



External Integrated Summative Assessment (EISA) PAPER 2 - TRADING AND SETTLEMENT

DATE OF PAPER	EISA
ASSESSOR	Rudi Britz
MODERATOR	Kashnie Naidoo
WRITING TIME	2 Hours
READING TIME	30 Minutes
TOTAL EXAM TIME	2 Hours and 30 Minutes

PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This examination is a closed book examination and is designed to be completed within 2 hours. There is 30 minutes reading time allocated before the start of writing the paper.
2. Please check you have answered ALL the required questions in the **right coloured Answer Books** and numbered your questions correctly. There is no need to elaborate outside of the scope of the question. Lengthy answers are unnecessary. Provide answers concisely and explicitly.
3. The total mark for Paper 1 is **120**. A pass mark for Paper 1 is **50% (60/120)**. An average pass mark of **65%** is required for Paper 1 and Paper 2.
4. There are four (4) sections to the examination.

Answer Book	Mark Allocation
PINK BOOK	
SECTION A - Answer all questions from this section	
SECTION B - Answer all questions from this section	
YELLOW BOOK	
SECTION C - Answer all questions from this section	
SECTION D - Answer all questions from this section	

5. All answers to each question must in SECTIONS A, B & C to be on a new page. All answers to the questions in SECTION D must be on one page. You may answer the questions in any order as long as the questions are CLEARLY NUMBERED and in the correct coloured Answer Book.
6. The Act - - means the Financial Markets Act, No 19 of 2012, the expression 'the Act' may be used in your answers.
7. 'JSE' – means the JSE Limited, the expression 'JSE' may be used in your answers.
8. 'The Rules and Directives' – means the Rules and Directives of all the markets of the JSE, as amended, the expression, 'the Rules and Directives' may be used in your answers.
9. 'Strate' – means Strate (Pty) Limited, as settlement system achieving DvP (Delivery vs Payment) by transferring ownership of securities by electronic entry in a CSD and transferring funds via the NPS of the SARB.
10. A non-programmable calculator should be brought by each candidate to be used in the Paper. No mobile devices or any other form of electronic devices are permitted.
11. All answers must be written in the provided Answer Book/s. No Answer Books will be marked if written in pencil. Answers must be legible
12. All forms provided are to be completed as required and as part of the Institute's assessment requirements.

PAPER 2 - TRADING AND SETTLEMENT - December 2015

Answer the question in this section

PINK BOOK - SECTION A - QUESTION 1 (20 marks)

Andrew Murray is one of the top private client portfolio managers at ZED Securities, which is part of a greater Investment Bank. He creates and uses model portfolios to place clients into appropriate investments. He meets a new prospective client for the first time and explains that he cannot guarantee that he will earn in excess of 20% on equities for the client during the current year, however promises he can provide a realistic range within which the clients return will lie. He advises the client that the range of returns promised is very popular with his current client base and is based on his previous 5 years history. He further advises that each year he develops the range using various financial models and forecasts.

Andrew furthermore states that one of the great advantages of working within a stockbroking firm that belongs to an Investment Bank is that often they are given insight to company information from their corporate finance department regarding transactions a little before it is made public knowledge adding considerable value to all the broking clients returns in their portfolios.

Sensing the client's eagerness to invest, Andrew proceeds to requests that the client deposit funds immediately into the firms trust account even though his account has not been opened as yet, so that Andrew can begin Investing immediately on behalf of the client as soon as possible.

1. Based on ethical and fair behavior, do you believe that the Andrew Murray can give the above advice regarding his returns, promising his potential new client realistic returns within a specific range?

Answer: No, Andrew Murray has in fact mislead and misrepresented his performance by guaranteeing the client a return range as well as implying that future performance is attainable based on his historical returns.

(2 marks)

2. Is there any reason to be concerned about the relationship between the Corporate Finance Department and the Stockbroking Division?

Answer: Yes, although he is in a privileged position to receive information before the public, he may not act on this information and use this to his or his client's advantage. Clients cannot be given any information before hand as this is seen as unethical and unfair dealing as it would give clients favorable information that may not be public. This would be considered a contravention of the Act.

(3 marks)

3. In respect of 2 above, what processes and procedures do you believe the Company compliance officer should put in place within the firm ensuring that these principles are not breached?

Answer:

- The firm should create physical and informational Chinese walls internally to prevent the exchange of non-public information between the investment banking and stock broking operations to avoid any conflict of interests, possible unfair and unethical dealing.
- A restricted list of shares could be created ensuring that no dealing would take place in shares that the company may have privilege information in that has not been made public
- A process whereby all client research and investment recommendations and any company information should be communicated and disseminated SIMULTANEOUSLY to all clients ensuring fairness and guaranteeing that no one has any unfair advantage due to the fact they may have non- public information.
- The Company and compliance office should ensure that all staff are trained and aware of the necessary rules and regulations regarding market abuse, insider trading the distribution of information – authorised and unauthorised information

(6 marks)

4. Do you believe that Andrew Murray has followed the proper process with regards to new client on boarding? Also discuss why Andrew may or may not be in breach of his obligations to the client when requesting client to pay cash into the firms trust bank account.

Answer:

- He has not followed the proper processes and procedures with regards to on boarding new clients and FICA
- He has not entered into the appropriate mandate with the client's and got the clients to sign appropriate, documents and risk disclosures.
- He has not performed the necessary client identification and verification as required by FIC ACT - prior to the cash being deposited into the firms account.
- The account has not been opened and has not been screened against the necessary sanctions list.
- He has not obtained information regarding the client's financial situation, investment experience, particular needs and objectives in connection with the services required, to enable him to make an appropriate investment decision;
- He has not conducted an analysis, based on the information obtained, for the purpose of making the correct investment decision;
- He has not identified the JSE authorised investments that will suit the client's risk profile and financial needs, subject to the terms of any mandate provided to the member by the client.
- He has not assessed the clients knowledge on markets and with regards to investing
- He has not got the account opened at the broking firm.

(9
marks)
(Total 20
marks)

TOTAL SECTION A: 20 Marks

END OF SECTION A

SECTION B - PINK BOOK

QUESTION 2 [16 marks]

The relevant calendar is as follows:

2017 DECEMBER						
SUN	MON	TUE	WED	THU	FRI	SAT
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

www.free-printable-calendar.com

*NOTE: Public Holidays and incorporate into trading cycle - taking into consideration all Public Holidays

***Saturday 16th * Monday 25th, * Tuesday 26th December – PUBLIC HOLIDAYS**

Your firm bought 10 000 Naspers Ltd shares at 214000 cents per share on the JSE Equity market on behalf of an existing non-controlled client on **Wednesday 20th December 2017**, on the client's instructions. This is a client that has been with your firm for many years, who is not a managed account and is well respected in the investment community.

You are required to answer the following practical questions on the trade:

- (a) What day and date is settlement day?
Answer: Wednesday 27th December is the settlement date for trade (1) 0.5/0.5
- (b) By when (time, day and date) must the trade be allocated to your client?
Answer: 18:00, Wednesday, 20th December 2017 (1, 5) 0.5/ 0.5/0.5
- (c) By when (time, day and date) must the trade be communicated to your client?
Answer: 12h00 T + 1, Thursday, 21st December (1,5) 0.5/0.5/0.5
- (d) By when (time, day and date), in the absence of notification from the client to the contrary, will a trade be deemed to have been accepted by the client? **Answer:** 18h00 T + 1, Thursday, 21st Dec
- (e) By what day, date and time must the client ensure and procure that he is able to settle this Trade on settlement date?
Answer: 12h00 T + 2 Friday 22nd December (1, 5) 0.5/0.5/0.5
- (f) What action are you entitled to take if your client has not ensured and procured that settlement will take place on settlement date by the time and date specified in (e) above? (2)
Answer: in respect of a purchase transaction, sell such equity securities for the account of the client and claim the difference between the purchase consideration of such securities and the selling consideration for such securities 0.5 / 0.5/0.5/0.5
- (g) By what time, day and date, are you obliged to take action if your client's CSDP has not committed to settle this trade on settlement date? (1,5)
Answer: 16h00 T+2 Friday 22nd December 0.5/ 0.5 /0.5
- (h) What must you do and by when, if your client's CSDP does not meet the settlement obligations, and your firm does **not** have the funds to meet this purchase? (3)
Answer:
 1. the member must endeavour to enter into an arrangement to ensure that it settles on settlement date 0.5/0.5
 2. If unable to enter into such arrangement, the member must notify the Settlement Authority ; 0.5/0.5/0.5
 3. Immediately 0.5

Section B – continued
Question 2 - continued

- (i) What are you obliged to do and by when, in terms of rules 10.100.1.1 & 2, if your client's CSDP did not commit to settle this trade on settlement date on behalf of your client by the time and date required as stated in (g) above, **but fortunately** the Settlement Authority was **able** to procure settlement of the transaction by means of lending the necessary funds to your firm, enabling settlement? (2.5)

Answer: the member shall, in terms of rules 10.100.1.1 & 10.100.1.2,

1. by no later than the close of Business on the next business day, to sell such securities 0.5/0.5/0.5
2. either for the client's account or for the member's own account in order to 0.5/0.5
3. ensure the return of the borrowed funds to the Settlement Authority. 0.5

Total 16 Marks

QUESTION 3 (19 marks)

Your broking firm has a Private Equity Fund Client who approaches your senior dealer on the afternoon of **27th November 2017** requesting that he assist them with the selling of a large equity holding (viz. 25 000 000) in ANG. They are prepared to trade below the market so as to move the entire block, but would not like to go below a discount of 5%.

After consultation with the necessary parties within the firm, it is decided to do this as an accelerated book build with existing clients starting at **08h00 on 28th November 2017, for 24 hours.**

Your senior dealer launches the accelerated book build at **08h00 on 28th November 2017**. During the day of **28th November 2017** a JSE broker contacts your senior dealer and advises him that they have heard about the book build and asks if they may enter a bid in the auction as they wish to apply for shares for their discretionary clients. Your senior dealer advises them that they may participate, if they wish.

Once the book build has closed at **08h00 on the 29th November 2017**, the following information is available –

- Your senior dealer is away ill **on 29th November 2017** and you are required to attend to the entire transaction in his absence.
- Buyers are as follows –
 - a) 10 000 000 ANG shares – Foreign Hedge Fund ABC – existing client
 - b) 10 000 000 ANG shares – Local Fund XYZ – existing client
 - c) 5 000 000 ANG shares – JSE Broker who applied for shares for his discretionary clients.
- Closing price of ANG on 28th November was 9500 cents.
- Agreed that 25 000 000 ANG shares are to be sold at 9025 cents, which is at a 5% discount to the closing price on **28th November 2017**.
- ANG EMS is 45 000 shares

On the **29th November 2017** Fund XYZ, [(b) above], asks you to buy an additional 1 500 000 ANG during the day of the **29th November 2017** at market for them. They also advise you that they have a small internal account where they need to raise funds and have to sell 100 000 ANG shares which they are happy for you to book over with their purchase order.

You buy the 1 500 000 in the market through the central order book for them over and above allocation from the accelerated book build. On reporting this market trade to Fund XYZ, the fund asks you to book over the

100 000 ANG at the 9450 cents as a late trade and says that as it is such a small amount of shares, it will not make a difference at all to the average of the buying price due to the size.

• On the **29th November 2017** ANG shares traded as follows –

- Opened on the **29th** at 9560 cents
- Closed on the **29th** at 9288 cents
- Low on **29th** of 9196 cents
- High on the **29th** of 9900 cents
- Daily average on the **29th** 9415 cents

QUESTION 3 [19 marks]

Answers are required to the following:

A. Can you book the 25 000 000 ANG trade at 9025 cents on the **29th November 2017**? Give reasons for answer **(3 marks)**

Answer:

Yes, it can be booked away from the market as an off book trade, either as a book-build trade or a block trade, as these are not challenged by the market.

B. How would you book the 25 000 000 ANG trade? Please explain what trade type/s is/are required to be booked, why you need to use that/those trade type/s and what your dealer must do to comply with ALL the relevant rules and directives?

(10 marks)

Answer:

Block Trade criteria

15.1 In order for a transaction in an equity security to qualify to be submitted to the JSE equities trading system as a Block Trade in terms of rule 6.40.2, or an Off Order Book Principal Trade in terms of rule 6.40.8, the transaction must comprise at least the following specified values, based on the segment to which the equity security is allocated:

Segment Values

ZAO1 the lower of –

- 30% of the average daily value, subject to a minimum of R10 million; or a nominal value of R100 million

ZAO2 the lower of –

- 30% of the average daily value, subject to a minimum of R5 million; or a nominal value of R100 million
- All other segments 30% of the average daily value, subject to a minimum of R1 million

15.2 The minimum value of Block Trades and Off Order Book Principal Trades in new listing of an equity security on the first day of trading, prior to the average daily value for that equity security being calculated, must be as follows, based on the segment to which the equity security is allocated:

Segment Value

- ZAO1 R10 million
- ZAO2 R5 million
- All other segments R1 million

15.3 After the first day of trading in a new listing of an equity security, the JSE will commence the calculation of the average daily value of the particular equity security and thereafter the criteria in BT 15.1 will apply.

NOTE: You would not have to book (a) above out as “OP” as it has already been booked out as part of the Block Trade book over above. However should candidate book (a) as an OP on the trading system after having booked it as a BT they may but then have to state definition of an OP and comply with the OP rules & directives in their answer

OP Trade (Off Order Book Principle)

6.40.8 Off Order Book Principal Trade

An off order book principal trade is a transaction where a member trades as a principal in a single equity security where the transaction -

6.40.8.1 has a minimum value of R500 000; and

6.40.8.2 comprises at least six times the exchange market size;

except where the transaction is with a foreign professional market participant in which case no minimum value or quantity of equity securities will apply.

Book build Trade - a Bookbuild trade (“BK”) is a transaction where a member trades in a single equity security as an agent or a principal with another member in order for the second member or its clients to participate in a Bookbuild.

The member managing the Bookbuild must advise the Director: Surveillance of the Bookbuild prior to reporting a Bookbuild trade.

The trade (c) would need to be booked to the JSE broker as a Bookbuild trade (BK). You need to advise the Director: Surveillance before trade booking. The trade is required to be reported to the market immediately on booking.

C. Can you book the 100 000 ANG internal book over as a late trade at 9450 cents as per Fund XYZ’s request? Give reasons for your answer. (3 marks)

Answer: No, it did not take place after the market closed. It does not meet any one of the late trade criteria to be considered as such. In addition the price at 9450 cents cannot be used as it does not comply with the late trade rule.

D. If the Fund XYZ requested that you book the 10 000 000 ANG shares from the book build for

Fund XYZ and the 1 500 000 ANG shares purchased in the market for them at an average price on one contract note, are you able to do this? Give reasons for your answer. (3 marks)

Answer: No, a broker cannot mix “off market” trades with “on” market trades as On Market trades are guaranteed by the JSE and Off market trades not guaranteed by the JSE. In addition, off market trades are ring fenced for settlement purposes.

QUESTION 4 (15 marks)

(Total 19 marks)

A trader answers a call from a client who states that he wishes to “align the price” of an illiquid listed equity security and requests the spread price of the share. The buy and sell prices are given and the client instructs the trader to sell 100 shares on his personal account at a price that is much higher than the last price that was traded. The client then, during the same telephone conversation, instructs the trader to buy 100 of the same shares at the same inflated price on the account of a Close Corporation of which he (the client) is the only member and which bears his name. The trader enters both orders into the JSE equities trading system and the orders match.

You are required to:

(a) Advise whether any contravention/s of the Act occurred during this transaction; and

Answer: The two orders entered by the trader resulted in a trade for which there was no change in beneficial ownership. The client placed the order to sell in the knowledge that an opposite order at the same price was going to be entered.

The trade created a false impression of the price of the security concerned, for reasons that were of benefit to the client.

(2 marks)

(i) if so, what the contravention/s is/are and who the responsible person/s is/are; or

Answer: In these circumstances it is possible that the client has contravened section 80(1) (a) of the Act, read with section 80(3) (a), as the trade involves no change in beneficial ownership, and section

80(3)(b) because the order to sell was given in the knowledge that an order to buy at substantially the same price would be entered. The resultant transaction gives the impression of trading activity in the security, which is at an artificial price, far in excess of the last traded market price.

In entering both orders, it is also likely that the trader and/or the member may have contravened section 80(1)(b) of the Act because it could be argued that a reasonable trader and/or member ought to have known that they were participating in a prohibited trading practice in facilitating the client's objectives.

(7 marks)

(ii) If not, why the transaction is not considered to be a contravention in terms of the Act.
There are two contraventions!

(b) Comment on the duties and responsibilities of both the trader and the member by whom he is employed in terms of the Act with regard to transactions of this type

Answer: The candidate's comments must include the main themes with regards to market manipulation and market abuse as well and the training of staff with regards to these topics included in these in order to score marks:

- The importance of training for traders is particularly evident in this example.
- Even if the member has implemented system parameters to prevent the entering of orders that deviate substantially from the last traded price, it is likely that such a control has the facility to be overridden by the trader through the entering of a password.
- In the absence of training as to the factors to consider, the trader could choose to override the control and enter the orders, having not been equipped with the ability to identify the abusive elements of the trade.
- The situation could be exacerbated if the trader finds himself in a situation in which he feels pressurised to meet a client's expectations or if the trader is exceptionally busy due to the level of market activity and therefore only focuses on the details of the instruction and not the possible consequences thereof.
- Appropriate training should alert the trader to the fact that the trade would have the effect of the shares being transferred without any change in beneficial ownership as well as the fact that the significant increase in the price relative to the previous reference price requires further consideration before the orders are placed.
- Proper training and guidance should also address those circumstances in which the system controls may and may not be bypassed in respect of orders that are entered at prices that would result in trades that deviate from the last price traded and under which circumstances an order should be referred to a senior employee for further approval.
- A heightened awareness of the specific words used by the client in stating what they want to achieve with an order (in this example "align a price"), the client's relationship with the accounts on which he is authorised to trade and the nature of the two orders given, when considered together, all contribute to the formation of a perception of the intention of the client.
- Particular caution should be exercised in any situation in which a client's stated or apparent intention is to move the price of a security to a particular level.

(6 marks)

(Total 15 marks)

[TOTAL SECTION B: 50 MARKS]

END OF SECTION B

SECTION C – YELLOW BOOK

Answer ALL questions from this section.

QUESTION 5 [16 marks]

- (a) The Settlement Principles for Transactions in Equity Securities are specified in the JSE Equity Rule 10.30.

You are required to set out these Principles in DETAIL.

(8 marks)

Answer

- | | | |
|----|--|----------------|
| 1) | Contract note by contract note. | 0.5/0.5 |
| 2) | Between ultimate buyer and ultimate seller. | 0.5/0.5 |
| 3) | Rolling and contractual settlement. | 0.5/0.5 |
| 4) | On a net basis per member, per equity security. | 0.5/0.5 |
| 5) | Where <u>reported transactions are ring-fenced</u> : | 0.5 |
| | - Multiple settlement groups per security; | 0.5/0.5 |
| | - Multiple contract notes per trade type, settling in the same group per trade type. | 0.5/0.5 |
| | - May be linked to indicate settlement dependency
(but no netting across groups). | 0.5/0.5
0.5 |

AND

- (b) “Ring-fencing” was introduced into the settlement principles for Transactions in Equity Securities to separate guaranteed trades from trades that are not guaranteed and reduce the size of the net settlement batch and thereby reduce the likelihood of batch failure.

You are required to:

- (i) List the criteria for “ring-fencing”?

(5 marks)

Answer

- | | | |
|----|--|---------|
| 1. | Off Book trade (Report only trades), not subject to challenge also know as arranged trades | 0.5/0.5 |
| 2. | The JSE does not give settlement assurance /guarantee | 0.5/0.5 |
| 3. | Normally, only one Broker is involved | 0.5/0.5 |
| 4. | The identity of the seller and buyer is known before the Broker who reports to the JSE equity trading System | 0.5/0.5 |
| 5. | The deals must link the ultimate buyer with the ultimate seller | 0.5/0.5 |

- (ii) Explain which transactions in Equity Securities do not have settlement assurance by a member or the JSE.

(3 marks)

Answer:

Off book trades with no Member Guarantee (Rule 10.20.3)

Settlement assurance in rules 10.20.1 & 10.20.2 shall not apply to off book trades where either one or two members are involved and where the clients who are parties to such off book trades have, between themselves, concluded the terms of the transaction and instructed the member or members to report the transaction through the JSE equities trading system.

A client will have no recourse against a member in respect of such transactions.

Total 8.0

TOTAL 16.0

Section C continued

QUESTION 6 [10 marks]

In terms of Section 21 of the Act, an authorised user is obliged to segregate funds of clients (other persons) from those of the authorised user.

- (i) What funds is a member obliged to deposit into a trust account and by when? (2 mark)

Answer (i)

(i) payment or cash received from a client must be deposited on the day of receipt: Provided that any deposit that is made by a client directly into an authorised user's own account, or any deposit that is received after banking hours, must be transferred into such trust account by the start of business on the next day. 0.5/0.5
1.0

- (ii) For what purposes may a member withdraw funds from such a trust account? (1 mark)

Answer (ii)

- (ii) (a) to the person entitled to the payment; or 0.5
(b) in terms of any other law or the exchange rules 0.5
- (iii) What must a member do if funds deposited and then withdrawn from the trust account are not subsequently honoured? (1 mark)

Answer (iii)

- (iii) must pay the shortfall arising from such default into the trust account immediately. 0.5/0.5
- (iv) What is the particular significance of the inclusion in Section 21(3) of the reference to the Financial Institutions (Protection of Funds) Act No. 28 of 2001? (2,5 marks)

Answer (iv)

- (iv) This is specifically referred to in Section 21 (3) of the Act to ensure that identifiable third party funds are covered by this section even if the member fails to segregate such funds. 0.5
In Section 2(a) of that Act it states, *inter alia*: that a person “must with regard to such funds observe the **utmost good faith** and exercise proper care and diligence;”. 0.5
Further Section 10 of that Act provides for a fine or imprisonment for a period not exceeding 15 years plus being required to refund any profit made and compensation for damages, on conviction. 0.5
0.5
- (v) What is the purpose of the JSE Trustees Proprietary Limited, as detailed in the JSE Equity Market Rule 2.100? (3,5 marks)

Answer (v)

- To accept from members all funds arising from time to time from accounts operated by members on behalf of clients in terms of the rules. 1.5
- To repay such members the funds which are required to be repaid to clients by the member. 1.0
- To repay members the funds which are required to meet any client obligation to the member arising out of transactions or services provided for in the rules. 1.0

(Total: 10 marks)

QUESTION 7 [4 marks]

You are required to define the following terms as per the JSE Interest Rate and Currency Derivatives Rules:

(a) Initial margin; (1 mark)

Answer (a)

paid by a trading member or client whenever the risk of loss, as determined by JSE Clear, changes with respect to the aggregate positions of such trading member or client.

(b) Variation margin; and (1 mark)

Answer (b)

paid to or by a trading member or client in whose name a position in a futures or option contract is registered as the result of the marking-to-market of a position or the closing out of a position or part thereof

(c) Additional margin (2 marks)

Answer (c)

A clearing member may require a trading member with whom it has entered into a clearing agreement to deposit with it, with respect to the proprietary position of the trading member or the position of any of the clients of the trading member, an amount of additional margin as agreed upon between the parties in terms of the clearing agreement.

A trading member may require a resident client to deposit with it, with respect to the resident client's position, an amount of additional margin as agreed upon between the parties in terms of the client agreement.

(Total: 4 marks)

[TOTAL SECTION C: 30 marks]

END OF SECTION C

SECTION D – YELLOW BOOK

- Answer ALL questions from this section.
- All the answers to this section must be on one page.
- All the questions in this section are multiple choice.
- Just write the question number and the letter corresponding to the correct answer or write “True or False”, whichever is required, in your Answer Book.
- The mark/s for each multiple choice question is given next to the question number.
- Question will be marked either correct for full marks or incorrect for no marks.

[Answer required to be awarded the mark/s is in **blue** an explanation of the required answer to assist readers in understanding, where considered necessary, is **in red**.]

QUESTION 8 [3 marks]

INSIDER TRADING – Which of the following statements is incorrect?

In terms of Section 78 of the Act An insider is not guilty of any offence if such individual proves on a balance of probabilities that he or she-

(a) In terms of any offence contemplated in 1(a):

- i) only became an insider after he or she had given an instruction to deal to an authorised user and the instruction was not changed in any manner after he or she became an insider
- (ii) was acting in pursuit of a transaction in respect of which:
 - aa. All parties to the transaction had possession of the same information.
 - bb. Trading was limited to the parties in aa.
 - cc. Transaction was not aimed at securing a benefit from exposure to movement in the price of a security, or a related security resulting from the inside information.

(b) In terms of any offence contemplated in 2(a):

- (i) is an authorised user and was acting on specific instructions from a client, and did not know that the client was an insider at the time
- (ii) only became an insider after he or she had given the instruction to deal to an authorised user and the instruction was not changed in any manner after he or she became an insider
- (iii) was acting in pursuit of a transaction in respect of which:
 - aa. All parties to the transaction were in possession of the same inside information.
 - bb. Trading was limited to the parties in aa.
 - cc. Transaction was not aimed at securing a benefit from exposure to movement in the price of the security, or a related security, resulting from the inside information.

(c) In terms of any offence contemplated in 3(a):

is the person on whose behalf the dealing was done and had any of the defenses available to him or her as set out in subsection (2)(b)(ii) and (iii) of Section 78.

(d) In terms of any offence contemplated in 4(a):

disclosed the inside information because it was necessary to do so for the proper performance of the functions of his or her employment, office or profession in circumstances unrelated to dealing in any security on a regulated market and he or she at the same time disclosed that the information was inside information.

(e) In terms of any offence contemplated in 5(a):

would have acted in the same manner even without the inside information.

- (f) None of the above
- Section D – continued
Question 8 - continued

Answer: (e) – 3 marks [*Was in SSA but excluded from the FMA*]

QUESTION 9 [1 mark]

BOND SETTLEMENTS – Which of the following statements is correct?

In terms of JSE IRC Rules “A commitment by a CSDP to settle a bond transaction in respect of a member settled client and the proprietary transactions of a trading member in terms of rule 9.100.5 shall become unconditional as at?”

- (a) 11h00 on the settlement date.
- (b) 12h00 on the settlement date.
- (c) 12h00 on T + 2.
- (d) 16h00 on T + 2.
- (e) None of the above.

Answer: (a) – 1 mark [*Rule 9.100.6*]

QUESTION 10 [1 mark]

BOND SETTLEMENTS – True or False?

In terms of JSE IRC Rules the settlement cycle for spot Bonds is three (3) business days.

True or False

Answer: True – 1 mark

QUESTION 11 [1 mark]

BOND SETTLEMENTS – True or False?

In terms of JSE IRC Rules the Settlement Authority may not enter into a carry or repurchase transaction through the trading system on behalf of a trading member or client to facilitate the settlement process and manage the risk associated with such process.

True or False

Answer: False – 1 mark [*Rule 9.30.2.5*]

QUESTION 12 [1 mark]

EXERCISE OF OPTION CONTRACTS – True or False?

Upon the exercise of an option by a trading member who has a proprietary long position in an option contract, the person in whose name the long position in the option contract was registered shall be deemed to have bought or sold the underlying instrument of the option contract in question at the strike price from or to JSE Clear.

True or False

Answer: True – 1 mark [*Rule 8.90.2*]

QUESTION 13 [1 mark]

EXERCISE OF OPTION CONTRACTS – True or False?

In terms of JSE IRC Rules “A client in whose name a long position in an option contract is registered may exercise the option on the expiry date up to the expiry time of the option contract only by written notice to the trading member with whom he dealt in order to open the long position.”

True or False

Answer: False – 1 mark [*Written or verbal Rule 8.90.1.1*]

QUESTION 14 [1 mark]

FINANCIAL RESOURCES – Which of the following statements is correct?

In terms of the JSE Equity Rules “A member must on admittance and at all times thereafter hold adjusted liquid capital which complies with the minimum requirements calculated in accordance with directive DC 2, sufficient to meet ?”

- (a) its fixed expenditure for a period of 13 weeks or R400 000.
- (b) its fixed expenditure and its risk requirement.
- (c) its risk requirement.
- (d) its base requirement and its risk requirement.
- (e) none of the above.

Answer: (d) – 1 mark [*Rule 3.30*]

QUESTION 15 [1 mark]

FINANCIAL RESOURCES – Which of the following statements is correct?

In terms of the JSE Equity Directives “A member may add to the adjusted liquid capital, solely for the purpose of meeting its Fixed Expenditure Base Requirement, such amount of the that can be evidenced to the Director: Surveillance as being capable of realising within a period of 13 weeks, after repayment of any related secured loans.”

- (a) impaired capital
- (b) intangible assets
- (c) illiquid assets
- (d) guarantees provided
- (e) none of the above

Answer: (c) – 1 mark [*Directive DC 2.2*]

QUESTION 16 [4 mark]

ADJUSTED LIQUID CAPITAL – Calculate surplus adjusted liquid capital

From the following information calculate the member’s **surplus adjusted liquid capital**:

1. 13 weeks fixed expenditure base requirement R550 000.
2. The motor cars included in fixed assets which have been fully paid for can be sold for R230 000 cash.
3. The risk requirements are:-
 - * Equity position risk R160 000;
 - * Bond position risk R132 000;
 - * Counterparty risk R113 000;
 - * Large exposure risk R42 000.
4. Adjusted Liquid Capital R800 000.

5. **Answer:**

- (a) R 263 000
- (b) R 33 000
- (c) R 174 000
- (d) R 133 000
- (e) None of the above.

Answer: (b) – 4 marks

Base requirement		550 000
Less: Motor Cars, at agreed value		<u>(230 000)</u>
		320 000
PRR – Equities	160 000}	
PRR – Bonds	132 000}	
CRR	113 000}	
LER	42 000} =	<u>447 000</u>

Minimum Adjusted Liquid Capital (ALC)	767 000
Adjusted Liquid Capital	<u>800 000</u>
SURPLUS ADJUSTED LIQUID CAPITAL	<u>33 000</u>

QUESTION 17 [2 marks]

FIXED EXPENDITURE BASE REQUIREMENT – In respect of an Equity Member in terms of the Equity Rules & Directives, which of the following statements is incorrect?

In determining fixed cost amounts, the following principles shall be applied –

- (a) Depreciation and profits or losses on sales of fixed assets are non-cash items and hence shall not be taken into account.
- (b) JSE charges relating to active trading shall be excluded. Fixed charges shall be included.
- (c) Non-contractual payments by way of profit shares or performance related bonuses shall be excluded.
- (d) Exceptional or extraordinary items may be excluded, subject to approval of the Director: Surveillance.
- (e) Interest paid to counterparties which is trade related may be excluded.
- (f) None of the above

Answer: (f) – 2 marks [They are all correct Directive DC 12]

QUESTION 18 [1 mark]

TRADING – In terms of the Interest Rates and Currencies Rules & Directives – True or False?

Principal assignment corrections in respect of trade due to settle on the third business day after the trade date or a later settlement date may be effected up to 17h00 on the third business day after the trade date.

True or false.

Answer: False – 1 mark [Rule 9.70.3.2 & Directive ED]

QUESTION 19 [1 mark]

TRADING – In terms of the Interest Rates and Currencies Rules & Directives – True or False?

Any late allocation or late assignment of a transaction by a trading member should be notified to the client forthwith in sufficient time to allow for the CSDP of the client or the member to commit by no later than 11h00 on the settlement date.

True or false?

Answer: True – 1 mark [Directive ED 7]

QUESTION 20 [1 mark]

ETHICS

Maya Salvatore is an investment advisor, who is meeting with a prospective client. In her initial meeting she tells the client that in her previous position at another firm she was able to grow all her clients' portfolios by 30% on average. She tells the client that she can guarantee the same performance growth should the client choose her as a portfolio manager. Which of the following statements would you agree with more strongly –

- a) She should not have implied that her past performance is an indication of her future performance
- b) She should not have implied that her past performance could guarantee the same performance in the future
- c) Stating the percentage was not in line with ethical behavior
- d) She did not breach any ethical principles
- e) She violated standards of Performance Presentation

Answer: (b) – 1 mark

QUESTION 21 [1 mark]

ETHICS

An investment manager goes from a Resources research meeting at her firm directly into a meeting with a new prospective client Mr. Lennon. The investment manager goes through all the new ideas and information that her firm discussed at the Resources research meeting but not yet disseminated to all appropriate clients. The investment manager has MOST LIKELY violated:

- a) Fair Dealing
- b) Suitability
- c) Both of a & b
- d) Neither of a nor b

Answer: (c) – 1 mark

[TOTAL SECTION D: 20 MARKS]

END OF SECTION D AND END OF EXAM PAPER