



CS PART III SECTION 5

FINANCIAL MARKETS LAW

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) Qabro Works Limited is a private limited company which intends to list on the securities exchange and has been authorised by the regulator to issue a prospectus to the public.

Upon conclusion of a forensic audit, the regulator has discovered that the prospectus contains inaccurate information on its retained earnings and the legal opinion therein.

Gertrude Lukhela and Thomas Penda, who were to become directors of Qabro Works Limited immediately after the listing, have been apprehended by officers from the Capital Market Fraud Unit to answer to charges of issuing a defective prospectus.

Required:

Advise Gertrude Lukhela and Thomas Penda on the following:

- (i) The prescribed fine that Qabro Works Limited will be liable to pay if found guilty and convicted. (2 marks)
- (ii) The prescribed fine that Gertrude and Thomas will be liable to pay if found guilty and convicted. (2 marks)
- (iii) The maximum jail term that Gertrude and Thomas would serve if found guilty and convicted. (2 marks)
- (iv) Two defences that they might rely on in respect of the offence charged. (4 marks)
- (v) Four powers that the Authority could exercise when in its opinion, new circumstances or new information have emerged which fundamentally alter the basis of approval of a public offer. (8 marks)

- (b) Define the term “listing by introduction”. (2 marks)

(Total: 20 marks)

QUESTION TWO

Hippo Securities Exchange is a self regulatory organisation with regulatory and supervisory functions. The regulatory Authority has requested Hippo Securities Exchange to develop rules for players in the securities market.

In light of the above facts:

- (a) Explain three areas to which the rules should relate. (6 marks)
- (b) Prescribe three directions that the Authority might issue to Hippo Securities Exchange if it discovers that the rules of Hippo Securities Exchange are not in conformity with the law and best practices that govern self regulatory organisations (SROs). (6 marks)
- (c) Highlight two documents that Hippo Securities Exchange shall be required to submit to the Authority within ninety days after the end of every financial year. (4 marks)
- (d) Describe four circumstances under which a financial auditor may report Hippo Securities Exchange to the Authority. (4 marks)

(Total: 20 marks)

QUESTION THREE

Grafty Company Limited is a registered public limited company which provides real estate consultancy services in your country. Grafty Limited intends to open a bank account with Lion Bank Limited which is at an advanced stage of formulating, adopting and implementing internal control measures and other procedures to combat money laundering.

You are the money laundering reporting officer of Lion Bank Limited and you have been requested to prepare a summary on the following matters:

- (a) Six particulars that will be required from Grafty Limited with relation to opening a bank account at Lion Bank Limited. (6 marks)
 - (b) Six internal measure that Lion Bank Limited should put in place to combat money laundering. (6 marks)
 - (c) Three administrative actions that the regulator may take against Lion Bank Limited for contravening Know Your Customers (KYC) rules. (3 marks)
 - (d) Five types of designated non-financial businesses or professions. (5 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) You are a financial markets consultant and have been approached by your client, Jane Smith, to advise her on the operations of a Collective Investment Scheme.

Required:

Advise Jane Smith on four parties involved in the organisation and operation of a Collective Investment Scheme. (4 marks)

- (b) With reference to regulation of financial services:
 - (i) Outline four sources of funds of the Sacco Deposit Guarantee Fund (SDGF). (4 marks)
 - (ii) Identify six sources of funds of the Insurance Regulatory Authority Fund (IRAF). (6 marks)
 - (c) Discuss six functions of the Capital Markets Authority with respect to central depositories. (6 marks)
- (Total: 20 marks)**

QUESTION FIVE

In the context of corporate governance in financial markets intermediaries:

- (a) Highlight seven elements that should be contained in the corporate code of conduct for a market intermediary. (7 marks)
 - (b) Discuss three duties of shareholders in ensuring that they protect, preserve and actively exercise their authority. (6 marks)
 - (c) Outline seven matters in respect of which a market intermediary is required to give notice of not less than twenty eight calendar days to the Capital Markets Authority. (7 marks)
- (Total: 20 marks)**
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