Trevor Blevin Case Scenario

Trevor Blevin, a CFA candidate and a former employee of Regal Bank (Regal), recently joined Spalding Asset Management as the head of compliance. He is shocked by today's front-page business news headline: "Regal Depositors Left in the Cold: Central Bank Regulator Places Bank under Statutory Management". The article mentions the reason for Regal's closure was the CEO's illegal behavior, including fraud, as well as money laundering associated with a major client. The discovery occurred one month after the death of Regal's CEO, Mr. James Antonio. Up until three weeks ago, Blevin headed Regal's internal audit department and knew nothing of any fraud or client money laundering, despite having recently supervised a major internal audit exercise.

Wanting to get more information, Blevin calls his former colleague, Mira Chaudry, CFA. Chaudry, who works in Regal's business development department, acts as the investor relations officer and headed the team for Regal's recent corporate bond issue. The bond issue, approved by the central bank and the capital markets regulator, was hugely successful and oversubscribed. Chaudry tells Blevin she too was shocked by the central bank's actions. Nothing seemed out of line or suspicious regarding Regal's financial well-being when the team diligently prepared the bond offering documents. She reminds Blevin, that he, along with Regal's compliance officer, signed off on all of the public marketing materials used for the bond issue, which included reviewing all of the extensive financial analysis undertaken. Chaudry adds, "In the latest regulatory inspection, all of the anti-money-laundering and lending procedures were reviewed with no queries raised."

Regal's board of directors is concerned that the newspaper's headline will create panic among depositors and cause a run on Regal if it is allowed to reopen. In an attempt at damage control, the board instructs Chaudry to draft a public press release regarding the central bank's investigations of fraud by the deceased CEO and the money laundering charges made against one of the bank's major clients. Chaudry presents the following three draft statements to the board.

Statement 1:	"Regal Bank has been placed under statutory management by the central bank as a result of illegal activity by Mr. Antonio, the deceased CEO, and Wesley Mining Corp, a major client."

Statement 2:	“The central bank has placed Regal Bank under statutory management pending further investigation into alleged illegal activity by a former senior manager and a bank client.”
Statement 3:	“Regal Bank has been placed under statutory management by the central bank as a result of illegal activity.”

During the next few days, Chaudry receives several phone calls from disgruntled financial advisers who purchased the bonds for their clients. In a heated phone conversation, one adviser, Paul Meshak, CFA, threatens to report Chaudry to CFA Institute for violating her fiduciary duty. He adds, “I’m going to make sure you never work in this industry again.” Chaudry responds, “Go ahead and report this to CFA Institute, but I didn’t violate the Code of Ethics and Standards of Professional Conduct. I understand my obligations. For your information, I passed all three CFA exams, including the ethics portions, consecutively.”

Meanwhile, Blevin, still reeling from the Regal Bank saga, decides to take another look at Spalding’s compliance policies and procedures to ensure they are fully in line with the CFA Institute Standards of Professional Conduct. While reviewing the firm’s anti-money-laundering policies, he notices lapses with respect to recently implemented laws, and he is afraid the firm may already be in violation. He plans to update the existing policies as soon as possible.

After concluding his review, Blevin recommends to Spalding’s board of directors changes to the firm’s conflicts of interest policies. Blevin is concerned the staff may not be putting clients’ interests ahead of their own when trading for their personal accounts. He asks for the board’s endorsement of revisions in the following two policies:

Policy 1: Staff are not allowed to participate in any private placements.

Policy 2: Any client accounts that include staff as beneficiaries must trade after all other client accounts.

Spalding’s business development manager asks Blevin to make a presentation to a potential pension fund client, Mokar Staff Retirement Fund. The manager informs him that the firm previously managed the Mokar account but lost it. A Mokar trustee informs him that Spalding was fired because the trustees could not understand their monthly statements and could not tell how they performed relative to other pension accounts under Spalding's management. During the presentation, Blevin states, "We are in the process of updating our compliance policies, including our minimum requirements for performance presentation reporting."

1Q. Based on the information given, are Blevin and/or Chaudry most likely in violation of the CFA Institute Standards of Professional Conduct regarding their role in Regal's corporate bond issuance and the subsequent statutory management of Regal Bank?

A. Yes, both Blevin and Chaudry are likely to be in violation with regard to Standard V(A)–Diligence and Reasonable Basis.
B. Yes, Blevin is likely in violation with regard to Standard IV(C)–Responsibilities of Supervisors.
C. No.

2Q. To prevent violating any of the CFA Institute Standards of Professional Conduct, which statement should Chaudry most likely recommend that the board of directors use for Regal's press release?

A. Statement 2
B. Statement 3
C. Statement 1

3Q. Who most likely violates the CFA Institute Standards of Professional Conduct during the phone conversation between Meshak and Chaudry?

A. Meshak
B. Both Meshak and Chaudry
C. Chaudry

4Q. What action should Blevin most likely take regarding his discovery about Spalding's anti-money-laundering policies so as to comply with the CFA Institute Standards of Professional Conduct?

A. Set up procedures to obtain timely information regarding any changes in legislation.
B. Require all client service employees to undergo training regarding the new legislation.
C. Arrange an annual review of all the firm's compliance policies.

5Q. Would Blevin's suggested revisions in Spalding's conflict of interest policies most likely violate the CFA Institute Standards of Professional Conduct?

A. Yes, in regard to Policy 1.
B. Yes, in regard to Policy 2.
C. No.

6Q. Which of the following should Blevin least likely consider for inclusion in the new performance presentation policy to address why Mokar previously fired Spalding?

A. A weighted composite of all client accounts must be included in client presentations.
B. Clients must be offered annual training on various performance measurement aspects.
C. Performance presentation language must be easily understood with a glossary.

Answer

1 Solution

C is correct. There is no evidence to suggest either Blevin and/or Chaudry are in violation of the CFA Institute Standards of Professional Conduct. Both noted they had not found any suspicious activities, false information, or indications of fraud in their work as the internal auditor or the investor relations officer, despite rigorous undertakings. There are also no indications to imply that either violated their responsibilities as supervisors to make reasonable efforts to detect violations of laws, rules, or regulations.

A is incorrect because there is no evidence to suggest either Blevin and/or Chaudry are in violation of the CFA Institute Standards of Professional Conduct. Both noted they had not found any suspicious activities, false information, or indications of fraud in their work as the internal auditor or the investor relations officer, despite rigorous undertakings.

B is incorrect because there are no indications to imply that Blevin violated his responsibilities as a supervisor.

2 Solution

A is correct. As a CFA charterholder, Chaudry has the responsibility to be loyal to both her employer [Standard IV(A)] and her employer's clients [Standard III(A)]. Because neither the firm nor the client have been proven guilty or even charged in a court of law at the time of the press release, their names should not be made public and no inference of guilt should be made to avoid possible damage to their reputations and potentially opening the bank to defamation allegations.

B is incorrect because Chaudry would most likely be in violation of Standard III(A) and Standard IV(A), not having given her loyalty to her employer and the employer's client by inferring guilt of illegal activities.

C is incorrect because Chaudry would most likely be in violation of Standard III(A) and Standard IV(A), not having given her loyalty to her employer and the employer's client for alleged wrongdoings by having named them in the press release.

3 Solution

A is correct. Meshak violates Standard I(D)–Misconduct by making a threat against Chaudry, implying he will ensure she will not have a future in the industry. This action is unprofessional conduct that reflects adversely on his integrity. If Meshak suspects Chaudry violated the CFA Institute Standards of Professional Conduct, he has the right to report her to CFA Institute. Chaudry does not violate Standard

VII(B)–Reference to CFA Institute, the CFA Designation, and the CFA Program by stating she passed her CFA exams, or the ethics component, consecutively, if in fact she did.

B is incorrect because Meshak has the right to report Chaudry to the CFA Institute if he suspects she has violated the CFA Institute Standards of Professional Conduct. As a CFA charterholder himself, he has the obligation to uphold the integrity of the Capital Markets.

C is incorrect because Chaudry does not violate Standard VII(B)–Reference to CFA Institute, the CFA Designation, and the CFA Program by stating she passed her CFA Exams, or the Ethics component, consecutively, if in fact she did.

4 Solution

A is correct. Any revisions required by new legislation must be implemented within the time frame given by the government for Spalding to be in compliance with the new laws. Therefore, it is critical that Blevin be made aware of any new legislation to ensure that the firm can implement any required policy changes prior to the law taking effect.

B is incorrect because all employees should undergo training regarding any new legislation to ensure all staff are aware of their legal obligations.

C is incorrect because if the review is only annual, the firm may not be in compliance if new legislation is implemented before the next review.

5 Solution

B is correct. Not trading for client accounts who have staff members as beneficiaries at the same time as other client accounts would disadvantage those clients and would violate Standard VI(B)–Priority of Transactions. Family accounts that are client accounts should be treated like any other firm account and should be neither given special treatment nor disadvantaged because of the family relationship.

A is incorrect because to prevent a violation of Standard VI(B), it is recommended to have strict limits on private placements. A complete prohibition would not violate this Standard.

C is incorrect because not trading for client accounts who have staff members as beneficiaries at the same time as other client accounts would disadvantage those clients and would violate Standard VI(B)–Priority of Transactions. Family accounts that are client accounts should be treated like any other firm account and should be neither given special treatment nor disadvantaged because of the family relationship

6 Solution

A is correct. Standard III(D)–Performance Presentation recommends that performance presentations include a weighted composite of similar portfolios rather than using a single representative account, such as a composite including all client accounts.

B is incorrect because training clients on performance measurement would help to increase the knowledge of clients.

C is incorrect because easily understood language and the provision of a glossary would take into consideration the knowledge and sophistication of the audience.