# Learning Module 5: Ethics Application

Q.1 Mark Strong is a CFA charterholder serving as a sell-side analyst in a firm providing investment banking and corporate finance services to institutions. Strong has referred several clients to the firm's finance division. Some of these clients include institutions that he has covered in the past. In return, Strong earns a bonus for each client referred. Since Strong is compensated by a department within his firm, he does not disclose the arrangement to his clients.
Is Strong in violation of the CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, Strong has misrepresented his role at the firm.

C. Yes, Strong is required to disclose the referral arrangement to clients and prospects.

The correct answer is **C.**

Standard VI(C): Referral Fees requires members and candidates to disclose the compensation or consideration received from referral arrangements to clients, prospective clients, and employers. By failing to disclose the arrangement to clients and prospective clients, Strong has violated this standard.

There is no evidence which indicates that Strong has misrepresented his role at the firm.

**A is incorrect.** Strong's failure to disclose the referral arrangement to his clients and prospects is a clear violation of Standard VI(C): Referral Fees. Transparency and full disclosure are key principles in maintaining trust and integrity in the investment profession, and any failure to adhere to these principles constitutes a violation of the standards.

**B is incorrect.** The information provided does not indicate any misrepresentation of Strong's role at the firm. His violation lies in his failure to disclose the referral arrangement, not in misrepresenting his role. Misrepresentation would involve providing false or misleading information about his role, responsibilities, or qualifications, which is not evident in the scenario presented.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.615 Bill Kesler works as an analyst in Minecraft Investment Advisors. He is attending a private conference call with the CEO of another company in the cafeteria of his office but the phone is not on speaker mode. During the call, he took notes of the earnings projections on loose sheets but forgot to take them along with him. The loose sheets are found by the portfolio managers and they traded stocks on behalf of their clients on the basis of the earnings projections mentioned in the notes.
Who has violated the standards?

A. Bill Kesler

B. The portfolio managers

C. Bill Kesler and the portfolio managers

The correct answer is **C.**

Kesler has violated Standard II(A): Material Nonpublic Information by not preventing the transfer or misuse of material non-public information. The portfolio managers violated Standard II(A): Material Nonpublic Information by trading on inside information.

**A is incorrect.** While it might seem that Bill Kesler is solely at fault for leaving sensitive information unsecured, focusing solely on his action overlooks the subsequent misuse of that information by the portfolio managers. Kesler's negligence in securing the notes with earnings projections indeed constitutes a violation of Standard II(A): Material Nonpublic Information, as it led to the potential misuse of material nonpublic information.

**B is incorrect.** Suggesting that only the portfolio managers violated the standard by trading on the information found in Kesler's notes does not fully capture the scope of the ethical breach. While the portfolio managers indeed acted unethically by using material nonpublic information to inform their trading decisions, this violation was made possible by Kesler's initial failure to secure the information properly.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.616 Paul Teshima is preparing a research report on a new drug called ABXV IV in the oncology industry. He gets in touch with a few scientists and medical professionals working in the field of oncology and obtains information about some competing oncology treatments. Most of these drugs are in the pre-clinical development phase, which is public information. Teshima concludes in his research report that ABXV IV might have some competing drugs coming into the market in the next few years if the pre-clinical and clinical trials prove to be successful.
Has Teshima violated any Standard of Professional Conduct?

A. Yes, Teshima has violated the Standards by relying on material non-public information.

B. Yes, Teshima has violated the Standards by not performing due diligence to confirm the reliability of the information.

C. No, Teshima did not violate any Standard.

The correct answer is **C.**

An analyst is allowed to expand his knowledge through interaction with industry experts. Nothing in the case tells us that the information obtained by Teshima can be classified as material non-public information.

**A is incorrect.** The claim that Teshima violated the Standards by relying on material non-public information is unfounded. The information about the competing drugs being in the pre-clinical development phase was public, and Teshima's interactions with industry experts were aimed at understanding the implications of this information.

**B is incorrect.** This option suggests that Teshima did not perform due diligence to confirm the reliability of the information he used. However, there is no indication that the information obtained was unreliable or that Teshima failed to verify its accuracy. Engaging with industry experts and using publicly available data is part of the due diligence process in research.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

Q.619 J. Tyler has 2 clients. The first one, Johnson, is 25 years old and has been recruited by a multinational strategy consulting firm after completing his master's degree in management. He has an education loan to be paid. However, he wants to invest some part of his earnings in low-risk securities. The other client is Sarah, 46 years old, who worked as an actress and has assets worth millions. She wants to invest her money in stocks that have a potential for high return and would be willing to take high risk. Tyler recommends investing 50% of both portfolios in the same security.
Has Tyler violated any standard?

A. Yes, he has violated Standard III(C): Suitability.

B. Yes, he has violated Standard IV(C): Responsibilities of Supervisors.

C. There is no violation.

The correct answer is **A.**

Tyler has violated Standard III(C): Suitability by applying the same investment strategy for both portfolios although both investors have different investment objectives.

**B is incorrect.** Standard IV(C) pertains to the responsibilities of professionals in supervisory roles to make reasonable efforts to ensure that the activities of those they supervise comply with applicable laws, regulations, and ethical standards

**C is incorrect.** Standard III(C): Suitability mandates that investment recommendations must be congruent with the client's investment objectives, financial situation, and risk tolerance.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.927 In a conversation with a potential client, Brian Jameson mentions that he should open an account with him because he has recently passed all three levels of the CFA exam at his first attempt and that makes him the best money manager in his firm to manage the account of the said client. No other money manager in his firm has passed all three levels of the CFA exam.
Has Jameson violated the Code and Standards?

A. No, Jameson might not have violated the Code and Standards.

B. Yes, Jameson violated the Code and Standards by claiming he is the best money manager in his firm having passed the three CFA exams on his first attempt.

C. Yes, Jameson violated the Code and Standards by claiming that the exams helped him to become a better money manager.

The correct answer is **B.**

Claiming that passing the three CFA exams gave Jameson a superior analytical ability when compared to other professionals is a violation of the standards. Claiming that passing the exams gave him a better knowledge of finance and developed his skills is however not a violation.

**A is incorrect.** He passed all three levels of the CFA exam on his first attempt, Jameson overstates the significance of the CFA designation in determining a money manager's skill and effectiveness.

**C is incorrect.** While Jameson's statement that passing the CFA exams has helped him become a better money manager might reflect a personal belief in the value of the CFA curriculum for professional development, the violation arises from his claim of being the best money manager in his firm based on this achievement. The CFA Institute encourages continuous learning and professional development, including through the CFA Program.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2227 Junaid Caan, CFA, has an anonymous account on a popular social media platform, famous for stock tips, with a larger number of followers. Caan has been active on this account long before he registered with the CFA Institute and has always kept his identity secret. He posted from his anonymous account that Great Travel Inc is taking over Herts Travel Inc. However, Caan did not have a reasonable basis for this recommendation. The next day, Herts Travel Inc stock opened 30% higher, and Caan started selling his clients' investments in Herts Travel Inc but did not trade anything for his personal account even though he had a small investment in Herts Travel Inc.
Caan has *least likely* violated:

A. Standard II(A): Material Nonpublic Information.

B. Standard II: Integrity of Capital Markets.

C. Standard II(B): Market Manipulation.

The correct answer is **A.**

There is no information relating to whether the information was material or non-material.
Note: Caan has violated Standard II(B): Market Manipulation by posting what he posted on a social media account and Market manipulation is part of Standard II: Integrity of capital markets.

**B is incorrect.** While Caan's actions do impact the integrity of capital markets by potentially misleading investors and affecting stock prices based on unfounded claims, the question specifically asks which standard he has least likely violated.

**C is incorrect.** Standard II(B): Market Manipulation is directly violated by Caan's actions. By posting unfounded speculation about a takeover on a social media platform, Caan engaged in behavior that could manipulate market prices and investor behavior. This action directly contravenes the CFA Institute's prohibition against practices that distort prices or artificially inflate trading volume to mislead market participants.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2228 J Ahsan, CFA, has recently joined Ayub Investments as a senior financial analyst. His mother and sister opened new fee-paying accounts with Ayub Investments. Ahsan has fully complied with the firm's policies and procedures related to managing family accounts. He started with managing 10 client accounts including his mother and sister account. Over time, his popularity kept on increasing and, after 3 years, he is now managing over 50 client's accounts that still include his mother and sister account. An IPO of a popular social media chat application is suitable for 22 of his client's accounts according to their investment policy statements, but Ahsan did not secure the number of shares he requested.
Which of the following is *least likely* correct?

A. Ahsan should allocate the IPO shares equally to all of his clients.

B. Ahsan should allocate the IPO shares as per each client's investment policy statement.

C. Ahsan should not allocate the IPO shares to his mother and sister account provided the current investment opportunity does not align with their investment policies.

The correct answer is **A.**

Since Ahsan is managing a portfolio of 50 clients, it's impractical to allocate the IPO shares equally to all his clients as per their investment policy statements since it's only applicable to 22 clients. Therefore he should not allocate the IPO shares equally to all his clients without considering their investment policy statements.

Note: Ahsan should allocate shares per each client's investment policy statement. In other words, he should allocate shares equally, but only to accounts that are suitable as dictated by investment policy statements. He's also expected to treat his family and sister fairly, just like other clients.

**B is incorrect.** This option suggests that Ahsan should allocate the IPO shares as per each client's investment policy statement, which is indeed the correct approach. Allocating shares based on the investment policy statements ensures that the shares are distributed to clients for whom the investment is suitable and aligns with their predefined investment criteria.

**C is incorrect.** The statement that Ahsan should not allocate the IPO shares to his mother and sister's account provided the current investment opportunity does not align with their investment policies is a correct practice in principle. It emphasizes the importance of adhering to the investment policy statements, which dictate the suitability of investments for each client.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2229 Jack Turner, CFA, heads the equity research department of a large investment management firm based in New York. Turner's team has 15 employees out of which 8 are CFA Institute candidates. The remaining 7 employees are planning to take the CFA Level 1 exam in the next available session but have not registered with the CFA Institute as of now. Turner is planning to delegate some of his supervisory duties.
Which of the following is *least likely* under the CFA Institute Code and Standards?

A. Turner would not be responsible for the supervisory duties he delegates to the team members who are CFA Institute candidates.

B. Turner would be responsible for all supervisory duties even if he delegates them all to his team members.

C. Turner would be responsible for the supervisory duties even if he delegates them to the team members who are not CFA Institute candidates.

The correct answer is **A.**

According to Standard IV(C): Responsibilities Of Supervisors, Turner may delegate supervisory duties to any of his subordinates, but he would still be responsible for his supervisory duties.

**B is incorrect.** However, the phrasing might suggest that Turner's responsibility is a direct involvement in all tasks, which is not the case. The essence of Standard IV(C) is that while Turner can delegate tasks, he must ensure that these tasks are carried out properly.

**C is incorrect.** This option states that Turner would be responsible for the supervisory duties even if he delegates them to the team members who are not CFA Institute candidates. While this statement is true, it might imply a differentiation in responsibility based on the delegatee's status regarding the CFA Institute, which is not a factor in determining a supervisor's responsibility under Standard IV(C).

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2230 Lee Hart, an equity research analyst, has been following LYCA Mobile for a while and has recommended a 'Buy' rating for the LYCA stock. As per his research, LYCA will soon introduce new mobiles with revolutionary technological advancements. After his recommendation on LYCA mobile, he finds out that his wife has inherited 25% of her father's portfolio that includes a substantial amount of LYCA stock.
The *most likely* outcome is that:

A. Lee has violated Standard VI(B): Priority Of Transaction.

B. Lee has not violated any Standards.

C. Lee has violated Standard VI(A): Disclosure Of Conflicts.

The correct answer is **B.**

Lee has not violated any standards because his wife inherited the portfolio after his 'Buy' recommendation for LYCA stock. There is not enough information in the case related to whether Lee already knew about the inheritance and asset allocation of his wife's father portfolio.

Note: He must disclose this information to his employer and clients in the follow-up reports.

**A is incorrect.** Standard VI(B): Priority of Transaction concerns the professional's obligation to give priority to clients' transactions over their own. In this case, Lee's recommendation of LYCA stock was made without knowledge of his wife's impending inheritance.

**C is incorrect.** Standard VI(A): Disclosure of Conflicts requires that members and candidates must 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 employers. Since Lee was unaware of his wife's inheritance at the time of his recommendation, there was no known conflict of interest to disclose.

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Q.2231 Adnan Naseer, CFA Level II candidate, has recently signed an employment contract with Arif Habib Investments. Employment started on October 15, 2015. Arif Habib Investments is based in a country that does not have any securities laws and regulations. After joining the company, Naseer received a large pile of old records dating back to October 15, 2005. He then divided them into two categories: relevant documents and record retention. On April 15, 2016, Naseer is considering destroying old documents from the record retention stack.
What is the cutoff date for the most recent documents can the analyst *most likely* destroy, assuming the business is only done in the home country?

A. Naseer may destroy documents dating prior to April 15, 2006.

B. Naseer may destroy documents dating prior to April 15, 2009.

C. Naseer may destroy documents dating prior to April 15, 2011.

The correct answer is **B.**

The CFA Institute Code and Standards require 7 years of record retention in the absence of other laws and regulations.

**A is incorrect.** This option suggests that Naseer may destroy documents dating prior to April 15, 2006. However, this would result in a retention period of only ten years, which exceeds the minimum requirement set by the CFA Institute but does not accurately reflect the seven-year guideline.

**C is incorrect.** This option implies that documents dating prior to April 15, 2011, may be destroyed, which would result in a retention period of only five years. This does not meet the CFA Institute's minimum requirement of seven years for record retention.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2234 James Caan has written his CFA Level 1 exam in Dec 2016. He has been anxiously waiting for his result and finally, after almost 8 weeks, he receives an email from the CFA Institute informing him that he has passed the CFA Level 1 exam. Caan is extremely happy with his performance and immediately starts studying for the June 2017 CFA Level 2 exam using a third party application. Caan wants to share his success with his friends and prospective employers, so he writes 'CFA Level 2 Candidate June 2017' on his profile on a popular social networking website.
Caan has most likely:

A. Violated Standard VII(B): Reference to CFA Institute, the CFA designation, and the CFA Program.

B. Not violated any standards.

C. Violated Standard VII(A): Conduct as Members and Candidates in the CFA Program.

The correct answer is **A.**

Even though Caan has started studying for the CFA Level 2 exam, he has not registered with the CFA Institute. Therefore, he is not allowed to use the CFA Level 2 Candidate designation.

**B is incorrect.** However, by claiming to be a CFA Level 2 candidate without having registered for the exam, Caan has misrepresented his candidacy status, which is a direct violation of Standard VII(B). The CFA Institute's guidelines are clear about the conditions under which an individual can claim candidacy in the CFA Program.

**C is incorrect.** While it might seem that Caan's actions could also violate Standard VII(A): Conduct as Members and Candidates in the CFA Program, which pertains to the professional conduct and ethical considerations of CFA Program participants, the more specific violation in this scenario is related to Standard VII(B).

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2236 Alisha Jawad, CFA, has just finished his research on Amedico Corporation and anticipates giving it a 'Market Perform' rating. Jawad is supposed to complete and submit the report tomorrow, so she takes the rest of the day off to focus on other important tasks. Jawad is scheduled to meet Paul Butterworth for a coffee in the evening, his former manager and mentor, who has a great track record of consistently providing high returns to his clients and is now managing his own hedge fund. Jawad speaks to Butterworth about Amedico Corporation during the coffee session and finds out that Butterworth is bullish on Amedico Corporation with an 'Outperform' rating. Based on this, Jawad changes her rating on Amedico Corporation to 'Outperform.'
Jawad has *most likely* violated:

A. Standard I(B): Independence And Objectivity.

B. Standard II(A): Material Nonpublic Information.

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

The correct answer is **C.**

According to Standard V(A): Diligence and Reasonable Basis, members and candidates must have reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action.

**A is incorrect.** There is no evidence of any compromise on independence and objectivity on Jawad or Butterworth.

**B is incorrect.** There was no material non-public information exchanged.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2237 Faseeh Shams, CFA, has just finished his research on Regale Inc. and intends to give it a 'Market Perform' rating. Before he submits his report, he runs it by his manager Adam Jones, CFA, who after thorough analysis believes that the stock should be put on 'Hold.' Shams is confident on his own research and submits the report with his own rating. One year after the rating is issued by Shams, Regale Inc. stock is down 60% and if Shams had listened to Jones he would have saved his clients from losses.
Which of the following statements is *most likely* accurate?

A. Shams has violated Standard III: Duties to Clients.

B. Shams has violated Standard V(A): Diligence And Reasonable Basis.

C. Shams has not violated any standards.

The correct answer is **C.**

Shams has not violated any standards because he did his own research and was confident in the rating he came up with. Maybe his research was not good enough, but that does not mean he has violated any standards.

**B is incorrect.** Shams conducted research before coming up with the rating, so he has fulfilled diligence and reasonable basis.

**A is incorrect.** Shams conducted research and was confident in his research.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2238 Rustam Ali is a mining analyst for Char Sada Securities. He has recently finished his report on Auy Gold Inc. He did thorough research, analysis, and assessment of the company that has been included in his report. The assessment includes a report on the gold reserves to be found on Auy's Land. Ali has completed his calculation on the basis of the latest core samples from the drilling conducted by Auy Gold Inc. As per Ali's estimate, there are 0.7 million ounces of gold to be found on the land owned by the company. Ali finalizes his reports and sends the following email to his clients: "Based on the fact that Auy Gold Inc. has 0.7 million ounces of gold to be mined, I recommend a strong 'Buy'."
Ali has:

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

B. Not violated any standards.

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

The correct answer is **C.**

According to standard Standard V(B): Communication With Clients And Prospective Clients, members and candidates must distinguish between fact and opinion in the presentation of investment analysis and recommendation to clients and prospective clients. Therefore, Ali has violated this standard.

**A is incorrect.** Standard V(A): Diligence and Reasonable Basis requires that investment professionals exercise diligence, independence, and thoroughness in analyzing investments, making recommendations, and taking investment actions.

**B is incorrect.** While it may seem that Ali has not violated any standards by conducting thorough research and analysis, the manner in which he communicated his recommendation does not comply with Standard V(B): Communication with Clients and Prospective Clients.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2240 Allen Jones, CFA, is employed by HBL Investments based in Malta. HBL Investment's headquarters are in the USA. The company has barred its analysts based in the USA from participating in oversubscribed IPOs. However, the company's analysts based outside of the US are allowed to participate in such activities if the country they are based in allows them to. Malta does not have such restrictions, so Jones is allowed to participate in oversubscribed IPOs. Keeping this in mind, Jones buys 20,000 shares of TWILO Corporation for his personal account, an oversubscribed IPO.
Jones has *most likely*:

A. Violated Standard IV(A): Loyalty.

B. Not violated any standards.

C. Violated Standard III(B): Fair Dealing.

The correct answer is **C.**

According to Standard III(B): Fair Dealing, CFA Institute members and candidates are prohibited from participating in oversubscribed IPOs.

**A is incorrect.** Standard IV is related to loyalty with employers, not clients. The case does not mention anything related to loyalty with employers.

**B is incorrect.** The CFA Institute's ethical guidelines explicitly require members to act in a manner that ensures fair and equitable treatment of all clients. By participating in an oversubscribed IPO for his personal benefit, Jones has acted in a manner that could disadvantage his clients, thereby violating the standard of fair dealing.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2241 Arsalan Khan, CFA, was on his lunch break in a famous coffee shop on Wall Street when he saw CEOs of Telenor Communications and Ufone Communications walking together in the coffee shop. Telenor Communications is known for covering all of the major cities across the USA while Ufone Communications is focusing on increasing its network with smaller cities, districts, and towns. Khan did thorough research on both companies from the data available from public sources, and he concluded that Telenor should buy Ufone as they would together be able to cover all of the USA. Based on his research, Khan recommended that his clients should 'Buy' Ufone stock and 'Short' Telenor stock. Three months after the research note was issued, Telenor announced that it is going to buy Ufone. This strategy resulted in a 30% return on investment for his clients.
Khan has:

A. Violated Standard II(A): Material Nonpublic Information.

B. Violated standard III(E): Preservation Of Confidentiality.

C. Not violated any standards.

The correct answer is **C.**

According to Standard II(A): Material Nonpublic Information and Care, the Mosaic theory allows analysts to combine non-material non-public information with public information and trade on such analysis. Khan, seeing the two CEOs meeting for a coffee, is non-material non-public information.

**A is incorrect.** This option suggests that Khan violated Standard II(A): Material Nonpublic Information by using nonpublic information to inform his investment recommendation. However, the information Khan acted upon (the CEOs meeting in a public coffee shop) is considered non-material and nonpublic. His recommendation was primarily based on extensive research of publicly available data about both companies.

**B is incorrect.** This option implies that Khan violated Standard III(E): Preservation of Confidentiality by sharing or acting on confidential information. However, Khan's observation of the CEOs in a public setting does not constitute confidential information.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

Q.2242 J Ahsan, CFA, is a successful equity research analyst with a track record of 15% return average over the last 10 years. Ahsan's firm has recently hired Faseeh Shams, a well-reputed marketing director, famous and appreciated across many industries for his unique ways of marketing. After researching firms' marketing history, Shams has come up with the plan of promoting its analyst instead of the firm. The new marketing brochure sent to Ahsan for review states "Our analysts have a successful history of providing high returns to all our clients. If you want a guaranteed return of 15%, then you should invest with our top analyst, J Ahsan, CFA."
Ahsan should:

A. Reject the marketing brochure or else he would be violating Standard I(C): Misrepresentation.

B. Reject the marketing brochure or else he would be violating Standard III(D): Performance Presentation.

C. Reject the marketing brochure or else he would be violating Standard: III(C): Suitability.

The correct answer is **A.**

According to Standard I(C): Misrepresentation, CFA Institute members and candidates should not make promises of 'guaranteed returns.'

**B is incorrect.**It is related to the communication of investment performance information, not marketing.

**C is incorrect**Standard: III(C): Suitability is a part of duties to clients.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

Q.2243 Nayri Avaikan, CFA, is working as an investment advisor with Allstar Investors. She has recently finished her report on Ocado Inc. and concluded that, at the current market price, it is a great 'buy' with a 35% upside potential. She wrote to all of her clients: "At current market prices, based on my research, I believe Ocado Inc. is massively underpriced, and I would recommend a 'strong buy' with 35% upside potential. Please find attached my detailed research report. I have also included all the relevant data that was used in my research and form the basis for this decision. Please let me know if you need further explanation or documentation." After sending the email, she informed her major clients about Ocado Ins. by calling them individually.
Avaikan has *most likely*:

A. Violated Standard III(B): Fair Dealing.

B. Not violated any Standards.

C. Violated Standard I(C): Misrepresentation.

The correct answer is **B.**

Avaikan has not violated any standard because she sent an email to all of her clients at the same time. After sending the email, she called her major clients directly. The CFA Institute Standard III(B): Fair Dealing does not prohibit members and candidates from providing extra services for higher fees or to major clients. However, all clients must be dealt with fairly and objectively, which Avaikan did by sending an email to all of them at the same time.
Note: Option C) is incorrect because the recommendation was presented as an opinion and not a fact, and was well documented.

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Q.2443 Junaid Khan has earned both his CFA designation and a Ph.D. in finance. Which of the following is *least likely* allowed?

A. Junaid Khan, Ph.D.

B. Junaid Khan, cfa, Ph.D.

C. Junaid Khan, CFA, Ph.D.

The correct answer is **B.**

According to Standard VII(B): Reference to CFA Institute, the CFA Designation, and the CFA Program, CFA should always be capital letters.

**A is incorrect.** It is appropriate because the CFA Institute does not force its members to use the designation.

**C is incorrect.** Junaid Khan is free to cite both CFA and Ph.D. in any order after his name.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2557 Mark Johnson is an analyst for Big Riches Investment Firm. He replaced Todd Phillips, who was an analyst with Big Riches but resigned to move overseas. Phillips passed on all of his prior analytical reports and backup data for Johnson to use in his new role. In preparation for an annual valuation of the foodservice equipment industry, Johnson pulled up a valuation model developed by Phillips and changed it to include economic indicators published by the US Bureau of Economic Analysis. Once these revisions were made, Johnson back-tested the results using the S&P 500.
Which of the following is *most* accurate?

A. Johnson must give credit to Phillips for the creation of the valuation model, and add the Bureau of Economic Analysis, and S&P 500 as reference materials.

B. Johnson must publish the valuation model under his own name, naming the Bureau of Economic Analysis, and S&P 500 as reference materials.

C. Johnson is not required to give credit to Phillips for the creation of the valuation model. It would also be unnecessary to reference the S&P 500 or the Bureau of Economic Analysis as reference materials.

The correct answer is **C.**

According to Standard I(C): Misrepresentation, factual information published in statistical reporting services such as the S&P 500 or the US Bureau of Economic Analysis is permitted to be used without references.

According to Standard I(C): Research and models developed while employed by a firm are the property of the firm. The firm retains the right to continue using the work completed after a member or candidate has left the organization. As such, incoming employees can freely tap into such models and even attempt to improve them without violating the standard. However, credit must be given whenever the model developer is not (and has never been) an employee of the firm.

**A is incorrect.** It suggests that Johnson must give credit to Phillips for the creation of the valuation model and add the Bureau of Economic Analysis and S&P 500 as reference materials.

**B is incorrect.** It implies that Johnson must publish the valuation model under his own name while naming the Bureau of Economic Analysis and S&P 500 as reference materials.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2566 Melissa Jacobs is an Analyst for ABC Investments. She is an expert in the area of agriculture production in the United States. In her free time, Jacobs maintains a blog related to the food industry. She uses a pseudonym for the blog, in order to maintain her privacy. Her latest blog post includes a negative review of Market Basket Corporation in which she suggested to her readers that they sell the company's stock. Jacobs knows from inside sources that within the following week, Market Basket's stock will be listed as a 'sell'.
With regard to the Code and Standards, which of the following is *most likely* accurate?

A. Jacobs violated IV(A): Loyalty by sharing private information that is proprietary to Market Basket Corporation.

B. Jacobs violated no standards since she maintains her blog under an artificial identity.

C. Jacobs violated Standard II(A): Material Non-public Information by making a recommendation based on knowledge that was material and non-public.

The correct answer is **C.**

Melissa Jacobs has shared an investment recommendation based on material, non-public information that could influence the stock's price. It makes little difference that she published the blog under a pseudonym. Her integrity as a CFA member or candidate must be preserved regardless of how she represents herself online.

**A is incorrect.** While loyalty to one's employer and safeguarding proprietary information are important, Jacobs' violation does not primarily concern loyalty or the sharing of proprietary information belonging to Market Basket Corporation. Instead, her violation pertains to the use of material, non-public information to influence investment decisions.

**B is incorrect.** The use of a pseudonym or artificial identity does not exempt Jacobs from adhering to the Code and Standards. The ethical obligations outlined in the CFA Institute's Code of Ethics and Standards of Professional Conduct apply to members and candidates in all professional activities, regardless of whether they are acting under their real name or a pseudonym.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2568 Abu Jamil is an analyst-supervisor at Mullin Hart Investments. His firm seeks to underwrite Haynes Incorporated's secondary stock offering. Jamil asks Monique Roi to analyze Haynes Inc.'s offer and prepare a report. He doesn't share with Roi that the firm seeks to underwrite the stock offering. Roi puts a reasonable effort into the analysis and produces a favorable report on Haynes' stock. Upon receipt of the report, Jamil adds a note describing Mullin Hart Investments' relationship with Haynes Inc. and distributes it to the firm's clients.
According to CFA Code and Standards, Jamil's actions are:

A. Not in violation of any standard.

B. In violation of Standard I: Professionalism.

C. In violation of Standard V: Investment Analysis, Recommendations, and Action.

The correct answer is **A.**

Abdu Jamil has made a reasonable effort to secure an independent and object analysis for Hayne, Inc. Additionally, he has disclosed the prior relationship between Mullin Hart Investments, and Haynes to his clients before distributing information to his clients.

**B is incorrect.** By ensuring an independent analysis and disclosing the firm's relationship with Haynes Inc., Jamil upholds the principles of integrity, objectivity, and professionalism. These actions are in line with the expectations for professional conduct as outlined by the CFA Institute, thereby negating any violation of Standard I.

**C is incorrect.** Standard V emphasizes the need for diligence, independence, and thoroughness in investment analysis, as well as the requirement to have a reasonable and adequate basis for investment recommendations.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2569 Paula Hutchens is an analyst for the mining industry. She recently attended a technology conference for mining and agriculture, at which she learned about some newly patented drilling technology that is to be introduced to the market within six months. Makers of this technology touted that it would increase mining efficiencies by 20-25%. Shortly after the conference, Hutchens included this quote in her analyst report on technology innovations within her industry. According to Standard V(B): Communication with Clients and Prospective Clients:

A. Hutchens has violated Standard I(C): Misrepresentation if she posted the quoted information as stated without reference to the source.

B. Hutchens has violated Standard V(B): Communication with Clients and Prospective Clients if she did not include a phrase such as ''it is the opinion of industry professionals.''

C. Both A and B are correct.

The correct answer is **B.**

Hutchens is required under Standard V(B): Communication with Clients and Prospective Clients to state the unsubstantiated claim as opinion, rather than fact.

**A is incorrect.** While it is important to reference the source of information to avoid misrepresentation, the specific violation in question pertains to the manner in which Hutchens communicated the potential benefits of the new technology. Standard I(C): Misrepresentation focuses on the presentation of accurate and complete information, including the proper attribution of sources.

**C is incorrect.** The issue at hand is not solely about misrepresentation or the failure to attribute sources but about the broader requirement to communicate information in a manner that accurately reflects its nature as fact or opinion.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2939 Billy Jones, an investment manager working at Parker Investments, manages individual accounts by investing particularly in value stocks. In order to increase the performance of his clients' accounts, Jones shifted some portion towards growth-oriented stocks. This change resulted in a 5% increase in the performance of his clients. He decided to discuss this change with the clients in the next quarterly meeting. In the meeting, his clients were pleasantly surprised with the 5% increase in their portfolio.
Is Jones in compliance with the CFA Institute Code and Standards?

A. Yes, because Jones acted in a prudent and judicious manner for the sole benefits of his clients.

B. Yes, because Jones improved performance and discussed changes with his clients.

C. No, because Jones failed to inform the changes to his clients a timely manner.

The correct answer is **C.**

Jones violated Standard V(B): Communication with Clients and Prospective Clients by failing to inform the changes in clients' accounts and the decision-making process in a timely manner. Changing the style from value-oriented to growth-oriented stocks also changes the risk/return characteristics. This requires permission from the clients.

**A is incorrect.** While Jones's actions may have been made with the intention of benefiting his clients, as evidenced by the 5% increase in portfolio performance, the lack of timely communication violates the principles of prudent and judicious management.

**B is incorrect.** Although Jones eventually discussed the changes with his clients and the performance of their portfolios improved, the key issue lies in the timing of the communication. The CFA Institute Code and Standards require that clients be informed about significant decisions affecting their accounts before those decisions are implemented.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

Q.2940 Toby Hayworth, CFA, works for a large multinational investment bank in Canada. Hayworth is currently working with a Malaysian institutional client. The Malaysian financial market is still in the developing phase and lacks well-established laws governing monetary transactions as well as laws governing the communication of investment performance information to clients or other outside parties. The Canadian government, however, requires the fair and complete presentation of performance information. In Canada, past returns can be used as a representative of what clients will achieve in the future. Since the client is located in Malaysia, Hayworth believes that he is not subject to any laws governing performance presentation when dealing with the Malaysian client.

With respect to his adherence to applicable laws governing performance presentation, Hayworth is *most likely*:

A. Not in violation of the Code and Standards, because the law of locality applies in such situations.

B. In violation of the Code and Standards, because he should adhere to the Canadian law.

C. In violation of the Code and Standards, because he should adhere to the Code and Standards.

The correct answer is **C.**

The Code and Standards dictate that, in the event of a conflict, members and candidates must comply with the stricter set of laws, rules, or regulations. With regards to performance presentation, the Code and Standards state that members and candidates should not state or imply that clients will obtain or benefit from a rate of return that was generated in the past. Therefore, the Code and Standards would apply in this case, since laws in both Malaysia and Canada are less strict than the Code and Standards.

**A is incorrect.** The Code and Standards are designed to apply universally, regardless of local laws. The principle of adhering to the stricter rule between local laws and the Code and Standards is a fundamental aspect of the CFA Institute's ethical framework.

**B is incorrect.** It implies that Hayworth should adhere solely to Canadian law. While Canadian law may have specific requirements regarding the presentation of performance information, the Code and Standards provide a global benchmark that often exceeds local legal requirements.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2943 John Dunlop has been analyzing companies in the manufacturing industry. Currently, Dunlop is preparing a research report on Highland Manufacturers. After careful analysis of its operations and suppliers, Dunlop found out that Highland Manufacturers has contracts with three suppliers in the industry. Using the tenure of these contracts and his own estimations, Dunlop determined that the company will have more than $50 million worth of inventory in the coming years. Dunlop concluded his report with the following statement:
"Highland Manufacturers will accumulate inventory worth $50 million, which shows a high demand for its products. Hence, I recommend a 'buy' for this stock."

Does Dunlop's conclusion violate any standards?

A. No.

B. Yes, because Dunlop did not have a reasonable and adequate basis.

C. Yes, because Dunlop needs to distinguish between fact and opinion.

The correct answer is **C.**

Dunlop has estimated this amount based purely on his own calculations; hence the estimate is an opinion, not a fact. Opinions must be distinguished from fact in the research reports.

**A is incorrect.** This option suggests that Dunlop's conclusion does not violate any standards, which is not accurate. It is a fundamental requirement for analysts to clearly differentiate their opinions and projections from established facts to maintain transparency and integrity in their reports.

**B is incorrect.** While having a reasonable and adequate basis for recommendations is indeed a critical standard, the primary issue with Dunlop's conclusion is not necessarily the lack of a reasonable basis.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2944 Rosanne Thomas carried out extensive research on a software company, Easy Solutions (ESOL). She researched its competitors, suppliers, and customers along with its financial history. Thomas used various financial models and spreadsheets to analyze the fundamentals of the company and concluded that the stock was a 'buy.' While writing the research report, Thomas described the financial model used in depth, but only briefly mentioned the industry prospects and omitted certain details about its customers.
Is the research report prepared in accordance with the Code and Standards?

A. Yes.

B. No, because Thomas did not use independent and objective judgment.

C. No, because Thomas excluded certain details from the report.

The correct answer is **A.**

While writing a report, a report writer may emphasize certain areas he deems are important, touch briefly on others, and omit certain aspects that are deemed unimportant or unnecessary. As long as Thomas clearly details the important elements to the analysis and conclusion, she is not in violation, since there are limits to the scope of every report.

**B is incorrect.** This option suggests that Thomas did not use independent and objective judgment in her analysis. However, the detailed research into the company, its competitors, suppliers, and financial history, along with the use of various financial models and spreadsheets, indicates that Thomas exercised a high degree of independent and objective judgment in arriving at her 'buy' recommendation.

**C is incorrect.** The assertion that Thomas excluded certain details from the report does not automatically mean she violated the Code and Standards. The Code and Standards allow for analysts to exercise discretion in determining what information is most relevant and material to their analysis and conclusions.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2959 Walter Cross, CFA is a fixed income manager and owner of Terra Cross Wealth Management (TCWM). Cross and his fellow management team are constructing a hedge fund. Prior to developing the fund, Cross attended a conference hosted by Walsh Elite, a renowned investment trust, where the basics of hedge fund construction and investing were explained to attendees. TCWM paid for Cross's traveling and accommodation costs. After the conference, Cross had the privilege to dine with WE's chief investment officer (CIO) thanks to a personal contact of his at WE. During the dinner, the CIO offered to overlook the fund construction and initial operation period personally. When asked how he met the CIO by his colleagues, Cross casually mentions that he spoke to him at the seminar. Details of the meeting have not been disclosed to clients.
Cross has *least likely* violated the CFA Institute Standards of Professional Conduct concerning:

A. Disclosure of conflicts.

B. Independence and objectivity.

C. Communication with clients and prospects.

The correct answer is **C.**

There is no evidence that Cross has violated the communications with clients and prospects standard.

According to Standard VI(A): Disclosure of Conflicts, members and candidates must make full and fair disclosures of all matters that may impair their independence and objectivity to clients, prospects and their employers. Details of the special meeting with the CIO, the contact at WE, and the privileged information received as a result may have been the predominant factors contributing to his selection of the CIO as a mentor and have influenced his independence and objectivity. This fact needs to be disclosed to Cross's clients and prospects.

According to Standard I(B): Independence and Objectivity, members and candidates must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. The arrangement of the personal meeting with WE's CIO was not offered to any of the other conference attendees and thus would have influenced Cross's selection of a mentor for the hedge fund.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2960 Two years ago, Earl Robinson and his wife, Trisha Martin, CFA, established Robinson-Martin (RM), an investment management firm providing investment banking and research services. The couple has mutually agreed to manage the two services independently. Verizon Technologies (VT), Martin's exclusive investment banking client, has expressed an interest in RM's research services to promote its stock issuance. Fearing that she may compromise the independence and objectivity of her firm's research department, Martin refers VT to a fellow research analyst and personal friend, Rene Greene. When referring VT to Greene, Martin states, "VT is in a poor state; please ensure our client is in safe hands." Surprised by VT's state of affairs, which is perceived to be operating steadily by market analysts, Greene decides to issue a buy recommendation to honor her side of the agreement.
Which of the following CFA Institute Standards of Professional Conduct has *least likely* been violated?

A. Referral fees

B. Independence and objectivity

C. Material nonpublic information

The correct answer is **A.**

Although Martin could indirectly benefit from referring VT to Greene, there is no evidence that Martin has received any payment for referring VT to Rene. Thus, there is insufficient information to conclude that Standard VI(C): Referral Fees has been violated.

According to Standard I(B): Independence and Objectivity, members and candidates must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. Greene's investment recommendation is influenced by her relationship with Martin. Given the firm s circumstances, Greene may have issued a different rating; therefore, she is in violation of this standard.

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. By sharing material nonpublic information concerning VT with Greene, Martin is in violation of this standard even if Greene does not issue a rating, which differs from a 'buy.'

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2961 The Drake Trust (DT) is a large investment trust that is headquartered in the U.S. Its investment-banking arm, Montgomery Inc. (MI), is situated in Nepastine, a developing country in Southeast Asia. Local consumer data confidentiality laws are lax and allow for the sharing of information between public and private sector corporations to foster transparency in the business community. MI's management uses this data to assess the demand for certain asset classes and to search for and make contact with potential high net-worth clients. As a member of the business community, MI feels it is its responsibility to share this information with other businesses.
By using client data, MI's management has *least likely* violated the CFA Institute Standards of Professional Conduct relating to:

A. suitability.

B. knowledge of the law.

C. preservation of client confidentiality.

The correct answer is **A.**

Standard lll(C): Suitability requires members and candidates to make a reasonable inquiry into a client's or prospective client's investment experience, risk and return objectives, and financial constraints prior to making any investment recommendation or taking investment action. There is no evidence of this standard being violated.

Standard lll(E): Preservation of Confidentiality requires members and candidates to keep information about current, former and prospective clients confidential unless the information concerns illegal activities on the part of the client, and thus, disclosure is required by law, or the client or prospective clients permit disclosure. By sharing confidential client information with other businesses, MI's management is violating this standard.

Standard l(A): Knowledge of the Law requires members and candidates to comply with the law in each country or area in which they conduct their professional activities. Members and candidates must comply with the strictest law. Because Nepastine lacks adequate data protection laws, MI's management must comply with Standard lll(E), which calls for the preservation of client confidentiality. By complying with the Nepastine law, its management has violated this standard.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2962 Lara Scott is an analyst serving an equity research firm. She has recently developed a model that generates stock values using quantitative factors such as general macroeconomic factors and qualitative factors specific to the corporation, such as the quality of a firm's corporate governance structure. Her model makes use of complex regression techniques to value stocks. Many of these techniques are quite complex, and therefore, Scott has decided to simply list the regression factors used and identify the name of the regression model in her research report.
Has Scott violated the CFA Institute Standards of Professional Conduct with respect to her research report?

A. No.

B. Yes, she needs to explain the regression techniques used fully.

C. Yes, she has used non-quantitative factors in her regression model.

The correct answer is **A.**

Standard V(B): Communication with Clients and Prospects requires members and candidates to disclose the basic format and general principles of the investment process used to analyze investments, select securities and construct portfolios. Members and candidates are not obliged to include all the details of the investment process and may choose to exclude certain information. By excluding information that may be complex for clients and prospects to comprehend, Scott is not in violation of the code and standards of professional conduct.

**B is incorrect.** This option suggests that Scott needs to fully explain the regression techniques used in her model. However, according to Standard V(B): Communication with Clients and Prospects, there is no requirement for members and candidates to disclose every detail of their investment process.

**C is incorrect.** This option suggests that the use of non-quantitative factors in her regression model constitutes a violation. However, the inclusion of qualitative factors, such as the quality of a firm's corporate governance structure, is a common and accepted practice in equity valuation.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2964 Hussein Amin is an analyst covering South African equities at Denver Associates (DA), a U.S.-based research firm. Amin's wife serves on the board of a South African company currently being covered by Amin as well as owns shares of the company's stock. Her role in the company existed before Amin joined DA that is why he never felt the obligation to disclose this fact to his employer. Recently his wife has made frequent trips to South Africa and has written an email to Amin briefly mentioning that she is feeling extremely exhausted and the working environment has become hostile. Without being provided with any further information, Amin issues a 'sell' recommendation on the South African stock.
By issuing a 'sell' recommendation, Amin has *least likely* violated:

A. Disclosure of conflicts.

B. Diligence and reasonable basis.

C. Communication with clients and prospects.

The correct answer is **C.**

Standard VI(A): Disclosure of Conflicts requires members and candidates to make full and fair disclosures of all matters that may impair their independence and objectivity to clients, prospects and their employers. The executive position his wife holds at the South African company coupled with her stock position may impair his judgment of the company he covers and requires disclosure to his clients, prospective clients, and employer.

By basing his sell recommendation solely on the wife's email, which does not provide any clear indication of the company's state of affairs, Amin's recommendation locks on the adequate and reasonable basis and is in violation of the Standard V(A): Diligence and Reasonable basis.

Amin is not in violation of the Standard V(B): Communication with Clients and Prospective Clients.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2973 Tina Marshall is a portfolio manager at a renowned asset management firm. During weekends, she offers yoga and Pilates sessions. She charges a significant fee for these sessions but does not disclose details of the arrangement to her employer. Rita Evans, one of Marshall's clients, has recently joined these sessions based on a recommendation from her mother. At her first session, Evans is surprised to see her manager as her instructor. During one break, Evans shares the news of receiving $100,000 as an inheritance from her deceased uncle's estate. The next day Marshall discusses the details of the Evans incident, including the inheritance, with a colleague.
Marshall has *most likely* violated the CFA Institute Standards of Professional Conduct by:

A. Accepting Evans as a customer.

B. Discussing details of the incident with her colleague.

C. Failing to disclose the details of the sessions to her employer.

The correct answer is **B.**

Marshall has not violated the CFA Institute Standards by accepting Evans in her sessions. Evans has not been offered a special fee arrangement despite her relationship with Marshall Furthermore, Marshall has not violated any standard by failing to disclose the details of these sessions to her employer. She provides these sessions during her spare time, and this does not interfere with her duties to her employer.

However, Marshall is clearly in violation of Standard III(E): Preservation of Confidentiality. This is because she has shared confidential client information, particularly the receipt of the $100,000 inheritance, with her colleague.

**A is incorrect.** Accepting Evans as a customer for her yoga and Pilates sessions does not constitute a violation of the CFA Institute Standards of Professional Conduct. The standards do not prohibit professionals from engaging in secondary business activities or from accepting clients for these services, provided that these activities do not present a conflict of interest with their primary employment or violate any other ethical standards.

**C is incorrect.** Failing to disclose the details of the yoga and Pilates sessions to her employer does not necessarily constitute a violation of the CFA Institute Standards of Professional Conduct. The standards require disclosure of conflicts of interest that could affect the professional's ability to make unbiased and objective decisions in the best interest of their clients and employer.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.2974 Ricardo Trust (RT) is the trustee of a corporation's defined benefit pension plan. A majority of the employees covered by the plan are three years away from retirement. RT's chief investment officer (CIO), Miguel Donald, has allocated high-risk emerging market equities to the plan's pension portfolio despite the investment mandate exclusively prohibiting allocation to high-risk securities. Donald justifies his decision by stating that the low correlation between emerging equities and existing domestic equity stocks will lower the portfolio's volatility and bring diversification benefits. He also states that investments should be viewed in the context of the entire portfolio.
By allocating emerging market equities to the plan's investment portfolio, Donald has *most likely* violated:

A. None of the standards.

B. The standard relating to suitability.

C. The standard relating to diligence and reasonable basis.

The correct answer is **B.**

When managing an investment portfolio to an investment mandate, Standard lll(C): Suitability expressly requires members and candidates to make recommendations and take investment actions that are consistent with the objectives and constraints of the portfolio. The investment mandate has expressly disallowed the inclusion of high-risk securities. By allocating these securities to the plan's investment portfolio, Donald is in violation of the standard.

Standard V(A): Diligence and Reasonable Basis requires members and candidates to exercise thoroughness, independence, and diligence in analyzing investments, making investment recommendations, and taking investment action. The standard also calls for a reasonable and adequate basis for any investment action, recommendation or analysis. There is no evidence of this standard being violated by Donald.

**A is incorrect.** This option suggests that Donald's actions did not violate any standards.

**C is incorrect.** Standard V(A): Diligence and Reasonable Basis requires investment professionals to conduct thorough analysis and have a reasonable basis for their investment actions and recommendations.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3013 Gene Carter, CFA, manages an investment fund comprising of high net-worth client accounts. Caner directs her trades to Hogwart Associates (HA), a broker-dealer firm. HA provides superior quality brokerage services, but its fees are higher than what most brokers charge in the market. To encourage Carter to place more trades with HA, the firm offers Carter a 5% bonus on any accounts placed with the broker which are worth $100,000 or more. Carter uses the bonus money to improve his fund's advertising scheme. He discloses HA's offer to clients and prospective clients but does not disclose how he utilizes the bonus as they are employed for improving the fund and not for personal benefit.
Carter has *most likely* violated the CFA Institute Standards of Professional Conduct relating to:

A. Loyalty to employer.

B. Loyalty, prudence, and care.

C. Additional compensation arrangements.

The correct answer is **B.**

Carter has *most likely* violated Standard III(A): Loyalty, Prudence, and Care by using the bonus money to benefit his own fund rather than for the benefit of clients. He should have employed the funds to purchase goods or services that benefit the clients. By not disclosing this fact to clients, Carter has further violated this standard.

There is no evidence of Standard IV(A): Loyalty or Standard IV(B): Additional Compensation Arrangements being violated. The refunded money does not represent additional compensation, and thus the latter standard does not apply.

**A is incorrect.** The scenario does not suggest that Carter has violated any loyalty obligations to his employer. The issue at hand pertains to the relationship between Carter and his clients, not between Carter and his employer. Therefore, Standard IV(A): Loyalty to Employer is not directly relevant in this context.

**C is incorrect.** While the scenario involves additional compensation (the bonus from HA), the primary issue is not the existence of an additional compensation arrangement but how Carter uses the bonus and discloses its use to clients. Standard IV(B): Additional Compensation Arrangements requires disclosure of arrangements that might compromise an investment professional's independence and objectivity.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3014 Sentosa Limited (SL) is a firm providing investment banking and research services to individual high net-worth clients. Jacques Montpellier is SL's senior research manager and has delegated the task of preparing a research report on a railroad construction firm to Jules Devilries, a junior analyst. With little knowledge of the construction firm, Devilries accesses information concerning its current projects and forecasted revenues from SL's client database. Relying on the information in the database, Devilries issues a 'sell' recommendation. Upon the release of the report, a representative from the construction firm contacts Devilries claiming that one of the projects discussed in the report had been terminated several years ago and that the exclusion of this project should alter Devilries' recommendation.
Which of the following CFA Institute Standards of Professional Conduct is *least likely* being violated?

A. Responsibility of Supervisors

B. Independence and Objectivity

C. Diligence and Reasonable Basis

The correct answer is **B.**

Standard IV(C): Responsibility of Supervisors is being violated because Montpellier did not verify that the information stored in the database is up to date. Even if Montpellier had delegated the task of preparing the research report to Devilries, he still remains responsible for ensuring that analysts use a reasonable and adequate basis, carry out the necessary diligence in their analysis, and ensure the accuracy of information used for investment analysis. Montpellier has not implemented the necessary measures to ensure this violation does not take place.

Standard V(A): Diligence and Reasonable Basis requires members and candidates to conduct thoroughness and diligence in their investment analysis and recommendations. Devilries has not ensured that the information in the firm's database is accurate and up to date and is thus in violation of this standard. Furthermore, Devilries should have considered information from other sources. By solely relying on the database and not carrying out a thorough investigation of the construction firm, she is in violation of this standard.

There is no evidence of Devilries acting in a manner which compromises her independence and objectivity.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3017 Jorge Neal, CFA, is a bond portfolio manager for institutional investors at Alvin Financials. Neal is an enthusiastic employee and dedicates much of his spare time working as an environmental activist with the local environmental society. However, he has never had the opportunity to tell his employer about his participation as an environmental activist.
Neal conducted a survey to determine the environmental effects of the government's proposed projects on botanical resources. He was then arrested for providing email addresses he received on that survey to a local firm engaged in environmental cleaning products.

According to the Standards of Practice Handbook, Neal:

A. Did not violate any Standard.

B. Violated Standard I(D): Misconduct.

C. Violated Standard I(D): Misconduct and Standard IV(A): Loyalty.

The correct answer is **B.**

Neal violated Standard I(D): Misconduct because he engaged in intentional conduct involving fraud for providing personal data gathered under an environmental survey for promotional campaigns to a local firm.

**A is incorrect.** It suggests that Neal did not violate any standard. However, his actions clearly fall under misconduct as defined by Standard I(D): Misconduct.

**C is incorrect.** While Neal's actions are a clear violation of Standard I(D): Misconduct, there is insufficient information to conclude a violation of Standard IV(A): Loyalty. Standard IV(A) requires members and candidates to act for the benefit of their employer and not deprive their employer of the advantage of their skills and abilities, misappropriate their employer's property, or otherwise cause harm to their employer.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3018 Bill Hardy works for Dwight Inc. and manages Lance Hogan's family trust portfolio which is designed to mirror the S&P-500 index fund. Hardy's supervisor, who is also a director of his firm's research department, forecast a decrease in interest rates and recommended Hardy to invest some portion of clients' funds in fixed income instruments as it may increase their returns besides generating a commission for the firm. Hardy called Hogan only to find him out of reach at the time. He left Hogan a voicemail message outlining his decision to adjust upwards the portion of Hogan's funds invested in fixed income instruments. The next day, the local government announced a lowering of interest rates and Hardy earned a tidy profit on Hogan's investments.
Hardy *least likely* violated the CFA Institute Standards of Professional Conduct relating to:

A. Suitability.

B. Loyalty, prudence, and care.

C. Diligence and reasonable basis.

The correct answer is **C.**

Hardy is responsible for managing Hogan's trust according to a specific mandate, i.e., to replicate the S&P-500 index. By not investing accordingly, he violated the CFA Institute Standards of Professional Conduct relating to Loyalty, Prudence, and Care, and Suitability. There is no evidence that he violated the standard relating to Diligence and Reasonable Basis as the firm's research department properly researches and recommends interest rate movements.

Note: Just because a decision bears fruit does not make a member justified/validated as long as they have departed from pre-agreed investment mandates.

**A is incorrect.** The standard of suitability was likely violated in this scenario. Hardy's actions deviated from the client's investment objectives, which was to mirror the S&P-500 index fund. By unilaterally deciding to increase the portfolio's allocation to fixed income instruments based on an interest rate forecast, Hardy made an investment decision that did not align with the agreed-upon investment strategy.

**B is incorrect.** The principles of loyalty, prudence, and care were also likely compromised. Hardy acted without waiting for Hogan's approval, prioritizing the potential for increased returns and commission for the firm over the client's specific investment mandate.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3020 Anton Lewis is writing a report on Hall Care lnc. (HCI), a medical equipment manufacturer. By studying the financial reports and operations of HCI and its competitors, Lewis determined that the outlook of HCI is positive and its stock is undervalued. For further information, Lewis planned a meeting with his family doctor. While waiting for him in the hospital cafeteria, Lewis overheard a doctor complaining about HCI's products. Lewis immediately returned to his office and extended his research work to better understand the problems and risks associated with HCI's products. Two days later Lewis released a 'sell' recommendation to the public.
Lewis:

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

B. Violated Standard I(B): Independence and Objectivity.

C. Was in full compliance according to the Standards of Practice Handbook.

The correct answer is **C.**

According to Standard V(A): Diligence and Reasonable Basis, the opinion of a customer only is not an adequate basis for Lewis to change his recommendation. As Lewis conducted further research and investigation to understand the problems and risks associated with HCI's products as identified by a customer, so his change of opinion is justified and is appropriate.

**A is incorrect.** This option suggests that Lewis violated Standard V(A): Diligence and Reasonable Basis by changing his recommendation based on the opinion of a single customer.

**B is incorrect.** Standard I(B): Independence and Objectivity requires that investment professionals use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3023 Helen Jenkins is an experienced independent research analyst who specializes in making recommendations on emerging market equities. She is writing a report on Moreno lnc., an emerging food and drug retailer. On analyzing Moreno's financials, Jenkins found that the company is anticipating a lower amount of impairment losses. On the basis of that information, Jenkins wrote in her report, "Moreno is expecting a significant increase in profitability in the next quarter, as their impairment losses are negligible." She also disclosed her personal holdings in Moreno's stocks. Two days later, the stock price increased substantially, and Jenkins sold her holdings of Moreno's stock.
Jenkins has *most likely* violated CFA Institute Standards of Professional Conduct relating to:

A. Market Manipulation and Misrepresentation.

B. Independence and Objectivity and Misrepresentation.

C. Market Manipulation and Communications with Clients and Prospective Clients.

The correct answer is **C.**

Jenkins violated Standard V(B): Communication with Clients and Prospective Clients by failing to distinguish facts from opinions in the presentation of investment analysis and recommendations. The retailer reported lower impairment losses, but it was Jenkins' opinion that Moreno's profitability will be increasing next quarter due to the reduction. Jenkins has also violated Standard II(B): Market Manipulation by issuing overly optimistic projections through information-based manipulation.

**A is incorrect.** While Jenkins' actions could be construed as a form of misrepresentation due to the way she presented her opinions as facts, the primary issue is not with market manipulation in the traditional sense of attempting to artificially control or influence the price of securities.

**B is incorrect.** Although Jenkins disclosed her personal holdings in Moreno's stocks, which is relevant to maintaining independence and objectivity, the primary violations are more directly related to her failure to distinguish between facts and opinions and the subsequent potential market manipulation through information-based actions.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3027 Julia Ruiz manages portfolios for retirees at Kim & Ford Investments. Richard Hancock is one of her high net worth clients whose account is being managed by Ruiz for almost one decade. Last year, Hancock offered Ruiz a one-month stay at his beach house on earning a return above 18% on his portfolio. With great efforts, Ruiz managed to earn nearly 18.5% for all her clients including Hancock. Hancock threw a grand party and invited the whole management of Kim & Ford Investments. At the party, Ruiz disclosed her reward regarding her one-month stay to her employer.
Is Ruiz in compliance with the CFA Standards of Practice Handbook?

A. Yes.

B. No, she has violated Standard lll(B): Fair Dealing.

C. No, she has violated Standard IV(B): Additional Compensation Arrangements.

The correct answer is **C.**

Standard IV(B): Additional Compensation Arrangements requires members or candidates **to obtain written permission from their employer before accepting compensation**, including direct compensation from the client. Disclosure allows the employer to consider the outside arrangements when evaluating the actions and motivations of the employee. Ruiz failed to make timely disclosure to her employer regarding the performance reward offered by Hancock.

**A is incorrect.** It suggests that Ruiz is in compliance with the CFA Standards of Practice Handbook, which is not the case. Accepting additional compensation without prior written consent from one's employer, especially when such compensation is contingent on achieving certain performance benchmarks, can create conflicts of interest and compromise the objectivity of the investment professional.

**B is incorrect.** It incorrectly identifies the violated standard as Standard III(B): Fair Dealing. While Fair Dealing is an important standard that requires investment professionals to treat all clients fairly and equitably, the primary issue in this scenario is related to accepting additional compensation without employer consent, which falls under Standard IV(B): Additional Compensation Arrangements.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3029 Wilbert Dalton was quite hopeful for his CFA Level lll exam result, but after failing to pass the exam, he told his colleagues "I believe exam developers have been increasing the difficulty level every year and examiners are overly strict in their grading process." Hugh Morales, one of his colleagues, told Dalton "In the past two consecutive attempts to pass CFA Level lll, including the recent exam, I have observed that the CFA Institute is increasing the weight of options pricing questions in the exam."
Has Dalton or Morales violated Standard Vll(A): Conduct as Members and Candidates in the CFA Program?

A. No, because both shared their opinions regarding the exam.

B. Yes, because Dalton undermined the integrity of the CFA exam process.

C. Yes, because Morales disclosed confidential information with respect to the CFA exam.

The correct answer is **C.**

Morales violated Standard VII(A) by disclosing specific exam detail. When expressing a personal opinion, a candidate/member is prohibited from disclosing content-specific information including any actual exam question and the information as to subject matter covered or not covered in the exam. The standard does not prohibit a member or candidate from expressing opinions regarding the CFA program or CFA Institute. Members are free to disagree and express their disagreement with CFA Institute on its policies, procedures or any advocacy positions taken by the organization.

**A is incorrect.** While it is true that both Dalton and Morales shared their opinions regarding the exam, the key issue with Morales's statement is not the expression of an opinion but the disclosure of specific exam content, which is a violation of Standard VII(A).

**B is incorrect.** Dalton's comments about the difficulty level of the exam and the strictness of the grading process do not undermine the integrity of the CFA exam process. His statements reflect a personal opinion and do not disclose any specific exam content or details.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3033 Jasmine Porter, CFA, is a highly regarded portfolio manager at Sebastian Advisors. Porter has been managing a fund known as Porter Fund for the last 15-years by investing in stocks that give steady high dividends. Porter states in a brochure sent to potential clients, "As a CFA charter holder, I can achieve better performance results. I am hopeful that this year, my fund can achieve 25% return, but cannot guarantee it. However, based on my last 15 years of historical performance, I can assure you that my fund will achieve at least 15% return before taxes."
According to the CFA Institute Code of Ethics and Standards of Professional Conduct, Porter *most likely* violated the standard concerning:

A. Performance presentation.

B. Responsibility as a CFA Institute member and candidate.

C. Performance presentation and responsibility as a CFA Institute member and candidate.

The correct answer is **C.**

Porter has violated Standard III(E): Performance Presentation by assuring a 15% return and linking past performance to future performance. Porter has also violated Standard Vll(B): Reference to the CFA Institute, the CFA designation, and the CFA program. The standard prohibits promotional efforts that make promises or guarantees that are tied to the CFA designation.

**A is incorrect.** It identifies only one of the violations committed by Porter. While it is true that Porter violated Standard III(E): Performance Presentation by making assurances about future returns based on past performance, this option overlooks the additional violation of Standard VII(B) concerning the inappropriate reference to the CFA designation.

**B is incorrect.** It also identifies only one of the violations. Porter indeed violated Standard VII(B) by improperly leveraging her CFA charterholder status in promotional materials.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3038 Carol Olson is an advisor for many individual and institutional accounts at Holmes Advisors Services. Last week, the firm announced a new 'buy' recommendation for the stock of Chad Inc. with a statement that trading restrictions for firm's employees are now in effect for two trading days. After the announcement, Olson made calls to his institutional clients and to his uncle Beck who have accounts with him and advised them to buy the stock. Later in the day, he sent a 'buy' recommendation through email to all of his clients. By the second day, after having carefully checked that all the suitable clients had purchased shares, Olson bought a few shares for his own account.
Olson has *least likely* violated the CFA Institute Standards of Professional Conduct relating to:

A. Suitability.

B. Fair dealing.

C. Priority of transactions.

The correct answer is **A.**

Olson has violated fair dealing by giving an unfair advantage to some of his clients. Olson has also violated priority of transactions in not abiding by the rules of his organization. Clients and employers must have priority over investment transactions in which member or candidate is a beneficial owner.

**B is incorrect.** Olson has indeed violated the principle of fair dealing, which requires that investment professionals deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, or taking investment action.

**C is incorrect.** Olson has also violated the standard concerning the priority of transactions. This standard mandates that investment professionals must give precedence to client transactions over those in which they have a personal interest.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3041 Marvin Beck manages high-net-worth accounts for Patel Capital Management. One of his clients is Oren Bates for whom Beck manages a high-growth equity account. For his analysis, Beck relies on a third-party research firm that conducts research only on high-growth firms. Beck also preferred to use the services of Nunez Brokerage for all of his clients. Nunez charges a slightly high commission, but offers a variety of valuable research and models on complex bonds structures and fixed income instruments to benefit his clients.
With reference to the account of Oren Bates, is Beck in compliance with the CFA Institute Code and Standards of Professional Conduct?

A. Yes, he is in compliance with the Code and Standards.

B. No, he has violated Standard V(A): Diligence and Reasonable Basis.

C. No, he has violated Standard lll(A): Loyalty, Prudence, and Care.

The correct answer is **C.**

Beck has violated Standard lll(A): Loyalty, Prudence, and Care. Brokerage commission is the asset of the client and should only be used for the benefit of the client. Beck prefers Nunez Brokerage which charges a high commission and provides data and models that benefit only those clients who have invested in fixed income instruments. The client brokerage does not benefit Oren Bates and other clients who have equity accounts only.

Reliance on third-party research is not a violation unless the member has reason to suspect their ability and competence.

**A is incorrect.** This option suggests that Beck is in full compliance with the Code and Standards. However, by preferring a brokerage that charges higher commissions for services not applicable to all clients, Beck potentially compromises on the principle of acting in the best interest of his clients, specifically those with equity accounts.

**B is incorrect.** While Standard V(A): Diligence and Reasonable Basis is crucial, the primary issue in this scenario is not about the diligence or the basis of Beck's investment decisions.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3045 Debbie Spears is a renowned financial analyst at Flexible Investing (FLIN), an asset management firm with a large client base in the U.S. Spears is admired for her expertise in the financial community and has gained a high standing amongst the top-ranked analysts of the industry. Based on an independent analysis, Spears changed her recommendation for OXI Ltd.'s stock from 'sell' to 'buy.' Just now, Spears is preparing for an interview with Martha Webb, her client and the host of a popular talk show, where she plans to discuss her changed recommendation for the first time in public. Just before the interview, she talks about the reasons underlying the altered recommendation with Webb, who quickly buys some OXI stock for herself. Has Webb *most likely* violated the CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, because she traded based on material nonpublic information.

C. Yes, but only because she did not give time for the information to be disseminated widely.

The correct answer is **A.**

Webb is a client of Spears. She has all the right to obtain early access to the information prior to publication. Hence, Webb's purchase of OXI's stock is not in violation of the standards.

**B is incorrect.** However, the context provided indicates that Webb, as Spears' client, was privy to the recommendation change as part of the client-analyst relationship. The CFA Institute Standards of Professional Conduct accommodate the sharing of investment insights with clients ahead of public dissemination, provided it does not involve misuse of material nonpublic information for insider trading.

**C is incorrect.** She did not allow time for the information to be widely disseminated misinterprets the nature of the interaction between Webb and Spears. The standards do not explicitly require a waiting period between the time a client receives a recommendation and when they can act on it.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3048 Claire Benedict is a research analyst at a capital management firm. As a recent assignment, Benedict prepared a report on Zee Enterprises (ZEN) forecasting the earnings per share for the coming five years. Given historical evidence, Benedict used scenario analysis with scenarios ranging from extremely positive to neutral (stable economy). ZEN had never experienced extremely large losses for the past ten years, so Benedict did not include such extreme values in her analysis. She performed a comprehensive analysis of the scenarios included and took a probability-weighted value of EPS for ZEN.
In preparing the research report, did Benedict violate Standard I(C): Misrepresentation of the CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, because she misrepresented the true economic value of the investment.

C. Yes, because she took a probability-weighted value of EPS for ZEN.

The correct answer is **B.**

Benedict should include the worst-case scenario even if it is an unlikely outcome. By not including the worst-case as a possible outcome, Benedict misrepresented the true economic value of the investment.

The fact that she used a probability-weighted value of EPS for ZEN is not indicative of violating the standard on Misrepresentation in itself.

**A is incorrect.** She performed a comprehensive analysis of the scenarios included and took a probability-weighted value of EPS for ZEN. However, the completeness of an analysis is not solely determined by the depth of examination of selected scenarios but also by the range of scenarios considered.

**C is incorrect.** The use of a probability-weighted value of EPS for ZEN, in itself, does not constitute a violation of Standard I(C): Misrepresentation. Probability-weighting is a common and accepted practice in financial analysis, used to account for the varying likelihoods of different scenarios.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3057 Grandiose Investments (GRINV) offered an All Equity Fund to investors that wanted exposure to equity securities offering high returns. The fund also provided exposure to international stocks, including emerging market equities. Due to its success last year, the fund attracted a number of private wealth clients and gained considerable popularity amongst investors. Many clients with below-average risk tolerance also opted to invest in the fund.
To be in compliance with Standard III(C): Suitability, and Standard V(A): Diligence and Reasonable Basis, GRINV should *most likely*:

A. Discuss the suitability of the fund first and then invest for clients who still opt for the fund after the discussion.

B. Invest for all clients willing to opt for the fund.

C. Decline new customers if those customers' stated requirements are significantly out of line with the investment decisions of the fund.

The correct answer is **C.**

Members or candidates should decline new customers if those customers' requested investment decisions are significantly out of line with their stated requirements.

**A is incorrect.** While discussing the suitability of the fund with clients is an important step, merely having a discussion does not fully align with the principles of ensuring that investment decisions are suitable for the client's financial situation and risk tolerance.

**B is incorrect.** Investing for all clients willing to opt for the fund without a thorough assessment of each client's risk tolerance, financial situation, and investment objectives is a clear violation of Standard III(C): Suitability.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3063 Thomas Lo, CFA, holds supervisory responsibilities at his investment firm and also heads a team of seven portfolio managers. James Ogle, CFA, is one of the portfolio managers in his team. Ogle has managed to work at the firm while studying to earn an MBA. Just recently, Ogle was required to provide a recommendation concerning a technology stock. With his exam due the next day, Ogle created a report based on a few articles and the market consensus. The report was disseminated to the firm's clients.
Have Lo and Ogle *most likely* violated the CFA Institute Standards of Conduct?

A. Only Lo has.

B. Only Ogle has.

C. Both Lo and Ogle have.

The correct answer is **C.**

Ogle has violated the Standards because he did not perform a complete analysis of the security in question. Lo has violated the Standards since he allowed the report to be submitted without confirming that the report had a reasonable and adequate basis.

**A is incorrect.** Suggesting that only Thomas Lo has violated the Standards overlooks the responsibility of James Ogle in this scenario. While Lo, as a supervisor, has the responsibility to ensure that the reports disseminated to clients have a reasonable and adequate basis, Ogle also has a direct obligation to perform a thorough analysis before making any investment recommendation.

**B is incorrect.** As a supervisor, Lo is required to oversee the work of his team members, including Ogle, to ensure compliance with professional standards. By allowing the report to be disseminated without verifying its thoroughness and adequacy, Lo failed to fulfill his supervisory duties.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3074 Nate Shaw is a freelance investment advisor and research analyst who has managed to gain considerable respect and status in the financial community. Shaw's work is followed by many top financial journals and capital management companies. Most of his research has proven accurate over time, which is why, whenever Shaw changes a recommendation about a stock, the stock's market price changes accordingly. Just recently, Shaw compiled a research report about a firm using extensive competitor and industry data. Shaw disseminated the report to all of his subscribers.
Shaw's actions are *most likely* in:

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

B. Violation with the CFA Institute Standards of Professional Conduct since he gave a preferential treatment to his subscribers.

C. Violation with the CFA Institute Standards of Professional Conduct since the report will be considered material information and should be first disseminated publicly.

The correct answer is **A.**

Shaw's actions are in compliance with the CFA Institute Standards of Professional Conduct. Shaw is not a company insider and does not have access to inside information. He is using public information and his expertise to write the report. Even if the report might have a material impact on the stock's price, Shaw does not have to disseminate the information publicly. Investors can pay to become Shaw's subscribers to gain access to his expertise.

**B is incorrect.** This option incorrectly suggests that Shaw's actions might be in violation due to preferential treatment of his subscribers. However, the CFA Institute Standards of Professional Conduct allow for the dissemination of investment research to subscribers as long as the information is not based on material non-public information and all subscribers receive the same information without undue delay.

**C is incorrect.** The assertion that Shaw's report constitutes material information that must be disseminated publicly misinterprets the nature of Shaw's work and the applicable standards. Shaw is not an insider of the companies he analyzes; he bases his reports on publicly available data and his professional analysis.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3076 Sharon Nelson works for a reputable U.S. based capital management firm. Nelson's primary responsibilities at the firm include ensuring that there is an effective firewall procedure and a reporting system in place at his firm and providing assistance in the firm's research and brokerage projects. Nelson has the sole authority to analyze whether or not any specific information is material and whether it can be used as the basis for investment decisions.
Is Nelson's role as a supervisor or compliance officer *most likely* in accordance with the CFA Institute Standards of Professional Conduct?

A. Yes.

B. No, because Nelson should be assisted by one or more compliance officers to ensure appropriate supervision.

C. No, because Nelson's role in the firm does not allow him to hold the responsibilities of a compliance officer.

The correct answer is **C.**

To ensure best practices, the supervisor or compliance officer responsible for communicating information to a firm's research or brokerage area should not be a member of that area.

**A is incorrect.** While it might seem that having a comprehensive role within the firm could be efficient, it actually contravenes the principles of the CFA Institute Standards of Professional Conduct.

**B is incorrect.** This option suggests that the issue with Nelson's role could be resolved by simply adding more compliance officers for assistance. While having additional compliance officers could help in managing the workload and ensuring thorough supervision, it does not address the fundamental problem of combining supervisory, compliance, and research roles in a single position.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3079 Mike Andrews, a research analyst, covers the automobile industry for the US market. Just recently, Andrews was invited by the CEO of Speed Motors (SMO), a firm that he covers, for a discussion on the future prospective clients of the international automobile industry. Before accepting their invitation, Andrews gained the approval of his employer. During his visit, the CEO invited him for dinner at an expensive restaurant to meet with the financial team at SMO and to discuss matters further. Upon returning back to the office, Andrews provides a complete review of the meeting along with details about the dinner.
To be in compliance with the Standard IV(B): Additional Compensation Arrangements of the CFA Institute Standards of Professional Conduct, Andrews should have:

A. Done nothing more.

B. Gained his employer's approval prior to accepting the dinner invitation.

C. Not accepted the dinner invitation since it was an upscale restaurant.

The correct answer is **A.**

Andrews's actions do not violate the Standards since he gained the prior approval of his employer. Andrews did not know about the dinner beforehand and he informed his employer as soon as he returned. This way, his employer can assess whether attending the dinner will have any impact on future recommendations by Andrews.

**B is incorrect.** Andrews had already gained his employer's approval prior to accepting the invitation to discuss the future prospects of the international automobile industry with the CEO of SMO. The dinner invitation came as an extension of this meeting, and Andrews reported the details of the dinner upon his return.

**C is incorrect.** It was at an upscale restaurant does not align with the requirements of Standard IV(B). The standard focuses on the disclosure of and obtaining consent for additional compensation arrangements that might conflict with an employer's interest.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3084 Rick Smith is an investment analyst for Candlewick Enterprise (CWE), a firm that offers statistical financial modeling services. Just recently, Smith was asked by one of his clients to develop a model forecasting the returns to options on commodity forward contracts. The client believes that positive returns could be earned over the coming six months by cashing in on the mispricing in the market. In his attempts to capture returns before the mispricing is corrected, Smith develops a model that requires investment in several components of the commodity market.
Thoroughly investigating the individual parts of the model to ensure positive returns, Smith implements the strategy piece by piece for his client.

With regards to the above strategy, has Smith *most likely* violated Standard V(A): Diligence and Reasonable Basis of the CFA Institute Standards of Professional Conduct?

A. No, because he thoroughly investigated the model before implementation.

B. Yes, because he failed to adequately review the whole model before implementation.

C. Yes, because he failed to determine the suitability of the investment given the client's needs and objectives.

The correct answer is **B.**

Although Smith tested the individual parts of the model thoroughly, he failed to ensure a complete review of the whole model. In doing so, Smith failed to develop an integrated model and determine how the individual parts interacted to affect the strategy as a whole.

**A is incorrect.** While Smith did investigate the individual components of the model thoroughly, this does not suffice to meet the requirements of Standard V(A). The standard emphasizes the importance of a comprehensive review and understanding of the investment strategy as a whole, including how different components interact and affect the overall strategy.

**C is incorrect.** The information provided does not indicate that Smith failed to determine the suitability of the investment given the client's needs and objectives. The violation pertains specifically to the lack of a comprehensive review of the entire model before its implementation.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3085 Craig Brown, a financial analyst, held a meeting with Eric Mark, one of his clients, to discuss future investment opportunities. Mark stated that his current portfolio was too risky and instructed Brown to invest in a mutual fund that offered a reasonable return for sufficiently low risk. After the meeting, Brown analyzed the fund's past performance record, fee structure, risk profile, and investment universe. Based on his analysis, Brown recommended the fund to Mark and invested 15% of his portfolio in it. Two months later, the fund earned a negative return of 20% which resulted in Mark's portfolio experiencing a considerable loss.
To ensure that he did not violate the CFA Institute Standards of Professional Conduct, Brown should have:

A. Stated clearly that the fund could earn negative returns.

B. Done nothing more since he followed the appropriate procedure for investing.

C. Maintained the current risk profile of Mark's portfolio and not invested in the mutual fund.

The correct answer is **B.**

Brown has a reasonable basis for his recommendation and has also judged the suitability of the investment for Mark. An analyst cannot guarantee that the investment will not earn unexpected negative returns (by analyzing the risk profile, Brown performed his duty well). Hence, Brown followed the appropriate procedure for investing.

**A is incorrect.** While it is important to communicate the risks associated with any investment, including the possibility of negative returns, the option oversimplifies the responsibilities of a financial analyst. Brown's analysis and consideration of the mutual fund's risk profile imply that he would have discussed the inherent risks with Mark during the recommendation process.

**C is incorrect.** Maintaining the current risk profile of Mark's portfolio without considering the potential for better-suited investment opportunities would not necessarily align with the best interests of the client.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3092 Jo Crowley is a research analyst who covers the stock of Globe Enterprises (GLEN), a large-cap firm based in the U.S. A week ago, Crowley bought only 100 shares of the stock for his personal portfolio. Crowley is currently writing a report on the stock and, after thorough analysis and a comprehensive study of GLEN's financials and competitors, Crowley gives a 'buy' recommendation on the stock. The report does not mention his ownership of the stock since the holding is not material. It is believed that the stock may rise by 15% after the release of Crowley's report.
With regards to the report, has Crowley *most likely* violated Standard VI: Conflicts of Interest?

A. Yes.

B. No, since the amount he owns is not material and hence, he does not need to disclose it.

C. No, since he reached his conclusion after proper due diligence and had a reasonable basis for his recommendation that was not biased.

The correct answer is **A.**

Even though the holding is not material, Crowley should disclose this information in the report and to his employer before writing the report because he would gain considerably if the market responds the way it is expected to.

**B is incorrect.** The amount he owns is not material and hence does not need to be disclosed. However, the materiality of the holding does not negate the requirement for disclosure under Standard VI: Conflicts of Interest.

**C is incorrect.** He reached his conclusion after proper due diligence and had a reasonable basis for his recommendation overlooks the core issue of potential conflict of interest. While due diligence and a reasonable basis for recommendations are crucial, they do not exempt an analyst from disclosing personal investments that could be perceived as influencing their professional judgment.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3094 Eric Kops is a financial consultant preparing for a meeting with one of his clients, a $50 million pension portfolio of Supreme Enterprises (SUPE). At the start of the meeting, Kops recommends the CFO of SUPE to invest 5% of the fund in the oil sector of the U.S. market. Kops then presents him with a detailed analysis of the oil sector, including past performance trends, changing economic circumstances, and predicted future rates of return. Kops also states why he considers the sector to be suitable for SUPE's pension portfolio. After the meeting, Kops examines the performance of his own personal portfolio. Given his need for cash to make a mortgage payment, he sells most of his holdings in oil stocks. He does not inform SUPE's CEO of this transaction.
With regards to the transaction for his personal portfolio, Kops has *most likely*:

A. Complied with best practice.

B. Violated best practice by going contrary to his recommendation.

C. Violated best practice by not informing his client and his employer about the transaction.

The correct answer is **A.**

Kops did not violate best practices. The sale may be contrary to the long-term advice he has given to SUPE, but he needs cash to make a mortgage payment, which is a genuine concern. There is no evidence that the client has been disadvantaged in any way, so Kops did not violate any standard.

**B is incorrect.** They appear contrary to his recommendation to SUPE. However, the ethical guidelines in the financial industry recognize that personal financial decisions, such as needing liquidity for significant expenses, are separate from professional recommendations made to clients.

**C is incorrect.** The assertion that Kops violated best practices by not informing his client and his employer about the transaction misinterprets the requirements for disclosure in the financial industry. While transparency regarding potential conflicts of interest is crucial, not every personal financial transaction necessitates disclosure to clients or employers.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3105 Thompson Walsh, a portfolio manager serving an asset advisory firm, has generated exceptional performance for client accounts for the past three consecutive years. Upon reviewing his performance, Walsh is approached by the CEO of Tecra Limited, who is seeking to appoint him as manager for its investment portfolio. Walsh is invited by the CEO to visit the company's headquarters which are located in a neighboring country and is offered a fully paid, round-trip ticket with hotel accommodation. Walsh accepts the offer after gaining written approval from his employer.
By accepting the offer, has Walsh violated any CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, he should have paid for the hotel accommodation.

C. Yes, the offer is a potential conflict of interest, and he should have declined.

The correct answer is **A.**

By accepting the offer, Walsh has not violated any standards. Standard IV(B): Additional Compensation Arrangements requires members and candidates to seek written permission from all relevant parties involved prior to the acceptance of gifts, benefits, compensation or consideration that might reasonably be expected to create a conflict of interest with their employer's interest. By gaining approval from his employer, the acceptance of the offer does not represent a violation of the Standards of Professional Conduct.

**B is incorrect.** This option incorrectly suggests that Walsh should have paid for the hotel accommodation to avoid violating the CFA Institute Standards of Professional Conduct. However, the Standards do not prohibit accepting such offers as long as written consent is obtained from the employer.

**C is incorrect.** The assertion that the offer is a potential conflict of interest and that Walsh should have declined it overlooks the crucial step Walsh took to mitigate any such conflict by obtaining written approval from his employer.

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Q.3107 Mike Allen, CFA, is an equity research analyst serving Prime Brokers. Allen also maintains an independent blog in which he posts investment recommendations on hedge funds employing equity strategies. In addition to his blog, Allen has created a Facebook page that is used to notify followers about new or revisions in recommendations with further details being disclosed on the blog page. His Facebook page is followed by a majority of his fee-paying followers to the exclusion of a select few. Allen is currently exploring a market-neutral hedge fund. After consulting a leading analyst report written on the fund as well as surveying market-neutral hedge funds, Allen concludes that the fund is a strong investment candidate. He posts a 'buy' recommendation on his Facebook page, and an hour later, he creates a new blog entry discussing the recommendation in detail.
Has Allen violated the CFA Institute Standards of Professional Conduct with respect to the release of the investment recommendation?

A. No.

B. Yes, he has not treated all his clients fairly.

C. Yes, he has not conducted proper due diligence.

The correct answer is **B.**

Allen is in violation of the CFA Institute Standards of Professional Conduct by not treating all his clients fairly with respect to the dissemination of the investment recommendation. Not all his fee-paying followers are active users of Facebook, and they, therefore, receive the news of the latest investment recommendation an hour later, when it is posted on the blog. Standard III(B): Fair Dealing requires members and candidates to treat all clients fairly when making investment recommendations, taking investment action and providing investment analysis.

**A is incorrect.** It suggests that Allen has not violated any CFA Institute Standards of Professional Conduct. However, by not ensuring that all his fee-paying followers received the investment recommendation at the same time, Allen has indeed violated Standard III(B): Fair Dealing.

**C is incorrect.** Allen has conducted adequate due diligence as his investment recommendation is based on more than one resource.

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Q.3112 Carl Summers is a portfolio manager at Right York Associates. He oversees thirty private wealth client accounts. Jill Davis is one of Summers' clients who has instructed her manager to place all equity trades through Safe House Brokers, a firm that has a proven historical record of above-average equity returns. Safe House Brokers charges a fee higher than the brokerage firm currently being used by Summers. However, the only disclosure Summers makes to Davis with respect to the brokerage arrangement is: "Safe House Brokers has enjoyed successful performance results in the past, and I strongly believe this trend to continue in the foreseeable future."
ls Summers in violation of any CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, he is guaranteeing performance results.

C. Yes, he should disclose to Davis that she will not be receiving the best price for her trades.

The correct answer is **A.**

Summers is not in violation of any CFA Institute Standards of Professional Conduct.

**B is incorrect.** Summers is not attempting to guarantee performance results. He is merely stating his expectations of Safe House Broker's future performance on client accounts as an opinion; this is evident by his use of the term 'believe.'

**C is incorrect.** Davis is receiving the best price for her trades as the fees charged by the brokerage firm are justified by exceptional performance results. Therefore, Summers is not required to make any further disclosures with respect to the high fees charged by the broker.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3115 Cynthia Burns is an investment officer at Regal Associates, a wealth management firm. Burns manages the investment account of Ocean Limited's (OL) defined benefit pension plan. Burns came to know of OL through her maternal aunt, who holds shares in the company. Burns has only disclosed this fact to OL's chief executive officer who hired her as an investment officer. Later on, OL's CEO pushes Burns to get a higher return on the fund, so she sells 20% of the portfolio that was invested in bonds and purchases only emerging market securities after receiving approval from OL's CEO. Because of the higher risk associated with these securities, the performance of OL's pension plan was much better than in previous years. In return for the exceptional performance on the securities purchased, Burns is offered a full-time position as OL's chief investment advisor to which Burns refuses. Burns does not disclose the details of the offer to his employer.
Burns is *most likely* in violation of the CFA Institute Standards of Professional Conduct because she failed to:

A. Disclose her aunt's holding of OL shares to plan participants.

B. Identify her actual clients when making investment decisions.

C. Disclose the details of the potential offer from OL to her employer.

The correct answer is **B.**

Burns is in violation of the CFA Institute Standards of Professional Conduct because she failed to consider the plan participants as actual clients when making investment decisions. As the investment officer of OL's defined benefit pension fund, Burns duty of loyalty is owed to plan participants. Therefore, Burns should have made investment decisions in the context of the best interest of plan participants and not the chief executive officer. As such, Burn should not have listened to the CEO and try taking more risk by selling bonds and investing in emerging market securities. (Standard III(A): Loyalty, Prudence, and Care).

**A is incorrect.** A member's or candidate's holding of a stock or that of a direct relation's, which he or she recommends to clients, constitutes a potential conflict of interest that ought to be disclosed. However, a maternal aunt is too remote of a relationship to constitute an actual or potential conflict of interest. (Standard VI(A): Disclosure of Conflicts)

**C is incorrect.** The CFA Institute Standards of Professional Conduct requires disclosing details of a potential employment offer to the existing employer prior to acceptance. However, because Burns declined the offer, disclosure is not warranted.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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Q.3118 Harold Klein and Octavia Poole are two credit analysts serving Lime House, a bond ratings firm. Both Klein and Poole cover the airplane industry. The credit analysts' working spaces are situated adjacent to each other and are separated by a glass wall that is not soundproof. During a typical working day, as Poole is completing a credit analysis report on one of her clients, she overhears Klein discussing a bond rating he intends to issue for Starlight, one of his clients. Although Klein takes caution in keeping his voice low when speaking over the phone, Poole manages to decipher that the Starlight issue will be downgraded from AA+ to B. Unknown to Poole, Klein's wife, who is a self-employed investment manager, is on the other end of the line.
Poole's best course of action would be to disclose the information received to:

A. her supervisor.

B. her supervisor and all of her colleagues.

C. regulatory authorities as Klein is divulging confidential information.

The correct answer is **A.**

Poole's best course of action would be to disclose the information received to her supervisor. Information concerning a potential change in a client's bond rating is material, nonpublic, and confidential. Therefore, the accidental receipt of this information should not be disclosed to anyone except her immediate supervisor.

**B is incorrect.** Advising Poole to disclose the information to her supervisor and all of her colleagues would be an inappropriate course of action. Sharing sensitive, non-public information with a broader audience than necessary could lead to unintended dissemination of the information, potentially affecting market dynamics or the firm's reputation.

**C is incorrect.** There is no legal obligation for Poole to disclose the fact that Klein was sharing confidential client information to his wife to legal and regulatory authorities.

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Q.3119 Sara Williamson's investment account is managed by Jeanne Travis, an investment officer at Secure Investments, a portfolio management firm. Williamson is a widow who heavily relies on her investment portfolio to fund her children's college education. In addition, her financial circumstances are such that she cannot afford taking high levels of risk. Travis is currently exploring a highly leveraged hedge fund that takes positions in emerging market securities. She allocates holdings of the fund to the majority of her clients' account but purposely excludes Williamson's account. After learning of the hedge fund allocation, Williamson writes a letter to Travis indicating that she was treated unfairly.
By excluding Williamson's account from the allocation, has Travis violated the CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, she has failed to consider client suitability.

C. Yes, she has adopted unfair trade allocation procedures.

The correct answer is **A.**

Travis has not violated the CFA Institute Standards of Professional Conduct by excluding Williamson's account from the allocation. Given Williamson's below-average risk tolerance and financial conditions, the hedge fund is an unsuitable investment choice for her account. Standard III(C): Suitability requires members and candidates to determine whether an investment is suitable for the client's financial situation and objectives. The hedge fund investment is clearly unsuitable.

**B is incorrect.** This option misinterprets Travis's actions as a failure to consider client suitability. On the contrary, Travis's decision to exclude Williamson's account from the hedge fund allocation was a direct result of considering Williamson's low risk tolerance and the need for financial stability to support her children's education.

**C is incorrect.** Because the asset class is unsuitable for Williamson's account, Travis' trade allocation procedures are not unfair.

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Q.3120 Laura Evans manages a fixed-income fund for which she is preparing a quarterly performance report. Most of the constituent fund securities are issued in emerging markets and lack quotable trading prices. Evans relies on a matrix pricing model to generate security prices. For calculating fund returns, Evans runs a simulation using past fund returns and extrapolates the results to the present day. ln addition, Evans has designed a compensation scheme for traders, which is disclosed to all clients, whereby each trader is awarded a bonus for every percentage return generated in excess of a benchmark return on a quarterly basis. Each performance report issued to clients discloses the use of simulated performance results only.
Evans is in violation of the CFA Institute Standards of Professional Conduct because she:

A. Did not disclose the use of a matrix pricing model.

B. Used a simulation technique to generate performance results.

C. Based the compensation of traders on short-term performance.

The correct answer is **A.**

Evans is in violation of the standard relating to communication with clients and prospective clients for failing to disclose the investment process used to price securities included in the fund. Although a detailed disclosure of how the pricing technique generates results is unnecessary, Evans should disclose the use of the model with a brief description.

**B is incorrect.** Using a simulation technique to generate fund returns does not represent a violation the standards as long as an adequate disclosure is provided in the performance report. (Standard III(D): Performance Presentation)

**C is incorrect.** Simply basing the compensation of traders on short-term performance does not represent a violation of the CFA Institute Standards of Professional Conduct. However, the compensation structure may create a potential conflict of interest situation in which traders seek to enhance their compensation at the expense of improving fund returns. Therefore, such a potential situation requires disclosures to clients (potential and actual) as well as the employer. (Standard VI(A): Disclosure of Conflicts).

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Q.3121 Mark Thomas has applied for a position at a brokerage house. Thomas completed his CFA Level ll exam in June of the prior year. Due to financial difficulties, he is unable to register for the CFA Level III exam. However, he is confident that if he is hired, he can appear for the exam. During his interview session, Thomas states: "l am a Level ll candidate of the CFA Program. If I am hired, l expect to appear for the CFA Level lll exam in the upcoming exam session."
Thomas' statement is *most likely* in violation because he:

A. Uses 'a' before 'Level ll.'

B. Has considered himself as an active candidate.

C. Has overstated the implication of candidacy in the CFA Program.

The correct answer is **B.**

Thomas' statement is in violation of the CFA Institute Standards of Professional Conduct because he has considered himself as an active candidate when stating that he is a Level ll candidate and expects to appear for the CFA Level lll exam if he is hired. Thomas has not yet registered for the exam, and until he does so, he cannot identify himself as an active candidate. (Standard Vll(B): Reference to CFA Institute, the CFA Designation, and the CFA Program)

**A is incorrect.** Thomas has not violated the Professional Conduct Standards by using the term 'a' before CFA Level ll.

**C is incorrect.** There is no evidence to suggest that Thomas has overstated the implication of candidacy in the CFA Program.

***CFA Level I, Ethics, Learning Module 5: Ethics Application. LOS (b): Explain how the practices, policies, and conduct do or do not violate the CFA Institute Code of Ethics and Standards of Professional Conduct.***

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