

UNIVERSITY OF BUCKINGHAM

BUSINESS SCHOOL

**Assignment**

Ethics and Professional Standards (Level 7)

**Deadline for submission Wed 7th June 2023**

**The case**

Howard Hall, CFA, has recently been promoted to Chief Investment Officer (CIO) of Lyons Investments, an investment adviser and pension consultant for medium and large corporate pension clients. Lyons recently hired a compliance officer to update its compliance manual, which is consistent with the CFA Institute Code and Standards. Hall serves as a director on several non-profit and corporate boards of directors, some of which have their pension assets managed by Lyons. As part of his new job duties, Hall will oversee Lyons's research analysts and portfolio managers, including a recent recruit, Michelle Morris.

Morris, who passed the Level II CFA examination last year and is already registered for the next exam, has moved to Lyons from Bloomfields Advisors, a competitor of Lyons. At Bloomfields, a few years ago, she was praised for teaching herself to code in Python and developing a financial model to analyse market data quite effectively. On her last day at Bloomfields, Morris did not forget to download the Python model onto a USB stick to use in her new job. As a portfolio manager at Lyons, Morris regularly meets with clients and prospects. For a few years, she has also been a partner in a software company that sells retirement and benefit administration services to institutional clients, some of which are also clients of Lyons to whom Morris has recommended the software company. Morris has disclosed her partnership interest in the software company to Lyons, including the potential for additional compensation and the possible conflicts of interest, but not to her clients.

One of Morris' software clients, Advent Pharmaceuticals (Advent), is a publicly traded corporation that is also held in many of Lyons's client portfolios. In the course of their business relationship, Advent's CEO informs Morris that the company has been having difficulty making retirement benefit payments, and its pension plan has recently gone from "overfunded" to "significantly underfunded" as a result of market conditions. Advent's CEO indicates to Morris that he is attempting to source additional short-term financing to make retiree benefit payments and will disclose the significant "underfunded status" of the pension plan in the upcoming financial statements. Morris, concerned that Advent's current pension troubles and short-term liquidity issues will negatively affect its earnings and consequently the performance of the company's stock, informs Hall of the impending disclosure. Hall allows Morris to sell 1,800,000 shares of Advent stock for clients, causing the price to drop by 5%. When the pension troubles are later disclosed in the company's financial statements, Advent's stock price drops an additional 18%.

Hall, as CIO, is chairman of Lyons's proxy voting committee. Morris is also a member of the committee. Lyons, as a discretionary investment manager, votes proxies through the proxy voting committee on behalf of clients. Lyons is currently reviewing proxies for several companies covered in research, including technology companies Acorn DSL(Acorn), Connex Inc. (Connex), Fast Chip Technology (Fast Chip), and Wavelength Digital (Wavelength). Each company's current proxy contains voting proposals pertaining to employee stock option expensing methods. This issue is particularly important to Lyons because several of its investment personnel recently participated in an industry forum that supported increased disclosure for company stock options. The panel concluded that such disclosure would provide investors with a more complete estimate of corporate earnings. Lyons, through its clients, owns approximately 4% of the outstanding shares of Acorn and Connex and approximately 6% of the outstanding shares of Fast Chip and Wavelength.

Hall serves on the board of directors for Connex and Wavelength, while Morris provides consulting services for Fast Chip. Hall receives cash compensation and stock options for his services, while Morris receives restricted stock and stock options. The investment bank that led the public offering of Connex and Fast Chip and seven of nine sell-side analysts covering the companies have "sell" ratings on the stocks. Lyons’s analysts have also issued "sell" recommendations on the companies due to, among other issues, lack of earnings transparency and low earnings quality. Contrary to committee consensus, Hall and Morris vote client proxies "against" the expensing of employee stock options for Connex, Wavelength, and Fast Chip. Hall increases his clients ‘positions in both Connex and Wavelength, citing "growth opportunities" and “consensus opinion." Neither Hall nor Morris has disclosed these compensation arrangements to Lyons.

**Required:**

1. Identify potential or possible violations to the CFA Code and Standards by the individuals or firms involved.
2. Critically analyse the ethical issues related to such violations and their implications to all the stakeholders in the case.
3. Make recommendations and state what actions are required by the individuals or firms involved to correct and prevent potential violations.

**Guidance:**

* Identify the contentious actions or behaviours then apply the above requirements to each of them one by one.
* Clearly identify which standard may have been (or has been) breached or violated. (Standard II (B) Market Manipulation, or Standard IV (C) Responsibilities of Supervisors, etc.)
* Demonstrate your critical thinking skills.

Total word count: **3,000** words (including the list of references or bibliography)