



**STRATHMORE BUSINESS SCHOOL**  
MASTER OF SCIENCE IN DEVELOPMENT FINANCE  
**END OF SEMESTER EXAMINATION**  
**MDF 82014: FINANCIAL SERVICES REGULATION**

**Date:** Tuesday, 18<sup>th</sup> May 2021

**Time:** 3 Hours

**Instructions**

1. This examination consists of **FIVE** questions.
2. Answer **QUESTION ONE** and **ANY OTHER TWO** questions.
3. Marks will be awarded based on clarity, clear exposition of ideas and logical reasoning. Where applicable, show **ALL** your workings.

**Question 1 (40 marks)**

Study the attached case and answer the following questions:

- (a) What is the issue? **(5 marks)**
- (b) Would you advise Jamii National Credit Union (JNCU) to form a bank or acquire an existing? What are the key considerations under each case? Your answer should illustrate the relevant regulatory considerations to keep in mind. **(15 marks)**
- (c) What would be the likely reaction of the relevant stakeholders, especially the regulatory custodians of the respective entities? **(15 marks)**
- (d) If you were Peterson, what advice would you offer the taskforce? **(5 marks)**

**Question 2 (20 marks)**

*Read the case below and answer the questions beneath it.*

**Execution of works for an NGO by a construction company**

*This case is extracted from a FAFT report of October 2013 on Terrorist Financing in West Africa - <http://www.fatf-gafi.org/media/fatf/documents/reports/TF-in-West-Africa.pdf>*

AZC is a construction company based in a regional capital of northern Mali. The manager DOD has a company account with a local bank, B1.

Between 11<sup>th</sup> January 2011 and 2<sup>nd</sup> April 2012, the account received several money transfers totaling CFA Francs, (XOF) 514,697,772.<sup>1</sup> One of the transfers, amounting to XOF

<sup>1</sup> At the time of the case, 1 US Dollar = 620.03 Central African CFA Francs.

92,735,646, was from a financial company. This company ordered the transfer on 14<sup>th</sup> June to pay for services rendered under a public contract. The last of these transfers was on 2<sup>nd</sup> April 2012. It shows an international NGO paid a sum of XOF 142, 497,125 for services rendered by the company.

In May 2012, DOD ordered his bank BI to transfer the sum of XOF 143,939,735, representing the balance in his account, to the account of company Y, which was opened on 24<sup>th</sup> April 2012 in bank B2, located in a neighbouring country. According to information received from the neighbouring country's Financial Intelligence Unit (FIU), company Y received four bank transfers on 3<sup>rd</sup> May, 2012 totalling XOF 298, 750,000 from the same international NGO, just days after the first transaction with bank B2 on 23<sup>rd</sup> April 2012. To justify the transfer order, DOD explained that his company wanted to temporarily transfer its activities out of the country and switch over to foodstuff business.

Company Y is a Malian company established in 2011. It is based in the same city as company AZC Mr HOM is the manager. This latter gave his bank B2 a deed of personal guarantee and solidarity established with bank B1 in Mali, but the document had every sign of a false document because it contained a name different from the one on Mr HOM's record when he was opening his bank account.

This ambiguity in the transfer order led the bank to file a suspicious transaction report to Mali's FIU, which in turn sent a report to the prosecutor to open a criminal investigation.

**Required:**

- (a) Define the term money laundering and distinguish it from terrorist financing. **(4 marks)**
- (b) In light of the case above, discuss the stages illustrating how money laundering could be taking place. **(10 marks)**
- (c) Using the case, highlight any three signs of alleged terrorist financing. **(6 marks)**

**Question 3 (20 marks)**

Based on a capital markets perspective, discuss how the following aspects can be addressed to ensure the effectiveness, efficiency and transparency in capital markets.

- (a) Prevention of market abuse **(5 marks)**
- (b) Disclosure and transparency **(5 marks)**
- (c) Corporate governance **(5 marks)**
- (d) Stability and liquidity of markets **(5 marks)**

**Question 4 (20 marks)**

- (a) Providing relevant examples, distinguish between "FinTech", "RegTech" and "SupTech". **(6 marks)**
- (b) Highlight four features of RegTech that make it superior to other regulatory mechanisms in financial services. **(4 marks)**
- (c) When the bad actors want to move funds illegally, they might utilise crypto currency. Highlight any four requirements that would help forestall potential money laundering activities associated with crypto exchanges and crypto transactions. **(10 marks)**

**Question 5 (20 marks)**

- (a) Highlight any FIVE differences between Islamic and conventional banking. **(10 marks)**
- (b) In March 2021, the United Kingdom government issued a £500 million sovereign Sukuk Al Ijarah with 5 years maturity.  
Highlight FIVE reasons why the UK government decided to go for a Sharia'h compliant Sukuk debt instrument. **(5 marks)**
- (c) Citing a relevant example, explain how takaful insurance arrangement works. **(5 marks)**

-----*End of the Question Paper*-----