

CISI Regulatory Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Questions

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- 1. How can the FCA prosecute illegal insider dealing?**
 - A. Under the FSA 2012**
 - B. Under the FSMA 2000**
 - C. Under the Companies Act 2006**
 - D. Under the CJA only**
- 2. What can the RDC issue after an appeal to TCCUT within 28 days?**
 - A. Final decision which is kept confidential**
 - B. Final decision which is published and disciplinary measures are enacted**
 - C. Preliminary results with no actions**
 - D. Notice of intent to investigate further**
- 3. What is mandatory for firms regarding the monitoring of an order execution program?**
 - A. To monitor effectiveness on a transaction-by-transaction basis**
 - B. To establish a standard ratio of successful executions**
 - C. To provide a full report to clients within a month**
 - D. To ensure they are not required to monitor on a transaction basis**
- 4. If an individual acquires more than 10% in a takeover, what price requirement applies?**
 - A. High price in cash offer mandatory**
 - B. Average price over last 3 months**
 - C. Price fixed by the market**
 - D. No price requirement**
- 5. What happens if shareholders lapse their pre-emption rights?**
 - A. They lose all voting rights in the company**
 - B. They receive cash instead of new shares**
 - C. Their shares are automatically sold**
 - D. They can only participate in future share allocations**

- 6. What must be done after a Scheme of Arrangement has been approved?**
- A. File new documents with the registrar**
 - B. Notify the stock exchange immediately**
 - C. Conduct a second meeting**
 - D. Distribute dividends**
- 7. What is the director's responsibility in relation to the prospectus?**
- A. To create marketing strategies**
 - B. To verify all numbers in the prospectus**
 - C. To ensure the company remains compliant**
 - D. To induce investor interest**
- 8. What is the exception for suspending the rights issue for up to five years?**
- A. A special resolution with a 75% majority**
 - B. Approval from the FCA**
 - C. Consent from minority shareholders**
 - D. A public vote**
- 9. Which of the following describes insider information?**
- A. Publicly traded information released through regulatory channels**
 - B. Any unpublished price sensitive information**
 - C. Information from financial audits**
 - D. Rumors about company performance**
- 10. In terms of liability exclusions, which statement is accurate?**
- A. Firms can limit liability during negative market conditions**
 - B. No circumstances allow for liability exclusion**
 - C. Clients must waive their rights to exclude liability**
 - D. Liability can be excluded if agreed upon in the contract**

Answers

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- 1. B**
- 2. B**
- 3. D**
- 4. A**
- 5. B**
- 6. A**
- 7. B**
- 8. A**
- 9. B**
- 10. B**

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Explanations

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1. How can the FCA prosecute illegal insider dealing?

- A. Under the FSA 2012
- B. Under the FSMA 2000**
- C. Under the Companies Act 2006
- D. Under the CJA only

The correct answer relates specifically to the Financial Services and Markets Act 2000 (FSMA). This legislation provides the legal framework for regulating financial services in the UK, including the prosecution of offenses related to insider dealing. Under the FSMA, the Financial Conduct Authority (FCA) is granted authority to take action against individuals and organizations engaged in illegal insider trading. The act defines insider dealing, outlines the legal repercussions for such activities, and empowers the FCA to conduct investigations and bring prosecutions. This framework facilitates a structured approach to identifying, investigating, and penalizing insider dealing, ensuring market integrity and consumer confidence. The comprehensive provisions of the FSMA regarding insider trading give the FCA the necessary powers to enforce compliance and safeguard the interests of investors. While other options reference relevant legislation, they are not the primary source for prosecuting illegal insider dealing. The FSA 2012 is more about the overarching regulatory framework and consumer protection, while the Companies Act 2006 addresses corporate governance and accountability. The Criminal Justice Act (CJA) does relate to various financial crimes but does not specifically focus on the regulatory enforcement of insider dealing like the FSMA does.

2. What can the RDC issue after an appeal to TCCUT within 28 days?

- A. Final decision which is kept confidential
- B. Final decision which is published and disciplinary measures are enacted**
- C. Preliminary results with no actions
- D. Notice of intent to investigate further

The correct choice indicates that the RDC can issue a final decision that is published and leads to the enactment of disciplinary measures after an appeal to TCCUT within the specified timeframe. This reflects the authority of the RDC to conclude disciplinary proceedings by providing a definitive outcome that is accessible to the public, thereby maintaining transparency and accountability in regulatory practices. Publishing the decision and implementing disciplinary measures serves multiple purposes: it ensures that the community is informed about the actions taken regarding disciplinary matters and reinforces the regulatory body's commitment to upholding professional standards. The public nature of the decision also helps to deter future violations by highlighting the consequences of misconduct. In the context of the regulatory framework, publishing final decisions is essential for fostering trust in the enforcement process and ensuring that all stakeholders are aware of the implications of professional conduct. This contributes to the overall integrity of the regulatory environment. The other options do not align with the authority and practices of the RDC after an appeal. While preliminary results or notices of intent may be part of other processes, they do not represent the finality and binding nature of a decision that leads to disciplinary action.

3. What is mandatory for firms regarding the monitoring of an order execution program?

- A. To monitor effectiveness on a transaction-by-transaction basis**
- B. To establish a standard ratio of successful executions**
- C. To provide a full report to clients within a month**
- D. To ensure they are not required to monitor on a transaction basis**

Monitoring an order execution program is a critical aspect of ensuring that firms comply with regulatory requirements aimed at protecting clients and promoting fair market practices. The correct answer highlights that firms are not mandated to monitor the program on a transaction-by-transaction basis, offering flexibility in how monitoring is conducted. This approach allows firms to assess the effectiveness of their execution strategies collectively rather than individually for each transaction. It can lead to more efficient resource allocation, enabling firms to focus on trends and systemic issues rather than being bogged down by the minutiae of every single trade. Regulatory frameworks generally emphasize the need for robust monitoring systems without specifying that they must be granular to the level of every transaction. Monitoring can therefore be performed based on aggregated data and analytics that assess overall performance and compliance. The other options are not aligned with regulatory expectations. Establishing a standard ratio of successful executions or providing a full report to clients within a specific timeframe might not be universally applicable or practical across different types of firms and their operational contexts. These approaches could be too prescriptive and not reflective of the necessary flexibility firms need to maintain compliance while catering to their unique business models and client needs.

4. If an individual acquires more than 10% in a takeover, what price requirement applies?

- A. High price in cash offer mandatory**
- B. Average price over last 3 months**
- C. Price fixed by the market**
- D. No price requirement**

In the context of takeovers, when an individual acquires more than 10% of a company's shares, there are regulatory requirements in place to ensure that the interests of all shareholders are considered. One such regulation typically mandates that if a cash offer is made, it must be at a price that reflects a fair valuation. Choosing a high price in a cash offer as a requirement ensures that the acquisition does not unfairly disadvantage existing shareholders. It aims to provide them with a proper exit opportunity, reflecting the true value of their investment. This reflects principles of fairness and transparency in the takeover process, preventing potential exploitation during the acquisition. Other price mechanisms, like using the average price over the last three months or a price fixed by the market, do not guarantee that shareholders receive a premium for their shares, nor do they fully account for any changes in the company's value leading up to the acquisition. Lastly, having no price requirement would eliminate safeguards for shareholders, which is contrary to regulatory objectives focused on protecting investors during takeover scenarios.

5. What happens if shareholders lapse their pre-emption rights?

- A. They lose all voting rights in the company**
- B. They receive cash instead of new shares**
- C. Their shares are automatically sold**
- D. They can only participate in future share allocations**

When shareholders lapse their pre-emption rights, they essentially forfeit their first opportunity to purchase additional shares in a new issuance before the company offers them to other potential buyers. This mechanism is designed to protect shareholders from dilution of their ownership stake. If shareholders do not exercise their pre-emption rights, the company can issue the new shares to other parties—typically at a predetermined price. In many cases, the shareholders who opted not to partake in this opportunity may receive a cash compensation for the value they have given up by not exercising their rights. This means they would effectively receive cash instead of being allocated new shares, thus ensuring they are compensated for their decreased ownership in the company. The other possibilities do not align with the consequences of not exercising pre-emption rights. For example, losing all voting rights does not typically occur simply because shareholders do not take part in new share issuances—they retain their voting rights. Likewise, shares aren't automatically sold, nor are shareholders limited to future allocations without the opportunity to receive compensation for their existing shares' value when they opt out.

6. What must be done after a Scheme of Arrangement has been approved?

- A. File new documents with the registrar**
- B. Notify the stock exchange immediately**
- C. Conduct a second meeting**
- D. Distribute dividends**

Once a Scheme of Arrangement has been approved, the first critical step is to file the necessary documents with the registrar of companies. This filing is essential as it formalizes the approval and makes it official, ensuring that the terms of the Scheme are legally recognized and enforceable. The documentation typically includes the court order approving the Scheme and possibly an updated version of the company's articles of association, reflecting any changes that result from the Scheme. Filing these documents also aids in maintaining transparent records for all stakeholders and ensures compliance with legal requirements governing corporate restructuring. While notifying the stock exchange or conducting further meetings might be relevant depending on the circumstances, they are not immediate steps necessary following the approval. Similarly, distributing dividends is contingent on the successful implementation of the Scheme and would occur at a later stage, not immediately afterward.

7. What is the director's responsibility in relation to the prospectus?

- A. To create marketing strategies**
- B. To verify all numbers in the prospectus**
- C. To ensure the company remains compliant**
- D. To induce investor interest**

The correct choice centers on the director's responsibility concerning the accuracy and integrity of the information presented in the prospectus. In corporate finance, the prospectus serves as a detailed document that provides potential investors with essential information about a company's securities being offered for sale. It is critical that the data contained within it is accurate, as any misleading information can lead to legal ramifications and damage to investor trust. Directors are tasked with the oversight of the company's financial reporting and compliance with regulatory frameworks, which includes ensuring that all numerical and factual assertions in the prospectus have been verified and are correct. This culminates in a higher level of accountability and transparency for the company, protecting both the company and its investors. The other options generally do not reflect the primary fiduciary duty of directors in this context. While creating marketing strategies, ensuring compliance, and inducing investor interest may be relevant to the broader objectives of a company, they do not specifically connect to the core responsibility of ensuring that the information in the prospectus is accurate and verified.

8. What is the exception for suspending the rights issue for up to five years?

- A. A special resolution with a 75% majority**
- B. Approval from the FCA**
- C. Consent from minority shareholders**
- D. A public vote**

In the context of suspending a rights issue, the correct option highlights a specific provision within company law that allows for such an action. A special resolution requiring a 75% majority aligns with the governance structure of companies, where significant decisions need broader consensus among shareholders. This type of resolution ensures that a substantial majority of stakeholders support the decision to suspend the rights issue, which could be necessary for various strategic or financial reasons, including re-evaluating business strategies or addressing specific market conditions. The requirement for a 75% majority reflects the importance of broad agreement among shareholders when it comes to significant changes in corporate finance operations. This high threshold is designed to protect minority shareholders and require a strong consensus before such impactful decisions can be made, ensuring that the interests of the shareholders are preserved in decisions that can significantly affect the company's capital structure and financial health.

9. Which of the following describes insider information?

- A. Publicly traded information released through regulatory channels**
- B. Any unpublished price sensitive information**
- C. Information from financial audits**
- D. Rumors about company performance**

Insider information refers to any confidential or non-public information that can impact a company's stock price if released to the public. This type of information is typically known only to a limited group of individuals, such as company executives or employees, before it becomes available to the general public. The correct answer highlights that insider information is specifically categorized as any unpublished price-sensitive information, which is crucial because it can lead to market manipulation or unfair advantages if leveraged for personal gain. This understanding is pivotal in maintaining market integrity, as insider trading laws are designed to ensure that all investors have a level playing field based on public knowledge. In contrast, publicly traded information released through regulatory channels is already known to the public and therefore does not constitute insider information. Information from financial audits, while potentially insightful, is also typically disclosed publicly after audits are completed and does not fall into the category of insider information. Lastly, rumors about company performance may circulate informally but do not meet the criteria for insider information, as they lack substantiated validity and are often unverified. Thus, the emphasis on unpublished price-sensitive information solidifies the definition of insider information in the context of regulatory compliance and ethical trading practices.

10. In terms of liability exclusions, which statement is accurate?

- A. Firms can limit liability during negative market conditions**
- B. No circumstances allow for liability exclusion**
- C. Clients must waive their rights to exclude liability**
- D. Liability can be excluded if agreed upon in the contract**

The statement illustrating that liability can be excluded if agreed upon in the contract is accurate in this context. In many jurisdictions, contractual agreements can define the extent of liability that parties are willing to assume, including exclusions of liability under certain circumstances. This means that firms and clients can negotiate terms that limit or exclude liability, provided such exclusions are clearly laid out in the contract and are compliant with applicable laws and regulations. Unrestricted liability is often not practical or enforceable, and hence, agreements that allow for the exclusion of liability under specific conditions are commonly included in industry contracts. This enables businesses to mitigate risks associated with unforeseen events or negative market conditions by clearly outlining what liabilities they are willing and not willing to accept. Thus, the idea conveyed in the chosen option highlights the essence of contractual freedom, allowing parties to agree upon the transfer or exclusion of liability, as long as both parties consent to these terms.