



- [Home](#)
- [Study Plan](#)
- [Lessons](#)
- [Flashcards](#)
- [Practice](#)
- [Mock Exams](#)

- [Game Center](#)
- [Discussions](#)
- [Search](#)

◀ ▶ | Question 10 of 127



Review Category Ethical and Professional Standards

Done Reviewing

Incorrect

Correct Answer	Your Answer
A	
B	X
C	

A	
B	X
C	

Time Spent:
1 min 39 secs

Difficulty Level:
Difficult

Related Lessons:
[Learn more about this topic](#)

Terry McGuinn Case Scenario

Forster Investment Advisors (Forster) is a small asset management firm managing funds for both retail and institutional clients. Forster also undertakes investment banking activities, including market making, but only for the shares of a few companies that it follows closely.

Forster's finance director, who also serves as the firm's compliance officer, has given notice that he will retire in one month's time. Forster's managing director asks Terry McGuinn, CFA, if he would be interested in being the compliance officer after the finance director retires. McGuinn, an independent compliance consultant whose clients mostly include pension funds, agrees to meet the managing director to discuss the position.

At the meeting, McGuinn is told, "Forster adopted the CFA Institute Code and Standards 10 years ago. The outgoing finance director assured us at the time that we adopted the Code and Standards that all of Forster's policies and procedures met the requirements most of the recommendations as well. As a result, we mention compliance with the Code and Standards in all of our marketing material. We encourage you to implement new changes, but the implementation will need to be coordinated through the human resources department." After agreeing on written specific duties and responsibilities for the role, McGuinn accepts the offer to act as Forster's compliance officer on a part-time consultancy basis.

On his first day as the new compliance officer, McGuinn immediately reviews a draft response to a request for proposal (RFP) to be submitted the next day to a potential pension fund client. The proposal is identical to another RFP sent out three months ago and includes Forster's organizational chart, an in-depth description of its investment process and the occasional use of third-party research providers, and a guarantee of a minimum 5% investment return and return of principal through a guaranteed structured savings product, underwritten by an investment-grade life insurance company. McGuinn approves the RFP document without making any changes.

That same day, Colleen Collins, a research analyst, approaches McGuinn, concerned that she may be in possession of insider information. Collins relates that she was at a party the night before and overheard a conversation between two CEOs of competing, publicly listed manufacturing companies. The CEOs discussed, but did not express their opinions on, the validity of a recent article published in an online industry

Following this conversation, McGuinn feels it is necessary to enhance Forster's rules and procedures when dealing with possible insider information. He recommends the following changes to the company's policies and procedures:

Recommendation 1: Stop market-making activities when in possession of material nonpublic information.

Recommendation 2: Regularly review employee and proprietary trading.

Recommendation 3: Require all employees to attend an annual refresher course on how to identify and handle material nonpublic information.

After reviewing how Forster chooses and retains its stockbrokers every year, McGuinn makes several changes in the policy. The following guidelines are implemented and communicated to clients. Stockbroker selection must be based on the brokers' ability to:

Guideline 1: provide accounting software.

Guideline 2: execute client transactions efficiently.

Guideline 3: obtain invitations to investment conferences for loyal clients.

After undertaking investigations based on an anonymous report, McGuinn confirms that several Forster fund managers were witnessed being wined and dined over the past few weeks by large brokerage firms trying to get Forster's business. The same employees have not notified him about these dinners, a violation of Forster's internal policies. McGuinn notifies the employees in writing that they have been violating the company policy. In the letter of notification, he requires the employees to abide by the policy in the future.

Q. With regard to the fund managers under investigation, the *most* appropriate additional action McGuinn should take is to:

- A.** monitor their future actions.
- B.** report the misconduct up the chain of command.
- C.** require a statement stating the behavior will cease.

Solution

A is correct. As a supervisor, under Standard IV(C)–Responsibilities of Supervisors, McGuinn has a responsibility after he notices and investigates the violation to monitor the employees to ensure that the errant behavior has changed and conforms to the Code and Standards. Reporting the violation up the chain of command along with requiring a statement from the employees stating the behavior will not be repeated is not enough.

Incorrect

Correct Answer	Your Answer
A	
B	X
C	

Time Spent:
1 min 39 secs

Difficulty Level:
Difficult

Related Lessons:
[Learn more about this topic](#)



- Home
- Study Plan
- Lessons
- Flashcards
- Practice
- Mock Exams
- Game Center
- Discussions
- Search

Question 10 of 127



will cease the violating activity is not enough.

Guidance for Standards I–VII Learning Outcome

b. Recommend practices and procedures designed to prevent violations of the Code of Ethics and Standards of Professional Conduct

Incorrect

Correct Answer	Your Answer
A	
B	X

Discuss **i** Filter ▶

Discussion

XL I do think all the actions should be taken although i chose A.

[topic](#)

Created 18 days ago by Xin Liu

1 reply | Last Activity: 21 hours ago

[Hide All replies](#) [Reply to this Comment](#)

KB it says most appropriate which makes option A viable choice.

KAVITA Batra replied 21 hours ago

© today CFA Institute. All Rights Reserved.