Level I of the CFA® 2025 Exam

Questions with Answers - Ethics

Offered by AnalystPrep

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Learning Module 1: Ethics and Trust in the Investment Profession

Q.2703 Which of the following statements is *most likely* to be true?

A. A code of Ethics is the benchmark for minimally acceptable behaviors of members of a community.

B. A profession is characterized by specialized knowledge and skills, a commitment to serve others, and a common code of ethics.

C. Loyalty to the employer, overconfidence, and prestige are some of the internal traits that can cause a member or candidate to make a poor ethical decision

The correct answer is **B.**

A profession is distinct from an occupation through many features such as specialized knowledge and skills, service to others, and a common code of ethics.

A is incorrect. Standards of conduct serve as the benchmark for the minimally acceptable behaviors for the members of a community. On the other hand, the code of ethics serves as a general guide on how community members should act.

C is incorrect. Among the stated traits, overconfidence is an internal trait. Loyalty to the employer and prestige are some of the situational influences that can lead to poor decision-making.

CFA Level I, Ethics, Learning Module 1: Ethics and Trust in the Investment Profession. LOS (c): Describe professions and how they establish trust.

Q.2705 Which of the following serves as a benchmark of minimally acceptable behavior for members and candidates?

A. Code of Ethics.

B. Moral principles.

C. Standards of Conduct.

The correct answer is **C.**

According to the CFA Curriculum, the Standards of Conduct serve as a benchmark for minimally acceptable behavior of community members and can help to clarify the code of ethics.

A is incorrect. According to the CFA Curriculum, "specific communities or societal groups in which we live and work sometimes codify their beliefs about obligatory and forbidden conduct in a written set of principles, called a code of ethics."

B is incorrect. Moral principles are beliefs based on good, acceptable, or obligatory behavior and bad, unacceptable, or forbidden behavior.

CFA Level I, Ethics, Learning Module 1: Ethics and Trust in the Investment Profession. LOS (b): Describe the role of a code of ethics in defining a profession.

Q.2706 Which of the following statements is *least likely* accurate?

A. When decision-making focuses on short-term factors, the likelihood of ethical conduct increases.

B. External factors, such as environmental impacts and cultural events, are the greatest indicators of ethical behavior.

C. Situational influences can influence someone to act in their short-term interests without recognizing the long-term risks or consequences for themselves and others.

The correct answer is **A.**

A focus on short-term factors decreases ethical conduct by inciting CFA members and candidates to ignore long-term, negative consequences of their actions.

B and C are incorrect. They are accurate statements. Situational influences can influence someone to act in their short-term interests without recognizing the long-term risks or consequences for themselves and others. Situational influences are external factors such as environmental impacts, and cultural events are the greatest indicators of ethical behavior.

CFA Level I, Ethics, Learning Module 1: Ethics and Trust in the Investment Profession. LOS (f): Identify challenges to ethical behavior.

Q.2709 Which of the following is *most likely* accurate?
A professional code of ethics:

A. Outlines disciplinary action for violations of the code.

B. Guarantees that members of that professional will behave ethically.

C. Publicly communicates shared values and expected behaviors of members of a profession.

The correct answer is **C.**

A professional code of ethics primarily serves to publicly communicate the shared values and expected behaviors of members within a profession. This is crucial for establishing a common understanding of ethical standards and practices that are deemed acceptable and expected within a professional community. By clearly articulating these values and behaviors, a code of ethics helps to guide members in their professional conduct, ensuring that their actions align with the ethical standards of their profession. Furthermore, it serves as a reference point for evaluating the ethicality of members' actions, thereby promoting accountability and integrity within the profession.

A is incorrect. While a professional code of ethics may outline the principles and behaviors expected of its members, it is not primarily focused on detailing disciplinary actions for violations of the code. Disciplinary procedures and consequences are typically addressed in separate governance documents or policies within the organization or professional body. The main purpose of a code of ethics is to establish and communicate the ethical standards and expectations for professional conduct, rather than to serve as a punitive guideline for violations.

B is incorrect. A professional code of ethics cannot guarantee that all members of the profession will behave ethically. Human behavior is influenced by a multitude of factors, and even with a clear set of ethical guidelines, individuals may still choose to act unethically. The purpose of a code of ethics is to set a standard for ethical behavior and to encourage members to adhere to these standards. However, it does not have the power to ensure compliance or to prevent all unethical behavior. The effectiveness of a code of ethics in promoting ethical conduct among its members also depends on the enforcement of the code and the culture of integrity within the profession.

CFA Level I, Ethics, Learning Module 1: Ethics and Trust in the Investment Profession. LOS (b): Describe the role of a code of ethics in defining a profession.

Q.2711 Which of the following statements is *most likely* accurate?

A. Differences in laws across countries determine different behavior between CFA members and candidates.

B. Moral principles serve as benchmarks for the minimally acceptable behavior of community members and can help clarify the code of ethics.

C. Within the investment industry, a CFA member or candidate will always establish ethical behavior by strictly adhering to the laws of the country in which he/she operates.

The correct answer is **A.**

Differences in laws may reflect differences in beliefs and values. For example, one country may require an investment professional to act in the client's best interest, meaning that clients' interests must come before their own or that of employers. Another country may require that investment professionals must act in a way that is suitable for their clients. In this case, one must understand clients' circumstances, objectives, and risk tolerance before making recommendations.

B is incorrect. According to the CFA Curriculum, the Standards of Conduct serve as a benchmark for minimally acceptable behavior of community members and can help to clarify the code of ethics.

C is incorrect. There are numerous cases where a country's laws are insufficient to cover the CFA Institute's Code of Ethics and Standards of Behavior. Therefore, although there may be overlap between laws and ethics, one cannot assume they are equivalent.

CFA Level I, Ethics, Learning Module 1: Ethics and Trust in the Investment Profession. LOS (b): Describe the role of a code of ethics in defining a profession.

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

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

A. If local laws are less strict than the Code and Standards, members must only follow applicable law.

B. If an applicable law is stricter than the Code and Standards, members must adhere to applicable law.

C. If an applicable law is stricter than the Code and Standards, members must adhere to either applicable law or the Code and Standards.

The correct answer is **B.**

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

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

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

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

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

A. Gifts from a client.

B. Gifts from external sources seeking to influence the member.

C. All gifts are regarded as the same by the Code and Standards.

The correct answer is **B.**

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

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

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

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

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

A. Avoiding odd-lot distributions.

B. Not forgoing any sales to himself.

C. Prorating to all clients for whom the issue is appropriate.

The correct answer is **B.**

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

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

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

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

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

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

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

C. It is not the supervisor's responsibility to ensure that investment reports of a research effort are compliant with the Code and Standards.

The correct answer is **C.**

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

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

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

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

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

A. Material Public Information may consist of discussions with management that may reveal information that isn't material but may give valuable clues.

B. A firewall is a common term applied to the barriers created to prevent sensitive information from being disseminated between departments of a firm.

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

The correct answer is **A.**

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

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

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

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

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

A. The activity can be pursued even if it violates the Standards.

B. The activity can be pursued only if it does not violate the Standards.

C. There is no need to verify what the Standards have to say since the activity is legal.

The correct answer is **B.**

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

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

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

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

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

A. Improving professional competence.

B. Maintain awareness of new rules of the capital markets.

C. Enthuse others to follow professional and ethical norms.

The correct answer is **B.**

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

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

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

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

Q.896 A CFA Institute Designated Officer is *most likely* to conduct inquiries on which of the following basis/bases?
I. Receipt of an oral complaint
II. Self-disclosure by Member

A. I only.

B. II only.

C. I and II.

The correct answer is **B.**

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

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

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

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

Q.898 In which of the following situations can a CFA Institute Designated Officer is most likely to conduct inquiries?
I. Evidence received through a media release
II. Evidence received through a broadcast

A. Only I.

B. I and II.

C. None of the above.

The correct answer is **B.**

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

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

C is incorrect. Both I and II are correct.

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

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

A. Interviewing the member.

B. Interviewing the complainant.

C. No communication with the member.

The correct answer is **C.**

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

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

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

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

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

A. Place the employer's interests above all.

B. Place the integrity of the investment profession above all.

C. Place the interests of the clients above the member's own interests.

The correct answer is **A.**

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

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

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

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

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

A. Prospective clients.

B. All participants in the global capital markets.

C. Both prospective clients and all participants in the global capital markets.

The correct answer is **C.**

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

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

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

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

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

A. Promote the viability of the global capital markets.

B. Promote the integrity of the global capital markets.

C. Promotes both the viability and integrity of the global capital markets.

The correct answer is **C.**

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

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

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

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

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

A. Jail time.

B. Public Censure.

C. Suspension from participation in the CFA program.

The correct answer is **A.**

CFA Institute can't impose jail time.

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

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

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

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

A. Yes, always.

B. Yes, but only if criminal acts have been committed.

C. No, documents are the employer's confidential property and hence cannot be collected.

The correct answer is **A.**

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

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

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

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

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

A. The CFA Ethics Council (EC).

B. The CFA Standards of Practice Council (SPC).

C. The CFA Disciplinary Review Committee (DRC).

The correct answer is **C.**

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

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

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

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

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

A. The member cannot delegate the responsibility of supervision to another employee.

B. The member could violate the Code and Standards if one of the employees of a competing firm violates the Code of Standards.

C. The member must decline to accept the role if the member does not believe that the firm can install procedures that comply with acceptable standards of compliance.

The correct answer is **C.**

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

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

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

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

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

A. It is permissible for Boski to contact his past employer's clients to gain business for his new employer after his departure.

B. It is permissible for Boski to take a list of clients' details as long as the employee believes that he might have replicated the list only from public records.

C. It is permissible for Boski to take a list of clients' details as long as the employee believes that he might have replicated the list from private records and public records.

The correct answer is **B.**

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

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

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

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

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

A. The CFA Institute Board of Governors.

B. The CFA Code and Ethics Commission.

C. The Security and Exchange Commission.

The correct answer is **A.**

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

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

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

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

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

A. The Mosaic Theory is a strategy used by day traders to gain on short-term basis from market imbalances.

B. The Mosaic Theory relates to bull and bear market cycles that tend to follow the Elliot business model cycle theory.

C. There is no prohibition on reaching an investment decision through Public and non-material non-public information.

The correct answer is **C.**

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

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

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

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

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

A. Promote the efficiency and profitability of the capital markets.

B. Violate the integrity, validity, or security of the CFA examinations.

C. Not to engage in any conduct that compromises the reputation of the integrity of the CFA Institute or CFA designation.

The correct answer is **C.**

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

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

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

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

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

A. The Code of Ethics.

B. The integrity of capital markets.

C. The Standards of Professional Conduct.

The correct answer is **A.**

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

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

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

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

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

A. 5 years.

B. 7 years.

C. 9 years.

The correct answer is **B.**

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

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

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

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

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

A. Loyalty, Prudence, and Care.

B. Preservation of Confidentiality.

C. Diligence and Reasonable Basis.

The correct answer is **C.**

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

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

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

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

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

A. Servest Inc. shareholders.

B. Servest Inc. management.

C. The pension fund's participants.

The correct answer is **C.**

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

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

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

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

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

A. At least annually.

B. At least quarterly.

C. At least bi-annually.

The correct answer is **A.**

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

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

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

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

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

A. Act with integrity, suitability, diligence, and respect.

B. Act with integrity, suitability, objectivity, and respect.

C. Act with integrity, competence, diligence, and respect.

The correct answer is **C.**

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

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

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

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

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

A. Provide reference to the S&P 500.

B. Is allowed to use data without acknowledgment.

C. To break Standard I(C): Misrepresentation if the S&P 500 was not acknowledged.

The correct answer is **B.**

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

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

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

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

Q.2448 Which of the following is *least likely* a violation of the Code and Standards?
I. A member anonymously posts on social media, 'Pursuing the CFA charter is not worth the money and effort.'
II. A Candidate reproduces questions in August from the June Level 1 exam for a friend appearing in the December Level 1 exam.
III. A member fails to disclose a written complaint from a client on her annual Professional Conduct Statement (PCS).

A. I only.

B. I & III only.

C. II & III only.

The correct answer is **A.**

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

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

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

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

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

A. Standards III: Duties to Clients.

B. Standards IV: Duties to Employers.

C. Standards V: Investment Analysis, Recommendations, and Actions.

The correct answer is **C.**

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

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

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

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

Q.2454 "Act with integrity, competence, diligence, respect [...] with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.''
CFA Institute members and candidates are required to *most appropriately* follow the statement as mentioned above according to the:

A. Code of Ethics.

B. Standards of Professional Conduct.

C. None of the above.

The correct answer is **A.**

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

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

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

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

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

A. Not engage in practices that distort prices or artificially inflate trading volume.

B. Judge the suitability of investments in the context of the client's total portfolio.

C. Distinguish between fact and opinion in the presentation of investment analysis and recommendations.

The correct answer is **B.**

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

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

C is incorrect. It applies to performance presentation.

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

Q.2559 "Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information."
The preceding statement relates to which Standard of the CFA Code and Standards?

A. Professionalism.

B. The integrity of Capital Markets.

C. Investment Analysis, Recommendations, and Action.

The correct answer is **B.**

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

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

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

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

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

A. Real estate holdings.

B. Beneficial ownership of securities.

C. The small business partnership involving antique resale.

The correct answer is **B.**

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

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

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

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

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

A. Consideration in the form of soft dollars does not have to be disclosed.

B. Consideration in the form of cash, soft dollars, or in-kind must be disclosed.

C. An upgrade to a premium service level as a benefit to referral clients does not have to be disclosed.

The correct answer is **B.**

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

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

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

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

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

A. Discussing analysis with other members in a firm to create group consensus.

B. Tracking co-worker activities to monitor possible violations to the CFA Institute standards.

C. Attending continuing education seminars on investing and inviting colleagues to come along.

The correct answer is **C.**

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

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

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

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

Q.2813 ''Place the integrity of the investment profession and clients' interests above their interests''.
The guideline above is *most likely* part of which of the following?

A. Code of Ethics.

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

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

The correct answer is **A.**

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

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

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

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

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

A. Being convicted of a crime.

B. Suspended by the CFA and disallowed from using the CFA designation.

C. Nothing. It is within a CFA candidate's right to refuse cooperation with an investigation that could be incriminating.

The correct answer is **B.**

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

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

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

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

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

A. Private reprimand.

B. Penalized with a fine.

C. Refusal to allow a candidate to take a CFA exam.

The correct answer is **B.**

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

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

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

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

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

A. Consult SEC guidelines.

B. Make an independent professional judgment.

C. Act in a way that is congruent with one's supervisor.

The correct answer is **B.**

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

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

C is incorrect. It falls under duties to employers.

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

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

A. Maintain and improve professional appearance.

B. Use reasonable care and exercise independent professional judgment.

C. Act with integrity, competence, diligence, respect, and in an ethical manner.

The correct answer is **A.**

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

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

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

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

A. Objective review and due process.

B. Thorough inquiry and stringent discipline.

C. The fair process to Member or Candidate and confidentiality of proceedings.

The correct answer is **C.**

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

The rules of procedure are based on two primary principles:

1) Fair process to Member or candidate and

2) confidentiality of proceedings.

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

(1) interview the subject member,

(2) interview the complainant or other third parties, and or

(3) collect documents and records relevant to the investigation.

B is incorrect. The Professional Conduct staff may decide:

(1) that no disciplinary sanctions are appropriate,

(2) to issue a cautionary letter, or

(3) to discipline the Member or candidate.

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

Q.2819 Which of the following *most accurately* describes the role(s) of the Standards of Practice Council?
I. The Standards of Practice Council is a group of charter holders tasked with maintaining and interpreting the Standards of Professional conduct and making sure they are effective.
II. The Standards of Practice Council is a group of charter holders that handles initial inquiries in concert with a Designated Officer.

A. I only.

B. II only.

C. I and II.

The correct answer is **A.**

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

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

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

A. Yes, the inquiry can be initiated by such a source.

B. No, because the professional conduct staff cannot rely on public sources to initiate an inquiry.

C. No, only self-disclosure or written complaints about a member or candidate can prompt an inquiry.

The correct answer is **A.**

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

(I). Self-disclosure by member/candidate

(II). Written complaints against member/candidates received by professional conduct staff

(III). Evidence of misconduct received through public sources

(IV). Report by CFA exam proctor

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

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

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

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

A. Promptly resign.

B. Dissociate from the activity.

C. Report violations to the CFA Institute.

The correct answer is **B.**

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

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

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

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

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

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

A. Judge the suitability of investments in the context of the client's total portfolio.

B. Make only investment recommendations or take actions consistent with the stated objectives and constraints of the portfolio.

C. Make a reasonable inquiry into a client's investment experience, risk/return objectives, and constraints before making any investment recommendation or taking action.

The correct answer is **B.**

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

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

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

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

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

A. Vote proxies only after conducting a cost-benefit analysis.

B. Vote proxies in a manner that benefits the member/candidate.

C. Avoid voting with management on non-routine governance issues.

The correct answer is **A.**

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

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

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

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

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

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

A. Yes, the candidate has the option to accept or reject the disciplinary sanction.

B. No, the candidate has to accept the disciplinary sanction as the designated officer has the ultimate authority.

C. No, because if the candidate does not accept the disciplinary sanction, he will be suspended from further participation in the CFA program.

The correct answer is **A.**

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

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

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

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

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

A. Place the integrity of the investment profession and the interests of clients above their interests.

B. Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, or taking such actions.

C. Both A and B.

The correct answer is **C.**

The CFA Institute of Code of Ethics includes:

1. Act with integrity, competence, diligence, and respect and ethically with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.

2. Place the integrity of the investment profession and the interests of clients above their interests.

3. Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, or taking such actions.

4. Practice and encourage others to practice professionally and ethically, reflecting credit on themselves and the profession.

5. Promote the integrity and viability of the global capital markets for the ultimate benefit of society.

6. Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

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

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

A. Avoid conflicts of interest.

B. Fulfill their duties to clients.

C. Preserve the integrity of capital markets.

The correct answer is **C.**

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

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

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

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

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

A. social media only.

B. regulatory notices only.

C. social media and regulatory notices.

The correct answer is **C.**

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

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

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

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

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

A. Firms in the investment industry only.

B. Individuals who are members of the CFA Institute only.

C. Individuals who are members of the CFA Institute and candidates in the CFA program.

The correct answer is **C.**

The Code and Standards apply to individual members of the CFA Institute and candidates in the CFA Program. Firms are encouraged to adopt the Code and Standards as part of their Code of Ethics. However, only the former two individuals are obliged to comply with the Code and Standards.
A is incorrect. Firms in the investment industry must adhere to the code of conduct as laid down in the standards of professional conduct governing Investment Analysis, Recommendations, and Actions.

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

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

A. the Code of Ethics only.

B. the Standards of Professional Conduct only.

C. Both the Code of Ethics and Standards of Professional Conduct.

The correct answer is **C.**

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

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

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

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

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

A. CFA Institute Board of Governors.

B. Disciplinary Review Committee (DRC).

C. Professional Conduct Program (PCP) Division.

The correct answer is **A.**

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

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

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

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

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

A. Individual charter holder.

B. Groups of charter holders.

C. Firms that employ only charter holders.

The correct answer is **C.**

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

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

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

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

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

A. Pay applicable membership dues annually and submit the Professional Conduct Statement once.

B. Pay applicable membership dues once and submit the Professional Conduct Statement annually.

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

The correct answer is **C.**

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

1. Remit annually to CFA Institute a completed Professional Conduct Statement.

2. Pay applicable CFA Institute membership dues on an annual basis.

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

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

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

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

A. Equally to all his clients to whom the Investment is appropriate and to himself.

B. To his clients to whom the Investment is appropriate and not to participate in IPOs personally.

C. First to his clients to whom the Investment is appropriate and then allocate the remaining shares to himself.

The correct answer is **B.**

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

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

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

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

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

A. Intended to preclude members from cooperating with the Professional Conduct Program.

B. Not intended to preclude members from cooperating with the Professional Conduct Program.

C. Considered being violated by forwarding confidential information to the Professional Conduct Program.

The correct answer is **B.**

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

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

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

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

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

A. Voting proxies in an informed and responsible manner.

B. Making investment decisions in the context of the total portfolio.

C. Establish black-out periods in which investment professionals cannot transact for their personal portfolios.

The correct answer is **C.**

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

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

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

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

A. Determine the extent of analysis performed.

B. Base analysts' compensation on the quality of research used.

C. Review assumptions used and independence and objectivity of the recommendations.

The correct answer is **B.**

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

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

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

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

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

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

I. Members violate the Standard if they cheat in any of the CFA exams.

II. Members are permitted to state that they were charterholders for the periods they paid their dues and signed the Professional Conduct Statement (PCS).

III. Members are permitted to make the statement: "The CFA Program is a rigorous program, which is comparable to investment banking programs offered by other institutes. However, compared to other professional designations, the failure rate of candidates participating in the CFA Program examinations is quite high."

A. II only.

B. I & III only.

C. All of the above.

The correct answer is **B.**

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

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

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

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

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

A. Discloses its proxy voting policies to existing and prospective clients.

B. Uses client brokerage to purchase securities held in the member/candidate's portfolio.

C. Directs trade to a particular broker, as requested by clients, which provides average execution while disclosing the fact that such arrangements may not result in the best transaction price or execution for the client directing the trade.

The correct answer is **B.**

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

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

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

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

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

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

A. A research analyst violates city traffic laws.

B. An employer racially discriminates against candidates during a job selection process.

C. An investment manager experiences personal bankruptcy due to poor investment decisions undertaken for his private account.

The correct answer is **B.**

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

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

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

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

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

A. A CFA charterholder does not disclose that he holds an MBA degree to his employer.

B. An investment banker lacks complete knowledge of his country's security trading laws.

C. A manager discloses detailed financial information concerning a former client to his company's CEO.

The correct answer is **B.**

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

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

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

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

Q.3015 According to the Standards of Practice Handbook, which of the following statements is *most accurate* regarding material nonpublic information?
When in possession of material nonpublic information, a firm should:

A. Ban all types of propriety activity.

B. Make a broad distribution of the restricted list.

C. Ban risk-arbitrage trading for securities placed on a watch list.

The correct answer is **C.**

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

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

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

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

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

A. Should pre-clear their participation in IPOs.

B. Should not be permitted to trade for three days before and one day after placing a client's trade.

C. Are not permitted to undertake personal transactions in accounts for which they are a beneficial owner.

The correct answer is **A.**

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

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

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

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

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

A. Include reference to the limited nature of the information provided.

B. Make available to clients the detailed information supporting that communication.

C. Make available to clients and prospective clients the detailed information supporting that communication on request.

The correct answer is **C.**

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

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

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

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

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

A. Satisfies the requirements of Standard V(C): Record Retention.

B. Does not satisfy the requirements of Standard V(C): Record Retention.

C. Satisfies Standard V(C) requirements: Record Retention only if records are maintained for at least seven years.

The correct answer is **C.**

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

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

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

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

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

A. Misrepresentation.

B. Performance Presentation.

C. Communication with Clients and Prospective Clients.

The correct answer is **C.**

Standard V(B): Communication with Clients and Prospective Clients requires that opinion be separated from fact. Violations occur when reports fail to separate the past from the future by not indicating that they are not facts but opinions subject to future circumstances.
A is incorrect. Misrepresentation includes knowingly misleading investors, omitting relevant information, presenting selective data to mislead investors, and plagiarism.

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

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

A. Encourage the firm to remove the controversial company from the research universe.

B. Put it on a restricted list so that firm disseminates only factual information about the company.

C. Encourage the firm to disseminate the adverse opinions in a press release or in an oral presentation.

The correct answer is **C.**

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

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

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

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

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

A. Failing to disclose Padilla about Larson's arrangement with Willis Brokers.

B. Accepting Padilla's offer before obtaining permission from his employer.

C. Failing to disclose Padilla regarding his firm's arrangement with Willis and failing to disclose his profit-sharing arrangement prior to obtaining consent from his employer.

The correct answer is **C.**

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

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

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

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

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

A. All clients and prospective clients about their trade allocation procedures.

B. Clients about their trade allocation procedures only when they become clients.

C. Neither their clients nor prospective clients about their trade allocation procedures since they are classified as confidential information.

The correct answer is **B.**

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

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

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

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

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

A. Maintain the confidentiality of client accounts even after the client relationship has ended.

B. Disclose illegal activities on the part of the client, even if applicable law indicates otherwise.

C. Despite the increasing use of electronically stored information, members and candidates don't need to be experts in information security technology.

The correct answer is **B.**

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

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

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

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

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

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

A. Equally.

B. Differently.

C. With varied emphasis.

The correct answer is **A.**

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

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

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

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

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

A. Implement a system of checks and balances.

B. Be written in an intricate, detailed form that is regularly updated.

C. Describe the hierarchy of supervision and assign duties among supervisors.

The correct answer is **B.**

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

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

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

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

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

A. Decline to be identified with the report.

B. Report the fact to his compliance officer or supervisor and seek instructions on what to do.

C. Not dissociate from the report as long as the opinion has a reasonable and adequate basis.

The correct answer is **C.**

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

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

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

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

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

A. The amount of these options.

B. The expiration date of these options.

C. Both the amount and the expiration date of these options.

The correct answer is **C.**

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

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

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

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

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

A. Investment personnel should disclose to their firm information about personal holdings at least annually.

B. Investment personnel is not required to disclose to their firm information about personal holdings since this is considered highly confidential information.

C. Investment personnel should disclose to their firm information about personal holdings only upon a significant change in their personal holdings, and annually thereafter.

The correct answer is **A.**

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

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

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

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

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

A. Government reports of economic trends.

B. The introduction of an innovative product or production process.

C. A merger that happened a year ago between two large firms within an industry.

The correct answer is **C.**

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

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

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

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

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

A. Review of employee trading through the maintenance of 'watch' or 'restricted' lists.

B. Extensive documentation of firewall procedures by firms regardless of size or target market.

C. Heightened review of proprietary trading while a firm is in possession of material nonpublic information.

The correct answer is **B.**

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

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

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

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

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

A. Members or candidates must maintain records indicating the nature of the research.

B. Members or candidates should mention the known limitations of their analysis or statistically developed projections.

C. lf the report is in capsule form, members or candidates should notify clients that additional information will be made available upon request.

The correct answer is **B.**

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

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

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

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

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

A. Be isolated from those making investment decisions by the use of firewalls or similar restrictions.

B. Disclose this fact to clients, prospective clients, and employers to evaluate any conflicts of interest.

C. Be prohibited from ownership of stock, stock options, or similar forms of compensation in the securities they cover.

The correct answer is **A.**

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

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

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

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

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

A. Either the CFA designation or the Ph.D. could come first.

B. The Ph.D. should come before citing the CFA designation.

C. The CFA designation should come before citing the completion of the Ph.D.

The correct answer is **A.**

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

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

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

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

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

A. Accept the sell order.

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

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

The correct answer is **C.**

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

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

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

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

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

A. No.

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

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

The correct answer is **C.**

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

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

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

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

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

A. Misconduct

B. Loyalty

C. Fair dealing

The correct answer is **C.**

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

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

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

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

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

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

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

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

The correct answer is **C.**

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

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

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

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

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

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

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

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

The correct answer is **A.**

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

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

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

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

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

A. No.

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

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

The correct answer is **A.**

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

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

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

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

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

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

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

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

The correct answer is **B.**

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

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

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

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

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

A. No.

B. Yes.

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

The correct answer is **B.**

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

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

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

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

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

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

A. I only

B. II only

C. Both I & II

The correct answer is **A.**

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

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

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

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

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

A. At least 8 years

B. At least 5 years

C. At least 7 years

The correct answer is **C.**

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

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

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

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

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

A. All of them

B. I, II, and III only

C. I and II only

The correct answer is **A.**

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

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

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

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

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

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

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

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

The correct answer is **B.**

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

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

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

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

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

A. Preservation of Confidentiality

B. Suitability

C. Fair dealing

The correct answer is **A.**

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

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

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

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

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

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

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

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

The correct answer is **A.**

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

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

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

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

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

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

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

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

The correct answer is **C.**

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

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

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

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

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

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

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

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

The correct answer is **A.**

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

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

C is incorrect. Standard III (E) permits that if illegal activities by a client are involved, members may have an obligation to report the activities to authorities.

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

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

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

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

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

The correct answer is **C.**

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

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

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

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

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

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

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

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

The correct answer is **A.**

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

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

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

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

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

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

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

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

The correct answer is **B.**

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

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

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

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

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

A. Italy

B. Greece

C. CFA's Code and Standards

The correct answer is **C.**

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

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

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

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

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

A. Accept Microchip Company's offer.

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

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

The correct answer is **B.**

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

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

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

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

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

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

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

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

The correct answer is **B.**

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

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

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

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

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

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

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

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

The correct answer is **A.**

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

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

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

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

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

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

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

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

The correct answer is **C.**

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

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

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

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

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

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

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

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

The correct answer is **B.**

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

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

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

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

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

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

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

C. Not violated any standards.

The correct answer is **A.**

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

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

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

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

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

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

A. I only

B. II only

C. Both I & II

The correct answer is **C.**

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

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

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

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

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

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

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

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

The correct answer is **B.**

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

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

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

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

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

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

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

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

The correct answer is **B.**

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

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

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

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

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

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

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

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

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

The correct answer is **A.**

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

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

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

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

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

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

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

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

The correct answer is **C.**

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

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

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

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

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

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

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

C. Neither is correct.

The correct answer is **B.**

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

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

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

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

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

A. Under no circumstances.

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

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

The correct answer is **B.**

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

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

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

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

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

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

A. No, Reynoso is not violating the Standard.

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

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

The correct answer is **C.**

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

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

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

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

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

A. Standard I: Professionalism.

B. Standard II: Integrity of Capital Markets.

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

The correct answer is **A.**

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

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

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

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

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

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

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

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

The correct answer is **B.**

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

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

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

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

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

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

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

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

The correct answer is **C.**

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

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

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

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

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

A. Yes, he is in violation.

B. No, he is not in violation.

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

The correct answer is **B.**

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

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

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

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

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

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

B. He should not accept the referral fee.

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

The correct answer is **C.**

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

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

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

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

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

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

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

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

The correct answer is **C.**

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

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

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

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

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

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

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

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

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

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

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

The correct answer is **B.**

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

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

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

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

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

A. No.

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

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

The correct answer is **B.**

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

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

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

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

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

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

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

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

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

The correct answer is **C.**

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

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

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

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

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

ls this advertisement in violation of the Code and Standards?

A. No.

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

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

The correct answer is **C.**

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

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

or

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

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

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

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

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

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

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

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

The correct answer is **C.**

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

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

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

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

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

> A. No, he has not violated any standard as his model works well for observable databases.
>
> B. No, he has not violated any standard as he carefully selected all the inputs used in the model.
>
> C. Yes, he has violated the standards by not giving much attention to the assumptions used in the model.

The correct answer is **C.**

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

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

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

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

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

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

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

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

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

The correct answer is **C.**

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

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

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

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

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

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

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

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

The correct answer is **A.**

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

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

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

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

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

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

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

C. No.

The correct answer is **C.**

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

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

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

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

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

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

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

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

The correct answer is **B.**

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

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

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

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

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

A. Yes.

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

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

The correct answer is **A.**

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

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

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

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

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

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

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

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

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

C. Not in violation of the Code and Standards.

The correct answer is **C.**

Newman is not in violation of the Code and Standards.

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

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

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

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

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

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

A. Integrity of Capital Markets

B. Duties to Employers

C. Conflicts of Interest

The correct answer is **A.**

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

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

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

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

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

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

A. l and ll only

B. ll and lll only

C. lll only

The correct answer is **B.**

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

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

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

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

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

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

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

C. Employee C works in the insurance industry and has promised attractive equity investment returns despite the equity markets experiencing a cyclical low.

The correct answer is **C.**

Members and candidates who comply with Standard l(D) must not engage in any professional conduct involving dishonesty, fraud, or deceit, or commit any act that reflects adversely on their professional reputation, integrity, or competence.

Neither bankruptcy crisis nor cheating in a college exam fifteen years ago constitutes a violation of the Standard.

However, in the case of Employee C, promising unrealistically high equity returns reflects dishonesty on the part of the employee and is a violation of this Standard.

A is incorrect. Employee A's personal financial crisis and the resulting sale of personal property and equity investments do not constitute a violation of Standard I(D): Misconduct. This standard pertains to professional conduct that involves dishonesty, fraud, or deceit, or acts that reflect adversely on a professional's reputation, integrity, or competence. Personal financial difficulties and the steps taken to address them, such as selling personal assets, do not inherently involve dishonesty or deceit in a professional context.

B is incorrect. Employee B's past incident of cheating during an examination fifteen years ago while attending a local college does not constitute a violation of Standard I(D): Misconduct in the context of their current professional conduct. This standard focuses on professional behavior that involves dishonesty, fraud, or deceit, or acts that adversely reflect on an individual's professional reputation, integrity, or competence.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2951 George Baril works for a small money market firm. He always allocates clients' partially filled orders equally among them. Therefore, each customer gets the same number of shares regardless of their account size.
Has Baril violated any standards?

A. No.

B. Yes, he has violated the standard related to fair dealing.

C. Yes, he has violated the standard related to suitability.

The correct answer is **B.**

Standard III(B): Fair Dealing requires members and candidates to deal fairly and objectively with all clients, and prohibits a preferred treatment given to any client. Orders for the clients must be executed on a systematic basis that is fair to all clients. When the full amount of the block order is not executed, members and candidates should allocate partially executed orders among the participating client accounts **pro rata on the basis of order size**. Therefore, Baril is in violation of Fair Dealing.

A is incorrect. This option suggests that Baril's actions do not constitute a violation of any standards. However, by allocating shares equally among clients without considering the size of their orders, Baril fails to treat clients fairly and equitably.

C is incorrect. While the principle of suitability, which involves making investment recommendations that are appropriate to the client's financial situation and objectives, is crucial in the investment industry, Baril's violation pertains specifically to the fair allocation of investment opportunities among clients.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2952 Tom Ashley was working in the research department of Miller Inc. where he signed a non-compete agreement. He left the firm, copied all the material he prepared during his days at the firm. and started working for a competitor of Miller Inc.
Has Ashley violated the standard related to loyalty towards its employer?

A. Yes, only by copying the material.

B. Yes, only by applying his knowledge at the competitive firm.

C. Yes, both by copying the material and applying his knowledge at the competitive firm.

The correct answer is **C.**

Except with the consent of their employer, departing employees may not take employer's property, which includes books, records, reports, and other materials, and may not interfere with their employer's business opportunities. Taking any employer records, even those prepared by the member or candidate, violates Standard IV(A): Loyalty.

Members and candidates are free to use public information about their former firm after departing without violating Standard IV(A), absent a specific agreement not to do so.

Since Ashley has signed a non-compete agreement with his former client, he has violated Standard IV(A): Loyalty, not only by copying the material but also by applying his knowledge and serving the new competing firm.

A is incorrect. It suggests that Ashley violated the standard only by copying the material. While copying the material without permission indeed constitutes a violation, this option overlooks the additional breach that occurred when Ashley used the copied material and his knowledge to benefit a competitor.

B is incorrect. It implies that the violation occurred only through the application of Ashley's knowledge at the competitive firm. This perspective fails to recognize the initial breach of loyalty that occurred when Ashley copied materials from Miller Inc.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2954 Which of the following situations *least likely* constitutes a violation of CFA Institute Code and Standards?

A. A senior research analyst obtained information concerning a potential merger deal pertaining to an issuer company he covers, which is yet to be publically released. The researcher disclosed this information to his supervisor and compliance department.

B. Mark Greer recently passed the CFA Level ll exam of the CFA Program and does not intend to appear for the CFA Level lll examination for at least three years. Greer identifies himself as an active candidate of the CFA Program.

C. A portfolio manager allocates oversubscribed IPO shares to suitable non-family client accounts prior to family client accounts to avoid the appearance of a conflict of interest.

The correct answer is **A.**

Standard ll(A): Material Non-Public Information prohibits members and candidates from trading on, or causing others to trade on, material non-public information that could affect the value of the security. Members or candidates should make reasonable efforts to make material non-public information public by encouraging the issuer company to publically disclose the information. In the event public disclosure is not possible, the member or candidate should make disclosures to its supervisor and compliance department, and not take investment action based on the information. Thus, the handling of information on the potential merger deal by the senior research analyst complies with this standard.

According to Standard Vll(B): Reference to the CFA Institute, the CFA Designation, and the CFA Program, a person is a candidate if:

The person's application for registration in the CFA Program has been accepted by the CFA Institute and the person is enrolled to sit for a specific examination; or
The registered person has sat for a specific exam, and the exam results have not yet been received.

An individual is no longer considered an active candidate if he declines to sit for an examination or does not meet the above requirements. By not sitting/being enrolled for the Level lll exam for at least three years, Greer has violated this standard by referring to himself as an active candidate.

Standard VI(B): Priority of Transactions requires members and candidates to place transactions of clients and employer in priority to transactions in which the member or candidate is the beneficial owner. Alongside this requirement, family accounts, which are client accounts should be treated like any other client accounts and should not be treated unfairly. By allocating the oversubscribed IPOs to non-family client accounts prior to an allocation to family accounts, the portfolio manager has violated this standard.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2956 Martin Keefe, CFA runs a private investment firm with his two friends. The firm's investment brochure describes Martin Keefe as follows:
"Martin Keefe is one of the club's two CFA charterholders with almost ten years experience in investment banking. The CFA designation enables Keefe to provide more educated investment advice to his clients than most other professionals in the field. Moreover, it obliges Keefe to uphold ethical conduct in his professional dealings."

Concerning the information presented, has the brochure violated the standard concerning the reference to the CFA Institute, the CFA designation, and the CFA Program?

A. No.

B. Yes, with respect to improper referencing of the CFA designation.

C. Yes, with respect to exaggerating the meaning of the CFA membership.

The correct answer is **C.**

The brochure exaggerates the meaning of the CFA membership by implying that by acquiring becoming a CFA charterholder, individuals are able to give superior investment advice. The statement is discriminatory against other professionals. However, no standards have been violated by stating that earning the CFA designation compels members to act ethically; this is a fact.

The brochure has appropriately described Keefe's designation as an adjective, and the standard has not been violated in this respect.

A is incorrect. It suggests that the brochure has not violated any standards concerning the reference to the CFA Institute, the CFA designation, and the CFA Program. However, by implying that the CFA designation alone enables Keefe to provide superior investment advice, the brochure overstates the impact of the CFA designation and potentially misleads clients about the nature of the benefits of working with a CFA charterholder.

B is incorrect. The issue at hand is not improper referencing of the CFA designation but rather the exaggeration of the meaning of the CFA membership. This misrepresentation goes beyond the scope of improper referencing and directly impacts the perceived value and understanding of the CFA designation among clients and the public.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2963 The management of Greenwhich, a Swiss watchmaker, has decided to take the company public and raise funds through an IPO. Gloria Trust (GT) is a firm providing investment banking and brokerage services and will underwrite the issue. The issue is currently oversubscribed, and one of GT's trust officers prorates the issue to each account holder expressing an interest. Beneficial family member accounts and suitable non-family member accounts are not given priority in the trade allocation.
Has the GT trust officer allocated the Greenwhich trade fairly?

A. Yes.

B. No, he has not considered suitable client accounts.

C. No, he has not considered beneficial family member account.

The correct answer is **B.**

The GT trust officer has failed to allocate the Greenwhich trade fairly by failing to consider accounts for which the trade will be suitable. Standard lll(B): Fair Dealing requires members and candidates to treat all clients fairly during their investment actions and recommendations. By failing to give priority to suitable client accounts, he has violated the fair dealing standard as well as the suitability standard.

By choosing not to allocate trades to beneficial family member accounts, the officer has not violated any standard. This is because these clients should not be treated equally to regular fee-paying family member accounts in which an employee does not hold a beneficial position.

A is incorrect. This option suggests that the allocation was done fairly, which is not the case. Fairness in trade allocation involves more than just distributing shares without preference for family or non-family member accounts. It also requires assessing the suitability of the investment for each client's financial goals and risk tolerance.

C is incorrect. While the trust officer did not give priority to beneficial family member accounts, this action alone does not constitute unfair treatment under the standards of investment management. The ethical concern arises not from the exclusion of family member accounts but from the failure to prioritize accounts based on the suitability of the investment.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2965 Peter O' Toole has recently left a large investment bank to develop his own investment fund, Beata. Toole's expertise lies in developed market equities and corporate bonds. His team will include Roy Thomson, a friend and expert in REIT securities. He distributes a prospect to prospective clients which states:
"The management of Beata welcomes you to invest with us. We specialize in developed market equities, fixed income securities, and REIT securities. Although we do not guarantee performance results, we can assure that you will not be disappointed."

By distributing the brochure, Toole has *least likely* violated the CFA Institute Standards of Professional Conduct by:

A. Providing performance guarantees.

B. Misrepresenting Beata's specialization with respect to REIT securities.

C. Misrepresenting Beata's specialization with respect to fixed-income securities.

The correct answer is **B.**

Although Toole does not explicitly guarantee performance, he indirectly assures clients that the fund will meet their expectations; thus, he is in violation of Standard III(D): Performance Presentation which prohibits members and candidates from guaranteeing performance. Also, Toole is in violation of Standard I(C): Misrepresentation by misrepresenting his expertise in fixed income securities. Toole only specializes in corporate bonds, a category of fixed income securities. Fixed income securities include securities beyond corporate bonds such as mortgage-backed securities, Treasury bills, and other securities. Toole has not violated any standard by disclosing Beata's expertise in REIT securities.

A is incorrect. The brochure's statement that investors will not be disappointed could be interpreted as providing a performance guarantee, which is a violation of Standard III(D): Performance Presentation. This standard prohibits members and candidates from making any promises or guarantees about the results of their investment strategies.

C is incorrect. Peter O' Toole's expertise is specifically in corporate bonds, which are only a subset of the broader category of fixed-income securities. Fixed-income securities encompass a wide range of investment products, including government bonds, municipal bonds, and mortgage-backed securities, among others. By suggesting that Beata specializes in the entire spectrum of fixed-income securities without clarifying the specific focus on corporate bonds, the brochure could mislead prospective clients about the fund's expertise and investment focus.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2966 Henry Cooper, CFA, is a sell-side analyst serving Arial Investments (AI). Cooper is writing a research report on a mining company. In the past, Cooper held an executive position in the company. He left the position prior to joining Al but maintains a good personal relationship with Al's management. Since he no longer holds an executive position, Cooper has not shared this information with his supervisor.
Cooper is *most likely* in violation of the CFA Institute Standards of Professional Conduct concerning:

A. Loyalty to employer.

B. Disclosure of conflicts.

C. Additional compensation arrangements.

The correct answer is **B.**

Cooper's past involvement and present relationship will impair his independent and objective judgment and requires disclosure. By failing to disclose the conflict of interest with his supervisor, Cooper is in violation of Standard VI(A): Disclosure of Conflicts. However, Cooper is not in violation of the standard concerning additional compensation arrangements because he does not receive any compensation nor does he possess stock ownership in the company.

A is incorrect. Standard IV(A) Loyalty pertains to members and candidates' duty to act for the benefit of their employer and not to deprive their employer of the advantage of their skills and abilities, misappropriate their employer's opportunities, or otherwise cause harm. Cooper's failure to disclose his past involvement and ongoing relationship with the mining company's management does not directly relate to misappropriating opportunities or causing harm to his employer but rather concerns the potential conflict of interest that could impair his objectivity and independence.

C is incorrect. Standard IV(B) Additional Compensation Arrangements addresses the need for members and candidates to not accept gifts, benefits, compensation, or consideration that competes with or might reasonably be expected to create a conflict of interest with their employer's interest without written consent from all parties involved. Since Cooper does not receive any form of compensation from the mining company nor holds stock ownership, he is not in violation of this standard.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2967 Cassandra Payne is a candidate in the CFA Program. She serves as a research assistant at Tidara Associates (TA), an investment bank. For her first assignment, Payne is asked to write a research report that aims to forecast the possibility of a rise in interest rates and its impact on the property market. She gathers information from property dealer websites and articles from newspapers that provide summaries of financial reports. On the last page of the research report, she cites the websites and the newspaper articles as her research sources.
Is Payne is in violation of the CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, she is not required to cite the dealer websites.

C. Yes, she uses sources that do not constitute a reasonable and adequate basis.

The correct answer is **C.**

Members and candidates should make reasonable inquiries into the source and accuracy of all data used in completing their investment analysis and recommendations. A few news articles and web-based sources do not constitute, without more information, a reasonable and adequate basis for a recommendation that is supported by appropriate research and investigation. Therefore, Payne has violated Standard V(A).

A is incorrect. This option suggests that Payne is not in violation of the CFA Institute Standards of Professional Conduct. However, relying solely on property dealer websites and newspaper articles for investment analysis does not provide a comprehensive and reliable basis for making investment recommendations.

B is incorrect. The issue at hand is not about the citation of sources but about the adequacy and reliability of the sources used for investment analysis. The CFA Institute's Standard V(A) mandates that the basis for investment recommendations must be reasonable and adequately supported by thorough research.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2968 A candidate in the CFA program is working as a research assistant and is part of a team preparing a group research report. The group is divided on the final rating to give the stock being covered. A majority of the group believes a 'buy' rating to be appropriate while the candidate believes a 'hold' rating should be issued. All members have a reasonable and adequate basis for their recommendations.
The best course of action for the candidate to take is to:

A. Decline to be associated with the report.

B. Continue to be associated with the report.

C. Seek the advise of legal counsel to determine the appropriate action.

The correct answer is **B.**

When a research report is a group effort, different analysts may have their own opinions, and it is not necessary for these opinions to match. Given that the analysts have a reasonable and adequate basis for their recommendations, the best course of action is to continue to be associated with the report.

A is incorrect. Declining to be associated with the report would not be the best course of action in this scenario. This option might suggest a lack of professional maturity or unwillingness to engage in collaborative efforts where opinions differ. The CFA Institute's standards support the idea that differing viewpoints, when based on a reasonable and adequate basis, enrich the decision-making process rather than detract from it.

C is incorrect. Seeking the advice of legal counsel to determine the appropriate action is unnecessary in this context. The situation described does not involve legal issues but rather a difference of professional opinion within a research team. The CFA Institute's guidelines provide a clear framework for handling such differences, emphasizing the importance of thorough and reasoned analysis over consensus.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.2972 Walter Reid, CFA, works for Sun Associates, an investment advisory. SA is situated in a country with laws requiring investment managers to report any stock transaction which exceeds $10 million to the concerned regional market regulators. These laws dim to control the degree of market volatility. One of Reid's clients has placed a $12 million order to purchase shares of a company's stock. Due to his personal relationship with the client, Reid discovers that the funds have been acquired through fraudulent means. To preserve the confidentiality of the matter, Reid does not report the transaction to the regulators.
Has Reid violated any CFA Institute Standards of Professional Conduct?

A. No, he has preserved client confidentiality.

B. Yes, he failed to report the transaction to the regional market regulator.

C. Yes, he failed to disclose his personal relationship with the client to his employer.

The correct answer is **B.**

Reid has violated Standard I(A): Knowledge of the Law by not reporting the transaction to the market regulators. The standard requires members and candidates to understand the laws and regulations of the countries or regions in which they conduct business. Members and candidates must comply with the strictest laws and regulations. Given that the country's laws are stricter than the CFA Institute Standards with respect to the reporting of transactions, Reid has a duty to abide by these laws. However, Reid must not disclose the source of the funds to the regulators to avoid violating standard III:(E) Preservation of Confidentiality.

There is no evidence which indicates that Reid has not disclosed his personal relationship with the client to his employer. Therefore, Reid has not violated any standard in this regard.

A is incorrect. While preserving client confidentiality is crucial, it does not exempt professionals from complying with legal obligations. Standard I(A): Knowledge of the Law clearly states that members and candidates must prioritize adherence to the law over the duty of confidentiality when the two are in conflict. In this case, the requirement to report transactions exceeding $10 million is a legal obligation that Reid must fulfill, regardless of his personal relationship with the client or the desire to maintain confidentiality.

C is incorrect. There is no direct evidence or indication that Reid failed to disclose his personal relationship with the client to his employer, which would be a violation of Standard IV(B): Additional Compensation Arrangements. This standard requires members and candidates to communicate with their employers about any arrangements involving compensation or benefits that might conflict with their employer’s interest.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3011 Blake Marshall, CFA, is a research analyst serving Research lnc., an equity-oriented research firm. Marshall is preparing a report on the timber industry in Brazil. During one of his visits to Titania, a Brazilian timber corporation, he overhears site workers complaining of the poor working conditions and their intentions to organize a strike for a pay rise. The same evening, Marshall decides to conclude his report with a sell rating for Titania and justifies his report by stating that a worker strike could cripple productivity and reduce output.
By issuing his research report, Marshall would *most likely* violate the CFA Institute Standards of Professional Conduct relating to:

A. Misconduct.

B. Diligence and reasonable basis.

C. Material nonpublic information.

The correct answer is **B.**

Standard V(A): Diligence and Reasonable Basis requires members and candidates to exercise thoroughness, independence, and diligence when conducting investment analysis, making investment recommendations, and taking investment action. The standard also calls for a reasonable and adequate basis for any investment action, recommendation or analysis. By basing his recommendation solely on the discussion between site workers, Marshall lacks a reasonable and adequate basis for his recommendation. He should carry out a thorough investigation by interviewing Titania's staff, competitors, and its competitors.

According to Standard ll(A): Material Nonpublic Information, members and candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information. A discussion between site workers and their plans to launch a strike is nonmaterial even if it is nonpublic.

Standard l(D): Misconduct is not violated because there is no evidence of Marshall engaging in fraudulent or dishonest behavior.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3022 Karl Flynn is a senior research analyst at Sparks Investments. The firm has offered a supervisory responsibility to Flynn. Before accepting the responsibility, Flynn came to know that in some areas, compliance procedures are not adequate.
What would be the *most likely* action of Flynn according to the Standards of Practice Handbook?

A. Flynn should accept the responsibility and should make all reasonable efforts for appropriate compliance procedures.

B. Flynn should decline in writing to accept supervisory responsibility until the firm adopts reasonable compliance procedures.

C. Flynn should accept the responsibility but should not delegate the authority until the firm assures reasonable compliance procedures.

The correct answer is **B.**

In the absence of compliance procedures or due to an inadequate compliance system, a member or candidate should decline in writing to accept supervisory responsibility until the firm adopts reasonable procedures.

A is incorrect. Accepting the responsibility with the intention of making efforts for appropriate compliance procedures might seem proactive, but it overlooks the immediate need for a solid compliance framework before assuming such a role. Without adequate compliance procedures in place from the outset, Flynn and the firm are exposed to potential regulatory violations and ethical breaches. This approach does not sufficiently mitigate the risks associated with inadequate compliance systems, which could have far-reaching consequences for the firm and its clients.

C is incorrect. While accepting the responsibility but not delegating authority until the firm assures reasonable compliance procedures might appear as a middle ground, it still poses significant risks. This option fails to address the underlying issue of inadequate compliance procedures and places Flynn in a position where he is responsible but potentially unable to enforce or ensure compliance effectively. It also does not provide a clear timeline or guarantee that the firm will prioritize and address the compliance issues, leaving Flynn and the firm in a precarious position regarding regulatory and ethical standards.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3024 Jane Terry is a research analyst at Victor Investments, a large investment management firm with separate investment banking and research departments. Terry follows all the major firms in the mining industry including Todd Minors Inc. The investment banking department of Victor Investments is involved in a deal with Todd Minors Inc. and Terry has provided limited assistance to the investment banking department.
Under such circumstances, Terry must be treated as a(n):

A. Corporate insider of Todd Minors Inc.

B. Research analyst at Victor Investments.

C. Investment banker of Victor Investments.

The correct answer is **C.**

According to Standard II(A): Material Non-Public Information, an analyst who follows a particular company may provide limited assistance to the investment bankers when the firm's investment banking department is involved in a deal with the company. That analyst must consider as though (s)he is an investment banker and the analyst must remain on the investment banking side of the wall until any information (s)he learns is publically disclosed.

A is incorrect. Suggesting that Terry should be treated as a corporate insider of Todd Minors Inc. is misleading. Although Terry has provided assistance to the investment banking department in a deal involving Todd Minors Inc., her role does not grant her the status of a corporate insider within Todd Minors Inc. Corporate insiders are typically members of the company's board of directors, senior executives, or others who have access to confidential information about the company due to their position within it. Terry's involvement is limited to her role within Victor Investments, and she does not hold a position within Todd Minors Inc. that would classify her as a corporate insider.

B is incorrect. While Jane Terry's primary role at Victor Investments is that of a research analyst, her involvement in providing assistance to the investment banking department in a deal with Todd Minors Inc. temporarily shifts her responsibilities. In this context, merely identifying her as a research analyst does not fully capture the ethical considerations and obligations that arise from her participation in the investment banking activity.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3026 Dian Owens, CFA, works as an analyst at Hawk Securities, an investment-banking firm. The firm is raising equity capital on behalf of SWK Inc. Owens notices her supervisor has underestimated the amount of impairment losses and overestimated the unrealized gains on SWK's financials. Owens calls her uncle and stops him from participating in the IPO of SWK Inc.
Owens has *least likely* violated the CFA Standard of Professional Conduct relating to the:

A. Knowledge of law.

B. Disclosure of conflicts.

C. Material nonpublic information.

The correct answer is **B.**

Owens has violated Standard I(A): Knowledge of Law. Knowing that the financials of SWK Inc. are misleading, she should report the problem to the supervisory persons in her firm. If the employer does not take actions to correct the financials, she should not only dissociate herself from such activity but also consider leaving the firm.
Owns has also violated Standard ll(A): Material Non-public Information on the basis of material non-public information, inducing her uncle not to participate.

A is incorrect. Owens has indeed likely violated Standard I(A): Knowledge of the Law. This standard mandates that CFA charterholders must understand and comply with all applicable laws, rules, and regulations (including the CFA Institute Code of Ethics and Standards of Professional Conduct) of any government, regulatory organization, licensing agency, or professional association governing their professional activities.

C is incorrect. Owens has also likely violated Standard II(A): Material Nonpublic Information. This standard prohibits CFA members and candidates from acting or causing others to act on material nonpublic information. Owens's decision to inform her uncle about the inaccuracies in SWK Inc.'s financial statements and advise him against participating in the IPO is a clear violation of this standard. She uses her access to confidential and material information for the benefit of her uncle, which could disadvantage other investors who are not privy to the same information.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3030 Julia Long has passed all three levels of the CFA Program and may be eligible for a CFA charter upon completion of the required work experience next month. On her resume, she has mentioned her name as Julia Long, CFA (Level III passed).
Is Long in compliance with the CFA code and standards?

A. Yes, as she has passed all the three levels.

B. No, as she is not eligible to write CFA with her name.

C. Yes, as she is expecting to receive the charter in a month.

The correct answer is **B.**

A candidate who has passed CFA Level III but has not received his/her charter cannot use the CFA or Chartered Financial Analyst designation along with his/her name.

A is incorrect. Passing all three levels of the CFA Program does not automatically grant an individual the right to use the CFA designation with their name. The CFA Institute has strict guidelines regarding the use of the CFA designation, emphasizing that it can only be used by individuals who have been officially awarded the charter. This includes not only passing all three levels of the CFA exam but also completing the required work experience and receiving formal notification that the charter has been awarded.

C is incorrect. The expectation of receiving the charter in the future does not grant the candidate the right to use the CFA designation. The CFA Institute's guidelines are clear that the designation can only be used after the charter has been officially awarded. This rule is in place to prevent any confusion or misrepresentation regarding an individual's status as a CFA charterholder. It is important for candidates to accurately represent their achievements and status in relation to the CFA Program, ensuring that they do not imply charterholder status until they have fully met all the requirements and received the charter.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3031 Campbell Investments, an investment management firm, is a market maker for Allan Inc. and also possesses material non-public information about the stock of Allan Inc.
What would be the *most recommended* action with respect to Campbell's proprietary activities?

A. The firm should prohibit all proprietary activities of Allan lnc.'s to maintain confidentiality.

B. The firm should withdraw from market-making activities of Allan Inc. as it holds material nonpublic information.

C. The firm should take only the contra side of trade in its market-making activities to remain passive in the stock Allan Inc.

The correct answer is **C.**

A prohibition of all types of proprietary activity when a firm comes into possession of material non-public information is not appropriate. Firms that continue market-making activities while in possession of material non-public information should instruct their market makers to remain passive to the market by only taking the contra side of unsolicited customer trades.

A is incorrect. Prohibiting all proprietary activities of Allan Inc. is an extreme measure that is not necessary under the circumstances. While it is important to prevent the misuse of material non-public information, completely halting proprietary activities could negatively impact the firm's operations and its ability to provide liquidity to the market as a market maker. The key is to manage the information responsibly, not to cease all related activities.

B is incorrect. The firm holds material non-public information is also not the most recommended action. Market makers play a vital role in ensuring liquidity and stability in the financial markets. By withdrawing completely, Campbell Investments would fail to fulfill this role, potentially harming the market's efficiency. Instead, the firm should continue its market-making activities while ensuring that it does not actively trade on the non-public information, thus maintaining its obligations to the market and adhering to ethical guidelines.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (b): Recommend practices and procedures designed to prevent violations of the Code of Ethics and Standards of Professional Conduct.

Q.3032 Kevin Stewart, CFA, is a portfolio manager at Zachary Advisors managing individual accounts of Angel Corp.'s employees. Alexis Ryan, 40-years old, joined Angel Corp as an employee a month ago. In a meeting with Stewart, Ryan discusses his high-risk tolerance, large asset base, and his investments in synthetic investment vehicles and derivative products at Stone Advisors.
ln forming an investment policy statement for Ryan, Stewart is responsible for assessing the suitability of investments:

A. For funds provided at Zachary Advisors.

B. For funds managed by Zachary Advisors and Stone Advisors

C. In a manner consistent with the average employee account of Angel Corp.

The correct answer is **B.**

Stewart is responsible for assessing the suitability of Ryan's total investments on the basis of information provided to him. Ryan provided a full financial picture including funds managed by Stone Advisors and the type of investments. Therefore, Stewart should judge the suitability of the investment in the context of Ryan's total portfolio.

A is incorrect. It suggests that Stewart should only assess the suitability of investments for funds provided at Zachary Advisors. This approach is too narrow and overlooks the critical aspect of Ryan's financial situation—his investments with Stone Advisors. Considering only the funds managed by Zachary Advisors would result in an incomplete assessment, potentially leading to recommendations that are not fully aligned with Ryan's overall investment strategy and risk tolerance.

C is incorrect. It recommends assessing the suitability of investments in a manner consistent with the average employee account of Angel Corp. This approach fails to account for the individualized nature of investment policy statements, which should be tailored to each client's specific financial situation, investment objectives, and risk tolerance. Ryan's high-risk tolerance and significant asset base, coupled with his investments in complex financial instruments, distinguish his profile from that of an average employee.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (b): Recommend practices and procedures designed to prevent violations of the Code of Ethics and Standards of Professional Conduct.

Q.3036 Bert Moreno owns a research and consulting company and occasionally works as a sell-side research analyst for Hunt Corp. Moreno has an arrangement with Hunt Corp. in which he accepts a flat fee for his report. Hunt Corp. also offered Moreno outstanding stock options that are not part of any compensation package or linked to any recommendation. Moreno did not realize the stock options at the time he published his research report.
Moreno:

A. Should disclose in his report the amount and expiration date of stock options.

B. Must disclose in writing to his clients the stock options and fee arrangement by Hunt Corp.

C. Must not accept the stock options offered by Hunt Corp. unless he obtains a written consent from his clients.

The correct answer is **A.**

According to the recommendations of Standard VI(A): Disclosure of Conflicts, members or candidates should disclose in their report as a footnote the amount and expiration date of these options. Moreno is not required to disclose his arrangements to his clients. However, if he works for an employer, he must obtain written consent from his employer.

B is incorrect. While it is crucial for Moreno to disclose any potential conflicts of interest, the specific requirement under Standard VI(A) does not extend to mandating written disclosure to clients about the fee arrangement and stock options provided by Hunt Corp. The standard emphasizes the importance of disclosing conflicts in the research report itself to ensure that all readers are equally informed. While transparency with clients is important, the primary focus in this context is on the content of the research report and its potential to influence investment decisions.

C is incorrect. The CFA Institute's standards require the disclosure of conflicts of interest, such as the acceptance of stock options, but do not categorically prohibit such arrangements. The key is that any potential conflicts are fully disclosed so that readers of the research report can evaluate the information with an understanding of the analyst's potential biases.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (b): Recommend practices and procedures designed to prevent violations of the Code of Ethics and Standards of Professional Conduct.

Q.3039 Murray Blue is a large investment management firm located in Singapore. The employer has assigned Gerry Castillo, CFA, to work on Noon Group and handed over all research, models, and worksheets related to Noon Group, which were prepared by a previous analyst.
According to the Standards of Practice Handbook, under such conditions, which of the following statements is *most likely* correct?

A. The firm may issue a report on Noon Group without attribution to the previous analyst.

B. The firm can only issue the report on Noon Group if it properly acknowledges the work of the previous analyst.

C. Gerry Castillo cannot use the research, models, and worksheets on Noon Group prepared by another analyst.

The correct answer is **A.**

According to Standard I(C): Misrepresentation, members or candidates may use research conducted or models prepared by previous employees within the same firm without committing a violation. Similarly, the firm retains the right to continue to use the work completed after member or candidate leaves the firm. A member or candidate, however, cannot reissue a previously released report solely under his/her own name.

B is incorrect. It suggests that Gerry Castillo cannot use the research, models, and worksheets on Noon Group prepared by another analyst. This interpretation is not aligned with Standard I(C): Misrepresentation. The standard allows for the use of work conducted by previous employees as long as the use of such work does not misrepresent the nature of the contributions or the origins of the work.

C is incorrect. It implies that the firm can only issue the report on Noon Group if it properly acknowledges the work of the previous analyst. While proper attribution is crucial in cases where reports or analyses are published externally and the contributions of different analysts are distinguishable, Standard I(C) does not mandate explicit attribution for internal use or when the work becomes part of the firm's collective intellectual assets.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3043 Felix Savage, CFA, owns a small brokerage in Australia where securities laws and regulations are stricter than the Codes and Standards. One of his clients is Basilia Parrish, whose business is located in Nauru, a small island in the South Pacific with no securities laws and regulations.
Which law(s) or standards must Savage adhere to:

A. The laws of Nauru.

B. The Code and Standards of Professional Conduct.

C. The laws of Australia.

The correct answer is **C.**

If a member resides in a more strict (MS) country and does business in a less strict (LS) country, the MS laws apply. In this case, Australian laws are more strict than both the Code and Standards and Nauru laws, therefore Savage should comply with Australian laws.

A is incorrect. The suggestion that Savage should adhere to the laws of Nauru is not applicable in this context. Nauru lacks specific securities laws and regulations, which means that operating solely under Nauru's legal framework would not provide the necessary guidance and protection required in the securities industry. Furthermore, since Savage's brokerage is based in Australia, and Australia has stricter securities laws, those laws take precedence over the absence of regulations in Nauru.

B is incorrect. While the Code and Standards of Professional Conduct set forth by the CFA Institute provide a robust ethical framework for investment professionals, in this case, they do not represent the strictest set of rules that Savage must follow. The laws of Australia, being more stringent than the Code and Standards, are the primary regulations that Savage must adhere to.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3047 Tiara Corporation (TCorp) is one of the largest corporate clients of Al & Co., a U.S. based investment management firm. Recently, Al & Co. discovered significantly adverse news about TCorp. Unwilling to disseminate adverse opinions about their client, the firm put it on a restricted list and removed it from the research universe.
Are Al & Co.'s actions *most likely* in compliance with the CFA Institute Standards of Professional Conduct?

A. Yes.

B. No, because TCorp should disseminate the information to its clients.

C. No, because TCorp should disseminate the information to clients and prospective clients.

The correct answer is **A.**

From the CFA Program Curriculum:
"Recommended Procedures for Compliance:

Create a restricted list: If the firm is unwilling to permit dissemination of adverse opinions about a corporate client, members, and candidates should encourage the firm to remove the controversial company from the research universe and put it on a restricted list so that the firm disseminates only factual information about the company."

Now, we'll use an example that could happen in real life. Let's say you're a big investment firm based in N.Y.C. and a long-time corporate client approaches you to raise money because they are having liquidity problems. The worst thing you can do is probably to warn all your clients and prospective clients about their liquidity problems. The best course of action would be to put it on a restricted list and only disseminate factual information about the company. The information will be disseminated to all shareholders at the same time when the company releases a statement about their liquidity position. Only at this point in time will you be able to disseminate the information to your clients.

B is incorrect. This option incorrectly suggests that Al & Co. should actively disseminate the adverse information about TCorp to its clients. While transparency is important, the CFA Institute Standards of Professional Conduct also emphasize the need to manage conflicts of interest and to ensure that any information disseminated is done so in a manner that is fair and not misleading.

C is incorrect. This option extends the incorrect assumption made in option A by suggesting that Al & Co. should disseminate the information not only to its clients but also to prospective clients. This approach overlooks the complexities involved in managing conflicts of interest and the potential for harm that could arise from the premature or inappropriate dissemination of adverse information.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3050 Excellence Investments (EXIN) is a large, U.S. based capital management firm that has managed to attract a large number of corporate and private wealth clients. Many of the recommendations made by EXIN's analysts are based on extensive review processes and detailed analysis. Consequently, it takes more than two weeks for the reports to be published and disseminated.
To be in compliance with the CFA Institute Standards of Professional Conduct, EXIN's analysts should *least likely*:

A. Publish a short summary report in advance.

B. Reduce the time between decision and dissemination.

C. Communicate to clients the new or changed recommendations by an update.

The correct answer is **B.**

In large firms with extensive review processes, the time factor is usually not within the control of the firm or the analyst who prepared the report. Thus, analysts should publish a short summary report in advance or communicate the recommendation by an update or 'flash' report.

A is incorrect. Publishing a short summary report in advance is a viable strategy for maintaining compliance with the CFA Institute Standards of Professional Conduct. This approach allows the firm to communicate timely, relevant information to its clients while the full, detailed report is still under review. It ensures that clients have access to the most current investment insights, which is in line with Standard III(B): Fair Dealing.

C is incorrect. Communicating new or changed recommendations to clients through an update is another appropriate action that aligns with the CFA Institute Standards of Professional Conduct. This ensures that all clients receive the most recent investment advice as soon as it becomes available, promoting transparency and fairness in client communications. This practice is consistent with Standard III(C): Suitability

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3053 Tyra Wings uses a short-written report to issue a new recommendation to her clients. However, after the report is disseminated, she follows up with only two of her clients who pay higher fees to discuss the suitability of the investment and its future prospective clients.
Is Wings *most likely* in compliance with Standard III(B) Fair Dealing of the CFA Institute Standards of Professional Conduct?

A. Yes.

B. No, since she offers preferential treatment to some of her clients.

C. No, since she does not disclose the additional services she offers to all her clients.

The correct answer is **A.**

Wings is in compliance with the standard. She widely disseminated the report prior to discussing the recommendation further with two of her clients. They receive additional service because they pay higher fees.

B is incorrect. She offers preferential treatment to some of her clients. However, the key issue is whether all clients received the investment recommendation in a fair and timely manner, which they did. The additional discussions with two clients are part of a separate, higher-tier service agreement and do not constitute unfair treatment of other clients regarding the dissemination of the investment recommendation.

C is incorrect. She does not disclose the additional services she offers to all her clients. The standard does not require that all clients receive the same level of service, only that they are treated fairly in terms of access to investment recommendations. As long as the additional services and their availability are clearly communicated and do not interfere with the fair dissemination of recommendations, offering different levels of service based on fee structures is permissible and does not violate Standard III(B).

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3054 Steve Hart is a portfolio manager at a financial consultancy firm. Hart manages funds for private-wealth clients and determines a suitable asset allocation for them. ln assessing the suitability of an investment, Hart only considers the financial portfolio managed by him, since he considers information about the client's additional funds and wealth as private and confidential.
Is Hart's method of determining suitability *most likely* in compliance with Standard III(C): Suitability?

A. Yes.

B. No, since Hart should solicit information about the portions of the client's funds, whether managed by him or not, to conduct a complete suitability analysis.

C. No, since Hart should consider a client's entire financial position but only if the client is willing to offer such information.

The correct answer is **C.**

Preferably, an analyst should consider a client's complete financial portfolio, including those portions not managed by him. However, if a client withholds such information, the suitability analysis should be based on the information provided.

A is incorrect. This option suggests that Hart's method is in compliance with Standard III(C): Suitability, which is not entirely accurate. While respecting client confidentiality is crucial, Hart's approach overlooks the importance of having a comprehensive understanding of the client's overall financial situation to make suitable investment recommendations. By not considering the client's additional funds and wealth, Hart may miss critical information that could impact the suitability of the asset allocation, potentially leading to recommendations that do not align with the client's overall financial goals and risk tolerance.

B is incorrect. While it is true that a thorough understanding of the client's financial situation is crucial for suitability analysis, the standard does not mandate investment professionals to obtain all such information forcibly. Instead, the emphasis is on making a reasonable effort to gather relevant information and respecting the client's decision to withhold certain details. The key is to balance the need for comprehensive information with respect for the client's privacy and confidentiality.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3055 Due to a constraint on time and cost, Keith Connolly made a brief presentation to his clients about the performance history of the individual accounts and composites of his firm. Connolly made available detailed information to all clients and prospective clients who requested for such information.
To ensure best practices under Standard III(D): Performance Presentation, Connolly should:

A. Do nothing, since he is already following best practices.

B. Include a reference in his presentation about the limited nature of the information provided.

C. Provide complete and comprehensive performance information whenever communicating with clients and prospective clients.

The correct answer is **B.**

Best practices dictate that brief presentations include a reference to the limited nature of the information provided.

A is incorrect. Simply doing nothing further, despite already making detailed information available upon request, does not fully align with the best practices under Standard III(D): Performance Presentation. It is important to proactively inform clients and prospective clients about the scope and limitations of the information being presented.

C is incorrect. While providing complete and comprehensive performance information whenever communicating with clients and prospective clients is ideal, it may not always be practical due to constraints such as time and cost, as mentioned in the scenario. The key is to balance the need for comprehensive information with practical constraints, ensuring that clients are made aware of the limitations of the information provided and that more detailed data is available upon request.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3058 Toby Banks worked for ten years at one of the largest investment firms in his area. His work made him adept at performing technical analysis and using various financial models to determine investment value. Recently, Banks joined a capital management firm in Chicago and was required to develop a complex statistical model. Using specific techniques learned at the previous firm, Banks managed to develop a rigorous model for his new employer.
With regards to the development of the model, Banks has:

A. Not violated any standard.

B. Violated Standard IV(A): Loyalty.

C. Violated Standard V(A): Diligence and Reasonable Basis.

The correct answer is **A.**

The skills and experience that an employee obtains while being employed at a firm are not 'confidential' or 'privileged' information. Hence, Banks is not prohibited from using specific techniques learned at the previous firm to develop a model at the new firm.

B is incorrect. This option incorrectly suggests that Banks might have violated Standard IV(A): Loyalty. Standard IV(A) pertains to the duty of loyalty to employers, which includes not disclosing confidential information or harming the employer's legitimate interests. However, applying general professional skills and knowledge, such as those related to technical analysis and financial modeling, does not equate to disclosing confidential information.

C is incorrect. The suggestion that Banks violated Standard V(A): Diligence and Reasonable Basis is also incorrect. This standard requires that investment professionals exercise diligence, independence, and thoroughness in analyzing investments and making investment recommendations. It also mandates having a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action. Banks' development of a statistical model using techniques learned from his previous employment falls within the realm of applying his professional knowledge and skills diligently.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3059 Jane Walton suspects that her employer is misusing client funds for increasing company profits. In an attempt to bring the activities to the attention of an appropriate legal authority, Walton copies all employer records that contained transaction details for the past year.
Walton's actions would *most likely* be construed as a:

A. Violation of the Standards because she misused confidential information.

B. Violation of the Standards because she acted contrary to his employer's interests.

C. Permissible act, since her intent seems to be aimed at protecting the integrity of the market.

The correct answer is **C.**

Walton's intent seems to be aimed at protecting clients and the integrity of the market. Her employer is engaging in unethical practices and, under such circumstances, preserving employer records would not be considered a violation.

A is incorrect. While it might seem that Walton misused confidential information by copying employer records, it's important to differentiate between misuse for personal gain and use for reporting unethical or illegal activities. In this context, Walton's actions are not self-serving but are aimed at protecting clients and the integrity of the market. Ethical guidelines in the financial industry often include provisions for whistleblowing in cases where illegal or unethical practices are suspected, recognizing the importance of such actions in maintaining ethical standards.

B is incorrect. Acting contrary to an employer's interests is not inherently a violation of standards if the actions taken are to prevent or report illegal or unethical activities. In Walton's case, her actions are not aimed at harming her employer out of malice or for personal gain but are driven by a concern for the welfare of clients and the integrity of the financial market. The ethical obligation to act in the best interest of clients and the market as a whole can supersede company loyalty when the company is engaged in unethical practices.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3060 Phil James is a research analyst at a capital management firm who also works as a part-time employee for a consultancy firm. Since the consultancy work is not time-consuming at all, James does not inform his employer at the capital management firm of his part-time work at the consultancy firm.
Has James violated Standard IV: Duties to Employers of the CFA Institute Standards of Professional Conduct?

A. Yes.

B. No, since the work does not interfere with his duties at the firm.

C. No, since the work offers no additional compensation.

The correct answer is **A.**

Phil James has indeed violated Standard IV: Duties to Employers of the CFA Institute Standards of Professional Conduct by not informing his employer at the capital management firm about his part-time work at the consultancy firm. According to the CFA Institute's ethical standards, professionals are required to notify and obtain consent from their primary employer before engaging in any additional employment. This requirement is in place to prevent potential conflicts of interest and ensure that the primary employment duties are not compromised. Even if the additional work is not time-consuming or does not directly interfere with his duties at the capital management firm, James is still obligated to disclose this information. .

B is incorrect. The argument that the work does not interfere with his duties at the firm is irrelevant to the violation of Standard IV: Duties to Employers. The standard requires disclosure of any additional employment, regardless of its impact on the employee's current duties. The rationale behind this requirement is to allow employers to assess any potential conflicts of interest or distractions that might arise from additional employment.

C is incorrect. The compensation received from the part-time work is also irrelevant to the violation of Standard IV. The standard mandates disclosure of any additional employment or professional activities outside of the primary employment, irrespective of whether these activities are compensated. The primary concern is the potential for conflicts of interest or divided loyalty, not the financial benefit derived from the external activities.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3065 Lock Investments (LOCK) is an asset management firm that manages funds for many institutional investors, including pension plans and endowments. Due to the high worth of each individual fund, LOCK uses outside advisers to manage various portions of the clients' assets under management. LOCK informs the clients about the strategies followed, the asset allocation, and the use of the external advisers. However, LOCK does not inform them about the specific specialization of the external advisors.
In withholding information, has LOCK *most likely* violated the CFA Institute Standards of Professional Conduct?

A. Yes.

B. No, because such information is considered confidential.

C. No, because such information is internal and will not have much relevance to the clients.

The correct answer is **A.**

According to Standard(III)B (Fair Dealing), -Members and Candidates must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities. As such, members and candidates should inform the clients about the specialization or diversification expertise provided by the external advisers. This information allows clients to understand the full mix of products and strategies.

B is incorrect. The confidentiality of information does not extend to withholding information about the specialization of external advisers from clients. While certain aspects of the relationship between an asset management firm and its external advisers might be confidential, the general specialization or expertise of these advisers is not typically considered confidential information. Clients have a right to understand who is managing their assets and the basis of their expertise, as this information can directly impact their investment decisions and perceptions of the asset management firm's capabilities.

C is incorrect. The specialization of external advisers is highly relevant to clients. Understanding the expertise and specialization of those managing their investments allows clients to make informed decisions about their investment strategies and to assess the alignment of these strategies with their own investment goals and risk tolerance. Suggesting that such information is internal and not relevant to clients undermines the principle of transparency and fair dealing, as it deprives clients of critical information that could influence their satisfaction and trust in the asset management firm.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3066 Justin Steel, a research analyst, is preparing a report on Moon Enterprises. Recalling that he had given a 'buy' recommendation while he was employed at another firm, Steel rewrites the report with a 'buy' recommendation. However, he does not use any model or information used at his previous firm when writing the report.
With regards to the CFA Institute Standards of Professional Conduct, Steel is *most likely* in:

A. Compliance.

B. Violation, because he did not recreate supporting records at the new firm.

C. Violation, because he used the memory of his previous work to write the recommendation.

The correct answer is **B.**

Steel is in violation of the Code and Standards. This is because he needs to recreate the supporting records at the new firm and not use memory or sources obtained from the previous employer.

A is incorrect. He did not use any model or information from his previous firm. However, the critical issue here is not the source of the information but the lack of supporting records at his new firm. The standards require that all investment recommendations be supported by appropriate documentation and analysis, regardless of whether the information is new or based on previous work.

C is incorrect. While it might seem that using memory of previous work to write a recommendation could be a violation, the actual violation stems from not recreating supporting records at the new firm. The CFA Institute Standards of Professional Conduct do not prohibit investment professionals from drawing on their knowledge and experience. However, they do require that any investment analysis, recommendations, or actions be supported by thorough documentation and records.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3069 Sophie Morris, a certified investment advisor, handles five private wealth accounts at her firm, including one owned by her parents. Recently, her parents proposed giving her a 10% share of any net profits generated from their account annually, intending to assist her with her living expenses. Morris is contemplating accepting this offer. In light of the proposed arrangement with her parents, to comply with the CFA Institute Standards of Professional Conduct, Morris should *most likely*:

A. Preclear her trades and report the transactions to her firm.

B. Treat her parents' account in the same way as she treats other client accounts.

C. Wait until all other clients have been allocated shares before she allocates them to her parents account.

The correct answer is **A.**

Morris's acceptance of the profit-sharing arrangement gives her a direct financial interest in her parents' account, constituting beneficial ownership. Consequently, she must obtain formal approval from her firm for this arrangement, preclear all related trades, and fully disclose the nature of her interest to ensure compliance with the CFA Institute's ethical standards.

B is incorrect. This option suggests that Morris should treat her parents' account in the same way as she treats other client accounts without any additional steps. While it is essential to treat all client accounts equitably, this option overlooks the additional requirement of preclearing trades and reporting them due to the beneficial ownership Morris has in her parents' account.

C is incorrect. Waiting until all other clients have been allocated shares before allocating them to her parents' account could lead to unfair treatment of her parents' account and could potentially disadvantage them. This approach could also be perceived as a form of favoritism towards other clients, which contradicts the principle of fair and equitable treatment of all clients.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3070 Josh Rivas is sitting for the CFA Level I exam. During the exam break, Rivas discusses with his friends, who also came to take the exam, some key formulas regarding quantitative analysis.
Has Rivas violated Standard VII(A): Conduct as Members and Candidates in the CFA Program?

A. No.

B. Yes, since Rivas should not have discussed any information with his friends.

C. Yes, since Rivas should have waited for until the exam was over before discussing it with his friends.

The correct answer is **A.**

Rivas is just discussing the curriculum material with his friends in preparation for the exam. This is not considered confidential information.

B is incorrect. This option suggests that Rivas should not have discussed any information with his friends. However, the information in question pertains to the CFA curriculum material, which is not confidential and is meant to be studied and understood by candidates. Discussing study material or key formulas does not violate any CFA Program rules as long as the discussion does not involve sharing or discussing actual exam questions or answers.

C is incorrect. This option suggests that Rivas should have waited until the exam was over before discussing it with his friends. While it is crucial to maintain the integrity of the exam process, discussing curriculum material during breaks does not compromise the exam's integrity. The prohibition against discussing exam content specifically pertains to actual exam questions and answers, not the general curriculum material or formulas that are part of the study process.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3071 A few days after taking the CFA Level III exam, Leslie Chan posted the following comment on the internet:
"l think I did fairly on the exam, but it was quite a grueling experience."

With regards to her comment, has Chan violated the CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, since she is indirectly providing information about the CFA exam.

C. Yes, since she is not authorized to make statements about the CFA exam on a public forum.

The correct answer is **A.**

Chan is just stating her opinion about the exam and is, hence, not in violation of the Standards.

B is incorrect. This option suggests that Chan violated the Standards by indirectly providing information about the CFA exam. However, her comment does not reveal any specific details about the exam content, questions, or answers. The Standards of Professional Conduct prohibit the disclosure of exam content that could compromise the integrity of the exam.

C is incorrect. This option posits that Chan is not authorized to make statements about the CFA exam on a public forum. While the CFA Institute does have guidelines regarding the discussion of the exam, these guidelines specifically pertain to the disclosure of exam content or answers. Candidates and charterholders are not prohibited from sharing their general experiences or feelings about the exam process, as long as they do not disclose specific exam content.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3072 Will Carr earned his CFA charter three years ago. However, just a year back, Carr stopped paying his annual membership fees to the CFA Institute. His resume, however, still states that he was a CFA charterholder in the past.
With regards to his resume, is Carr in violation of the CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, because he has misrepresented information about himself.

C. Yes, because it is mandatory for Carr to pay his annual membership fee.

The correct answer is **A.**

Members and candidates may state that they were charterholders in the past, when in fact, they were.

B is incorrect. It suggests that Carr is misrepresenting information about himself by stating he was a CFA charterholder in the past. This interpretation is incorrect as long as Carr accurately represents his status. The CFA Institute's guidelines permit former charterholders to reference their past achievement, provided they do not imply current status or membership if it is not the case.

C is incorrect. It implies that it is mandatory for Carr to pay his annual membership fee to reference his past CFA charterholder status. While maintaining membership and paying annual fees are necessary for using the CFA designation actively and accessing certain benefits, the CFA Institute does not prohibit former charterholders from stating their past achievements.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3073 As a member of her local CFA Society, Alice Sly, an investor-relations consultant, often invites her clients to make presentations to the society. Since other companies are not her clients, Sly believes it is inappropriate to invite them because she has no knowledge of their needs and abilities.
Is Sly in compliance with Standard VII: Responsibilities as a CFA Institute Member or CFA Candidate?

A. Yes.

B. No, since she is compromising the integrity of CFA Institute.

C. No, since she does not have a reasonable and adequate basis to invite her own clients to the CFA Society presentations.

The correct answer is **B.**

Sly is not in compliance with the Standards. She is using her position to disadvantage other companies and to benefit herself and her clients. In doing so, she is compromising the integrity of CFA Institute.

A is incorrect. This option suggests that Sly is in compliance with Standard VII by only inviting her clients to make presentations to the CFA Society. However, this action is contrary to the principles of fairness, integrity, and professionalism that the CFA Institute advocates. By limiting invitations to her clients, Sly is not promoting an equitable platform for all companies, regardless of her professional relationship with them.

C is incorrect. This option argues that Sly does not have a reasonable and adequate basis to invite her own clients to the CFA Society presentations. While it is important for members to have a reasonable basis for their professional actions, the primary issue with Sly's conduct is not the lack of a reasonable basis for inviting her clients. Instead, the main concern is her exclusion of other companies based on her personal relationship with her clients, which compromises the integrity and fairness expected of CFA Institute members.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3078 During a meeting with his supervisor, Tatiana Ross discovered that one of her firm's largest clients has expressed the urgent need of hiring a new investment manager. The client has filed the necessary papers for the hiring process with Ross's firm and a few other competitors. Ross believes that she is suitable for the job and hence, forwards her resume to the client along with the necessary paperwork.
ls Ross' response to the job opportunity in accordance with Standard IV(A): Loyalty of the CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, but only if Ross seeks prior approval from her employer.

C. Yes, but only if Ross seeks prior approval from her employer and also the client.

The correct answer is **C.**

Ross needs to seek prior approval from her employer as well as the client who is seeking out the new investment manager.

A is incorrect. This option suggests that Ross's actions are outright incompatible with Standard IV(A): Loyalty. The act of applying for a new position is not inherently a violation of the loyalty standard, provided that Ross ensures her actions do not harm her current employer's interests and that she has transparently communicated her intentions to all parties involved.

B is incorrect. While seeking prior approval from her employer is a crucial step towards ensuring that Ross's actions align with Standard IV(A): Loyalty, it is not sufficient on its own. This option overlooks the importance of also obtaining consent from the client. The client's awareness and approval of Ross's application are essential to maintain transparency and avoid any potential conflicts of interest.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3081 Al Bailey is the founder of Diamond Investments (DIAN), a small U.S. based equity management firm. During the past few years, the firm has seen an increase in its international investments as clients have desired the diversification benefits that such investments have to offer. As such, Bailey undertakes a request for proposal to find and hire a submanager that would manage the firm's international stock investments.
Bailey selects the manager that offers the most optimal trade-off between performance and fees. Bailey's selection of an appropriate submanager *most likely*:

A. Violates Standard V(A): Diligence And Reasonable Basis.

B. Violates Standard III(A): Loyalty, Prudence, and Care.

C. Is in compliance with CFA Institute Code and Standards.

The correct answer is **A.**

Bailey violates Standard V(A): Diligence and Reasonable Basis. Bailey selected the manager on the basis of performance and fees only whereas the selection should be based on a full and complete review of the manager's service, performance history, and suitability.

B is incorrect. The statement assumes Bailey's decision violates Standard V(A) without considering that a balanced consideration of performance and fees, as part of a comprehensive evaluation process, can constitute a diligent and reasonable basis for selecting a submanager. The standard does not preclude considering fees and performance; rather, it emphasizes the need for a thorough and reasoned approach to making investment-related decisions.

C is incorrect. It suggests Bailey's action violates Standard III(A): Loyalty, Prudence, and Care. This standard requires that investment professionals act for the benefit of their clients and place their clients' interests before their own or their employer's, exercise prudence and care in the management of all client investments, and apply a high level of professional competence.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3086 Dan Riffel is writing a report on the quarterly earnings of the stock of Ace Products Incorporated (API). The report focuses on the analysis of API's past earnings trend using not only its financial information but also that of its competitors and the industry as a whole. It also predicts returns for the coming four quarters using extensive scenario analysis and sensitivity analysis. However, the report only mentions the firm's changing managerial structure and revised hiring strategies, and does not explain them in detail but stipulates the limits of the report. After completion, Riffel distributes this report to his clients.
The report distributed by Riffel *most likely*:

A. Does not violate codes and standards.

B. Violates Standard V(B): Communication with Clients and Prospective Clients only.

C. Violates Standard V(B): Communication with Clients and Prospective Clients and Standard V(A): Diligence and Reasonable Basis.

The correct answer is **A.**

A report writer may emphasize certain areas and touch briefly upon others. Since the report mainly focuses on quarterly earnings, it is appropriate for Riffel just to mention the changing managerial structure and to focus more on earnings trends and scenario analysis.

B is incorrect. This option suggests that Riffel's report violates Standard V(B): Communication with Clients and Prospective Clients, which mandates that investment professionals must strive to ensure that communications with clients and prospective clients are accurate and provide sufficient information to help clients make informed decisions.

C is incorrect. This option suggests that the report violates both Standard V(B): Communication with Clients and Prospective Clients and Standard V(A): Diligence and Reasonable Basis. Standard V(A) requires that investment professionals exercise diligence, independence, and thoroughness in analyzing investments, making investment recommendations, and taking investment actions.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3088 Andrew Stein has developed a new set of formulas to identify undervalued stock investments. The new formulas use a number of financial and economic variables linked in an intricate way to estimate fundamental values. Their derivation involves a series of complex steps with numerous linkages. However, in his report, Stein mentions only the basic process and logic behind his estimation procedure along with his recommendations. Stein concludes his report for distribution to clients and prospective clients.
Has Stein *most likely* violated the CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, since his process lacks the appropriate due diligence, thoroughness, and independence required.

C. Yes, since he did not mention the details necessary for clients and prospective clients to properly understand his evaluation process.

The correct answer is **A.**

Stein does not violate any Standards. He does not need to describe the formulas in detail, but he does need to inform his clients about the basic process and logic behind his estimation.

B is incorrect. This option suggests that Stein's process lacks the appropriate due diligence, thoroughness, and independence required. However, there is no indication that Stein's work lacks due diligence or thoroughness. The standards do not mandate the disclosure of every detail of the analysis process as long as the essential logic and basis for recommendations are communicated effectively, which Stein has done.

C is incorrect. He did not mention the details necessary for clients and prospective clients to properly understand his evaluation process assumes that detailed disclosure is always required for understanding. However, the CFA Institute Standards of Professional Conduct allow for discretion in determining the level of detail necessary to ensure that clients are adequately informed.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3089 The Aggressive Equity Fund,' a fund offered by a reputable investment firm, invests in high risk domestic and international stock investments. Just recently, the fund changed its selection criteria by including stocks with a medium risk profile but with high sensitivity to economic business cycles. The investment firm changed its marketing literature accordingly to inform prospective clients and other investors.
With regards to Standard V(B): Communication with Clients and Prospective Clients, the investment management firm has *most likely*:

A. Followed best practice.

B. Violated best practice by not informing current clients.

C. Violated best practice by changing the selection criteria of the fund prior to approval by prospective clients.

The correct answer is **B.**

The investment firm needs to inform current clients, prospective clients, and other investors of the change.

A is incorrect. This option suggests that the investment firm followed best practice by changing its marketing literature to inform prospective clients and other investors about the change in the fund's selection criteria. While updating marketing literature is a positive step towards transparency, it does not fulfill the firm's obligation to directly inform its current clients about significant changes that could affect their investment.

C is incorrect. This option implies that the investment firm violated best practice by changing the selection criteria of the fund prior to approval by prospective clients. However, the standard does not require approval from prospective clients before making changes to the fund's selection criteria. The key issue is not the lack of approval from prospective clients but rather the failure to inform current clients about significant changes.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3090 While working for his previous employer, Joseph Lyons, an equity analyst, developed a regression model to determine the effect of business cycle changes on a firm's key financial ratios. While developing the model, Lyons carefully documented the assumptions and supporting evidence used in reaching his conclusions. Recently, Lyons was asked by his current employer to use the same model to select securities for one of its clients. Lyons worked for a week to recreate the model along with its assumptions.
With regards to the CFA Institute Standards of Professional Conduct, Lyons has *most likely*:

A. not violated best practice.

B. violated best practice since Lyons can use the model for his current employer but only after the approval of his previous employer.

C. violated best practice since he is not allowed to use the model for his current employer since the model was developed while working for his previous employer.

The correct answer is **A.**

Since Lyons has recreated the model along with the assumptions and records supporting the model at the new firm, he has not violated best practice.

Q.3093 Lauren Harms, a market dealer, attended a meeting with the CEO of Golden Gate Enterprises (GGE) to understand the firm's future financial strategies. During the meeting, the CEO mentioned that Harms would be offered additional commissions for sales of GGE's stock to Harms's clients. Harms gladly accepted the offer.
To ensure that he does not violate any of the CFA Institute Standards of Professional Conduct, Harms should disclose the arrangement to his:

A. Clients and his employer.

B. Clients, prospective clients, and his employer, and determine suitability before selling GGE's stock to clients.

C. Clients and his employer and determine the suitability of the stock for his clients before selling GGE's stock to them.

The correct answer is **A.**

Harms should disclose this arrangement to his employer and to his clients, but he does not need to determine the suitability of the investment for his clients since he is a dealer, not a financial consultant.

B is incorrect. While it is essential for Harms to disclose the arrangement to his clients, prospective clients, and his employer, the requirement to determine suitability before selling GGE's stock to clients extends beyond his role as a market dealer. Market dealers are primarily involved in trading securities and may not necessarily provide financial advice or assess the suitability of investments for clients.

C is incorrect. Similar to option B, this option imposes the responsibility of determining the suitability of GGE's stock for Harms's clients before selling it to them. While ensuring that investments are suitable for clients is a best practice in financial advisory roles, Harms's position as a market dealer does not typically involve evaluating the suitability of specific investments for individual clients.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3095 Zack Howard is a financial analyst at Al & Brow Associates (A&B), who is planning to participate in an oversubscribed IPO offering for his personal account. Howard has determined, by way of thorough examination, that the IPO is not a suitable investment for any of his clients. As such, he does not preclear his participation in the IPO since he strongly believes that no conflicts of interest exist. By participating in the IPO, Howard has:

A. Not violated any code and standards.

B. Violated Standard VI(B): Priority of Transactions.

C. Violated Standard VI(A): Disclosure of Conflicts.

The correct answer is **C.**

Members or candidates should fully disclose to their clients, potential clients, and employers all actual and potential conflicts of interest. After disclosing, members and candidates can then be precleared (or not) to proceed with the transaction. Clients being excluded from an oversubscribed IPO is a potential conflict of interest that should be disclosed.

A is incorrect. This option suggests that Howard did not violate any codes and standards by participating in the IPO without preclearance. However, this overlooks the requirement for disclosure of potential conflicts of interest under Standard VI(A).

B is incorrect. While Howard's actions might seem to implicate Standard VI(B): Priority of Transactions, which emphasizes the importance of giving clients' transactions priority over personal transactions, the primary issue here is the lack of disclosure of a potential conflict of interest, which falls under Standard VI(A).

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3096 To ensure best practice, which of the following is *most likely* allowed under Standard VI(C): Referral Fees?

A. To completely restrict any fees received for referrals of customers and clients.

B. Mandatory disclosure to clients of all fees paid in cash or in soft dollars, but not ones paid in kind.

C. Providing the employer regular, yearly updates on the amount and nature of compensation received.

The correct answer is **A.**

Under Standard VI(C): Referral Fees, a firm may opt to completely restrict any fees received for referrals of customers and clients. This approach is in line with the ethical guidelines that aim to prevent conflicts of interest and ensure transparency in professional conduct. By prohibiting referral fees, a firm can maintain the integrity of its services and decisions, ensuring that they are based solely on the best interests of the clients and not influenced by potential financial gains from referrals.

B is incorrect. Mandatory disclosure to clients of all fees paid, whether in cash, in soft dollars, or in kind, is a requirement under Standard VI(C). Transparency in disclosing all forms of compensation received for referrals, including non-monetary benefits, is crucial for maintaining ethical standards and client trust.

C is incorrect. Providing the employer with regular, yearly updates on the amount and nature of compensation received for referrals does not meet the standard's requirements for timely and comprehensive disclosure. Standard VI(C) mandates more frequent and detailed reporting to ensure that employers are promptly and fully informed about referral arrangements.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3097 Brian Slack works for the financial management department of Gary Financial Associates (GFA), a large U.S. based multinational firm. In addition to his regular compensation, Slack receives additional compensation for every referral he makes to GFA's brokerage department. As such, Slack refers several of his clients to GFA's brokerage department and verbally discloses this arrangement to his clients.

To comply with Standard VI(C): Referral Fees of the CFA Institute Standards of Professional Conduct, Slack should:

A. Continue with current practices since the referrals are made within the firm and involve internal payments rather than a third party and external payments.

B. Disclose to his clients the nature and value of the additional compensation and should make it in writing.

C. Not refer his clients to the brokerage department since disclosure of such a practice does not absolve him of noncompliant actions.

The correct answer is **B.**

Even if the referrals are made within a firm and involve internal payments, Slack needs to disclose this arrangement to his clients and should make it in writing.

A is incorrect. This option suggests that Slack can continue with his current practices without making any changes, under the assumption that referrals within the firm involving internal payments do not require disclosure. This is a misunderstanding of Standard VI(C): Referral Fees, which mandates that all compensation arrangements, including those involving internal payments within the same firm, must be disclosed to clients.

C is incorrect. This option implies that Slack should not refer his clients to the brokerage department at all, suggesting that disclosure of such practices does not mitigate noncompliant actions. However, the CFA Institute Standards of Professional Conduct do not prohibit referral practices outright; instead, they require that any additional compensation arrangements be disclosed to clients.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3098 Edson Williams is a portfolio manager at an investment bank. Williams has been successful in bringing in new business for the bank and in increasing assets under management. For this reason, he has received a considerable amount of additional compensation but has never disclosed this fact to clients or prospective clients.
With regards to the CFA Institute Standards of Professional Conduct, Williams is *most likely* in:

A. Compliance with the Standards.

B. Violation of Standard VI(C): Referral Fees and Standard V(B): Communication with Clients and Prospective Clients.

C. Violation of Standard VI(C): Referral Fees, Standard V(B): Communication with Clients and Prospective Clients, and Standard VI(A): Disclosure of Conflicts.

The correct answer is **C.**

- **Standard VI(C): Referral Fees**: This standard requires members and candidates to disclose to their employer, clients, and prospective clients, as appropriate, any compensation, consideration, or benefit received from or paid to others for the recommendation of products or services. If Williams received additional compensation for bringing in new business and did not disclose this, he would be in violation of this standard.

- **Standard V(B): Communication with Clients and Prospective Clients**: This standard requires members and candidates to disclose to clients and prospective clients the basic format and general principles of the investment processes used to analyze investments, select securities, and construct portfolios and must promptly disclose any changes that might materially affect those processes. If Williams did not disclose his additional compensation, which could potentially affect his investment decisions, he would be in violation of this standard.

- **Standard VI(A): Disclosure of Conflicts**: This standard requires members and candidates to make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and employer. If Williams did not disclose his additional compensation, which could create a potential conflict of interest, he would be in violation of this standard.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3099 Max Leonard works as a portfolio manager at Lion Investments (LION), a capital management firm. In addition to his work at LION, Leonard is also part of the local CFA Society that oversees and monitors the proper implementation of the CFA Institute ethical rules and professional standards. While preparing marketing material for LION, Leonard mentions that his position in the local CFA Society could assist his clients in better managing their assets.
The marketing material developed by Leonard is *most likely* in:

A. Compliance with the CFA Institute Standards of Professional Conduct.

B. Violation of the standards since Leonard may not reveal his involvement with the CFA Society to his clients.

C. Violation of the standards since Leonard cannot infer any special advantage to his clients from his participation in the CFA Society.

The correct answer is **C.**

Leonard may factually state his involvement with the local CFA Society but he cannot otter any special advantage to his clients from such participation.

A is incorrect. It suggests that Leonard's actions are in compliance with the CFA Institute Standards of Professional Conduct. However, this is not the case as Leonard's statement in the marketing material misleads clients about the benefits of his service, which is a clear violation of the standards.

B is incorrect. It inaccurately states that Leonard may not reveal his involvement with the CFA Society to his clients. In fact, CFA Institute standards allow members to disclose their affiliations and roles in professional societies, provided such disclosures are factual and not misleading.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3102 David Levine is the portfolio manager for a pension portfolio worth $25 million with an average life of 35 years. Levine was recently asked by his employer to participate in a bonus compensation plan that rewarded managers on the basis of quarterly performance relative to specific benchmark indices. Levine felt encouraged and decided to participate in the plan.
To comply with best practices under CFA Institute Standards of Professional Conduct, Levine:

A. Should disclose this compensation arrangement to his client.

B. Not accept such additional compensation since it conflicts with his objectives as a portfolio manager for his client.

C. Should not disclose such an arrangement to his client since it is known that employers pay their employees on the basis of performance and the compensation is internal.

The correct answer is **A.**

Levine should disclose this arrangement to his client (since a conflict of interest exists between his compensation and his client's IPS).

B is incorrect. It is contrary to the firm's recommendation undermines the principle of acting in the client's best interest. Investment professionals are expected to provide objective advice and support to their clients, respecting their autonomy in decision-making.

C is incorrect. Not disclosing the compensation arrangement under the assumption that it is a common practice and solely an internal matter overlooks the potential conflict of interest and the importance of transparency in the advisor-client relationship. The CFA Institute Standards of Professional Conduct emphasize the need for full disclosure of any arrangements that could influence the investment decision-making process.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3103 Janice Smith, CFA, serves as a senior trader at an investment management firm. Smith recently fired a subordinate because he was involved in leaking confidential trade information to an acquaintance serving a brokerage firm. Mona Singh has been hired as a replacement. During her first day of work, Smith instructs Singh to execute a buy order for the firm's top four clients prior to executing for the firm's remaining client accounts.
Is Smith in violation of the CFA Institute Standards of Professional Conduct?

A. No.

B. Yes, by agreeing to serve as a supervisor at a firm where there are inadequate supervisory procedures.

C. Yes, she did not make reasonable efforts to ensure that Singh has complied with the Code and Standards.

The correct answer is **C.**

Smith violated her duty as a supervisor when she instructed Singh to undertake a transaction for selective client accounts. Smith is encouraging her subordinate to engage in unfair trading. By failing to make reasonable efforts to prevent violation of the Code and Standards, Smith has violated her duty as a supervisor (Standard IV(C): Responsibility of Supervisors).

A is incorrect. This option suggests that Smith's actions do not constitute a violation of the CFA Institute Standards of Professional Conduct. However, by instructing a subordinate to execute trades in a manner that prioritizes certain clients over others, Smith is not adhering to the principle of fair dealing.

B is incorrect. While ensuring adequate supervisory procedures is important, the specific violation in this scenario pertains to Smith's failure to treat all clients fairly and equitably, as required by Standard III(B): Fair Dealing.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3104 Selena George is a quantitative analyst at Idaho Analytics. Two months ago, George left Idaho to serve an investment bank. On her final day at Idaho, she was instructed to delete all data concerning a complex statistical model, developed by her in the previous year, from her personal computer and to return related physical records to her supervisor. Idaho identifies itself as model owner.
With respect to George's responsibilities concerning model records and Idaho's identification as model owner, have any of the CFA Institute Standards of Professional Conduct been violated?

A. No.

B. Yes, Idaho cannot identify itself as the model owner.

C. Yes, as the model designer, George reserves the right to make a personal copy of model records.

The correct answer is **A.**

Records are a property of the firm, and departing employees cannot take the property of the firm without the consent of their employer. Therefore, Idaho reserves the exclusive right to records concerning the model. (Standard V(C): Record Retention)

Models developed while still employed by a firm are the property of the firm. Therefore, identifying Idaho as the author of the report does not represent a violation.

B is incorrect. It suggests that Idaho Analytics cannot identify itself as the model owner, which contradicts the principles outlined in the CFA Institute Standards of Professional Conduct. According to these standards, any work product, including models developed by employees during their employment, is considered the property of the firm. This ownership includes both the physical and intellectual property associated with the model.

C is incorrect. This option posits that as the model designer, Selena George has the right to make a personal copy of the model records. This assertion directly conflicts with Standard V(C): Record Retention of the CFA Institute Standards of Professional Conduct, which mandates that all records and proprietary information remain the property of the firm. Employees are not entitled to retain personal copies of such records without explicit permission from their employer.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3106 George Mendes is considering an employment offer made by DR Associates, an investment bank. Should Mendes accept the offer, he will be responsible for supervising twenty portfolio managers. Mendes' only concern is that employees' personal trades are not being adequately monitored and many of these transactions involve front-running clients' trades.
To comply with the CFA Institute Standards of Professional Conduct, Mendes should *most likely*:

A. Accept the offer and dismiss employees involved in front-running.

B. Accept the offer and implement adequate compliance procedures.

C. Decline the offer in writing until the firm adopts reasonable procedures to allow exercise of his supervisory responsibilities.

The correct answer is **C.**

Front-running client trades constitutes a violation of the CFA Institute Standards of Professional Conduct. His best course of action would be to decline the position offered and implement adequate compliance procedures.

A is incorrect. Simply accepting the offer and dismissing employees involved in front-running does not address the root cause of the problem. While disciplinary action against individuals who violate ethical standards is necessary, it is equally important to establish and enforce comprehensive compliance procedures to prevent such violations in the future.

B is incorrect. Although accepting the offer and implementing adequate compliance procedures seems like a proactive approach, it overlooks the immediate concern regarding the existing culture of unethical practices within the firm. By accepting the offer under the current conditions, Mendes might inadvertently signal acceptance of the firm's lax attitude towards ethical standards.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3109 Dave Gunn is a junior equity research analyst serving a brokerage firm. He has been asked to cover Time Limited, a global watchmaker. After conducting thorough research, Gunn arrives at the conclusion that Time Limited's financial condition will deteriorate following the resignation of a key employee and that a 'sell' rating should be issued. Gunn's supervisor instructs him to maintain a 'hold' rating until the situation becomes clearer.
Gunn's best course of action would be to:

A. Resign from his current position.

B. Issue a report with a 'sell' rating.

C. Issue a report with a 'hold' rating.

The correct answer is **B.**

Standard I(B): Independence and Objectivity requires members and candidates to maintain independence and objectivity in their professional activities. Therefore, Gunn should not be pressured by his supervisor to issue a rating which is contrary to his own. Gunn has independently arrived at a 'sell' rating and must continue to maintain it. His best course of action would be to release the report with his own recommendation.

A is incorrect. Resigning from his current position is an extreme measure that does not address the core issue of maintaining independence and objectivity in professional activities.

C is incorrect. Issuing a report with a 'hold' rating, contrary to Gunn's independent analysis, would compromise his objectivity and independence. Standard I(B): Independence and Objectivity emphasizes the importance of making professional judgments without being influenced by external pressures, including directives from supervisors that conflict with one's own analysis.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3110 Lance Hill is a senior portfolio manager at West Arc Asset Managers. Hill works at West Arc's headquarters in Luxembourg. He frequently conducts business with clients in the Asian division. Asian regulators do not require portfolio managers to comply with the GIPS standards when reporting investment performance. The country in which West Arc is headquartered and which Hill is a resident of requires strict compliance with the GIPS Standards.
To avoid violation of the CFA Institute Standards of Professional Conduct, Hill should comply with:

A. Asian laws.

B. IFRS

C. Law of the country in which the firm is headquartered.

The correct answer is **C.**

To avoid violation of the CFA Institute Standards of Professional Conduct, Hill should comply with the law of the country in which the firm is headquartered. Both the Asian laws and the Code and Standards do not mandate compliance with the requirements of the GIPS Standards. The law concerning GIPS standards is most strict in the country in which Hill is a resident of, and thus, Hill should comply with this law.

A is incorrect. While it might seem practical to comply with local regulations in Asia, given that the Asian division's regulators do not require adherence to GIPS standards, this approach would not fulfill the obligation to maintain consistent, ethical standards across all operations.

B is incorrect. The International Financial Reporting Standards (IFRS) are a set of accounting standards that provide guidelines for financial reporting. While IFRS plays a critical role in ensuring transparency and comparability across international financial markets, it does not specifically address the compliance requirements for investment performance reporting as outlined by the GIPS standards.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3111 Sara Wallace has recently passed Level ll of the CFA examinations. She is applying for the position of a junior research analyst at a leading investment bank. In the qualifications and experience section of her resume, Wallace includes the following statements:
Statement l: "I have successfully passed the first two levels of the CFA examinations in consecutive attempts."

Statement 2: "Since l have been working for two years in the investment industry, I expect to earn my charter one year after completing the final level of the CFA examinations."

Wallace is *most likely* in violation of the CFA Institute Standards of Professional Conduct with respect to:

A. Statement 1.

B. Statement 2.

C. Both of her statements.

The correct answer is **B.**

Statement 1 is not in violation of the CFA Institute Standards of Professional Conduct because stating that she passed the first two levels in consecutive attempts is a statement of fact.

Statement 2 is in violation of the CFA Institute Standards of Professional Conduct because Wallace is citing an expected date for the final award of the charter. The final award of the charter is subject to meeting CFA Program requirements and approval by the CFA Institute Board of Governors. The second statement is in violation of Standard VII(B): Reference to the CFA Institute, the CFA Designation, and the CFA Program.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Q.3116 Jack Gayle is a senior research analyst who is looking to expand his team. He is evaluating the backgrounds of three individuals, each of which has relevant experience for the position. Details concerning the background of the three individuals are as follows:
Individual 1: Has suffered from financial bankruptcy because of bad investment decisions made by him for his personal investment account.
Individual 2: Is GayIe's stepbrother.
Individual 3: Was actively involved in a violent political demonstration against the city's municipality authorities after which she was arrested.

Which of the following individuals should Gayle eliminate as a potential candidate?

A. Individual 1

B. Individual 2

C. Individual 3

The correct answer is **B.**

Hiring his own stepbrother to be part of his research team represents a potential conflict of interest situation which Gayle should seek to avoid. Members and candidates should seek to avoid all potential conflicts of interest wherever possible. (Standard VI(A): Disclosure of Conflicts)

A is incorrect. Personal bankruptcy situations do not adversely reflect on a member's or candidate's professional competence, integrity or reputation and therefore do not represent a violation of the CFA Institute Standards of Professional Conduct.

C is incorrect. Legal transgression in support of personal beliefs does not constitute a violation of the CFA Institute Standards of Professional Conduct, and thus Gayle can consider this individual as a candidate for his research team.

CFA Level I, Ethics, Learning Module 3: Guidance for Standards I-VII. LOS (a): Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS)

Q.196 Which of the following statements regarding the GIPS is *least likely* accurate?

A. The GIPS wants to promote fair global competition among investment management firms.

B. One vision of the GIPS is to put more barriers to entry for new investment management firms.

C. The GIPS standards ensure that competition occurs on an equal footing and that comparisons can be drawn between investment vehicles.

The correct answer is **B.**

One vision of the GIPS is not to put more barriers to entry for new investment management firms.

A is incorrect. The GIPS standards are a practitioner-driven set of ethical principles that establish a standardized, industry-wide approach for investment firms to calculate and present their historical investment results to prospective clients.

C is incorrect. GIPS allows clients to more easily compare investment performance among investment firms and have more confidence in reported performance.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (b): Describe the key concepts of the GIPS standards for firms.

Q.197 Which of these is *most likely* not one of the issues a verification report must confirm?

A. Justify whether all of the members of the administrative decision tribunal are financial experts.

B. Determine whether a firm has complied with all firm-wide composite construction requirements.

C. Proof of whether processes and procedures are designed to calculate and present compliant performance results.

The correct answer is **A.**

The members of the administrative decisions tribunal have nothing to do with the GIPS.

B is incorrect. A verification report must contain the main issues: ''Whether a firm has complied with all firm-wide composite construction requirements''.

C is incorrect. ''Proof of whether processes and procedures are designed to calculate and present compliant performance results'' forms part of the verification report.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (c): Explain the purpose of composites in performance reporting.

Q.200 The *most accurate* definition of a discretionary fund is a fund:

A. In which the fund manager decides what to buy or sell.

B. That is aimed at tracking the performance of a specific index.

C. In which the investor advises the fund which securities to buy or sell.

The correct answer is **A.**

A discretionary fund is accurately defined as a fund where the fund manager has the authority to make investment decisions, including what securities to buy or sell, without needing to seek approval from investors for each transaction. This autonomy allows fund managers to act swiftly in response to market changes, potentially capitalizing on investment opportunities more efficiently.

B is incorrect. While some funds, known as index funds or exchange-traded funds (ETFs), are designed to track the performance of a particular index, discretionary funds operate differently.

C is incorrect. This option misrepresents the nature of a discretionary fund by implying that the investor directly advises on which securities to buy or sell. In contrast, the essence of a discretionary fund is that the investor delegates decision-making authority to the fund manager. While investors may set broad investment guidelines or objectives, they do not partake in the day-to-day decision-making process regarding specific securities.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (d): Describe the fundamentals of compliance, including the recommendations of the GIPS standards with respect to the definition of the firm and the firm's definition of discretion.

Q.201 Which one of these is *least likely* a goal of the GIPS?

A. Foster self-regulation.

B. Discourage global competition

C. Obtain worldwide acceptance for a single standard.

The correct answer is **B.**

One of the GIPS goals is to ENCOURAGE global competition. It also fosters self-regulation.

The GIPS standards are a practitioner-driven set of ethical principles that establish a standardized, industry-wide approach for investment firms to calculate and present their historical investment results to prospective clients.

A is incorrect. Fostering self-regulation is indeed one of the core goals of the GIPS. By adhering to these standards, investment firms voluntarily commit to an ethical framework for presenting their investment performance. This self-regulation helps in maintaining high levels of integrity and transparency within the industry, which are crucial for building investor confidence and trust.

C is incorrect. Obtaining worldwide acceptance for a single standard is indeed a goal of the GIPS. The aim is to have a universally accepted set of guidelines that investment firms can follow to report their performance. This global standardization is crucial for ensuring that performance reports are comparable across different regions and investment strategies.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (b): Describe the key concepts of the GIPS Standards for Firms.

Q.628 Which of the following is *most likely* not a section of the GIPS Standards?

A. Real Estate.

B. Service Industry.

C. Calculation Methodology.

The correct answer is **B.**

GIPS applies to investment management firms. They are intended to serve prospective and existing clients of investment firms and consultants who advise these clients.

A is incorrect. Real Estate is also a section of the GIPS Standards and further categorized into requirements and recommendations.

C is incorrect. Calculation Methodology is a section of the GIPS Standards.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (b): Describe the key concepts of the GIPS Standards for Firms.

Q.629 Which of the following statements is *least likely* accurate?

A. A firm cannot perform its own verification.

B. The verification ensures the accuracy of specific composite presentations.

C. The verification improves the internal processes and procedures of the firm.

The correct answer is **B.**

Verification is performed concerning an entire firm, not on specific composites, and does not ensure the accuracy of any specific composite presentation.

A is incorrect. It's most likely that an independent third party must perform verification. A firm cannot perform its verification.

C is incorrect. A verified firm may provide existing and prospective clients with greater assurance about its claim of compliance with the GIPS standards. Verification may also provide improved internal processes and procedures as well as marketing advantages to the firm.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (e): Describe the concept of independent verification.

Q.631 The survivorship bias is *most likely* said to exist in which of the following situations?

A. The performance was depicted only for a selected period.

B. Investment results were shown only for top-performing accounts.

C. Companies that ceased to exist were not included while depicting investment performances.

The correct answer is **C.**

The survivorship bias exists when the results of companies that ceased to exist are not included in the investment performance results.

A is incorrect. It relates to misleading practices related to varying periods.

B is incorrect. It relates to misleading practices related to representative accounts.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (b): Describe the key concepts of the GIPS standards for firms.

Q.632 Compliance to GIPS is *most appropriately* required by which of the following institutions?

A. The World Trade Organisation (WTO).

B. Regulations by the Standards-Setting Board (SSB).

C. Compliance is voluntary and not mandated by any law or regulation.

The correct answer is **C.**

Compliance with the standards is voluntary and not required by any law or regulation.

A is incorrect. The World Trade Organization (WTO) is an international organization that deals with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably, and freely as possible.

B is incorrect. While the Standards-Setting Board (SSB) may refer to various bodies that set standards in different fields, GIPS compliance is not mandated by any specific regulatory authority or standards-setting board.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (b): Describe the key concepts of the GIPS standards for firms.

Q.634 Which of the following parties is *most likely* beneficiaries of GIPS compliance?

A. Prospective clients.

B. Investment management firms.

C. Both prospective clients and investment management firms.

The correct answer is **C.**

The GIPS standards benefit both the investment management firm and the prospective clients.

A is incorrect. It suggests that only prospective clients benefit from GIPS compliance.

B is incorrect. It implies that the benefits of GIPS compliance are exclusive to investment management firms.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (b): Describe the key concepts of the GIPS standards for firms.

Q.635 Which of the following is *most appropriately* defined as an aggregation of one or more portfolios managed according to a similar investment mandate, objective, or strategy?

A. Section.

B. Segment.

C. Composite.

The correct answer is **C.**

A composite is defined as an aggregation of one or more portfolios managed according to a similar investment mandate, objective or strategy.

A is incorrect. A section refers to the various provisions in the GIPS.

B is incorrect. Segments don't relate to portfolio management.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (c): Explain the purpose of composites in performance reporting.

Q.636 Which of the following statements is *least likely* accurate regarding the Global Investment Performance Standards (GIPS)?

A. Compliance enables GIPS-compliant firms to participate in competitive bids.

B. The GIPS standards eliminate the need for due diligence on the part of investors.

C. Compliance with the GIPS enhances the credibility of investment management firms.

The correct answer is **B.**

While the GIPS enhances the credibility of compliant firms, it does not eliminate the need for due diligence on investors.

A is incorrect. It is correct to say that compliance enables GIPS-compliant firms to participate in competitive bids.

C is incorrect. It is correct that compliance with GIPS enhances the credibility of investment management firms.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (b): Describe the key concepts of the GIPS Standards for Firms.

Q.2639 Which of the following is *least likely* an objective of GIPS?

A. CFA-regulation.

B. Promote global competition.

C. Standard calculation of investment presentation.

The correct answer is **A.**

The GIPS promote self-regulation rather than regulation by a third-party.

B is incorrect. One of the key objectives of GIPS is to encourage fair, global competition among investment firms without creating barriers to entry.

C is incorrect. A key objective of GIPS is to obtain worldwide acceptance of a single standard for calculating and presenting investment performance based on the principles of fair representation and full disclosure.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (b): Describe the key concepts of the GIPS Standards for Firms.

Q.2642 Sandra Filner works for a firm that's been actively managing investments since 2009. She serves on a team whose charge is to prepare GIPS-compliant presentations for 2016. In researching which investment accounts to include in her firm's calculation, she chooses the best performing index funds for the previous seven years.
Does Filner's decisions *most likely* lead to GIPS compliance for her firm's upcoming presentation?

A. No, Filner chose only the best-performing index funds to include in her firm's calculations.

B. No, Filner must include at least 10 years' worth of composite results in order to be GIPS-compliant.

C. Yes, Filner has included data from each year of the firm's activity, including the minimum requirement of five years' data.

The correct answer is **A.**

GIPS requires that firms chose a full representation of results for each presentation of historical data. This includes both high and low yields. By hand-picking the best-performing funds, Filner voids compliance with GIPS standards.

C is incorrect. By including the seven-year data, Filner only selected the best-performing index funds.

B is incorrect. GIPS regulations require that when a firm presents a minimum of five years of GIPS-compliant performance, the firm must present an additional year of performance each year, building up to a minimum of 10 years GIPS-compliant performance.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (c): Explain the purpose of composites in performance reporting.

Q.2643 The *most appropriate* definition of a GIPS verification is corroboration by an independent third-party that a firm's:

A. Policies and procedures are GIPS-compliant.

B. Portfolio returns and procedures are GIPS-compliant.

C. Composite returns and procedures are GIPS-compliant.

The correct answer is **A.**

Verification reviews an investment management firm's performance measurement processes and procedures by an independent third-party verifier. Specifically, verification assesses whether the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis. It also tests whether the firm's policies and procedures are designed to calculate and present performance compliance with the GIPS standards.

B and C are incorrect. They refer only to compliance test requirement procedures and not the definition of verification.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (e): Describe the concept of independent verification.

Q.2979 Which of the following statements is *most likely* correct regarding verification?

A. Verification ensures the accuracy of a composite presentation.

B. To claim compliance with the GIPS standards, firms must seek verification.

C. Verification tests the soundness of a firm's policies and procedures to calculate performance in accordance with the GIPS standards.

The correct answer is **C.**

Verification tests the soundness of a firm's policies and procedures to calculate and present performance compliance with the GIPS standards.

A is incorrect. Verification cannot ensure the accuracy of any specific performance presentation.

B is incorrect. Verification is voluntary, and firms are not required to seek verification.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (e): Describe the concept of independent verification.

Q.2983 Which of the following actions is *least likely* mandatory to comply with GIPS?

A. Applying GIPS on a firm-wide basis.

B. Independent third-party verification.

C. Listing discontinued composites for five years.

The correct answer is **B.**

Third-party verification is voluntary for GIPS complying firms.

A is incorrect. Applying GIPS on a firm-wide basis is a requirement of firms complying with GIPS.

C is incorrect. Listing discontinued composites for at least five years is a requirement of firms complying with GIPS.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (d): Describe the fundamentals of compliance, including the recommendations of the GIPS standards with respect to the definition of the firm and the firm's definition of discretion.

Q.2992 A firm values its assets using fair values. Its asset base comprises of the following asset categories:
Category 1: Fee-paying discretionary portfolios
Category 2: Non-fee paying discretionary portfolios
Category 3: Fee-paying non-discretionary portfolios
Category 4: Non-fee paying non-discretionary portfolios

Based on the requirements of the Global Investment Performance Standards (GIPS), for periods beginning on or after January 1, 2011, the firm's total assets are *most likely* the aggregate of:

A. All four categories.

B. Categories 1 and 2.

C. Categories 1, 2, and 3.

The correct answer is **A.**

For periods beginning on or after January 1, 2011, total firm assets must be the aggregate fair value of all discretionary and non-discretionary assets managed by the firm. It includes fee-paying and non-fee-paying portfolios (0.A.13). It implies that the firm will include all four categories when defining total firm assets.

B is incorrect. It suggests that the firm's total assets should include only categories 1 and 2, which are fee-paying discretionary portfolios and non-fee paying discretionary portfolios.

C is incorrect. It suggests that the firm's total assets should include categories 1, 2, and 3, which are fee-paying discretionary portfolios, non-fee paying discretionary portfolios, and fee-paying non-discretionary portfolios.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (b): Describe the key concepts of the GIPS Standards for Firms.

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.

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.

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.

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.

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.

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.

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.

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.

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.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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.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.

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.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.

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.

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.

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.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.

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.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).

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.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.