KENYATTA UNIVERSITY
UNIVERSITY EXAMINATIONS 2017/2018
DIGITAL SCHOOL OF VIRTUAL AND OPEN LEARNING
SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BAC 314: FINANCIAL ETHICS

DATE: WEDNESDAY 20TH JUNE 2018 **TIME: 4.30 P.M. – 6.30 P.M.**

INSTRUCTIONS
Answer ALL questions

Question One

Read the following case and use it to answer the questions that follow:

On 24th January 2008, the investment banking arm of UBS reported a significant loss of US$ 2.3bn due to unauthorized trading activities at the Banks Exchange Traded Funds desk. The rogue trader's name was Kweku Adoboli, a Ghanaian born then working for the Swiss bank having risen from graduate trainee position to trade support analyst and finally to senior trader which was the top most position with maximum level of the risk that one could enter into at any given time unless authorized separately.

Oswald Gruebel (the then CEO from UBS) had describe Adoboli as a computer whizz-kid and could not be stopped by any one. While dismissing calls for his resignation, Gruebel commented on Adoboli "***if someone acts with criminal intent, you can't do anything ... That will always exist in our job. If you ask me whether I feel guilty, then I say no.***" Five days later Gruebel stepped down and two of his other co-heads of UBS's global equities Franchises followed suit.

Against these personal consequences, and far more severe for UBS, the FINMA (Swiss Financial Market Supervisory authoristy imposed a range of strict preventive supervisory measures. Limiting UBS's operational risk exposure until evidence had been given that the operational control environment was working effectively.

In 16th September 2011, one day after UBS's announcement of the rogue trading, Adoboli was arrested and later charged with fraud by abuse of position and false accounting dating back to 2008. Adoboli was found guilty of charges of fraud by abuse of position (but not guilty of charges of false accounting) by a London's Southwark Crown court.

Required:

a) Define the term 'rogue trading' (2 marks)

b) Explain Five causes of rogue trading (10 marks)

c) Explain three supervisory measures that can be used to reduce exposure to rogue trading in banks (6 marks)

d) Define false accounting. (2 marks)

Total (20 marks)

Question Two

Identify and discuss Five abusive sales practices in finance (15 marks)

Question Three

a) Finance professionals are expected to adhere to the principle of objectivity. Explain three threats to independence and objectivity faced by the professionals. (6 marks)

b) Suggest possible safeguards for each of the threats identified in (a) above. (9 marks)

Total (15 marks)

Question Four

a) Describe the characteristics of Ponzi schemes (4 marks)

b) Differentiate between the following perspectives to financial ethics (6 marks)

   i) Deontological and Telelogical approach

   ii) Absolutism and Relativism (4 marks)

c) Define the following terms as used in financial ethics

   i) A fiduciary (2 marks)

   ii) An agent (2 marks)

   iii) A professional (2 marks)

Total (20 marks)