



CHARTERED INSTITUTE OF STOCKBROKERS

March 2008 Professional Examination Level 3

PAPER 3.1: SECURITIES ANALYSIS AND PORTFOLIO MANAGEMENT

Tuesday, March 25, 2008 Morning Session

Time allowed: 3 hours (9.00 a.m. to 12.00 noon)

Additional Material: Answer Booklet

Instructions to candidates

This paper is divided into two sections.

Answer five questions in total:

*In **Section A**, answer **all** parts of **Question 1**.*

*In **Section B**, answer any **four** of the six questions.*

The number of marks is given at the end of each question or part question.

*The question in **Section A** carries, in total, **30 marks**.*

*The questions in **Section B** carry, in total, **70 marks**.*

Follow the instructions on the front cover of the Answer Booklet.

Answer your questions in the Answer Booklet provided, additional sheets may be used. At the end of the examination, fasten all your work securely together.

All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examination room.

Statistical tables and graph paper are available from the invigilator, where applicable.

SECTION A

**Answer ALL parts of this question.
Unless otherwise indicated, each part question carries 1½ marks.
Total marks for this question: 30 marks**

- 1** (i) Mr. Dowell has inherited a large amount of wealth from his uncle. He has decided to invest a portion of his wealth in managed funds. Which of the following is not a valid reason for Mr. Dowell to invest in managed funds?
- A. To gain access to professional investment management services.
 - B. To increase the exposure of his portfolio to a wider range of investment instruments.
 - C. To have a tailor-made investment portfolio designed exclusively for him by a fund manager.
 - D. To gain access to markets which are not directly accessible to retail investors in the stock market.
- (ii) Which of the following transactions does not involve a derivatives instrument?
- A. A fund manager plans to reduce the risk of profit when disposing of his equity portfolio in 3 months. He enters into an equity forward agreement with an investment bank.
 - B. While buying back its debt securities from the market, a company issues a series of stock options with different maturity dates to bondholders.
 - C. A trader buys 1,000 ounces of cocoa in the spot market and simultaneously sells futures contracts of the equivalent amount to arbitrage the price differences.
 - D. A shareholder receives 3 new shares for every old share he holds as the result of a stock split made by the relevant company.
- (iii) A fund manager analyses the performance of a portfolio under his management by using extreme scenarios. Which type of test is the fund manager performing?
- A. Value-at-Risk.
 - B. Stress testing.
 - C. Cash position analysis.
 - D. Extreme option position analysis.
- (iv) An investor with a portfolio located on the capital market line to the left of the market portfolio has:
- A. a lending portfolio.
 - B. a borrowing portfolio.
 - C. lower unsystematic risk than the market portfolio.
 - D. higher unsystematic risk than the market portfolio.

- (v) Which of the following statements *best* reflects the importance of the asset allocation decision to the investment process? The asset allocation decision:
- A. helps the investor decide on realistic investment goals.
 - B. identifies the specific securities to include in a portfolio.
 - C. determines most of the portfolio's returns and volatility over time.
 - D. creates a standard by which to establish an appropriate investment time horizon.
- (vi) Which of the following is *least likely* to affect the required rate of return on an investment?
- A. Real risk-free rate.
 - B. Asset risk premium.
 - C. Expected rate of inflation.
 - D. Investors' composite propensity to consume.
- (vii) If you were confident that the price of stock X would drop dramatically within two months, which of the following investment transactions would yield the highest return on your investment?
- A. Purchase stock X
 - B. Sell stock X short
 - C. Purchase a call on stock X
 - D. Purchase a put on stock X
- (viii) Which of the following has the obligation to purchase the units when an investor redeems the investment in an unit trust?
- A. The custodian.
 - B. The trust.
 - C. New investors.
 - D. Other unit holders.
- (ix) Four stocks within the same industry have the following performance characteristics:
- | | Stock | Expected return | Standard deviation |
|-----|-------|-----------------|--------------------|
| I | | 5% | 0.25 |
| II | | 5% | 0.30 |
| III | | 8% | 0.25 |
| IV | | 8% | 0.30 |
- Which **ONE** of the stocks provides the **BEST** investment opportunities for a rational investor?
- A. Stock I.
 - B. Stock II.
 - C. Stock III.
 - D. Stock IV.
- (x) Assuming that the current rate of return of a market portfolio is 7%, according to the Capital Asset Pricing Model (CAPM), the expected rate of

- return on Company A's shares is also 7%. Which of the following statements are correct?
- I) β of Company A is 1.
 - II) β of Company A cannot be determined.
 - III) The risk-free rate is 7%.
 - IV) The risk free-rate cannot be determined.
- A. I) and III) only.
 - B. I) and IV) only.
 - C. II) and III) only.
 - D. II) and IV) only.
- (xi) An investor gets 15 per cent return from Reno stock. If the inflation rate is 7 per cent, the real rate of return is:
- A. 7.48
 - B. 8.00
 - C. 2.5
 - D. 7.84
- (xii) The financial risk considers the difference between the
- A. EBIT - EAT
 - B. EBIT - EBT
 - C. EBIT & Extra ordinary item - EAT
 - D. EBT - EAT
- (xiii) List the investment objectives of:
- (i) A young investor of 25 years old and
 - (ii) An old investor of 65 years old.
- (4 marks)
- (xiv) All bonds in issue must have an indenture.
- (i) What is an indenture? (1 mark)
 - (ii) List out four main items contained in an indenture. (2 marks)
- (xv) Define the following:
- (a) Market order. (1 mark)
 - (b) Balanced fund. (1 mark)
 - (c) Best-efforts basis. (1 mark)
- (xvi) What is the purpose of bond ratings? (2 marks)

SECTION B**Answer four questions from this section.**

Total marks for this section: 70 marks

2 (a) Given the characteristics of the under-listed securities, calculate:

- (i) The correlations and
- (ii) Standard deviation.

Assets	Rate of Return	Standard Deviation	Weight
1. Ordinary shares	0.12	0.20	0.60
2. Bonds	0.08	0.10	0.30
3. Bank fixed deposit	0.04	0.03	0.10

(8 marks)

(b) Draw and explain the shape of the efficient frontier using three diversified securities as illustration. (4½ marks)

(c) (i) What is beta?

(ii) Identify and briefly discuss three criticisms of beta as used in Capital Asset Pricing Model. (5 marks)

Total 17½ marks

3 Closed-end funds generally invest in securities that are relatively illiquid whereas most mutual funds invest in widely traded stocks and bonds.

(i) Define and explain the difference between closed-end and open-end funds. (9 marks)

(ii) Why does this liquidity distinction matter? (3½ marks)

(iii) What do you think an investor wants from a professional asset manager? (5 marks)

Total 17½ marks

4 You manage a portfolio of Nigeria equities for a medium sized closed pension fund administrator. The portfolio holds only a small number of stocks. A director has queried why you are holding the stock of a particular large company instead of that of a smaller one with a lower price earnings ratio and higher dividend yield.

Required:

Describe the points you would make in your reply to the director.

Total 17½ marks

- 5** The value of an asset is the present value of the expected returns from the asset during the holding period. An investment will provide a stream of returns during this period, and it is necessary to discount this stream of returns at an appropriate rate to determine the asset's present value. A dividend valuation model such as the following is frequently used:

$$P_i = \frac{D_1}{(k_i - g_i)}$$

where:

- P = the current price of Common Stock *i*
D₁ = the expected dividend in Period 1
k_i = the required rate of return on Stock *i*
g_i = the expected constant growth rate of dividends for Stock *i*

Required:

- (a) Identify the three factors that must be estimated for any valuation model, and explain why these estimates are more difficult to derive for common stocks than for bonds. (10 marks)
- (b) Explain the principal problem involved in using a dividend valuation model to value
- companies whose operations are closely correlated with economic cycles.
 - companies that are of giant size and are maturing.
 - companies that are of small size and are growing rapidly.

Assume that all companies pay dividends. (7½ marks)

Total 17½ marks

- 6** (i) State reasons why an individual might be attracted to collective investment vehicles or policies, rather than direct holdings. (5 marks)
- (ii) List the key differences between an investment trust and a unit trust. (6 marks)

- (iii) Explain why an investment trust would typically have a more volatile share price than the offer price of a unit trust. (6½ marks)

Total 17½ marks

- 7** (i) Describe briefly four methods of valuing an equity investment. (6 marks)
- (ii) For each method, comment on the main drawbacks. (6 marks)
- (iii) State with reasons your approach to valuing:
- (a) a company operating in a number of different industries.
- (b) a property company. (5½ marks)

Total 17½ marks



CHARTERED INSTITUTE OF STOCKBROKERS

March 2008 Professional Examination Level 3

PAPER 3.2: FINANCIAL FUTURES AND OPTIONS

Tuesday, March 25, 2008 Afternoon Session

Time allowed: 3 hours (2.00 p.m. to 5.00 p.m.)

Additional Material: Answer Booklet

Instructions to candidates

This paper is divided into two sections.

Answer five questions in total:

In Section A, answer all parts of Question 1.

In Section B, answer any four of the six questions.

The number of marks is given at the end of each question or part question.

The question in Section A carries, in total, 30 marks.

The questions in Section B carry, in total, 70 marks.

Follow the instructions on the front cover of the Answer Booklet.

Answer your questions in the Answer Booklet provided, additional sheets may be used. At the end of the examination, fasten all your work securely together.

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Statistical tables and graph paper are available from the invigilator, where applicable.

SECTION A

**Answer all parts of this question.
Each part question carries 2 marks.
Total marks for this question: 30 marks**

- 1** (a) You have bought a put option, which expires in 3 months. The day after you bought the option, the volatility of the underlying asset increased. What would happen to the value of the put option?
- (b) You are pricing an option on Egbon stock, using the Black and Scholes model. Egbon stock has daily volatility of 1.4%. Assuming there are 250 trading days in a year. What annual volatility would you use in your valuation?
- (c) Why is America option more valuable than European option?
- (d) In the futures market, what is basis risk and why is it important?
- (e) In an interest rate swap, what is the key difference between coupon swap and basis swap?
- (f) An investor buys a stock for ₦50. The initial margin requirement is 50%, and the maintenance margin requirement is 25%. Calculate the price below which the investor would receive a margin call.
- (g) Opopo Ltd needs to borrow ₦250 million in the near future to fund a plant expansion. The company expects interest rates will rise and decides to hedge against the risk using a 3 x 6 NIBOR based forward rate agreement (FRA). State when the *contract expires* and what the underlying rate is.
- (h) What is the continuously compounded rate of return for an investment that has a present value today equal to ₦90 and a future value equal to ₦100 in six months?
- (i) You are given the following exchange rate quotes:
- | | |
|------------------|--------|
| \$/£ | 1.4570 |
| ¥/\$ | 128.17 |
| ¥/£ (cross rate) | 183.00 |
- Determine what the ¥/£ should be to prevent triangle arbitrage.
- (j) The hedge ratio of an at-the-money call option on UBN is 0.4. The hedge ratio of an at-the-money put option is -0.6. What is the hedge ratio of an at-the-money straddle position on UBN?
- (k) What do you understand by the term convergence property in futures trading?

- (l) Using the call-put parity, how do you create a synthetic stock?
- (m) The current market value of Guinness Plc's shares is ~~€~~45 per share and there are 50,000 warrants outstanding. Each warrant carries an option to purchase one share at ~~€~~35 over the next 10 years. The warrant is currently selling for ~~€~~19. What is the speculative value of the warrant?
- (n) A convertible bond has seven years to maturity. The bond currently sells for ~~€~~960 (relative to par value of ~~€~~1000) and has conversion ratio of 40 shares. The underlying shares have market value of ~~€~~15 per share. What is the current market conversion ratio?
- (o) Under what circumstances are a long hedge appropriate?

SECTION B

**Answer four questions from this section.
Total marks for this section: 70 marks**

- 2** (a) You are currently tracking an index which is valued 950 with a multiplier of 250. The initial margin requirement is 10%. You wish to enter into 10 futures contracts.

Required:

- (i) What is the notional value of your position? What is the margin?
 (ii) Suppose you earn a continuously compounded rate of 6% on your margin balance, your position is marked to market weekly, and the maintenance margin is 80% of the initial margin. What is the greatest index futures price one week from today at which you will receive a margin call?
- (b) Now suppose the index is currently at 875. Assume further that the continuously compounded return on a 1-year T-bill is 4.75%. You wish to hedge a portfolio worth 800,000 with a beta of 1.1 and a correlation of 1.00 with the index.

Required:

- (i) How many futures contracts should you short to hedge your portfolio?
 (ii) What return do you expect on the hedged portfolio?

Total 17½ marks

- 3** You are analyzing the investment characteristics of a convertible bond with the following details:

• Annual coupon rate	6%
• Maturity	15 years
• Conversion Price	N80
• Market price of the bonds	N950
• Current market value per share	N70
• Current dividend per share	N3
• Yield on similar, non-convertible bond	8.023%

Required:

- (a) Compute and explain the conversion value of the bond.
 (b) Determine the minimum value of the bond and explain why a convertible will normally trade above the minimum value prior to the expiration of the conversion option.
 (c) Estimate the market conversion price.
 (d) Compute the market conversion premium per share and the market conversion premium ratio. Explain what each of these measures.
 (e) What is the premium payback period and what does it measure?
 (f) Calculate the premium over straight value. What does this measure?

Total 17½ marks

- 4** You are the head of the International Treasury of Luwasa Construction Company Ltd. Your company has been invited by the World Bank to make a bid for the reconstruction of a major bridge in a war ravaged West African country having a frictional currency of West African dollar (WA\$).

The bid may be accepted in three months. If the contract is accepted, an immediate capital spending of WA\$150 million will be required in three months and the company will receive a payment of WA\$450 from the World Bank in nine months. The current spot exchange rate is WA\$/N1.4493.

Three month and nine month foreign interest rates are 2.7% and 3.1% respectively. The three and nine month domestic risk-free rates are 4.6% and 4.7% respectively. The monthly volatility of the West African currency against Naira is 6.35%.

You have decided to hedge the exchange rate risk with the purchase of WA\$/N at-the-money OTC options which has a contract size of 100,000 West African dollars.

Required:

- (a) Compute the relevant option prices for at-the-money options necessary to hedge the company's foreign exchange risk in three months' and nine months' time.
- (b) Determine the number of contracts that would be required to eliminate the exchange rate risk and the cost of establishing a hedge to cover the likely foreign current exposure.

Total 17½ marks

- 5** (a) "Hedgers trade price risk for basis risk".

Required:

- (i) What is meant by this statement?
- (ii) In particular explain the concept of the basis in a hedge transaction and how forward and futures contracts can be selected to minimize risk.
- (b) Four major factors affect the value of a futures contract on a stock index. Three of these factors are: the current price of the stock index, the time remaining until the contract maturity (delivery) date, and the dividends on the stock index.

Required:

Identify the fourth factor and explain how and why changes in the factor affect the value of the future contract.

Total 17½ marks

- 6** (a) Explain how inflation rates can be used to forecast exchange rates.

- (b) Suppose that the current USD/GBP exchange rate is 1.6830 and that the three month and six-month forward exchange rates are 1.6755 and 1.6683, respectively.

If the three month and six-month U.S. risk-free rates of interest are 5.166% and 5.103% respectively, compute the implied forward risk-free rate of interest in Britain on a three-month loan beginning in three months. Assume all rates are continuously compounded.

Total 17½ marks

- 7** Based on the relationships between spot and futures prices, elucidate on the following theories:

- | | | |
|-----|------------------------|----------|
| (a) | Expectation hypothesis | 4½ marks |
| (b) | Normal backwardation | 5 marks |
| (c) | Contango | 5 marks |
| (d) | Net hedging hypothesis | 3 marks |

Total 17½ marks



CHARTERED INSTITUTE OF STOCKBROKERS

March 2008 Professional Examination Level 3

PAPER 3.3: MARKETING OF FINANCIAL SERVICES

Wednesday, March 26, 2008 Morning Session

Time allowed: 3 hours (9.00 a.m. to 12.00 noon)

Additional Material: Answer Booklet

Instructions to candidates

This paper is divided into three sections.

Answer five questions in total:

In Section A, answer all parts of Question 1.

In Section B, Question 2 must be answered.

In Section C, answer any three of the five questions.

The number of marks is given at the end of each question or part question.

The question in Section A carries, in total, 30 marks.

The question in Section B carries, in total, 25 marks.

The questions in Section C carry, in total, 45 marks.

Follow the instructions on the front cover of the Answer Booklet.

Answer your questions in the Answer Booklet provided, additional sheets may be used. At the end of the examination, fasten all your work securely together.

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Statistical tables and graph paper are available from the invigilator, where applicable.

SECTION A

**Answer all parts of this question.
Unless otherwise indicated, each part question carries 1 mark.
Total marks for this question: 30 marks**

- 1** (i) Any form of non-personal communication through the mass media paid for by an identified sponsor is called:
- (a) Publicity
 - (b) Direct marketing
 - (c) Advertising
 - (d) Promotion
 - (e) Media
- (ii) Product is in the decline stage when it is:
- (a) Dead
 - (b) Profitable
 - (c) Declining in total revenue
 - (d) Threatened by substitute product
 - (e) Demand is slowing down.
- (iii) Marketing planning is preceded by:
- (a) Product identification
 - (b) Market identification
 - (c) Marketing goals
 - (d) Corporate goals
 - (e) Corporate strategies.
- (iv) Sales budget is
- (a) A revenue budget
 - (b) A revenue and expense
 - (c) A functional and revenue budget
 - (d) A policy budget
 - (e) A futuristic budget.
- (v) Publicity refers to:
- (a) Public relations
 - (b) Free advertisement
 - (c) Special events
 - (d) Self initiated campaign
 - (e) All of the above.
- (vi) Market development involves:
- (a) Existing products in existing markets
 - (b) New product in new market
 - (c) Existing product in new market
 - (d) Long-term marketing strategy
 - (e) All of the above

- (vii) Marketing Research
- (a) Uses marketing data to assess marketing mix
 - (b) Use of primary data to assess marketing mix
 - (c) Collection of data about the market and marketing controllable variables
 - (d) Experimentation about marketing strategy
 - (e) Collection of data about customers.
- (viii) Marketing information systems is concerned with:
- (a) Collection of data using primary and secondary sources
 - (b) Market research only
 - (c) Marketing research
 - (d) Collection and processing of data
 - (e) Structure, data collation and processing.
- (ix) The pricing system in the introduction stage of the product life cycle include:
- (a) Cost-plus pricing
 - (b) Competition pricing
 - (c) Promotion pricing
 - (d) D. Skim pricing
 - (e) Psychological pricing.
- (x) Distribution of financial products can be achieved through:
- (a) Single outlet
 - (b) Direct and indirect method
 - (c) Brokers and agents
 - (d) The multiple outlets
 - (e) All of the above.
- (xi) Internal marketing environment is concerned with:
- (a) Organizational strength and weaknesses
 - (b) Strength and weaknesses of the marketing mix
 - (c) Availability of marketing policy and strategy
 - (d) Effectiveness of market function
 - (e) Product and market within the company's control.
- (xii) Consumer behaviour is concerned with
- (a) Product offered to clients
 - (b) Understanding clients perception
 - (c) Understanding clients needs and motives
 - (d) Understanding potential behaviour of customers and users
 - (e) Understanding social and economic factors affecting clients.
- (xiii) Which of the following is referred to as "above-the-line" promotion?
- (a) Sales promotion
 - (b) Advertising
 - (c) Personal selling
 - (d) Public Relations
 - (e) Point-of-purchase services.
- (xiv) The characteristic that a financial service cannot be seen, touched or tasted before purchase is termed as:

- (a) Perishability
 - (b) Inseparability
 - (c) Intangibility
 - (d) Variability
 - (e) Adaptability
- (xv) Extension strategies to prolong the product life cycle are better adopted in the:
- (a) Introduction stage
 - (b) Growth stage
 - (c) Maturity stage
 - (d) Decline stage
 - (e) None of the above.
- (xvi) The marketing activity that stimulates quicker and greater sales within a short period of time and offer incentive to buy is called:
- (a) Personal selling
 - (b) Publicity
 - (c) Sales promotion
 - (d) Advertising
 - (e) Public Relations.
- (xvii) Businessmen lobby politicians and government functionaries in order to promote favourable policies and defeat unfavourable ones. This is called:
- (a) Mega-marketing
 - (b) Publicity
 - (c) De-marking
 - (d) Press release
 - (e) Public relations.
- (xviii) The acronym of the AIDA model is formed from all these words except:
- (a) Desire
 - (b) Attention
 - (c) Determination
 - (d) Interest
 - (e) Action
- (xix) The strategy of a company seeking for increased sales by developing a new improved product for its current market is called:
- (a) Market development
 - (b) Product Development
 - (c) Market Penetration
 - (d) Product Penetration
 - (e) Diversification.
- (xx) The investment made in the development and introduction of a new product begins to pay-off in which stage of the product life cycle?
- (a) Introduction stage
 - (b) Maturity stage
 - (c) Decline stage
 - (d) Growth stage
 - (e) All of the above.

- (xxi) The segmentation based on gender, income, education, etc is called:
- (a) Geographic segmentation
 - (b) Demographic segmentation
 - (c) Psychographics segmentation
 - (d) Behavioural segmentation
 - (e) Census segmentation.
- (xxii) Identifying and filling the unmet needs of a relatively small and narrow market segment profitably is called:
- (a) Market positioning
 - (b) Market segmentation
 - (c) Niche marketing
 - (d) Interactive marketing
 - (e) Marketing audit.
- (xxiii) All these are methods of setting advertising budget except:
- (a) Advertising frequency method
 - (b) Affordable method
 - (c) Percentage of sales method
 - (d) Competitive parity method
 - (e) Objective and task method.
- (xxiv) A 'Star' in the BCG matrix is a product or business unit with
- (a) a low growth rate and a low market share
 - (b) a low market share and high growth rate
 - (c) a low market growth rate and a high market share
 - (d) a high market growth rate and a high market share
 - (e) None of the above.
- (xxv) Information collected as a first hand information for a specific problem or for a particular purpose is through:
- (a) Desk research
 - (b) Personal research
 - (c) Field research
 - (d) Secondary research
 - (e) Tertiary research.
- (xxvi) The main variables under the control of the marketing manager to carry out the firm's marketing strategies are the:
- (a) SWOT analysis
 - (b) Marketing process
 - (c) Marketing control
 - (d) Mission statement
 - (e) Marketing mix.
- (xxvii) The process of dividing a large undefined market into smaller units of consumers with similar needs, behaviour, etc is called:
- (a) Diversification
 - (b) Market penetration
 - (c) Market segmentation
 - (d) Market targeting
 - (e) All of the above.

(xxviii) Which of the following is not one of the Lauterborns 4 Cs?

- (a) Customer compensation
- (b) Customer cost
- (c) Communication
- (d) Customer needs and wants
- (e) Convenience.

(xxix) The proper recruitment and selection of service personnel, training and motivating them so as to provide or produce service to customer satisfaction is called:

- (a) Integrated marketing
- (b) Interactive marketing
- (c) Internal marketing
- (d) Itinerant marketing
- (e) External marketing.

(xxx) A product sold at or below cost in the hope of generating other profitable sales is called:

- (a) Price leader
- (b) Lose leader
- (c) Psychological pricing
- (d) Market loser
- (e) Market leader.

SECTION B

**This question MUST be attempted.
Total marks for this section: 25 marks**

- 2** After the two-hour marathon meeting, the Chairman, Alhaji Mukaila Aderoju briefed the press that Magnificent Bank is going to take giant strides to become not only a bank but an incorporation. One of the dailies made this caption on the front page: "Magnificent leaps into the sky after a marathon Board meeting."

Magnificent Bank was established in later part of 1998. As at late 2001, it had built one of the most impressive records of growth and profitability through aggressive programmes that served customers better.

Though the bank was having impressive programmes for growth, their internal marketing was based on nepotism favouritism and corruption. Managers recruited their relations and associates who were not qualified and competent as banking staff. This action bred indiscipline, lackadaisical attitude to work and disrespect to customers. As some customers observed, they commented: *"Except something is done drastically, Magnificent is dying little by little."*

The effect was that customers wait on queue for a long time without being served and most banking staff were rude and uncaring. Customers' complaints were not attended to and requests for loans and overdrafts were not usually considered except you know "someone" from the bank. The effect was that there was drastic reduction of customer population, profits dwindled, cash flow problems increased and the image of the bank waned.

It was as a result of these problems that the Board of Directors was reshuffled and Alhaji Mukaila Aderoju, an astute retired banker was appointed as the Chairman of the Board of Directors in early 2002 to move the bank forward.

After his appointment, as the Chairman, Aihaji Mukaila took two months to critically study the activities of the bank and the result was the convening of the "marathon" board meeting. The decisions taken at the marathon meeting were as follows:

1. A full-fledged marketing department will be established and a competent and experienced manager will be employed to formulate policies to:
 - (a) develop a specific corporate image for the bank;
 - (b) identify specific customer service to meet unfulfilled needs;
 - (c) develop market-valued services on a carefully planned predetermined basis to make Magnificent a market leader.
2. All incompetent and unqualified staff brought in by a "whom you know" process should be flushed out and qualified, experienced and competent staff should be recruited.
3. Training programmes should be conducted for staff on regular basis to equip them with the skills of internal marketing and relationship marketing.

4. Retail banking was recommended and then to help to increase branches by thirty (30) percent and customer population by fifty (50) percent within two years.
5. Magnificent was to diversify into other areas such as insurance, stockbroking, estate management, consultancy etc.

The decisions arrived at the meeting were quickly implemented and closely monitored. The diversification process was put in top gear and companies were floated as Magnificent Insurance, Magnificent Stockbroking and Magnificent Estates Ltd.

Advertising and publicity campaigns were undertaken. Event management was not left out. Events like national table tennis and marathon races were sponsored and organized.

Within the year, advertising campaigns of Magnificent Bank was recognized as one of the most creative attention-catching and success-achiever in the banking industry. Campaign slogans were used to stimulate the decision of new residents to open accounts with the bank.

The loan forms and procedures were simplified and more customers were given loan facilities to develop their business. After two years the bank's branches increased from 20 to 100 branches and their operating income increased by 100%.

Required:

- (a) Evaluate the marketing objectives of Magnificent Bank Incorporation. (5 marks)
- (b) Briefly explain the following marketing terms as used in the case.
 - (i) Relationship marketing (3 marks)
 - (ii) Internal marketing (3 marks)
- (c) Analyse the problems of Magnificent Bank. (5 marks)
- (d) What new services should Magnificent Bank provide for its customers? (4 marks)
- (e) Briefly explain the promotional means the marketing manager will adopt to execute his programmes. (5 marks)

Total 25 marks

SECTION C

**Answer three questions from this section.
Total marks for this section: 45 marks**

- 3** Pricing decisions in financial institutions are influenced by factors outside the control of an institution.

Required:

- (a) What are these factors? (7 marks)
- (b) What pricing options are available to a medium sized stockbroking firm? (8 marks)

Total 15 marks

- 4** Since financial services differ from physical goods, strategies for marketing each would automatically differ substantially.

Required:

Discuss in detail the strategies for marketing financial services.

Total 15 marks

- 5** Required:

- (a) Why has public relations become an important tool for financial services firm in promoting the image of the business? (10 marks)
- (b) Explain the methods available to a marketing manager to use in his public relations activities. (5 marks)

Total 15 marks

- 6** Some businesses do not have a formalized marketing budget.

- (a) What is a marketing budget?
- (b) Discuss the advantage and disadvantages of using a formalized budget for marketing.

Total 15 marks

- 7** "The product life cycle (PLC) is sound in theory but of little use to marketing managers who have to operate in the real world." Discuss.

Total 15 marks



CHARTERED INSTITUTE OF STOCKBROKERS

March 2008 Professional Examination Level 3

PAPER 3.4: REGULATIONS AND PRACTICE OF STOCKBROKING

Wednesday, March 28, 2008 Afternoon Session

Time allowed: 3 hours (2.00 p.m. to 5.00 p.m.)

Additional Material: Answer Booklet

Instructions to candidates

This paper is divided into three sections.

Answer five questions in total:

In Section A, answer all parts of Question 1.

In Section B, Question 2 must be answered.

In Section C, answer any three of the four questions.

The number of marks is given at the end of each question or part question.

The question in Section A carries, in total, 30 marks.

The question in Section B carries, in total, 25 marks.

The questions in Section C carry, in total, 45 marks.

Follow the instructions on the front cover of the Answer Booklet.

Answer your questions in the Answer Booklet provided, additional sheets may be used. At the end of the examination, fasten all your work securely together.

All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examination room.

Statistical tables and graph paper are available from the invigilator, where applicable.

SECTION A

**Answer ALL parts of this question.
Unless otherwise indicated, each part question carries 1 mark.
Total marks for this question: 30 marks**

- 1** (i) The factors that affect the pricing of securities do not include:
- (a) Demand and supply
 - (b) Market hearsay
 - (c) Government policies
 - (d) Return on investment
 - (e) None of the above
- (ii) In accordance with SEC Rule 68(1), allotment proposals must be submitted within _____ after the close of an issue.
- (a) Four weeks
 - (b) Eight Weeks
 - (c) Six weeks
 - (d) Nine Weeks
 - (e) None of the above
- (iii) Nigeria is associated with All Share Index just as Tokyo Stock Exchange is associated with:
- (a) Nikkei Index
 - (b) Nikkle Average
 - (c) Nikkei Average
 - (d) All Nikkei Index
 - (e) Nikkle Index
- (iv) The Nigerian Stock Exchange has concluded plans to introduce another index to be called:
- (a) NSE 30 Stock Index
 - (b) NSE 50 Stock Index
 - (c) All – Share 30 Stock Index
 - (d) All – Share 50 Stock Index
 - (e) All – Share 320 Stock Index
- (v) Appeals against the decisions of NSE can be lodged at:
- (a) SEC only
 - (b) Investment & Securities Tribunal only
 - (c) Federal High Court
 - (d) (a) and (b)
 - (e) (b) and (c)
- (vi) In relation to the estate of a person who dies leaving a Will, which of the following documents is not required for transmission:
- (a) Letter of administration
 - (b) Probate
 - (c) Death certificate
 - (d) Bankers confirmation/letter of the executors
 - (e) Original share certificates

- (vii) The criminal liability for a convicted individual in respect of insider dealing is:
- (a) A fine of N2m or 2 year imprisonment or both
 - (b) A fine of N1m or 2 year imprisonment or both
 - (c) A fine of N2m or 1 year imprisonment or both
 - (d) A fine of N1m or 1 year imprisonment or both
 - (e) None of the above
- (viii) The listing requirements for companies listed on the First Tier Securities market do not include:
- (a) A minimum of 300 shareholders
 - (b) The company cannot raise more than N100m
 - (c) Five years audited reports and accounts
 - (d) At least 25% of the share capital must be given to the public
 - (e) Date of last audited accounts must not be more than nine months
- (ix) Which of the following does not come under the jurisdiction of Chartered Institute of Stockbrokers:
- (a) Individual stockbrokers
 - (b) Stock market agents
 - (c) Stockbroking firms
 - (d) Registrars
 - (e) (c) and (d)
- (x) Article 2 of the NSE Rules and Regulations centres on:
- (a) Reporting of breaches
 - (b) Prescribed mode of advertisement
 - (c) Mode of changing of directors/shareholders
 - (d) Maintenance of clients' accounts
 - (e) Appearance before the NSE Council
- (xi) Mr. Abunna buys and sells securities through five stockbroking firms. How many CSCS investor account numbers and clearing house numbers is he supposed to have?
- (a) One and five respectively
 - (b) Five and one respectively
 - (c) Five apiece
 - (d) One apiece
 - (e) None of the above
- (xii) Which of the following is not required in Inter-Member Transfer of stocks?
- (a) The investor's signature
 - (b) The signature of the resident house
 - (c) The signature of the target house
 - (d) The signature of CSCS official
 - (e) The name and unit of stock to be transferred
- (xiii) Which of the following debentures has the best attractive options for investors?
- (a) Unsecured irredeemable debenture stock
 - (b) Secured irredeemable debenture stock
 - (c) Zero-coupon redeemable
 - (d) Secured, redeemable, convertible debenture stock
 - (e) Redeemable mortgage debenture stock

- (xiv) The All-Share Index comprises:
- (a) Companies in the first, second and third-tier securities markets
 - (b) Companies in the first and second-tier securities markets
 - (c) Companies on the first-tier only
 - (d) Companies on the second-tier only
 - (e) Companies on the third-tier only
- (xv) CAC-40 is the stock market index that obtains in:
- (a) Germany
 - (b) Hong Kong
 - (c) France
 - (d) Switzerland
 - (e) South Africa
- (xvi) When registrars verify share certificates
- (a) They are sent to CSCS for electronic entry into the investors' accounts.
 - (b) They are retained by the registrars and the schedules sent to CSCS for electronic entry into the investors' accounts.
 - (c) They are sent to the Nigerian Stock Exchange for noting.
 - (d) They are forwarded to SEC for further action.
 - (e) They are sent to the settlement banks to enable them credit the investors with the proceeds.
- (xvii) When an existing shareholder gets his rights circular during rights offering, the options available to him are:
- (a) He may choose to ignore the rights circular.
 - (b) He may take up his allotted rights and apply for more.
 - (c) He may decline the rights partially and subscribe to less than his rights entitlement.
 - (d) He may renounce his rights and sell same on the floor of the Exchange.
 - (e) All of the above.
- (xviii) Under the current SEC rules, which of following is correct?
- (a) Underwriting is compulsory except where it is declined by the issuer.
 - (b) Every offer must be 80% underwritten.
 - (c) Every offer must be 75% underwritten.
 - (d) Underwriting is not compulsory.
 - (e) None of the above.
- (xix) Which of the following is permissible in stockbroking?
- (a) Payment to a third party on written instruction of the owner.
 - (b) Sale of share at a discount provided the owner and the buyer agree.
 - (c) Purchase of scarce shares at a premium provided the buyer agrees.
 - (d) Use of proceeds to buy other securities at the owners' instruction.
 - (e) None of the above.
- (xx) The sale of securities to the public for cash at a fixed price, the proceeds of which goes to the vendor is;
- (a) Offer for subscription
 - (b) Offer for sale

- (c) Rights Issue
 - (d) Offer by Tender
 - (e) Offer by Introduction
- (xxi) What is the ex-div, ex-sc price of a security paying a dividend of N2.10 per share, a bonus of 2:3 and a market price of N52 per share? (2 marks)
- (xxii) Calculate the value of rights per share for a company that made a rights issue of 3:7; the rights price is N18 per share while the market price is N25 per share. (2 marks)
- (xxiii) Explain the term "hostile acquisition". (2 marks)
- (xxiv) What is term-to-maturity in bond issue? (2 marks)
- (xxv) What is stop loss order? (2 marks)

SECTION B

**This question MUST be attempted.
Total marks for this section: 25 marks**

- 2 (a)** Harkins Insurance Company Plc is a quoted company on the floor of The Nigerian Stock Exchange. Due to capitalization process Harkins Insurance Company merged with two other Insurance Companies in the same line of business to enable it compete effectively in the Insurance business both home and abroad. Details of the 3 companies are stated below:
- (i) **Harkins Insurance Plc**
It's authorized and issued shares listed in the Exchange are N1 billion of 50 kobo each. The shares traded at N2.90k when the schemes of arrangement for the merger were obtained. The company (Harkins) prepares its financial statement to 31 December each year.
 - (ii) **Hulkins Insurance Ltd.**
It is a private company with issued shares of 950 million shares of N1 each in issue. The market value of Hulkins Insurance Ltd was N1 per share at the date of the court approval. The financial year end is December 31 of each year.
 - (iii) **Hogans Insurance Ltd.**
It is also a private limited company with 1.4 billion shares of 50k each authorized and fully paid with a market value of 80k.

The Court approved the merger scheme of arrangement with Harkins Insurance Plc as the new company after the consolidation. Here are the extracts from the scheme:

- (a) Hulkins Insurance Ltd is entitled to 8 shares for every 10 shares in the new company, Harkins Insurance Plc.
- (b) Hogans Insurance Ltd shareholders are entitled to 7 shares for every 10 shares.
- (c) Harkins Insurance Plc shares are to be listed at N3.50k after the consolidation.

Required:

- (i) Calculate the total number of shares to be listed on The Nigerian Stock Exchange by Harkins Insurance Plc after the consolidation. (4 marks)
- (ii) What is the total capitalization of Harkins Insurance Plc after the consolidation? (5 marks)
- (iii) What will be the value of the shares of an investor in Hulkins Insurance Plc with 107 million shares after the consolidation? (3 marks)

- (iv) What are the motives behind mergers and acquisitions? (3 marks)
- (b) The following are extracts from Regalia Savings & Loans Company Limited's prospectus for a 7% Preference Shares due in 2033:

The Preference Shares are redeemable through the use of earnings, proceeds from the sale of equity securities and cash accumulation other than those resulting from refunding operations stated in the offer document.

The Preference Shares are not redeemable prior to May 1, 2013 as a part of, or in anticipation of, any refunding operation involving the incurring of indebtedness by Regalia Savings & Loans having an effective interest cost, or through the operation of the maintenance and replacement of sinking fund.

Required:

What do these extracts tell investors about the provisions made by the issuer to redeem the issue prior to the stated maturity date?

(10 marks)

Total 25 marks

SECTION C

**Answer three questions from this section.
Total marks for this section: 45 marks**

- 3** (a) Article 165 of the Rules and Regulations of the Nigerian Stock Exchange governing dealing members states the conditions under which a person can qualify as an authorized clerk.

Required:

State these conditions. (7½ marks)

- (b) **Required:**

State five situations which may render a member or registered student of the Chartered Institute of Stockbrokers liable to disciplinary proceedings under its Membership Regulations and Code of Conduct.

(7½ marks)

Total 15 marks

- 4** The Securities & Exchange Commission recently launched the e-dividend payment system with December 31, 2008 given as deadline for implementation.

Required:

- (a) (i) What do you understand by e-dividend payment system?
(ii) Name all the parties involved for the successful implementation of the scheme.
- (b) Examine the implications of this policy initiative.

Total 15 marks

- 5** Under the SEC rules, state the duties of the registrar of a publicly quoted company in relation to return monies on share application.

Total 15 marks

- 6** Write short notes on the following:

- (a) Nominee account
(b) Ethical funds
(c) Open-ended investment companies.

Total 15 marks