



CIFA FOUNDATION LEVEL
PILOT PAPER
REGULATION OF FINANCIAL MARKETS

December 2021.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE

In the context of financial markets regulatory institutions:

- (a) Highlight ten functions of The Competition Authority of Kenya. (10 marks)
- (b) Explain five roles of professional bodies in financial services. (10 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) David Kamata posted a letter to Judy Kasuku in which he offered to sell his car to Judy Kasuku for Sh.500,000. David Kamata gave Judy Kasuku seven days within which to accept the offer. David Kamata after much thought felt that the offer he had made to Judy Kasuku was too low and he wrote a letter to Judy Kasuku revoking the offer but by the time Judy Kasuku received the letter of revocation, she had already posted her letter of acceptance to David Kamata. Judy Kasuku feels aggrieved and intends to sue David Kamata.

Analyse the legal principles applicable in the above case and advice Judy Kasuku. (10 marks)

- (b) In relation to fundamentals of the law of agency:
- (i) Identify six circumstances under which the agent might be held personally liable for contracts entered into on behalf of his principal. (6 marks)
- (ii) Explain the meaning of the term ostensible authority. (4 marks)
- (Total: 20 marks)**

QUESTION THREE

With reference to regulations of Capital Markets:

- (a) Discuss three objectives of the International Organisation of Securities Commission (IOSCO) for regulating the securities market. (6 marks)
- (b) Summarise eight attributes of an effective financial regulator. (8 marks)
- (c) Explain three reasons why regulation of Capital Markets is necessary. (6 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) In the context of the conduct of the business of Market Intermediaries:
 - (i) Explain the meaning of the term cold calling. (2 marks)
 - (ii) Outline five rules governing cold calling. (10 marks)
 - (b) Highlight four probable guidelines that might be contained in a company's Employee Code of conduct. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) With reference to financial market intermediaries, explain the meaning of the following terms:
 - (i) Foreign exchange broker. (2 marks)
 - (ii) Money manager. (2 marks)
 - (b) Describe three roles of the money manager. (6 marks)
 - (c) Summarise ten requirements for registration of a Venture Capital firm in Kenya. (10 marks)
- (Total: 20 marks)**

QUESTION SIX

- (a) With reference to Securities Exchanges and Clearing Agencies:
 - (i) Explain six responsibilities of a nominated adviser (NOMAD) of a company. (6 marks)
 - (ii) Highlight three requirements to be satisfied for appointment as a company NOMAD. (6 marks)
 - (b) (i) Define the term demutualisation. (2 marks)
 - (ii) Discuss three advantages of demutualisation. (6 marks)
- (Total: 20 marks)**

QUESTION SEVEN

- (a) Describe eight rules that an applicant might incorporate in its application to operate as a central depository. (8 marks)
 - (b) Indicate six kinds of information that a body corporate which intends to apply for appointment as a central depository agent might be required to submit to the central depository. (6 marks)
 - (c) Explain three advantages of the Employee Share Ownership Plans (ESOPs) to employees. (6 marks)
- (Total: 20 marks)**
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