CFA Institute

CFA-LEVEL-I Exam

CFA Level I Chartered Financial Analyst

Question: 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: C

Explanation:
Total firm assets are defined to include all discretionary and nondiscretionary assets. Total firm assets does not refer to assets underlying overlay investment strategies, such as currency overlay, options and futures overlays, securities lending programs and asset allocation overlay strategies, unless the firm actually manages the underlying assets.

Question: 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: F

Explanation:
Standard IV (B.7) states that members shall disclose to their clients all matters that could become potential conflicts. These include beneficial ownership of securities or otherinvestments, that reasonably could be expected to impair the member's ability to make unbiased and objective recommendations.

Question: 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: E

Explanation:
Standard I deals with Fundamental Responsibilities. Standard II (A) deals with Use of Professional Designation. Standard II (B) deals with Professional Misconduct. Standard II (C) deals with Plagiarism. Standard III (A) deals with the Obligation to Inform Employer of Codes and Standards. Standard III (D) deals with the Disclosure of Additional Compensation Arrangements.

Question: 4

Another name for "access" person is ________.

A. none of these answers
B. supervisor
C. ombudsman
D. guardian
E. fiduciary
F. covered person

Answer: F

Explanation:
Access or covered persons have knowledge of pending or actual investment recommendations or action. The firm's definition of access (covered) person should be broad enough to cover all people with that knowledge.

Question: 5

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

I. A member who complies with the mandatory requirements of the PPS but does notfollow 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 ofhistorical results.

A. III only
B. II and III only
C. I, II and III
D. I and III only

Answer: D

Explanation:

The PPS are designed to be primarily a performance presentation system, not a performance measurement system. The Standards are not designed to enhance or detract from the usefulness of the information in historical results, though it does restrict the way they are to be presented. The PPS are voluntary standards and are not necessarily binding on AIMR members. Some standards are mandatory while others are recommended. To claim compliance, members must abide by the mandatory requirements, at the very least.

Question: 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: B

Explanation:
According to Section B of the PPS standards - "Calculation of Returns" - for non-discretionary leverage, performance must be presented on an all-cash returns basis.

Question: 7

________ and other hybrid securities must be treated consistently across and within composites.

A. Portfolios
B. Convertibles
C. Assets
D. Bonds

Answer: B

Explanation:
This is one of the requirements which is mandatory in order to be in compliance with the PPS.

Question: 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: D

Explanation:
Under Standard IV (B.8), appropriate disclosure involves disclosing the nature of the consideration or benefit given or received for the recommending of services. Consideration includes all fees, whether paid in cash, in soft dollars, or in kind.

Question: 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: D

Explanation:
The compliance officer should be designated from within the firm.

Question: 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: C

Explanation:
Cumulative internal rate of return must be presented since inception of the fund and be net of fees, expenses and carry to the limited partner. Irr must be calculated based on cash-on-cash returns plus residual value.

Question: 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: C

Explanation:
Standard IV (B.8) - Disclosure of Referral Fees states: "Members shall disclose to clients and prospects any consideration or benefit received by the member or delivered to others for the recommendation of any services to the client or prospect."

Question: 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

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

A. III and IV only
B. I and III only
C. III only
D. II only

Answer: C

Explanation:
If adequate research is not put into determining the fair price of a security issue, investors could end up paying a price that has no relevance to the intrinsic value of the security. This is in direct violation of Standard IV (A.1) - Reasonable Basis & Representations.

Question: 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: C

Explanation:
This question deals with the compliance procedures relating to personal investments of members. Employees should compare personal transactions of employees with those of clients on a regular basis, regardless of the existence of a regulatory organization. Such comparisons ensure that members' personal trades do not conflict with their duty to their clients. All the other statements do not conflict with the procedures in the Handbook.

Question: 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 (B.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: C

Explanation:
The practice of using "soft dollars" (i.e., the usage of brokerage for purchase of research services) is not forbidden by the AIMR code or securities laws, as long as they are commensurate with the

services received and the practice is disclosed to the clients. In this case, there is no evidence that Trust Fund is overpaying Prime Brokerage or that it is not seeking best price and execution. Hence, Sisko is mistaken and Trust Fund managers are not in violation of the AIMR code.

Question: 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. principalThat answer is correct!

Answer: A

Explanation:
The Code of Ethics: "Members of AIMR shall act with integrity, competence, dignity and in an ethical manner when dealing with the public, clients, prospects, employers, employees and fellow members."

Question: 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: B

Explanation:
Everly Smith has violated Standard II (A), Use of Professional Designation. There is no designation for someone who has passed Level I, Level II, or Level III, so he may not state "Everly Smith, CFA II." He also can not state he has "completed Charter Financial Analyst II." However, he may state that he is a Level III candidate in the CFA Program. If he passed Level II, but was not registered for Level III he could state "I passed Level II of the CFA Program in the year 19--."

Question: 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: D

Explanation:
This is an exception allowed by AIMR when disclosing the list of composites.

Question: 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: F

Explanation:
Standard I deals with Fundamental Responsibilities. Standard II (A) deals with Use of Professional Designation. Standard II (B) deals with Professional Misconduct. Standard II (C) deals with Plagiarism. Standard III (A) deals with the Obligation to Inform Employer of Codes and Standards. Standard III (B) deals with the Duty to Employer. Standard III (C) deals with Disclosure of Conflicts to Employer.

Question: 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: C

Explanation:
Composites must exclude terminated portfolios after the last full performance measurement period the portfolios were under management, but composites must continue to include terminated portfolios for all periods prior to termination. This is a requirement for creation and maintenance of composites.

Question: 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: C

Explanation:
Standard II (A) - Use of Professional Designation, states that a person must be registered to take the next higher level of the exam to be a "candidate" in the CFA program. That Edward failed on his last attempt does not prevent him from claiming that he's a candidate, as long as he has registered for the exam.

Question: 21

Standard V (A) deals with _________.

A. Prohibition against Use of Material Nonpublic Information
B. Disclosure of Conflicts to Clients and Prospects
C. Prohibition against Misrepresentation
D. Disclosure of Referral Fees
E. Performance Presentation
F. Priority of Transactions
G. Preservation of ConfidentialityThat answer is correct!

Answer: A

Explanation:
Standard V (A) prohibits members who possess material nonpublic information related to the value

of a security from trading in that security if such trading would breach a duty or if the information was misappropriated or relates to a tender offer.

Question: 22

Andy Pilling is a bond trading specialist who recently started a special fund, the "Structured Bond Fund." The strategy behind this fund is quite complex, involving a mix of highly speculative, high-yield bonds and various tax-free municipal bonds for some stability. Andy has a strong view that the economy will remain vibrant and bullish over the next two years and hence, is not worried about the risky bonds. Assuming a falling rate scenario in this case allows the fund to project an expected return 130 basis points above the S&P 500 return. In his special report, Pilling does not disclose such assumptions nor does he reveal any details about the bond strategy. He does analyze the state of the economy and the future outlook in the report. Based on his reputation and his association with some big name academics, Pilling is able to obtain capital of close to 75 million dollars on this fund alone. Andy has:

A. not violated any standards in the AIMR Code of Ethics.
B. violated Standard IV (B.6) - Prohibition Against Misrepresentation.
C. violated Standard IV (A.2) - Research Reports - by not revealing the assumptions and details about the strategy.
D. violated Standard IV (B.1) - Fiduciary Duties - by not disclosing the nature of the strategy.

Answer: C

Explanation:
Standard IV (A.2) - Research Reports requires members to describe the basic characteristics of an investment, the degree of risks involved and scenario analysis to illustrate possible losses under different market conditions. By suppressing such relevant details, Pilling has violated the AIMR Code of Ethics.

Question: 23

According to Standard IV (A.2), members should consider including the following information in research reports, except:

A. the methodology that drove the investment decisions.
B. yield-to-maturity.
C. annual amount of income expected.
D. degree of uncertainty associated with the cash flows.
E. business, financial, political, sovereign and market risks.
F. none of these answers.
G. degree of marketability / liquidity.
H. expected annual rate of return.That answer is correct!

Answer: A

Explanation:

All the information has to be included in the research reports except the methodology that drove the investment decision, which is part of the 'maintaining files' compliance procedure for Standard IV (A.1).

Question: 24

The disclosures for retroactive compliance apply to composites formulated prior to ________.

A. January, 1989
B. January, 1992
C. January, 1991
D. January, 1993
E. January, 1990

Answer: D

Explanation:
The effect date to be in compliance with AIMR-PPS was January 1, 1993. Any composites which predate the effective date can be brought into compliance retroactively.

Question: 25

With regard to real estate, all properties must be included in at least one ________.

A. account
B. investment type
C. composite
D. sector
E. portfolios

Answer: C

Explanation:
Consistent with the general requirements for all composites, all properties with discretionary fee-paying investors must be included in at least one account. Because of the unique nature of individual real estate investments, however, composites containing single properties are appropriate in many cases.

Question: 26

Each ________ needs to comprise portfolios or asset classes that represent a similar investment goal.

A. return
B. composite
C. value
D. benchmark

E. mix

Answer: B

Explanation:
All actual fee-paying discretionary portfolios must be included in at least one composite defined according to similar strategy or investment objective.

Question: 27

ERISA fiduciaries must adhere to the following prudent procedures:

- establish a written investment policy for the plan
- diversify plan assets
- make investment decisions with the skill and care of a _________
- monitor investment performance
- control investment expenses
- avoid prohibited transactions

A. member
B. supervisor
C. prudent expert
D. none of these answers
E. trader

Answer: C

Explanation:
These procedures are stipulated under the detailing of ERISA fiduciary duties, to ensure that the fiduciary complies with the duty to act with prudence. Under ERISA, the fiduciary is held to a higher standard than the Prudent Man Rule. The ERISA fiduciary needs to be as prudent as the average expert, not simply as prudent as the average person.

Question: 28

_________ establishes the fiduciary principles for U.S. corporate pension plans.

A. AIMR
B. PSPC
C. ERISA
D. WTO
E. UMIFA
F. None of these answers
G. RELAC

Answer: C

Explanation:
ERISA establishes the fiduciary principles for U.S. corporate pension plans. ERISA is very specific in its definition of fiduciaries and their responsibilities and investment managers of U.S. corporate pension plans are subject to ERISA's fiduciary provisions.

Question: 29

Under what conditions is Standard II (B)- Professional Misconduct violated?

I. The member is convicted of a misdemeanor.
II. The member regularly engages in unprofessional but legal behavior.
III. The member engages in dishonest activities that do not result in criminal conviction. IV. The member is convicted of a felony.

A. II, III & IV.
B. I, II & IV.
C. I, II, III & IV.
D. IV only.That answer is correct!

Answer: A

Explanation:
This question pertains to Standard II (B) - Professional Misconduct. A misdemeanor conviction is only considered grounds for a violation of II (B) if it occurs repeatedly, or involves "moral turpitude" (lying, cheating, stealing, or other dishonest conduct). Unprofessional and dishonest behavior or a felony conviction are violations of Standard II (B).

Question: 30

Complete the following: According to The Code of Ethics, members of AIMR shall: "Act with ________, competence, dignity and in an ethical manner when dealing with the public, clients, prospects, employers, employees and fellow members."

A. virtue
B. none of these answers
C. honorability
D. integrity
E. morality

Answer: D

Explanation:
According to The Code of Ethics, members of AIMR shall: "Act with integrity, competence, dignity and in an ethical manner when dealing with the public, clients, prospects, employers, employees and fellow members."

Question: 31

Standard IV of the Standards of Professional Conduct deals with Relationships with and Responsibilities to ________.

A. None of these answers
B. Clients and Prospects
C. AIMR
D. Supervisors
E. the Employer

Answer: B

Explanation:
Standard IV of the Standards of Professional Conduct deals with Relationships with and Responsibilities to Clients and Prospects.

Question: 32

Each of the following is true regarding Standard II (A), except:

A. You must be registered for the next CFA exam in order to call yourself a candidate.
B. This standard relates to business cards and letterheads.
C. This standard does not relate to oral statements.
D. There is no designation for someone who has passed Level I, II, or III.
E. All of these answers.
F. Candidates may state that they have completed Level I, II, or III.

Answer: C

Explanation:
Standard II (A) relates to the responsibility of AIMR members and candidates to use their professional designation properly and in a non-misleading manner. A person must be registered to take the next scheduled CFA exam to be a "candidate" in the CFA program. There is no designation for someone who has passed Level I, II, or III of the CFA exam. Candidates may state, however, that they have completed Level I, II, or III. The standard applies to all related explanations or descriptions of the CFA designation, including letterheads and business cards, resumes, directory listings, printed advertising, brochures and oral statements to clients and prospects.

Question: 33

Standard ________ pertains to fair dealing with customers and clients.

A. III (B)
B. IV (B.3)
C. IV (A)
D. I (D)
E. None of these answers

Answer: B

Explanation:
Standard IV (B.3) states: "Members shall deal fairly and objectively with all clients and prospects when disseminating investment recommendations, disseminating material changes in prior investment recommendations and taking investment action."

Question: 34

Social investments:

A. should never be used in pension fund investing.
B. in pensions must be well thought-out, making sure that such investments are legal and do not impair the integrity of the funds in questions or the financial security of the participants or beneficiaries.
C. none of these answers.
D. have yet to be used as an investment in pension funds in the U.S.
E. are proper investment vehicles for pensions, since they are a "public good."

Answer: B

Explanation:
In a pension plan, the first and foremost duty of the fiduciary is to the plan participants and their beneficiaries rather than to the plan sponsor that has the power to hire and fire the investment manager. Consequently, if urged to make investments that might be of direct benefit to a sponsoring community or to the community at large, the manager must ensure that such investments are legal and do not impair the integrity of the funds in question or the financial security of the participants/beneficiaries.

Question: 35

Which of the following are considered basic characteristics of a security and must be included in research reports?

A. business risk
B. degree of uncertainty
C. annual expected income
D. yield-to-maturity
E. all of these answers
F. both degree of liquidity and yield-to-maturity
G. expected annual rate of return

Answer: E

Explanation:
Members should include the following information in research reports:

- expected annual rate of return
- annual amount of income expected (current and future)
- current rate of income return of yield to maturity
- degree of uncertainty associated with cash flows
- degree of marketability/liquidity
- business, financial, political, sovereign and market risks

Thank You for trying CFA-LEVEL-I PDF Demo

To Buy Latest CFA-LEVEL-I Full Version Download visit link below

https://www.certkillers.net/Exam/CFA-LEVEL-I

Start Your CFA-LEVEL-I Preparation

[Limited Time Offer] Use Coupon "CKNET" for Further discount on your purchase. Test your CFA-LEVEL-I preparation with actual exam questions.