

Question #1 of 163

Question ID: 683825

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

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

Explanation

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

References

Question From: Session 1 > Reading 1 > LOS c

Related Material:

- Key Concepts by LOS

Question #2 of 163

Question ID: 412399

Mark Williamson is "bearish" on ABC Manufacturing Company. Williamson is so convinced that ABC is overpriced, two weeks ago, he shorted 100,000 shares. Today, Williamson is "surfing" several popular investment bulletin boards on the internet and posting false derogatory comments about company management. According to Standard II(B), Market Manipulation, Williamson has engaged in:

- ☒ A) information-based manipulation, but not transaction-based manipulation.
- ☐ B) both transaction-based manipulation and information-based manipulation.
- ☐ C) transaction-based manipulation, but not information-based manipulation.

Explanation

Williamson is in violation of Standard II(B), Market Manipulation, by engaging in information-based manipulation.

Information-based manipulation includes, but is not limited to, spreading false rumors about a firm in order to induce others to trade.

References

Question From: Session 1 > Reading 3-II > LOS (B)

Related Material:

- Key Concepts by LOS

Question #3 of 163

Question ID: 477247

Michael Malone, CFA, is an investment analyst for a large brokerage firm in New York who covers the airlines industry. After hours in his personal time, Malone maintains an online blog on which he expresses his personal opinions about various investment opportunities, including, but not limited to, the airlines industry. On his blog, he posts a very negative investment opinion about WestAir stock. Malone knows that WestAir's stock will be downgraded to a "sell" by his firm next week. Malone has *most likely* violated:

- X **A)** Standard VI(B) Priority of Transactions.
- X **B)** violated Standard II(A) Material Nonpublic Information.
- ✓ **C)** violated Standard IV(A) Loyalty.

Explanation

By expressing his investment analysis on his personal blog ahead of his employer, Malone deprived his employer of the benefits of his skills and abilities and therefore violated Standard IV(A) Loyalty. Malone did not possess material nonpublic information about WestAir and no transactions have taken place.

References

Question From: Session 1 > Reading 2 > LOS c

Related Material:

- Key Concepts by LOS
-

Question #4 of 163

Question ID: 412381

Which one of the following constitutes the illegal use of material nonpublic information?

- X **A)** Trading immediately after attending the firm's annual shareholders' meeting.
- X **B)** Trading based on your analytical review of the firm's future prospects.
- ✓ **C)** Trading on information your sister, the firm's attorney, told you over dinner.

Explanation

Members may not trade on material nonpublic information; therefore, the information conveyed by the firm's attorney may not be used by a member for trading purposes.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #5 of 163

Question ID: 470995

The first component of the Code of Ethics does NOT explicitly say that a CFA Institute member will act in a certain manner with respect to which of the following groups?

- ☐ A) Prospective clients.
- ☒ B) CFA Institute members and candidates in the CFA Program.
- ☐ C) Colleagues.

Explanation

Participants in the CFA Program are not specifically mentioned in the Code of Ethics. Component one mentions duties to the public, clients, prospects, employers, employees, colleagues, and other participants in the global capital markets.

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #6 of 163

Question ID: 683834

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

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

Explanation

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

References

Question From: Session 1 > Reading 1 > LOS f

Related Material:

- Key Concepts by LOS
-

Question #7 of 163

Question ID: 460624

With respect to the professional conduct of a member or candidate, CFA Institute staff will consider a complaint from:

- X **A)** only other members and candidates or professionals in the investment industry.
- ✓ **B)** anyone.
- X **C)** only other members and candidates.

Explanation

Complaints to the Professional Conduct Program may be filed by anyone.

References

Question From: Session 1 > Reading 2 > LOS a

Related Material:

- Key Concepts by LOS
-

Question #8 of 163

Question ID: 460633

Which of the following is an example of information-based market manipulation?

- ✓ **A)** Spreading false rumors about a stock on social media to influence its price.
- X **B)** Influencing futures prices by obtaining a dominant position in the underlying commodity.
- X **C)** Entering large offsetting buy and sell orders to inflate trading volume.

Explanation

Spreading false rumors about a stock is an example of information-based market manipulation. The other choices are examples of transaction-based market manipulation.

References

Question From: Session 1 > Reading 3-II > LOS (B)

Related Material:

- Key Concepts by LOS
-

Question #9 of 163

Question ID: 683836

Paul Thomas, CFA, is designing a new layout for research reports his firm writes and issues on individual stocks. In his design, Thomas includes a stock chart on the first page of each report. He does not reference that the charts are copied from the Standard & Poor's web site. Thomas has:

- X **A)** not violated CFA Institute Standards of Professional Conduct because these charts are widely available over the Internet.
- ✓ **B)** violated CFA Institute Standards of Professional Conduct because he did not state the source of the charts.

- X **C)** violated CFA Institute Standards of Professional Conduct because he did not make sure that the information in these charts is accurate.

Explanation

Standard I(C) Misrepresentation. Members should not copy or use material prepared by others without acknowledging and identifying the source of such material. Using charts and graphs without stating their source is a violation of the Standard. Data from recognized statistical reporting services may be used without attribution, but charts, analysis, and other such creative content may not.

References

Question From: Session 1 > Reading 3-I > LOS (C)

Related Material:

- Key Concepts by LOS
-

Question #10 of 163

Question ID: 412357

A copyrighted technique for measuring the downside risk of an investment has just been revealed to the public. If an analyst adopts the technique, he must cite the use of the technique in all research reports in which the technique is used EXCEPT:

- X **A)** if the analyst does not modify the technique at all.
- X **B)** if the analyst uses reasonable care and verifies that the technique provides superior results.
- ✓ **C)** Neither of these answers provide grounds for an exception.

Explanation

Neither of the answers in this question provide adequate grounds for not citing the source of the methodology. Although "verifying" the technique is a good idea and congruent with the Code and Standards, the analyst still needs to cite the use of the copyrighted technique even after modifying it slightly to avoid violation of Standard I(C), Misrepresentation.

References

Question From: Session 1 > Reading 3-I > LOS (C)

Related Material:

- Key Concepts by LOS
-

Question #11 of 163

Question ID: 683824

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.

References

Question From: Session 1 > Reading 1 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #12 of 163

Question ID: 412273

In accordance with Standard III (A) Loyalty, Prudence and Care, which of the following statements is *least* accurate? Members and Candidates should:

- ✗ **A)** submit to clients, at least quarterly, itemized statements detailing all of the period's transactions.
- ✗ **B)** utilize client brokerage to the sole benefit of the client.
- ✓ **C)** vote all proxies on behalf of clients in a responsible manner.

Explanation

Because of the time and expense involved in voting a proxy, Members and Candidates are not required to vote every proxy. A cost benefit analysis can be performed to determine if it is necessary to vote a proxy.

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #13 of 163

Question ID: 683823

A code of ethics:

- ✗ **A)** should not be used for marketing purposes.
- ✗ **B)** provides the public with assurance of a minimum level of ethical behavior.
- ✓ **C)** may be rules-based or principles-based.

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.

References

Question From: Session 1 > Reading 1 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #14 of 163

Question ID: 412285

Liam McCoy has lunch with a wealthy client whose portfolio he manages. McCoy advises the client to double his current position in the JKM Corporation due to an anticipated increase in sales. In accordance with Standard (V) Investment Analysis, Recommendations and Actions, when McCoy returns to his office he should:

- ✓ **A)** document the details of the conversation with the client with regard to his investment recommendation.
- X **B)** identify other clients for whom JKM may be a suitable investment and notify them immediately of his recommendation.
- X **C)** verify the suitability of the investment recommendation before placing the client's order.

Explanation

Standard V(C) Record Retention requires that Members and Candidates document all recommendation and communications with clients. McCoy should document the details of the conversation, including any resulting investment decisions and/or actions. The suitability of the investment should have already been considered before the recommendation and McCoy should not execute the order until the client instructs him to. Identifying other clients for this investment would fall under Standard III(B) Fair Dealing.

References

Question From: Session 1 > Reading 2 > LOS c

Related Material:

- Key Concepts by LOS
-

Question #15 of 163

Question ID: 412373

Andrea Waters is an investment analyst who has accumulated and analyzed several pieces of nonpublic information through her contacts with drug firms. Although no one piece of the information she collected is "material," Waters correctly concluded that the earnings of one of the drug companies would be unexpectedly high in the coming year. According to CFA Institute Standards of Professional Conduct, Waters:

- X **A)** cannot legally invest or make recommendations based on this information.

- ✓ **B)** can use the information to make investment recommendations and decisions.
- ✗ **C)** may use the information, but only after approval from a compliance officer or supervisor.

Explanation

Members who can piece together items of nonmaterial nonpublic information with public information can, based upon the mosaic theory, use such information for trading purposes.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #16 of 163

Question ID: 412335

An analyst who is a CFA Institute member receives an invitation from a business associate's firm to spend the weekend in a high-quality resort. In order to abide by the Standards, the analyst should (may):

- ✗ **A)** refuse the invitation if the associate is from a firm he analyzes for his employer.
- ✗ **B)** obtain written consent from his supervisor if the offer is contingent on achieving a target investment return.
- ✓ **C)** do both of the actions listed here.

Explanation

According to Standard I(B) Independence and Objectivity, the analyst should refuse the invitation if it is from a firm the analyst covers for his employer. The analyst can accept the invitation if it is from a client but the analyst must get written consent from his employer if the offer is contingent on future performance, to comply with Standard IV(B) Additional Compensation Arrangements.

References

Question From: Session 1 > Reading 3-I > LOS (B)

Related Material:

- Key Concepts by LOS
-

Question #17 of 163

Question ID: 412279

All of the following are components of the Code of Ethics EXCEPT:

- ✗ **A)** striving to maintain and improve their competence and the competence of others in the profession.
- ✓ **B)** demonstrating diligence, independence, and thoroughness when preparing investment reports.
- ✗ **C)** using reasonable care and exercising independent professional judgment.

Explanation

Demonstrating diligence, independence, and thoroughness when preparing investment reports is found in the Standards of Professional Conduct.

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #18 of 163

Question ID: 412380

Marion Klatt, CFA, is a representative for Thiel Financial Network. Klatt received a phone call at home from William Kind, a junior executive at Westtown Development Company, asking whether Klatt had heard that Westtown had just reached an agreement to acquire a major shopping mall chain at a very favorable price. (Klatt had not heard this news, and Klatt was able to confirm that the information had not yet been made public.) Kind requested that Klatt acquire 10,000 shares of Westtown for Kind's personal account.

Klatt should:

- X **A)** not acquire the shares until he has contacted Westtown's management and encouraged them to publicly announce the merger discussion.
- ✓ **B)** not acquire the shares until the information is made public.
- X **C)** not acquire the shares.

Explanation

Standard II(A) prohibits members from taking investment action if they possess material nonpublic information. Kind has a duty to keep information confidential that he acquired in the course of his duties at Westtown. The information is clearly material, so Klatt is not permitted to trade on it. Klatt should make reasonable efforts to achieve public dissemination of the information by contacting management and encouraging them to make the information public. Klatt may not trade on the information until it is made public.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #19 of 163

Question ID: 412314

Maria Valdes, CFA, is an analyst for Venture Investments in the country of Newamerica, which has laws prohibiting the acceptance of any gift from a vendor if the gift exceeds US \$250. Valdes has evidence that her Venture Investments colleague, Ernesto Martinez, CFA, has

been receiving gifts from vendors in excess of US \$250.

Valdes is obligated to:

- ✓ **A)** disassociate herself from the activity, and urge Venture to persuade Martinez to cease the activity.
- X **B)** disassociate herself from the activity, urge Venture to persuade Martinez to cease the activity, and inform CFA Institute and regulatory authorities of the violation.
- X **C)** disassociate herself from the activity, urge Venture to persuade Martinez to cease the activity, and inform CFA Institute of the violation.

Explanation

Standard I(A), Knowledge of the Law requires members who have knowledge of colleagues engaging in illegal activities to disassociate from the activity and urge their firms to persuade the individual to cease such activity. Reporting to regulatory authorities may be prudent in certain circumstances, but is not required. Reporting to CFA Institute is not required.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #20 of 163

Question ID: 412301

Bob Blanford, CFA, is an investment analyst for a large global brokerage firm. He recently moved to Ragatan, a developing country with few securities laws and regulations. As part of conducting a company analysis, Blanford interviews Ravi Shanti, vice-president of finance at Starr Industries. Starr is a major industrial firm in Ragatan and a client at Blanford's firm. Based on his analysis, Blanford suspects that Shanti may have deliberately overstated Starr's current earnings and its earnings for the past several quarters. If this information becomes public, Blanford believes that Starr's stock price will drop substantially. Blanford suspects that Shanti may have violated Ragatan's securities laws. Which of the following statements is *least likely* to comply with Standard I, Professionalism? Blanford should:

- ✓ **A)** take no action.
- X **B)** disassociate himself from the client, if the activity is illegal or unethical.
- X **C)** determine the legality of the activity, possibly by consulting counsel.

Explanation

Because Blanford suspects Shanti of engaging in ongoing illegal activities, Blanford should take action by determining the legality of the suspected action, disassociating from any illegal activity, and urging his firm to attempt to persuade Shanti to cease such conduct if such an activity is illegal or unethical.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #21 of 163

Question ID: 470998

Which of the following actions *most likely* violates Standard I(D) Misconduct?

- X **A)** A member pursues an employment opportunity with a competing firm, primarily as a means of securing a salary increase from her current employer.
- ✓ **B)** A Level I candidate submits a request to her employer for auto travel reimbursement using inflated mileage totals
- X **C)** An analyst is arrested for trespassing while participating in an anti-abortion protest.

Explanation

Any activity that reflects adversely on a member's professional reputation, integrity, or competence is a violation of Standard I(D) Misconduct. Standard I(D) is generally not intended to extend to legal transgressions resulting from acts of civil disobedience in support of personal beliefs. A member can pursue an employment opportunity with a competitor as long as the member abides by the Standards related to Duties to Employers.

References

Question From: Session 1 > Reading 3-I > LOS (D)

Related Material:

- Key Concepts by LOS
-

Question #22 of 163

Question ID: 412308

Benito Salvatore, CFA, is licensed in the established country of Oldworld but has clients and makes investments in the emerging country of Newworld. The regulations of Oldworld prohibit licensed investment professionals from taking gifts or gratuities in any amount from vendors or persons connected with potential investments. The laws of Newworld are silent on this issue.

Unsolicited, Salvatore is offered a vase worth US \$75 by a Newworld trust company and a bronze statue worth US \$200 by a Newworld company that Salvatore is considering as a potential investment.

Salvatore is:

- X **A)** permitted to accept both gifts.
- ✓ **B)** not permitted to accept either gift.
- X **C)** permitted to accept the vase but not the statue.

Explanation

Under Standard I(A), Salvatore must, as a CFA charterholder, apply the CFA Institute Code and Standards or the controlling law, whichever is stricter. In this instance the stricter laws of Oldworld, where Salvatore is licensed, apply to prohibit the gifts, even though the gifts are offered in Newworld.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #23 of 163

Question ID: 460625

With respect to CFA Institute enforcement of the Code and Standards, possible disciplinary sanctions *least likely* include:

- ✓ **A)** payment of a fine.
- X **B)** suspension from participation in the CFA Program.
- X **C)** public censure.

Explanation

CFA Institute does not impose fines. CFA Institute may impose sanctions including public censure, suspension of a candidate from participation in the CFA program, or suspension or revocation of a member's right to use the CFA designation.

References

Question From: Session 1 > Reading 2 > LOS a

Related Material:

- Key Concepts by LOS
-

Question #24 of 163

Question ID: 412348

Marc Randall, CFA, is an investment analyst. During a meeting with a potential client, Randall's boss states that, "You can be sure our investments will always outperform Treasury Bonds because of our fine research staff members, like Marc." Randall knows that this statement is:

- X **A)** not in violation of the Code and Standards.
- ✓ **B)** a violation of the Standard concerning prohibition against misrepresentation.
- X **C)** a violation of fiduciary duties owed to clients under the Standards.

Explanation

Under Standard I(C), members are forbidden from guaranteeing a specific rate of return on volatile investments. Therefore, the statement is in violation of the Standard.

References

Question From: Session 1 > Reading 3-I > LOS (C)

Related Material:

- Key Concepts by LOS
-

Question #25 of 163

Question ID: 412324

Josh LeBlanc, a CFA charterholder, is an investment analyst for a small stock brokerage firm. He wants to acquire and maintain knowledge about applicable laws, rules, and regulations relating to his professional activities. According to the CFA Institute Standards of Professional Conduct, which of the following ways is *least likely* to meet compliance procedures?

- X **A)** Review written compliance procedures on a regular basis.
- ✓ **B)** Rely on past practices followed within his firm.
- X **C)** Keep informed about changes in applicable laws, rules, and regulations.

Explanation

LeBlanc should follow the compliance procedures under Standard IA -- Knowledge of the law. Relying on his firm's past practices may be insufficient for LeBlanc to stay current with changes in applicable laws, rules, and regulations.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #26 of 163

Question ID: 683833

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.
- X **B)** State the objective; gather, process, and interpret the data; report the conclusions; update the analysis.
- X **C)** Relevance; faithful representation; transparency; comprehensiveness; consistency.

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.

References

Question From: Session 1 > Reading 1 > LOS f

Related Material:

- Key Concepts by LOS
-

Question #27 of 163

Question ID: 412304

Jason Blackwell, CFA, works as an investment manager for Mega Capital, a large multinational brokerage firm. Mega Capital is based in a country whose applicable law is stricter than the CFA Institute Code and Standards, but does business with clients in a country whose applicable law is less strict than the Code and Standards. Blackwell decides to follow the requirements of the Code and Standards for clients in the less strict country, which is sufficient to also comply with that less-strict country's local laws. While Blackwell is still employed at Mega, Lego Associates verbally asks Blackwell to review client portfolios during evenings and weekends for a fee. Blackwell gets written consent from his immediate supervisor at Mega to undertake this independent activity for a one-month trial basis.

Which of the following statements about Blackwell's actions involving Standard I, Professionalism, and Standard IV(A), Loyalty is *most* accurate? Blackwell:

- X **A)** did not violate either Standard I or Standard IV(A).
- X **B)** violated both Standard I and Standard IV(A).
- ✓ **C)** violated Standard I but did not violate Standard IV(A).

Explanation

Blackwell violated Standard I, Professionalism. Jameson must comply with the strictest requirements among the laws of the country where his firm is based, the CFA Institute Code and Standards, and the laws of the country where he is doing business. Because the applicable laws in Mega Capital's home country are stricter than the Code and Standards, Jameson must additionally adhere to that more strict law.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #28 of 163

Question ID: 412347

Which of the following *would be permissible* under Standard I(C), Misrepresentation?

- X **A)** Reporting statistics prepared by an outside firm, identifying the source but omitting caveats and qualifying statements.
- ✓ **B)** Including a graph showing the Fed's discount rates over the previous 12 months in a report that goes to clients.
- X **C)** Using excerpts from a report prepared by a well known outside research firm without acknowledgement.

Explanation

The only permissible action in the above list is including a graph of the Fed's discount rates over the last 12 months because it is factual information published by a recognizable financial and statistical reporting service.

References

Question From: Session 1 > Reading 3-I > LOS (C)

Related Material:

- Key Concepts by LOS
-

Question #29 of 163

Question ID: 412340

According to CFA Institute Standards of Professional Conduct, which of the following statements about the prohibition against plagiarism is *most correct*? The prohibition against plagiarism applies to written materials:

- ☒ **A)** oral communications, and telecommunications.
- ☐ **B)** only.
- ☐ **C)** and oral communications only.

Explanation

The prohibition against plagiarism applies to all three areas.

References

Question From: Session 1 > Reading 3-I > LOS (C)

Related Material:

- Key Concepts by LOS
-

Question #30 of 163

Question ID: 412315

A CFA Institute member works for Secure Securities, Inc., and plays rugby on the firm's rugby team. Secure Securities' team recently played the team of a rival firm. During the game, a fight broke out and the CFA Institute member was the instigator, but no one was seriously hurt. Is this a violation of I(A) concerning maintaining knowledge and complying with laws, rules, and regulations?

- ☐ **A)** Yes, because the member could have hurt someone in the fight.
- ☒ **B)** No, because a fight at a rugby game is not a professional activity.
- ☐ **C)** Yes, because the member is bound by the Code of Ethics.

Explanation

Standard I(A) covers members' professional activity only. Violations outside professional activity that involve fraud, theft or deceit would potentially be violations.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #31 of 163

Question ID: 412351

A CFA charterholder gathers the closing prices of a security from a widely read publication. The charterholder uses the data as part of a report she is preparing and fails to report the data source in the report. This is:

- ✓ **A)** not a violation of Standard I(C) if the data can be gathered from several public sources.
- X **B)** a violation of Standard I(C).
- X **C)** not a violation of Standard I(C) if the data cannot be gathered from several public sources.

Explanation

Since the security prices represent factual information that can be verified from several sources, there is no violation. It could have been a violation had the information been exclusively published by the source.

References

Question From: Session 1 > Reading 3-I > LOS (C)

Related Material:

- Key Concepts by LOS
-

Question #32 of 163

Question ID: 412288

CFA Institute believes:

- X **A)** that a maximum level of professional responsibility and conduct dictates that members be aware of and comply with laws, rules, and regulations governing their conduct.
- ✓ **B)** that a minimum level of professional responsibility and conduct dictates that members be aware of and comply with laws, rules, and regulations governing their conduct.
- X **C)** that firms should comply with all domestic laws and regulations and that these laws also govern behavior in foreign markets, regardless of foreign laws and requirements.

Explanation

CFA Institute's Code and Standards dictate a *minimum* level of conduct. Standards should not be based on ethics of upper management and the board of directors of a company. Firms must comply with the strictest applicable standards, whether they be foreign or domestic laws and regulations.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #33 of 163

Question ID: 412291

The Standards of Professional Conduct explicitly outlines responsibilities to four groups. Which of the following is NOT a group mentioned in that list?

- X **A)** The investing public.
- ✓ **B)** The Federal Reserve.
- X **C)** The profession.

Explanation

The Standards explicitly mention responsibilities to the profession, employers, clients, prospects, and the investing public. The Federal Reserve is not mentioned.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #34 of 163

Question ID: 412257

The CFA Institute Professional Conduct Program may impose sanctions on:

- X **A)** CFA charterholders, member firms, and candidates for the CFA designation.
- X **B)** CFA charterholders only.
- ✓ **C)** CFA charterholders and candidates for the CFA designation.

Explanation

The CFA Institute Professional Conduct Program may impose sanctions on CFA charterholders and candidates for the CFA designation. Firms are not members of CFA Institute.

References

Question From: Session 1 > Reading 2 > LOS a

Related Material:

- Key Concepts by LOS
-

Question #35 of 163

Question ID: 412393

Klaus Gerber, CFA, is a regular contributor to the Internet site WizeGuy. This past week Gerber has been incorrectly quoted as recommending that investors buy shares in Bradford, Inc. He is unaware that this message has been placed on the site as the quote was placed as a prank by an unknown source. This is the third time this has happened over the past month and each time the stock being mentioned moved in price according to the buy or sell recommendation.

Fritz Fox, CFA, maintains and updates the WizeGuy site and has learned how to determine if the quotes being attributed to Gerber are actually valid. Several days later, he observes an investment recommendation, posted on the site, to buy Gresham, Inc. The investment recommendation is purported to be from Gerber, but Fox actually knows it to be bogus. He immediately sells 1,000 Gresham short and e-mails Gerber to inform him of the bogus recommendation. Gerber immediately issues a rebuttal, and Gresham falls by 14%. Fox's action is:

- ☐ A) not in violation of the Code and Standards.
- ☐ B) a violation of the Standard concerning fiduciary duties.
- ☒ C) a violation of the Standard concerning use of material nonpublic information.

Explanation

Even though the information is false, this fact is known only to Fox and is thus nonpublic information. Since such recommendations have in the past had a significant affect on the price of the security in question, the information is clearly material. Fox is in violation of Standard II(A) Material Nonpublic Information.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS

Question #36 of 163

Question ID: 412325

Don Roberts, a CFA Institute member, resides in Country L, where the securities laws and regulations are less strict than the CFA Institute Code and Standards. Roberts also does business in Country N, which has no securities laws or regulations. Thus, Country N has no laws prohibiting the use of material nonpublic information. Roberts has clients in both Country L and N. Country L's law states that the law of the locality where business is conducted governs. According to CFA Institute Standards of Professional Conduct about the use of material nonpublic information, Roberts may:

- ☒ A) not take investment action on the basis of this information.
- ☐ B) take investment action based on this information only for his clients in Country N but not for his clients in Country L or himself.
- ☐ C) take investment action based on this information for clients in both Country N and Country L and for himself.

Explanation

Because applicable law states that the law of the locality where the business is conducted governs and local law is less strict

than the Code and Standards, the member must adhere to the Code and Standards. Standard II(A) prohibits the use of material nonpublic information.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #37 of 163

Question ID: 412388

Which of the following statements concerning Standard II(A), Material Nonpublic Information, is CORRECT? A member:

- ☐ **A)** can trade on material non-public information if the information was not obtained through a breach of duty.
- ☒ **B)** cannot trade on material non-public information.
- ☐ **C)** can trade on material non-public information if the information has not been misappropriated.

Explanation

Members cannot trade on material nonpublic information until that same information is made public. It does not matter if the information was not misappropriated or not obtained through a breach of duty

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #38 of 163

Question ID: 460631

Wallace Manaugh, CFA, is analyzing the stock of a manufacturer of fishing boats. By analyzing public information, speaking with the firm's suppliers and customers, and counting the new boats in the company's boat yard, Manaugh concludes that the company's new fishing boat is not meeting sales expectations. Anticipating that this will cause the stock price to decline, Manaugh takes a short position in the stock. Manaugh has:

- ☐ **A)** an obligation under the Standards to make reasonable efforts to achieve public dissemination of the nonpublic information.
- ☐ **B)** violated the Standards by acting on nonpublic information.
- ☒ **C)** not violated CFA Institute Standards.

Explanation

Under the mosaic theory, financial analysts are free to combine public information with nonmaterial nonpublic information and act

based on their conclusions. Standard II(A) prohibits members and candidates from acting or causing others to act on material nonpublic information. The obligation to make the reasonable efforts to achieve public dissemination of nonpublic information applies to situations in which the company discloses information to the analyst that has not yet been made public.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #39 of 163

Question ID: 412398

All of the following are violations of Standard II(B) Market Manipulation EXCEPT:

- X **A)** securing a controlling interest in an equity security in order to influence the price of a related derivative instrument.
- X **B)** disseminating misleading information about the development of new products and technologies.
- ✓ **C)** exploiting differences in market inefficiencies.

Explanation

Standard II(B) Market Manipulation prohibits practices that distort prices or artificially inflate trading volumes with the intent to mislead market participants. The Standard is not intended to prohibit legitimate trading strategies that exploit differences in market inefficiencies.

References

Question From: Session 1 > Reading 3-II > LOS (B)

Related Material:

- Key Concepts by LOS
-

Question #40 of 163

Question ID: 412307

Joan Platt, CFA, operates an investment advisory service in New York but maintains an office in Xania. Xania recently established a stock market, which is not very efficient. None of the Xanian stocks trade in the U.S. market. Xania legally permits the use of material inside information. Platt believes that using inside information would help her compete against other Xanian investment advisors and also help some of her Xanian clients reach their investment objectives. Platt is considering adopting local investment practices in Xania. According to CFA Institute Standards of Professional Conduct, Platt may:

- ✓ **A)** not use material inside information.
- X **B)** use material inside information because Xania legally permits this practice.
- X **C)** use material inside information, but only after notifying CFA Institute.

Explanation

Because applicable law involving material inside information is less strict than the Code and Standards, Platt must adhere to the Code and Standards. Standard II(A) prohibits against use of material nonpublic information.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #41 of 163

Question ID: 412267

The first component of the Code of Ethics does NOT explicitly say that a CFA Institute member will act with which of the following?

- ☐ A) Competence.
- ☒ B) Solemnity.
- ☐ C) Integrity.

Explanation

Component one mentions all of these except solemnity.

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #42 of 163

Question ID: 412345

Which of the following is NOT expressly prohibited by Standard I(C), Misrepresentation?

- ☒ A) providing information on guaranteed investment products.
- ☐ B) misrepresenting the services a member is capable of performing.
- ☐ C) misrepresenting a member's academic or professional credentials.

Explanation

Misrepresentation of qualifications, academic and professional credentials and services that can be performed by the firm are all expressly prohibited by Standard I(C).

References

Question From: Session 1 > Reading 3-I > LOS (C)

Related Material:

- Key Concepts by LOS
-

Question #43 of 163

Question ID: 683821

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

- ✓ **A)** abide by a code of ethics.
- X **B)** are better compensated for their services.
- X **C)** view their work as a calling.

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.

References

Question From: Session 1 > Reading 1 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #44 of 163

Question ID: 412321

The CFA Institute Standards of Practice Handbook requires CFA Institute members to do all the following EXCEPT:

- X **A)** to inform employer, clients, and potential clients of benefits received for recommending products or services.
- X **B)** receive written permission from both their employer and outside clients to engage in investment consulting outside the firm.
- ✓ **C)** to disclose in writing to the proper regulatory authority all observed violations of the securities laws and regulations.

Explanation

Members are not required to report violations of others to regulatory authorities, either verbally or in writing, but such reporting may be prudent.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #45 of 163

Question ID: 442247

Which of the following is a component of the Code of Ethics?

- ✓ **A)** Practice and encourage others to practice in a professional and ethical manner that will reflect credit on members and their profession.
- X **B)** Members and candidates must not engage in conduct that compromises the integrity of the CFA designation or the security of the CFA examinations.
- X **C)** Transactions for clients and employers have priority over transactions in which a member or candidate is the beneficial owner.

Explanation

This is a component of the Code of Ethics. Others pertain to the Standards of Practice.

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #46 of 163

Question ID: 412385

Don Benjamin, CFA, is the compliance officer for a large brokerage firm. He wants to prevent the communication of material nonpublic information and other sensitive information from his firm's investment banking and corporate finance departments to its sales and research departments. The most common and widespread approach that Benjamin can use to prevent insider trading by employees is the:

- ✓ **A)** fire wall.
- X **B)** Wall Street Rule.
- X **C)** legal list.

Explanation

To comply with Standard II(A), a fire wall provides an information barrier that prevents communication of material nonpublic information and other sensitive information from one department to another within a firm.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #47 of 163

Question ID: 412277

Which of the following is NOT part of the CFA Institute Code of Ethics?

- X A) Competence.
- ✓ B) Contractual provisions.
- X C) Independent judgment.

Explanation

Contractual provisions are not part of the Code of Ethics.

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #48 of 163

Question ID: 412280

Which of the following is a component of the *Code of Ethics*? CFA Institute members shall:

- ✓ A) use reasonable care and exercise independent professional judgment.
- X B) not knowingly participate or assist in any violation of laws, rules, or regulations.
- X C) use particular care in determining applicable fiduciary duty.

Explanation

Using reasonable care and exercising independent professional judgment is one of the components of the *Code of Ethics*, whereas the other statements are part of the *Standards of Professional Conduct*.

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #49 of 163

Question ID: 683822

Standards of conduct are *most* accurately described as:

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

Explanation

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

References

Question From: Session 1 > Reading 1 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #50 of 163

Question ID: 412266

According to the Code of Ethics, a member reflects credit on the profession when a member:

- X **A)** consults with other members on a regular basis.
- X **B)** places the clients first.
- ✓ **C)** practices in a professional and ethical manner.

Explanation

Component four of the Code says that a member shall "Practice and encourage others to practice in a professional and ethical manner that will reflect credit on members and the profession." Neither of the other choices are implied by the Code.

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #51 of 163

Question ID: 412306

An analyst, who is a CFA charterholder, is working in a foreign country. Which of the following statements is CORRECT? The analyst is:

- X **A)** governed by the laws and standards of the country in which he is living and working.
- X **B)** governed by CFA Institute's Code and Standards.
- ✓ **C)** covered by the strictest of the following laws and rules: his own country's, the foreign country's or CFA Institute's Code and Standards.

Explanation

The analyst is covered by the strictest of the following laws and rules: his own country's, the foreign country's or CFA Institute's Code and Standards.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #52 of 163

Question ID: 460630

Mark Guenin, CFA, covers the textile industry for a brokerage firm. While at his golf club on Saturday, he notices several executives from two of his covered companies entering a private dining room and sees a pro forma balance sheet combining the two companies projected onto a screen. The executives greet Guenin and confirm that their companies intend to merge. Guenin's *most appropriate* course of action should be to:

- X **A)** divest his personal holdings of both companies.
- ✓ **B)** encourage the companies to announce the merger.
- X **C)** write a research report updating the outlook for both companies.

Explanation

Guenin should make reasonable efforts to have the two companies announce the merger in order to achieve public dissemination of the news. Either of the other two choices would be acting or causing others to act on material nonpublic information.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #53 of 163

Question ID: 551096

Steve Waters, a Level I CFA candidate, has decided to enter into a long position of Farmco stock. Since Farmco is thinly traded, Waters is concerned the order will overwhelm the liquidity of Farmco and the price will surge. Waters engages in a series of block

trades in order to accomplish the purchase. According to Standard II(B), Market Manipulation, Waters has engaged in:

- ✓ **A)** neither transaction-based manipulation nor information-based manipulation.
- X **B)** both transaction-based manipulation and information-based manipulation.
- X **C)** transaction-based manipulation, but not information-based manipulation.

Explanation

Waters is not in violation of Standard II(B), Market Manipulation. Transaction-based manipulation includes, but is not limited to, transactions that artificially distort prices or volume. Information-based manipulation includes, but is not limited to, spreading false rumors about a firm in order to induce others to trade.

References

Question From: Session 1 > Reading 3-II > LOS (B)

Related Material:

- Key Concepts by LOS
-

Question #54 of 163

Question ID: 412338

An analyst preparing a report needs to cite which of the following?

- X **A)** The individual who developed a chart from the same firm.
- ✓ **B)** A recent quote from the Federal Reserve Chairman.
- X **C)** Estimates of betas provided by Standard & Poor's.

Explanation

Statistics provided by a recognized agency, such as Standard and Poor's, do not need to be cited. Charts, quotes, and algorithms developed by the firm would need to be cited when they are used but the individual(s) who developed the materials within the firm do not need to be cited.

References

Question From: Session 1 > Reading 3-I > LOS (C)

Related Material:

- Key Concepts by LOS
-

Question #55 of 163

Question ID: 412274

Which of the following activities would be following a component of the Code of Ethics explicitly?

- X **A)** Maintaining a list of colleagues who have violated the CFA Institute standards.
- ✓ **B)** Attending continuing education seminars on investing and inviting colleagues to come along.

- X **C)** Consulting with colleagues about opinions you reach in your research.

Explanation

The Code states that a member shall "Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals." None of the other answers qualify.

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #56 of 163

Question ID: 442248

All of the following violate Standard I(C), Misrepresentation, EXCEPT:

- ✓ **A)** presenting factual information published by recognized statistical reporting services without acknowledgment.
- X **B)** copying a proprietary computerized spreadsheet without seeking authorization from the creators.
- X **C)** citing quotes attributable to "investment experts" without specific references.

Explanation

Standard I(C), Misrepresentation, permits using factual information from recognized financial and statistical reporting services without acknowledgment.

References

Question From: Session 1 > Reading 3-I > LOS (C)

Related Material:

- Key Concepts by LOS
-

Question #57 of 163

Question ID: 412344

Sandra Bulow, CFA, is responsible for updating her employing firm's website to include changes in analysis techniques and trading procedures. She is often very delinquent in making these changes, despite working extensive hours. She is aware clients are using the website to make investment decisions, and has received complaints from the sales department as the information on the website is often different from what is presented in sales meetings. Bulow is *most likely*:

- ✓ **A)** in violation of Standard I(C) "Misrepresentation."
- X **B)** in violation of Standard III(B) "Fair Dealing."
- X **C)** not in violation of any Standard.

Explanation

Bulow is most likely in violation of Standard I(C) "Misrepresentation." The web site information is erroneous, and needs to be updated to match the firm's current practices.

References

Question From: Session 1 > Reading 3-I > LOS (C)

Related Material:

- Key Concepts by LOS
-

Question #58 of 163

Question ID: 697250

Bob Smith, CFA, is an independent board member of Atlantic Technologies, but is not paid by the firm for his services. An employee at Atlantic informs Smith that Atlantic has improperly timed the booking of contracts to achieve the desired quarterly financial results. The misleading financial statements would turn losses into profits. Smith confers with the firm's legal counsel who indicates that this conduct is, in fact, illegal. Smith urges Sharon White, Atlantic's chief financial executive, to change the financial statements, but she refuses to do so and indicates the firm's external auditors have approved the method of revenue recognition she has used. According to CFA Institute Standards of Professional Conduct, which of the following actions is *least likely* appropriate for Smith: in this situation?

- ✓ **A)** Report the illegal activity to CFA Institute.
- X **B)** Dissociate from the activity by resigning as a director or by reporting the activities to the appropriate authorities.
- X **C)** Bring his concerns to the other board members.

Explanation

Reporting violations of the Standards to the CFA Institute may be appropriate for concerns about a member's conduct, but is not the proper avenue for reporting corporate malfeasance in general. Members must dissociate from any activity they know is illegal and if Smith cannot get his firm to correct the misleading financial report he must leave the board. There are intermediate steps that Smith can take in order to remedy the situation. Smith may bring his concerns to the other board members in order to get the firm to stop the illegal activity. If the board will not remedy the situation, dissociating from the board may be Smith's only way to remain in compliance with the Code and Standards.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #59 of 163

Question ID: 412300

Sometimes a CFA Institute member simply *feels* a law has been violated by his firm, and sometimes the member *knows* a law has been

violated. Which of the following pairs of guidelines is CORRECT with respect to the first step a member should take in each case? The member should first contact:

- ✓ **A)** the firm's counsel if he feels a law has been violated and contact his supervisor if he knows a law has been violated.
- X **B)** his supervisor in the firm if he feels a law has been violated and contact the firm's counsel if he knows a law has been violated.
- X **C)** the firm's counsel if he feels a law has been violated and the SEC if he knows a law has been violated.

Explanation

Standard I(A) says that when a member feels a law has been broken, the member should seek advice from the firm's counsel. If the member feels the advice is unbiased and competent, the member should follow it. If the member knows a law has been violated, the member should contact a supervisor.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #60 of 163

Question ID: 412366

A CFA charterholder in a managerial position is in the process of hiring new analysts. If the charterholder conducts background checks on the job applicants with respect to their character, the charterholder has:

- ✓ **A)** complied with Standard I(D) concerning professional misconduct.
- X **B)** complied with Standard VII(A) concerning conduct of members and candidates in the CFA Program.
- X **C)** violated the Code of Ethics by invading the applicants' privacy.

Explanation

To avoid potential problems and comply with Standard I(D), employers are encouraged to conduct background checks on potential employees.

References

Question From: Session 1 > Reading 3-I > LOS (D)

Related Material:

- Key Concepts by LOS
-

Question #61 of 163

Question ID: 460620

The CFA Institute's Professional Conduct Program may learn about potential violations of the Code and Standards by members

and candidates:

- ☐ A) only from members and candidates self-reporting.
- ☐ B) only from written complaints or members and candidates self-reporting.
- ☒ C) from sources other than written complaints or members and candidates self-reporting.

Explanation

In addition to self-reporting by members and candidates and written complaints about members and candidates, the Professional Conduct Program may learn about potential violations through public sources such as the news media, through reports from CFA exam proctors, by review of exam results and materials, or through monitoring of online and social media activity.

References

Question From: Session 1 > Reading 2 > LOS a

Related Material:

- Key Concepts by LOS
-

Question #62 of 163

Question ID: 412360

An investment advisor takes a trip for which his firm will pay the expenses. Upon his return he alters some of the numbers on restaurant receipts to inflate the expenses by \$64. Is this a violation of Standard I(D)?

- ☒ A) Yes, because it reflects adversely on the charterholder's professional reputation.
- ☐ B) No, if such a crime carries less than a one-year prison term.
- ☐ C) Yes, because the amount involved is over \$50.

Explanation

Professional conduct involving dishonesty, fraud, or deceit is a direct violation of Standard I(D), Misconduct.

References

Question From: Session 1 > Reading 3-I > LOS (D)

Related Material:

- Key Concepts by LOS
-

Question #63 of 163

Question ID: 412372

Which of the following statements regarding Standard II(A), Material, Nonpublic Information, is *least* accurate?

- ☒ A) Information received from an insider who is not breaching his fiduciary responsibility may be traded on.
- ☐ B) Material, non-public information regarding a tender offer may not be traded on.

- X **C)** If you receive the information in a public forum, it has been disseminated, and you can trade on it.

Explanation

If the information is material and nonpublic, the Member or Candidate cannot trade or cause others to trade. It does not matter if the insider did not breach his fiduciary responsibility. The inside information is still material and nonpublic.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #64 of 163

Question ID: 412322

WEB, an investment-banking firm, is the principal underwriter for MTEX's upcoming debenture issue. Wendy Berry, CFA, an analyst with WEB, has found out from an employee in MTEX's programming department that a serious glitch was recently discovered in the software program of their major new product line. In fact, the glitch is so bad that most of their orders have been canceled. Berry checked the debenture's prospectus and found no mention of this development. The red herring prospectus has already been distributed. Berry's *best* course of action is to:

- X **A)** keep quiet since this is material non-public inside information.
- X **B)** notify potential investors of the omission on a fair and equitable basis.
- ✓ **C)** inform her immediate supervisor at WEB of her discovery.

Explanation

Berry should report this information only to her immediate supervisor. Subsequently, she and her supervisor may consult with legal counsel concerning the competing issues in this situation. For the present, she should avoid disclosure to colleagues who do not need to know the information and she should also avoid disclosure to clients.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #65 of 163

Question ID: 412287

CFA Institute members should encourage their employers to do all of the following EXCEPT:

- ✓ **A)** require employees to write personal ethics statements.
- X **B)** conduct background checks on potential employees to ensure that they are of good character and eligible to work in the investment industry.

- X **C)** make clear that dishonest personal behavior reflects poorly on the profession.

Explanation

There is no reason to have employees write personal ethics statements. CFA Institute encourages all of the other actions.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #66 of 163

Question ID: 412397

Which of the following is a violation of Standard II(B), Market Manipulation?

- X **A)** Implementing a trading strategy to exploit differences in market power and information.
- X **B)** Engaging in a block trade to limit the effect on the price of a thinly traded security.
- ✓ **C)** Overstating an earnings projection in order to increase the price of a stock.

Explanation

Standard II(B), Market Manipulation, is not intended to prohibit transactions that are done in order to minimize income taxes or trading strategies that are not intended to distort prices or artificially inflate trading volume. Overstating earnings projections in order to increase the price of a stock is a direct violation.

References

Question From: Session 1 > Reading 3-II > LOS (B)

Related Material:

- Key Concepts by LOS
-

Question #67 of 163

Question ID: 665436

If a CFA Institute member knows that a fellow member has violated the Code and Standards, according to Standard I(A) the member is:

- X **A)** required to report the activity.
- ✓ **B)** required to dissociate from the activity and strongly encouraged to report it.
- X **C)** strongly encouraged to dissociate from the activity.

Explanation

Standard I(A) does not require a CFA Institute member to report potential violations by others, but "strongly encourages members and candidates to report potential violations of the Code and Standards committed by fellow members and

candidates."

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #68 of 163

Question ID: 412355

A money manager works for a full-service brokerage firm. After meeting with a new client and gathering all relevant information, the money manager says that she thinks her firm can perform all the financial services the new client needs. With respect to Standard I(C), Misrepresentation, this:

- ☐ A) is a violation because she cannot make statements like this under any circumstances.
- ☒ B) may not be a violation if the manager's opinion is based upon the factual information gathered.
- ☐ C) may not be a violation if the representation was made orally.

Explanation

There is no violation if the opinion is based upon the factual information gathered and the firm's actual capabilities. This is true whether or not the representation was written, oral, or electronic. None of the other choices are correct.

References

Question From: Session 1 > Reading 3-I > LOS (C)

Related Material:

- Key Concepts by LOS
-

Question #69 of 163

Question ID: 683826

Surveys have shown that, compared to other professions, the trust the public has in financial services professionals is:

- ☒ A) near the bottom of all professions.
- ☐ B) higher than for other professions.
- ☐ C) only average among professions.

Explanation

According to a survey cited by CFA Institute, trust in the financial services profession was lower than trust in any other profession in the survey.

References

Question From: Session 1 > Reading 1 > LOS c

Related Material:

- Key Concepts by LOS
-

Question #70 of 163

Question ID: 412336

Susan Nielsen, CFA, is an equity research analyst on a fact-finding property tour with 6 other analysts to learn about Just Kittens, Inc. Just Kittens sells tungsten ball-bearings and has 16 warehouses, and 20 manufacturing, research, and wholesale sales outlets scattered over 8 countries – mostly emerging markets. Because of the remote location of some of the facilities, commercial travel is effectively unavailable. Just Kittens charts a jet and various busses to take the research analysts to the properties. If Nielsen accepts these accommodations, she is *most likely*:

- X **A)** in violation of Standard I(B) "Independence and Objectivity."
- X **B)** not in violation of Standard I(B) "Independence and Objectivity" because best practices dictate that better access to company executives is likely to lead to more accurate and timely information.
- ✓ **C)** not in violation of Standard I(B) "Independence and Objectivity" because commercial travel is effectively unavailable.

Explanation

Nielsen is not in violation of Standard I(B) "Independence and Objectivity" because commercial travel is effectively unavailable.

References

Question From: Session 1 > Reading 3-I > LOS (B)

Related Material:

- Key Concepts by LOS
-

Question #71 of 163

Question ID: 412346

At the time of its initial public offering (IPO), a mutual fund is invested primarily in junk bonds. As part of its strategy, it is also invested in some zero-coupon U.S. Treasury bonds. The amount of the investment in the Treasury bonds is such that their maturity value equals 90% of the current value of the fund. Which of the following may a CFA Institute member say to her clients concerning the fund at issuance?

- ✓ **A)** A CFA Institute member may not make either of these statements.
- X **B)** Since the fund is backed by the U.S. government, you know you will get your money back.
- X **C)** The fund is virtually default risk free.

Explanation

Standard I(C), Misrepresentation, prohibits making statements that mention a guarantee of returns or misrepresent the true nature of the investment.

References

Question From: Session 1 > Reading 3-I > LOS (C)

Related Material:

- Key Concepts by LOS
-

Question #72 of 163

Question ID: 412265

The Code of Ethics does NOT explicitly say that a CFA Institute member shall do which of the following?

- ☐ A) Act with integrity.
- ☒ B) Actively lobby for new laws to protect the public.
- ☐ C) Reflect credit on the profession.

Explanation

The Code of Ethics says nothing about a CFA Institute member lobbying for new laws. In fact, legal issues are not a part of the Code. The Standards of Professional Conduct say that the member shall obey laws.

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #73 of 163

Question ID: 412382

An analyst provides services for a charitable organization and in return gets free membership in the organization. Part of her job is to manage the liquid assets of the organization, and those assets include stocks. Her supervisor in the organization calls her and tells her to buy a certain stock for the portfolio based upon insider information from a board member in the organization. The analyst objects, but the supervisor says this is what they have always done and sees no reason for changing now. The analyst complies with the request. With respect to Standards IV(A), Loyalty to Employer, and II(A), Material Nonpublic Information, the analyst violated:

- ☒ A) only Standard II(A) that prohibits insider trading.
- ☐ B) both Standards IV(A) and II(A).
- ☐ C) only Standard IV(A) requiring duty of loyalty.

Explanation

An employee/employer relationship does not necessarily mean monetary compensation for services. Complying with the request is a violation of II(A) which prohibits trading on insider information. Standard IV(A) Loyalty deals with going into business for yourself, leaving an employer and continuing to act in the employer's best interest until their resignation becomes effective, and whistleblowing which means that the member's interests and their firm's interests are secondary to protecting the integrity of capital markets and the interests of the clients.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #74 of 163

Question ID: 412320

Jane Dawson, CFA, an analyst at a New York brokerage firm, suspects that Bob Boatman, CFA, another analyst at the same firm, has violated a state securities law. According to the CFA Institute Standards of Professional Conduct, Dawson is:

- ☐ **A)** required to report the suspected violation to the appropriate state regulatory agency.
- ☐ **B)** required to report the suspected violation to CFA Institute.
- ☒ **C) NOT** required to report the violation to the appropriate governmental or regulatory organizations.

Explanation

The Code and Standards **do not** require that members report legal violations to the appropriate governmental or regulatory organizations, but such disclosure may be prudent in certain circumstances. Dawson should consult legal counsel and disassociate from the activity.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #75 of 163

Question ID: 412330

Luis Rodriguez, CFA, is an analyst at XYZ Investments. He covers a company that is located in a region that is not easily accessible. The company invites analysts for their annual analyst meeting and pays for the transportation to the remote location. Rodriguez is:

- ☒ **A)** allowed to accept the payment for transportation because the trip was all business and was out of the way.
- ☐ **B)** allowed to accept the payment for transportation as long as it does not exceed \$100.
- ☐ **C)** not allowed to accept the payment for transportation because this is a considered a "perk" and may influence his independent judgment.

Explanation

Standard I(B) Independence and Objectivity. Analysts should pay for their own travel accommodations if the location is accessible by normal means. In this situation payment is acceptable because the location is out of the way and the purpose of the trip is all business.

References

Question From: Session 1 > Reading 3-I > LOS (B)

Related Material:

- Key Concepts by LOS
-

Question #76 of 163

Question ID: 683828

Unethical behavior by a financial professional harms:

- ☐ A) only clients.
- ☒ B) clients, other employees, and society.
- ☐ C) only clients and other employees.

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.

References

Question From: Session 1 > Reading 1 > LOS d

Related Material:

- Key Concepts by LOS
-

Question #77 of 163

Question ID: 412302

Shortly after becoming employed by Valco & Co., an investment banking firm, Stan McDowell, CFA, learns that most of Valco's initial public offerings (IPO) are really effected in order to profit management via price manipulation of the shares. McDowell observes an illegal act, sanctioned by senior management, in progress and refuses to sign off on his responsibility. Instead, McDowell takes the documentation to his supervisor and tells him he should sign it in his place. This action is:

- ☒ A) a violation of the Code and Standards since he is required not to knowingly participate or assist in such an act.
- ☐ B) a suitable reaction, and he is in compliance with the Code and Standards.
- ☐ C) an overreaction. Senior management's sanctioning of the act absolves McDowell from his ordinary responsibility as a CFA Institute member.

Explanation

McDowell, by his action in taking the documentation to his supervisor, is knowingly participating in and/or assisting in an illegal act. This is clearly prohibited under Standard I(A), and he is in violation of the Standard.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #78 of 163

Question ID: 412282

Which of the following is NOT an act explicitly referred to in the Code of Ethics?

- ☐ A) Improve professional competence.
- ☒ B) Giving free introductory seminars on investing to the public.
- ☐ C) Using reasonable care when making investment recommendations.

Explanation

Although the Code says a member has obligations to the public, educating the general public for whatever reason is not implied.

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #79 of 163

Question ID: 412323

If an analyst suspects a client or a colleague of planning or engaging in ongoing illegal activities, which of the statements about the actions that the analyst should take is *most correct*? According to the CFA Institute Standards of Professional Conduct, the analyst should:

- ☐ A) disassociate from any illegal or unethical activity if the member has reasonable grounds to believe that the activity is illegal or unethical.
- ☒ B) consult counsel to determine the legality of the activity and disassociate from any illegal or unethical activity if the member has reasonable grounds to believe that the activity is illegal or unethical.
- ☐ C) consult counsel to determine the legality of the activity.

Explanation

According to the procedures for compliance involving Standard I(A), CFA Institute members should determine legality and disassociate from any illegal or unethical activity.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #80 of 163

Question ID: 442249

Which of the following is *most likely* permitted under Standard I(C), Misrepresentation?

- X **A)** Citing quotes attributed to "investment experts" without specific reference.
- ✓ **B)** Including data showing the current government bond yield curve in a report to a client without stating its source.
- X **C)** Using excerpts from reports prepared by others without acknowledgement.

Explanation

The government bond yield curve is factual information that is available from many recognized financial or statistical reporting services.

References

Question From: Session 1 > Reading 3-I > LOS (C)

Related Material:

- Key Concepts by LOS
-

Question #81 of 163

Question ID: 412389

An analyst is allowed to trade on information that he has predicted, such as a corporate action or event, using perceptive assembly and analysis of material public information or nonmaterial, non-public information. This is called the:

- ✓ **A)** mosaic theory.
- X **B)** deduction theory.
- X **C)** assessment theory.

Explanation

This deductive reasoning is legal (does not constitute trading with inside information) and is called the mosaic theory.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #82 of 163

Question ID: 470996

Mary White, CFA, sits on the board of directors of XYZ Manufacturing, Inc. She discovers that management has knowingly participated in an activity she knows is illegal. According to the CFA Institute Standards of Professional Conduct, White is *least likely* to be required to:

- ✓ **A)** report the violation to the CFA Institute Professional Conduct Program.
- X **B)** seek legal advice to determine what actions should be taken.
- X **C)** disassociate herself from the activity.

Explanation

Members are encouraged -- but not required -- to report violations of others. Standard I(A), Knowledge of the Law. Prohibition against knowingly practicing or assisting in violation of laws, rules, and regulations. If White knows that someone has engaged in a possible illegal activity, she should: (1) report the finding to the appropriate supervisory person at her firm, (2) if the situation is not remedied, disassociate herself from the situation, and (3) seek legal advice to see what other actions, such as notifying the proper regulatory agency, should be taken.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS

Question #83 of 163

Question ID: 412394

Lisa Pierce, CFA, has been researching Lander Manufacturing for the past three weeks. She likes the company's history of fulfilling its contracts on time and within budget. She learns from the uncle of a maintenance worker at Lander's headquarters that a group of well-dressed individuals arrived at headquarters in a lime green-colored limousine. Pierce knows from publicly available information that Gilbert Controls needs a large supply of specialized motors in its domestic division. She also knows that the executive officers of Gilbert usually travel in a lime green limousine. Pierce concludes that it is very likely that Gilbert will offer a large contract to Lander. Based on this development and her prior research Pierce would like to acquire Lander Manufacturing shares for her client accounts.

Pierce should:

- ✓ **A)** proceed to acquire the shares.
- X **B)** not acquire the shares because she possesses material nonpublic information.
- X **C)** not acquire the shares until after she has contacted Lander's management and encouraged them to publicly announce information about the Gilbert Controls contract. She should also wait until Lander has made the announcement and the public has had time to react to it and then make the acquisition.

Explanation

Standard II(A) prohibits members from taking investment action if they possess material nonpublic information. Pierce combined information that was not misappropriated, with her knowledge of the company, to reach a conclusion under the mosaic theory,

which is permissible under the standards. She can proceed to buy the shares.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #84 of 163

Question ID: 412297

Allen Parsons, a CFA candidate, suspects a colleague at his firm of engaging in an illegal activity. Which of the following statements about procedures for compliance involving Standard I(A), Knowledge of the law is NOT correct? Parsons:

- ☐ A) should consult counsel to determine whether the conduct is, in fact, illegal.
- ☒ B) is required to report this legal violation to the appropriate governmental or regulatory organizations.
- ☐ C) should urge his firm to attempt to persuade the perpetrator to cease such conduct.

Explanation

Standard I(A), Knowledge of the law, does not require that Parsons report legal violations to the appropriate governmental or regulatory organizations, but such disclosures may be appropriate under certain circumstances.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #85 of 163

Question ID: 412270

Which of the following is NOT part of the CFA Institute Code of Ethics. Members of CFA Institute will:

- ☒ A) recommend investments that maximize returns for a given level of risk.
- ☐ B) use reasonable care and exercise independent professional judgment.
- ☐ C) strive to maintain and improve their competence and the competence of others in the profession.

Explanation

Standard of Professional Conduct III(C), not the Code of Ethics, requires that investments be appropriate and suitable.

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #86 of 163

Question ID: 412343

Wes Smith, CFA, has been working toward the completion of a Master of Science in Finance. He has passed all the necessary courses and written the necessary thesis. He still must defend the thesis in one month. Smith's thesis advisor assures him that he will pass the thesis defense. Smith has new business cards printed with "M.S. in Finance" after his name. This is a violation of:

- ✓ **A)** none of the Standards if Smith does not make the cards public until after he defends his thesis and receives his degree.
- X **B)** Standard VII(B), Reference to CFA Institute, the CFA Designation, and the CFA Program.
- X **C)** Standard I(C), Misrepresentation.

Explanation

If the cards were distributed today he would be in violation of Standard I(C), Misrepresentation. However, if Smith does not make the cards public until after he receives the degree, there is no violation.

References

Question From: Session 1 > Reading 3-I > LOS (C)

Related Material:

- Key Concepts by LOS
-

Question #87 of 163

Question ID: 412369

An analyst belongs to a nationally recognized charitable organization, which requires dues for membership. The analyst has worked out a deal under which he provides money management advice in lieu of paying dues. While performing services for the organization, the analyst discovers some useful computer programs that his predecessor developed and left as the property of the organization. The analyst decides to use the computer programs in his consulting business. This action is:

- ✓ **A)** a violation of Standard I(D) concerning misconduct.
- X **B)** appropriate since the analyst is technically an employee of the organization.
- X **C)** a violation of Standard III(B) concerning fair dealing.

Explanation

Since the programs are the property of the organization, the analyst can only use them for the organization. It does not matter whether the analyst is an employee or not. Personal use of the programs without permission from the charitable organization is dishonest and prohibited.

References

Question From: Session 1 > Reading 3-I > LOS (D)

Related Material:

- Key Concepts by LOS
-

Question #88 of 163

Question ID: 412387

A CFO who is a CFA Institute member is careful to make his press releases-some of them containing material and previously undisclosed information-clear and understandable to his readers. While writing a new release, he often has his current intern proofread rough drafts. He also sends electronic copies to his brother, an English teacher, to get suggestions concerning style and grammar. With respect to Standard II(A), Material Nonpublic Information, the CFO is:

- X **A)** only in violation by e-mailing the pre-release version to his brother but not the intern, because the intern is in essence an employee of the firm.
- ✓ **B)** violating the standard by either showing the pre-release version to his intern or sending it to his brother.
- X **C)** not in violation of the Standard.

Explanation

Standard II(A), Material Nonpublic Information, says that a member must be careful about handling material non-public information. As a member of CFA Institute, the CFO must limit the people who see important information before it is released. It would not be appropriate to involve an intern or a relative in the process.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #89 of 163

Question ID: 460621

Steve Jones is a member of CFA Institute but has not earned the CFA designation yet. CFA Institute is investigating Jones' activities. If Jones declines to cooperate, he:

- ✓ **A)** may be suspended from membership.
- X **B)** may not be suspended because he does not have the CFA designation yet.
- X **C)** may not be suspended because cooperating could be self incriminating.

Explanation

Refusing to cooperate with a CFA Institute investigation of a member's behavior could lead to suspension of membership or participation in the CFA Program.

References

Question From: Session 1 > Reading 2 > LOS a

Related Material:

- Key Concepts by LOS
-

Question #90 of 163

Question ID: 412281

In dealing with the public and others, the CFA Institute Code of Ethics indicates that CFA Institute members will act with:

- ✓ **A)** integrity, competence, and respect.
- X **B)** confidence, knowledge, and high ethical standards.
- X **C)** honesty, professionalism, and goodwill.

Explanation

Integrity, competence, and respect are included in the first component of the Code of Ethics.

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #91 of 163

Question ID: 412391

The *mosaic theory* is the idea that an analyst can:

- X **A)** base his recommendations on nonpublic material information only for the clients of the company, but not for the general public.
- ✓ **B)** make recommendations or trade based on several pieces of public or nonpublic information, each piece by itself being nonmaterial, but when compiled the information becomes material.
- X **C)** make investment recommendations on the basis of several pieces of nonpublic information as long as the aggregate information remains nonmaterial.

Explanation

The mosaic theory permits an analyst to make recommendations based upon several pieces of public or nonmaterial information, even though the compiled result is both material and nonpublic.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #92 of 163

Question ID: 412275

According to the Code of Ethics, the professional judgment of a member should be:

- X **A)** dependent on that of his/her colleagues.
- X **B)** guided by the SEC guidelines.
- ✓ **C)** independent.

Explanation

The Code of Ethics states that the CFA Institute member shall "Use reasonable care and exercise independent professional judgment." None of the other answers resemble anything in the Code.

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #93 of 163

Question ID: 683820

Ethics *least likely* refers to:

- X **A)** the study of good and bad behavior.
- X **B)** moral principles to guide 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.

References

Question From: Session 1 > Reading 1 > LOS a

Related Material:

- Key Concepts by LOS
-

Question #94 of 163

Question ID: 412310

Janet Green, CFA, provides investment advice and other services to clients in several countries. She resides in Country A whose securities laws and regulations are less strict than the Code and Standards. She also conducts business with clients in Country B, which has no securities laws or regulations, and in Country C, which has securities laws and regulations that are stricter than

the Code and Standards. Which of the following statements is CORRECT? According to CFA Institute Standards of Professional Conduct, Green must adhere to the Code and Standards in:

- ✓ **A)** Country A and Country B but the law in Country C.
- X **B)** Country A but the law in Country B and Country C.
- X **C)** Country A, Country B, and Country C.

Explanation

Green needs to follow Standard I(A) -- Knowledge of the law. In Country A, Green must adhere to the Code and Standards because Country A's laws are less strict. In Country B, Green must also adhere to the Code and Standards because Country B has no securities laws. Because Country C's applicable law is stricter than the requirements of the Code and Standards, Green must adhere to the laws of Country C.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #95 of 163

Question ID: 460626

If a member does business in a country with stricter securities laws and regulations than the Code and Standards, but the member's home country has less strict securities laws or regulations than the Code and Standards, the member must abide by the:

- X **A)** Code and Standards only.
- X **B)** home country's securities laws and regulations only.
- ✓ **C)** laws and regulations of the country with stricter securities laws.

Explanation

The member must abide by the laws and regulations of the country in which he is doing business if these laws are stricter than his home country's laws or the Code and Standards. A member must adhere to the strictest applicable law or regulation.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #96 of 163

Question ID: 412316

Nicholas Brynne, CFA, is a fixed-income analyst who trades in mortgage-backed securities (MBS). The MBS industry has seen

sweeping regulatory changes since Brynne took his current position, and he now feels his understanding of applicable laws and regulatory standards is dated. Brynne must:

- ☐ **A)** have all trades reviewed by his compliance department until he has obtained an expert level of knowledge in compliance.
- ☒ **B)** update his understanding of applicable laws and regulatory standards relating to his position.
- ☐ **C)** rely on his firm's policies and procedures for guidance on legal and regulatory standards.

Explanation

See Standard I(A) "Knowledge of the Law." Brynne should update his understanding of applicable laws and regulatory standards relating to his position, although he is not required to be an expert in compliance. Relying only on firm policies and procedures is not sufficient.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #97 of 163

Question ID: 460627

A member or candidate who produces issuer-paid research should *most appropriately* negotiate a:

- ☒ **A)** flat fee prior to writing the report.
- ☐ **B)** fee that may include equity or warrants.
- ☐ **C)** fee based on the performance of the issuer's shares.

Explanation

Standard I(B) Independence and Objectivity states that the best practice for issuer-paid research is to negotiate a flat fee before writing the report. Compensation that depends on the performance of the issuer's securities can compromise an analyst's objectivity by creating an incentive to write a positive recommendation.

References

Question From: Session 1 > Reading 3-I > LOS (B)

Related Material:

- Key Concepts by LOS
-

Question #98 of 163

Question ID: 412326

According to the CFA Institute Standards of Professional Conduct, Standard I(A), Knowledge of the Law, members shall not knowingly participate or assist in any violations of laws, rules, or regulations. An analyst:

- ✓ **A)** is held responsible for participating in illegal acts when the law is evident to anyone knowing the law and can participate in a violation by having knowledge of the violation and taking no action to stop it or disassociate from it.
- X **B)** must report all legal violations to the proper regulatory commission and is held responsible for participating in illegal acts when the law is evident to anyone knowing the law.
- X **C)** is held responsible for participating in illegal acts when the law is evident to anyone knowing the law and is held responsible for violations by others when the analyst is unaware of the facts giving rise to the violation.

Explanation

If you suspect someone is planning or engaging in illegal activities, you should:

1. Determine the legality of the activities. Consult your supervisor and legal counsel.
2. Take appropriate action. Disassociate, attempt to persuade the perpetrator to stop. CFA Institute does not require you to report them to the authorities, but the law might.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #99 of 163

Question ID: 460632

Darlene Hess, CFA, manages a pension fund that has a sizeable position in Knoll Corporation common stock. Hess also holds Knoll common stock in her personal account. Hess participates in an analyst conference call in which Knoll's chief financial officer advises that the company's current-quarter earnings will slip below consensus forecast. Knoll has not disclosed this to the public. Hess believes news of the poor earnings will reduce the stock's value significantly. Hess may:

- X **A)** sell Knoll stock from the pension fund but may not sell it from her personal account.
- ✓ **B)** not sell Knoll stock from either the pension fund or her personal account.
- X **C)** sell Knoll stock from her personal account but may not sell it from the pension fund.

Explanation

Selling Knoll stock from either the pension fund or Hess's personal account would be trading on material nonpublic information, in violation of Standard II(A) Material Nonpublic Information.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #100 of 163

Question ID: 412392

While working on her report, Jean Paul, CFA, learns from her friend in the investment banking department that the company she is analyzing can expect a tender offer very soon. Concerning this conclusion, Paul can:

- X **A)** trade on it, because it is public information.
- ✓ **B)** not trade on it because it is material nonpublic information.
- X **C)** trade on it, because she figured it out by herself.

Explanation

According to Standard II(A), Material Nonpublic Information, an analyst is prohibited from trading on information that is both material and nonpublic.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #101 of 163

Question ID: 412276

According to the *Code of Ethics*, which of the following statements is NOT correct? CFA Institute members are required to:

- X **A)** use reasonable care and exercise independent professional judgment.
- ✓ **B)** comply with the CFA Institute Global Investment Performance Standards.
- X **C)** maintain and improve their competence and strive to maintain the competence of others in the profession.

Explanation

The CFA Institute-GIPS are voluntary standards for the industry. Firms are not required to comply with these standards when presenting performance. The other statements are each components of the CFA Institute *Code of Ethics*.

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #102 of 163

Question ID: 412303

Ernesto Vivaldo is a CFA candidate. He is working in the branch office of an American-based investment company in Belgium. Vivaldo is a citizen of Venezuela. In his country, a portfolio manager is not required to disclose referral fees. Belgian law does not

allow referral fees for portfolio managers. Vivaldo has been offered a deal that involves a referral fee. Vivaldo should follow the requirements of:

- X **A)** CFA Institute.
- X **B)** Venezuela.
- ✓ **C)** Belgium.

Explanation

According to Standard I(A) Knowledge of the Law, CFA candidates and current CFA Institute members must follow whichever law is stricter. In this case, the strictest laws are those of Belgium.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #103 of 163

Question ID: 460629

During a conference call with 30 analysts, a company's management discloses that its quarterly earnings, which will be announced at the end of the week, are equal to the consensus forecast. The analysts participating in the conference call should consider this information:

- X **A)** nonpublic, but not material.
- ✓ **B)** material and nonpublic.
- X **C)** material, but public.

Explanation

Earnings releases are material because reasonable investors would want to know the information before making an investment decision. The information is nonpublic until it has been disseminated to the marketplace. Disclosure to analysts is not public dissemination.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #104 of 163

Question ID: 412290

For an employee with the CFA designation who works for a firm, which of the following is NOT necessary to meet the requirements of the Code and Standards?

- ☐ A) It is recommended that their employer is aware of the Code and Standards.
- ☒ B) Deliver a copy of the Code and Standards to their employer.
- ☐ C) Recommend notifying their employer of their responsibility to follow the Code and Standards.

Explanation

It is no longer required but recommended that CFA members and candidates notify their employer that they are required to follow the Code and Standards.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #105 of 163

Question ID: 412296

A CFA Institute member is also a member and the portfolio manager of an environmentalist group. In its charter, the environmentalist group lists a group of companies its members should boycott. The CFA Institute member would violate Standard I(A) concerning obeying all rules and regulations if the member:

- ☐ A) actively protests against a publicly traded firm boycotted by the group.
- ☒ B) purchases stock of a boycotted firm for the group's portfolio.
- ☐ C) performs either of the activities listed here.

Explanation

Standard I(A) says the member must be guided by all applicable rules and regulations of professional associations governing the member's professional activities. Purchasing the stock for the firm would be a violation because it involves the member's professional activities and the rules of a group to which the member belongs and works for. Actively protesting would not be covered by that standard.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #106 of 163

Question ID: 412329

Joshua Rosenberg, CFA, is an equity analyst who covers Northwest Implements, a farm implement manufacturer. Northwest's main factory is located in a sparsely inhabited region six hours by automobile from the nearest airport. Northwest has its own corporate jet and a landing strip is located near the facility. When Rosenberg contacts Northwest's management to gather information for a report he is preparing on the company, Northwest's chief financial officer, Thomas Blake, invites Rosenberg to visit Northwest's headquarters and meet with management. Blake offers to send Northwest's corporate jet to pick up Rosenberg from an airport near Rosenberg's home and to return him home the same evening. Rosenberg estimates that it would require three days for him to make the visit using commercial travel. If Rosenberg accepts Blake's offer and makes the trip to Northwest's headquarters on the corporate jet, Rosenberg:

- ☐ A) has violated the Code and Standards unless he discloses the trip and the payment of his travel expenses in his report on Northwest.
- ☒ B) has not violated the Code and Standards.
- ☐ C) has violated the Code and Standards unless he reimburses Northwest for the cost of the trip.

Explanation

Standard I(B) requires members to maintain independence and objectivity. A visit by an analyst to an out-of-the-way site may be paid for by a client company host as long as the analyst can maintain objectivity. Members should encourage clients to limit the use of corporate aircraft, but exceptions can be made if transportation would not otherwise be available or would be inefficient.

References

Question From: Session 1 > Reading 3-I > LOS (B)

Related Material:

- Key Concepts by LOS

Question #107 of 163

Question ID: 442250

According to CFA Institute Standards of Professional Conduct, which of the following is least likely a form of misrepresentation?

- ☒ A) Using factual information published by recognized financial and statistical reporting services or similar sources without acknowledgment.
- ☐ B) Attributing specific quotations to "leading analysts" and "investment experts" without specific reference.
- ☐ C) Presenting statistical estimates of forecasts prepared by others with the source identified, but without qualifying statements or caveats that may have been used.

Explanation

Standard I(C) provides that "factual information published by recognized financial and statistical reporting services or similar sources" may be used without an acknowledgment.

References

Question From: Session 1 > Reading 3-I > LOS (C)

Related Material:

- Key Concepts by LOS
-

Question #108 of 163

Question ID: 412268

According to the Code of Ethics, when practicing in a professional and ethical manner the goal is to:

- ☐ A) resolve conflicts between clients and employers.
- ☐ B) increase membership in CFA Institute.
- ☒ C) reflect credit on members and the profession.

Explanation

The Code states that a member shall "Practice and encourage others to practice in a professional and ethical manner that will reflect credit on members and their profession."

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #109 of 163

Question ID: 683829

Unethical behavior by financial professionals:

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

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.

References

Question From: Session 1 > Reading 1 > LOS d

Related Material:

- Key Concepts by LOS
-

Question #110 of 163

Question ID: 434181

Which of the following is a component of the *Code of Ethics*? CFA Institute members shall:

- X **A)** make reasonable efforts to detect and prevent violations by those who are under their supervision.
- X **B)** disclose to their employer all matters that reasonably could be expected to interfere with their duty to their employer or ability to make unbiased and objective recommendations.
- ✓ **C)** strive to maintain and improve their competence and the competence of others in the profession.

Explanation

Striving to maintain and improve their competence and the competence of others in the profession is one of the components of the *Code of Ethics*, whereas the other statements are part of the *Standards of Professional Conduct*.

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #111 of 163

Question ID: 412269

The CFA Institute Code of Ethics specifies that CFA Institute Members and Candidates must do all of the following EXCEPT:

- X **A)** act with integrity, competence, diligence, respect, and in an ethical manner.
- X **B)** use reasonable care and exercise independent professional judgment when engaging in professional activities.
- ✓ **C)** refrain from any conduct that compromises the reputation or integrity of the CFA designation.

Explanation

Not compromising the reputation or integrity of the CFA designation is a part of the Standards of Professional Conduct, but is not specifically mentioned the Code of Ethics.

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #112 of 163

Question ID: 412395

Trude Front, CFA, is a portfolio manager. While in the normal course of her duties, she happens to overhear material non-public information concerning the stock of VTT Bowser. She purchases several exchange traded funds which contain VTT Bowser, while shorting similar exchange traded funds which do not contain VTT Bowser. This is *most likely*:

- ✓ **A)** a violation of Standard II(A) "Material Non-Public Information."

- X **B)** not a violation of Standard II(A) "Material Non-Public Information."
- X **C)** only a violation of Standard II(A) "Material Non-Public Information" because Front is simultaneously shorting the funds which do not contain VTT Bowser.

Explanation

This is a violation of Standard II(A) "Material Non-Public Information" irrespective of whether Front is simultaneously shorting the funds which do not contain VTT Bowser. Her trades are motivated by material non-public information.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #113 of 163

Question ID: 412256

Sanctions that CFA Institute may impose on a member or candidate under the Professional Conduct Program include:

- X **A)** returning of all profits gained through violations of the Code and Standards.
- X **B)** suspension from employment in the financial services industry.
- ✓ **C)** public censure.

Explanation

Sanctions that CFA Institute may impose include public censure, suspension from membership and use of the CFA designation, revocation of the CFA charter, or suspension of a candidate's participation in the CFA program.

References

Question From: Session 1 > Reading 2 > LOS a

Related Material:

- Key Concepts by LOS
-

Question #114 of 163

Question ID: 412337

Francisco Perez, CFA, CPA, is a portfolio manager for an investment advisory firm. Due to the prominence of his position, he is often invited to attend free marketing and educational events hosted by firms which seek to inform the investment community about their investment processes. One such firm, Unlimited Horizons, has invited Perez to attend free educational events which qualify for Continuing Education credits which could help Perez maintain his CPA designation. Perez should *most likely*:

- ✓ **A)** decline to attend the event as it could result in a violation of Standard I(B) "Independence and Objectivity."
- X **B)** decline to attend the event as it could result in a violation of Standard I(A) "Knowledge of the Law."

- X **C)** accept the invitation as no cash compensation is involved and the primary intent is to educate and inform the investment community.

Explanation

Perez should decline the invitation as it creates the impression of lack of independence. If he does not accept the free continuing education courses, he would have to pay for them some other way so the free courses are a form of compensation. Nothing in the vignette suggests the free classes are illegal.

References

Question From: Session 1 > Reading 3-I > LOS (B)

Related Material:

- Key Concepts by LOS
-

Question #115 of 163

Question ID: 412309

Mary Kim, CFA, practices in the established country of Oldasia as well as in the emerging country of Newasia. By regulation, Oldasia prohibits licensed investment advisors from trading in securities ahead of their clients. Newasia has no laws or regulations in this area. Mary Kim may:

- ✓ **A)** not trade ahead of her clients in either country.
- X **B)** trade ahead of her clients in Newasia only.
- X **C)** trade ahead of her clients in Newasia only, as long as she has made full disclosure to her clients that she reserves the right to do this.

Explanation

Under Standard I(A), Mary Kim, as a CFA charterholder, must apply the CFA Institute Code and Standards or the controlling law, whichever is stricter. Because Standard VI(B) requires members to put client trades ahead of their own transactions, Mary Kim must follow the standard in the absence of governing law, or where the law is less strict than the standard.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #116 of 163

Question ID: 683831

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

- ✓ **A)** Ethical and legal standards often intersect, but not always.
- X **B)** Ethical standards are a subset of legal standards.

X **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.

References

Question From: Session 1 > Reading 1 > LOS e

Related Material:

- Key Concepts by LOS
-

Question #117 of 163

Question ID: 412299

Robe Advisory Services operates an office in San Francisco, where it manages portfolios for its clients based in the United States. The firm also maintains an office in Tokyo, where it employs Sam Lee, CFA who researches Japanese stocks. According to the CFA Institute Standards of Professional Conduct, Lee is required to maintain knowledge of and comply with all applicable laws, rules, and regulations in:

- X **A)** both the U.S. and Japan, but not the CFA Institute Standards of Professional Conduct.
- ✓ **B)** both the U.S. and Japan and the CFA Institute Standards of Professional Conduct.
- X **C)** Japan, but not the U.S., and the CFA Institute Standards of Professional Conduct.

Explanation

To abide by the Standards, employees who work for foreign-based firms are required to apply the stricter of the foreign (here, U.S.) law, the domestic (here, Japanese) law, or CFA Institute standards.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #118 of 163

Question ID: 412377

A stockbroker who is a member of CFA Institute has a part-time housekeeper who also works for the CEO of Festival, Inc. One day the housekeeper mentions to the broker that she saw the CEO of Festival having a conversation at his home with John Tater, who is a nationally known corporate lawyer and consultant. The stockbroker is restricted from trading on this information:

- X **A)** only if the broker knows that the meeting is non-public information.
- ✓ **B)** if the housekeeper says the meeting concerned a tender offer and the broker knows that it is non-public information.

X **C)** for both of the reasons listed here.

Explanation

Standard II(A), Material Nonpublic Information, states "a member cannot trade or cause others to trade in a security while the member possesses material nonpublic information" A tender offer would certainly be material nonpublic information. Knowing that the meeting took place, and nothing else, does not restrict the broker. A reasonable investor would need to know more to determine if the information was material.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #119 of 163

Question ID: 713345

The Securities and Exchange Board of India (SEBI) has just enacted a new stock-trading rule. SEBI will give brokers a 10-day grace period, during which violators of the rule will be immediately notified and given a chance to remedy their situation to comply with the new rule. If a CFA Institute member located in India or doing business in India unknowingly violates the rule and then remedies the situation within the 10-day grace period, has the member violated Standard I(A)?

- X **A)** No, because the member unknowingly broke the rule.
- ✓ **B)** Yes, because the member did not maintain knowledge and know of the rule.
- X **C)** No, because the member remedied the situation.

Explanation

Standard I(A) explicitly says that a member shall maintain knowledge and comply with laws, rules, and regulations. By not knowing of the rule, the member broke the standard.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #120 of 163

Question ID: 412317

What is the rule of thumb for members, CFA charterholders and candidates in the CFA program when weighing the requirements of the CFA Institute Code and Standards and the requirements of local laws? If the applicable laws are:

- X **A)** more strict, they must still follow the Code and Standards.

- X **B)** less strict, they should make a judgment call on which to follow, the Code and Standards or the local laws and requirements.
- ✓ **C)** more strict, they must adhere to the applicable laws.

Explanation

The rule of thumb for members, CFA charterholders and candidates in the CFA program requires that they adhere to the applicable laws if the applicable laws are more strict than the requirements of the Code and Standards. If there are no laws or the laws are less strict, they must adhere to the Code and Standards.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #121 of 163

Question ID: 460623

Which of the following is *least likely* to be a reason for imposing a suspension on a member or candidate?

- ✓ **A)** Misdemeanor charge for possession of narcotics.
- X **B)** Discussing a question from the CFA exams on social media.
- X **C)** Failing to return the annual professional conduct statement.

Explanation

A misdemeanor charge not related to professional conduct is not grounds for a suspension. The other choices are violations of the Code and Standards and may result in CFA Institute imposing a suspension of membership or participation.

References

Question From: Session 1 > Reading 2 > LOS a

Related Material:

- Key Concepts by LOS
-

Question #122 of 163

Question ID: 412295

Mega Securities, a multinational investment advisor based in the United States, employs the following analysts who practice in multiple jurisdictions.

- Melissa Black, CFA, resides in Country N, which has no securities laws or regulations, but does business in Country L, which has securities laws and regulations that are less strict than the Code and Standards.
- Tom White, a CFA Institute member, resides in Country L, but does business in Country S, which has securities laws and regulations that are stricter than the Code and Standards.

According to the CFA Institute Code and Standards, which of the following statements about Black and White is CORRECT?

Black must adhere to the White must adhere to the

- | | |
|--------------------------------|------------------|
| ✓ A) Code and Standards | law of Country S |
| X B) law of Country N | law of Country L |
| X C) law of Country L | law of Country S |

Explanation

Because the applicable law in Country L is *less* strict than the Code and Standards, Black must adhere to the Code and Standards. Because the applicable law is *stricter* than the Code and Standards, White must adhere to the more strict applicable law of Country S.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #123 of 163

Question ID: 412379

Regarding non-public information, which one of the following statements is NOT correct?

- X **A)** An analyst may use some types of non-public information.
- ✓ **B)** A member can be summarily suspended for having received material non-public information.
- X **C)** Disclosing material non-public information would have an impact on the price of a security or be of interest to a reasonable investor.

Explanation

All of these are true except that a member can be suspended for having received material non-public information. The member can receive such information as part of their regular duties or by accident. Neither is punishable in and of itself, and penalties only apply if the member trades or causes others to trade on the information. The member may have certain duties, such as trying to disseminate the information after receiving it. An analyst may use *nonmaterial* non-public information.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #124 of 163

Question ID: 412341

The following information involves two research analysts at a brokerage firm.

- Erik Bagenot, CFA, is preparing a research report on Global Enterprises, Inc. In preparing the report, he uses materials from many sources. For example, he uses factual information published by Standard & Poor's Corporation without acknowledging the source. He also uses excerpts from a research report prepared by another analyst. Bagenot makes only a slight change in wording for these excerpts, but acknowledges the source.
- Sally Wain, who is currently enrolled in the CFA program, is preparing a research report on Manson Telecommunications. She attends a conference in which several investment experts provide their views about the future prospects of this company. Wain cites several quotations from these investment experts in her report without specific reference.

According to CFA Institute Standards of Professional Conduct involving prohibition against plagiarism, which of the following statements is CORRECT?

- ✓ **A)** Wain violated the Standards, but Bagenot did not.
- X **B)** Bagenot violated the Standards, but Wain did not.
- X **C)** Both Bagenot and Wain violated the Standards.

Explanation

Bagenot complied with Standard I(C), which permits publishing factual information from Standard & Poor's without acknowledgment and using excerpts with acknowledgment. Wain committed plagiarism because she failed to give specific references for the quotations that she used.

References

Question From: Session 1 > Reading 3-I > LOS (C)

Related Material:

- Key Concepts by LOS

Question #125 of 163

Question ID: 412305

A member or candidate who suspects that a colleague is violating the law should *most* appropriately:

- ✓ **A)** consult with the company counsel to determine if in fact a law is being violated.
- X **B)** report all illegal activities to the appropriate regulatory agency.
- X **C)** report the illegal activity to CFA Institute Professional Standards Review Board for action.

Explanation

According to Standard I(A), Knowledge of the Law, members and candidates shall not knowingly participate or assist in any violation of laws, rules, regulations, or the Code and Standards.

When members suspect a client or a colleague of *planning or engaging in ongoing illegal activities*, members should take the following actions:

- **Consult counsel** to determine if the conduct is, in fact, illegal.

- **Disassociate** from any illegal or unethical activity. When members have reasonable grounds to believe that a client's or employee's activities are illegal or unethical, the members should disassociate from these activities and urge their firm to attempt to persuade the perpetrator to cease such activity.

Note: The Code and Standards do not require that members report legal violations to the appropriate governmental or regulatory organizations, but such disclosure may be prudent in certain circumstances.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #126 of 163

Question ID: 412386

A stockbroker who is a CFA Institute member is called on the telephone by the CEO of a large company. The CEO asks to buy shares of the CEO's company for the accounts of the CEO's children. In the course of the conversation, the CEO says this will really pay off when the upcoming takeover goes through. The stockbroker checks her sources and finds no information about the takeover. In this case the broker should:

- X **A)** execute the order for all clients as required by Standard III(B), Fair Dealing.
- ✓ **B)** do neither of the actions listed here.
- X **C)** only execute the order in compliance with Standard III(A), Loyalty, Prudence, and Care. Since the client is buying the stock for the children, there is not a problem.

Explanation

Doing any of these actions would be a violation of Standard II(A), Material Nonpublic Information. Members and Candidates must not act or induce others to act on material nonpublic information.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #127 of 163

Question ID: 697251

A CFA Institute member is a citizen of Abdhari and lives and works in Balwalla for a company based in Abdhari. Balwalla has no laws against the use of material non-public information. Based on this information, the CFA Institute member may:

- X **A)** trade using material non-public information.
- ✓ **B)** not trade using material non-public information.
- X **C)** trade using material non-public information in Balwalla but not in Abdhari.

Explanation

CFA Institute Standard II(A) prohibits trading using material non-public information. A member may not trade using such information regardless of the laws of Abdhari and Balwalla.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #128 of 163

Question ID: 472404

Nancy McCoy, CFA, is preparing a report on Gourmet Food Mart. As part of her research, she contacts the company's contractors, suppliers, and competitors. McCoy is told by the CEO of a major produce vendor that he is about to file a lawsuit against Gourmet Food Mart, seeking significant damages. McCoy incorporates this information into her research report, which projects a decline in profitability for Gourmet Food Mart due to the impending litigation. According to the CFA Institute Standards of Professional Conduct, McCoy:

- X **A)** has violated the Standards by disseminating confidential information.
- X **B)** has not violated any Standard.
- ✓ **C)** has violated the Standards by utilizing material nonpublic information.

Explanation

According to Standard II(A) Material Nonpublic Information, an analyst must not act or cause others to act on material nonpublic information. The information is material to the company's future profitability, and is nonpublic because the lawsuit has not yet been filed and is not yet a matter of public record.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #129 of 163

Question ID: 412328

An analyst is told by his supervisor that when he feels he should write a buy recommendation he is free to do so, and when he feels he should write a sell recommendation he should check with the supervisor first. This practice is *most likely*:

- X **A)** consistent with the Code of Ethics and Standards of Professional Conduct.
- X **B)** in violation of Standard V(B), Communications with Clients and Prospective Clients.
- ✓ **C)** in violation of Standard I(B) Independence and Objectivity.

Explanation

The policy dictated by the supervisor would infringe upon the analyst's independence and objectivity. It may discourage the analyst from making sell recommendations and, furthermore, present the opportunity for the supervisor to try and change the analyst's mind.

References

Question From: Session 1 > Reading 3-I > LOS (B)

Related Material:

- Key Concepts by LOS
-

Question #130 of 163

Question ID: 412349

Jamie Pyles, a portfolio management trainee for a money management firm, is trying to create a client base. He phones prospective clients, telling them that he is a portfolio manager. He informs prospective clients that based on the last five years of performance of his firm, he can guarantee the client at least a 75% return. He informs them that his firm can provide all of the services that they will ever need. What is the minimum number of misrepresentations Jamie has made to the prospective clients in violation of Standard I(C), Misrepresentation?

- ✓ **A)** 3.
- X **B)** 2.
- X **C)** 5.

Explanation

There are at least *three* misrepresentations. First, that Jamie is a portfolio manager, when he's really a trainee. Second, that the firm can provide all of the services they will ever need. Third, that he can guarantee a 75% return.

References

Question From: Session 1 > Reading 3-I > LOS (C)

Related Material:

- Key Concepts by LOS
-

Question #131 of 163

Question ID: 412371

A CFA charterholder who comes to work intoxicated is:

- X **A)** in violation of Standard IV(A) concerning duties to employer.

- ✓ **B)** in violation of Standard I(D) concerning professional misconduct.
- X **C)** not in violation of the standards.

Explanation

Being intoxicated at work is poor personal behavior. It is a violation of Standard I(D), which covers professional competence and integrity.

References

Question From: Session 1 > Reading 3-I > LOS (D)

Related Material:

- Key Concepts by LOS
-

Question #132 of 163

Question ID: 460622

A member or candidate who rejects a disciplinary sanction proposed by the Professional Conduct Program:

- X **A)** will be suspended from membership or participation in the CFA Program.
- X **B)** will typically not be subject to further disciplinary procedure unless a new investigation is initiated.
- ✓ **C)** may request an appeal to a hearing panel.

Explanation

A member or candidate may accept a proposed disciplinary sanction or request an appeal to a hearing panel.

References

Question From: Session 1 > Reading 2 > LOS a

Related Material:

- Key Concepts by LOS
-

Question #133 of 163

Question ID: 412272

According to the CFA Institute Code of Ethics, CFA Institute members shall:

- ✓ **A)** act with integrity, competence, diligence, respect, and in an ethical manner when dealing with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- X **B)** maintain knowledge and comply with all applicable laws, rules and regulations.
- X **C)** preserve the confidentiality of information communicated by clients, prospects, or employers concerning investment matters.

Explanation

Acting with integrity, competence, diligence, respect, and in an ethical manner when dealing with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets is one of the six components of the *Code of Ethics*, whereas the other statements are part of the *Standards of Professional Conduct*.

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #134 of 163

Question ID: 412384

Which one of the following *least* accurately describes the CFA Institute Standard about using material nonpublic information?

- X **A)** An analyst may violate this Standard by passing information to others even when it has been obtained from outside the company.
- X **B)** An analyst may use nonmaterial nonpublic information as long as it has been developed under the Mosaic Theory.
- ✓ **C)** An analyst using material nonpublic information may be fined by CFA Institute.

Explanation

There is no provision for CFA Institute to issue fines to members. Members may not use material nonpublic information for trading purposes. Nonmaterial, nonpublic information may be used together with analysis of public information under the Mosaic Theory.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #135 of 163

Question ID: 412319

Which of the following is a CORRECT statement of a member's duty under the Code and Standards?

- ✓ **A)** In the absence of specific applicable law or other regulatory requirements, the Code and Standards govern the member's actions.
- X **B)** A member is required to comply only with applicable local laws, rules, regulations, or customs even though the CFA Institute Code and Standards may impose a higher degree of responsibility or a higher duty on the member.

- X **C)** A member who trades securities in a foreign securities market where no applicable local laws or stock exchange rules regulate the use of material nonpublic information may take investment action based on this information.

Explanation

The Code and Standards represent a minimum level of guidance for members' actions, not a maximum level. The key to remember here is that whether the local area does or does not have standards governing member's actions, one must follow the stricter standard environment.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #136 of 163

Question ID: 412298

Michael Bellow, CFA, CAIA, is an investment banker who is involved with an initial public offering (IPO) of NewCo. Because this is Bellow's first involvement in an IPO, he reports to an experienced supervisor. While reviewing past financial statements provided by NewCo, Bellow suspects that NewCo deliberately overstated its earnings for the past several quarters. Bellow seeks the advice of his firm's highly competent general counsel and follows the advice given without deviation. Based on the general counsel's advice, Bellow consults his immediate supervisor about the suspected overstatement of earnings. After reviewing the situation, Bellow's supervisor explains why NewCo's calculations of its earnings are correct. Bellow realizes that his inexperience and exuberance initially led him to an incorrect conclusion about NewCo's earnings.

Which of the following statements about Bellow's actions involving Standard I(A), Knowledge of the law, and Standard I(C), Misrepresentation, is CORRECT? Bellow:

- ✓ **A)** did not violate either Standard I(A) or Standard I(C).
- X **B)** violated both Standard I(A) and Standard I(C).
- X **C)** violated Standard I(A) but did not violate Standard I(C).

Explanation

Bellow did not violate Standard I(A), Knowledge of the law, because he sought advice of counsel and followed that advice. Bellow did not violate Standard I(C), Misrepresentation, because he made reasonable and diligent efforts to ensure the accuracy of the information and to avoid any material representation.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #137 of 163

Question ID: 412362

Hillary Jones, CFA, sometimes promises clients that she will allocate more shares from oversubscribed initial public offerings (IPOs) than she knows she will actually be able to deliver. Her employer has reprimanded her in the past for similar behavior. Which of the following statements is *least* accurate regarding Jones' behavior?

- X **A)** Her actions are a violation of the standard concerning misrepresentation, because she promised something she knew the firm could not deliver.
- X **B)** Her actions are a violation of the standard concerning professional misconduct because she deceived her clients.
- ✓ **C)** Her actions are a violation of the Standards only if prosecution results in a felony conviction.

Explanation

Jones violated Standard I(C) Misrepresentation by promising clients she would allocate more shares than she could deliver. Her actions also violated Standard I(D) Misconduct pertaining to acts of **dishonesty**, fraud, or **deceit** which reflects adversely on a member's professional reputation, integrity, or competence. She also violated the Code of Ethics which states that members and candidates must act with **integrity**, competence, diligence, respect, and in an **ethical manner** with the public, clients, and prospective clients. The specific punishment for the actions is not relevant.

References

Question From: Session 1 > Reading 3-I > LOS (D)

Related Material:

- Key Concepts by LOS
-

Question #138 of 163

Question ID: 412312

Which of the following is a CORRECT statement of a member's duty under the Code and Standards?

- ✓ **A)** In the absence of specific applicable law or other regulatory requirements, the Code and Standards govern the member's actions.
- X **B)** A member who trades securities in a country with less strict laws, rules, regulations, or customs may follow those laws if he discloses this information to his client.
- X **C)** A member is required to comply only with applicable local laws, rules, regulations, or customs even though the CFA Institute code and Standards may impose a higher degree of responsibility or a higher duty on the member.

Explanation

Members are always, at a minimum, subject to the Code and Standards.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #139 of 163

Question ID: 551097

Ron Taylor, a Level I CFA candidate, trades cotton contracts for a small commodity broker. Taylor convinces a government cotton inspector to issue a warning that the Texas cotton crop is in danger from insect infestation. The price of cotton soars. Taylor immediately shorts cotton futures. Once the position is created, the government inspector issues a second report reversing his original opinion and cotton prices plummet.

Cedric Sims, a Level III CFA candidate, would like to generate a tax loss on a security held in his personal portfolio; however, he believes the security has significant upside potential. To avoid the wash sale provisions of the income tax code, Sims sells the security and simultaneously creates a synthetic long position using derivatives.

With regard to Standard II(B) Market Manipulation, which of the following statements concerning Taylor's and Sims's conduct is CORRECT?

- ☒ **A)** Taylor is in violation of Standard II(B), but Sims is not in violation.
- ☐ **B)** Neither Taylor nor Sims is in violation of Standard II(B).
- ☐ **C)** Both Taylor and Sims are in violation of Standard II(B).

Explanation

Taylor is in violation of Standard II(B) Market Manipulation by creating a scheme that caused others to trade on false information. Sims is not in violation of Standard II(B). The Standard does not prohibit transactions conducted for tax purposes.

References

Question From: Session 1 > Reading 3-II > LOS (B)

Related Material:

- Key Concepts by LOS
-

Question #140 of 163

Question ID: 498312

Which of the following are recommended procedures of compliance according to Standard I(D), Misconduct?

- ☐ **A)** Enroll employees in a continuing education program that would provide updates on required ethical behavior.
- ☐ **B)** Refer to the Professional Conduct Program for arbitration of disputes with other members or candidates.
- ☒ **C)** Conduct background checks on potential employees to ensure that they are of good character.

Explanation

According to Standard I(D) Misconduct - Procedures for Compliance: Members should encourage their employers to conduct background checks on potential employees to ensure that they are of good character and eligible to work in the investment

industry.

References

Question From: Session 1 > Reading 3-I > LOS (D)

Related Material:

- Key Concepts by LOS
-

Question #141 of 163

Question ID: 412363

Nancy Hall, a candidate in the CFA program, is an analyst for a mutual fund. As part of her job she makes company visits to interview executives. On a recent trip she stayed with her sister instead of at a hotel. In her expenses Hall included a hotel charge of \$100, which was less than the amount allowed by her employer. After receiving a check for her expenses, Hall disclosed to her supervisor that she had stayed with her sister instead of at a hotel. She also returned the \$100 to her employer. According to CFA Institute Standards of Professional Conduct, which of the following statements *best* describes Hall's professional conduct?

- ☐ A) Hall did not engage in professional misconduct because she eventually disclosed this information and returned the \$100 to her employer.
- ☒ B) Hall engaged in professional misconduct.
- ☐ C) Hall did not engage in professional misconduct because she did not meet all of the requirements to use the CFA designation.

Explanation

Hall engaged in professional misconduct because her act involved dishonesty, fraud, and deceit.

References

Question From: Session 1 > Reading 3-I > LOS (D)

Related Material:

- Key Concepts by LOS
-

Question #142 of 163

Question ID: 412354

Based on CFA Institute Standards of Professional Conduct, which of the following statements is a violation of Standard I(C), Misrepresentation?

- X **A)** A broker says XYZ stock is very likely to double in value over the next six months.
- X **B)** An investment manager recommends to a prospective client an investment in GNMA bonds because they are guaranteed by the federal government.
- ✓ **C)** A young trainee bond trader tells a prospective client that she can assist the client in all the client's investment needs: equity, fixed income, and derivatives and based on her years of experience as an analyst in the business that an investment looks like it has lots of potential.

Explanation

CFA Institute members, CFA charterholders, and CFA candidates are prohibited from misrepresenting their services or qualifications and inappropriate assurances about any investment or its return.

References

Question From: Session 1 > Reading 3-I > LOS (C)

Related Material:

- Key Concepts by LOS
-

Question #143 of 163

Question ID: 412376

A brokerage firm has a trading department and an investment-banking department. Often the investment-banking department receives material non-public information that would be valuable in advising the firm's brokerage clients. In order to comply with the Standards, the firm:

- X **A)** must divest one of the departments.
- ✓ **B)** should restrict employee trading in securities for which the firm is in possession of material non-public information.
- X **C)** should record the exchange of information between the investment-banking department and the brokerage department.

Explanation

Restricting employee trading in stocks for which the firm has material non-public information is the best answer. Recording the exchange of information between the two departments is not the best option because there should be no exchange of information between these two departments. Divesting a department is not a suitable method for addressing this potential problem.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #144 of 163

Question ID: 412311

Which of the following statements about the responsibilities of CFA charterholders is CORRECT? CFA charterholders:

- X **A)** are only obligated to comply with securities laws in the U.S.
- ✓ **B)** must comply with the laws and rules governing their profession and must not engage in any individual behavior that reflects adversely on the entire profession.
- X **C)** need not comply with the laws and rules governing their profession or must not engage in any individual behavior that reflects adversely on the entire profession.

Explanation

CFA charterholders must comply with the laws and rules governing their profession and must not engage in any individual behavior that reflects adversely on the entire profession. While they should act honorably and follow U.S. securities laws, they are obligated to more than that, as set forth in the Code and Standards.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #145 of 163

Question ID: 412313

A CFA Institute member conscientiously maintains records of changes in security regulations. The member notices that his colleagues do not, and does NOT say anything. Is this a violation of Standard I(A)?

- X **A)** Yes, and the member should disassociate from these colleagues.
- ✓ **B)** Yes, because the member is bound by the Code of Ethics.
- X **C)** No, as long as the colleagues do not violate the new rules.

Explanation

The last bullet point of the Code says that a member shall "Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals." Ignoring the neglect of rule changes of others would clearly be incongruent with this component. As long as the colleagues do not violate the laws, the member does not have to disassociate himself from the colleagues.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #146 of 163

Question ID: 412365

Which of the following is *least likely* a violation of Standard I(D), Misconduct? Being:

- ☐ A) convicted of a felony.
- ☐ B) intoxicated at the office.
- ☒ C) convicted of a misdemeanor traffic offense.

Explanation

According to Standard I(D)" *Members shall not engage in any professional conduct involving dishonesty, fraud, deceit, or commit any act that reflects adversely on their professional reputation, integrity, or competence..*" The standard is not intended to regulate one's personal behavior.

References

Question From: Session 1 > Reading 3-I > LOS (D)

Related Material:

- Key Concepts by LOS
-

Question #147 of 163

Question ID: 683830

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

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

Explanation

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

References

Question From: Session 1 > Reading 1 > LOS e

Related Material:

- Key Concepts by LOS
-

Question #148 of 163

Question ID: 460628

Jerry Brock, CFA, is a partner in a small investment advisory firm that caters to high net worth individuals. He has experienced a number of personal and financial setbacks over the past two years and has filed for bankruptcy protection. Has Brock violated CFA Institute Standards of Professional Conduct?

- ☐ A) No, but he must disclose the bankruptcy filing to his clients.

- ✓ **B)** No, unless his personal financial difficulties result from actions that reflect adversely on his honesty and integrity.
- X **C)** Yes, because a member must conduct both their personal and professional business in a manner that protects their reputation and integrity.

Explanation

Standard I(D) Misconduct prohibits members from participating in any professional conduct that reflects adversely on their professional reputation or integrity. Declaring personal bankruptcy does not, by itself, reflect adversely on the individual's integrity or trustworthiness. If the circumstances of the bankruptcy included any fraudulent or deceitful conduct on the part of the member, then that would be considered a violation.

References

Question From: Session 1 > Reading 3-I > LOS (D)

Related Material:

- Key Concepts by LOS
-

Question #149 of 163

Question ID: 412370

Timothy Hooper, CFA, is a security analyst at an investment firm. In his spare time, Hooper serves as a volunteer for City Pride, which collects clothes for the homeless. Hooper has occasionally given some of the clothes to his friends or sold the clothes instead of returning all of the clothing to City Pride. City Pride discovers what he has been doing and dismisses him. Later, City Pride learns that other volunteer organizations have dismissed Hooper for similar actions. Has Hooper violated Standard I(D) on professional misconduct in the CFA Institute Standards of Professional Conduct?

- X **A)** No, because Hooper volunteers his services to City Pride.
- X **B)** No, because Hooper's conduct is unrelated to his professional activities as a security analyst.
- ✓ **C)** Yes.

Explanation

Hooper violated Standard I(D) because he repeatedly engaged in conduct that involves dishonest conduct. This violation occurred despite the fact that his offenses do not relate directly to his professional activities. However, Hooper's conduct reflects poorly on his professional reputation and integrity.

References

Question From: Session 1 > Reading 3-I > LOS (D)

Related Material:

- Key Concepts by LOS
-

Question #150 of 163

Question ID: 412368

A CFA charterholder is caught shoplifting and is sentenced to nine months in prison. Is this a violation of Standard I(D) Misconduct?

- ✓ **A)** Yes, because the crime involved stealing.
- X **B)** Yes, because the prison sentence is more than six months.
- X **C)** No, because the crime does not relate to the investment profession.

Explanation

Any act involving lying, cheating, stealing, or other dishonest conduct that reflects adversely on the charterholder's professional activities is a violation of Standard I(D). Although the crime did not relate to the investment profession, it certainly reflected adversely on the charterholder professionally.

References

Question From: Session 1 > Reading 3-I > LOS (D)

Related Material:

- Key Concepts by LOS
-

Question #151 of 163

Question ID: 412378

The investment-banking department of the XYZ Brokerage House often has information that would be of significant use to the firm's brokerage clients. In order to conform to CFA Institute Standards of Professional Conduct, which of the following policies should XYZ adopt?

According to Standard:

- X **A)** II(A), Material Nonpublic Information, XYZ should encourage their investment banking clients to publicly disseminate this information.
- ✓ **B)** II(A), Material Nonpublic Information, XYZ should establish physical and informational barriers within the firm to prevent the exchange of information between the investment banking and the brokerage operations.
- X **C)** III(B), Fair Dealing, all clients should be informed of the information at the same time.

Explanation

The physical and information barrier erected between departments to prevent communication of material nonpublic information from one department to another is called a "firewall." Departments should be separated. For example, the investment banking and corporate finance departments of a brokerage firm should be segregated from the sales and research departments. Family member accounts who are also clients should be treated like any other client accounts and should not be given special treatment or disadvantaged.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #152 of 163

Question ID: 412390

Insider trading can be defined as information that is:

- ✓ **A)** material and nonpublic.
- X **B)** nonmaterial and nonpublic.
- X **C)** material and public.

Explanation

Information is material if it would be important to the investor in their investment making decision. Information is nonpublic if it is not yet available to the public.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #153 of 163

Question ID: 683832

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

- X **A)** Illegal acts are always unethical.
- ✓ **B)** Some illegal acts are considered ethical.
- X **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.

References

Question From: Session 1 > Reading 1 > LOS e

Related Material:

- Key Concepts by LOS
-

Question #154 of 163

Question ID: 702534

Deloris Johnson, CFA, observed that her supervisor has violated a federal securities regulation. Johnson discussed the matter

with her company's compliance department but they have taken no action. According to the CFA Institute Code and Standards of Professional Conduct, Johnson is required to:

- ✓ **A)** dissociate from the supervisor's activity
- X **B)** report the violation to securities regulators.
- X **C)** confront the supervisor and attempt to stop the violation.

Explanation

Johnson must dissociate herself from her supervisor's activity, for example by asking to be reassigned. The Code and Standards do not require Johnson to report the violation to governmental or regulatory organizations unless doing so is required by applicable law. Johnson has attempted to stop the violation by discussing it with her compliance department. She is not required by the Code and Standards to confront the supervisor.

References

Question From: Session 1 > Reading 3-I > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #155 of 163

Question ID: 683819

Ethics are *most accurately* defined as:

- X **A)** a written code of standards.
- ✓ **B)** the study of moral principles.
- X **C)** a belief about proper conduct.

Explanation

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

References

Question From: Session 1 > Reading 1 > LOS a

Related Material:

- Key Concepts by LOS
-

Question #156 of 163

Question ID: 683835

An ethical decision-making framework:

- X **A)** primarily addresses compliance with regulatory issues.

- X **B)** focuses on the near term impact on all stakeholders.
- ✓ **C)** considers alternative actions and unintended consequences.

Explanation

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

References

Question From: Session 1 > Reading 1 > LOS f

Related Material:

- Key Concepts by LOS
-

Question #157 of 163

Question ID: 412331

In order to comply with the CFA Institute Standards, an analyst should:

- X **A)** use only his company's research when making investment recommendations and use outside research for reports and analysis on stocks.
- X **B)** use only his own research in making investment recommendations, because anything else would violate Standard I(B), Independence and Objectivity.
- ✓ **C)** use outside research only after verifying its accuracy.

Explanation

Standard I(B), Independence and Objectivity: the analyst is allowed to use outside research only after an insightful review. There are no restrictions regarding the exclusive use of outside information or in-house information.

References

Question From: Session 1 > Reading 3-I > LOS (B)

Related Material:

- Key Concepts by LOS
-

Question #158 of 163

Question ID: 412271

Which of the following is a component of the Code of Ethics?

- ✓ **A)** Members shall use reasonable care and exercise independent professional judgment.
- X **B)** Members shall not engage in any professional conduct involving dishonesty, fraud, deceit, or misrepresentation or commit any act that reflects adversely on their honesty, trustworthiness, or professional competence.
- X **C)** Members shall not knowingly participate or assist in any violation of such laws, rules, or regulations.

Explanation

This is a component of the Code of Ethics. Others pertain to the Standards of Professional Conduct.

References

Question From: Session 1 > Reading 2 > LOS b

Related Material:

- Key Concepts by LOS
-

Question #159 of 163

Question ID: 412374

The term "material" in the phrase "material nonpublic information" refers to information that is likely to affect significantly the market price of the issuing company's securities or that:

- X **A)** is acquired by the financial analyst from a special or confidential relationship with the issuing company.
- ✓ **B)** is likely to be considered important by reasonable investors in determining whether to trade a particular security.
- X **C)** is derived by the financial analyst from direct communication with an issuing company's management.

Explanation

An item of information is material if its disclosure would be likely to have an impact on the price of a security, or if reasonable investors would want to know the information before investing.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS
-

Question #160 of 163

Question ID: 412367

Which of the following does NOT violate Standard I(D), Misconduct? Roland Lawson, a financial analyst:

- X **A)** drinks excessively during business meetings with clients and returns to work under the influence of alcohol.

- X **B)** committed perjury in connection with a lawsuit against his firm.
- ✓ **C)** is arrested for participating in a nonviolent protest.

Explanation

Any professional conduct that involves dishonesty, fraud, or deceit is a violation of Standard I(D), Misconduct. One must refrain from activities that reflect poorly on integrity, reputation, trustworthiness, or professional conduct. The focus of the Standard is on professional, not personal, conduct.

References

Question From: Session 1 > Reading 3-I > LOS (D)

Related Material:

- Key Concepts by LOS
-

Question #161 of 163

Question ID: 412359

All of the following are violations of Standard I(D), Misconduct, EXCEPT:

- ✓ **A)** conviction of a misdemeanor involving civil disobedience in support of one's personal beliefs.
- X **B)** conviction of a crime involving fraud.
- X **C)** any conduct that undermines confidence that the CFA charter represents a level of achievement based on merit and ethical conduct.

Explanation

The Code and Standards do not focus on personal conduct as long as the conduct does not reflect poorly on one's professional reputation, integrity, or competence.

References

Question From: Session 1 > Reading 3-I > LOS (D)

Related Material:

- Key Concepts by LOS
-

Question #162 of 163

Question ID: 683827

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

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

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.

References

Question From: Session 1 > Reading 1 > LOS d

Related Material:

- Key Concepts by LOS
-

Question #163 of 163

Question ID: 412375

According to CFA Institute Standards of Professional Conduct, which of the following statements about material nonpublic information is NOT correct? Information is:

- ✓ **A)** nonpublic until it has been disseminated to a select group of investors.
- X **B)** nonpublic until it has been disseminated to the marketplace in general.
- X **C)** material if reasonable investors would want to know the information before making an investment decision.

Explanation

Standard II(A), Material Nonpublic Information, states that information is "nonpublic" until it has been disseminated to the marketplace in general as opposed to a select group of investors.

References

Question From: Session 1 > Reading 3-II > LOS (A)

Related Material:

- Key Concepts by LOS