

# KASNEB

## CIFA PART II SECTION 3

### REGULATION OF FINANCIAL MARKETS

WEDNESDAY: 23 November 2016.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

#### QUESTION ONE

- (a) In the context of sources of law, argue two cases for and two cases against the use of case law or judicial precedent. (8 marks)
- (b) With reference to the law of contract:
- (i) Identify two consequences of an illegal contract. (2 marks)
- (ii) Discuss five ways through which an offer might be terminated. (10 marks)
- (Total: 20 marks)**

#### QUESTION TWO

- (a) Describe five duties of an agent under the law of agency. (10 marks)
- (b) To aid in combating terrorism, the Counter Financing of Terrorism Inter-Ministerial Committee was established. Describe three functions of the above Committee. (6 marks)
- (c) With reference to terrorism financing:
- (i) Define the term "terrorism financing". (2 marks)
- (ii) Explain the objective of terrorism financing. (2 marks)
- (Total: 20 marks)**

#### QUESTION THREE

- (a) Describe the procedure for admission to listing for securities other than Real Estate Investment Trust (REIT) securities. (10 marks)
- (b) Explain the main role of the following regulators:
- (i) Central Bank. (2 marks)
- (ii) Capital Markets Authority (CMA). (2 marks)
- (iii) Insurance Regulatory Authority (IRA). (2 marks)
- (iv) Retirement Benefits Authority (RBA). (2 marks)
- (v) Sacco Societies Regulatory Authority (SASRA). (2 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) (i) With reference to public offers, listing and disclosures, material information means any information that may affect the price of an issuer's securities or influence investment decisions. Explain four types of information that might be termed "material information". (4 marks)
- (ii) Identify three conditions that must be met for a person to be eligible to issue securities to the public or list at a securities exchange. (6 marks)

- (b) (i) Evaluate three ways in which the office of a member of the Capital Markets Tribunal could become vacant. (6 marks)
- (ii) Explain two actions the Capital Market Tribunal might take upon receiving an appeal. (4 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Discuss five circumstances under which an issuer shall refuse registration of a transfer of a security or certificate to a central depository. (10 marks)
- (b) Analyse five measures which a central depository should put in place to prevent and mitigate fraud or any other system manipulation mechanisms. (10 marks)
- (Total: 20 marks)**

**QUESTION SIX**

- (a) The corporate governance framework of an organisation should ensure equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.
- With reference to the above statement, discuss five ways in which the corporate governance framework in an organisation could achieve equitable treatment of shareholders. (10 marks)
- (b) Explain the instances when a central depository and settlement corporation (CDSC) might specify that any book-entry security in a securities account:
- (i) Is in suspense. (6 marks)
- (ii) Is under suspense. (4 marks)
- (Total: 20 marks)**

**QUESTION SEVEN**

- (a) (i) Define the term “venture capital company”. (2 marks)
- (ii) A venture capital company shall be entitled upon making an application to the authority in the prescribed form, and on payment of the prescribed fee to be registered as a venture company.
- With reference to the above statement, explain eight requirements that a venture capital company must fulfil to be registered. (8 marks)
- (b) An online forex broker should, in the conduct of forex business and, at all times, act in accordance with the principles of best practice.
- With reference to the above statement, propose ten principles of best practice an online forex broker might put in place. (10 marks)
- (Total: 20 marks)**
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