



The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER -2018

**EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE
BUSINESS / BACHELOR OF COMMERCE
(YR I SEM II)**

UNIT CODE: CMFI 2401

UNIT TITLE: INVESTMENT ETHICS AND STANDARDS

DATE: 17TH DECEMBER, 2018

TIME: 9:00 AM – 11:00 AM

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

- (a) As an analyst you will later be allowed to trade on information that one has predicted such as a corporate action or an event using perspective assembly and an analysis of material public information. Explain applicable investment theory. (4 Marks)
- (b) Describe the recommended procedures of compliance according to standard (D) on misconduct for financial analysts. (6 Marks)
- (c) A client calls his money manager and asks the manager to liquidate a large portion of his assets under management for an emergency. The manager wards the client of the risk of selling many assets quickly, out says that he will try to get the client the best possible price. Explain standards violated. (6 Marks)
- (d) Describe TWO (2) forms of plagiarism finance and investment analysis likely to encounter in practice. (6 Marks)
- (e) Explain the following;
 - (i) FOUR (4) standards required in; Professionalism as an ethical code for investment analysis. (4 Marks)
 - (ii) The concept integrity of capital markets in reference to investment analysis terminologies. (4 Marks)

QUESTION TWO

- (a) Describe FOUR (4) standards required in duties to clients for financial analyst in practice. (4 Marks)
- (b) An analyst find a stock that has had a low return but its total risk has been commensurate with its retention. When writing a research report about the stock for clients with well-diversified portfolios in reference to standard V (B): communication with clients and prospective clients.
Required; advise what the financial analysis need to mention. (8 Marks)
- (c) An independent analysis has only one client. One of the client's largest holding is a brokerage firm recently began allowing the analyst to tap into the firm's computer network to the firm's research facilities.

Required;

Advise if this is allowable according to the investment standards. (8 Marks)

QUESTION THREE

- (a) Explain TWO (2) conflict of interest encountered by financial analyst. (4 Marks)
- (b) Describe the best way to determine suitability of an investment brief from the financial analyst standards. (8 Marks)

- (c) While trading on behalf of a pension account an analyst received special research report from the brokerage firm with whom she is doing the trades.

Required;

Comment on the above based on investment standards.

(8 Marks)

QUESTION FOUR

- (a) Saulo a portfolio manager is making a presentation to a prospective client Saulo says that as a new portfolio manager, he made an average annual rate of return of 50% in the last two year at his pensions firm and that based on this, he can guarantee a 50% retention to the client in reference to standard iii on performance presentation. Advise him. (10 Marks)

- (b) Assume an analyst has a large personal holding of a security and he has just determined that market conditions warrant selling this security. The analyst contacts clients who have a position in the security and advises them to sell some or all of the security. After waiting 24 hours he sells the security from his personal accounts.

Required;

Advise the transaction based on the finance and the investment standards. (10 Marks)

QUESTION FIVE

- (a) Discuss the underlying principles upon which the global investment performances standards (GIPS) are based on. (12 Marks)

- (b) Chausiku is a money manager and the ABC pension fund is one of her clients. The director of the pension fund calls Chausiku particular broker so that the fund can obtain some research services with the soft shillings/dollar from that broker that Chausiku uses. Chausiku does as the client wishes. Advise Chausiku based on investment ethics and standards. (8 Marks)