparency and protect the interests of clients.

C is incorrect. While communication with clients and prospective clients is crucial, the specific violation in this scenario pertains to the method of disclosure of referral fees, which falls under Standard VI(C): Referral Fees. Standard V(B): Communication with Clients and Prospective Clients, focuses on the presentation of investment performance information and the necessity for clear and accurate communication.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2547 Paola Christo manages client portfolios for Wealth-Tek, Inc. She attends an analyst meeting at which one of the represented companies gifts each attendee with a smartwatch made by the company Orange. Christo initially declines acceptance of the gift, but then accepts it when she sees that everyone else seems to be wearing their new watches.
According to Standard I(B): Independence and Objectivity, Christo can do which of the following?

I. Not accept gifts from any party who may disrupt a CFA member's independent judgment.
II. Accept modest gifts.

A. I only

B. II only

C. Both I & II

The correct answer is **C.**

CFA members and candidates can accept modest gifts, such as lunch or movie tickets, so long as the gift will not interfere with a member's ability to maintain objectivity. A gift of a smartwatch should likely be declined, as the value of such is excessive.

A is incorrect. This option suggests that CFA members and candidates should not accept any gifts from any party, which could potentially disrupt a member's independent judgment. However, the standard does not prohibit all gifts but rather emphasizes the importance of ensuring that the acceptance of any gift does not impair objectivity and independence.

B is incorrect. Accepting modest gifts is allowed so long as these gifts do not threaten the professional's independence and objectivity. The standard also implies a responsibility to assess the appropriateness of any gift, including its value and the intent behind it, to ensure it does not compromise the member's ability to make unbiased professional judgments.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2551 Michele Morgan, CFA, is a compliance officer for her firm. She recently received information related to updated standards of practice guidelines as published by the CFA Institute.
Morgan is *most likely* to:

A. Copy and distribute the latest guidelines to all employees of the firm.

B. Incorporate any new practice guidelines into the firm's compliance procedures.

C. Personally investigate old violations to see how they relate to the new guidelines.

The correct answer is **B.**

Standard IV(C): Responsibilities of supervisors encourages supervisors to establish compliance systems such as policies and procedures, ethics training, and/or incentive structure to commend ethical conduct.

A is incorrect. Simply copying and distributing the latest guidelines to all employees of the firm, without integrating them into the firm's compliance procedures, may not be sufficient. While dissemination of information is important, it is the incorporation of these guidelines into everyday practices and procedures that truly ensures compliance.

C is incorrect. While investigating old violations in light of new guidelines can be a part of a comprehensive compliance strategy, it is not the most immediate or likely action for a compliance officer upon receiving updated standards. The primary focus should be on preventing future violations by updating the firm's compliance procedures according to the new guidelines.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2553 Jacques Toulouse, CFA, serves his client Marin Roy in an advisory capacity. During the course of their discussion related to a newly issued stock, Toulouse learns that his client has acquired funding for the investment by illegal means.
According to Standard III(E): Preservation of Confidentiality, Toulouse:

A. Must keep information about Roy's funding confidential, without exception.

B. Has no obligation to keep that information confidential, regardless of his client's wishes.

C. Can only share information related to Roy's illegal funding if his client gives him permission.

The correct answer is **B.**

In certain circumstances, a CFA member may be required to report illegal activities to appropriate authorities. It is expected that investment professionals will comply with applicable laws associated with maintaining the client's confidentiality. Therefore, if a member obtains information connected to illegal activity, then s/he is encouraged to consult an attorney or compliance officer for advice regarding disclosure.

The illegality of Marin Roy's acquisition of funds negates the preservation of confidentiality normally required by Standard III(E): Preservation of Confidentiality.

A is incorrect. It suggests that Toulouse must keep information about Roy's illegal funding confidential without exception. This interpretation fails to consider the legal and ethical obligations that require reporting illegal activities.

C is incorrect. It implies that Toulouse can only share information related to Roy's illegal funding if Roy gives him permission. This option misunderstands the nature of confidentiality in the context of illegal activities.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2555 Norman McDonald manages the retirement savings of Lucretia Stone. Ms. Stone is so pleased with McDonald's work that she offers to purchase him a new Tesla Model S. Before accepting the gift, McDonald discusses it with his supervisor at RealTime Wealth.
Has McDonald violated any of the standard?

A. No, McDonald might not have violated the standards.

B. Yes, McDonald has violated Standard VI: Conflicts of Interest.

C. Yes, McDonald has violated Standard I: Professionalism.

The correct answer is **A.**

McDonald may not have violated any standard. He discloses the gift to the member's employer, so the standard on disclosure of conflicts is not being violated. Additionally, acceptance of contingent compensation by a client is not necessarily a violation of the Code and Standards.

B is incorrect. The assertion that McDonald has violated Standard VI: Conflicts of Interest is not supported by his actions. Standard VI requires professionals to make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients. By discussing the gift with his supervisor, McDonald is actively seeking to ensure that his acceptance of the gift does not create a conflict of interest or compromise his ability to act in the best interests of his client, Ms. Stone.

C is incorrect. Suggesting that McDonald has violated Standard I: Professionalism overlooks the steps he has taken to uphold professional standards. Standard I emphasizes the importance of maintaining knowledge of and complying with all applicable laws, rules, and regulations governing professional activities. McDonald's decision to consult with his supervisor before accepting the gift is a clear indication of his commitment to professionalism. This action ensures that his conduct remains within the bounds of ethical and professional guidelines, thereby upholding the integrity of his profession.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2556 Which of the following is *least likely* a violation of Standard IV: Duties to Employers?

A. Using discarded client contact information for personal independent practice, with the understanding that the list contains information for clients who've not made investment trades for at least 12 months

B. Rendering services to independent clients without informing them that you are also employed by a financial services firm

C. Providing free tax assistance to ''low-income'' people on a volunteer basis without expecting or accepting any compensation when some of these people can be potential clients of your current employer

The correct answer is **C.**

Standard IV: Duty to Employer does not discuss the loss of potential income based on free services rendered by employees. Therefore, to provide tax service to low-income people without accepting payment is considered acceptable. Of note, this applies only if the independent practice is strictly volunteer activities and cannot be construed as a marketing activity to gain future for-fee clients.

A is incorrect. Using discarded client contact information for personal independent practice, even with the understanding that the list contains information for clients who've not made investment trades for at least 12 months, is a clear violation of Standard IV: Duties to Employers. This action involves using proprietary information belonging to the employer for personal gain, which undermines the trust and integrity expected in professional conduct. It also potentially damages the employer's business by diverting clients or potential clients to a competing service.

B is incorrect. Rendering services to independent clients without informing them of one's employment with a financial services firm can lead to conflicts of interest and breaches of confidentiality. This situation can create scenarios where the professional's duties to their employer are compromised by their independent work. Furthermore, failing to disclose this information to clients can be seen as a lack of transparency and can undermine the trust in the professional relationship.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2560 Roger Timmons and Mike Ross are two directors for Pan-Asia Securities. They are in dispute over the use of the CFA logo designation. Timmons is very proud of the fact that everyone in their organization is a CFA charter holder. He wants to incorporate the CFA logo within the firm's letterhead. Ross, however, believes this would be a violation of CFA Standards. Who is correct?

A. Timmons is correct. The firm can incorporate the CFA logo into it collateral materials so long as all employees are CFA members.

B. Ross is correct. The CFA logo is to be used by individuals but not by a firm.

C. Neither is correct.

The correct answer is **B.**

The CFA designation should only be used by individuals, not by firms. It should also not be used as part of a firm's name or within its logo.

A is incorrect. Timmons' desire to incorporate the CFA logo into the firm's letterhead, even though all employees are CFA members, overlooks the fundamental principle that the CFA designation is an individual achievement and not a corporate one.

C is incorrect. The statement that neither Timmons nor Ross is correct would imply that there is ambiguity in the CFA Institute's guidelines regarding the use of the CFA logo by firms, which is not the case. The guidelines are explicit in prohibiting the use of the CFA designation and logo by firms or in a manner that suggests corporate certification.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2561 Under what circumstance can an analyst share material non-public information with members of his firm?

A. Under no circumstances.

B. If that information was obtained theoretically based on the Mosaic Theory.

C. As long as members of the firm are not members or candidates of CFA Institute.

The correct answer is **B.**

Under Standard II(A): Material Non-public Information of the CFA Institute's Code of Ethics and Standards of Professional Conduct, an analyst is permitted to share conclusions derived through the application of the Mosaic Theory. This theory involves the collection and analysis of various pieces of information, which can be public, non-material, and non-public, to reach a conclusion about the underlying value of securities.

Mosaic Theory allows analysts to legally and ethically construct a "mosaic" of both material conclusions and non-material, non-public information. Since these conclusions are not directly handed down as material non-public information but are inferred through analysis, they do not constitute a breach of confidentiality or misuse of information. The theory is grounded in the principle that the financial analysis profession relies heavily on the ability to synthesize large volumes of diverse data to form actionable insights. This synthesis is crucial for making informed investment decisions, which in turn supports the fair and efficient operation of capital markets.

A is incorrect. This option suggests that under no circumstances can an analyst share material non-public information with members of his firm. While it is true that sharing material non-public information is generally prohibited to prevent insider trading and maintain market integrity, the Mosaic Theory provides a nuanced exception.

C is incorrect. This option implies that the restrictions on sharing material non-public information are contingent upon whether the members of the firm are associated with the CFA Institute. However, the ethical guidelines regarding the handling of material non-public information apply universally, regardless of membership in the CFA Institute.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2562 Augusto Reynoso has managed the portfolio of Valenta Martinez for the past nine months, resulting in an above-average return. Reynoso requests that Valenta tell her friends and colleagues that his investment recommendations yield excellent results, more precisely 15% above the market standard return for similar investments.
Is Reynoso violating Standard III(D): Performance Presentation?

A. No, Reynoso is not violating the Standard.

B. Yes, Reynoso is violating Standard III(D): Performance Presentation as he cannot request her client to talk about the portfolio performance to others.

C. Yes, Reynoso is violating Standard III(D): Performance Presentation as the message does not pass the test of completeness.

The correct answer is **C.**

Standard III(D): Performance Presentation requires that members communicate performance in a fair, accurate, and complete manner. The standard covers both written and oral communications. Performance for nine months is a very short time period. Additionally, the inference of a specific 15% above average result cannot be guaranteed.

A is incorrect. This option suggests that Reynoso is not violating the standard by requesting his client to share information about the portfolio's performance. However, the act of encouraging a client to disseminate selective performance data without ensuring that such communication is fair, accurate, and complete contravenes the principles of Standard III(D): Performance Presentation.

B is incorrect. While Reynoso's request for his client to talk about the portfolio performance to others is not in itself a violation of Standard III(D), the manner in which he frames this request—emphasizing a specific, above-average return without ensuring the communication is complete and accurately reflects the investment's performance—constitutes a violation.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2563 The following standard indicates that when a CFA member or candidate has reasonable grounds to believe that a law has been broken, they should immediately bring the matter to their employer's attention through a supervisor. If that proves unsuccessful, the member or candidate must dissociate from the activity, and in extreme cases, they might have to leave their employment.
This standard is *most likely*:

A. Standard I: Professionalism.

B. Standard II: Integrity of Capital Markets.

C. Standard III: Duties to Clients and Prospective Clients.

The correct answer is **A.**

The aforementioned scenarios relate to Standard I(A): Knowledge of the Law, which reads in part: "Members and Candidates must not knowingly participate or assist in and must dissociate from any violation of laws, rules, or regulations."

B is incorrect. Standard II: Integrity of Capital Markets focuses on preventing practices that could harm the integrity of capital markets, such as manipulation, misrepresentation, or other fraudulent actions. While it is crucial for maintaining trust and fairness in financial markets, this standard does not directly address the protocol for handling knowledge of legal violations within an organization, which is the focus of the question.

C is incorrect. Standard III: Duties to Clients and Prospective Clients emphasizes the importance of putting clients' interests first, fair dealing, and appropriate communication with clients. Although ensuring legal compliance is inherent in fulfilling duties to clients, this standard specifically does not detail the steps a member or candidate should take upon discovering a legal violation within their organization.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2565 Anita Abernathy, CFA, is employed as a portfolio manager. One weekend per month, she gets a group of girlfriends together to discuss investment options. Everyone in the group takes turns paying for lunch. Although each person in the informal investment group has the ability to pay for Abernathy's services, she accepts no commission from her friends.
Is Abernathy in violation of Standard IV(A): Loyalty?

A. Abernathy is in violation of Standard IV(A): Loyalty because she is depriving her employer the opportunity to earn a fee from each of these women.

B. Abernathy is not in violation of Standard IV(A): Loyalty because she is providing advice on her own time and without payment.

C. Abernathy is in violation of Standard IV(A): Loyalty because the time spent making recommendations for her friends could be extra time she gives to her employer.

The correct answer is **B.**

Anita Abernathy is not in violation of Standard IV(A): Loyalty because she is meeting with her friends on her off-hours (weekends). She is making recommendations to people with whom she has a personal relationship and accepts no compensation for the advice.

A is incorrect. She is depriving her employer of potential fees. However, the standard does not prohibit professionals from providing unpaid advice to friends or family members in their personal time. The key consideration is whether such activities interfere with the professional's duties to their employer or represent a conflict of interest.

C is incorrect. The time spent making recommendations to her friends could be additional time she dedicates to her employer. However, the standard recognizes the right of professionals to engage in personal activities and independent practice outside of their employment obligations, provided these activities do not conflict with their duties to their employer.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2570 After completing the CFA Level I exam, Etienne Pascal writes an entry for her blog noting that, ''The exam was really tough, but it's complete! Why there were 14 separate questions related to warrants is beyond me! I didn't expect so many questions on the CFA Code of Ethics and Standards.''
Has Pascal violated the CFA Code and Standards?

A. No, because she has not made public any specific test question.

B. Yes, because she maintains a blog before she has reached full CFA membership status.

C. Yes, because discussing specifics related to an exam is a violation of Standard VII(A): Conduct as participants in CFA Institute programs.

The correct answer is **C.**

As a candidate in the CFA Program, one is expected to follow Standard VII(A) of the CFA Institute Standards of Professional Conduct, which states that members and candidates must not engage in any conduct that compromises the reputation or integrity of CFA Institute or the CFA designation or the integrity, validity, or security of the CFA exam.

As a candidate, you are not expected to disclose ANY portion of the exam and or remove ANY exam materials from the exam room.

By sharing specific information related to the number of certain types of questions, as well as the fact that it is important to study certain aspects of CFA Level I content, Reynolds could have undermined Standard VII(A) of the CFA Institute Standards of Professional Conduct.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2571 A supervisor puts balanced and reasonable procedures in place to detect Code and Standards violations by members of his department. However, subordinates fail to detect a violation of Standard I: Professionalism.
Is the supervisor in violation of Standard IV(C): Responsibility of Supervisors?

A. Yes, he is in violation.

B. No, he is not in violation.

C. He is in violation of Standard IV(C): Responsibility of Supervisors only if the violation is something that is also an infringement of SEC standards.

The correct answer is **B.**

The supervisor has made a reasonable attempt to capture violations of the CFA Code and Standards through the implementation of reasonable procedures. A violation of a standard does not mean the supervisor is at fault.

A is incorrect. It suggests that the mere occurrence of a violation under a supervisor's watch automatically results in the supervisor being in violation of Standard IV(C): Responsibility of Supervisors. This interpretation overlooks the standard's emphasis on the implementation of reasonable procedures to prevent and detect violations.

C is incorrect. It implies that the supervisor's violation of Standard IV(C) is contingent solely on whether the undetected violation also constitutes a breach of SEC standards. This interpretation is too narrow and misrepresents the scope of Standard IV(C), which is concerned with the supervisor's efforts to prevent and detect violations of all applicable laws, rules, regulations, and the Code and Standards, not just those that overlap with SEC standards.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2572 Gustavo Hernandez, CFA, is a Chilean citizen working in Bolivia for a bank that is based in Canada. Referral fees are permitted in Canada and Bolivia, but disclosure of referral fees is not required in one of the two countries – Bolivia.
What should Hernandez do if his bank offers him a referral fee?

A. He should accept the referral fee but it is unnecessary to disclose it.

B. He should not accept the referral fee.

C. He should accept the referral fee and disclose it.

The correct answer is **C.**

In case of conflicting laws, the strictest of the laws should be followed (Standard I(A): Knowledge of the Law). In this case, Hernandez should follow the Canadian law that permits referral fees, with disclosure.

A is incorrect. This option suggests accepting the referral fee without disclosure, based on the less stringent Bolivian regulation. However, this approach fails to consider the importance of adhering to the highest standard of ethical conduct, which in this case is represented by Canadian law. Non-disclosure could lead to a lack of transparency, potentially eroding trust between the professional and the client or other involved parties.

B is incorrect. This option proposes not accepting the referral fee at all, which is an unnecessarily restrictive approach. Since referral fees are permitted in both Canada and Bolivia, refusing the fee is not required by law or ethical standards. The key issue is not the acceptance of the fee itself but ensuring that its acceptance is transparent and disclosed in accordance with the stricter regulatory environment, in this case, Canadian law.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2907 Which of the following is *least likely* required under the Code of Ethics? Members and candidates must:

A. Promote the integrity of and uphold the rules governing capital markets.

B. Maintain and improve professional competence and strive to maintain or improve the competence of other investment professionals.

C. Deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, or taking investment actions.

The correct answer is **C.**

It is from Standard III(B): Fair dealing in the Standards of Professional Conduct.

A and B are incorrect. They are required under the code of Ethics, in that members and candidates must:

(I) promote the integrity of and uphold the rules governing capital markets and,

(II) maintain and improve professional competence and strive to maintain or improve the competence of other investment professionals.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2923 Jason Frost, a large money management firm, offers three different levels of services to its clients.
1. Basic level
2. Prime level
3. Advanced level

Both Basic and Prime levels are available for everyone, but the Advanced level is only available for a selected group of high-net-worth clients.

Has Frost violated the Code and Standards by offering such services?

A. No, Frost has not violated Code and Standards.

B. Yes, because Frost offers the Advanced level to only a selected group of clients.

C. Yes, because Frost offers certain levels of services to some groups of clients but not to other.

The correct answer is **B.**

Jason Frost's decision to offer the Advanced level service exclusively to a selected group of high-net-worth clients raises concerns regarding the violation of Standard III(B): Fair Dealing. This standard mandates that all clients should be treated fairly and equitably, without any form of discrimination or preferential treatment that could disadvantage other clients. By restricting access to the Advanced level services based on client wealth or status, Frost potentially creates an uneven playing field, where only a subset of clients can benefit from the highest level of service, possibly leading to a perception of unfairness or bias in the provision of services.

A is incorrect. This option suggests that Frost has not violated any Code and Standards by offering differentiated levels of service. However, the critical issue here is not the existence of different service levels per se, but the exclusivity and selective availability of the Advanced level. The practice of offering enhanced services exclusively to high-net-worth clients could be seen as discriminatory, as it systematically excludes a segment of clients from accessing potentially valuable services based on their financial status. This could be interpreted as a breach of the Fair Dealing standard, which emphasizes the importance of equitable treatment for all clients.

C is incorrect. The key ethical issue in this scenario is not the differentiation itself but the selective and exclusive nature of the Advanced level service. Financial service providers can offer varying levels of service to meet diverse client needs and preferences, provided that these offerings are structured in a way that does not unfairly disadvantage or exclude certain clients. The ethical concern arises when access to certain levels of service is restricted based on criteria that could be deemed discriminatory or unfair, such as wealth status, thus potentially violating the principle of Fair Dealing.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2924 Robert Smith is responsible for distributing the firm's reports and recommendations to clients through e-mails and updating the firm's web pages. He emailed all clients very carefully but failed to update the web page.
Has Smith violated the Code and Standards?

A. No.

B. Yes, he violated Standard I(C): Misrepresentation.

C. Yes, he violated Standard III(D): Performance Presentation.

The correct answer is **B.**

Robert Smith has violated Standard I(C): Misrepresentation. A misrepresentation is any untrue statement or omission of fact or statement that is false or misleading. It may include oral representations, advertising, electronic communication or written materials.

Electronic communications include web pages, chat rooms, and e-mails. Members or candidates who use web pages should regularly monitor materials posted on the site.

A is incorrect. It suggests that Smith has not violated the Code and Standards. However, by failing to update the firm's web pages with the latest information, Smith has indeed violated Standard I(C): Misrepresentation. The obligation to provide accurate and current information to clients and stakeholders is a fundamental aspect of maintaining transparency and trust in professional conduct.

C is incorrect. It identifies the wrong standard. Standard III(D): Performance Presentation deals with the accurate and consistent presentation of investment performance to clients and prospective clients. While ensuring the accuracy of information disseminated to clients is crucial, Smith's failure specifically pertains to the omission of updating the firm's web pages with the latest reports and recommendations.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2926 David Young is a senior vice president for Garcia lnc., an advisory firm with a large number of employees. He is responsible for the work performed by his firm.
In order to fulfill his responsibilities adequately, Young:

A. Should personally evaluate the conduct of his employees on a continuing basis.

B. May delegate some duties to his subordinates that relieve him from those responsibilities.

C. May delegate some duties to his subordinates but is still responsible for instructions to whom supervision is delegated.

The correct answer is **C.**

According to Standard IV(C): Responsibilities of Supervisors, members or candidates who supervise a large number of employees can't personally evaluate the conduct of all of their employees on a continuing basis. Although they may delegate supervisory responsibilities, such delegation does not relieve them from their supervisory responsibilities.

A is incorrect. Suggesting that Young should personally evaluate the conduct of his employees on a continuing basis overlooks the practical challenges associated with supervising a large number of employees. It is not feasible for a senior executive to directly monitor every employee's conduct continuously.

B is incorrect. While delegation is a necessary and effective management tool, especially in large organizations, it does not exempt senior executives from accountability for the actions of their teams.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2929 Clyde Gilmore started his career with O'Neal Corp. The marketing material of the firm contains the following statement about Gilmore:
"Gilmore is a chartered financial analyst and has passed all three levels of the CFA in three consecutive years."

ls this advertisement in violation of the Code and Standards?

A. No.

B. Yes, because Gilmore cannot advertise passing all three levels in consecutive years.

C. Yes, because mentioning Gilmore as a charted financial analyst is incorrect.

The correct answer is **C.**

The CFA and chartered financial analyst designations must always be used as adjectives, never as nouns. However, it can be stated that he has passed all three levels in three consecutive years because it is a fact. The correct statement may be:

"Gilmore has earned the right to use the chartered financial analyst designation and has passed all three levels in three consecutive years."

or

"Gilmore is a CFA charterholder and has passed all three levels in three consecutive years."

A is incorrect. It suggests that the advertisement does not violate the Code and Standards. However, the way the designation is presented in the advertisement does indeed violate the standards set by the CFA Institute regarding the proper use of the CFA designation.

B is incorrect. It incorrectly identifies the reason for the violation. The issue is not with advertising that Gilmore passed all three levels in three consecutive years, as this is a factual statement and can be shared provided it is done accurately and without implying guaranteed future performance or success. The CFA Institute's guidelines are clear about how the designation should be used to communicate one's achievement without misrepresenting the designation or misleading the public.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2930 Richard Anderson works as a portfolio manager in Emma Investments. While still employed, he also wants to manage the funds of individual clients independently in his spare time.
Which of the following statements is *most likely* correct?

A. Standards IV(A): Loyalty prohibits Anderson from entering into an independent business while still employed.

B. If Anderson fulfills his responsibilities at Emma Investments and his independent work is done on his own spare time, he is not in violation of the Code and Standards.

C. Anderson cannot render services to his individual clients until he receives consent from his employer.

The correct answer is **C.**

Although Standards IV(A): Loyalty does not prohibit members from entering into an independent business while still employed, they must notify their employer and describe the type of service, expected duration, and compensation. Members must not render competing services until they receive consent from their employer.

A is incorrect. While Standard IV(A): Loyalty does address the importance of loyalty to one's employer, it does not outright prohibit engaging in independent business activities while employed. Instead, it requires that professionals disclose any potential conflicts of interest and seek consent from their employer before pursuing such activities. This ensures that the professional's actions do not undermine their primary employment obligations or the interests of their employer.

B is incorrect. Although fulfilling responsibilities at Emma Investments and conducting independent work in one's spare time may seem to mitigate potential conflicts of interest, the Code and Standards require more than just time management. Anderson must also address the potential for conflicts of interest and loyalty by informing his employer of his intentions and obtaining consent.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2931 Edward Dixon prepared a financial model to evaluate the market movement and its impact on stock prices. He carefully selects all the inputs used in the financial model but gives less attention to the assumptions, as his model works well for observable databases.
Has Dixon violated any standards?

A. No, he has not violated any standard as his model works well for observable databases.

B. No, he has not violated any standard as he carefully selected all the inputs used in the model.

C. Yes, he has violated the standards by not giving much attention to the assumptions used in the model.

The correct answer is **C.**

Dixon has violated Standard V(A): Diligence and Reasonable Basis by not giving much attention to the assumptions used in the model. Although his model works well for observable databases, these assumptions may give different results by using volatility and performance expectations for scenarios outside the observable databases.

A is incorrect. His model works well for observable databases. However, this overlooks the importance of assumptions in financial modeling. The effectiveness of a model in handling observable data does not negate the necessity for careful consideration of the assumptions upon which the model is built. Assumptions influence the model's applicability to different scenarios and its ability to predict future market movements accurately.

B is incorrect. While Dixon's careful selection of inputs for his model is commendable, this alone does not fulfill the requirements of Standard V(A): Diligence and Reasonable Basis. The standard requires thoroughness not only in the selection of inputs but also in the examination and justification of the model's underlying assumptions. Inputs, no matter how carefully chosen, can only yield accurate outputs if the assumptions guiding their interpretation and interaction within the model are valid and robust.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2933 An analyst has been asked by his firm to write a report on Sega Group. He uses the following sources to get non-material nonpublic information to prepare for his report:
The analyst gathers some nonmaterial nonpublic information through contacts with corporate insiders.
The analyst attended an oral presentation by company executives during an analysts' meeting. The contents of the presentation are widely disseminated to market participants immediately after the presentation.
The analyst collected some information from the company's competitors.

Which of the following statements is *most likely* true?

A. The analyst has violated Standard II(A): Material Non-Public Information.

B. The analyst has violated Standard I(B): Independence and Objectivity.

C. The analyst has been in compliance with the Code and Standards for the preparation of his report.

The correct answer is **C.**

The analyst’s actions align with ethical standards. Gathering information from corporate insiders, attending presentations, and collecting data from competitors are all legitimate sources for research and analysis. As long as the analyst adheres to the Code and Standards, there is no violation.

A is incorrect: The analyst has violated Standard II(A): Material Non-Public Information. The analyst gathered nonmaterial nonpublic information through contacts with corporate insiders. Since the information is nonmaterial, it does not fall under the category of material non-public information (MNPI). Therefore, this action does not violate Standard II(A).

B is incorrect: The analyst has violated Standard I(B): Independence and Objectivity. Attending an oral presentation by company executives during an analyst’s meeting is a common practice, and the contents of such presentations are widely disseminated to market participants immediately afterward. As long as the analyst maintains independence and objectivity in analyzing the information, there is no violation of Standard I(B).

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2934 George Martin manages an investment portfolio for Jennifer Miller. If Miller refuses to fully disclose her other investments, what is the *most likely action* of Martin?

A. George Martin should update the IPS based on the information provided by Miller.

B. George Martin should not continue managing the portfolio of Miller.

C. George Martin should categorize Miller's portfolio as an index portfolio where funds are managed consistently with a stated mandate.

The correct answer is **A.**

According to Standard lll(C): Suitability, if clients withhold information about their financial portfolio, the suitability analysis conducted by members/candidates cannot be expected to be complete; it must be based on the information provided.

B is incorrect. The client withholds certain information does not align with the commitment to provide ongoing financial guidance and support. Investment professionals often face incomplete information and are expected to navigate these challenges while maintaining their professional obligations.

C is incorrect. Categorizing Miller's portfolio as an index portfolio where funds are managed consistently with a stated mandate may not align with her investment objectives and constraints, especially if these have not been fully disclosed. This approach assumes a one-size-fits-all strategy that may not be suitable for Miller's financial situation.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2935 In an interview, Misty Kirk, CFA, specified, "By receiving my charter, l have obtained the highest set of credentials in the global investment management industry and now I am committed to the utmost ethical standards."
Has Kirk violated any standards?

A. Yes, she has violated Standard VII(A): Conduct as Members and Candidates in the CFA Program.

B. Yes, she has violated Standard VII(B): Reference to CFA Institute, the CFA Designation, and the CFA Program.

C. No.

The correct answer is **C.**

Kirk has not violated any standard by stating that by receiving her charter, she has obtained the highest set of credentials in the global investment management industry and is now committed to the utmost ethical standards. Statements that highlight the commitment of CFA charter holders to ethical and professional conduct are appropriate.

A is incorrect. Standard VII(A): Conduct as Members and Candidates in the CFA Program, relates to the professional conduct and ethical behavior expected of CFA members and candidates. Kirk's statement about the value of the CFA charter and her commitment to ethical standards does not violate this standard. Instead, it reinforces the importance of ethical conduct, which is a core principle of the CFA Program. Her statement does not misrepresent her qualifications or the benefits of the CFA charter; rather, it accurately reflects the high ethical and professional standards expected of charter holders.

B is incorrect. Standard VII(B): Reference to CFA Institute, the CFA Designation, and the CFA Program, governs how members and candidates refer to the CFA Institute, the CFA designation, and the CFA Program in a manner that is not misleading. Kirk's statement does not mislead or misrepresent her achievement or the nature of the CFA Program. By highlighting the ethical commitment associated with the CFA charter, she is accurately representing the values and standards upheld by the CFA Institute.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2936 The CEO of Pearl Brokerage Firm offered the supervisory responsibility of the money market division to Steven White. White noticed that the firm has an inadequate compliance system.
White should *most likely*:

A. Accept the supervisory responsibilities and bring the problem to the attention of firm's management.

B. Decline in writing the acceptance of the supervisory responsibilities.

C. Accept the supervisory responsibility and try to resolve the inadequacy of the compliance system.

The correct answer is **B.**

According to Standard IV(C): Responsibilities of Supervisors, if the compliance system of a firm is inadequate, members/candidates should decline in writing to accept supervisory responsibility until the firm adopts reasonable procedures to resolve the issue.

A is incorrect. Accepting the supervisory responsibilities and then bringing the problem to the attention of the firm's management does not align with the best practices outlined in Standard IV(C). While it is important to address compliance issues, accepting a role with known significant deficiencies without first ensuring they will be addressed puts the supervisor and the firm at risk.

C is incorrect. Accepting the supervisory responsibility with the intention of trying to resolve the inadequacy of the compliance system internally might seem proactive. However, this approach does not guarantee that the firm's management will support or implement the necessary changes.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2937 Larsen Brown, an analyst at GOETHE Investments, writes research reports for the firm and retains all the supporting data in electronic form for 5 years as per the requirements of local regulators.
ls Larsen in compliance with Standard V(C): Record Retention?

A. Yes.

B. No, because he has to maintain records in paper format.

C. No, because he has to maintain records for at least 7 years as per CFA Institute requirements.

The correct answer is **A.**

Brown is in compliance with Standard V(C): Record Retention because records may be maintained either in hard copy or electronic form and fulfilling local regulatory requirements to satisfy the requirements of Standard V(C): Record Retention. In the absence of regulatory guidance, the CFA Institute recommends maintaining records for at least 7 years.

B is incorrect. This option incorrectly suggests that maintaining records in paper format is a requirement for compliance with Standard V(C): Record Retention. The standard does not mandate a specific format for record-keeping, allowing for both hard copy and electronic forms. This flexibility ensures that investment professionals can utilize the most efficient and effective means of record storage, taking advantage of technological advancements and digital storage solutions.

C is incorrect. The claim that records must be maintained for at least 7 years as per CFA Institute requirements to ensure compliance with Standard V(C): Record Retention is misleading in this context. While the CFA Institute does recommend a 7-year retention period in the absence of specific regulatory guidance, compliance with local regulatory requirements takes precedence. In Brown's case, the local regulators mandate a 5-year retention period, which he adheres to by maintaining all supporting data in electronic form for this duration.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2941 Edward Newman has recently issued buy recommendations on two stocks, Albania Minings and BetaCarotene. The reasons for his recommendations for the stocks are as follows:
Albania Minings: "After the analysis of the mining industry and the company's fundamentals, Newman determined that the stock would outperform the index. Also, Newman recently interacted with the CEO of Precious Miners Ltd., the company's main supplier, who mentioned that he believes Albania will report unexpectedly high earnings for the next quarter. Using this information, as well as opinions from co-workers, Newman issued a 'buy' recommendation on the stock of Albania Minings."

BetaCarotene: "BetaCarotene is a new grocery chain in the U.S. Newman carried out extensive analysis on the company and its competitors. He also visited the suppliers of the company. After some customer surveys, Newman found out that the chain was fulfilling most of their clients' demands. Based on this new information and the company's past financial data, Newman decided to issue a 'buy' recommendation on the stock of BetaCarotene."

With regards to the stocks of Albania Minings and BetaCarotene, Newman is *most likely*:

A. In violation of the Code and Standards with respect to the stock of Albania Minings, but not in violation with respect to the stock of BetaCarotene.

B. In violation of the Code and Standards with respect to the stock of BetaCarotene, but not in violation with respect to the stock of Albania Minings.

C. Not in violation of the Code and Standards.

The correct answer is **C.**

Newman is not in violation of the Code and Standards.

For the stock of Albania Minings, although the quarterly earnings information is material and non-public, Newman got the information from an external source (a supplier). This makes the information nonmaterial and can be used for decision-making.

For the stock of BetaCarotene, Newman has used pieces of public information and nonmaterial non-public information to arrive at a conclusion. According to the mosaic theory, he is not in violation of the Code and Standards.

A is incorrect. The key misunderstanding here is the nature of the information obtained from the CEO of Precious Miners Ltd. Since the information was acquired through an external conversation and not through privileged access, it is considered non-material. Therefore, Newman's use of this information in his analysis and subsequent recommendation does not constitute a violation.

B is incorrect. This option mistakenly indicates that Newman's actions regarding BetaCarotene were in violation of the Code and Standards. However, Newman's methodology, which involved gathering a wide range of information including public data, supplier visits, and customer surveys, is a textbook application of the mosaic theory. This theory allows for the use of non-material non-public information in conjunction with public information to form investment recommendations.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2945 James Murphy, CFA, recently bought the stock of HighTech Software Solutions Inc. worth $10 million. While working on his website, Murphy posted several positive comments about the stock. He also spread unsubstantiated information about the release of a new product by the firm as confirmed news on several bulletin boards and investor chat rooms.
Which one of the following Standards has Murphy *most likely* violated?

A. Integrity of Capital Markets

B. Duties to Employers

C. Conflicts of Interest

The correct answer is **A.**

Murphy has violated Standard II(B): Market Manipulation by disseminating unsubstantiated information as confirmed news in an attempt to pump up the price of his holdings and mislead market participants.

B is incorrect. While Murphy's actions may also raise concerns regarding his duties to employers, particularly if his employer has policies against such market manipulation practices, the primary violation here is against the Integrity of Capital Markets. Duties to Employers, covered under Standard IV, generally pertain to loyalty, prudence, and care; additional compensation arrangements; and responsibilities of supervisors.

C is incorrect. Conflicts of Interest, covered under Standard VI, deals with disclosure of conflicts to clients and employers, priority of transactions, and referral fees. While Murphy's actions could potentially create a conflict of interest if he benefits financially from the price manipulation, the core issue at hand is the manipulation of market information to mislead investors, which is more directly addressed under Standard II(B): Market Manipulation.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2947 In an attempt to comply with the CFA lnstitute's Code and Standards, GreenTech Inc. has established several policies, which are to be followed by each employee of the firm. Three of these policies are highlighted below:
I. All clients participating in a block trade must be charged with the same execution price and commission. The execution price and commission may vary based on the block traded.
II. In the absence of local laws, all firm records must be retained for a minimum of five years in electronic form. Then backup of firm records is not required.
III. Analysts are permitted to use model or actual results in performance presentation to clients. No disclosures are mandated.

Which of the firm's policies do *not* comply with the Code and Standards?

A. l and ll only

B. ll and lll only

C. lll only

The correct answer is **B.**

Policy I: Standard lll(B): Fair Dealing encourages members to formulate policies, which give all clients' accounts participating in a block trade the same execution price, and charge the same commission. Policy I complies with this recommendation.

Policy II: According to Standard V(C): Record Retention, in the absence of local regulation pertaining to record retention, the CFA Institute recommends members and candidates to retain records for a minimum of seven years. Thus, GreenTech lnc.'s second policy violates the Code and Standards with respect to the period of record retention.

Policy III: The CFA Institute Code and Standards require members and candidates to disclose the presence of model or simulated results in a performance presentation. By not mandating disclosure, the firm's policy is in violation of Standard III(D): Performance Presentation.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2948 Which of the following situations *most likely* constitutes a violation of Standard I(D): Misconduct?

A. Employee A is currently experiencing a bankruptcy crisis, which has forced him to sell his personal property and equity investments.

B. Employee B was caught cheating during an examination fifteen years ago while attending a local college.

C. Employee C works in the insurance industry and has promised attractive equity investment returns despite the equity markets experiencing a cyclical low.

The correct answer is **C.**

Members and candidates who comply with Standard l(D) must not engage in any professional conduct involving dishonesty, fraud, or deceit, or commit any act that reflects adversely on their professional reputation, integrity, or competence.

Neither bankruptcy crisis nor cheating in a college exam fifteen years ago constitutes a violation of the Standard.

However, in the case of Employee C, promising unrealistically high equity returns reflects dishonesty on the part of the employee and is a violation of this Standard.

A is incorrect. Employee A's personal financial crisis and the resulting sale of personal property and equity investments do not constitute a violation of Standard I(D): Misconduct. This standard pertains to professional conduct that involves dishonesty, fraud, or deceit, or acts that reflect adversely on a professional's reputation, integrity, or competence. Personal financial difficulties and the steps taken to address them, such as selling personal assets, do not inherently involve dishonesty or deceit in a professional context.

B is incorrect. Employee B's past incident of cheating during an examination fifteen years ago while attending a local college does not constitute a violation of Standard I(D): Misconduct in the context of their current professional conduct. This standard focuses on professional behavior that involves dishonesty, fraud, or deceit, or acts that adversely reflect on an individual's professional reputation, integrity, or competence.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2951 George Baril works for a small money market firm. He always allocates clients' partially filled orders equally among them. Therefore, each customer gets the same number of shares regardless of their account size.
Has Baril violated any standards?

A. No.

B. Yes, he has violated the standard related to fair dealing.

C. Yes, he has violated the standard related to suitability.

The correct answer is **B.**

Standard III(B): Fair Dealing requires members and candidates to deal fairly and objectively with all clients, and prohibits a preferred treatment given to any client. Orders for the clients must be executed on a systematic basis that is fair to all clients. When the full amount of the block order is not executed, members and candidates should allocate partially executed orders among the participating client accounts **pro rata on the basis of order size**. Therefore, Baril is in violation of Fair Dealing.

A is incorrect. This option suggests that Baril's actions do not constitute a violation of any standards. However, by allocating shares equally among clients without considering the size of their orders, Baril fails to treat clients fairly and equitably.

C is incorrect. While the principle of suitability, which involves making investment recommendations that are appropriate to the client's financial situation and objectives, is crucial in the investment industry, Baril's violation pertains specifically to the fair allocation of investment opportunities among clients.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2952 Tom Ashley was working in the research department of Miller Inc. where he signed a non-compete agreement. He left the firm, copied all the material he prepared during his days at the firm. and started working for a competitor of Miller Inc.
Has Ashley violated the standard related to loyalty towards its employer?

A. Yes, only by copying the material.

B. Yes, only by applying his knowledge at the competitive firm.

C. Yes, both by copying the material and applying his knowledge at the competitive firm.

The correct answer is **C.**

Except with the consent of their employer, departing employees may not take employer's property, which includes books, records, reports, and other materials, and may not interfere with their employer's business opportunities. Taking any employer records, even those prepared by the member or candidate, violates Standard IV(A): Loyalty.

Members and candidates are free to use public information about their former firm after departing without violating Standard IV(A), absent a specific agreement not to do so.

Since Ashley has signed a non-compete agreement with his former client, he has violated Standard IV(A): Loyalty, not only by copying the material but also by applying his knowledge and serving the new competing firm.

A is incorrect. It suggests that Ashley violated the standard only by copying the material. While copying the material without permission indeed constitutes a violation, this option overlooks the additional breach that occurred when Ashley used the copied material and his knowledge to benefit a competitor.

B is incorrect. It implies that the violation occurred only through the application of Ashley's knowledge at the competitive firm. This perspective fails to recognize the initial breach of loyalty that occurred when Ashley copied materials from Miller Inc.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2954 Which of the following situations *least likely* constitutes a violation of CFA Institute Code and Standards?

A. A senior research analyst obtained information concerning a potential merger deal pertaining to an issuer company he covers, which is yet to be publically released. The researcher disclosed this information to his supervisor and compliance department.

B. Mark Greer recently passed the CFA Level ll exam of the CFA Program and does not intend to appear for the CFA Level lll examination for at least three years. Greer identifies himself as an active candidate of the CFA Program.

C. A portfolio manager allocates oversubscribed IPO shares to suitable non-family client accounts prior to family client accounts to avoid the appearance of a conflict of interest.

The correct answer is **A.**

Standard ll(A): Material Non-Public Information prohibits members and candidates from trading on, or causing others to trade on, material non-public information that could affect the value of the security. Members or candidates should make reasonable efforts to make material non-public information public by encouraging the issuer company to publically disclose the information. In the event public disclosure is not possible, the member or candidate should make disclosures to its supervisor and compliance department, and not take investment action based on the information. Thus, the handling of information on the potential merger deal by the senior research analyst complies with this standard.

According to Standard Vll(B): Reference to the CFA Institute, the CFA Designation, and the CFA Program, a person is a candidate if:

The person's application for registration in the CFA Program has been accepted by the CFA Institute and the person is enrolled to sit for a specific examination; or
The registered person has sat for a specific exam, and the exam results have not yet been received.

An individual is no longer considered an active candidate if he declines to sit for an examination or does not meet the above requirements. By not sitting/being enrolled for the Level lll exam for at least three years, Greer has violated this standard by referring to himself as an active candidate.

Standard VI(B): Priority of Transactions requires members and candidates to place transactions of clients and employer in priority to transactions in which the member or candidate is the beneficial owner. Alongside this requirement, family accounts, which are client accounts should be treated like any other client accounts and should not be treated unfairly. By allocating the oversubscribed IPOs to non-family client accounts prior to an allocation to family accounts, the portfolio manager has violated this standard.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2956 Martin Keefe, CFA runs a private investment firm with his two friends. The firm's investment brochure describes Martin Keefe as follows:
"Martin Keefe is one of the club's two CFA charterholders with almost ten years experience in investment banking. The CFA designation enables Keefe to provide more educated investment advice to his clients than most other professionals in the field. Moreover, it obliges Keefe to uphold ethical conduct in his professional dealings."

Concerning the information presented, has the brochure violated the standard concerning the reference to the CFA Institute, the CFA designation, and the CFA Program?

A. No.

B. Yes, with respect to improper referencing of the CFA designation.

C. Yes, with respect to exaggerating the meaning of the CFA membership.

The correct answer is **C.**

The brochure exaggerates the meaning of the CFA membership by implying that by acquiring becoming a CFA charterholder, individuals are able to give superior investment advice. The statement is discriminatory against other professionals. However, no standards have been violated by stating that earning the CFA designation compels members to act ethically; this is a fact.

The brochure has appropriately described Keefe's designation as an adjective, and the standard has not been violated in this respect.

A is incorrect. It suggests that the brochure has not violated any standards concerning the reference to the CFA Institute, the CFA designation, and the CFA Program. However, by implying that the CFA designation alone enables Keefe to provide superior investment advice, the brochure overstates the impact of the CFA designation and potentially misleads clients about the nature of the benefits of working with a CFA charterholder.

B is incorrect. The issue at hand is not improper referencing of the CFA designation but rather the exaggeration of the meaning of the CFA membership. This misrepresentation goes beyond the scope of improper referencing and directly impacts the perceived value and understanding of the CFA designation among clients and the public.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2963 The management of Greenwhich, a Swiss watchmaker, has decided to take the company public and raise funds through an IPO. Gloria Trust (GT) is a firm providing investment banking and brokerage services and will underwrite the issue. The issue is currently oversubscribed, and one of GT's trust officers prorates the issue to each account holder expressing an interest. Beneficial family member accounts and suitable non-family member accounts are not given priority in the trade allocation.
Has the GT trust officer allocated the Greenwhich trade fairly?

A. Yes.

B. No, he has not considered suitable client accounts.

C. No, he has not considered beneficial family member account.

The correct answer is **B.**

The GT trust officer has failed to allocate the Greenwhich trade fairly by failing to consider accounts for which the trade will be suitable. Standard lll(B): Fair Dealing requires members and candidates to treat all clients fairly during their investment actions and recommendations. By failing to give priority to suitable client accounts, he has violated the fair dealing standard as well as the suitability standard.

By choosing not to allocate trades to beneficial family member accounts, the officer has not violated any standard. This is because these clients should not be treated equally to regular fee-paying family member accounts in which an employee does not hold a beneficial position.

A is incorrect. This option suggests that the allocation was done fairly, which is not the case. Fairness in trade allocation involves more than just distributing shares without preference for family or non-family member accounts. It also requires assessing the suitability of the investment for each client's financial goals and risk tolerance.

C is incorrect. While the trust officer did not give priority to beneficial family member accounts, this action alone does not constitute unfair treatment under the standards of investment management. The ethical concern arises not from the exclusion of family member accounts but from the failure to prioritize accounts based on the suitability of the investment.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2965 Peter O' Toole has recently left a large investment bank to develop his own investment fund, Beata. Toole's expertise lies in developed market equities and corporate bonds. His team will include Roy Thomson, a friend and expert in REIT securities. He distributes a prospect to prospective clients which states:
"The management of Beata welcomes you to invest with us. We specialize in developed market equities, fixed income securities, and REIT securities. Although we do not guarantee performance results, we can assure that you will not be disappointed."

By distributing the brochure, Toole has *least likely* violated the CFA Institute Standards of Professional Conduct by:

A. Providing performance guarantees.

B. Misrepresenting Beata's specialization with respect to REIT securities.

C. Misrepresenting Beata's specialization with respect to fixed-income securities.

The correct answer is **B.**

Although Toole does not explicitly guarantee performance, he indirectly assures clients that the fund will meet their expectations; thus, he is in violation of Standard III(D): Performance Presentation which prohibits members and candidates from guaranteeing performance. Also, Toole is in violation of Standard I(C): Misrepresentation by misrepresenting his expertise in fixed income securities. Toole only specializes in corporate bonds, a category of fixed income securities. Fixed income securities include securities beyond corporate bonds such as mortgage-backed securities, Treasury bills, and other securities. Toole has not violated any standard by disclosing Beata's expertise in REIT securities.

A is incorrect. The brochure's statement that investors will not be disappointed could be interpreted as providing a performance guarantee, which is a violation of Standard III(D): Performance Presentation. This standard prohibits members and candidates from making any promises or guarantees about the results of their investment strategies.

C is incorrect. Peter O' Toole's expertise is specifically in corporate bonds, which are only a subset of the broader category of fixed-income securities. Fixed-income securities encompass a wide range of investment products, including government bonds, municipal bonds, and mortgage-backed securities, among others. By suggesting that Beata specializes in the entire spectrum of fixed-income securities without clarifying the specific focus on corporate bonds, the brochure could mislead prospective clients about the fund's expertise and investment focus.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2966 Henry Cooper, CFA, is a sell-side analyst serving Arial Investments (AI). Cooper is writing a research report on a mining company. In the past, Cooper held an executive position in the company. He left the position prior to joining Al but maintains a good personal relationship with Al's management. Since he no longer holds an executive position, Cooper has not shared this information with his supervisor.
Cooper is *most likely* in violation of the CFA Institute Standards of Professional Conduct concerning:

A. Loyalty to employer.

B. Disclosure of conflicts.

C. Additional compensation arrangements.

The correct answer is **B.**

Cooper's past involvement and present relationship will impair his independent and objective judgment and requires disclosure. By failing to disclose the conflict of interest with his supervisor, Cooper is in violation of Standard VI(A): Disclosure of Conflicts. However, Cooper is not in violation of the standard concerning additional compensation arrangements because he does not receive any compensation nor does he possess stock ownership in the company.

A is incorrect. Standard IV(A) Loyalty pertains to members and candidates' duty to act for the benefit of their employer and not to deprive their employer of the advantage of their skills and abilities, misappropriate their employer's opportunities, or otherwise cause harm. Cooper's failure to disclose his past involvement and ongoing relationship with the mining company's management does not directly relate to misappropriating opportunities or causing harm to his employer but rather concerns the potential conflict of interest that could impair his objectivity and independence.

C is incorrect. Standard IV(B) Additional Compensation Arrangements addresses the need for members and candidates to not accept gifts, benefits, compensation, or consideration that competes with or might reasonably be expected to create a conflict of interest with their employer's interest without written consent from all parties involved. Since Cooper does not receive any form of compensation from the mining company nor holds stock ownership, he is not in violation of this standard.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2967 Cassandra Payne is a candidate in the CFA Program. She serves as a research assistant at Tidara Associates (TA), an investment bank. For her first assignment, Payne is asked to write a research report that aims to forecast the possibility of a rise in interest rates and its impact on the property market. She gathers information from property dealer websites and articles from newspapers that provide summaries of financial reports. On the last page of the research report, she cites the websites and the newspaper articles as her research sources.
Is Payne is in violation of the CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, she is not required to cite the dealer websites.

C. Yes, she uses sources that do not constitute a reasonable and adequate basis.

The correct answer is **C.**

Members and candidates should make reasonable inquiries into the source and accuracy of all data used in completing their investment analysis and recommendations. A few news articles and web-based sources do not constitute, without more information, a reasonable and adequate basis for a recommendation that is supported by appropriate research and investigation. Therefore, Payne has violated Standard V(A).

A is incorrect. This option suggests that Payne is not in violation of the CFA Institute Standards of Professional Conduct. However, relying solely on property dealer websites and newspaper articles for investment analysis does not provide a comprehensive and reliable basis for making investment recommendations.

B is incorrect. The issue at hand is not about the citation of sources but about the adequacy and reliability of the sources used for investment analysis. The CFA Institute's Standard V(A) mandates that the basis for investment recommendations must be reasonable and adequately supported by thorough research.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2968 A candidate in the CFA program is working as a research assistant and is part of a team preparing a group research report. The group is divided on the final rating to give the stock being covered. A majority of the group believes a 'buy' rating to be appropriate while the candidate believes a 'hold' rating should be issued. All members have a reasonable and adequate basis for their recommendations.
The best course of action for the candidate to take is to:

A. Decline to be associated with the report.

B. Continue to be associated with the report.

C. Seek the advise of legal counsel to determine the appropriate action.

The correct answer is **B.**

When a research report is a group effort, different analysts may have their own opinions, and it is not necessary for these opinions to match. Given that the analysts have a reasonable and adequate basis for their recommendations, the best course of action is to continue to be associated with the report.

A is incorrect. Declining to be associated with the report would not be the best course of action in this scenario. This option might suggest a lack of professional maturity or unwillingness to engage in collaborative efforts where opinions differ. The CFA Institute's standards support the idea that differing viewpoints, when based on a reasonable and adequate basis, enrich the decision-making process rather than detract from it.

C is incorrect. Seeking the advice of legal counsel to determine the appropriate action is unnecessary in this context. The situation described does not involve legal issues but rather a difference of professional opinion within a research team. The CFA Institute's guidelines provide a clear framework for handling such differences, emphasizing the importance of thorough and reasoned analysis over consensus.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2972 Walter Reid, CFA, works for Sun Associates, an investment advisory. SA is situated in a country with laws requiring investment managers to report any stock transaction which exceeds $10 million to the concerned regional market regulators. These laws dim to control the degree of market volatility. One of Reid's clients has placed a $12 million order to purchase shares of a company's stock. Due to his personal relationship with the client, Reid discovers that the funds have been acquired through fraudulent means. To preserve the confidentiality of the matter, Reid does not report the transaction to the regulators.
Has Reid violated any CFA Institute Standards of Professional Conduct?

A. No, he has preserved client confidentiality.

B. Yes, he failed to report the transaction to the regional market regulator.

C. Yes, he failed to disclose his personal relationship with the client to his employer.

The correct answer is **B.**

Reid has violated Standard I(A): Knowledge of the Law by not reporting the transaction to the market regulators. The standard requires members and candidates to understand the laws and regulations of the countries or regions in which they conduct business. Members and candidates must comply with the strictest laws and regulations. Given that the country's laws are stricter than the CFA Institute Standards with respect to the reporting of transactions, Reid has a duty to abide by these laws. However, Reid must not disclose the source of the funds to the regulators to avoid violating standard III:(E) Preservation of Confidentiality.

There is no evidence which indicates that Reid has not disclosed his personal relationship with the client to his employer. Therefore, Reid has not violated any standard in this regard.

A is incorrect. While preserving client confidentiality is crucial, it does not exempt professionals from complying with legal obligations. Standard I(A): Knowledge of the Law clearly states that members and candidates must prioritize adherence to the law over the duty of confidentiality when the two are in conflict. In this case, the requirement to report transactions exceeding $10 million is a legal obligation that Reid must fulfill, regardless of his personal relationship with the client or the desire to maintain confidentiality.

C is incorrect. There is no direct evidence or indication that Reid failed to disclose his personal relationship with the client to his employer, which would be a violation of Standard IV(B): Additional Compensation Arrangements. This standard requires members and candidates to communicate with their employers about any arrangements involving compensation or benefits that might conflict with their employer’s interest.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3011 Blake Marshall, CFA, is a research analyst serving Research lnc., an equity-oriented research firm. Marshall is preparing a report on the timber industry in Brazil. During one of his visits to Titania, a Brazilian timber corporation, he overhears site workers complaining of the poor working conditions and their intentions to organize a strike for a pay rise. The same evening, Marshall decides to conclude his report with a sell rating for Titania and justifies his report by stating that a worker strike could cripple productivity and reduce output.
By issuing his research report, Marshall would *most likely* violate the CFA Institute Standards of Professional Conduct relating to:

A. Misconduct.

B. Diligence and reasonable basis.

C. Material nonpublic information.

The correct answer is **B.**

Standard V(A): Diligence and Reasonable Basis requires members and candidates to exercise thoroughness, independence, and diligence when conducting investment analysis, making investment recommendations, and taking investment action. The standard also calls for a reasonable and adequate basis for any investment action, recommendation or analysis. By basing his recommendation solely on the discussion between site workers, Marshall lacks a reasonable and adequate basis for his recommendation. He should carry out a thorough investigation by interviewing Titania's staff, competitors, and its competitors.

According to Standard ll(A): Material Nonpublic Information, 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. A discussion between site workers and their plans to launch a strike is nonmaterial even if it is nonpublic.

Standard l(D): Misconduct is not violated because there is no evidence of Marshall engaging in fraudulent or dishonest behavior.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3022 Karl Flynn is a senior research analyst at Sparks Investments. The firm has offered a supervisory responsibility to Flynn. Before accepting the responsibility, Flynn came to know that in some areas, compliance procedures are not adequate.
What would be the *most likely* action of Flynn according to the Standards of Practice Handbook?

A. Flynn should accept the responsibility and should make all reasonable efforts for appropriate compliance procedures.

B. Flynn should decline in writing to accept supervisory responsibility until the firm adopts reasonable compliance procedures.

C. Flynn should accept the responsibility but should not delegate the authority until the firm assures reasonable compliance procedures.

The correct answer is **B.**

In the absence of compliance procedures or due to an inadequate compliance system, a member or candidate should decline in writing to accept supervisory responsibility until the firm adopts reasonable procedures.

A is incorrect. Accepting the responsibility with the intention of making efforts for appropriate compliance procedures might seem proactive, but it overlooks the immediate need for a solid compliance framework before assuming such a role. Without adequate compliance procedures in place from the outset, Flynn and the firm are exposed to potential regulatory violations and ethical breaches. This approach does not sufficiently mitigate the risks associated with inadequate compliance systems, which could have far-reaching consequences for the firm and its clients.

C is incorrect. While accepting the responsibility but not delegating authority until the firm assures reasonable compliance procedures might appear as a middle ground, it still poses significant risks. This option fails to address the underlying issue of inadequate compliance procedures and places Flynn in a position where he is responsible but potentially unable to enforce or ensure compliance effectively. It also does not provide a clear timeline or guarantee that the firm will prioritize and address the compliance issues, leaving Flynn and the firm in a precarious position regarding regulatory and ethical standards.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3024 Jane Terry is a research analyst at Victor Investments, a large investment management firm with separate investment banking and research departments. Terry follows all the major firms in the mining industry including Todd Minors Inc. The investment banking department of Victor Investments is involved in a deal with Todd Minors Inc. and Terry has provided limited assistance to the investment banking department.
Under such circumstances, Terry must be treated as a(n):

A. Corporate insider of Todd Minors Inc.

B. Research analyst at Victor Investments.

C. Investment banker of Victor Investments.

The correct answer is **C.**

According to Standard II(A): Material Non-Public Information, an analyst who follows a particular company may provide limited assistance to the investment bankers when the firm's investment banking department is involved in a deal with the company. That analyst must consider as though (s)he is an investment banker and the analyst must remain on the investment banking side of the wall until any information (s)he learns is publically disclosed.

A is incorrect. Suggesting that Terry should be treated as a corporate insider of Todd Minors Inc. is misleading. Although Terry has provided assistance to the investment banking department in a deal involving Todd Minors Inc., her role does not grant her the status of a corporate insider within Todd Minors Inc. Corporate insiders are typically members of the company's board of directors, senior executives, or others who have access to confidential information about the company due to their position within it. Terry's involvement is limited to her role within Victor Investments, and she does not hold a position within Todd Minors Inc. that would classify her as a corporate insider.

B is incorrect. While Jane Terry's primary role at Victor Investments is that of a research analyst, her involvement in providing assistance to the investment banking department in a deal with Todd Minors Inc. temporarily shifts her responsibilities. In this context, merely identifying her as a research analyst does not fully capture the ethical considerations and obligations that arise from her participation in the investment banking activity.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3026 Dian Owens, CFA, works as an analyst at Hawk Securities, an investment-banking firm. The firm is raising equity capital on behalf of SWK Inc. Owens notices her supervisor has underestimated the amount of impairment losses and overestimated the unrealized gains on SWK's financials. Owens calls her uncle and stops him from participating in the IPO of SWK Inc.
Owens has *least likely* violated the CFA Standard of Professional Conduct relating to the:

A. Knowledge of law.

B. Disclosure of conflicts.

C. Material nonpublic information.

The correct answer is **B.**

Owens has violated Standard I(A): Knowledge of Law. Knowing that the financials of SWK Inc. are misleading, she should report the problem to the supervisory persons in her firm. If the employer does not take actions to correct the financials, she should not only dissociate herself from such activity but also consider leaving the firm.
Owns has also violated Standard ll(A): Material Non-public Information on the basis of material non-public information, inducing her uncle not to participate.

A is incorrect. Owens has indeed likely violated Standard I(A): Knowledge of the Law. This standard mandates that CFA charterholders must understand and comply with all applicable laws, rules, and regulations (including the CFA Institute Code of Ethics and Standards of Professional Conduct) of any government, regulatory organization, licensing agency, or professional association governing their professional activities.

C is incorrect. Owens has also likely violated Standard II(A): Material Nonpublic Information. This standard prohibits CFA members and candidates from acting or causing others to act on material nonpublic information. Owens's decision to inform her uncle about the inaccuracies in SWK Inc.'s financial statements and advise him against participating in the IPO is a clear violation of this standard. She uses her access to confidential and material information for the benefit of her uncle, which could disadvantage other investors who are not privy to the same information.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3030 Julia Long has passed all three levels of the CFA Program and may be eligible for a CFA charter upon completion of the required work experience next month. On her resume, she has mentioned her name as Julia Long, CFA (Level III passed).
Is Long in compliance with the CFA code and standards?

A. Yes, as she has passed all the three levels.

B. No, as she is not eligible to write CFA with her name.

C. Yes, as she is expecting to receive the charter in a month.

The correct answer is **B.**

A candidate who has passed CFA Level III but has not received his/her charter cannot use the CFA or Chartered Financial Analyst designation along with his/her name.

A is incorrect. Passing all three levels of the CFA Program does not automatically grant an individual the right to use the CFA designation with their name. The CFA Institute has strict guidelines regarding the use of the CFA designation, emphasizing that it can only be used by individuals who have been officially awarded the charter. This includes not only passing all three levels of the CFA exam but also completing the required work experience and receiving formal notification that the charter has been awarded.

C is incorrect. The expectation of receiving the charter in the future does not grant the candidate the right to use the CFA designation. The CFA Institute's guidelines are clear that the designation can only be used after the charter has been officially awarded. This rule is in place to prevent any confusion or misrepresentation regarding an individual's status as a CFA charterholder. It is important for candidates to accurately represent their achievements and status in relation to the CFA Program, ensuring that they do not imply charterholder status until they have fully met all the requirements and received the charter.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3031 Campbell Investments, an investment management firm, is a market maker for Allan Inc. and also possesses material non-public information about the stock of Allan Inc.
What would be the *most recommended* action with respect to Campbell's proprietary activities?

A. The firm should prohibit all proprietary activities of Allan lnc.'s to maintain confidentiality.

B. The firm should withdraw from market-making activities of Allan Inc. as it holds material nonpublic information.

C. The firm should take only the contra side of trade in its market-making activities to remain passive in the stock Allan Inc.

The correct answer is **C.**

A prohibition of all types of proprietary activity when a firm comes into possession of material non-public information is not appropriate. Firms that continue market-making activities while in possession of material non-public information should instruct their market makers to remain passive to the market by only taking the contra side of unsolicited customer trades.

A is incorrect. Prohibiting all proprietary activities of Allan Inc. is an extreme measure that is not necessary under the circumstances. While it is important to prevent the misuse of material non-public information, completely halting proprietary activities could negatively impact the firm's operations and its ability to provide liquidity to the market as a market maker. The key is to manage the information responsibly, not to cease all related activities.

B is incorrect. The firm holds material non-public information is also not the most recommended action. Market makers play a vital role in ensuring liquidity and stability in the financial markets. By withdrawing completely, Campbell Investments would fail to fulfill this role, potentially harming the market's efficiency. Instead, the firm should continue its market-making activities while ensuring that it does not actively trade on the non-public information, thus maintaining its obligations to the market and adhering to ethical guidelines.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (b): Recommend practices and procedures designed to prevent violations of the Code of Ethics and Standards of Professional Conduct.

Q.3032 Kevin Stewart, CFA, is a portfolio manager at Zachary Advisors managing individual accounts of Angel Corp.'s employees. Alexis Ryan, 40-years old, joined Angel Corp as an employee a month ago. In a meeting with Stewart, Ryan discusses his high-risk tolerance, large asset base, and his investments in synthetic investment vehicles and derivative products at Stone Advisors.
ln forming an investment policy statement for Ryan, Stewart is responsible for assessing the suitability of investments:

A. For funds provided at Zachary Advisors.

B. For funds managed by Zachary Advisors and Stone Advisors

C. In a manner consistent with the average employee account of Angel Corp.

The correct answer is **B.**

Stewart is responsible for assessing the suitability of Ryan's total investments on the basis of information provided to him. Ryan provided a full financial picture including funds managed by Stone Advisors and the type of investments. Therefore, Stewart should judge the suitability of the investment in the context of Ryan's total portfolio.

A is incorrect. It suggests that Stewart should only assess the suitability of investments for funds provided at Zachary Advisors. This approach is too narrow and overlooks the critical aspect of Ryan's financial situation—his investments with Stone Advisors. Considering only the funds managed by Zachary Advisors would result in an incomplete assessment, potentially leading to recommendations that are not fully aligned with Ryan's overall investment strategy and risk tolerance.

C is incorrect. It recommends assessing the suitability of investments in a manner consistent with the average employee account of Angel Corp. This approach fails to account for the individualized nature of investment policy statements, which should be tailored to each client's specific financial situation, investment objectives, and risk tolerance. Ryan's high-risk tolerance and significant asset base, coupled with his investments in complex financial instruments, distinguish his profile from that of an average employee.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (b): Recommend practices and procedures designed to prevent violations of the Code of Ethics and Standards of Professional Conduct.

Q.3036 Bert Moreno owns a research and consulting company and occasionally works as a sell-side research analyst for Hunt Corp. Moreno has an arrangement with Hunt Corp. in which he accepts a flat fee for his report. Hunt Corp. also offered Moreno outstanding stock options that are not part of any compensation package or linked to any recommendation. Moreno did not realize the stock options at the time he published his research report.
Moreno:

A. Should disclose in his report the amount and expiration date of stock options.

B. Must disclose in writing to his clients the stock options and fee arrangement by Hunt Corp.

C. Must not accept the stock options offered by Hunt Corp. unless he obtains a written consent from his clients.

The correct answer is **A.**

According to the recommendations of Standard VI(A): Disclosure of Conflicts, members or candidates should disclose in their report as a footnote the amount and expiration date of these options. Moreno is not required to disclose his arrangements to his clients. However, if he works for an employer, he must obtain written consent from his employer.

B is incorrect. While it is crucial for Moreno to disclose any potential conflicts of interest, the specific requirement under Standard VI(A) does not extend to mandating written disclosure to clients about the fee arrangement and stock options provided by Hunt Corp. The standard emphasizes the importance of disclosing conflicts in the research report itself to ensure that all readers are equally informed. While transparency with clients is important, the primary focus in this context is on the content of the research report and its potential to influence investment decisions.

C is incorrect. The CFA Institute's standards require the disclosure of conflicts of interest, such as the acceptance of stock options, but do not categorically prohibit such arrangements. The key is that any potential conflicts are fully disclosed so that readers of the research report can evaluate the information with an understanding of the analyst's potential biases.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (b): Recommend practices and procedures designed to prevent violations of the Code of Ethics and Standards of Professional Conduct.

Q.3039 Murray Blue is a large investment management firm located in Singapore. The employer has assigned Gerry Castillo, CFA, to work on Noon Group and handed over all research, models, and worksheets related to Noon Group, which were prepared by a previous analyst.
According to the Standards of Practice Handbook, under such conditions, which of the following statements is *most likely* correct?

A. The firm may issue a report on Noon Group without attribution to the previous analyst.

B. The firm can only issue the report on Noon Group if it properly acknowledges the work of the previous analyst.

C. Gerry Castillo cannot use the research, models, and worksheets on Noon Group prepared by another analyst.

The correct answer is **A.**

According to Standard I(C): Misrepresentation, members or candidates may use research conducted or models prepared by previous employees within the same firm without committing a violation. Similarly, the firm retains the right to continue to use the work completed after member or candidate leaves the firm. A member or candidate, however, cannot reissue a previously released report solely under his/her own name.

B is incorrect. It suggests that Gerry Castillo cannot use the research, models, and worksheets on Noon Group prepared by another analyst. This interpretation is not aligned with Standard I(C): Misrepresentation. The standard allows for the use of work conducted by previous employees as long as the use of such work does not misrepresent the nature of the contributions or the origins of the work.

C is incorrect. It implies that the firm can only issue the report on Noon Group if it properly acknowledges the work of the previous analyst. While proper attribution is crucial in cases where reports or analyses are published externally and the contributions of different analysts are distinguishable, Standard I(C) does not mandate explicit attribution for internal use or when the work becomes part of the firm's collective intellectual assets.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3043 Felix Savage, CFA, owns a small brokerage in Australia where securities laws and regulations are stricter than the Codes and Standards. One of his clients is Basilia Parrish, whose business is located in Nauru, a small island in the South Pacific with no securities laws and regulations.
Which law(s) or standards must Savage adhere to:

A. The laws of Nauru.

B. The Code and Standards of Professional Conduct.

C. The laws of Australia.

The correct answer is **C.**

If a member resides in a more strict (MS) country and does business in a less strict (LS) country, the MS laws apply. In this case, Australian laws are more strict than both the Code and Standards and Nauru laws, therefore Savage should comply with Australian laws.

A is incorrect. The suggestion that Savage should adhere to the laws of Nauru is not applicable in this context. Nauru lacks specific securities laws and regulations, which means that operating solely under Nauru's legal framework would not provide the necessary guidance and protection required in the securities industry. Furthermore, since Savage's brokerage is based in Australia, and Australia has stricter securities laws, those laws take precedence over the absence of regulations in Nauru.

B is incorrect. While the Code and Standards of Professional Conduct set forth by the CFA Institute provide a robust ethical framework for investment professionals, in this case, they do not represent the strictest set of rules that Savage must follow. The laws of Australia, being more stringent than the Code and Standards, are the primary regulations that Savage must adhere to.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3047 Tiara Corporation (TCorp) is one of the largest corporate clients of Al & Co., a U.S. based investment management firm. Recently, Al & Co. discovered significantly adverse news about TCorp. Unwilling to disseminate adverse opinions about their client, the firm put it on a restricted list and removed it from the research universe.
Are Al & Co.'s actions *most likely* in compliance with the CFA Institute Standards of Professional Conduct?

A. Yes.

B. No, because TCorp should disseminate the information to its clients.

C. No, because TCorp should disseminate the information to clients and prospective clients.

The correct answer is **A.**

From the CFA Program Curriculum:
"Recommended Procedures for Compliance:

Create a restricted list: If the firm is unwilling to permit dissemination of adverse opinions about a corporate client, members, and candidates should encourage the firm to remove the controversial company from the research universe and put it on a restricted list so that the firm disseminates only factual information about the company."

Now, we'll use an example that could happen in real life. Let's say you're a big investment firm based in N.Y.C. and a long-time corporate client approaches you to raise money because they are having liquidity problems. The worst thing you can do is probably to warn all your clients and prospective clients about their liquidity problems. The best course of action would be to put it on a restricted list and only disseminate factual information about the company. The information will be disseminated to all shareholders at the same time when the company releases a statement about their liquidity position. Only at this point in time will you be able to disseminate the information to your clients.

B is incorrect. This option incorrectly suggests that Al & Co. should actively disseminate the adverse information about TCorp to its clients. While transparency is important, the CFA Institute Standards of Professional Conduct also emphasize the need to manage conflicts of interest and to ensure that any information disseminated is done so in a manner that is fair and not misleading.

C is incorrect. This option extends the incorrect assumption made in option A by suggesting that Al & Co. should disseminate the information not only to its clients but also to prospective clients. This approach overlooks the complexities involved in managing conflicts of interest and the potential for harm that could arise from the premature or inappropriate dissemination of adverse information.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3050 Excellence Investments (EXIN) is a large, U.S. based capital management firm that has managed to attract a large number of corporate and private wealth clients. Many of the recommendations made by EXIN's analysts are based on extensive review processes and detailed analysis. Consequently, it takes more than two weeks for the reports to be published and disseminated.
To be in compliance with the CFA Institute Standards of Professional Conduct, EXIN's analysts should *least likely*:

A. Publish a short summary report in advance.

B. Reduce the time between decision and dissemination.

C. Communicate to clients the new or changed recommendations by an update.

The correct answer is **B.**

In large firms with extensive review processes, the time factor is usually not within the control of the firm or the analyst who prepared the report. Thus, analysts should publish a short summary report in advance or communicate the recommendation by an update or 'flash' report.

A is incorrect. Publishing a short summary report in advance is a viable strategy for maintaining compliance with the CFA Institute Standards of Professional Conduct. This approach allows the firm to communicate timely, relevant information to its clients while the full, detailed report is still under review. It ensures that clients have access to the most current investment insights, which is in line with Standard III(B): Fair Dealing.

C is incorrect. Communicating new or changed recommendations to clients through an update is another appropriate action that aligns with the CFA Institute Standards of Professional Conduct. This ensures that all clients receive the most recent investment advice as soon as it becomes available, promoting transparency and fairness in client communications. This practice is consistent with Standard III(C): Suitability

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3053 Tyra Wings uses a short-written report to issue a new recommendation to her clients. However, after the report is disseminated, she follows up with only two of her clients who pay higher fees to discuss the suitability of the investment and its future prospective clients.
Is Wings *most likely* in compliance with Standard III(B) Fair Dealing of the CFA Institute Standards of Professional Conduct?

A. Yes.

B. No, since she offers preferential treatment to some of her clients.

C. No, since she does not disclose the additional services she offers to all her clients.

The correct answer is **A.**

Wings is in compliance with the standard. She widely disseminated the report prior to discussing the recommendation further with two of her clients. They receive additional service because they pay higher fees.

B is incorrect. She offers preferential treatment to some of her clients. However, the key issue is whether all clients received the investment recommendation in a fair and timely manner, which they did. The additional discussions with two clients are part of a separate, higher-tier service agreement and do not constitute unfair treatment of other clients regarding the dissemination of the investment recommendation.

C is incorrect. She does not disclose the additional services she offers to all her clients. The standard does not require that all clients receive the same level of service, only that they are treated fairly in terms of access to investment recommendations. As long as the additional services and their availability are clearly communicated and do not interfere with the fair dissemination of recommendations, offering different levels of service based on fee structures is permissible and does not violate Standard III(B).

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3054 Steve Hart is a portfolio manager at a financial consultancy firm. Hart manages funds for private-wealth clients and determines a suitable asset allocation for them. ln assessing the suitability of an investment, Hart only considers the financial portfolio managed by him, since he considers information about the client's additional funds and wealth as private and confidential.
Is Hart's method of determining suitability *most likely* in compliance with Standard III(C): Suitability?

A. Yes.

B. No, since Hart should solicit information about the portions of the client's funds, whether managed by him or not, to conduct a complete suitability analysis.

C. No, since Hart should consider a client's entire financial position but only if the client is willing to offer such information.

The correct answer is **C.**

Preferably, an analyst should consider a client's complete financial portfolio, including those portions not managed by him. However, if a client withholds such information, the suitability analysis should be based on the information provided.

A is incorrect. This option suggests that Hart's method is in compliance with Standard III(C): Suitability, which is not entirely accurate. While respecting client confidentiality is crucial, Hart's approach overlooks the importance of having a comprehensive understanding of the client's overall financial situation to make suitable investment recommendations. By not considering the client's additional funds and wealth, Hart may miss critical information that could impact the suitability of the asset allocation, potentially leading to recommendations that do not align with the client's overall financial goals and risk tolerance.

B is incorrect. While it is true that a thorough understanding of the client's financial situation is crucial for suitability analysis, the standard does not mandate investment professionals to obtain all such information forcibly. Instead, the emphasis is on making a reasonable effort to gather relevant information and respecting the client's decision to withhold certain details. The key is to balance the need for comprehensive information with respect for the client's privacy and confidentiality.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3055 Due to a constraint on time and cost, Keith Connolly made a brief presentation to his clients about the performance history of the individual accounts and composites of his firm. Connolly made available detailed information to all clients and prospective clients who requested for such information.
To ensure best practices under Standard III(D): Performance Presentation, Connolly should:

A. Do nothing, since he is already following best practices.

B. Include a reference in his presentation about the limited nature of the information provided.

C. Provide complete and comprehensive performance information whenever communicating with clients and prospective clients.

The correct answer is **B.**

Best practices dictate that brief presentations include a reference to the limited nature of the information provided.

A is incorrect. Simply doing nothing further, despite already making detailed information available upon request, does not fully align with the best practices under Standard III(D): Performance Presentation. It is important to proactively inform clients and prospective clients about the scope and limitations of the information being presented.

C is incorrect. While providing complete and comprehensive performance information whenever communicating with clients and prospective clients is ideal, it may not always be practical due to constraints such as time and cost, as mentioned in the scenario. The key is to balance the need for comprehensive information with practical constraints, ensuring that clients are made aware of the limitations of the information provided and that more detailed data is available upon request.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3058 Toby Banks worked for ten years at one of the largest investment firms in his area. His work made him adept at performing technical analysis and using various financial models to determine investment value. Recently, Banks joined a capital management firm in Chicago and was required to develop a complex statistical model. Using specific techniques learned at the previous firm, Banks managed to develop a rigorous model for his new employer.
With regards to the development of the model, Banks has:

A. Not violated any standard.

B. Violated Standard IV(A): Loyalty.

C. Violated Standard V(A): Diligence and Reasonable Basis.

The correct answer is **A.**

The skills and experience that an employee obtains while being employed at a firm are not 'confidential' or 'privileged' information. Hence, Banks is not prohibited from using specific techniques learned at the previous firm to develop a model at the new firm.

B is incorrect. This option incorrectly suggests that Banks might have violated Standard IV(A): Loyalty. Standard IV(A) pertains to the duty of loyalty to employers, which includes not disclosing confidential information or harming the employer's legitimate interests. However, applying general professional skills and knowledge, such as those related to technical analysis and financial modeling, does not equate to disclosing confidential information.

C is incorrect. The suggestion that Banks violated Standard V(A): Diligence and Reasonable Basis is also incorrect. This standard requires that investment professionals exercise diligence, independence, and thoroughness in analyzing investments and making investment recommendations. It also mandates having a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action. Banks' development of a statistical model using techniques learned from his previous employment falls within the realm of applying his professional knowledge and skills diligently.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3059 Jane Walton suspects that her employer is misusing client funds for increasing company profits. In an attempt to bring the activities to the attention of an appropriate legal authority, Walton copies all employer records that contained transaction details for the past year.
Walton's actions would *most likely* be construed as a:

A. Violation of the Standards because she misused confidential information.

B. Violation of the Standards because she acted contrary to his employer's interests.

C. Permissible act, since her intent seems to be aimed at protecting the integrity of the market.

The correct answer is **C.**

Walton's intent seems to be aimed at protecting clients and the integrity of the market. Her employer is engaging in unethical practices and, under such circumstances, preserving employer records would not be considered a violation.

A is incorrect. While it might seem that Walton misused confidential information by copying employer records, it's important to differentiate between misuse for personal gain and use for reporting unethical or illegal activities. In this context, Walton's actions are not self-serving but are aimed at protecting clients and the integrity of the market. Ethical guidelines in the financial industry often include provisions for whistleblowing in cases where illegal or unethical practices are suspected, recognizing the importance of such actions in maintaining ethical standards.

B is incorrect. Acting contrary to an employer's interests is not inherently a violation of standards if the actions taken are to prevent or report illegal or unethical activities. In Walton's case, her actions are not aimed at harming her employer out of malice or for personal gain but are driven by a concern for the welfare of clients and the integrity of the financial market. The ethical obligation to act in the best interest of clients and the market as a whole can supersede company loyalty when the company is engaged in unethical practices.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3060 Phil James is a research analyst at a capital management firm who also works as a part-time employee for a consultancy firm. Since the consultancy work is not time-consuming at all, James does not inform his employer at the capital management firm of his part-time work at the consultancy firm.
Has James violated Standard IV: Duties to Employers of the CFA Institute Standards of Professional Conduct?

A. Yes.

B. No, since the work does not interfere with his duties at the firm.

C. No, since the work offers no additional compensation.

The correct answer is **A.**

Phil James has indeed violated Standard IV: Duties to Employers of the CFA Institute Standards of Professional Conduct by not informing his employer at the capital management firm about his part-time work at the consultancy firm. According to the CFA Institute's ethical standards, professionals are required to notify and obtain consent from their primary employer before engaging in any additional employment. This requirement is in place to prevent potential conflicts of interest and ensure that the primary employment duties are not compromised. Even if the additional work is not time-consuming or does not directly interfere with his duties at the capital management firm, James is still obligated to disclose this information. .

B is incorrect. The argument that the work does not interfere with his duties at the firm is irrelevant to the violation of Standard IV: Duties to Employers. The standard requires disclosure of any additional employment, regardless of its impact on the employee's current duties. The rationale behind this requirement is to allow employers to assess any potential conflicts of interest or distractions that might arise from additional employment.

C is incorrect. The compensation received from the part-time work is also irrelevant to the violation of Standard IV. The standard mandates disclosure of any additional employment or professional activities outside of the primary employment, irrespective of whether these activities are compensated. The primary concern is the potential for conflicts of interest or divided loyalty, not the financial benefit derived from the external activities.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3065 Lock Investments (LOCK) is an asset management firm that manages funds for many institutional investors, including pension plans and endowments. Due to the high worth of each individual fund, LOCK uses outside advisers to manage various portions of the clients' assets under management. LOCK informs the clients about the strategies followed, the asset allocation, and the use of the external advisers. However, LOCK does not inform them about the specific specialization of the external advisors.
In withholding information, has LOCK *most likely* violated the CFA Institute Standards of Professional Conduct?

A. Yes.

B. No, because such information is considered confidential.

C. No, because such information is internal and will not have much relevance to the clients.

The correct answer is **A.**

According to Standard(III)B (Fair Dealing), -Members and Candidates must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities. As such, members and candidates should inform the clients about the specialization or diversification expertise provided by the external advisers. This information allows clients to understand the full mix of products and strategies.

B is incorrect. The confidentiality of information does not extend to withholding information about the specialization of external advisers from clients. While certain aspects of the relationship between an asset management firm and its external advisers might be confidential, the general specialization or expertise of these advisers is not typically considered confidential information. Clients have a right to understand who is managing their assets and the basis of their expertise, as this information can directly impact their investment decisions and perceptions of the asset management firm's capabilities.

C is incorrect. The specialization of external advisers is highly relevant to clients. Understanding the expertise and specialization of those managing their investments allows clients to make informed decisions about their investment strategies and to assess the alignment of these strategies with their own investment goals and risk tolerance. Suggesting that such information is internal and not relevant to clients undermines the principle of transparency and fair dealing, as it deprives clients of critical information that could influence their satisfaction and trust in the asset management firm.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3066 Justin Steel, a research analyst, is preparing a report on Moon Enterprises. Recalling that he had given a 'buy' recommendation while he was employed at another firm, Steel rewrites the report with a 'buy' recommendation. However, he does not use any model or information used at his previous firm when writing the report.
With regards to the CFA Institute Standards of Professional Conduct, Steel is *most likely* in:

A. Compliance.

B. Violation, because he did not recreate supporting records at the new firm.

C. Violation, because he used the memory of his previous work to write the recommendation.

The correct answer is **B.**

Steel is in violation of the Code and Standards. This is because he needs to recreate the supporting records at the new firm and not use memory or sources obtained from the previous employer.

A is incorrect. He did not use any model or information from his previous firm. However, the critical issue here is not the source of the information but the lack of supporting records at his new firm. The standards require that all investment recommendations be supported by appropriate documentation and analysis, regardless of whether the information is new or based on previous work.

C is incorrect. While it might seem that using memory of previous work to write a recommendation could be a violation, the actual violation stems from not recreating supporting records at the new firm. The CFA Institute Standards of Professional Conduct do not prohibit investment professionals from drawing on their knowledge and experience. However, they do require that any investment analysis, recommendations, or actions be supported by thorough documentation and records.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3069 Sophie Morris, a certified investment advisor, handles five private wealth accounts at her firm, including one owned by her parents. Recently, her parents proposed giving her a 10% share of any net profits generated from their account annually, intending to assist her with her living expenses. Morris is contemplating accepting this offer. In light of the proposed arrangement with her parents, to comply with the CFA Institute Standards of Professional Conduct, Morris should *most likely*:

A. Preclear her trades and report the transactions to her firm.

B. Treat her parents' account in the same way as she treats other client accounts.

C. Wait until all other clients have been allocated shares before she allocates them to her parents account.

The correct answer is **A.**

Morris's acceptance of the profit-sharing arrangement gives her a direct financial interest in her parents' account, constituting beneficial ownership. Consequently, she must obtain formal approval from her firm for this arrangement, preclear all related trades, and fully disclose the nature of her interest to ensure compliance with the CFA Institute's ethical standards.

B is incorrect. This option suggests that Morris should treat her parents' account in the same way as she treats other client accounts without any additional steps. While it is essential to treat all client accounts equitably, this option overlooks the additional requirement of preclearing trades and reporting them due to the beneficial ownership Morris has in her parents' account.

C is incorrect. Waiting until all other clients have been allocated shares before allocating them to her parents' account could lead to unfair treatment of her parents' account and could potentially disadvantage them. This approach could also be perceived as a form of favoritism towards other clients, which contradicts the principle of fair and equitable treatment of all clients.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3070 Josh Rivas is sitting for the CFA Level I exam. During the exam break, Rivas discusses with his friends, who also came to take the exam, some key formulas regarding quantitative analysis.
Has Rivas violated Standard VII(A): Conduct as Members and Candidates in the CFA Program?

A. No.

B. Yes, since Rivas should not have discussed any information with his friends.

C. Yes, since Rivas should have waited for until the exam was over before discussing it with his friends.

The correct answer is **A.**

Rivas is just discussing the curriculum material with his friends in preparation for the exam. This is not considered confidential information.

B is incorrect. This option suggests that Rivas should not have discussed any information with his friends. However, the information in question pertains to the CFA curriculum material, which is not confidential and is meant to be studied and understood by candidates. Discussing study material or key formulas does not violate any CFA Program rules as long as the discussion does not involve sharing or discussing actual exam questions or answers.

C is incorrect. This option suggests that Rivas should have waited until the exam was over before discussing it with his friends. While it is crucial to maintain the integrity of the exam process, discussing curriculum material during breaks does not compromise the exam's integrity. The prohibition against discussing exam content specifically pertains to actual exam questions and answers, not the general curriculum material or formulas that are part of the study process.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3071 A few days after taking the CFA Level III exam, Leslie Chan posted the following comment on the internet:
"l think I did fairly on the exam, but it was quite a grueling experience."

With regards to her comment, has Chan violated the CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, since she is indirectly providing information about the CFA exam.

C. Yes, since she is not authorized to make statements about the CFA exam on a public forum.

The correct answer is **A.**

Chan is just stating her opinion about the exam and is, hence, not in violation of the Standards.

B is incorrect. This option suggests that Chan violated the Standards by indirectly providing information about the CFA exam. However, her comment does not reveal any specific details about the exam content, questions, or answers. The Standards of Professional Conduct prohibit the disclosure of exam content that could compromise the integrity of the exam.

C is incorrect. This option posits that Chan is not authorized to make statements about the CFA exam on a public forum. While the CFA Institute does have guidelines regarding the discussion of the exam, these guidelines specifically pertain to the disclosure of exam content or answers. Candidates and charterholders are not prohibited from sharing their general experiences or feelings about the exam process, as long as they do not disclose specific exam content.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3072 Will Carr earned his CFA charter three years ago. However, just a year back, Carr stopped paying his annual membership fees to the CFA Institute. His resume, however, still states that he was a CFA charterholder in the past.
With regards to his resume, is Carr in violation of the CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, because he has misrepresented information about himself.

C. Yes, because it is mandatory for Carr to pay his annual membership fee.

The correct answer is **A.**

Members and candidates may state that they were charterholders in the past, when in fact, they were.

B is incorrect. It suggests that Carr is misrepresenting information about himself by stating he was a CFA charterholder in the past. This interpretation is incorrect as long as Carr accurately represents his status. The CFA Institute's guidelines permit former charterholders to reference their past achievement, provided they do not imply current status or membership if it is not the case.

C is incorrect. It implies that it is mandatory for Carr to pay his annual membership fee to reference his past CFA charterholder status. While maintaining membership and paying annual fees are necessary for using the CFA designation actively and accessing certain benefits, the CFA Institute does not prohibit former charterholders from stating their past achievements.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3073 As a member of her local CFA Society, Alice Sly, an investor-relations consultant, often invites her clients to make presentations to the society. Since other companies are not her clients, Sly believes it is inappropriate to invite them because she has no knowledge of their needs and abilities.
Is Sly in compliance with Standard VII: Responsibilities as a CFA Institute Member or CFA Candidate?

A. Yes.

B. No, since she is compromising the integrity of CFA Institute.

C. No, since she does not have a reasonable and adequate basis to invite her own clients to the CFA Society presentations.

The correct answer is **B.**

Sly is not in compliance with the Standards. She is using her position to disadvantage other companies and to benefit herself and her clients. In doing so, she is compromising the integrity of CFA Institute.

A is incorrect. This option suggests that Sly is in compliance with Standard VII by only inviting her clients to make presentations to the CFA Society. However, this action is contrary to the principles of fairness, integrity, and professionalism that the CFA Institute advocates. By limiting invitations to her clients, Sly is not promoting an equitable platform for all companies, regardless of her professional relationship with them.

C is incorrect. This option argues that Sly does not have a reasonable and adequate basis to invite her own clients to the CFA Society presentations. While it is important for members to have a reasonable basis for their professional actions, the primary issue with Sly's conduct is not the lack of a reasonable basis for inviting her clients. Instead, the main concern is her exclusion of other companies based on her personal relationship with her clients, which compromises the integrity and fairness expected of CFA Institute members.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3078 During a meeting with his supervisor, Tatiana Ross discovered that one of her firm's largest clients has expressed the urgent need of hiring a new investment manager. The client has filed the necessary papers for the hiring process with Ross's firm and a few other competitors. Ross believes that she is suitable for the job and hence, forwards her resume to the client along with the necessary paperwork.
ls Ross' response to the job opportunity in accordance with Standard IV(A): Loyalty of the CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, but only if Ross seeks prior approval from her employer.

C. Yes, but only if Ross seeks prior approval from her employer and also the client.

The correct answer is **C.**

Ross needs to seek prior approval from her employer as well as the client who is seeking out the new investment manager.

A is incorrect. This option suggests that Ross's actions are outright incompatible with Standard IV(A): Loyalty. The act of applying for a new position is not inherently a violation of the loyalty standard, provided that Ross ensures her actions do not harm her current employer's interests and that she has transparently communicated her intentions to all parties involved.

B is incorrect. While seeking prior approval from her employer is a crucial step towards ensuring that Ross's actions align with Standard IV(A): Loyalty, it is not sufficient on its own. This option overlooks the importance of also obtaining consent from the client. The client's awareness and approval of Ross's application are essential to maintain transparency and avoid any potential conflicts of interest.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3081 Al Bailey is the founder of Diamond Investments (DIAN), a small U.S. based equity management firm. During the past few years, the firm has seen an increase in its international investments as clients have desired the diversification benefits that such investments have to offer. As such, Bailey undertakes a request for proposal to find and hire a submanager that would manage the firm's international stock investments.
Bailey selects the manager that offers the most optimal trade-off between performance and fees. Bailey's selection of an appropriate submanager *most likely*:

A. Violates Standard V(A): Diligence And Reasonable Basis.

B. Violates Standard III(A): Loyalty, Prudence, and Care.

C. Is in compliance with CFA Institute Code and Standards.

The correct answer is **A.**

Bailey violates Standard V(A): Diligence and Reasonable Basis. Bailey selected the manager on the basis of performance and fees only whereas the selection should be based on a full and complete review of the manager's service, performance history, and suitability.

B is incorrect. The statement assumes Bailey's decision violates Standard V(A) without considering that a balanced consideration of performance and fees, as part of a comprehensive evaluation process, can constitute a diligent and reasonable basis for selecting a submanager. The standard does not preclude considering fees and performance; rather, it emphasizes the need for a thorough and reasoned approach to making investment-related decisions.

C is incorrect. It suggests Bailey's action violates Standard III(A): Loyalty, Prudence, and Care. This standard requires that investment professionals act for the benefit of their clients and place their clients' interests before their own or their employer's, exercise prudence and care in the management of all client investments, and apply a high level of professional competence.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3086 Dan Riffel is writing a report on the quarterly earnings of the stock of Ace Products Incorporated (API). The report focuses on the analysis of API's past earnings trend using not only its financial information but also that of its competitors and the industry as a whole. It also predicts returns for the coming four quarters using extensive scenario analysis and sensitivity analysis. However, the report only mentions the firm's changing managerial structure and revised hiring strategies, and does not explain them in detail but stipulates the limits of the report. After completion, Riffel distributes this report to his clients.
The report distributed by Riffel *most likely*:

A. Does not violate codes and standards.

B. Violates Standard V(B): Communication with Clients and Prospective Clients only.

C. Violates Standard V(B): Communication with Clients and Prospective Clients and Standard V(A): Diligence and Reasonable Basis.

The correct answer is **A.**

A report writer may emphasize certain areas and touch briefly upon others. Since the report mainly focuses on quarterly earnings, it is appropriate for Riffel just to mention the changing managerial structure and to focus more on earnings trends and scenario analysis.

B is incorrect. This option suggests that Riffel's report violates Standard V(B): Communication with Clients and Prospective Clients, which mandates that investment professionals must strive to ensure that communications with clients and prospective clients are accurate and provide sufficient information to help clients make informed decisions.

C is incorrect. This option suggests that the report violates both Standard V(B): Communication with Clients and Prospective Clients and Standard V(A): Diligence and Reasonable Basis. Standard V(A) requires that investment professionals exercise diligence, independence, and thoroughness in analyzing investments, making investment recommendations, and taking investment actions.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3088 Andrew Stein has developed a new set of formulas to identify undervalued stock investments. The new formulas use a number of financial and economic variables linked in an intricate way to estimate fundamental values. Their derivation involves a series of complex steps with numerous linkages. However, in his report, Stein mentions only the basic process and logic behind his estimation procedure along with his recommendations. Stein concludes his report for distribution to clients and prospective clients.
Has Stein *most likely* violated the CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, since his process lacks the appropriate due diligence, thoroughness, and independence required.

C. Yes, since he did not mention the details necessary for clients and prospective clients to properly understand his evaluation process.

The correct answer is **A.**

Stein does not violate any Standards. He does not need to describe the formulas in detail, but he does need to inform his clients about the basic process and logic behind his estimation.

B is incorrect. This option suggests that Stein's process lacks the appropriate due diligence, thoroughness, and independence required. However, there is no indication that Stein's work lacks due diligence or thoroughness. The standards do not mandate the disclosure of every detail of the analysis process as long as the essential logic and basis for recommendations are communicated effectively, which Stein has done.

C is incorrect. He did not mention the details necessary for clients and prospective clients to properly understand his evaluation process assumes that detailed disclosure is always required for understanding. However, the CFA Institute Standards of Professional Conduct allow for discretion in determining the level of detail necessary to ensure that clients are adequately informed.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3089 The Aggressive Equity Fund,' a fund offered by a reputable investment firm, invests in high risk domestic and international stock investments. Just recently, the fund changed its selection criteria by including stocks with a medium risk profile but with high sensitivity to economic business cycles. The investment firm changed its marketing literature accordingly to inform prospective clients and other investors.
With regards to Standard V(B): Communication with Clients and Prospective Clients, the investment management firm has *most likely*:

A. Followed best practice.

B. Violated best practice by not informing current clients.

C. Violated best practice by changing the selection criteria of the fund prior to approval by prospective clients.

The correct answer is **B.**

The investment firm needs to inform current clients, prospective clients, and other investors of the change.

A is incorrect. This option suggests that the investment firm followed best practice by changing its marketing literature to inform prospective clients and other investors about the change in the fund's selection criteria. While updating marketing literature is a positive step towards transparency, it does not fulfill the firm's obligation to directly inform its current clients about significant changes that could affect their investment.

C is incorrect. This option implies that the investment firm violated best practice by changing the selection criteria of the fund prior to approval by prospective clients. However, the standard does not require approval from prospective clients before making changes to the fund's selection criteria. The key issue is not the lack of approval from prospective clients but rather the failure to inform current clients about significant changes.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3090 While working for his previous employer, Joseph Lyons, an equity analyst, developed a regression model to determine the effect of business cycle changes on a firm's key financial ratios. While developing the model, Lyons carefully documented the assumptions and supporting evidence used in reaching his conclusions. Recently, Lyons was asked by his current employer to use the same model to select securities for one of its clients. Lyons worked for a week to recreate the model along with its assumptions.
With regards to the CFA Institute Standards of Professional Conduct, Lyons has *most likely*:

A. not violated best practice.

B. violated best practice since Lyons can use the model for his current employer but only after the approval of his previous employer.

C. violated best practice since he is not allowed to use the model for his current employer since the model was developed while working for his previous employer.

The correct answer is **A.**

Since Lyons has recreated the model along with the assumptions and records supporting the model at the new firm, he has not violated best practice.

Q.3093 Lauren Harms, a market dealer, attended a meeting with the CEO of Golden Gate Enterprises (GGE) to understand the firm's future financial strategies. During the meeting, the CEO mentioned that Harms would be offered additional commissions for sales of GGE's stock to Harms's clients. Harms gladly accepted the offer.
To ensure that he does not violate any of the CFA Institute Standards of Professional Conduct, Harms should disclose the arrangement to his:

A. Clients and his employer.

B. Clients, prospective clients, and his employer, and determine suitability before selling GGE's stock to clients.

C. Clients and his employer and determine the suitability of the stock for his clients before selling GGE's stock to them.

The correct answer is **A.**

Harms should disclose this arrangement to his employer and to his clients, but he does not need to determine the suitability of the investment for his clients since he is a dealer, not a financial consultant.

B is incorrect. While it is essential for Harms to disclose the arrangement to his clients, prospective clients, and his employer, the requirement to determine suitability before selling GGE's stock to clients extends beyond his role as a market dealer. Market dealers are primarily involved in trading securities and may not necessarily provide financial advice or assess the suitability of investments for clients.

C is incorrect. Similar to option B, this option imposes the responsibility of determining the suitability of GGE's stock for Harms's clients before selling it to them. While ensuring that investments are suitable for clients is a best practice in financial advisory roles, Harms's position as a market dealer does not typically involve evaluating the suitability of specific investments for individual clients.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3095 Zack Howard is a financial analyst at Al & Brow Associates (A&B), who is planning to participate in an oversubscribed IPO offering for his personal account. Howard has determined, by way of thorough examination, that the IPO is not a suitable investment for any of his clients. As such, he does not preclear his participation in the IPO since he strongly believes that no conflicts of interest exist. By participating in the IPO, Howard has:

A. Not violated any code and standards.

B. Violated Standard VI(B): Priority of Transactions.

C. Violated Standard VI(A): Disclosure of Conflicts.

The correct answer is **C.**

Members or candidates should fully disclose to their clients, potential clients, and employers all actual and potential conflicts of interest. After disclosing, members and candidates can then be precleared (or not) to proceed with the transaction. Clients being excluded from an oversubscribed IPO is a potential conflict of interest that should be disclosed.

A is incorrect. This option suggests that Howard did not violate any codes and standards by participating in the IPO without preclearance. However, this overlooks the requirement for disclosure of potential conflicts of interest under Standard VI(A).

B is incorrect. While Howard's actions might seem to implicate Standard VI(B): Priority of Transactions, which emphasizes the importance of giving clients' transactions priority over personal transactions, the primary issue here is the lack of disclosure of a potential conflict of interest, which falls under Standard VI(A).

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3096 To ensure best practice, which of the following is *most likely* allowed under Standard VI(C): Referral Fees?

A. To completely restrict any fees received for referrals of customers and clients.

B. Mandatory disclosure to clients of all fees paid in cash or in soft dollars, but not ones paid in kind.

C. Providing the employer regular, yearly updates on the amount and nature of compensation received.

The correct answer is **A.**

Under Standard VI(C): Referral Fees, a firm may opt to completely restrict any fees received for referrals of customers and clients. This approach is in line with the ethical guidelines that aim to prevent conflicts of interest and ensure transparency in professional conduct. By prohibiting referral fees, a firm can maintain the integrity of its services and decisions, ensuring that they are based solely on the best interests of the clients and not influenced by potential financial gains from referrals.

B is incorrect. Mandatory disclosure to clients of all fees paid, whether in cash, in soft dollars, or in kind, is a requirement under Standard VI(C). Transparency in disclosing all forms of compensation received for referrals, including non-monetary benefits, is crucial for maintaining ethical standards and client trust.

C is incorrect. Providing the employer with regular, yearly updates on the amount and nature of compensation received for referrals does not meet the standard's requirements for timely and comprehensive disclosure. Standard VI(C) mandates more frequent and detailed reporting to ensure that employers are promptly and fully informed about referral arrangements.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3097 Brian Slack works for the financial management department of Gary Financial Associates (GFA), a large U.S. based multinational firm. In addition to his regular compensation, Slack receives additional compensation for every referral he makes to GFA's brokerage department. As such, Slack refers several of his clients to GFA's brokerage department and verbally discloses this arrangement to his clients.
To comply with Standard VI(C): Referral Fees of the CFA Institute Standards of Professional Conduct, Slack should:

A. Continue with current practices since the referrals are made within the firm and involve internal payments rather than a third party and external payments.

B. Disclose to his clients the nature and value of the additional compensation and should make it in writing.

C. Not refer his clients to the brokerage department since disclosure of such a practice does not absolve him of noncompliant actions.

The correct answer is **B.**

Even if the referrals are made within a firm and involve internal payments, Slack needs to disclose this arrangement to his clients and should make it in writing.

A is incorrect. This option suggests that Slack can continue with his current practices without making any changes, under the assumption that referrals within the firm involving internal payments do not require disclosure. This is a misunderstanding of Standard VI(C): Referral Fees, which mandates that all compensation arrangements, including those involving internal payments within the same firm, must be disclosed to clients.

C is incorrect. This option implies that Slack should not refer his clients to the brokerage department at all, suggesting that disclosure of such practices does not mitigate noncompliant actions. However, the CFA Institute Standards of Professional Conduct do not prohibit referral practices outright; instead, they require that any additional compensation arrangements be disclosed to clients.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3098 Edson Williams is a portfolio manager at an investment bank. Williams has been successful in bringing in new business for the bank and in increasing assets under management. For this reason, he has received a considerable amount of additional compensation but has never disclosed this fact to clients or prospective clients.
With regards to the CFA Institute Standards of Professional Conduct, Williams is *most likely* in:

A. Compliance with the Standards.

B. Violation of Standard VI(C): Referral Fees and Standard V(B): Communication with Clients and Prospective Clients.

C. Violation of Standard VI(C): Referral Fees, Standard V(B): Communication with Clients and Prospective Clients, and Standard VI(A): Disclosure of Conflicts.

The correct answer is **C.**

- **Standard VI(C): Referral Fees**: This standard requires members and candidates to disclose to their employer, clients, and prospective clients, as appropriate, any compensation, consideration, or benefit received from or paid to others for the recommendation of products or services. If Williams received additional compensation for bringing in new business and did not disclose this, he would be in violation of this standard.

- **Standard V(B): Communication with Clients and Prospective Clients**: This standard requires members and candidates to disclose to clients and prospective clients the basic format and general principles of the investment processes used to analyze investments, select securities, and construct portfolios and must promptly disclose any changes that might materially affect those processes. If Williams did not disclose his additional compensation, which could potentially affect his investment decisions, he would be in violation of this standard.

- **Standard VI(A): Disclosure of Conflicts**: This standard requires members and candidates to make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and employer. If Williams did not disclose his additional compensation, which could create a potential conflict of interest, he would be in violation of this standard.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3099 Max Leonard works as a portfolio manager at Lion Investments (LION), a capital management firm. In addition to his work at LION, Leonard is also part of the local CFA Society that oversees and monitors the proper implementation of the CFA Institute ethical rules and professional standards. While preparing marketing material for LION, Leonard mentions that his position in the local CFA Society could assist his clients in better managing their assets.
The marketing material developed by Leonard is *most likely* in:

A. Compliance with the CFA Institute Standards of Professional Conduct.

B. Violation of the standards since Leonard may not reveal his involvement with the CFA Society to his clients.

C. Violation of the standards since Leonard cannot infer any special advantage to his clients from his participation in the CFA Society.

The correct answer is **C.**

Leonard may factually state his involvement with the local CFA Society but he cannot otter any special advantage to his clients from such participation.

A is incorrect. It suggests that Leonard's actions are in compliance with the CFA Institute Standards of Professional Conduct. However, this is not the case as Leonard's statement in the marketing material misleads clients about the benefits of his service, which is a clear violation of the standards.

B is incorrect. It inaccurately states that Leonard may not reveal his involvement with the CFA Society to his clients. In fact, CFA Institute standards allow members to disclose their affiliations and roles in professional societies, provided such disclosures are factual and not misleading.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3102 David Levine is the portfolio manager for a pension portfolio worth $25 million with an average life of 35 years. Levine was recently asked by his employer to participate in a bonus compensation plan that rewarded managers on the basis of quarterly performance relative to specific benchmark indices. Levine felt encouraged and decided to participate in the plan.
To comply with best practices under CFA Institute Standards of Professional Conduct, Levine:

A. Should disclose this compensation arrangement to his client.

B. Not accept such additional compensation since it conflicts with his objectives as a portfolio manager for his client.

C. Should not disclose such an arrangement to his client since it is known that employers pay their employees on the basis of performance and the compensation is internal.

The correct answer is **A.**

Levine should disclose this arrangement to his client (since a conflict of interest exists between his compensation and his client's IPS).

B is incorrect. It is contrary to the firm's recommendation undermines the principle of acting in the client's best interest. Investment professionals are expected to provide objective advice and support to their clients, respecting their autonomy in decision-making.

C is incorrect. Not disclosing the compensation arrangement under the assumption that it is a common practice and solely an internal matter overlooks the potential conflict of interest and the importance of transparency in the advisor-client relationship. The CFA Institute Standards of Professional Conduct emphasize the need for full disclosure of any arrangements that could influence the investment decision-making process.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3103 Janice Smith, CFA, serves as a senior trader at an investment management firm. Smith recently fired a subordinate because he was involved in leaking confidential trade information to an acquaintance serving a brokerage firm. Mona Singh has been hired as a replacement. During her first day of work, Smith instructs Singh to execute a buy order for the firm's top four clients prior to executing for the firm's remaining client accounts.
Is Smith in violation of the CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, by agreeing to serve as a supervisor at a firm where there are inadequate supervisory procedures.

C. Yes, she did not make reasonable efforts to ensure that Singh has complied with the Code and Standards.

The correct answer is **C.**

Smith violated her duty as a supervisor when she instructed Singh to undertake a transaction for selective client accounts. Smith is encouraging her subordinate to engage in unfair trading. By failing to make reasonable efforts to prevent violation of the Code and Standards, Smith has violated her duty as a supervisor (Standard IV(C): Responsibility of Supervisors).

A is incorrect. This option suggests that Smith's actions do not constitute a violation of the CFA Institute Standards of Professional Conduct. However, by instructing a subordinate to execute trades in a manner that prioritizes certain clients over others, Smith is not adhering to the principle of fair dealing.

B is incorrect. While ensuring adequate supervisory procedures is important, the specific violation in this scenario pertains to Smith's failure to treat all clients fairly and equitably, as required by Standard III(B): Fair Dealing.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3104 Selena George is a quantitative analyst at Idaho Analytics. Two months ago, George left Idaho to serve an investment bank. On her final day at Idaho, she was instructed to delete all data concerning a complex statistical model, developed by her in the previous year, from her personal computer and to return related physical records to her supervisor. Idaho identifies itself as model owner.

With respect to George's responsibilities concerning model records and Idaho's identification as model owner, have any of the CFA Institute Standards of Professional Conduct been violated?

A. No.

B. Yes, Idaho cannot identify itself as the model owner.

C. Yes, as the model designer, George reserves the right to make a personal copy of model records.

The correct answer is **A.**

Records are a property of the firm, and departing employees cannot take the property of the firm without the consent of their employer. Therefore, Idaho reserves the exclusive right to records concerning the model. (Standard V(C): Record Retention)

Models developed while still employed by a firm are the property of the firm. Therefore, identifying Idaho as the author of the report does not represent a violation.

B is incorrect. It suggests that Idaho Analytics cannot identify itself as the model owner, which contradicts the principles outlined in the CFA Institute Standards of Professional Conduct. According to these standards, any work product, including models developed by employees during their employment, is considered the property of the firm. This ownership includes both the physical and intellectual property associated with the model.

C is incorrect. This option posits that as the model designer, Selena George has the right to make a personal copy of the model records. This assertion directly conflicts with Standard V(C): Record Retention of the CFA Institute Standards of Professional Conduct, which mandates that all records and proprietary information remain the property of the firm. Employees are not entitled to retain personal copies of such records without explicit permission from their employer.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3106 George Mendes is considering an employment offer made by DR Associates, an investment bank. Should Mendes accept the offer, he will be responsible for supervising twenty portfolio managers. Mendes' only concern is that employees' personal trades are not being adequately monitored and many of these transactions involve front-running clients' trades.
To comply with the CFA Institute Standards of Professional Conduct, Mendes should *most likely*:

A. Accept the offer and dismiss employees involved in front-running.

B. Accept the offer and implement adequate compliance procedures.

C. Decline the offer in writing until the firm adopts reasonable procedures to allow exercise of his supervisory responsibilities.

The correct answer is **C.**

Front-running client trades constitutes a violation of the CFA Institute Standards of Professional Conduct. His best course of action would be to decline the position offered and implement adequate compliance procedures.

A is incorrect. Simply accepting the offer and dismissing employees involved in front-running does not address the root cause of the problem. While disciplinary action against individuals who violate ethical standards is necessary, it is equally important to establish and enforce comprehensive compliance procedures to prevent such violations in the future.

B is incorrect. Although accepting the offer and implementing adequate compliance procedures seems like a proactive approach, it overlooks the immediate concern regarding the existing culture of unethical practices within the firm. By accepting the offer under the current conditions, Mendes might inadvertently signal acceptance of the firm's lax attitude towards ethical standards.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3109 Dave Gunn is a junior equity research analyst serving a brokerage firm. He has been asked to cover Time Limited, a global watchmaker. After conducting thorough research, Gunn arrives at the conclusion that Time Limited's financial condition will deteriorate following the resignation of a key employee and that a 'sell' rating should be issued. Gunn's supervisor instructs him to maintain a 'hold' rating until the situation becomes clearer.
Gunn's best course of action would be to:

A. Resign from his current position.

B. Issue a report with a 'sell' rating.

C. Issue a report with a 'hold' rating.

The correct answer is **B.**

Standard I(B): Independence and Objectivity requires members and candidates to maintain independence and objectivity in their professional activities. Therefore, Gunn should not be pressured by his supervisor to issue a rating which is contrary to his own. Gunn has independently arrived at a 'sell' rating and must continue to maintain it. His best course of action would be to release the report with his own recommendation.

A is incorrect. Resigning from his current position is an extreme measure that does not address the core issue of maintaining independence and objectivity in professional activities.

C is incorrect. Issuing a report with a 'hold' rating, contrary to Gunn's independent analysis, would compromise his objectivity and independence. Standard I(B): Independence and Objectivity emphasizes the importance of making professional judgments without being influenced by external pressures, including directives from supervisors that conflict with one's own analysis.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3110 Lance Hill is a senior portfolio manager at West Arc Asset Managers. Hill works at West Arc's headquarters in Luxembourg. He frequently conducts business with clients in the Asian division. Asian regulators do not require portfolio managers to comply with the GIPS standards when reporting investment performance. The country in which West Arc is headquartered and which Hill is a resident of requires strict compliance with the GIPS Standards.
To avoid violation of the CFA Institute Standards of Professional Conduct, Hill should comply with:

A. Asian laws.

B. IFRS

C. Law of the country in which the firm is headquartered.

The correct answer is **C.**

To avoid violation of the CFA Institute Standards of Professional Conduct, Hill should comply with the law of the country in which the firm is headquartered. Both the Asian laws and the Code and Standards do not mandate compliance with the requirements of the GIPS Standards. The law concerning GIPS standards is most strict in the country in which Hill is a resident of, and thus, Hill should comply with this law.

A is incorrect. While it might seem practical to comply with local regulations in Asia, given that the Asian division's regulators do not require adherence to GIPS standards, this approach would not fulfill the obligation to maintain consistent, ethical standards across all operations.

B is incorrect. The International Financial Reporting Standards (IFRS) are a set of accounting standards that provide guidelines for financial reporting. While IFRS plays a critical role in ensuring transparency and comparability across international financial markets, it does not specifically address the compliance requirements for investment performance reporting as outlined by the GIPS standards.

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Q.3111 Sara Wallace has recently passed Level ll of the CFA examinations. She is applying for the position of a junior research analyst at a leading investment bank. In the qualifications and experience section of her resume, Wallace includes the following statements:
Statement l: "I have successfully passed the first two levels of the CFA examinations in consecutive attempts."

Statement 2: "Since l have been working for two years in the investment industry, I expect to earn my charter one year after completing the final level of the CFA examinations."

Wallace is *most likely* in violation of the CFA Institute Standards of Professional Conduct with respect to:

A. Statement 1.

B. Statement 2.

C. Both of her statements.

The correct answer is **B.**

Statement 1 is not in violation of the CFA Institute Standards of Professional Conduct because stating that she passed the first two levels in consecutive attempts is a statement of fact.

Statement 2 is in violation of the CFA Institute Standards of Professional Conduct because Wallace is citing an expected date for the final award of the charter. The final award of the charter is subject to meeting CFA Program requirements and approval by the CFA Institute Board of Governors. The second statement is in violation of Standard VII(B): Reference to the CFA Institute, the CFA Designation, and the CFA Program.

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Q.3116 Jack Gayle is a senior research analyst who is looking to expand his team. He is evaluating the backgrounds of three individuals, each of which has relevant experience for the position. Details concerning the background of the three individuals are as follows:
Individual 1: Has suffered from financial bankruptcy because of bad investment decisions made by him for his personal investment account.
Individual 2: Is GayIe's stepbrother.
Individual 3: Was actively involved in a violent political demonstration against the city's municipality authorities after which she was arrested.

Which of the following individuals should Gayle eliminate as a potential candidate?

A. Individual 1

B. Individual 2

C. Individual 3

The correct answer is **B.**

Hiring his own stepbrother to be part of his research team represents a potential conflict of interest situation which Gayle should seek to avoid. Members and candidates should seek to avoid all potential conflicts of interest wherever possible. (Standard VI(A): Disclosure of Conflicts)

A is incorrect. Personal bankruptcy situations do not adversely reflect on a member's or candidate's professional competence, integrity or reputation and therefore do not represent a violation of the CFA Institute Standards of Professional Conduct.

C is incorrect. Legal transgression in support of personal beliefs does not constitute a violation of the CFA Institute Standards of Professional Conduct, and thus Gayle can consider this individual as a candidate for his research team.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.
