



CS PART III SECTION 5
FINANCIAL MARKETS LAW

WEDNESDAY: 29 November 2017.

Time Allowed: 3 hours.

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

QUESTION ONE

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

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

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

Advise Neema Bwire on five rules that should be made to govern the operations of the central depository. (10 marks)

(Total: 20 marks)

QUESTION TWO

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

Advise Stella Chelewa on the process of immobilisation. (10 marks)

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

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

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

(Total: 20 marks)

QUESTION THREE

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

With reference to the above statement, describe five functions of credit rating agencies. (10 marks)

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

(i) Explain two advantages of private placement. (2 marks)

(ii) Highlight three disadvantages of private placement. (3 marks)

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

(Total: 20 marks)

QUESTION FOUR

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

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

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

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

(Total: 20 marks)

QUESTION FIVE

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

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

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

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

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

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

(Total: 20 marks)

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