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CS PART III SECTION 5
FINANCIAL MARKETS LAW

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TUESDAY: 26 November 2019.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Your firm has been approved to operate as a Central Depository Agent. AZJ Ltd., your first client, needs you to handle its immobilisation and dematerialisation process. The client is also keen on understanding the importance of intermediaries in the financial markets.

With reference to the above scenario, advise AZJ Ltd. on the process of immobilisation and dematerialisation.

(10 marks)

- (b) Evaluate five functions of investment banks to issuers.

(10 marks)

(Total: 20 marks)

QUESTION TWO

- (a) (i) Contrast between the role of an underwriter and that of a stockbroker. (4 marks)

- (ii) In the regulations issued by Capital Markets Authority (CMA) applicable to raising of capital in the securities market, exceptions have been granted to certain issuers from full compliance with the provisions of the regulations.

Required:

State four circumstances under which a public issue of securities might be treated as a private offer. (4 marks)

- (b) In the International Organisation of Securities Commissions (IOSCO) "Objectives and Principles of Securities Regulation", the principles are founded on three objectives focusing on investor protection, fairness, efficiency and transparency in the securities market and reduction of systemic risk.

Discuss three ways in which the Capital Markets Authority in your country has implemented these objectives as a member of IOSCO. (6 marks)

- (c) You have been appointed as the leader of a taskforce created to lay the foundation for a financial markets sector in a foreign country.

Required:

As the head of the taskforce, analyse three regulators that might be required in the country. (6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) With reference to prevention of money laundering:

- (i) As the appointing authority, determine five persons who would constitute the Counter Financing of Terrorism Inter-Ministerial Committee. (5 marks)

- (ii) Assess five ways in which intermediaries in the financial markets can aid in the fight against money laundering. (5 marks)

- (b) Corporate governance in its broad perspective will try to define the relationship in business entities between the company's board, management, shareholders and other stakeholders.

With reference to the above:

- (i) Describe three applications of corporate governance practice in the financial markets with particular attention to financial stability of the company. (6 marks)

- (ii) In the context of issuance of securities to the public by a company, describe four roles of a board of directors in driving good corporate governance practice. (4 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Describe four circumstances under which a company listed on the securities market could have its shares suspended from trading. (8 marks)
- (b) Extreme Financial Services Limited (EFSL) operates as a stock broker and a member of the Securities Exchange. The company now wants to apply to the Central Depository and Settlement Corporation (CDSC) to be allowed to operate as a Central Depository Agent (CDA).

Required:

Explain why EFSL must disclose the holders of beneficial interest of the accounts opened in its name. (6 marks)

- (c) (i) Highlight two circumstances under which the Capital Markets Authority (CMA) might grant permission for shares of a listed company to be transferred from a seller to a buyer outside a country's Securities Exchange system. (2 marks)
- (ii) Explain two reasons why bond trading tends to occur more on the secondary market. (4 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Highlight four categories of rules of the securities exchange. (4 marks)
- (b) Describe three positive effects of cross border listing on the shares of a company. (6 marks)
- (c) With reference to the Capital Markets Authority (CMA):
 - (i) Explain six objectives of the CMA. (6 marks)
 - (ii) Assess four functions of the Authority as provided by the Act and the regulations. (4 marks)

(Total: 20 marks)

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