

CFA Ethics Challenge
Case Study Analysis:
GSW Securities Limited

Team 5

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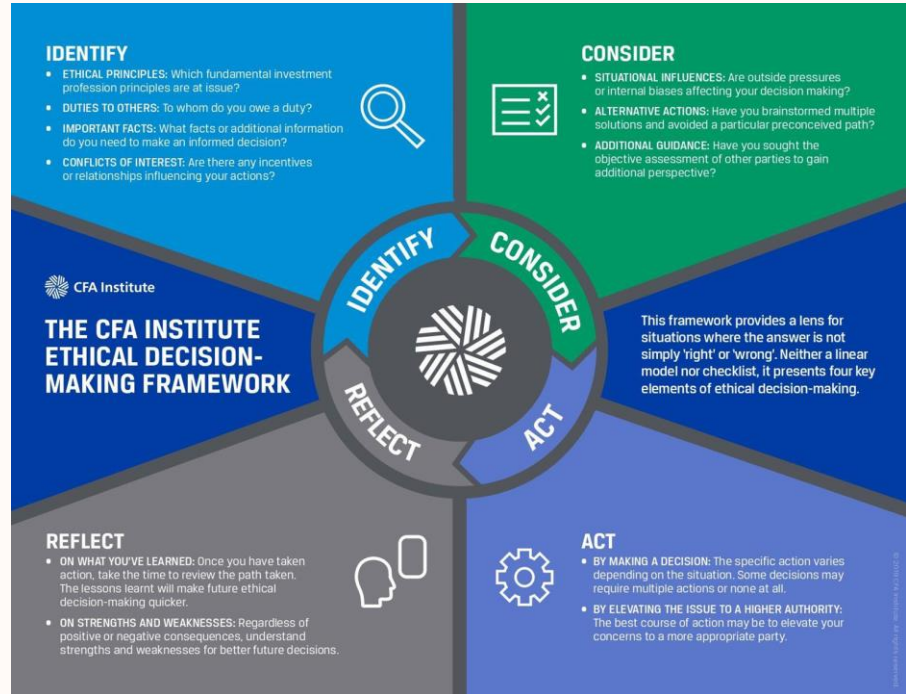
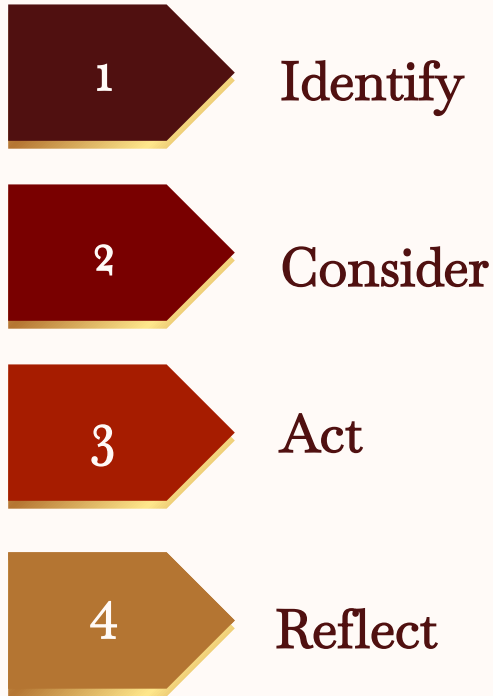
01



Introduction

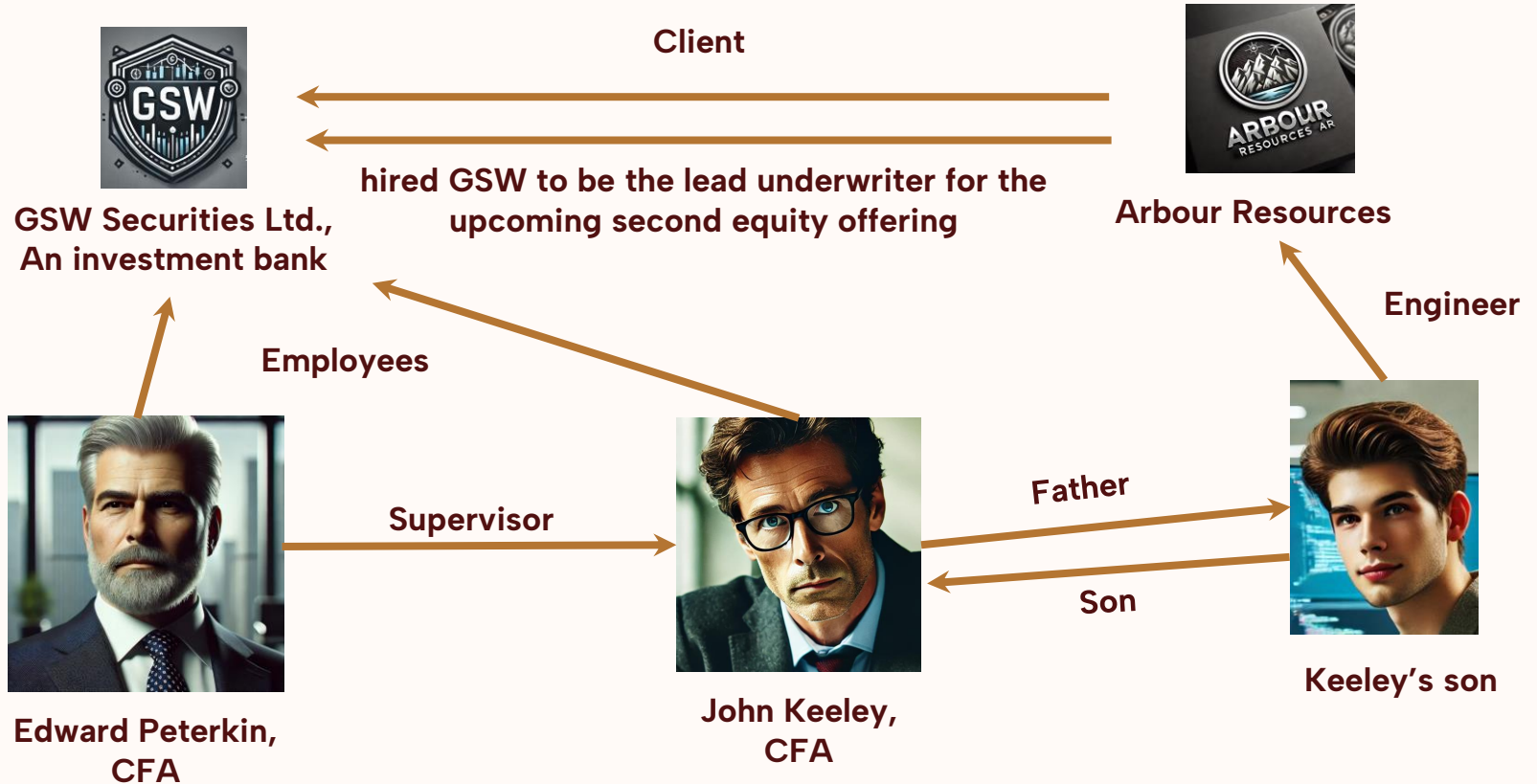
Quick Case Summary

The CFA Institute Ethical Decision-Making Framework



<https://www.cfainstitute.org/sites/default/files/-/media/documents/ethics-in-practice/ethics-in-practice-casebook-2nd-edition-web.pdf>

Quick Case Summary



Before we begin, put
yourself in this situation:

What if you were...?!



John Keeley, CFA

Background

- a **Research Analyst at GSW Securities.**
- You **discover serious financial issues** at Arbour Resources and **believe a “sell” recommendation is necessary.**
- But your **supervisor pressures you to change it to keep the client.**
- Your decision could also put your son’s job at risk.

**Would you stand by your
research, despite the
consequences?**

What if you were...?



Edward Peterkin, CFA

Background

- a **Managing Director at GSW Securities.**
- Your firm **has secured a major deal** with **Arbour Resources**, but your **lead analyst** wants to **issue a negative report.**
- **Arbour's CEO warns: "Make it favorable, or we go away."**
- **Rejecting their demand** could **cost millions** and **harm your career.**

Would you uphold ethics or protect the firm's interests?

02



Case Analysis

Issue 1: Possible conflict of Interest in Dual Roles (Investment Banking & Research)

GSW Securities Ltd.,
An investment bank



Client



hired GSW to be the lead underwriter

Arbour Resources



What Happened?

- GSW Securities acted as **both underwriter and research provider** for AR, creating a **potential conflict of interest**.

Grey Area-I(B) – Independence & Objectivity:

- An investment bank **can act as both an underwriter and advisor**, but **strict protocols** must be followed to **manage conflicts of interest**.

CONTROVERSY

Best Practices:

- **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** must **remain independent**.

Issue 2: Pressure to Recommend “Strong Buy”

VIOLATION



Edward Peterkin, CFA

*Keeley, I have good news for you. Arbour Resources (AR) has just **hired GSW to be the lead underwriter in its upcoming secondary equity offering**. As part of our agreement, I told AR that you would write a research report on the company and **recommend it as a “strong buy.”** How much do you know about the company?*

What Happened?

- Peterkin **promised a “strong buy” recommendation to AR before Keeley conducted research.**
- Keeley **was pressured to comply** to maintain GSW’s business relationship.

The Code of Ethics Breached:

- Peterkin violates ethical principles, Keeley ignores his misconduct.

Standards Involved:

- **I(A) – Knowledge of the Law.** Promising a “strong buy” before analysis compromises professional integrity.
- **I(B) – Independence & Objectivity.** Dictating the research outcome undermines the report’s credibility.
- **I(D) – Misconduct.** Forcing a predetermined recommendation is dishonest.
- **IV(C) – Responsibility of Supervisors.** Urging Keeley to disregard Compliance procedures.

Best Practices:

- Keeley should have **refused** to write the report and object to Peterkin’s request.
- Peterkin should have stated: **“We can prepare a report, but we cannot guarantee a specific recommendation.”**

Issue 3: Keeley's Response to Peterkin



*I am very familiar with AR because **my son has worked for the company** as an engineer for the past three years. Recently, he told me that the company has been struggling financially because of the huge environmental permitting costs it has been incurring.*



John Keeley, CFA

What Happened?

- Keeley's **son worked at AR**, but he **failed to disclose** this relationship.
- Son shares **information** about AR's financial struggles.

Standards Involved:

- **VI(A) – Disclosure of Conflicts.** Keeley's connection to AR through his son may represent a conflict and requires full disclosure.

Grey Area: II(A) – Material Non-Public Information :

- Company is a reporting issuer; financial difficulties **likely public**.
- **If not public**, another reason to dissociate. Keeley should urge the company to disclose financial issues if not already public.

Best Practices:

- Keeley should **disclose** this relationship. If he believes he can remain objective and the shared information is public, he may proceed
- If he **cannot remain objective**, he should **disassociate** himself
- If the information provided by his son is **Material Non-Public**, Keeley should **dissociate** himself

Issue 4: Meeting with AR's Senior Management



Edward Peterkin, CFA

I am going to set up a meeting between you and AR's senior management so that they can provide you with first-hand knowledge of what is really happening at their company.

What Happened?

- AR invited Keeley to a company-sponsored event, where he had **direct access to executives**.

CONTROVERSY

Comment:

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

Best Practices:

- Peterkin at this point should have **assigned another analyst** when he knew Keeley's son is working in AR, and **not pressured the new analyst** into making a Strong Buy Recommendation.

Issue 5: Conference Attendance



John Keeley, CFA

The next day, AR's Chief Financial Officer (CFO) invites Keeley to a three-day conference that the company is sponsoring in Abuesi. Each day during the conference, Keeley plays golf with AR's senior management. In the evening, Keeley attends lavish dinners at which AR's senior management discuss the company's future operating strategy and its financial projections. At the conference, AR covers the cost of Keeley's transportation, hotel accommodations, and golf fees.

What Happened?

- AR paid for Keeley's trip, accommodations, and golf games, as well for the lavish dinner.

Standards Violated:

- **I(B) – Independence & Objectivity.** Accepting any gift and compensation could create **the appearance of compromised objectivity.**

Best Practices:

- Keeley should have **declined non-essential entertainment** (e.g., golf).
- Keeley or GSW should have **covered his own travel and accommodation costs.**
- **Accepting dinners is reasonable** due to their business nature.
- **Keeley should consult the compliance department** in GSW and what he has been provided.

Issue 6: Initial Sell recommendation

APPROVED

*Unfortunately, I was not impressed by AR or its management. Every time I asked a question about their current financial condition and position, the CFO gave me an evasive answer. And **after reviewing and analyzing AR's recent financial statements**, I noticed that they are **using complicated accounting methods and techniques that I believe overstate their revenues and earnings**. I was so disturbed by what I heard from AR's management and my analysis of their financial statements that **I would like to issue a "sell" recommendation** on the company instead of a "strong buy" recommendation.*



John Keeley, CFA

What Happened?

- Keeley is concerned about unclear CFO answers and overstated earnings
- He decides to issue a "sell" recommendation instead of "strong buy"

Comment:

- **No violation.** Keeley upholds **I(B) – Independence and Objectivity**. His decision reflects commitment to ethical standards.

Best Practices:

- Keeley should continue to base recommendations on **factual analysis**
- Maintaining **objectivity** despite external pressures

Issue 7: Pressure to Change Recommendation

VIOLATION



Edward Peterkin, CFA

*I hope you understand that a “sell” recommendation would **damage the strong business relationship that our firm has developed with AR** and that they would probably use another firm to underwrite their securities offering. AR may also **retaliate against you by firing your son and preventing you from attending their analyst meetings and conference calls**. Therefore, you should seriously think about the consequences of your actions. Whatever you decide to do, I want to review your research report on AR before it is distributed.*

What Happened?

- Peterkin **warned Keeley that a “sell” rating could harm GSW’s relationship with AR**
- **Implicit threat** to Keeley’s son’s employment
- Asking to review report **is appropriate**

Standards Violated:

- **I(A) – Knowledge of the Law.** Peterkin indirectly threatened Keeley’s son’s employment. This is a **violation of the Code of Ethics** as well.
- **IV(C) – Responsibility of Supervisors.** Failure to uphold supervisory duties by pressuring Keeley.
- **III(A) – Loyalty, Prudence and Care.** In pressuring Keeley, Peterkin is not putting client interests first.

Best Practices:

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

Issue 8: Omission of Critical Information



A week later, Keeley submits his research report on AR to Peterkin with a “neutral” recommendation. In his report, Keeley does not discuss AR’s accounting methodology, and he does not include his opinion that the company’s revenues and earnings are overstated. He also does not disclose that his son works for AR or that AR is an investment banking client of GSW.



John Keeley,
CFA

What Happened?

- Keeley **submitted a neutral report instead of “sell”**
- He **failed to disclose accounting concerns** about AR, **his son’s employment** at AR, and the fact that **AR was a client of GSW’s investment banking division**

Standards Violated:

- **I(C) – Misrepresentation.** Omitting concerns about AR’s accounting and changing recommendations without justification.
- **V(A) – Diligence & Reasonable Basis.** Failure to fully analyze AR’s accounting.
- **VI(A) – Disclosure of Conflicts.** Failure to provide a thorough analysis.
- **III(A) – Loyalty, Prudence & Care.** Undermines clients’ ability to make informed decisions.

Best Practices:

- Keeley should have **fully disclosed conflicts of interest**
- He should have **included concerns about AR’s financials in the report, provide complete information, ensure the report is complete**
- Uphold his **“sell” recommendation**

Issue 9: Peterkin Modifies Report and Engages in Unethical Trading

Three days later, Keeley receives a phone call from Peterkin.



Edward Peterkin, CFA

*I just wanted to let you know that I **made some modifications to your research report**. First, I **changed your “neutral” recommendation to a “strong buy.”** I also allowed AR’s CFO to review your report before publishing it widely. The CFO thought that your annual revenue and earnings growth projections of 8% and 5%, respectively, were too low, so I **increased them to 12% and 10%**, respectively. I then **emailed your report to our 10 largest clients to get their reaction to it**. Later that same day, after receiving positive feedback from them, I posted your report on GSW’s website. **To increase interest in AR’s upcoming secondary offering, I instructed GSW traders to simultaneously purchase and sell large blocks of AR shares and to place buy and sell orders in market for AR shares at the same price to generate greater volumes and have the street take notice that we’re the most active trader in the stock.***

What Happened?

- Peterkin **changed Keeley’s report to strong buy**
- Allowed AR’s CFO **to not only review** the report (**which is appropriate for fact-checking**) but also to influence it based on their opinion
- Sent it to **selected clients before public release**
- **Ordered GSW traders to create artificial trading volume** in AR’s stock

Issue 9: Peterkin Alters Report & Engages in Market Manipulation

VIOLATION

Three days later, Keeley receives a phone call from Peterkin.



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Standards Violated:

- **V(A) – Diligence & Reasonable Basis:** Altered recommendation without any reasonable basis for doing so.
- **I(C) – Misrepresentation:** Violated by altering revenue forecast.
- **V(B) – Client Communication:** Changing rating and Adjusting projection for business interests, compromising objectivity.
- **III(B) – Fair Dealing:** Released modified report to select clients, creating an unfair advantage.
- **II(A) – Material Non-Public Information:** Sharing the report selectively.
- **II(B) – Market Manipulation:** Instructing traders to manipulate AR’s stock volume.
- **Market Manipulations** also violate **the Ontario Securities Act** and regulations from **the Investment Industry Regulatory Organization of Canada (IIROC)**

Issue 9: Peterkin Alters Report & Engages in Market Manipulation

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Best Practices:

- Keeley should have **dissociated himself from the report**
- Peterkin must **avoid unauthorized changes** and selective sharing
- Both should **advise AR to cancel the offering, correct** misinformation, **disclose** conflicts, and **consult** legal counsel
- Market manipulation should have been **reported to regulators**

Issue 10: Keeley's Personal Trading Actions

VIOLATION



John Keeley, CFA

1. told his wife to short AR stock



Keeley's wife

2. advised them to sell/short AR stock for clients.



Manuel McBride, IFA and institutional client of GSW

What Happened?

- Keeley told his wife to short AR stock
- Advised McBride to sell/short AR stock for clients

Standards Violated:

- **IV(A) – Loyalty.** Not acting in GSW's best interests and potentially exposes GSW to reputational damage.
- **VI(A) – Avoid or Disclose Conflict:** Conflict between his wife's interests and clients' interests.
- **II(A) – MNPI:** Trade in his Wife's Account

Grey Area- III(C) – Suitability:

- Keeley's recommendation to McBride to sell or short AR shares for all of McBride's clients **does not violate the suitability standard** because McBride is responsible for his clients' investment decisions.

CONTROVERSY

Issue 10: Keeley's Personal Trading Actions



John Keeley, CFA

1. told his wife to short AR stock



Keeley's wife

2. advised them to sell/short AR stock for clients.



Manuel McBride, IFA and institutional client of GSW

Best Practices:

- Keeley should have **ceased unethical behavior** instead of profiting from it
- Should have immediately **reversed the trades**
- **Cease Communication** with McBride
- **Report** to Compliance and Legal Authorities
- Full **Disclosure** of his actions
- Consider **Resigning**

Issue 11. Peterkin's and Keeley's actions compromise the reputation and integrity of the CFA designation.



Edward Peterkin, CFA

What Happened?

- Interference with research
- Falsifying recommendations
- Market manipulation

Standards Violated:

- VII(A) – Conduct as Participants in CFA Institute Programs

Best Practices:

- Both should be **reported** to the CFA Institute
- Completion of **ethics training**
- Facing sanctions, including **suspension** of their CFA designations
- GSW should **investigate and implement** corrective measures.



John Keeley, CFA

What Happened?

- Disclosure Failures
- Independence and Objectivity Violations
- Research Integrity
- Insider Trading

03

Summary

Review and Organise all Standards They have violated.

Key Standards Violations (Chronologically)

Issue	Who Violated?	CFA Standard Violated
Pressure to Recommend "Strong Buy"	Peterkin	I(A) – Knowledge of the Law I(B) – Independence & Objectivity IV(C) – Responsibility of Supervisors I(D) – Misconduct The Code of Ethics: both Peterkin and Keeley
Keeley's response to Peterkin	Keeley	VI(A) – Disclosure of Conflicts
Conference Attendance	Keeley	I(B) – Independence & Objectivity
Pressure to Change Recommendation	Peterkin	I(A) – Knowledge of the Law IV(C) – Responsibility of Supervisors III(A) – Loyalty, Prudence & Care
Omission of Critical Information	Keeley	I(C) – Misrepresentation V(A) – Diligence & Reasonable Basis VI(A) – Disclosure of Conflicts III(A) – Loyalty, Prudence & Care
Peterkin Alters Report & Engages in Market Manipulation	Peterkin	V(A) – Diligence & Reasonable Basis I(C) – Misrepresentation III(B) – Fair Dealing V(B) – Communication with Clients II(A) – Material Nonpublic Information II(B) – Market Manipulation
Keeley's Personal Trading Actions	Keeley	IV(A) – Loyalty VI(A) – Avoid or Disclose Conflict II(A) – Material Nonpublic Information
Peterkin's and Keeley's actions compromise the reputation and integrity of the CFA designation	Peterkin and Keeley	VII(A) – Conduct as Participants in CFA Institute Programs

CFA Institute actions on Keeley's Violations



Violation	CFA Standard Violated	Severity of Violation	Action Taken by CFA Institute
Personal Trading Actions	IV(A) – Loyalty VI(A) – Avoid or Disclose Conflict II(A) – Material Nonpublic Information	Severe	Permanent revocation of CFA Charter & regulatory referral
Omission of Critical Information	I(C) – Misrepresentation V(A) – Diligence & Reasonable Basis III(A) – Loyalty, Prudence & Care VI(A) – Disclosure of Conflicts	Severe	Charter suspension and ethics training
Failure to Disclose Conflicts	VI(A) – Disclosure of Conflicts	Moderate	Censure and probationary status
Conference Attendance	I(B) – Independence & Objectivity	Minor	Written warning
Compromising the Integrity of the CFA Designation	VII(A) – Conduct as Participants in CFA Programs	All violations considered severe	Public reprimand and official ethics violation record

Recommended Actions for John Keeley



John Keeley, CFA

Immediate Actions

Urgent steps to stop the issue immediately

1. **Withdraw** and **correct** the research report
2. **Disclose all conflicts of interest**
3. **Report trading violations** to compliance department

Remedial Actions

Corrective measures to fix and prevent future issues

1. **Implement personal trading plan** with compliance oversight
2. Complete comprehensive **ethics training**
3. **Establish clear communication protocols** with **management**

CFA Institute actions on Peterkin's Violations



Violation	CFA Standard Violated	Severity of Violation	Action Taken by CFA Institute
Altering Report & Engaging in Market Manipulation	II(A) – Material Nonpublic Information II(B) – Market Manipulation V(B) – Communication with Clients III(B) – Fair Dealing V(A) – Diligence & Reasonable Basis I(C) – Misrepresentation	Severe	Permanent revocation of CFA Charter & referral to regulators
Pressure to Recommend "Strong Buy"	I(A) – Knowledge of the Law I(B) – Independence & Objectivity I(D) – Misconduct IV(C) – Responsibility of Supervisors	Moderate	Suspension of CFA Charter for multiple years
Pressure to Change Recommendation	I(A) – Knowledge of the Law IV(C) – Responsibility of Supervisors III(A) – Loyalty, Prudence & Care	Moderate	Public censure & mandatory ethics training
Compromising the Integrity of the CFA Designation	VII(A) – Conduct as Participants in CFA Programs	All violations considered severe	Public reprimand and official ethics violation record

Recommended Actions for Edward Peterkin



Edward Peterkin,
CFA

Immediate Actions

Urgent steps to stop the issue immediately

1. **Self-report violations** to **CFA Institute** and **IIFROC**
2. **Cease all involvement** in research activities
3. **Resign** from supervisory positions

Remedial Actions

Corrective measures to fix and prevent future issues

1. **Cooperate fully** with regulatory investigations
2. **Document all decisions** and **communications** related to the case
3. **Complete comprehensive ethics training**

Recommended Actions for GSW



GSW Securities
Ltd.

1. Suspend all related trading activities
2. Launch internal investigation
3. Notify regulators of identified violations
4. Place research department under independent supervision

Immediate Actions

Structural Changes

1. Establish independent research oversight committee
2. Implement robust information barriers
3. Enhance compliance monitoring systems
4. Revise compensation structures to ensure research independence

1. Strengthen research independence policies
2. Implement comprehensive conflicts management system
3. Enhance personal trading monitoring
4. Develop detailed entertainment and gift policies

Policy Updates

Recommended Actions for Arbour Resources



Arbour Resources AR

Immediate Actions

Urgent steps to stop the issue immediately

1. **Cease attempts to influence research**
2. **Review and correct any misleading disclosures**
3. **Engage independent auditors**
4. **Notify board of directors and audit committee**

Remedial Actions

Corrective measures to fix and prevent future issues

1. **Strengthen corporate governance**
2. **Implement whistleblower program**
3. **Enhance financial reporting controls**
4. **Develop clear policies on interaction with analysts**

04

Conclusion

Final Thought, Call to Action

Let's return to the
question we asked at the
beginning.

What if you were...?!



John Keeley, CFA

Background

- a **Research Analyst at GSW Securities.**
- You **discover serious financial issues** at Arbour Resources and **believe a “sell” recommendation is necessary.**
- But your **supervisor pressures you to change it to keep the client.**
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**Would you stand by your
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Background

- a **Managing Director at GSW Securities.**
- Your firm **has secured a major deal** with **Arbour Resources**, but your **lead analyst** wants to **issue a negative report.**
- **Arbour's CEO warns: "Make it favorable, or we go away."**
- **Rejecting their demand** could **cost millions** and **harm your career.**

Would you uphold ethics or protect the firm's interests?

Integrity must come first!

- Both Keeley and Peterkin needed to **stay independent** and **stand strong against pressure**.
- As **CFA charterholders**, we are **not just finance professionals**;
- we are **guardians of market integrity**.
- **Ethics should never be negotiable**.

***As CFA charterholders and candidates,
we MUST uphold ethical standards
NO MATTER the pressure!***

Thank you

CREDITS: This presentation template was created by [Slidesgo](#), including icons by [Flaticon](#) and infographics & images by [Freepik](#).

The image features a dark red background with a large, lighter red circle in the center. A thin gold horizontal line runs across the top, and a double gold diagonal line runs from the bottom right corner. The text "Q&A" is centered within the circle in a white, elegant serif font.

Q&A

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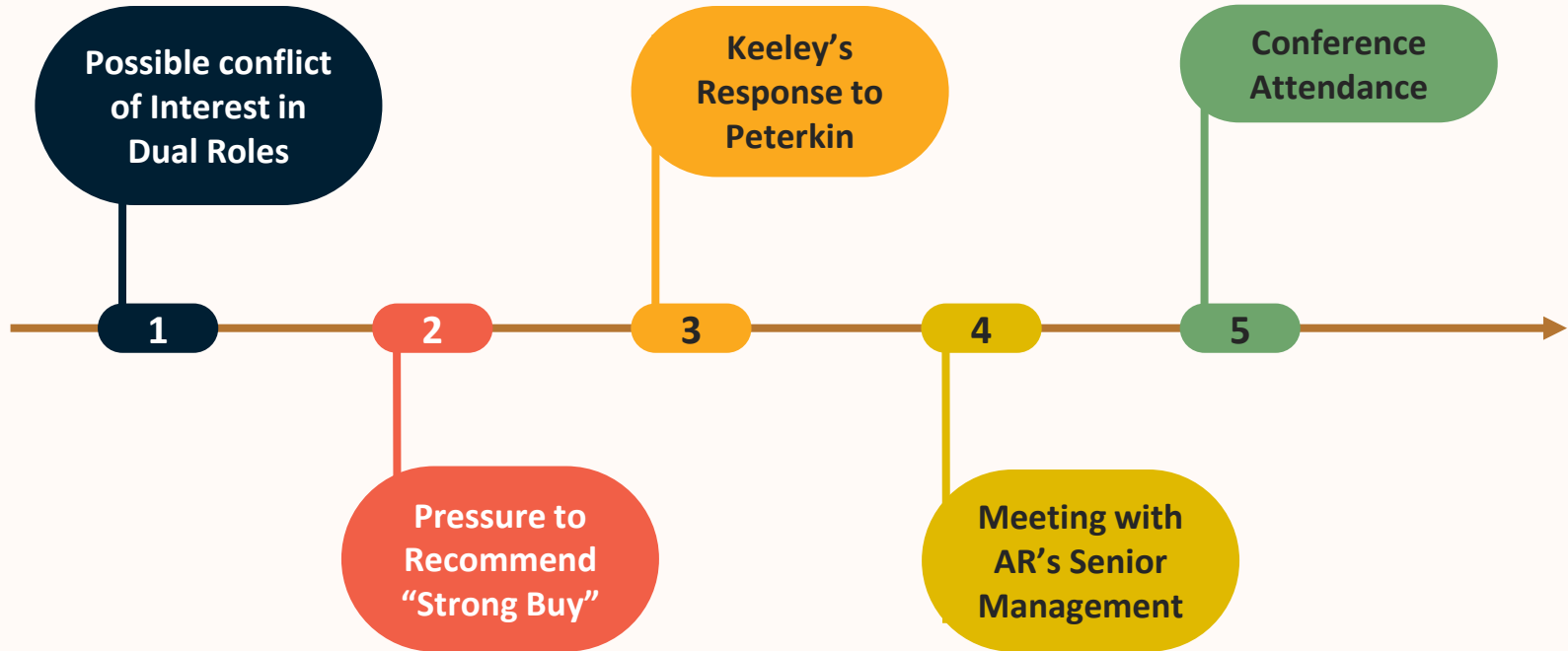
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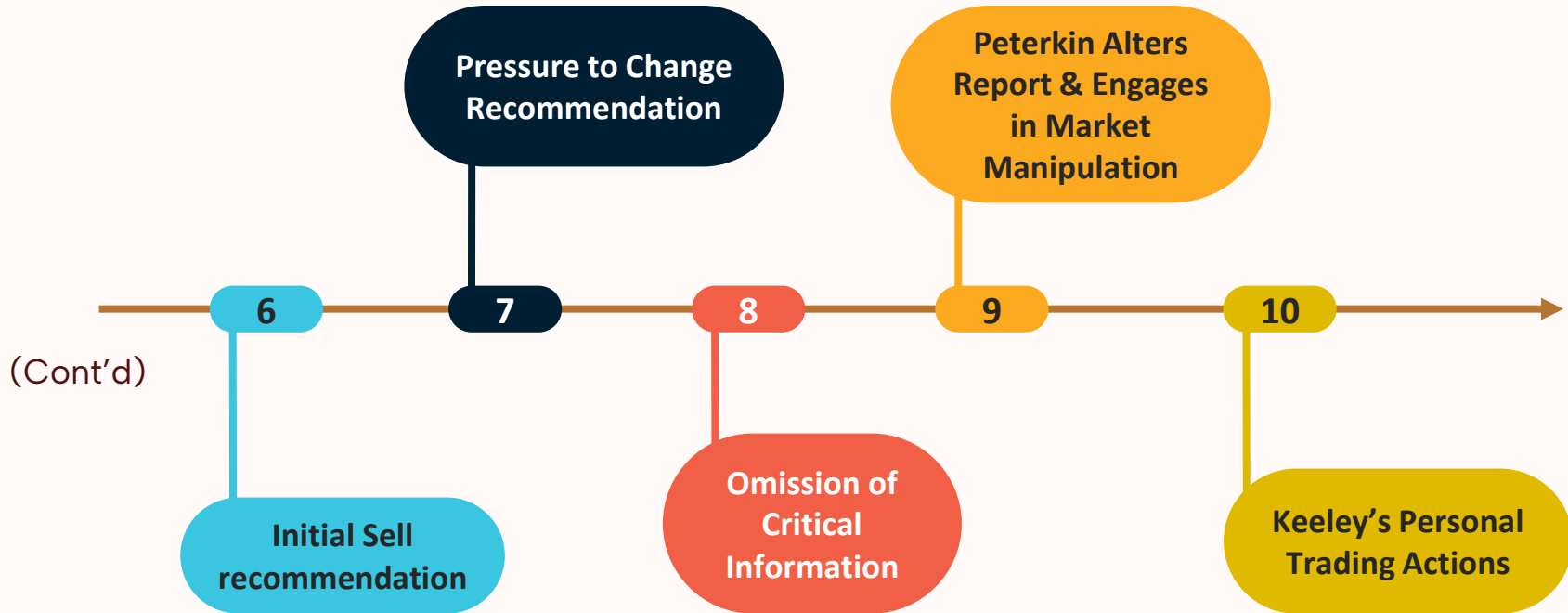
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Appendix. Timeline



Appendix. Timeline (Cont'd)



Appendix. Issue Mapping

GSW Securities Limited

1 John Keeley, CFA, is a mining analyst for GSW Securities Ltd. (GSW), an investment bank based in Toronto. Founded in 2015, GSW wants to become more well-known in the areas of securities underwriting and equity research. This morning, Keeley is meeting with his supervisor, Edward Peterkin, CFA, Peterkin, who joined GSW at the same time as Keeley, is now the Managing Director of its investment banking division. Below are excerpts from their conversation.

2 *Peterkin:* Keeley, I have good news for you. Arbour Resources (AR) has just hired GSW to be the lead underwriter in its upcoming secondary equity offering. As part of our agreement, I told AR that you would write a research report on the company and recommend it as a "strong buy." How much do you know about the company?

3 *Keeley:* I am very familiar with AR because my son has worked for the company as an engineer for the past three years. Recently, he told me that the company has been struggling financially because of the huge environmental permitting costs it has been incurring.

4 *Peterkin:* I am going to set up a meeting between you and AR's senior management so that they can provide you with first-hand knowledge of what is really happening at their company.

5 The next day, AR's Chief Financial Officer (CFO) invites Keeley to a three-day conference that the company is sponsoring in Abu Dhabi. Each day during the conference, Keeley plays golf with AR's senior management. In the evening, Keeley attends lavish

dinners at which AR's senior management discuss the company's future operating strategy and its financial projections. At the conference, AR covers the cost of Keeley's transportation, hotel accommodations, and golf fees.

6 After returning from the conference, Keeley meets with Peterkin to discuss his observations of AR. Below are excerpts from their conversation.

Keeley: Unfortunately, I was not impressed by AR or its management. Every time I asked a question about their current financial condition and position, the CFO gave me an evasive answer. And after reviewing and analyzing AR's recent financial statements, I noticed that they are using complicated accounting methods and techniques that I believe overstate their revenues and earnings. I was so disturbed by what I heard from AR's management and my analysis of their financial statements that I would like to issue a "sell" recommendation on the company instead of a "strong buy" recommendation.

7 *Peterkin:* I hope you understand that a "sell" recommendation would damage the strong business relationship that our firm has developed with AR and that they would probably use another firm to underwrite their securities offering. AR may also retaliate against you by firing your son and preventing you from attending their analyst meetings and conference calls. Therefore, you should seriously think about the consequences of your actions. Whatever you decide to do, I want to review your research report on AR before it is distributed.

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9 Three days later, Keeley receives a phone call from Peterkin.

Peterkin: I just wanted to let you know that I made some modifications to your research report. First, I changed your "neutral" recommendation to a "strong buy." I also allowed AR's CFO to review your report before publishing it widely. The CFO thought that your annual revenue and earnings growth projections of 8% and 5%, respectively, were too low, so I increased them to 12% and 10%, respectively. I then emailed your report to our 10 largest clients to get their reaction to it. Later that same day, after receiving positive feedback from them, I posted your report on GSW's website. To increase interest in AR's upcoming secondary offering, I instructed GSW traders to simultaneously purchase and sell large blocks of AR shares and to place buy and sell orders in market for AR shares at the same price to generate greater volumes and have the street take notice that we're the most active trader in the stock.

10 Keeley is so angry when he hears about the changes Peterkin made to his report that he immediately calls his wife and instructs her to take a short position in AR shares in her trading account. Because the transaction is in his wife's account, he does not disclose the transaction to anyone. He then phones his close friend and former colleague, Manuel McBride, an independent financial advisor (IFA) and institutional client of GSW. Keeley recommends to McBride that he either sell or sell short AR shares in all of his clients' accounts.