



OC: FINANCIAL MARKETS PRACTITIONER (SAQA ID: 117238)
External Integrated Summative Assessment (EISA)

EXEMPLAR PAPER 2

DATE OF PAPER	Exemplar Paper
ASSESSOR	Gordon Rennie/ Kashnie Naidoo
MODERATOR	Rudi Britz/ Erica Bruce
WRITING TIME	2 Hours 15 Minutes
READING TIME	15 Minutes
TOTAL EXAM TIME	2 Hours 30 Minutes

1. This examination is a closed book examination and is designed to be completed within two (2) hours and 15 minutes. In addition, 15 minutes reading time, before the official start of the examination, has been allocated.
2. Please check that **ALL** the required questions have been answered.
3. Please refrain from putting your name and surname anywhere on the written answer books.
4. Questions must be answered in the **Answer Books provided**.
5. Please note that there is no need to elaborate outside of the scope of the question. Lengthy answers are unnecessary. Provide concise and explicit answers.
6. The total marks for Paper 2 are **135**. A pass mark for Paper 1 is **50% (67.5/135)**.

7. There are three (3) sections to the examination:

SECTIONS	MARK ALLOCATION
SECTION A <i>Answer all questions from this section</i>	60
SECTION B <i>This section contains a CHOICE Question</i>	60
SECTION C <i>Answer all questions from this section</i>	15
TOTAL (PAPER 2)	135

8. Each question must be answered on a new page. Questions may be answered in any order and **MUST** be clearly numbered.
9. “The Act” means the Financial Markets Act, No. 19 of 2012. The expression “the Act” may be used in answers.
10. “JSE” means the JSE Limited. The expression “JSE” may be used in answers.
11. “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 answers.
12. A non-programmable calculator may be used. No mobile devices or any other form of electronic devices are permitted.
13. All answers must be written in black or blue ink in the required answer book/s. No answers written in pencil will be marked. Answers must be legible.
14. All forms provided are to be completed.

Section A

[60 Marks]

Question 1

(10 marks)

You are the Head of Trading at Serendipity Equities (Pty) Ltd, a newly approved exchange member. You are required to write a report detailing the use of the JSE equities trading system to your Board of Directors.

The detailed report must include how transactions are executed, when are off-book transactions valid, and the basis on which orders are matched. (10 marks)

Question 2

(15 marks)

External market conditions can have significant effects on the movement of a company's share price.

2.1. You are required to provide 6 market conditions (i.e., economic factors) and explain their possible respective impacts on the trading of securities? (12 marks)

2.2. Boston Ltd (BSN) is a listed company. The company's shares were trading at R200 (i.e., 20 000 cents per share) just before a share split of 8 for 1. The trading price of the share after the share split is R26 (2 600 cents per share).

Assuming all other factors affecting this BSN shares, have stayed the same, discuss the current trading price? (3 marks)

Question 3

(10 marks)

You have just completed the required examinations and have been employed as a Junior Makenzie Securities and Trust (Pty) Limited. The Head of the Equities trading desk has asked you to compile a report explaining the trade types listed below type for you to present to the junior Settlements team as part of their product training.

3.1. Bookbuild Trade (5 marks)

3.2. Late Trade (5 marks)

Question 4**(15 marks)**

A Client, John Williamson, places an order with you at 09h45 on Thursday 14th July 2020 to buy 300 000 Merafe Resources (MRF) shares at market. On viewing the ZA03 trading segment of the order book you decide that it will be in your client's best interest to try and acquire these shares through the central order book.

MRF shares are currently trading at 59c, which is the current reference price. You place your order into the trading system and in the heat of the moment override error messages on your screen, if any.

To your great surprise the entire order is immediately filled, today is going well. You are pleased until you realise that you had transposed the figures and put in a bid price of 95c instead of 59c and your entire order had been executed at 95c. The highest price that MRF have ever traded before your trade is 63c.

You are required to advise, in detail, what you would do to rectify this position. Your answer must include all the relevant prerequisites, requirements, and actions required. (15 marks)

Question 5**(10 marks)**

You are the Stockbroker in Control at Asunga Securities (Pty) Ltd. The company is in the process of appointing a new non-executive director to the Board of Directors. You are required to explain, in detail, the factors that the JSE takes into consideration when determining whether an individual meets the fit and proper requirements, so that HR can ensure that any potential candidates meet the requirements prior to being appointed in the role.

Section B

[60 Marks]

Question 6

(20 marks)

You are the Head of Settlements at Anxious Capital Securities (Pty) Ltd. Your trader has just signed up a big new non controlled (institutional) client, Marist Capital. The Compliance Team have ensured that the mandates and the account opening processes have been completed correctly to ensure compliance with the Financial Intelligence Centre Act (FICA). You have been tasked with informing Marist Capital of the relevant non- controlled client settlement obligations, ensuring compliance with the exchange rules and to facilitate an optimal settlement process.

You are required to provide the Marist with a summary of the key obligations including timelines to ensure that they are fully aware of their settlement obligations as a non-controlled client. (20 marks)

Question 7

(13 marks)

To achieve settlement between the “Ultimate Buyer and Ultimate Seller” in the case of all Non-Controlled clients the concept of “**substitution**” was introduced.

You are required to:

- 7.1. Explain what “substitution” means and how it works. (3 marks)
- 7.2. When “reverse substitution” would be applied, include the timelines, the costs and consequences thereof. (10 marks)

Question 8

(7 marks)

- 8.1. Explain the bonds settlement monitoring process? (4 marks)
 - 8.2. Explain the Bond ETP (exchange traded platform) Risk Management process? (3 marks)
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Choice Question– You are required to answer Question 9 **OR** Question 10

Question 9

(10 marks)

You are required to answer the following multiple-choice questions (MCQ), each question has been allocated 2 marks.

9.1. Margin is payable by a member before 12h00 on the second business day -

- a) in respect of a non-controlled client transaction where, by end of day on the first business day after the trade date, the CSDP of the non-controlled client has not committed to settle the transaction on behalf of that client.⁶²
- b) in respect of a non-controlled client transaction where, by end of day on the second business day after the trade date, the CSDP of the non-controlled client has not committed to settle the transaction on behalf of that client⁶².
- c) in respect of a non-controlled client transaction where, by end of day on the third business day after the trade date, the broker has not committed to settle the transaction on behalf of that client⁶².
- d) in respect of a non-controlled client transaction where, by beginning on the second business day after the trade date, the CSP of the non-controlled client has not committed to settle the transaction on behalf of that client⁶².

9.2. What are the functions that Central Services Depository (CSD) fulfils?

- a) The CSD provides trading services for the equities, bonds, and money market instruments.
- b) The CSD provides investment services for the equities, bonds, and money market instruments.
- c) The CSD provides back offices administration services to custody services providers in all markets.
- d) The CSD provides settlement services for transactions in equities, bonds and money market instruments as well as custody or depository services for securities.

9.3. A non-controlled client is defined as ...

- a) Non-controlled clients are clients where the clients act on their own behalf and have control over their own securities in a segregated account. The clients appoint an authorised user to transact on their behalf to move the securities as required to facilitate settlement.
- b) Non-controlled clients are clients where the authorised user has control over the clients' assets and cash. These clients do not surrender their share certificate(s)/custody to a CSDP therefore the CSDP has no control over their assets.
- c) Non-controlled clients are clients where the member does not have control over the clients' assets and who appoint a Central Securities Depository Participant (CSDP) to act on their behalf. These clients must surrender their share certificate(s)/custody to the chosen CSDP and open an account with the CSDP. These clients will only deal with a broker when wanting to execute a trade and must provide the broker with details of their CSDP account when trading.
- d) Non-controlled clients are clients where the member has control over the clients' assets and who appoint a Central Securities Depository Participant (CSDP) to act on their behalf. These clients do not surrender their share certificate(s)/custody to the chosen CSDP and open an account with the CSDP. These clients will only deal with an authorised user.

9.4. What Roles does Settlement Authority play?

- a) Manage settlements of transaction via central order book and risks, manage settlement of reported transactions where round fencing occurred and risk, with sole discretion and in exceptional circumstances roll settlement and in exceptional circumstances, extend trading times.
- b) Ensure that the exchange Broker Deal Accounting system is operating efficiently thereby ensuring the correct processing of transactions.
- c) Manage the settlements through delegating responsibility of settlements to all brokers and CSDP's to ensure the simultaneous irrevocable delivery versus payment.
- d) Ensuring that the management of transactions via algorithmic trading is managed by the exchange, management of operational functions performed by CSDP's and managing exchange business risk.

9.5. CSDPs act as

- a) agents to brokers and thus issue shares to clients. They also provide or facilitate uncertificated securities lending facilities to their clients.
- b) CSDPs act as third parties to client and thus liaise with the exchanges. They also provide or facilitate uncertificated securities lending facilities to their clients.
- c) CSDPs act as agents to client and thus issue statements to clients. They also provide or facilitate uncertificated securities lending facilities to their clients.
- d) CSDPs act as brokers. They also provide or facilitate funds lending facilities to their clients.

Choice Question– You are required to answer Question 9 OR Question 10

Question 10**(10 marks)**

10.1. Maya Salvatore is a portfolio manager, 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 40% 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 is in accordance with Standard III (D), Performance Presentation?

- 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

10.2. Annabel Michaelson, CFA, is an analyst at Mainstream Securities. She attends a staff meeting where she receives information that a company she is covering will be soon be acquired by Mainstream Securities. The management of Mainstream express great optimism about the acquisition. Annabel issues a research report that states that the company is about to achieve great results off the back of the success of the new acquisition deal. Annabel has:

- a) Not violated CFA Institute Standards of Professional Conduct because she had reasonable reason to assume that the statements in her report were accurate.
- b) Violated CFA Institute Standards of Professional Conduct because she misrepresented the optimism by turning it into a certainty.
- c) Violated CFA Institute Standards of Professional Conduct because she did not confirm the statements that management of Mainstream Securities made.

10.3. Michael Landon, CFA is employed by an Investment Advisor firm. In which of the following situations may Landon recommend a security, whilst remaining in compliance with Standard V (A), Diligence and Reasonable basis.

- a) Advisors' research department recommends a stock
- b) Landon reads a favorable review in a financial journal
- c) For either reason listed

10.4. The Investment banking department of Kay Investments often has information that would be of significant use to the firms stock broking clients. In order to comply with CFA Institute Standards of Professional Conduct, which of the following polices should Kay Investments adopt?

- a) Standard II (A), Material Non-public Information, Kay Investments should advise their investment banking clients to disseminate this information.
- b) Standard II (A), Material Non-public Information, Kay Investments should create physical and informational fire walls within the firm to prevent the exchange of information between the investment banking and stock broking operations.
- c) Standard III (B), Fair Dealing, all clients should be informed of all information at the same time.

10.5. Alan Newman, a portfolio manager, tells a prospective client that he cannot guarantee that the client will earn 15% on equities during the current year, but says that he can provide a range within which the clients return will lie. He advises the client that his range of returns is very popular with his current client base and has a history of 5 years. He further advises that each year he develops the range using various financial models and forecasts. Based on the CFA Institutes Standards, the portfolio manager:

- a) Did not violate any standard
- b) Violated Standard III (D), Performance Presentation
- c) Violated Standard I (C), Misrepresentation

Question 11

(10 marks)

Nautilus Securities is an exchange member authorised to provide trading services. You are the Settlements Officer. Nautilus has just onboarded a large new controlled client, Mr Meyers. You receive a call from Mr Meyers who explains that he is new to the market and would like to understand the functions of the Settlement Authority.

You are required to write a short email to Mrs Meyers clearly explaining the function of the Settlement Authority.

Section C

[15 Marks]

Question 12

(8 marks)

Real Time Services is an authorised Custody Services Provider (CSP). You are an administrative officer and that deals with the processing of Corporate Actions. You have received the following email from a client:

To whom it may Concern,

My son has bought me some Sasol Shares for my birthday. I am aware that there is a Corporate Action that is due to happen on the share. Please can you explain the following terms to me:

- what is an entitlement?
- what is a rights offer?
- What is a record date?

I look forward to your speedy response.

Kind Regards
Mr Miller Benson

You are required to send an email to Mr Benson, ensuring that you have provided for all the information requested.

Question 13

(7 marks)

Assume ABC Ltd effects an unbundling of prime assets into a new unlisted company (Hope (Pty) Ltd) and issues the shares pro-rata to the existing ABC Ltd shareholders. The split off company, Hope Pty Ltd consists of the premium assets of the pre-split ABC Ltd.

Hope Ltd declares a dividend to be paid on 31 January 2021 of R1.50 per share. We are provided with the following audited stats based on actual past figures for the unbundled assets now in Hope Ltd:

- The DY is 3% pa.
- Constant growth is 5% pa.

- 13.1. Explain what an unbundling is? (4 marks)
- 13.2. Our client, Mr Gringe holds 10% of the pre un-bundling shares of ABC Ltd and would like us to value the shares of Hope (Pty) Ltd based on their corporate action, this being the dividend declaration. Mr Gringe has a required rate of return of 9% pa. (0,5 marks)
- 13.3. Mr Gringe would also like to know the value of Hope (Pty) Ltd in one year from now, applying the constant growth model? (2,5 marks)
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