



CIFA PART II SECTION 3

REGULATION OF FINANCIAL MARKETS

WEDNESDAY: 29 November 2017.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE

- (a) Delegated legislation comes into being when Parliament confers on persons or bodies, power to make regulations for specified purposes. Such regulations have the same legal force as the Act under which they are made.

With reference to the above statement:

- (i) Explain three reasons for delegating legislation. (6 marks)
- (ii) Outline two disadvantages of delegated legislation. (4 marks)

- (b) A contract might be discharged by performance where both parties fulfill their obligations under the contract and nothing remains to be completed. This is referred to as precise performance. There are however, exceptions to this rule of precise performance.

Discuss five exceptions to the above rule.

(10 marks)

(Total: 20 marks)

QUESTION TWO

- (a) With reference to the law of agency:

- (i) Describe three classes of agents. (6 marks)
- (ii) Highlight four instances when an agent becomes personally liable upon a contract made on behalf of his principal. (4 marks)

- (b) One of the duties of a central depository is to ensure adequate measures to prevent and mitigate fraud or any other system manipulation.

With reference to the above statement, suggest five measures that might be put in place by a central depository. (10 marks)

(Total: 20 marks)

QUESTION THREE

- (a) In the context of money laundering, explain the following terms:

- (i) Placement. (2 marks)
- (ii) Layering. (2 marks)
- (iii) Integration. (2 marks)

- (b) The oversight of market intermediaries should primarily be directed to the areas where the intermediaries' capital, client money and public confidence may most be put at risk.

With reference to the above statement, summarise two of the risks. (4 marks)

- (c) ABC Ltd. had been trading on the securities exchange of your country for three years. In January 2017, the Listing Committee of the securities exchange recommended that the securities of ABC Ltd. be suspended.

Nine months down the line and with a new managing director, ABC Ltd. has fulfilled and demonstrated the conditions for lifting of the suspension.

Explain the procedure that shall apply in lifting the suspension. (10 marks)
(Total: 20 marks)

QUESTION FOUR

- (a) With respect to initial public offers, discuss five matters that should be contained in the prospectus. (10 marks)
- (b) Explain five reasons why self regulation should be incorporated into regulatory frameworks. (10 marks)
(Total: 20 marks)

QUESTION FIVE

- (a) In the context of corporate governance:
- (i) Explain in three ways the meaning of the term “integrated reporting”. (6 marks)
- (ii) Highlight four parameters that a governance audit should cover in a company’s governance practices. (4 marks)
- (b) Regulation of financial market intermediaries should ensure that there is proper ongoing supervision.
- With reference to the above statement, describe five matters that regulations of financial market intermediaries should provide for. (10 marks)
(Total: 20 marks)

QUESTION SIX

- (a) XYZ Ltd. is a mobile phone operator owned by the government of your country. The government would like to offer a twenty five percent (25%) stake in XYZ Ltd. to the public at Shs.5 per share. There will be 10 billion shares for sale to the public.
- As an expert in financial market matters, the board of XYZ Ltd. has approached you for guidance. You have advised the board to submit an information memorandum to the Capital Markets Authority for approval to issue the equity.
- The board of XYZ Ltd. would now like further guidance on the procedure for admission to listing.
- With reference to the above scenario, describe to the board of XYZ Ltd., the procedure of admission to listing. (12 marks)
- (b) (i) Define the term “immobilised security”. (2 marks)
- (ii) A depositor might on application to the central depository, withdraw an immobilised security.
- Explain the procedure to be followed during the withdrawal of an immobilised security. (6 marks)
(Total: 20 marks)

QUESTION SEVEN

- (a) Define the term “financial journalist”. (2 marks)
- (b) A central depository shall keep or cause to be kept records and accounts in sufficient detail. The accounts and records shall at the end of every financial year be audited.
- With reference to the above statement:
- (i) Outline two particulars of the accounts and records. (2 marks)
- (ii) Describe two rights and two duties of the auditor who conducts an audit on the accounts and records. (8 marks)
- (c) Identify two persons who might present an appeal to the Capital Markets Tribunal. (2 marks)
- (d) Describe three powers that the Capital Markets Tribunal possesses upon hearing an appeal. (6 marks)
(Total: 20 marks)