



**CERTIFIED INVESTMENT AND FINANCIAL ANALYSTS (CIFA)**

**FOUNDATION LEVEL**

**REGULATION OF FINANCIAL MARKETS**

**TUESDAY: 2 December 2025. Morning Paper.**

**Time Allowed: 3 hours.**

**This paper consists of seven (7) questions. Answer any FIVE questions. ALL questions carry equal marks. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) Explain **THREE** circumstances under which an agent's action which was initially unauthorised might be subsequently ratified by his principal so as to become binding. (6 marks)
  - (b) Describe **THREE** strategies that regulators could use to achieve compliance in financial services. (6 marks)
  - (c) Discuss **FOUR** unacceptable trading practices in the capital markets and their penalties. (8 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Outline **FOUR** roles of clearing agencies in ensuring efficiency and stability in financial markets. (4 marks)
  - (b) Highlight **FOUR** licensing requirements for financial market intermediaries. (4 marks)
  - (c) In relation to the Investor Compensation Fund (ICF):
    - (i) Discuss **THREE** sources of funding for the Investor Compensation Fund (ICF). (6 marks)
    - (ii) Explain **THREE** roles of the Investor Compensation Fund (ICF) in the context of financial markets regulation. (6 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) In relation to central depository agents:
    - (i) Highlight **TWO** entities that may be appointed as central depository agents. (2 marks)
    - (ii) Discuss **THREE** circumstances under which a central depository agent may be suspended. (6 marks)
  - (b) Explain **THREE** actions that the Capital Markets Tribunal may take when they receive an appeal concerning decisions of the CMA and the Investor Compensation Fund Board. (6 marks)
  - (c) Evaluate **THREE** functions of the Anti-Money Laundering Advisory Board in combating financial crimes. (6 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) In relation to Deposit Insurance Corporation or its equivalent in your country:
  - (i) Identify the main purpose of Deposit Insurance Corporation or its equivalent in your country. (2 marks)
  - (ii) Explain **THREE** functions of the Deposit Insurance Corporation or its equivalent in your country. (6 marks)

- (b) Discuss **THREE** characteristics of exchange traded funds (ETFs). (6 marks)
  - (c) Describe **THREE** contents that could be included in a client agreement between a market intermediary and their client. (6 marks)
- (Total: 20 marks)**

#### QUESTION FIVE

- (a) In relation to credit rating agencies:
    - (i) Explain the term “credit rating”. (2 marks)
    - (ii) Describe **THREE** credit rating agencies in the world. (6 marks)
  - (b) Enumerate **SIX** items that could be included in a Collective Investments Scheme (CIS) Information Memorandum. (6 marks)
  - (c) Explain **THREE** roles of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). (6 marks)
- (Total: 20 marks)**

#### QUESTION SIX

- (a)
    - (i) Explain the term “cross border listing”. (2 marks)
    - (ii) Discuss **THREE** advantages of cross border listing. (6 marks)
  - (b) In relation to investment advice process:
    - (i) Explain why it is important for an investor to seek a structured financial advice. (2 marks)
    - (ii) Outline **FIVE** stages of investment advice process. (5 marks)
  - (c) Effective management of market intermediaries is essential in empowering employees to perform their duties efficiently. Summarise **FIVE** roles played by the management of a market intermediary in supporting and enhancing employee performance. (5 marks)
- (Total: 20 marks)**

#### QUESTION SEVEN

- (a) In relation to the committees of the Securities Exchange, explain the roles of:
    - (i) Disciplinary committee. (2 marks)
    - (ii) Index review committee. (2 marks)
  - (b) With reference to Special Interest Schemes:
    - (i) Explain the term “Special Interest Schemes”. (2 marks)
    - (ii) List **SIX** characteristics of Special Interest Schemes. (6 marks)
  - (c) In relation to sources of law:
    - (i) Define the term “primary sources of law”. (2 marks)
    - (ii) Explain **THREE** examples of primary sources of law. (6 marks)
- (Total: 20 marks)**

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**CIFA FOUNDATION LEVEL**

**REGULATION OF FINANCIAL MARKETS**

**TUESDAY: 19 August 2025. Morning Paper.**

**Time Allowed: 3 hours.**

**This paper consists of seven (7) questions. Answer any FIVE questions. ALL questions carry equal marks. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) Outline **FOUR** unique requirements for authorisation, clearing and settlement operation that derivatives exchange has to meet. (4 marks)
- (b) Highlight **FOUR** details that a venture capital company must furnish the Capital Markets Authority in its application for authorisation as a venture capital firm. (4 marks)
- (c) The Capital Markets Authority mandates intermediaries to have internal complaint-handling processes under the Capital Markets (Conduct of Business) Regulations.

**Required:**

Enumerate **SIX** benefits of dispute resolution mechanisms in financial markets. (6 marks)

- (d) Examine **SIX** ways in which agency law helps to regulate fund managers and investment advisors. (6 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) The Central Depository is mandated to generate and maintain a ledger balance report for all securities accounts.

**Required:**

Identify **THREE** types of information included in this report. (3 marks)

- (b) In the context of anti-money laundering, outline **FIVE** benefits of conducting Enhanced Due Diligence (EDD). (5 marks)
- (c) Under the Sacco Societies Act, the Sacco Societies Regulatory Authority (SASRA) is established as the primary regulatory body for Sacco societies.

**Required:**

Evaluate **THREE** functions of SASRA in overseeing the operations and stability of Sacco societies. (6 marks)

- (d) In the context of Securities Exchanges and Clearing Agencies, a Nominated Adviser (NOMAD) plays a vital role in assisting companies that are either listed or seeking to be listed on the Nairobi Securities Exchange (NSE) within the Growth Enterprise Market Segment (GEMS).

**Required:**

Discuss **THREE** requirements that must be fulfilled for an individual or entity to be appointed as a company's NOMAD. (6 marks)

**(Total: 20 marks)**

### QUESTION THREE

- (a) List **THREE** roles that contractual capacity plays under the elements of a contract in ensuring responsible financial market participation. (3 marks)
  - (b) Enumerate **FIVE** benefits of termination clauses in financial contracts. (5 marks)
  - (c) Examine **SIX** roles of the Insurance Regulatory Authority (IRA) in financial market regulation. (6 marks)
  - (d) Discuss **THREE** differences between “a depository” and “a custodian”. (6 marks)
- (Total: 20 marks)**

### QUESTION FOUR

- (a) State **FOUR** objectives of the Capital Markets Authority. (4 marks)
  - (b) Outline **FOUR** responsibilities of a Nominated Adviser (NOMAD) to a company. (4 marks)
  - (c) Highlight **SIX** ways in which the International Organisation of Securities Commissions (IOSCO) support global investor protection and education. (6 marks)
  - (d) Discuss **THREE** methods through which companies can raise capital by listing securities on an exchange. (6 marks)
- (Total: 20 marks)**

### QUESTION FIVE

- (a) State **TWO** reasons why the segregation of client money accounts is a critical regulatory requirement. (2 marks)
  - (b) Describe **THREE** rules that govern the operation of client money accounts by market intermediaries. (6 marks)
  - (c) Explain **THREE** ways in which the Competition Authority regulates financial markets to prevent anti-competitive behaviour. (6 marks)
  - (d) Discuss **THREE** continuing obligations that a listed company should adhere to in order to maintain its listing status. (6 marks)
- (Total: 20 marks)**

### QUESTION SIX

- (a) Explain the concept of “fiduciary duty” as it applies to market intermediaries when dealing with clients. (2 marks)
  - (b) Describe **THREE** categories of membership within a securities exchange. (6 marks)
  - (c) Explain **THREE** ways in which the Central Depository Settlement Corporation (CDSC) ensures the integrity and efficiency of securities settlement. (6 marks)
  - (d) Discuss **THREE** ways in which internal controls and risk management systems contribute to good corporate governance and stability within the financial market. (6 marks)
- (Total: 20 marks)**

### QUESTION SEVEN

- (a) In relation to Anti-Money Laundering (AML) regulations, explain the following concepts:
    - (i) Politically Exposed Persons (PEPs). (2 marks)
    - (ii) Ultimate Beneficiaries. (2 marks)
    - (iii) Customer Due Diligence (CDD). (2 marks)
  - (b) Analyse **THREE** ways in which historical financial market failures have shaped the current regulatory landscape. (6 marks)
  - (c) Discuss **FOUR** benefits of accurate record-keeping in securities markets. (8 marks)
- (Total: 20 marks)**
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**CIFA FOUNDATION LEVEL**

**REGULATION OF FINANCIAL MARKETS**

**WEDNESDAY: 23 April 2025. Morning Paper.**

**Time Allowed: 3 hours.**

**This paper consists of seven (7) questions. Answer any FIVE questions. ALL questions carry equal marks. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) Highlight **FOUR** potential drawbacks to extensive regulation of the financial markets. (4 marks)
  - (b) Analyse **FIVE** key roles of United Nations Office on Drugs and Crimes (UNODC). (5 marks)
  - (c) Enumerate **FIVE** challenges faced by the Capital Markets Fraud Investigations Unit in investigating financial crimes. (5 marks)
  - (d) Discuss **THREE** remedies available for breach of a valid contract. (6 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Outline **THREE** stages of money laundering process. (3 marks)
  - (b) Enumerate **FIVE** eligibility requirements for listing of firms at the securities exchange in your country. (5 marks)
  - (c) Examine **SIX** legal implications of an agent acting outside the scope of their authority. (6 marks)
  - (d) Explain **THREE** conduct obligations of licensed intermediaries in your jurisdiction. (6 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Outline **FOUR** functions of Unclaimed Financial Assets Authority or its equivalent body in your country. (4 marks)
  - (b) Summarise **FOUR** objectives of the corporate governance regulations in your country. (4 marks)
  - (c) Assess **THREE** key elements of internal control standards as set by the Capital Market Authority (CMA) or its equivalent in your country. (6 marks)
  - (d) Examine **THREE** unwritten sources of law available in your jurisdiction. (6 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Evaluate **FIVE** situations where the appointment of a custodian is required in financial intermediaries. (5 marks)
- (b) In relation to the central depository guarantee fund:
  - (i) Explain the purpose of establishing the central depository guarantee fund. (2 marks)
  - (ii) Highlight **TWO** sources of funds for the central depository guarantee fund. (2 marks)

- (c) Summarise **SIX** ways in which market intermediaries might use to ensure that anti-money laundering (AML) laws are followed. (6 marks)
  - (d) Under takeover and mergers regulations, enumerate **FIVE** key parties or entities that a company intending or deemed to be intending to make a takeover must formally notify of its takeover intention. (5 marks)
- (Total: 20 marks)**

#### QUESTION FIVE

- (a) Summarise **THREE** duties of a market intermediary as specified in the Capital Market Authority (CMA), Conduct of Business Guidelines. (6 marks)
  - (b) Explain the following terms as used in the law of contract:
    - (i) Cross offers. (2 marks)
    - (ii) Frustration of contract. (2 marks)
  - (c) Outline **FOUR** roles of Online Foreign Exchange Brokers. (4 marks)
  - (d) Discuss **THREE** roles of the Capital Markets Authority audit in your country. (6 marks)
- (Total: 20 marks)**

#### QUESTION SIX

- (a) In relation to Collective Investment Scheme:
    - (i) Examine **TWO** main documents of Collective Investment Schemes (CIS). (4 marks)
    - (ii) Highlight **SIX** contents of the Information Memorandum. (6 marks)
  - (b) Examine **FOUR** roles of the supervisory committee in a Savings and Credit Cooperative Organisation (SACCO). (4 marks)
  - (c) Highlight **SIX** reasons why regulation of financial markets has become increasingly important over time. (6 marks)
- (Total: 20 marks)**

#### QUESTION SEVEN

- (a) Examine **THREE** risks that a financial market firm might face in its operations. (6 marks)
  - (b) In relation to Employee Share Ownership Plans (ESOP):
    - (i) Explain the “Employee Share Ownership Plans (ESOPs)”. (2 marks)
    - (ii) Enumerate **SIX** Employee Share Ownership Plans (ESOPs) scheme requirements. (6 marks)
  - (c) Describe **THREE** characteristics of Over-the-Counter (OTC) Markets. (6 marks)
- (Total: 20 marks)**
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**CIFA FOUNDATION LEVEL**  
**REGULATION OF FINANCIAL MARKETS**

**TUESDAY: 3 December 2024. Morning Paper.**

**Time Allowed: 3 hours.**

**This paper consists of seven (7) questions. Answer any FIVE questions. ALL questions carry equal marks. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) With reference to the law of contract, explain the term “vitiating factor”. (2 marks)
  - (b) Assess **THREE** contracts which are opposed to the public policy. (6 marks)
  - (c) Explain **THREE** rights of an agent in relation to agency contracts. (6 marks)
  - (d) Describe **THREE** characteristics of Real Estate Investment Trusts (REITs) as a form of financial market intermediary. (6 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Identify **TWO** roles of Foreign Exchange Bureaus in the financial markets. (2 marks)
  - (b) In relation to knowing the client procedures in conducting business by market intermediaries, examine **THREE** components of a client’s risk profile. (6 marks)
  - (c) Kiko Ltd., a company listed in your country, intends to trade at the securities exchange of a neighbouring country.  
Advise the board of Kiko Ltd. on **SIX** potential benefits of cross-border listing. (6 marks)
  - (d) Examine **THREE** regulatory functions of the Capital Markets Authority (CMA) in your country. (6 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Enumerate **FOUR** documents that are required from a financial intermediary seeking to be listed on an Alternative Investment Market Segment (AIMS) of the securities exchange. (4 marks)
  - (b) Outline **FIVE** duties of professional bodies in financial services in your country. (5 marks)
  - (c) Highlight **FIVE** functions of Collective Investment Schemes (CIS) in the financial markets. (5 marks)
  - (d) Examine **THREE** roles of a stockbroker in the Initial Public Offering (IPO) process. (6 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Explain how a Central Securities Depository (CDS) or its equivalent is established in your country. (2 marks)
- (b) Outline **FIVE** challenges faced by financial institutions in identifying and reporting suspicious transactions related to terrorist financing. (5 marks)

- (c) With reference to corporate governance, evaluate **THREE** potential consequences for a market intermediary that violates cold calling regulations. (6 marks)
  - (d) Enumerate **SEVEN** steps of delisting securities in a securities exchange. (7 marks)
- (Total: 20 marks)**

#### QUESTION FIVE

- (a) Highlight **FOUR** aims of law in the regulation of financial markets. (4 marks)
  - (b) Outline **FIVE** roles of the Court of Appeal in your country. (5 marks)
  - (c) Summarise **FIVE** roles of the Retirement Benefit Authority (RBA) or its equivalent in your country. (5 marks)
  - (d) Describe **SIX** types of financial transactions that are considered high-risk for potential money laundering. (6 marks)
- (Total: 20 marks)**

#### QUESTION SIX

- (a) In relation to financial intermediaries:
    - (i) Explain the term “custodian”. (2 marks)
    - (ii) Enumerate **SIX** duties of a custodian. (6 marks)
  - (b) Describe **THREE** key rules that govern the operations of a Central Depository. (6 marks)
  - (c) Evaluate **THREE** roles that are played by the Egmont Group of Financial Intelligence Units. (6 marks)
- (Total: 20 marks)**

#### QUESTION SEVEN

- (a) Explain **TWO** roles of the Deposit Insurance Corporation or an equivalent institution in your country. (4 marks)
  - (b) Highlight **FIVE** roles of the Central Bank in the regulation of financial markets in your country. (5 marks)
  - (c) Enumerate **FIVE** types of information that should be gathered in the know-your-customer (KYC) procedure. (5 marks)
  - (d) Analyse **THREE** challenges faced by the Capital Markets Authority (CMA) in enforcing regulatory compliance among financial institutions. (6 marks)
- (Total: 20 marks)**

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## CIFA FOUNDATION LEVEL

### REGULATION OF FINANCIAL MARKETS

**TUESDAY: 20 August 2024. Morning Paper.**

**Time Allowed: 3 hours.**

**This paper has seven (7) questions. Answer any FIVE questions. ALL questions carry equal marks. Do NOT write anything on this paper.**

#### QUESTION ONE

- (a) Enumerate **FIVE** differences between civil law and criminal law. (5 marks)
  - (b) Highlight **FIVE** ways in which an agency relationship can be terminated. (5 marks)
  - (c) Assess **TWO** roles of the anti-money laundering advisory board in your country. (4 marks)
  - (d) Licensed intermediaries are required to keep records of their operations for a period of seven years. (6 marks)
- Evaluate **THREE** types of information whose record keeping is a requirement. (6 marks)

**(Total: 20 marks)**

#### QUESTION TWO

- (a) Outline **FIVE** roles of the securities exchange in your country. (5 marks)
- (b) In relation to regulation of capital markets:
  - (i) Explain the purpose of investor compensation fund. (2 marks)
  - (ii) Summarise **FOUR** sources of the investor compensation fund. (4 marks)
- (c) In relation to the Central Depository System (CDS):
  - (i) Enumerate **THREE** roles of a Central Depository. (3 marks)
  - (ii) State **THREE** requirements for appointment as a Central Depository Agent. (3 marks)
- (d) Highlight **THREE** examples of groups in the special interest scheme. (3 marks)

**(Total: 20 marks)**

#### QUESTION THREE

- (a) DXY property management firm is seeking to be admitted to real estate investment trusts (REITs).  
Advise the firm on the procedure for admission to a REIT. (6 marks)
- (b) Assess **THREE** powers of the Capital Markets Tribunal. (6 marks)
- (c) Discuss **FOUR** types of jurisdictions exercised by courts in your country. (8 marks)

**(Total: 20 marks)**

#### QUESTION FOUR

- (a) Enumerate **FIVE** financial intermediaries in your country. (5 marks)
- (b) Explain **THREE** requirements for registration as a credit rating agency in your jurisdiction. (6 marks)

- (c) Highlight **FIVE** circumstances that might lead to the suspension of Central Depository Agents (CDA). (5 marks)
  - (d) State **FOUR** roles of an investment bank. (4 marks)
- (Total: 20 marks)**

#### QUESTION FIVE

- (a) Describe **THREE** grounds for removal of a high court judge in your country. (3 marks)
  - (b) Identify **FIVE** methods that could be adopted by your country to deal with money laundering. (5 marks)
  - (c) Highlight **SIX** functions of the Financial Reporting Center in your country. (6 marks)
  - (d) Examine **THREE** roles of the Asset Recovery Agency in your country. (6 marks)
- (Total: 20 marks)**

#### QUESTION SIX

- (a) In relation to the required content of a client agreement, outline **FOUR** rights of a client. (4 marks)
  - (b) Explain **THREE** rules surrounding disclosure of charges in relation to market intermediaries. (6 marks)
  - (c) In relation to real estate investment trusts (REITs), explain the following:
    - (i) Income Real Estate Investment Trust (I-REIT). (2 marks)
    - (ii) Development Real Estate Investment Trust (D-REIT). (2 marks)
  - (d) In relation to corporate governance, analyse **THREE** unacceptable trading practices. (6 marks)
- (Total: 20 marks)**

#### QUESTION SEVEN

- (a) Examine **THREE** challenges facing the financial markets in your country. (6 marks)
  - (b) In relation to corporate governance, describe **THREE** duties of the audit committee. (6 marks)
  - (c) State **FOUR** examples of courts that make up the court system in your country. (4 marks)
  - (d) Assess **TWO** roles of the savings and credit co-operatives societies regulatory authority (SASRA) in your country. (4 marks)
- (Total: 20 marks)**
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## CIFA FOUNDATION LEVEL

### REGULATION OF FINANCIAL MARKETS

**TUESDAY: 23 April 2024. Morning Paper.**

**Time Allowed: 3 hours.**

**This paper has seven (7) questions. Answer any FIVE questions. ALL questions carry equal marks. Do NOT write anything on this paper.**

#### QUESTION ONE

- (a) Highlight **FOUR** areas covered by the rules of the Central Securities Depository as approved by the capital markets regulator. (4 marks)
  - (b) Outline **FOUR** responsibilities of a shareholder in relation to corporate governance. (4 marks)
  - (c) Summarise **SIX** obligations of licensed financial market intermediaries. (6 marks)
  - (d) Examine **THREE** features of Exchange Traded Funds (ETFs). (6 marks)
- (Total: 20 marks)**

#### QUESTION TWO

- (a) The regulatory framework of the capital markets comprises legislation. Explain how the following legislation is created:
    - (i) Primary Legislation. (2 marks)
    - (ii) Subsidiary Legislation. (2 marks)
  - (b) Discuss **TWO** rationale for the regulation of financial services. (4 marks)
  - (c) Analyse **THREE** vitiating factors that may undermine a financial contract. (6 marks)
  - (d) Explain **THREE** ways in which a financial contract may be discharged. (6 marks)
- (Total: 20 marks)**

#### QUESTION THREE

- (a) Explain the terms below as used in law:
    - (i) Fraudulent misrepresentation. (2 marks)
    - (ii) Innocent misrepresentation. (2 marks)
  - (b) Summarise **FOUR** applications of corporate governance principles in financial markets. (4 marks)
  - (c) Highlight **SIX** principles of the International Organisation of Securities Commissions (IOSCO) relating to the regulator. (6 marks)
  - (d) Assess **THREE** standards set by the Capital Markets Authority that security brokers should uphold. (6 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) Investment advice is a process that involves a structured and disciplined approach.  
In relation to the above statement, enumerate **FIVE** distinct stages of a structured and disciplined approach to the investment advice process. (5 marks)
- (b) Describe **FIVE** activities that the board and the management should perform with regard to Anti-Money Laundering and Combating Terrorism Financing. (5 marks)
- (c) In relation to anti-money laundering requirements, highlight **FIVE** circumstances under which enhanced due diligence (EDD) is conducted. (5 marks)
- (d) Describe the composition of board of the Capital Markets Authority (CMA) or its equivalent in your country. (5 marks)
- (Total: 20 marks)**

#### QUESTION FIVE

- (a) Enumerate **FOUR** benefits of a Central Depository System (CDS). (4 marks)
- (b) Outline **FOUR** requirements to be licensed and to continue as an investment adviser or its equivalent in your jurisdiction. (4 marks)
- (c) Analyse **THREE** functions of the Central bank or its equivalent in your country. (6 marks)
- (d) In relation to securities trading:
- (i) Explain the term “securities exchange”. (2 marks)
- (ii) Distinguish between “quote-driven” and “order-driven” trading system. (4 marks)
- (Total: 20 marks)**

#### QUESTION SIX

- (a) In relation to registration of client assets, explain the term “nominee company”. (2 marks)
- (b) Outline **SIX** instances where an agent may become personally liable to third parties on behalf of his/her principal. (6 marks)
- (c) Highlight **SIX** duties of a Central Securities Depository. (6 marks)
- (d) In relation to corporate governance, summarise **SIX** duties of the Audit Committee. (6 marks)
- (Total: 20 marks)**

#### QUESTION SEVEN

- (a) In relation to registration of client assets, distinguish between “omnibus account” and “designated account”. (2 marks)
- (b) State **SIX** requirements to be licensed as a Credit Rating Agency or its equivalent in your jurisdiction. (6 marks)
- (c) Explain **THREE** types of bodies licensed by the Capital Markets Authority of your country. (6 marks)
- (d) Evaluate **THREE** actions involved in handling client complaints as stipulated in the written complaints procedure of the Capital Markets Authority. (6 marks)
- (Total: 20 marks)**
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**CIFA FOUNDATION LEVEL**  
**REGULATION OF FINANCIAL MARKETS**

**TUESDAY: 5 December 2023. Morning Paper.**

**Time Allowed: 3 hours.**

**This paper has seven (7) questions. Answer any FIVE questions. ALL questions carry equal marks. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) Outline **FOUR** areas that are covered by the Capital Market Authority model code of conduct. (4 marks)
  - (b) In relation to financial market intermediaries, highlight **FOUR** requirements for licensing the market intermediaries. (4 marks)
  - (c) In relation to Corporate Governance and Conduct of Business of Market Intermediaries, describe **THREE** objectives of the corporate governance regulations. (6 marks)
  - (d) Examine **THREE** remedies of breach of a business contract. (6 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) State **FIVE** duties of a Foreign Exchange Bureau. (5 marks)
  - (b) Highlight **SIX** instances in which the Securities Exchange in your country must report to the Capital Markets Authority. (6 marks)
  - (c) In relation the Central Depository Agent:
    - (i) List **THREE** entities that might qualify to be appointed as agents. (3 marks)
    - (ii) Discuss **THREE** other functions that an agent is authorised to perform upon fulfilling the Central Depository's ongoing obligations. (6 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) State **FOUR** features of an employee share ownership plan (ESOP). (4 marks)
  - (b) Enumerate **FOUR** benefits of demutualisation of a securities exchange. (4 marks)
  - (c) In relation to agency theory, analyse **THREE** types of agent authority. (6 marks)
  - (d) Explain **THREE** ways of classifying law based on their nature, scope and purpose. (6 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) In relation to client risk attitude:
    - (i) Outline **FOUR** objective factors that affect a client's risk attitude. (4 marks)
    - (ii) Highlight **FOUR** subjective factors that affect a client's risk attitude. (4 marks)
  - (b) Enumerate **SIX** regulatory functions of the Insurance Regulatory Authority of your country. (6 marks)
  - (c) Describe **THREE** stages of Money Laundering. (6 marks)
- (Total: 20 marks)**

### QUESTION FIVE

- (a) In the foreign investor regulations, a company registrar must ensure that the percentage held by the local investors should not fall below the minimum required level.

**Required:**

Explain **FOUR** rules that have been put in place to ensure adherence to this regulation. (4 marks)

- (b) Outline **SIX** objectives of the Capital Market Authority of your country. (6 marks)

- (c) In relation to suitability of advice:

(i) List **FIVE** components of a good client suitability report. (5 marks)

(ii) Highlight **FIVE** steps that will ensure that a suitable and appropriate investment recommendation would be given to a client. (5 marks)

**(Total: 20 marks)**

### QUESTION SIX

- (a) In relation to Central Securities Depository:

(i) Explain the term “authorised depository”. (2 marks)

(ii) Highlight **FOUR** scenarios when an authorised depository is required. (4 marks)

- (b) Discuss **THREE** objectives of the Central Depository and Settlement Corporation or its equivalent in your country. (6 marks)

- (c) Analyse **FOUR** ways in which the Competition Authority or its equivalent in your country protects, strengthens and supplements markets and industries’ competition. (8 marks)

**(Total: 20 marks)**

### QUESTION SEVEN

- (a) List **FOUR** market segments under which companies may be listed at a securities exchange. (4 marks)

- (b) Explain **TWO** contractual duties of a principal in an agency relationship. (4 marks)

- (c) Describe **THREE** constraints to an investment strategy that an investment advisor should put into consideration. (6 marks)

- (d) Examine **THREE** mandates of the United Nations Office on Drugs and Crime. (6 marks)

**(Total: 20 marks)**

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**CIFA FOUNDATION LEVEL**

**REGULATION OF FINANCIAL MARKETS**

**TUESDAY: 22 August 2023. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer any FIVE questions. ALL questions carry equal marks. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) No person is permitted to acquire shares or enter into arrangements that would allow them to take effective control of a listed company without complying with the takeover procedures.

In relation to the above statement:

- (i) Explain **THREE** ways that a company can be considered to have taken over the effective control of a listed company. (6 marks)
  - (ii) List **FOUR** takeover procedures that must be executed as per the regulations of the Capital Markets Authority of your country. (4 marks)
- (b) Securities Exchange may impose trading halts for the market as a whole or individual securities.

**Required:**

- (i) Explain **TWO** types of trading halts that may be imposed by the Securities Exchange. (4 marks)
- (ii) Highlight any **SIX** circumstances under which trading halts may be imposed by the Securities Exchange. (6 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) The main participants in a unit trust must be licensed by the Capital Markets Authority.

- (i) Explain the term “unit trust”. (2 marks)
- (ii) List **THREE** participants in a unit trust. (3 marks)
- (iii) Enumerate **TWO** roles of each of the market participants listed in (a)(ii) above. (6 marks)

- (b) In relation to client communication:

- (i) Explain the term “cold calling”. (2 marks)
- (ii) Explain **ONE** risk posed by cold calling. (2 marks)
- (iii) Highlight **FIVE** rules of cold calling. (5 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) In relation to Investment Funds:

- (i) Explain the term “venture capital firm”. (2 marks)
- (ii) List **SIX** eligibility requirements for a venture capital to be authorised by Capital Markets Authority. (6 marks)
- (iii) Highlight **ONE** investment and **ONE** financing activities respectively, that a venture capital is prohibited from engaging in. (2 marks)

- (b) List **FOUR** powers that Capital Markets Authority (CMA) could use to enforce compliance as per the provisions of the Capital Markets Act and associated regulations. (4 marks)
  - (c) Enumerate **SIX** Internal Control Standards requirement for information management as issued by the Capital Markets Authority (CMA). (6 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) List **FIVE** provisions of the Code of Corporate Governance on Board operations and control. (5 marks)
  - (b) In relation to money laundering checks, explain **THREE** rules of prevention of money laundering. (6 marks)
  - (c) In relation to Investment Funds:
    - (i) Explain the term “Special Interest Collective Investment Scheme”. (2 marks)
    - (ii) Highlight **SEVEN** requirements of Special Interest Collective Investment Scheme. (7 marks)
- (Total: 20 marks)**

#### QUESTION FIVE

- (a) Although a Central Securities Depository can make and enforce its own rules, the Capital Markets Authority (CMA) has the power to make directions to Central Securities Depository or intervene in its operations where appropriate.  
Explain **SIX** powers of Capital Markets Authority (CMA) in relation to Central Securities Depository. (6 marks)
  - (b) Summarise **SIX** roles played by the Unclaimed Financial Assets Authority (UFAA) or its equivalent in your country. (6 marks)
  - (c) Highlight **EIGHT** sources of law in your country. (8 marks)
- (Total: 20 marks)**

#### QUESTION SIX

- (a) With reference to law of contract:
    - (i) Explain the term “limitations of actions”. (2 marks)
    - (ii) Describe with an example, the term “illegal contract”. (3 marks)
  - (b) The term “law” refers to a system of rules that a country or community applies in regulating the actions of its members. The rules are recognised by all its members.
    - (i) Highlight **FOUR** purposes of law. (4 marks)
    - (ii) List **TWO** main categories of law. (2 marks)
  - (c) List **FOUR** functions of The Institute of Certified Investment and Financial Analysts (ICIFA). (4 marks)
  - (d) Enumerate **FIVE** responsibilities of international financial market regulatory bodies. (5 marks)
- (Total: 20 marks)**

#### QUESTION SEVEN

- (a) List **TWO** sources of funds for the Central Depository Guarantee Fund or its equivalent in your country. (2 marks)
  - (b) Describe how the settlement of trades are done by the Central Depository System or its equivalent in your country. (6 marks)
  - (c) The Capital Markets Act provides for the establishment of the Capital Markets Tribunal.  
**Required:**
    - (i) Describe **THREE** powers of the Capital Markets Tribunal. (3 marks)
    - (ii) List **THREE** actions that a Capital Markets Tribunal may take upon an appeal. (3 marks)
  - (d) List **SIX** factors that could make some customers present a higher risk of money laundering. (6 marks)
- (Total: 20 marks)**

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## CIFA FOUNDATION LEVEL

### REGULATION OF FINANCIAL MARKETS

**TUESDAY: 25 April 2023. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer any FIVE questions. ALL questions carry equal marks. Do NOT write anything on this paper.**

#### QUESTION ONE

- (a) Outline **FOUR** crimes associated with money laundering. (4 marks)
- (b) Explain **TWO** objectives of the Corporate Governance Regulations issued by Capital Markets Authority (CMA) or an equivalent body in your country, as part of its roles. (4 marks)
- (c) The principal of ratification of agency was applied in the case of **Bolton Partners v. Lambert**.  
With reference to the above case, describe **SIX** conditions that are necessary for agency by ratification to arise. (6 marks)
- (d) Highlight **SIX** reasons of financial markets' regulation in your country. (6 marks)

**(Total: 20 marks)**

#### QUESTION TWO

- (a) With respect to clearing agencies in your country:
  - (i) Highlight **THREE** ways in which clearing agencies are regulated by the Government. (3 marks)
  - (ii) List **FOUR** roles played by clearing agencies. (4 marks)
- (b) Explain **FIVE** functions of the Banking Fraud Investigations Unit (BFIU) in enhancing capital markets function of fraud investigation in your country. (5 marks)
- (c) With recent advancements in the financial sector, there is a need for significant changes in regulation of financial markets.

With reference to the above statement, discuss **FOUR** such developments. (8 marks)

**(Total: 20 marks)**

#### QUESTION THREE

- (a) Egmont Group is a global organisation that facilitates and prompts the exchange of information, knowledge and cooperation amongst financial intelligence units (FIUs). This is in regards to enhancing efforts to counter money laundering and terrorist financing.  
With reference to the above statement, highlight **FIVE** ways in which Egmont Group provides support to members of financial intelligence units (FIUs). (5 marks)
- (b) Enumerate **FIVE** requirements for establishment of a central depository in your country. (5 marks)

- (c) With reference to licensing requirements, every investment adviser and fund manager are expected to maintain and preserve certain records for a period of seven years.

**Required:**

- (i) Highlight **FIVE** records that are to be maintained by an investment adviser and fund manager. (5 marks)
- (ii) Outline **FIVE** reports that are to be submitted to the Authority periodically by an investment adviser or fund manager as and when required. (5 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) With specific reference to corporate governance and conduct of business of market intermediaries:
- (i) Summarise **FOUR** measures that a member of the Board should consider while exercising their fiduciary duties. (4 marks)
- (ii) Identify **THREE** committees of the Board specifically mentioned for establishment in the code of corporate governance of issuers of securities to the public. (3 marks)
- (b) In relation to unfair trade practices in your country:
- (i) State **THREE** circumstances in which market abuse might arise. (3 marks)
- (ii) Describe **TWO** ways in which the offence of insider dealing can be committed. (2 marks)
- (c) Discuss **FOUR** equitable remedies for breach of contract under the law of contract. (8 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) List **TWO** contents in the information memorandum of a collective investment scheme (CIS) under the following classification:
- (i) Scheme details. (2 marks)
- (ii) Investment objective. (2 marks)
- (iii) Scheme participants. (2 marks)
- (b) Highlight **FOUR** disadvantages of Initial Public Offering (IPO). (4 marks)
- (c) Define the term “independent non-executive director” as defined in the regulations relating to corporate governance of market intermediaries. (4 marks)
- (d) Summarise **SIX** requirements that must be fulfilled by a firm before being listed in the securities exchange. (6 marks)
- (Total: 20 marks)**

**QUESTION SIX**

- (a) With reference to client confidentiality rules:
- (i) Outline **FIVE** policy provisions that should be included in the policies and procedures adopted by the market intermediaries to ensure client confidentiality. (5 marks)
- (ii) State **TWO** institutions that a market intermediary might disclose information relating to a client. (2 marks)
- (b) Summarise **FIVE** types of monies that compose the investor compensation fund or an equivalent body in your jurisdiction. (5 marks)

- (c) Explain **TWO** benefits of the depository system to each of the following financial markets participants:
- (i) Investors. (4 marks)
  - (ii) The Company. (4 marks)
- (Total: 20 marks)**

**QUESTION SEVEN**

- (a) Summarise **FOUR** functions of a Deposit Insurance Corporation or its equivalent in your country. (4 marks)
- (b) A reporting institution shall report suspicious or unusual transaction or activity to the financial reporting centre in the prescribed form immediately or within seven days of the date the transaction or activity that is considered to have suspiciously occurred.
- With reference to the above statement, highlight **TWO** ways through which the form can be obtained. (4 marks)
- (c) Outline **SIX** functions of the Financial Reporting Centre or an equivalent organisation in your Country. (6 marks)
- (d) With reference to the Law of agency, discuss **THREE** characteristics of an agency relationship. (6 marks)
- (Total: 20 marks)**

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**CIFA FOUNDATION LEVEL**

**REGULATION OF FINANCIAL MARKETS**

**TUESDAY: 6 December 2022. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer any FIVE questions. ALL questions carry equal marks. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) Highlight **SIX** functions of a securities exchange in your country. (6 marks)
  - (b) Analyse **THREE** vitiating factors that may undermine in a financial contract. (6 marks)
  - (c) Explain how a financial contract may be discharged through the following ways:
    - (i) Performance. (2 marks)
    - (ii) Agreement. (2 marks)
    - (iii) Breach. (2 marks)
    - (iv) Operation of law. (2 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Summarise **FIVE** instances where an agent may become personally liable to third parties on a contract on behalf of his principal. (5 marks)
  - (b) In determination of a commercial disputes in your country, Commercial Courts (or their equivalent) have power to make any order and grant any relief as they deem fit and just.

**Required:**  
Outline **FIVE** orders a court can make in exercise of its jurisdiction over commercial contracts. (5 marks)
  - (c) With reference to the International Organisation of Securities Commissions (IOSCO):
    - (i) State the rationale for the existence of IOSCO. (2 marks)
    - (ii) Give **THREE** objectives that IOSCO members have resolved to. (3 marks)
  - (d) With reference to the capital market intermediaries that require authorisation from the Capital Markets Authority (CMA), or an equivalent in your country:
    - (i) Distinguish between a “dealing online foreign exchange broker” and a “non-dealing online foreign exchange broker”. (4 marks)
    - (ii) State the minimum number of unimpaired shareholders’ funds (paid up share capital and reserves) and the minimum amount of liquid capital for a dealing online foreign exchange broker. (1 mark)
- (Total: 20 marks)**

### QUESTION THREE

- (a) The Central Securities Depository operates as a self-regulator body as per the rules approved by the Capital Market regulator.

**Required:**

In light of the above statement, highlight **FOUR** areas covered by the rules of the Central Securities Depository.

(4 marks)

- (b) State **FOUR** conditions that must be fulfilled before admission to listing of real estate investment trust (REIT). (4 marks)

- (c) A fund manager manages discretionary funds and has appointed a custodian for the assets of the fund.

Explain **THREE** duties of a custodian.

(6 marks)

- (d) Discuss **THREE** obligations of licensed financial market intermediaries.

(6 marks)

**(Total: 20 marks)**

### QUESTION FOUR

- (a) In relation to regulation of financial market intermediaries and operation of collective investment schemes in your country, explain the role of:

- (i) Real Estate Investment Trusts (REIT) manager.

(2 marks)

- (ii) REIT trustee.

(2 marks)

- (b) In relation to investment of funds:

- (i) Explain the term “Exchange Traded Fund” (ETF).

(2 marks)

- (ii) Examine **THREE** requirements that an ETF must meet before being listed in the securities exchange as applicable in your jurisdiction. (6 marks)

- (c) Steve Johnson is a European investor who has recently expressed desire to invest in the Kenyan financial services space. He has analysed recent market discussions and identified Credit Information Sharing as a critical emerging issue that may impact his investments. He has tasked you to keep him abreast on these discussions around Credit Rating Agencies.

**Required:**

In your presentation to Steve Johnson:

- (i) Explain the term “Credit Information Sharing” (CIS) in respect to Credit Rating Agencies.

(2 marks)

- (ii) Highlight **TWO** benefits of CIS with respect to each of the following headings:

- Customer.

(2 marks)

- Lender.

(2 marks)

- Economy.

(2 marks)

**(Total: 20 marks)**

### QUESTION FIVE

- (a) As part of the investment advice process, the client’s risk profile must be undertaken by a market intermediary.

Explain **THREE** components of client’s risk profile.

(6 marks)

- (b) Analyse **THREE** ways in which an intermediary can eliminate conflict of interest or minimise its effect on decision making with reference to corporate governance and conduct of business of market intermediaries in your jurisdiction. (6 marks)

- (c) With respect to the law of agency:
- (i) Highlight **FOUR** ways in which an agency can be terminated by agreement between the agent and the principal in the absence of express provisions in the agency agreement. (4 marks)
  - (ii) Describe **TWO** ways in which an agency relationship can be created. (4 marks)
- (Total: 20 marks)**

#### QUESTION SIX

- (a) A venture capital company can apply to the Capital Markets Authority (CMA), or an equivalent in your country, for authorisation provided it meets certain eligibility requirements.
- Required:**
- (i) Highlight **FOUR** details that a venture capital company must include in the application for authorisation in order to meet CMA eligibility requirements in your country. (4 marks)
  - (ii) Outline **TWO** prohibitions placed upon a venture capital company once authorised and registered. (2 marks)
- (b) Explain **THREE** powers of the Financial Reporting Centre to take administrative action for non-compliance. (6 marks)
- (c) With reference to licensing requirements on the obligations of licensed intermediaries in record keeping and reporting obligations, discuss **FOUR** records that are to be maintained by an investment adviser and fund manager. (8 marks)
- (Total: 20 marks)**

#### QUESTION SEVEN

- (a) Adopting a structured and disciplined approach to investment advice is essential in these days of increasing professionalism and regulatory scrutiny.
- Required:**  
List **FIVE** distinct stages that a structured and disciplined approach investment advice process can be divided into. (5 marks)
- (b) With respect to customer due diligence (CDD) requirements for natural persons, legal persons, partnerships and trusts.
- Required:**
- (i) Name **THREE** activities that are involved in CDD. (3 marks)
  - (ii) Enumerate **SIX** factors that customers might possess which present a higher risk of money laundering. (6 marks)
- (c) Discuss **THREE** responsibilities of senior management in discharging the obligations placed on them in developing Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) processes and procedures. (6 marks)
- (Total: 20 marks)**
- .....



**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)**
- .....





**CIFA FOUNDATION LEVEL**

**REGULATION OF FINANCIAL MARKETS**

**TUESDAY: 5 April 2022. Morning paper.**

**Time Allowed: 3 hours.**

**Answer any FIVE questions. ALL questions carry equal marks. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) Highlight four functions of law in the society. (4 marks)
- (b) Explain four ways through which the principal-agent relationship could be established in an organisation. (4 marks)
- (c) Regulation is essential for the proper functioning of the insurance industry.
- In relation to the above statement:
- (i) State three roles of the Insurance Regulatory Authority (IRA) in your country. (3 marks)
- (ii) Outline five registration requirements of other insurance service providers as detailed in Section 100 of the Insurance Cap 487 of the laws of Kenya. (5 marks)
- (d) State four functions of the legal department of the Assets Recovery Agency. (4 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Describe three sources of funds for the Nairobi Securities Exchange (NSE) Derivatives Investor Protection Fund. (6 marks)
- (b) Outline four principles that could be observed by foreign exchange dealers in managing foreign exchange business. (4 marks)
- (c) With reference to credit rating agencies:
- (i) Define the term "credit rating". (1 mark)
- (ii) Highlight one objective of credit rating. (1 mark)
- (d) The Directors of Bee Honey Ltd., registered as stockbrokers have been discovered to have engaged in embezzlement, fraud and other misconduct that is not in the interest of its clients or in the public interest by the Capital Markets Authority.

Due to these matters, the Authority has instructed its investigator to conduct investigations into the matter. The investigator, has reason to believe that Mark Bundi, an employee of Bee Honey Ltd., has in possession documents that contain information relevant to the investigation.

**Required:**

Discuss four obligations that Mark Bundi has in relation to the on-going investigations.

(8 marks)

**(Total: 20 marks)**

### QUESTION THREE

- (a) Explain the following terminologies that relate to the Central Depository and Settlement Corporation (CDSC) operation:
- (i) Securities Lending and Borrowing (SLB). (2 marks)
  - (ii) Screen-based model of implementing SLB. (2 marks)
- (b) Highlight three circumstances that may cause the Capital Markets Authority to exercise its emergency powers against a Central Depository. (3 marks)
- (c) State the five details that an applicant issuer must publish in an announcement after the securities exchange has approved an application for listing in your country. (5 marks)
- (d) Explain the meaning of the following sub-segments as approved by the Capital Markets Authority:
- (i) Growth Enterprise Market Segment (GEMS). (2 marks)
  - (ii) Restricted Growth Enterprise Market Sub-segment (RGEMS). (2 marks)
  - (iii) Fixed Income Securities Market Segment (FISMS). (2 marks)
  - (iv) Un-restricted Fixed Income Market Sub-segment (UFISMS). (2 marks)

**(Total: 20 marks)**

### QUESTION FOUR

- (a) Describe five contents that might be contained in the annual financial statements of a market intermediary. (10 marks)
- (b) Discuss three participants in the Collective Investment Scheme (CIS). (6 marks)
- (c) (i) In relation to corporate governance and market intermediaries, explain the term “fiduciary duty”. (2 marks)
- (ii) Highlight two examples of fiduciary relationships in the financial markets. (2 marks)

**(Total: 20 marks)**

### QUESTION FIVE

- (a) A market intermediary shall promptly and accurately account for clients’ funds.
- Discuss three rules that apply to the above statement. (6 marks)
- (b) Discuss the three objectives of the financial reporting centre. (6 marks)
- (c) (i) Distinguish between “money laundering” and “terrorist financing”. (4 marks)
- (ii) State four sources of terrorist financing. (4 marks)

**(Total: 20 marks)**

### QUESTION SIX

- (a) Evaluate three objectives of regulation of financial markets. (6 marks)
- (b) In relation to the Central Depository and Settlement Corporation (CDSC) or equivalent in your country:
- (i) State the composition of the Business Conduct Committee, a committee of the Board. (2 marks)
  - (ii) Highlight the four functions of the Business Conduct Committee. (4 marks)
- (c) Analyse four ways in which the Competition Authority of Kenya carries out preliminary review upon receipt of an application for mergers and acquisition. (8 marks)

**(Total: 20 marks)**

### QUESTION SEVEN

- (a) Discuss two shareholders' responsibilities. (4 marks)
- (b) Explain the term "politically exposed persons". (3 marks)
- (c) In relation to foreign investment regulation, highlight what the regulation stipulates on:
- (i) Register of shareholders. (2 marks)
  - (ii) Share reservation percentage. (1 mark)
  - (iii) Declaration of investor status. (2 marks)
- (d) A market intermediary shall not withdraw money deposited in a clients' bank account. Discuss four exceptions to this rule. (8 marks)

**(Total: 20 marks)**

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**CIFA FOUNDATION LEVEL**

**REGULATION OF FINANCIAL MARKETS**

**THURSDAY: 16 December 2021.**

**Time Allowed: 3 hours.**

**Answer any FIVE questions.**

**ALL questions carry equal marks.**

**QUESTION ONE**

- (a) In exercising judicial authority, the courts and tribunals shall be guided by certain principles.

With reference to the above statement, summarise five of these principles. (5 marks)

- (b) Describe five types of jurisdiction of the High Court in your country. (5 marks)

- (c) Based on your assessment of Central Depository Laws and Regulations, discuss five protective measures that exist to ensure protection of depositor's investment. (10 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) In the context of regulation of financial services:

(i) Explain the meaning of the term "regulatory strategy". (2 marks)

(ii) Describe four steps to be adhered to in developing a successful regulatory strategy. (4 marks)

- (b) Musa Siri, a finance manager at Spider Web Company Limited is in the process of opening a central depository account for the company. Spider Web Limited is 99% owned by foreign companies incorporated in the Cayman Islands, a tax haven.

Most of the company's finances are transported in cash to financial institutions abroad and the only physical assets the company owns locally are securities held in various listed companies.

The Chief Risk and Compliance Officer has informed you that Spider Web Limited is a high risk company.

**Required:**

(i) Define the term "high risk". (2 marks)

(ii) Describe six additional steps you would undertake in the due diligence of a high-risk client. (6 marks)

(iii) Enumerate six steps you would undertake in conducting the due diligence exercise that ought to proceed the opening of a central depository account. (6 marks)

**QUESTION THREE**

- (a) James Shoka is aggrieved by the decision of the Capital Markets Authority's refusal to grant a license to conduct the business of an Investment Adviser.

James Shoka has been advised that such decisions could be appealed against to the Capital Markets Tribunal.

With reference to the above case scenario, describe five other decisions of the Capital Markets Authority that could be appealed against to the Capital Markets Tribunal. (10 marks)

- (b) The Board of directors of Hope Limited, a company that trades in the financial markets has requested their company secretary, Eunice Mueni to prepare a corporate governance framework to protect their shareholders' rights in the financial markets.

**Required:**

Prepare a template showing ten shareholder rights that Eunice Mueni might include in Hope Limited's corporate governance framework. (10 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Jack Daniel is an inexperienced investor at the Securities Exchange and has been advised by his stock broker to seek the services of an Investment Adviser. Jack Daniel approaches you for advice regarding the duties of an Investment Adviser.

In relation to the above facts, advise Jack Daniel on three duties of an Investment Adviser. (6 marks)

- (b) With specific reference to foreign investments:

(i) Identify three types of foreign assets. (3 marks)

(ii) A foreign national who proposes to invest foreign assets may apply for a certificate that the enterprise in which the assets are proposed to be invested is approved.

Summarise five particulars that the above certificate shall contain. (5 marks)

- (c) Complete the table below with reference to eligibility requirements for public offering of shares and listing:

Requirement	Part A Criteria for the Main Investment Market Segment	Part B Criteria for the Alternative Investment Market Segment	Part C Criteria for the Growth Enterprise Market Segment
Incorporation status	A public company limited by shares and registered	(i) (1 mark)	(ii) (1 mark)
Share capital	(iii) (1 mark)	Minimum authorised issued and fully paid up ordinary share capital of Sh.20m	(iv) (1 mark)
Net assets	(v) (1 mark)	(vi) (1 mark)	N/A

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) You are the promoter of a collective investment scheme and you are preparing the documents required for an application for registration of a collective investment scheme.

Summarise eight documents that should accompany the application. (8 marks)

- (b) Identify two pieces of information that are ideally contained in a warning statement included in advertisements by a collective investment scheme. (2 marks)

- (c) Assuming X makes an offer to Y and before acceptance X changes his mind. Advise X on five ways through which X could terminate the offer. (10 marks)

**(Total: 20 marks)**

**QUESTION SIX**

- (a) Describe the following types of agents:

(i) Mercantile agent. (2 marks)

(ii) Factors. (2 marks)

(iii) Commission agent. (2 marks)

(iv) Del credere agent. (2 marks)

(v) Broker. (2 marks)

- (b) Explain five roles of the Institute of Certified Investment and Financial Analysts (ICIFA). (5 marks)
- (c) Highlight five circumstances under which a person could be disqualified from being registered as an investment and financial analyst. (5 marks)
- (Total: 20 marks)**

**QUESTION SEVEN**

- (a) Outline five types of financial market intermediaries. (5 marks)
- (b) A central depository may establish a Central Depository Guarantee Fund.
- With reference to the above statement, enumerate the constituent of the fund. (5 marks)
- (c) With specific reference to prevention of money laundering in your country:
- (i) Analyse seven functions of the Assets Recovery Agency (ARA). (7 marks)
- (ii) Summarise three core elements of the Customer Due Diligence (CDD) rule that might be included in an Anti Money Laundering (AML) programme. (3 marks)
- (Total: 20 marks)**
- .....



**CIFA FOUNDATION LEVEL**

**REGULATION OF FINANCIAL MARKETS**

**TUESDAY: 2 August 2022. Morning paper.**

**Time Allowed: 3 hours.**

**Answer any FIVE questions. ALL questions carry equal marks. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) In relation to classification of contracts, distinguish between the following types of contracts:
- (i) “Express contract” and “implied contract”. (2 marks)
  - (ii) “Unilateral contract” and “bilateral contract”. (2 marks)
  - (iii) “Valid contract” and “voidable contract”. (2 marks)
  - (iv) “Executed contract” and “executory contract”. (2 marks)
- (b) The judiciary operates through courts which exercise certain powers (jurisdictions) as given by the law.
- Required:**  
State the three types of jurisdictions that courts can exercise according to the court system in your country. (3 marks)
- (c) Examine three duties of an agent to his principal as provided for in the law of agency. (3 marks)
- (d) Explain three main components of a legally binding financial contract. (6 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) It has been argued that principles-based regulation which emphasises adhering to the spirit of the regulation is more appropriate. Policy makers need to identify the source of market failures first and then design regulations to specifically address those market failures.
- In light of the above statement, propose four major market failures that precipitated the global financial crisis necessitating regulation in the international financial markets. (4 marks)
- (b) The Capital Markets Authority (CMA) issues regulations to facilitate the efficient workings of the financial markets.
- Required:**  
In relation to the above statement, outline four issues that the CMA or its equivalent body in your country could consider in making sure that the issued regulations are appropriate. (4 marks)
- (c) Identify five aspects that the Capital Markets Authority (CMA) or its equivalent in your country could consider in determining whether a firm is suitable for the grant of a licence. (5 marks)
- (d) With reference to central securities depository:
- (i) Explain the term “a central securities depository”. (2 marks)
  - (ii) Summarise five duties of a central depository. (5 marks)

**(Total: 20 marks)**

### QUESTION THREE

- (a) Explain the functions of the following capital market intermediaries:
- (i) Stock broker. (2 marks)
  - (ii) Dealer. (2 marks)
  - (iii) Investment bank. (2 marks)
  - (iv) Fund manager. (2 marks)
- (b) Highlight four offences that could constitute market abuse in the capital market. (4 marks)
- (c) Highlight four regulations concerning employees that a firm must follow in ensuring compliance with capital market regulations. (4 marks)
- (d) Explain the following sources of law in your country:
- (i) Constitution. (2 marks)
  - (ii) Delegated legislation. (2 marks)
- (Total: 20 marks)**

### QUESTION FOUR

- (a) With respect to Anti-Money Laundering (AML) requirements, explain the following stages of money laundering:
- (i) Placement. (2 marks)
  - (ii) Layering. (2 marks)
  - (iii) Integration. (2 marks)
- (b) In relation to the prevention of money laundering, identify three details a market intermediary should obtain from a client on each occasion that the client places an investment order. (3 marks)
- (c) Highlight five circumstances under which an authorised central depository agent may be suspended or prohibited from maintaining or performing approved functions. (5 marks)
- (d) Describe the ways in which the following investment funds operate:
- (i) Exchange-traded funds (ETFs). (2 marks)
  - (ii) Real estate investment trusts (REITs). (2 marks)
  - (iii) Employee share ownership plans (ESOPs). (2 marks)
- (Total: 20 marks)**

### QUESTION FIVE

- (a) Central Banks operate at the very centre of a nation's financial system. They are usually public bodies, but increasingly, they operate independently of government control or political interference.

**Required:**

With reference to the above statement, state six functions of the Central Bank in your country. (6 marks)

- (b) Highlight four major benefits of Collective Investments Schemes (CISs). (4 marks)
- (c) Highlight six regulatory functions of the Capital Markets Authority (CMA) in your country. (6 marks)
- (d) There is inevitably some overlap between anti-money laundering provisions and the rules designed to prevent the financing of terrorist acts. However, differences do exist.

**Required:**

Explain two major differences between terrorist financing and other money laundering activities. (4 marks)

**(Total: 20 marks)**



### QUESTION SIX

- (a) Outline the five contents of a client agreement as it relates to the conduct of business of market intermediaries. (5 marks)
- (b) Highlight four regulatory requirements for real estate investment trusts (REITs). (4 marks)
- (c) Identify three components of risk profile of a client. (3 marks)
- (d) The level of transparency is an essential determinant of an effective market. The regulators and the exchange must ensure the greatest degree of transparency for investors to be able to make informed decisions.

**Required:**

In reference to the above statement, differentiate between “pre-trade transparency” and “post-trade transparency”. (4 marks)

- (e) A derivatives exchange must meet regulator’s requirements for authorisation and its clearing and settlement operations.

**Required:**

Explain four such requirements. (4 marks)

**(Total: 20 marks)**

### QUESTION SEVEN

- (a)
  - (i) Describe three situations under which the capital market regulator has the power to intervene in the management of its licensee. (6 marks)
  - (ii) Highlight four actions that the capital market regulator may undertake in exercising its power to intervene in the management of its licensee. (4 marks)
- (b) The Competition Authority of Kenya’s (CAK) role is to protect, strengthen and supplement the way competition works in markets and industries. The authority carries out this role through various activities some of which merge or relate with Capital Markets Authority (CMA).

**Required:**

State the functions of CAK or an equivalent Authority in your country. (5 marks)

- (c) Highlight five circumstances under which Sacco Societies Regulatory Authority (SASRA) might require higher minimum capital ratios for a Sacco Society. (5 marks)

**(Total: 20 marks)**

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## 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)**
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### CIFA PART II SECTION 3

#### REGULATION OF FINANCIAL MARKETS

**WEDNESDAY: 1 September 2021.**

**Time Allowed: 3 hours.**

**Answer any FIVE questions.**

**ALL questions carry equal marks.**

#### QUESTION ONE

- (a) With reference to the court system in your country:
- (i) Outline five types of pecuniary jurisdictions of the magistrate's court. (5 marks)
  - (ii) Explain the constitution of and the hierarchy within the Magistrates Court. (5 marks)
- (b) Discuss five responsibilities of a custodian under the service agreement it enters into with an Investment Advisor or Fund Manager. (10 marks)
- (Total: 20 marks)**

#### QUESTION TWO

- (a) Describe five functions of the Capital Markets Fraud Investigation Unit. (10 marks)
- (b) Grace Tindi entered into a contract for sale of land with Paul Bao in which she was selling her piece of land to Paul Bao for Sh.1,000,000 payable in three instalments. After one month, Grace Tindi realised that Paul Bao had incorporated some terms in the contract compelling Grace Tindi to transfer the piece of land to Paul Bao upon payment of the first instalment and that Grace Tindi should not ask for the balance thereafter.

Grace Tindi feels that the contract is totally unreasonable and intends to sue Paul Bao.

#### **Required:**

Advise Grace Tindi on five possible grounds she might rely on in court to have the contract declared unenforceable for being unreasonable. (10 marks)

**(Total: 20 marks)**

#### QUESTION THREE

- (a) (i) Outline two roles of the Institute of Certified Investment and Financial Analysts (ICIFA). (2 marks)
- (ii) Explain five benefits of being a member ICIFA. (5 marks)
- (b) Summarise four duties of a commercial bank in its capacity as an agent. (8 marks)
- (c) Highlight five barriers to cross-border listing. (5 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) In the context of raising capital in the securities market, explain three advantages of preference shares from:
- (i) Investor's point of view. (6 marks)
  - (ii) Company's point of view. (6 marks)
- (b) Summarise four particulars to be contained in the legal opinion of the prospectus of an issuer of securities. (8 marks)

**(Total: 20 marks)**

### QUESTION FIVE

- (a) Discuss five reasons why the Central Depository might wish to establish mechanisms for prevention and mitigation of fraud or any other system manipulation. (10 marks)
- (b) Outline five matters which the Central Depository is required by law to notify the Capital Markets Authority and the Securities Exchange. (10 marks)
- (Total: 20 marks)**

### QUESTION SIX

- (a) In relation to prevention of money laundering; explain the meaning of the following terms:
- (i) Tipping off. (2 marks)
  - (ii) Misrepresentation. (2 marks)
  - (iii) Malicious reporting. (2 marks)
  - (iv) Beneficial owner. (2 marks)
  - (v) Know your customer. (2 marks)
- (b) Summarise five particulars which might be required when a reporting institution seeks to establish the identity of a partnership. (10 marks)
- (Total: 20 marks)**

### QUESTION SEVEN

- (a) With reference to the Kenya Deposit Insurance Corporation:
- (i) Outline two objects of the corporation. (4 marks)
  - (ii) Highlight four sources of the corporation's funds. (8 marks)
- (b) A market intermediary shall not provide a service in respect of a regulated activity unless it has entered into a written agreement with the client.

**Required:**

In the context of corporate governance principles, describe four rights of the client enshrined in the above agreement. (8 marks)

**(Total: 20 marks)**

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**CIFA PART II SECTION 3**

**REGULATION OF FINANCIAL MARKETS**

**WEDNESDAY: 19 May 2021.**

**Time Allowed: 3 hours.**

**Answer any FIVE questions.**

**ALL questions carry equal marks.**

**QUESTION ONE**

- (a) Outline two differences between “statute law” and “case law”. (4 marks)
- (b) Benta Limited intends to make an application to operate as a central depository agent.
- Advise the company on the following:
- (i) Four types of persons who might be appointed to operate as central depository agents. (4 marks)
- (ii) Four factors that the regulator might take into account in determining whether an applicant is eligible to operate as a central depository agent. (4 marks)
- (c) In the context of the Capital Markets Authority (CMA) or the equivalent regulator in your country:
- (i) Explain four objectives of the CMA or equivalent regulator in your country. (4 marks)
- (ii) Outline four powers that the CMA or equivalent regulator in your country could use to enforce compliance with capital markets legislation and the associated regulations. (4 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Outline four types of market participants at the capital market in your country. (4 marks)
- (b) Describe the composition of the Board of Directors of the Central Bank of your country. (4 marks)
- (c) In the context of the law of contract:
- (i) Analyse four ways through which a contract might be frustrated. (8 marks)
- (ii) Explain four circumstances under which a plea of “non est factum” might be allowed by the courts. (4 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) With reference to the law of agency, describe three types of authority of an agent. (6 marks)
- (b) Evaluate five particulars that are contained in the legal opinion accompanying a prospectus. (10 marks)
- (c) In the context of the regulation of financial market intermediaries, explain the following terms:
- (i) Investment bank. (2 marks)
- (ii) Venture capital company. (2 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) Define the term "dematerialisation of securities". (2 marks)
- (b) Describe four documents required to accompany an application for approval and registration of a credit rating agency in your country. (8 marks)
- (c) Discuss five grounds for removal from office of the Director General of the Financial Reporting Centre. (5 marks)
- (d) In the context of investment funds, explain five unique characteristics of real estate investment trusts (REITs). (5 marks)
- (Total: 20 marks)**

#### QUESTION FIVE

- (a) Discuss three circumstances under which the Capital Markets Authority (CMA), or equivalent regulator in your country, might require a securities exchange to de-list a security. (6 marks)
- (b) Describe three principles for co-operation in regulation under the International Organisation of Securities Commissions (IOSCO) objectives and principles of securities regulation. (6 marks)
- (c) In the context of governance and controls, the Board of a market intermediary is required to establish a corporate governance framework that provides strategic guidance and promotes the effective monitoring of the management and accountability of the firm.
- In the context of the above statement, describe four contents of a board charter. (8 marks)
- (Total: 20 marks)**

#### QUESTION SIX

- (a) Explain six sources of funds for the Criminal Assets Recovery Fund. (6 marks)
- (b) Summarise eight conditions to be satisfied by a SACCO society intending to be licensed to undertake deposit taking business. (8 marks)
- (c) With reference to the Proceeds of Crime and Anti-Money Laundering Act (POCAMLA) 2009, or equivalent legislation in your country, explain three anti-money laundering obligations of a reporting institution. (6 marks)
- (Total: 20 marks)**

#### QUESTION SEVEN

- (a) (i) Explain three duties of a trustee in a collective investment scheme. (3 marks)
- (ii) Discuss three circumstances under which the trustee in (a) (i) above might be removed from office. (6 marks)
- (b) In the context of securities transactions, explain the following terms:
- (i) Front running. (3 marks)
- (ii) Market rigging. (3 marks)
- (iii) Market manipulation. (3 marks)
- (c) Identify two professional bodies that operate in the financial services sector. (2 marks)
- (Total: 20 marks)**
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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)**
- .....



**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)

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**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)**
- .....



**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)
- .....



### 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)

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## 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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## 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)

- (i) 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)

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## 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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