Question #1 - 4 of 26

Question ID: 1870994

The importance of data security is illustrated in many case studies involving data breaches of client data in offshore centers. In which famous data breach was the goal to expose the use of offshore centers by famous and high-profile individuals, rather than to expose illegal activities?

A) The Pandora Papers. ✔

B) The Paradise Papers. ✘

C) The Panama Papers. ✘

Explanation

All three of these case studies involved data leaks concerning secret offshore accounts:

1. The Panama Papers (2016) data leak exposed gaps and inconsistencies in regulatory frameworks, many of which facilitated illegal activities such as fraud and tax evasion.
2. The Paradise Papers (2017) data leak was similar in nature to the Panama Papers.
3. The Pandora Papers (2021) data leak was different in that the objective was to expose the famous, high-profile individuals that use offshore accounts, rather than to expose illegal activities. The accounts of world leaders, celebrities, and billionaires were exposed.

(Module W1.3, LOS W1.d)

Question #2 - 4 of 26

Question ID: 1754202

Regarding Austen's quotes, which of the following statements is *most accurate*?

A) Quote 1 is inaccurate, as the AMC applies to firms and not individuals.

B) Quote 1 is inaccurate, as the AMC is a compulsory requirement.

C) Quote 2 is accurate.

Explanation

Quote 1 is inaccurate: "The AMC is a voluntary code for asset management firms, rather than for individuals who work in asset management."

Quote 2 is inaccurate: "CFA charterholders and candidates annually sign a statement attesting to comply with the Code and Standards and the AMC." The AMC relates to asset management firms rather than individuals, so CFA charterholders and CFA candidates do not attest to comply with it—they have to comply with the Code and Standards, but not the AMC.

(Module W1.3, LOS W1.d)

Question #3 - 4 of 26

Question ID: 1891208

Which of the following is a multilateral framework with the main objective to prevent tax evasion by individuals who hide their assets or income in offshore accounts?

A) FATF.

B) CRS.

C) FATCA

Explanation

The Common Reporting Standard (CRS) is a multilateral framework with the main objective to prevent tax evasion by individuals who hide their assets or income in offshore accounts. The CRS involves more than 90 countries.

The Foreign Account Tax Compliance Act (FATCA) has a similar remit to the CRS but only focuses on the accounts of US citizens and residents.

The Financial Action Task Force (FATF) is an intergovernmental organization that designs and promotes policies and standards to combat financial crime.

(Module W1.3, LOS W1.d)

Question #4 - 4 of 26

Question ID: 1754204

Which of the following is *mostaccurate* of the BCBS?

A) The BCBS identified vulnerabilities in risky and complex financial products before the global financial crisis.

B) The BCBS does not have direct authority over banks or financial advisers.

C) The BCBS includes minimum capital requirements for market risk, credit risk, and reputational risk.

Explanation

The Basel Committee on Supervision (BCBS) sets standards on banking regulation, but it does not have any direct authority over banks and financial advisers. It is up to the local jurisdictions to create laws and regulations.

The BCBS recommends minimum capital requirements for capital adequacy to include market risk, liquidity risk, credit risk, and operational risk. The BCBS does not specifically set capital standards for reputational risk, as it is difficult to quantify.

The global financial crisis (GFC) of 2007–2009 exposed the vulnerabilities of risky and complex financial products such as collateralized default obligations (CDOs) and mortgage-backed securities (MBS). These vulnerabilities were not identified in advance by the BCBS or other regulators. The crisis itself was the trigger to strengthen global banking regulation and minimum capital requirements.

(Module W1.3, LOS W1.d)

Question #5 of 26

Question ID: 1870980

Josh Hammitt, CFA, offers a combination of financial planning, portfolio management, and other financial services to his clients. Hammitt is *most likely* acting as a:

A) asset manager.

B) private banker.

C) wealth manager.

Explanation

Hammitt is acting as a wealth manager or adviser. These individuals offer a combination of financial planning, portfolio management, and other financial services to clients. Private bankers offer personalized financial and banking services offered to high-net-worth individuals. Asset managers oversee a client's portfolio and provide specialized investment strategies.

(Module W1.1, LOS W1.a)

Question #6 of 26

Question ID: 1870989

Which of the following is *best* described as recurring fees applied to the market value of a client's portfolio?

A) Asset-based fees.

B) Service and maintenance fees.

C) Transaction-based fees.

Explanation

Asset-based fees are recurring fees applied to the market value of a client's portfolio. Transaction-based fees, including commissions, are charged for buying and selling securities. They may be expressed as a percentage of the transaction size, or as a fixed amount. Service and maintenance fees are fixed charges linked to the administration and management of a client's account.

(Module W1.2, LOS W1.b)

Question #7 of 26

Question ID: 1870982

Which of the following clients have assets between USD 1 million and 30 million?

A) Affluent clients.

B) High-net-worth clients.

C) Ultra-high-net-worth clients.

Explanation

High-net-worth (HNW) clients have assets between approximately USD 1 million and 30 million. Affluent clients have net investable assets up to USD 1 million. Ultra-high-net-worth (UHNW) clients have assets in excess of USD 30 million.

(Module W1.1, LOS W1.a)

Question #8 of 26

Question ID: 1868459

A wealth management firm makes fees from providing Lombard loans. Which of the following is the *mostaccurate* description of this financial transaction? A borrower's:

A) pledged securities are used to underwrite a Lombard Loan.

B) income is used to underwrite a Lombard loan.

C) real estate is used to underwrite a Lombard loan.

Explanation

A Lombard loan is backed by securities pledged by the borrower. The lender will assess the pledged securities to establish a suitable lending ratio.

(Module W1.2, LOS W1.b)

Question #9 of 26

Question ID: 1870988

Jimmy Caldwell, CFA, is meeting with a potential new client. The client tells Caldwell that their current broker has been steadily increasing the number of transactions in their asset management account without any justification. They are concerned that the broker may be making these trades to generate additional fees. This situation is *best* described as:

A) retrocessions.

B) rebating.

C) churning.

Explanation

Churning is the practice of making unnecessary transactions for the sole purpose of generating additional fees. Retrocessions, also known as referral fees, are payments from a provider of underlying financial products to an adviser. Rebating involves the practice of an adviser sharing or returning a portion of their commission to the client to induce a sale.

(Module W1.2, LOS W1.b)

Question #10 of 26

Question ID: 1870992

Three trends have been identified as affecting the wealth management sector: cost control, outsourcing, and increasing regulatory requirements. Of these trends, which of the following was the *most* important to wealth management firms?

A) Cost control.

B) Increasing regulatory requirements.

C) Outsourcing.

Explanation

The most important trends affecting the wealth management sector (according to the source material) are as follows:

- Rising demand for tailored advice and new products
- Increasing regulatory requirements
- Digital
- Pricing pressures
- Cost control
- Generational change
- Onshorization and tax transparency
- Growth of emerging markets
- Data analytics
- Sector consolidation
- New entrants/increased competition
- Outsourcing

(Module W1.3, LOS W1.c)

Question #11 of 26

Question ID: 1868464

On an annual basis, Charger Asset Management holds a session on Global Regulatory Principles for their investment advisors. This year's review discussed the multilateral organizations that play a role in financial regulations around the world. Which regulatory body is an association of securities regulators from more than 120 jurisdictions that facilitates the cooperation and information exchange among its members?

A) IOSCO.

B) FATF.

C) BCBS.

Explanation

The International Organization of Securities Commissions (IOSCO) is an association of securities regulators from more than 120 jurisdictions.

The Financial Action Task Force (FATF) is an intergovernmental organization that designs and promotes policies and standards to combat financial crime.

The Basel Committee on Banking Supervision (BCBS) sets standards on banking regulation, including minimum requirements for capital adequacy.

(Module W1.3, LOS W1.d)

Question #12 of 26

Question ID: 1870979

A new wealth management firm plans to target a specific segment of high-net-worth individuals (HNWIs) or ultra-high-net-worth individuals (UHNWIs) in specialist markets or regions. It plans to provide personalized, face-to-face interactions with clients and specialized services.

According to the Porter's five forces theory, which approach for competitive advantage is the firm planning to take?

A) Cost leadership.

B) Differentiation.

C) Focus/niche.

Explanation

Focus/niche involved targeting a specific niche segment of HNWIs or UHNWIs in specialized markets or regions. It provides personalized face to face interactions and specialized services that warrant premium pricing.

The other two alternative approaches include the following:

1. *Cost leadership* has a broad customer base and focuses on economies of scale and operational efficiency via low-cost options and automated platforms.
2. *Differentiation* targets HNWIs and the mass affluent to provide unique offerings valued by clients. It aims to achieve higher margins by offering services such as comprehensive wealth planning and exclusive investment opportunities not readily available to retail investors.

(Module W1.1, LOS W1.a)

Question #13 of 26

Question ID: 1870986

Which of the following methods is *most likely* to increase revenue for an asset management firm?

A) Clients holding investments with lower returns.

B) Lower their fees.

C) Retain existing clients.

Explanation

Revenue can generally be increased by retaining existing clients, which may prevent loss of business and lead to referrals for new clients. Another method for increasing revenue is higher investment returns, which increase the total assets under management (AUM) and subsequently increase AUM-based fees. Finally, firms can increase revenue by increasing their fees, but at the risk of losing business to the competition.

(Module W1.2, LOS W1.b)

Question #14 of 26

Question ID: 1870990

Aaron Mulliniks, CFA, is a wealth manager for a large global money management firm. He has a select clientele of high-net-worth clients. His clients appreciate the time and effort he invests in understanding their unique needs and providing financial advice that is tailor-made for their specific goals. Mulliniks recently had a meeting with his direct supervisor to review his compensation package, which includes both fixed and variable remuneration. Which of the following characteristics are commonly found in these arrangements?

Fixed	Variable
• **Annual salary**	**Performance bonus**
• Performance bonus	Fringe benefits
• Annual salary	Long-term incentives

A) Annual salary Long-term incentives

B) Annual salary Performance bonus

C) Performance bonus Fringe benefits

Explanation

Fixed remuneration corresponds to a fixed annual salary that depends on the employee's role, status, and experience. Variable remuneration is performance linked and usually consists of an annual bonus based on financial results of the employee of the firm and years of service of the employee.

(Module W1.2, LOS W1.b)

Question #15 of 26

Question ID: 1870985

Which of the following is an example of a type of fixed revenue earned by a private wealth management firm?

A) Assets under management fees.

B) Periodic service fees.

C) Transaction-based fees.

Explanation

Revenues from periodic services fees are considered to be fixed revenues. Variable/direct revenues are usually transaction-based fees based on the frequency of client activity or asset under management fees based on portfolio value.

(Module W1.2, LOS W1.b)

Question #16 of 26

Question ID: 1868463

An ultra-high-net-worth client plans to travel to a high-risk location and asks their wealth manager for guidance. Which of the following is unlikely to be included in the advice given?

A) Kidnap and ransom insurance.

B) Recommending not to go.

C) Recommending security consultants.

Explanation

Ultra-high-net-worth-clients are more aware of security risks than the average person. The risks of kidnap and ransom increase substantially for multimillionaires. Living in, or traveling to high-risk areas will usually require security services from experienced professionals. Kidnap and ransom insurance is considered essential for high-profile individuals.

It is not the role of the wealth manager to recommend to the client not to go. The client will make their own decision.

(Module W1.3, LOS W1.c)

Question #17 of 26

Question ID: 1868461

After the recent sale of his company, Jian Zhang wants to reconsider his residency status to obtain more favorable tax treatment. Zhang speaks with his investment advisor, Wei Chen, about the possibility of obtaining a Golden Visa to relocate his assets. As of 2021, which were the two most popular countries for golden visas?

A) United Kingdom and Spain. ✗

B) Greece and Portugal. ✗

C) Panama and Australia. ✓

Explanation

As of 2021, Panama and Australia had the highest number of golden visa applications with 4,659 and 4,470 applications, respectively.

(Module W1.3, LOS W1.c)

Question #18 of 26

Question ID: 1868462

Last year, Sophie Mueller left her employer to start her own independent investment management practice. Mueller is currently reviewing custodial service providers, but is unsure of the services that she will require. Which of the following is *mostaccurate* regarding the services of custodians?

A) Custodians use real-time analytics to aid wealth managers in portfolio assessment and strategy formation. ✓

B) The role of a custodian is solely focused on the safekeeping of assets. ✗

C) Custodians may provide investment advice based on the transactions that they observe on their platform. ✗

Explanation

While the primary role of a custodian is the safekeeping of client assets, their role is wider than this. Custodians verify and record transactions post settlement and many provide real-time analytics to aid wealth managers in portfolio assessment and strategy formulation.

Custodians do not provide investment advice.

(Module W1.3, LOS W1.c)

Question #19 of 26

Question ID: 1870981

Kim Newton, CFA, is having a conversation with a new intern at her private wealth management firm. The intern made the following statements:

Statement 1:	Because our firm primarily works with individuals with net investable assets up to USD 250,000, we cater to the retail segment of the industry.
Statement 2:	Offshore services are attractive if access to suitable investment products is only available locally.
Statement 3:	Due to our market niche, robo-advisers should not be considered a threat to our business.

Which of these statements is *most likely* correct?

A) Statement 1. ✓

B) Statement 2. ✗

C) Statement 3. ✗

Explanation

Statement 1 is correct. Retail clients typically have net investable assets up to USD 250,000 and usually invest in passive vehicles such as exchange-traded funds (ETFs). Offshore services are attractive if suitable investment products are not available locally. Alternative options, such as robo-advisers, should be considered a significant threat to firms in the retail space.

(Module W1.1, LOS W1.a)

Question #20 of 26

Question ID: 1754199

Which of the following scandals is one of the largest cases of corruption and money laundering in history, with USD 4.5 billion being siphoned through a network of shell companies, bank accounts, and intermediaries? (The proceeds were used to fund lavish lifestyles, bribe officials, and influence elections.)

A) Danske Bank.

B) 1Malaysia Development Berhad.

C) Riggs Bank.

Explanation

1Malaysia Development Berhad (1MDB) is one of the largest cases of corruption and money laundering in history, with USD 4.5 billion being siphoned through a network of shell companies, bank accounts, and intermediaries. The proceeds were used to fund lavish lifestyles, bribe officials, and influence elections (uncovered in 2015).

Washington D.C.–based Riggs Bank was fined USD 25 million in May 2004 for not reporting suspicious transactions and enforcing anti-money laundering policies.

Denmark-based Danske Bank breached AML regulations for almost a decade, resulting in the launch of criminal investigations against the bank and its executives.

(Module W1.3, LOS W1.d)

Question #21 of 26

Question ID: 1870987

Zachary Miller, CFA, is attending a strategy meeting at his firm. The firm's primary clients have assets under management below USD 500,000. The committee is discussing issues that may present pressure on the firm in the upcoming years. During the meeting, one of the presenters made the following comments:

Comment 1:	Our firm should not be concerned by the introduction of robo-advisers. Our clients will continue to demand our services.
Comment 2:	Our clients are becoming more aware of ESG-related issues and expect us to offer services tailored to their preferences. This could lead to additional costs and lower margins for the firm.

Which of these statements made by the presenter is *most likely* correct?

A) Comment 2 only.

B) Both comments 1 and 2.

C) Comment 1 only.

Explanation

Only Comment 2 is correct. Environmental, social, and governance (ESG) awareness is increasing, and is often a client expectation within the service offered. This adds to firms' costs, which may depress margins. Comment 1 is incorrect because firms with clients under USD 500,000 are susceptible to competition from robo-advisers. Technology is reducing costs for clients, but it is also putting pressure on industry revenues.

(Module W1.2, LOS W1.b)

Question #22 of 26

Question ID: 1870983

Jackson Wilkinson, CFA, works for an advisory firm that primarily caters to affluent clients. His firm offers comprehensive financial planning services for a fee. What is the approximate net investable assets per client within the firm?

A) USD 10 million.

B) USD 1 million.

C) USD 5 million.

Explanation

Affluent clients have net investable assets of up to USD 1 million. High-net-worth (HNW) clients have assets between approximately USD 1 million and 30 million.

(Module W1.1, LOS W1.a)

Question #23 of 26

Question ID: 1868460

An investment advisor, Anderson Jones, wants to expand his network of contacts to include professional services that can assist his high-net-worth clients. Which of the following private wealth support professionals are *most likely* to mediate disagreements and conflicts that arise within wealthy families?

A) Accountants.

B) Private wealth managers.

C) Lawyers.

Explanation

Legal professionals mediate disagreements and conflicts that arise within wealthy families. While private wealth managers are involved in almost all aspects of client circumstances, conflicts and mediations are best handled by legal experts.

(Module W1.3, LOS W1.c)

Question #24 of 26

Question ID: 1870984

Recurring revenues are usually derived from:

A) stand-alone events such as death or divorce.

B) custom work requested by clients.

C) portfolio management, custody, and tax planning.

Explanation

Recurring revenues (predictable and ongoing) are usually derived from portfolio management, custody, and tax planning. Nonrecurring revenues may arise from stand-alone (one-off) events such as death or divorce, or from custom work requested by clients.

(Module W1.2, LOS W1.b)

Question #25 of 26

Question ID: 1754194

Blake and Crystal Carrington are prepared to invest a significant sum in return for residency and citizenship rights in a foreign country where their daughter, Alexis, in now based. The Carringtons also have commercial interests that they are considering relocating. Which of the following is the *most suitable* private wealth support professional to help them achieve their objectives?

A) Accountant.

B) Tax specialist.

C) Lawyer.

Explanation

Certain lawyers focus on immigration, assisting high-net-worth individuals in citizenship and residency-by-investment programs. Legal due diligence is crucial to protect the rights of the clients and avoid fraud.

(Module W1.3, LOS W1.c)

Question #26 of 26

Question ID: 1870991

Nicholas Brown, CFA, earns extra money by sending client orders to a trading firm that offers cost-efficient execution practices. Brown is *most likely* engaging in the practice of:

A) retrocessions.

B) payment for order flow.

C) churning.

Explanation

Payment for order flow (PFOF) is a practice where brokerages receive compensation for routing client orders to specific market makers for execution. Churning is the practice of making unnecessary transactions for the sole purpose of generating additional fees. Retrocessions, also known as referral fees, are payments from a provider of underlying financial products to an adviser.

(Module W1.2, LOS W1.b)