



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

**EXEMPLAR PAPER 2**  
**SOLUTIONS**

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	<b>2 Hours 30 Minutes</b>

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:

<b>SECTIONS</b>	<b>MARK ALLOCATION</b>
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
<b>TOTAL (PAPER 2)</b>	<b>135</b>

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.

**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)

**Answer to Question 1**

- All transactions in equity securities by a member must be conducted through the central order book of the JSE equities trading system, unless the transaction meets the criteria for an off-book trade. 2
  
- An off-book trade negotiated off the trading system and are only deemed to be a valid transaction once the purchase and the sale legs of the transaction have been matched and confirmed by the trading system. 2
  
- Orders entered into the central order book are matched based on the following order of priority: 0.5
  - price; 1.5
  - whether the order is visible to the market;
  - time of entry into the central order book.
  
- Members accessing JSE systems must at all times –
  - maintain and enforce appropriate security procedures which are designed to prevent unauthorised persons from having access to any JSE systems, member trading applications or client applications; and 2
  - have the necessary resources to ensure that any data sent to or received from JSE systems does not interfere with the efficiency and integrity of the equities market or the proper functioning of the JSE systems. 2

## 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)

### Answer to Question 2

2.1 1. Gross Domestic Product (GDP)

The gross domestic product (GDP) is the aggregate value of all the goods and services produced in the economy. Consequently, it is the metric for the overall performance of the economy. Thus, growing GDP means increasing personal consumption expenditure, gross private domestic investment, government expenditure on goods and services, and the net export of goods and services, which will translate into overall economic growth, a necessity for sustainable investment growth. Share prices react favourably to GDP increases.

max 2 marks per economic factor and explanation, and a maximum of 12 marks for this answer

2. Inflation

Inflation means a rise in prices as the purchasing power falls. Eroding purchasing power results in lower demand for products and services, translating into declining performance of most prospective investments.

(6 × 2 marks = 12 marks)

3. Infrastructure

Adequate infrastructure facilities are essential for economic growth which in turn enhances investor confidence. Infrastructure includes power supply, roads, railways, and in the modern economy effective communication and data transmission, as well as an effective financial market and banking sector.

4. Interest rates

The prevailing interest rate in the economy determines the cost and availability of credit and funding for development. Lower interest rates assist businesses with development because of the lower cost of finance. Usually, declining costs of finance translate immediately into increased company profitability. Conversely, higher interest rates result in higher costs of

## Answer to Question 2

production and decreasing company profitability. As we know from supply and demand, higher costs result in lower demand. Prospective investors want higher profitability.

### 5. Labour

The supply and demand of labour resources is critical to production companies. Similarly, an employed and therefore financially endowed population is important to retail companies (domestic consumption). This is aligned to education in the case where skilled labour is required.

### 6. Politics

Industrial development requires political stability. That means economic development is affected by political stability. Political instability diminishes investor confidence. Stable politics on the other hand encourage confidence and development.

### 7. Savings and Investment

Savings and investments are the saved and invested portion of GNP, which results in capital formation. Banks generally organise that the savings of some are made available as loans to productive resources. Similarly, the stock exchanges primary market functions channel investors 'savings' into listed companies. Accordingly, increased levels of savings and investment encourage growth in the stock market.

### 8. Skills development (education, research and tech developments)

The likelihood for development of financial markets and investor opportunity is a function of the quality of skills available, which in turn is driven by education. Countries with adequate education tend to excel in research and technological developments. The number of resources applied by Government on education significantly influence the economy's performance.

### 9. Taxes and regulations

The regulatory and tax environment greatly affects the performance of companies operating within that jurisdiction. This would include factors such as duties, taxes, and business compliance requirements to name a few. The more restrictions, the more expensive it is to operate within an environment. Accordingly, the less attractive those companies would be to prospective investors.

### Answer to Question 2

- 2.2
- The logical price would be R25 per share after the share split ( $R25 = \frac{R200}{8}$ ).
  - The lower price (around R25 per share) means lower concentration risk therefore a higher share price (around R26 per share) may be more palatable.
  - Broadening the prospective investor base: The lower price makes the share more accessible to more investors, thus increase in quantity demanded = increase in price.
- any three reasonable points get 1 mark each, but the maximum for this answer is 3 marks

The optics are from a 'behavioural finance' perspective better when the share price is not too high – looks undervalued.

### 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)

### Answer to Question 3

- 3.1 A bookbuild trade 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: Market Regulation of the bookbuild prior to reporting a bookbuild trade. 5
- 3.2 A late trade is a transaction where a member trades after trading hours and where the transaction is
- executed by a member acting on behalf of a client, in fulfilment of an order already entered into the JSE equities trading system, and where the counterparty is a foreign professional market participant; or 1
  - executed by a member for a professional market participant, in fulfilment of an order received prior to the end of the closing auction call session, at a price which can only be established after the closing auction call session; or 1
  - executed by a member acting on behalf of a professional market participant, in fulfilment of an order received after trading hours, where the counterparty is a foreign professional market participant; or 1

### Answer to Question 3

- executed by a member as a principal for its own account where the counterparty is a foreign professional market participant.

1

### Question 4

(15 marks)

A Client, John Williamson, places an order with you at 09h45 on Thursday 14<sup>th</sup> 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)

### Answer to Question 4

This is a clear error by a member; and the difference between the aggregate value of the trades that qualify. The value that would have resulted had such trades been executed at the reference price is R108 000  $((0.95-0.59) \times 300\ 000)$  which is more than the R50 000 required.

1

2

So, immediately upon becoming aware of the erroneous trade, you would request permission from the Director: Surveillance to cancel the trade by informing him of the original trade, giving details of such trade.

2

and the circumstances or reasons which resulted in the original trade; and

Provided the request is received by the Director: Surveillance within 20 minutes from the time of the first erroneous trade which has arisen as a consequence of an erroneous order.

1

The Director: Surveillance, upon receipt of the request, without delay but after due consideration, either accept your request; and

2

1

#### Answer to Question 4

Without delay after permission has been granted by the Director: Surveillance, a trade cancellation was submitted to the JSE equities trading system by your firm (the TSP designated by the Director: Surveillance). 2

Whenever a trade cancellation of an on-book trade is executed, the TSP responsible for the error that gave rise to the cancellation will be liable for payment of an administration fee of R10 000. 2

The TSP who requested the trade cancellation must compensate the opposite TSP, who in turn must compensate its client, for any damages suffered due to the loss of price/time priority. 1

The Director: Surveillance will, on request, determine the amount of compensation. 1

#### 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.

#### Answer to Question 5

In determining whether a person complies with rule 4.10.1.3, the JSE will take into account, inter alia, whether the person has been –

- convicted of an activity constituting a criminal offence involving fraud, theft, dishonesty or market abuse, whether in the Republic or elsewhere; 1
- held civilly or administratively liable for, inter alia, fraud, theft, dishonesty or market abuse, whether in the Republic or elsewhere; 1
- declared to have contravened legislation in respect of market abuse, money laundering or terrorist or related activity, with or without the imposition of an administrative penalty, whether in the Republic or elsewhere; 1
- disqualified by a court from acting as a director of a company; 1
- the subject of a formal investigation by any regulatory or government agency; 1
- expelled, whether as an authorised user or otherwise, from any exchange or External exchange; 1
- employed by or associated with an authorised user of any exchange or external exchange, which authorised user was expelled from that exchange and where the



**Answer to Question 5**

- person has, in the opinion of the JSE, contributed to the circumstances leading to the expulsion; 1
  - declared a defaulter on the JSE or any other exchange or external exchange; 1
  - refused entry to or expelled from any profession or vocation or been dismissed or requested to resign from any office or employment, or from any fiduciary office or similar position of trust; or 1
  - refused approval or had approval involuntarily withdrawn in respect of any status granted by a regulatory authority. 1
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## 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)

**Answer to Question 6**

The allocation of a transaction to a non-controlled client will result in the member's obligation to settle the transaction being substituted with the client's obligation to settle the transaction through the client's CSDP. 2

A non-controlled client must, by no later than 12h00 on the first business day after the trade date, give instructions to his CSDP to settle the transaction. 2

In the event of the correction of an allocation of a trade which results in a new confirmation of the trade by the member, the instruction to the CSDP to settle the transaction must be given within sufficient time to allow for the CSDP of such client to commit to settle. 2

A non-controlled client must endeavour to ensure and procure that his CSDP has committed to settle the transaction on his behalf by no later than 12h00 on the second business day after the trade date. 2

If a non-controlled client fails to secure settlement the member is advised or otherwise becomes aware, at any stage, that a non-controlled client is unable to settle a transaction, the member may proceed in the manner set out in rule 10.100. (sell out or buy in to cover risk) 3

In the absence of a commitment from the CSDP of a non-controlled client before 12h00 on the second business day after the trade date, the non-controlled client must nevertheless ensure that his CSDP commits to settle the transaction by 15h00 on the second business day after the trade date. 3

### Answer to Question 6

If a non-controlled client fails to meet his obligations which includes any indication by the non-controlled client, at any stage, that he is unable to settle a transaction, the member will, by no later than 16h00 on the second business day after the trade date, assume the obligation to settle the transaction through the member's CSDP. 3

If a non-controlled client's CSDP has committed to settling a transaction on behalf of the non-controlled client, the non-controlled client may not instruct the CSDP to revoke its commitment to settle the transaction, unless the non-controlled client receives an instruction to do so from the Settlement Authority 3

### 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)

### Answer to Question 7

7.1 Between the ultimate buyer and ultimate seller, Settlement involves comprehensive netting AND substitution of non-controlled client obligations for those of the broker [This is known as substitution] 2

At the time of commit, the obligation to settle has been accepted by the Non-controlled client and his CSDP. The Member will play no further part in that settlement. 1

7.2 If a non-controlled client fails to comply with rule 10.70.3, or the member is advised or otherwise becomes aware, at any stage, that a non-controlled client is unable to settle a transaction, the member must, by no later than 16h00 on the second business day after the trade date, assume the obligation to settle the relevant transaction. 3

### Answer to Question 7

A member must, by no later than 18h00 on the second business day after the trade date, ensure that the CSDP of the member commits to settle any transactions, in respect of non-controlled clients, that the member is obliged to settle. 3

If a member's CSDP has committed to settling a transaction on behalf of the member, the member may not instruct the CSDP to revoke its commitment to settle the transaction, unless the member receives an instruction to do so from the Settlement Authority. 2

The client will be liable for any losses, costs and charges incurred, or charges imposed, as a consequence of a breach and the member may charge interest in relation thereto. (1/2) 2

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### 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)

### Answer to Question 8

- 8.1
- Performs lender of last resort between SARB and Primary Dealer
  - Lender of last resort for IRC members. (Integrated Reporting Committee (IRC) of South Africa)
  - Balancing of the daily margin and maintenance levels of the Primary Dealers
  - Assist market regulation with cancellation of ETP trades when required to do so.
  - Monitor settlements of all ETP trades.
  - Monitoring Cash Bond settlements
  - Advising members of all uncommitted positions and potential issues.
  - Managing the same same-day window and extension thereof in the Cash Bonds Market
  - Issuing of fines for transgressions of the Rules and Directives in the Cash Bonds Market
  - Inward listing for bonds reporting.
- Award 1 marks for any of these points  
Max 4 marks awarded

### Answer to Question 8

#### 8.2 Bond ETP risk management

- The Bond ETP market is a bilateral market where exposures are maintained between Primary Dealers (PDs) without an entity interposing as a central counterparty between the PDs. 4 marks
- Credit support for trades executed on the ETP will however be available in the form of initial margin (IM).
- The IM will be calculated by the JSE and settled by PD's on a daily basis.
- Margins are paid into separate SARB Corporation for public deposits (CDP) accounts which will be opened in the name of the respective PD's.

### 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 rind 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.

**Answers to Question 9**

9.1	a	2
9.2	d	2
9.3	c	2
9.4	a	2
9.5	c	2

**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

**Answers to Question 10**

10.1	b	2
10.2	b	2
10.3	a	2
10.4	b	2
10.5	c	2

**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.

**Answers to Question 11**

- monitor the settlement obligations of members and their client's and ensure that the settlement obligations of members are met on the settlement date; 1
- monitor uncommitted settlements and take appropriate action in respect of such settlements; 1
- take action when the settlement of a transaction in equity securities is unlikely to take place on settlement date; 1
- buy and sell equity securities through the JSE equities trading system to meet any obligations arising from the management of the settlement process and the risks associated with such process; 1
- borrow, as agent, on behalf of a member as undisclosed principal, equity securities from third parties to facilitate the management of the settlement process and the risks associated with such process; 1
- levy fees, as prescribed by directive, on members for the loan of equity securities to members in order to facilitate the settlement process; 1
- impose penalties, as prescribed by directive, on members for any action or omission by a member which is potentially disruptive and/or has the effect of disrupting the settlement process and the functions of the Settlement Authority; 1
- instruct a member or a client (via the member) to roll the settlement of a purchase or sale transaction; 1
- instruct a member or a client (via the member) to close a purchase or sale transaction; 1
- and
- manage the settlement of off book trades where ring-fencing has occurred.

## 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.

**Answers to Question 12**

**“entitlement”** means any one or more of the rights or benefits which flow in respect of the securities with which the rights or benefits are integrated and any other rights or benefits accruing in respect of such securities, other than the right to ownership of the securities themselves; 3

A **Rights Offer** is an event where an offer is made by an issuer to registered owners, to subscribe for further securities, or purchase securities held by the issuer in other issuers, in proportion to their existing holdings. This offer is made either by means of the issue of a renounceable letter of right that may be sold, taken up or lapsed or by the issue of a non-renounceable letter which may only be taken up or lapsed. 3

**“Record Date”** means the business day determined by the issuer on which the holding, upon which the entitlement is based, is ascertained; 2

**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)

**Answers to Question 13**

13.1 **Un-Bundling** – also called a spin-off takes place when an existing public company 2 sells a part of its assets or distributes new shares in order to create a new independent company. Often the new shares will be offered through a rights issue to existing shareholders before they are offered to new investors. A spin-off could indicate a company ready to take on a new challenge or one that is refocusing the activities of the main business and getting rid of non-core assets.

13.2 If R1.50 is 3%, then the share price is:  $R1.50 \times \frac{100}{3}$  1.5  
= R50 per share

13.3 3.5

$$P_1 = \frac{D_1(1+g)}{(r-g)}$$

$$P_1 = \frac{R1.5(1+5\%)}{(9\%-5\%)}$$

$$= \frac{R1.5(1.05)}{(0.04)}$$

$$= \frac{R1.575}{(.04)}$$

$$= R39.375$$

$$= \mathbf{R39.38}$$