



CS PART III SECTION 5
FINANCIAL MARKETS LAW

WEDNESDAY: 23 May 2018.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) The Capital Markets Authority (CMA) or equivalent authority in your country might, where the circumstances so dictate, intervene in the operations of securities and derivatives exchanges. This is one of the regulatory roles of the authority.

With reference to the above statement:

- (i) Describe four circumstances under which the authority might be forced to intervene in the operations of securities exchanges. (4 marks)
- (ii) Summarise six directives that the authority might issue by notice in writing to a securities exchange to remedy any of the matters referred to in (a) (i) above. (6 marks)
- (b) A central depository might establish a central depository guarantee fund for the settlement of trade through the depository.

With reference to the above statement, summarise the constituents of the central depository fund. (5 marks)

- (c) Permitted disclosures are those disclosures which nothing in any written law shall entitle any person to refuse to disclose.

With reference to the above statement, summarise five permitted disclosures in the Central Depository Act or equivalent law in your country. (5 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Rufus Okeke opened a central depository account in his home country in January 2015, soon after he received a scholarship to study finance in the United Kingdom. During his stay in the United Kingdom, Rufus Okeke did not transact in his central depository account.

According to the central depository (dormant accounts) operational procedures, after a lapse of twenty four months of inactivity, the central depository system shall automatically flag an account dormant.

The Central Depository and Settlement Corporation (CDSC) then sent Rufus Okeke a notification through his email address informing him that his account had been declared dormant. Rufus Okeke is now back in his home country and has tried to transact through his account but to no avail. The CDSC has advised Rufus Okeke to first activate his account before attempting to sell or otherwise deal with any shares through the account.

Required:

Advise Rufus Okeke on the procedure for activation of his central depository account:

- (i) Through the central depository agent (CDA). (8 marks)
- (ii) By the account holder (self service). (6 marks)
- (b) The Board of a company shall ensure that a governance audit is carried out at least annually to confirm that the company is operating on sound governance principles.

With reference to the above statement, outline six parameters that the governance audit should cover: (6 marks)

(Total: 20 marks)

QUESTION THREE

(a) ABC Ltd. wishes to be guided on the eligibility requirements for public offering of shares.

You have been provided with the following eligibility criteria checklist:

Requirement	Criteria for the main investment market segment
Incorporation status	(i)
Size: Share capital	(ii)
Net assets	(iii)
Transferability of shares	(iv)
Dividend policy	(v)
Availability and reliability of financial records	(vi)

For each of the above requirements, indicate the corresponding eligibility criteria labelled (i) to (vi). (12 marks)

(b) Suggest eight types of suspicious activities or transactions that might indicate possible money laundering activities. (8 marks)
(Total: 20 marks)

QUESTION FOUR

(a) (i) Define the term “demutualisation”. (1 mark)

(ii) Summarise five documents and information that shall accompany an application to the Capital Markets Authority for approval to operate as a demutualised entity. (5 marks)

(b) Discuss the legal provisions relating to withdrawal of prescribed securities. (8 marks)

(c) Self-Regulatory Organisations (SROs) can be a valuable complement to the regulator in achieving the objectives of securities regulation.

With reference to the above statement:

(i) Highlight the characteristics of SROs. (3 marks)

(ii) Explain three benefits that could be accrued from self-regulation. (3 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Explain six circumstances where the Central Depository might specify a book-entry security held in any particular securities account as “under suspense”. (6 marks)

(b) Describe three types of accounts that a client or a central depository agent could use to record eligible securities in accordance with the operational procedures. (6 marks)

(c) Every collective investment scheme shall appoint a custodian approved by the Capital Markets Authority to perform certain duties.

With reference to the above statement, examine four duties of the scheme custodian. (8 marks)

(Total: 20 marks)

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