



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)**

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