**Ethical and Professional Standards - Applications**

**September 2024 Examination**

**1. Alexander is a financial analyst working for a prominent investment firm. He come across confidential information about a competitor's upcoming merger. A colleague asks him about potential investment opportunities in that competitor. According to you, how should he handle this situation according to the CFA Institute's Code of Ethics? (10 Marks)**

**Ans 1.**

**Introduction**

The role of a financial analyst is not only about providing accurate and insightful analysis but also about upholding the highest standards of ethics and professionalism. In today's complex financial landscape, ethical dilemmas often arise, testing the integrity and moral compass of professionals. The situation involving Alexander, a financial analyst who comes across confidential information about a competitor's upcoming merger, poses such a challenge. The CFA Institute's Code of Ethics and Standards of Professional Conduct provides clear guidance on how professionals should navigate such situations. This scenario highlights the importance of maintaining confidentiality, avoiding conflicts of interest, and acting with integrity, all of which are essential components of

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**2. Sushma’s advising a client on investment opportunities and have two options to present— one with higher potential returns but also higher risk, and another with lower returns but lower risk. The client has explicitly stated they are risk-averse. How would you ensure fair dealing in this scenario according to the CFA Institute's Code of Ethics? (10 Marks)**

**Ans 2.**

**Introduction**

Fair dealing and the alignment of investment recommendations with client preferences are foundational principles in the financial advisory profession. In situations where a client’s risk tolerance is explicitly communicated, it is the advisor's duty to ensure that the advice provided is in strict accordance with the client’s stated preferences. In the case of Sushma, who is advising a client on investment opportunities, understanding and applying the CFA Institute’s Code of Ethics is crucial. The client’s risk-averse nature must guide Sushma's recommendations, ensuring that the options presented align with the client's comfort level. This scenario underscores the

**3. Aryan is a research analyst covering the technology sector. During his analysis of a particular company, he discovers that its management has been inflating revenue figures to meet quarterly targets. The company's stock is widely held by his firm's clients, including pension funds and individual investors.**

**a. How would Aryan handle this information in accordance with the CFA Institute's Code of Ethics? (5 Marks)**

**Ans 3a.**

**Introduction**

As a research analyst, Aryan has a duty to act with integrity, objectivity, and diligence, particularly when dealing with sensitive information that could significantly impact investors and the broader market. Discovering that a company's management has been inflating revenue figures poses a serious ethical dilemma, especially when the company's stock is widely held by his firm's clients. According to the CFA Institute's Code of Ethics, Aryan must navigate this situation carefully, ensuring that his actions protect the interests of clients while maintaining the integrity of the financial

**b. If Aryan’s investigation confirms the revenue manipulation, what are his responsibilities to his firm's clients and other stakeholders? (5 Marks)**

**Ans 3b.**

**Introduction**

If Aryan's investigation confirms that the company has been manipulating revenue figures, his responsibilities to his firm's clients and other stakeholders become even more critical. As a research analyst bound by the CFA Institute's Code of Ethics, Aryan must act in a manner that protects the interests of clients, maintains market integrity, and upholds his professional responsibilities. This situation requires careful consideration of how to disclose the findings and the appropriate