




Question #1 of 33

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

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




Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(C))

Question #2 of 33

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

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




Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(D))

Question #3 of 33

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

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




Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(D))

Question #4 of 33

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

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




Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(C))

Question #5 of 33

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

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


Explanation



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

(Study Session 1, Module 3.1, LOS 3-I.(C))

Question #6 of 33

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

- A) Attributing specific quotations to "leading analysts" and "investment experts" without specific reference. 

- B)** Presenting statistical estimates of forecasts prepared by others with the source identified, but without qualifying statements or caveats that may have been used. 
- C)** Using factual information published by recognized financial and statistical reporting services or similar sources without acknowledgment. 




Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(C))

Question #7 of 33

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

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




Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(C))

Question #8 of 33

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

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

Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(C))

Question #9 of 33

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

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



Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(C))

Question #10 of 33

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

- A) 2
- B) 3
- C) 5



Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(C))

Question #11 of 33

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

- A) Including a graph showing the Fed's discount rates over the previous 12 months in a report that goes to clients.
- B) Reporting statistics prepared by an outside firm, identifying the source but omitting caveats and qualifying statements.



C) Using excerpts from a report prepared by a well known outside research firm without acknowledgement.



Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(C))

Question #12 of 33

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

A) is arrested for participating in a nonviolent protest.



B) drinks excessively during business meetings with clients and returns to work under the influence of alcohol.



C) committed perjury in connection with a lawsuit against his firm.



Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(D))

Question #13 of 33

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

A) citing quotes attributable to "investment experts" without specific references.



B) presenting factual information published by recognized statistical reporting services without acknowledgment.



C) copying a proprietary computerized spreadsheet without seeking authorization from the creators.



Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(C))

Question #14 of 33

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

A) No, because Hooper volunteers his services to City Pride.



B) Yes.



C) No, because Hooper's conduct is unrelated to his professional activities as a security analyst.



Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(D))

Question #15 of 33

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

A) convicted of a misdemeanor traffic offense.



B) intoxicated at the office.



C) convicted of a felony.



Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(D))

Question #16 of 33

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

A) No, because the crime does not relate to the investment profession.



B) Yes, because the crime involved stealing.



C) Yes, because the prison sentence is more than six months.



Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(D))

Question #17 of 33

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

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

Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(D))

Question #18 of 33

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

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

Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(C))

Question #19 of 33

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

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




Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(C))

Question #20 of 33

A CFA charterholder who comes to work intoxicated is:

- A) not in violation of the standards. 
- B) in violation of Standard I(D) concerning professional misconduct. 
- C) in violation of Standard IV(A) concerning duties to employer. 




Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(D))

Question #21 of 33

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

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




Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(C))

Question #22 of 33

Noah Johnson, CFA, is a broker with a money management company, Factor, Inc. In a conversation with Tom Williams, Johnson describes the activities of Factor and discusses the characteristics of portfolio construction. Which of the following statements would NOT, on its face, be considered a misrepresentation?

- A) The portfolio securities were carefully selected by Factor to minimize Williams' risk. 
- B) Factor guarantees the portfolio will achieve its goal return. 
- C) If Williams is not satisfied with the current target return, Johnson can always improve it by increasing his T-bills share. 

Explanation

Standard I(C), Misrepresentation, prohibits CFA charterholders from misrepresenting characteristics of the portfolio or the services that the company can provide. The only statement that can be accepted as plausible is that the securities were selected to minimize the risk.

(Study Session 1, Module 3.2, LOS 3.a, 3.b, 3.c)

Question #23 of 33

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

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

Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(D))

Question #24 of 33

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

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

Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(C))

Question #25 of 33

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

- A) No, but he must disclose the bankruptcy filing to his clients. ✗
- B) No, unless his personal financial difficulties result from actions that reflect adversely on his honesty and integrity. ✓
- C) Yes, because a member must conduct both their personal and professional business in a manner that protects their reputation and integrity. ✗

Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(D))

Question #26 of 33

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

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

Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(C))

Question #27 of 33

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

- A) violated CFA Institute Standards of Professional Conduct because he did not state the source of the charts. ✓
- B) violated CFA Institute Standards of Professional Conduct because he did not make sure that the information in these charts is accurate. ✗
- C) not violated CFA Institute Standards of Professional Conduct because these charts are widely available over the Internet. ✗




Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(C))

Question #28 of 33

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

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

Explanation

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




(Study Session 1, Module 3.1, LOS 3-I.(D))

Question #29 of 33

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

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

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

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

Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(C))

Question #30 of 33

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

- A) only. ✗
- B) and oral communications only. ✗
- C) oral communications, and telecommunications. ✓

Explanation

The prohibition against plagiarism applies to all three areas.

(Study Session 1, Module 3.1, LOS 3-I.(C))

Question #31 of 33

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

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

Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(D))

Question #32 of 33

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

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




Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(D))

Question #33 of 33

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

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

Explanation

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

(Study Session 1, Module 3.1, LOS 3-I.(D))