

# CFA Level I - Chartered Financial Analyst Exam

1. According to the AIMR-PPS, \_\_\_\_\_ are defined to include all discretionary and nondiscretionary assets.

A. individually managed assets

B. individual investor's assets

C. total firm assets

D. global assets

**Answer(s): C**

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2. Standard IV (B.7) deals with \_\_\_\_\_.

A. Priority of Transactions

B. None of these answers

C. Disclosure of Referral Fees

D. Performance Presentation

E. Prohibition against Misrepresentation

F. Disclosure of Conflicts to Clients and Prospects

G. Preservation of Confidentiality

H. Prohibition against Use of Material Nonpublic Information

**Answer(s): F**

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3. Standard III (D) deals with \_\_\_\_\_.

A. Professional Misconduct

B. Use of Professional Designation

C. Plagiarism

D. Fundamental Responsibilities

E. None of these answers

F. Obligation to Inform Employer of Code and Standards

**Answer(s): E**

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4. Another name for "access" person is \_\_\_\_\_.

A. none of these answers

B. supervisor

C. ombudsman

D. guardian

E. fiduciary

F. covered person

**Answer(s): F**

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5. Which of the following is/are true about the Performance Presentation Standards?

A. A member who complies with the mandatory requirements of the PPS but does not follow the recommended requirements can publicly claim compliance with the PPS.II. The PPS are designed to be primarily a performance measurement framework.III. The Standards are not designed to enhance or detract from the presentation of historical results.

B. III only

C. II and III only

D. I, II and III

E. I and III only

**Answer(s): D**

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6. If a firm uses non-discretionary leverage, it must present performance using:

A. both actual returns and all-cash basis.

B. all-cash basis i.e. removing leverage effects.

C. actual returns.

D. none of these answers.

**Answer(s): B**

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7. \_\_\_\_\_ and other hybrid securities must be treated consistently across and within composites.

A. Portfolios

B. Convertibles

C. Assets

D. Bonds

**Answer(s): B**

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8. Standard IV (B.8), Disclosure of Referral Fees, includes \_\_\_\_\_.

A. referral fees paid in cash

B. referral fees paid "in kind"

C. soft dollar referral fees

D. all of these answers

**Answer(s): D**

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9. Which of the following relating to compliance procedures for complying with Standard III (E) is false? The compliance procedures should:

A. none of these answers.

B. outline permissible conduct.

C. delineate procedures for reporting violations and sanctions.

D. designate a team of outside colleagues to form a review board.

E. outline the scope of the procedures.

F. be easy to understand.

**Answer(s): D**

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10. According to the AIMR-PPS for venture and private placements, \_\_\_\_\_ internal rate of return must be presented since inception of the fund and be net of fees, expenses and carry to the limited partner.

A. limited

B. extended

C. cumulative

D. general

**Answer(s): C**

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**11.** Which of the following AIMR Standards states that referral fees must be disclosed in writing to clients or customers?

A. V

B. VI (A)

C. IV (B.8)

D. IV

**Answer(s): C**

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**12.** Omega Prime Securities is a sizable investment bank that undertakes security issuances on behalf of small and medium-size businesses. Treffil Ellis is the senior vice president of corporate finance at Omega. Treffil, on one of his golf junkets, made acquaintance with Tralth Trevor, owner of a growing chain of resort hotels. Tralth invites Treffil to his estate mansion the next day and over drinks, asks him how fast Omega could issue equity-linked callable notes to finance the \$200 million construction of new hotel businesses in Cairo and Bali. He forthrightly tells him that Omega could receive as much as 150 basis points above the normal fee if the issuance could be completed within the month. Treffil knows that this is not enough time to complete a research on Tralth's business and determine the issue price. However, he does know that his research wing could quickly do a comparison with one of the other hotel chains and determine an approximate issue price. He instructs his department to do so. In a month, the public offering is ready for issuance and Omega ends up making almost \$15 million more than on other similar business deals. Treffil receives commendation from the CEO for "going beyond the call of duty for his employer." Treffil has

A. violated Standard IV (B.3) - Fair Dealing.II. not violated any code of ethics.III. violated Standard IV (1) - Reasonable Basis & Representations.IV. violated Standard IV (B.1) - Fiduciary Duties.

B. III and IV only

C. I and III only

D. III only

E. II only

**Answer(s): C**

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**13.** Which of the following statements clearly conflicts with the recommended procedures for compliance presented in AIMR's Standards of Practice Handbook?

A. Investment recommendations may be changed by an analyst without prior approval of a supervisory analyst.

B. Prior approval must be obtained for the personal investment transactions of all employees.

C. For confidentiality reasons, personal transactions should not be compared with those of clients or the employer unless requested by regulatory organizations.

D. Personal transactions should be defined as including transactions in securities owned by the employee and member of his or her immediate family and transactions involving securities in which the employee has beneficial interest.

**Answer(s): C**

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**14.** Trust Fund is a reasonably successful investment management firm that has as its clients a few pension plans. Trust Fund executes all of its trades with Prime Brokerage, an average brokerage firm. Prime Brokerage charges higher commissions than comparable players in the market but in return, provides investment research on the stocks which are part of the pension plan assets under Trust Fund's management. Portfolio managers at Trust Fund know about the close relationship on the golf links between Prime Brokerage's chief broker, Ralph Fiennes, and Trust Fund's CEO, Armis Arvanitis. They also believe that the research provided by Prime Brokerage, while not superlative, is quite useful and justifies the excess expense in brokerage. This "soft- dollars" practice is disclosed in Trust Fund's official documents and contracts but Sisko, a freshly minted CFA charterholder, thinks that Trust Fund managers are in violation of the AIMR code of Ethics. Which of the following is true?

A. Trust Fund's managers are violating Standard IV (B.8) - Disclosure of Referral Fees by not revealing the arrangement to pension plan beneficiaries.

B. Trust Fund's managers are violating Standard IV (1) - Fiduciary Duties by not executing the trades at the lowest price available.

C. Sisko is not applying the AIMR code correctly. Trust Fund's managers are not violating any AIMR standards.

D. Trust Fund's managers are violating Standard IV (B.3) - Fair Dealing by unfairly diverting funds from the plan assets to Prime Brokerage through higher fees.

**Answer(s): C**

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**15.** A financial analyst should conduct himself with \_\_\_\_\_, competence and dignity and act in an ethical manner in his dealings with the public, clients, customers, employers, employees and fellow analysts.

A. integrity

B. morality

C. none of these answers

D. honor

E. principal

**Answer(s): A**

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**16.** Everly Smith has passed Level II of the CFA examination. While studying for Level III, he circulates his resume stating that he has "completed Charter Financial Analyst II" and his resume lists his name as "Everly Smith, CFA II." Which of these following statements is correct?

A. Everly Smith is not in compliance with the standards regarding use of the CFA designation. He may state he "completed Chartered Financial Analyst II," but cannot put "CFA II" after his name.

B. Everly Smith is not in compliance with the standards regarding use of the CFA designation. He can neither state he "completed Chartered Financial Analyst II" nor "Everly Smith, CFA II."

C. Everly Smith is not in compliance with the standards regarding use of the CFA designation. Since he is registered for Level III he should state "Everly Smith, CFA III." D. Everly Smith is in compliance with the standards regarding use of the CFA designation.

**Answer(s): B**

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**17.** For \_\_\_\_\_ of five or fewer portfolios, the disclosure "five or fewer portfolios" may be made rather than a disclosure of the exact number of portfolios.

A. returns

B. investments

C. segments

D. composites

**Answer(s): D**

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**18.** Standard I deals with \_\_\_\_\_.

A. Use of Professional Designation

B. Duty to Employer

C. Obligation to Inform Employer of Code and Standards

D. Professional Misconduct

E. Plagiarism

F. Fundamental Responsibilities

G. Disclosure of Conflicts to Employer



H. None of these answers

**Answer(s): F**

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**19.** According to the AIMR-PPS, terminated portfolios are included in the composite for how long after termination?

A. Composites must include terminated portfolios after the last full performance measurement period the portfolios were under management.

B. Composites should include the terminated portfolio only until the date of termination.

C. Composites should include the terminated portfolio for the last full performance measurement period under which the portfolios were managed.

D. Composites should include the terminated portfolio for the full ten years required by the Standards for performance reporting.

**Answer(s): C**

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**20.** Edward Witten works for Princeton Investments and has registered to take Level III exam next year. He had taken the Level III exam 3 years ago but was not successful. In his firm's promotional material, he has stated that he is a candidate in the CFA program and has successfully passed Level II. Edward has:

A. violated Standard II (A) - Use of Professional Designation. He cannot claim to be in the CFA program without having completed Level III exam.

B. violated Standard II (A) - Use of Professional Designation. He cannot claim to be in the CFA program since he failed the Level III exam.

C. not violated any standards.

D. violated Standard II (A) - Use of Professional Designation. He cannot claim to be CFA - Level II.

**Answer(s): C**

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