

# KASNEB

## CS PART III SECTION 5

### FINANCIAL MARKETS LAW

WEDNESDAY: 23 November 2016.

Time Allowed: 3 hours.

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

#### QUESTION ONE

As the trading landscape becomes increasingly international, securities exchanges are cross listing each other's securities in a cooperative bid to boost liquidity and increase trading volume. The hope is that these arrangements tap into a latent demand, suppressed by the complexity of trading on a foreign securities exchange.

##### Required:

- (a) Explain the term "cross-border listing". (2 marks)
- (b) Argue the case for and against cross-border listing. (10 marks)
- (c) Describe four ways through which the core market institutions responsible for the fair, efficient and orderly functioning of the capital markets are made sufficiently robust to provide investors with confidence to channel their funds through the capital markets. (8 marks)

**Total: 20 marks**

#### QUESTION TWO

- (a) Ezra Tunde, an employee of the Central Depository and Settlement Corporation (CDSC), was given access to the computer system of his employer. Ezra Tunde was shocked by the magnitude of information revealed by the computer system.

Ezra Tunde has been advised that though he has all that access he could easily be accused of irregular use of the computer system.

##### Required:

- (i) Describe three offences that Ezra Tunde might commit while using the computer system. (6 marks)
  - (ii) Explain two penalties arising from the above offences. (2 marks)
  - (iii) Highlight the importance of taking reasonable computer system security measures by central depositories and their agents. (2 marks)
- (b) Juma Mwashuma received an email from Ellen Kachero, a lady whose husband had invested heavily in the local capital markets. Ellen Kachero informed Juma Mwashuma that her husband had just died in a motor vehicle accident, leaving behind a big fortune in the securities exchange. The e-mail further stated that Ellen Kachero had been diagnosed with a terminal illness and had only three months to live.

Ellen Kachero then requested Juma Mwashuma to impersonate her late husband, Chapuo Kachero and undertake unauthorised transactions in his securities account. Juma Mwashuma had been facing financial difficulties and so accepted the plan without much convincing.

The above matter has come to the attention of the Capital Markets Fraud Investigation Unit.

##### Required:

- (i) Explain six functions of the Capital Markets Fraud Investigation Unit. (6 marks)
- (ii) Describe four actions that could be taken against Juma Mwashuma by the Capital Markets Fraud Investigation Unit. (4 marks)

**(Total: 20 marks)**

### QUESTION THREE

- (a) Discuss five conditions under which an offer shall be regarded as a private offer. (10 marks)
- (b) Credit Rating Agencies issue opinions on the future creditworthiness of a particular company, security or obligation as of a given date. Given the influence Credit Rating Agencies opinions could have on securities markets, their activities are thus of imperative interest to investors, lenders, issuers and securities regulators alike.

Propose five ways through which credit rating agencies could ensure the following aspects in their activities:

- (i) Quality and integrity of the rating process. (5 marks)
- (ii) Independence and freedom from conflicts of interest. (5 marks)
- (Total: 20 marks)**

### QUESTION FOUR

- (a) Credible deterrence is a key component of any effective enforcement strategy. Deterrence is credible when would be wrongdoers perceive that the risks of engaging in misconduct outweigh the rewards and when non-compliant attitudes and behaviours are discouraged.

With reference to the above statement, summarise six key elements of credit deterrence. (6 marks)

- (b) Zakayo Hazi is an Investment and Financial Analyst student who intends to open an account with the Central Depository and Settlement Corporation (CDSC) in your country.

**Required:**

Advise Zakayo Hazi on the following:

- (i) Three documents required in order to open a CDSC account. (3 marks)
- (ii) Five benefits of having a CDSC account. (5 marks)
- (c) In the context of charging and mortgaging of securities:
- (i) Describe the procedure of securing a loan through charging listed ordinary shares as security for the loan. (4 marks)
- (ii) Explain two ways through which payment of dividends on charged securities might be effected. (2 marks)
- (Total: 20 marks)**

### QUESTION FIVE

- (a) Politically Exposed Persons (PEPs) are individuals who are or who have been entrusted with prominent public responsibilities. Licensees should be aware that business relationships with PEPs, family members and close associates of PEPs are deemed to pose a greater than normal money laundering risk to licensees by virtue of the possibility for them to have benefited from proceeds of corruption.

Propose five risk management systems that licensees should put in place to demonstrate enhanced due diligence measures in conducting such relationships. (10 marks)

- (b) Explain two differences and two similarities between “money laundering” and “terrorist financing”. (4 marks)
- (c) (i) Provide the definition of the term “corporate governance” as adopted by the International Organisation of Securities Commission (IOSCO) from the Organisation for Economic Cooperation and Development (OECD) principles. (2 marks)
- (ii) Board committees play an important role in the governance process. Each committee should have specific written terms of reference issued by the Board and adopted by the committee.

Suggest four terms of reference for the Risk Committee of the Board. (4 marks)

**(Total: 20 marks)**

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