CFA INSTITUTE

ETHICS IN PRACTICE:

Violated Professional Standards or Not?

CASE STUDY

Manley, Head of Research at a long–short equity fund, leads a team of four analysts. One of the fund's portfolio managers asks Manley to look at a particular small-cap company as a possible investment target. Because there is little information available on the company, Manley assigns the challenging task to Chang, one of the fund's top junior analysts, who spends a week conducting research. Chang builds a cash flow projection model that shows the company is deeply undervalued. Manley briefly reviews the model and publishes a research report on the company with the author listed as the Research Department that recommends a "Buy" at the current price. The fund makes a substantial investment in the company's stock. Later, several brokerage houses come out with research pieces on the company that include cash flow projections that are considerably lower than Chang's model. Over the course of six months, the investment loses 25% of its value. Manley thoroughly reviews Chang's model and discovers two assumptions that eventually proved erroneous as well as an arithmetic mistake. Did either Manley or Chang violate the CFA Institute Code of Ethics and Standards of Professional Conduct (Code and Standards)?

A. Manley violated the CFA Institute Code and Standards.

B. Chang violated the CFA Institute Code and Standards.

C. Manley did not violate the CFA Institute Code and Standards.

D. Chang did not violate the CFA Institute Code and Standards.