

KASNEB

CCP PART III SECTION 5

BANKING LAW AND PRACTICE

WEDNESDAY: 23 November 2016.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Discuss five reasons why banks are closely regulated despite the costly burden of government regulation. (10 marks)
- (b) (i) Describe the establishment and legal status of the Central Bank in your country. (4 marks)
- (ii) Explain three instruments that the Central Bank uses to pursue its monetary policy. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) In order to determine the professional and moral suitability of persons proposed to be directors and senior officers of a financial institution, the Central Bank shall have regard to certain qualities as far as they are reasonably determinable, of the person concerned.
- With reference to the above statement, describe four qualities that persons proposed to be directors and senior officers of a financial institution should possess. (8 marks)
- (b) Explain three circumstances under which an amalgamation and transfer of assets and liabilities might be approved. (6 marks)
- (c) A cash in transit operator means a person engaged in the business of transportation of cash.
- With reference to the above statement, describe six obligations imposed on cash in transit operators. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) If a financial institution becomes insolvent, the Central Bank may appoint a board to be a liquidator of the institution. The appointment has the same effect as the appointment of a liquidator by the court.
- With reference to the above statement, discuss four powers that are vested on the above Board. (8 marks)
- (b) Highlight four types of information that the auditors of a financial institution are required to submit directly to the Central Bank no later than three (3) months after the financial year end. (4 marks)
- (c) As a CCP finalist you have been recruited as a graduate trainee with the Central Bank in your country. Your first assignment is to assess an application that has been made by XYZ Ltd., an audit firm that has applied to the Central Bank for appointment as auditors.
- Propose four areas that you could consider when assessing the application. (8 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) BNT Bank Ltd. was established five years ago. In the opinion of the Board of Directors of BNT Bank Ltd, the banking business in the country is on a downward trend given recent government policies and amendments to the Banking Act.
- The Board of Directors are considering making an application to the Central Bank to voluntarily wind up the bank. The Board has approached you to advise them on the application and approval procedures that every financial institution seeking to voluntarily wind up its operations should provide to the Central Bank.

Required:

Advise the Board of Directors on the application and approval procedures that they should follow to voluntarily wind up BNT Bank Ltd. (10 marks)

- (b) Describe four measures that a financial institution might take, where a consumer defaults on a loan as per the agreed terms in the loan contract. (4 marks)
- (c) In order to assist the Board of Directors in reviewing and overseeing the overall lending of the institution, prudential guidelines encourage institutions to appoint a Board Credit Committee (BCC) chaired by an independent non-executive director.

With reference to the above statement, highlight six roles and responsibilities of the Board Credit Committee (BCC). (6 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) The purpose of consumer protection guidelines is to promote fair and equitable financial service practices by setting minimum standards for institutions in dealing with consumers.

With reference to the above statement:

- (i) Propose five ways a bank might advise a consumer in a bid to protect and secure their personal identification number (PIN). (5 marks)
- (ii) Identify five disclosures of interest rates that financial institutions shall make to the consumer prior to the consumer signing the loan or fixed deposit contract. (5 marks)
- (b) Explain two types of money laundering offences that might be committed by a person. (4 marks)
- (c) A financial reporting centre is a body corporate whose main objectives are to assist in the identification of the proceeds of crime and the combating of money laundering.

With reference to the above statement, discuss three obligations of the above financial reporting centre. (6 marks)
(Total: 20 marks)

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