CredGuild

PRACTICE QUESTIONS

CFA® Program Level I

Ethical and Professional Standards: 36 Free Practice Questions

2027 curriculum · 10 readings · answers and full explanations

credguild.com

Version v2027.3 · October 2026

ABOUT THIS EDITION

CredGuild · CFA® Program Level I · Ethical and Professional Standards: 36 Free Practice Questions
2027 curriculum · Version v2027.3 · Generated October 6, 2026

SHARING

© 2026 CredGuild. You may share this file freely, complete and unchanged. Do not sell it, and do not republish it with the CredGuild name, links or watermark removed.

USING THIS BOOK

These questions are a study aid. Use them alongside the CFA Institute curriculum. The latest version is free at credguild.com.

FOUND A MISTAKE?

Email hello@credguild.com, or use "Report an issue with this question" under any question on credguild.com.

TRADEMARKS

CFA Institute does not endorse, promote, review, or warrant the accuracy or quality of the products or services offered by CredGuild. CFA®, Chartered Financial Analyst® and CFA Institute® are trademarks owned by CFA Institute.

Contents

How to use these questions **1**

Ethical and Professional Standards (questions 1–36) **2**

Answers and explanations: Ethical and Professional Standards 12

Keep going at credguild.com **25**

How to use these questions

The 36 free questions on credguild.com for Ethical and Professional Standards, 2027 CFA® Program Level I curriculum, each with its answer and full explanation.

- The questions are grouped by topic and reading, in curriculum order. Answers and explanations follow each topic, on a new page, so you can work a topic before you check it.
- Each explanation says why the right answer is right and why each other option is wrong, and names the reading, with a link to its notes.
- At exam pace, 90 seconds a question, a topic of 40 questions takes about an hour.

On credguild.com the same questions are scored as you answer and your wrong answers are kept for review. A free account answers any of the 3,369 questions in the bank, up to 50 new questions a day: credguild.com/cfa/level-1/practice/

If these questions help you, pass the file on to someone else who is studying.

credguild.com

CFA® PROGRAM LEVEL I · FREE PRACTICE QUESTIONS

Ethical and Professional Standards

Questions 1–36 · 10 readings

93 Ethics and Trust in the Investment Profession

Question 1

Ethics is *best* described as:

A a written set of rules adopted by a firm.

B commonly shared beliefs about good and bad behavior.

C one individual's belief about proper conduct.

Question 2

Which of the following *best* distinguishes the members of a profession from people working in an ordinary occupation? Members of a profession:

A earn higher compensation for their services.

B regard their work as a vocation or calling.

C agree to comply with a common code of ethics.

Question 3

Anika Dorsey, a junior trader, goes along with her desk's habit of delaying the reporting of losing trades. She does so because her supervisor and colleagues expect it and her bonus depends on the desk's reported profits. Lapses like Dorsey's are *most likely* to be explained by:

A situational influences.

B a lack of technical training.

C her personal character traits.

Question 4

Which of the following lists the steps of the ethical decision-making framework presented in the Level I CFA curriculum?

A Relevance; faithful representation; comparability; verifiability; timeliness; understandability.

B Define the objective; collect and analyze data; report findings; update the analysis.

C Identify facts and duties; consider influences and alternatives; decide and act; reflect.

credguild.com

94 Code of Ethics

Question 5

Moses Adeyemi, CFA, is told that the Professional Conduct staff have concluded that he violated the Code and Standards, and they propose a disciplinary sanction. If Adeyemi rejects the proposed sanction:

A he is automatically suspended from membership.

B the matter is referred to a disciplinary review panel for a hearing.

C the matter is closed unless a new inquiry is opened.

Question 6

Sven Adler, a CFA candidate, is making flash cards. He marks each duty "Code" if it is one of the six components of the Code of Ethics and "Standard" if it appears only in the Standards of Professional Conduct. Which of the following duties should Adler mark "Standard"? Members and candidates must:

A not engage in conduct that compromises the integrity or reputation of CFA Institute, the CFA designation, or its programs.

B place the integrity of the investment profession and the interests of clients above their own personal interests.

C promote the integrity and viability of the global capital markets for the ultimate benefit of society.

Question 7

Elena Varga, CFA, is a relationship manager at Northgate Wealth Partners. A prospective client asks whether Northgate can manage a portfolio of Indian equities. Varga has heard that her colleague Tomas Reyes might have managed Indian equities at a previous employer, and without checking she tells the prospect that Northgate has that expertise. Two days later she learns that Reyes has never managed Indian equities. She does not contact the prospect, who later opens an account with Northgate. Varga has:

A violated the Code and Standards both when she made the unverified claim and when she failed to correct it.

B violated the Code and Standards only by failing to correct her statement once she learned it was false.

C not violated the Code and Standards, because she did not intend to mislead the prospect.

credguild.com

95 Knowledge of the Law

Question 8

After 18 years with a large Toronto asset manager, Lionel Batiste, CFA, sets up his own advisory firm in Port Aurelia, a jurisdiction whose securities rules are far weaker than both Canadian law and the CFA Institute Standards of Professional Conduct. Most of his clients are Canadian residents who moved their accounts to the new firm, and Canadian law continues to apply to his dealings with them. Batiste finds that Port Aurelia rules would let him skip several client disclosures that he always had to make in Canada. According to the Code and Standards, Batiste must follow:

A Port Aurelia rules, provided he tells his Canadian clients where they differ from Canadian law.

B the Code and Standards in every case, because as a charterholder he answers only to them.

C whichever is stricter of the Code and Standards and Canadian law.

Question 9

Irene Vautrin, CFA, has managed domestic large-cap equity portfolios for ten years. Her firm asks her to take over its frontier-market bond fund next month, an asset class she has never analyzed. Which response is *most consistent* with Standard I(E) Competence?

A Take responsibility for building the knowledge and skills the new role requires.

B Accept the role and rely on the firm to provide any training it considers necessary.

C Decline the role, because the Standard does not allow members to change asset classes.

Question 10

Hana Petrov runs an independent advisory practice with 140 individual clients. When she takes on a new client, she collects the information she needs to make recommendations, such as the client's tax situation, income, spending needs, and willingness to take risk. With respect to this client information, the Standards require Petrov to:

A update it only when she makes a material change to the client's portfolio.

B reassess and update it on a regular basis.

C update it only after learning of a material change in the client's circumstances.

Question 11

While looking for a file on her firm's shared drive, Nadia Petrova, an equity analyst, opens a colleague's half-finished draft notes on a retailer that Petrova covers. After reading them, and without doing any further work, Petrova immediately changes her own recommendation on the retailer from sell to buy. Which Standard has Petrova violated?

A Standard V(A) Diligence and Reasonable Basis.

B Standard I(B) Independence and Objectivity.

C Standard III(A) Loyalty, Prudence, and Care.

credguild.com

Question 12

Ewa Kowalczyk, CFA, marketing director at Glenhaven Advisors, publishes the following item in the firm's client newsletter:

> "Three of our portfolio managers have been awarded the right to use the CFA designation, and five of our associates are Level II candidates in the CFA Program. Their achievement reflects their dedication to the investment profession and their commitment to the highest ethical standards."

All five associates are registered to sit the next Level II exam. With regard to the statements in the item:

A Kowalczyk has violated the Code and Standards by implying superior performance results.

B Kowalczyk has violated the Code and Standards through the way she refers to the managers' CFA designation.

C all of the statements are consistent with the Code and Standards.

96 Material Nonpublic Information

Question 13

Adaeze Okafor, CFA, is a broker. The chief executive of Stellan Pharmaceuticals, a listed company, telephones her and asks her to buy Stellan shares for trust accounts he set up for his grandchildren, remarking that the purchase will look very smart "once the merger we're negotiating is announced." Okafor searches news services and finds no public mention of a merger. Okafor should:

A execute the order, because Standard III(B) Fair Dealing requires her to treat all client orders alike.

B execute the order, because the shares are for the grandchildren's accounts rather than the executive's own.

C decline the order, because executing it would mean acting on material nonpublic information.

Question 14

Colette Brenner is convinced that Lunaris Robotics is overvalued, and three weeks ago she sold short 60,000 Lunaris shares. This week she has been posting false, damaging claims about Lunaris's management on several investment message boards. Under Standard II(B) Market Manipulation, Brenner's conduct is:

A a violation through the false claims, but not through her trade.

B a violation through both her trade and the false claims.

C a violation through her trade, but not through the false claims.

credguild.com

Question 15

Tobias Engel, an investment analyst, has gathered several items of nonpublic information through his contacts at medical device makers. None of the items is material on its own, but by putting them together he correctly concludes that one of the companies will report much higher earnings than expected next year. According to the CFA Institute Standards of Professional Conduct, Engel:

A cannot legally trade or make recommendations based on this conclusion.

B may use the conclusion in his investment recommendations and decisions.

C may use the conclusion only after a compliance officer has approved it.

97 Duties to Clients

Question 16

Lucia Ferraz, CFA, manages the Tessaro Emerging Markets Equity Fund and routes the fund's trades to Blakemore Securities, which gives her soft dollar credits for buying research. In her own personal account, Ferraz holds several high-yield corporate bonds; the fund holds no bonds. She spends some of the soft dollars on reports about emerging-market companies and some on a credit newsletter that covers the high-yield bonds she owns personally. Her use of the soft dollars is:

A a violation for both the equity research and the credit newsletter.

B not a violation of the Code and Standards.

C a violation for the credit newsletter but not for the equity research.

Question 17

Dmitri Olsen, CFA, finishes a research report with a buy recommendation on Harrow Grain Logistics. Some weeks earlier he asked all of his clients for their e-mail addresses. At 11 a.m. he e-mails the report to the clients who supplied an address, and that afternoon he posts printed copies to all clients, who receive them two to four days later. Olsen has:

A violated the Standards because only some clients received the e-mail.

B not violated the Standards, because he disseminated the report fairly.

C violated the Standards because the e-mail went out before the printed report arrived.

Question 18

Gloria Ansel, a retired bus driver who lives on the income from a small annuity, asks Viktor Lindqvist, CFA, to buy 8,000 shares of Quarrystone Genetics, a newly formed biotechnology start-up. The purchase would materially change the risk of her portfolio, and Lindqvist believes it is unsuitable given her investment policy statement. Consistent with the Standards, Lindqvist should *most appropriately*:

A refuse the order because the investment is unsuitable for her.

B follow his firm's procedure for obtaining her approval of an unsolicited trade.

C talk with her about whether she wants to revise her investment policy statement.

credguild.com

Question 19

Carden Asset Management launches a new emerging-market debt fund. It correctly calculates the returns over the past four years of each bond now in the fund and, using the fund's current weights, arrives at an average annual return of 14%. Carden's launch advertising describes the fund as having produced 14% a year historically. Under the Standards, Carden's advertising is:

A in compliance with the Standards.

B a violation, because the advertisement implies that the firm earned this return.

C a violation, because the Standards prohibit advertising historical returns on high-risk assets.

Question 20

Tobias Ferrante, CFA, has gathered evidence suggesting that one of his clients is likely laundering money. According to Standard III(E) Preservation of Confidentiality, Ferrante is prohibited from which of the following actions?

A Report his conclusion to CFA Institute.

B Report his conclusion to the appropriate government authorities.

C Neither; both actions are permissible.

98 Duties to Employers

Question 21

Oscar Brennan, CFA, is a credit analyst at Halcyon Bank. A friend who runs an independent investment advisory practice asks Brennan to help review her clients' portfolios on evenings and weekends, for a fee. Under the Standard concerning loyalty, under what conditions may Brennan accept?

A Brennan must tell Halcyon the terms of the arrangement and obtain Halcyon's consent.

B Brennan must disclose the extra pay to Halcyon but does not need Halcyon's consent.

C Under none, because the arrangement would put Brennan in competition with Halcyon.

Question 22

Amelia Ross, CFA, has just joined Harrowby Trust as a trust officer. She learns that Harrowby routes all its securities trades through her cousin, a registered broker, whose commissions match the lowest rate available from other brokers. Her cousin tells her that if Harrowby keeps sending him its business, he will give her a large discount on all of her personal trades. Ross:

A must refuse the arrangement.

B must obtain written consent from all parties involved before accepting the arrangement.

C need not inform her employer, because Harrowby is paying the lowest available commissions.

credguild.com

Question 23

Arjun Mehta, CFA, leads a team of credit analysts at a regional bank; none of the analysts is a CFA charterholder or candidate. Mehta has several times urged the bank's senior partners to adopt a compliance system to make sure that applicable laws and regulations are followed, but they have rejected each proposal. Mehta should *most appropriately*:

A take no further action, because by urging the bank to adopt a compliance system he has met his obligations.

B decline in writing to accept supervisory responsibility until an adequate compliance system is adopted.

C report the bank's inadequate system in a written complaint to the CFA Institute Professional Conduct Program.

99 Investment Analysis Recommendations and Actions

Question 24

Marisol Vega, CFA, runs a one-person advisory practice. She frequently bases client recommendations on research bought from several outside providers. The Code and Standards *most likely* require Vega to:

A carry out her own research instead of depending on outside providers.

B name each outside provider whose research supports a recommendation.

C make reasonable efforts to confirm that the outside research has a sound basis.

Question 25

Ines Moreau, CFA, is writing a report on Aldercrest Power. Over the past year, four of the six utilities in its region cut their dividends roughly in half to fund capital spending, and Moreau reasons that Aldercrest will face similar pressure. Her report states: "Aldercrest will reduce its dividend from $3.20 to $1.60 a share by the third quarter to pay for its capital program. Investors who buy at today's price of about $64 could earn a total return above 18%." With respect to Standard V(B) Communication with Clients and Prospective Clients, Moreau:

A violated the Standard by promising a specific investment return.

B violated the Standard by failing to distinguish opinion from fact.

C did not violate the Standard.

Question 26

Dominic Ashe, CFA, recently left a large bank's research department to open his own equity research boutique. All of the files supporting his earlier reports stayed with the bank. Relying on his detailed memory of those files, Ashe rewrites several of his former reports, publishes them under his new firm's name and signs up several clients as a result. Ashe has not reconstructed any supporting records. Ashe is *most likely*:

A not in violation of any Standard.

B in violation of Standard V(A) Diligence and Reasonable Basis.

C in violation of Standard V(C) Record Retention.

credguild.com

100 Conflicts of Interest

Question 27

Rosalind Mercer, CFA, is an analyst at the investment bank Carrow & Pike. Her manager asks her to initiate coverage of Summit Ridge Ales. Carrow & Pike's corporate finance group has advised Summit Ridge on every acquisition it has made over the last nine years, and two of Carrow & Pike's senior partners serve as Summit Ridge directors. According to the Standards of Professional Conduct, may Mercer write the report?

A Yes, if she keeps her analysis independent and objective.

B No, because the conflicts are too significant.

C Yes, if she discloses the board seats and the advisory work.

Question 28

A brokerage firm is adding blackout periods to its personal-trading procedures for employees involved in investment decision-making. Under the recommended procedures for Standard VI(B) Priority of Transactions, how strict the blackout requirement should be depends *most* on:

A the size of the firm and the type of security.

B each employee's seniority and length of service.

C the number of clients and the average account size.

Question 29

Priya Natarajan is an estate-planning attorney. Colin Ashby, CFA, a wealth manager, regularly sends his clients to her for estate work. In exchange, Natarajan prepares the wills and trust documents for Ashby's own family without charging him. Natarajan has just been awarded the CFA charter and become a member of CFA Institute. Under the Standards, Natarajan must:

A tell prospective clients referred by Ashby about the free legal work and its estimated value.

B tell prospective clients referred by Ashby about the free legal work, but not its value.

C stop doing legal work for Ashby's family without charge.

101 Responsibilities as a CFA Institute Member

Question 30

Tariq Haddad, a Level III candidate, takes part in an online forum where candidates discuss curriculum readings in depth during the study season. Four days after his testing window closes, frustrated by difficult questions, he posts several exam questions he remembers and asks other members how they answered them and why. Several other candidates respond by posting questions they remember. Haddad and the other candidates are *most likely*:

A not in violation, because the posts appeared only after the testing window had closed.

B in violation, because they disclosed confidential information about the exam.

C in violation, because they discussed curriculum topics in a public forum ahead of the exam.

credguild.com

Question 31

A regional broker has just hired Mei Tanaka and Callum Reid. Each cleared both Level I and Level II at the first try, and neither business card refers to the CFA Program. Tanaka's marketing materials accurately describe the requirements of the CFA Program and add: "Because I cleared the first two levels at the first try, my clients can expect better results than other advisers deliver." Reid's materials say only, and truthfully, that he cleared the first two levels at the first try. Has either new hire violated the CFA Institute Standards of Professional Conduct?

A Only one of them has violated the Standards.

B Both of them have violated the Standards.

C Neither of them has violated the Standards.

Question 32

Anika Sorensen, CFA, learned in March that a national securities regulator had opened an investigation into her trading practices. When she completes her annual Professional Conduct Statement in May, she answers "no" to the question asking whether she is the subject of any regulatory investigation. Sorensen has *most likely* violated:

A Standard VII(A) Conduct as Participants in CFA Institute Programs.

B Standard V(C) Record Retention.

C no Standard, because the investigation has not yet reached a conclusion.

102 Application of the Code and Standards: Level I

Question 33

Kwame Mensah, CFA, finds that his manager has breached a national securities regulation. Mensah raises the matter with his firm's compliance department, which does nothing about it. Under the Code and Standards, Mensah is required to:

A report the breach to the securities regulator.

B confront his manager and try to stop the breach.

C dissociate himself from his manager's activity.

Question 34

Dmitri Volkov, CFA, an investment adviser, uses soft dollars generated by client trades to pay for two things: a subscription to a macroeconomic research service that he uses in managing client portfolios, and new leather chairs for the reception area where he meets clients and prospects. Under Standard III(A) Loyalty, Prudence, and Care:

A only one of the two purchases is a violation.

B both of the two purchases are violations.

C neither of the two purchases is a violation.

credguild.com

Question 35

Imogen Achterberg, CFA, runs portfolios for about 350 private clients and has little spare research capacity. Several of her largest clients ask her to add a 4% to 6% allocation to emerging market local-currency bonds, so she plans to base her bond selections on reports bought from an outside research provider that specializes in that sector. In judging whether the provider's research gives her a reasonable basis, the factor Achterberg should *least likely* rely on is:

A the assumptions behind the provider's analysis and how rigorous that analysis is.

B the high return its model portfolio earned last year.

C how timely the research is and whether its recommendations are objective and independent.

Question 36

Tariq Haddad and Lena Vogt each cleared the Level I exam and have registered to sit for Level II. The headline of Haddad's online professional profile reads "Tariq Haddad, CFA Level I." Vogt's résumé describes her as a "Level II Candidate in the CFA Program." Under Standard VII(B) Reference to CFA Institute, the CFA Designation, and the CFA Program:

A Haddad violated the Standard, but Vogt did not.

B Vogt violated the Standard, but Haddad did not.

C Both Haddad and Vogt violated the Standard.

credguild.com

ETHICAL AND PROFESSIONAL STANDARDS

Answers and explanations

Answer key: 1. B · 2. C · 3. A · 4. C · 5. B · 6. A · 7. A · 8. C · 9. A · 10. B · 11. A · 12. C · 13. C · 14. A · 15. B · 16. C · 17. B · 18. C · 19. B · 20. C · 21. A · 22. B · 23. B · 24. C · 25. B · 26. C · 27. C · 28. A · 29. A · 30. B · 31. A · 32. A · 33. C · 34. A · 35. B · 36. A

Question 1 **Answer: B**

Ethics is a set of shared beliefs about what behavior is good or acceptable and what behavior is bad or unacceptable. It is broader than any particular written rulebook and broader than one person's view.

Why the other options are wrong

- **A.** A written code of standards is one way a group expresses its ethics; it is narrower than ethics itself.
- **C.** A single person's belief about proper conduct is a personal view. Ethics rests on beliefs that are commonly shared.

Key takeaway Ethics means commonly shared beliefs about good and bad behavior. It is broader than one person's view or a single written code.

Reading 93: Ethics and Trust in the Investment Profession. Notes: credguild.com/cfa/level-1/notes/ethics/ethics-and-trust-in-the-investment-profession/

Question 2 **Answer: C**

What sets a profession apart is that its members commit to following one shared code of ethics. That commitment, together with specialized expertise, is what lets the public trust members of a profession.

Why the other options are wrong

- **A.** Pay levels do not define a profession; many well-paid occupations are not professions.
- **B.** How an individual views his or her work is personal and is not a defining characteristic of a profession.

Key takeaway A profession combines specialized knowledge with a shared code of ethics.

Reading 93: Ethics and Trust in the Investment Profession. Notes: credguild.com/cfa/level-1/notes/ethics/ethics-and-trust-in-the-investment-profession/

Question 3 **Answer: A**

Situational influences are pressures external to the decision maker, such as social pressure from colleagues, loyalty to a supervisor, and the lure of money or prestige. They are considered a more important determinant of the ethical quality of behavior than internal (personal) traits.

Why the other options are wrong

- **B.** The problem is not a lack of skill or knowledge; Dorsey is responding to pressure and incentives.
- **C.** People tend to overemphasize the role of their own personal traits in ethical behavior; external influences are considered the stronger driver.

Key takeaway Peer pressure, loyalty and money are situational influences, which are considered a stronger driver of ethical lapses than personal traits.

Reading 93: Ethics and Trust in the Investment Profession. Notes: credguild.com/cfa/level-1/notes/ethics/ethics-and-trust-in-the-investment-profession/

Question 4 **Answer: C**

The framework has four steps. Identify covers the relevant facts, the stakeholders and duties owed, the ethical principles and any conflicts of interest. Consider covers situational influences, additional guidance and alternative actions. The last two steps are Decide and act, and Reflect (was the outcome as anticipated, and why or why not?).

Why the other options are wrong

- **A.** These are qualitative characteristics of useful financial information from financial reporting. They are not steps in an ethical decision process.
- **B.** This resembles the steps of a financial analysis project; it has no step for identifying stakeholders and duties or for reflecting on ethical outcomes.

Key takeaway The four steps, in order: Identify, Consider, Decide and act, Reflect.

Reading 93: Ethics and Trust in the Investment Profession. Notes: credguild.com/cfa/level-1/notes/ethics/ethics-and-trust-in-the-investment-profession/

Question 5 **Answer: B**

A member or candidate may accept or reject a sanction proposed by the Professional Conduct staff. If it is rejected, the matter is referred to a disciplinary review panel of CFA Institute members, which holds a hearing.

Why the other options are wrong

- **A.** Rejecting a proposed sanction does not trigger an automatic suspension; it leads to a hearing.
- **C.** Rejection does not end the matter; the existing case is referred to a disciplinary review panel of CFA Institute members for a hearing.

Key takeaway A rejected sanction goes to a hearing before a disciplinary review panel.

Reading 94: Code of Ethics and Standards of Professional Conduct. Notes: credguild.com/cfa/level-1/notes/ethics/code-of-ethics/

Question 6 **Answer: A**

Standard VII(A) Conduct as Participants in CFA Institute Programs forbids members and candidates to do anything that damages the reputation or integrity of CFA Institute or the CFA designation, or that undermines the integrity, validity or security of CFA Institute programs (for example, cheating on the CFA exam or disclosing its content). This is a specific Standard: none of the six components of the Code of Ethics mentions CFA Institute, the CFA designation or its programs, so Adler should mark this duty "Standard".

Why the other options are wrong

- **B.** Placing the integrity of the investment profession and the interests of clients above one's own personal interests is the second component of the Code of Ethics, so this card should be marked "Code".
- **C.** Promoting the integrity and viability of the global capital markets for the ultimate benefit of society is the fifth component of the Code of Ethics, so this card should be marked "Code".

Key takeaway The Code's six components are broad principles; the duty to protect the reputation and integrity of CFA Institute, the CFA designation and the CFA exams comes from Standard VII(A).

credguild.com

Reading 94: Code of Ethics and Standards of Professional Conduct. Notes: credguild.com/cfa/level-1/notes/ethics/code-of-ethics/

Question 7 **Answer: A**

Standard I(C) Misrepresentation prohibits members and candidates from knowingly making misrepresentations about their professional activities, and this includes claims, spoken or written, about what their firm is able to offer clients. Varga did not know whether her claim was true, so presenting it as fact was misleading even though it was not a deliberate lie. Once she learned it was false, she was obliged to go back to the prospect and set the record straight, and she did not.

Why the other options are wrong

- **B.** The first statement was already a violation: asserting the firm's expertise without knowing whether it existed misrepresented the firm's services.
- **C.** A lack of intent does not excuse the claim. Presenting an unverified claim as fact is misleading, and failing to correct it after learning the truth is a further violation.

Key takeaway Standard I(C) Misrepresentation: do not present as fact something not known to be true, and correct a misstatement as soon as it comes to light.

Reading 94: Code of Ethics and Standards of Professional Conduct. Notes: credguild.com/cfa/level-1/notes/ethics/code-of-ethics/

Question 8 **Answer: C**

Under Standard I(A) Knowledge of the Law, when applicable laws and the Code and Standards differ, members must follow the strictest requirement: the law where they live, the law where they do business (including the law governing their clients' accounts), or the Code and Standards. Because Canadian law still governs his dealings with Canadian clients, Batiste must meet the stricter of Canadian law and the Code and Standards.

Why the other options are wrong

- **A.** Moving to a less strict jurisdiction does not lower the standard. Disclosing the differences to clients does not allow a member to follow a weaker rule.
- **B.** The Code and Standards are a minimum, not the only rule. If applicable law (here, Canadian law) is stricter on a point, the member must comply with that law as well.

Key takeaway When several rule sets apply, follow the strictest one. Moving offshore never lowers the bar.

Reading 95: Guidance for Standard I: Professionalism. Notes: credguild.com/cfa/level-1/notes/ethics/knowledge-of-the-law/

Question 9 **Answer: A**

Standard I(E) requires members to act with and maintain the competence (abilities, skills and knowledge) that their professional responsibilities require. When a member accepts a new or unfamiliar role, it is her own responsibility to develop the competence that role calls for, for example through study, training, or working with experienced colleagues.

Why the other options are wrong

- **B.** Employer training can help, but the responsibility for acquiring the needed competence rests with the member.
- **C.** The Standard does not bar members from new roles or asset classes; it requires them to become competent in them.

Key takeaway A new role calls for new competence, and the member, not the employer, is responsible for acquiring it.

Reading 95: Guidance for Standard I: Professionalism. Notes: credguild.com/cfa/level-1/notes/ethics/knowledge-of-the-law/

Question 10 Answer: B

Standard III(C) Suitability requires an adviser to make a reasonable inquiry into a client's objectives and constraints before acting and to reassess and update that information regularly. Waiting for a trigger event, such as a portfolio change or news of a change in the client's life, is not enough, because circumstances can change without the adviser being told.

Why the other options are wrong

- **A.** Tying updates to portfolio changes gets the logic backwards: portfolio decisions should rest on current client information, which must be refreshed regularly.
- **C.** Updating after a known change is necessary but not sufficient; the Standard calls for regular reassessment so that unreported changes are picked up.

Key takeaway Client profiles are not one-off: reassess them regularly (and at least whenever a material change becomes known).

Reading 95: Guidance for Standard I: Professionalism. Notes: credguild.com/cfa/level-1/notes/ethics/knowledge-of-the-law/

Question 11 Answer: A

Changing a recommendation on the strength of a colleague's incomplete notes, without any review or analysis of her own, shows a lack of diligence and thoroughness and leaves the new recommendation without a reasonable and adequate basis, violating Standard V(A).

Why the other options are wrong

- **B.** Nothing in the facts suggests that an outside party or incentive compromised her independence or objectivity; the failure is one of inadequate research.
- **C.** The facts do not show her placing her own or her employer's interests ahead of clients; the problem is the missing research basis for the recommendation.

Key takeaway A recommendation needs a reasonable and adequate basis, and a colleague's unfinished notes are not one.

Reading 95: Guidance for Standard I: Professionalism. Notes: credguild.com/cfa/level-1/notes/ethics/knowledge-of-the-law/

Question 12 Answer: C

Standard VII(B) Reference to CFA Institute, the CFA Designation, and the CFA Program permits factual statements, for example that the three managers are entitled to call themselves CFA charterholders, and allows reference to candidacy when the individuals are currently registered for an exam. Saying that earning the charter or pursuing it reflects dedication to the profession and a commitment to high ethical standards is also acceptable. Nothing in the item claims or implies superior investment results.

Why the other options are wrong

- **A.** The item speaks about dedication and ethics; it says nothing about investment results, so it does not imply superior performance.

- **B.** Saying that the managers have been awarded the right to use the designation is a proper statement of fact.

Key takeaway Allowed: facts about holding the designation, current candidacy, and commitment to ethics. Not allowed: claims that the charter or candidacy means superior performance.

Reading 95: Guidance for Standard I: Professionalism. Notes: credguild.com/cfa/level-1/notes/ethics/knowledge-of-the-law/

Question 13 Answer: C

A pending merger is material, and Okafor has confirmed it has not been made public. Executing the trade would mean acting (and helping the insider act) on material nonpublic information, which Standard II(A) prohibits: Members and Candidates must not act or cause others to act on such information.

Why the other options are wrong

- **A.** Fair Dealing is about treating clients fairly when disseminating recommendations and executing trades; it never requires a member to execute a trade that violates Standard II(A).
- **B.** Whose account benefits is irrelevant: buying for trusts set up for family members on the strength of inside information is still acting on material nonpublic information, and no duty to a client overrides Standard II(A).

Key takeaway Once a client reveals material nonpublic information behind an order, the member may not execute it. The identity of the account holder does not change that.

Reading 96: Guidance for Standard II: Integrity of Capital Markets. Notes: credguild.com/cfa/level-1/notes/ethics/material-nonpublic-information/

Question 14 Answer: A

Posting false, damaging claims to move the share price spreads false information with the intent to mislead, which violates Standard II(B). Her short sale, made weeks earlier on her own view of value, was not intended to mislead anyone, so the trade itself is not a violation.

Why the other options are wrong

- **B.** A short sale based on a genuine valuation view is not a trade intended to mislead. Only the false postings violate the Standard.
- **C.** This reverses the facts. The violation lies in the false claims she posted; her trade was legitimate.

Key takeaway Taking a position is legitimate. Spreading false information to move the price toward that position violates Standard II(B).

Reading 96: Guidance for Standard II: Integrity of Capital Markets. Notes: credguild.com/cfa/level-1/notes/ethics/material-nonpublic-information/

Question 15 Answer: B

Engel pieced together nonmaterial nonpublic information to reach a conclusion. Under the mosaic theory, he may use that conclusion for investment recommendations and trading even though the conclusion itself would be material.

Why the other options are wrong

- **A.** Treats the material conclusion as if it were material nonpublic information received from the company; the mosaic theory permits it.

credguild.com

- **C.** No compliance approval is required for a legitimate mosaic conclusion (although keeping research records is good practice).

Key takeaway A material conclusion built from nonmaterial pieces may be used under the mosaic theory.

Reading 96: Guidance for Standard II: Integrity of Capital Markets. Notes: credguild.com/cfa/level-1/notes/ethics/material-nonpublic-information/

Question 16 Answer: C

Soft dollars come from client brokerage, which is an asset of the client. Under Standard III(A) Loyalty, Prudence, and Care, they must be used to benefit the client, for example by paying for research that assists in managing client accounts. Emerging-market equity research helps manage the fund and is acceptable; a credit newsletter on bonds that only Ferraz owns benefits her personally and is a violation.

Why the other options are wrong

- **A.** Research on emerging-market companies is directly relevant to the fund's holdings, so buying it with the fund's soft dollars is appropriate.
- **B.** The credit newsletter serves only Ferraz's personal bond holdings; paying for it with client brokerage uses client assets for her own benefit.

Key takeaway Ask whether the soft-dollar purchase benefits the client. Research that helps manage client accounts does; research on the manager's personal holdings does not.

Reading 97: Guidance for Standard III: Duties to Clients. Notes: credguild.com/cfa/level-1/notes/ethics/duties-to-clients/

Question 17 Answer: B

Standard III(B) Fair Dealing requires fair, not identical, treatment. Olsen gave every client the chance to receive e-mail, sent the e-mail to all who responded and mailed the report to everyone on the same day. That dissemination is fair to all clients.

Why the other options are wrong

- **A.** Every client was invited to provide an e-mail address; those who did not simply receive the report by post. Offering the same option to all is fair.
- **C.** Using a faster channel for clients who chose it, with same-day mailing to everyone, is not preferential treatment.

Key takeaway Fair Dealing means fair, not equal: different delivery channels are fine if offered to all and used promptly.

Reading 97: Guidance for Standard III: Duties to Clients. Notes: credguild.com/cfa/level-1/notes/ethics/duties-to-clients/

Question 18 Answer: C

When a client makes an unsolicited request for an unsuitable trade, the member should discuss it with the client before acting. Because this trade would have a material effect on the portfolio, the right step is to discuss whether it reflects a change in her objectives and risk tolerance, i.e., whether she wants to update her investment policy statement.

Why the other options are wrong

- **A.** Refusing outright is premature. The first step is a discussion with the client; only if she will not update her IPS might the member follow firm policy, such as a separate client-directed account, or reconsider the relationship.
- **B.** Obtaining the client's acknowledgement under firm procedures is appropriate when an unsuitable unsolicited trade has only a minor effect on the portfolio. Here the effect is material.

Key takeaway For an unsolicited, unsuitable trade, a minor effect on the portfolio leads to the firm's acknowledgement procedure; a material effect leads to a discussion of updating the IPS.

Reading 97: Guidance for Standard III: Duties to Clients. Notes: credguild.com/cfa/level-1/notes/ethics/duties-to-clients/

Question 19 Answer: B

The fund has just been created and has no track record. Presenting the back-filled returns of its current holdings as the fund's historical return implies that Carden earned that return, which is not fair, accurate and complete under Standard III(D) Performance Presentation. Using only the bonds the fund holds today also introduces survivorship bias.

Why the other options are wrong

- **A.** Accurate arithmetic does not make the presentation fair: the fund never earned the 14%, and the figure ignores bonds that might have been sold or defaulted.
- **C.** The Standards do not ban presenting historical returns on risky assets; they require such presentations to be fair, accurate and complete.

Key takeaway A new fund has no history, so back-filled returns presented as its record are misleading.

Reading 97: Guidance for Standard III: Duties to Clients. Notes: credguild.com/cfa/level-1/notes/ethics/duties-to-clients/

Question 20 Answer: C

Standard III(E) lets a member disclose information that concerns illegal activities on the part of the client. Suspected money laundering falls under that exception, so the Standard does not bar Ferrante from reporting his conclusion to the authorities, and he may even have an obligation to report it. The same exception means that telling CFA Institute is not prohibited either. Neither action is prohibited. When unsure, the member consults compliance or legal counsel.

Why the other options are wrong

- **A.** The illegal-activity exception covers this disclosure as well, so Standard III(E) does not prohibit sharing the information with CFA Institute.
- **B.** The illegal-activity exception applies, so reporting to the appropriate authorities is permitted and may even be required.

Key takeaway Confidentiality does not shield a client's illegal activity, so Standard III(E) does not bar disclosing it.

Reading 97: Guidance for Standard III: Duties to Clients. Notes: credguild.com/cfa/level-1/notes/ethics/duties-to-clients/

Question 21 Answer: A

Under Standard IV(A) Loyalty, before engaging in independent practice for compensation, members must notify the employer of the services to be provided, their expected duration and the compensation, and must obtain the employer's consent before starting.

Why the other options are wrong

- **B.** Disclosure alone is not enough; the employer's consent is required before the paid work begins.
- **C.** Independent practice is not prohibited outright; it is allowed once the employer consents.

Key takeaway Paid outside advisory work: notify the employer (services, duration, pay) and obtain consent.

Reading 98: Guidance for Standard IV: Duties to Employers. Notes: credguild.com/cfa/level-1/notes/ethics/duties-to-employers/

Question 22 **Answer: B**

Standard IV(B) applies because the personal discount depends on Harrowby's business. Before Ross accepts it, she must obtain written consent from all parties involved; in practice, that includes written disclosure to and consent from Harrowby.

Why the other options are wrong

- **A.** The Standard does not require refusal. It requires written consent from all parties involved before she accepts.
- **C.** Competitive commissions for the firm do not change the fact that Ross personally gains from the firm's business; she still needs written consent before accepting the benefit.

Key takeaway A personal benefit tied to the employer's business requires written consent from all parties involved before it is accepted.

Reading 98: Guidance for Standard IV: Duties to Employers. Notes: credguild.com/cfa/level-1/notes/ethics/duties-to-employers/

Question 23 **Answer: B**

Standard IV(C) Responsibilities of Supervisors covers everyone under a member's authority, whether or not they are members or candidates. When a weak or missing compliance system makes proper supervision impossible, the member must decline the supervisory role in writing until adequate procedures are in place.

Why the other options are wrong

- **A.** Urging the firm is necessary but not sufficient; without an adequate system Mehta cannot discharge his duties, so he should decline the responsibility in writing.
- **C.** The Standard does not call for a complaint to CFA Institute about the firm; the appropriate response is to decline supervisory responsibility in writing.

Key takeaway Without an adequate compliance system, the member declines supervisory responsibility in writing until one exists.

Reading 98: Guidance for Standard IV: Duties to Employers. Notes: credguild.com/cfa/level-1/notes/ethics/duties-to-employers/

Question 24 **Answer: C**

Under Standard V(A) Diligence and Reasonable Basis, members who rely on third-party research must make reasonable and diligent efforts to determine that the research is sound, for example by reviewing its assumptions, rigor, timeliness and independence. Standard V(A) is about checking that the research is sound; it does not require her to name each provider in her recommendations.

Why the other options are wrong

- **A.** Relying on third-party research is allowed; the Standards do not require members to produce all research themselves.
- **B.** Naming each outside provider is not a requirement of Standard V(A); what the Standard requires is diligence about whether the research is sound.

Key takeaway A member who uses third-party research must make reasonable and diligent efforts to check that it is sound (Standard V(A)).

Reading 99: Guidance for Standard V: Investment Analysis, Recommendations, and Actions. Notes: credguild.com/cfa/level-1/notes/ethics/investment-analysis-recommendations-and-actions/

Question 25 **Answer: B**

Standard V(B) Communication with Clients and Prospective Clients requires members to distinguish between fact and opinion. The dividend cut is Moreau's prediction, yet she states it as something that "will" happen. Her comment that the total return "could" exceed 18% is properly phrased as an opinion.

Why the other options are wrong

- **A.** "Could earn a total return above 18%" is a qualified opinion. It does not promise or guarantee a return.
- **C.** Stating the predicted dividend cut as a certainty is a failure to separate opinion from fact.

Key takeaway Watch the verbs: "will" states a fact, "could" states an opinion.

Reading 99: Guidance for Standard V: Investment Analysis, Recommendations, and Actions. Notes: credguild.com/cfa/level-1/notes/ethics/investment-analysis-recommendations-and-actions/

Question 26 **Answer: C**

Standard V(C) Record Retention requires records that support investment analysis and recommendations. The original records belong to the bank, and memory is not a record. Before reissuing the reports, Ashe must re-create the supporting documentation from public sources or information obtained from the covered companies.

Why the other options are wrong

- **A.** Publishing research with no supporting records breaches V(C).
- **B.** His analysis may well have been diligent and reasonably based when he did it; the specific failure is the absence of supporting records now.

Key takeaway Records belong to the employer. At a new firm, the member rebuilds the records from public or company sources before reusing old research.

Reading 99: Guidance for Standard V: Investment Analysis, Recommendations, and Actions. Notes: credguild.com/cfa/level-1/notes/ethics/investment-analysis-recommendations-and-actions/

Question 27 **Answer: C**

Standard VI(A) requires members to disclose to clients and prospects matters that could reasonably be expected to impair objectivity. It does not prohibit an analyst with potential conflicts from writing the report; the investment banking relationship and the directorships must be disclosed.

Why the other options are wrong

- **A.** Independence and objectivity are required, but they do not replace disclosure: clients must be told about the relationships so they can judge the report.
- **B.** The Standard does not bar the analyst from writing the report; it requires the conflicts to be disclosed.

Key takeaway Conflicts rarely forbid the work. They require disclosure.

Reading 100: Guidance for Standard VI: Conflicts of Interest. Notes: credguild.com/cfa/level-1/notes/ethics/conflicts-of-interest/

Question 28 **Answer: A**

The recommended procedures call for blackout or restricted periods before client trades for employees involved in investment decision-making, so that no one front-runs client or employer transactions. The size of the firm and the type of security should help decide how severe the blackout requirement is.

Why the other options are wrong

- **B.** The blackout applies because of an employee's role in investment decisions. Seniority and years of service are not the factors that set its strictness.
- **C.** The number of clients and the size of their accounts are not the factors the recommended procedures name for setting the blackout's strictness.

Key takeaway Blackout periods apply to employees involved in investment decision-making, and their strictness should reflect the size of the firm and the type of security.

Reading 100: Guidance for Standard VI: Conflicts of Interest. Notes: credguild.com/cfa/level-1/notes/ethics/conflicts-of-interest/

Question 29 **Answer: A**

The free legal work Natarajan performs for Ashby is a benefit paid to another person in return for recommending her services, so it is a referral fee under Standard VI(C). Now that she is a CFA Institute member, she must disclose the arrangement to the prospective clients Ashby refers, including the nature of the benefit and an estimate of its value, so they can judge any partiality in Ashby's recommendation.

Why the other options are wrong

- **B.** Disclosing that the arrangement exists is not enough: the Standard expects the nature and the estimated value of the benefit to be disclosed so the client can weigh it.
- **C.** Standard VI(C) does not prohibit referral arrangements; it requires that they be disclosed. Ending the arrangement is not required.

Key takeaway Referral consideration can be non-cash (free services, gifts, discounts). Disclose its nature and estimated value.

Reading 100: Guidance for Standard VI: Conflicts of Interest. Notes: credguild.com/cfa/level-1/notes/ethics/conflicts-of-interest/

Question 30 **Answer: B**

Under Standard VII(A) Conduct as Participants in CFA Institute Programs, confidential information about the exam may not be disclosed, and that obligation continues after the exam and after the testing window has closed. Posting remembered exam questions is therefore a violation; discussing the curriculum itself in the forum beforehand was not.

Why the other options are wrong

- **A.** Confidentiality of exam content does not expire when the testing window closes.
- **C.** Discussing the curriculum itself before the exam is permitted; the violation is disclosing exam content.

Key takeaway Curriculum discussion is allowed. Exam content stays confidential with no time limit.

Reading 101: Guidance for Standard VII: Responsibilities as a CFA Institute Member or CFA Candidate. Notes: credguild.com/cfa/level-1/notes/ethics/responsibilities-as-a-cfa-institute-member/

Question 31 Answer: A

Tanaka violated Standard VII(B) Reference to CFA Institute, the CFA Designation, and the CFA Program. Stating that she passed each level at the first try is allowed, but claiming superior ability because of it, and promising better results, is not. Reid's statement about his first-try passes is a true fact with no claim attached, so it is allowed.

Why the other options are wrong

- **B.** Reid's statement is factual and does not imply a partial designation or superior ability, so he has not violated the Standard.
- **C.** Promising better results because the exams were passed on the first attempt is a promotional promise tied to the CFA Program, so Tanaka has violated the Standard.

Key takeaway Levels passed, even "on the first try," are facts that may be stated. Claiming superior ability or better results because of them is a violation.

Reading 101: Guidance for Standard VII: Responsibilities as a CFA Institute Member or CFA Candidate. Notes: credguild.com/cfa/level-1/notes/ethics/responsibilities-as-a-cfa-institute-member/

Question 32 Answer: A

Misrepresenting information on the Professional Conduct Statement compromises the integrity of CFA Institute programs and is conduct that Standard VII(A) Conduct as Participants in CFA Institute Programs expressly covers. Her answer is false whether or not the regulator eventually finds wrongdoing.

Why the other options are wrong

- **B.** V(C) concerns keeping records that support investment analysis and client communications, not answers given to CFA Institute.
- **C.** The question asks whether she is the subject of an investigation, which she is; answering falsely is the violation, regardless of the outcome.

Key takeaway False statements on the Professional Conduct Statement violate VII(A).

Reading 101: Guidance for Standard VII: Responsibilities as a CFA Institute Member or CFA Candidate. Notes: credguild.com/cfa/level-1/notes/ethics/responsibilities-as-a-cfa-institute-member/

Question 33 Answer: C

Under Standard I(A) Knowledge of the Law, Mensah has already tried to stop the violation by going to compliance. Because that failed, he must dissociate from the activity; one way is to request a move away from the work involved. Reporting to regulators is not something the Code and Standards demand unless applicable law requires it, and a personal confrontation with his manager is not required either.

Why the other options are wrong

- **A.** Reporting to regulators may be advisable, but the Code and Standards do not require it unless the law does.

- **B.** He has already made a reasonable attempt to stop the violation through compliance; a personal confrontation is not required.

Key takeaway Escalate internally first; if that fails, dissociate. Reporting to authorities is required only when the law requires it.

Reading 102: Application of the Code and Standards: Level I. Notes: credguild.com/cfa/level-1/notes/ethics/application-of-the-code-and-standards-level-i/

Question 34 **Answer: A**

Client brokerage (soft dollars) belongs to the clients and may be used only for goods and services that benefit them. Research used in managing client portfolios qualifies, although the adviser should ensure it does benefit the clients. Office furniture does not benefit clients, so paying for it with soft dollars violates Standard III(A).

Why the other options are wrong

- **B.** The research subscription is a permitted use because it is used in managing client portfolios.
- **C.** Chairs for the reception area are an office expense that does not benefit clients; paying for them with client brokerage is a violation.

Key takeaway Soft dollars may pay for research that benefits clients. Furniture and overhead do not qualify.

Reading 102: Application of the Code and Standards: Level I. Notes: credguild.com/cfa/level-1/notes/ethics/application-of-the-code-and-standards-level-i/

Question 35 **Answer: B**

Under Standard V(A) Diligence and Reasonable Basis, a member who uses third-party research must make reasonable and diligent efforts to judge whether it is sound. The review looks at the assumptions used, how rigorous the analysis is, how timely the research is, and how objective and independent its recommendations are. One year of high returns on a model portfolio is not one of these tests and says little about whether the research itself is sound.

Why the other options are wrong

- **A.** Reviewing the assumptions and the rigor of the analysis is a core part of judging whether third-party research is sound.
- **C.** Timeliness, objectivity and independence are among the qualities a member checks before relying on outside research.

Key takeaway Judge third-party research by its assumptions, rigor, timeliness, objectivity and independence; a recent high return is not a test of its soundness.

Reading 102: Application of the Code and Standards: Level I. Notes: credguild.com/cfa/level-1/notes/ethics/application-of-the-code-and-standards-level-i/

Question 36 **Answer: A**

There is no designation for having passed Level I, II or III, so "CFA Level I" after a name implies a designation that does not exist and violates Standard VII(B). A candidate may, however, accurately state candidacy ("Level II Candidate in the CFA Program") or that a level has been completed.

Why the other options are wrong

- **B.** Vogt's wording correctly describes her status as a candidate registered for Level II, which is permitted.

- **C.** Only Haddad's wording implies a partial designation; Vogt's is acceptable.

Key takeaway Never write "CFA Level I/II/III" as if it were a title; describe candidacy or completed levels instead.

Reading 102: Application of the Code and Standards: Level I. Notes: credguild.com/cfa/level-1/notes/ethics/application-of-the-code-and-standards-level-i/

credguild.com

Keep going at credguild.com

These questions are a sample. These are free on the site and do what a PDF cannot:

- **Diagnostic test:** 36 questions weighted like the exam, a score in each topic and the topics to start with. credguild.com/cfa/level-1/diagnostic/
- **Practice questions:** 398 free questions with full explanations, scored as you answer. A free account answers any question in the bank, up to 50 new questions a day. credguild.com/cfa/level-1/practice/
- **Notes:** every reading of the 2027 curriculum, with worked examples and exam traps, on the site and as a PDF. credguild.com/cfa/level-1/notes/
- **Study plan:** pick your exam window and weekly hours and get a week-by-week schedule. credguild.com/cfa/level-1/plan/
- **Mock exam:** 180 questions in two sessions, on the 2027 topic weights; the first one is free with an account. credguild.com/cfa/level-1/mock/
- **Cheat sheet and formula sheet:** every reading's bottom line and every formula, by topic. credguild.com/cfa/level-1/cheat-sheet/

Found a mistake? Email hello@credguild.com.

credguild.com