

# KASNEB

## CS PART III SECTION 5

### FINANCIAL MARKETS LAW

WEDNESDAY: 24 May 2017.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

#### QUESTION ONE

- (a) A number of players in the financial sector are established as companies. The integrity of the financial system as a whole is dependent on the level of integrity of the entities within the financial sector.

An essential component of the analysis of a company's level of integrity is a review of the quality of its corporate governance system. The board of directors are a critical part of the system of checks and balances that lie at the heart of corporate governance system. Both individually and as a group, board members have imperative responsibilities to perform.

**Required:**

In relation to the above statement, highlight five responsibilities of board members, both individually and as a group. (10 marks)

- (b) The rapid spread and far-reaching impact of the global financial crisis have highlighted the need for strengthening financial systems in both advanced economies as well as emerging markets. Emerging markets face particular challenges in developing their nascent financial systems and making them resilient to domestic and external shocks.

**Required:**

In relation to the above statement, argue five cases in favour of regulation of financial markets in your country. (5 marks)

- (c) Discuss five challenges faced by the insurance industry in your country. (5 marks)

**(Total: 20 marks)**

#### QUESTION TWO

- (a) On Thursday, 20 April 2017, Fanikisha Bank Limited experienced liquidity difficulties forcing the Central Bank to put it under statutory management. On the same day, the Central Bank appointed Deposit Insurance Corporation as the receiver manager to assume the management, control and conduct of the affairs and business of Fanikisha Bank Limited.

**Required:**

Describe six circumstances that could have prompted the Central Bank to appoint the Deposit Insurance Corporation as the receiver manager of Fanikisha Bank Limited. (6 marks)

- (b) In relation to charging of securities:

- (i) Explain the meaning of the term "share pledge". (2 marks)
- (ii) Analyse five key aspects that a legal due diligence process must entail to aid an investor in acquiring the whole undertaking of an existing company. (5 marks)

- (c) In the context of raising capital in the securities market:

- (i) Explain the term "delisting". (2 marks)
- (ii) Discuss five reasons why a company could opt to delist. (5 marks)

**(Total: 20 marks)**

**QUESTION THREE**

(a) Radiant Global Investment Limited (RGIL), during its annual general meeting, resolved to form a collective investment scheme (CIS) to broaden their income stream. Patricia Lesuda, RGIL's Company Secretary, was tasked by the Chief Executive Officer (CEO) to apply for a CIS licence from the capital markets regulator in her country.

**Required:**

Identify six documents that Patricia Lesuda should furnish the capital markets regulator to enable RGIL form the CIS. (6 marks)

(b) In relation to raising capital through the securities exchange:

(i) Distinguish between a "private offer" and a "public offer". (2 marks)

(ii) Evaluate four roles played by a sponsoring broker for a firm issuing shares to the public for the first time. (4 marks)

(c) In relation to regulation of savings and credit co-operative societies (SACCOs) in your country:

(i) Differentiate between "deposit-taking" and "non-deposit taking" SACCO's. (2 marks)

(ii) Explain six actions that the regulator could take on a SACCO society that operates in a manner that is detrimental to the interest of members. (6 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

(a) With reference to the Proceeds of Crime and Anti-Money Laundering Act:

(i) Summarise four functions of the Financial Reporting Centre. (4 marks)

(ii) Identify four measures that the Board of Directors of a financial institution should take to prevent money laundering. (4 marks)

(iii) Machaveli Communications Limited is a victim of internal fraud in which one of its employees wired the company's funds to his personal bank account.

Advise the company on four measures that could be taken to prevent fraud through wire transfers in future. (4 marks)

(b) Examine four categories of fraud investigated by the capital markets fraud investigation unit (CMFIU). (8 marks)  
**(Total: 20 marks)**

**QUESTION FIVE**

(a) According to the Central Depositories Act, "a central depository shall keep or cause to be kept such records and accounts in sufficient detail".

In relation to the above statement, highlight four particulars that should be disclosed on records and accounts maintained by a central depository. (4 marks)

(b) Discuss three principles of International Organisation of Securities Commissions (IOSCO) relating to market intermediaries. (6 marks)

(c) In accordance with the Capital Markets Act, a person who deals in listed securities or their derivatives that are price-affected in relation to the information in his possession commits an offence of insider trading.

In the context of the above statement, highlight five examples of insider information. (5 marks)

(d) With reference to the Central Depositories Act regarding immobilisation and dematerialisation of securities:

(i) Highlight the legal provisions regarding restriction on trade in eligible securities. (2 marks)

(ii) Describe three types of records that should be maintained by a central depository. (3 marks)

**(Total: 20 marks)**

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