

CHARTERED FINANCIAL ANALYST (CFA) ETHICS PRACTICE TEST (SAMPLE) STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. Scenario: A member uses inaccurate benchmark data to claim outperformance. Which CFA Institute Standard is violated?**
 - A. Standard V.A Diligence and Reasonable Basis
 - B. Standard VI.A Disclosure of Conflicts
 - C. Standard IV.D Performance Presentation
 - D. Standard IV.E Preservation of Confidentiality

- 2. Scenario: A member cannot justify a recommendation because there is no supporting evidence or rationale documented. Which CFA Institute Standard is violated?**
 - A. Standard V.A Diligence and Reasonable Basis
 - B. Standard IV.D Performance Presentation
 - C. Standard IV.E Preservation of Confidentiality
 - D. Standard IV.C Suitability

- 3. Which statement is correct under the Code and Standards regarding independent practice?**
 - A. Independent practice that could compete with an employer is prohibited without consent from the employer.
 - B. Members may undertake independent practice that competes with their employer without any consent.
 - C. Independent practice that competes with the employer is allowed if the member's clients approve.
 - D. Written consent from the employer is necessary to permit independent practice that could result in compensation or other benefits in competition with their employer.

- 4. Which CFA Institute standard is violated when a risk disclosure fails to adequately describe investment risks, misleading clients about potential losses?**
 - A. Standard IV.D Performance Presentation.
 - B. Standard VI.A Disclosure of Conflicts.
 - C. Standard III.A Loyalty, Prudence, and Diligence.
 - D. Standard IV.B Fair Dealing.

5. Teresa Staal, CFA, is an investment officer in a bank trust department. She manages money for celebrities and public figures, including an influential local politician. She receives a request from the politician's political party headquarters to disclose his stock holdings. The request indicates that local law requires the disclosure. What steps should Staal most likely take to ensure she does not violate any CFA Institute Standards of Professional Conduct?
- A. Provide the information and inform her client.
 - B. Send the requested documents and inform her supervisor.
 - C. Check with her firm's compliance department to determine her legal responsibilities.
 - D. Ignore the request.
6. Kazuya's act of selling his forecast to an internet site constitutes which CFA Institute Standard?
- A. Market Manipulation
 - B. Priority of Transactions
 - C. Additional Compensation Arrangements
 - D. Loyalty
7. The Duties to Employers standard requires that members and candidates must not do which of the following?
- A. Accept any gifts that might compromise independence and objectivity.
 - B. Deprive their employer of their skills and abilities as related to their employment.
 - C. Accept compensation competing with their employer's interest and with the written consent of all parties involved.
 - D. Fail to report conflicts of interest.
8. Scenario: A firm withholds material information about a fund's holdings from clients until after a transaction is executed. Which CFA Institute Standard is violated?
- A. Standard V.A Diligence and Reasonable Basis
 - B. Standard V.B Communication with Clients and Prospective Clients
 - C. Standard IV.C Suitability
 - D. Standard VI.A Disclosure of Conflicts

9. A firm offers a compensation incentive to advisers without fully disclosing the terms to clients. Violation?

- A. Standard III.B Additional Compensation Arrangements
- B. Standard I.D Misconduct
- C. Standard VI.A Disclosure of Conflicts
- D. Standard VII.B Reference to CFA Institute

10. Which entity is most responsible for effectively implementing GIPS standards on a country-wide basis?

- A. The local regulator(s)
- B. Local independent valuation firms
- C. International standards board
- D. Local sponsoring organization

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Answers

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1. A
2. A
3. D
4. D
5. C
6. C
7. B
8. B
9. A
10. D

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Explanations

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1. Scenario: A member uses inaccurate benchmark data to claim outperformance. Which CFA Institute Standard is violated?

A. Standard V.A Diligence and Reasonable Basis

B. Standard VI.A Disclosure of Conflicts

C. Standard IV.D Performance Presentation

D. Standard IV.E Preservation of Confidentiality

Claims of outperformance must be supported by a diligent and reasonable basis. Using benchmark data that is inaccurate undermines the integrity of the analysis and means the performance claim isn't based on reliable, verifiable evidence. This violates the duty to have a reasonable basis for investment analyses and recommendations, including the data and methods used to evaluate performance. Even if the presentation of performance data is covered by other standards, the core issue here is the failure to apply proper diligence to the benchmark data, which is exactly what Standard V.A Diligence and Reasonable Basis requires.

2. Scenario: A member cannot justify a recommendation because there is no supporting evidence or rationale documented. Which CFA Institute Standard is violated?

A. Standard V.A Diligence and Reasonable Basis

B. Standard IV.D Performance Presentation

C. Standard IV.E Preservation of Confidentiality

D. Standard IV.C Suitability

The key idea is that investment recommendations must be grounded in thorough analysis with a documented, reasonable basis. Standard V.A Diligence and Reasonable Basis requires members and candidates to base their recommendations on careful due diligence, using appropriate evidence and documentation to support the rationale. If there's no documented evidence or rationale, the recommendation lacks the necessary basis and cannot be defended to clients or supervisors, which violates this standard. This isn't about how performance is presented, confidentiality, or whether a given investment is suitable for a client. Those areas are addressed by other standards. The absence of a documented justification directly points to failing the diligent, evidence-backed analysis that underpins every recommendation.

3. Which statement is correct under the Code and Standards regarding independent practice?

- A. Independent practice that could compete with an employer is prohibited without consent from the employer.
- B. Members may undertake independent practice that competes with their employer without any consent.
- C. Independent practice that competes with the employer is allowed if the member's clients approve.
- D. Written consent from the employer is necessary to permit independent practice that could result in compensation or other benefits in competition with their employer.**

When you're employed, you owe loyalty to your employer, and you must avoid activities that could conflict with their interests or compete with their business. If you're considering independent practice that might compete with your employer or bring you compensation or other benefits tied to that competition, you must obtain explicit written consent from the employer before proceeding. The written form matters because it creates a clear record of what's allowed, sets any conditions, and helps manage conflicts of interest. That's why the best choice states that written consent from the employer is necessary to permit independent practice that could result in compensation or other benefits in competition with the employer. Verbal consent isn't sufficient, and client approval does not substitute for the employer's consent.

4. Which CFA Institute standard is violated when a risk disclosure fails to adequately describe investment risks, misleading clients about potential losses?

- A. Standard IV.D Performance Presentation.
- B. Standard VI.A Disclosure of Conflicts.
- C. Standard III.A Loyalty, Prudence, and Diligence.
- D. Standard IV.B Fair Dealing.**

The issue is governed by the standard that requires fair dealing with clients, meaning information must be presented honestly, clearly, and in a way that lets the client make informed decisions. If a risk disclosure omits material risks or gives a misleading impression about potential losses, it fails to meet this standard. Clients rely on accurate disclosures to assess risk and make prudent choices, so downplaying or hiding risk information violates the duty to deal fairly. Other standards focus on different concerns, such as conflicts of interest or how performance data is presented, but they don't address the fundamental obligation to disclose investment risks fairly and fully.

5. Teresa Staal, CFA, is an investment officer in a bank trust department. She manages money for celebrities and public figures, including an influential local politician. She receives a request from the politician's political party headquarters to disclose his stock holdings. The request indicates that local law requires the disclosure. What steps should Staal most likely take to ensure she does not violate any CFA Institute Standards of Professional Conduct?

- A. Provide the information and inform her client.
- B. Send the requested documents and inform her supervisor.
- C. Check with her firm's compliance department to determine her legal responsibilities.**
- D. Ignore the request.

When a third party requests a client's holdings and law may require disclosure, the right move is to involve your firm's compliance function to determine what you may disclose and how to do it correctly. Checking with compliance ensures you interpret the local law, follow internal policies, and apply CFA Institute standards while protecting client confidentiality. The compliance team can confirm whether disclosure is mandated, what information can be released, and whether client consent or additional approvals are needed, coordinating with legal if necessary. This approach safeguards the client's privacy, satisfies regulatory and firm requirements, and maintains professional integrity. Disclosing information without this review, forwarding documents without proper authorization, or ignoring the request would risk violating confidentiality, policy, and legal obligations.

6. Kazuya's act of selling his forecast to an internet site constitutes which CFA Institute Standard?

- A. Market Manipulation
- B. Priority of Transactions
- C. Additional Compensation Arrangements**
- D. Loyalty

The key idea is that outside compensation can create a conflict of interest and threaten objectivity. When an analyst sells a forecast to a third party, such as an internet site, they're accepting payment from someone other than their employer in exchange for disseminating or producing that forecast. This arrangement introduces a financial incentive that could reasonably influence the analyst's judgments or the way the forecast is presented. The CFA Institute's standard on Additional Compensation Arrangements is designed to address exactly this risk by prohibiting accepting compensation or benefits from third parties that could impair independence or objectivity. This isn't about manipulating markets or prioritizing client trades. It also isn't about loyalty to an employer in the sense of staying with a firm. The essence here is the external compensation arrangement that could bias analysis or publications, which is why this scenario fits that standard. If such compensation is allowed, it should be disclosed and managed to preserve independence and objectivity.

7. The Duties to Employers standard requires that members and candidates must not do which of the following?

- A. Accept any gifts that might compromise independence and objectivity.
- B. Deprive their employer of their skills and abilities as related to their employment.**
- C. Accept compensation competing with their employer's interest and with the written consent of all parties involved.
- D. Fail to report conflicts of interest.

Loyalty to the employer requires that members and candidates do not deprive their employer of their skills and abilities as related to their employment. In practice, this means you should devote your professional time, effort, and expertise to fulfilling your job responsibilities and not subtly withhold or divert those capabilities in a way that harms the employer's operations or interests. The duty emphasizes being reliable and fully contributing to the employer's objectives, rather than reducing your effectiveness or availability. The other situations describe separate ethics obligations: gifts that could compromise independence fall under independence and objectivity; accepting compensation that competes with the employer's interest (even if with written consent) touches on conflicts of interest and competing interests; and failing to report conflicts of interest concerns disclosure of conflicts.

8. Scenario: A firm withholds material information about a fund's holdings from clients until after a transaction is executed. Which CFA Institute Standard is violated?

- A. Standard V.A Diligence and Reasonable Basis
- B. Standard V.B Communication with Clients and Prospective Clients**
- C. Standard IV.C Suitability
- D. Standard VI.A Disclosure of Conflicts

Material information must be shared with clients in a fair and timely way, so they can make informed investment decisions. Withholding details about a fund's holdings until after a transaction is executed deprives clients of critical information about what they are actually buying, the fund's risk exposures, and how the investment fits their objectives. That kind of omission is a failure in communication with clients and prospective clients, which violates the requirement to provide complete, accurate, and timely disclosures. The issue isn't primarily about the research or the client's suitability of the investment, or about conflicts of interest, but about how information is conveyed and whether material facts are being disclosed openly. Therefore, this scenario breaches Standard V.B. Communication with Clients and Prospective Clients.

9. A firm offers a compensation incentive to advisers without fully disclosing the terms to clients. Violation?

A. Standard III.B Additional Compensation Arrangements

B. Standard I.D Misconduct

C. Standard VI.A Disclosure of Conflicts

D. Standard VII.B Reference to CFA Institute

The main idea here is transparency about compensation that could influence advice. If a firm offers advisers a compensation incentive but doesn't fully disclose the terms to clients, those clients can't assess whether recommendations were shaped by the incentive rather than the clients' best interests. This directly falls under Additional Compensation Arrangements, which requires full disclosure of any compensation or economic benefits that could affect the objectivity of investment advice. So, the situation is a violation of that standard. While failing to disclose conflicts can relate to disclosure of conflicts, the specific rule addressing undisclosed or incompletely disclosed compensation arrangements is the best fit. The other standards don't address this exact issue as directly, and the option about CFA Institute references isn't relevant here.

10. Which entity is most responsible for effectively implementing GIPS standards on a country-wide basis?

A. The local regulator(s)

B. Local independent valuation firms

C. International standards board

D. Local sponsoring organization

GIPS adoption across a country is led by the local sponsoring organization. This body, usually the local CFA Society or another designated entity, takes charge of promoting, implementing, and enforcing GIPS within that jurisdiction. It oversees which firms are deemed compliant, provides guidance and training, and maintains the country's directory of compliant composites. The sponsoring organization coordinates with CFA Institute and may arrange verifications, but the actual responsibility for nationwide implementation rests with them. The international standards board creates the standards, and regulators may support or require compliance in some contexts, but they do not manage country-wide implementation. Independent valuation firms handle verifications under the sponsoring organization's framework, not as the primary implementers.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://cfaethics.examzify.com>

We wish you the very best on your exam journey. You've got this!

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