



CS PART III SECTION 5  
FINANCIAL MARKETS LAW

WEDNESDAY: 28 November 2018.

Time Allowed: 3 hours.

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

**QUESTION ONE**

- (a) Mwananchi Bank Limited (MBL) is a newly established financial institution licensed under the Banking Act.

Advise the board of directors on eight administrative sanctions which might be pursued by the Central Bank against MBL for failure to comply with prudential guidelines. (8 marks)

- (b) A guarantee fund is a fund set up by Central Depository and Settlement Corporation (CDSC) to ensure financial integrity in the securities market

**Required:**

Explain six ways of financing the guarantee fund. (6 marks)

- (c) The central depositories regulations require a central depository to maintain an insurance policy at all times to cover losses or damages.

**Required:**

Summarise six areas that the insurance policy should cover. (6 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) The International Organisation of Securities Commissions (IOSCO) is an association of organisations that regulate the world's securities and futures markets.

With reference to the above statement, discuss IOSCO principles relating to:

(i) Collective investment schemes (CIS). (4 marks)

(i) Secondary market. (6 marks)

- (b) Abbas Gambo holds 10,000 ordinary shares of Blam PLC. The company is in the process of ensuring that all its shareholders open securities accounts with Central Depository Agents (CDAs) to facilitate dematerialisation of share certificates.

**Required:**

(i) Explain the term "dematerialisation of shares certificates". (2 marks)

(ii) Assess eight benefits which could be enjoyed by Abbas Gambo as a result of opening a Central Depository System (CDS) securities account. (8 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) Emma Kosgei is a newly employed management trainee at Bima Bank. Her supervisor mentioned about the Financial Reporting Centre during induction of newly recruited employees last month. Emma has never heard about the Financial Reporting Centre.

**Required:**

Advise Emma on:

- (i) The objectives of the Financial Reporting Centre. (4 marks)
  - (ii) Particulars of customer records that Bima Bank should establish and maintain in fulfilment of Financial Reporting Centre's requirements. (6 marks)
- (b) With reference to the Capital Markets Authority (CMA) code of corporate governance practices for issuers of securities to the public, examine five guidelines which touch on the company secretary, as the principal officer who supports the Board in ensuring adherence to board policies and procedures. (10 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) After attending a retirement planning seminar, Janet Akinyi is confused on whether to invest individually for her retirement or join a retirement benefits scheme.

**Required:**

Advise Janet Akinyi on the benefits of joining a retirement benefits scheme registered under Retirement Benefits Authority (RBA) compared to individual investment. (10 marks)

- (b) Discuss five recent changes in the legal framework that affected the pension industry. (10 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) With reference to management of a collective investment scheme (CIS), highlight seven duties of a fund manager. (7 marks)

- (b) Bee Ltd. plans to convert to a public limited company (PLC) in the next six months. The transaction advisor has advised the directors to prepare a prospectus for the initial public offer (IPO).

**Required:**

Advise the management of Bee Ltd. on six contents of the legal opinion to be included in the prospectus. (6 marks)

- (c) A securities exchange trading system must be approved by the capital markets authority before it is implemented to ensure transparency and efficient pricing mechanism.

**Required:**

Assess seven legal requirements expected of such a trading system. (7 marks)

**(Total: 20 marks)**

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