Question 1 of 90

A member or candidate who pays the highest brokerage commission than he would normally pay to the purchase of service without corresponding benefit to the client, violates the duty of:

A. loyalty to the client.
B. fair dealing to the clients.
C. diligence and reasonable basis to the clients.

Correct Answer: A

Explanation:

A is correct. A member or candidate who pays the highest brokerage commission than he would normally pay to the purchase of service without corresponding benefit to the client, violates the duty of loyalty to the client. Standard III(A): Duties to Clients -Loyalty, Prudence and Care states: Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests. This standard establishes a minimum benchmark for the duties of loyalty, prudence and care that are required of all members and candidates regardless of whether a legal fiduciary duty applies.

B is incorrect. According to Standard III(B): Duties to Clients -Fair Dealing, members and Candidates must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities.

C is incorrect. According to Standard V(A) 'Diligence and reasonable basis, members and candidates must:

- exercise diligence, independence, and thoroughness in analyzing investments, making investment recommendations, and taking investment actions.
- have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action.

Reference: Guidance for Standards I–VII – Topic Ethical & Professional Standards

Question 2 of 90

With respect to the acceptance of gifts, the CFA Institute:

A. discourages customary business-related entertainment.
B. encourages setting a strict value limit for acceptable gifts.
C. encourage accepting gifts from parties other than clients.

Correct Answer: B

Explanation:

With respect to the acceptance of gifts, the CFA Institute encourages setting a value limit for acceptable gifts based on local or regional customs. Customary, business-related entertainment is not prohibited as long as its purpose is not to influence or reward the member or candidate.

Reference: Guidance for Standards I–VII – Topic Ethical & Professional Standards

Ethical and Professional Standards, Learning Module 3

Question 3 of 90

Which of the following statements is *least likely* correct?

A. Earning community trust delivers commercial benefits.
B. Earning community trust creates professional pride and acceptance.
C. Earning community trust encourages greater dependence on government regulations.

Correct Answer: C

Explanation:

Professions that earn trust not only create professional pride and acceptance but also deliver commercial benefits. Such professions ultimately exhibit flexibility and independence from government regulators to manage their own affairs.

Reference: "Ethics & Trust in the Investment Profession" - Topic Area: Ethical & Professional Standards

Ethical and Professional Standards, Learning Module 4

Question 4 of 90

Firms providing market-making services while possessing material nonpublic information on clients undertaking an IPO should:

A. withdraw from their market-making activities.
B. make reasonable efforts to achieve public dissemination of the information.
C. continue their market-making activities while remaining passive to the market.

Correct Answer: C

Explanation:

Firms which provide market-making activities should continue to provide such services when in possession of material nonpublic information. During this time, withdrawal of such services is a clear tip to outsiders. Firms that continue market-making activity should instruct their market makers to remain passive to the market.

Reference: Code of Ethics & Standards of Professional Conduct– Topic Ethical & Professional Standards

Ethical and Professional Standards, Learning Module 2

Question 5 of 90

If members and candidates have custody of client's assets, they must manage them in accordance with:

A. some benchmark indices.
B. terms of governing documents.
C. each asset's risks and return characteristics.

Correct Answer: B

Explanation:

If members and candidates (M&C) have custody or effective control of clients' assets, then they have direct or indirect access to client funds. M&C must manage such assets in accordance with the terms of governing documents (such as trust documents and investment management funds) which are the primary determinant of manager's powers and duties.

Reference: Guidance for Standards I–VII – Topic Ethical & Professional Standards

Ethical and Professional Standards, Learning Module 3

Question 6 of 90

Upon receiving a written complaint, the CFA Institute Designated Officer conducts an investigation and discovers that a violation of the Code and Standards has occurred. If the designated officer issues a disciplinary sanction, the member or candidate:

A. can reject it.
B. must accept it.
C. will receive a cautionary letter.

Correct Answer: A

Explanation:

If the designated officer finds that a violation of the Code and Standards has occurred, he will issue a disciplinary sanction, which may be accepted or rejected by the member or candidate.

In the event that the Professional Conduct staff identifies a breach of the Code and Standards or testing policies, the member or candidate is given the choice to either reject or accept the allegations and recommended penalties.

If the member or candidate declines to acknowledge the allegations and suggested penalties, the case is referred to a panel consisting of DRC members. These panels carefully review the information and presentations provided by both the Professional Conduct personnel and the member or candidate.

The primary responsibility of the panel is to assess whether a violation of the Code and Standards or testing policies indeed occurred and, if so, to determine the appropriate consequence that should be applied.

B is incorrect. Because the member or candidate has authority to either accept or reject the claims .

C is incorrect. Because under such circumstances, no cautionary letter is issued to the member or candidate.

Reference: Code of Ethics & Standards of Professional Conduct– Topic Ethical & Professional Standards

Question 7 of 90

According to the CFA Institute Standards of Professional Conduct, a firewall is required to:

A. prohibit employees from front running their client trades.
B. prohibit personnel from sharing confidential client information on clients outside their department.
C. control communications between the investment banking and corporate finance areas of a brokerage firm.

Correct Answer: C

Explanation:

Option C is correct as firewalls are primarily used to control communications between different areas of a brokerage firm, such as investment banking and corporate finance, to prevent the improper sharing of material nonpublic information. This helps to ensure compliance with the CFA Institute's Standard II (A) on maintaining the confidentiality and proper handling of material nonpublic information. According to Standard II (A), material nonpublic information, firewalls are required to control relevant interdepartmental communications particularly with respect to material nonpublic information.

Options A and B are incorrect because they do not accurately describe the purpose or requirement of a firewall as per the CFA Institute Standards of Professional Conduct.

Option A suggests that a firewall is required to prohibit employees from front running their client trades. Front running refers to the unethical practice of executing personal trades based on advanced knowledge of pending client orders, which is strictly prohibited by the CFA Institute Standards. While a firewall can be one measure to prevent such unethical behavior, it is not the sole or primary purpose of a firewall.

Option B suggests that a firewall is required to prohibit personnel from sharing confidential client information on clients outside their department. While protecting client confidentiality is crucial, firewalls are not specifically designed to address this issue. Confidentiality requirements are typically covered by other ethical principles, such as maintaining client confidentiality and protecting sensitive information, rather than relying solely on a firewall.

Reference: Guidance for Standards I–VII – Topic Ethical & Professional Standards

Question 8 of 90

Common situational influences in the investment industry that can shape thinking and behavior *least likely* include:

A. fear.
B. money.
C. loyalty.

Correct Answer: A

Explanation:

Money and prestige are common situational influences in the investment industry that can shape thinking and behavior. Another powerful situational influence is loyalty. Loyalty to supervisors, organizations, fellow employees or colleagues can also tempt individuals to narrowly focus on short-term factors.

Reference: "Ethics & Trust in the Investment Profession" - Topic Area: Ethical & Professional Standards

Ethical and Professional Standards, Learning Module 3

Question 9 of 90

Which of the following is *least likely* the code of ethics?

A. Promote the integrity of and uphold the rules governing capital markets.
B. Maintain and improve professional competence and strive to maintain and improve the competence of other investment professionals.
C. Deal fairly and objectively with all clients when providing investment analysis, making investment recommendations or taking investment actions.

Correct Answer: C

Explanation:

C is correct. Because options A and B are the code of ethics while option C is Standard III (C)-Fair dealing. According to Standard III-B. 'Fair Dealing', members and candidates must deal fairly and objectively with clients (when providing investment analysis, making recommendations, taking action or engaging in other professional activities).

The six code of ethics are as follows:

I. Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
II. Place the integrity of the investment profession and the interests of clients above their own personal interests.
III. Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
IV. Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
V. Promote the integrity of, and uphold the rules governing, capital markets.
VI. Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

Reference: Code of Ethics & Standards of Professional Conduct– Topic Ethical & Professional Standards

Question 10 of 90

The Code and Standards require members and candidates to make a reasonable inquiry into a client's risk and return objectives and financial constraints prior to making investment recommendations and taking investment action for:

A. clients with a stated mandate, strategy or style only.
B. members or candidates in an investment advisory relationship only.
C. clients with a stated mandate, strategy or style and members or candidates in an investment advisory relationship.

Correct Answer: B

Explanation:

When managing funds to a stated mandate, strategy or style members and candidates must make investment recommendations or take investment action that is consistent with the stated objectives and constraints of the portfolio; an ***inquiry is not required***.

When in an investment advisory relationship with clients, the standard relating to suitability requires members and candidates to make a reasonable inquiry into a client's risk and return objectives prior to making investment recommendations and taking investment action for clients.

Reference: Code of Ethics & Standards of Professional Conduct– Topic Ethical & Professional Standards

Ethical and Professional Standards, Learning Module 2

Question 11 of 90

Reginald Fuller manages institutional portfolios on behalf of BDY Advisors. Fuller also manages an account of a trust company named SOTO Trust. The trust offered Fuller a $50,000 cash gift if he succeeded in achieving a 20% return this year. The best practice for Fuller includes:

A. refusing the offer of SOTO trust to avoid a conflict of interest with his employer.
B. accepting the offer and achieving the target without compromising his objectivity towards other clients.
C. making an immediate written report to his employer specifying the$50,000 cash offer proposed by the trust.

Correct Answer: C

Explanation:

According to the recommendations of Standard IV-B 'Additional Compensation Arrangements', members and candidates should make an immediate written report to their employer specifying any compensation they propose to receive for services in addition to the compensation or benefits received from their employer.

Reference: Code of Ethics & Standards of Professional Conduct– Topic Ethical & Professional Standards

Ethical and Professional Standards, Learning Module 3

Question 12 of 90

GIPS verification:

A. provides testing of a firm on composite-wide basis.
B. does ensure the accuracy of any specific firm wide presentation.
C. provides assurance that GIPS standards have been implemented on a firm-wide basis.

Correct Answer: C

Explanation:

C is correct. GIPS verification provides assurance that GIPS standards have been implemented on a firm-wide basis. Verification includes assurance regarding firm's policies/procedures related to composite, calculation, presentation and distribution of performance etc.

A is incorrect because GIPS verification is done on firm-wide basis and not on composite-wide basis.

B is incorrect because GIPS verification does not ensure the accuracy of any specific presentation. Verification checks if the firm's policies and procedures have been designed in compliance with GIPS.

Reference: Introduction to the GIPS – Topic Ethical & Professional Standards

Question 13 of 90

By complying with GIPS standards firms cannot:

A. eliminate the need for in-depth due diligence on the part of the investor.
B. participate in competitive bids against other compliant firms throughout the world.
C. assure prospective clients that the reported historical track record is complete and fairly presented.

Correct Answer: A

Explanation:

By complying with GIPS standards, firms:

- participate in competitive bids against other compliant firms throughout the world.
- assure prospective clients that the reported historical track record is complete and fairly presented.
- strengthen its internal control over performance related processes and procedures.

However, GIPS standards certainly do not eliminate the need for in-depth due diligence on the part of the investor.

Reference: Introduction to the GIPS – Topic Ethical & Professional Standards

Question 14 of 90

GIPS standards *least likely* resolve misleading practices related to:

A. survivorship bias.
B. varying time periods.
C. analyst financial statement adjustments.

Correct Answer: C

Explanation:

Misleading practices resolved by following GIPS standards include (but are not limited to):

- survivorship bias,
- varying time periods and
- representative accounts.

Reference: Introduction to the GIPS – Topic Ethical & Professional Standards

Question 15 of 90

Paul Williams is manager of a large closed end fund. In order to fulfil his duty of loyalty with clients regarding proxy voting, what is the *most likely* required action under Code and Standards? Williams:

A. should vote all proxies for every client.
B. should disclose to clients his proxy voting policies.
C. can vote some proxies blindly on non-routine governance issues.

Correct Answer: B
Explanation:

B is correct. Members and candidates should disclose their proxy voting rights.

A is incorrect. A cost benefit analysis may show that voting all proxies may not benefit the client so voting policies may not be necessary in all instances.

C is incorrect. A member/candidate who fails to vote, cast vote without considering the impact of the question, or vote blindly with management on non-routine governance issues may violate this standard.

Reference: Guidance for Standards I–VII – Topic Ethical & Professional Standards

Ethical and Professional Standards, Learning Module 3

Question 16 of 90

According to CFA Institute *Standards of Practice Handbook,* recommended procedures for block trade and new issues *least likely* include:

A. processing and executing bundling orders on FIFO basis for efficiency purposes.
B. giving same execution price and charging same commission for all clients participating in block trade.
C. prohibiting partial fills when trades are grouped and requiring cancellation of orders to be documented and time stamped.

Correct Answer: C
Explanation:

Options A and B are recommended procedures for block trades and new issues. Although cancellation of orders needs to be documented and time stamped, there is no prohibition of partial fills in grouped trades. Firms should develop policies to address issues such as calculating execution prices and partial fills when trades are grouped or in blocks.

Reference: Guidance for Standards I–VII – Topic Ethical & Professional Standards

Ethical and Professional Standards, Learning Module 3

Question 17 of 90

Which of the following is *least likely* required by the CFA Institute Code of Ethics? Members and candidates must:

A. strive to maintain and improve the competence of their clients.
B. practice and encourage others to practice in a professional and ethical manner.
C. place the integrity of investment profession and interests of clients above their own personal interests.

Correct Answer: A

Explanation:

The members and candidates must:

- strive to maintain and improve the competence of **other investment professionals.**
- practice and encourage others to practice in a professional and ethical manner.
- place the integrity of investment profession and interests of clients above their own personal interests.

Reference: Code of Ethics & Standards of Professional Conduct– Topic Ethical & Professional Standards

Question 18 of 90

Which of the following statements is *most likely* correct regarding GIPS standards?

A. Compliance with the GIPS standards is typically required by legal and regulatory authorities.
B. Plan sponsors and consultants can make a claim of compliance if they are actually managing assets.
C. An investment management firm complying with a majority of the requirements of GIPS can make reference to the GIPS standards.

Correct Answer: B

Explanation:

B is correct. Plan sponsors and consultants can make a claim of compliance if they are actually managing assets. According to the GIPS standards, plan sponsors (such as pension plans) and consultants can claim compliance with GIPS if they are actively involved in managing assets. This means they are responsible for the investment decision-making process, even if they delegate the execution of those decisions to external managers. This provision allows plan sponsors and consultants to adhere to GIPS and provide transparency and consistency in reporting investment performance to their stakeholders.

A is incorrect. Compliance with the GIPS standards is **not** typically required by legal and regulatory authorities. Compliance with the Global Investment Performance Standards (GIPS) is not typically mandated by legal and regulatory authorities. GIPS is a set of voluntary ethical standards established by the CFA Institute to guide investment firms in presenting investment performance information to ensure fair representation and comparability.

C is incorrect. An investment management firm not complying with all the requirements of the GIPS standards **cannot** make **any** reference to the standards. According to the GIPS standards, an investment management firm must comply with all the requirements and provisions of GIPS to make any reference to the standards. It is an all-or-nothing approach, and partial compliance is not sufficient for making any claim of adherence to the GIPS standards. This requirement ensures consistency and integrity in the presentation of investment performance information.

Reference: Introduction to the GIPS – Topic Ethical & Professional Standards

Question 19 of 90

In preparing an investment policy statement and suitability analysis, if a client refuses to provide complete information regarding his financial position, the *most suitable* action for a member or candidate is to:

A. consult the legal and compliance advisors for guidance.
B. develop an investment policy statement on the basis of information provided.
C. disclose in writing the impact of withholding information and obtain client approval.

Correct Answer: B

Explanation:

Option B represents the most suitable course of action by developing an investment policy statement based on the information provided by the client. If client withhold information about his financial position the suitability analysis conducted by member or candidate cannot be expected to be complete and it must be based on information provided. When a client refuses to provide complete information regarding their financial position, the member or candidate must work with the information available to them. Developing an investment policy statement based on the information provided allows them to establish an appropriate framework for managing the client's investments. While the analysis may not be as comprehensive as desired, it is still essential to proceed with the available information to guide investment decisions in accordance with the client's stated goals and risk tolerance.

Option A is incorrect. While it is important to seek guidance from legal and compliance advisors in certain situations, in this particular scenario, consulting them may not be the most suitable action. The client refusing to provide complete information about their financial position does not necessarily involve a legal or compliance issue. It primarily pertains to the completeness of information for preparing an investment policy statement and conducting a suitability analysis.

Option C is incorrect. While it is good practice to inform the client about the potential impact of withholding information, seeking their approval is not the most suitable action in this case. The member or candidate cannot ethically obtain approval for conducting a suitability analysis based on incomplete information. Seeking approval does not mitigate the fact that the analysis would be incomplete and may not accurately assess the client's needs, objectives, and risk tolerance.

Reference: Guidance for Standards I–VII – Topic Ethical & Professional Standards

Question 20 of 90

According to the CFA Institute Standards of Practice Handbook, which of the following compliance procedures are members and candidates *least likely* recommended to consider?

A. Prohibiting employee participation in equity-related IPOs.
B. Offering different levels of service to clients on a selective basis.
C. Limiting the number of employees who will know that a recommendation is to be disseminated.

Correct Answer: B

Explanation:

In order to deal fairly and objectively with clients and prospects, a recommended procedure for claiming compliance is to limit the number of people who are aware of the fact that a recommendation is to be disseminated.

Members and candidates are recommended to encourage their employer to develop formal policies related to equity or equity-related IPOs. Firms should require prior approval for participating in equity IPOs with prompt disclosure of investment actions taken following the offering. However, the emphasis is on placing limitations on participation and not imposing a ban.

Members and candidates should disclose the different service levels being offered to clients and should not offer different service levels selectively.

Reference: Guidance for Standards I–VII – Topic Ethical & Professional Standards

Question 21 of 90

When managing pooled assets to a specific mandate, investment manager ('s):

A. actions are not governed by the suitability standard.
B. must consider the suitability of an investment for clients.
C. need not consider the suitability of an investment for clients.

Correct Answer: C

Explanation:

C is correct. When managing pooled funds to a stated mandate, investment managers need not consider the suitability of the investment for those investing in the fund. The responsibility of determining the suitability of an investment for a client lies on those members and candidates who have an advisory relationship with clients.

However, the actions of members and candidates as investment managers continue to be governed by the suitability standard. They are required to "make investment decisions and take investment actions that are consistent with the stated objectives and constraints of the portfolio".

A is incorrect. Because investment managers are still bound by the suitability standard, which requires them to make investment decisions that align with the stated objectives and constraints of the portfolio.

B is incorrect. When managing pooled assets to a specific mandate, such as a fund, investment managers are not required to individually assess the suitability of the investment for each investor in the fund. Instead, they are focused on managing the pooled assets in accordance with the stated mandate and objectives of the fund.

Reference: Guidance for Standards I–VII – Topic Ethical & Professional Standards

Question 22 of 90

According to the Standards of Practice Handbook, an investment manager who learns that his client is engaged in an illegal activity should:

A. seek legal counsel.
B. inform legal authorities.
C. disclose the activity to the CFA Institute.

Correct Answer: A

Explanation:

An investment manager who learns that his client is engaged in an illegal activity should inform their supervisor of the activity and together they can work to remedy the violations. If that does not prove successful, the investment manager and his supervisor should seek the advice of a legal counsel to determine the appropriate steps to take.

Options B and C are incorrect. Disclosing an illegal activity to legal and regulatory authorities is considered a violation of the Code and Standards unless disclosure is required by law. Similarly, members and candidates cannot disclose confidential client information to the CFA Institute unless permissible under the applicable law.

Reference: Guidance for Standards I–VII – Topic Ethical & Professional Standards

Question 23 of 90

According to the Standards of Practice Handbook, adequate compliance procedures are *least likely* those that:

A. meet industry standards.
B. are uniform on a global basis.
C. can be tailored to the circumstances of a firm.

Correct Answer: B

Explanation:

B is correct. The Code and standards define adequate compliance procedures as those that meet industry standards, regulatory requirements, requirements of the Code and standards and the circumstances of the firm. Being globally uniform is not a requirement. Adequate compliance procedures are not necessarily required to be uniform on a global basis. While there may be certain global standards or best practices, compliance procedures can vary based on local regulations, cultural differences, and the specific circumstances of the firm.

A is incorrect. Industry standards often serve as benchmarks for best practices and regulatory requirements. Compliance procedures that align with industry standards help ensure that firms are meeting the expectations of the industry and are in line with accepted practices.

C is incorrect. Adequate compliance procedures should be tailored to the specific circumstances of a firm. Each firm has its unique characteristics, including its size, structure, nature of business, and regulatory environment. Compliance procedures should be designed to address the specific risks, challenges, and requirements faced by the firm, taking into account its individual circumstances.

Reference: Guidance for Standards I–VII – Topic Ethical & Professional Standards

Question 24 of 90

Conduct that constitutes a violation of the CFA Institute Standards of Professional Conduct concerning 'Conduct as Members and Candidates in the CFA Program' includes:

A. cheating on an MBA exam.
B. soliciting employer clients prior to departing.
C. not following security measures implemented for the CFA exam.

Correct Answer: C
Explanation:

Out of the three options presented, option C corresponds to conduct that violates the standard in question.

Option A is incorrect. Conduct that constitutes violation includes cheating or assisting others to cheat on a CFA exam or any other CFA Institute exam; the standard does not address cheating on exams other than the aforementioned.

Option B highlights conducts that represents a violation of the standard concerning loyalty to employer.

Reference: Guidance for Standards I–VII – Topic Ethical & Professional Standards

Question 25 of 90

Which of the following is *most likely* correct with regard to Standard V(C): Investment Analysis, Recommendations, and Actions – Record Retention? Members and candidates:

A. must retain records for 7 years for all investment decisions.
B. must retain records for reviews that do not lead to a buy or sell decision.
C. cannot take the property of the firm to the new employer with express consent of the old employer.

Correct Answer: B

Explanation:

B is correct because members and candidates are required to must maintain records for all investment related activities – including those that did not result in buy or sell decision.

A is incorrect because recommendation of '7 years' applies only if there are no regulatory requirements.

C is incorrect because property of the firm can be taken to the new employer with express consent of the old employer.

Reference: Guidance for Standards I–VII – Topic Ethical & Professional Standards

Question 26 of 90

An analyst's investment recommendation and opinions with regard to selling, purchasing and holding securities, disseminated to customers through oral communication is:

A. not allowed according to CFA Institute *Standards of Practice Handbook*.
B. only allowed if the information has already been disseminated through other communication channels as well.
C. allowed according to CFA Institute *Standards of Practice Handbook* if the firm has such a dissemination policy for its customers.

Correct Answer: C

Explanation:

An analyst's investment recommendation and opinions with regard to selling, purchasing and holding securities may be disseminated to clients through oral communication. Member or candidate is obligated to ensure that information is disseminated in such a manner that all clients have fair opportunity to act on every recommendation.

Reference: Guidance for Standards I–VII – Topic Ethical & Professional Standards