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Morning Session

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Christian Mathew Case Scenario

Christian Mathew, CFA, is an equity analyst specializing in the beverage industry for Gupta Asset Managers (Gupta), a portfolio management company based in Mumbai, India. Mathew is planning a trip to Sri Lanka to research the tea industry. Murali Premadosa, CFA, known as “Prem,” is a research analyst for a stock broking company, Ashoka Brokers, headquartered in Colombo, Sri Lanka. Mathew contacts Prem to help arrange visits to specifically identified tea estates of publicly traded companies in the highlands of Sri Lanka.

Prem, wanting to enhance the business relationship with Gupta, arranges for all of Mathew’s Sri Lankan expenses to be paid for by Ashoka. These costs include food, hotel, and transport. This arrangement is based on the understanding that all security transactions resulting from Mathew’s trip to Sri Lanka will be executed through Ashoka. Ashoka’s commissions are typically similar to its competitors but it can take a few extra days to execute larger volumes of trades because Ashoka is new to the brokerage business. Prem sets the itinerary, with plans to visit a minimum of six Sri Lanka tea companies in the three tea-growing regions. Mathew agrees to the visits and asks Prem to create a list of questions to ask the management of each company to which he will add his own questions.

Mathew asks Prem to delay the release of any research report he writes on the six Sri Lanka companies they visit together until such time that Gupta has had an opportunity to act on Mathew’s recommendations. Prem agrees to this arrangement.

In a meeting with a publicly listed tea company, Kandy Tea Estate Limited, information is revealed that neither Mathew nor Prem believe is in the public arena. The information relates to the restructuring of the factory layout to make the tea drying process marginally more efficient with a 1% reduced loss of tealeaf. The new layout does not require any additional machinery or personnel. Prem and Mathew see the increased efficiencies during their factory tour.

Incorrect

Correct Answer	Your Answer
----------------	-------------

A	X
B	
C	

Time Spent:
40 secs

Difficulty Level:
Difficult

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Exhibit 1

Research Report on Kandy Tea Estate Limited

Kandy Tea Estate Limited

Date: December 2013

Analyst: Murali Premadosa

Chartered Financial Analyst

Recommendation: Long-term buy with associated high commodity risk supported by large growth prospects for Sri Lanka as well as liquidity risk because it is a thinly traded company in a frontier market.

Tea Production by Country (million kilograms)

	2008	2009	2010	CAGR (2008–2010)
India	980.8	979.0E	966.4E	–0.7%
Sri Lanka	318.7	290.6	331.4.	2.9%

Notes: CAGR is compound annual growth rate. Production for India's production in 2009 and 2010 is estimated.

Sources: Based on data from the India Tea Board and Sri Lanka Tea Board

Mathew is impressed with Prem's work ethic and research abilities. Knowing Gupta wants to hire analysts for its new Colombo office, Mathew asks Prem if he would be interested in changing employers and building a research team. Prem is excited about the prospect and to show his worth to Gupta, Prem undertakes the following actions at his office after normal working hours without the knowledge of his employer:

Action 1: Creates a list of all the work he completed at Ashoka on his personal laptop.

Action 2: Photocopies research reports he recently completed on the tea industry.

Action 3: Makes hand written excerpts from previous research meeting notes.

Upon Mathew's return to Mumbai, he delivers to his clients his investment report with a "Buy" recommendation for Kandy Tea Estate Limited, along with tea samples he collected while in Sri Lanka. When buying Kandy shares for his clients, Mathew also buys the same shares for his personal account. He had disclosed his plan to purchase the shares for his own portfolio

pay for a medical emergency. Mathew received permission from Gupta's compliance officer for both transactions.

Q. Is Prem's arrangement to enhance business relations *most likely* consistent with the CFA Institute Code of Ethics and Standards of Professional Conduct?

- A.** No, with regard to independence and objectivity.
- B.** No, with regard to best execution.
- C.** Yes.

Solution

B is correct. Prem's employer, Ashoka, is not able to provide best execution for Gupta's customers because of the longer time frame required to execute trades, despite having similar commission structures to other brokers. Thus Mathew is in violation of Standard III(A)–Duties to Clients. Mathew's independence and objectivity are unlikely to be compromised by Prem's arranging the itinerary because Mathew had specifically identified the companies he wanted to visit. Mathew also added questions to Prem's list of questions to be addressed with management during their interviews, so Mathew's independence and objectivity would not likely be compromised. Ashoka's offer to pay for the trip expenses also does not necessarily compromise Mathew's independence and objectivity with regard to making investment recommendations or taking investment action [Standard I(B)–Independence and Objectivity]. Also of note, there doesn't appear to be any evidence soft dollar commissions were not being used for the benefit of Gupta clients because the research trip is for their benefit.

A is incorrect as Mathew's independence and objectivity is unlikely to be compromised by Prem arranging the itinerary and/or establishing a list of questions to be addressed with management during their interviews. Asoka's offer to pay for the trip expenses also does not necessarily compromise Mathew's independence and objectivity with regard to making investment recommendations or taking investment action [Standard I(B)–Independence and Objectivity].

C is incorrect because Prem's employer, Ashoka, is not able to provide best execution for Gupta's customers due to the longer timeframe required to settle trades. Thus Mathew is in violation of Standard III(A)–Duties to Clients.

Guidance for Standards I–VII Learning Outcome



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Code and Standards to specific situations

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Discussion

SN Prem, wanting to enhance the business relationship with Gupta, arranges for all of Mathew's Sri Lankan expenses to be paid for by Ashoka. These costs include food, hotel, and transport. This arrangement is based on the understanding that all security transactions resulting from Mathew's trip to Sri Lanka will be executed through Ashoka.

Seriously, how is this not a independence and objectivity issue?

Created 5 days ago by Sergio Nunez Martin

2 replies | Last Activity: 2 days ago

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TA between all the expenses being paid and all the transactions being executed via Ahsoka...from all I've read and understood this violates independence and objectivity...this question is terrible

Created 3 days ago by Tanya Antoinette Wilson

1 reply | Last Activity: 3 days ago

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SA "This arrangement is based on the understanding that all security transactions resulting from Mathew's trip to Sri Lanka will be executed through Ashoka".

Doesn't this compromise independence and objectivity?

Created 16 days ago by Sakshi Alok Jain

2 replies | Last Activity: 5 days ago

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ZG This arrangement is based on the understanding that all security transactions resulting from Mathew's trip to Sri Lanka will be executed through Ashoka.

可能是因为有了这句话因此不违反旅途安排的相关规定，因此排除了A

答案定位在第二段

Ashoka's commissions are typically similar to its competitors but it can take a few extra days to execute larger volumes of trades because Ashoka is new to the brokerage business.

答案认为是因为执行期更长，因此无法提供最佳执行，马修违反了III(A)——对客户的义务

Created 20 days ago by Zhaodong Guo

1 reply | Last Activity: 8 days ago

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HS Matthew is just an equity analyst of Gupta, does he even have the power to let Ashoka to handle Gupta's transactions? If he doesn't have the power, then how did he violate duties to clients in terms of best execution?

Created 9 days ago by Hui Shi

0 replies | Last Activity: 9 days ago

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