CFA Societies Canada CFA Society Toronto

2025 CFA Society Toronto Ethics Challenge

Executive Summary

GSW Securities Limited

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This executive summary evaluates ethical violations by John Keeley, CFA, and Edward Peterkin, CFA, in handling of Arbour Resources (AR) at GSW Securities Ltd., applying the CFA Institute Code of Ethics and Standards of Professional Conduct to identify violations, best practices, and grey areas.

Issue 1. Dual Roles & Independence

We begin by addressing **Independence and Objectivity (I(B)).** An investment bank can act as both an underwriter and advisor, but strict protocols must be followed to manage conflicts of interest.

GSW must ensure safeguards between underwriting, advising, and trading. If followed correctly, no violation occurs. Peterkin must uphold firm guidelines and maintain a firewall. Keeley's analysis must remain independent.

Issue 2. Pressure to Recommend "Strong Buy"

I(A) –Knowledge of the Law: Promising a "strong buy" before analysis compromises professional integrity.

I(B) –Independence and Objectivity: Dictating the research outcome undermines the report's credibility.

I(D) –Misconduct: Forcing a predetermined recommendation is dishonest.

IV(C) - Responsibility of the Supervisor: Peterkin urges Keeley to disregard Compliance procedures.

The Code of Ethics: Peterkin's actions breach principles of integrity, client interests, and independent judgment.

Best practice: Keeley should refuse to write the report and object to Peterkin's request. Peterkin must say, "We can prepare a report, but cannot guarantee a specific recommendation."

Issue 3. Keeley's response to Peterkin

VI(A) –Avoid or Disclose Conflicts: Keeley's connection to AR through his son may represent a conflict and requires full disclosure.

II(A) – Material Non-Public Information. Given that the company is already a reporting issuer, we presumed that its financial difficulties are material public information. If this were not the case, then it's another reason why he should dissociate. If its financial difficulties were not public information, Keeley should reach out to the company and encourage them to make it public.

Best practice: Keeley should disclose this relationship. If he believes he can remain objective, he may proceed. Otherwise, he should disassociate.

Issue 4. Meeting with AR Management

Setting up a meeting for Keeley to gather information **is appropriate,** provided he remains objective and independent. However, it's difficult to believe that Keeley could remain independent and objective.

Best Practice: Peterkin at this point should have assigned another analyst, and not pressured the new analyst into making a Strong Buy Recommendation.

Issue 5. Conference Attendance

I(B) –Independence and Objectivity. Accepting AR's payment for travel and accommodation is acceptable, but not best practice. The golf games, being recreational, could violate objectivity.

Best practice: Keeley must decline the golf games and Keeley or GSW must cover his own travel costs and accommodation. Accepting dinners is acceptable given business was being discussed at them.

Issue 6. Initial Sell recommendation

Keeley **upholds Standard I(B) – Independence and Objectivity** by issuing a "sell" recommendation despite pressure for a "strong buy." His decision reflects commitment to ethical standards.

Best practice: Keeley should continue to base recommendations on factual analysis, maintaining objectivity despite external pressures.

Issue 7. Pressure to Change Recommendation

I(A) –Knowledge of the Law was violated when Peterkin indirectly threatened Keeley's son's employment. This is a violation of the Code and Ethics.

IV(C) –Responsibilities of Supervisors. Peterkin fails to uphold supervisory duties by pressuring Keeley.

III(A) – Loyalty, Prudence, and Care: In pressuring Keeley, Peterkin is not putting client interests first.

Best Practice: Peterkin should avoid pressuring Keeley, ensuring independent decision-making. Keeley should maintain objectivity, refuse to alter his recommendation, prioritize client interests. When Peterkin asks to review the report before it is distributed, there is no violation.

Issue 8. Omission of Critical Information

I(C) –Misrepresentation: Keeley misrepresents his analysis by omitting concerns about AR's accounting and changing his recommendation without justification.

V(A) – Diligence and Reasonable Basis: Keeley fails to provide a thorough analysis by not addressing AR's misleading accounting, lacking a reasonable basis for his recommendation.

VI(A) –Avoid or Disclose Conflicts: Keeley doesn't disclose his son's employment at AR or the investment banking relationship, breaching the duty to disclose conflicts.

III(A) –Loyalty, Prudence, and Care: Withholding key information undermines clients' ability to make informed decisions.

Best practice: Keeley should uphold his "sell" recommendation, disclose conflicts, provide complete information, ensure the report is complete.

Issue 9. Peterkin Modifies Report and Engages in Unethical Trading

Sharing the report with AR's CFO is not a violation if the goal is to verify the information. What is violative is accepting without question the CFO's projections.

V(A). Diligence and Reasonable Basis: Peterkin alters the recommendation without any reasonable basis.

I(C) – Misrepresentation violated by altering revenue forecasts.

V(B) – Communication with Clients: Changing rating and adjusting projections for business interests breaches the requirement for unbiased recommendations.

III(B) – Fair Dealing: Sending the modified report to select clients before public release gives them an unfair advantage. ЫIharing the report selectively also violates **II(A) – Material Non-Public Information.**

II(B) –Market Manipulation: Peterkin instructs GSW traders to manipulate AR's stock's volume.

Best practice: Keeley should dissociate from the report. Peterkin must avoid unauthorized changes and selective sharing. Both should advise AR to cancel the offering, correct misinformation, report market manipulation, ensure compliance, disclose conflicts, and consult legal counsel.

Issue 10. Keeley's Personal Trading Actions

This behaviour violates both the letter and spirit of the Code and Ethics.

IV(A) – Loyalty: Keeley violates his duty to act in GSW's best interest by shorting AR shares through his wife and advising McBride to do the same. He is taking the "other side" of the trade on behalf of his wife.

VI(A) – Avoid or Disclose Conflict: Conflict between his wife's interests and clients' interests.

II(A) – Material Nonpublic Information: Keeley trades on non-public information about AR's financials.

Best practice: Keeley must report to compliance and/or legal, reverse the trades, disclose his actions, cooperate with investigations, consider resigning.

Issue 11: VII(A) is violated throughout the case. Conduct as Participants in CFA Institute Programs

Keeley engaged in account manipulation, insider trading, unethical recommendations. Peterkin interfered with research, falsified recommendations, manipulated the market.

Best practice: Both should be reported to the CFA Institute, complete ethics training, and face sanctions, including suspension of their CFA designations. Their firms should investigate and implement corrective measures.

References

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