



OFFICE OF THE DEPUTY PRINCIPAL  
ACADEMICS, STUDENT AFFAIRS AND RESEARCH

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# UNIVERSITY EXAMINATIONS

## 2020/2021 ACADEMIC YEAR

THIRD YEAR SECOND SEMESTER MAIN/REGULAR EXAMINATION

FOR THE DEGREE OF BACHELOR OF BUSINESS  
MANAGEMENT

**COURSE CODE:                    BBM 313**

**COURSE TITLE:                 LAW OF FINANCIAL MARKET**

**DATE: 22<sup>ND</sup> JULY, 2021**

**TIME: 1 P.M TO 4 P.M**

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INSTRUCTION TO CANDIDATES

- SEE INSIDE

THIS PAPER CONSISTS OF 3 PRINTED PAGES

PLEASE TURN OVER

BBM 313

REGULAR/ MAIN

COURSE CODE: BBM 313

COURSE TITLE: LAW OF FINANCIAL MARKET

STREAM: BBM

DURATION: 3 Hours

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**INSTRUCTIONS TO CANDIDATES**

- i. Answer Question **ONE** and any other **TWO** questions.
- ii. Maps and diagrams should be used whenever they serve to illustrate the answer.
- iii. Do not write on the question paper.

**QUESTION ONE**

- (a) A vitiating factor is one which spoils the contract, rendering it imperfect. Support this statement (6 marks)
- (b) Assess the aims of regulating financial sector in Kenya (8 marks)
- (c) State the difference between the following terms as used in securities exchange
  - (i) Legal versus illegal insider trading (4 marks)
  - (ii) Strong versus weak form of the efficient market hypothesis (4 marks)
- (d) Ideally, rights issue gives a right to the existing shareholders to purchase additional new shares in the company. Ascertain the justification of right issue by most companies. (8 marks)

**QUESTION TWO**

The Corporate Governance guidelines set out requirements for corporate governance for public listed companies and issuers of securities in the capital markets. Shed light on this statement by examining the following main provisions of corporate governance;

- (a) Audit committee obligations (10 marks)
- (b) Board of directors' obligations (10 marks)

**QUESTION THREE**

The introduction of central depository system (CDS) in Kenya sought to result in the elimination of all the problems connected with ownership, trading and transfer of securities. Discuss the following terms as used in CDS;

- (i) Immobilization of securities (5 marks)
- (ii) Dematerialization of securities (5 marks)
- (iii) Share registrar (5 marks)
- (iv) Clearing house (5 marks)

**QUESTION FOUR**

- (a) Summarize the components of a prospectus as a legal disclosure document that provides information about an investment offering to the public. (10 marks)
- (b) Explain the repercussions of non-disclosure of information in the financial world. (10 marks)

**QUESTION FIVE**

Commercial banks serve as agents of their customers by helping them in collecting and paying cheques, dividends, interest warrants, and bills of exchange. Also, they pay insurance premiums, utility bills, rent, and other charges on behalf of their clients.

- (a) In law of agency, the commercial banks as agents is held liable under certain circumstances. Discuss. (12 marks)
- (b) Determine the ways in which commercial bank may terminate the agency (8 marks)