



CCP PART III SECTION 5
BANKING LAW AND PRACTICE

WEDNESDAY: 1 September 2021.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) In relation to money laundering:
- (i) Distinguish between “anti-money laundering” and “know your customer” terms. (4 marks)
 - (ii) Discuss the three components of know your customer (KYC) principle. (6 marks)
- (b) With reference to regulation in the banking sector and the Deposit Insurance Fund:
- (i) State two reasons why the Kenya Deposit Insurance Corporation was formed. (4 marks)
 - (ii) Analyse six circumstances under which an institution shall automatically cease being a member of the fund. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) With reference to banks supervision:
- Enumerate four responsibilities of a banks supervision committee. (8 marks)
- (b) There has been a significant process of regulatory reform in the financial systems of most countries. This process involves a shift towards more market-oriented forms of regulation and liberalisation of the banking sector. Jane Mumo, a newly employed banker who is unaware of this global trend has approached you for advice.
- Required:**
- (i) Advise Jane Mumo on four forms of regulatory controls in the banking sector. (4 marks)
 - (ii) Explain to Jane Mumo four benefits derived from regulation of banks. (4 marks)
- (c) In the context of banking law and practice, explain the following terms:
- (i) Amalgamation. (2 marks)
 - (ii) Transfer of assets and liabilities. (2 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Examine the functions of the Central Bank under the following headings:
- (i) The custodian of cash reserves. (3 marks)
 - (ii) The controller of credit. (3 marks)
 - (iii) The bank of issue. (3 marks)
- (b)
- (i) Explain the term “banking business”. (3 marks)
 - (ii) Analyse eight reasons that might lead to the failure of banks. (8 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) In the context of external audit of a bank:
 - (i) Discuss four matters which external auditors might be required to report to the Central Bank in the course of discharging their duties. (4 marks)
 - (ii) Highlight four provisions governing the removal or change of external auditors. (4 marks)
- (b) Boresha Bank Limited is seeking to voluntarily wind up its operations. The directors of the bank do not understand the specifics of voluntary liquidation of a financial institution and they have approached you for legal advice.

Required:

- (i) Explain to the directors the procedure involved in voluntary liquidation of banks. (7 marks)
- (ii) Advise the directors on five documents to be provided by Boresha Bank Limited to the Central Bank when applying for voluntary liquidation. (5 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Morgan Bank Limited is a banking institution incorporated outside Kenya and wishes to apply to the Central Bank of Kenya for a licence to conduct banking business in Kenya. The directors of the bank have approached you for advice on the procedure to be followed.

Required:

- Outline seven documents required to accompany Morgan Bank Limited's application for the licence. (7 marks)
- (b) With reference to consumer protection, enumerate seven consumer rights. (7 marks)
- (c) Analyse three circumstances under which a Chief Executive Officer of a banking institution might be disqualified from holding office. (6 marks)

(Total: 20 marks)

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