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### CIFA PART II SECTION 3

#### REGULATION OF FINANCIAL MARKETS

**THURSDAY: 26 November 2020.**

**Time Allowed: 3 hours.**

**Answer any FIVE questions.**

**ALL questions carry equal marks.**

##### QUESTION ONE

- (a) Describe five ways in which laws are classified. (10 marks)
- (b) Equity developed to mitigate the harshness of common law. As a consequence, certain maxims of equity were developed to aid in the application of equity as a source of law. Highlight five of these maxims. (5 marks)
- (c) The relation between the principal and the agent is a personal one and the agent cannot employ another person to do his duty. However, there are exceptions to this rule. (5 marks)

In relation to the above statement, summarise five exceptions to this general rule. (5 marks)

**(Total: 20 marks)**

##### QUESTION TWO

- (a) With reference to the law of contract:
- (i) Define the term "vitiating factor". (2 marks)
- (ii) Describe five vitiating factors that could render a contract void or voidable. (10 marks)
- (b) Alex Makokha (owner) entered into a five-year lease agreement for office premises with Susan Mwangi (tenant). After the end of the lease period, the parties agreed that Susan Mwangi would continue occupying the office premises for another five years. On that basis, Susan Mwangi made extensive renovations to the office premises.

Alex Makokha has now given Susan Mwangi notice to vacate the office premises claiming that the lease agreement had expired.

**Required:**

Advise Susan Mwangi on her legal rights. (8 marks)

**(Total: 20 marks)**

##### QUESTION THREE

- (a) Explain the three kinds of accounts held by a central depository agent on behalf of a client. (6 marks)
- (b) With regard to the prevention of money laundering and other illicit activities, a licensee shall obtain through a client information questionnaire, details about a client. With reference to the above statement, describe four items of information that are required from the client. (8 marks)
- (c) Outline six common types of money laundering. (6 marks)

**(Total: 20 marks)**



#### QUESTION FOUR

- (a) Explain six duties of a custodian. (12 marks)
- (b) Blue Katu intends to lodge an application for a license to operate as a securities dealer. Summarise four requirements that he must fulfil to be allowed to operate as such. (4 marks)
- (c) Describe two circumstances under which a supplementary listing statement could be issued in the Growth Enterprise Market Segment (GEMS). (4 marks)
- (Total: 20 marks)**

#### QUESTION FIVE

- (a) Summarise six categories of the International Organisation of Securities Commissions (IOSCO) Principles in relation to enforcement of securities regulation. (6 marks)
- (b) Describe the procedure for voluntary de-listing of equity securities at the Securities Exchange. (10 marks)
- (c) Highlight four regulatory requirements in relation to account statements in respect of book-entry securities. (4 marks)
- (Total: 20 marks)**

#### QUESTION SIX

- (a) Explain the historical development of the law and regulations governing financial markets in Kenya. (10 marks)
- (b) Outline the composition of the Capital Markets Tribunal. (5 marks)
- (c) Highlight any five records that should be maintained by a fund manager. (5 marks)
- (Total: 20 marks)**

#### QUESTION SEVEN

- (a) Market integrity is essential to the smooth operation of the market and to the trust that is necessary for the market to operate in a fair and transparent manner. However, some market intermediaries engage in practices that damage investor confidence and undermine the integrity of financial markets.

In connection with the above, explain the meaning of the following malpractices:

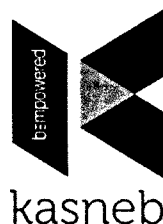
- (i) Market abuse. (4 marks)
- (ii) Churning. (4 marks)
- (b) The effective governance of a market intermediary is of utmost interest not just to its shareholders but also to its stakeholders such as its customers, the public and other market participants. As a result, market intermediaries should establish a corporate governance framework that provides strategic guidance to the firm and promotes the effective monitoring of the firm's management and its accountability to the Board.

In the context of the above, explain the following types of corporate governance mechanisms that could be deployed by a market intermediary:

- (i) Internal controls. (4 marks)
- (ii) External controls. (4 marks)
- (c) The market regulator will periodically undertake an assessment of the way in which licensed and approved businesses operate.

- Summarise four factors that the regulator might consider when conducting compliance reviews. (4 marks)
- (Total: 20 marks)**





**CIFA PART II SECTION 3**  
**REGULATION OF FINANCIAL MARKETS**

**TUESDAY: 26 November 2019.**

**Time Allowed: 3 hours.**

**Answer any FIVE questions.**

**ALL questions carry equal marks.**

**QUESTION ONE**

- (a) Describe five types of jurisdictions that a court might exercise. (10 marks)
- (b) Summarise five types of classification of contracts. (10 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) With reference to the law of agency:
- (i) Explain three ways of forming an agency. (6 marks)
- (ii) Identify four circumstances under which an agent will be held personally liable. (4 marks)
- (b) The Capital Markets Tribunal is established under the Capital Markets Authority Act.
- With reference to the Capital Markets Tribunal:
- (i) Identify two sources of appeals to the tribunal. (2 marks)
- (ii) Highlight the nature of decisions over which the tribunal might hear an appeal on. (8 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Discuss five circumstances under which a central depository agent might disclose information that would otherwise be deemed confidential. (10 marks)
- (b) The role of the Board of Directors in corporate governance is to lead, control and be collectively responsible for the conduct and governance of an organisation.
- With reference to the above statement:
- (i) Propose four ways in which the Board could provide leadership within a framework of prudent and effective control. (4 marks)
- (ii) Explain three ways in which the Board could use a board charter to establish a corporate governance framework that provides strategic guidance. (6 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) (i) Explain four problems that could be addressed by market regulation. (4 marks)
- (ii) Identify three requirements that a regulatory framework of securities must fulfil. (6 marks)
- (b) Prepare a list of six minimum requirements that a credit rating agency must meet to be registered. (6 marks)
- (c) Outline four activities conducted by an investment bank. (4 marks)
- (Total: 20 marks)**

### QUESTION FIVE

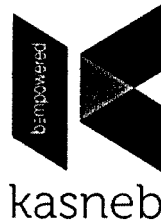
- (a) With specific reference to an information memorandum/prospectus, assess the following:
- (i) Remedies available to persons who suffer a loss due to publication of false information. (5 marks)
  - (ii) Criminal sanctions that could be preferred against persons who are party to the publication of a prospectus containing false or misleading information. (5 marks)
- (b) A central depository shall at the end of each financial year, subject its operations to an independent audit.
- With reference to the above statement:
- (i) Outline two contents of the Annual Report that a central depository shall submit to the Capital Markets Authority. (4 marks)
  - (ii) Summarise three rights and three duties of an independent auditor. (6 marks)
- (Total: 20 marks)**

### QUESTION SIX

- (a) Distinguish between a “mortgage on securities” and a “charge on securities”. (4 marks)
- (b) A shareholder who intends to borrow money on the security of his shares may do so by way of a legal or equitable mortgage on his shares.
- With reference to the above statement, explain six legal provisions governing a legal mortgage. (6 marks)
- (c) Evaluate five possible indicators of money laundering around wire transfers. (10 marks)
- (Total: 20 marks)**

### QUESTION SEVEN

- (a) (i) Summarise three steps that an issuer of a dematerialised security shall undertake with respect to the prescription of dematerialised security. (6 marks)
- (ii) Identify two rules that the Capital Markets Authority or a similar body in your country might prescribe with respect to dematerialised securities. (4 marks)
- (b) Describe five powers bestowed on the Capital Markets Authority or a similar body in your country that enable it to undertake its objectives and functions. (10 marks)
- (Total: 20 marks)**
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**CIFA PART II SECTION 3**

**REGULATION OF FINANCIAL MARKETS**

**WEDNESDAY: 22 May 2019.**

**Time Allowed: 3 hours.**

**Answer any FIVE questions.**

**ALL questions carry equal marks.**

**QUESTION ONE**

In the context of the central depository system:

- (a) Outline six documents which accompany an application for appointment to operate as an agent of Central Depository. (6 marks)
- (b) Analyse three duties of a central depository under the Central Depositories Act. (6 marks)
- (c) Highlight four advantages of case law as a source of law. (4 marks)
- (d) State four powers of the Court of Appeal in your country. (4 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Discuss five functions of the capital markets fraud investigations unit. (10 marks)
- (b) The Assets Recovery Agency exists mainly to ensure that assets acquired through fraud, crime and money laundering are recovered.  
Examine four sources of funds for the Agency. (8 marks)
- (c) List two offences under the Proceeds of Crime and Anti-money Laundering Act. (2 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) Harry, a sole trader carrying on a business in the printing industry has requested Hope Bank Ltd. to advance him Sh.500,000 as additional working capital. The bank is prepared to advance the money on condition that Harry offers a security. Harry has a share certificate for 5,000 shares issued by Bright Star Company Limited. He wants to know whether he can use the shares whose value is Sh.650,000 as security for the loan.

He further seeks to know whether he would still receive dividends even after he has charged the shares to the bank.

Advise Harry. (10 marks)

- (b) In relation to regulation of financial market intermediaries:
  - (i) Define the term “collective investment scheme”. (2 marks)
  - (ii) Discuss four principles of collective investment schemes (CIS) under the International Organisation of Securities Commissions (IOSCO) principles. (8 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Outline four powers of the board of directors of the Retirement Benefits Authority (RBA). (4 marks)
- (b) Summarise six grounds that could lead to termination of the appointment of the Governor of the Central Bank of your country. (6 marks)

(c) In relation to the law of agency:

(i) Distinguish between “ostensible authority” and “presumed authority” of an agent. (4 marks)

(ii) Explain three conditions for a commercial agency of necessity to arise. (6 marks)

(Total: 20 marks)

#### QUESTION FIVE

(a) Mercy Mahone, a citizen of Utopia read through a prospectus of Teddy B Company Limited. The prospectus elaborated on how the company had acquired a large tract of land in an area where the Utopia Government was setting up an airport and a railway station. Mercy found this as a great opportunity and proceeded to fill in the forms accompanying the prospectus thereby applying to be allotted shares. She posted these forms to the company. Shortly after posting, Mercy learnt that the Utopia Government had no such plans to put up an airport nor a railway station. She then posted another letter to Teddy B Limited informing the company that she had since lost interest in the company's shares and did not want to be allotted any shares.

Advise Mercy on the following:

(i) Rules on acceptance of an offer. (8 marks)

(ii) Difference between an “offer” and an “invitation to treat”. (2 marks)

(b) The use of an automated system in the capital markets has come with its own benefits. Highlight five advantages of automation in the capital markets. (5 marks)

(c) Prior to successful immobilisation of securities, the certificates of ownership undergo a verification exercise carried out by the issuer.

Outline five circumstances in which an issuer can reject the transfer of securities for immobilisation purposes at the verification stage. (5 marks)

(Total: 20 marks)

#### QUESTION SIX

(a) Explain three duties of a central depository in relation to keeping records. (6 marks)

(b) In the context of corporate governance:

(i) Explain two principles of good corporate governance practices for board in relation to committees. (4 marks)

(ii) Summarise five guidelines on corporate governance practices relating to remuneration of the directors for public listed companies. (10 marks)

(Total: 20 marks)

#### QUESTION SEVEN

(a) ZMG Ltd. would like to make an initial public offer (IPO). The directors of ZMG Ltd. have engaged you to assist in preparing a prospectus. Being an expert in legal matters, you have been called upon to specify the contents of a legal opinion in a prospectus.

##### Required:

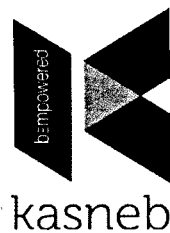
Summarise six matters that should be included in the legal opinion of a prospectus. (12 marks)

(b) With reference to regulations governing the proceeds of crime and anti-money laundering:

(i) Propose four internal control measures that a reporting institution should formulate, adopt and implement to combat money laundering. (4 marks)

(ii) Identify four pieces of information to be included by a reporting institution undertaking a wire transfer in a domestic or cross border transfer. (4 marks)

(Total: 20 marks)



**CIFA PART II SECTION 3**

**REGULATION OF FINANCIAL MARKETS**

**WEDNESDAY: 28 November 2018.**

**Time Allowed: 3 hours.**

**Answer any FIVE questions.**

**ALL questions carry equal marks.**

**QUESTION ONE**

- (a) Explain three types of asset backed securities (ABS), as described in the Capital Markets Act. (6 marks)
  - (b) Describe three superior courts in your country. (6 marks)
  - (c) With reference to the law of contract, summarise eight types of contracts deemed to be contrary to public policy. (8 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Under the Capital Markets Act, a person who makes a false, misleading or deceptive statement in a prospectus may be held criminally liable for such an offence.  
**Required:**  
Discuss two defences that are available in respect of the above offence. (4 marks)
  - (b) Evaluate three actions that might constitute fraudulently inducing trading in securities. (6 marks)
  - (c) Summarise five powers of the SACCO Societies Regulatory Authority (SASRA) Board. (10 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Analyse five sources of finance for the Criminal Assets Recovery Fund. (10 marks)
  - (b) Boresha Ltd. would like to make an application for a license to operate as a microfinance institution.  
**Required:**  
Advise Boresha Ltd.'s management on five documents that should accompany the application form. (10 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) The International Organisation of Securities Commission (IOSCO) objectives and principles sets out thirty eight principles of securities regulation, which are based upon the three objectives of securities regulation.  
**Required:**  
In reference to the above statement, highlight the three objectives of securities regulation. (3 marks)
  - (b) Describe the process of dematerialisation of securities. (4 marks)
  - (c) The Institute of Certified Investment and Financial Analysts (ICIFA) is a regional resource and advocacy body for the investment and finance profession.  
**Required:**  
Explain five functions of ICIFA. (5 marks)
  - (d) Outline eight members who constitute the Anti-Money Laundering Advisory Board. (8 marks)
- (Total: 20 marks)**

### QUESTION FIVE

- (a) Examine five conditions that an organisation must meet in order to be registered as a self-regulatory organisation by the regulatory authority of your country. (10 marks)
- (b) Discuss five benefits that might accrue to an organisation from self-regulation. (10 marks)
- (Total: 20 marks)**

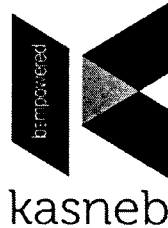
### QUESTION SIX

- (a) Baraka Ltd. is considering raising additional capital in order to expand its branch network. The board of the company is aware that they can raise this capital through the securities market, but are not sure on how to go about it.
- Required:**  
Advise the board of Baraka Ltd. on five methods they could use to raise capital in the securities market. (10 marks)
- (b) Assess five circumstances under which disclosures could be permitted under the Central Depository Act. (10 marks)
- (Total: 20 marks)**

### QUESTION SEVEN

- (a) Evaluate five benefits that could accrue to an organisation that practices good corporate governance in its operations. (10 marks)
- (b) Describe five circumstances under which an agency contract could be terminated. (10 marks)
- (Total: 20 marks)**
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**CIFA PART II SECTION 3**  
**REGULATION OF FINANCIAL MARKETS**

**WEDNESDAY: 23 May 2018.**

**Time Allowed: 3 hours.**

**Answer any FIVE questions.**

**ALL questions carry equal marks.**

**QUESTION ONE**

- (a) Highlight six sources of law. (6 marks)
  - (b) Outline four types of information that are not deemed to be insider information due to their public nature. (4 marks)
  - (c) The Capital Markets Authority has identified a number of offences and other market abuses in a bid to protect investors.  
Discuss five types of such offenses and abuses. (10 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Describe four persons that are disqualified from being members of the board of the Sacco Societies Regulatory Authority (SASRA) or its equivalent in your country. (4 marks)
  - (b) With reference to the law of agency, discuss four rights of an agent. (8 marks)
  - (c) Analyse four remedies available for breach of contract. (8 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Describe four steps in the process of immobilisation of securities. (4 marks)
  - (b) Explain six functions of a Board Audit Committee. (6 marks)
  - (c) Jisaidie Self Help Group recently acquired a license to operate as a microfinance institution under the name Jisaidie Microfinance.  
Analyse five circumstances under which this license could be revoked. (10 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Discuss five challenges that the East African Community might face in pursuit of a common securities market. (10 marks)
- (b) Daraja Mbili Limited published a prospectus two months ago. It has however come to light that some of the information contained in the prospectus is false and misleading. This has caused a public outcry and the directors are worried about the impending law suits.

**Required:**

Advise the directors on five circumstances in which a director might not be held liable for a misleading statement in a prospectus. (10 marks)

**(Total: 20 marks)**

### QUESTION FIVE

- (a) Summarise five criteria that an organisation must meet in order to be recognised as a self regulatory organisation by the Capital Markets Authority. (5 marks)
- (b) James Moto and Alex Baridi would like to operate a stockbrokerage firm. They have applied to the Capital Markets Authority for a license.

**Required:**

Assess five criteria for suitability that the Capital Markets Authority might consider before granting them a license. (5 marks)

- (c) Discuss five cases whereby a depository agent is permitted to disclose information about their depositors. (10 marks)  
(Total: 20 marks)

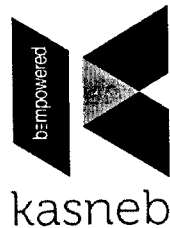
### QUESTION SIX

- (a) (i) Explain the term "crossborder listing". (2 marks)
- (ii) Discuss five advantages of crossborder listing. (10 marks)
- (b) Assess four International Organisation of Securities Commissions (IOSCO) principles for market intermediaries. (8 marks)  
(Total: 20 marks)

### QUESTION SEVEN

- (a) Distinguish between "equity security" and "debt security". (4 marks)
- (b) Analyse six functions of the Financial Reporting Centre. (6 marks)
- (c) In the context of money laundering, explain the following terms:
- (i) Misrepresentation. (2 marks)
- (ii) Malicious reporting. (2 marks)
- (iii) Misuse of information. (3 marks)
- (iv) Tainted property. (3 marks)  
(Total: 20 marks)
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**CIFA PART II SECTION 3**

**REGULATION OF FINANCIAL MARKETS**

**WEDNESDAY: 29 November 2017.**

**Time Allowed: 3 hours.**

**Answer any FIVE questions.**

**ALL questions carry equal marks.**

**QUESTION ONE**

- (a) Delegated legislation comes into being when Parliament confers on persons or bodies, power to make regulations for specified purposes. Such regulations have the same legal force as the Act under which they are made.

With reference to the above statement:

- (i) Explain three reasons for delegating legislation. (6 marks)
- (ii) Outline two disadvantages of delegated legislation. (4 marks)

- (b) A contract might be discharged by performance where both parties fulfill their obligations under the contract and nothing remains to be completed. This is referred to as precise performance. There are however, exceptions to this rule of precise performance.

Discuss five exceptions to the above rule.

(10 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) With reference to the law of agency:

- (i) Describe three classes of agents. (6 marks)
- (ii) Highlight four instances when an agent becomes personally liable upon a contract made on behalf of his principal. (4 marks)

- (b) One of the duties of a central depository is to ensure adequate measures to prevent and mitigate fraud or any other system manipulation.

With reference to the above statement, suggest five measures that might be put in place by a central depository.

(10 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) In the context of money laundering, explain the following terms:

- (i) Placement. (2 marks)
- (ii) Layering. (2 marks)
- (iii) Integration. (2 marks)

- (b) The oversight of market intermediaries should primarily be directed to the areas where the intermediaries' capital, client money and public confidence may most be put at risk.

With reference to the above statement, summarise two of the risks.

(4 marks)

- (c) ABC Ltd. had been trading on the securities exchange of your country for three years. In January 2017, the Listing Committee of the securities exchange recommended that the securities of ABC Ltd. be suspended.

Nine months down the line and with a new managing director, ABC Ltd. has fulfilled and demonstrated the conditions for lifting of the suspension.

Explain the procedure that shall apply in lifting the suspension.

(10 marks)

(Total: 20 marks)

#### QUESTION FOUR

(a) With respect to initial public offers, discuss five matters that should be contained in the prospectus.

(10 marks)

(b) Explain five reasons why self regulation should be incorporated into regulatory frameworks.

(10 marks)

(Total: 20 marks)

#### QUESTION FIVE

(a) In the context of corporate governance:

(i) Explain in three ways the meaning of the term “integrated reporting”.

(6 marks)

(ii) Highlight four parameters that a governance audit should cover in a company’s governance practices.

(4 marks)

(b) Regulation of financial market intermediaries should ensure that there is proper ongoing supervision.

With reference to the above statement, describe five matters that regulations of financial market intermediaries should provide for.

(10 marks)

(Total: 20 marks)

#### QUESTION SIX

(a) XYZ Ltd. is a mobile phone operator owned by the government of your country. The government would like to offer a twenty five percent (25%) stake in XYZ Ltd. to the public at Shs.5 per share. There will be 10 billion shares for sale to the public.

As an expert in financial market matters, the board of XYZ Ltd. has approached you for guidance. You have advised the board to submit an information memorandum to the Capital Markets Authority for approval to issue the equity.

The board of XYZ Ltd. would now like further guidance on the procedure for admission to listing.

With reference to the above scenario, describe to the board of XYZ Ltd., the procedure of admission to listing.

(12 marks)

(b) (i) Define the term “immobilised security”.

(2 marks)

(ii) A depositor might on application to the central depository, withdraw an immobilised security.

Explain the procedure to be followed during the withdrawal of an immobilised security.

(6 marks)

(Total: 20 marks)

#### QUESTION SEVEN

(a) Define the term “financial journalist”.

(2 marks)

(b) A central depository shall keep or cause to be kept records and accounts in sufficient detail. The accounts and records shall at the end of every financial year be audited.

With reference to the above statement:

(i) Outline two particulars of the accounts and records.

(2 marks)

(ii) Describe two rights and two duties of the auditor who conducts an audit on the accounts and records.

(8 marks)

(c) Identify two persons who might present an appeal to the Capital Markets Tribunal.

(2 marks)

(d) Describe three powers that the Capital Markets Tribunal possesses upon hearing an appeal.

(6 marks)

(Total: 20 marks)



# 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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# KASNEB

## CIFA PART II SECTION 3 REGULATION OF FINANCIAL MARKETS

WEDNESDAY: 23 November 2016.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

### QUESTION ONE

- (a) In the context of sources of law, argue two cases for and two cases against the use of case law or judicial precedent. (8 marks)
- (b) With reference to the law of contract:
- (i) Identify two consequences of an illegal contract. (2 marks)
- (ii) Discuss five ways through which an offer might be terminated. (10 marks)
- (Total: 20 marks)**

### QUESTION TWO

- (a) Describe five duties of an agent under the law of agency. (10 marks)
- (b) To aid in combating terrorism, the Counter Financing of Terrorism Inter-Ministerial Committee was established. Describe three functions of the above Committee. (6 marks)
- (c) With reference to terrorism financing:
- (i) Define the term "terrorism financing". (2 marks)
- (ii) Explain the objective of terrorism financing. (2 marks)
- (Total: 20 marks)**

### QUESTION THREE

- (a) Describe the procedure for admission to listing for securities other than Real Estate Investment Trust (REIT) securities. (10 marks)
- (b) Explain the main role of the following regulators:
- (i) Central Bank. (2 marks)
- (ii) Capital Markets Authority (CMA). (2 marks)
- (iii) Insurance Regulatory Authority (IRA). (2 marks)
- (iv) Retirement Benefits Authority (RBA). (2 marks)
- (v) Sacco Societies Regulatory Authority (SASRA). (2 marks)
- (Total: 20 marks)**

### QUESTION FOUR

- (a) (i) With reference to public offers, listing and disclosures, material information means any information that may affect the price of an issuer's securities or influence investment decisions. Explain four types of information that might be termed "material information". (4 marks)
- (ii) Identify three conditions that must be met for a person to be eligible to issue securities to the public or list at a securities exchange. (6 marks)

- (b) (i) Evaluate three ways in which the office of a member of the Capital Markets Tribunal could become vacant. (6 marks)
- (ii) Explain two actions the Capital Market Tribunal might take upon receiving an appeal. (4 marks)
- (Total: 20 marks)**

#### QUESTION FIVE

- (a) Discuss five circumstances under which an issuer shall refuse registration of a transfer of a security or certificate to a central depository. (10 marks)
- (b) Analyse five measures which a central depository should put in place to prevent and mitigate fraud or any other system manipulation mechanisms. (10 marks)
- (Total: 20 marks)**

#### QUESTION SIX

- (a) The corporate governance framework of an organisation should ensure equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.
- With reference to the above statement, discuss five ways in which the corporate governance framework in an organisation could achieve equitable treatment of shareholders. (10 marks)
- (b) Explain the instances when a central depository and settlement corporation (CDSC) might specify that any book-entry security in a securities account:
- (i) Is in suspense. (6 marks)
- (ii) Is under suspense. (4 marks)
- (Total: 20 marks)**

#### QUESTION SEVEN

- (a) (i) Define the term "venture capital company". (2 marks)
- (ii) A venture capital company shall be entitled upon making an application to the authority in the prescribed form, and on payment of the prescribed fee to be registered as a venture company.
- With reference to the above statement, explain eight requirements that a venture capital company must fulfil to be registered. (8 marks)
- (b) An online forex broker should, in the conduct of forex business and, at all times, act in accordance with the principles of best practice.
- With reference to the above statement, propose ten principles of best practice an online forex broker might put in place. (10 marks)
- (Total: 20 marks)**
- .....



# KASNEB

## CIFA PART II SECTION 3

### REGULATION OF FINANCIAL MARKETS

WEDNESDAY: 25 May 2016.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

#### QUESTION ONE

- (a) X learns that Y, who has no authority or apparent authority to sell X's goods, is negotiating with Z as X's agent for the sale of X's goods. X does not take any action although he could easily notify Z that Y was not his agent. Z pays Y for the goods as is customary in such a transaction.

Required:

- (i) Explain the type of agency created in the above scenario. (2 marks)
- (ii) Other than the agency created in (a) (i) above, describe four other ways of creating an agency relationship. (8 marks)
- (b) Identify six sources of law. (6 marks)
- (c) Outline four types of jurisdiction of the High Court in your country. (4 marks)

(Total: 20 marks)

#### QUESTION TWO

- (a) Discuss five remedies available in the case of a breach of contract. (10 marks)
- (b) With reference to the International Organisation of Securities Commission's (IOSCO's) principles for self regulation:
- (i) Justify the need for regulation. (6 marks)
- (ii) Describe four desirable attributes of a financial regulator. (4 marks)

(Total: 20 marks)

#### QUESTION THREE

- (a) Despite the variety of approaches employed in money laundering, the process is usually accomplished in three stages.
- With reference to the above statement, explain the three stages involved in the money laundering process. (6 marks)
- (b) Propose four measures that a market intermediary should take to mitigate the heightened risk associated with the lack of face-to-face contact when establishing business relations. (4 marks)
- (c) The corporate governance framework for financial institutions should provide sound incentives throughout the investment chain and provide for stock markets to function in a way that contributes to good corporate governance.

In relation to the above statement, discuss five ways through which corporate governance principles could be applied to achieve good corporate governance. (10 marks)

(Total: 20 marks)

#### QUESTION FOUR

- (a) In relation to raising capital in the securities market, explain the meaning of the term "offer of securities". (4 marks)
- (b) The prospectus of an initial public offer (IPO) to the public shall include a legal opinion.

In relation to the above statement, highlight the matters that the legal opinion in a prospectus of an IPO should include. (6 marks)

- (d) Every central depository and central depository agent shall take all reasonable measures to protect information and documents relating to the affairs of the depositors against any access by unauthorised persons.

Analyse five exceptions to the above secrecy provision whereby disclosures might be permitted. (10 marks)  
(Total: 20 marks)

#### QUESTION FIVE

- (a) (i) Outline two purposes of the Investor Compensation Fund. (2 marks)  
(ii) Describe the composition of the Investor Compensation Fund. (6 marks)  
(b) (i) Distinguish between an "immobilised security" and a "dematerialised security". (4 marks)  
(ii) Summarise the legal provisions governing prescription of dematerialised securities. (8 marks)  
(Total: 20 marks)

#### QUESTION SIX

- (a) Discuss the standards that financial market intermediaries should adhere to. (10 marks)  
(b) (i) Highlight the contents of the annual report that should be submitted to the Capital Markets Authority by a central depository and settlement corporation. (6 marks)  
(ii) Explain how a central depository's audit should be conducted. (4 marks)  
(Total: 20 marks)

#### QUESTION SEVEN

- (a) (i) Assume an issuer has submitted its information memorandum or prospectus and it has been approved by the authority to the securities exchange.  
Advise on the procedure that the issuer would follow for admission to listing. (8 marks)  
(ii) Identify five ways through which an issuer might list securities on the exchange. (4 marks)  
(b) Examine the procedure of suspending securities in a securities exchange. (8 marks)  
(Total: 20 marks)

# KASNEB

## CIFA PART II SECTION 3

### REGULATION OF FINANCIAL MARKETS

WEDNESDAY: 25 November 2015.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

#### QUESTION ONE

- (a) Explain four functions of the Deposit Insurance Corporation in your country. (8 marks)
- (b) Discuss six powers of the Deposit Insurance Corporation in your country. (12 marks)
- (Total: 20 marks)

#### QUESTION TWO

- (a) Discuss five responsibilities of a nominated advisor for the Growth Enterprise Market Segment (GEMS). (10 marks)
- (b) Describe the procedure of transferring from one market segment to another. (10 marks)
- (Total: 20 marks)

#### QUESTION THREE

- (a) A market intermediary is required to have a board charter that shall lead, control and be collectively responsible for the conduct and governance of its securities business.

In relation to the above statement:

- (i) Explain five objectives of a board charter that would enable the board discharge its responsibilities. (10 marks)
- (ii) Outline five functions of the audit committee of a market intermediary. (5 marks)
- (b) State five essentials of a valid contract. (5 marks)
- (Total: 20 marks)

#### QUESTION FOUR

- (a) Justify the need for delegated legislation. (10 marks)
- (b) Linah Associates Ltd. intends to be registered as a central depository. The operations manager is required to make rules to govern all aspects of the company's operations as a central depository.
- Advise the operations manager on the aspects that the rules should cover. (10 marks)
- (Total: 20 marks)

#### QUESTION FIVE

- (a) In relation to prevention of money laundering:
- (i) Highlight six instances when a customer's due diligence is required to be undertaken. (6 marks)
- (ii) Explain six matters that should be taken into account when determining the risk profile of a customer. (6 marks)
- (b) Describe four authorised functions of an investment bank. (8 marks)
- (Total: 20 marks)

#### QUESTION SIX

- (a) In relation to reporting obligations of a securities exchange, highlight five matters that should be contained in a report of its activities to be furnished to the capital markets regulator. (10 marks)
- (b) Discuss the legal provisions governing mortgaging and pledging of securities. (10 marks)
- (Total: 20 marks)



### QUESTION SEVEN

- (a) Describe four circumstances when an agent would be held personally liable to third parties even where it is the principal who ought to be held liable. (8 marks)
- (b) In relation to the International Organisation of Securities Commission (IOSCO) principles, discuss the following:
- (i) Four principles relating to the regulator. (8 marks)
  - (ii) Two principles for issuers. (4 marks)

**(Total: 20 marks)**

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## LAW AND REGULATIONS GOVERNING FINANCIAL MARKETS CSIA PART II SECTION 4

FRIDAY: 29 May 2015.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

## QUESTION ONE

- (a) An agent must not delegate powers that have been delegated to him.  
Explain four exceptions to the above rule. (8 marks)
- (b) Explain three actions that a securities exchange should take after restricting withdrawal of immobilised book entry securities. (6 marks)
- (c) Describe three types of underwriting contracts. (6 marks)
- (Total: 20 marks)

## QUESTION TWO

- (a) Describe five types of securities which could be admitted to listing by a securities exchange with the approval of the capital markets regulator. (10 marks)
- (b) Highlight ten factors which might have led to the poor performance of securities exchanges of emerging financial markets. (10 marks)
- (Total: 20 marks)

## QUESTION THREE

- (a) Proper regulation of financial markets should facilitate capital formation and economic growth. Inappropriate regulation could impose an unjustified burden on the market and inhibit market growth and development.  
In relation to the above statement, discuss four general attributes of effective regulation that is consistent with sound economic growth. (8 marks)
- (b) In order to prevent failures of financial markets licencees, the regulator should ensure that there is proper ongoing supervision.  
With reference to the above statement, describe six powers that the regulator should have in order to effectively supervise financial markets licencees. (12 marks)
- (Total: 20 marks)

## QUESTION FOUR

Gracie Mukudenta had invested with Angel Stockbrokers Ltd. who have been under statutory management since 2010. She recently approached the capital markets regulator seeking advice on how she could recover her investment. An employee at the capital markets regulator informed her that her complaint was time barred.

Gracie Mukudenta's friend, George Boona has advised her to appeal against the decision of the regulator to the Investor Compensation Fund Board.

Advise Gracie Mukudenta on the following:

- (a) Three instances when the capital markets regulator might conduct investigations as a result of a complaint received from any person. (6 marks)
- (b) The appeals procedure for an investor who has suffered pecuniary loss resulting from failure of a licensed stockbroker. (4 marks)
- (c) Whether George Boona's advice to appeal to the Investor Compensation Fund was appropriate. (2 marks)
- (d) Four other grounds for appeal against the action of the capital markets regulator. (8 marks)
- (Total: 20 marks)

## QUESTION FIVE

The general rule is that no licenced person, broker or dealer shall transfer listed securities outside the securities exchange in which he is a trading participant.

In relation to securities transactions:

- (a) Explain two circumstances when the regulator might authorise the transfer of a listed security outside the securities exchange. (4 marks)
- (b) Describe five transactions for which the listed securities shall be transferred outside the securities exchange.

- (c) Highlight six particulars to be included in the circular which is to be submitted to the capital markets regulator for approval. (6 marks)
- (Total: 20 marks)

## QUESTION SIX

- (a) Discuss four objects of the Business Conduct Committee established under the Central Depository. (8 marks)
- (b) Analyse six losses or damages that an insurance policy of a central depository should cover. (12 marks)
- (Total: 20 marks)

## QUESTION SEVEN

- (a) Explain four remedies available for breach of contract. (8 marks)
- (b) With reference to corporate governance principles in financial markets:
- (i) Explain three circumstances when a market intermediary shall withdraw money deposited in a client's bank account upon the client's written instructions. (6 marks)
- (ii) Outline six contents of a record of complaints maintained by a market intermediary. (6 marks)
- (Total: 20 marks)

(c) Distinguish between the following concepts as used in financial markets:

(i) "Collective investment schemes" and "venture capital funds".

(4 marks)

(ii) "Bonus issue" and "rights issue".

(4 marks)

(Total: 20 marks)

#### QUESTION SEVEN

(a) Distinguish between an "insurance agent" and an "insurance broker".

(4 marks)

(b) Explain four requirements that a savings and credit co-operative society must meet in order to be authorised to offer front office services activities (FOSA).

(8 marks)

(c) Wazee Pension Services Ltd. is aggrieved by a decision of the Retirement Benefits Authority which the company claims has adversely impacted on its operations.

Explain the action that Wazee Pension Services Ltd. could take to challenge the decision.

(8 marks)

(Total: 20 marks)



## LAW AND REGULATIONS GOVERNING FINANCIAL MARKETS

FRIDAY: 5 December 2014.

Time Allowed: 3 hours

Answer any FIVE questions.

ALL questions carry equal marks.

## QUESTION ONE

(a) Describe the four forms of suspension of a security.

(b) Explain three types of securities accounts.

(c) With reference to conduct of market intermediaries, outline six rights of a client.

## QUESTION TWO

In relation to central depository agents:

(a) Discuss six circumstances under which a central depository agent might be suspended by the Central Depository from performing its functions.

(b) Where a central depository agent is suspended, the Central Depository may appoint a manager.

In relation to the above statement, describe four powers of the manager.

## QUESTION THREE

(a) Discuss the eligibility requirements for listing in the Growth Enterprise Market Segment (GEMS).

(b) Explain four circumstances in which the capital markets regulator might revoke a licence issued to any market intermediary.

## QUESTION FOUR

(a) In relation to the regulations governing collective investment schemes (CIS), explain:

(i) Three reports that a fund manager is required to prepare.

(ii) Four reports that a custodian must provide to the fund manager.

(b) Highlight six essentials of a valid contract.

## QUESTION FIVE

(a) With reference to self regulation of capital markets:

(i) Describe the conditions to be met before the capital markets regulator can recognise an organisation as a self regulatory organisation.

(ii) Explain four rules that a self regulatory organisation should make provision for.

(b) With reference to the law of agency, highlight four classes of agents.

## QUESTION SIX

(a) Analyse four principles for market intermediaries as enumerated in the International Organisation of Securities Commission (IOSCO) principles.

(b) Explain six types of information that should accompany an application for a rights issue.

## QUESTION SEVEN

(a) Discuss six dealings that stockbrokers are prohibited from engaging in by the Capital Markets Authority in your country.

(b) Outline eight contents of the report that a securities exchange is required to furnish to the regulatory authority pertaining to its activities for the preceding year.

FRIDAY: 30 May 2014.

Time Allowed: 3

Answer any FIVE questions.

ALL questions carry equal marks.

## QUESTION ONE

(a) Distinguish between "actual authority" and "ostensible authority" of an agent.

(b) Describe six types of agents as recognised in the law of agency.

(c) Outline four requirements to be met for registration as a venture capital fund.

## QUESTION TWO

(a) Discuss the procedure for admission of an issuer to the official list of the securities exchange.

(b) Describe five responsibilities of a lead transaction adviser.

## QUESTION THREE

(a) Outline the three steps an issuer of a security should take upon being notified of dematerialisation of securities.

(b) Grace Zawadi has been appointed as a compliance officer in an investment bank.

In line with corporate governance principles:

(i) Describe six duties she is expected to perform in her role.

(ii) Outline two powers that she needs in order to effectively undertake her duties.

## QUESTION FOUR

(a) Explain eight functions of a sponsoring stockbroker.

(b) Discuss six matters that must be taken into account when determining whether a person is fit and proper to hold any particular position in the capital markets.

## QUESTION FIVE

The increasing internationalisation of financial activities and the globalisation of markets means that information relevant to authorisation is often beyond the immediate jurisdictional reach of the competent domestic regulator. Effective regulation is thus compromised when necessary information is located in another jurisdiction and is not accessible by the domestic regulator.

With reference to the above statement:

(a) Discuss the three principles of cooperation in regulation of securities markets as enumerated in the International Organisation of Securities Commission (IOSCO) principles.

(b) Explain three common characteristics of breaches of securities law.

(c) Assume that your country has made documented arrangements in the form of memoranda of understanding for cooperation with another country.

Describe the scope of cooperation of such an arrangement.

## QUESTION SIX

In relation to suspension of securities:

(a) Explain two circumstances when the securities exchange, with the approval of the regulator might grant a request for the voluntary suspension of any listed security.

(b) Summarise the issuer's obligations when its securities are suspended.

(c) Describe the five steps to be followed where the lifting of suspension is required by the issuer.

## QUESTION SEVEN

(a) Discuss five legal provisions governing the management of client accounts by stockbrokers.

(b) Explain five reports that a dealer is required to submit to the regulatory authority and to the securities exchange in compliance with the reporting obligations.

## LAW AND REGULATIONS GOVERNING FINANCIAL MARKETS

FRIDAY: 6 December 2013.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

## QUESTION ONE

The capital markets regulator is empowered to approve institutions to operate collective investment schemes.

In light of the above statement:

- (a) Explain four types of collective investment schemes. (8 marks)
- (b) Describe four parties involved in the organisation and operation of a collective investment scheme. (8 marks)
- (c) Distinguish between "regulation" and "supervision" as used in financial markets regulation. (4 marks)
- (Total: 20 marks)

## QUESTION TWO

- (a) Discuss six contents of the legal opinion section of a prospectus. (12 marks)
- (b) Where circumstances have occurred or new information has emerged that fundamentally alter the basis of approval of a public offer before the allotment date, the capital markets regulator is empowered to make certain orders against the issuer.

With reference to the above statement, explain the four powers that the regulator is vested with against the issuer when circumstances alter the basis of approval of a public offer. (8 marks)

(Total: 20 marks)

## QUESTION THREE

- (a) Discuss the eligibility requirements for listing in the Fixed Income Securities Market Segment (FISMS). (12 marks)
- (b) In relation to regulation of Central Depositories, the Central Depository Guarantee Fund is established.

With reference to the above statement:

- (i) Outline the purpose for the establishment of the Central Depository Guarantee Fund. (2 marks)
- (ii) List six types of monies that constitute the Central Depository Guarantee Fund. (6 marks)
- (Total: 20 marks)

## QUESTION FOUR

- (a) Adaptor Stockdealers Ltd. intends to commence internet trading service in line with its 2011-2015 strategic plan. The board of the company is of the opinion that internet trading services provide a real-time efficient online solution to facilitate business, customer growth and penetration.

The board has requested you to make an application to the capital markets regulator for registration in internet trading service.

Required:

Discuss six security measures that Adaptor Stockdealers Ltd. should put in place to ensure that the internet trading service is adequate for securities transactions. (12 marks)

- (b) Explain the following terms as used in contract law:
- (i) Specific performance. (2 marks)
- (ii) Injunction. (2 marks)
- (iii) Rescission. (2 marks)
- (iv) Rectification. (2 marks)
- (Total: 20 marks)

## QUESTION FIVE

- (a) You are an investment manager at Wonder Securities Ltd. Mark Moses, a prospective client, who is a tourist, asks you to invest the sum of Sh.2 million on his behalf, which he presents to you in cash.

Describe the measures you would take to ensure that you comply with the relevant legal provisions relating to prevention of money laundering and illicit activities. (10 marks)

- (b) The general rule is that where a person contracts as agent for a principal, the contract is the contract of the principal and not that of the agent so that the only person who may sue is the principal and the only person who can be sued is the principal and not otherwise.

Discuss the exceptions to the above rule.

(10 marks)  
(Total: 20 marks)

## QUESTION SIX

Regulations governing market intermediaries stipulate certain minimum standards of conduct when performing regulated activities.

In light of the above statement:

- (a) Explain the three principles of best practices that a market intermediary is required to apply when dealing with a client. (6 marks)
- (b) Describe three actions that a market intermediary should refrain from when advising a client. (6 marks)
- (c) Outline four factors that a market intermediary should advise a client to take into account when making an investment. (8 marks)
- (Total: 20 marks)

## QUESTION SEVEN

In line with due diligence and corporate compliance management principles, the board is usually responsible for designing, implementing, monitoring and integration of risk management processes of a securities market licensee in order to enhance efficiency, effectiveness, competitiveness and sustainability in financial markets.

With reference to the above statement:

- (a) Outline eight risks that might impact on the business of a licensee in the financial markets. (8 marks)
- (b) Describe six duties of a risk management officer of a securities market licensee. (12 marks)
- (Total: 20 marks)

MONDAY: 10 June 2013.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

## QUESTION ONE ✓

(a) Explain the following terms as used in financial markets:

- (i) Central Depository and Settlement Corporation. (2 marks)
- (ii) Commission. (2 marks)
- (iii) Beneficial owner. (2 marks)
- (iv) Information memorandum. (2 marks)

(b) Effective securities regulation depends on an appropriate legal framework.

Explain the matters to be addressed in the laws of your country in order to foster effective securities regulation.

(12 marks)

(Total: 20 marks)

## QUESTION TWO ✓

(a) Discuss the challenges facing an ordinary investor in the securities market in your country.

(8 marks)

(b) Explain the duties of a trustee in a collective investment scheme.

(12 marks)

(Total: 20 marks)

## QUESTION THREE ✓

(a) Outline the qualifications for a person to be appointed as a Chief Executive Officer of a central depository. (4 marks)

(b) Argue the case for self regulation in the financial markets.

(8 marks)

(c) Explain the objectives of the rules of a securities exchange.

(8 marks)

(Total: 20 marks)

## QUESTION FOUR ✓

(a) Discuss how an agency relationship might arise in the financial markets.

(8 marks)

(b) Explain any six remedies available to an investor upon noticing inaccurate or deceptive information in a prospectus.

(12 marks)

(Total: 20 marks)

## QUESTION FIVE ✓

(a) With reference to immobilisation and mortgaging of securities, explain the following terms:

- (i) Eligible security. (2 marks)
- (ii) Immobilisation date. (2 marks)
- (iii) Securitisation. (2 marks)

(b) Discuss the legal provisions governing the conduct of stock brokers.

(6 marks)

(c) "The board of directors shall exercise all the powers of the company subject to the limitations contained in the law and articles of association".

With reference to the above statement, discuss the functions that the board of directors is expected to fulfil. (8 marks)

(Total: 20 marks)

## QUESTION SIX

(a) Describe the responsibilities of a sponsoring broker.

(10 marks)

(b) With regard to securities transaction, discuss five vitiating factors in the law of contract.

(10 marks)

(Total: 20 marks)

## QUESTION SEVEN ✓

(a) Describe the role of professional institutes in financial market operations.

(10 marks)

(b) (i) Explain the term "rights issue".

(2 marks)

(ii) With reference to securities transactions, summarise the purpose and effects of a rights issue.

(8 marks)

(Total: 20 marks)

FRIDAY: 7 December 2012.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

## QUESTION ONE ✓

(a) The capital markets regulator is authorised to make rules for the efficient and effective functioning of the central depository system.

Discuss six areas that might be addressed by such rules.

(12 marks)

(b) One of the objectives of securities regulation is to ensure that capital markets are fair, efficient and transparent.

In addition to making rules, explain four other ways through which the capital markets regulator in your country aims to achieve this objective.

(8 marks)

(Total: 20 marks)

## QUESTION TWO ✓

(a) The performance of Wallot Savings and Credit Co-operative Society Ltd. has been on the decline over the last few years. As a result, the Sacco Regulatory Authority has caused an inspection to be carried out. It was discovered that the society was conducting its business in a manner contrary to the provisions of the sacco regulations and not in the best interests of the members. The society was also undercapitalised.

Prepare a report for presentation to the inspection committee of the Sacco Regulatory Authority explaining the following:

(i) The general contents of an inspection report of a Savings and Credit Society. (4 marks)

(ii) The supervisory enforcement actions that the Sacco Regulatory Authority might take against Wallot Sacco Ltd. (10 marks)

(b) Discuss six duties of a custodian of an investment portfolio.

(6 marks)

(Total: 20 marks)

## QUESTION THREE ✓

(a) Every issuer of securities is required to publish a bridge prospectus which shall disclose basic information on the issuer.

Outline four contents of a bridge prospectus.

(8 marks)

(b) With reference to regulations in financial markets, the regulatory regime should make appropriate use of Self Regulatory Organisations (SROs) that exercise some direct oversight responsibility for their respective areas of competence. SROs can be a valuable complement to the regulator in achieving the objectives of securities regulations.

Explain six ways in which a self regulatory organisation could ensure that it undertakes its role efficiently and effectively.

(12 marks)

(Total: 20 marks)

## QUESTION FOUR

(a) Briefly explain two models of a depository system.

(4 marks)

(b) Highlight the two types of ownership under the depository system.

(4 marks)

(c) Discuss six circumstances in which a security would be deemed to be under suspense.

(12 marks)

(Total: 20 marks)

## QUESTION FIVE ✓

(a) Describe the two categories of membership of the securities exchange.

(4 marks)

(b) Explain three types of securities accounts maintained by a central depository agent.

(6 marks)

(c) Outline the composition of the Investor Compensation Fund Board in your country.

(10 marks)

(Total: 20 marks)

## QUESTION SIX

(a) Outline two ways in which a person might become the agent of another.

(4 marks)

(b) Explain the rules governing ratification of an agent's unauthorised act by the principal.

(8 marks)

(c) Discuss the effects of subsequent ratification of an unauthorised act by the principal.

(8 marks)



- (a) Peterson Systems Company Ltd. wishes to be licensed to operate as a credit rating agency in your country. (10 marks)
- Describe five legal requirements for approval to operate as a credit rating agency.
- (b) The establishment of an audit committee represents an important step towards promoting good corporate governance. (10 marks)
- With reference to good corporate governance practices, discuss five duties of an audit committee. (Total: 20 marks)

### LAW AND REGULATIONS GOVERNING FINANCIAL MARKETS

MONDAY: 4 June 2012.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

#### QUESTION ONE

- (a) Discuss the legal and regulatory provisions that have been put in place to enhance investor confidence in the capital markets in your country. (12 marks)
- (b) A stockbroker acts as an agent for both the buyers and sellers of securities. Explain the financial requirements that stockbrokers are required to meet by the capital markets regulator in your country. (8 marks)
- (Total: 20 marks)

#### QUESTION TWO

- (a) Practitioners in capital markets are expected to adhere to good corporate governance practices. Discuss the above statement with respect to the provisions of the capital markets regulations in your country. (16 marks)
- (b) Explain the following terms as used in capital markets:
- Venture capital company. (2 marks)
  - Securities exchange. (2 marks)
- (Total: 20 marks)

#### QUESTION THREE

The Republic of Hakika is a newly independent state. The government of Hakika is determined to establish a strong economy supported by a well functioning banking and financial services sector.

The Attorney General of the Independent State of Hakika has commissioned you to advise the government on regulation of the sector.

Prepare a clear and well reasoned brief consisting of the following:

- The rationale for regulating the financial services sector. (8 marks)
  - The two forms of regulations in an economy. (4 marks)
  - The strategies used in regulating the financial services sector. (8 marks)
- (Total: 20 marks)

#### QUESTION FOUR

- (a) With reference to the law of agency in financial markets:
- Explain two duties of the principal. (4 marks)
  - Describe eight ways in which the agency relationship could be terminated. (8 marks)
- (b) Explain how the following issues could affect internationalisation of the securities markets in light of the rapid growth in cross border activities:
- Capital adequacy. (2 marks)
  - Clearance and settlement. (2 marks)
  - Multinational disclosure and accounting. (2 marks)
  - Derivatives. (2 marks)
- (Total: 20 marks)

#### QUESTION FIVE

- (a) Discuss the circumstances under which an offer shall be deemed to be a private offer. (12 marks)
- (b) Explain the legal provisions relating to post listing requirements. (8 marks)
- (Total: 20 marks)

#### QUESTION SIX

- (a) Money laundering is one of the emerging areas of global concern. Concerted efforts are required at the international, regional and national levels to control money laundering.

With reference to the above statement, explain the following matters:

- The objectives of anti-money laundering legislation. (4 marks)
  - The institutional and regulatory measures that your country has put in place towards combating money laundering. (6 marks)
- (b) Discuss the legal provisions relating to charging of securities as provided for in the central depositories regulations in your country. (10 marks)
- (Total: 20 marks)

#### QUESTION SEVEN

- (a) In relation to the role of the central bank in the money market:
- Discuss the doctrine of "Lender of Last Resort". (3 marks)
  - Highlight six guiding principles of the doctrine of Lender of Last Resort. (6 marks)
- (b) Outline five documents that should be submitted by an applicant seeking to be licensed to operate as an investment bank. (5 marks)
- (c) Describe the circumstances under which a fund manager may be removed. (6 marks)
- (Total: 20 marks)

FRIDAY: 2 December 2011.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

## QUESTION ONE

- (a) Outline the entities expressly excluded under the Capital Markets Act from being investment advisers. (5 marks)
- (b) Explain the circumstances under which a person shall be deemed to have an interest in a security. (8 marks)
- (c) Describe any seven intermediaries in the stock exchange. (7 marks)
- (Total: 20 marks)

## QUESTION TWO

- (a) Savings and Credit Co-operative Societies play an important role in the development of economies.
- (i) Outline the functions of a Savings and Credit Co-operative Society Authority. (6 marks)
- (ii) Explain the circumstances under which the Authority in (a) (i) above may revoke a licence issued to a Savings and Credit Co-operative Society. (6 marks)
- (b) With reference to the management of an investment portfolio, discuss the grounds on which a custodian might be removed by the investment adviser or the fund manager. (8 marks)
- (Total: 20 marks)

## QUESTION THREE

- (a) Explain three core objectives of regulating the securities market in your country. (6 marks)
- (b) Most securities markets are regulated by various Acts and Rules.
- Discuss seven Acts or Rules that regulate securities markets in your country. (14 marks)
- (Total: 20 marks)

## QUESTION FOUR

- (a) With reference to the Capital Markets regulations in your country, explain four types of disclosures. (8 marks)
- (b) (i) Explain the term "Efficient Markets Hypothesis" as used in financial markets. (3 marks)
- (ii) Discuss the implications of the Efficient Markets Hypothesis to investment managers and analysts. (6 marks)
- (iii) Give reasons why it is impossible for capital markets to attain the efficient capital market hypothesis. (3 marks)
- (Total: 20 marks)

## QUESTION FIVE

- (a) Citing examples, explain the meaning of the term "regulatory fragmentation" with reference to the regulation of financial markets. (4 marks)
- (b) Discuss the consequences of regulatory fragmentation. (8 marks)
- (c) Argue the case for a consolidated regulator in the financial market. (8 marks)
- (Total: 20 marks)

## QUESTION SIX

- (a) Discuss the challenges that might arise in the process of the integration of capital markets across the borders. (10 marks)
- (b) Jane Brown is an intern at Juv Associates Limited which has been in operation for the last two years in your country. She has been asked by the director to prepare a memorandum on the reporting obligations of a stock broker. Jane Brown has come to you for advice.
- Explain to Jane Brown the reports and accounts that must be submitted to the securities exchange in order to comply with the reporting requirements. (10 marks)
- (Total: 20 marks)

## QUESTION SEVEN

- (a) Explain the circumstances under which a supplementary prospectus may be issued. (3 marks)

- (b) Insider trading is an offence and is prohibited by the Capital Markets regulations.

Describe the punishment prescribed by the regulations for the offence of insider trading. (8 marks)

- (c) Discuss the factors responsible for the downward performance of emerging stock exchanges. (9 marks)
- (Total: 20 marks)

## LAW AND REGULATIONS GOVERNING FINANCIAL MARKETS

TUESDAY: 7 June 2011.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

## QUESTION ONE

- (a) Discuss the role of professional institutions in promoting good corporate governance in capital markets in your country. (10 marks)
- (b) In the recent past, cases of the collapse of stock brokerage firms have been on the increase.
- (i) Highlight the regulatory lapses that might have led to the collapse of the firms. (5 marks)
- (ii) Outline possible solutions to address the collapse of the firms. (5 marks)
- (Total: 20 marks)

## QUESTION TWO

- (a) Discuss the merits and demerits of self regulation in an emerging financial market environment. (10 marks)
- (b) With reference to the Central Depositories Act in your country:
- (i) Explain the provisions relating to dematerialisation of securities. (6 marks)
- (ii) Outline the ways in which the Central Depository is empowered to regulate dealings in securities. (4 marks)
- (Total: 20 marks)

## QUESTION THREE

- (a) You have been appointed a transaction advisor of a company in your country. The company has been in operation for over ten years and would like to apply for listing at the stock exchange.
- Explain the minimum legal requirements that you would fulfil before lodging the application with the capital markets regulator. (10 marks)
- (b) Outline the benefits of using an automated trading system in capital markets. (6 marks)
- (c) Highlight the advantages of having a central depository and settlement company in the capital markets industry. (4 marks)
- (Total: 20 marks)

## QUESTION FOUR

- (a) With reference to the laws governing financial intermediaries, highlight the investor rights relating to dealings with the following entities:
- (i) Stockbroker. (3 marks)
- (ii) Financial adviser. (3 marks)
- (iii) A stock exchange. (2 marks)
- (iv) A banker. (2 marks)
- (b) In the context of financial markets, describe the functions of investment banks. (10 marks)
- (Total: 20 marks)

## QUESTION FIVE

- (a) The development of financial products in a market is highly dependent on the laws and regulations established to regulate the capital markets.

With reference to the above statement, outline the development of the following financial products in your country:

- (i) Derivatives. (4 marks)
- (ii) Mortgage backed securities. (3 marks)

**KASNEB****LAW AND REGULATIONS GOVERNING FINANCIAL MARKETS**

FRIDAY: 2 December 2011.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

**QUESTION ONE**

- (a) Outline the entities expressly excluded under the Capital Markets Act from being investment advisers. (5 marks)
- (b) Explain the circumstances under which a person shall be deemed to have an interest in a security. (8 marks)
- (c) Describe any seven intermediaries in the stock exchange. (7 marks)
- (Total: 20 marks)

**QUESTION TWO**

- (a) Savings and Credit Co-operative Societies play an important role in the development of economies.
- (i) Outline the functions of a Savings and Credit Co-operative Society Authority. (6 marks)
- (ii) Explain the circumstances under which the Authority in (a) (i) above may revoke a licence issued to a Savings and Credit Co-operative Society. (6 marks)
- (b) With reference to the management of an investment portfolio, discuss the grounds on which a custodian might be removed by the investment adviser or the fund manager. (8 marks)
- (Total: 20 marks)

**QUESTION THREE**

- (a) Explain three core objectives of regulating the securities market in your country. (6 marks)
- (b) Most securities markets are regulated by various Acts and Rules.
- Discuss seven Acts or Rules that regulate securities markets in your country. (14 marks)
- (Total: 20 marks)

**QUESTION FOUR**

- (a) With reference to the Capital Markets regulations in your country, explain four types of disclosures. (8 marks)
- (b) (i) Explain the term "Efficient Markets Hypothesis" as used in financial markets. (3 marks)
- (ii) Discuss the implications of the Efficient Markets Hypothesis to investment managers and analysts. (6 marks)
- (iii) Give reasons why it is impossible for capital markets to attain the efficient capital market hypothesis. (3 marks)
- (Total: 20 marks)

**QUESTION FIVE**

- (a) Citing examples, explain the meaning of the term "regulatory fragmentation" with reference to the regulation of financial markets. (4 marks)
- (b) Discuss the consequences of regulatory fragmentation. (8 marks)
- (c) Argue the case for a consolidated regulator in the financial market. (8 marks)
- (Total: 20 marks)

**QUESTION SIX**

- (a) Discuss the challenges that might arise in the process of the integration of capital markets across the borders. (10 marks)
- (b) Jane Brown is an intern at Jun Associates Limited which has been in operation for the last two years in your country. She has been asked by the director to prepare a memorandum on the reporting obligations of a stock broker. Jane Brown has come to you for advice.
- Explain to Jane Brown the reports and accounts that must be submitted to the securities exchange in order to comply with the reporting requirements. (10 marks)
- (Total: 20 marks)

**QUESTION SEVEN**

- (a) Explain the circumstances under which a supplementary prospectus may be issued. (2 marks)

- (b) Insider trading is an offence and is prohibited by the Capital Markets regulations.

Describe the punishment prescribed by the regulations for the offence of insider trading. (8 marks)

- (c) Discuss the factors responsible for the downward performance of emerging stock exchanges. (9 marks)

(Total: 20 marks)

**LAW AND REGULATIONS GOVERNING FINANCIAL MARKETS**

TUESDAY: 7 June 2011.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

**QUESTION ONE**

- (a) Discuss the role of professional institutions in promoting good corporate governance in capital markets in your country. (10 marks)
- (b) In the recent past, cases of the collapse of stock brokerage firms have been on the increase.
- (i) Highlight the regulatory lapses that might have led to the collapse of the firms. (5 marks)
- (ii) Outline possible solutions to address the collapse of the firms. (5 marks)
- (Total: 20 marks)

**QUESTION TWO**

- (a) Discuss the merits and demerits of self regulation in an emerging financial market environment. (10 marks)
- (b) With reference to the Central Depositories Act in your country:
- (i) Explain the provisions relating to dematerialisation of securities. (6 marks)
- (ii) Outline the ways in which the Central Depository is empowered to regulate dealings in securities. (4 marks)
- (Total: 20 marks)

**QUESTION THREE**

- (a) You have been appointed a transaction adviser of a company in your country. The company has been in operation for over ten years and would like to apply for listing at the stock exchange.
- Explain the minimum legal requirements that you would fulfil before lodging the application with the capital markets regulator. (10 marks)
- (b) Outline the benefits of using an automated trading system in capital markets. (6 marks)
- (c) Highlight the advantages of having a central depository and settlement company in the capital markets industry. (4 marks)
- (Total: 20 marks)

**QUESTION FOUR**

- (a) With reference to the laws governing financial intermediaries, highlight the investor rights relating to dealings with the following entities:
- (i) Stockbroker. (3 marks)
- (ii) Financial adviser. (3 marks)
- (iii) A stock exchange. (2 marks)
- (iv) A banker. (2 marks)
- (b) In the context of financial markets, describe the functions of investment banks. (10 marks)
- (Total: 20 marks)

**QUESTION FIVE**

- (a) The development of financial products in a market is highly dependent on the laws and regulations established to regulate the capital markets.

With reference to the above statement, outline the development of the following financial products in your country:

- (i) Derivatives. (4 marks)

- (ii) Money market instruments.

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