

# KASNEB

## 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)

- (d) 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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