



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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