



CS INTERMEDIATE LEVEL

FINANCIAL MARKETS AND SPECIALISED INSTITUTIONS

WEDNESDAY: 6 December 2023. Afternoon Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) According to Llewellyn (1999), there are two main generic types of financial regulations and supervision.
In reference to the above author, explain the **TWO** types of financial regulations and supervision. (4 marks)
- (b) Identify **FOUR** investment alternatives available to investors in the financial markets. (4 marks)
- (c) Evaluate **THREE** attributes of a well-constructed security market index. (6 marks)
- (d) Summarise **SIX** benefits of cross-listing shares. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Explain **FOUR** functions of a Central Depository Agent. (4 marks)
- (b) Insider information means information relating to particular securities or to a particular issuer of securities that has not been made public and if it were made public, is likely to have a material effect on the price of the securities.
In relation to the above statement, identify **FOUR** types of insider information. (4 marks)
- (c) Examine **THREE** objectives of establishing the Central Depository and Settlement Corporation (CDSC) in relation to securities markets in your country. (6 marks)
- (d) Highlight **SIX** reasons that could lead to the suspension of a corporate trustee in a retirement benefits administration. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Highlight **FOUR** functions performed by the Assets Recovery Agency or equivalent body in your country. (4 marks)
- (b) Analyse **FOUR** factors that have contributed to the changing structure of securities markets in the recent past. (4 marks)
- (c) Explain **SIX** methods that could be used for determining the prices of shares for companies undertaking an Initial Public Offering (IPO). (6 marks)
- (d) State **SIX** functions undertaken by custodian banks. (6 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Summarise **FOUR** factors that would motivate a non-listed company to go public. (4 marks)
- (b) Describe **FOUR** requirements for licensing a stockbroker in your country. (4 marks)
- (c) Outline **SIX** duties that are undertaken by the Financial Reporting Centre (FRC). (6 marks)
- (d) Explain **THREE** consequences to a financial institution for failure to comply with regulations. (6 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Distinguish between “market risk” and “settlement risk” as used in the foreign exchange market. (2 marks)
- (b) In Kenya, the registration of religious institutions is governed by the Societies Act (Cap 108) and falls under the jurisdiction of the Office of the Attorney General.
- Analyse **FOUR** requirements for registration of a religious institution. (4 marks)
- (c) Describe **THREE** reasons that could lead to the voluntary suspension of securities in a securities exchange. (6 marks)
- (d) Evaluate **FOUR** emerging challenges facing financial regulatory agenda in your country. (8 marks)

(Total: 20 marks)

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CS INTERMEDIATE LEVEL

FINANCIAL MARKETS AND SPECIALISED INSTITUTIONS

WEDNESDAY: 23 August 2023. Afternoon Paper.

Time Allowed: 3 hours

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) Highlight **FOUR** limitations of raising capital in the Securities Exchange. (4 marks)
- (b) In terms of the financial system, in an increasingly technological and digital world, handling physical documents may hamper the functioning of securities trading and broking. The move to dematerialisation is in line with the global move of all systems to go online and transact via smart devices.

With reference to the above statement:

- (i) Explain the term “De-materialisation” of securities. (2 marks)
- (ii) Summarise **SIX** benefits of a dematerialised account to an investor. (6 marks)
- (c) Capital markets have continued to support access to resources for business development.

Discuss **FOUR** challenges that may hinder the development of an effective Capital market in your country. (8 marks)

(Total: 20 marks)

QUESTION TWO

- (a) The term “frontier markets” was coined in 1992 by Farida Khambata.
- Outline **FIVE** characteristics of these markets. (5 marks)
- (b) (i) Describe the term “insider trading” as used in the securities exchange. (2 marks)
- (ii) Outline **THREE** effects of insider trading. (3 marks)
- (iii) Explain **TWO** categories of insider trading. (2 marks)
- (c) Explain **FOUR** roles of Unclaimed Financial Assets Authority (UFAA). (8 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Identify **THREE** roles of regulatory sandbox in financial service. (3 marks)
- (b) Companies that are expanding operations may use internally generated or external funding from the capital markets.
- Outline **FOUR** benefits that would accrue to companies from listing in the securities exchange. (4 marks)
- (c) Summarise **FIVE** functions of money markets in the development of financial systems of your country. (5 marks)
- (d) Explain **FOUR** hypothesis of Initial Public Offering (IPO) in the securities market of your country. (8 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Most jurisdictions have implemented Central Depository Systems (CDS) to transact and transfer shares between parties. Identify **FOUR** challenges that may affect the effective implementation of CDS in your jurisdiction. (4 marks)
- (b) Explain **THREE** benefits of holding shares in the Direct Registration system (DRS) in the securities exchange market. (6 marks)
- (c) The Securities Exchange in many countries has experienced low rate of listing of companies over time. Analyse **FIVE** factors that could have contributed to the low rate of listing. (10 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Yefwe Self Help Group intends to register a Deposit Taking Sacco. Explain **FIVE** good governance practices that it must adhere to for it to be compliant with SACCO Society Regulatory Authority (SASRA) regulations. (10 marks)
- (b) 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:

- (i) Highlight **TWO** objectives of the IOSCO Principles of Self-Regulation. (2 marks)
- (ii) Analyse **FOUR** risks faced by depository institutions when generating spread income. (8 marks)
- (Total: 20 marks)**
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CS INTERMEDIATE LEVEL

FINANCIAL MARKETS AND SPECIALISED INSTITUTIONS

WEDNESDAY: 7 December 2022. Afternoon Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) Explain **FIVE** roles of financial markets in a developing country. (5 marks)
 - (b) Highlight **FIVE** distinctions between money markets and capital markets. (5 marks)
 - (c) Assess the roles of **FIVE** financial regulators in the financial eco-system of your country. (10 marks)
- (Total: 20 marks)**

QUESTION TWO

The securities market provides a platform to link lenders, borrowers and productive sectors of the economy. In the context of financial markets:

- (a) Highlight **FIVE** characteristics of a securities market. (5 marks)
 - (b) Explain **FIVE** instruments for raising capital in the securities market. (5 marks)
 - (c) Examine **FIVE** functions of a securities market. (10 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Outline **FIVE** strategies of minimising insider trading. (5 marks)
 - (b) Describe **FIVE** advantages of automated trading systems (ATS) in financial markets. (5 marks)
 - (c) Assess **FIVE** players that drive the development of the capital markets in your country. (10 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Financial markets and other specialised institutions play a prominent role in many economies. Governments around the globe have therefore deemed it necessary to regulate certain aspects of these markets and institutions.

With reference to the above statement, explain **FIVE** forms of government regulations on financial markets and specialised institutions in your country. (5 marks)
 - (b) Explain **FIVE** functions undertaken by investment banks which are distinct from those of securities brokerage firms in the securities market. (5 marks)
 - (c) Describe **FIVE** duties imposed by law on the trustees of a pension scheme. (10 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Identify **FIVE** methods that could be adopted by a country to deal with money laundering. (5 marks)
 - (b) Explain **FIVE** arguments in support of offshore banking. (5 marks)
 - (c) Examine **FIVE** functions of the Central Depository and Settlement Corporation (CDSC) or a similar institution in your country. (10 marks)
- (Total: 20 marks)**

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CS INTERMEDIATE LEVEL

FINANCIAL MARKETS AND SPECIALISED INSTITUTIONS

WEDNESDAY: 26 April 2023. Afternoon Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) Explain **THREE** challenges associated with cross-border listing. (6 marks)
- (b) Highlight **SIX** risks faced by depository institutions in your country. (6 marks)
- (c) Financial markets play a prominent role in many economies. Governments around the world have therefore deemed it necessary to regulate certain aspects of these markets.

With reference to the above statement, explain **FOUR** forms of government regulations on financial markets and other specialised institutions in your country. (8 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Distinguish between “financial engineering” and “financial innovations” as used in financial markets and institutions. (4 marks)
- (b) Outline **FOUR** functions of financial intermediaries in an emerging economy. (4 marks)
- (c) Explain **THREE** ways of promoting public confidence in a financial system. (6 marks)
- (d) Summarise **SIX** functions of insurance brokers in your country. (6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Describe the remedies that Central Depository and Settlement Corporation (CDSC) or its equivalent can take in the event of a breach of duty by a participant in the securities market. (6 marks)
- (b) Explain **THREE** types of derivative contracts. (6 marks)
- (c) Explain **FOUR** reasons why investors prefer the futures market as opposed to cash market trading vehicles. (8 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) The Retirement Benefits Authority (RBA) requires Pension Scheme Trustees to attend the Trustee Development Programme.
 - (i) Explain the benefit of this requirement. (2 marks)
 - (ii) Outline **FOUR** obligations of Trustees as covered in the RBA Act. (4 marks)
- (b) Preference shares are often used by companies to raise capital without diluting the ownership or control of existing shareholders.

With reference to the above statement, analyse **THREE** features of these shares. (6 marks)
- (c) Evaluate **FOUR** drawbacks of credit rating agencies or equivalent bodies in your country. (8 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Simana Investments Ltd. is a Public Company and is considering increasing its shares listed in the securities exchange. Cyrus Kamau, a shareholder has received information that the Company is considering issuing either a bonus issue or a rights issue.

Explain to him **TWO** advantages and **TWO** disadvantages of bonus and rights issue. (4 marks)

- (b) Describe **FOUR** functions of Central Depository Guarantee Fund (CDGF) or its equivalent in your country. (4 marks)

- (c) Identify **FOUR** ways a firm could use to raise capital in the securities market. (4 marks)

- (d) Summarise **FOUR** characteristics of a well-functioning financial system. (4 marks)

- (e) Post-listing requirements are the obligations that a company must meet after it has successfully listed its shares on a securities exchange.

Identify **FOUR** of these requirements. (4 marks)

(Total: 20 marks)

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CS INTERMEDIATE LEVEL

FINANCIAL MARKETS AND SPECIALISED INSTITUTIONS

WEDNESDAY: 3 August 2022. Afternoon paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) Discuss three attributes of a well constructed security market index. (6 marks)
- (b) Summarise eight benefits of Credit Reference Bureaus (CRBs) to an economy. (8 marks)
- (c) Differentiate between:
 - (i) Electronic communication networks and electronic crossing networks as used in financial markets and institutions. (2 marks)
 - (ii) Eurobond and junk bond. (2 marks)
 - (iii) Sell-side analyst and buy side analyst. (2 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain four functions of The Asset Recovery Agency or a similar body in your country in the fight against financial crime. (4 marks)
- (b) In relation to underwriting of new securities, explain the importance of the following:
 - (i) Originating house. (2 marks)
 - (ii) Prospectus. (2 marks)
 - (iii) Syndicate. (2 marks)
- (c) Discuss five methods that could be used to determine the price of an initial public offering (IPO). (10 marks)

(Total: 20 marks)

QUESTION THREE

- (a) The liquidity of a market can be judged in terms of its depth, breadth and resilience.
In relation to the above statement, explain the following terms:
 - (i) Depth. (2 mark)
 - (ii) Breadth. (2 mark)
 - (iii) Resilience. (2 mark)
- (b) Briefly explain four functions of Insurance Regulatory Authority (IRA) or a similar body in your country. (4 marks)
- (c) Discuss two types of financial regulation and supervision. (4 marks)
- (d) Identify six alternative investments available to investors in financial markets. (6 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Discuss four factors that could contribute to the changing structure of securities market (4 marks)
- (b) Explain six duties of the Financial Reporting Centre (FRC) or equivalent body in your country. (6 marks)
- (c) Summarise four factors that could motivate a non-listed company to go public through an initial public offering (IPO). (4 marks)
- (d) With reference to financial institutions, discuss three consequences of failure to comply with the applicable sectoral regulations. (6 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) (i) With reference to financial crises, distinguish between “bank runs” and “bank panics”. (4 marks)
- (ii) Identify two private sector solutions and two government sector solutions that could be adopted to prevent bank panics. (4 marks)

- (b) Hazina Commercial Bank Ltd. is among the top twenty performing banks in your country. In the recent past, the board of directors of Hazina Commercial Bank Ltd. has passed a resolution to open ten new branches in ten different countries across the globe.

In reference to the above resolution by the board, analyse six advantages of globalising the operations of Hazina Commercial Bank Ltd. (6 marks)

- (c) Your country is experiencing unstable inflation rate and the economic policy makers are concerned that the currency does not reflect the existing economic fundamentals.

With reference to the above statement, examine three courses of action that the Central Bank could take in order to address the situation. (6 marks)

(Total: 20 marks)

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CS INTERMEDIATE LEVEL

FINANCIAL MARKETS AND SPECIALISED INSTITUTIONS

TUESDAY: 5 April 2022. Afternoon paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Do NOT write anything on this paper.

QUESTION ONE

- (a) State six functions of the capital market regulator in your country. (6 marks)
 - (b) List four features of over the counter (OTC) markets. (4 marks)
 - (c) Examine three main classifications of financial markets. (6 marks)
 - (d) Illustrate four factors that could enhance the development of capital markets in your country. (4 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) With reference to state controlled enterprises:
 - (i) Explain the term “golden share”. (2 marks)
 - (ii) Discuss two purposes of golden share to an institution. (4 marks)
 - (b) (i) Outline four advantages of exchange traded funds to an investor. (4 marks)
 - (ii) Financial system stability is the avoidance of financial institutions failing in large numbers and avoidance of serious disruptions of the intermediaries functions of the financial system.

With reference to the above statement, assess four areas that would be covered during financial systems stability analysis and monitoring. (4 marks)
 - (c) Evaluate three strategies that an investment firm should adopt to address conflict of interest created by transactions in which an investment analyst has beneficial ownership. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Explain five duties of trustees under a retirement benefits scheme. (5 marks)
 - (b) Discuss four challenges financial institutions face in enforcing collection of non performing loans. (8 marks)
 - (c) Illustrate four circumstances where a securities exchange with the approval of the regulator might allow voluntary suspension of securities listed in the exchange. (4 marks)
 - (d) Describe three advantages of dematerialisation of securities. (3 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Appraise six obstacles to funding home purchase through mortgage loans. (6 marks)
- (b) Highlight four documents required by Unclaimed Financial Assets Authority (UFAA) when lodging a claim. (4 marks)
- (c) Analyse four roles of the Central Depository Settlement Corporation (CDSC) or equivalent body in your country. (4 marks)

- (d) Crowdfunding is an emerging alternative form of financing that connects those who can invest money directly with those who need finance for a specific project or business.

With reference to the above definition of crowdfunding, summarise three advantages and three disadvantages of crowdfunding. (6 marks)

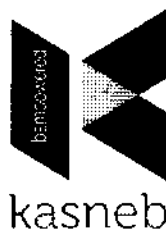
(Total: 20 marks)

QUESTION FIVE

- (a) Evaluate four internal control obligations of a reporting institution in respect to money laundering. (8 marks)
- (b) Analyse five benefits of financial intermediation. (5 marks)
- (c) Appraise five contemporary challenges facing financial regulators. (5 marks)
- (d) Distinguish between “money market instruments” and “capital market instruments”. (2 marks)

(Total: 20 marks)

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CS INTERMEDIATE LEVEL

FINANCIAL MARKETS AND SPECIALISED INSTITUTIONS

THURSDAY: 16 December 2021.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Explain four functions of the Retirement Benefits Authority or a similar body in your country. (8 marks)
- (b) To prevent money laundering, a financial institution is obligated to verify customer identity.
- With reference to the above statement:
- (i) Describe three documents that can legally identify an individual. (3 marks)
- (ii) Explain two legal ways of identifying a body corporate. (2 marks)
- (c) Highlight seven securities exchange listing eligibility requirements to be satisfied by an issuer of fixed income securities before issuing the securities to the public. (7 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) With reference to Kenya Deposit Insurance Corporation (KDIC):
- (i) Outline five sources of KDIC funds. (5 marks)
- (ii) Summarise seven objectives of the KDIC. (7 marks)
- (b) Discuss four advantages of raising capital through private offers over initial public offering. (8 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) With reference to trading at the securities exchange, explain the term automated trading system (ATS). (2 marks)
- (b) Distinguish between "credit rating agencies" and "credit reference bureaus". (4 marks)
- (c) Discuss four contents of the annual report submitted by a central depository to the Capital Markets Authority within three months after the end of its financial year. (8 marks)
- (d) Summarise six roles of the Capital Markets Authority in promoting good corporate governance practices in listed companies. (6 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Outline five International Organisation of Securities Commissions (IOSCO) principles relating to the regulator. (5 marks)
- (b) With reference to establishment of private universities, outline five contents of a charter granted by the president. (5 marks)
- (c) In relation to depositing of securities at the Central Depository, evaluate four regulatory requirements relating to the records of depositors. (8 marks)
- (d) Explain the term "cross border listing". (2 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) A constitution is a mandatory requirement when registering any religious organisation.

With reference to the above statement, state seven contents of a religious organisation's constitution. (7 marks)

- (b) For one to establish and run insurance business in Kenya, one is required to fulfil certain requirements.

With reference to the above statement, outline eight insurer registration requirements to be met by the insurer as provided by the Insurance Regulatory Authority (IRA). (8 marks)

- (c) The Sacco Societies (non-deposit taking business) Regulations 2020 requires specified non deposit taking Sacco's for example those whose total non-withdrawable deposit from members is equal to or exceeds Sh.100 million to apply to Sacco Societies Regulatory Authority (SASRA) for authorisation to conduct Sacco business.

With reference to the above statement, state five documents required by SASRA while applying for authorisation. (5 marks)

(Total: 20 marks)

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CS PART III SECTION 5

FINANCIAL MARKETS LAW

WEDNESDAY: 25 November 2015.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Self-regulation, typically involves a unique combination of private interests with government oversight and is an effective and efficient form of regulation for the complex, dynamic and ever-changing financial services industry. In the International Organisation of Securities Commissions (IOSCO) report of 1998, it was stated that "Self-Regulatory Organisations (SROs) can be a valuable component to the regulator in achieving the objectives of securities regulations".

Assume that you have received the above write-up from the chairman of the Board of the company you work for. You have instructions to attend the next Board retreat to elaborate further on self-regulation.

Required:

- (i) Justify to the Board the need for incorporating self-regulation into regulatory frameworks. (8 marks)
- (ii) Describe four rules that a self regulatory organisation shall make relating to matters for which it has regulatory or supervisory functions. (4 marks)
- (b) For the Capital Markets Authority to carry out its objectives, it might exercise or perform certain powers, duties and functions bestowed upon it.

With reference to the above statement, explain eight such powers, duties and functions.

(8 marks)

(Total: 20 marks)

QUESTION TWO

- (a) On Saturday, 19 September 2015, Uwezo Ltd. held its annual general meeting. A number of resolutions were passed. One of the proposals was made by Michael Matata who proposed that Uwezo Ltd. ventures into the business of securities by operating a central depository.

You are the Certified Secretary (CS) of Uwezo Ltd. and the Chief Executive Officer has asked you to prepare a write up on how to establish a central depository.

Required:

- Prepare a summary of the rules governing the establishment of a central depository. (6 marks)
- (b) A central depository may establish a Central Depository Guarantee Fund for the settlement of trade through the central depository.
- Highlight four examples of the contents of the Central Depository Guarantee fund. (4 marks)
- (c) In the context of prevention of money laundering:
- (i) Explain the meaning of the term "money laundering". (6 marks)
- (ii) Describe the process involved in money laundering. (4 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Bendere Ltd. is a listed company that was incorporated in the year 2000 in Country X whose immediate neighbour is Country Y. Bendere Ltd. would like to be listed on the securities exchange of Country Y. Upon being listed, Bendere Ltd. plans to publicly offer debt securities.

Bendere Ltd. would like to ensure that all the information that will enable investors to determine whether the debt securities are being offered on terms that are acceptable to them, is included.

Advise Bendere Ltd. on the information which should be included in the public offer. (10 marks)

- (b) With reference to immobilisation and dematerialisation:

(i) Explain four circumstances under which an issuer shall refuse registration of the transfer to a central depository. (4 marks)

(ii) Examine the procedure used by central depository agents to dematerialise securities at the central depository. (6 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Summarise five records that must be maintained by the securities exchange. (5 marks)

- (b) Explain the content of the record of depositors maintained by a central depository. (5 marks)

- (c) Credit rating agencies issue opinions on the future creditworthiness of a particular company, security or obligation as of a given date. These opinions tend to be relied upon and can have an effect on securities markets in a variety of ways. Credit rating agencies should therefore endeavour to issue opinions that help reduce the asymmetry of information among borrowers, lenders and other market participants.

Comment on how credit rating agencies could reduce asymmetry of information making reference to the above statement and to International Organisation of Securities Commissions (IOSCO) principles on credit rating agencies. (10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) The emerging markets committee of the International Organisation of Securities Commissions (IOSCO) recommended that its members foster good corporate governance through legislation, regulation and codes of good practices using the Organisation for Economic Co-operation Development (OECD) principles of corporate governance as a benchmark.

With reference to the above statement and your knowledge on corporate governance, propose five ways in which a company would ensure that shareholders have the opportunity to participate effectively in general shareholder meetings. (10 marks)

- (b) One of the basic shareholders' rights is to participate and vote in general shareholder meetings.

Identify five other basic rights of shareholders. (5 marks)

- (c) In relation to insider trading, "inside information" means information which has not been made public.

Describe five ways through which information could be made public. (5 marks)

(Total: 20 marks)

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CS PART III SECTION 5

FINANCIAL MARKETS LAW

WEDNESDAY: 1 September 2021.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Qabro Works Limited is a private limited company which intends to list on the securities exchange and has been authorised by the regulator to issue a prospectus to the public.

Upon conclusion of a forensic audit, the regulator has discovered that the prospectus contains inaccurate information on its retained earnings and the legal opinion therein.

Gertrude Lukhela and Thomas Penda, who were to become directors of Qabro Works Limited immediately after the listing, have been apprehended by officers from the Capital Market Fraud Unit to answer to charges of issuing a defective prospectus.

Required:

Advise Gertrude Lukhela and Thomas Penda on the following:

- (i) The prescribed fine that Qabro Works Limited will be liable to pay if found guilty and convicted. (2 marks)
- (ii) The prescribed fine that Gertrude and Thomas will be liable to pay if found guilty and convicted. (2 marks)
- (iii) The maximum jail term that Gertrude and Thomas would serve if found guilty and convicted. (2 marks)
- (iv) Two defences that they might rely on in respect of the offence charged. (4 marks)
- (v) Four powers that the Authority could exercise when in its opinion, new circumstances or new information have emerged which fundamentally alter the basis of approval of a public offer. (8 marks)

- (b) Define the term “listing by introduction”. (2 marks)
- (Total: 20 marks)**

QUESTION TWO

Hippo Securities Exchange is a self regulatory organisation with regulatory and supervisory functions. The regulatory Authority has requested Hippo Securities Exchange to develop rules for players in the securities market.

In light of the above facts:

- (a) Explain three areas to which the rules should relate. (6 marks)
- (b) Prescribe three directions that the Authority might issue to Hippo Securities Exchange if it discovers that the rules of Hippo Securities Exchange are not in conformity with the law and best practices that govern self regulatory organisations (SROs). (6 marks)
- (c) Highlight two documents that Hippo Securities Exchange shall be required to submit to the Authority within ninety days after the end of every financial year. (4 marks)
- (d) Describe four circumstances under which a financial auditor may report Hippo Securities Exchange to the Authority. (4 marks)

(Total: 20 marks)

QUESTION THREE

Grafity Company Limited is a registered public limited company which provides real estate consultancy services in your country. Grafity Limited intends to open a bank account with Lion Bank Limited which is at an advanced stage of formulating, adopting and implementing internal control measures and other procedures to combat money laundering.

You are the money laundering reporting officer of Lion Bank Limited and you have been requested to prepare a summary on the following matters:

- (a) Six particulars that will be required from Grafity Limited with relation to opening a bank account at Lion Bank Limited. (6 marks)
 - (b) Six internal measure that Lion Bank Limited should put in place to combat money laundering. (6 marks)
 - (c) Three administrative actions that the regulator may take against Lion Bank Limited for contravening Know Your Customers (KYC) rules. (3 marks)
 - (d) Five types of designated non-financial businesses or professions. (5 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) You are a financial markets consultant and have been approached by your client, Jane Smith, to advise her on the operations of a Collective Investment Scheme.

Required:

Advise Jane Smith on four parties involved in the organisation and operation of a Collective Investment Scheme. (4 marks)

- (b) With reference to regulation of financial services:
 - (i) Outline four sources of funds of the Sacco Deposit Guarantee Fund (SDGF). (4 marks)
 - (ii) Identify six sources of funds of the Insurance Regulatory Authority Fund (IRAF). (6 marks)
 - (c) Discuss six functions of the Capital Markets Authority with respect to central depositories. (6 marks)
- (Total: 20 marks)**

QUESTION FIVE

In the context of corporate governance in financial markets intermediaries:

- (a) Highlight seven elements that should be contained in the corporate code of conduct for a market intermediary. (7 marks)
 - (b) Discuss three duties of shareholders in ensuring that they protect, preserve and actively exercise their authority. (6 marks)
 - (c) Outline seven matters in respect of which a market intermediary is required to give notice of not less than twenty eight calendar days to the Capital Markets Authority. (7 marks)
- (Total: 20 marks)**
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CS PART III SECTION 5

FINANCIAL MARKETS LAW

WEDNESDAY: 19 May 2021.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Greenview Public Limited Company has been trading at the securities exchange for the last five years. Brian is an investor and is worried that a conflict of interest is likely to occur which would affect the independence and objectivity of Greenview Public Limited Company when dealing with him and other clients.

Advise Brian on the following:

- (i) The procedure of lodging a complaint at the securities exchange. (10 marks)
 - (ii) Ten circumstances under which the Disciplinary, Compliance and Surveillance Committee of the Board of the Securities Exchange might exercise its disciplinary powers. (10 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) The Director General of the Capital Markets Regulator of Xholani, a country whose economy is emerging and has not fully developed its financial markets structures and processes, is seeking to delegate some of its functions to the well developed self regulatory organisation which is more developed and adequately coordinated.

Advise the Director General of Xholani Capital Markets on the following:

- (i) Four particulars that should be contained in the delegation instrument to the self regulatory organisation. (8 marks)
 - (ii) Six forms of market abuse that the Director General should guard against to enable development of the capital markets sector. (12 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Describe three International Organisation of Securities Commissions (IOSCO) principles which the issuer is required to comply with. (6 marks)
- (b) Dishon Baraka, a prospective client has sought your advice regarding which licence he should obtain to carry on the business of buying, selling, dealing, trading, underwriting or retailing of securities other than exchange-traded derivatives contracts.

As a financial markets consultant, advise Dishon Baraka on the following:

- (i) The type of license he should apply for from the Capital Markets Regulator. (2 marks)
 - (ii) Three kinds of business he needs to be conducting in order to obtain the licence identified in (b) (i) above. (6 marks)
 - (iii) Six documents that should accompany the application for the aforesaid licence. (6 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) In relation to the Central Depository, highlight advantages that accrue to the following:

- (i) The investor. (4 marks)
- (ii) Capital markets. (3 marks)
- (iii) The company. (3 marks)

- (b) Outline five types of information that a market intermediary must ensure that a client has a full understanding of, when making an investment. (5 marks)
- (c) Analyse five particulars that should be contained in a record of complaint for a market intermediary. (5 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) With reference to money laundering:
- (i) Identify six persons that might be considered as politically exposed persons (PEP) in your country. (6 marks)
- (ii) Measures that a reporting institution shall be required to take where a potential client is a politically exposed person (PEP). (6 marks)
- (b) Explain four ways in which a Reporting Institution is required to identify a natural person exercising control and ownership in the legal person to establish the ultimate beneficiaries. (4 marks)
- (c) Explain four functions that a money laundering reporting officer should perform. (4 marks)
- (Total: 20 marks)**
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CS PART III SECTION 5

FINANCIAL MARKETS LAW

THURSDAY: 26 November 2020.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) The stewards of a market intermediary are required to develop a board charter to implement corporate governance practices.

Discuss four components that should be contained in the board charter of a market intermediary. (8 marks)

- (b) Summarise six post-listing requirements that are placed on issuers. (6 marks)

- (c) Explain three circumstances that could lead to the removal of a custodian. (6 marks)

(Total: 20 marks)

QUESTION TWO

- (a) One of the principles of the International Organisation of Securities Commissions (IOSCO) on securities regulation is aimed at ensuring the protection of investors, fair, efficient and transparent markets and the reduction of systemic risk.

With reference to the above statement, explain five IOSCO principles with regard to supervision of market intermediaries. (10 marks)

- (b) Outline five penalties for breach of duty provided for in the Central Depository Act and the offences they relate to. (10 marks)

(Total: 20 marks)

QUESTION THREE

- (a) In the context of financial markets law, explain the meaning of the term “insider information”. (4 marks)

- (b) Evaluate any four International Organisation of Securities Commissions (IOSCO) principles with reference to the regulator. (8 marks)

- (c) In relation to regulation of capital markets:

- (i) Summarise four reasons that could cause the suspension of a security industry licence by the Capital Markets Authority. (4 marks)

- (ii) Describe four functions of the Capital Markets Fraud Investigation Unit established under the Capital Markets Act. (4 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) The regulatory framework for the financial sector in Kenya consists of a number of independent regulators each charged with the supervision of their respective sub-sectors.

Describe five institutions involved in financial regulation in Kenya and their respective roles. (10 marks)

- (b) (i) Explain the meaning of the term “regulatory fragmentation”. (2 marks)

- (ii) Discuss four consequences of regulatory fragmentation in the financial services sector. (8 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) In the context of holding and trading of securities at a securities exchange, differentiate between “immobilisation” and “dematerialisation” of securities. (4 marks)
- (b) In the context of prevention of money laundering:
- (i) Explain three features of Exchange-Traded Funds (ETFs) that distinguish them from other investment funds. (6 marks)
 - (ii) Outline four anti-money laundering obligations of a reporting institution under the Proceeds of Crime and Anti-Money Laundering Act. (4 marks)
- (c) The Prevention of Terrorism Act (PTA) No. 30 of 2012 is aimed at providing measures for the detection and prevention of terrorist activities, to amend the Extradition (Commonwealth Countries) Act and the Extradition (Contiguous and Foreign Countries) Act and for connected purposes.

In the context of the PTA, summarise six offences that are punishable under this Act.

(6 marks)

(Total: 20 marks)

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CS PART III SECTION 5
FINANCIAL MARKETS LAW

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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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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CS PART III SECTION 5
FINANCIAL MARKETS LAW

WEDNESDAY: 23 May 2018.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) The Capital Markets Authority (CMA) or equivalent authority in your country might, where the circumstances so dictate, intervene in the operations of securities and derivatives exchanges. This is one of the regulatory roles of the authority.

With reference to the above statement:

- (i) Describe four circumstances under which the authority might be forced to intervene in the operations of securities exchanges. (4 marks)
- (ii) Summarise six directives that the authority might issue by notice in writing to a securities exchange to remedy any of the matters referred to in (a) (i) above. (6 marks)

- (b) A central depository might establish a central depository guarantee fund for the settlement of trade through the depository.

With reference to the above statement, summarise the constituents of the central depository fund. (5 marks)

- (c) Permitted disclosures are those disclosures which nothing in any written law shall entitle any person to refuse to disclose.

With reference to the above statement, summarise five permitted disclosures in the Central Depository Act or equivalent law in your country. (5 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Rufus Okeke opened a central depository account in his home country in January 2015, soon after he received a scholarship to study finance in the United Kingdom. During his stay in the United Kingdom, Rufus Okeke did not transact in his central depository account.

According to the central depository (dormant accounts) operational procedures, after a lapse of twenty four months of inactivity, the central depository system shall automatically flag an account dormant.

The Central Depository and Settlement Corporation (CDSC) then sent Rufus Okeke a notification through his email address informing him that his account had been declared dormant. Rufus Okeke is now back in his home country and has tried to transact through his account but to no avail. The CDSC has advised Rufus Okeke to first activate his account before attempting to sell or otherwise deal with any shares through the account.

Required:

Advise Rufus Okeke on the procedure for activation of his central depository account:

- (i) Through the central depository agent (CDA). (8 marks)
- (ii) By the account holder (self service). (6 marks)

- (b) The Board of a company shall ensure that a governance audit is carried out at least annually to confirm that the company is operating on sound governance principles.

With reference to the above statement, outline six parameters that the governance audit should cover: (6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) ABC Ltd. wishes to be guided on the eligibility requirements for public offering of shares.

You have been provided with the following eligibility criteria checklist:

Requirement	Criteria for the main investment market segment
Incorporation status	(i)
Size: Share capital	(ii)
Net assets	(iii)
Transferability of shares	(iv)
Dividend policy	(v)
Availability and reliability of financial records	(vi)

For each of the above requirements, indicate the corresponding eligibility criteria labelled (i) to (vi). (12 marks)

- (b) Suggest eight types of suspicious activities or transactions that might indicate possible money laundering activities. (8 marks)
(Total: 20 marks)

QUESTION FOUR

- (a) (i) Define the term "demutualisation". (1 mark)
- (ii) Summarise five documents and information that shall accompany an application to the Capital Markets Authority for approval to operate as a demutualised entity. (5 marks)
- (b) Discuss the legal provisions relating to withdrawal of prescribed securities. (8 marks)
- (c) Self-Regulatory Organisations (SROs) can be a valuable complement to the regulator in achieving the objectives of securities regulation.

With reference to the above statement:

- (i) Highlight the characteristics of SROs. (3 marks)
- (ii) Explain three benefits that could be accrued from self-regulation. (3 marks)
(Total: 20 marks)

QUESTION FIVE

- (a) Explain six circumstances where the Central Depository might specify a book-entry security held in any particular securities account as "under suspense". (6 marks)
- (b) Describe three types of accounts that a client or a central depository agent could use to record eligible securities in accordance with the operational procedures. (6 marks)
- (c) Every collective investment scheme shall appoint a custodian approved by the Capital Markets Authority to perform certain duties.

With reference to the above statement, examine four duties of the scheme custodian. (8 marks)
(Total: 20 marks)

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CS PART III SECTION 5
FINANCIAL MARKETS LAW

WEDNESDAY: 29 November 2017.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Assume that you are the Minister of Finance in your country. One of the roles you are charged with is establishment of the Capital Markets Tribunal. The Tribunal is charged with the responsibility of receiving appeals made to the Capital Markets Authority on any matter relating to the Capital Markets Act, inquiring into the matter and making recommendations thereon.

With reference to the above statement, describe the procedure you would follow to establish the Capital Markets Tribunal. (10 marks)

- (b) Neema Bwire is an employee of the recently established Central Depository and Settlement Corporation (CDSC) in your country. A central depository is expected to make rules that will govern all aspects of its operations.

Advise Neema Bwire on five rules that should be made to govern the operations of the central depository.

(10 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Stella Chelewa travelled abroad to pursue her undergraduate degree. Before her departure, she had purchased shares from Pendeza Company Ltd. The company issued her with a share certificate for the shares bought. Upon her arrival back in the country, she realised that her shares must undergo immobilisation. Stella Chelewa has approached you for guidance as she is afraid she might lose her shares.

Advise Stella Chelewa on the process of immobilisation.

(10 marks)

- (b) (i) Upon establishing that a customer is high risk, a market intermediary should undertake enhanced due diligence (EDD) on the customer.

With reference to the above statement and guidelines on prevention of money laundering, propose five forms of EDD that could be undertaken. (5 marks)

- (ii) Identify five programmes and policies that a market intermediary should develop, adopt and implement to prevent and detect offences relating to money laundering. (5 marks)

(Total: 20 marks)

QUESTION THREE

- (a) It is common practice in current recruitment processes to ask for a report from rating agencies such as credit reference bureaus.

With reference to the above statement, describe five functions of credit rating agencies.

(10 marks)

- (b) In relation to raising capital in the securities market:

- (i) Explain two advantages of private placement.

(2 marks)

- (ii) Highlight three disadvantages of private placement.

(3 marks)

- (c) Describe five major disclosures that a firm listing its shares for the first time on a securities exchange is required to make. (5 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Weak corporate governance has contributed to financial instability in many countries. This is by virtue of the fact that it increases the risk profile of companies and exposes institutions to a greater risk of loss than would otherwise be the case.

With reference to the above statement, analyse six of the underlying factors that might cause weak corporate governance. (12 marks)

- (b) Kijivu Ltd., a cement manufacturing company is in the process of listing on the securities exchange.

Advise Kijivu Ltd. on the documents required to be submitted to the Securities Exchange for purposes of listing. (8 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) The Securities Exchange might, with a company's approval, grant a request for suspension from trading of any listed securities, where an issuer requests for the suspension in writing.

With reference to the above statement, discuss four circumstances under which an issuer might request for suspension from trading of its securities. (8 marks)

- (b) A Central Depository is required to maintain a depositor's record, usually in the form of a statement.

Highlight four pieces of information which must be included in the depositor's record. (4 marks)

- (c) The Regulatory Framework in the financial services sector in Kenya and the East African region generally faces a number of challenges. These challenges may be reflected in a myriad of problems facing the Sector.

Discuss four of these challenges indicating clearly how they impact on the growth of the sector. (8 marks)

(Total: 20 marks)

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CS PART III SECTION 5

FINANCIAL MARKETS LAW

WEDNESDAY: 24 May 2017.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) A number of players in the financial sector are established as companies. The integrity of the financial system as a whole is dependent on the level of integrity of the entities within the financial sector.

An essential component of the analysis of a company's level of integrity is a review of the quality of its corporate governance system. The board of directors are a critical part of the system of checks and balances that lie at the heart of corporate governance system. Both individually and as a group, board members have imperative responsibilities to perform.

Required:

In relation to the above statement, highlight five responsibilities of board members, both individually and as a group. (10 marks)

- (b) The rapid spread and far-reaching impact of the global financial crisis have highlighted the need for strengthening financial systems in both advanced economies as well as emerging markets. Emerging markets face particular challenges in developing their nascent financial systems and making them resilient to domestic and external shocks.

Required:

In relation to the above statement, argue five cases in favour of regulation of financial markets in your country. (5 marks)

- (c) Discuss five challenges faced by the insurance industry in your country. (5 marks)

(Total: 20 marks)

QUESTION TWO

- (a) On Thursday, 20 April 2017, Fanikisha Bank Limited experienced liquidity difficulties forcing the Central Bank to put it under statutory management. On the same day, the Central Bank appointed Deposit Insurance Corporation as the receiver manager to assume the management, control and conduct of the affairs and business of Fanikisha Bank Limited.

Required:

Describe six circumstances that could have prompted the Central Bank to appoint the Deposit Insurance Corporation as the receiver manager of Fanikisha Bank Limited. (6 marks)

- (b) In relation to charging of securities:

- (i) Explain the meaning of the term "share pledge". (2 marks)
- (ii) Analyse five key aspects that a legal due diligence process must entail to aid an investor in acquiring the whole undertaking of an existing company. (5 marks)

- (c) In the context of raising capital in the securities market:

- (i) Explain the term "delisting". (2 marks)
- (ii) Discuss five reasons why a company could opt to delist. (5 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Radiant Global Investment Limited (RGIL), during its annual general meeting, resolved to form a collective investment scheme (CIS) to broaden their income stream. Patricia Lesuda, RGIL's Company Secretary, was tasked by the Chief Executive Officer (CEO) to apply for a CIS licence from the capital markets regulator in her country.

Required:

Identify six documents that Patricia Lesuda should furnish the capital markets regulator to enable RGIL form the CIS. (6 marks)

- (b) In relation to raising capital through the securities exchange:

- (i) Distinguish between a "private offer" and a "public offer". (2 marks)
- (ii) Evaluate four roles played by a sponsoring broker for a firm issuing shares to the public for the first time. (4 marks)

- (c) In relation to regulation of savings and credit co-operative societies (SACCOs) in your country:

- (i) Differentiate between "deposit-taking" and "non-deposit taking" SACCO's. (2 marks)
- (ii) Explain six actions that the regulator could take on a SACCO society that operates in a manner that is detrimental to the interest of members. (6 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) With reference to the Proceeds of Crime and Anti-Money Laundering Act:

- (i) Summarise four functions of the Financial Reporting Centre. (4 marks)
- (ii) Identify four measures that the Board of Directors of a financial institution should take to prevent money laundering. (4 marks)
- (iii) Machaveli Communications Limited is a victim of internal fraud in which one of its employees wired the company's funds to his personal bank account.

Advise the company on four measures that could be taken to prevent fraud through wire transfers in future. (4 marks)

- (b) Examine four categories of fraud investigated by the capital markets fraud investigation unit (CMFIU). (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) According to the Central Depositories Act, "a central depository shall keep or cause to be kept such records and accounts in sufficient detail".

In relation to the above statement, highlight four particulars that should be disclosed on records and accounts maintained by a central depository. (4 marks)

- (b) Discuss three principles of International Organisation of Securities Commissions (IOSCO) relating to market intermediaries. (6 marks)
- (c) In accordance with the Capital Markets Act, a person who deals in listed securities or their derivatives that are price-affected in relation to the information in his possession commits an offence of insider trading.

In the context of the above statement, highlight five examples of insider information. (5 marks)

- (d) With reference to the Central Depositories Act regarding immobilisation and dematerialisation of securities:

- (i) Highlight the legal provisions regarding restriction on trade in eligible securities. (2 marks)
- (ii) Describe three types of records that should be maintained by a central depository. (3 marks)

(Total: 20 marks)

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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)

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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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CS PART III SECTION 5

FINANCIAL MARKETS LAW

WEDNESDAY: 25 May 2016.

Time Allowed: 3 hours.

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

QUESTION ONE

You have been appointed as the Company Secretary of ABC Ltd. which has been in existence for the past five years and has been performing very well. The company was listed on the securities exchange just about one year ago.

One of the observations you make as a new appointee is the strained relationship between Moses Chacha, the Chief Executive Officer (CEO) of ABC Ltd. and Charles Odongo, the Chairman of the Board of Directors of ABC Ltd.

The relationship between the Chairman of the board and the CEO is so bad that Board meetings always end up in heated arguments between the two. Their disagreement centres on their roles as Chairman and CEO. There seems to be a conflict and each wants to perform the functions of the other.

Although their roles are generally known, there is no written document relating to their roles. There is a clear battle of supremacy between the Chairman of the board and the CEO of ABC Ltd.

Among your key roles as the Company Secretary, is to prepare guidelines with reference to the Code of Governance practices for issuers of securities to the public.

Required:

Propose clear guidelines on the following:

- (a)
 - (i) Roles of the Chairman and the Chief Executive Officer. (6 marks)
 - (ii) Company Secretary's role in supporting the Board to adhere to Board policies and procedures. (4 marks)
- (b) Organisations need to be proactive and diligent in the fight against money laundering within their organisations.

With reference to the above statement, describe five indicators of potential money laundering activities in the following areas:

- (i) Fund transfers and deposits. (5 marks)
- (ii) Securities transactions and account activity. (5 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Bob Njela has just completed filling in the application form for appointment as a central depository agent. He would like to submit the application form to the chief executive of the central depository, but he is not sure about the documents that must accompany the application.

Required:

- (i) Advise Bob Njela on the documents that must accompany his application to operate as a central depository agent. (6 marks)
- (ii) Describe four continuing obligations that every central depository agent shall have throughout the term of its appointment. (4 marks)
- (b) With specific reference to regulations of capital markets:
 - (i) Explain four principle objectives of the Capital Markets Authority in your country. (4 marks)

- (ii) Highlight the principles of International Organisation of Securities Commissions (IOSCO) relating to the regulator. (6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Describe four instances when a person shall be deemed to have an interest in a security. (4 marks)
- (b) Explain the legal provisions governing the following:
- (i) Records and accounts that a central depository should maintain. (4 marks)
- (ii) Audit of records and accounts maintained by central depository agents. (2 marks)
- (c) The complex system of securities transactions and the sophistication of fraudulent schemes require strong and rigorous enforcement of securities laws. The regulator or other competent government authority should, therefore, be provided with comprehensive investigatory and enforcement powers.

Required:

Propose six comprehensive investigatory and enforcement powers that a regulator or competent government authority should have. (6 marks)

- (d) Examine the process of charging and subsequently discharging of a book-entry security. (4 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) You are the company secretary of XYZ Ltd. The Board of Directors would like your advice on the relationship between inside information and public information.

Advise the Board of Directors on the following matters:

- (i) The ways in which a person might induce or attempt to induce another person to subscribe for, sell or purchase securities. (6 marks)
- (ii) Circumstances under which information might be treated as having been made public. (4 marks)
- (b) Explain the circumstances under which a company secretary shall file an information notice with the Capital Markets Authority for an issuer or offeror. (6 marks)
- (c) Suggest four measures that an offeror could put in place to ensure that shareholders have the information necessary to enable them make informed decisions. (4 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) As the company secretary of Mvua Ltd., you have been requested to develop a template of elements for an effective self regulatory organisation for use by organisations in your country.

Required:

Develop a list of the basic elements you would include in the template. (8 marks)

- (b) A market intermediary shall not provide services in respect of a regulated activity unless it has entered into a written agreement with the client and the service to be provided in accordance with the agreement.

With reference to the above statement, summarise six rights of the client that should be included in the agreement.

(6 marks)

- (c) Discuss the procedure to be followed in withdrawal of an immobilised security. (6 marks)

(Total: 20 marks)

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KASNEB

CS PART III SECTION 5 FINANCIAL MARKETS LAW PILOT PAPER

September 2015.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Discuss four arguments in favour of self-regulation of financial markets. (8 marks)
- (b) Explain six powers that a statutory regulator should have in order to effectively supervise financial markets licencees. (12 marks)
- (Total: 20 marks)

QUESTION TWO

- (a) A securities exchange is required to furnish the regulator every year with a report relating to the activities of the exchange in the preceding year.
- Discuss six contents of such a report. (12 marks)
- (b) Explain four types of dealings that a stockbroker is prohibited from engaging in by the Capital Markets Authority. (8 marks)
- (Total: 20 marks)

QUESTION THREE

- (a) As a regulator of the banking sector, the Central Bank is conferred with certain powers in relation to commercial banks.
- Discuss four functions of the Central Bank in relation to commercial banks. (8 marks)
- (b) As a way of promoting economic growth and development through the securities exchange, the Securities Exchange in your country introduced a Growth Enterprise Market Segment of the exchange.
- Explain six eligibility requirements for listing on the Growth Enterprise Market Segment. (12 marks)
- (Total: 20 marks)

QUESTION FOUR

- (a) Joshua Simba retired from employment five years ago. During his working days in the 1970s and 1980s, he had purchased shares in various companies that are now listed on the Nairobi Securities Exchange.
- Mr. Simba is still in possession of the share certificate in relation to most of his shares but some certificates have been lost or misplaced.
- On the advice of his son, Mr. Simba now seeks to sell all his shares so as to finance the construction of a retirement home.
- (i) Advise Mr. Simba on how to deal with the problem of the lost share certificates. (4 marks)
- (ii) Outline the role of a company secretary in the process of immobilisation and dematerialisation of securities. (6 marks)
- (b) Outline six matters that should be provided for in the CDS rules made by a central depository. (6 marks)
- (c) Distinguish between an "Investor Compensation Fund" and a "Deposit Insurance Corporation". (4 marks)
- (Total: 20 marks)

QUESTION FIVE

- (a) Discuss three principles of co-operation in regulation of securities markets as set out in the International Organisation of Securities Commission (IOSCO) principles. (6 marks)

- (b) You are an employee of the Capital Markets Authority working in the fraud investigation unit.

The Authority has received certain information from an anonymous source regarding alleged shortcomings in corporate governance of a listed company and you have been tasked with conducting an investigation of the company.

Prepare a memorandum setting out four key issues that your investigation would focus on. (8 marks)

- (c) Discuss three requirements for registration of a Retirement Benefits Scheme. (6 marks)

(Total: 20 marks)

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