

## **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.**

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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.***

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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.***

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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.**

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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.***

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