

Applying Investment Ethics - Student Worksheet - **NEW**

Name: _____ Date: _____

Directions: Read the possible ethical or professional violations below. Then read each of the four scenarios. For each scenario, identify the BEST match from the list and explain why the conduct violates that principle. Not all violations will be used, and each violation may be used only once.

Possible Violation	Short Description
Communication with Clients	Investment professionals should clearly communicate important information about investment recommendations, including relevant risks, limitations, and the general principles used to make investment decisions.
Conflict of Interest / Best Interest	Personal or financial interests may influence a recommendation or be placed ahead of the client's interests.
Diligence and Reasonable Basis	Recommendations should be based on careful research and information that has been reasonably verified.
Fair Dealing	Clients should be treated fairly and objectively when recommendations or information are distributed.
Loyalty, Prudence, and Care	Investment professionals should act for the benefit of their clients and exercise appropriate care and judgment when managing client assets or making decisions on their behalf.
Suitability / Client Fit	Recommendations should reflect the client's goals, risk tolerance, financial circumstances, and time horizon.

Scenario 1: The Higher Commission

A broker can recommend either of two investments that appear appropriate for a customer. One pays the broker substantially more compensation. The broker recommends the higher-paying investment without telling the customer about the compensation difference.

Suspected Violation: _____

Explanation: _____

Scenario 2: The Favorite Client

An investment professional develops a new recommendation and immediately shares it with several large clients. Smaller clients receive the recommendation two days later, after the security's price has already increased.

Suspected Violation: _____

Explanation: _____

Scenario 3: AI Did the Research

An analyst uses an AI tool to summarize a company's financial statements and recent SEC filings. The AI-generated summary contains an error, but the analyst does not check the original sources before using the information in an investment recommendation.

Suspected Violation: _____

Explanation: _____

Scenario 4: Is It Right for the Client?

A 62-year-old client expects to retire in three years and tells her adviser that preserving her retirement savings is very important. The adviser recommends a highly volatile investment because it has recently produced very high returns.

Suspected Violation: _____

Explanation: _____

Applying Investment Ethics - Teacher Answer Key

Scenario 1: The Higher Commission

Best Match: Conflict of Interest / Best Interest

Explanation: The broker has a financial conflict that could influence the recommendation. The compensation difference should be disclosed, and the broker should not place personal financial interests ahead of the customer's interests.

Scenario 2: The Favorite Client

Best Match: Fair Dealing

Explanation: The professional gives selected clients an advantage by providing the recommendation earlier. Investment professionals should deal fairly and objectively with clients when distributing investment recommendations.

Scenario 3: AI Did the Research

Best Match: Diligence and Reasonable Basis

Explanation: Using AI is not itself the problem. The analyst relies on AI-generated information without checking the underlying financial statements or SEC filings. The professional remains responsible for verifying information and establishing a reasonable basis for the recommendation.

Scenario 4: Is It Right for the Client?

Best Match: Suitability / Client Fit

Explanation: The recommendation does not adequately reflect the client's stated priority of preserving retirement savings, short time horizon, and sensitivity to risk. Recommendations should fit the client's goals, risk tolerance, financial circumstances, and time horizon.

Debrief Question

Can an action be legal but still raise an ethical concern? Why?

Answer: Yes. Laws establish minimum legal requirements, while professional ethical standards may require additional care, fairness, disclosure, diligence, or judgment. Conduct can comply with the law while still falling short of professional ethical

Reference: <https://www.cfainstitute.org/standards/professionals/code-ethics-standards>