

# KASNEB

## CIFA PART II SECTION 3

### REGULATION OF FINANCIAL MARKETS

WEDNESDAY: 24 May 2017.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

#### QUESTION ONE

- (a) With reference to the nature and classification of law, differentiate between "constitutional law" and "administrative law". (4 marks)
- (b) Argue four cases in favour of Acts of Parliament as a source of law. (8 marks)
- (c) A contract entered into by two parties and which satisfies formal validity, may nonetheless be invalidated or vitiated in certain circumstances.

In relation to the above statement, explain four vitiating factors. (8 marks)

**(Total: 20 marks)**

#### QUESTION TWO

- (a) Discuss five ways of terminating an agency relationship. (10 marks)
- (b) Citing five reasons, justify the need for establishing the central depository system in your country. (10 marks)

**(Total: 20 marks)**

#### QUESTION THREE

- (a) Describe the composition of the Capital Markets Tribunal. (4 marks)
- (b) Any person aggrieved by the action or direction given by the Capital Markets Authority or by the Investor Compensation Fund Board may appeal to the Capital Markets Tribunal.

In reference to the above provision, identify six such actions or directions that might prompt an appeal. (6 marks)

- (c) With reference to the Proceeds of Crime and Anti-Money Laundering Act, 2009:
- (i) Summarise two objectives of the Financial Reporting Centre. (4 marks)
- (ii) Analyse three anti-money laundering obligations of a reporting institution. (6 marks)

**(Total: 20 marks)**

#### QUESTION FOUR

- (a) Outline four benefits that accrue to a company from listing its shares in the securities exchange. (4 marks)
- (b) Citing the likely effect on the market price in each case, differentiate between "bonus issue" and "rights issue". (4 marks)

- (c) In relation to the International Organisation of Securities Commissions (IOSCO), explain the following:
- (i) Two objectives of securities regulation. (4 marks)
- (ii) Four principles for collective investment schemes. (8 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Analyse three different accounts where a client securities account and a central depository agent securities account may, in accordance with the operational procedures, record eligible securities. (6 marks)
  - (b) Describe four circumstances under which no book-entry securities may be withdrawn from the central depository before dematerialisation. (4 marks)
  - (c) Discuss five measures that could be employed in promoting effective corporate governance in the financial markets. (10 marks)
- (Total: 20 marks)**

**QUESTION SIX**

- (a) Examine four objectives of the Insurance Regulatory Authority in your country. (4 marks)
  - (b) Propose six ways of enhancing regulation in the international financial markets. (6 marks)
  - (c) The prospectus of an initial public offer (IPO) to the public shall include terms and conditions.  
In relation to the above statement, analyse five contents of the terms and conditions section of the prospectus. (10 marks)
- (Total: 20 marks)**

**QUESTION SEVEN**

- (a) Regulation in respect of accounting and auditing standards is intended to achieve various purposes.  
In relation to the above statement, highlight six purposes of regulation as specified in the International Organisation of Securities Commissions (IOSCO). (6 marks)
  - (b) In the context of regulation of financial markets, analyse the use of credit rating by the following parties:
    - (i) Investors. (2 marks)
    - (ii) Issuers. (2 marks)
    - (iii) Intermediaries. (2 marks)
    - (iv) Regulators. (2 marks)
  - (c) Enumerate six challenges currently facing the financial markets. (6 marks)
- (Total: 20 marks)**
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