

KASNEB

CSIA PART II SECTION 4 (now CIFA section 3)

LAW AND REGULATION GOVERNING FINANCIAL MARKETS

MONDAY: 10 June 2013

Time Allowed: 3 hours

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE

(a) Explain the following terms as used in financial markets:

- i. Central Depository and settlement corporation (2 marks)
- ii. Commission (2 marks)
- iii. Beneficial owner (2 marks)
- iv. Information memorandum (2 marks)

(b) Effective securities regulation depends on an appropriate legal framework.

Explain the matters to be addressed in the laws your country in order to foster effective securities regulation. (12 marks)

(Total: 20 marks)

QUESTION TWO

(a) Discuss the challenges facing an ordinary investor in the securities market in your country (8 marks)

(b) Explain the duties of a trustee in a collective investment scheme (12 marks)

(Total: 20 marks)

QUESTION THREE

(a) Outline the qualification for a person to be appointed as a Chief Executive Officer of a central Depository (4 marks)

(b) Argue the case for self regulation in the financial market (8 marks)

(c) Explain the objectives of the rules of securities exchange (8 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Discuss how an agency relationship might arise in the financial markets (8 marks)

(b) Explain any six remedies available to an investor upon noticing inaccurate or deceptive information in a prospectus (8 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) With reference to immobilization and mortgaging of securities, explain the following terms:
- i. Eligible security (2 marks)
 - ii. Immobilization date (2 marks)
 - iii. Securitisation (2 marks)
- (b) Discuss the legal provisions governing the conduct of stock brokers (6 marks)
- (c) “The board of directors shall exercise all the powers of the company subject to the limitations contained in the law and articles of association”.
- With reference to the above statement, discuss the functions that the board of directors is expected to fulfill. (8 marks)
- (Total: 20 marks)**

QUESTION SIX

- (a) Describe the responsibilities of a sponsoring broker (10 marks)
- (b) With regard to securities transaction, discuss five vitiating factors in the law of contract (10 marks)
- (Total: 20 marks)**

QUESTION SEVEN

- (a) Describe the role of professional institutes in financial market operations (10marks)
- (b) (i) Explain the term “rights issue” (2 marks)
- (ii) With reference to securities transaction, summarise the purpose and effects of a rights issue (2 marks)
- (Total: 20 marks)**

DECEMBER 2012 SITTING

QUESTION ONE

- a) The capital markets authority is authorized to make rules for the efficient and effective functioning of the central depository system
Discuss six areas that might be addressed by such rules
- b) One of the objectives of securities regulations is to ensure that capital markets are fair, efficient and transparent.

In addition to making rules, explain four other ways through which the capital markets regulator in your country aims to achieve this objective.

QUESTION TWO

- a) The performance of Wallot Savings and Credit Co-operative Society Ltd has been on the decline over the last few years. As a result, the Sacco Regulatory Authority has caused an inspection to be carried out. It was discovered that the society was conducting its business in a manner contrary to the provisions of the sacco regulations and not in the best interest of the members.

The society was also under capitalized

Prepare a report for presentation to the inspection committee of the Saccos Regulatory Authority explaining the following:

- i. The general contents of an inspection report of Savings and Credit Society.
 - ii. The supervisory enforcement actions that the Sacco Regulatory Authority might take against Wallot Sacco Ltd.
- b) Discuss six duties of a custodian of an investment portfolio

QUESTION THREE

- a) Every issuer of securities is required to publish a bridge prospectus, which shall disclose basic information on the issuer
Outline four contents of a bridge prospectus
- b) With reference to regulations in financial markets, the regulatory regime should make appropriate use of Self-Regulatory Organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence. SROs can be a valuable complement to the regulator in achieving the objectives of securities regulations

Explain six ways in which a self-regulatory organization could ensure that it undertakes its role efficiently and effectively

QUESTION FOUR

- a) Briefly explain two models of a depository system.
- b) Highlight the two types of ownership under the depository system.
- c) Discuss six circumstances in which a security could be deemed to be under suspense

QUESTION FIVE

- a) Describe the two categories of membership of the securities exchange
- b) Explain three types of securities accounts maintained by a central depository agent
- c) Outline the composition of the Investor Compensation Fund Board in your country

QUESTION SIX

- a) Outline two ways in which a person might become an agent of another
- b) Explain the rules governing ratification of an agent's authorized act by the principal
- c) Discuss the effects of subsequent ratification of an unauthorized act by the principal

QUESTION SEVEN

- a) Peterson Systems Company Ltd, wishes to be a licensed to operate as a credit rating agency in your country
Describe five legal requirements for approval to operate as a credit rating agency.
- b) The establishment of an audit committee represents an important step towards promoting good corporate governance.
With reference to good corporate governance practices, discuss five duties of an audit committee

JUNE 2012 SITTING

QUESTION ONE

- a) Discuss the five legal regulatory provisions that have been put in place to enhance investor confidence in the capital market in your country.
- b) A stakeholder acts as an agent for both the buyers and sellers of securities

Explain the financial requirements that stockbrokers are required to meet by the capital markets regulator in your country.

QUESTION TWO

- a) Practitioners in capital markets are expected to adhere to good corporate governance practices.
- b) Discuss the above statements with respect to the provisions of the capital markets regulations in your country

Explain the following terms as used in capital markets

- i) Venture capital company
- ii) Securities exchange

QUESTION THREE

The Republic of Hakika is a newly independent state. The government of Hakika is determined to establish a strong economy supported by a well-functioning banking and financial services sector.

The Attorney General of the Independent State of Hakika has commissioned you to advise the government on regulations of the sector

Prepare a clear and well-reasoned brief consisting of the following.

- a) The rationale for regulating the financial service sector.
- b) The two forms of regulations in an economy
- c) The strategies used in regulating the financial service sector

QUESTION FOUR

- a) With reference to the law of agency in a financial markets:
 - i. Explain two duties of the principal
 - ii. Describe eight ways in which an agency relationship could be terminated

- b) Explain how the following issues could affect internationalization of the securities markets in light of the rapid growth in cross border activities
 - i. Capital adequacy
 - ii. Clearance and settlement
 - iii. Multinational disclosure and accounting
 - iv. Derivatives

QUESTION FIVE

- a) Discuss the circumstances under which an offer shall be deemed to be a private offer
- b) Explain legal provisions relating to post listing requirements.

QUESTION SIX

- a) Money laundering is one of the emerging areas of global concern. Concerted efforts are required at the international regional and national levels to control money laundering.

With reference to the above statement, explain the following matters.

- i. The objectives of anti-money laundering legislation
 - ii. The institutional and regulatory measures that your country has put in place towards combating money laundering.
- b) Discuss the legal provisions relating to charging of securities as provided for in the central depositories regulations in your country.

QUESTION SEVEN

- a) In relation to the role of the central bank in money market;
 - i. Discuss the doctrine of “lender of last resort”
 - ii. Highlight six guiding principles of the doctrine of Lender of Last Resort
- b) Outline five documents that should be submitted by an applicant seeking to be licensed to operate as an investment bank
- c) Describe the circumstances under which a fund manager may be removed

KASNEB

CSIA PART II SECTION 4

LAW AND REGULATION GOVERNING FINANCIAL MARKETS

FRIDAY: 2 December 2011

Answer any FIVE questions.

Time Allowed: 3 hours

ALL questions carry equal marks.

QUESTION ONE

- (a) Outline the entities expressly excluded under the Capital Markets Act from being investment advisers (5 marks)
- (b) Explain the circumstances under which persons shall be deemed to have an interest in a security (8 marks)
- (c) Describe any seven intermediaries in the stock exchange (7 marks)

(Total: 20 marks)

QUESTION TWO

(a) Saving and Credit Co-operative Societies play an important role in the development of economies.

- (i) Outline the functions of a Saving and Credit Co-operative Society Authority (6 marks)
- (ii) Explain the circumstances under which the Authority in (a) (i) above may revoke a licence issued to a Saving and Credit Co-operative Society (6 marks)

- (b) With reference to the management of an investment portfolio, discuss the grounds on which a custodian might be removed by the investment adviser or the fund manager (8 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Explain the core objectives of regulating the securities market in your country (6 marks)

(b) Most securities markets are regulated by various Acts and Rules.

Discuss seven Acts or Rules that regulate securities markets in your country (14 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) With reference to the capital markets regulations in your country, explain four types of disclosures (8marks)
- (b) (i) Explain the term “Efficient Market Hypothesis” as used in financial markets (3 marks)
- (ii) Discuss the implication of the Efficient Market Hypothesis to investment managers and analysts (6 marks)
- (iii) Give reasons why it is impossible for capital markets to attain the efficient capital market hypothesis (3 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Citing examples, explain the meaning of the term “regulatory fragmentation” With reference to the regulation of financial markets (4 Marks)
- (b) Discuss the consequences of regulatory fragmentation (8 Marks)
- (c) Argue the case for a consolidated regulator in the financial market (8Marks)
- (Total: 20 marks)**

QUESTION SIX

- (a) Discuss the challenges that might arise in the process of the integration of capital markets across the borders (10 marks)
- (b) Jane Brown is an intern at Juu Associates Limited which has been in operation for the last two years in your country, she has been asked by the director to prepare a memorandum on the reporting obligations of a stock broker. Jane Brown has come to you for advice

Explain to Jane brown the reports and accounts that must be submitted to the securities exchange in order to comply with the reporting requirements (10 marks)

(Total: 20 marks)

QUESTION SEVEN

- (a) Explain the circumstances under which a supplementary prospectus may be issued (3 marks)
- (b) Insider trading is an offence and is prohibited by the Capital Markets Regulations. Describe the punishment prescribed by the regulations for the offence of insider trading (8 marks)
- (c) Discuss the factors responsible for the downward performance of emerging stock exchanges (9 marks)
- (Total: 20 marks)**

JUNE 2011 SITTING

QUESTION ONE

- a) Discuss the role of professional institutions in promoting good corporate governance in capital market in your country
- b) In the recent past, cases of collapse of stock brokerage firms have been on the increase
- c)
 - i. Highlight the regulatory lapses that might have led to the collapse of the firms.
 - ii. Outline possible solutions to address the collapse of firms

QUESTION TWO

- a. Discus the merits and demerits of self-regulation in an emerging financial market environment.
- b. With reference to Central Depositories Act in your country
 - i. Explain the provisions relating to dematerialization of securities
 - ii. Outline the ways in which the Central Depository is empowered to regulate dealings in securities

QUESTION THREE

- a) You have been appointed a transactions adviser of a company in your country. The company has been in operation for over ten years and would like to apply for listing at the stock exchange.

Explain the minimum legal requirements that you would fulfill before lodging the application with the capital markets regulator

- b) Outline the benefits of using an automated trading system in capital markets
- c) Highlight the advantages of having a central depository and settlement company in the capital markets industry

QUESTION FOUR

- a) With reference to the laws governing financial intermediaries , highlight the investor rights relating to dealings with the following entities.
 - i. Stock brokers
 - ii. Financial advisor

- iii. A stock exchange
 - iv. A banker
- b) In the context of financial markets, describe the functions of investment banks

QUESTION FIVE

- a) The development of financial products in a market is highly dependent on the laws and regulations established to regulate the capital markets.

With reference to the above statement, outline the development of the following financial products in your country

- i. Derivatives
 - ii. Mortgage backed securities
 - iii. Settlement trusts
- b) Explain the circumstances under which transfer of listed securities outside the securities exchange might be allowed
- c) With reference to regulations governing collective investment schemes, describe the provisions relating to the liability of a fund manager

QUESTION SIX

With reference to the law governing capital markets in your country

- a) Describe the ways in which a capital markets regulator protects the interest of investors against any loss occasioned by breach of contractual obligation by the licensed stock brokers or dealers
- b) Explain the powers and duties of the statutory manager appointed to manage the affairs of a licensee

QUESTION SEVEN

- a) The regulatory framework in the financial markets is such that most most financial transactions have to be carried out through agency-principal relationship
With reference to the above statement and the law of agency
- i. Explain the implied duties of an agent
 - ii. Summarize the circumstances under which the principal may ratify a contract made by an agent
- b) In the context of dispute resolution amongst players in the capital market, distinguish between conciliation and mediation

DECEMBER 2010 SITTING

QUESTION ONE

- a) Explain the term “futures contract” as used in a financial market.
- b) i) Distinguish between a debenture and a debenture stock
ii) Highlight two disadvantages of debentures to the issuing company.
- c) Outline the circumstances under which the Central Bank would intervene in the management of a financial institution licensed under the banking Act in your country.

QUESTION TWO

With reference to the Capital Markets Capital Offers, Listing and Disclosure Regulations

- a) Briefly explain the general duty of disclosure in a prospectus
- b) Outline the persons responsible for the information contained in a prospectus
- c) Explain the legal recourse that an investor could take if he discovers that the information contained in the prospectus is inaccurate or deceptive

QUESTION THREE

- a) Summarize the principles of good financial sector regulations
- b) In relations to regulations governing securities transactions, explain the prohibited transactions in securities

QUESTION FOUR

- a) Describe the establishment and composition of the Capital Market Tribunal in your country
- b) An aggrieved person may appeal to the Capital Markets Tribunal against a decision made by the Capital Markets Authority

Required

- i. Highlight the grounds on which such an appeal could be made
- ii. Explain the orders that the Capital Markets Tribunal could make upon hearing the appeal.

QUESTION FIVE

- a) Briefly explain the meaning of the term “corporate governance”

b) With reference to the guidelines on corporate governance practices issued by the capital markets regulatory agency in your country, discuss ways in which the board of directors of a public listed company could promote and protect the rights of shareholder

QUESTION SIX

In relation to the capital markets, Collective Investment Scheme Regulations.

- a) Outline the documents that must accompany an application for registration of a collective investment scheme
- b) Highlight the duties of a custodian of the collective investment scheme

QUESTION SEVEN

- a) Explain the provisions of secrecy as outlined in the Central Depositories Act.
- b) Outline the activities in the financial sector that are regulated by the Capital Markets Authority in your country

JUNE 2010 SITTING

QUESTION ONE

- a) With reference to the regulations governing capital markets, explain the following terms:
 - i) Offer of securities
 - ii) Offer to the public
 - iii) Trust deed
- b) Compare and contrast debenture and shares

QUESTION TWO

Summarize the reasons that would lead the Capital Markets Authority to make rules as stipulated under the Central Depositories Act, 2000.

QUESTION THREE

- a) Describe the legal provisions relating to the listing of securities by a securities exchange in your country.
- b) Outline the types of records and documents that must be kept and maintained by securities exchange

QUESTION FOUR

In relation to the law governing capital markets in your country:

- a) Highlight the types of documents that should be submitted by an applicant seeking to be licensed to operate as an investment bank.
- b) Outline the duties of the fund manager of a collective investment scheme

QUESTION FIVE

- a) Explain the eligibility requirements for public issue of securities by a company as provided under the Capital Markets Public Offers, Listing and Disclosure Regulations.
- b) In the context of the regulations governing the issue of securities, describe the circumstances under which an offer of securities is considered a private offer.

QUESTION SIX

- a) Outline the categories of dealings that are prohibited to a stockbroker or dealer.
- b) Discuss the legal provisions relating to the management of the investor compensation fund in your country.

QUESTION SEVEN

- a) With reference to the law of agency, outline the exceptions to the general rule that the principal is liable for the acts of an agent.

DECEMBER 2009 SITTING

QUESTION ONE

- a) With reference to the regulations governing segregated pension schemes, explain the duties of trustees
- b) Explain the key qualifications of a pension scheme administrator under the pension scheme regulation in your country.

QUESTION TWO

- a) Discuss the advantages of regulating the financial markets in an economy
- b) Describe the role of Capital Markets Tribunal in your country.

QUESTION THREE

- a) Explain the functions of a central depository as outlined in the Central Depositories Act, 2000.
- b) Summarize the provisions relating to the appointment of the central depositories agents as prescribed in the Central Depositories Act, 2000

QUESTION FOUR

With reference to the securities markets, explain the following.

- a) Circumstances when the issuer of securities may refuse to issue a certificate in relations to a security.
- b) Prohibitions of the Capital Markets Authority against the use of unpublished insider information
- c) The term “treasury bond” and the types of treasury bonds issued by the government
- d) Persons who may invest in treasury bonds
- e) Factors which determine the price of a bond

QUESTION FIVE

- a) Describe the role of the Capital Markets in the economic development of a country.
- b) Explain the factors to consider when selecting a security to purchase

QUESTION SIX

- a) Describe the nature and purpose of an investment trust
- b) Differentiate between an open-ended investment companies (OEIC) and an investment trust
- c) Describe the role of a clearing house in futures trading.

QUESTION SEVEN

Explain the role of the board of directors of a market intermediary in ensuring good corporate governance in relations to:

- a) Strategic direction and control
- b) Risk management
- c) Duties of management
- d) Employees code of conduct