2026 CFA Program LI Mock Exam 1 Session 1 (Study)

Question 1:

Jolene Campbell, CFA, a well-known analyst, is working on a report about XLK Autos (XLK). XLK is developing a fuel-efficient car about which no public information is yet available. Campbell uses financial data and information gathered from automobile experts not connected to XLK about the commercial viability of XLK's project. She then issues a “buy” recommendation on the stock. Campbell sends her report exclusively to her firm's clients even though she expects her report to impact XLK's stock price. Has Campbell most likely violated the Standard relating to material nonpublic information?

[CORRECT] A. No

Correct because according to Standard II (A), Material Nonpublic Information, when a particularly well-known or respected analyst issues a report or makes changes to his or her recommendation, that information alone may have an effect on the market and thus may be considered material. However, simply because the public in general would find the conclusions material does not require that Campbell make her work public. Campbell is not a company insider and does not have access to inside information. Further, according to Standard II (A), the source or relative reliability of the information also determines materiality. The less reliable a source, the less likely the information provided would be considered material. For example, information about trials of a new drug, product, or service under development from qualified personnel involved in the trials is likely to be material, whereas educated conjecture by subject experts not connected to the trials is unlikely to be material. In this case, information gathered from automobile experts not connected to XLK about the commercial viability of XLK's project is not material. Therefore, Campbell has not violated Standard II (A) either by using information that is not yet public or by failing to make her recommendation public.

B. Yes, because she uses information that is not yet public

Incorrect because Campbell has not violated Standard II (A), Material Nonpublic Information, by using information that is not yet public, as described in the response rationale for the correct answer.

C. Yes, because she fails to make her recommendation public

Incorrect because Campbell has not violated Standard II (A), Material Nonpublic Information, by failing to make her recommendation public, as described in the response rationale for the correct answer.

Question 2:

Rex Leopold, CFA, is a financial advisor. Leopold plans to leave his current employer to start his own competing business. During non-business hours, and before giving notice of termination to his current employer, Leopold undertakes preparations to start his own firm, including procuring the appropriate regulatory approvals, leasing office space, and hiring an office manager. Has Leopold most likely violated the Standards?

[CORRECT] A. No.

Correct because Standard IV (A), Loyalty, does not preclude members or candidates from entering into an independent business while still employed, [but] members and candidates who plan to engage in independent practice for compensation must notify their employer and describe the types of services they will render to prospective independent clients, the expected duration of the services, and the compensation for the services. Members and candidates should not render services until they receive consent from their employer to all of the terms of the arrangement. 'Practice' means any service that the employer currently makes available for remuneration. 'Undertaking independent practice' means engaging in competitive business, as opposed to making preparations to begin such practice. Additionally, a departing employee is generally free to make arrangements or preparations to go into a competitive business before terminating the relationship with his or her employer as long as such preparations do not breach the employee's duty of loyalty. Thus, Leopold is free to prepare for his competing business, but not to start competing, or undertaking competitive activity, or violate his duty of loyalty. Therefore, he did not violate the Standard relating to loyalty. With respect to Standard I (D), Misconduct, Members and Candidates must not engage in any professional conduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence. There is nothing in this case to suggest a violation of this Standard because members are free to prepare for a competing business and it is not an example of dishonesty, fraud, or deceit.

B. Yes, the Standard relating to loyalty.

Incorrect because the Standard relating to loyalty was not violated, as described in the Response Rationale for the correct answer.

C. Yes, the Standard relating to misconduct.

Incorrect because the Standard relating to misconduct was not violated, as described in the Response Rationale for the correct answer.

Question 3:

A member holds a supervisory position in an investment firm. Which of the following Standards recommends that the member regularly engages in informal continuing education so that professional responsibilities are fulfilled? The Standard relating to:

A. suitability.

Incorrect because Standard III(C), Suitability, states that when Members and Candidates are in an advisory relationship with a client, they must determine that an investment is suitable to the client's financial situation and consistent with the client's written objectives, mandates, and constraints before making an investment recommendation or taking investment action. This Standard is related to the investment suitability to clients, and not to members' informal continuing education to fulfill their professional responsibilities.

[CORRECT] B. competence.

Correct because Standard I(E), Competence, contemplates ongoing professional development to maintain proficiency and competence. Members and candidates can attain and maintain the competence needed to fulfill their professional responsibilities in a variety of ways. To achieve and maintain competence, members and candidates should consider. Regularly engaging in a professional development or continuing education program.

C. responsibilities of supervisors.

Incorrect because Standard IV(C), Responsibilities of Supervisors, states that Members and Candidates must make reasonable efforts to ensure that anyone subject to their supervision or authority complies with applicable laws, rules, regulations, and the Code and Standards. This Standard is related to the supervisors' responsibilities to ensure that anyone subject to their supervision complies with the Code and Standards, and not to members' informal continuing education to fulfill their professional responsibilities.

Question 4:

The Standard relating to conduct as participants in CFA Institute programs prohibits candidates from:

A. discussing curriculum material with others.

Incorrect because Standard VII (A), Conduct as Participants in CFA Institute Programs, does not prohibit candidates from discussing nonconfidential information or curriculum material with others or in study groups in preparation for the exam. Therefore, the Standard does not prohibit candidates from discussing nonconfidential information or curriculum material with others.

B. expressing their disagreement with CFA Institute on its policies and procedures.

Incorrect because Standard VII (A), Conduct as Participants in CFA Institute Programs, does not cover expressing opinions regarding CFA Institute, the CFA Program, or other CFA Institute programs. Members and candidates are free to disagree and express their disagreement with CFA Institute on its policies, its procedures, or any advocacy positions taken by the organization. Therefore, the Standard does not prohibit candidates expressing their disagreement with CFA Institute on its policies and procedures.

[CORRECT] C. disclosing broad topical areas and formulas not tested on the CFA Level I exam.

Correct because Standard VII (A), Conduct as Participants in CFA Institute Programs, states that the CFA Institute program rules, regulations, and policies prohibit candidates from disclosing confidential material gained during the exam process. Examples of information that cannot be disclosed by candidates sitting for an exam include broad topical areas and formulas tested or not tested on the exam. Therefore, the Standard prohibits candidates from disclosing broad topical areas and formulas not tested on the exam.

Question 5:

A 12-year old investment firm adopts the GIPS standards. To claim compliance with the GIPS standards, the firm is initially required to present GIPS-compliant performance history:

[CORRECT] A. for at least five years.

Correct because, according to GIPS, a firm is required to initially present, at a minimum, five years of annual investment performance that is compliant with the GIPS standards. If the firm or the composite has been in existence less than five years, the firm must present performance since the firm's inception or the composite inception date.

B. for at least ten years.

Incorrect because, according to GIPS, a firm is required to initially present, at a minimum, five years of annual investment performance that is compliant with the GIPS standards. If the firm or the composite has been in existence less than five years, the firm must present performance since the firm's inception or the composite inception date. So, the records must be kept for at least five, not ten years.

C. since the firm's inception date.

Incorrect because, according to GIPS, a firm is required to initially present, at a minimum, five years of annual investment performance that is compliant with the GIPS standards. If the firm or the composite has been in existence less than five years, the firm must present performance since the firm's inception or the composite inception date. So, the records must be kept for at least five years, not since firm's inception in this case, because the firm has existed for 12 years.

Question 6:

Toshi Hoda, CFA, is an analyst at a brokerage firm. Hoda holds shares in a company that he begins to cover. According to the Standard relating to avoid or disclose conflicts, Hoda is required to disclose his personal holdings to:

A. his employer only.

Incorrect because according to Standard VI (A), Hoda is required to disclose his holding to his employer, his firm's clients, and prospective clients, as described in the Response Rationale for the correct answer.

B. his employer and his firm's clients only.

Incorrect because according to Standard VI (A), Hoda is required to disclose his holding to his employer, his firm's clients, and prospective clients, as described in the Response Rationale for the correct answer.

[CORRECT] C. his employer, his firm's clients, and prospective clients.

Correct because according to Standard VI (A), Avoid or Disclose Conflicts, members and Candidates must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and employer. The most prevalent conflict requiring disclosure under Standard VI(A) is a member's or candidate's ownership of stock in companies that he or she recommends to clients or that clients hold. Therefore, sell-side members and candidates should disclose any materially beneficial ownership interest in a security or other investment that the member or candidate is recommending. If Hoda does not disclose his share holdings to his employer, clients, and prospective clients, he violates this Standard.

Question 7:

A firm claiming compliance with the GIPS standards:

A. can claim compliance on specific composites.

Incorrect because according to GIPS standards, compliance is a firm-wide process that cannot be achieved on a single product or composite. Further, verification is performed with respect to an entire firm, not on specific composites. Therefore, a firm that claims compliance with the GIPS standards cannot select those composites it is compliant with but must comply on a firm-wide basis.

[CORRECT] B. is responsible for maintaining that compliance.

Correct because according to GIPS standards, firms that claim compliance with the GIPS standards are responsible for their claim of compliance and for maintaining that compliance.

C. must be verified by an independent third party.

Incorrect because according to GIPS standards, once a firm claims compliance with the Standards, they may voluntarily hire an independent third party to perform a verification in order to increase confidence in the firm's claim of compliance. Therefore, a firm that claims compliance with the GIPS standards is not required to perform a verification of its claim of compliance by using an independent third party, but may do so voluntarily.

Question 8:

In the absence of regulatory guidance, CFA Institute recommends that members maintain their investment research records for at least:

A. 3 years.

Incorrect because according to Standard V (C), as described in the Response Rationale for the answer key, CFA Institute recommends that members maintain their work records for at least 7 years in absence of any regulatory guidance, not 3 or 5 years.

B. 5 years.

Incorrect because according to Standard V (C), as described in the Response Rationale for the answer key, CFA Institute recommends that members maintain their work records for at least 7 years in absence of any regulatory guidance, not 3 or 5 years.

[CORRECT] C. 7 years.

Correct because according to Standard V (C), Record Retention, In the absence of regulatory guidance or firm policies, CFA Institute recommends maintaining records for at least seven years.

Question 9:

Based on his superior return history, Vijay Gupta, CFA, is interviewed by the First Faithful Church to manage the church's voluntary retirement plan's equity portfolio. Each church staff member chooses whether to opt in or out of the retirement plan according to his or her own investment objectives. The plan trustees tell Gupta that stocks of companies involved in the sale of alcohol, tobacco, gambling, or firearms are not acceptable investments given the objectives and constraints of the portfolio. Gupta tells the trustees he cannot reasonably execute the strategy he applies for his other clients with these restrictions and that all his other accounts hold shares of companies involved in these businesses because he believes they have the highest alpha. By agreeing to manage the account according to the trustees' wishes, does Gupta violate the CFA Institute Standards of Professional Conduct?

[CORRECT] A. No

Correct because according to Standard III(A), Loyalty, Prudence, and Care, Gupta's duty of loyalty, prudence, and care is owed to the participants and beneficiaries of the pension plan. As a church plan, the restrictions are appropriate given the objectives and constraints of the portfolio.

B. Yes, because the manager was hired based upon his previous investment strategy

Incorrect because this is irrelevant as the manager has been given a specific mandate by the church trustees.

C. Yes, because the restrictions provided by the Trustees are not in the best interest of the members

Incorrect because the restrictions are appropriate and known to the members as they each individually opt into the plan given the objectives and constraints of the portfolio.

Question 10:

According to the recommended procedures for compliance with the Standard relating to additional compensation arrangements, a member receiving additional compensation must disclose to his employer in writing:

A. the nature of the compensation only.

Incorrect because according to the recommended procedures for compliance with the Standard relating to additional compensation arrangements, members must disclose the approximate amount of compensation, as well as the nature of the compensation.

B. the approximate amount of the compensation only.

Incorrect because according to the recommended procedures for compliance with the Standard relating to additional compensation arrangements, members must disclose the nature of compensation, as well as the approximate amount of the compensation.

[CORRECT] C. both the nature of the compensation and the approximate amount of the compensation.

Correct because according to the recommended procedures for compliance with the Standard relating to additional compensation arrangements, a written disclosure should state the terms of any agreement under which a member or candidate will receive additional compensation; 'terms' include the nature of the compensation, the approximate amount of compensation, and the duration of the agreement.

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Question 11:

Which of the following is a key concept relating to the GIPS standards? The GIPS standards:

A. address every aspect of performance measurement.

Incorrect because the GIPS standards do not address every aspect of performance measurement and will continue to evolve over time to address additional areas of investment performance.

[CORRECT] B. require firms to adhere to certain calculation methodologies to allow for comparability across firms.

Correct because the GIPS standards require firms to adhere to certain calculation methodologies to allow for comparability across firms.

C. require the inclusion of all discretionary and non-discretionary segregated accounts in at least one composite.

Incorrect because the GIPS standards firms must include all actual, fee-paying, discretionary segregated accounts in at least one composite defined by investment mandate, objective, or strategy.

Question 12:

Joy Nash, CFA, resides in Country 1, where applicable law is less strict than the Standards. Nash does business in Country 2, where applicable law is less strict than in Country 1. According to the Standards, when doing business in Country 2, Nash must follow:

[CORRECT] A. the Code and Standards.

Correct 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, member must adhere to the Code and Standards.

B. applicable law of Country 1.

Incorrect because if applicable law is stricter than the requirements of the Code and Standards, members and candidates must adhere to applicable law; otherwise, they must adhere to the Code and Standards.

C. applicable law of Country 2.

Incorrect 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, member must adhere to the Code and Standards.

Question 13:

Agnes Trimbach, CFA, works at an investment firm that serves individual investors. Trimbach recommends the purchase of German government bonds to a client. She tells the client: “The government guarantees that you will receive the promised principal and interest on the bonds. In addition, interest rate fluctuations could add to your gains or cause losses.” Has Trimbach most likely violated the Standards?

[CORRECT] A. No

Correct because Trimbach has not violated the Standard relating to misrepresentation, which does not prohibit members and candidates from providing clients with information on investment products that have guarantees built into the structure of the product itself or for which an institution has agreed to cover any losses. Here, Trimbach is simply stating that the government is guaranteeing the principal and interest, which is not a misrepresentation. Nor has Trimbach violated the Standard relating to communication with clients and prospective clients. Members are required to distinguish between fact and opinion in the presentation of investment analyses and recommendations. Trimbach stated two facts (guaranteed principal and interest, as well as consequences of interest rate fluctuations) and did not represent an opinion as fact and therefore did not violate the Standard.

B. Yes, the Standard relating to misrepresentation

Incorrect, because Trimbach has not violated the Standard relating to misrepresentations which does not prohibit members and candidates from providing clients with information on investment products that have guarantees built into the structure of the product itself or for which an institution has agreed to cover any losses..

C. Yes, the Standard relating to communication with clients and prospective clients

Incorrect, because Trimbach has not violated the Standard relating to communication with clients and prospective clients. Members are required to distinguish between fact and opinion in the presentation of investment analyses and recommendations. Trimbach stated two facts (guaranteed principal and interest, as well as consequences of interest rate fluctuations) and did not represent an opinion as fact and therefore did not violate the Standard.

Question 14:

Sandra Chen, CFA, works for a research firm, Vega. Chen's research group identifies a low volatility investment product as a viable risk reduction strategy. The group prepares a report based on its findings. Chen believes the analysis is thorough and discloses the associated risks. However, Chen disagrees with the findings because she believes the product will be more volatile than the report suggests. She agrees to have her name included in the report. Has Chen most likely violated the Standards?

[CORRECT] A. No

Correct because although Chen does not agree with the view of the group, she believes there is sufficient information to support the investment conclusion. According to Standard V(A), Diligence and Reasonable Basis, if the member or candidate believes that the consensus opinion has a reasonable and adequate basis and is independent and objective, the member or candidate need not decline to be identified with the report. Because Chen agrees with the thoroughness of the analysis and the risk disclosure, she is not required to either dissociate or insist that the report carry her dissenting opinion.

B. Yes, because she failed to dissociate herself with the report

Incorrect because Chen has not violated Standard V (A), Diligence and Reasonable Basis. As Chen agrees with the thoroughness of the analysis and the risk disclosure, she is not required to either dissociate or insist that the report carry her dissenting opinion.

C. Yes, because she failed to include her dissenting opinion in the report

Incorrect because Chen has not violated Standard V (A), Diligence and Reasonable Basis. As Chen agrees with the thoroughness of the analysis and the risk disclosure, she is not required to either dissociate or insist that the report carry her dissenting opinion.

Question 15:

Tomas Bo, CFA, an asset manager, receives an unsolicited stock order from a client. He discusses the order with his firm's analysts to determine how it will impact that client's portfolio. The analysts determine the stock to be undervalued and suitable for many of Bo's clients. Bo calls other clients for whom the stock is suitable to recommend the stock. He then executes a single block trade for the original client as well as other clients for whom the stock is suitable. Bo most likely violated the Standards:

[CORRECT] A. only by executing the single block trade.

Correct because Standard III (E), Preservation of Confidentiality, requires that members and candidates preserve the confidentiality of information communicated to them by their clients, prospective clients, and former clients. The unsolicited stock order that Bo receives from his client is confidential information. He is not permitted to call other clients to recommend the stock. Further, by executing the single block trade, Tomas Bo failed to preserve the confidentiality of the information communicated to him by his client. Therefore, Bo has violated Standard III (E).

B. only by discussing unsolicited client orders with his analysts.

Incorrect because according to recommended procedures for compliance with Standard III (E), Preservation of Confidentiality, the simplest, most conservative, and most effective way to comply with Standard III (E) is to avoid disclosing any information received from a client except to authorized fellow employees who are also working for the client. Bo is permitted to discuss with his analysts the impact of the unsolicited stock order on the client's portfolio, as analysts work for the clients. Therefore, Bo has not violated Standard III (E) by discussing unsolicited client orders with his analysts.

C. both by executing the single block trade and by discussing unsolicited client orders with his analysts.

Incorrect because Bo has violated Standard III (E), Preservation of Confidentiality, by executing the single block trade, but he has not violated the Standards by discussing unsolicited client orders with his analysts.

Question 16:

Alan Quanta, CFA, provides credit rating analysis of high-yield bonds using external credit ratings as a foundation. At the end of the last quarter, Quanta's firm, North Investment Bank, held a large position in the bonds of Veyron Corporation, a real estate company with all of its land holdings in a country recently downgraded by several credit rating agencies. The downgrades made Veyron bonds extremely difficult to sell because the bond price has dropped every day since the downgrades. Quanta has been asked by his supervisor to contact the firm's institutional clients to convince them Veyron bonds are still an attractive purchase, especially at these lower prices. Quanta does not consider the Veyron bonds a buy at this price level. According to the CFA Institute Code of Ethics and Standards of Professional Conduct, the most appropriate action for Quanta is to:

A. obey his supervisor’s request.

Incorrect because Quanta should refuse to follow his supervisor’s request and promote the bonds as his opinion of the Veyron bonds must not be affected by internal pressure or compensation.

[CORRECT] B. ignore his supervisor’s request.

Correct because Quanta must refuse to promote Veyron bonds until they are an attractive purchase based on fundamental analysis and market pricing. If Quanta followed the request from his supervisor, he would be in violation of Standard I(B), Independence and Objectivity, as he does not rate Veyron bonds as a buy. His opinion of the Veyron bonds must not be affected by internal pressure or compensation.

C. promote the bonds with appropriate disclosures.

Incorrect because Quanta should refuse to promote the bonds as his opinion of the Veyron bonds must not be affected by internal pressure or compensation.

Question 17:

To increase market participants' interest and trading volume in a company's stock, an advisor buys the stock and immediately sells it without causing large price movements. The advisor then shares consensus analyst earnings estimates for the company on social media. Has the advisor most likely violated the Standard relating to market manipulation?

A. No

Incorrect because according to Standard II(B), manipulation includes distorting trading volume with the intent to deceive market participants: market manipulation includes practices that distort security prices or trading volume with the intent to deceive people or entities that rely on information in the market. Buying and selling a stock to increase others' interest in the stock (volume) is market manipulation.

B. Yes, by widely sharing analyst earnings estimates for the company on social media

Incorrect because the advisor sharing consensus analyst earnings estimates for the company on social media is not market manipulation. According to Standard II(B), information-based manipulation includes, but is not limited to, spreading false rumors to induce trading by others. For example, members and candidates must refrain from 'pumping up' the price of an investment by issuing misleading positive information or overly optimistic projections of a security’s worth only to later 'dump' the investment (i.e., sell it) once the price, fueled by the misleading information’s effect on other market participants, reaches an artificially high level. Here, sharing consensus analyst earnings estimates for the company on social media is sharing facts, not false rumors, so it is not market manipulation.

[CORRECT] C. Yes, by buying and selling the company's stock to increase market participants' interest and trading volume

Correct because according to Standard II(B), Market Manipulation, transaction-based manipulation includes distorting trading volume with the intent to deceive market participants: market manipulation includes practices that distort security prices or trading volume with the intent to deceive people or entities that rely on information in the market. Buying and selling a stock to increase others' interest in the stock (volume) is market manipulation.

Question 18:

Werner Merz, CFA, manages a short-term corporate bond mutual fund at a subsidiary of Cygnet Bank. The president of Cygnet Bank tells Merz that the bank needs to sell some of its long-term government bond holdings; however, because market prices are below their purchase price of 100, a loss would be realized. The president asks Merz to purchase these bonds for the mutual fund at 100, assuring him that the fund can hold the bonds to maturity and get a full return of the initial investment. Merz purchases the bonds for the fund at 100 as requested. Merz has most likely violated the Standard(s) relating:

A. only to suitability.

Incorrect because Merz has violated both Standard III (C) and Standard III (A), as described in the justification for the correct answer.

B. only to loyalty, prudence, and care.

Incorrect because Merz has violated both Standard III (C) and Standard III (A), as described in the justification for the correct answer.

[CORRECT] C. both to suitability and to loyalty, prudence, and care.

Correct because according to Standard III (C), Suitability, when Members and Candidates are responsible for managing a portfolio to a specific mandate, strategy, or style, they must make only investment recommendations or take only investment actions that are consistent with the stated objectives and constraints of the portfolio. Mertz manages a mutual fund with a short-term corporate bond mandate. By purchasing long-term government securities, he is taking investment actions that are inconsistent with the stated objectives, or mandate, of the fund, and has therefore violated Standard III (C). Additionally, according to Standard III (A), Loyalty, Prudence, and Care, 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. A member's or candidate's responsibility to a client includes a duty of loyalty and a duty to exercise reasonable care. Investment actions must be carried out for the sole benefit of the client and in a manner the member or candidate believes, given the known facts and circumstances, to be in the best interest of the client. By purchasing assets from his employer for the mutual fund at above-market prices, he has placed the interests of his employer over those of the clients and acted in an imprudent manner in his investment decisions, thus violating Standard III (A) as well.

Question 19:

A member presents investment performance to potential clients. According to the Standard relating to performance presentation, the member is permitted to omit which of the following in his presentation?

A. Only simulated results as a source of performance data.

Incorrect because Standard III (D), Performance Presentation, states that when communicating investment performance information, Members and Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete. Further, the use of simulated results should be accompanied by full disclosure as to the source of the performance data. Therefore, the use of simulated results must be disclosed and must not be omitted.

[CORRECT] B. Only supporting details of recommendations if the details are made available upon request.

Correct because according to Standard III (D), Performance Presentation, if the presentation is brief, the member or candidate must make available to clients and prospects, on request, the detailed information supporting that communication. Therefore, as long as supporting details are made available upon request, this Standard is not violated by omitting supporting details in a presentation to clients.

C. Both simulated results as a source of performance data and supporting details of recommendations if the details are made available upon request.

Incorrect because Standard III (D), Performance Presentation, states that when communicating investment performance information, Members and Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete. Further, the use of simulated results should be accompanied by full disclosure as to the source of the performance data. Therefore, the use of simulated results must be disclosed and must not be omitted.

Question 20:

Maria Bendez, CFA, is a well-known analyst. She sends her recommendations to all of her firm clients. However, Bendez does not disseminate her recommendations to the public even though she believes that her recommendations could affect security prices. A client calls her and says: “Maria, thank you! Every time you send me your recommendations, I think you provide me with an advantage over other market participants.” Has Bendez most likely violated the Standards? Maria Bendez, CFA, is a well-known analyst. She sends her recommendations to all of her firm clients. However, Bendez does not disseminate her recommendations to the public even though she believes that her recommendations couldaffect security prices. A client calls her and says: “Maria, thank you! Every time you send me your recommendations, I think you provide me with an advantage over other market participants.” Has Bendez most likely violated theStandards?

[CORRECT] A. No

Correct because according to Standard II (A), Material Nonpublic Information, when a particularly well-known or respected analyst issues a report or makes changes to his or her recommendation, that information alone may have an effect on the market and thus may be considered material. However, the analyst is not a company insider and thus does not have access to inside information. Simply because the public in general would find the conclusions material does not require that the analyst make his or her work public. Investors who are not clients of the analyst can either do the work themselves or become clients of the analyst to gain access to the analyst's expertise. In this case, Maria simply shares her recommendation with all of her firm clients, and there is no evidence that she uses inside information in her reports. Thus, she did not violate Standard II (A). Bendez also did not violate Standard III (B), Fair

Dealing, which states that Members and Candidates must deal fairly and objectively with all clients when (among other things) making investment recommendations. Each member or candidate is obligated to ensure that information is disseminated in such a manner that all clients have a fair opportunity to act on every recommendation. In this case, Bendez did not violatee Standard III (B) because she sends her recommendation to all of her clients.

B. Yes, the Standard relating to material nonpublic information

Incorrect because Bendez has not violated Standard II (A), Material Nonpublic Information, as described in the rationale for the correct answer.

C. Yes, the Standard relating to material nonpublic information and the Standard relating to fair dealing

Incorrect because Bendez has not violated Standard II (A), Material Nonpublic Information, or Standard III (B), Fair Dealing, as described in the rationale for the correct answer.

Question 21:

Hina Khan, CFA, works with ABC Bank. Khan refers clients to other business units of ABC bank when clients need such services. She does not disclose to her clients the referral fee arrangement she has with the other business units as it is an arrangement within the bank. Has Khan violated the Standards?

A. No

Incorrect because Standard VI(C), Referral Fees, states the responsibility of members and candidates to inform their employer, clients, and prospective clients of any benefit received for referrals of customers and clients. Khan has violated Standard VI(C) by not disclosing the referral arrangement within ABC Bank to her clients. Standard VI(C) does not distinguish between referral payments paid by a third party for referring clients to the third party and internal payments paid within the firm to attract new business to a subsidiary.

B. Yes, the Standard relating to fair dealing

Incorrect because according to Standard III(B), Fair Dealing, members and candidates must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities. All clients are treated equally and fairly in this example and hence this Standard is not violated.

[CORRECT] C. Yes, the Standard relating to referral fees

Correct because Standard VI(C), Referral Fees, states the responsibility of members and candidates to inform their employer, clients, and prospective clients of any benefit received for referrals of customers and clients. Khan has violated Standard VI(C) by not disclosing the referral arrangement within ABC Bank to her clients. Standard VI(C) does not distinguish between referral payments paid by a third party for referring clients to the third party and internal payments paid within the firm to attract new business to a subsidiary.

Question 22:

John Pedersen, CFA, writes in his firm's promotional material: Statement 1: "I passed all three CFA Program examinations in three consecutive years." Statement 2: "Being a CFA charterholder, I am among the elite of investment professionals." Has Pedersen most likely violated the Standard(s)?

A. No

Incorrect as Pedersen only violated Standard VII (B), Reference to CFA Institute, CFA Institute membership, the CFA designation, and the CFA Program, by claiming to be among the elite of investment professionals.

B. Yes, by making Statement 1 only

Incorrect because according to Standard VII (B), Reference to CFA Institute, CFA Institute membership, the CFA designation, and the CFA Program, statements referring to CFA Institute, the CFA designation, or the CFA Program that overstate the competency of an individual or imply, either directly or indirectly, that superior performance can be expected from someone with the CFA designation are not allowed under the standard. However passing for 3 years in a row is a fact, not an exaggeration, so it is not a violation.

[CORRECT] C. Yes, by making Statement 2 only

Correct because according to Standard VII (B), Reference to CFA Institute, CFA Institute membership, the CFA designation, and the CFA Program, statements referring to CFA Institute, the CFA designation, or the CFA Program that overstate the competency of an individual or imply, either directly or indirectly, that superior performance can be expected from someone with the CFA designation are not allowed under the standard.

Question 23:

Which of the following is a recommended procedure for compliance with the standard relating to responsibilities of supervisors? Once a violation in the form of wrongdoing from an employee is discovered, a supervisor should do which of the following?

A. Avoid increasing supervision of the wrongdoer until the investigation is concluded

Incorrect because according to Standard IV (C), Responsibilities of Supervisors, once a violation is discovered, a supervisor should increase supervision or place appropriate limitations on the wrongdoer pending the outcome of the investigation.

[CORRECT] B. Place appropriate limitations on the wrongdoer pending the outcome of the investigation

Correct because according to Standard IV (C), Responsibilities of Supervisors, once a supervisor learns that an employee has violated or may have violated the law or the Code and Standards, the supervisor must promptly initiate an assessment to determine the extent of the wrongdoing. Relying on an employee's statements about the extent of the violation or assurances that the wrongdoing will not reoccur is not enough. Reporting the misconduct up the chain of command and warning the employee to cease the activity are also not enough. Pending the outcome of the investigation, a supervisor should take steps to ensure that the violation will not be repeated, such as placing limits on the employee's activities or increasing the monitoring of the employee's activities.

C. Rely on an employee's statement about the extent of a violation of the law if the employee gives written assurance that the wrongdoing will not reoccur

Incorrect because according to Standard IV (C), Responsibilities of Supervisors, Relying on an employee's statements about the extent of the violation or assurances that the wrongdoing will not reoccur is not enough.

Question 24:

Megan Chandra, CFA, allocates an oversubscribed IPO suitable for all the accounts she manages. Chandra does not allocate the IPO her mother's standard fee-paying account or her husband's non-fee-paying account. Has Chandra violated the Standards?

A. No

Incorrect because Chandra violated the Standards by failing to allocate the IPO to her mother's account, as described in the response rationale of the correct answer.

[CORRECT] B. Yes, by not allocating the IPO allocation to her mother's account

Correct because according to Standard VI(B), priority of transactions, family accounts that are client accounts should be treated like any other firm account and should neither be given special treatment nor be disadvantaged because of the family relationship. Therefore, by forgoing allocation to her mother's fee-paying account, her mother, a client, has been disadvantaged. Chandra acted in accordance with the Standards by forgoing allocations to her husband's non-fee-paying account because according to Standard VI(B), priority of transactions, members or candidates may undertake transactions in accounts for which they are a beneficial owner only after their clients and employers have had adequate opportunity to act on a recommendation. Personal transactions include those made for the member's or candidate's own account, for family (including spouse, children, and other immediate family members) accounts.

C. Yes, by not allocating the IPO allocation to both her husband's and her mother's accounts

Incorrect because Chandra complied with the Standards by not allocating the IPO to her husband's account, as described in the response rationale of the correct answer.

Question 25:

The Standard relating to communication with clients and prospective clients requires members to inform which of the following of significant risks and limitations to the investment decision-making process?

A. Clients only.

Incorrect because Standard V (B), Communication with Clients and Prospective Clients, requires members to both keep clients informed of any newly identified risks and limitations and report to prospective clients the existence of limitations significant to the decision making process as described in the rationale for the correct answer.

B. Prospective clients only.

Incorrect because Standard V (B), Communication with Clients and Prospective Clients, requires members to both keep clients informed of any newly identified risks and limitations and report to prospective clients the existence of limitations significant to the decision making process as described in the rationale for the correct answer.

[CORRECT] C. Both clients and prospective clients.

Correct because Standard V (B), Communication with Clients and Prospective Clients, states that the member or candidate must keep clients and other interested parties informed on an ongoing basis about changes to the investment process, especially newly identified significant risks and limitations. In addition members and candidates must report to clients and prospective clients the existence of limitations significant to the decision-making process. Therefore, the Standard requires members to both keep clients informed of any newly identified risks and limitations and report to prospective clients the existence of limitations significant to the decision making process.

Question 26:

According to the CFA Institute Code of Ethics, members are responsible for:

A. monitoring their firm's compliance with the Standards.

Incorrect because all CFA Institute members (including holders of the Chartered Financial Analyst designation) and CFA candidates have the personal responsibility to embrace and uphold the provisions of the Code and Standards and are encouraged to notify their employer of this responsibility. Therefore, all members and candidates must abide by the Code and Standards and are encouraged to notify their employer of this responsibility. Members can only ensure their own compliance and are not responsible for monitoring the firm's compliance with the Code and Standards.

B. ensuring the professional competence of employees in their firm.

Incorrect because members must maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals. A member is not responsible for guaranteeing or ensuring the competence of other investment professionals, nor all employees in their firm.

[CORRECT] C. promoting the integrity of and upholding the rules governing capital markets.

Correct because it is stated under the Code of Ethics guidelines, that members must promote the integrity and viability of the global capital markets for the ultimate benefit of society. While the answer does not match this quote exactly, it certainly captures the spirit.

Question 27:

Which of the following is an objective of the GIPS standards?

A. Establish financial regulation on a global basis

Incorrect because it is not an objective of the GIPS standards to promote increased financial regulation on a global basis.

[CORRECT] B. Promote investor interests and instill investor confidence

Correct because the objectives of the GIPS standards include promoting investor interests and instilling investor confidence.

C. Encourage the development of national standards for calculating investment performance

Incorrect because the objectives of the GIPS standards include obtaining worldwide acceptance of a single standard for calculating and presenting performance. It is not an objective of the GIPS standards to encourage the development of country-specific & national standards for calculating performance.

Question 28:

Which of the following statements is most accurate? Fintech applications:

[CORRECT] A. can perform tasks at levels surpassing human capabilities.

Correct because fintech has since advanced into decision-making applications based on complex machine-learning logic, where computer programs are able to 'learn' how to complete tasks over time. In some applications, advanced computer systems are performing tasks at levels far surpassing human capabilities.

B. eliminate the need for humans in providing investment advice to retail investors.

Incorrect because robo-advisers or automated personal wealth management services provide investment services to a larger number of retail investors at lower cost than traditional adviser models can provide. However, as the complexity and size of an investor's portfolio grows, robo-advisers may not be able to sufficiently address the particular preferences and needs of the investor. In the case of extremely affluent investors who may own a greater number of asset types—including alternative investments (e.g., venture capital, private equity, hedge funds, and real estate)—in addition to global stocks and bonds and have greater demands for customization, the need for a team of human advisers, each with particular areas of investment or wealth-management expertise, is likely to endure.

C. use models that outperform traditional statistical models in revealing linear relationships.

Incorrect because for extremely large datasets, techniques involving artificial intelligence (AI)—computer systems capable of performing tasks that previously required human intelligence—may be better suited to identify complex, non-linear relationships than traditional quantitative methods and statistical analysis. Therefore, fintech (AI) models are not necessarily better than traditional models in identifying linear relationships.

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Question 29:

An analyst gathers the following information about three markets:

	Number of Sellers	**Non-price Competition**
Market 1	Many	None
Market 2	Few	Strong
Market 3	Many	Strong

Which market is most likely monopolistically competitive?

A. Market 1

Incorrect because in a monopolistically competitive market there are a large number of potential buyers and sellers and suppliers differentiate their products through advertising and other non-price strategies. Market 1 resembles the characteristics of perfect competition.

B. Market 2

Incorrect because in a monopolistically competitive market there are a large [not small] number of potential buyers and sellers and suppliers differentiate their products through advertising and other non-price strategies. Market 2 resembles the characteristics of an oligopoly.

[CORRECT] C. Market 3

Correct because in a monopolistically competitive market there are a large number of potential buyers and sellers and suppliers differentiate their products through advertising and other non-price strategies.

Question 30:

With respect to ESG analysis, which of the following is most likely categorized as a social issue?

A. Deforestation

Incorrect because deforestation is an environmental issue, not a social issue.

[CORRECT] B. Labor standards

Correct because social factors considered in ESG implementation generally pertain to the management of the human capital of a business. Labor standards are a social issue.

C. Bribery and corruption

Incorrect because bribery and corruption are a governance issue, not a social issue.

Question 31:

Tiered pricing is best described as:

A. charging different prices at different times.

Incorrect because dynamic pricing charges different prices at different times.

[CORRECT] B. charging different prices to different buyers.

Correct because tiered pricing charges different prices to different buyers, most commonly based on volume purchased.

C. combining a low price on a piece of equipment with high-margin pricing on repeat-purchase consumables.

Incorrect because razors-and-blades pricing combines a low price on a piece of equipment and high-margin pricing on repeat-purchase consumables.

Question 32:

Which of the following best describes a function of the International Bank for Reconstruction and Development?

[CORRECT] A. Provides low interest rate loans to developing countries

Correct. Closely affiliated with The World Bank Group, the International Bank for Reconstruction and Development (IBRD) provides low or no-interest loans and grants to developing countries that have unfavorable credit or no access to international credit markets.

B. Regulates cross-border trade relationships on a global scale

Incorrect. This is a function of the World Trade Organization.

C. Lends foreign currencies on a temporary basis to address balance of payment issues

Incorrect. This is a function of the IMF.

Question 33:

As a result of an inventory write-down, which of the following financial ratios most likely decreases?

A. Quick ratio

Incorrect because the quick ratio does not include inventory and is therefore unaffected by changes in the inventory carrying amount. Quick ratio = (Cash + Short-term marketable investments + Receivables) ÷ Current liabilities.

[CORRECT] B. Current ratio

Correct because the Current ratio decreases as a result of an inventory write down. The Current ratio = Current assets ÷ Current liabilities. Inventory is classified as current assets, among the current assets' required line items are cash and cash equivalents, trade and other receivables, inventories, and financial assets (with short maturities). In the event that the value of inventory declines below the carrying amount on the balance sheet, the inventory carrying amount must be written down to its net realisable value and the loss (reduction in value) recognised as an expense on the income statement. This expense may be included as part of cost of sales or reported separately. The numerator in the Current ratio is reduced by an inventory write-down and the denominator is unaffected, therefore the current ratio would decrease.

C. Payables turnover ratio

Incorrect because an inventory write-down would result in either an increase or unchanged payables turnover ratio, depending on where the write-down expense was recognized, instead of a decrease. In the event that the value of inventory declines below the carrying amount on the balance sheet, the inventory carrying amount must be written down to its net realisable value and the loss (reduction in value) recognised as an expense on the income statement. This expense may be included as part of cost of sales or reported separately. When the inventory write down is included in cost of goods sold and cost of goods sold is used as a proxy of purchases, payables turnover would increase. Payables turnover = Purchases ÷ Average trade payables. While payables are not impacted by an inventory write-down, the numerator increases when COGS is used as an approximation. Note that when calculating payables turnover, cost of goods sold is sometimes used as an approximation of purchases. When the inventory write down is reported separately and does not from cost of goods sold, there would be no impact on the payables turnover ratio.

Question 34:

Which of the following ranks geopolitical systems from the lowest to the highest level of globalization?

[CORRECT] A. Autarky, bilateralism, hegemony

Correct because autarky describes countries seeking political self-sufficiency with little or no external trade or finance. State-owned enterprises control strategic domestic industries. The self-sufficiency of autarkic countries allows them to be stronger politically, including the ability to exercise complete control over the supply of technology, goods, and services, as well as media and political messaging. Bilateralism is the conduct of political, economic, financial, or cultural cooperation between two countries. Countries engaging in bilateralism may have relations with many different countries, but they are one-at-a-time agreements without multiple partners. Finally, hegemonic countries tend to be regional or even global leaders, and they use their political or economic influence of others to control resources. State-owned enterprises tend to control key export markets. A hegemonic system can provide valuable benefits both to hegemonic countries themselves and to the international system. For the country itself, economic and political dominance may provide important influence on global affairs. So, autarkies are likely to be least globalized, followed by countries engaging in bilateralism, with hegemonies being much more globalized.

B. Autarky, hegemony, bilateralism

Incorrect because autarky describes countries seeking political self-sufficiency with little or no external trade or finance. Hegemonic countries tend to be regional or even global leaders, and they use their political or economic influence of others to control resources. A hegemonic system can provide valuable benefits both to hegemonic countries themselves and to the international system. Finally, bilateralism is the conduct of political, economic, financial, or cultural cooperation between two countries. Countries engaging in bilateralism may have relations with many different countries, but they are one-at-a-time agreements without multiple partners. So, autarkies are likely to be least globalized, followed by countries engaging in bilateralism (not hegemonies), with hegemonies (not countries engaging in bilateralism) being much more globalized.

C. Bilateralism, hegemony, autarky

Incorrect because bilateralism is the conduct of political, economic, financial, or cultural cooperation