

CHAPTER 56**ETHICS AND TRUST IN THE INVESTMENT PROFESSION**

1. (B) a person's beliefs about right and wrong behavior.

Explanation

An individual's beliefs are not ethics as it is used in the Level I CFA curriculum. Ethics are described as commonly accepted principles of good and bad behavior and the study of good and bad behavior.

(Study Session 19, Module 56.1, LOS 56.a)

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2. (B) aid decision makers in considering alternatives and their potential impacts.

Explanation

A framework for ethical decision making is a way to help decision makers consider alternatives and their impact on stakeholders.

(Study Session 19, Module 56.1, LOS 56.h)

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3. (B) Some illegal acts are considered ethical.

Explanation

Some illegal acts, such as acts of civil disobedience, are considered ethical by many people. All unethical behavior is not necessarily illegal.

(Study Session 19, Module 56.1, LOS 56.g)

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4. (C) abide by a code of ethics.

Explanation

One of the defining characteristics of a profession according to the Level I CFA curriculum is that its members agree to abide by a common code of ethics.

(Study Session 19, Module 56.1, LOS 56.c)

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5. (B) fiduciary standard.**Explanation**

A fiduciary standard requires professionals to use their knowledge and expertise to act in the best interests of their clients.

(Study Session 19, Module 56.1, LOS 56.e)

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6. (A) considers alternative actions and unintended consequences.**Explanation**

An ethical decision-making framework is designed to ensure that alternative actions and potential unintended consequences of decisions are considered.

(Study Session 19, Module 56.1, LOS 56.h)

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7. (B) giving members of a group a minimum level of acceptable behavior.**Explanation**

Standards of conduct address specific minimum levels or expected behavior in various circumstances, while a code of ethics communicates provides the values and general expectations for professional behavior. A code of ethics does not necessarily include standards of conduct.

(Study Session 19, Module 56.1, LOS 56.b)

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8. (A) increases risk and the cost of capital.**Explanation**

In the long run, unethical behavior will decrease trust in financial professionals and the use of financial professionals by the public, ultimately decreasing incomes for the profession. Unethical behavior, such as misleading clients, can adversely affect the allocation of financial capital.

(Study Session 19, Module 56.1, LOS 56.d)

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9. (A) a code of ethics.**Explanation**

The Standards of Professional Conduct are based on principles stated in the CFA Institute Code of Ethics.

(Study Session 19, Module 56.1, LOS 56.g)

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10. (A) **does not need to include standards of conduct.**

Explanation

A code of ethics may include standards of conduct, but does not require them.
(Study Session 19, Module 56.1, LOS 56.b)

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11. (B) **have specialized expert knowledge.**

Explanation

A profession is an occupational group (e.g., doctors or lawyers) that has requirements of specialized expert knowledge, and often a focus on ethical behavior and service to the larger community or society. While many professions require their members to put clients first or encourage them to serve the wider community, these are not defining characteristics of a profession.

(Study Session 19, Module 56.1, LOS 56.c)

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12. (C) **the study of moral principles.**

Explanation

Ethics refers to the study of moral principles. Ethics is broader than written codes of standards or a particular belief about proper conduct.

(Study Session 19, Module 56.1, LOS 56.a)

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13. (A) **suitability standard.**

Explanation

A suitability standard refers to matching client return requirements and risk tolerances with the characteristics of the securities recommended.

(Study Session 19, Module 56.1, LOS 56.e)

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14. (C) **Ethical and legal standards often intersect, but not always.**

Explanation

Ethical and legal standards are not subsets of each other. Some actions that are legal might not be ethical, and some actions that are ethical might not be legal.

(Study Session 19, Module 56.1, LOS 56.g)

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15. (B) may be rules-based or principles-based.**Explanation**

A code of ethics may be rules-based or principles-based. There can be no assurance that none of a group or professionals will violate a code of ethics. There is no requirement that a group of professionals agreeing to a code of ethics cannot be held out to the public as a positive thing for clients.

(Study Session 19, Module 56.1, LOS 56.b)

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16. (C) clients, other employees, and society.**Explanation**

By reducing trust in the financial services profession, unethical behavior can harm clients, other financial services employees, and society, by increasing the perceived risk of investing, increasing the cost of capital, and affecting the allocation of capital for the entire economy.

(Study Session 19, Module 56.1, LOS 56.d)

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17. (C) decrease the rate of economic growth.**Explanation**

Unethical behavior in the investment industry can divert capital away from its highest valued uses, which decreases the growth rate of the economy. In the long run, unethical behavior decreases profits for financial services firms by discouraging potential clients from using their services. When savers and investors distrust the investment industry they provide less capital and demand a higher return for its use, which increases the cost of capital for businesses.

(Study Session 19, Module 56.1, LOS 56.d)

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18. (C) establish trust.**Explanation**

Ways that professions establish trust include requiring high standards of expertise, knowledge, and skill; establishing standards of ethical behavior; monitoring professional conduct; encouraging continuing education to maintain and increase competence; being focused on clients' needs; and mentoring and inspiring others in the profession.

(Study Session 19, Module 56.1, LOS 56.c)

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19. (A) **Identify relevant facts; consider influences and alternatives; decide and act; reflect on outcomes.**

Explanation

The framework for ethical decision making presented in the Level I CFA curriculum includes these elements:

- Identify relevant facts, stakeholders, ethical principles, and conflicts of interest.
- Consider alternative actions, situational influences, and whether to seek additional guidance.
- Decide and act.
- Reflect on whether the outcome was as expected, and why or why not.

(Study Session 19, Module 56.1, LOS 56.h)

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20. (C) **situational influences.**

Explanation

Situational influences, which are factors external to a decision maker, are the most likely source of challenges to ethical behavior.

(Study Session 19, Module 56.1, LOS 56.f)

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