

Q1. 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:

- A. the Code and Standards.
- B. applicable law of Country 1.
- C. applicable law of Country 2.

Q2. Which of the following situations most likely helps to explain why the GIPS standards were created?

- A. Firms were including only top performing funds to represent their performance history.
- B. Asset managers were including the performance of all portfolios, including those no longer managed in their performance history.
- C. Consistency among fund managers were needed when making investment performance presentations.

Q3. Daniel Morgan is a Level III candidate in the CFA Program. After taking the exam, Morgan signs into a CFA-candidate-only Internet forum and writes a post expressing the opinion that the CFA Program and examination policies are unfair. Has Morgan most likely violated the Standards?

- A. No.
- B. Yes, by providing confidential program information.
- C. Yes, by compromising the reputation of CFA Institute.

Q4. Which of the following should a GIPS-compliant firm most likely provide to each prospective client?

- A. A list of composite descriptions upon request
- B. A copy of the GIPS standards
- C. A compliant presentation every six months

Q5. Which of the following is permitted according to the Standards? A member:

- A. exploits market inefficiencies for personal trades.
- B. disseminates information to give the impression of increased liquidity of an asset.
- C. secures a dominant position in an underlying asset to control the price of its derivative.

Q6. Ashley Brown, CFA, applies for a new job. In her application letter, she states, "As a CFA charterholder, I provide the best value in trade execution." Further, she states, "I passed all three CFA Program examinations in three consecutive years." Has Brown violated the Standards?

- A. No
- B. Yes, by stating, "As a CFA charterholder, I provide the best value in trade execution"
- C. Yes, by stating, "As a CFA charterholder, I provide the best value in trade execution" and by stating, "I passed all three CFA Program examinations in three consecutive years"

Q7. Yip Wai Yin, a CFA candidate, is an independent mutual fund sales agent. For every front-end load product she promotes, Yip receives a portion of the front-end fee as commission at the time of sale. For every back-end load fund she sells, Yip receives a smaller commission paid at the end of the year. Yip always informs her clients that she is paid a commission as an agent, but does not provide details of the compensation structure. When pitching her favored front-end load product line she tells clients 20% of her commission is always invested in the same fund as proof of her confidence in the fund she recommends. Which Standard does Yip least likely violate?

- A. Referral Fees
- B. Priority of Transactions
- C. Avoid or Disclose Conflicts

Q8. After a firm presents a minimum required number of years of GIPS-compliant performance, the firm must present an additional year of performance each year, building up to a minimum of:

- A. 5 years of GIPS-compliant performance.
- B. 10 years of GIPS-compliant performance.
- C. 15 years of GIPS-compliant performance.

Q9. Which of the following is a violation according to the Standard relating to preservation of confidentiality?

- A. Members share details relating to former clients with third party service providers
- B. Members convey to clients that not all firm-sponsored resources may be appropriate for communicating confidential information

- C. When allowed under the law, members share confidential client information to defend themselves in an investigation by the CFA Institute Professional Conduct Program

Q10. 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
- B. Place appropriate limitations on the wrongdoer pending the outcome of the investigation
- 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

Q11. Dimitri Kuznetsov, CFA, is a portfolio manager and holds shares of Barnikoff Limited and Matric Ventures in all client portfolios. Both companies have upcoming annual general meetings scheduled for the same day. The management of Barnikoff proposes to change its financial year-end from September to December, while Matric Ventures proposes to enter into a high-risk venture. The proxy voting policy clause in all client investment management agreements managed by Kuznetsov states, "When voting proxies provides a cost benefit to the client, the manager must vote a proxy." With regard to the proxy votes for Matric and Barnikoff, Kuznetsov would least likely violate CFA Institute Standard III(A)-Loyalty, Prudence, and Care if he votes:

- A. with management.
- B. only the Matric proxy.
- C. only the Barnikoff proxy.

Q12. Umi Grabbo, CFA, is a highly regarded portfolio manager for Atlantic Advisors, a mid-sized mutual fund firm investing in domestic securities. She has watched the hedge fund boom and on numerous occasions suggested that her firm create such a fund. Senior management has refused to commit resources to hedge funds. Attracted by potential higher fees associated with hedge funds, Grabbo and several other employees begin development of their own hedge fund to invest in international securities. Grabbo and her colleagues are careful to work on the fund development only on their own time. Because Atlantic management thinks hedge funds are a fad, she does not inform her supervisor about the hedge fund creation. According to the Standards of Practice Handbook, Grabbo should most likely address which of the Standards immediately?

- A. Priority of transactions
- B. Avoid or disclose conflicts
- C. Additional compensation arrangements

Q13. Which of the following member actions violates the Standard relating to misconduct?

- Action 1: Declaring personal bankruptcy because of a large loss from investing in a startup company.
 - Action 2: Allocating for her personal account shares from an oversubscribed IPO that is suitable for her firm's clients.
- A. Action 1 only
 - B. Action 2 only
 - C. Both Action 1 and Action 2

Q14. According to the Standards, a member who manages an index fund is:

- A. only required to invest in a manner consistent with the fund's stated mandate.
- B. only required to determine the suitability of the fund for those who invest in the fund.
- C. both required to invest in a manner consistent with the fund's stated mandate and to determine the suitability of the fund for those who invest in the fund.

Q15. Which of the following is not among the recommended procedures for compliance with the Standard relating to performance presentation?

- A. Excluding terminated accounts as part of the performance history
- B. Presenting performance of the weighted composite of similar portfolios
- C. Considering the sophistication of the audience to whom a performance presentation is addressed

Q16. Holly Baker, CFA is explaining CFA Institute Code of Ethics to a client. Which of the following statements could Baker make to most likely reflect disciplinary sanctions the CFA Institute may impose? Sanctions include:

- A. fines for violations.
- B. revocation of membership.
- C. banishment from the industry.

Q17. Lawrence Hall, CFA, and Nancy Bishop, CFA, began a joint research report on Stamper Corporation. Bishop visited Stamper's corporate headquarters for several days and met with all company officers. Prior to the completion of the

report, Bishop was reassigned to another project. Hall utilized his and Bishop's research to write the report but did not include Bishop's name on the report because he did not agree with and changed Bishop's conclusion included in the final report. According to the CFA Institute Standards of Practice Handbook, did Hall most likely violate any CFA Institute Standards of Professional Conduct?

- A. No
- B. Yes, with respect to misrepresentation
- C. Yes, with respect to diligence and reasonable basis

Q18. According to the Standard relating to referral fees, members should disclose to employers the amount and nature of compensation received at least:

- A. monthly.
- B. quarterly.
- C. annually.

Q19. In the absence of regulatory guidance, CFA Institute recommends that members maintain their investment research records for at least:

- A. 3 years.
- B. 5 years.
- C. 7 years.

Q20. Dennis Chung, CFA, manages an equity fund for his firm's clients. Chung does comprehensive analysis and concludes that Advance Technology Company (ATC) could announce a substantial stock repurchase program. Chung informs his clients about the analysis by phone, and states "ATC is scheduled to announce a substantial stock repurchase program and its stock price will increase significantly." Chung has violated the Standard(s) relating to:

- A. misrepresentation only.
- B. communication with clients and prospective clients only.
- C. misrepresentation as well as communication with clients and prospective clients.

Q21. Which of the following member actions most likely violates the Standard relating to fair dealing?

- A. Providing premium service levels to clients who pay higher fees
- B. Selectively offering different service levels to prospective clients
- C. Using different communication methods to recommend investments to clients

Q22. Zhao Xuan, CFA, is a sell side investment analyst. While at a software industry conference, Zhao hears rumors that Green Run Software may have falsified its financial results. When she returns to her office, Zhao conducts a thorough analysis of Green Run. Based on her research, including discussions with some of Green Run's customers, Zhao is convinced that Green Run's reported 50% increase in net income during recent quarters is completely fictitious. So far, however, Zhao is the only analyst suspicious about Green Run's reported earnings. According to the CFA Institute Code of Ethics and Standards of Professional Conduct, the least appropriate action for Zhao is to:

- A. report her suspicions to Green Run's management.
- B. do nothing until other analysts support her analysis.
- C. recommend that her clients sell their Green Run shares immediately.

Q23. According to the GIPS standards, a verification report confirms all of the following except whether:

- A. specific composite presentations are accurate.
- B. a firm has complied with all firm-wide composite construction requirements.
- C. processes and procedures are designed to calculate and present performance results in compliance with the GIPS standards.

Q24. Shruti Kurup, CFA, is preparing to leave her firm and join a new employer. Prior to leaving the firm, Kurup calls all her clients informing them of her decision to leave. When asked by the clients, Kurup states lack of confidence in the firm's leadership as the reason for her departure and also mentions that more employees are likely to leave soon.

Kurup has violated the Standard(s) relating:

- A. only to loyalty.
- B. only to communication with clients and prospective clients.
- C. both to loyalty and to communication with clients and prospective clients only.

Q25. Anjuman Khan, CFA, manages the portfolios of several clients. One client offers Khan monetary compensation and another client gives her two tickets to a sold-out football match in appreciation of significantly beating their portfolio benchmarks. Khan accepts both the monetary compensation and the tickets to the football match. She discloses only the monetary compensation to her supervisor by text over the holiday weekend. Has Khan violated the Standard relating to independence and objectivity?

- A. No

- B. Yes, because she failed to notify her supervisor of her acceptance of the tickets to the football match
- C. Yes, because she failed to get prior approval from her supervisor for accepting the monetary compensation

Q26. According to the recommended procedures for compliance with the Standard relating to additional compensation arrangements, a member should make an immediate written report specifying any proposed compensation arrangements to:

- her supervisor only.
- her firm's compliance officer only.
- both to her supervisor and to her firm's compliance officer.

Q27. Brian Chan, CFA, is the CEO of Wholecare Pharmaceutical (WPC). WPC is in its final stages of clinical trials for developing a medicine for treating heart disease. Chan posts on social media that WPC is launching a new medicine for heart disease, knowing that the news will have a positive impact on WPC's stock price. Chan has violated the Standard(s) relating:

- A. only to misrepresentation.
- B. only to market manipulation.
- C. both to misrepresentation and to market manipulation.

Q28. Which of the following risk premiums compensates investors for the risk of loss relative to an investment's fair value if the investment needs to be converted to cash quickly?

- A. Liquidity premium
- B. Inflation premium
- C. Maturity premium

Q29. Which of the following is most likely to signal manipulation of financial reporting for a large, diversified company?

- A. A history of large expense items classified as unusual
- B. Operating margins out of line with other diversified companies
- C. Changes in accounting policies to reflect new accounting standards

An analyst gathers the following information about a company:

ROE	6%
ROA	4%
Average total assets	€600,000

Q30. Based only on this information, average total liabilities are:

- A. €200,000.
- B. €300,000.
- C. €400,000.

Q31. Which of the following stakeholders in a mature company would most likely tolerate higher risks in return for higher return potential?

- A. Debtholders
- B. Shareholders
- C. Independent directors

Q32. The term Big Data refers to:

- A. structured data only.
- B. unstructured data only.
- C. both structured and unstructured data.

Q33. Which of the following is most likely a motivation for leasing long term rather than purchasing a high-value asset?

- A. Reduced exposure to obsolescence risk
- B. Not having to recognize an asset on the balance sheet
- C. Not having to recognize a liability on the balance sheet



Question 34 of 90

An analyst gathers the following information (in € millions) about a firm:

Total revenue	100
Total variable costs	75
Total fixed costs	40

Q34. All else being equal, the firm will most likely:

- A. operate in the long-run.
- B. exit the market in the short-run.
- C. operate in the short-run and exit the market in the long-run.

Q35. Which of the following is most likely a drag on a company's liquidity position?

- A. Reduced credit lines
- B. Uncollected receivables
- C. Early payment to suppliers

Q36. The bootstrap resampling method:

- A. guarantees that all items will appear in the resamples.
- B. relies on an analytical formula to estimate the distribution of the estimators.
- C. mimics the random sampling process by treating the randomly drawn sample as if it were the population.

Q37. Which of the following companies would most likely have the highest level of information asymmetry between managers and shareholders? Companies:

- A. selling simple products
- B. operating in multiple markets and geographies
- C. with higher levels of institutional ownership and free float



Question 38 of 90

An analyst runs a simple linear regression using 35 months of data to assess a country's short-term interest rate as a function of its inflation rate, with the following results:

	Coefficients	Standard Error
Intercept	-0.5778	0.3479
Inflation rate	1.1300	0.1806

Critical *t*-values for a 1% level of significance:

- One-sided, left side: -2.445
- One-sided, right side: +2.445
- Two-sided: ±2.733

Q38. At a 99% confidence level, the analyst should reject the null hypothesis that:

- A. the intercept is zero.
- B. the slope is less than or equal to 0.75.

- C. there is no linear relationship between the country's inflation rate and short-term interest rate.



Question 39 of 90

An analyst gathers the following data about an economy:

Real trend growth rate	0.5%
Central bank's policy rate	1.5%

- Q39. If monetary policy is expansionary, the central bank's inflation target is:
- A. less than 1.0%.
 - B. equal to 1.0%.
 - C. greater than 1.0%.
- Q40. Which category of financial ratios is most likely used to measure how efficiently a company performs day-to-day tasks?
- A. Activity
 - B. Liquidity
 - C. Solvency
- Q41. Deferred tax assets could arise when:
- A. an asset's tax base exceeds its carrying amount.
 - B. an asset's carrying amount exceeds its tax base.
 - C. taxes recognized on the income statement exceed income taxes payable.
- Q42. A positively skewed unimodal distribution of returns most likely has:
- A. a long tail on the left side.
 - B. a mode that is less than its mean.
 - C. frequent small gains and a few extreme losses.
- Q43. Sampling error is the difference between the observed value of a statistic and the:
- A. mean of the sample.
 - B. quantity it is intended to estimate.
 - C. observed value of the random variable.