

Question #1 of 20

Question ID: 1459133

Which of the following statements about legal and ethical standards is *most accurate*?

- A) Ethical and legal standards often intersect, but not always.
- B) Ethical standards are a subset of legal standards.
- C) Legal standards are a subset of ethical standards.



Explanation

Ethical and legal standards are not subsets of each other. Some actions that are legal might not be ethical, and some actions that are ethical might not be legal.

(Module 69.1, LOS 69.g)

Question #2 of 20

Question ID: 1459126

Unethical behavior by financial professionals:

- A) increases risk and the cost of capital.
- B) does not affect allocation of capital.
- C) increases incomes for the profession.



Explanation

In the long run, unethical behavior will decrease trust in financial professionals and the use of financial professionals by the public, ultimately decreasing incomes for the profession. Unethical behavior, such as misleading clients, can adversely affect the allocation of financial capital.

(Module 69.1, LOS 69.d)

Question #3 of 20

Question ID: 1459120

A code of ethics:

- A) may be rules-based or principles-based.
- B) provides the public with assurance of a minimum level of ethical behavior.



C) should not be used for marketing purposes.



Explanation

A code of ethics may be rules-based or principles-based. There can be no assurance that none of a group or professionals will violate a code of ethics. There is no requirement that a group of professionals agreeing to a code of ethics cannot be held out to the public as a positive thing for clients.

(Module 69.1, LOS 69.b)

Question #4 of 20

Question ID: 1459129

A requirement that investment professionals act in the best interests of their clients is a:

A) fair dealing standard.



B) fiduciary standard.



C) suitability standard.



Explanation

A fiduciary standard requires professionals to use their knowledge and expertise to act in the best interests of their clients.

(Module 69.1, LOS 69.e)

Question #5 of 20

Question ID: 1459132

Which of the following statements about legal and ethical standards is *most accurate*?

A) Illegal acts are always unethical.



B) Some illegal acts are considered ethical.



C) Unethical acts are always illegal.



Explanation

Some illegal acts, such as acts of civil disobedience, are considered ethical by many people. All unethical behavior is not necessarily illegal.

(Module 69.1, LOS 69.g)

Question #6 of 20

Question ID: 1459131

Challenges to ethical behavior are *most likely* to arise from:

- A) inadequate training. 
- B) internal motivations. 
- C) situational influences. 

Explanation




Situational influences, which are factors external to a decision maker, are the most likely source of challenges to ethical behavior.

(Module 69.1, LOS 69.f)

Question #7 of 20

Question ID: 1459135

An ethical decision-making framework:

- A) considers alternative actions and unintended consequences. 
- B) focuses on the near term impact on all stakeholders. 
- C) primarily addresses compliance with regulatory issues. 

Explanation




An ethical decision-making framework is designed to ensure that alternative actions and potential unintended consequences of decisions are considered.

(Module 69.1, LOS 69.h)

Question #8 of 20

Question ID: 1459122

Standards of conduct are *most accurately* described as:

- A) a necessary part of any ethical code. 
- B) giving members of a group a minimum level of acceptable behavior. 
- C) providing the public with the values and general expectations for a group of professionals. 

Explanation

Standards of conduct address specific minimum levels or expected behavior in various circumstances, while a code of ethics communicates the values and general expectations for professional behavior. A code of ethics does not necessarily include standards of conduct.

(Module 69.1, LOS 69.b)

Question #9 of 20

Question ID: 1459134

CFA Institute Standards of Professional Conduct are *most accurately* described as being based on:

- A) a code of ethics.
- B) accepted legal standards.
- C) the best interests of members and candidates.



Explanation

The Standards of Professional Conduct are based on principles stated in the CFA Institute Code of Ethics.

(Module 69.1, LOS 69.g)

Question #10 of 20

Question ID: 1459119

Ethics *least likely* refers to:

- A) moral principles to guide behavior.
- B) the study of good and bad behavior.
- C) a person's beliefs about right and wrong behavior.



Explanation




An individual's beliefs are not ethics as it is used in the Level I CFA curriculum. Ethics are described as commonly accepted principles of good and bad behavior and the study of good and bad behavior.

(Module 69.1, LOS 69.a)

Question #11 of 20

Question ID: 1459128

Unethical behavior by individuals in the investment industry is *most likely* to:

- A) decrease financing costs for businesses. 
- B) increase the overall profits of financial services firms. 
- C) decrease the rate of economic growth. 

Explanation




Unethical behavior in the investment industry can divert capital away from its highest valued uses, which decreases the growth rate of the economy. In the long run, unethical behavior decreases profits for financial services firms by discouraging potential clients from using their services. When savers and investors distrust the investment industry they provide less capital and demand a higher return for its use, which increases the cost of capital for businesses.

(Module 69.1, LOS 69.d)

Question #12 of 20

Question ID: 1459121

Which of the following statements about a code of ethics is *most accurate*? A code of ethics:

- A) does not need to include standards of conduct. 
- B) must include principles-based standards of conduct. 
- C) must include rules-based standards of conduct. 

Explanation

A code of ethics may include standards of conduct, but does not require them.

(Module 69.1, LOS 69.b)

Question #13 of 20

Question ID: 1459124

A profession is *most accurately* described as an occupational group that requires its members to:

A) abide by a code of ethical conduct.



B) have specialized expert knowledge.



C) put client interests first.



Explanation

A profession is an occupational group (e.g., doctors or lawyers) that has requirements of specialized expert knowledge, and often a focus on ethical behavior and service to the larger community or society. While many professions require their members to put clients first or encourage them to serve the wider community, these are not defining characteristics of a profession.

(Module 69.1, LOS 69.c)

Question #14 of 20

Question ID: 1459127

Unethical behavior by a financial professional harms:

A) only clients and other employees.



B) clients, other employees, and society.



C) only clients.



Explanation

By reducing trust in the financial services profession, unethical behavior can harm clients, other financial services employees, and society, by increasing the perceived risk of investing, increasing the cost of capital, and affecting the allocation of capital for the entire economy.

(Module 69.1, LOS 69.d)

Question #15 of 20

Question ID: 1459123

Which of the following characteristics distinguishes a profession from an occupation?

Members of a profession:

A) view their work as a calling.



B) are better compensated for their services.



C) abide by a code of ethics.



Explanation




One of the defining characteristics of a profession according to the Level I CFA curriculum is that its members agree to abide by a common code of ethics.

(Module 69.1, LOS 69.c)

Question #16 of 20

Question ID: 1459125

Establishing standards of ethical behavior and monitoring professional conduct are *best* described as ways that professions:

- A) avoid regulatory scrutiny. 
- B) establish trust. 
- C) increase the market value of their services. 

Explanation




Ways that professions establish trust include requiring high standards of expertise, knowledge, and skill; establishing standards of ethical behavior; monitoring professional conduct; encouraging continuing education to maintain and increase competence; being focused on clients' needs; and mentoring and inspiring others in the profession.

(Module 69.1, LOS 69.c)

Question #17 of 20

Question ID: 1459136

A framework for ethical decision making is *most appropriately* applied to:

- A) reduce the need to maintain a large compliance department. 
- B) aid decision makers in considering alternatives and their potential impacts. 
- C) determine whether actions are legal. 

Explanation

A framework for ethical decision making is a way to help decision makers consider alternatives and their impact on stakeholders.

(Module 69.1, LOS 69.h)

Question #18 of 20

Question ID: 1459130

A requirement that investment professionals recommend securities that match their clients' requirements and constraints is a:

- A) portfolio standard. 
- B) suitability standard. 
- C) fiduciary standard. 

Explanation




A suitability standard refers to matching client return requirements and risk tolerances with the characteristics of the securities recommended.

(Module 69.1, LOS 69.e)

Question #19 of 20

Question ID: 1459137

Which of the following *best* describes elements of a framework for ethical decision making?

- A) Identify relevant facts; consider influences and alternatives; decide and act; reflect on outcomes. 
- B) Relevance; faithful representation; transparency; comprehensiveness; consistency. 
- C) State the objective; gather, process, and interpret the data; report the conclusions; update the analysis. 

Explanation

The framework for ethical decision making presented in the Level I CFA curriculum includes these elements:

- Identify relevant facts, stakeholders, ethical principles, and conflicts of interest.
- Consider alternative actions, situational influences, and whether to seek additional guidance.
- Decide and act.
- Reflect on whether the outcome was as expected, and why or why not.

(Module 69.1, LOS 69.h)

Question #20 of 20

Question ID: 1459118

Ethics are *most accurately* defined as:

A) a belief about proper conduct.



B) a written code of standards.



C) the study of moral principles.



Explanation

Ethics refers to the study of moral principles. Ethics is broader than written codes of standards or a particular belief about proper conduct.

(Module 69.1, LOS 69.a)