

Buying Lubrizol: David Sokol's Trades and the CFA Institute Standards of Professional Conduct

by DOROTHY C. KELLY, CFA

A CFA charterholder, Mikkel Orut, CFA, must prepare for a conversation with client David Sokol two weeks after Sokol's resignation from Berkshire Hathaway Inc., a diversified holding company. In a March 2011 press release, Warren Buffett, chairman and CEO of Berkshire, announced the resignation of David Sokol, chairman of several Berkshire subsidiaries, and disclosed Sokol's purchase and ownership of nearly 100,000 shares of Lubrizol Corporation, which Berkshire had recently announced it would acquire for \$9.7 billion following a recommendation from Sokol. Buffett praised Sokol's contributions and asserted that "neither Dave nor I feel his Lubrizol purchases were in any way unlawful," but the media, regulators, Berkshire shareholders, and others see Sokol's actions differently.

LEARNING OBJECTIVES

1. Help students evaluate personal choices for unrecognized risks to their careers and reputations.
2. Help students identify duties owed to employers and other stakeholders.
3. Encourage students to look beyond the law to govern personal choices and behavior.
4. Help CFA charterholders and candidates in the CFA Program understand their responsibilities under the CFA Institute Code of Ethics and Standards of Professional Conduct.
5. Help CFA charterholders and candidates in the CFA Program evaluate behavior for compliance or lack of compliance with the CFA Institute Code of Ethics and Standards of Professional Conduct.
6. Help students understand how a code of ethics and standards of professional conduct can provide guidance for mitigating career risks.

Mikkel Orut, CFA, listened to the client's voice message carefully. The client, David Sokol, had requested a meeting to discuss his finances. Sokol had been the subject of frequent media stories following his sudden resignation from a highly lucrative and prestigious executive position two weeks earlier. Orut had read nearly every article on the events and had been preparing for a call from Sokol but was unsure exactly how he would respond to his wealthy client.

This case was prepared by Dorothy C. Kelly, CFA, Director of Training and Outreach for the Professional Conduct Program of CFA Institute. It was adapted from internal training materials developed by the author. This case was written as a basis for classroom discussion and is not an indication or representation of how a business situation or professional conduct matter should or should not be handled or addressed. Certain characters mentioned are fictional to facilitate classroom discussion, and any resemblance to actual persons is coincidental. Copyright © 2013 by CFA Institute, Charlottesville, Virginia. All rights reserved.

Timeline of Events

Date	Event/Activity
Fall 2010	Sokol requests from investment bankers information regarding possible transactions in several industries and receives a list plus descriptions of 18 companies, including Lubrizol, for his consideration.
13 December	Sokol meets with investment bankers from Citi to discuss the list and indicates the only company of interest is Lubrizol. He asks a Citi representative to inform Lubrizol's CEO, James Hambrick, that he is interested in speaking with him and discussing Berkshire Hathaway and Lubrizol.
14 December	Sokol purchases 2,300 shares of Lubrizol for his personal account pursuant to a limit order with a limit price of \$104.
17 December	Sokol receives information from Citi indicating that Hambrick would discuss Berkshire Hathaway's possible interest with the Lubrizol board.
21 December	Sokol sells his shares of Lubrizol for "tax purposes," receiving a small capital gain, which is offset by other tax losses.
5–7 January 2011	Sokol purchases 96,060 shares of Lubrizol pursuant to a 100,000-share order with a limit price of \$104.
14 January	Sokol speaks with Hambrick via telephone and arranges an in-person meeting for 25 January 2011.
14–15 January	Sokol suggests Lubrizol as a potential acquisition to Warren Buffett, chair of Berkshire Hathaway, and discloses that he owns shares of Lubrizol.
25 January	Sokol meets with Hambrick and soon after reports back to Buffett.
27 January	Sokol calls Hambrick and states that it would be helpful for Hambrick to meet with Buffett in Omaha, Nebraska.
8 February	Buffett meets with Hambrick to discuss possible offer for Lubrizol.
14 March	Berkshire Hathaway and Lubrizol issue a joint press release announcing Berkshire's acquisition of Lubrizol for \$135 per share in an all-cash transaction. Buffett receives congratulatory call that reveals investment bankers' involvement.
15 March	Sokol discloses extent and timing of his Lubrizol purchases to Berkshire Hathaway CFO Marc Hamburg via telephone.
18 March	Buffett learns more about the investment bankers' involvement from the first draft of Lubrizol proxy statement.
25 March	Lubrizol files a preliminary proxy statement regarding Berkshire's offer with the SEC.
28 March	Sokol submits his resignation.
30 March	Berkshire Hathaway issues a press release regarding Sokol's resignation and purchases of Lubrizol stock.

BACKGROUND

On 30 March 2011, Warren Buffett, chairman and CEO of Berkshire Hathaway, a diversified holding company, announced the resignation of David Sokol, chairman of several Berkshire subsidiaries. In the press release, Buffett wrote of Sokol's "extraordinary" contributions to Berkshire, including management of several Berkshire subsidiaries and the idea for Berkshire's acquisition of Lubrizol Corporation, a specialty chemicals manufacturer. Just two weeks earlier, on 14 March 2011, Berkshire had announced that it would acquire Lubrizol for \$135 per share in an all-cash deal valued at approximately \$9.7 billion.

In the 30 March press release, Buffett also disclosed that Sokol owned nearly 100,000 shares of Lubrizol and provided detailed information about the purchases as well as Buffett's decision to acquire Lubrizol. He noted, "Dave's purchases were made *before* he had discussed Lubrizol with me and with no knowledge of how I might react to his idea. In addition, of course, he did not know what Lubrizol's reaction would be if I developed

an interest... Neither Dave nor I feel his Lubrizol purchases were in any way unlawful. He has told me that they were not a factor in his decision to resign."

According to the announcement, Buffett had not asked for the resignation, and although Sokol had spoken to Buffett about resigning in previous years, it came as a surprise to him. In his resignation letter, Sokol wrote, "As I have mentioned to you in the past, it is my goal to utilize the time remaining in my career to invest my family's resources in such a way as to create enduring equity value and hopefully an enterprise which will provide opportunity for my descendents [sic] and funding for my philanthropic interests. I have no more detailed plan than this because my obligations from Berkshire Hathaway have been my first and only business priority."¹

A media frenzy followed. Shareholders were appalled that Buffett—who famously stated, "Lose money for the firm, and I will be understanding; lose a shred of reputation for the firm, and I will be ruthless"—had failed to live up to his promises. Meanwhile, Sokol publicly denied any wrongdoing. In a live interview on CNBC Squawk Box on

31 March, Sokol declared, “Knowing today what I know, what I would do differently is I just would never have mentioned it to Warren and just made my own investment and left it alone. I think that’s a disservice to Berkshire, but if that’s what people want to do in the future, that’s fine. You can’t, or at least I don’t think you can, ask executives to not invest their own family’s capital in a company that Berkshire had no interest [in], or even knowledge of, and somehow police that. The only thing you can do is just say, if you invest your own money, don’t ever mention it to anybody at Berkshire. That doesn’t make sense to me either, but that’s certainly what it sounds like.”²

WARREN BUFFETT AND BERKSHIRE HATHAWAY

Through a series of acquisitions spanning more than four decades, Buffett had turned Berkshire, a failing textile company, into a diversified holding company with more than \$370 billion in assets. Buffett, a committed value investor, reported and judged Berkshire’s performance based on book value per share, which climbed from \$19 when Buffett first took control in 1965 to \$95,453 in 2010, an average annual rate of 20.2%. Buffett’s commitment to value investing paid handsomely for Berkshire shareholders: Shares of Berkshire Class A had increased from roughly \$20 per share in the 1960s to more than \$120,000 per share in 2010. Buffett’s investing acumen made him one of the world’s wealthiest individuals and earned him the moniker “Sage of Omaha.” In addition, he garnered fame for his folksy annual letters to shareholders, and tens of thousands attended his shareholder meetings, known as the “Woodstock for Capitalism,” to hear him speak.

Buffett ran Berkshire on a decentralized basis. The managers of its geographically diverse operating businesses made all operating decisions for their business units. According to Buffett, the managers at Berkshire could “focus on running their businesses: They are not subject to meetings at headquarters, nor financing worries, nor Wall Street harassment. They simply get a letter from me every two years... and call me when they wish.”³ Buffett and vice chairman Charlie Munger participated in and had ultimate responsibility “for significant capital allocation decisions, investment activities, and the selection of the Chief Executive to head each of the operating businesses,” but corporate headquarters had minimal involvement in the daily activities of its operating businesses.⁴

Despite, or perhaps because of, this decentralized approach, Buffett sent a biennial memo to his managers

to reemphasize the holding company’s top priority. In the July 2010 memo, he wrote, “The priority is that all of us continue to zealously guard Berkshire’s reputation. We can’t be perfect, but we can try to be. As I’ve said in these memos for more than 25 years: ‘We can afford to lose money—even a lot of money. But we can’t afford to lose reputation—even a shred of reputation.’ We *must* continue to measure every act against not only what is legal but also what we would be happy to have written about on the front page of a national newspaper in an article written by an unfriendly but intelligent reporter.”⁵

The Berkshire Hathaway *Code of Business Conduct and Ethics* states that employees “are prohibited from taking for themselves opportunities that are discovered through the use of corporate property, information, or position without the consent of the Board of Directors of the Company. No Covered Party may use corporate property, information or position for improper personal gain and no employee may compete with the Company directly or indirectly. Covered Parties owe a duty to the Company to advance its legitimate interests whenever possible.”⁶ In addition, the Berkshire Code stated that “all directors and executive officers of the Company, and the chief executive officers and chief financial officers of Berkshire Hathaway’s subsidiaries, shall disclose any material transaction or relationship that reasonably could be expected to give rise to such a conflict to the Chairman of the Company’s Audit Committee. No action may be taken with respect to such transaction or party unless such action has been approved by the Audit Committee.”

DAVID SOKOL AND LUBRIZOL

Sokol had worked for Buffett since March 2000, when Berkshire acquired a controlling interest in MidAmerican Energy Holdings Company, where Sokol was chairman and CEO. During the following decade, Sokol became a top Buffett lieutenant, taking on the role of chairman, president, and CEO of NetJets, a company offering fractional ownership in private aviation, while retaining his role as chairman of MidAmerican. His name frequently circulated as a potential successor to octogenarian Buffett.

As part of his employment responsibilities for Berkshire, Sokol sometimes met with investment bankers to “discuss capital-raising and transaction ideas.”⁷ During fall 2010, Sokol asked investment bankers for information regarding possible transactions in several industries.

Lubrizol Corporation Historical Trading Information
October 2010–March 2011

Date	Open	High	Low	Close	Volume	Adj Close
01-Oct-10	106.68	107.64	105.60	106.30	570,100	105.61
04-Oct-10	106.66	106.97	104.86	105.92	534,400	105.23
05-Oct-10	106.70	110.15	106.70	110.12	767,300	109.40
06-Oct-10	111.24	113.68	108.75	109.07	585,200	108.36
07-Oct-10	109.87	110.19	108.32	109.59	318,800	108.88
08-Oct-10	109.48	111.48	109.48	110.89	346,200	110.17
11-Oct-10	111.07	111.66	110.26	111.31	288,400	110.58
12-Oct-10	111.13	112.39	109.34	111.67	422,800	110.94
13-Oct-10	112.66	113.75	111.86	113.01	369,600	112.27
14-Oct-10	113.01	114.02	112.21	112.87	328,600	112.13
15-Oct-10	113.66	113.99	111.49	112.97	273,200	112.23
18-Oct-10	113.05	113.97	112.59	113.82	336,300	113.08
19-Oct-10	112.37	113.81	110.63	110.97	416,400	110.25
20-Oct-10	111.55	114.21	111.15	113.79	373,900	113.05
21-Oct-10	114.55	115.23	112.45	114.27	342,700	113.53
22-Oct-10	114.29	114.60	112.54	112.75	245,200	112.02
25-Oct-10	113.71	116.26	113.65	114.81	339,100	114.06
26-Oct-10	114.50	115.50	113.00	113.57	385,700	112.83
27-Oct-10	113.00	113.87	111.72	112.81	394,200	112.07
28-Oct-10	106.81	106.95	99.61	102.62	2,424,300	101.95
29-Oct-10	102.21	102.95	99.80	102.49	995,400	101.82
01-Nov-10	102.57	105.47	102.39	103.30	591,000	102.63
02-Nov-10	104.64	105.94	104.44	105.09	537,800	104.40
03-Nov-10	105.31	105.96	104.38	105.26	494,000	104.57
04-Nov-10	106.75	108.55	105.90	108.29	497,000	107.58
05-Nov-10	108.31	108.81	107.48	108.61	401,900	107.90
08-Nov-10	107.84	109.75	107.15	108.88	334,300	108.53
09-Nov-10	109.25	109.73	107.09	107.68	644,400	107.33
10-Nov-10	107.68	109.54	107.04	109.27	497,600	108.92
11-Nov-10	108.03	108.69	105.85	107.09	546,600	106.75
12-Nov-10	106.18	107.39	104.57	105.40	546,500	105.06
15-Nov-10	105.80	108.99	105.51	106.25	547,800	105.91
16-Nov-10	105.34	105.85	102.91	104.01	431,100	103.68
17-Nov-10	103.80	105.00	103.52	103.85	360,000	103.52
18-Nov-10	105.31	107.10	104.78	105.00	499,200	104.66
19-Nov-10	104.85	105.97	104.11	105.08	423,700	104.74
22-Nov-10	104.32	106.64	104.00	106.15	445,500	105.81
23-Nov-10	104.39	105.18	103.32	105.03	509,800	104.69
24-Nov-10	105.99	107.72	105.99	107.72	262,300	107.37
26-Nov-10	106.32	107.81	105.69	107.08	182,800	106.74
29-Nov-10	106.22	106.47	104.18	106.19	399,300	105.85
30-Nov-10	104.93	105.76	104.33	104.56	655,800	104.22
01-Dec-10	106.04	107.85	104.02	107.19	369,800	106.85
02-Dec-10	107.03	108.94	106.44	108.80	353,300	108.45
03-Dec-10	108.21	110.31	108.14	109.83	400,900	109.48
06-Dec-10	109.75	110.09	108.76	109.60	382,100	109.25

(continued)

Lubrizol Corporation Historical Trading Information
October 2010–March 2011 (continued)

Date	Open	High	Low	Close	Volume	Adj Close
07-Dec-10	111.34	111.72	108.58	109.33	550,400	108.98
08-Dec-10	109.59	109.59	107.17	107.21	548,500	106.87
09-Dec-10	108.09	108.20	103.43	105.54	1,355,900	105.20
10-Dec-10	106.05	106.24	104.53	105.71	427,100	105.37
13-Dec-10	106.22	106.91	104.00	104.66	597,000	104.32
14-Dec-10	104.42	108.08	103.89	108.03	753,700	107.68
15-Dec-10	107.62	107.89	106.62	106.88	710,400	106.54
16-Dec-10	106.88	109.58	106.46	109.41	810,800	109.06
17-Dec-10	109.34	110.01	108.18	109.75	1,180,100	109.40
20-Dec-10	109.96	109.99	108.92	109.24	388,600	108.89
21-Dec-10	109.51	110.00	108.83	109.28	501,900	108.93
22-Dec-10	109.59	110.48	108.92	109.88	302,600	109.53
23-Dec-10	109.63	109.69	108.10	108.25	239,200	107.90
27-Dec-10	107.69	109.13	106.70	108.52	213,100	108.17
28-Dec-10	108.67	108.75	107.48	107.97	114,900	107.62
29-Dec-10	108.07	108.50	107.80	107.82	191,200	107.47
30-Dec-10	107.87	109.01	107.57	107.64	131,600	107.29
31-Dec-10	107.60	108.19	106.84	106.88	175,700	106.54
03-Jan-11	107.90	108.38	106.41	106.60	588,900	106.26
04-Jan-11	106.97	107.47	103.76	105.23	670,500	104.89
05-Jan-11	104.74	105.25	103.47	103.55	1,111,300	103.22
06-Jan-11	103.70	104.07	101.74	102.16	609,400	101.83
07-Jan-11	102.58	103.97	101.75	103.28	692,500	102.95
10-Jan-11	102.53	103.79	102.11	103.41	658,700	103.08
11-Jan-11	103.97	105.26	103.00	103.84	456,600	103.51
12-Jan-11	104.30	105.84	104.13	104.68	365,400	104.34
13-Jan-11	104.50	105.76	104.25	105.22	387,900	104.88
14-Jan-11	104.86	106.57	104.17	106.35	445,700	106.01
18-Jan-11	106.05	106.16	104.63	105.08	1,063,400	104.74
19-Jan-11	105.00	106.00	104.65	105.06	827,100	104.72
20-Jan-11	104.39	104.97	102.96	103.63	564,300	103.30
21-Jan-11	104.45	105.37	102.39	102.78	498,300	102.45
24-Jan-11	103.00	103.96	102.50	103.08	378,400	102.75
25-Jan-11	103.25	107.49	103.10	107.46	839,400	107.11
26-Jan-11	107.90	109.45	107.56	108.70	545,000	108.35
27-Jan-11	108.25	109.00	106.89	108.24	505,400	107.89
28-Jan-11	108.49	108.86	105.62	105.69	385,800	105.35
31-Jan-11	105.92	108.69	105.60	107.46	595,400	107.11
01-Feb-11	108.63	111.17	108.20	109.75	693,100	109.40
02-Feb-11	113.19	117.62	110.25	111.38	1,724,800	111.02
03-Feb-11	111.44	112.75	110.69	112.46	693,800	112.10
04-Feb-11	111.99	114.15	111.17	111.30	484,400	110.94
07-Feb-11	111.47	113.12	111.47	112.00	468,900	111.64
08-Feb-11	111.81	113.12	111.76	112.81	464,500	112.81
09-Feb-11	112.17	112.60	111.33	112.39	449,400	112.39
10-Feb-11	111.44	113.83	111.44	112.38	570,600	112.38

(continued)

Lubrizol Corporation Historical Trading Information
October 2010–March 2011 (continued)

Date	Open	High	Low	Close	Volume	Adj Close
11-Feb-11	112.33	112.98	111.15	112.20	419,300	112.20
14-Feb-11	112.40	114.09	111.32	113.36	460,500	113.36
15-Feb-11	113.18	113.85	112.27	112.77	577,000	112.77
16-Feb-11	113.52	114.03	112.89	113.29	461,600	113.29
17-Feb-11	113.42	114.67	111.94	114.59	435,700	114.59
18-Feb-11	114.40	114.70	112.96	113.89	366,700	113.89
22-Feb-11	112.90	114.15	109.16	109.35	504,700	109.35
23-Feb-11	109.29	109.35	105.00	107.24	785,500	107.24
24-Feb-11	107.21	107.38	103.89	105.76	1,000,500	105.76
25-Feb-11	106.71	108.49	106.42	108.47	640,600	108.47
28-Feb-11	109.39	109.43	108.18	108.87	525,000	108.87
01-Mar-11	109.53	109.89	105.08	105.25	574,500	105.25
02-Mar-11	105.33	107.29	104.92	105.65	407,100	105.65
03-Mar-11	106.80	108.83	106.56	107.88	471,800	107.88
04-Mar-11	108.20	108.20	105.61	107.59	516,000	107.59
07-Mar-11	108.06	108.50	104.97	105.18	354,200	105.18
08-Mar-11	105.36	107.62	105.02	106.07	478,300	106.07
09-Mar-11	105.81	106.70	104.18	106.56	566,700	106.56
10-Mar-11	105.09	106.66	104.50	105.07	490,500	105.07
11-Mar-11	104.50	106.04	103.88	105.44	488,100	105.44
14-Mar-11	133.80	134.75	133.75	134.68	10,662,000	134.68
15-Mar-11	134.05	134.25	133.76	133.77	10,492,800	133.77
16-Mar-11	133.78	134.14	133.78	133.93	6,449,200	133.93
17-Mar-11	134.23	134.39	133.97	134.03	2,974,700	134.03
18-Mar-11	134.02	134.20	132.00	133.75	3,957,900	133.75
21-Mar-11	133.80	134.14	133.80	133.99	2,433,300	133.99
22-Mar-11	134.07	134.07	133.76	133.76	3,350,600	133.76
23-Mar-11	133.87	133.89	133.70	133.77	3,462,300	133.77
24-Mar-11	133.75	133.91	133.70	133.70	3,317,100	133.70
25-Mar-11	133.85	133.99	133.67	133.75	2,893,900	133.75
28-Mar-11	133.96	134.10	133.85	133.95	1,614,100	133.95
29-Mar-11	134.07	134.15	134.00	134.02	892,000	134.02
30-Mar-11	134.08	134.15	133.95	134.01	1,461,700	134.01

The bankers soon provided a list with descriptions of 18 companies for Sokol's consideration. In mid-December, Sokol met with the bankers to discuss the list and indicated that he found only one of the companies interesting: Lubrizol Corporation. Sokol asked a banker to inform Lubrizol's CEO, James Hambrick, that he was interested in speaking with him and discussing Berkshire Hathaway and Lubrizol.

The next day, Sokol purchased 2,300 shares of Lubrizol for his personal account as part of a 50,000-share order with a limit price of \$104. The remainder of the order was unfilled.

Several days later, on 17 December 2010, an investment banker informed Sokol that Lubrizol's CEO would discuss Berkshire Hathaway's possible interest with the Lubrizol board.

Sokol sold his 2,300 shares of Lubrizol on 21 December for "tax purposes," receiving a small capital gain that was offset by tax losses from other transactions. In early January 2011, Sokol placed a 100,000-share order for Lubrizol with a limit price of \$104, purchasing a total of 96,060 shares.

On 14 January, Sokol spoke with Hambrick via telephone and arranged an in-person meeting for 25 January

2011. At some point during the next two days, Sokol suggested Lubrizol as a potential acquisition to Buffett, disclosing that he owned shares of the chemical company. Buffett recalled, "In our first talk about Lubrizol, Dave mentioned that he owned stock in the company. It was a passing remark, and I did not ask him about the date of his purchase or the extent of his holdings."⁸

On 25 January, Sokol met Hambrick for dinner in Cleveland. According to documents filed with the U.S. SEC, Hambrick provided an overview of Lubrizol's corporate culture, philosophy, and operations and discussed Lubrizol's overall business. He also supplied a package of materials that included publicly available information about Lubrizol's financial performance as well as internal forecasts for fiscal years 2014 and 2015. The executives did not discuss price for a potential transaction because Sokol said that any price discussion would occur with Buffett. Hambrick offered to provide additional information and meet with Buffett if it would be helpful, but Sokol indicated that he did not believe that there was any more information that Berkshire Hathaway needed at that time. He indicated that he would contact Hambrick if additional meetings would be beneficial.

After Sokol reported on the 25 January dinner with Hambrick, Buffett became "interested in the acquisition of Lubrizol."⁹ In late January, Sokol called Hambrick to inform him that it would be helpful to meet with Buffett in Omaha, Nebraska.

On 8 February 2011, Hambrick met with Buffett. During the meeting, Buffett stated that Berkshire Hathaway would like to make an offer to buy all of the outstanding shares of Lubrizol's common stock for \$135.00 per share in cash. Following several weeks of board meetings and merger negotiations, Berkshire Hathaway and Lubrizol jointly announced on 14 March 2011 that Berkshire Hathaway would acquire Lubrizol for \$135 per share in an all-cash transaction. Lubrizol shares closed at \$134.68 that day, providing Sokol with approximately \$2.9 million in gains on his nearly \$10 million investment.

Shortly after the announcement, Buffett's long-time broker, John Freund of Citigroup, called to congratulate his client on the Lubrizol acquisition and mentioned Citi's involvement. Until that time, Buffett had been unaware that investment bankers had brought Lubrizol to Sokol's attention as a possible acquisition. On 15 March, lawyers for Berkshire and Lubrizol began gathering information

for the proxy statement, and in a telephone conversation, Sokol disclosed the extent and timing of his Lubrizol purchases to Berkshire Hathaway CFO Marc Hamburg. Three days later, on 18 March, Buffett received the first draft of Lubrizol's preliminary proxy statement to be filed with the SEC. The draft confirmed Citi's involvement. Buffett left for a week-long trip to Asia on 19 March while Berkshire and Lubrizol lawyers continued to gather information for the proxy statement. On 25 March, Lubrizol filed its preliminary proxy with the SEC. Buffett returned from Asia on 26 March.

Late in the afternoon on 28 March 2011, as Buffett made preparations to discuss the matter with vice chair Munger and then the board of directors, Sokol submitted his resignation. Buffett drafted a press release, which Sokol approved with minor changes, and shared the release with Berkshire board members before publicly distributing the release on 30 March 2011. Additional details of Sokol's conduct were disclosed when Lubrizol filed an updated proxy statement with the SEC on 11 April 2013.

Orut, a CFA charterholder, wondered what he would say when he next spoke to Sokol and which, if any, of the CFA Institute Standards of Professional Conduct might help him navigate the situation.

ASSIGNMENT

1. Discuss the possible adverse consequences Sokol faced following the joint announcement by Berkshire and Lubrizol on 14 March and prior to his resignation. Did his resignation reduce the risks and associated costs? Evaluate the cost/benefit of Sokol's actions in the Lubrizol matter.
2. Evaluate Sokol's conduct regarding Lubrizol, and determine which, if any, of the CFA Institute Standards of Professional Conduct are applicable to the conduct. For each applicable Standard, determine whether Sokol's conduct complied with or violated the Standard.
3. Recommend a course of action for Mikkel Orut, CFA.

Dorothy C. Kelly, CFA, is the director of training and outreach for the Professional Conduct Program at CFA Institute.

This case study qualifies for 0.5 CE credit,
inclusive of 0.5 SER credit.

NOTES

1. "Warren E. Buffett, CEO of Berkshire Hathaway, Announces the Resignation of David L. Sokol," press release, Berkshire Hathaway (30 March 2011): www.berkshirehathaway.com/news/MAR3011.pdf.
2. CNBC "David Sokol Defends His Controversial Lubrizol Stock Purchases," transcript, Alex Crippen, executive producer (1 April 2011): www.cnbc.com/id/42365586/CNBCTranscriptDavidSokolDefendsHisControversialLubrizolStockPurchases.
3. Warren Buffett, Chairman's Letter, Berkshire Hathaway 2010 Annual Report: 7.
4. Berkshire Hathaway Inc. 10-K for the fiscal year ended 31 December 2009 (26 February 2010):1 (www.sec.gov/Archives/edgar/data/1067983/000119312510043450/d10k.htm#toc49005_25).
5. Warren Buffett, memo published in 2010 Letter to Berkshire Shareholders, Berkshire Hathaway Inc.:26 (www.berkshirehathaway.com/letters/2010ltr.pdf).
6. Berkshire Hathaway Code of Ethics:2 (www.berkshirehathaway.com/govern/ethics.pdf).
7. Lubrizol Special Meeting Proxy (5 May 2011):16 (<http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9OTI0MTB8Q2hpbGRJR00tMXxUeXBIPtM=&ct=1>).
8. "Warren E. Buffett, CEO of Berkshire Hathaway, Announces the Resignation of David L. Sokol," press release, Berkshire Hathaway (30 March 2011):2 (<http://www.berkshirehathaway.com/news/MAR3011.pdf>).
9. Ibid.